TETON PETROLEUM CO
Form 10-Q
November 02, 2004

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2004

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____________ to ___________________

Commission file number: 001-31679

TETON PETROLEUM COMPANY

(Exact Name of Registrant as Specified in its Charter)

Delaware	84-1482290
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

(303)-542-1878
(Registrant's Telephone Number including area code)

1600 Broadway, Suite 2400
Denver, Colorado 80202-4921
(Address of Principal Executive Office)

Check whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No __

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-3 of the Exchange Act).

Yes __No X

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes __ No ___

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of October 22, 2004, 9,130,257 shares of the issuer's common stock were outstanding.

TETON PETROLEUM COMPANY

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PART I. FINANCIAL INFORMATION

TETON PETROLEUM COMPANY

PART I. FINANCIAL INFORMATION

Consolidated Balance Sheets

Assets	September 30, 2004 (Unaudited)
Current assets	
Cash	$ 18,137,375
Current assets of discontinued operations	--
Prepaid expenses and other assets	192,080
Total current assets	18,329,455
Non-current assets	
Non-current assets of discontinued operations	--
Fixed assets, net	39,290
Total non-current assets	39,290
Total assets	$ 18,368,745
Liabilities and Stockholders' Equity	
Current liabilities	
Accounts payable and accrued liabilities	$ 431,605
Current liabilities of discontinued operations	--
Total current liabilities	431,605
Non-current liabilities	
Discontinued operations	--
Total non-current liabilities	--
Total liabilities	431,605
Commitments and contingencies	
Stockholders' equity	
Series A convertible preferred stock, $.001 par value, 25,000,000 shares authorized, 281,460 and 618,231 issued and outstanding at September 30, 2004 and December 31, 2003. Liquidation preference at September 30, 2004 and December 31, 2003 of $1,248,838 and $2,689,305, respectively	281
Common stock, $0.001 par value, 250,000,000 shares authorized, 9,121,806 and 8,584,068 shares issued and outstanding at September 30, 2004 and December 31, 2003, respectively	9,122
Additional paid-in capital	37,670,181
Unamortized preferred stock dividends	--
Accumulated deficit	(19,742,444)
Foreign currency translation adjustment	--
Total stockholders' equity	17,937,140

Total liabilities and stockholders' equity	$18,368,745

See notes to unaudited consolidated financial statements

TETON PETROLEUM COMPANY

Unaudited Consolidated Statements of Operations and Comprehensive Income (Loss)

	For the Three Months Ended September 30,	
	2004	2003
Cost and expenses:		
General and administrative$	521,140	$ 921,761
Depreciation	3,481	750
Total cost and expenses	524,621	922,511
Loss from operations	(524,621)	(922,511)
Other income (expense)		
Other income	36,495	--
Finance charges	--	(61,569)
Total other income (expense)	36,495	(61,569)
Loss from continuing operations	(488,126)	(984,080)
Discontinued operations, net of tax	13,804,517	(768,087)
Net income (loss)	13,316,391	(1,752,167)
Preferred stock dividend	(24,487)	(18,556)
Net income (loss) applicable to common shares	13,291,904	(1,770,723)
Other comprehensive income, net of tax effect of exchange rates (net of reclassification adjustments of $615,900 and $0)	(615,900)	(80,590)
Comprehensive income (loss)	$ 12,676,004	$ (1,851,313)
Basic and diluted weighted average common shares outstanding	9,121,094	6,807,360

Basic and diluted income (loss) per common share for continuing operations	$ (.06)	$ (0.15)
Basic and diluted income (loss) per common share for discontinued operations	$ 1.51	$ (0.11)
Basic and diluted income (loss) per common share	$ 1.46	$ (0.26)

See notes to unaudited consolidated financial statements.

TETON PETROLEUM COMPANY

Unaudited Consolidated Statements of Operations and Comprehensive Income (Loss)

	For the Nine Months Ended September 30,	
	2004	2003
Cost and expenses:		
General and administrative	$ 4,350,594	$ 2,675,683
Depreciation	7,315	2,500
Total cost of sales and expenses	4,357,909	2,678,183
Loss from operations	(4,357,909)	(2,678,183)
Other income (expense)		
Other income	70,460	--
Finance charges	--	(61,916)
Total other income (expense)	70,460	(61,916
Loss from continuing operations	(4,287,449)	(2,740,099)
Discontinued operations, net of tax ..	13,101,338	(1,240,393)
Net income (loss)	8,813,889	(3,980,492)
Imputed preferred stock dividends for inducements and beneficial conversion charges	(521,482)	--
Preferred stock dividend	(81,462)	(18,556)

Net income (loss) applicable to common shares	8,210,945	(3,999,048)
Other comprehensive income, net of tax effect of exchange rates (net of reclassification adjustments of $615,900 and $0)	(898,756)	375,000
Comprehensive income (loss)	$ 7,312,189	$ (3,624,048)
Basic and diluted weighted average common shares outstanding ...	8,996,498	6,614,638
Basic and diluted income (loss) per common share for continuing operations	$ (0.54)	$ (0.42)
Basic and diluted income (loss) per common share for discontinued operations	$ 1.46	$ (0.19)
Basic and diluted income (loss) per common share	$ 0.91	$ (0.61)

See notes to unaudited consolidated financial statements.

TETON PETROLEUM COMPANY

Unaudited Consolidated Statements of Cash Flows

	For the Nine Months Ended September 30,	
	2004	2003
Cash flows from operating activities		
Net income (loss)	8,813,889	$ (3,980,492)
Adjustments to reconcile net (loss) income to net cash used in operating activities		
Depreciation	7,315	2,500
Gain on sale of discontinued operations ...	(13,804,517)	--
Stock and warrants issued for services and interest	162,594	97,901
Amortization of note payable discount	--	62,257
Changes in assets and liabilities From discontinued operations	1,740,268	(924,014)

Prepaid expenses	(96,387)	454
Accounts payable and accrued liabilities	55,176	--
	(11,935,551)	1,087,126
Net cash (used in) operating activities	(3,121,662)	(2,893,366)
Cash flows from investing activities		
Proceeds from sale of discontinued operations net of taxes	7,933,450	--
Repayment of loans from discontinued operating entity	6,040,000	--
Increase in fixed assets	(28,421)	--
Increase in non-current of discontinued operating entity	(3,004,632)	(4,210,578)
Net cash provided by (used in) investing activities	10,940,397	(4,210,578)
Cash flows from financing activities		
From discontinued operations	3,258,378	2,159,380
Proceeds from stock subscriptions	--	1,939,610
Proceeds from issuance of stock, net of issue costs of $50,000 and $98,100	499,999	3,619,444
Proceeds from notes payable	--	628,750
Payment of dividends	(56,975)	--
Net cash provided by financing activities	3,701,402	8,347,184
Effect of exchange rates on cash	(898,756)	375,000
Net increase (decrease) in cash	10,621,381	1,243,240
Cash - beginning of year	7,515,994	712,013
Cash - end of period	$ 18,137,375	$ 1,955,253

See notes to unaudited consolidated financial statements.

Supplemental disclosure of non-cash activity:

During the nine months ended September 30, 2004, the Company had the following transactions:

100,000 warrants were issued to a consultant for services valued at $102,094.

13,750 shares of common stock were issued for the settlement of accrued liabilities at December 31, 2003 valued at $58,700.

The Company issued (i) 1,306,669 non-qualified options to officers and directors valued at $3,243,406; and (ii) 108,331 incentive stock options valued at $268,899 with no expense being recorded for accounting purposes.

The Company issued 5,000 shares of common stock for services valued at $20,000.

The Company has (i) issued warrants valued at $48,697 to consultants; (ii) issued 5,626 share of common stock valued at $23,329 to consultants; and (iii) issued 13,098 shares of common stock valued at $46,000 for services rendered by the outside directors.

Approximately $1,317,000 of capital expenditures for discontinued operations were included in accounts payable at June 30, 2004 and approximately $1,786,000 of capital expenditures were in accounts payable at December 31, 2003 for a decrease during the six months ended June 30, 2004 of $469,000.

Conversion of 463,207 shares of preferred stock, plus dividends of 37,057 shares converted into 500,264 shares of common stock.

The Company issued 50,000 warrants valued at $22,863 in settlement of accrued liabilities at December 31, 2003.

The Company accrued dividends to preferred stockholders of $24,487 at September 30, 2004.

Supplemental disclosure of non-cash activity:

During the nine months ended September 30, 2003, the Company had the following transactions:

7,408 shares of stock were issued to a consultant for services valued at $20,000 provided in 2001 and accrued in accounts payable.

73,422 shares of stock and 66,667 warrants exercisable at $6.00 were issued to a consultant for services provided in 2002 valued at $200,000 and accrued in accounts payable.

3,700 warrants issued with debt and valued at $10,592 were initially recorded as a discount on the note payable. At September 30, 2003, $5,672 of the discount had been amortized and recorded as financing costs.

87,500 warrants issued with debt and valued at $69,072 were initially recorded as a discount on the debentures. At September 30, 2003, $39,254 of the discount had been amortized and recorded as financing costs.

37,500 warrants issued with debt and valued at $30,500 were initially recorded as a discount on the debentures. At September 30, 2003, $17,337 of the discount had been amortized and recorded as financing costs

Approximately $1,888,000 of capital expenditures for oil and gas properties was included in current liabilities from discontinued operations at September 30, 2003.

Dividends of $18,556 were accrued on preferred stock.

TETON PETROLEUM COMPANY

Notes to Unaudited Consolidated Financial Statements

Note 1 – Basis of Presentation and Significant Accounting Policies

The September 30, 2004 financial statements are unaudited and reflect all adjustments (consisting only of normal recurring adjustments), which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. Prior to July 1, 2004 the unaudited financial statements include a pro-rata consolidation of the Company's 50% interest in ZAO Goloil, a Russian closed joint-stock company (`Goloil"). The Company sold all of its interest in Goloil effective July 1, 2004 (See note 5). At the time of sale, Goloil's activities represented all of the oil and gas operating activities of the Company. As a result, the activities of Goloil have been reported as "discontinued operations" for all periods presented. The unaudited financial statements contained herein should be read in conjunction with the financial statements and notes thereto contained in the Company's financial statements for the year ended December 31, 2003, as reported in the Company's Form 10-KSB/A. The results of operations for the period ended September 30, 2004 are not necessarily indicative of the results for the entire fiscal year.

Certain amounts for September 30, 2003 have been adjusted to include adjustments to exploration expenses and depreciation, depletion and amortization made during the fourth quarter of 2003.

Earnings Per Share

At the March 19, 2003 shareholders' meeting, the Company's shareholders approved a reverse 1 for 12 stock split. All share amounts and earnings per share have been adjusted to reflect the split.

All potential dilutive securities have an antidilutive effect on earnings (loss) per share and accordingly, basic and dilutive weighted average shares are the same.

Basic and diluted loss per common share from continuing operations includes the effects of preferred stock dividends.

Note 3 – Stockholder's Equity

Private Placements of Common Stock

During the nine months ended September 30, 2004, 37,474 common shares valued at $148,029 were issued for (i) the settlement of accrued liabilities of $82,029; and (ii) services provided by consultants of $20,000 and (iii) services provided by the advisory board of $46,000.

50,000 warrants were issued to settle a liability at December 31, 2003 valued at $46,967. We also issued 100,000 warrants to a consultant valued at $102,094 for services.

Private Placements of Series A Convertible Preferred Stock

During the nine-month period ending September 30, 2004 the Company received the following proceeds from the issuance of privately placed preferred stock at a price of $4.35 per share.

Proceeds of $499,999 (net of cash costs of $50,000) from the issuance of 126,436 shares of 8% convertible preferred stock.

The preferred stock carries an 8% dividend, payable quarterly commencing January 1, 2004 and is convertible into common stock at a price of $4.35 per share. The preferred stock is entitled to vote on all matters presented to the Company's common stockholders, with the number of votes being equal to the number of underlying common shares. The preferred stock also contains a liquidation preference of $4.35 per share plus accrued unpaid dividends. The preferred stock can be redeemed by the Company after one year for $4.35 per share upon proper notice of redemption being provided by the Company.

In connection with the private placements of the Company's preferred stock, certain sales were entered into when the underlying price of the common stock to which the preferred shares are convertible into, exceeded the $4.35 stated conversion rate. As a result of the underlying shares being in-the-money, the Company was required to compute a beneficial conversion charge, which is calculated as the difference between the conversion price of $4.35 and the closing stock price on the effective date of each offering, multiplied by the total of the related common shares to be issued upon conversion of the preferred stock. These charges are reflected as a dividend to the preferred shareholders and are recognized over the period in which the preferred stock first becomes convertible. For the Tranche 1 shares the charge was immediately recognized as the shares were immediately convertible into common. For Tranche 2, the shares could not be converted until completion of a shareholder vote, which occurred on January 27, 2004, approving the issuance of additional common shares. The calculated beneficial conversion feature on Tranche 2 was therefore amortized from the effective date of each issuance through January 27, 2004. This resulted in total beneficial conversion charges of $1,182,452, of which $1,063,842 was recorded during the fourth quarter of 2003, and $118,610 was amortized and recorded as preferred dividends in January 2004.

In order to induce convertible preferred shareholders to convert to common shares, the Company agreed to issue dividends of 8% for a full year, totaling $140,815, payable in common shares, and agreed to issue, 402,990 warrants, valued at $262,057, resulting in a total inducement charge of $402,872 to be recognized as a preferred dividend in the first quarter for those investors which accepted the inducement offer. As a result, shareholders converted 463,207 of 8% convertible preferred shares to common stock at a price of $4.35 per share during the first quarter of 2004. The warrants issued were valued using the Black-Scholes option pricing model using the following assumptions: volatility of 55.2%, a risk-free rate of 1.59%, zero dividend payments, and a life of two years.

Note 4 - Stock Options

At the annual meeting on March 19, 2003, the Company's shareholders approved an employee stock option plan and authorized 2,083,333 shares of Common Stock for issuance thereunder. Under the plan, incentive and non-qualified options may be granted.

During the first quarter of 2004, the Company issued 1,306,669 non-qualified options to employees, officers and directors valued at $3,243,406 using the Black-Scholes option-pricing model with the following assumptions: volatility of 55.2%, a risk-free rate of 4%, zero dividend payments, and a life of ten years. The Company also issued 108,331 incentive options to employees, officers and directors valued at $268,899 using the Black-Scholes option-pricing model under the same assumptions described above.

At the annual meeting on July 16, 2004 the Company's shareholders approved a stock compensation plan for non-employees. The maximum number of shares of Common Stock with respect to which awards can be granted is 1,000,000 shares. As of August 12, 2004 no grants have been authorized.

The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation cost has been recognized for stock options issued to employees, officers and directors under the stock option plan. Had compensation cost for the Company's options issued to employees, officers and directors been determined based on the fair value at the grant date for awards consistent with the provisions of SFAS No. 123, as amended by SFAS No. 148, the Company's net income (loss) and basic income (loss) per common share would have been changed to the pro forma amounts indicated below:

	For the Three Months Ended September 30, 2004	2003
Net income (loss) - as reported	$13,291,904	($1,770,723)
Add fair value of employee compensation expense	--	(308,414)
Net income (loss) per common share - pro forma	13,291,904	($2,079,137)
Basic income (loss) per common share - as reported	$ 1.46	($0.26)
Basic income (loss) per common share - pro forma	$ 1.46	($0.31)

	For the Nine Months Ended September 30, 2004	2003
Net income (loss) - as reported	$ 8,210,945	$(3,999,048)
Add fair value of employee compensation expense	(3,512,305)	(4,879,440)
Net income (loss) per common share - pro forma	$ 4,698,640	$(8,878,488)
Basic income (loss) per common share - as reported	$ .91	$ (0.61)
Basic loss per common share - pro forma	$ .52	$ (1.34)

Note 5-Sale of Goloil Shares

Effective July 1, 2004 the Company finalized its sale of Goloil to RussNeft, an Open Joint-Stock Company organized under the laws of the Russian Federation. Pursuant to the terms of the Sale and Purchase Agreement (the "Agreement"), RussNeft paid $8,960,000 for all of the Company's shares of Goloil. In connection with the Agreement, the Company entered into a separate agreement with Goloil for repayment of all of the outstanding advances owed to the Company totaling $6,040,000, all of which had been repaid.

The Company's income (loss) from discontinued operations for the three months ended September 30, 2004 and 2003 are summarized as follows:

	For the Three Months Ended September 30, 2004	2003

Sales	$ --	$ 2,718,066
Cost of sales and expenses	--	3,448,467
Loss from operations	--	(730,401)
Other income (expense):		
Interest expense	--	
(56,556)		
Net loss from discontinued operations, before tax	--	(786,957)
Income tax benefit (expense)	--	18,870
Net loss from discontinued operations, before Gain on disposal	--	(768,087)
Gain on sale of Goloil stock, net of tax of $181,000	13,804,517	--
Income (loss) from discontinued operations	$ 13,804,217	$ (768,087)

The Company's income (loss) from discontinued operations for the nine months ended September 30, 2004 and 2003 are summarized below:

	For the Nine Months Ended September 30,	
	2004	2003
Sales	$ 6,552,138	$ 9,105,338
Cost of sales and expenses	7,072,272	10,064,044
Loss from operations	(520,134)	(958,706)
Other income (expense):		
Interest expense	(166,216)	
(178,139)		
Net loss from discontinued operations, before tax	(686,350)	(1,136,845)
Income tax	(16,829)	(103,548)
Net loss from discontinued operations, before Gain on disposal	(703,179)	(1,240,393)
Gain on sale of Goloil stock, net of tax of $181,000	13,804,517	--
Income (loss) from discontinued operations	$ 13,101,338	$ (1,240,393)

The gain on sale of Goloil stock is calculated as follows:

Sale price for Goloil shares	$ 8,960,229
Less direct transaction expenses:	
Investment banking fee	(750,000)
Net fees and expenses	(276,779)
Net proceeds	7,933,450

Net deficit of Goloil at date of sale	5,436,167
Gain on disposal of subsidiary	13,369,617
Plus reclassifications of translation gain on disposal	615,900
Gain on disposal before income taxes	13,985,517
Estimated alternative minimum taxes due	(181,000)
Gain on disposal of ZAO Goloil, net of taxes	$ 13,804,517

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD LOOKING STATEMENTS

With the exception of historical matters, the matters discussed herein are forward looking statements that involve risks and uncertainties. Forward looking statements include, but are not limited to, statements concerning anticipated trends in revenues, and may include words or phrases such as "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "projected," "intends to," or similar expressions, which are intended to identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Our actual results could differ materially from the results discussed in such forward-looking statements. There is absolutely no assurance that we will achieve the results expressed or implied in forward-looking statements. Among other factors discussed elsewhere in this Report, our ability to successfully implement our strategy to acquire additional oil and gas properties and our ability to successfully manage and operate any oil and gas properties acquired by us will affect our future results.

Management Discussion & Analysis

Overview

Teton Petroleum Company is an independent oil and gas exploration and production company whose primary focus, until July 1, 2004 was the Russian Federation and former Commonwealth of Independent States ("CIS"). However, see "Sale of Goloil Interest" below. The Company, through its wholly owned subsidiary, Goltech, owned a 35.30% equity interest in Goloil. RussNeft owned, until the sale, the remaining 64.70% of Goloil through two subsidiaries, McGrady and InvestPetrol. McGrady held 35.29% and InvestPetrol held 29.41% of the equity interests in Goloil. However, until Goltech and McGrady received the return of 100% of their capital investment in Goloil, they were each entitled to a 50% net profit in Goloil. Goloil is managed by a seven person management board on which we had two representatives. Pursuant to the existing agreements among Goloil's shareholders, Goltech and McGrady shared equally in capital expenditures, gross revenues, costs and expenses, until they received 100% return of their investments in Goloil. Limited Liability Company Energosoyuz-A ("EUA"), a wholly owned subsidiary of RussNeft, is the lessor of certain oil field facilities to Goloil pursuant to a Lease Agreement No. EST 160/000630 (the "EUA Lease Agreement") among EUA as lessor and Goloil as lessee dated as June 2000. EUA was also the recipient of a production payment ("Production Payment") consisting of 50% of Goloil's production (or at EUA's option, cash in lieu of such production). Since October 2003 through the effective date of the sale EUA took cash instead of oil under the Production Payment in the amount of approximately $650,000 per month. In addition, Goloil has been selling its oil at a fixed price of 2,400 rubles per ton or $11.50 per barrel and starting May 2004, 2,700 rubles per ton or $12.74 per barrel. It is possible that a significant portion of such sales have been made to or through one or more affiliates of RussNeft.

RussNeft, which was founded in the fall of 2002, is one of Russia's largest independent oil producers. In September 2003, RussNeft acquired a 64.70% equity interest in Goloil in a private transaction in which it purchased all of the ownership interests in McGrady and InvestPetrol, the other shareholders of Goloil. At that time, RussNeft also acquired EUA, the lessor of various wells and facilities to Goloil under the EUA Lease Agreement. In acquiring such interests, RussNeft became entitled to appoint a majority of the management board of Goloil and acceded to EUA's interest in the Production Payment.

Financial highlights from the quarter ended September 30, 2004 include the following:

- Teton has sold its share in Goloil and recorded a gain of $13,804,517 during third quarter.

- Teton's net loss from continuing operations for the third quarter narrowed to $488,126 from $984,080 for the same period in 2003.

During 2004 Teton's activities have been focused in two areas:

- Negotiating and finalizing the sale of Goloil to RussNeft; and

- Evaluating potential acquisitions of other producing oil properties in the United States, Russia and the CIS.

Sale of Goloil Interest to RussNeft

The sale of the Company's interest in Goloil received shareholder approval, at our annual meeting held July 16, 2004, and the sale closed on August 3, 2004, effective July 1, 2004 for accounting purposes. The purchase price for our 35.30% interest in Goloil was $8,960,000 in cash. Goloil also repaid advances made by the Company to Goloil totaling $6,040,000. The advances were made to Goloil by the Company to finance our 50% share of Goloil's capital expenditures and currently bore interest at the rate of 8% per annum. The gross proceeds of the two transactions to the Company totaled $15,000,000.

2004 Operational and Financial Objectives - Update

During 2004, the Company has been actively seeking to make acquisitions of producing properties in the United States, Russia and the CIS, where the Company itself will have the opportunity to jointly or fully operate the property. Specifically the Company has determined to target properties in North America with existing production in the range of 400 to 600 barrels of oil equivalent per day and 2,000 barrels of oil equivalent per day in the former Soviet Union with upside potential from developmental drilling and other exploitation opportunities. Among the financial criteria for such acquisitions is that they generate positive cash flow and be accretive to the Company earnings in a reasonable period of time. To date, the Company has evaluated over 300 projects, rejected 291, submitted 4 offers, with approximately 10 projects remaining open, pending further review.

Prior to August 2004 the Company emphasized acquisitions in Russia and the CIS.

Recent developments in Russia have caused the Company to expand the focus of its efforts, most recently, on opportunities in North America.

The Company's plans to pursue acquisitions means that it will incur due diligence and legal expenses, which will be included in its general and administrative expenses. The Company is now devoting significant internal resources to evaluating acquisitions while also utilizing the services of outside technical, legal and accounting consultants.

Results of Operations

The Company has a net loss from continuing operations for the three months ended September 30, 2004 of $488,126 which is $495,954 less than the net loss from continuing operations for the same period in 2003. Third quarter domestic general and administrative expense at the Company decreased from $921,761 for 2003 to $521,140 in 2004, a decrease of 43%. The key factors contributing to this decrease were a decrease in consulting fees of $197,820, as well as decreases in advertising and public relations expenses of $142,787, legal and accounting expenses of $183,300 and public company compliance expenses of $47,338. Since the agreement to sell Goloil was signed in the second quarter of 2004, the Company has reduced its ongoing general and administrative expenses by, among other things, significantly reducing its investor relations-related costs and corporate personnel associated with its discontinued operations. Other income in 2004 includes interest income from the cash balances maintained. The Company expects to continue to streamline its costs in the future.

The Company has a net loss from continuing operations for the nine months ended September 30, 2004 of $4,287,449 which is $1,547,350 less than the $2,740,099 net loss for the same period in 2004. General and administrative expenses for Teton increased to $4,350,594 from $2,675,683, a 63% increase. Such increase was primarily incurred prior to June 30, 2004 and was related to increases in compensation of $899,289, increase in advertising and public relations of $216,152 and increases due to costs associated with the Company's pursuit of new acquisitions of oil and gas properties in Russia, including $102,598 in consulting fees and $246,069 in legal and accounting fees. Other increases include $145,260 in public company compliance costs. The Company also incurred increased costs associated with the sale of Goloil, primarily in the second quarter.

Discontinued Operations

See note 5 for a summary of the income (loss) from discontinued operations. The Company considered the sale of Goloil to be effective July 1, 2004. Accordingly the operating activities of Goloil for the six months ended June 30, 2004 have been included in the Company's September 30, 2004 unaudited statement of operations as a net loss from discontinued operations. Goloil's operating revenues and expenses for six months of 2004 are less than 2003 because Teton has recorded a full nine months of operations for 2003. Goloil sold its production in 2004 at an average price of $18.98 per barrel which approximates the price sold in 2003, however 2004 production was sold exclusively to the domestic and near abroad markets and not the export market which during 2004 were selling oil at a price substantially above the price received. Prior to September 30, 2003, Goloil had sold its oil for a blended oil price which included sales to the export market.

The $13,722,317 gain includes the $8,960,000 proceeds from the sale of Goloil stock, net of $829,734 in expenses and $181,000 in current U.S. income taxes plus the elimination of approximately $5.8 million in net liabilities included in the pro rata consolidation of Goloil as of June 30, 2004

Liquidity and Capital Resources

The Company had a cash balance of $18,137,375 on September 30, 2004 and a working capital surplus of $17,897,850.

The Company expects that it will invest in its acquisition program, all but $3 million of its cash combined with an estimated $10 to $20 million in additional financing. The additional $10 to $20 million is anticipated to be composed of a combination of debt and equity.

Sources and Uses of Funds

Historically, Teton's primary source of liquidity has been cash provided by equity offerings. Such offerings will continue to play an important role in financing Teton's business. On July 16, 2004 the shareholders approved the issuance of common stock which could result in an increase in outstanding shares of common stock of 20% or more. In addition, the Company is working to establish a borrowing facility with one or more international banks, most likely in the form of a revolving line of credit that will be used primarily for the acquisition of producing properties and for developmental drilling and other capital expenditures.

Cash Flows and Capital Expenditures

During the nine months ended September 30, 2004 the Company used $4,137,100 in its operating activities primarily to finance its efforts in respect of potential acquisitions and in respect of personnel costs. This amount compares to $2,893,366 used in operating activities in 2003.

During 2004, the Company received the reimbursement of advances totaling $6,040,000 pursuant to its agreement with RussNeft and, net of expenses and taxes, $7,949,266 from the sale of Goloil.

During 2004, the Company received $499,999 from the sale of preferred stock. The increase in proceeds from advances from notes payable to affiliates represents amounts advanced by RussNeft to Goloil. As discussed above, such advances will be eliminated now that the sale of Goloil has been completed.

Income Taxes, Net Operating Losses and Tax Credits

While the Company expects to realize a U.S. tax gain from sale of discontinued operations of approximately $12.0 million, After utilization of NOL and current year operating losses, Teton anticipates that it will incur only a relatively small Alternative Minimum Tax liability of approximately $181,000. At September 30, 2004, after the gain on sale, the Company has a remaining net operating loss for U.S. income tax purposes of $14,000,000. Such net operating loss is subject to U.S. Internal Revenue Code Section 382 limitations. As of November 1, 2004 utilization of the NOL is limited to approximately $900,000 per annum.

Subsequent Events

There are no subsequent events to report.

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, commodity prices and equity prices. To the extent we borrow or finance our activities we will be exposed to interest rate risk, which is sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors that are beyond the Company's control.

The Company is exposed to interest rate risk primarily through any borrowing activities it may undertake. The extent of this risk is not quantifiable or predictable because of the variability of future interest rates and the Company's future financing requirements.

The Company has no current borrowings.

The Company has not and does not plan to, enter into any derivative financial instruments for trading or speculative purposes.

Prior to July 1, 2004, the Company conducted business primarily in Russia. Therefore, changes in the value of Russia's currency affected the Company's financial position and cash flows when translated into U.S. Dollars. The Company has generally accepted the exposure to exchange rate movements relative to its investment in foreign operations.

ITEM 4. CONTROLS AND PROCEDURES

As of September 30, 2004, an evaluation was performed by our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not completely effective as of September 30, 2004.

In connection with the audit of the year ended December 31, 2003, there were no "reportable events" except that the Company's auditors reported to the Company's Audit Committee that the auditors' considered two matters involving internal controls and their operation to be material weaknesses. Specifically, in connection with its audit of the consolidated financial statements of the Company and its subsidiary for the year ended December 31, 2003, the auditors reported that a material weakness existed related to the lack of formalized policies and procedures to permit timely recording and processing of financial information to permit the timely preparation of financial statements and recommended implementation of formal policies and procedures and significantly enhancing the accounting staff. Since December 31, 2003 the Company is addressing this concern and has hired additional accounting staff and restructured certain accounting and reporting responsibilities and is in the process of preparing formal procedures to permit timely recording and processing of financial information. The second matter related to oversight of its Russian subsidiary and reporting of its financial results on a timely basis which impact and represents substantially all of the Company's operating results. As discussed above, the Company completed the sale of its Russian subsidiary in August 2004. The Company is also in preliminary negotiations with respect to potential acquisitions. The Company intends to pursue acquisitions where the Company will jointly or fully operate which will allow the Company to put in place those procedures and controls necessary to ensure proper and timely reporting of financial results.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable.

ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

The securities described below represent our securities sold by us for the period starting July 1, 2004 and ending September 30, 2004 that were not registered under the Securities Act of 1933, as amended, all of which were issued by us pursuant to exemptions under the Securities Act. Underwriters were involved in none of these transactions.

ISSUANCES OF STOCK FOR SERVICES OR IN SATISFACTION OF OBLIGATIONS

On July 7, 2004 Teton issued a total of 7,143 shares of Common Stock valued at $17,500 to three of its directors for service on its Board of Directors. These offers and sales were made in reliance on the exemption under Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities. As directors, the investors had access to information concerning the Company. The offers and sales were made to accredited investors and transfer of the Common Stock was restricted in accordance with the requirements of the Securities Act of 1933.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its annual meeting of stockholders on July 16, 2004. The matters voted on at the meeting and the results of the stockholder voting are as follows:

Proposal		Voting Results	
		Votes	Percent
Item No. 1. Election of Directors			
H. Howard Cooper	For	6,449,613	85.80%
	Withheld	1,067,702	14.20%
Karl F. Arleth	For	6,655,626	88.54%
	Withheld	861,689	11.46%
Thomas F. Conroy	For	6,694,978	89.06%
	Withheld	822,337	10.94%
James J. Woodcock	For	6,695,095	89.06%
	Withheld	822,220	10.94%
John T. O'Conner	For	6,702,667	89.16%

	Withheld	814,648	10.84%
Item No. 2. A proposal to ratify the board's selection of Ehrhardt Keefe Steiner & Hottman PC as the Company's independent auditor's for the fiscal year ending December 31, 2004	For Against Abstain	6,920,031 574,965 22,319	92.05% 7.65% .30%
Item No. 3 A proposal to approve the sale of the Company's indirect equity interest in The Siberian-Texan Joint Stock Company Goloil to the Open-Joint Stock Oil and Gas Company Russneft, all as set forth in the Share Sale and Purchase Contract dated April 20, 2004, between Goltech Petroleum LLC, our wholly-owned Subsidiary, and Russneft	For Against Abstain	5,457,075 123,370 24,085	72.59% 1.64% .32%
Item No. 4 A proposal to approve the issuance of common stock or securities convertible into or exercisable for common stock (which may be issuable, exercisable or convertible below the then current market value of the common stock) which could result in an increase in outstanding shares of common stock of 20% or more	For Against Abstain	4,097,520 1,474,786 32,224	54.51% 19.62% .43%
Item No. 5 A proposal to approve the 2004 Non-Employee Stock Compensation Plan	For Against Abstain	3,702,890 1,829,638 72,002	49.26% 24.34% .96%

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON 8-K:

Exhibits

31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Reports on From 8-K: None

SIGNATURES

Pursuant to the requirements of the Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 1, 2004

By: /s/ Karl F. Arleth

Karl F. Arleth,
President and
Chief Executive
Officer

Date: November 1, 2004

By: /s/ Patrick A. Quinn

Patrick A. Quinn,
Chief Financial
Officer
(Principal
Financial
and Accounting
Officer)