

TETON PETROLEUM CO
Form PRE 14A
May 28, 2004

SCHEDULE 14A

(RULE 14A-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES
EXCHANGE ACT OF 1934 (AMENDMENT NO.)**

Filed by the Registrant [X]

Filed by a Party other than the Registrant []

Check the appropriate box:

- [X] Preliminary Proxy Statement [] Confidential, For Use of the Commission Only (As Permitted by Rule 14a-6(e)(2))
- [] Definitive Proxy Statement
- [] Definitive Additional Materials
- [] Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

TETON PETROLEUM COMPANY

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- [] No fee required
- [X] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
- (1) Title of each class of securities to which transaction applies:
 - (2) Aggregate number of securities to which transaction applies:
 - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
 - (4) Proposed maximum aggregate value of transaction: \$15.0 million
 - (5) Total fee paid: \$1,900.50
- [] Fee paid previously with preliminary materials.
- [] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.
- (1) Amount Previously Paid:

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- (2) Form, Schedule or Registration Statement No.:
- (3) Filing Party:
- (4) Date Filed:

[Preliminary Copy]

TETON PETROLEUM COMPANY
1600 Broadway, Suite 2400
Denver, Colorado 80202-4921

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD JULY __, 2004**

TO THE STOCKHOLDERS OF TETON PETROLEUM COMPANY:

You are cordially invited to attend the annual meeting of stockholders (the "Annual Meeting") of Teton Petroleum Company to be held at The Pinnacle Club, located at 555 17th St., Suite 3700, Denver, CO 80202 on July __, 2004 at 9:30 AM (local time). At the Annual Meeting, you will be asked to vote on the following:

1. To elect five Directors to the Company's Board, to hold office until his successor is elected and qualified or until his earlier resignation or removal (Proposal No. 1);
2. To consider and act upon a proposal to ratify the Board's selection of Ehrhardt Keefe Steiner & Hottman PC as the Company's independent auditors for the fiscal year ending December 31, 2004 (Proposal No. 2);
3. To approve the sale of the Company's indirect equity interest in the Siberian-Texan Joint Stock Company Goloil ("Goloil"), which constitutes substantially all of the Company's assets within the meaning of Section 271 of the Delaware General Corporation Law, to the Open-Joint Stock Oil and Gas Company RussNeft ("RussNeft"), the owner of the remaining interests in Goloil; all as set forth in the Share Sale and Purchase Contract dated April 20, 2004, between Goltech Petroleum LLC, our wholly owned subsidiary and 35.30% owner of Goloil, and RussNeft. (Proposal No. 3);
4. 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 (Proposal No. 4);
5. To approve the 2004 Non-Employee Stock Compensation Plan (Proposal No. 5); and
6. To transact such other business as may properly come before the Annual Meeting and any adjournment or postponement thereof.

BECAUSE OF THE SIGNIFICANCE OF THESE PROPOSALS TO THE COMPANY AND ITS STOCKHOLDERS, IT IS VITAL THAT EVERY STOCKHOLDER VOTES AT THE ANNUAL MEETING IN PERSON OR BY PROXY.

The foregoing items of business are more fully described in the Proxy Statement that is attached and made a part of this Notice.

The Board has fixed the close of business on June __, 2004 as the Record Date for determining the stockholders entitled to notice of and to vote at the Annual Meeting and any adjournment or postponement thereof.

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All stockholders are cordially invited to attend the Annual Meeting in person. Your vote is important regardless of the number of shares you own. Whether or not you plan to attend the meeting, please take the time to vote in one of these ways:

- o By mail - fill in, sign and date the enclosed proxy card and return it promptly in the enclosed postage-paid envelope.
- o By telephone - call the toll-free telephone number on your proxy card to vote by phone.
- o Via Internet - visit the website noted on your proxy card to vote via the Internet.

You may attend the meeting and vote in person even if you have previously voted by proxy in one of the three ways listed above. Your proxy is revocable in accordance with the procedures set forth in the Proxy Statement.

The Annual Report to stockholders for the Company's fiscal year ended December 31, 2003 has been mailed with or prior to this Proxy Statement. This Proxy Statement and the enclosed proxy are expected to be mailed to stockholders on or about June 15, 2004.

By Order of the Board of Directors,

H. Howard Cooper
Chairman

IMPORTANT

WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE SIGN AND RETURN THE ENCLOSED PROXY CARD AS PROMPTLY AS POSSIBLE IN THE ENCLOSED POSTAGE-PREPAID ENVELOPE. IF A QUORUM IS NOT REACHED, THE COMPANY WILL HAVE THE ADDED EXPENSE OF RE-ISSUING THESE PROXY MATERIALS. IF YOU ATTEND THE MEETING AND SO DESIRE, YOU MAY WITHDRAW YOUR PROXY AND VOTE IN PERSON. THANK YOU FOR ACTING PROMPTLY.

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Quarter Ended March 31, 2004

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IMPORTANT: Please SIGN, DATE, and RETURN the enclosed proxy or submit your proxy by telephone or the Internet immediately whether or not you plan to attend the Annual Meeting. A return envelope, which requires no postage if mailed in the United States, is enclosed for your convenience.

[PRELIMINARY COPY]

TETON PETROLEUM COMPANY

1600 Broadway, Suite 2400
Denver, Colorado 80202-4921

PROXY STATEMENT

GENERAL INFORMATION

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors (the "Board") of Teton Petroleum Company, a Delaware corporation (the "Company"), of proxies in the enclosed form for use in voting at the Annual Meeting of Stockholders (the "Annual Meeting") to be held at The Pinnacle Club, located at 555 17th St., Suite 3700, Denver, CO 80202 on July __, 2004 at 9:30 AM (local time), and any adjournment or postponement thereof.

SUMMARY TERM SHEET

This section contains a summary of the material features of the sale of the Company's indirect equity interest in the Siberian-Texan Closed Joint Stock Company Goloil. This summary may not contain all of the information that is important to you to understand the sale fully. This summary includes page references in parentheses to direct you to more complete descriptions of the topics presented in this summary.

- o On April 20, 2004, Goltech Petroleum LLC ("Goltech"), a company organized under the laws of Texas, our wholly owned subsidiary and 35.30% owner of Siberian-Texan Closed Joint Stock Company Goloil ("Goloil"), a company organized under the laws of the Russian Federation, entered into a Share Purchase and Sale Contract with Open Joint-Stock Oil and Gas Company RussNeft ("RussNeft"), a company organized under the laws of the Russian Federation, the owner of the remaining interest in Goloil. Under the terms of the Share Purchase and Sale Contract, Goltech has agreed to sell our 35.30% indirect equity interest in Goloil to RussNeft. The Company's interest in Goloil constitutes substantially all of our assets within the meaning of Section 271 of the Delaware General Corporation Law. Completion of the Goloil sale is subject to stockholder approval and other closing conditions. (See p. __) The sale is being made for the reasons set forth under "Sale of Goloil Proposal No. 3" below.
- o The purchase price for our 35.30% interest in Goloil is \$8,960,229 in cash. In connection with the Goloil sale, the Company also entered into a separate agreement with Goloil for the repayment of all of the outstanding advances owed to the Company by Goloil (the "loan repayment agreement"). At

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the date of the loan repayment agreement, the Company advances totaled \$6,039,771 (including interest at 8% through March 31, 2004) (\$3,569,051 of the principal and \$131,452 of the accrued interest of which had been repaid as of April 2, 2004). The remainder will be paid at the closing of the Goloil sale. Accordingly, the gross proceeds of the Goloil sale and the loan repayment to the Company will be \$15,000,000. (See p. __)

- o The closing of the Goloil sale will take place shortly after the last of the closing conditions is satisfied. (See p. __)
- o We have not sought or received an independent report, opinion or appraisal regarding the fairness of the transaction. The Board believes, however, that the consideration offered for our interest in Goloil is fair and that the transaction is in the best interests of our stockholders. (See p. __)
- o No proceeds from the Goloil sale will be distributed to stockholders. (See p. __)
- o Immediately following the Goloil sale, our principal asset will be the cash from the sale. We are currently seeking to acquire interests in other oil and gas properties primarily focused on Russia and the former Commonwealth of Independent States (the "CIS states"). We may also consider opportunities outside our primary geographic focus. We have from time to time engaged in preliminary negotiations regarding possible acquisitions in Russia. However, no agreements have been reached except for one transaction (described herein) which is not likely to occur due to the exercise of a right of first purchase by an existing partner. (See p. __)
- o There are numerous risks associated with the Goloil sale. Stockholders are urged to read and carefully consider the risk factors associated with the Goloil sale. (See p. __)
- o The Board unanimously recommends that stockholders vote in favor of the proposal to approve the Goloil sale. (See p. __)
- o Approval of the Goloil sale requires the affirmative vote of a majority of the outstanding shares of our common stock. (See p. __)

SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS

This Proxy Statement contains statements that plan for or anticipate the future. In this prospectus, forward-looking statements are generally identified by the words "anticipate," "plan," "believe," "expect," "estimate," and the like. The forward-looking statements are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, statements regarding the following:

- o * general economic conditions;
- o completion of the sale of Goloil;
- o our plans to acquire additional oil and gas properties
- o uncertainty created by differences of interpretation of the contracts between us and our Russian partner RussNeft;
- o our ability to fund our share of capital expenditures in Goloil;
- o Goloil's ability to service its loan repayments to Goltech and Teton;
- o our ability to raise additional capital, obtain debt financing, or generate sufficient revenues to make acquisitions and fund our operating and development plan;
- o our success in completing development and exploration activities;
- o political stability in Russia;

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- o changes in Russian law, currency regulations, and taxation;
- o our present company structure;
- o our accumulated deficit; and
- o other factors discussed elsewhere in this Proxy Statement.

Although we believe that any forward-looking statements we make in this Proxy Statement are reasonable, because forward-looking statements involve future risks and uncertainties, there are factors that could cause actual results to differ materially from those expressed or implied. For example, a few of the uncertainties that could affect the accuracy of forward-looking statements, besides the specific factors identified under "Risk Factors" below, include:

- o our ability to close the Goloil sale on a timely basis;
- o our ability to complete acquisitions of additional oil and gas properties;
- o our ability to obtain financing to complete any such acquisitions;
- o * changes in general economic and business conditions affecting the Company and the oil industry;
- o * developments that might make our oil products less competitive in nearby markets; and
- o * changes in our business strategies.

In light of the significant uncertainties inherent in the forward-looking statements made in this Proxy Statement, the inclusion of this information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved.

We are not undertaking any responsibility to release publicly any revisions to these forward-looking statements to take into account events or circumstances that occur after the date of this Proxy Statement. Additionally, we are not undertaking any responsibility to update you on the occurrence of any unanticipated events which may cause actual results to differ from those expressed or implied by the forward-looking statements contained in this Proxy Statement. You are cautioned not to place undue reliance on these statements, which speak only as of the date of this Proxy Statement.

QUESTIONS AND ANSWERS

Q: WHY IS THE COMPANY PROPOSING TO SELL SUBSTANTIALLY ALL OF ITS ASSETS?

A: The Board is recommending the Goloil sale at this time because:

- o Our minority position in Goloil does not allow us to maximize our return on this investment, since RussNeft as majority owner (after including reversionary interests) can control the decision making at Goloil;
- o RussNeft has since October 1, 2003 caused Goloil to sell its oil production at a fixed price which does not allow the Company to maximize the value of its investment in Goloil (whereas previously, we had received a higher price for our oil);
- o The Company would need to seek external financing to fund Goloil's accelerated capital expenditure program;
- o Legal remedies for minority stockholders in Russia are significantly more limited than in the United States;
- o Because of its majority position, RussNeft is the most logical buyer for Goloil;

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- o The sale provides us with an opportunity to dispose of Goloil at a significant gain currently estimated at approximately \$12.6 million;
- o We plan to use the proceeds of the Goloil sale to acquire oil properties where we will have more control than we do with respect to Goloil;
- o We believe there are currently oil properties on the market at reasonably attractive prices; and
- o For the other reasons set forth under "Sale of Goloil Proposal No. 3" - No Opinion of Financial Advisor" - Fairness of the Goloil Sale.

Q: HOW MAY STOCKHOLDERS BENEFIT FROM THE GOLOIL SALE?

A: Stockholders should benefit from the Goloil sale because we will be able to sell Goloil at a significant gain and have the opportunity to use the proceeds of the Goloil sale to acquire interests in other oil projects with greater potential for future growth, which may enhance the value of our Company.

Q: WHO IS THE PURCHASER?

A: The purchaser will be RussNeft. RussNeft is the owner through its two subsidiaries, McGrady Assets Limited ("McGrady") and Limited Liability Company InvestPetrol ("InvestPetrol") of the remaining 64.70% interest in Goloil. RussNeft is a company organized under the laws of the Russian Federation and is a large independent oil producer in Russia.

Q: WHAT IS THE PURCHASE PRICE FOR THE ASSETS OF OUR COMPANY?

A: The purchase price for our 35.30% interest in Goloil is \$8,960,229 in cash. In connection with the Goloil sale, the Company also entered into an agreement with Goloil for the repayment of all of the outstanding advances owed to the Company by Goloil. At the date of this agreement, the Company advances totaled \$6,039,771 including interest at 8% (\$3,569,051 of the principal and \$131,452 of accrued interest of which had been repaid as of April 2, 2004). Accordingly, the gross proceeds of the Goloil sale and the loan repayment to the Company will be \$15,000,000.

Q: WILL ANY OF THE PROCEEDS OF THE GOLOIL SALE BE DISTRIBUTED TO STOCKHOLDERS?

A: No, the proceeds of the Goloil sale will not be distributed to stockholders. We will use the proceeds of the Goloil sale, after the payment of transaction expenses, to pursue possible acquisitions of interests in other oil and gas properties primarily focused on Russia and the former CIS states.

Q: WHAT WILL HAPPEN IF THE GOLOIL SALE IS APPROVED?

A: If the Goloil sale is approved, we will complete the sale of our assets subject to satisfaction of the closing conditions set forth in the Share Purchase and Sale Contract. After the closing, we intend to use the sale proceeds to seek to acquire interests in other oil and gas properties primarily focused on Russia and the former CIS states. We may also consider other opportunities outside our primary area of geographic focus. Our stockholders will not directly receive any consideration from the Goloil sale, and your stock will continue to have the same rights as it did before the sale.

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Q: WHAT WILL HAPPEN IF THE GOLOIL SALE IS NOT APPROVED?

A: Even if the Goloil sale is not approved, the Company plans to seek other possible acquisitions in the oil industry, primarily focused on Russia and the former CIS states. However, if the Goloil sale is not completed, the Company may encounter significant future losses in Goloil. In addition, the Company would have to contribute significant additional capital to Goloil at a time when Goloil's revenues are not sufficient to cover capital costs due to the fixed price at which Goloil is selling its oil.

Q: WHAT HAS HAPPENED WITH THE PROPOSED SAMSON TRANSACTION?

A: On April 5, 2004, the Company announced that it had signed a purchase and sale agreement to acquire a majority (52%) interest in a producing field in Russia. This transaction was announced on May 13, 2004 to involve a proposed purchase of a majority interest in Samson/Vitol (Cyprus) Limited ("SVC") which owns 100% of ZAO Pechoraneftgas ("PNG") which in turn owns a producing field in Russia. A deposit of \$3.85 million was paid by the Company to the proposed seller, Samson International Resources ("Samson"). The closing of the acquisition was subject to several conditions, including a right of first purchase held by Samson's partner, Vitol Holding B.V. ("Vitol"), to acquire Samson's interest in the field on the same terms offered by the Company. Vitol elected to exercise this right in early May. As a result, Samson refunded the Company's deposit, though the contract between Samson and the Company technically remains in effect. In the event that Vitol does not purchase Samson's 52% interest, the Company and Samson could determine to proceed with the contemplated transaction subject to the satisfactory completion of the Company's due diligence and satisfaction of all other conditions. However, the Company believes in light of the exercise of the first purchase right by Vitol and the public announcement by Valkyries Petroleum of its purchase of 50% of the project from Vitol, that this transaction is unlikely to occur.

Q: DO I HAVE APPRAISAL RIGHTS IN CONNECTION WITH THE GOLOIL SALE?

A: No. Under Delaware law, you will not have appraisal rights in connection with the Goloil sale.

Q: WHAT VOTE IS REQUIRED TO APPROVE THE GOLOIL SALE?

A: Approval of the Goloil sale will require the affirmative vote of a majority of the outstanding shares of our Common Stock. Only votes that are cast in favor of the Goloil sale will be counted towards the majority needed to obtain approval of the Goloil sale. If a stockholder does not vote on this proposal, the failure to vote will have the same effect as a vote against the proposal. Therefore, it is important that you vote on this matter.

Q: WHAT VOTE IS REQUIRED TO APPROVE THE PROPOSALS OTHER THAN THE GOLOIL SALE?

A: The affirmative vote of the holders of a plurality of the shares of the Company cast at the Annual Meeting is required for Election of Directors - Proposal No. 1. The affirmative vote of the holders of a majority of the outstanding shares of the Company present or represented by proxy and entitled to vote on the matter is required to consider and act upon a proposal to ratify the Board's selection of Ehrhardt Keefe Steiner & Hottman PC as the Corporation's independent auditors for the fiscal year ending December 31, 2004 (Proposal No. 2). The affirmative vote of a majority of votes cast at the Annual

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Meeting in person or by proxy is required to approve the issuance of the Company's Common Stock or securities convertible into or exercisable for Common Stock which could result in an increase in outstanding shares of our Common Stock of 20% or more (Proposal No. 4). The affirmative vote of a majority of votes cast at the Annual Meeting in person or by proxy is required to approve the 2004 Non-Employee Stock Compensation Plan - Proposal No. 5.

Q: HOW DO I VOTE?

If you complete and properly sign the accompanying proxy and return it to the Company, it will be voted as you direct. Unless contrary instructions are given, shares will be voted in accordance with the Board's recommendations on each of the enumerated proposals and in the proxy holders' discretion with regard to any other matters that may be properly presented at the meeting and all matters incident to the conduct of the meeting. If you are a registered stockholder and attend the meeting, you may deliver your completed proxy card in person. "Street name" stockholders who wish to vote at the meeting will need to obtain a proxy form from the institution that holds their shares. All votes will be tabulated by the inspector of election appointed for the meeting, who will separately tabulate affirmative and negative votes, abstentions and executed proxies returned by a broker holding shares of the Company's Common Stock in "street name" which indicate that the broker does not have discretionary authority as to certain shares to vote on one or more matters ("broker non-votes").

Q: CAN I VOTE BY TELEPHONE OR ELECTRONICALLY?

If you are a registered stockholder (that is, if you hold your stock in certificate form), you may vote by telephone, or electronically through the Internet, by following the instructions included with your proxy card. If your shares are held in "street name," please check your proxy card or contact your broker or nominee to determine whether you will be able to vote by telephone or electronically. Please follow the voting instructions on the enclosed proxy card. The deadline for voting by telephone or electronically is 5:00 p.m. (Eastern Standard Time) on _____, 2004.

Q: CAN I CHANGE MY VOTE AFTER I RETURN MY PROXY CARD?

A proxy may be revoked by giving the Secretary of the Company written notice of revocation at any time before the voting of the shares represented by the proxy. A stockholder who attends the meeting may revoke a proxy at the meeting. Attendance at the meeting will not, by itself, revoke a proxy.

Q: WHO IS ENTITLED TO VOTE AT THE MEETING?

Only holders of record of the Company's Common Stock and preferred stock, \$.001 par value per share, on June __, 2004 will be entitled to vote at the Meeting. At the close of business on the Record Date, the Company had issued and outstanding _____ shares of Common Stock and _____ shares of preferred stock. Stockholders of the Company are entitled to one vote for each share held. Such shares may not be voted cumulatively.

Q: WHO CAN ATTEND THE MEETING?

Only stockholders as of the Record Date, or their duly appointed proxies, may attend the meeting, and each may be accompanied by one guest. Seating, however, is limited. Admission to the meeting will be

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on a first-come, first-served basis. Registration will begin at ___ a.m.. Cameras, recording devices and other electronic devices will not be permitted at the meeting.

For registered stockholders, the bottom portion of the proxy card enclosed with the Proxy Statement is their Annual Meeting admission ticket. Please note that if you hold your shares in "street name" you will need to bring a copy of a brokerage statement reflecting your stock ownership as of the Record Date and check in at the registration desk at the meeting.

Q: WHY IS THE COMPANY SOLICITING PROXIES?

Because many of our stockholders are unable to personally attend the Annual Meeting, the Board solicits the enclosed proxy so that each stockholder is given an opportunity to vote. This proxy enables each stockholder to vote on all matters which are scheduled to come before the meeting. When the proxy is returned properly executed, the stockholder's shares will be voted according to the stockholder's directions. Stockholders are urged to specify their choices by marking the appropriate boxes on the enclosed proxy card.

The Company will bear the entire cost of preparing, assembling, printing and mailing the proxy materials furnished by the Board to stockholders. Copies of the proxy materials will be furnished to brokerage houses, fiduciaries and custodians to be forwarded to the beneficial owners of the Common Stock. In addition to the solicitation of proxies by use of the mail, some of the officers, Directors and regular employees of the Company may (without additional compensation) solicit proxies by telephone or personal interview, the costs of which the Company will bear.

This Proxy Statement and the accompanying form of proxy is being sent or given to stockholders on or about June__, 2004.

Q: WHAT CONSTITUTES A QUORUM?

In accordance with the Company's bylaws, the presence of one third of the shares entitled to vote, whether present in person or represented by proxy, will constitute a quorum at the meeting. Abstentions will be treated as shares that are present and entitled to vote but against any proposal submitted to stockholders. Broker non-votes will be considered present but not entitled to vote on any proposal submitted to stockholders.

WHO CAN HELP ANSWER YOUR QUESTIONS?

You may seek answers to your questions by calling or emailing:

Ms. Gillian Kane
Vice President, Investor Relations
Tel. (970) 870-1417
gkane@tetonpetroleum.com

Or by writing or calling the Company at its principal executive offices:

Teton Petroleum Company
1600 Broadway, Suite 2400
Denver, Colorado 80202-4921
Tel. (303) 542-1878
Fax. (303) 542-1817

CORPORATE GOVERNANCE

Board of Directors

The Board oversees our business affairs and monitors the performance of management. In accordance with our corporate governance principles, the Board does not involve itself in day-to-day operations. The Directors keep themselves informed through discussions with the Chief Executive Officer, other key executives and by reading the reports and other materials that we send them and by participating in Board and committee meetings. Our Directors hold office until their successors have been elected and duly qualified unless the director resigns or by reason of death or other cause is unable to serve in the capacity of director. Biographical information about our Directors is provided in "Election of Directors - Proposal No. 1" on page ___.

Director Independence

The Board has determined that all of the Directors and nominees who would serve after July __, 2004 are independent except for Mr. Cooper, the Company's Chairman and Founder and Mr. Arleth, President, Chief Executive Officer and Secretary of the Company. The Board's determinations of independence were made in accordance with Section 121A of the American Stock Exchange ("AMEX") Company Guide. The Company was a small business issuer within the meaning of Rule 12b-2 of the Securities Exchange Act of 1934, as amended (the "1934 Act") through December 31, 2003. On that date the Company ceased to be a small business issuer because its public float exceeded \$25 million at the end of two consecutive years. As a result, the Company ceased reporting as a small business issuer commencing with the Form 10-Q filed for the quarter ended March 31, 2004. Small business issuers are not required to have a majority of independent directors until their first annual meeting of stockholders after July 1, 2005. However, as a result of its ceasing to be eligible to report as a small business issuer, the Company is now required to have a majority of independent directors within the meaning of Section 121A of the AMEX Company Guide. The Directors the Board has determined to be independent are Messrs. Woodcock, Connor and Conroy.

Board Meetings and Attendance

During 2003, the Board held five meetings. Except for one director, who could not attend one meeting, all other Directors attended 100% of the meetings of the Board and committees on which he served. The Board also approved certain actions by unanimous written consent.

Annual Meeting Attendance

It is the Company's policy that Directors should make every effort to attend the annual meeting of stockholders. In 2003, a blizzard in Denver prevented physical attendance by Messrs. Connor, Conroy and Woodcock. The Directors who could not attend in person, instead participated by telephone.

Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics that applies to all of our Directors, officers and employees, including our principal executive officer, principal financial officer and principal accounting officer. A copy of the Company's Code of Business Conduct and Ethics is included as Appendix E to this Proxy Statement.

Nomination of Directors

As provided in the Governance and Nominating Committee's charter and our Company's corporate governance principles, the Governance and Nominating

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Committee is responsible for identifying individuals qualified to become Directors. The Governance and Nominating Committee seeks to identify director candidates based on input provided by a number of sources, including (1) the Governance and Nominating Committee members, (2) our other Directors, (3) our stockholders, (4) our Chief Executive Officer or Chairman, and (5) third parties such as professional search firms. In evaluating potential candidates for director, the Governance and Nominating Committee considers the entirety of each candidate's credentials.

Qualifications for consideration as a director nominee may vary according to the particular areas of expertise being sought as a complement to the existing composition of the Board. However, at a minimum, candidates for director must possess:

- o high personal and professional ethics and integrity;
- o the ability to exercise sound judgment;
- o the ability to make independent analytical inquiries;
- o a willingness and ability to devote adequate time and resources to diligently perform Board and committee duties; and
- o the appropriate and relevant business experience and acumen.

In addition to these minimum qualifications, the Governance and Nominating Committee also takes into account when considering whether to nominate a potential director candidate the following factors:

- o whether the person possesses specific industry expertise and familiarity with general issues affecting our business;
- o whether the person's nomination and election would enable the Board to have a member that qualifies as an "audit committee financial expert" as such term is defined by the Securities and Exchange Commission (the "SEC");
- o whether the person would qualify as an "independent" director under the rules of the SEC and AMEX listing standards;
- o the importance of continuity of the existing composition of the Board to provide long term stability and experienced oversight; and
- o the importance of diversified Board membership, in terms of both the individuals involved and their various experiences and areas of expertise.

The Governance and Nominating Committee will consider director candidates recommended by stockholders provided such recommendations are submitted in accordance with the procedures set forth below. In order to provide for an orderly and informed review and selection process for director candidates, the Board has determined that stockholders who wish to recommend director candidates for consideration by the Governance and Nominating Committee must comply with the following:

- o the recommendation must be made in writing to the attention of the Company's Corporate Secretary, Karl F. Arleth;
- o the recommendation must include the candidate's name, home and business contact information, detailed biographical data and qualifications, information regarding any relationships between the candidate and the Company within the last three years and evidence of the recommending person's ownership of the Company's Common Stock;

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- o the recommendation shall also contain a statement from the recommending stockholder in support of the candidate; professional references, particularly within the context of those relevant to Board membership, including issues of character, judgment, diversity, age, independence, expertise, corporate experience, length of service, other commitments; and personal references; and
- o a statement from the stockholder nominee indicating that such nominee wants to serve on the Board and could be considered independent under SEC rules and AMEX listing standards, as in effect at that time.

All candidates submitted by stockholders will be evaluated by the Governance and Nominating Committee according to the criteria discussed above and in the same manner as all other director candidates.

Complaints Regarding Accounting Matters

The Audit Committee has established procedures for (i) the receipt, retention and treatment of complaints regarding accounting, internal accounting controls, or auditing matters ("accounting matters"), and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

Communications with Directors

The Board has approved procedures for stockholders to send communications to individual Directors or the non-employee Directors as a group.

Written correspondence should be addressed to the director or Directors in care of Ms. Gillian Kane at the address given under "Who Can Answer Your Questions?" on page __. All correspondence will be forwarded directly to the intended recipient.

You may also contact individual employee Directors by calling the Company's principal executive offices at (303) 542-1878.

ELECTION OF DIRECTORS

PROPOSAL NO. 1

The Board proposes the election of the current Directors of the Company for an additional term of one year. The following is information about each nominee, including biographical data for at least the last five years. Should one or more of these nominees become unavailable to accept nomination or election as a director, the individuals named as proxies on the enclosed proxy card will vote the shares that they represent for the election of such other persons as the Board may recommend, unless the Board reduces the number of Directors.

The Board adheres to corporate governance principles designed to assure the continued vitality of the Board and excellence in the execution of its duties. The Board is responsible for supervision of the overall affairs of the Company. Following the Annual Meeting, the Board will consist of five Directors. The term of each director continues until the next annual meeting or until successors are elected. The nominees for director are:

Name	Principal Occupation for the Past Five Years and Current Directorships	Age
H. Howard Cooper	H. Howard Cooper has been our chairman and founder	

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since 1996. Mr. Cooper was our president and CEO from 1996 until May 2003. Mr. Cooper founded American Tyumen in November 1996. He served as a director and president of American Tyumen until the merger with the Company. Since the merger, he has held these same positions with the Company. In 1994, he was a principal with Central Asian Petroleum, an oil and gas company with its primary operations in Kazakhstan, located in Denver, Colorado. From 1992 to 1994 Mr. Cooper served with AIG, an insurance group. 48

Karl F. Arleth Karl F. Arleth has been our president and Chief Executive Officer and Corporate Secretary since May 2003 and a director since 2002. From 2002 to 2003, Mr. Arleth was the Chief Operating Officer and a Board member of Sefton Resources, Inc. Between 1999 and 2001, he served as Chairman and CEO of Eurogas, Inc. Ending in 1999, Mr. Arleth spent 21 years with Amoco and BP-Amoco. In 1998 he chaired the Shareholder Board of the Azerbaijan International Operating Company (AIOC) for BP-Amoco in Baku, Azerbaijan. Concurrently, in 1998, he was also President of Amoco Caspian Sea Petroleum Ltd. in Azerbaijan. In 1997, he served as Director of Strategic Planning for Amoco Corporations Worldwide Exploration and Production Sector in Chicago. From 1992 to 1996 Mr. Arleth was President of Amoco Poland Ltd. in Warsaw, Poland. 55

Thomas F. Conroy Thomas F. Conroy was our Chief Financial Officer and Corporate Secretary from March 2002 until May 1, 2003, and a director since 2002. Since 2002, Mr. Conroy has been a principal member of Mann-Conroy-Eisenberg & Assoc. LLC, a life insurance and reinsurance consulting firm and since 2001, has been a managing principal of Strategic Reinsurance Consultants International LLC, a life reinsurance consulting and brokerage firm. Ending in 2001, Mr. Conroy, spent 27 years with ING and its predecessor organizations, serving in various financial positions and leading two of its strategic business units as President. As President of ING Reinsurance, he established ING's international presence, setting up facilities in The Netherlands, Bermuda, Ireland and Japan. He also served as an Officer and Board Member of Security Life of Denver Insurance Company and its subsidiaries. Mr. Conroy is a certified public accountant. 66

James J. Woodcock James J. Woodcock has been a director since 2002 and Chairman of the Company's Compensation Committee. Since 1981, Mr. Woodcock has been the owner and CEO of Hy-Bon Engineering Company, based in Midland, Texas. Hy-Bon is an engineering firm and manufacturer of vapor recovery, gas boosters, and casing pressure reduction systems for the oil industry. From 1997 to 2002, Mr. Woodcock was the chairman of Transrepublic Resources, a private oil and gas exploration firm located in Midland Texas. Since 1996, Mr. Woodcock has been a board member of Renovar Energy, a private waste to energy firm located in Midland Texas and was 65

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John T. Connor, Jr. its Chairman of the Board until 2003. John T. Connor, Jr. has been a director since 2003 and chairs the Board's audit committee. He is the Founder and Portfolio Manager of the Third Millennium Russia Fund, a US based mutual fund specializing in the equities of Russian public companies, which he founded in 1998. Mr. Connor is a member of the Council on Foreign Relations and the American Law Institute. He is a director of Port.ru., Inc., a Delaware corporation, which operates the leading internet portal in Russia, mail.ru. and is also a member of the board of directors of Swissfone Ltd., based in Washington, D.C., an Irish company which is a telecom wholesaler.

All officers hold office until the first meeting of the Board after the annual meeting of stockholders next following his election or until his successor is elected and qualified. A director or officer may also resign at any time. Messrs. Connor, Conroy and Woodcock have been determined by the Board to be independent Directors within the meaning of Section 121A of the AMEX Company Guide. While Mr. Conroy currently qualifies as independent under that provision, commencing December 1, 2004, it is possible he will no longer qualify due to a more restrictive independence requirement which takes effect that day which disqualifies Directors with an employee relationship within the last three years rather than within the last year as under the current rules.

Approval of this proposal requires the affirmative vote of a plurality of the shares of the Company cast at the Annual Meeting.

THE BOARD RECOMMENDS A VOTE FOR THE ELECTION OF ALL THE ABOVE NOMINEES.

DIRECTOR COMPENSATION

Independent Directors are compensated as follows: \$6,000 cash for each quarter served, plus \$2,500 in stock for each Board meeting attended, plus \$1,000 in stock for each teleconference call in which the director participates to a maximum annual total of \$35,000. The number of shares received for participating in Board meetings and teleconferences is determined by the closing share price at the end of each quarter during which the meeting or teleconference occurred.

In addition to these fees, Directors are reimbursed for reasonable travel expenses, are eligible to participate in the Company's stock option plan, and are covered by the Company's directors and officers insurance.

The outside Directors received no compensation during the first nine months of 2003. For the fourth quarter of 2003, they received \$8,500 in the form of Company stock based on the closing price of \$4.98 on December 31, 2003.

BOARD COMMITTEES

The Board has standing Audit, Compensation, and Governance and Nominating committees. Each committee has a written charter. The charters are included as appendices to this Proxy Statement. Information concerning the membership and function of each committee is as follows:

Board Committee Membership

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Name	Audit Committee	Compensation Committee	Governance and Nominating Committee
Mr. Cooper			
Mr. Arleth			
Mr. Woodcock	X	X(2)	X
Mr. Conroy(1)	X	X	X(2)
Mr. Connor	X(2)		

-
- (1) Mr. Conroy was appointed to the Audit Committee, the Compensation Committee and the Governance and Nominating Committee on May 11, 2004.
- (2) Chairman.

Audit Committee

The Audit Committee is responsible for determining the adequacy of the Company's internal accounting and financial controls, reviewing the results of the audit of the Company performed by the independent public accountants, and recommending the selection of independent public accountants. The functions of the Audit Committee and its activities during 2003 are described in more detail under "Report of the Audit Committee" on page __ as well as in the Committee's charter included as Appendix E to this Proxy Statement. During the year, the Board examined the composition of the Audit Committee in light of the adoption by the AMEX of new listing standards governing audit committees. Based upon this examination, the Board has determined that each of the members of the Audit Committee is unrelated, is an outside member with no other current affiliation with the Company, and is independent as defined by AMEX listing standards. The Board has determined that Mr. John Connor is an "audit committee financial expert" as that term is defined by the SEC and AMEX, and is "independent" from the Company's management as that term is defined in Item 7(d)(3)(iv) of Regulation 14A promulgated under the 1934 Act. During 2003, the Audit Committee held three meetings by teleconference.

During the year, the Board examined the composition of the Audit Committee in light of the adoption by AMEX of new listing standards governing audit committees. Based upon this examination, the Board has determined that Mr. Connor and Mr. Woodcock are unrelated, are outside members with no other current affiliation with the Company, and are independent as defined by AMEX listing standards. Mr. Conroy was appointed to the Audit Committee in June 2004 as the third member of the Committee pursuant to the Board's determination that he does not have a material relationship with the Company that would interfere with the exercise of his independent judgment. However, but for the exception described below, Mr. Conroy would be deemed not independent for Audit Committee purposes under AMEX listing standards because he served as chief financial officer of the Company from March 2002 until May 2003. However, pursuant to exceptional and limited circumstances, which are described below, the Board has determined that it is in the best interests of the Company and its stockholders if Mr. Conroy temporarily serves as the third member of the Committee.

A small business issuer is required to have only two members on its audit committee. The Company ceased to be eligible to report as a small business issuer in early 2004 and began reporting as a regular issuer when it filed its quarterly report for the period ended March 31, 2004. As described under "Director Independence" on page __, the Company was therefore required to appoint a third member to the Audit Committee. As neither Mr. Cooper nor Mr. Arleth, by virtue of their service as current executive officers, qualify for membership on the Audit Committee under AMEX listing standards, the Company must appoint an additional Board member. The Company believes it will take some time to identify a suitable candidate. As a result, the Board has determined that it is in the best interests of the Company and its shareholders for Mr. Conroy to

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serve on the Audit Committee while the Company conducts the search for an appropriate, qualified new Board member and until a suitable replacement is found. Under an applicable exception in the AMEX listing standards, Mr. Conroy became eligible for temporary service on the Audit Committee in May 2004 as (i) he satisfies the independence requirements of Rule 10A-3 under the 1934 Act and (ii) he is not a current officer or employee or an immediate family member of such officer or employee. A director appointed to the Audit Committee pursuant to this exception may not serve for in excess of two consecutive years and may not chair the Audit Committee. In making such determination, the Board considered the fact that Mr. Conroy is experienced in financial matters and is a certified public accountant. The Board intends to appoint Mr. Conroy's replacement by the first quarter of 2005.

Compensation Committee

The Compensation Committee determines matters pertaining to the compensation of certain executive officers of the Company and administers the Company's stock option and incentive compensation. During 2003, the Compensation Committee held three meetings by teleconference. The Committee's report starts on page __. The Committee's charter is included as Appendix D to this Proxy Statement.

Governance and Nominating Committee

The Board has established a Governance and Nominating Committee for purposes of nominating Directors and for all other purposes outlined in the Governance and Nominating Committee charter, including nominees submitted to the Board by stockholders. The Board has determined that each of the members of the Governance and Nominating Committee is unrelated, is an outside member with no other affiliation with the Company, and is independent as defined by AMEX. The Committee's charter is included as Appendix F to this Proxy Statement.

INFORMATION ABOUT STOCK OWNERSHIP

The following tables set forth certain information as of May __, 2004, available to the Company with respect to the shares of the Company (i) held by those persons known to the Company to be beneficial owners (as determined under the rules of the SEC) of more than 5% of the Common Stock then outstanding and (ii) held by each of the Directors, each of the executive officers named in the Summary Compensation Table below, and by all of the Directors and such executive officers as a group. The business address for all Directors and executive officers is c/o Teton Petroleum Company, 1600 Broadway, Suite 2400, Denver, Colorado 80202.

5% BENEFICIAL OWNERS

Name and Address of Beneficial Owner	Common Stock Beneficially Owned	Percent of Class
H. Howard Cooper (1)	1,607,481	15.2%
Karl F. Arleth (2)	984,106	9.8%
James J. Woodcock (3)	747,358	7.6%
John T. Connor (4)	544,093	5.7%

- (1) Includes (i) 145,857 shares of Common Stock, (ii) 458,335 shares underlying warrants exercisable between \$3.24 and \$12.00, and (iii) 1,003,289 shares underlying options exercisable between \$3.48 and \$3.60 per share.

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- (2) Includes (i) 75,772 shares of Common Stock, (ii) 197,995 shares underlying warrants exercisable between \$3.24 and \$6.00, and (iii) 710,339 shares underlying options exercisable between \$3.48 and \$3.60 per share.
- (3) Includes (i) 102,948 shares of Common Stock, (ii) 234,262 shares underlying warrants exercisable between \$3.24 and \$6.00, and (iii) 410,148 shares underlying options exercisable between \$3.48 and \$3.60 per share.
- (4) Includes (i) 185,539 shares of Common Stock owned indirectly, (ii) 183,554 shares underlying warrants exercisable between \$3.24 and \$6.00 owned indirectly, and (iii) 175,000 shares underlying options exercisable between \$3.60 and \$3.71 per share.

DIRECTORS AND OFFICERS

Name and Address of Beneficial Owner -----	Common Stock Beneficially Owned -----	Percent of Class -----
H. Howard Cooper (1)	1,607,481	15.2%
Karl F. Arleth (2)	984,106	9.8%
James J. Woodcock (3)	747,358	7.6%
John T. Connor (4)	544,093	5.7%
Igor Effimoff (5)	467,058	4.9%
John J. Mahar (6)	83,334	1.0%
Thomas F. Conroy (7)	159,950	1.7%
Ilia A. Gurevich (8)	66,668	0.7%
Directors and Executive Officers as a Group	4,660,048	46.52%

- (1) Includes (i) 145,857 shares of Common Stock, (ii) 458,335 shares underlying warrants exercisable between \$3.24 and \$12.00, and (iii) 1,003,289 shares underlying options exercisable between \$3.48 and \$3.60 per share.
- (2) Includes (i) 75,772 shares of Common Stock, (ii) 197,995 shares underlying warrants exercisable between \$3.24 and \$6.00, and (iii) 710,339 shares underlying options exercisable between \$3.48 and \$3.60 per share.
- (3) Includes (i) 102,948 shares of Common Stock, (ii) 234,262 shares underlying warrants exercisable between \$3.24 and \$6.00, and (iii) 410,148 shares underlying options exercisable between \$3.48 and \$3.60 per share.
- (4) Includes (i) 185,539 shares of Common Stock owned indirectly, (ii) 183,554 shares underlying warrants exercisable between \$3.24 and \$6.00 owned indirectly, and (iii) 175,000 shares underlying options exercisable between \$3.60 and \$3.71 per share.
- (5) Includes (i) 2,057 shares of Common Stock (ii) 35,186 shares underlying warrants exercisable at \$3.71 per share, and (iii) 429,815 shares underlying options exercisable between \$3.48 and \$3.60 per share.
- (6) Includes 83,334 shares underlying options exercisable at \$3.48 per share.
- (7) Includes (i) 17,957 shares of Common Stock (ii) 38,335 shares underlying warrants exercisable between \$3.24 and \$6.00, and (iii) 103,658 shares underlying options exercisable between \$3.48 and \$3.60 per share.
- (8) Includes (i) 6,898 shares of Common Stock (ii) 12,314 shares underlying warrants exercisable between \$3.24 and \$6.00, and (iii) 47,456 shares underlying options exercisable between \$3.48 and \$3.60 per share.

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The Company has furnished the following report concerning the philosophy underlying the Company's compensation of executive officers.

COMPENSATION COMMITTEE REPORT

The Report of the Compensation Committee (the "Compensation Report") does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the 1934 Act, except to the extent the Company specifically incorporates this Compensation Report by reference therein.

The Company's executive compensation program is designed to attract, retain and motivate executive officers capable of leading the Company to meet its business objectives, to align the interests of executive management with those of the stockholders, and to provide incentives and reward both short and long term performance based on the success of the Company in meeting its development milestones and business objectives. The Compensation Committee places a particular emphasis on variable, performance based components, such as the bonus potential and stock option awards, the value of which could increase or decrease to reflect changes in corporate and individual performance.

Components of Compensation

Each executive officer's compensation package is generally comprised of the following elements: (1) a base salary which is established at levels considered appropriate for the duties and scope of responsibilities of each officer's position; (2) a performance-based annual bonus; and (3) periodic grants of stock options to strengthen the mutuality of interests between the executive officers and the Company's stockholders. Executive officers are also eligible to participate in compensation and employee benefits generally available to all employees of the Company.

The Compensation Committee believes that this approach best serves the interests of the Company and its stockholders. It enables the Company to meet the requirements of the highly competitive environment in which the Company operates while ensuring that executive officers are compensated in a way that advances both the short and long-term interests of stockholders. Under this approach, compensation for these officers involves a high proportion of pay that is "at risk", namely, the annual bonus and stock options. The variable annual bonus is also based, in significant part, on Company performance. Stock options relate a significant portion of long term remuneration directly to stock price appreciation realized by all of the Company's stockholders.

Base Salary

Base salaries for executive officers are set at levels believed by the Committee to be sufficient to attract and retain qualified executive officers based on the stage of development of the Company, the salary levels in effect for comparable positions in similarly situated companies within relevant industries, and internal comparability considerations. Base salaries for the Company's executive officers other than the Chief Executive Officer, as well as changes in such salaries, are based upon recommendations by the Chief Executive Officer, taking into account such factors as competitive industry salaries, a subjective assessment of the nature of the position and the contribution and experience of the officer and the length of the officer's service. All such recommendations are subject to approval or disapproval by the Compensation Committee. [Other than provisions provided for in employment agreements], changes in base salaries of executives are based on an evaluation of the personal performance of the executive, prevailing market practices, and the performance of the Company as a whole. In determining base salaries, the Committee not only considers the short

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term performance of the Company, but also the success of the executive officers in developing and executing the Company's strategic plans, developing management employees and exercising leadership in the development of the Company.

Cash-Based Incentive Bonus

The Committee believes that a portion of the total cash compensation for executive officers should be based on the Company's success in meeting its short-term performance objectives and contributions by the executive officers that enable the Company to meet its long-term objectives, and has structured the executive compensation program to reflect this philosophy. This approach creates a direct incentive for executive officers to achieve desired short-term corporate goals that also further the long-term objectives of the Company, and places a significant portion of each executive officer's annual compensation at risk.

Stock Options

The Compensation Committee believes that equity participation is a key component of the Company's executive compensation program. Stock options are awarded by the Committee to executive officers primarily based on potential contributions to the Company's growth and development and marketplace practices. These awards are designed to retain executive officers and to motivate them to enhance stockholder value by aligning the financial interests of executive officers with those of stockholders. Stock options provide an effective incentive for management to create stockholder value over the long term because the full benefits of the option grants cannot be realized unless an appreciation in the price of the Company's Common Stock occurs over a number of years.

Variable Bonus

The Committee may award annual or interim special bonuses in the form of cash, stock options, or restricted stock to executive management and employees for achieving certain milestones, progress made in the staff and organizational development of the Company, and advances in the market acceptance and commercialization of the Company's technology.

CEO Compensation

With the framework described above, the Committee determines the salary and bonus of the Chief Executive Officer based on his leadership, the execution of business plans, and strategic results. The complexity of the business and his experience are also key factors. The Committee has used the following metrics to determine the CEO's compensation: the complexity of the Company's international operations, the experience that the CEO brings to the Company and its business, the CEO's ability to continuously improve the Company's results, and the CEO's ability to evaluate and execute on acquisitions that will enable the Company to grow its asset base in the near term. The Committee does not use narrow, quantitative measures or formulas in determining the CEO's compensation. The Committee meets annually to establish operational and financial goals and objectives for the CEO and throughout the year regularly meets in executive sessions and with the CEO to review performance against those objectives. A final meeting of the Compensation Committee as well as with the entire Board is held each year during the Board's December meeting to measure results of the prior year as well as to set results and establish compensation benchmarks for the subsequent year.

Thomas F. Conroy
James J. Woodcock

Information about the Executive Officers

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The Chairman and the Chief Executive Officer are elected annually by our Board. The remaining executive officers are approved by the executive committee and hold office until their successors are elected and duly qualified.

The current executive officers of the Company are as follows:

Name	Age	Position
-----	---	-----
H. Howard Cooper	48	Executive Chairman of the Board of Directors and Founder
Karl F. Arleth	55	Chief Executive Officer, President, Secretary, and Director
Igor Effimoff	58	Executive Vice President and Chief Operating Officer
John Mahar	50	Executive Vice President of Finance
Patrick A. Quinn	50	Chief Financial Officer
Ilia Gurevich	40	Senior Controller - Russia
Gordon Phair	43	Controller - U.S.

H. Howard Cooper has been our chairman and founder since 1996. Mr. Cooper was our president and CEO from 1996 until May 2003. Mr. Cooper founded American Tyumen in November 1996. He served as a director and president of American Tyumen until the merger with the Company. Since the merger, he has held these same positions with the Company. In 1994, he was a principal with Central Asian Petroleum, an oil and gas company with its primary operations in Kazakhstan, located in Denver, Colorado. From 1992 to 1994 Mr. Cooper served with AIG, an insurance group.

Karl F. Arleth has been our president and Chief Executive Officer and Corporate Secretary since May 2003 and our director since 2002. From 2002 to 2003, Mr. Arleth was the Chief Operating Officer and a Board member of Sefton Resources, Inc. Between 1999 and 2001, he served as Chairman and Chief Executive Officer of Eurogas, Inc. Ending in 1999, Mr. Arleth spent 21 years with Amoco and BP-Amoco. In 1998 he chaired the Shareholder Board of the Azerbaijan International Operating Company (AIOC) for BP-Amoco in Baku, Azerbaijan. Concurrently in 1998, he was also President of Amoco Caspian Sea Petroleum Ltd. in Azerbaijan. In 1997, he served as Director of Strategic Planning for Amoco Corporations Worldwide Exploration and Production Sector in Chicago. From 1992 to 1996 Mr. Arleth was President of Amoco Poland Ltd. in Warsaw, Poland.

Igor Effimoff has been our Executive Vice President and Chief Operating Officer since 2002. Between 1996 and 2001, he was President of Pennzoil Caspian Corporation, managing the Company's interests in the Caspian Region. Between 1994 and 1996 he was the Chief Executive Officer of Larmag Energy, NV, a privately held Dutch oil and gas production company with its primary assets in the Caspian Sea.

John Mahar has been our Executive Vice President of Finance since 2004 and served as our interim Chief Financial Officer from April 2003 until February 2004. Since 1991, he has been a Managing Director of Gladstone Capital, LLC, an oil-and-gas financial advisory firm based in New York he co-founded. Between 1983 and 1991, Mr. Mahar was first Vice President at Schroder Capital Management International, Inc. where he was responsible for the firm's domestic U.S. investment operations.

Patrick A. Quinn, CPA, CVA has been our Chief Financial Officer since February 2004, a position he occupies on a part-time basis. Since 1986, Mr. Quinn has been the CEO of Quinn & Associates, P.C. (Q&A). Q&A provides accounting, tax and auditing services primarily to the oil and gas industry. Q&A has provided accounting and tax services to the Company since its inception. Mr. Quinn has extensive experience in international oil and gas operations including serving

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as the Controller of Hamilton Oil Corporation, which was the first company to produce oil in the U.K. sector of the North Sea.

Ilia Gurevich has been our Senior Controller for Russia since 2003, having previously held the position of Controller since 2002. . Between 1998 and 2002, he was a financial analyst for TeleInvest, an investment firm in Denver, Colorado. From 1997 to 1998, he was a Research Analyst for the firm of MIG-2000, in Los Angeles. From 1993 to 1997, he was Vice President, Finance, for an oil joint venture affiliated with Sidanco.

Gordon Phair has been our U.S. Controller since November 2003. Between 1999 and November 2003, Mr. Phair was an independent contractor providing accounting and financial services primarily to mining companies. From 1998 to 1999 Mr. Phair was the director of accounting for Caleel-Hayden, a cosmetics distributor. Mr. Phair is a certified public accountant.

EXECUTIVE COMPENSATION TABLES

Summary Compensation Table

The following table provides information about the total compensation for services in all capacities to the Company or its subsidiary for the Chief Executive Officer and the other most highly compensated executive officers of the Company whose total annual salary and bonus exceeded \$100,000 (collectively, the "named executive officers"). See the Compensation Committee Report beginning on p. ___ for an explanation of our compensation philosophy.

Name and Positions	Year	Salary (\$)	Bonus (\$)	Awards Other Annual Compensation (\$)	Long Term Compensation (Securities Underlying Options)
H. Howard Cooper	2003	160,000	-	-	603,289
	2002	160,000	50,000	-	-
	2001	210,000	-	-	-
Karl F. Arleth(1)	2003	85,000	-	-	410,338
	2002	-	-	-	-
	2001	-	-	-	-
Igor Effimoff	2003	108,000	-	-	89,815
	2002	-	-	-	-
	2001	-	-	-	-

(1) Reflects compensation as Chief Executive Officer for the period beginning May 1, 2003 through the end of 2003.

Options/SARs Grants During Last Fiscal Year

The following table provides information related to options granted to our Directors and named executive officers during the fiscal year ended December 31, 2003.

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Name	Number of Securities Underlying Options Granted	% of Total Options in Fiscal 2003 (1)	Exercise Price Per Share	Expiration Date
----	-----	-----	-----	-----
H. Howard Cooper	603,289	38.2%	\$3.48	04/08/13
Karl F. Arleth	410,338	26.0%	\$3.48	04/08/13
James J. Woodcock	210,148	13.3%	\$3.48	04/08/13
John T. Connor, Jr.	100,000	6.3%	\$3.71	08/03/13
Igor Effimoff	89,815	5.7%	\$3.48	04/08/13
John J. Mahar	83,333	5.3%	\$3.48	04/08/13
Thomas F. Conroy	28,658	1.8%	\$3.48	04/08/13

(1) The exercise price of the stock options was based on the fair market value of the stock on the day of the grant.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Value

No options were exercised in the last fiscal year.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the 1934 Act requires that the Company's Directors and certain of its officers file reports of ownership and changes of ownership of the Company common stock with the SEC and AMEX. Based solely on copies of such reports provided to the Company, the Company believes that all Directors and officers filed on a timely basis all such reports required of them with respect to stock ownership and changes in ownership during 2003 except that Mr. John Mahar and Mr. John Connor were late in filing Form 3s reporting becoming respectively, an executive officer and a director and Messrs. Arleth, Conroy, Cooper, and Woodcock were late in reporting the grant of stock options under the 2003 Employee Stock Option Plan.

Executive Employment Agreements

The Company and Mr. Cooper, our Chairman, entered into an employment agreement, effective May 1, 2002. The employment agreement is for a three-year term. After the third year, the agreement is automatically renewed from year to year, unless it is terminated as provided below. Mr. Cooper's initial salary under the agreement is \$13,333 per month, which was increased to \$16,667 per month beginning in January 2004. In the Board's discretion, he may receive additional bonus compensation. Mr. Cooper's employment is terminated immediately upon his death or permanent disability. The Company may also terminate Mr. Cooper's employment immediately for cause, as defined in the agreement. Mr. Cooper may terminate his employment immediately for good reason, as defined in the agreement. Additionally, either the Company or Mr. Cooper may terminate Mr. Cooper's employment upon 60 days prior written notice to the other. Upon termination of Mr. Cooper's employment without cause by the Company or for good reason by Mr. Cooper, Mr. Cooper is entitled to severance pay. The severance pay is equal to Mr. Cooper's salary for the preceding 24 months. Such severance may

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be paid in monthly installments over 24 months from the date of termination. The Company may discontinue the severance payments if Mr. Cooper violates the confidentiality, noncompetition, or nonsolicitation provisions of his employment agreement.

Ms. Anya Cooper, secretary, signed an employment agreement with the Company on May 1, 2002. The agreement is for a three-year term, whereby Ms. Cooper's salary is \$6,500 per month. Under the terms of the agreement, Ms. Cooper is entitled to 12 months of severance pay, payable in monthly installments over 12 months from the date of termination. The Company may discontinue the severance payments if Ms. Cooper violates the confidentiality provision of her employment agreement. Ms. Cooper is the wife of Mr. Cooper, the Chairman and Founder of the Company.

Mr. Arleth, President and Chief Executive Officer, signed an employment agreement on May 1, 2003. The agreement is for a three-year term, with an initial salary of \$10,000 per month that was increased to \$15,000 per month beginning in January 2004. Under the terms of the agreement, Mr. Arleth is entitled to 24 months severance pay in the event of a change of position or control of the Company.

AUDIT COMMITTEE REPORT

The following Report of the Audit Committee (the "Audit Report") does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates this Audit Report by reference therein.

Role of the Audit Committee

The Audit Committee's primary responsibilities fall into three broad categories:

First, the Committee is charged with monitoring the preparation of quarterly and annual financial reports by the Company's management, including discussions with management and the Company's outside auditors about draft annual financial statements and key accounting and reporting matters;

Second, the Committee is responsible for matters concerning the relationship between the Company and its outside auditors, including recommending their appointment or removal; reviewing the scope of their audit services and related fees, as well as any other services being provided to the Company; and determining whether the outside auditors are independent (based in part on the annual letter provided to the Company pursuant to Independence Standards Board Standard No. 1); and

Third, the Committee reviews financial reporting, policies, procedures, and internal controls of the Company.

The Committee has implemented procedures to ensure that during the course of each fiscal year it devotes the attention that it deems necessary or appropriate to each of the matters assigned to it under the Committee's charter. In overseeing the preparation of the Company's financial statements, the Committee met with management and the Company's outside auditors, including meetings with the Company's outside auditors without management present, to review and discuss all financial statements prior to their issuance and to discuss significant accounting issues. Management advised the Committee that all financial statements were prepared in accordance with generally accepted accounting principles, and the Committee discussed the statements with both management and the outside auditors. The Committee's review included discussion with the outside auditors of matters required to be discussed pursuant to Statement on

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Auditing Standards No. 61 (Communication With Audit Committees) as well as matters previously disclosed in Item 8-A of the Company's Annual Report on Form 10-KSB.

With respect to the Company's outside auditors, the Committee, among other things, discussed with Ehrhardt Keefe Steiner & Hottman PC matters relating to its independence, including the disclosures made to the Committee as required by the Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees).

Audit and Non-Audit Fees

Aggregate fees for professional services rendered to the Company by Ehrhardt Keefe Steiner & Hottman PC as of or for the two fiscal years ended December 31, 2003 and 2002 are set forth below:

	2003	2002
	----	----
Audit Fees	\$ 141,917	\$ 142,296
Audit-Related Fees	51,047	33,778
Tax Fees	6,500	12,805
	-----	-----
Total	\$ 199,464	\$ 188,879

Audit Fees. Aggregate fees for professional services rendered by Ehrhardt Keefe Steiner & Hottman PC in connection with its audit of our consolidated financial statements included in Forms 10-KSB and the quarterly reviews of our financial statements included in Forms 10-QSB for the fiscal years 2003 and 2002.

Audit-Related Fees. These were primarily related to SB-2 and SB-2/A filings for the registration of our stock, assistance with the AMEX application process, and reviews and discussions regarding accounting treatment of debt and equity transactions.

Tax Fees. These were related to tax compliance and related tax services.

Ehrhardt Keefe Steiner & Hottman PC rendered no professional services to us in connection with the design and implementation of financial information systems in fiscal year 2003 or 2002.

Recommendations of the Audit Committee. In reliance on the reviews and discussions referred to above, the Committee recommended to the Board that the Board approve the inclusion of the Company's audited financial statements in the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2003, for filing with the SEC.

John T. Connor, Jr.
James J. Woodcock

STOCK PERFORMANCE GRAPH

The following performance graph reflects the share price performance of Teton Petroleum Company since its shares commenced trading in the United States on the OTC Bulletin Board in November 2001. (Teton shares have been traded on the American Stock Exchange since May 2003). The total return of Teton's shares is compared to 1) the Russell 2000(R) Index, an index measuring the performance of 2000 companies with small market capitalizations, and to 2) a peer group of 26 companies with SIC code 1311 (Crude Oil and Natural Gas Producers) with market capitalizations of less than \$100 million. All cumulative returns are calculated on a fiscal year basis ending on December 31 of each year and have been weighted

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by market capitalization.

The Companies included in the peer group are:

Abraxas Pete Corp	Equity Oil Co	Parallel Pete Corp Del
Arena Resources Inc	Exploration Co	Primeenergy Corp
Beta Oil & Gas Inc	Georesources Inc	Pyr Energy Corp
Blue Dolphin Energy Co	Gmx Res Inc	Quest Resource Corp
Castle Energy Corp	Gulfwest Energy Inc New	Tengasco Inc
Chaparral Res Inc	Isramco Inc	Toreador Res Corp
Contango Oil & Gas Co	Kestrel Energy Inc	Tri Vy Corp
Daugherty Res Inc	Magellan Pete Corp	Vaalco Energy Inc
Double Eagle Pete Co	Mexco Energy Corp	

AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Exchange Act, and in accordance therewith files reports, proxy statements, and other information with the SEC. Such reports, proxy statements and other information may be inspected without charge at the principal office of the SEC, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the regional offices of the SEC located at 233 Broadway, New York, New York 10279 and 175 W. Jackson Blvd., Suite 900, Chicago, Illinois 60604, and copies of all or any part thereof may be obtained at prescribed rates from the SEC's Public Reference Section at such addresses. Also, the SEC maintains a World Wide Web site on the Internet at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. Such reports, proxy and information statements and other information also can be inspected at the office of the American Stock Exchange, Inc. 86 Trinity Place New York.

The Company's Annual Report to Stockholders for the fiscal year ended December 31, 2003 (which is not part of the Company's proxy soliciting materials) has been mailed to the Company's stockholders with or prior to this proxy statement. A copy of the Company's Annual Report on Form 10-K, without exhibits, will be furnished without charge to stockholders upon request to:

Ms. Gillian Kane
Vice President, Investor Relations
Tel. (970) 870-1417
Teton Petroleum Company
1600 Broadway, Suite 2400
Denver, Colorado 80202-4921

RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

PROPOSAL NO. 2

Ehrhardt Keefe Steiner & Hottman PC has served as the Company's independent auditors since December 1999 and has been appointed by the Board to continue as

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the Company's independent auditors for the fiscal year ending December 31, 2004. In the event that ratification of this selection of auditors is not approved by a majority of the shares of Common Stock voting at the Annual Meeting in person or by proxy, the Board will reconsider its selection of auditors. Ehrhardt Keefe Steiner & Hottman PC has no interest, financial or otherwise, in the Company.

A representative of Ehrhardt Keefe Steiner & Hottman PC is expected to be present at the Annual Meeting. The auditors will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

The proxy holders intend to vote the shares represented by proxies to ratify the Board's selection of Ehrhardt Keefe Steiner & Hottman PC as the Company's independent auditors for the fiscal year ending December 31, 2004.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

The Audit Committee pre-approves all audit and non-audit services provided by the independent auditors prior to the engagement of the independent auditors with respect to such services. The Chairman of the Audit Committee has been delegated the authority by the Committee to pre-approve interim services by the independent auditors other than the annual audit. The Chairman must report all such pre-approvals to the entire Audit Committee at the next Committee meeting.

Approval of this proposal requires the affirmative vote of the majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting.

THE BOARD RECOMMENDS A VOTE FOR RATIFICATION OF THE APPOINTMENT OF EHRHARDT KEEFE STEINER & HOTTMAN PC AS THE COMPANY'S INDEPENDENT AUDITORS FOR THE FISCAL YEAR ENDING DECEMBER 31, 2004.

SALE OF GOLOIL

PROPOSAL NO. 3

TO APPROVE THE SALE OF THE COMPANY'S INDIRECT EQUITY INTEREST IN GOLOIL, WHICH CONSTITUTES THE SALE OF SUBSTANTIALLY ALL OF THE COMPANY'S ASSETS Within the meaning of SECTION 271 OF Delaware General Corporation law, TO RUSSNEFT, THE OWNER OF THE REMAINING INTERESTS IN GOLOIL; ALL AS SET FORTH IN THE SHARE SALE AND PURCHASE CONTRACT DATED APRIL 20, 2004, BETWEEN GOLTECH PETROLEUM LLC, OUR WHOLLY OWNED SUBSIDIARY AND 35.30% OWNER OF GOLOIL, AND RUSSNEFT.

Business of Goloil

The Company, through its wholly owned subsidiary, Goltech owns a 35.30% equity interest in Goloil. Goltech's principal executive office is located at 1600 Broadway, Suite 4200, Denver, Colorado 80202 and its telephone number is (303) 542-1878. RussNeft owns the remaining 64.70% of Goloil through two subsidiaries, McGrady and InvestPetrol. McGrady holds 35.29% and InvestPetrol holds 29.41% of the equity interests in Goloil. However, until Goltech and McGrady receive the return of 100% of their capital investment in Goloil, they are each entitled to a 50% economic interest in Goloil. Goloil is managed by a seven person management board on which we have two representatives. Pursuant to the existing agreements among Goloil's shareholders, Goltech and McGrady share equally in capital expenditures, gross revenues, costs and expenses, until they receive

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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 Lease Agreement No. EST 160/000630 (the "EUA Lease Agreement") among EUA as lessor and Goloil as lessee dated as June 2000. EUA is 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 EUA has taken 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 2400 Rubles or \$11.50 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. The address of RussNeft's principal executive office is 15 Zubarev Per., Building No. 1, Moscow 129164, Russia and its telephone number is 011-7095-411-6335. In September 2003, RussNeft acquired a 64.70% equity interest in Goloil in a private transaction in which it purchased all of the shareholders of Goloil (other than Goltech), i.e., McGrady and InvestPetrol. At that time, RussNeft also acquired EUA, the lessor of various wells and facilities to Goloil under the EUA Lease Agreement and recipient of the Production Payment described above. In acquiring such interests, RussNeft became entitled to appoint a majority of the management board of Goloil and effectively took control of its operations.

Goloil holds a twenty-five year renewable license to produce oil and gas in a portion of Western Siberia. The license was issued by the Russian Federation and expires in 2022, but may be extended if Goloil complies with certain specified conditions and undertakes additional operations at the end of the term of the license. The Goloil license encompasses 187 square kilometers (116 square miles) in the south central portion of the west Siberian basin. The license area is located approximately 50 miles north of Nizhnevartovsk in western Siberia. Three oil producing fields are located within the license area: Golevaya, Eguryak, and South Eguryak.

The following chart shows the current ownership structure of Goloil.

Description of Arrangements with Goloil and RussNeft

The most recent estimate of Teton's share of the oil reserves owned by Goloil was prepared for inclusion in our Form 10-KSB for the year ended December 31, 2003 that we filed with the SEC. The analysis was prepared by the independent oil and gas reservoir engineering firm, Gustavson Associates which is located in Boulder, Colorado.

The price of oil used for this analysis was 2,400 rubles per ton (\$11.50 per barrel at March 31, 2004 exchange rates), net of transportation, marketing and export duties, which is the price Goloil has realized from October 1, 2003 to the present time under the pricing arrangement set by RussNeft. The analysis took into account other factors including the costs to operate and maintain Goloil's wells, important taxes such the Mineral Extraction Tax, the Russian profits tax, Value Added Tax (VAT), and required capital expenses.

In addition to the economic and tax parameters discussed above, the Gustavson analysis also took into account the somewhat complex ownership and financing structure of Teton's ownership in Goloil.

As noted above, Teton owns 35.30% of the shares of Goloil. But Teton has always been entitled to 50% of the net profits from Goloil because InvestPetrol, the owner of 29.41% of Goloil's shares has never invested in the development of the

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license and consequently is not entitled to any profits until Teton and McGrady fully recover their investment. Based on the Gustavson analysis, this would not occur until 2011 or 2012, at which time Teton's interest in the profits of Goloil would be reduced from 50% to 35.30%.

Gustavson's analysis also takes into account the Production Payment. Since 2001 Goloil has paid EUA a fee payable in oil production (i.e. physical barrels of oil), or cash, at an amount equivalent to 50% of Goloil's oil production. Since RussNeft (which now owns EUA) became the majority owner of Goloil in October 2003, the production payment has been paid as a flat monthly fee of 19 million rubles (approximately \$650,000) and Gustavson applied this amount through June 2007, when the production payment is due to expire.

Based on the above, Gustavson estimated that the share of Goloil's proved reserves attributable to Teton was approximately 8,262,000 barrels of oil. Teton's share of the future cash flow from the production of these reserves was estimated at \$12,225,000 and its present value, using a 10% discount rate, was estimated at \$5,993,000. These numbers are after Russian profits tax, but do not take into account any U.S. federal income taxes.

In order to realize these cash flows, Gustavson estimated that Teton would be required to invest approximately \$14.6 million in capital expenditures for drilling and infrastructure over the next three years, before Goloil would begin to generate positive cash flow to Teton's interest.

As required by the Financial Accounting Standards Board, the standardized measure of discounted future net cash flows is computed by applying year-end prices, costs and legislated tax rates and a discount factor of 10% to net proved reserves. The standardized measure includes costs for future dismantlement, abandonment and rehabilitation obligations. The Company believes the standardized measure does not provide a reliable estimate of the Company's expected future cash flows to be obtained from the development and production of its oil and gas properties or the value of its proved oil and gas reserves. The standardized measure is prepared on the basis of certain prescribed assumptions including year-end prices, which represent a single point in time and therefore may cause significant variability in cash flows from year to year as prices change.

Revenues/Assets

Our oil revenues from the Goloil license were \$6,923,320 in 2002, \$11,437,802 in 2003 and \$2,962,500 in the quarter ended March 31, 2004. In each period the Goloil revenues accounted for 100% of our revenues and our interest in Goloil constitutes our only operating asset. Consequently, this sale constitutes a sale of substantially all of our assets for purposes of Delaware law. Accordingly, the sale is being submitted to stockholders for approval pursuant to Section 271 of the Delaware General Corporation Law.

Background of the Negotiations

The Company's acquired an initial interest in Goloil in September 1996. Between 1996 and 1998, the Company's added to its interest in Goloil ultimately owning 70.6% of the shareholding in Goloil, with the balance being owned by a number of minority shareholders whose interests were ultimately purchased by InvestPetrol. Initially, Goltech was to provide 100% of the capital required for investment and would be entitled to 100% of the revenue until such time as Goltech recouped its investment and interest on that investment. Goltech was also the operator of Goloil. However, the Company lacked the necessary capital to drill wells and lacked the ability to transport its oil through the Russian State Pipeline Company ("TransNeft") since the field was not connected to the TransNeft pipeline system.

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In order to comply with the terms and work program obligations for its license and commence drilling by the time required by its license, the Company sold one-half of its 70.6% interest in Goloil to a Russian partner, Mediterranean Overseas Trust, a trust organized under the Republic of Malta ("MOT"). Pursuant to a Master Agreement ("the Master Agreement") dated June 19, 2000 among MOT, Goltech and Teton. Also in June 2000, the Company and MOT entered into the EUA Lease Agreement with EUA, an affiliate of MOT, pursuant to which EUA drilled and completed five wells on the Eguryak license, completed construction of a 24 mile long pipeline connection to the TransNefit pipeline system and constructed a separation and oil processing unit. EUA leased these facilities to Goloil pursuant to the EUA Lease Agreement in exchange for the Production Payment that consists of 50% of Goloil's production through 2007 subject to minimum delivery requirements (all of which could be taken in oil to be sold domestically within Russia or in cash). The Master Agreement, among other things, provided that MOT would buy a 50% interest in Goltech. In addition to taking its 50% interest in Goltech, MOT became entitled to appoint a majority of the management board of Goloil and assumed operating control of Goloil. The Production Payment and the investment plan were memorialized in an oilfield development agreement and the EUA Lease Agreement, which were entered into between the parties on June 30, 2000.

By allowing MOT to take domestic (Russian) oil as payment, the Company ensured that it would be able to sell most of its own allocation of the field's production into the non-Russian markets for hard currency where it could receive a substantially higher price per barrel than was provided by the Russian domestic market. At the time the June 2000 agreements were signed, the average price received by Goloil for Russian domestic oil was approximately \$10 per barrel and the average price received by Goloil for export oil was approximately \$23 per barrel. More importantly, the transaction served a vital immediate purpose by facilitating the Company's ability to raise the capital necessary to continue to meet the license's work requirements as specified by the Russian government. The Company proceeded with the transaction because it believed that:

- o MOT was capable of quickly establishing production and generating cash flow at Goloil;
- o these assets were undervalued due to poor infrastructure as well as due to Russia's status as an emerging market with a nascent political system and an embryonic legal system; and
- o if Teton had not secured the financing for the drilling program, separation and oil processing unit and connecting pipeline, the Goloil license could have been revoked by the Russian Government for failure to meet the license's requirements.

Notwithstanding the clear need the Company had to consummate the transaction with MOT and its affiliate EUA, as the Company matured, it became increasingly evident that the transaction did not provide an ideal platform for the Company because of:

- o our lack of operating control of Goloil once RussNefit purchased its majority interest;
- o the lack of operating discipline from its Russian Partner resulting in operating revenues that covered operating costs but not capital expenses.

Goltech, Teton and MOT entered into a new arrangement known as the Restructuring and Funding Agreement (the "Restructuring Agreement") dated October 19, 2001. The Restructuring Agreement allowed MOT ultimately to transfer its interest in Goloil from Goltech to McGrady, an MOT subsidiary, thus making McGrady a direct stockholder in Goloil along with InvestPetrol and our Goltech subsidiary. The Restructuring Agreement also provided for the Company and MOT to share equally

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in funding responsibility for Goloil.

In or around April 2002, the Company believes that MOT and its affiliates began to change the payment terms under the Restructuring Agreement and the Master Agreement by, among other things, paying to EUA 50% of Goloil's cash oil sales revenue, rather than taking oil in-kind under the Production Payment to EUA.

On November 12, 2002, Mr. Cooper sent a letter to MOT that, among other things, indicated the Company's interest in redefining the relationship to more accurately reflect the original operating concept, including the Production Payment. On November 26, 2002, the parties signed a memorandum of understanding (the "11/2002 MOU") that, among other things, defined agreements to control the relationship between McGrady, and the Company going forward. As a result of the 11/2002 MOU, an amendment to the EUA Lease Agreement dated March 25, 2002 was signed that clearly defined the Production Payment as 50% of production to be sold into the domestic (Russian) market. The MOU also allowed MOT to complete its withdrawal from Goltech and transfer its interest to McGrady as a direct stockholder in Goloil. The 11/2002 MOU also provided for joint approval of capital expenditures by Goltech and MOT.

After the 11/2002 MOU was executed, and from April to September of 2003, the Company began a series of discussions with InvestPetrol, McGrady, and EUA, with respect to a potential buyout of their interests in Goloil. These discussions ultimately did not lead to any agreement due to an inability to agree on price.

On September 14, 2003, MOT informed the Company of RussNeft's purchase of McGrady, InvestPetrol and EUA.

On September 29, 2003, Messrs. Arleth, Cooper and Effimoff met with representatives of RussNeft in Moscow to discuss entering into a new memorandum of understanding.

At subsequent meetings, RussNeft indicated that it wanted to sell Goloil's production at a fixed price based on the average price Goloil had received for its oil (both domestic and export) for the previous year. That price of 2400 rubles per ton (or \$11.50 per barrel) became the price at which Goloil sold its oil commencing in October 2003. On October 2, 2003, Teton signed a new memorandum of understanding dated October 2, 2003 with RussNeft, Teton, McGrady, InvestPetrol, Goltech and Goloil (the "10/2003 MOU") which, among other things, recognized certain of the existing arrangements and provided the parties would seek a more general basis of cooperation to be negotiated in the future but suspend for further discussion RussNeft's stated intention to have Goloil sell its production at 2400 rubles per ton.

Between mid-October 2003 and November 2003, Messrs. Effimoff (Chief Operating Officer) and Gurevich (the Company's Senior Controller) met with representatives of RussNeft in an effort to agree on the outstanding issues not addressed in the 10/2003 MOU. During this time, Goloil began selling its oil at \$11.50 per barrel and making payments to EUA at a flat rate of 19 million rubles per month (approximately \$650,000) in lieu of the production payment.

On November 3, 2003, Mr. Gurevich met with Mr. Sergei Bakhir, Vice President for Operations of RussNeft, and other RussNeft executives in Moscow to discuss the various issues between the parties. During the course of that meeting, representatives of RussNeft first indicated an interest in purchasing Teton's share of Goloil.

In November and December 2003, representatives of the Company continued to explore with RussNeft whether a common ground could be found for proceeding with the relationship. On December 15, 2003, the Company received RussNeft's proposed budget for Goloil for 2004. Among other things, the budget provided for an accelerated drilling program and capital expenditures that were beyond the

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Company's means and which might never be recovered under the RussNeft pricing policy of selling all of Goloil's production for 2400 rubles per ton. On December 22, 2003, the proposed 2004 Goloil budget was approved by the Goloil board. The Company representatives on Goloil's board opposed the proposed 2004 budget.

On January 18 and 19, Messrs. Cooper, Effimoff and Arleth met at the Company's Colorado office to consider the status of the relationship with RussNeft and the possibility of recommending a sale of the Company's interest in Goloil to the Company's Board.

In late January 2004 through February 12, 2004, Messrs. Effimoff and Gurevich traveled to Moscow to, discuss with RussNeft the terms of a possible sale of the Company's interest in Goloil.

On January 20, 2004, the Company hired an affiliate of Troika Dialog, a Moscow-based investment bank, with a mandate to assist it in negotiating the sale of its interest in Goloil.

On February 10, 2004, the Company received a letter from Mr. Gutseriev through Troika's affiliate. Among other things, the letter offered the Company \$4.5 million for its share in Goloil, which included payment of debt and equity for the Company.

During February 2004, representatives of Troika, acting on behalf of the Company, met with Mr. Gutseriev on several occasions to discuss a revised offer for the Company's interest in Goloil.

On March 2, 2004, following a Goloil Board meeting, Messrs. Cooper and Arleth, accompanied by representatives of the Troika affiliate, met with Mr. Gutseriev in Moscow to negotiate the proposed sale of Teton's stake in Goloil.

On March 26, 2004, during a telephonic Board meeting, Mr. Arleth discussed with the other Board members the plan to sell Goltech's interest in Goloil to RussNeft if a fair and reasonable transaction could be structured under the circumstances. The Board endorsed management's assessment and recommendation.

On March 31, 2004, we signed an agreement with RussNeft regarding the sale of its interest in Goloil.

On April 5, 2004, we announced an agreement to acquire a majority interest in a producing field in Russia (later disclosed to be the Samson transaction).

On April 6, 2004, the Company's Board unanimously approved the proposed terms of the Goloil sale and authorized the execution of a definitive agreement.

On April 12, 2004, we announced the sale of Goloil. The press release stated in relevant part:

"Teton will sell its 35% stake in the Goloil license to a private Russian independent. In addition, the sale price will include all outstanding loans and accrued interest owed to Teton. The closing of the Goloil transaction is subject to approval by Teton's shareholders."

On April 20, 2004, a revised definitive Share Purchase and Sale Contract (the "Share Purchase and Sale Contract") between the Company and RussNeft for the sale of the Company's interest in Goloil was executed.

On May 13, 2004, we announced, among other things, further information on the Goloil sale, that Vitol had exercised its first purchase right with respect to the Samson transaction and that our \$3.85 million deposit on this proposed purchase had therefore been fully refunded.

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The aggregate consideration of US\$15,000,000 was ultimately arrived at through a variety of factors:

- o The amount of the loans, including accrued interest, due Goltech had previously been established at US\$6,039,771 at March 31, 2004; and
- o The balance of US\$8,960,229 was based in part on the parties' agreement on the value of the reserves.

Summary of Material Terms of the Share Purchase and Sale Contract

On April 6 and April 13, 2004, our Board unanimously approved and on May 11 it unanimously ratified the Share Purchase and Sale Contract between our wholly owned subsidiary Goltech Petroleum LLC and RussNeft, pursuant to which Goltech agreed to sell our indirect 35.30% interest in Goloil to RussNeft. The definitive Share Purchase and Sale Contract was executed by both parties on April 20, 2004. Under Delaware law, completion of the Goloil sale requires the approval of our stockholders since the Goloil sale constitutes the sale of substantially all of our assets.

The material terms of the Share Purchase and Sale Contract are summarized below.

Parties

The parties to the Share Purchase and Sale Contract are Goltech Petroleum LLC, a Texas limited liability company and our wholly owned subsidiary, and RussNeft.

The Assets

The asset to be sold is Goltech's 35.30% ownership stake in Goloil. Goloil's significant asset is a license that encompasses 187 square kilometers (116 square miles) in the south central portion of the west Siberian basin. It is located approximately 10 miles to the north and west of Samotlor, Russia's largest oil field. Three producing fields are located within the license area: Golevaya, Eguryak, and South Eguryak. The Goloil license expires in 2022, but may be extended upon compliance with a specified program of operations and an undertaking of additional investment after the end of the term. The Goloil license may be terminated prior to its term if Goloil fails to comply with the requirements of the license. The Assets to be sold constitute substantially all of our operating assets.

The Purchase Price

The purchase price for our 35.30% interest in Goloil is \$8,960,229 in cash. As is described below, Goloil will also repay advances made by the Company to Goloil totaling \$6,039,771, of which \$3,569,051 of the principal and \$131,452 of the accrued interest had been repaid as of April 2, 2004. The gross proceeds of the two transactions to the Company will be \$15,000,000. The advances were made to Goloil by the Company to finance our 50% share of Goloil's capital expenditures and currently bear interest at the rate of 8% per annum.

Closing

Unless otherwise agreed by the parties, the closing date for the Goloil sale is expected to take place shortly after shareholder approval of the Goloil sale is obtained and all other conditions of the Goloil sale are met.

Representations and Warranties

The agreement contains various customary representations and warranties made by each of the parties to the agreement. Such representations and warranties relate

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to, among other things, the enforceability of the agreement, the parties' organization, the parties' authority to enter into the agreement, and the title to the shares of Goloil being transferred.

Conditions to Completion of the Goloil Sale

In addition to stockholder approval of the transaction, the completion of the sale of our assets is subject to the repayment of \$6,039,771 in loans made by the Company to Goloil, \$3,569,051 of the principal and \$131,452 of the accrued interest of which had been repaid as of April 2, 2004.

Termination of the Share Purchase and Sale Contract

The contract may be terminated and the Goloil sale abandoned for various reasons, including:

- o by mutual consent of the parties;
- o if we have not sent a notice to RussNeft by August 1, 2004, stating that our stockholders have approved the Goloil sale;
- o if RussNeft has not issued certain letters of credit to support payment of the Purchase Price and the repayment of advances as required by the agreement by August 16, 2004; and
- o if Goloil has not repaid all debts, including the principal and interest under all of its loan agreements with the Company [Goltech], pursuant to the loan repayment agreement described below.

Regulatory Approvals

The sale is subject to Russian Anti-Monopoly Commission approval.

Repayment of Loan Advances

In connection with the Goloil sale, the Company also entered into a separate agreement with Goloil for the repayment of all of the outstanding loans and advances owed to the Company by Goloil. At the date of the loan repayment agreement, the amount of advances by the Company to Goloil, including interest totaled \$6,039,771. As of April 2, 2004, \$3,569,051 of the principal and \$131,452 of the accrued interest had been repaid. As noted above, the repayment of the loans is a condition to the closing of the Share Purchase and Sale Contract.

Expenses of the Goloil Sale

Whether or not the Goloil sale is completed, each party is required to bear its own costs and expense including fees of attorneys, accountants and financial advisors. We currently estimate our legal and accounting costs in connection with the sale to be approximately \$250,000. Additionally, if the Goloil sale is completed, we will owe an investment banking fee of \$750,000 to an affiliate of Troika Dialog in connection with its arrangement of the Goloil sale.

Absence of Dissenters' Rights of Appraisal

Under the applicable provisions of Delaware General Corporation Law, the Company's stockholders will have no appraisal rights in connection with the Proposed Transaction to seek appraisal for the fair value of the shares of Common Stock.

No Opinion of Financial Advisor - Fairness of the Goloil Sale

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The Board believes that in light of all the circumstances, including those set forth under "Risk Factors" below, that the proposed Goloil sale is in the best interests of, and is fair and reasonable to, the stockholders of the Company and unanimously recommends that our stockholders approve the sale of Goloil.

Our Board has considered a number of factors in reaching this conclusion, including, in particular, the following:

- o The Company expects to realize a significant gain on the Goloil sale currently estimated at approximately \$12.6 million;
- o The fact that RussNeft is the most likely purchaser for Goloil since it is already the majority owner of Goloil;
- o The fact that there is a limited universe of alternate buyers for a minority interest in a Russian oil and gas company;
- o The expected long term recovery of profits by our Company based on the current structure of Goloil's ownership and the positions RussNeft has taken under the agreements and, in particular, the fact that we would have had to invest approximately \$14.6 million in Goloil over the next three years to fund RussNeft's accelerated capital expenditure programs, in order to receive approximately \$13.3 million in cash flow from reserves, rather than receiving \$15 million of cash in the Goloil sale now.
- o Our minority position in Goloil does not allow us to maximize our return on investment since RussNeft as majority owner is able to make decisions for the benefit of RussNeft;
- o RussNeft has caused Goloil to sell its production at a fixed price which does not allow the Company to maximize the value of its investment in Goloil;
- o The inability of the Company to effectively prevent the discounted sales of Goloil production;
- o The difficulties the Company would face in continuing its relationship with RussNeft;
- o The fact that legal remedies for minority stockholders in Russia are significantly more limited than in the United States and the potential costs and effectiveness of seeking redress in Russian courts against a Russian party;
- o The fact that the Company pays the Russian mineral extraction tax and the lifting costs on the 50% of Goloil's production that is paid to EUA as a production payment and will do so through 2007;
- o The fact that InvestPetrol has a 29.41% reversionary interest in Goloil's profits from and after the time at which Teton receives its original investment back which would reduce Teton's profit interest after payout of its investment;
- o Reductions in Goloil's revenues and projected future net revenues from proved reserves as a result of the sales by Goloil at a fixed price and in 2002 as a result of various other factors previously reported by the Company;
- o The Company's desire to own a controlling interest in its operating business;
- o The potential availability of other potential oil fields for sale in Russia

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at attractive prices comparable to the price the Company would receive in the sale of Goloil; and

- o The potential availability of the proceeds from the sale of Goloil for use in pursuing other opportunities with the potential to improve the Company's economic position.

Countervailing Considerations

The Board also identified and considered a number of potentially negative factors in its deliberations concerning the Goloil sale, including, but not limited to:

- o The risk that if the Company cannot complete an acquisition within a reasonable time after closing Goloil that its Common Stock could be delisted from the AMEX;
- o The risk that the Company cannot promptly reinvest the proceeds from the Goloil sale it risks dissipating those proceeds in payment of operating expenses; and
- o The potential for a negative perception being created in the market by reason of our not having a completed acquisition to replace our operating business before exiting from our existing business.

Procedural Safeguards

The Board believes that sufficient procedural safeguards are present to ensure the fairness of the Goloil sale. The belief is based upon the following factors:

- o Approval of the Share Purchase and Sale Contract requires the affirmative vote of a majority of the outstanding Common Stock of the Company; and
- o The Goloil sale was unanimously approved by the Directors of the Company, including the independent members of the Board.

Accounting Treatment of Proposed Transaction

Under accounting principles generally accepted in the United States of America, upon consummation of the Proposed Transaction, we expect to reflect the results of operations of Goloil as discontinued operations, including the related gain on the sale, net of any applicable taxes commencing in the third quarter of 2004. For further information see the Pro Forma financial information included as Appendix A-3.

Summary Pro Forma Financial Information

Attached as Appendix A-3 is the Company's unaudited pro forma condensed financial information which gives effect to the sale of Goloil. As discussed in Appendix A-3, and summarized below, the operations of Goloil have been reclassified to discontinued operations and a gain of \$12.6 million has been recorded on the sale. The pro forma condensed financial information does not purport to represent what the results of operations and financial position of the Company would actually have been nor do they purport to project the results of operations or financial position of the Company for any future period or as of any date. The summary pro forma information set forth below is qualified in its entirety by reference to the pro forma information set forth in Appendix A-3 including the notes thereto.

The following table summarizes key financial items as historically provided by the Company and then on a pro forma basis, assuming the sale occurred on March 31, 2004:

TETON PETROLEUM COMPANY
SUMMARY PRO FORMA INFORMATION
GIVING EFFECT TO THE SALE OF GOLOIL

Statement of Operations Data:	December 31, 2003		March 31, 2004	
	Historical Amounts, as Reported	Pro Forma After Goloil Sale	Historical Amounts, as Reported	Pro Forma After Goloil Sale
Sales	\$11,437,802	-	2,962,500	-
Net loss from continuing operations applicable to common shares:	(8,415,537)	(6,816,857)	(3,075,083)	(2,639,787)
Net income (loss) from discontinued operations applicable to common shares:	-	(1,598,680)	-	12,177,001
Net (loss) income applicable to common shares:	(8,415,537)	(8,415,537)	(3,075,083)	9,537,214
Net loss from continuing operations per common share:	(1.23)	(1.00)	(0.35)	(0.30)
Net income (loss) from discontinued operations per common share:	-	(0.23)	-	1.39
Weighted average common shares outstanding	6,840,303	6,840,303	8,747,165	8,747,165
Net (loss) income from per common share	\$ (1.23)	\$ (1.23)	\$ (0.35)	\$ 1.09
Balance Sheet Data:				
Current assets			10,325,326	20,696,760
Total assets			21,132,672	20,723,128
Current liabilities			13,011,002	732,261
Total liabilities			13,140,502	732,261
Total stockholders' equity			7,992,170	19,990,867

Selected Consolidated Financial Data

The following table contains selected consolidated Financial Data and Operating Information of the Company for the three months ended March 31, 2004 and 2003 and for each of the five years ended December 31, 2003 and is qualified in its entirety by reference to the unaudited financial statements of the Company for

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the quarter ended March 31, 2003 and March 31, 2004 and the audited financial statements for the three years ended December 31, 2003 set forth in Appendix A. The results for the quarter ended March 31, 2004 are not indicative of results for the full year 2004.

TETON PETROLEUM COMPANY SELECTED FINANCIAL DATA AND OPERATING INFORMATION (In \$000's, except as noted)

	For the Quarter Ended March 31,		For the Years Ended December 31,				
	2004	2003	2003	2002	2001	2000	1999
Financial							

Operating Revenues	\$ 2,963	\$ 3,409	\$11,438	\$ 6,923	\$ 1,625	\$ 1,675	\$ 1,518
Net loss	(2,522)	(781)	(5,635)	(10,974)	(1,658)	(3,066)	(1,025)
Comprehensive loss	(3,360)	(695)	(8,247)	(11,115)	(1,742)	(2,957)	(325)
Net cash provided by (used in) operating activities	(1,563)	192	(3,011)	(5,169)	(1,553)	(1,069)	(903)
Total assets	21,133	10,995	20,718	10,012	2,211	2,317	1,789
Oil and gas properties, net (successful efforts)	8,564	7,479	9,340	4,896	1,169	1,490	1,482
Notes payable	0	0	0	0	844	1,425	577
Proportionate share of notes payable	8,220	2,845	7,419	2,948	770	395	0
Working capital (deficit)	(2,686)	(2,865)	(1,160)	176	(1,430)	(982)	(246)
Stockholders' equity (deficit)	7,992	5,154	10,205	4,879	(382)	58	(1,212)
Weighted average Common shares outstanding - basic and diluted	8,747	6,321	6,840	3,105	2,244	1,470	1,096
Basic and diluted loss per common share	(0.35)	(0.12)	(1.23)	(3.53)	(0.72)	(2.04)	(0.96)
Cash dividends declared per common share	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating							

Net productive wells (1)	10.5	7.5	10.5	6.5	3.5	1.5	1.0
Net oil production - barrels	167	151	632	471	95	143	134
Oil and gas property and equipment expenditures	190	2,887	5,392	3,222	322	2,002	257
Proved reserves							
- barrels (2,3)	8,095	13,113	8,262	13,264	40,174	8,500	19,375
Proved developed reserves							
- barrels (2,3)	3,649	4,416	3,816	4,567	15,493	1,300	2,300

(1) Net well count is based on Teton's effective net interest as of the end of each year. Prior to August 2000, Teton owned 100% of the interests in Goltech. Subsequent to August 2000 our interest was reduced to 50%. In November, 2002, it again became 100%.

(2) Teton revised its estimated proved and proved developed reserves downward at the end of 2002. The reserve estimates were decreased at the end of 2002 based on additional data derived from production and other data from both new and older wells producing in 2002. These had been revised upwards in the previous year following the preparation of a waterflood feasibility

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study that indicated the existence of substantial reserves from secondary recovery. The decline in reserves from 1999 to 2000, reflected the sale of 50% of Teton's shares in Goloil to MOT.

- (3) Teton again reduced its estimated proven reserves at the end of 2003. In particular, the performance of several of the Company's Jurassic formation wells led its engineers to reduce the anticipated primary (before waterflood) recovery of reserves and revise their opinion concerning the necessity of waterflooding. While the Company anticipates Goloil will eventually recover most of the reduction in reserves through waterflooding, SEC regulations do not permit the inclusion of such reserves in the proven category in the absence of either a pilot program or formal written commitment by the operator and non-operators in a project to commence the waterflood project. The Company also removed several Jurassic locations from the proved category, either because they were deemed uneconomic for primary production alone, based on the performance of offsetting Jurassic producing wells or in two cases because the operator and Company have not yet formally agreed to drill them. The Company would expect to restore the reserves from the two wells to the proven category when they are drilled.

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. Our actual results could differ materially from the results discussed in such forward-looking statements. There can be no assurance that we will achieve the results expressed or implied in forward-looking statements.

Management Discussion and Analysis of Results of Operations and Financial Condition

Overview

Teton Petroleum Company is an independent oil and gas exploration and production company whose primary focus is the Russian Federation and former Commonwealth of Independent States ("CIS"). The Company, through its wholly owned subsidiary, Goltech owns a 35.30% equity interest in Goloil. RussNeft owns the remaining 64.70% of Goloil through two subsidiaries, McGrady and InvestPetrol. McGrady holds 35.29% and InvestPetrol holds 29.41% of the equity interests in Goloil. However, until Goltech and McGrady receive the return of 100% of their capital investment in Goloil, they are each entitled to a 50% net profit in Goloil. Goloil is managed by a seven person management board on which we have two representatives. Pursuant to the existing agreements among Goloil's shareholders, Goltech and McGrady share equally in capital expenditures, gross revenues, costs and expenses, until they receive 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 is 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 EUA has taken 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 or \$11.50 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 shareholders of Goloil (other than Goltech) consisting of McGrady and InvestPetrol. At that time, RussNeft also acquired EUA, the lessor of various

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wells and facilities to Goloil under the EUA Lease Agreement. In acquiring such interest, RussNeft became entitled to appoint a majority of the management board of Goloil and acceded to EUA's interest in the production payment and McGrady's and InvestPetrol's reversionary interests in Goloil.

Goloil holds a twenty-five year renewable license to produce oil and gas in a portion of Western Siberia. The license was issued by the Russian Federation and expires in 2022, but may be extended if Goloil complies with certain specified conditions and undertakes additional operations at the end of the term of the license. The Goloil license encompasses 187 square kilometers (78 square miles) in the south central portion of the west Siberian basin. The license area is located approximately 50 miles north of Nizhnevartovsk in western Siberia. Three oil producing fields are located within the license area: Golevaya, Eguryak, and South Eguryak.

Highlights from the year ended December 31, 2003 include:

- o Annual sales increased by 42.5% from 443,268 to 631,626 barrels, net to Teton.
- o Seven new wells (gross) were drilled on the Company's Goloil license bringing the total to 21 wells, 16 of which were in production at year-end. Of the 21 wells, one is awaiting completion, and four are off-line pending upgrades to the gathering system.
- o Revenues increased 65.2%, from \$6,923,320 to \$11,437,802.
- o The Company's net loss for the year narrowed from \$10,973,923 to \$5,634,844.
- o In April 2003, Teton's Board of Directors made several changes to the management of the Company the most important of which was the appointment of a new President and Chief Executive Officer, Karl Arleth, who assumed responsibility for the day-to-day management of the Company. Other management changes made at the time included the appointment of a Controller and an interim full-time Chief Financial Officer.
- o Also in April 2003, the Company relocated its corporate headquarters from Steamboat Springs, CO to Denver, CO and over the next several months hired several administrative and accounting personnel to support the Company's plans for growth. The Company also took steps to tighten its internal controls, enhance its ability to evaluate potential acquisitions, and improve its information systems.
- o In May 2003, the Company effected a 1:12 reverse share split and listed its shares on the American Stock Exchange.
- o Also in May 2003, the Company announced the signing of a purchase and sale agreement to acquire the 50% ownership interest in LLC Chernogorskoye held by Anderman Smith, which if completed would have added approximately 4,000 BOPD to the Company's net oil production. However, the Company was unable to close this transaction due to differences with the seller over closing price adjustments the Company believed necessary following due diligence. Although discussions continued on this possible acquisition until spring of 2004, such discussions were terminated in May 2004.
- o In November 2003, the Company successfully concluded the private placement of \$9.8 million (with an additional \$500,000 issued in January of 2004) of 8% Convertible Preferred Stock to be used primarily for working capital in the Goloil license and for general corporate purposes.
- o The Company opened a Moscow Representative Office in December to better

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monitor its operations in Russia as well as to establish a higher profile in the Russian oil industry and facilitate greater deal-flow as it pursues acquisition opportunities there and in other FSU states.

Financial highlights from the quarter ended March 31, 2004 include the following:

- o Teton's share of production from Goloil increased by 10.5% to 167,162 barrels year over year in the first quarter.
- o First quarter production revenues declined year over year by 13.1% to \$2,962,500 primarily as a consequence of the low oil prices received related to new product marketing arrangements put in place for Goloil by RussNeft starting in the fourth quarter of 2003.
- o Teton's net loss for the first quarter widened from \$781,085 to \$2,522,113 from the same period in 2003.

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

- 1) Discussions with its partner OAO NK RussNeft over the management of its Goloil subsidiary;
- 2) Negotiating the proposed sale of Goloil to RussNeft; and
- 3) Acquiring other producing oil properties in Russia and the CIS.

Sale of Goloil Interest to RussNeft

In September, OAO NK RussNeft, a newly formed Russian independent oil producer acquired the 64.70% of Goloil shares held by Mediterranean Overseas Trust/McGrady and InvestPetrol and assumed responsibility for operating Goloil's Eguryak License.

Commencing October 1, RussNeft began selling Goloil's production to an entity believed by the Company to be an affiliate of RussNeft for a fixed price of 2,400 rubles per ton (\$11.50 per barrel), a price substantially below the blended market price Goloil formerly received selling its production into the export, near abroad and domestic markets and significantly below current market prices. As a consequence, the Company estimates its revenues after taxes for the quarter were reduced by approximately \$1.44 million in fourth quarter of 2003 and by \$2.02 million in the first quarter of 2004 from what it would have received under its previous arrangements. Moreover, since this pricing arrangement prevailed through the end of the fourth quarter and beyond, the Company had to significantly reduce the present value of its reserves effective January 1, 2004, as detailed in its Form 10-KSB/A for the year ended December 31, 2003.

Efforts to resolve these and other issues with RussNeft culminated in a series of meetings in Russia starting in November 2003 between Teton executives and representatives of RussNeft, which failed to yield an acceptable resolution. Shortly thereafter, the Company and RussNeft began to discuss the terms of an exit via a sale of Teton's interest in Goloil to RussNeft.

The proposed sale of the Company's interest was announced on April 11, 2004 and on May 12, 2004 the Company provided additional detail in a press release including the sales price. The purchase price for our 35.30% interest in Goloil is \$8,960,229 in cash. As is described below, Goloil will also repay advances made by the Company to Goloil totaling \$6,039,771, of which \$3,569,051 of the principal and \$131,452 of the accrued interest had been repaid as of April 2, 2004. The gross proceeds of the two transactions to the Company will be \$15,000,000. The advances were made to Goloil by the Company to finance our 50%

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share of Goloil's capital expenditures and currently bear interest at the rate of 8% per annum. On May 12, 2004, the Company also disclosed that the Goloil sale would result in a gain of approximately \$12 million.

Unless otherwise agreed by the parties, the closing date for the Goloil sale is expected to take place shortly after shareholder approval of the Goloil sale is obtained and all other conditions of the Goloil sale are met.

The sale is subject to Russian Anti-Monopoly Commission approval.

2004 Operational and Financial Objectives

With the Company's agreement to sell Goloil, subject to shareholder approval, the Company is now focusing its efforts on seeking to acquire oil and gas properties as described below.

The Company plans to use the proceeds from this transaction to acquire other oil and gas properties. The Company is primarily focused on acquisition opportunities in Russia and the former CIS states with the characteristics described below. However, the Company may consider other opportunities outside its area of geographic focus, as described below. The Company has been actively seeking acquisitions of properties for approximately one year. Specifically, the Company has been targeting small to medium-sized oil fields with existing production ranging from 1,000 to 5,000 barrels of oil per day with proven reserves that provide immediate cash flow, production, and an opportunity for additional upside potential from developmental drilling and other exploitation opportunities. The Company has been focusing its efforts in the West Siberian Basin and in the Komi Region of Russia but could consider opportunities either inside or outside of Russia and the former CIS states where:

- o It can achieve operating control over the acquired asset;
- o There is sufficient operating infrastructure, including gathering systems, pipeline connections, electricity generation, and oil processing facilities;
- o The acquisition cost is between US\$1.50 - US\$3.00 per barrel of proved reserves (for Russian and CIS properties); and
- o The investment has the potential to produce an internal rate of return in excess of 15%.

The Company has engaged in preliminary negotiations regarding several properties in Russia during the past year, and is continuing to seek acquisition opportunities, but has not, as of the date of this Proxy Statement, entered into any agreements with any party except as described below with respect to Samson International Resources.

Teton's plans to pursue such acquisitions means that it will incur increased due diligence and legal expenses, that will be reflected in its G&A expenses. The Company is now devoting significant internal resources to evaluating acquisitions while also utilizing the services of outside technical, legal and accounting consultants.

Samson International Transaction

On April 5, 2004, the Company announced that it had signed a purchase and sale agreement to acquire a majority (52%) interest in a producing field in Russia subject to many conditions and further due diligence. A cash deposit of \$3.85 million was paid by the Company to Samson International Resources ("Samson") in connection with the proposed sale. The closing of the acquisition was subject to several conditions, including a right of first purchase held by Samson's partner, Vitol, to acquire Samson's interest in the field on the same terms offered by the Company. Vitol elected to exercise this right in May and Samson

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subsequently refunded the Company's deposit on May 11, 2004, though the contract between Samson and the Company technically remains in effect. In the event that Vitol does not purchase Samson's 52% interest, the Company and Samson could determine to proceed with the transaction subject to the Company's due diligence and assuming that all other conditions to the sale are met. However, the Company believes, in light of the exercise of the first purchase right by Vitol, that this transaction is unlikely to occur.

Results of Operations for the Year Ended December 31, 2003

The table below summarizes some of the most important components of our revenues, operating costs and net loss during in 2003. Please note that since Teton absorbs its share of the cost of producing the oil paid under the production payment (included in the cost amounts), per barrel costs are effectively doubled.

Operating Highlights for the Year ended December 31

(in U.S. Dollars, unless otherwise noted)

	2003	2002	Change (\$)	Change (%)
Sales, Barrels	631,626	443,268	188,358	42.5%
Average Daily Sales, Barrels	1,730	1,214	516	42.5%
Average Selling Price, \$/barrel	\$ 18.11	\$ 15.62	\$ 2.49	15.9%
Revenues	\$11,437,802	\$ 6,923,320	\$4,514,482	65.2%
Costs of Sales and Expenses, excl. DD&A				
Production Costs	2,020,447	1,218,411	802,036	65.8%
Transportation & Marketing	807,266	611,956	195,310	31.9%
Taxes other than Income taxes	5,864,920	3,537,990	2,326,930	65.8%
Export Duties	1,492,999	910,936	582,063	63.9%
	-----	-----	-----	
	10,185,632	6,279,293	3,906,339	62.2%
Results from Goloil Operations, before DD&A	1,252,170	644,027	608,143	94.4%
Less General & Administrative Expense, Goloil	837,134	588,774	248,360	42.2%
	-----	-----	-----	-----
Goloil operating (loss) income before DD&A	415,036	55,253	359,783	-
Depreciation, Depletion & Amortization, Goloil	1,582,513	1,130,583	1,130,583	250.2%
	-----	-----	-----	-----
Operating loss, Goloil	(1,167,477)	(396,677)	(770,800)	-
General & Administrative Expense, Teton	3,919,746	4,744,952	(825,206)	-17.4%
	-----	-----	-----	-----

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Operating Loss, Teton	\$ (5,087,223)	\$ (5,141,629)	\$ 54,406	-
	=====	=====	=====	=====

Costs and Expenses Per Barrel during the Year ended December 31
(in U.S. Dollars)

Controllable Costs	2003	2002	Change	
			(\$)	% Change
Production Costs	\$ 3.20	\$ 2.75	\$0.45	16.4%
G&A - Goloil	1.33	1.33	(0.00)	-0.0%
G&A - Teton	6.21	10.70	(4.49)	-42.0%
	-----	-----	-----	-----
	10.74	14.78	(4.04)	-27.4%
Non-Controllable Costs				
Transportation & Marketing	1.28	1.38	(0.10)	-7.2%
Taxes other than Income Taxes	9.29	7.98	1.31	16.4%
Export Duties	2.36	2.06	0.30	14.6%
	-----	-----	-----	-----
	\$12.93	\$11.42	\$1.51	13.2%

In 2003, Teton's net loss narrowed from \$10,973,923 to \$5,634,844, or \$8,415,537 after giving effect to the imputed preferred stock dividends for inducements and beneficial conversion charges associated with the Company's 8% convertible preferred stock offering and subsequent conversion. In terms of earnings per share, Teton's loss narrowed from \$3.53 to \$1.23 per share. The decrease in losses was largely attributable to improved operating results at Goloil and a significant decline in non-cash charges related to financing, offset by increased salaries and other expenses related to the Company's increased staffing levels.

Oil revenues increased from \$6,923,320 to \$11,437,802 from 2002 to 2003. The increase was due to both a 42.5% increase in barrels sold and a 15.9% increase in the average price per barrel sold from \$15.62 to \$18.11 per barrel. Historically, Teton has not hedged its sales and this remained the case in 2003. However, as discussed above revenues were less than expected during the fourth quarter of 2004 by \$1.44 million due to the fixed price paid by an affiliate of Russneft when compared to blended market price Goloil received previously. The Company anticipates that a similar reduction in revenues and operating earnings for each 2004 quarter in which the Company retains an interest in Goloil.

Teton's share of Goloil's costs of sales and expenses (before depreciation, depletion and amortization expenses or "DD&A") increased 62.2%, which was slightly less than the increase in revenues. As seen from the table above, taxes other than income taxes and export tariffs are both important contributors to these costs and expenses accounting for more than 70% of the total costs in both 2002 and 2003. Both are tied directly to revenues, and in the case of the export tariff, to the price of oil as well. Export tariffs would have been higher had not Goloil effectively stopped exporting oil at the end of the third quarter, instead selling all of its production domestically for a flat fee of 2,400 rubles per barrel.

Teton's share of Goloil's operating income before DD&A increased from \$55,253 to \$415,036 from 2002 to 2003, but after Goloil's DD&A its share of operating losses rose from \$396,677 to \$1,167,477. DD&A itself increased by 250.1%, from \$451,930 to \$1,582,513, reflecting the capital expenditures incurred by Goloil

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as it has developed its license.

General and administrative expense ("G&A") at Teton decreased from \$4,774,952 to \$3,919,746 or 17.4% from 2002 to 2003. The decrease was largely attributable to a \$1,562,575 decline in fees paid to consultants for capital raising activities offset by increases in compensation to officers and employees (\$323,951), professional fees (\$109,146), travel and entertainment (\$193,773), and expenses relating to marketing, advertising, and investor relations (\$167,987). In addition to the increase in compensation relating to additional staffing to meet Company goals and objectives, most of the other G&A increases were the result of activities such as Teton's preferred stock offering, its listing on the AMEX, the filing of its registration statement with the SEC, and due diligence with respect to the proposed acquisition of LLC Chernogorskoye.

Results of Operations for the Quarter Ended March 31, 2004

The table below summarizes some of the most important components of our revenues, operating costs and net loss in the first quarter of this year. It is important to note that since Teton absorbs 50% of the cost of producing the oil paid under the Goloil production payment (included in the cost amounts), Teton's per barrel production costs are effectively doubled.

Operating Highlights for the Quarter ended March 31 (in U.S. Dollars, unless otherwise noted)

	2004	2003	Change	% Change
Sales, Barrels	167,162	151,304	15,858	10.5%
Average Daily Sales, Barrels	1,837	1,663	174	10.5%
Average Selling Price, \$/barrel	17.72	22.53	(4.81)	-21.3%
Revenues	2,962,500	3,408,718	(446,218)	-13.1%
 Costs of Sales and Expenses, excl. DD&A				
Production Costs	622,277	326,305	295,972	90.7%
Transportation & Marketing	-	280,965	(280,965)	-100.0%
Taxes other than Income taxes	1,973,275	1,427,572	545,703	38.2%
Exploration cost (Geology & Geophysics)	154,776	93,148	61,628	66.2%
Export Duties	-	559,240	(559,240)	-100.0%
	-----	-----	-----	
	2,750,328	2,687,230	63,098	2.3%
 Results from Goloil Operations, before DD&A				
	212,172	721,488	(509,315)	-
Less General & Administrative Expense, Goloil	184,086	219,557	(35,471)	-16.2%
	-----	-----	-----	
	28,086	501,931	(473,844)	-
 Depreciation, Depletion & Amortization, Goloil				
	390,386	332,738	57,648	17.3%
Operating Income (Loss), Goloil	(362,300)	169,193	(531,493)	-
 General & Administrative Expense, Teton				
	2,102,638	772,899	1,329,739	172.0%
Depreciation, Depletion & Amortization, Teton	19,284	-	-	-
Operating Income (Loss), Teton	(2,484,222)	(603,706)	(1,880,516)	-

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Costs and Expenses during the Quarter ended March 31

(in U.S. \$ per barrel)

	2004	2003	Change	% Change
Controllable Costs				
Production Costs	3.72	2.16	1.57	72.7%
G&A - Goloil	1.10	1.45	(0.35)	-24.1%
G&A - Teton	12.58	5.11	7.47	146.2%
	-----	-----	-----	-----
	17.40	8.72	8.69	99.5%
 Non-Controllable Costs				
Transportation & Marketing	-	1.86	(1.86)	-100.0%
Taxes other than Income Taxes	11.80	9.44	2.37	25.1%
Export Duties	-	3.70	(3.70)	-100.0%
	-----	-----	-----	-----
	11.80	14.99	(3.18)	-21.2%

During the first quarter, Teton's net loss, applicable to Common stock, widened from \$781,085 in the first quarter of 2003 to \$3,075,083 or \$2,293,998 after taking into account non-cash inducement charges of \$521,482 for beneficial conversion of the preferred stock and preferred dividends of \$31,488 in the first quarter of 2004. On a per share basis, Teton's loss widened from \$0.12 per share to \$0.35. The increased loss was largely due to a shift in its share of Goloil's operating income from a gain of \$169,193 in the first quarter of 2003 to a loss of \$362,300 in the first quarter of 2004, along with an increase in Teton domestic general and administrative ("G&A") expenses from \$772,899 to \$2,102,638 during the same periods, both of which are discussed in the paragraphs below.

Teton's share of Goloil revenues fell year over year from \$3,408,718 to \$2,962,500 in the first quarter. The decrease reflected a 21.3% decrease in average selling price from \$22.53 to \$17.72 per barrel, partially offset by a 10.5% increase in production volume from 151,304 to 167,162 barrels. Production costs increased by \$295,972, or 90.7%, while taxes other than income taxes increased by \$545,703 or 38.2%. The increase in production costs was tied to increased workover activity and higher diesel fuel expenditures. Taxes other than income taxes include the Russian Minerals Extraction Tax and Value Added Tax (VAT) and represent significant expenses for all Russian oil producers. The Mineral Extraction Tax is a tax on revenues tied to the price of Urals blend crude, a benchmark for exports. Goloil no longer incurs export tariffs or transportation charges under the marketing arrangement now in place; all sales take place at the wellhead. Teton's share of Goloil's depreciation, depletion, and amortization expenses increased by \$57,648.

First quarter domestic G&A expense at Teton increased from \$772,899 to \$2,102,638 year over year, an increase of 172.0%. The key factors contributing to this increase were an increase in compensation costs of \$522,723 including management bonuses paid in January, as well as increases in advertising and public relations expenses of \$307,262, legal and accounting expenses of \$150,248, franchise taxes of \$128,000, consulting fees of \$97,467, and geological and engineering expenses of \$73,922. In addition to the increase in compensation relating to additional staffing to meet Company goals and objectives, many of the other increases in G&A expenses were the result of Teton's due diligence and financing costs incurred in connection with preliminary negotiations to acquire and develop new oil and gas properties in Russia.

Liquidity and Capital Resources

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The Company had a cash balance of \$7,856,899 on March 31, 2004 and a working capital deficit of \$2,685,676. Excluding the pro rata consolidation of Goloil's working capital deficit, Teton has a working capital surplus of \$7,011,577.

Assuming shareholder approval is obtained and the sale of Goloil closes in the latter half of July, the Company anticipates it will have approximately \$20 million in cash at the end of July 2004. In addition, its \$9.9 million share of Goloil's net liabilities will be extinguished leaving it with a working capital position essentially equal to its cash.

The following table shows Teton's contractual obligations including its pro rata share of Goloil's liabilities and planned future capital expenditures by expected maturity.

Contractual Obligations	Payments due by period				
	Total	1 year	Less than 1-3 years	3-5 years	More than 5 years
Proportionate Share of Goloil Debt (1)	\$ 8,219,652	\$8,219,652	0	0	
Share of Goloil Capital Expenditure Budget (2)	\$ 14,600,000	0	\$14,600,000	0	
Asset Retirement Obligation	\$ 129,500	0	0	0	\$129,500
Total Contractual Obligation	\$ 22,949,152	\$8,219,652	\$14,600,000	0	\$129,500

- 1) Represents Teton's pro rata share of Goloil's debts. Teton is not liable for Goloil's debts.
- 2) Based on current capital expenditure plans, including the accelerated drilling budget approved by the Goloil Board of Directors on December 22, 2003.

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 and the Company anticipates seeking approval to raise additional equity capital from its shareholders at its annual meeting. 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. There can be no assurances however, as to whether and on what terms such financing would be available.

The Company's cash flow is dependent on its ability to obtain dividends and loan repayments from Goloil through its Goltech subsidiary. As a minority shareholder, the Company lacks power to compel Goloil to put dividends to Goltech. Teton will continue in the position of minority stockholder in which under Russian law, its rights and remedies are limited compared to Western standards. As majority owner, RussNeft could cause the Company not to receive any cash flow or profit from its investment in Goloil.

The Company also currently lacks funding to finance its share of RussNeft's accelerated drilling plans for Goloil. The Company has disagreed with RussNeft over the pace of a drilling at Goloil. RussNeft has proposed plans to significantly accelerate Goloil's drilling program. The Company's budgeted share of Goloil capital expenditures is approximately \$14.6 million over the next three years. The Company would have to seek external financing to pay its share of this program and believes that such investment would not result in adequate returns to its shareholders given the current economics of its Goloil

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investment. If the sale of Goloil were completed these uncertainties would be removed.

Cash Flows and Capital Expenditures

Cash used in operating activities for the three months ended March 31, 2004 was \$1,563,180 compared to cash provided by operating activities of \$191,787 for the three months ended March 31, 2003. As described above the Company's net loss increased to \$2,522,113 from \$781,085 at March 31, 2003.

RussNeft, the operator of Goloil continues to proceed in the development of Goloil's oil and gas resulting in the Company investing \$190,444 in the Goloil oil and gas properties in the first quarter. Resulting from the Company's first quarter negotiations with RussNeft, the company received \$1,065,000 from Goloil as repayment of advances made to Goloil prior to December 31, 2003. The Company received an additional \$3,658,252 as of April 2, 2004.

During the first quarter of 2004, the Company received \$449,997 from the sale of Preferred stock. The increase in proceeds from advances represents amounts advanced by RussNeft to Goloil. As discussed above, such advances will be eliminated upon completion of the Company's proposed sale of its interest in Goloil.

Income Taxes, Net Operating Losses and Tax Credits

Currently, Goloil pays a profits tax in Russia equal to 24% of net profits as defined by Russian income tax law. As discussed in our 10-KSB the taxation system in Russia is evolving as the central government transforms itself from a command to a market-oriented economy. Based on current tax law and the U.S. Russian Income Tax Treaty the profits tax paid to Russia will be a creditable tax when determining the Company's U.S. income taxes payable, if any. At March 31, 2004 the Company has a U.S. net operating loss tax carry forward of approximately \$20,000,000, utilization of which is limited under IRC section 382.

While Teton expects to realize a profit of approximately \$12.6 million from the sale of Goloil, Teton's tax advisors anticipate that it will incur only a relatively small Alternative Minimum Tax liability of approximately \$180,000.

Critical Accounting Policies

In the ordinary course of business, we have made a number of estimates and assumptions relating to the reporting of results of operations and financial condition in the preparation of our financial statements in conformity with accounting principles generally accepted in the United States. Actual results could differ significantly from those estimates under different assumptions and conditions. We believe that the following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results of operations and require our most difficult, subjective, and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Reserve Estimates: The information regarding the Company's share of oil and gas reserves, the changes thereto and the resulting net cash flows are all dependent upon assumptions used in preparing the Company's annual reserve study. A qualified independent petroleum engineer, in accordance with standards of applicable regulatory agencies and the Securities and Exchange Commission definitions, prepares the Company's reserve study. Estimates of economically recoverable oil and natural gas reserves and future net cash flows necessarily depend upon a number of variable factors and assumptions, such as historical production from the area compared with production from other producing areas, the assumed effects of regulations by governmental agencies and assumptions

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governing future oil and natural gas prices, the exchange rate between the Russian ruble and the U.S. dollar, future operating costs, severance, ad valorem, export, excise and other taxes, development costs and workover and remedial costs, all of which may, in fact, vary considerably from actual results. For these reasons, estimates of the economically recoverable quantities of oil and natural gas attributable to any particular group of properties, classifications of such reserves based on risk of recovery, and estimates of the future net cash flows expected there from may vary substantially. Any significant variance in the assumptions could materially affect the estimated quantity and value of the reserves, which could affect the carrying value of the Company's oil and gas properties and the rate of depletion of the oil and gas properties. Management believes that the current assumptions used in preparation of the reserve study are reasonable. The Company's revised downward its estimate of oil and gas reserves by 4.4 million barrels in the fourth quarter of 2003 primarily due to the reclassification of certain waterflood reserves and reserves associated with undrilled locations to probable. Only reserves associated with two wells planned and budgeted for 2004 have been classified as proved undeveloped. The Company's estimated proved reserves at December 31, 2003 and 2002 were prepared by independent petroleum engineering consultants Gustavson and Associates.

Property, Equipment and Depreciation: The Company follows the successful efforts method of accounting for oil and gas properties. As of March 31, 2004 all of the Company's oil and gas assets are held in one cost center located in Siberia, Russia. As the Company makes additional acquisitions it will have additional cost centers. Under the successful efforts method of accounting the costs of development wells are capitalized, but exploratory wells are capitalized only if they are successful. The Company plans to increase its oil and gas reserves by acquisition and the development of reserves in place. Accordingly, acquisition and drilling costs on successful wells will be capitalized. Capitalized costs will be depleted and depreciated using the units of production method based on estimated proved oil reserves as determined by independent engineers, currently Gustavson and Associates. If the estimates of oil and gas reserves are changed materially then the amount of depreciation and depletion recorded by the Company could increase or decrease materially. In addition the carrying costs of the oil and gas properties are subject to the requirements of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". The Company is required to impair the net book value for a cost center when such net book value is greater than the estimated future cash flows for such cost center. At March 31, 2004 the Company's estimated cash flow for its Siberian cost center, using the domestic Russian price of 2,400 rubles per ton (\$11.50 per barrel) exceed the carrying value.

Pro Rata Consolidation: The Company currently pro rata consolidates its 50% interest in Goloil, because, as of March 31, 2004, Management believes that to be the most meaningful presentation. If the Company completes the proposed sale of its interest in Goloil then the assets and liabilities of Goloil will be eliminated in recording the gain on sale.

Production Payment: During June, 2000 the Company entered into a Master Agreement that requires, among other things, a seven-year production payment to Energosoyuz equal to 50% of the oil produced from new and existing Goloil wells in exchange for wells and facilities constructed by Energosoyuz. Because the production payment was for a specified amount of production and not for a fixed and determinable dollar amount, the Company did not record such transaction as a loan. Currently, Goloil is paying Energosoyuz a flat amount of 19,000,000 rubles per month (approximately \$650,000 per month), which, at current prices, is less than 50% of the oil produced. If the Company were not successful in its efforts to sell Goloil to RussNeft, we would continue our interest in Goloil reserves which would continue to be subject to a production payment through June 2007, which may cause future impairment of our investment in such properties.

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Asset Retirement Obligation: During the fourth quarter of 2004 the Company applied the provisions of SFAS 143 "Accounting for Asset Retirement Obligations" and recorded the estimated December 31, 2003 liability for the retirement of its Russian oil and gas assets along with a corresponding increase in the carrying value of the related oil and gas properties. The liability was estimated based on the estimated, discounted future cost to plug the oil and gas wells existing at December 31, 2003 plus the costs of clean up based on the Company's current understanding of the standards that will be applied at the time of retirement. The Company recorded an increase in the asset retirement obligation during the first quarter of 2004 solely due to the accretion of the discount. If the Company does not sell Goloil, the Company will continually review the assumptions it used in making such estimate and revise the liability as required.

Certain U.S. Federal Income Tax Consequences of the Proposed Transaction

The Proposed Transaction should not result in the recognition of income or gain to the Company's stockholders, as none of the sales proceeds will be distributed as a dividend or otherwise with respect to the Company's shares. The Proposed Transaction should be a "taxable" transaction to the Company for U.S. income tax purposes. However, the Company expects to recognize gain from the Proposed Transaction in an amount that is less than the amount of its available net operating loss carry-forwards. Accordingly, the Proposed Transaction should result in relatively modest amounts due for U.S. federal income tax, consisting entirely of "alternative minimum tax" estimated at approximately \$181,000.

TETON WILL NOT SEEK AN OPINION OF COUNSEL WITH RESPECT TO THE ANTICIPATED TAX CONSEQUENCES. THE FOREGOING SUMMARY OF CERTAIN FEDERAL INCOME TAX CONSEQUENCES IS INCLUDED FOR GENERAL INFORMATION ONLY AND DOES NOT CONSTITUTE LEGAL ADVICE TO ANY STOCKHOLDER. TETON RECOMMENDS THAT EACH STOCKHOLDER CONSULT HIS OR HER OWN TAX ADVISER REGARDING THE TAX CONSEQUENCES OF THE PROPOSED TRANSACTION.

No U.S. regulatory requirements must be complied with or approvals obtained prior to the completion of the sale, other than stockholder approval.

Certain Russian Tax Consequences of the Proposed Transaction

Neither the Company nor Goltech will be liable for any taxes imposed by the Russian Federation or any constituent entity thereof arising out of the Proposed Transaction. Under the Tax Code of the Russian Federation, a nonresident foreign entity is not subject to tax on income from the sale of shares of a Russian company unless more than fifty percent (50%) of the assets of the Russian company, as measured by book value, are immovable property. The double tax treaty between the U.S. and the Russian Federation contains an essentially identical exemption. The Company does not believe that Goloil has more than 50% of its assets in immovable property.

Use of Proceeds

The Company plans to use the proceeds from this transaction to acquire other oil and gas properties. The Company is primarily focused on acquisition opportunities in Russia and the former CIS states with the characteristics described below. However, the Company may consider other opportunities outside its area of geographic focus, as described below. The Company has been actively seeking acquisitions of properties for approximately one year. Specifically, the Company has been targeting small to medium-sized oil fields with existing production ranging from 1,000 to 5,000 barrels of oil per day with proven reserves that provide immediate cash flow, production, and an opportunity for additional upside potential from developmental drilling and other exploitation opportunities. The Company has been focusing its efforts in the West Siberian Basin and in the Komi Region of Russia but could consider opportunities either inside or outside of Russia and the former CIS states where:

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- o It can achieve operating control over the acquired asset;
- o There is sufficient operating infrastructure, including gathering systems, pipeline connections, electricity generation, and oil processing facilities;
- o The acquisition cost is between US\$1.50 - US\$3.00 per barrel of proved reserves (for Russian and CIS properties); and
- o The investment has the potential to produce an internal rate of return in excess of 15%.

The Company has engaged in preliminary negotiations regarding several properties in Russia during the past year, and is continuing to seek acquisition opportunities, but has not, as of the date of this Proxy Statement, entered into any agreements with any party except as described below with respect to Samson International Resources.

Samson International Transaction

On April 5, 2004, the Company announced that it had signed a purchase and sale agreement to acquire a majority (52%) interest in a producing field in Russia subject to many conditions and further due diligence. A cash deposit of \$3.85 million was paid by the Company to Samson International Resources ("Samson") in connection with the proposed sale. The closing of the acquisition was subject to several conditions, including a right of first purchase held by Samson's partner, Vitol, to acquire Samson's interest in the field on the same terms offered by the Company. Vitol elected to exercise this right in May and Samson subsequently refunded the Company's deposit on May 11, 2004, though the contract between Samson and the Company technically remains in effect. In the event that Vitol does not purchase Samson's 52% interest, the Company and Samson could determine to proceed with the transaction subject to the Company's due diligence and assuming that all other conditions to the sale are met. However, the Company believes, in light of the exercise of the first purchase right by Vitol, that this transaction is unlikely to occur.

Risk Factors

The proposed Goloil sale poses a high degree of risk for our stockholders. Before deciding how to vote on this proposal, stockholders should carefully consider the following risks.

Risks of Doing Business in Russia

Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and for business activity.

Russia is still developing the legal framework required by a market economy. Several fundamental Russian laws have only recently become effective. The recent nature of much of Russian legislation and the rapid evolution of the Russian legal system place the enforceability and underlying constitutionality of laws in doubt and result in ambiguities, inconsistencies and anomalies. In addition, Russian legislation often leaves substantial gaps in the regulatory infrastructure. Among the risks of the current Russian legal system are:

- o since 1991, Soviet law has been largely, but not entirely, replaced by a new legal regime as established by the 1993 Federal Constitution, the 1995 Civil Code and by other federal laws, and by decrees, orders and regulations issued by the president, the government and federal ministries, which are, in turn, complemented by regional and local rules and regulations. These legal norms, at times, overlap or contradict one

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another;

- o limited judicial and administrative guidance on interpreting Russian legislation;
- o the relative inexperience of judges in interpreting Russian legislation;
- o a high degree of discretion on the part of governmental authorities; and
- o bankruptcy procedures that are not well developed and are subject to abuse.

All of these weaknesses could affect our ability to enforce our rights under contracts, or to defend ourselves against claims by others.

Lack of independence and inexperience of certain members of the judiciary and the difficulty of enforcing court decisions and governmental discretion in instigating, joining and enforcing claims could prevent us or you from obtaining effective redress in a court proceeding, including enforcing our rights as a stockholder of a Russian company or in respect of expropriation or nationalization.

The independence of the judicial system and its immunity from economic, political and nationalistic influences in Russia remains largely untested. The court system is understaffed and underfunded. Judges and courts are generally inexperienced in the area of business and corporate law. Russia is a civil law jurisdiction and, as such, judicial precedents have no binding effect on subsequent decisions. In addition, most court decisions are not readily available to the public. Enforcement of court judgments can in practice be very difficult in Russia. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain. Additionally, court claims are often used in furtherance of political aims. We may be subject to such claims and as a foreign party may not be able to receive a fair hearing. Additionally, court judgments are not always enforced or followed by law enforcement agencies.

These uncertainties also extend to property rights. During Russia's transformation from a centrally planned economy to a market economy, legislation has been enacted to protect private property against expropriation and nationalization. However, it is possible that due to the lack of experience in enforcing these provisions and due to political changes, these protections would not be enforced in the event of an attempted expropriation or nationalization.

Unlawful or arbitrary government action may have an adverse effect on our business.

Government authorities have a high degree of discretion in Russia and at times exercise their discretion arbitrarily, without hearing or private notice, and sometimes in a manner that is contrary to law. Moreover, the government also has the power in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Unlawful or arbitrary governmental actions have included withdrawal of licenses, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities have also used common defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate such issuances and registrations and/or to void transactions. Unlawful or arbitrary government action, if directed at us, could have a material adverse effect on our business.

Risks if Goloil Sale is Not Approved

The Company would need to seek external financing to fund Goloil's accelerated capital expenditure program.

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The Company currently lacks funding to finance its share of RussNeft's accelerated drilling plans for Goloil. The Company has disagreed with RussNeft over the pace of a drilling at Goloil. RussNeft has proposed plans to significantly accelerate Goloil's drilling program. The Company's budgeted share of Goloil capital expenditures is approximately \$14.6 million over the next three years. The Company would have to seek external financing to pay its share of this program and believes that such investment would not result in adequate returns to its shareholders given the current economics of its Goloil investment.

The Company's cash flow is dependent on its ability to obtain dividends from Goloil.

The Company's cash flow is dependent on its ability to obtain dividends and loan repayments from Goloil through its Goltech subsidiary. As a minority shareholder, the Company lacks power to compel Goloil to put dividends to Goltech. Teton will continue in the position of minority stockholder in which under Russian law, its rights and remedies are limited compared to Western standards. As majority owner, RussNeft could cause the Company not to receive any cash flow or profit from its investment in Goloil. While Teton could take legal action in the Russian courts against RussNeft, such actions would be very expensive and time-consuming, and it might be extremely difficult for Teton to prevail.

It may be difficult to sell our investment in Goloil to another buyer if the Goloil sale to RussNeft is not approved.

The Company's minority status and lack of control over Goloil's operations makes it an illiquid investment. If the Goloil sale to RussNeft is not approved, it is likely to be extremely difficult for the Company to find another buyer willing to purchase our interests in Goloil on equivalent terms given our minority status and RussNeft's control over the operations of Goloil.

Any continuing relationship with RussNeft involves numerous risks and difficulties.

RussNeft has effective control of Goloil as its majority owner. If the Goloil sale is not completed, the Company may face substantial difficulties in its continuing relationship with RussNeft and in realizing further value from Goloil. For example, we would be required to fund our shared substantial capital expenditures of Goloil for which we would need to obtain external financing. Also, RussNeft's decision to sell Goloil's production at a fixed price has adversely affected the economics of our investment. The Company therefore believes that if the Goloil sale is not consummated it will be increasingly difficult for the Company to realize value from Goloil. Given the difficulties of enforcing minority stockholder rights in Russia as explained below, litigation may not be an effective option for the Company.

Goloil has a substantial amount of indebtedness, which could limit its financing options and consume a substantial portion of its operating cash flow.

Goloil, the entity in which we have an equity interest, has a substantial amount of indebtedness. As of March 31, 2004, Goloil had total indebtedness of approximately \$16,440,000; all of which is owed to other equity interest holders in Goloil. The level of indebtedness could have important consequences to the holders of our securities.

For example, it:

- o may limit Goloil's ability to obtain additional financing for working capital, capital expenditures or general corporate purposes;

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- o will require Goloil to dedicate a substantial portion of its cash flow from operation to the payment of principal and interest on its debt, reducing the funds available for distribution to us or for other purposes including expansion through acquisitions, capital expenditures, marketing spending and expansion of our product offerings; and
- o may limit our flexibility to adjust to changing business and market conditions and make us more vulnerable to a downturn in general economic conditions as compared to our competitors.

Goloil's ability to make scheduled payments or to refinance its obligations with respect to its indebtedness will depend on its financial and operating performance, which, in turn, is subject to prevailing economic conditions and to financial, business and other factors beyond its control.

In addition, the debt is secured by substantially all of Goloil's assets and there are no guarantees on the loan. Although the debt is current and in compliance, the noteholders may foreclose in the event of a default.

There is little effective protection of minority stockholders in Russia.

In general, minority stockholder protection under Russian law derives from supermajority or other special stockholder approval requirements for certain corporate action (including "interested party" transactions discussed in more detail below), as well as from the ability of a stockholder to demand that the Company purchase the shares held by that stockholder if that stockholder voted against or abstained from voting on certain types of action. While these protections are similar to the types of protections available to minority stockholders in the U.S., in practice corporate governance standards for many Russian companies have proven to be poor, and minority stockholders in Russian companies have suffered losses due to abusive share dilutions, asset transfers and transfer-pricing practices. Stockholder meetings have been irregularly conducted, and stockholder resolutions have not always been respected by management.

In addition, where they apply, the supermajority stockholder approval requirement is met by a vote of 75% of all voting shares that are present at a stockholders' meeting. Thus, controlling stockholders owning slightly less than 75% of outstanding shares of the Company may have a 75% or more voting power if certain minority stockholders are not present at the meeting. In situations where controlling stockholders effectively have 75% or more of the voting power at a stockholders' meeting, they are in a position to approve amendments to the charter of the Company, which could be prejudicial to the interests of minority stockholders.

Disclosure and reporting requirements and anti-fraud legislation have been enacted in Russia only recently. Most Russian companies and managers are not accustomed to restrictions on their activities arising from these requirements. The concept of fiduciary duties of management or Directors' duties to their companies or stockholders is also relatively new and is not well developed. Violations of disclosure and reporting requirements or breaches of fiduciary duties to us could materially adversely affect the value of our Common Stock.

While the Russian Federal Law on Joint Stock Companies provides that stockholders owning not less than 1% of the Company's ordinary shares may bring an action for damages on behalf of the Company, Russian courts do not to date have significant experience with such suits. Russian corporate law does not contemplate class action litigation. Accordingly, a foreign investor's practical ability to pursue legal redress against RussNeft may be limited. Our minority status in Goloil is therefore subject to significant risks under the laws of Russia.

Risks if Goloil Sale is Approved

Even if approved by our stockholders, the Goloil sale may not be completed.

The completion of the Goloil sale is subject to several conditions. Even if our stockholders approve the Goloil sale, there can be no assurance that the other conditions to closing will be met and that the Goloil sale will be completed. If the Goloil sale is not completed, we will have spent a substantial amount of time and financial resources in connection with the transaction without realizing any gain and will be subject to all of the risks described above if the Goloil sale is not approved.

If the Goloil sale is completed, we will have no remaining operating business and no source of continuing revenue.

If the Goloil sale is completed, we will transfer to RussNeft all of our currently productive assets and have no operating assets. Further revenues and profits of the Company will therefore be completely dependent on completing an acquisition of producing properties. The Company is currently seeking acquisition opportunities, primarily focused on Russia and the former CIS states. While we have from time to time been engaged in preliminary negotiations with respect to such opportunities, no agreements have been signed (other than with respect to the Samson transaction). As was the case with the Samson transaction, even signed agreements to purchase oil properties in Russia are often subject to rights of first refusal which can supersede such agreements and cause them not to close. Therefore, we can give no assurance that any such acquisition can be completed on reasonable terms or in a reasonable time frame.

There is no plan to distribute any of the proceeds of the Goloil sale to our stockholders.

We do not intend to distribute any portion of the proceeds from the Goloil sale to our stockholders. Our intention is to use the net proceeds of the Goloil sale to acquire interests in other companies engaged in Russian oil production. Pending such uses, the net proceeds will be invested in short-term money market instruments, bank deposits or other liquid instruments. While we have been engaged in preliminary negotiations regarding potential acquisitions and expect to continue to seek acquisition opportunities, there can be no assurance that we will be successful in consummating or reaching an agreement for a transaction. If we are not successful in acquiring an interest in another business in the near future, we could end up spending a significant portion of the net proceeds of the Goloil sale on overhead and operating expenses.

Any new business opportunity will likely involve significant risks.

Potential business opportunities of the Company may involve significant risks. Our acquisition of or participation in new business opportunities in the Russian oil and gas industry may be illiquid and could result in a total loss to the Company and our stockholders if the business or opportunity proves to be unsuccessful. In addition, any such acquisition would be subject to all of the risks of doing business in Russia describe above.

We may be unable to acquire or may be delayed in acquiring interests in other Russian oil industry companies due to factors beyond our control, including regulatory requirements and changes in economic conditions. For example, the Company believes that prices for Russian oil properties are rising rapidly due to record high oil prices now being experienced in the market place. If these trends continue and the Company is not able to complete a purchase transaction in the near future, the Company may not be able to acquire new producing assets on favorable terms.

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Although we are in preliminary discussions regarding other acquisitions, we may be unable to acquire or may be delayed in acquiring such interests.

Risks of Proposed Samson Transaction

If Vitol does not complete its purchase of the Samson assets, the Company could become obligated to complete the transaction if all other conditions to the sale are met. However, not only has Vitol exercised its first refusal right but it has publicly announced that it has agreed to resell the Samson assets to a third party. Based on the foregoing, we do not believe that the Company will be required to complete the Samson transaction. However, in the event that the Company enters into another acquisition agreement and is also required to complete the Samson transaction, it could be in the position of having to find new external financing for both transactions. While the Company believes that such financing would be obtainable, there can be no assurance that this would be the case on attractive terms.

Possible Need to Obtain Further Debt and Equity Financing

If the Company enters into an agreement to purchase a producing field for a price greater than its cash on hand and the proceeds of the sale of Goloil, then it may need to seek additional debt or equity financing to complete such purchase. The Company is seeking approval to issue Common Stock or securities convertible into Common Stock for this purpose under Proposal No. 4. However, there can be no assurance as to the terms on which such financing would be available, if at all. The Company has been working to develop a relationship with a group of commercial banks in the event it determines to seek debt financing for a portion of any acquisition. However, there can be no assurance that any such bank financing would be available on acceptable terms for any particular acquisition.

If we are classified as an investment company, we could be subject to restrictive and costly regulation.

If the Goloil sale is completed, the cash proceeds received from the sale will represent a significant portion of our assets. It is possible that we could be classified as an "investment company" under the Investment Company Act of 1940 ("1940 Act") if more than a specified percentage of our assets are held in investment securities as defined in the 1940 Act. The 1940 Act and the rules and regulations promulgated under the act are extremely restrictive. Compliance with the 1940 Act would be very costly, and it would be difficult or impossible for us to execute our business plan. We do not believe that we will be an "investment company" after the Goloil sale, and we intend to conduct our activities and invest the proceeds of the Goloil sale so as to avoid being classified as such.

Potential for Delisting from AMEX if an Acquisition of Operating Asset Cannot be Closed

Under Section 1002 of the AMEX Company Guide, the Exchange may seek delisting of the Company's shares if it has sold or otherwise disposed of its principal operating assets, or has ceased to be an operating company for any reason whatsoever. As a result, unless the Company is able to promptly acquire additional operating assets following the Goloil sale, it is possible that AMEX could commence delisting proceedings which the result that the Company's Common Stock could ultimately be delisted from the Exchange. However, the Company is currently seeking to acquire other operating assets.

Once the AMEX staff identifies a Company as being below the continued listing criteria, the Exchange staff will notify the Company by letter of its status within 10 business days. This letter will also provide the Company with an opportunity to provide the Exchange staff with a plan (the "Plan") advising the

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Exchange staff of action the Company has taken, or will take, that would bring it into compliance with the continued listing standards within 18 months of receipt of the letter. However, the Exchange staff may establish a time period of less than 18 months for a Company to regain compliance.

Within 5 business days after receipt of the letter, the Company must contact the Exchange staff to confirm receipt of the notification, discuss any possible financial data of which the Exchange staff may be unaware, and indicate whether or not it plans to present a Plan; otherwise, delisting proceedings will commence.

The Company has 30 days from the receipt of the letter to submit its Plan to the Exchange staff for review. However, the Exchange staff may require submission of a Company's Plan within less than 30 days (but in no event less than seven days) if the Exchange staff has established a time period of 90 days or less for the Company to regain compliance. If it does not submit a Plan within the specified time period, delisting procedures will commence.

The Plan must include specific milestones, quarterly financial projections, and details related to any strategic initiatives the Company plans to complete. Exchange staff will evaluate the Plan and make a determination as to whether the Company has made reasonable demonstration in the Plan of an ability to regain compliance within the time period decided.

If the Exchange staff does not accept the Plan, the Exchange staff will promptly initiate delisting proceedings. The Company may appeal the Exchange staff's determination not to accept the Plan, and request a review thereof, in accordance with specific procedures.

If the Exchange staff accepts the Plan, the Company must make a public announcement, within five business days from receipt of the notification thereof, disclosing the fact that it has fallen below the continued listing standards of the Exchange and that its listing is being continued pursuant to an extension. The Exchange staff will review the Company on a quarterly basis for compliance with the Plan. If the Company does not show progress consistent with the Plan, the Exchange staff will review the circumstances and variance, and determine whether such variance warrants the commencement of delisting procedures. Should the Exchange staff determine to proceed with delisting procedures, it may do so regardless of the Company's continued listing status at that time.

If, prior to the end of the extension period, the Company is able to demonstrate compliance with the continued listing standards for a period of two consecutive quarters, the Exchange staff will deem the Plan period over. If the Company does not meet continued listing standards at the end of the extension period, the Exchange staff will promptly initiate delisting procedures. The Company may appeal an Exchange staff determination to initiate delisting procedures, and request a review thereof, in accordance with specific procedures.

In the event the Company's Common Stock is delisted from AMEX, trading, if any, in the Company's Common Stock would thereafter be conducted in the over-the-counter market. As a result of such delisting, the market price of the Company's Common Stock could be materially adversely affected and an investor could find it more difficult to dispose, or to obtain accurate quotations as to the market value, of the Common Stock.

Because we are currently seeking to acquire other oil and gas properties as described herein, we do not believe that there is a substantial likelihood that our Common Stock will be delisted, although there can be no assurance that an acquisition can be completed within the time frame described above.

Pro Forma Financial Information

Certain pro forma financial information is attached to this proxy in Appendix A-3.

THE BOARD OF DIRECTORS OF TETON BELIEVES THAT THE PROPOSED TRANSACTION IS IN THE BEST INTERESTS OF, AND IS FAIR AND REASONABLE TO, TETON AND ITS STOCKHOLDERS. THE BOARD OF DIRECTORS UNANIMOUSLY APPROVES THE PROPOSED TRANSACTION AND UNANIMOUSLY RECOMMENDS THAT THE STOCKHOLDERS VOTE FOR APPROVAL OF THE PROPOSED TRANSACTION AT THE ANNUAL MEETING.

ISSUANCE OF SECURITIES

PROPOSAL NO. 4

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

We are seeking your approval pursuant to the AMEX Company Guide Section 713 where there is a sale or issue of Common Stock or securities convertible into Common Stock equal to 20% of more of the presently issued outstanding Common Stock for less than the greater of book or market value of the Common Stock.

Following the completion of the sale of Goloil, the Company will continue to seek to negotiate the purchase of additional oil and gas properties primarily focused on Russia and the former CIS states. For example, we announced the signing of a Purchase -Sale Agreement to acquire a 52% interest in Samson. We believe that the Samson transaction is not likely to be completed due to the exercise by, another shareholder, Vitol of its right of first purchase to purchase the Samson properties. Vitol has also publicly announced its intention to resell the Samson properties acquired from Samson pursuant to the right of first purchase.

The Company intends to seek other transactions involving the purchase of controlling interests in other oil and gas properties primarily focused on Russia and the former CIS states. We may also consider opportunities outside our primary geographic focus. The Company has determined to target small to medium-sized oil fields with existing production typically ranging from 1,000 to 5,000 barrels per day. We intend to finance the purchase of any such transaction or transaction, from the net proceeds of the sale of Goloil, from cash on hand (estimated at \$7.86 million at March 31, 2004) and, if necessary, from debt and equity financing. Debt financing could include borrowings from commercial banks or other financial institutions, which borrowings may be secured. The equity portion of any such financing is expected to be in the form of one or more of the following:

- o common stock;
- o preferred stock;
- o convertible debentures; and/or
- o warrants entitling the holders to purchase common stock or preferred stock.

It is not currently possible to estimate the amount of any Common Stock or the terms or amount of any convertible securities or warrants since the Company has not entered into any agreements for the purchase of additional assets or properties. The purpose of the authorization of the securities is to allow the Board to authorize the issuance of the securities without seeking further approval from stockholders if an acquisition transaction is consummated. The Board does not currently intend to seek further authorization for the issuance

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of the securities by a vote of security holders. The securities are expected to be issued in one or more private placements exempt from registration under the Securities Act of 1933.

The issuance price, conversion price or exercise price for any Common Stock, convertible securities or warrants could be below current market value and or book value of the Common Stock at the time of issuance of such securities depending on market conditions at the time of issuance. Therefore, existing stockholders may be diluted by such issuances.

Description of Common Stock

We are authorized to issue up to 250,000,000 shares of Common Stock, par value \$.001. As of March 31, 2004, there were 9,101,830 shares of Common Stock outstanding. Holders of the Common Stock are entitled to one vote per share on all matters to be voted upon by the stockholders and have no preemptive, subscription, redemption or conversion rights.

Description of Preferred Stock

We are authorized to issue up to 25,000,000 shares of Preferred Stock. At March 31, 2004, there were outstanding 269,970 shares of Series A 8% Convertible Preferred Stock (the "Series A Preferred"). The Series A Preferred is entitled to quarterly dividends at the annual rate of 8.0%. The Series A Preferred is currently convertible at any time into shares of the Company's Common Stock on a one for one basis. The Series A Preferred carries a liquidation preference of \$4.35 per share plus accrued and unpaid dividends, if any, in the event of the winding-up or liquidation of the Company, and may not be redeemed by the Company until one year following the issuance date. On and after such date, the Series A Preferred is redeemable at a redemption price of \$4.35 per share. As at March 31, 2004, the aggregate liquidation preference amount of the Series A Preferred was \$1,197,839, including accrued and unpaid dividends. The rights, preferences, privileges and restrictions of any preferred stock of any series that may be issued in the future will be fixed by the certificate of designation relating to that series.

The Company's Board may issue additional authorized shares of preferred stock in one or more series and may, subject to the Delaware General Corporation Law:

- o Fix its rights, preferences, privileges and restrictions;
- o Fix the number of shares and designations of any series; and
- o Increase or decrease the number of shares of any series if not adjusting to a level below the number of then outstanding shares.

The Board may issue preferred stock with voting, liquidation, dividend, conversion and such other rights which could negatively affect the voting power or other rights of the common stockholders without the approval of the Company's common stockholders. Any issuance of preferred stock could have the effect of delaying or preventing a change in control of the Company.

Description of Warrants

We may issue separately, or together with any Common Stock, preferred stock or convertible debentures, warrants for the purchase of other shares of Common Stock or preferred stock ("Warrants"). The Warrants may be issued under warrant agreements to be entered into between us and a bank or trust company, as warrant agent, or may be represented by certificates evidencing the Warrants. The terms of such Warrants, including the exercise price and exercise period will be determined by our Board prior to the issuance thereof.

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At March 31, 2004, we had outstanding Warrants to purchase 7,932,553 shares of our Common Stock exercisable at prices ranging from \$2.72 to \$12.

Section 713 of the AMEX Company Guide

Section 713 of the AMEX Company Guide requires that certain transactions be approved by the Company's stockholders. Specifically, stockholder approval is required under Section 713 for a transaction, other than a public offering, involving the sale, issuance, or potential issuance by the Company of Common Stock (or securities convertible into Common Stock) equal to 20% or more of presently outstanding stock for less than the greater of book or market value of the stock.

Because the possible issuances described in this proposal involve the potential issuance by the Company of Common Stock or securities convertible into or exercisable for Common Stock for less than the greater of book or market value of the stock that could, depending on the size of the issuance, potentially amount to greater than 20% of its presently outstanding Common Stock, this proposal is subject to Section 713 and, therefore, requires your approval.

AMEX has the authority to delist the securities of any issuer that fails to comply with its listing criteria, including the stockholder voting provisions of Section 713. Therefore, if we do not obtain your approval and we nonetheless issue such shares, the Company's Common Stock could be delisted from AMEX.

Under Delaware General Corporation Law, stockholders are not entitled to dissenters' rights of appraisal with respect to this proposal.

Accounting Treatment of Below Market Issuances of Preferred Shares Convertible into Common Shares

If we issue preferred shares of stock which are convertible into our common shares at below market prices of our Common Stock at issuance, we will be required to record a non-cash accounting charge for the beneficial conversion feature. The non-cash charges will be treated as a preferred stock dividend and will increase our loss per common share or reduce any future earnings per share. These charges may be significant. We recorded similar charges for the quarter ended March 31, 2004 and the year-ended December 31, 2003 of approximately \$119,000 and \$1,064,000, respectively.

THE BOARD RECOMMENDS A VOTE FOR THE PROPOSAL TO APPROVE THE ISSUANCE OF COMMON STOCK OR SECURITIES CONVERTIBLE INTO OR EXERCISABLE FOR COMMON STOCK WHICH COULD RESULT IN AN INCREASE IN OUTSTANDING SHARES OF COMMON STOCK OF 20% OR MORE

APPROVAL OF THE 2004 NON EMPLOYEE COMPENSATION PLAN

PROPOSAL NO. 5

At the Annual Meeting, the Company's stockholders are being asked to approve the 2004 Non Employee Compensation Plan ("2004 Non Employee Compensation Plan"). The Board has unanimously approved the 2004 Non Employee Compensation Plan and has directed that it be submitted for the approval of the stockholders at the annual meeting. The 2004 Non Employee Compensation Plan will become effective on the date of stockholder approval (the "Effective Date").

The following description of the 2004 Non Employee Compensation Plan is only a summary of the important provisions of the 2004 Non Employee Compensation Plan and does not contain all of the terms and conditions of the 2004 Non Employee Compensation Plan. The full text of the 2004 Non Employee Compensation Plan is attached as Appendix B.

What is the Purpose of the 2004 Non Employee Compensation Plan?

The purpose of the 2004 Non Employee Compensation Plan is to help us retain consultants, professionals, and service providers who provide services to the Company in connection with, among other things, the Company's obligations as a publicly held reporting company. In addition, we expect to benefit from the added interest that the awardees will have in our welfare as a result of their ownership or increased ownership of our Common Stock.

Over the last two years, we have been able to engage consultants, professionals, and service providers by compensating them through the issuance of shares of our Common Stock. In the first three months of 2004 and the year ended December 31, 2003, the Company issued 7,500 shares and 7,402 shares to such consultants, primarily for investor relations services. This afforded us the ability to preserve our cash. In addition, Section 711 of the AMEX Company Guide, which was amended in October 2003, now requires that such compensation arrangements be approved by the Company's stockholders. For the foregoing reasons, the Board has unanimously approved the 2004 Non Employee Compensation Plan, as a separate and distinct plan from the Company's existing 2003 Employee Stock Option Plan, and has directed that such plan be submitted for the approval of the stockholders at the annual meeting.

What Types of Awards Can Be Granted Under the 2004 Non Employee Compensation Plan?

Awards authorized under the 2004 Non Employee Compensation Plan shall consist of shares of our Common Stock. Such awards may be subject to forfeiture in the event of premature termination of engagement, failure to meet certain performance objectives, or other conditions, as may be determined by the Board.

Each award described above is sometimes referred to in this Proxy Statement as an "Award", and all such awards are sometime collectively referred to in this Proxy Statement as "Awards" and individuals receiving Awards are sometimes referred to as "Awardees".

How Will the 2004 Non Employee Compensation Plan Be Administered?

The 2004 Non Employee Compensation Plan will be administered by the Board (provided however, that the Board may delegate such administration to the Compensation Committee).

Subject to the express terms and conditions of the 2004 Non Employee Compensation Plan, the Board will have full power to make Awards, to construe or interpret the 2004 Non Employee Compensation Plan, to prescribe, amend and rescind rules and regulations relating to it and to make all other determinations necessary or advisable for its administration. Except as otherwise provided in the 2004 Non Employee Compensation Plan, the Board may also determine which persons shall be granted Awards, the nature of the Awards granted, the number of shares subject to Awards and the time at which Awards shall be made. Such determinations will be final and binding.

How Much Stock Will Be Available Under the 2004 Non Employee Compensation Plan?

The only class of stock subject to an Award is Common Stock. The maximum number of shares of Common Stock with respect to which Awards may be granted is 1,000,000 shares; however, this number is subject to adjustment in the event of a recapitalization, reorganization or similar event. The maximum number of shares of Common Stock with respect to which Awards may be granted to any participant in any year under the 2004 Non Employee Compensation Plan is 500,000 shares. Shares shall consist, in whole or in part, of authorized and unissued shares or treasury shares. Any shares represented by Awards that are cancelled, forfeited, terminated or expired will again be available for grants and issuance

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under the 2004 Non Employee Compensation Plan.

Who Is Eligible to Participate in the 2004 Non Employee Compensation Plan?

Persons eligible for Awards under the 2004 Non Employee Compensation Plan will be limited to consultants, professionals and service providers of the Company and our subsidiaries ("Eligible Persons"). The Board will select who will receive Awards and the amount and nature of such Awards. Board members and officers and employees of the Company are not eligible to receive Awards.

What Happens If the Number of Outstanding Shares Changes Because of a Merger, Consolidation, Recapitalization or Reorganization?

In the event that our outstanding shares of Common Stock are increased, decreased or changed or converted into other securities by reason of merger, reorganization, consolidation, recapitalization, stock dividend, extraordinary cash dividend or other change in our corporate structure affecting the stock, the number of shares that may be delivered under the 2004 Non Employee Compensation Plan and the number and/or the purchase price of shares subject to outstanding Awards under the 2004 Non Employee Compensation Plan may be adjusted at the sole discretion of the Board to the extent that the Board determines to be appropriate, provided, however, that the number of shares subject to any Awards will always be a whole number.

When Will the 2004 Non Employee Compensation Plan Terminate?

The 2004 Non Employee Compensation Plan will expire on the tenth anniversary from the date of stockholder approval, but the Board may terminate the 2004 Non Employee Compensation Plan at any time prior to that date and Awards granted prior to such termination may extend beyond such date. Termination of the 2004 Non Employee Compensation Plan will not alter or impair, without the consent of the Awardee, any of the rights or obligations of any Award made under the 2004 Non Employee Compensation Plan.

What Changes Can the Board Make to the 2004 Non Employee Compensation Plan?

The Board may from time to time alter, amend, suspend or discontinue the 2004 Non Employee Compensation Plan. However, no such action of the Board may alter the provisions of the 2004 Non Employee Compensation Plan so as to alter any outstanding Awards to the detriment of the Awardee or participant without such participant's or Awardees consent, and no amendment to the 2004 Non Employee Compensation Plan may be made without stockholder approval if such amendment would materially increase the benefits to the Awardees or the participants in the 2004 Non Employee Compensation Plan, materially increase the number of shares issuable under the 2004 Non Employee Compensation Plan, extend the terms of the 2004 Non Employee Compensation Plan or the period during which Awards may be granted or exercised or materially modify requirements as to eligibility to participate in the 2004 Non Employee Compensation Plan.

What Are the Important Provisions of the Plan With Respect to Each Type of Award?

The Board may, at its discretion, award shares of Common Stock to a recipient (the "Stock Awards"). The Stock Awards will be issued pursuant to an agreement between the Company and the Awardee. Each recipient of a Stock Award will be a stockholder and have all the rights of a stockholder with respect to such shares, including the right to vote and receive all dividends or other distributions made or paid with respect to such shares.

If the recipient of an Award ceases to be a consultant, professional or service provider for any reason, then the Award may be subject to forfeiture, as provided in the particular agreement, unless such forfeiture is waived by the Board when it, in its discretion, determines that such waiver is in our best

interests.

In the event of a participant's retirement, permanent disability or death, or in cases of special circumstances, the Board may waive any or all of the remaining restrictions and limitations imposed under the 2004 Non Employee Compensation Plan with respect to any Awards.

What are the Restrictions on Transferability?

These Shares of stock may not be sold, exchanged, transferred, pledged, hypothecated, or otherwise disposed of until such time as any stated restrictions lapse. The Board, in its absolute discretion, may impose such restrictions on the transferability of the Awards granted in this 2004 Non Employee Compensation Plan as it deems appropriate. Any such restrictions shall be set forth in the Agreement with respect to such Awards and may be referred to on the certificates evidencing shares issued pursuant to any such Award. Shares of restricted stock will be evidenced by a certificate that bears a restrictive legend.

What are the U.S. Federal Income Tax Consequences of the 2004 Non Employee Compensation Plan?

The following discussion is a summary of the U.S. Federal income tax consequences to recipients of Awards and to us with respect to Awards granted under the 2004 Non Employee Compensation Plan. The 2004 Non Employee Compensation Plan is not qualified under Section 401(a) of the Code.

Stock awarded to an Awardee may be subject to any number of restrictions (including deferred vesting, limitations on transfer, and forfeitability) imposed by the Board. In general, the receipt of stock with restrictions will not result in the recognition of income by an Awardee until such time as the shares are either not forfeitable or are freely transferable. Upon the lapse of such restrictions, the Awardee will be required to include as ordinary income the difference between the amounts paid for the stock, if any, and the fair market value of such stock on the date the restrictions lapse and we will be entitled to a corresponding deduction. In addition, any dividends paid with respect to the stock prior to the lapse of the restrictions will be treated as compensation income by the Awardee and will be deductible by the Company. Awardees receiving Stock Awards may elect to include the value of such stock (less any amounts paid for such stock) as ordinary income at the time the Award is made. Awardees making this election would treat any gain or loss realized on a sale of the stock as capital gain or loss, but would not be entitled to any loss deduction if they forfeited the stock pursuant to the restrictions imposed by the Board.

In view of the complexity of the tax aspects of transactions involving the grant and exercise Awards, and because the impact of taxes will vary depending on individual circumstances, each Awardee receiving an Award under the 2004 Non Employee Compensation Plan should consult their own tax advisor to determine the tax consequences in such Awardee's particular circumstances.

Registration with the Securities and Exchange Commission

We intend to file a Registration Statement on Form S-8 covering the 2004 Non Employee Compensation Plan if the 2004 Non Employee Compensation Plan is approved by the stockholders.

Required Vote

Approval of the 2004 Non Employee Compensation Plan requires the receipt of the affirmative vote of a majority of the shares of the Company's Common Stock present in person or by proxy and voting at the Annual Meeting.

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THE BOARD RECOMMENDS A VOTE FOR APPROVAL OF
THE 2004 NON-EMPLOYEE COMPENSATION PLAN

ADDITIONAL INFORMATION

Other Business

The Board is not aware of any other business that will come before the Meeting, but if any such matters are properly presented, the proxies solicited hereby will be voted in accordance with the best judgment of the persons holding the proxies. All shares represented by duly executed proxies will be voted at the Meeting.

Stockholder Proposals

In order for stockholders proposals to be included in Teton's proxy statement for the 2005 Annual Meeting, they must be received by Teton at its principal executive office, 1600 Broadway, Suite 2400, Denver, Colorado 80202 by [February 15, 2004]. All other stockholder proposals, including nominations for Directors, must be received by Teton not less than 60 days or more than 90 days prior to such Meeting, which is scheduled for July __, 2005.

Availability of Certain Documents Referred to Herein

This Proxy Statement refers to certain documents of the Company that are not presented herein or delivered herewith. Such documents are available to any person, including any beneficial owner, to whom this Proxy Statement is delivered, upon oral or written request, without charge, directed to Gillian Kane, Vice President, Investor Relations, Teton Petroleum Company, P.O. Box 774327, Steamboat Springs, Colorado 80477, telephone number (970) 870-1417.

It is important that the proxies be returned promptly and that your shares be represented. Stockholders are urged to mark, date, execute and promptly return the accompanying proxy card in the enclosed envelope.

By Order of the Board of Directors,

H. Howard Cooper, Chairman

Denver, Colorado
June __, 2004

APPENDIX A

FINANCIAL SECTION

TETON PETROLEUM COMPANY

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Appendix A - Index to Financial Statements

Unaudited Interim Consolidated Financial Statements for the Quarter Ended March 31, 2004

Consolidated Balance Sheets

Consolidated Statements of Operations and Comprehensive Loss

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

Audited Annual Consolidated Financial Statements

Independent Auditors' Report

Consolidated Balance Sheet

Consolidated Statements of Operations and Comprehensive Loss

Consolidated Statement of Changes in Stockholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

Unaudited Pro Forma Condensed Financial Information as of March 31, 2004

Pro Forma Balance Sheet

Pro Forma Statements of Operations

Notes to Unaudited Pro Forma Balance Sheet and Statement of Operations

APPENDIX A-1

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2004

APPENDIX A

FINANCIAL SECTION

TETON PETROLEUM COMPANY

Unaudited Interim Consolidated Financial Statements for the Quarter Ended March 31, 2004

Consolidated Balance Sheets

	March 31, 2004 (Unaudited)	December 31, 2003 (Audited)
Assets		
Current assets		
Cash.....	\$ 7,856,899	\$ 7,588,439

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Proportionate share of Goloil accounts receivable	16,538	15,739
Proportionate share of Goloil VAT and other accounts receivable.....	1,756,637	1,078,369
Proportionate share of Goloil inventory.....	622,981	448,812
Prepaid expenses and other assets.....	72,271	95,693
	-----	-----
Total current assets.....	10,325,326	9,227,052
	-----	-----
Non-current assets.....		
Oil and gas properties, net (successful efforts).....	8,564,084	9,339,786
Cogeneration plant construction in- progress.....	1,758,620	1,700,696
Fixed assets, net.....	484,642	450,841
	-----	-----
Total non-current assets.....	10,807,346	11,491,323
	-----	-----
Total assets.....	\$21,132,672	\$20,718,375
	=====	=====
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities.....	\$732,261	\$ 376,429
Proportionate share of accounts payable and accrued liabilities.....	4,059,089	2,590,901
Current portion of proportionate share of notes payable owed to affiliate (Note 2).....	8,219,652	7,419,409
	-----	-----
Total current liabilities.....	13,011,002	10,386,739
	-----	-----
Non-current liabilities		
Asset retirement obligation.....	129,500	126,500
	-----	-----
Total non-current liabilities	129,500	126,500
	-----	-----
Total liabilities	13,140,502	10,513,239
	-----	-----
Commitments and contingencies		
Stockholders' equity		
Series A convertible preferred stock, \$.001 par value, 25,000,000 shares authorized, 269,970 and 618,231 issued and outstanding at March 31, 2004 and December 31, 2004. Liquidation preference at March 31, 2004 and December 31, 2003 of \$1,197,839 and \$2,689,305.....	270	618
Common stock, \$.001 par value, 250,000,000 and 100,000,000 shares authorized, 9,101,830 and 8,584,068 shares issued and outstanding at March 31, 2004 and December 31, 2003.....	9,101	8,584
Additional paid-in capital.....	37,548,890	37,073,366
Unamortized preferred stock dividends.....	--	(118,610)
Accumulated deficit.....	(30,179,691)	(27,657,578)
Foreign currency translation adjustment.....	613,600	898,756
	-----	-----
Total stockholders' equity.....	7,992,170	10,205,136
	-----	-----
Total liabilities and stockholders' equity.....	\$21,132,672	\$20,718,375
	=====	=====

See notes to unaudited consolidated financial statements.

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Unaudited Consolidated Statements of Operations and Comprehensive Loss

	For the Three Months Ended March 31,	
	2004	2003
Sales.....	\$ 2,962,500	\$ 3,408,718
Cost of sales and expenses		
Oil and gas production.....	622,277	326,305
Transportation and marketing.....	--	280,965
Taxes other than income taxes.....	1,973,275	1,427,572
Export duties.....	--	559,240
Exploration.....	154,776	93,148
General and administrative - Goloil.....	184,086	219,557
General and administrative - Teton Petroleum.....	2,102,638	772,899
Depreciation, depletion and amortization.....	409,670	332,738
Total cost of sales and expenses.....	5,446,722	4,012,424
Loss from operations.....	(2,484,222)	(603,706)
Other income (expense)		
Other income.....	17,640	21,688
Interest expense.....	(55,531)	(94,225)
Total other income (expense).....	(37,891)	(72,537)
Net loss before taxes.....	(2,522,113)	(676,243)
Foreign income tax.....	--	(104,842)
Net loss.....	(2,522,113)	(781,085)
Imputed preferred stock dividends for inducements and beneficial conversion charges.....	(521,582)	--
Preferred stock dividend.....	(31,488)	--
Net loss applicable to common stock.....	(3,075,083)	(781,085)
Other comprehensive (loss), net of tax		
Effect of exchange rates.....	(285,156)	86,000
Other comprehensive (loss) income.....	(285,156)	\$ 86,000
Comprehensive loss.....	\$ (3,360,239)	\$ (695,085)
Basic and diluted weighted average common shares outstanding.....	8,747,165	6,321,218
Basic and diluted (loss) income per common share.....	\$ (.35)	\$ (.12)

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See notes to unaudited consolidated financial statements.

TETON PETROLEUM COMPANY

Unaudited Consolidated Statements of Cash Flows

	For the Years Ended March 31,	
	2004	2003
Cash flows from operating activities		
Net loss.....	\$ (2,522,113)	\$ (781,085)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation, depletion, and amortization.....	409,670	332,738
Stock and warrants issued for services and interest...	117,094	--
Debentures issued for services.....	--	--
Changes in assets and liabilities		
Accounts receivable.....	(679,067)	(488,956)
Prepaid expenses and other assets.....	23,422	75,446
Inventory.....	(174,169)	19,104
Accounts payable and accrued liabilities.....	1,261,983	1,034,540
	958,933	972,872
Net cash provided by (used in) investing activities	(1,563,180)	191,787
Cash flow from investing activities		
Repayment of loans from Goloil	1,065,000	--
Oil and gas properties and equipment expenditures.....	(190,444)	(2,886,831)
	874,556	(2,886,831)
Net cash provided by (used in) investing activities	874,556	(2,886,831)
Cash flows from financing activities		
Net (repayments) proceeds from advances under notes payable from affiliate	800,243	(103,714)
Proceeds from issuance of stock, net of issue costs of \$50,000 and \$98,100	449,997	2,406,510
Payments of dividends	(8,000)	--
	1,242,240	2,302,796
Net cash provided by financing activities.....	1,242,240	2,302,796
Effect of exchange rates.....	(285,156)	86,000
Net (decrease) increase in cash.....	268,460	(306,248)
Cash - beginning of year.....	7,588,429	712,013
Cash - end of period.....	\$ 7,856,899	\$ 405,765

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See notes to unaudited consolidated financial statements.

Unaudited Consolidated Statements of Cash Flows

Supplemental disclosure of non-cash activity:

During the first quarter of 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 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 3,750 shares of common stock for services valued at \$15,000.

The Company has accrued a liability for (i) \$52,362 related to the obligation to issue 50,000 warrants to consultants; (ii) \$32,329 related to the obligation to issue 7,876 common shares to consultants; and (iii) \$28,500 related to the obligation to issue 5,955 shares for services rendered by the outside Directors.

Approximately \$2,383,000 of capital expenditures for oil and gas properties were included in accounts payable at March 31, 2004 and approximately \$1,786,000 of capital expenditures were in accounts payable at December 31, 2003 for an increase during the three months ended March 31, 2004 of \$597,000.

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

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

During the first quarter of 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 payables.

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.

\$25,000 of stock subscriptions receivable outstanding at March 31, 2003 were collected in April 2003.

Notes to Unaudited Consolidated Financial Statements

Note 1 - Basis of Presentation and Significant Accounting Policies

The March 31, 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. The unaudited financial statements as of March 31, 2004, as is customary in the oil and gas industry, reflect a pro-rata consolidation of the Company's 50% interest in ZAO Goloil, a Russian closed joint-stock company. However, see note 5 regarding the sale of

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Goloil. 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 filed March 30, 2004. The results of operations for the period ended March 31, 2004 are not necessarily indicative of the results for the entire fiscal year.

Certain amounts for March 31, 2003 have been adjusted to include adjustments to exploration expenses and depreciation, depletion and amortization made during the fourth quarter of 2003.

Foreign Currency Exchange Rates

The conversion of the functional currency of Goloil (a Russian Company) in rubles to the reporting currency of U.S. dollars is based upon the exchange rates in effect. The exchange rates in effect at March 31, 2004 and 2003 were 28.48 and 31.67 rubles to the U.S. dollar, respectively. The average rates in effect during the three months ended March 31, 2004 and 2003 was 29.00 and 31.67 rubles to the U.S. dollar, respectively.

Earnings Per Share

At the March 19, 2003 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.

The following table reflects the effect of dilutive securities as of March 31, 2004 which could dilute future earnings:

Dilutive effects of stock options	2,993,037
Dilutive effects of warrants	7,932,553
Dilutive effects of convertible preferred shares	526,441

	11,452,031
	=====

Note 2 - Proportionate Share of Liabilities

The proportionate share of accounts payable and accrued liabilities of \$4,059,089 at March 31, 2004, are obligations of Goloil and not Teton Petroleum nor have they been guaranteed by Teton Petroleum.

The Company's 50% pro-rata share of notes payable advances made which are advances to Goloil by an affiliate are also obligations of Goloil at March 31, 2004 and not Teton Petroleum nor have they been guaranteed by Teton Petroleum. However, see note 5 regarding the proposed sale of Goloil.

The Company's pro-rata share of Goloil notes payable owed to an affiliate totaled \$8,219,652 at March 31, 2004. The proceeds were used to pay certain operating expenses and capital expenditures of Goloil. These notes provide for interest rates of 8%, with quarterly interest payments, maturing through June 2004. These notes are secured by substantially all Goloil assets. The notes payable will be repaid from cash flow from ZAO Goloil as available, or extended to future periods. However, see note 5 regarding the proposed sale of Goloil.

Note 3 - Stockholder's Equity

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In March 2003, the stockholders approved an increase in the amount of authorized common shares from 100,000,000 to 250,000,000 and also approved 25,000,000 of preferred stock authorized for future issuances.

Private Placements of Common Stock

17,500 common shares valued at \$73,700 were issued for (i) the settlement of accrued liabilities of \$58,700; and (ii) services provided by consultants of \$15,000.

Private Placements of Series A Convertible Preferred Stock

During the period ending March 31, 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 \$450,000 (net of cash costs of \$50,000) from the issuance of 114,942 shares of 8% convertible preferred stock.

The preferred shares carry an 8% dividend, payable quarterly commencing January 1, 2004 and are 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 shares 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 preferred share private placements, certain placements were entered into when the underlying price of the common stock to which the preferred shares are convertible into, exceeded \$4.35 the 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 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 a shareholder vote on January 27, 2004 took place 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 Common share dividends of 8% for a full year, totaling \$140,815, 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

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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.

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 loss and basic loss per common share would have been changed to the pro forma amounts indicated below:

	For the Three Months Ended March 31,	
	2004	2003
Net loss - as reported.....	\$ (3,075,083)	\$ (781,085)
Add fair value of employee compensation expense.	(3,512,304)	--
Net loss per common share - pro forma.....	\$ (6,587,387)	\$ (781,085)
Basic loss per common share - as reported.....	\$ 0.35	\$ 0.12
Basic loss per common share - pro forma.....	\$ 0.75	\$ 0.12

Note 5-Proposed Sale of Goloil Shares

During April 2004 the Company entered into a Sale and Purchase Agreement (the "Agreement") with RussNeft, an Open Joint-Stock Company organized under the laws of the Russian Federation. RussNeft is the current operator of Goloil. Pursuant to the terms of the Agreement, RussNeft will pay \$8,960,000 for all of the Company's shares held in 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. At the date the parties reached agreement, the Company had advances totaling \$6,040,000, of which \$1,065,000 and \$3,600,000 had been received as of March 31, 2004 and May 11, 2004, respectively. The Company will pay an investment banking fee of \$750,000 related to the sale and estimates its expenses in connection with the negotiation of the agreement to be \$135,000.

The Company had recorded the advances as investments in Goloil and accordingly such amount had been included in the carrying value of oil and gas properties.

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The transaction is subject to the customary conditions and is subject to the approval of the shareholders of the Company.

If approved, the gross proceeds from the two transactions, totaling \$15,000,000 less the estimated \$885,000 in costs combined with the elimination of approximately \$9,900,000 in liabilities, net of current assets, will result in the Company recording an estimated gain of \$12,601,000 during 2004. The following unaudited pro forma condensed balance sheet gives effect to the sale of shares assuming the sale of Goloil shares occurred on March 31, 2004:

Current assets	\$ 20,685,000
Non-current assets	26,000

Total assets	\$ 20,711,000
	=====
Current liabilities	\$ 710,000
Stockholders' equity	20,001,000

Total liabilities and stockholders' equity	\$ 20,711,000
	=====

The condensed pro forma balance sheet reflects the historical balance sheet included in this Form 10-Q adjusted for the following:

- a. The proceeds of \$8,960,000 from the sale of Goloil shares plus the remaining \$4,975,000 advances to be received, subsequent to March 31, 2004, less estimated expenses of \$885,000 and alternative minimum taxes of \$181,000.
- b. Elimination of Goloil's assets and liabilities which have been historically consolidated on a pro rata basis.
- c. Recording a gain from the disposition of a discontinued operation, net of tax, of approximately \$12,601,000.

Assuming the sale occurred on January 1, 2004 Teton would have had, on a pro forma basis, an estimated net loss from operations applicable to common shares of \$2,462,000 and as a result of the sale, net income of approximately \$9,703,000. On a pro forma basis, the loss per share from continuing operations would be \$.28 per common share and net income per common share would be \$1.11.

Note 6-Proposed Acquisition

On April 5, 2004 the Company entered into an agreement with Samson International Resources ("Samson") for the purchase of Samson's 52% interest in ZAO Pechoraneftegas ("PNG") in the Komi region of Siberia. Teton paid Samson a \$3.85 million deposit. Since then, Samson's partner in PNG, Vitol Cypress ("Vitol"), has exercised its preferential right to acquire Samson's interest in the property. Teton's deposit has been fully refunded, but the contract remains in effect. In the event that Vitol does not close on Samson's 52% interest, Teton and Samson may continue with the transaction with closing subject to Teton's due diligence and other customary conditions.

Teton continues to negotiate the acquisition of new fields in Russia, although currently no definitive agreements have been reached. We will provide further information on the above transactions, as well as others, through additional press releases and the soon-to-be released proxy statement.

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APPENDIX A-2

AUDITED ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Teton Petroleum Company
Denver, Colorado

We have audited the accompanying consolidated balance sheet of Teton Petroleum Company and subsidiary as of December 31, 2003, and the related consolidated statements of operations and comprehensive loss, changes in stockholders' (deficit) equity and cash flows for the years ended December 31, 2003 and 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Teton Petroleum Company and subsidiary as of December 31, 2003, and the results of their operations and their cash flows for the years ended December 31, 2003 and 2002 in conformity with accounting principles generally accepted in the United States of America.

/s/Ehrhardt Keefe Steiner & Hottman PC
Ehrhardt Keefe Steiner & Hottman PC

March 29, 2004
Denver, Colorado

TETON PETROLEUM COMPANY
Consolidated Balance Sheet
December 31, 2003

Assets

Current assets

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Cash	\$ 7,588,439
Proportionate share of accounts receivable	15,739
Proportionate share of VAT receivable	1,078,369
Proportionate share of inventory	448,812
Prepaid expenses and other assets	95,693

Total current assets	9,227,052

Non-current assets	
Oil and gas properties, net (successful efforts)	9,339,786
Cogeneration plant construction in- progress	1,700,696
Other property and equipment, net	450,841

Total non-current assets	11,491,323

Total assets	\$ 20,718,375
	=====
Liabilities and Stockholders' Equity	
Current liabilities	
Accounts payable and accrued liabilities	\$ 376,429
Proportionate share of accounts payable and accrued liabilities	2,590,901
Proportionate share of notes payable owed to affiliate	7,419,409

Total current liabilities	10,386,739

Non-current liabilities	
Asset retirement obligation	126,500

Total non-current liabilities	126,500

Total liabilities	10,513,239

Commitments and contingencies	
Stockholders' equity	
Series A convertible preferred stock, \$.001 par value, 25,000,000 shares authorized, 618,231 issued and outstanding. Liquidation preference at December 31, 2003 of \$2,689,305	618
Common stock, \$.001 par value, 250,000,000 shares authorized, 8,584,068 shares issued and outstanding at December 31, 2003	8,584
Additional paid-in capital	37,073,366
Unamortized preferred stock dividends	(118,610)
Accumulated deficit	(27,657,578)
Foreign currency translation adjustment	898,756

Total stockholders' equity	10,205,136

Total liabilities and stockholders' equity	\$ 20,718,375
	=====

See notes to consolidated financial statements.

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TETON PETROLEUM COMPANY

Consolidated Statements of Operations and Comprehensive Loss

	For the Years Ended December 31,	
	2003	2002
Sales	\$ 11,437,802	\$ 6,923,320
Cost of sales and expenses		
Oil and gas production	2,020,447	1,218,411
Transportation and marketing	807,266	611,956
Taxes other than income taxes	5,864,920	3,537,990
Export duties	1,492,999	910,936
General and administrative - Goloil	837,134	588,774
General and administrative - Teton	3,919,746	4,744,952
Depreciation, depletion and amortization	1,582,513	451,930
Total cost of sales and expenses	16,525,025	12,064,949
Loss from operations	(5,087,223)	(5,141,629)
Other income (expense)		
Other income	17,445	51,751
Interest expense	(347,740)	(385,939)
Financing charges	(132,818)	(5,498,106)
Total other income (expense)	(463,113)	(5,832,294)
Net loss before tax	(5,550,336)	(10,973,923)
Foreign income tax	(84,508)	--
Net loss	(5,634,844)	(10,973,923)
Imputed preferred stock dividends for inducements and beneficial conversion charges	(2,780,693)	--
Net loss applicable to common shares	(8,415,537)	(10,973,923)
Other comprehensive loss, net of tax		
Effect of exchange rates	168,256	(140,773)
Comprehensive loss	\$ (8,247,281)	\$ (11,114,696)
Basic and diluted weighted average common shares outstanding	6,840,303	3,105,235

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Basic and diluted loss per common share \$ (1.23) \$ (3.53)
 =====

See notes to consolidated financial statements.

TETON PETROLEUM COMPANY

Consolidated Statements of Changes in Stockholders' (Deficit) Equity
 For the Years Ended December 31, 2003 and 2002

	Preferred Stock	
	Shares	Amount
Balance - December 31, 2001	--	\$ --
Common stock issued for cash	--	--
Common stock subscriptions paid in 2003	--	--
Common stock and warrants issued for services	--	--
Common stock issued for conversion of convertible debentures	--	--
Warrants issued and in-the-money conversion feature on convertible debentures	--	--
Warrants issued with notes payable	--	--
Warrants issued in connection with extensions on notes payable	--	--
Net loss	--	--
Foreign currency translation adjustment	--	--
Balance - December 31, 2002	--	--
Common stock issued for cash - net of commissions of \$98,100	--	--
Common stock issued for settlement of accounts payable and accrued liabilities	--	--
Options issued to advisory board and common stock issued for services	--	--
Warrants issued with notes payable	--	--
Preferred stock issued for cash, net of commissions of \$473,838 (cash) and \$99,168 (non-cash)	2,226,680	2,226
Preferred stock converted to common stock	(1,645,099)	(1,645)
Preferred stock issued in exchange for notes payable and accrued interest of \$9,426	36,650	37

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In-the-money conversion feature charges to be amortized	--	--
Amortization of in-the-money conversion feature charges	--	--
Net loss	--	--
Foreign currency translation adjustment	--	--
	-----	-----
Balance - December 31, 2003	618,231	\$ 618
	=====	=====

See notes to consolidated financial statements.

TETON PETROLEUM COMPANY

Consolidated Statements of Cash Flows

	For the Years Ended December 31,	
	2003	2002
	-----	-----
Cash flows from operating activities		
Net loss	\$ (5,634,844)	\$ (10,973,923)
	-----	-----
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation, depletion, and amortization	1,582,513	451,930
Stock based compensation for variable plan warrants	--	--
Stock and stock options issued for services and interest	107,128	--
Warrants issued for notes payable extensions	110,170	46,582
Stock and warrants issued for services	--	837,126
Debentures issued for services	--	267,500
Amortization of debenture and note payable discounts	--	5,331,412
Changes in assets and liabilities		
Accounts receivable	462,000	(1,048,608)
Prepaid expenses and other assets	(4,247)	(57,446)
Inventory	54,177	(313,489)
Accounts payable and accrued liabilities	311,901	290,131
	-----	-----
	2,623,642	5,805,138
	-----	-----
Net cash used in operating activities	(3,011,202)	(5,168,785)
	-----	-----
Cash flows from investing activities		
Oil and gas properties and equipment expenditures ...	(5,392,450)	(3,222,349)
Construction in progress	(1,700,696)	--
	-----	-----
Net cash used in investing activities	(7,093,146)	(3,222,349)
	-----	-----
Cash flows from financing activities		
Net proceeds from advances under notes payable owed to affiliates	4,470,984	2,178,525
Proceeds from stock subscription	1,939,610	--

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Proceeds from issuance of stock, net of \$473,838 commissions	10,251,924	--
Proceeds from issuance of convertible debentures	--	4,143,643
Proceeds from notes payable	628,750	300,000
Payments on notes payable	(478,750)	(894,210)
Issuance of common stock	--	3,333,460
	-----	-----
Net cash provided by financing activities	16,812,518	9,061,418
	-----	-----
Effect of exchange rates	168,256	(140,773)
	-----	-----
Net increase in cash	6,876,426	529,511
Cash - beginning of year	712,013	182,502
	-----	-----
Cash - end of year	\$ 7,588,439	\$ 712,013
	=====	=====

See notes to consolidated financial statements.

Supplemental disclosure of cash flow information

Cash paid for:	Interest

2003	\$ 18,202
2002	\$ 120,008

Supplemental disclosure of non-cash activity:

During the year ended December 31, 2003, the Company had the following transactions:

128,700 warrants issued with debt and valued at \$110,170 were initially recorded as a discount on the note payable. At December 31, 2003, the full amount of the discount had been amortized as financing costs.

79,793 shares of common stock were issued for settlement of accounts payable and accrued liabilities valued at \$220,000.

The Company issued 30,000 non-qualified options to advisory board members valued at \$94,702.

The Company issued 1,035 shares of common stock for services valued at \$3,201.

The Company has accrued a liability for \$46,968 related to the obligation to issue 57,420 warrants to a consultant for capital raising services.

12,000 preferred shares were issued to consultants for services valued at \$52,200 related to capital raising.

Approximately \$1,785,000 of capital expenditures for oil and gas properties were included in accounts payable at December 31, 2003.

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During 2002, the Company had the following transactions:

In exchange for the extension of principal payments on four notes payable, the Company modified expiration dates of certain warrants previously held by the note holders and issued an additional 10,416 such warrants. The fair value of the modification of the warrants totaled \$46,582 and has been recorded as financing costs.

A note payable of \$250,000 was converted into a convertible debenture with 83,333 warrants also being issued under the same terms of the Company's private placement offering of convertible debentures.

1,647,881 warrants were issued with convertible debentures valued at \$811,559 were initially recorded as a discount on the debentures. At December 31, 2002, the full amount of the discount had been amortized as financing costs.

In-the-money conversion features on convertible debt valued at \$3,746,285 were recognized as financing costs.

The Company issued 143,678 warrants in connection with related party notes payable of \$450,000 and \$50,000. The warrants were valued at \$156,781 and recorded as financing costs.

\$267,500 of convertible debentures with 89,167 warrants valued at \$14,250 for a total amount of \$281,750 were issued for consulting services.

41,667 warrants issued with a note payable valued at \$150,016 were initially recorded as a discount on the note payable. At December 31, 2002 the full discount had been amortized and recorded as financing costs.

\$4,661,143 of debentures and accrued interest of \$227,075 were converted into 1,758,494 shares of stock with \$466,771 being paid as a premium at conversion and recorded as financing costs.

221,198 shares of stock were issued to consultants for services valued at \$607,790.

133,333 warrants were issued to consultants for services valued at \$215,086.

Approximately \$1,142,000 of capital expenditures for oil and gas properties were included in accounts payable at December 31, 2002.

During the fourth quarter of 2002, the Company received \$1,939,610 of stock subscriptions receivable for 712,045 shares of stock. The cash for these subscriptions was paid during the first quarter of 2003.

TETON PETROLEUM COMPANY

Notes to Consolidated Financial Statements

Note 1 - Description of Business and Summary of Significant Accounting Policies

Teton Petroleum Company (the Company) is an oil and gas exploration and production company whose current focus is the Russian Federation. Since the Company's operations are exclusively in the Russian Federation it is subject to

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certain risks not typically associated with companies in North America, including, but not limited to, fluctuations in currency exchange rates, the imposition of exchange control regulations, the possibility of expropriation decree, undeveloped business practices and laws, and less liquid capital markets.

The exploration and development of oil and gas reserves involves significant financial risks. The ability of the Company to meet its obligations and commitments under the terms and conditions of its licensing agreements and carry out its planned exploration activities is dependent upon continued financial support from its stockholders, the ability to develop economically recoverable reserves, and its ability to obtain necessary financing to complete development of the reserves.

Should the Company's licenses be revoked as a result of changes in legislation, title disputes or failure to comply with license agreements, there would be a material write-down of the oil and gas properties. The accompanying consolidated financial statements do not reflect any adjustments that may be required due to these uncertainties.

The United States dollar is the principal currency of the Company's business and, accordingly, these consolidated financial statements are expressed in United States dollars.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Teton Petroleum Company and its wholly owned subsidiary, Goltech Petroleum, LLC ("Goltech"). All intercompany accounts and transactions have been eliminated in consolidation.

During 2002, the Company owned a 50% interest in Goltech, which had a 70.59% interest in ZAO Goloil. Accordingly ZAO Goloil was consolidated into Goltech and the Company reflected its 50% share of Goltech. As of December 31, 2002, the other 50% member of Goltech relinquished their ownership interest in exchange for a 35.295% direct ownership interest in ZAO Goloil. The audited financial statements as of December 31, 2003 and 2002, as is customary in the oil and gas industry, reflect a pro-rata consolidation of the Company's interest in ZAO Goloil (a Russian Company) through its wholly owned subsidiary Goltech. Management believes this to be the most meaningful presentation as the Company's only significant asset is its investment in Goltech Petroleum, LLC. The Company is required to provide 50% of the capital expenditure requirements and is entitled to a 50% operating interest until repayment of its investment occurs ("Payout"). Under the pro-rata consolidation method the Company includes its pro-rata share of the assets (50%), liabilities (50%), revenues (50%) and expenses (50%) of the accounts of Goloil until repayment (payout) of our current and any future loans to Goloil occurs. The intercompany balances of Goltech and Teton do not fully eliminate under the pro-rata consolidation method, and the remaining receivable on Teton's accounts has been included as a component of oil and gas properties, as this balance will only be repaid through net cash flow generated from oil and gas properties.

In September OAO NK RussNeft acquired the shares held by Mediterranean Overseas Trust and InvestPetrol in Goloil and assumed responsibility for operating the License. During the transition, the Company subsequently learned in November, Goloil sold substantially less than its export quota into export markets where prices are substantially higher, instead selling the production into the domestic market.

Commencing October 1, RussNeft began selling Goloil's production to a related party for a fixed price of 2400 rubles per ton (roughly \$11 per barrel), a price

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substantially below the blended market price Goloil formerly received selling its production into the export, near abroad and domestic markets. As a consequence, the Company estimates its revenues after taxes for the quarter were reduced by approximately \$1.44 million. Moreover, since this pricing arrangement prevailed through the end of the fourth quarter and beyond, the Company has had to significantly reduce the present value of its reserves effective January 1, 2004. In addition, RussNeft has adjusted the amount of production payment to be paid to EnergoSoyuz-A ("ESA") to a fixed amount per month which is less than the 50% of oil produced previously agreed to, based on the current price.

Teton has strenuously objected to RussNeft's actions and is continuing to engage its management in discussions over the issue, while retaining counsel with the intention of vigorously pursuing its rights under previous agreements and as a significant minority shareholder in Goloil. While counsel has advised the Company that its position has merit, the outcome of this dispute cannot be predicted at the current time.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. The Company continually monitors its positions with, and the credit quality of, the financial institutions it invests with. As of the balance sheet date, the Company had no cash equivalents.

Revenue Recognition

The Company recognizes oil sales revenue at the point in time oil quantities have been delivered to purchasers.

Comprehensive Income

Comprehensive income is defined as the change in equity during a period from transactions and other events from non-owner sources. Comprehensive income is the total of net income or loss and other comprehensive income or loss. The effect of foreign currency exchange rates currently is the Company's only item which constitutes comprehensive income or loss.

Oil and Gas Properties

The Company uses the successful efforts method of accounting for oil and gas producing activities. Costs to acquire mineral interests in oil and gas properties, to drill and equip exploratory wells that find proved reserves, and to drill and equip development wells are capitalized. Costs to drill exploratory wells that do not find proved reserves, geological and geophysical costs, and costs of carrying and retaining unproved properties are expensed. The Company also evaluates costs capitalized for exploratory wells, and if proved reserves cannot be determined within one year from drilling exploration wells, those

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costs are written-off and recorded as an expense.

Unproved oil and gas properties that are individually significant are periodically assessed for impairment of value, and a loss is recognized at the time of impairment by providing an impairment allowance. Other unproved properties are amortized based on the Company's experience of successful drilling and average holding period. Currently the Company holds no unproved properties.

Capitalized costs of producing oil and gas properties, after considering estimated dismantlement and abandonment costs and estimated salvage values, are depreciated and depleted by the unit-of-production method. Significant development projects are excluded from the depletion calculation prior to assessment of the existence of proven reserves that are ready for commercial production. The Company had a cogeneration plant under construction at December 31, 2003, the Company's share of which totaled \$1,700,696 which has been excluded from properties subject to depletion until its completion. The Company did not have any significant development projects, which have been excluded from depletion at December 31, 2003. Support equipment and other property and equipment are depreciated over their estimated useful lives.

On the sale or retirement of a complete unit of a proved property, the cost and related accumulated depreciation, depletion, and amortization are eliminated from the property accounts, and the resulting gain or loss is recognized. On the retirement or sale of a partial unit of proved property, the cost is charged to accumulated depreciation, depletion, and amortization with a resulting gain or loss recognized in income based on the amount of proceeds.

On the sale of an entire interest in an unproved property for cash or cash equivalent, gain or loss on the sale is recognized, taking into consideration the amount of any recorded impairment if the property had been assessed individually. If a partial interest in an unproved property is sold, the amount received is treated as a reduction of the cost of the interest retained.

All of the Company's oil and gas assets are held in one cost center located in Siberia, Russia. The Russian Federation (RF) has performed substantial exploration efforts on properties on which the Company has received successful tenders for future exploration and development. As a result, those areas accepted under tender by the RF are known to contain proved reserves and the Company's efforts are focused on further development of such reserves.

The net carrying value of the Company's oil and gas properties is limited to an estimated net recoverable amount. The net recoverable amount is based on undiscounted future net revenues and is determined by applying factors based on historical experience and other data such as primary lease terms of properties and average holding periods. If it is determined that the net recoverable value is less than the net carrying value of the oil and gas properties, any impairment is charged to operations.

Inventories

Inventory includes extracted oil physically in the pipeline prior to delivery for sale and oil held by third parties valued at the cost of development. Inventory also includes various supplies and spare parts and is valued at cost using the weighted average method.

Property and Equipment

Property and equipment is stated at cost. Depreciation is provided utilizing the straight-line method over the estimated useful lives for owned assets, ranging

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from 3 to 27 years.

Feasibility Study TDA Grants

Grants that are received for use on oil and gas properties are recorded as an offset to expenditures incurred under the grants.

One such study was completed in 2001. In the event that the project is implemented and a substantial economic benefit is reaped, funds previously advanced by the TDA may be required to be reimbursed. Goloil may be required to reimburse the TDA in the form of a success fee if certain events occur by December 31, 2004, which include: taking an equity position in the project, financing development of the license area, or obtaining external financing for development of the license area.

The Company has also received a \$300,000 grant from the TDA for a feasibility study for field development and pipeline construction. As of March 25, 2004 the Company has completed and submitted to TDA its feasibility study of the Eguryak license area. The Company has received \$255,000 as of December 31, 2003 under the grant. In the event that the project is implemented and a substantial economic benefit is reaped, funds previously advanced by the TDA may be required to be reimbursed. The Company may be required to reimburse the TDA in the form of a success fee if certain events occur based substantially on the results of the study by December 31, 2005, which include: taking an equity position in the project, financing development of the license area or obtaining external financing for development of the license area.

For the years ended December 31, 2003 and 2002, the Company received \$0 under TDA grants, respectively.

Impairment of Long-Lived Assets

The Company evaluates its long-lived assets for impairment, in accordance with the provisions established under Statement of SFAS no. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", when events or changes in circumstances indicate that the related carrying amount may not be recoverable. An impairment is considered to exist if the total estimated future cash flows on an undiscounted basis is less than the carrying amount of the related assets. An impairment loss is measured and recorded based on the discounted estimated future cash flows. Changes in significant assumptions underlying future cash flow estimates or fair values of assets may have a material effect on the Company's financial position and results of operations.

Asset Retirement Obligations

During 2003 the Company applied the provisions of SFAS No. 143, "Accounting for Asset Retirement Obligations." The Company recorded \$126,500 as the fair value of the Company's estimated liability for the retirement of its Russian oil and gas assets along with a corresponding increase in the carrying value of the related oil and gas properties as of December 31, 2003, as the effect of adopting SFAS No. 143 on January 1, 2003 was not material. Had the Company adopted SFAS No. 143 on January 1, 2002 the net loss to common shareholders would have been increased by \$13,000.

Stock-Based Compensation

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation- Transition and Disclosure." This statement amends SFAS No. 123,

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"Accounting for Stock-Based Compensation" to provide alternative methods of transition for an entity that voluntarily changes to the fair value method of accounting for stock-based compensation. In addition, SFAS 148 amends the disclosure provision of SFAS 123 to require more prominent disclosure about the effects of an entity's accounting policy decisions with respect to stock-based employee compensation on reported results of operations. 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. 124, the Company's net loss and basic loss per common share would have been changed to the pro forma amounts indicated below:

	For the Years Ended December 31,	
	2003	2002
Net loss applicable to common shareholders - as reported	\$ (8,415,537)	\$ (10,973,923)
Net loss applicable to common shareholders - pro forma	\$ (13,389,678)	\$ (11,945,964)
Basic loss per common share - as reported	\$ (1.23)	\$ (3.53)
Basic loss per common share - pro forma	\$ (1.96)	\$ (3.84)

The fair value of each warrant grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used:

	For the Years Ended December 31,	
	2003	2002
Approximate risk free rate	4.00%	4.50%
Average expected life	10 years	2 years
Dividend yield	-%	-%
Volatility	100%	87.20%
Estimated fair value of total options granted	\$4,974,141	\$972,041

Foreign Currency Translation

All assets and liabilities of the Company's subsidiary are translated into U.S. dollars using the prevailing exchange rates as of the balance sheet date. Income and expenses are translated using the weighted average exchange rates for the period. Stockholders' investments are translated at the historical exchange rates prevailing at the time of such investments. Any gains or losses from foreign currency translation are included as a separate component of stockholders' equity. The prevailing exchange rates at December 31, 2003 and 2002 were approximately 1 U.S. dollar to 29.45 and 31.78, Russian rubles, respectively. For the years ended 2003 and 2002, the average exchange rate for 1 U.S. dollar was 30.66 and 31.39, Russian rubles, respectively.

Basic Loss Per Share

The Company applies the provisions of Statement of Financial Accounting Standard

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No. 128, "Earnings Per Share" (FAS 128). All dilutive potential common shares have an antidilutive effect on diluted per share amounts and therefore have been excluded in determining net loss per share. The Company's basic and diluted loss per share are equivalent and accordingly only basic loss per share has been presented.

The following table reflects the effects of dilutive securities as of December 31, 2003.

Dilutive effects of stock options	1,578,037
Dilutive effects of warrants	7,389,981
Dilutive effects of convertible preferred shares	2,381,351

Weighted average common shares outstanding including the effects of dilutive securities	11,349,369

Fair Value of Financial Instruments

The carrying amounts of financial instruments including cash, accounts receivable, sundry receivables, accounts payable, accrued liabilities, notes payable and convertible debentures approximated fair value as of December 31, 2003 because of the relatively short maturity of these instruments.

The carrying amounts of notes payable and debt issued approximate fair value as of December 31, 2003 because interest rates on these instruments approximate market interest rates. The Company has no derivative financial instruments.

The Company is exposed to foreign currency risks to the extent that transactions and balances are denominated in currencies other than the United States dollar. This risk could be significant for those transactions and balances denominated in rubles, as the ruble has experienced significant devaluation in the past.

Reclassifications

Certain amounts in the 2002 consolidated financial statements have been reclassified to conform to the 2003 presentation.

Recently Issued Accounting Pronouncements

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer measures certain financial instruments with characteristics of both liabilities and equity and requires that an issuer classify a financial instrument within its scope as a liability (or asset in some circumstances). SFAS No. 150 was effective for financial instruments entered into or modified after May 31, 2003 and otherwise was effective and adopted by the Company on July 1, 2003. As the Company has no such instruments, the adoption of this statement did not have an impact on the Company's consolidated financial statements. During December 2003, the FASB issued Interpretation No. 46R, "Consolidation of Variable Interest Entities" ("FIN 46"), which requires the consolidation of certain entities that are determined to be variable interest entities ("VIE's"). An entity is considered to be a VIE when either (i) the entity lacks sufficient equity to carry on its principal operations, (ii) the equity owners of the entity cannot make decisions about the entity's activities or (iii) the entity's equity neither absorbs losses or benefits from gains. Teton Petroleum owns no interests in variable interest entities, and therefore this new interpretation will not affect the Company's consolidated financial statements.

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Note 2 - Investments in Goltech Petroleum, LLC

Effective in August 2000, the Company entered into a transaction agreement selling a 50% equity interest in Goltech in exchange for \$1,000,000 cash and a \$5.6 million investment in the license area for drilling additional wells on the license area, completion of a pipeline and the construction of a processing facility (the oilfield development program). The \$1,000,000 received was also invested in the license area to complete the oilfield development program. The party to the agreement obtained the right to name 50% of the board of managers and became the general manager of Goltech. No gain or loss was recognized on the transaction as the proceeds were immediately reinvested into the field development and pipeline completion project. ZAO Goloil was also required to make a production payment to compensate the other party for its investment in the license area. The production payment requires ZAO Goloil to deliver 50% of the production from existing and future wells through July 2007. The other party is obligated under an agreement to only sell their share of the production in the Russian domestic market. Effective December 31, 2002, the other party withdrew as a member of Goltech and in exchange for relinquishment of 50% of its membership interests in Goltech, it received 35.295% of the ZAO Goloil shares and the return of its \$1,000,000 initial contribution. ZAO Goloil is still obligated under the production payment.

The other membership holder (the "affiliate") to Goltech Petroleum, LLC (Goltech) had invested approximately \$7,000,000 under the oilfield development agreement outside of Goltech and Goloil as of December 31, 2003. These costs are reflected in the accounts of another entity controlled by the affiliate and are not reflected anywhere in the financial statements of the Company. These expenditures were used to drill and complete four additional wells and complete a pipeline on the Company's license area that provides the ability to transport oil directly through this pipeline year-round to other larger pipelines for ultimate sale. The Company has compensated the affiliate in the form of a production payment of approximately 2,262,343 barrels of oil through December 31, 2003. The Company also has the obligation to compensate the affiliate for a minimum of 4,088,000 barrels of oil (1,825,657 barrels remaining at December 31, 2003) over a seven-year period for its investments under the oilfield development agreement. See Note 10 for a discussion of the changes made to the production payment being proposed by OAO NK RussNeft, a newly formed Russian independent oil producer ("RussNeft").

Additionally, the affiliate has net direct loans to Goloil of approximately \$14,839,000, which have been used to help fund capital expenditures for completion of a processing facility and to help fund other related expenses. The Company has reflected a 50% of these loans in its financial statements under the pro-rata consolidation method (Note 6).

Note 3 - Property and Equipment

Property and equipment consist of the following at December 31, 2003:

Building	\$	123,942
Vehicles		178,598
Computers and equipment		30,053
Other equipment		175,707
Furniture and fixtures		27,689

		535,989

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Less: Accumulated depreciation	(85,148)

	\$ 450,841
	=====

Note 4 - Oil and Gas Properties

Goloil License

The Company holds an interest in the license for the Eguryak license area for exploration and production of oil and gas through its investment in Goloil (which is held through its 100% owned subsidiary, Goltech). This license grants Goloil the exclusive right to explore and develop an area in Siberia covering 186.8 square kilometers and includes the Eguriakhskoe, South Eguriakhskoe and Golevoye oil fields situated in the Nizhnevartovsk Region. The license expires on May 21, 2022, subject to additional extensions as approved by applicable bodies of the Russian Federation. The license may also be canceled by the Company with a 90-day written notice.

The license requires Goloil to drill a minimum of five wells over four years, conduct an additional seismic survey aggregating 30 square kilometers, and evaluate geological data from the 186.8 square kilometers of the license. Goloil was also required to conduct production tests on six wells between 1997 and 2000. In addition to performing its duties under the license, Goloil must comply with Russian environmental and archeological laws. Currently, the Company has fulfilled its requirements under the license. Management is continuing to pursue completion of future required performance criteria and believes that there will be no adverse effects on the Company's license for failure to comply with any past license requirements.

The license requires Goloil to pay all taxes including mining tax, property tax and certain ecological taxes. All geological information obtained at Goloil's expense is the property of Goloil, while all geological information obtained at the expense of the Russian government may be used by Goloil. Oil and gas produced from the licensed property, subject to certain royalty payments, is the property of Goloil.

During 2003, Goloil began the construction of a gas-powered electrical generating plant which will be operational in the first quarter of 2004.

See note 10 for a discussion of a dispute with RussNeft, the operator of Goloil.

Note 5 - Notes Payable

During 2003:

The Company received proceeds of \$628,750 from the issuance of promissory notes to three shareholders. In connection with these notes, 128,700 warrants valued at \$110,170 were issued. At December 31, 2003, the full amount of the discount had been amortized and recorded as a non-cash financing charge. The Company has recorded the value of these warrants using the Black-Scholes option-pricing model using the following assumptions: volatility of 73%, a risk-free rate of 3.5%, zero dividend payments, and a life of one year.

The Company paid \$478,750 of the promissory notes issued during the year. The remaining \$150,000 along with accrued interest of \$9,426 was exchanged for

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Teton's 8% convertible preferred shares.

During 2002:

The scheduled March 1, 2002 principal payments on two notes payable totaling \$250,000 to stockholders were extended to April 15, 2002. In exchange for this extension, the holders were issued 10,417 stock purchase warrants, with an exercise price of \$6.00 that expired February 2004, which had been valued at \$14,469 using the Black Scholes option pricing model with assumptions of volatility of 100%, risk free rate of 5.5% and no dividend yield. These extensions were recorded in the first quarter of 2002 as financing costs. These notes were fully paid off in 2002.

The Company issued 143,678 warrants in connection with related party notes payable of \$450,000 and \$50,000. The warrants were valued at \$156,781 and recorded as financing costs. Additionally, in the first quarter of 2002, the due dates of the two notes payable totaling \$500,000 were extended by the holders to April 15, 2002. As consideration for this extension the Company agreed to modify the expiration dates of certain warrants previously held by the note holders from October 31, 2002 to January 31, 2003. These extensions were valued based upon the incremental fair value of the warrants on the date of modification, which totaled approximately \$32,000. The values were calculated using the Black Scholes option-pricing model under the assumptions described in the previous paragraph, and were recorded in the first quarter of 2002, the quarter the modifications occurred.

During 2002, the Company paid \$200,000 of a \$450,000 note payable outstanding at December 31, 2001. The remaining \$250,000 was converted into a convertible debenture with 83,333 warrants also being issued in connection with the Company's private placement offering of convertible debentures.

The Company also paid off a \$50,000 note payable to a stockholder and the \$94,210 note payable to an officer during 2002, which were outstanding at December 31, 2001.

During 2002, the Company received proceeds of \$300,000 on a note payable from a stockholder. In connection with the note, 41,667 warrants valued at \$150,016 were issued and recorded as financing charges. The Company paid off this note in November 2002. The Company has recorded the value of these warrants using the Black Scholes option-pricing model using the following assumptions: volatility of 138%, a risk-free rate of 4.5%, zero dividend payments, and a life of 2 years.

Total expense recorded associated with the above warrant issuances and modifications totaled \$353,379 and have been recorded as non-cash financing charges during the year ended December 31, 2002.

Note 6 - Proportionate Share of Liabilities

The proportionate share of accounts payable and accrued liabilities of \$2,590,901 at December 31, 2003 are obligations of Goloil and not Teton Petroleum nor have they been guaranteed by Teton Petroleum.

The following notes reflect the Company's 50% pro-rata share of notes payable advances made by and owed to Goloil owed to an affiliate. These advances are obligations of Goloil at December 31, 2003 and not Teton Petroleum nor have they been guaranteed by Teton Petroleum.

Pro-rata share of Goloil notes payable owed to an affiliate. The

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proceeds were used to pay certain operating expenses and capital expenditures of Goloil. These notes provide for interest rates of 8%, with interest payable either quarterly or on maturity, maturing through December 2004. These notes are secured by substantially all Goloil assets. The notes payable will be repaid from cash flow from ZAO Goloil as available, or extended to future periods.

\$7,419,409

Less: current portion

\$(7,419,409)

Note 7 - Stockholders' Equity -----

Changes in Stockholders' Equity during 2003 -----

On March 19, 2003, the stockholders authorized an increase in the Company's common shares from 100,000,000 to 250,000,000 and authorized 25,000,000 shares of preferred stock for future issuance.

Private Placements of Common Stock -----

During the year ended December 31, 2003 the Company received the following proceeds from the issuance of privately placed common stock:

- o \$1,091,900 (net of costs of \$98,100) from the issuance of 437,012 shares of common stock. In connection with the private placement, the Company also issued a warrant for each \$3.00 stock investment. The warrants have a term of two years and an exercise price of \$6.00,
- o \$1,939,610 during the year ended December 31, 2003 related to outstanding stock subscriptions receivable at December 31, 2002,
- o 80,828 common shares valued at \$317,902 were issued for (i) settlement of accounts payable and accrued liabilities of \$220,000; and (ii) services provided by the advisory board of \$97,902.

Private Placements of Series A Convertible Preferred Stock -----

During the year ended December 31, 2003 the Company received the following proceeds from the issuance of privately placed preferred stock issued at an offering price of \$4.35 per share.

- o Proceeds of \$9,145,450 (net of cash costs of \$473,888 and net of \$46,968 related to the obligation to issue warrants for capital raising) from the issuance of 2,266,680 shares of 8% convertible preferred stock.
- o \$14,574 from the issuance of 40,000 preferred shares in exchange for a \$150,000 note payable outstanding and accrued interest of \$9,426.

We also issued 12,000 preferred shares to a consultant for capital raising services valued at \$52,200.

The preferred shares carry an 8% dividend, payable quarterly commencing January 1, 2004 and are 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

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underlying common shares. The preferred stock also contains a liquidation preference of \$4.35 per share plus accrued unpaid dividends. The preferred shares 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 preferred share private placement for Tranches 1 and 2, certain placements were entered into when the underlying price of the common stock to which the preferred shares are convertible into, exceeded \$4.35, the 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 a shareholder vote on January 27, 2004 took place 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 were recorded during the fourth quarter of 2003, and \$118,610 will be amortized and recorded as preferred dividends in January of 2004.

The Company also sent each preferred shareholder an inducement offer to convert their shares of preferred into common shares. If converted within 60 days of closing, the investors will be entitled to receive (i) dividends payable in common stock equivalent to one years worth of dividends; and (ii) 2 Class B Warrants for each \$10 invested, exercisable at \$6.00 per share.

In connection with the preferred share private placement for Tranche 1, shareholders converted 1,645,099 of 8% convertible preferred shares to common stock at a price of \$4.35 per share. Common share dividends of 8% for a full year were paid totaling \$546,173 and 1,431,237 warrants were issued valued at \$1,170,678, for a total inducement charge of \$1,716,851 recognized as a preferred dividend during the fourth quarter for those investors which accepted the inducement offer. The warrants issued were valued using the black-scholes option pricing model using the following assumptions: volatility of 55%, a risk-free rate of 1.875%, zero dividend payments, and a life of two years.

In connection with the preferred share private placement for Tranche 2, a common share dividend of 8% for a full year was paid totaling \$157,601 and warrants were issued valued at \$337,805, for a total inducement charge of \$495,406 which will be recognized as a preferred dividend in the first quarter of 2004, associated with the preferred stock inducement offer ending on March 27, 2004. The warrants issued were valued using the black-scholes option pricing model using the following assumptions: volatility of 55%, a risk-free rate of 1.875%, zero dividend payments, and a life of two years.

Warrants to Purchase Common Shares

During 2003, the Company issued 440,140 warrants to entities for their services directly related to raising capital under private placements. The Company also issued 128,700 warrants in conjunction with debt valued at \$110,170.

During 2003, the Company issued 1,019,883 warrants in connection with common stock private placement offerings, with an exercise price of \$6.00 that expire December 30, 2004.

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Changes in Stockholder Equity during 2002

Private Placements of Common Stock

During the year ended December 31, 2002 the Company received the following proceeds from the issuance of privately placed common stock:

- o \$3,333,460 from the issuance of 1,223,737 shares of common stock. In connection with the private placement offerings, the Company also issued a warrant for each \$3.00 stock investment. The warrants have a term of two years and an exercise price of \$6.00.
- o \$605,136 from the issuance of 221,198 common shares issued for consulting services.
- o \$23,200 from the issuance of 7,407 common shares for services provided in 2001. The Company accrued a liability for this amount at December 31, 2002.

Convertible Debentures

During 2002, the Company received proceeds of \$4,163,143 from the private placement of convertible debentures. The debentures had a term of three years from April 1, 2002 and provided for interest at 10% per annum payable annually. The debentures provided that the holder may convert the debenture and accrued interest into shares of common stock at a \$3 conversion rate.

The debentures also included warrants to purchase common stock and have an exercise price of \$6 and a term of two years. Each debenture holder received one warrant for each \$.25 (pre-split) of investment made in debentures.

On September 1, 2002, the Company redeemed all debentures outstanding for shares of its common stock. The debentures were redeemed at 110% of their face value by issuing one share of common stock for each \$3 of redemption value, which also incorporates any accrued interest through September 1, 2002. Financing charges were recorded for the difference between the cumulative 10% contractual interest accrued through September 1, 2002 and the 10% premium paid upon redemption, which totaled \$466,771.

As a result of the warrants issued with the debentures and in-the-money conversion features present at issuance, non-cash financing charges of \$4,714,625 were expensed. While the stock to which the conversion rights and warrants apply is restricted stock, the valuation with respect to this stock in calculating the discount was "as if" the stock was immediately salable. The effect of this is to make the amount of discount and its related amortization higher than it would otherwise have been. Management believes these costs are non-recurring and will manage future capital raising programs to minimize or eliminate these costs.

Warrants to Purchase Common Shares

During 2002, the Company issued 133,333 warrants to consultants for services valued at \$215,086. The Company also issued 616,793 to employees and directors for services performed.

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The following table presents the activity for warrants outstanding:

	Shares	Weighted Average Exercise Price
	-----	-----
Outstanding - December 31, 2001	544,098 \$	5.28
Granted	4,068,682	5.52
Forfeited/canceled	(25,000)	2.04
	-----	-----
Outstanding - December 31, 2002	4,587,780	5.52
Granted	3,210,249	2.49
Forfeited/canceled	(408,048)	0.30
	-----	-----
Outstanding - December 31, 2003	7,389,981 \$	5.63
	=====	=====

The following table presents the composition of warrants outstanding and exercisable:

Range of Exercise Prices	Shares Outstanding		
	Number	Price*	Life*
-----	-----	-----	-----
\$2.72 - \$4.80	997,800	\$ 0.41	.27
\$6.00 - \$12.00	6,392,181	5.22	.93
	-----	-----	-----
Total - December 31, 2003	7,389,981	\$ 5.63	1.20
	=====	=====	=====

*Price and Life reflect the weighted average exercise price and weighted average remaining contractual life, respectively.

Note 8 - 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 second quarter of 2003, the Company issued 30,000 non-qualified options to outside advisory board members which has been recorded as compensation expense during the three-months ended June 30, 2003 valued at \$94,701, using the Black-Scholes option-pricing model with the following assumptions: volatility of 100%, a risk-free rate of 4%, zero dividend payments, and a life of ten years. The Company also issued 1,448,037 incentive options to employees, officers and directors valued at \$4,571,026 using the Black-Scholes option-pricing model under the same assumptions described above. In the third quarter, 100,000 options valued at \$308,414 were issued to a director under the Company Plan.

As of December 31, 2003, 1,478,037 options with an exercise price of \$3.48 were outstanding as well as 100,000 options with an exercise price of \$3.71. The weighted average price and contractual life of both issues were \$3.26 and \$3.71

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and 8.59 and .61 years, respectively.

The following table presents the activity for stock options outstanding:

Range of Exercise Prices	Shares Outstanding		
	Number	Price*	Life*
Outstanding - December 31, 2002	-	\$ -	-
Issued	1,578,037	3.49	9.20
Outstanding - December 31, 2003	1,578,037	\$ 3.49	9.20

*Price and Life reflect the weighted average exercise price and weighted average remaining contractual life, respectively.

Note 9 - Income and Other Taxes

The Company has incurred losses since inception and, as a result of uncertainty surrounding the use of those net operating loss carry-forwards, no provision for income taxes has been recorded.

The Company has net operating loss carry-forwards for U.S. tax purposes of approximately \$18,500,000, which expire between 2012 and 2023, if unused, and have been fully reserved by a valuation allowance.

Taxes payable are tax liabilities of its Russian subsidiary, Goloil (held through its wholly owned subsidiary Goltech). Tax payments made by Goloil to the Russian government include profits taxes, value-added taxes ("VAT"), unified social taxes, transport taxes and property taxes.

The Company had no income tax liabilities for the years ended December 31, 2003. ZAO Goloil has net operating loss carry-forwards, which are available to offset future taxable income, which will expire in 2013. The foreign income tax carry-forwards for Russian tax purposes are limited to a maximum of 30% of taxable income in any year. As of December 31, 2003, Goloil had \$210,662 in deferred tax assets (\$105,331 net to Teton) and \$34,906 (\$17,453 net to Teton) in deferred tax liabilities. These amounts can be applied against future income taxes.

Note 10 - Commitments and Contingencies

Contingencies

Dispute with Current operator of Goloil

In September, RussNeft acquired the shares held by Mediterranean Overseas Trust and InvestPetrol in Goloil and assumed responsibility for operating the License. During the fourth quarter, the Company subsequently learned, Goloil sold substantially less than its export quota into export markets where prices are substantially higher, instead selling the production into the domestic market.

Commencing October 1, RussNeft began selling Goloil's production to a related party of RussNeft (RussTrade) for a fixed price of 2,400 rubles per ton (roughly \$11 per barrel), a price substantially below the blended market price Goloil formerly received selling its production into the export, near abroad and

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domestic markets. As a consequence, the Company estimates its revenues after taxes for the quarter were reduced by approximately \$1.44 million. Moreover, since this pricing arrangement prevailed through the end of the fourth quarter and beyond, the Company has had to significantly reduce the present value of its reserves effective January 1, 2004. In addition, RussNeft has adjusted the amount of production payment to be paid to EnergoSoyuz-A ("ESA") to a fixed amount per month which is less than the 50% of oil produced previously agreed to, based on the current price.

Teton has strenuously objected to RussNeft's actions and is continuing to engage its management in discussions over the issue, while retaining counsel with the intention of vigorously pursuing its rights under previous agreements and as a significant minority shareholder in Goloil. While counsel has advised the Company that its position has merit, the outcome of this dispute cannot be predicted at the current time.

Taxation

The taxation system in Russia is evolving as the central government transforms itself from a command to a market-oriented economy. There were many new Russian Federation and Republic taxes and royalty laws and related regulations introduced over the last few years. Many of these were not clearly written and their application is subject to the interpretation of the local tax inspectors, Central Bank officials and the Ministry of Finance. Instances of inconsistent interpretation between local, regional and federal tax authorities and between the Central Bank and Ministry of Finance are not unusual. The current regime of penalties and interest related to reported and discovered violations of Russian laws, decrees and related regulations are severe. Penalties include confiscation of the amounts at issue (for tax law violations), as well as fines of up to 40% of the unpaid taxes. Interest is assessable at rates of up to 0.1% per day. As a result, penalties and interest can result in amounts that are multiples of any unreported taxes.

The Company's policy is to accrue contingencies in the accounting period in which a loss is deemed probable and the amount is reasonably determinable. In this regard, because of the uncertainties associated with the Russian tax and legal systems, the ultimate taxes as well as penalties and interest, if any, assessed may be in excess of the amounts paid to date as of December 31, 2003.

Management believes based upon its best estimates that the Company has paid or accrued all taxes that are applicable for the current and prior years, and compiled with all essential provisions of laws and regulations of the Russian Federation.

Environmental

The Company may be subject to loss contingencies pursuant to Russian national and regional environmental claims that may arise for the past operations of the related fields, which it operates. As Russian laws and regulations evolve concerning environmental assessments and cleanups, the Company may incur future costs, the amount of which is currently indeterminable due to such factors as the current state of the Russian regulatory process, the ultimate determination of responsible parties associated with these costs and the Russian government's assessment of respective parties' ability to pay for those costs related to environmental reclamation.

Political

The Company's operations and financial position will continue to be affected by

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Russian political developments including the application of existing and future legislation, regulations and claims pertaining to production, imports, exports, oil and gas regulations and tax regulations. The likelihood of such occurrences and their effect on the Company could have a significant impact on the Company's current activity and its overall ability to continue operations. Management does not believe that these contingencies, as related to its operations, are any more significant than those of similar enterprises in Russia.

Commitments

Mr. Howard Cooper, Chairman, signed an agreement on May 1, 2002. The employment agreement is for a three-year term, whereby Mr. Cooper's salary is \$13,333 per month. Under the terms of the agreement, Mr. Cooper is entitled to 24 months of severance pay, payable in monthly installments over 24 months, from the date of termination. The Company may discontinue the severance payments if Mr. Cooper violates the confidentiality, noncompetition, or nonsolicitation provisions of his employment agreement.

Mr. Karl Arleth, President and Chief Executive Officer, signed an agreement on May 1, 2003. The employment agreement is for a three-year term, with a salary of \$10,000 per month. Under the terms of the agreement, Mr. Arleth is entitled to 24 months severance pay in the event of change of position or control of the company.

Ms. Anya Cooper, Secretary, signed an agreement on May 1, 2002. The employment agreement is for a three-year term, whereby Ms. Cooper's salary is \$6,500 per month. Under the terms of the agreement, Ms. Cooper is entitled to 12 months of severance pay, payable in monthly installments over 12 months from the date of termination. The Company may discontinue the severance payments if Ms. Cooper violates the confidentiality provision of her employment agreement.

Note 11 - Supplemental Oil and Gas Disclosures

The following is a summary of costs incurred in oil and gas producing activities:

Included below is the Company's investment and activity in oil and gas producing activities, which includes a proportionate share of ZAO Goloil's oil and gas properties, revenues, and costs.

	For the Years Ended December 31,	
	2003	2002
Property acquisition costs.....	\$ --	\$ --
Construction in progress	1,700,696	
Development costs	5,207,931	4,150,742
	\$6,908,627	\$4,150,742
Total	\$6,908,627	\$4,150,742

The following reflects the Company's capitalized costs associated with oil and gas producing activities:

For the Years Ended
December 31,

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	2003	2002
Property acquisition costs	\$ 595,558	\$ 595,558
Construction in progress	1,700,696	
Development costs	10,808,813	4,830,421
	13,105,067	5,425,979
Accumulated depreciation, depletion, amortization and valuation allowances	(2,064,585)	(529,671)
Net capitalized costs	\$ 11,040,482	\$ 4,896,308

Results of Operations from Oil and Gas Producing Activities

Results of operations from oil and gas producing activities (excluding general and administrative expense, and interest expense) are presented as follows:

	For the Years Ended December 31,	
	2003	2002
Oil and gas sales	\$ 11,437,802	\$ 6,923,320
Oil and gas production	(2,020,447)	(1,218,411)
Transportation and marketing	(807,266)	(611,956)
Export duties	(1,492,999)	(910,936)
Taxes other than income taxes	(5,864,920)	(3,537,990)
Depletion, depreciation and amortization	(1,534,914)	(451,930)
Results of operations from oil and gas producing activities	\$ (282,744)	\$ 192,097

Reserves (Unaudited) - Base Case

Proved oil and gas reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved development oil and gas reserves are those reserves expected to be recovered through existing wells with existing equipment and operating methods. The reserve data is based on studies prepared by an independent engineer. All proved reserves of oil and gas are located in Russia.

See Note 10 to the financial statements for a full discussion of the dispute with RussNeft. As the outcome of this dispute cannot be predicted at this time, the Company has prepared two separate proved oil reserve cases: the "Base Case SEC reserves and Cash Flow Projections" and the "Alternate Case". The Base Case assumes that the Company is not successful in its dispute with RussNeft, accordingly, the price received for oil is set at 2,400 rubles per ton (\$11 per barrel) and the production payment is deducted assuming 19 million rubles per month (\$645,000 per month less VAT). The Alternate Case assumes that the Company

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is successful in the dispute and that RussNeft and Goloil would honor all pre-existing agreements. In the Base Case, future cash flows are substantially less than in the Alternate Case, however oil reserves quantities are greater as a result of payout being delayed and how the production payment is being calculated. Management has elected to report the lower, alternate case reserves as it's oil reserves.

	For the Years Ended December 31,	
	2003	2002
Proved reserves (bbls), beginning of period	13,264,000	40,174,000
Production	(632,000)	(471,000)
Extension of reservoir	--	2,000,000
Revisions of previous estimates	(4,370,000)	(28,439,000)
Proved reserves (bbls), end of period	8,262,000	13,264,000
Proved developed reserves (bbls), beginning of period	4,567,000	5,493,000
Proved developed reserves (bbls), end of period	3,816,000	4,567,000

Standardized Measure of Discounted Future Net Cash Flows (Unaudited)

SFAS No. 69 prescribes guidelines for computing a standardized measure of future net cash flows and changes therein relating to estimated proved reserves. The Company has followed these guidelines, which are briefly discussed below.

Future cash inflows and future production and development costs are determined by applying year-end prices and costs to the estimated quantities of oil and gas to be produced. Estimated future income taxes are computed using current statutory income tax rates for those countries where production occurs. The resulting future net cash flows are reduced to present value amounts by applying a 10% annual discount factor.

The assumptions used to compute the standardized measure are those prescribed by the Financial Accounting Standards Board and, as such, do not necessarily reflect the Company's expectations for actual revenues to be derived from those reserves nor their present worth. The limitations inherent in the reserve quantity estimation process, as discussed previously, are equally applicable to the standardized measure computations since these estimates are the basis for the valuation process.

The following summarizes the Base Case standardized measure and sets forth the Company's future net cash flows relating to proved oil and gas reserves based on the standardized measure prescribed in Statement of Financial Accounting Standards No. 69 assuming the Company is not successful in it's dispute with RussNeft.

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	For the Years Ended December 31,	
	2003	2002
	-----	-----
Future cash inflows	\$ 114,992,000	\$ 230,581,000
Future production costs	(80,812,000)	(151,167,000)
Future development costs	(14,595,000)	(18,556,000)
Future income tax expense	(7,360,000)	(16,365,000)
	-----	-----
Future net cash flows (undiscounted)	12,225,000	44,493,000
Annual discount of 10% for estimated timing of cash flows	(6,232,000)	(19,069,000)
	-----	-----
Standardized measure of future net discounted cash flows	\$ 5,993,000	\$ 25,424,000
	=====	=====

Changes in Standardized Measure Base Case (Unaudited)

The following are the principal sources of change in the standardized measure of discounted future net cash flows:

	For the Years Ended December 31,	
	2003	2002
	-----	-----
Standardized measure, beginning of period,	\$ 25,424,000	\$ 40,362,000
Net changes in prices and production costs	(11,483,000)	189,975,000
Future development costs	(3,098,000)	22,344,000
Revisions of previous quantity estimates	(11,806,000)	(274,605,000)
Extension of reservoir	--	19,867,000
Accretion of discount	2,542,000	4,036,000
Changes in income taxes, net	4,414,000	23,445,000
	-----	-----
Standardized measure, end of period, 2003 and 2002	\$ 5,993,000	\$ 25,424,000
	=====	=====

Reserves (Unaudited) - Alternate Case

The following summary sets forth the Company's future net cash flows relating to proved oil and gas reserves based on the standardized measure prescribed in Statement of Financial Accounting Standards No. 69 and assuming that the Company is successful in resolving its dispute with RussNeft, the Alternate Case.

For the Years Ended
December 31,

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	2003	2002
Future cash inflows	\$ 175,631,000	\$ 230,581,000
Future production costs	(104,257,000)	(151,167,000)
Future development costs	(14,595,000)	(18,556,000)
Future income tax expense	(15,567,000)	(16,365,000)
Future net cash flows (undiscounted)	41,212,000	44,493,000
Annual discount of 10% for estimated timing of cash flows	(17,560,000)	(19,069,000)
Standardized measure of future net discounted cash flows	<u>\$ 23,652,000</u>	<u>\$ 25,424,000</u>

Changes in Standardized Measure (Unaudited)

The following are the principal sources of change in the standardized measure of discounted future net cash flows:

	For the Years Ended December 31,	
	2003	2002
Standardized measure, beginning of period, December 31, 2002 and 2001	\$ 25,424,000	40,362,000
Net changes in prices and production costs	50,949,000	189,975,000
Future development costs	(3,098,000)	22,344,000
Revisions of previous quantity estimates	(52,623,000)	(274,605,000)
Extension of reservoir	--	19,867,000
Accretion of discount	2,542,000	4,036,000
Changes in income taxes, net	458,000	23,445,000
Standardized measure, end of period, 2003 and 2002	<u>\$ 23,652,000</u>	<u>\$ 25,424,000</u>

Note 12 - Fourth Quarter Adjustments

The following significant adjustments were recorded by the Company during the fourth quarter of 2003:

Depletion, amortization and amortization	\$ 919,744
Exploration expenses	275,416
Imputed preferred stock dividends for inducements and beneficial conversion charges	<u>2,762,137</u>

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Total impact on loss applicable to common stockholders \$3,957,297
 =====

As described in Note 10 to these financial statements, the operations of Goloil have had some significant management changes that have affected the operating results of Goloil during the fourth quarter. The effects of these changes can be seen in the accompanying table reflecting the fourth quarter results of operations.

	Fourth Quarter 2003
	----- -----
Sales, Barrels	150,938
Average Daily Sales, Barrels	1,654
Average Selling Price, \$/barrel	\$15.45
Revenues	\$2,332,464
Costs of Sales and Expenses, excl. DD&A	
Production Costs	563,590
Transportation & Marketing	6,061
Taxes other than Income taxes	1,700,920
Export Duties	-
	-
Results from Goloil Operations, before DD&A	61,889
Less General & Administrative Expense, Goloil	188,229

Goloil operating (loss) income before DD&A	(126,340)
Depreciation, Depletion &	919,744

Amortization, Goloil	
Operating loss, Goloil	(1,046,084)
General & Administrative Expense, Teton	1,244,063

Operating Loss, Teton	\$ (2,290,147)
	=====

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APPENDIX A-3

UNAUDITED PRO FORMA CONDENSED FINANCIAL INFORMATION AS OF
MARCH 31, 2004

Unaudited Pro Forma Condensed Financial Information as of March 31, 2004

Introduction

The following unaudited pro forma condensed financial information gives effect to the sale of Teton Petroleum Company's (the "Company") entire interest (35.30% of the outstanding ordinary shares of stock) in the Siberian-Texan Closed Joint Stock Company Goloil ("Goloil"). These pro forma statements are presented for illustrative purposes only. The pro forma adjustments are based upon available information and assumptions that the Company believes to be reasonable.

The unaudited pro forma condensed balance sheet as of March 31, 2004 was prepared by using the historical cost consolidated balance sheet for the Company, giving effect to the repayment of all loans outstanding and the related sale of our entire equity interest of Goloil (35.30% of the outstanding shares) as if closing had occurred on March 31, 2004.

The unaudited pro forma condensed statement of operations for the three months ended March 31, 2004 and for the year ended December 31, 2003 were prepared by using the historical consolidated statement of operations for the Company and then reclassifying the operations of Goloil as discontinued operations and then recording the gain on sale assuming the sale had occurred on March 31, 2004 as a component of discontinued operations.

These pro forma condensed financial statements do not purport to represent what the results of operations or financial position of the Company would actually have been if the repayment of outstanding loans and the related sale of the Company's interest in Goloil had occurred on the dates referred to above nor do they purport to project the results of operations or financial position of the Company for any future period or as of any date, respectively.

Teton Petroleum Company
Pro Forma Balance Sheet
As of March 31, 2004

	Historical Amounts (1)	Pro forma adjustments		Pro forma After Sale
		Loan Repayment (2)	Sale of investment (3)	
Assets				
Current assets:				
Cash	\$7,856,899	\$5,101,422	\$7,664,640	\$20,622,961
Proportionate share of Goloil accounts receivable	16,538	-	(16,538)	-
Proportionate share of Goloil VAT receivable and other receivables	1,756,637	-	(1,755,109)	1,528
Proportionate share of Goloil				

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inventory	622,981	-	(622,981)	-
Prepaid expenses and other assets	72,271	-	-	72,271

Total current assets	10,325,326	5,101,422	5,270,012	20,696,760

Non-current assets:				
Oil and gas properties, net (successful efforts)	8,564,084	(5,101,422)	(3,462,662)	-
Co-generation plant construction in progress	1,758,620	-	(1,758,620)	-
Fixed assets, net	484,642	-	(458,274)	26,368

Total non-current assets	10,807,346	(5,101,422)	(5,679,556)	26,368

Total assets	\$21,132,672	\$	- (409,544)	\$20,723,128
	=====			
Liabilities and Stockholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 732,261	\$	- \$	- \$ 732,261
Proportionate share of Goloil accounts payable and accrued liabilities	4,059,089	-	(4,059,089)	-
Current portion of proportionate share of notes payable owed to affiliate	8,219,652	-	(8,219,652)	-

Total current liabilities	13,011,002	-	(12,278,741)	732,261
Non-current liabilities				
Asset retirement obligation	129,500	-	(129,500)	-

Total liabilities	13,140,502	-	(12,408,241)	732,261

Commitments and contingencies				
Stockholders' equity:				
Series A convertible preferred stock	270	-	-	270
Common stock	9,101	-	-	9,101
Additional paid-in capital	37,548,890	-	-	37,548,890
Unamortized preferred stock dividends	-	-	-	-
Accumulated deficit	(30,179,691)	-	12,612,297	(17,567,394)
Foreign currency translation adjustment	613,600	-	(613,600)	-

Total stockholders' equity	7,992,170	-	11,998,697	19,990,867

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Total liabilities and stockholders' equity	\$21,132,672	\$ -	(409,544)	\$20,723,128
	=====			

Teton Petroleum Company
Pro Forma Statements of Operations
For the three months ended March 31, 2004

	Historical Amounts	Pro forma adjustments (1) Eliminate Goloil (4)	Record Gain (3)	Pro Forma After Sale
Sales	\$2,962,500	\$ (2,962,500)	\$ -	\$ -
Cost of sales and expenses:				
Oil and gas production	622,277	(622,277)	-	-
Transportation and marketing	-	-	-	-
Taxes other than income taxes	1,973,275	(1,973,275)	-	-
Exploration	154,776	(154,776)	-	-
General and administrative-Goloil	184,086	(184,086)	-	-
General and administrative-Teton	2,102,638	-	-	2,102,638
Depreciation, depletion and amortization	409,670	(407,851)	-	1,819
Total cost of sales and expenses	5,446,722	(3,342,265)	-	2,104,457
Income (loss) from operations	(2,484,222)	379,765	-	(2,104,457)
Other income (expense)				
Other income	17,640	-	-	17,640
Interest expense	(55,531)	55,531	-	-
Financing charges	-	-	-	-
Total other income (expense)	(37,891)	55,531	-	17,640
Net income (loss) from continuing operations, before taxes	(2,522,113)	435,296	-	(2,086,817)
Foreign income tax	-	-	-	-
Income (loss) from continuing operations	(2,522,113)	435,296	-	(2,086,817)
Imputed preferred stock dividends for inducements and beneficial conversion charges	(521,482)			(521,482)
Preferred stock dividend	(31,488)	-	-	(31,488)

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Net income (loss) from continuing operations applicable to common stock	(3,075,083)	435,296	-	(2,639,787)
Discontinued operations, net of tax	-	(435,296)	12,612,297	12,177,001
Net income (loss) applicable to common stock	(3,075,083)	-	12,612,297	9,537,214
Other comprehensive income, net of tax effect of exchange rates	(285,156)	-	(613,600)	(898,756)
Comprehensive income (loss)	\$ (3,360,239)	\$ -	\$11,998,697	8,638,458
Basic and diluted weighted average common shares outstanding	8,747,165	-	-	8,747,165
Basic and diluted income (loss) per common share for continuing operations	\$ (0.35)			\$ (0.30)
Basic and diluted income (loss) per common share for discontinued operations	\$ -			\$ 1.39
Basic and diluted income (loss) per common share	\$ (0.35)			\$ 1.09

Teton Petroleum Company
Pro Forma Statements of Operations
For the year ended December 31, 2003

	Historical Amounts (1)	Pro forma adjustments Eliminate Goloil (4)	Pro Forma After Sale
Sales	\$11,437,802	\$ (11,437,802)	-
Cost of sales and expenses			
Oil and gas production	2,020,447	(2,020,447)	-
Transportation and marketing	807,266	(807,266)	-
Taxes other than income taxes	5,864,920	(5,864,920)	-
Export duties	1,492,999	(1,492,999)	-
General and administrative-Goloil	837,134	(837,134)	-
General and administrative-Teton	3,919,746	-	3,919,746

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Depreciation, depletion and amortization	1,582,513	(1,581,468)	1,045
Total cost of sales and expenses	16,525,025	(12,604,234)	3,920,791
Income (loss) from operations	(5,087,223)	1,166,432	(3,920,791)
Other income (expense)			
Other income	17,445	-	17,445
Gain on sale of Goloil	-	-	-
Interest expense	(347,740)	347,740	-
Financing charges	(132,818)		(132,818)
Total other income (expense)	(463,113)	347,740	(115,373)
Net income (loss) from continuing operations, before taxes	(5,550,336)	1,514,172	(4,036,164)
Foreign income tax	(84,508)	84,508	-
Income (loss) from continuing operations	(5,634,844)	1,598,680	(4,036,164)
Imputed preferred stock dividends for inducements and beneficial conversion charges	(2,780,693)	-	(2,780,693)
Net income (loss) from continuing operations applicable to common shares	8,415,537)	1,598,680	(6,816,857)
Discontinued operations, net of tax	-	(1,598,680)	(1,598,680)
Net income (loss) applicable to common shares	(8,415,537)	-	(8,415,537)
Other comprehensive income, net of tax			
Effect of exchange rates	(168,256)	-	(168,256)
Comprehensive income (loss)	(8,583,793)	-	(8,583,793)
Basic and diluted weighted average common shares outstanding	6,840,303	6,840,303	6,840,303
Basic and diluted income (loss) per common share for continuing operations	(1.23)		(1.00)
Basic and diluted income (loss) per common share			

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for discontinued operations	-	(0.23)
	=====	=====
Basic and diluted income (loss)		
per common share	\$ (1.23)	\$ (1.23)
	=====	=====

Notes to Unaudited Pro Forma Balance Sheet and Statement of Operations

1. Reflects the historical financial statement balances, as of March 31, 2004 and for the three months ended March 31, 2004 and for the year ended December 31, 2003 as filed by the Company on Forms 10-Q and 10-KSB.
2. To reflect the repayment of all outstanding loans and accrued interest as of March 31, 2004.

Because these loans are reflected as part of the Company's investment and will only be repaid through the future production or sale of the Company's oil and gas properties, the repayment has been reflected as a reduction of the carrying value of oil and gas properties.

3. To record the disposal of Goloil assuming the sale occurred on March 31, 2004 reflecting the elimination of all assets and liabilities of Goloil, the proceeds received from the sale of the Company's equity interest in Goloil and to record the related gain from disposal.

The proceeds and gain from disposal are determined as follows:

Sale price for Goloil shares	\$8,960,229
Less direct transaction expenses:	
Commission	(750,000)
Legal and accounting	(250,000)

Net proceeds before taxes	7,960,229
Estimated alternative minimum taxes due	(181,000)
Net proceeds after taxes	\$7,779,229
Investment in net assets of Goloil:	
Net assets before loan repayment	\$ 881,954
Repayment of outstanding loans	(5,101,422)

Net assets (deficit) of Goloil	(4,219,468)
Gain on disposal of subsidiary	\$ 11,998,697
Plus reclassifications of translation	613,600

gain on disposal	
Gain on disposal net of taxes	\$ 12,612,297
Net proceeds after taxes	\$7,779,229
Elimination of Goloil cash at March 31, 2004	(114,589)
Net pro forma adjustment to cash balances at March 31, 2004	\$7,664,640

=====

4. To reclassify the results of Goloil as discontinued operations for the year ended December 31, 2003.

APPENDIX B

2004 NON-EMPLOYEE STOCK COMPENSATION PLAN

1. PURPOSE

The purpose of the Teton Petroleum Company 2004 Non-Employee Stock Compensation Plan (the "Plan") is to promote the interests of Teton Petroleum Company (the "Company") and its stockholders by allowing the Company to attract and retain consultants, professionals, and service providers who provide services to the Company ("Eligible Persons") in connection with, among other things, the Company's obligations as a publicly held reporting company. The Plan is expected to contribute to the attainment of these objectives by increasing the proprietary interest of the Eligible Persons in the growth and performance of the Company through the grant to such persons of shares of Common Stock, par value \$0.001 per share ("Shares"), of the Company, the grant to such Eligible Persons of Shares which are restricted as provided in Section 5 of this Plan ("Restricted Shares").

2. ADMINISTRATION

The Plan shall be administered by the Company's Board of Directors or the Compensation Committee (collectively referred to as the "Board"). Subject to the provisions of the Plan, the Board shall be authorized to interpret the Plan; to establish, amend and rescind any rules and regulations relating to the Plan; and to make all determinations necessary or advisable for the administration of the Plan. The determinations of the Board in the administration of the Plan, as described herein, shall be final and conclusive. Each of the Chief Executive Officer or the Chief Financial Officer and the Secretary of the Company shall be authorized to implement the Plan in accordance with its terms and to take such actions of a ministerial nature as shall be necessary to effectuate the intent and purposes of the Plan. The validity, construction and effect of the Plan and any rules and regulations relating to the Plan shall be determined in accordance with the laws of the State of Delaware.

3. ELIGIBILITY

The class of individuals eligible to receive Restricted Shares (the "Awards") under the Plan, shall be persons who are not employees, affiliates, Directors, officers, or associates of the Company or any of its affiliates ("Eligible Persons"). Any holder of an Award granted under the Plan shall hereinafter be referred to as a "Participant," an "Awardee," or collectively as "Participants" or "Awardees."

4. SHARES SUBJECT TO THE PLAN

(a) Subject to adjustment as provided in Section 6, the maximum number of Shares that may be delivered to Participants under the Plan shall be 1,000,000 Shares; provided, however, that the maximum number of Shares of Common Stock with respect to which Awards may be granted to any participant in any year is 500,000 Shares. The Shares to be delivered under the Plan may consist of either Shares authorized and reserved for the Plan or Shares subsequently acquired by the Company as treasury Shares, including Shares purchased in the open market or in private transactions.

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(b) In the event that prior to the date the Plan shall terminate in accordance with Section 10, any Award granted under the Plan expires unexercised or unvested or is terminated, surrendered or cancelled without the delivery of Shares, or any Restricted Shares are forfeited back to the Company, then the Shares subject to such Award may be made available for subsequent Awards under the terms of the Plan.

5. GRANT, TERMS AND CONDITIONS OF RESTRICTED SHARES

(a) The Board may from time to time grant Restricted Shares under the Plan to Eligible Persons, subject to such restrictions, conditions and other terms as the Board may determine. At the time a grant of Restricted Shares is made, the Board shall determine the duration of the period (the "Restricted Period") during which, and the conditions under which, the Restricted Shares shall vest and no longer be subject to forfeiture to the Company. The Board may, in its discretion, at the time a grant of Restricted Shares is made, prescribe restrictions in addition to or other than the expiration of the Restricted Period.

(b) The Restricted Shares granted under this Plan shall have the following terms and conditions:

(i) Nontransferability of Restricted Shares. Restricted Shares may not be assigned, alienated, pledged, attached, sold or otherwise transferred, encumbered or disposed of during the applicable Restricted Period or prior to the satisfaction of any other restrictions prescribed by the Board with respect to such Restricted Shares. Notwithstanding the foregoing, Restricted Shares may be transferred pursuant to a qualified domestic relations order, as defined in Section 414(p) of the Internal Revenue Code of 1986, as amended, or any successor provision.

(ii) Termination of Service as Eligible Person. Any Restricted Shares granted to a Participant pursuant to this Plan shall be forfeited if the Participant terminates service as a consultant to the Company for any reason other than death or total disability prior to the expiration or termination of the applicable Restricted Period and the satisfaction of any other conditions applicable to such Restricted Shares. Upon such forfeiture, the Chief Executive Officer, the Chief Financial Officer or the Secretary of the Company shall cause the Restricted Shares that are forfeited to the Company to be either cancelled or retained as treasury Shares. If a Participant shall die while serving as a consultant or if a Participant's service as a consultant to the Company ceases as a result of the Participant's becoming totally disabled, all restrictions and conditions applicable to the Restricted Shares held by the Participant shall immediately lapse.

(iii) Change of Control. Upon the occurrence of a Change of Control, all restrictions and conditions applicable to the Restricted Shares held by Participants shall immediately lapse. "Change in Control" shall mean a merger or consolidation in which securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities are transferred to a person or persons different from the persons holding those securities immediately prior to such transaction, or the sale, transfer or other disposition of all or substantially all of the Company's assets to a non-Affiliate of the Company (other than a sale to the Open-Joint Stock Oil and Gas Company RussNeft).

(iv) Award Agreement. Each grant of Restricted Shares under this Plan shall be evidenced by an agreement with the Company which shall contain the terms and conditions of the Restricted Shares and shall otherwise be consistent with the provisions of this Plan.

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(c) If the Board deems it necessary or appropriate, the Company may issue, in the name of each Participant to whom Restricted Shares have been granted, one or more stock certificates representing the total number of Restricted Shares granted to the Participant; provided that such stock certificates bear an appropriate legend or other restriction on transfer. The Chief Executive Officer, the Chief Financial Officer or the Secretary of the Company shall hold such stock certificates, properly endorsed for transfer, for the Participant's benefit until such time as the Restricted Shares are forfeited to the Company, or the applicable Restricted Period expires and any other conditions applicable to the Restricted Shares are satisfied.

(d) Holders of Restricted Shares shall not have the right to vote such Restricted Shares or the right to receive any dividends with respect to such Restricted Shares. All distributions, if any, received by a Participant with respect to Restricted Shares as a result of any split-up, distribution, combination of shares, or other similar transaction affecting the Shares, shall be subject to the restrictions of this Section 5.

(e) Upon the expiration or termination of the applicable Restricted Period and the satisfaction of any other conditions prescribed by the Board, the restrictions applicable to the Restricted Shares shall lapse and a stock certificate for or other appropriate documentation evidencing the number of Restricted Shares with respect to which the restrictions have lapsed shall be delivered, free of all such restrictions, to the Eligible Person or the Eligible Person's beneficiary or estate, as the case may be.

6. ADJUSTMENT AND CHANGES IN SHARES

If, after the Effective Date, there is a Share dividend or Share split, recapitalization (including payment of an extraordinary dividend), merger, consolidation, combination, spin-off, distribution of assets to stockholders, exchange of shares, or other similar corporate change affecting the Shares, the Board shall appropriately adjust the aggregate number of Shares available for Awards under the Plan or subject to outstanding Awards, and any other factors, limits or terms affecting any outstanding or subsequently issuable Awards as may be appropriate.

7. PLAN AMENDMENT AND TERMINATION

The Plan shall automatically terminate on the tenth anniversary of the Plan's Effective Date. The Board may terminate, suspend or amend the Plan at any time without stockholder approval except to the extent that stockholder approval is required to satisfy applicable requirements imposed by (a) Rule 16b-3 under the Exchange Act, or any successor rule or regulation; or (b) the rules of any exchange on or through which the Shares are then listed or traded. If the Plan is terminated, the terms of the Plan, notwithstanding such termination, shall continue to apply to Awards granted prior to such termination.

8. APPLICABLE LAW AND REGISTRATION

The grant of Awards and the issuance of Shares shall be subject to all applicable laws, rules and regulations, and to such approvals of any governmental agencies or exchanges as may be required. Notwithstanding the foregoing, no Shares shall be issued under the Plan unless the Company is satisfied that such issuance will be in compliance with applicable federal and state securities laws. Shares issued under the Plan may be subject to such stop transfer orders and other restrictions as the Board may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any exchange on or through which the Shares are then listed or traded, or any applicable federal or state securities law. The Board may cause a legend or legends to be placed on any certificates issued under the Plan to make appropriate reference to restrictions within the scope of this Section 8 or

other provisions of the Plan.

9. TAX CONSEQUENCES

The 2004 Non Employee Compensation Plan is not qualified under Section 401(a) of the Code.

Stock awarded to an Awardee may be subject to any number of restrictions (including deferred vesting, limitations on transfer, and forfeit-ability) imposed by the Board. In general, the receipt of stock with restrictions will not result in the recognition of income by an Awardee until such time as the shares are either not forfeitable or are freely transferable.

10. EFFECTIVE DATE AND DURATION OF PLAN

The Plan shall become effective on the date of the adoption of the Plan by the Board and the Shareholders ("Effective Date"). Subject to the provisions of Section 7, the Plan shall continue until the tenth anniversary of the Effective Date unless the Plan is terminated by exhaustion of the Shares available for issuance under the Plan.

APPENDIX C

AUDIT COMMITTEE CHARTER

Organization

This charter governs the operations of the audit committee. The committee shall review and reassess the charter at least annually and obtain the approval of the Board. The committee shall be appointed by the Board and shall comprise at least two Directors, each of whom is independent of management and the Company. Members of the committee shall be considered independent if they have no relationship that may interfere with the exercise of their independence from management and the Company. All committee members shall be financially literate, or shall become financially literate within a reasonable period of time after appointment to the committee and at least one member shall have accounting or related financial management expertise.

Statement of Policy

The audit committee shall provide assistance to the Board in fulfilling their oversight responsibility to the stockholders, potential stockholders, the investment community, and others relating to the Company's financial statements and the financial reporting process, the systems of internal accounting and financial controls, the annual independent audit of the Company's financial statements, and the legal compliance and ethics programs as established by management and the board. In so doing, it is the responsibility of the committee to maintain free and open communication between the committee, independent auditors and management of the Company. In discharging its oversight role, the committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Company and the power to retain outside counsel, or other experts for this purpose.

Responsibilities and Processes

The primary responsibility of the audit committee is to oversee the Company's financial reporting process on behalf of the board and report the results of their activities to the board. Management is responsible for preparing the Company's financial statements, and the independent auditors are responsible for

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auditing those financial statements. The committee in carrying out its responsibilities believes its policies and procedures should remain flexible, in order to best react to changing conditions and circumstances. The committee should take the appropriate actions to set the overall corporate "tone" for quality financial reporting, sound business risk practices, and ethical behavior.

The following shall be the principal recurring processes of the audit committee in carrying out its oversight responsibilities. The processes are set forth as a guide with the understanding that the committee may supplement them as appropriate.

- o The committee shall have a clear understanding with management and the independent auditors that the independent auditors are ultimately accountable to the board and the audit committee, as representatives of the Company's stockholders. The committee shall have the ultimate authority and responsibility to evaluate and, where appropriate, replace the independent auditors. The committee shall discuss with the auditors their independence from management and the Company and the matters included in the written disclosures required by the Independence Standards Board. Annually, the committee shall review and recommend to the board the selection of the Company's independent auditors, subject to stockholders' approval.
- o The committee shall discuss with the independent auditors the overall scope and plans for their respective audits including the adequacy of staffing and compensation. Also, the committee shall discuss with management and the independent auditors the adequacy and effectiveness of the accounting and financial controls, including the Company's system to monitor and manage business risk, and legal and ethical compliance programs. Further, the committee shall meet separately with the independent auditors, with and without management present, to discuss the results of their examinations.
- o The committee shall review the interim financial statements with management and the independent auditors prior to the filing of the Company's Quarterly Report on Form 10-Q. Also, the committee shall discuss the results of the quarterly review and any other matters required to be communicated to the committee by the independent auditors under generally accepted auditing standards. The chair of the committee may represent the entire committee for the purposes of this review.
- o The committee shall review with management and the independent auditors the financial statements to be included in the Company's Annual Report on Form 10-K (or the annual report to stockholders if distributed prior to the filing of Form 10-K), including their judgment about the quality, not just acceptability, of accounting principles, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements. Also, the committee shall discuss the results of the annual audit and any other matters required to be communicated to the committee by the independent auditors under generally accepted auditing standards.

APPENDIX D

COMPENSATION COMMITTEE CHARTER

1. PURPOSE

The Executive Compensation Committee ("Committee") shall assist the Board of Directors in the discharge of its responsibilities with respect to the compensation of the Corporation's outside Directors, executive officers, and

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other key employees, and for such purpose shall review compensation arrangements for the Corporation's executive officers and administer all employee benefit plans, including any equity incentive plan adopted by the Corporation.

The Committee is authorized to approve the compensation payable to the Corporation's executive officers and other key employees, approve all perquisites, equity incentive awards, and special cash payments made or paid to the Corporation's executive officers and other key employees, and approve severance packages with cash and/or equity components for the Corporation's executive officers and other key employees.

2. COMPOSITION OF THE EXECUTIVE COMPENSATION COMMITTEE

The Committee shall consist of not less than two Directors each of whom shall be an independent director under American Stock Exchange ("AMEX") listing standards, a "nonemployee director" within the meaning of Rule 16b-3 issued the Securities and Exchange Commission ("SEC"), and an "outside director" within the meaning of Section 162(m) of the Internal Revenue Code, as amended. Each appointed Committee member shall be subject to annual reconfirmation and may be removed by the Board at any time.

3. RESPONSIBILITIES AND DUTIES

In carrying out the purpose and authorities set forth in Section 1 above, the Committee shall:

A. Executive Officer Compensation. Review and approve the corporate goals and objectives relevant to the compensation of the Corporation's Chief Executive Officer ("CEO") and other executive officers, evaluate the officers' performance in light of those goals and objectives, and set the officers' compensation level based on this evaluation;

B. Significant Officer Contracts. Review and approve significant employment agreements, arrangements, or transactions with executive officers, including any arrangements having any compensatory effect or purpose;

C. Director Compensation. Review and recommend to the Board appropriate director compensation programs for service as Directors, committee chairmanships, and committee members, consistent with any applicable requirements of the listing standards for independent Directors;

D. Compensation Policies and Performance Review. Periodically assess the Corporation's policies applicable to the Corporation's executive officers and Directors, including the relationship of corporate performance to executive compensation;

E. Equity Plan Awards. Approve stock option grants and other equity-based or incentive awards under any stock option or equity incentive compensation plans adopted by the Corporation, and otherwise assist the Board in administering awards under these plans;

F. Evaluate Stock and Incentive Plans. Evaluate and make recommendations to the Board concerning any stock option or equity incentive compensation plans proposed for or adopted by the Corporation and make recommendations to the Board with respect to incentive compensation plans and equity-based plans;

G. Retention of Compensation Consultants and Other Professionals. Have full authority to hire independent compensation consultants and other professionals to assist in the design, formulation, analysis and implementation of compensation programs for the Corporation's executive officers and other key

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employees;

H. Committee Report in Proxy Statement. Assist in the preparation of and approve a report of the Committee for inclusion in the Corporation's proxy statement for each annual meeting of stockholders in accordance with the rules of the SEC and any requirements of the AMEX;

I. Review. Periodically review the operation of all of the Corporation's employee benefit plans, though day-to-day administration of such plans, including the preparation and filing of all government reports and the preparation and delivery of all required employee materials and communications, shall be performed by Corporation management;

J. Access to Executives. Have full access to the Corporation's executives as necessary to carry out its responsibilities;

K. Other Activities. Perform any other activities consistent with this Charter, the Corporation's By-laws and governing law as the Committee or the Board deems necessary or appropriate;

L. Review Charter. Review the Committee Charter from time to time for adequacy and recommend any changes to the Board; and

M. Report to Board. Report to the Board of Directors on the major items covered at each Committee meeting.

4. EXECUTIVE COMPENSATION COMMITTEE MEETINGS

The Committee shall meet with the CEO at or near the start of each fiscal year to discuss the goals and incentive compensation programs to be in effect for such fiscal year and the performance targets triggering payout under those programs. The Committee shall, by duly authorized resolution, establish the incentive compensation programs to be in effect for the fiscal year for the Corporation's executive officers and other participants, including the financial objectives to be attained and the procedures for determining the individual awards payable under those programs. At or near the end of each fiscal year, the Committee shall meet to review performance under those programs and award bonuses thereunder. At that time the Committee shall also adjust base salary levels in effect for the Corporation's executive officers and review the overall performance of the Corporation's employee benefit plans.

The Committee shall also meet as and when necessary to act upon any other matters within its jurisdiction under this Charter. A majority of the total number of members of the Committee shall constitute a quorum at all Committee meetings. A majority of the members of the Committee acting shall be empowered to act on behalf of the Committee.

Minutes shall be kept of each meeting of the Committee.

APPENDIX E

CODE OF BUSINESS CONDUCT AND ETHICS

Treat in an Ethical Manner Those to Whom Teton Petroleum Company has an Obligation

The officers, Directors and employees of Teton Petroleum Company (the "Company") are committed to honesty, just management, fairness, providing a safe and

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healthy environment free from the fear of retribution, and respecting the dignity due everyone. For the communities in which we live and work we are committed to observe sound environmental business practices and to act as concerned and responsible neighbors, reflecting all aspects of good citizenship.

For our stockholders we are committed to pursuing sound growth and earnings objectives and to exercising prudence in the use of our assets and resources.

For our suppliers and partners we are committed to fair competition and the sense of responsibility required of a good customer and teammate.

Promote a Positive Work Environment

All employees want and deserve a workplace where they feel respected, satisfied, and appreciated. We respect cultural diversity and will not tolerate harassment or discrimination of any kind -- especially involving race, color, religion, gender, age, national origin, disability, and veteran or marital status.

Providing an environment that supports honesty, integrity, respect, trust, responsibility, and citizenship permits us the opportunity to achieve excellence in our workplace. While everyone who works for the Company must contribute to the creation and maintenance of such an environment, our executives and management personnel assume special responsibility for fostering a work environment that is free from the fear of retribution and will bring out the best in all of us.

Supervisors must be careful in words and conduct to avoid placing, or seeming to place, pressure on subordinates that could cause them to deviate from acceptable ethical behavior.

Protect Yourself, Your Fellow Employees, and the World We Live In

We are committed to providing a drug-free, safe and healthy work environment, and to observing environmentally sound business practices. We will strive, at a minimum, to do no harm and where possible, to make the communities in which we work a better place to live. Each of us is responsible for compliance with environmental, health and safety laws and regulations.

Keep Accurate and Complete Records

We must maintain accurate and complete Company records. Transactions between the Company and outside individuals and organizations must be promptly and accurately entered in our books in accordance with generally accepted accounting practices and principles. No one should rationalize or even consider misrepresenting facts or falsifying records. It will not be tolerated and will result in disciplinary action.

Obey the Law

We will conduct our business in accordance with all applicable laws and regulations. Compliance with the law does not comprise our entire ethical responsibility. Rather, it is a minimum, absolutely essential condition for performance of our duties. In conducting business, we shall:

A. STRICTLY ADHERE TO ALL ANTITRUST LAWS

Officer, Directors and employees must strictly adhere to all antitrust laws. Such laws exist in the United States and in many other countries where the Company may conduct business. These laws prohibit practices in restraint of trade such as price fixing and boycotting suppliers or customers. They also bar pricing intended to run a competitor out of business; disparaging, misrepresenting, or harassing a competitor;

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stealing trade secrets; bribery; and kickbacks.

B. STRICTLY COMPLY WITH ALL SECURITIES LAWS

In our role as a publicly owned company, we must always be alert to and comply with the security laws and regulations of the United States and other countries.

Do Not Engage In Speculative or Insider Trading

Federal law and Company policy prohibits officers, Directors and employees, directly or indirectly through their families or others, from purchasing or selling company stock while in the possession of material, non-public information concerning the Company. This same prohibition applies to trading in the stock of other publicly held companies on the basis of material, non-public information. To avoid even the appearance of impropriety, Company policy also prohibits officers, Directors and employees from trading options on the open market in Company stock under any circumstances.

Material, non-public information is any information that could reasonably be expected to affect the price of a stock. If an officer, director or employee is considering buying or selling a stock because of inside information they possess, they should assume that such information is material. It is also important for the officer, director or employee to keep in mind that if any trade they make becomes the subject of an investigation by the government, the trade will be viewed after-the-fact with the benefit of hindsight.

Consequently, officers, Directors and employees should always carefully consider how their trades would look from this perspective.

Two simple rules can help protect you in this area: (1) Do not use non-public information for personal gain. (2) Do not pass along such information to someone else who has no need to know.

This guidance also applies to the securities of other companies for which you receive information in the course of your employment at the Company.

Be Timely and Accurate in All Public Reports

As a public company, the Company must be fair and accurate in all reports filed with the United States Securities and Exchange Commission. Officers, Directors and management of the Company are responsible for ensuring that all reports are filed in a timely manner and that they fairly present the financial condition and operating results of the Company.

Securities laws are vigorously enforced. Violations may result in severe penalties including forced sales of parts of the business and significant fines against the Company. There may also be sanctions against individual employees including substantial fines and prison sentences.

The principal executive officer and principal financial Officer will certify to the accuracy of reports filed with the SEC in accordance with the Sarbanes-Oxley Act of 2002. Officers and Directors who knowingly or willingly make false certifications may be subject to criminal penalties or sanctions including fines and imprisonment.

Avoid Conflicts of Interest

Our officers, Directors and employees have an obligation to give their complete loyalty to the best interests of the Company. They should avoid any action that may involve, or may appear to involve, a conflict of interest with the Company. Officers, Directors and employees should not have any financial or other

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business relationships with suppliers, customers or competitors that might impair, or even appear to impair, the independence of any judgment they may need to make on behalf of the Company.

Here are Some Ways a Conflict of Interest Could Arise:

- o Employment by a competitor, or potential competitor, regardless of the nature of the employment, while employed by the Company.
- o Acceptance of gifts, payment, or services from those seeking to do business with the Company.
- o Placement of business with a firm owned or controlled by an officer, director or employee or his/her family.
- o Ownership of, or substantial interest in, a company that is a competitor, client or supplier.
- o Acting as a consultant to the Company, customer, client or supplier.
- o Seeking the services or advice of an accountant or attorney who has provided services to the Company.

Officers, Directors and employees are under a continuing obligation to disclose any situation that presents the possibility of a conflict or disparity of interest between the officer, director or employee and the Company. Disclosure of any potential conflict is the key to remaining in full compliance with this policy.

Compete Ethically and Fairly for Business Opportunities

We must comply with the laws and regulations that pertain to the acquisition of goods and services. We will compete fairly and ethically for all business opportunities. In circumstances where there is reason to believe that the release or receipt of non-public information is unauthorized, do not attempt to obtain and do not accept such information from any source.

If you are involved in Company transactions, you must be certain that all statements, communications, and representations are accurate and truthful.

Avoid Illegal and Questionable Gifts or Favors

The sale and marketing of our products and services should always be free from even the perception that favorable treatment was sought, received, or given in exchange for the furnishing or receipt of business courtesies. Officers, Directors and employees of the Company will neither give nor accept business courtesies that constitute, or could be reasonably perceived as constituting, unfair business inducements or that would violate law, regulation or policies of the Company, or could cause embarrassment to or reflect negatively on the Company's reputation.

Maintain the Integrity of Consultants, Agents, and Representatives

Business integrity is a key standard for the selection and retention of those who represent the Company. Agents, representatives and consultants must certify their willingness to comply with the Company's policies and procedures and must never be retained to circumvent our values and principles. Paying bribes or kickbacks, engaging in industrial espionage, obtaining the proprietary data of a third party without authority, or gaining inside information or influence are just a few examples of what could give us an unfair competitive advantage and could result in violations of law.

Protect Proprietary Information

Proprietary Company information may not be disclosed to anyone without proper authorization. Keep proprietary documents protected and secure. In the course of normal business activities, suppliers, customers and competitors may sometimes divulge to you information that is proprietary to their business. Respect these confidences.

Obtain and Use Company Assets Wisely

Personal use of Company property must always be in accordance with corporate policy. Proper use of Company property, information resources, material, facilities and equipment is your responsibility. Use and maintain these assets with the utmost care and respect, guarding against waste and abuse, and never borrow or remove Company property without management's permission.

Follow the Law and Use Common Sense in Political Contributions and Activities

The Company encourages its employees to become involved in civic affairs and to participate in the political process. Employees must understand, however, that their involvement and participation must be on an individual basis, on their own time and at their own expense. In the United States, federal law prohibits corporations from donating corporate funds, goods, or services, directly or indirectly, to candidates for federal offices -- this includes employees' work time. Local and state laws also govern political contributions and activities as they apply to their respective jurisdictions.

Board Committees

The Company shall establish an Audit Committee empowered to enforce this Code of Ethics. The Audit Committee will report to the Board at least once each year regarding the general effectiveness of the Company's Code of Ethics, the Company's controls and reporting procedures and the Company's business conduct.

Disciplinary Measures

The Company shall consistently enforce its Code of Ethics and Business Conduct through appropriate means of discipline. Violations of the Code shall be promptly reported to the Audit Committee. Pursuant to procedures adopted by it, the Audit Committee shall determine whether violations of the Code have occurred and, if so, shall determine the disciplinary measures to be taken against any employee or agent of the Company who has so violated the Code.

The disciplinary measures, which may be invoked at the discretion of the Audit Committee, include, but are not limited to, counseling, oral or written reprimands, warnings, probation or suspension without pay, demotions, reductions in salary, termination of employment and restitution.

Persons subject to disciplinary measures shall include, in addition to the violator, others involved in the wrongdoing such as (i) persons who fail to use reasonable care to detect a violation, (ii) persons who if requested to divulge information withhold material information regarding a violation, and (iii) supervisors who approve or condone the violations or attempt to retaliate against employees or agents for reporting violations or violators.

APPENDIX F

GOVERNANCE & NOMINATING COMMITTEE CHARTER

ORGANIZATION AND FUNCTIONING

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There shall be a committee of the Board to be known as the Governance and Nominating Committee (the "Committee").

1. Composition, Meetings, and Quorum

The Committee shall be comprised of at least two Directors who shall be appointed initially by the Board and thereafter by the Board after considering the recommendation of the Committee. The Committee shall only include Directors who satisfy the independence requirements of the Securities and Exchange Commission and AMEX. The Board shall designate one member of the Committee as its Chairman. Members of the Committee shall serve until their resignation, retirement, removal by the Board or until their successors are appointed.

The Committee shall meet at least two times per each year with authority to convene additional meetings as circumstances require. The meetings may be held by teleconference with the same authority as in-person meetings. A majority of the members of the Committee shall constitute a quorum of the Committee. A majority of the members in attendance shall decide any question brought before any meeting of the Committee. Voting or approval of matters may occur either in person, or via teleconference, facsimile, or electronic mail.

2. Reporting

The Secretary shall keep minutes of its proceedings. The minutes of a meeting shall be approved by the Committee at its next meeting, shall be available for review by the entire Board, and shall be filed as permanent records with the Secretary of the Company.

At each meeting of the Board following a meeting of the Committee, the Chairman of the Committee shall report to the full Board on the matters considered at the last meeting of the Committee.

The Committee shall prepare and, through its Chair, submit periodic reports of the Committee's work and findings to the Board; the Committee shall include recommendations for Board actions when appropriate.

3. Authority

The Committee shall have the authority to retain special legal, accounting or other consultants to advise the Committee. The Committee may request any officer or employee of the Company or any outside counsel or consultants to meet with any members of the Committee.

4. Staff

The Corporate Secretary, Assistant Secretary, or his or her assistant shall provide the Committee such staff support as it may require.

STATEMENT OF PURPOSE

The Committee's goal is to provide guidance to and oversight of the Corporation's governance and to assure that the composition, practices, and operation of the Board contribute to value creation and effective representation of Teton Corporation's stockholders.

SPECIFIC DUTIES AND RESPONSIBILITIES

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The Committee has the following specific duties, in addition to any additional similar matters which may be referred to the Committee from time to time by the full Board or the Chairman or which the Committee raises on its own initiative:

1. Recommend Nominees for Election as Directors

The Committee shall recommend to the Board the Director nominees for the next annual meeting of stockholders and persons to fill vacancies in the Board that occur between meetings of stockholders. In carrying out this responsibility, the Committee shall:

- (a) Establish qualifications, desired background, and selection criteria for members of the Board in accordance with relevant law and AMEX rules.
- (b) Consider nominees submitted to the Board by stockholders; and
- (c) Prior to recommending a nominee for election, determine that the election of the nominee as a Director would effectively further the policies set forth in the Governance Guidelines.

The Committee shall have the sole authority to retain and terminate any search firm used to identify director candidates and shall have sole authority to approve such search firm's fees and other retention terms. The Committee shall also have authority to obtain advice and assistance from internal or external legal, accounting or other advisors.

2. Recommend Appointments to Board Committees

The Committee shall annually evaluate and make recommendations to the full Board concerning the number and accountability of Board Committees, and Committee assignments to the Board the Directors. The Committee shall consider the desired qualifications for membership on each Committee, the availability of the Director to meet the time commitment required for membership on the particular committee and the extent to which there should be a policy of periodic rotation of Committee members.

3. Monitor and Evaluate Governance Guidelines and Committee Charter

The Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval. The Committee shall annually review the Governance Guidelines for the purposes of: Determining whether the Guidelines are being effectively adhered to and implemented; Ensure that the Guidelines are appropriate for the Company and comply with applicable laws, regulations and listing standards; and Recommending any desirable changes in the Guidelines to the Board. The Committee shall monitor and evaluate annually how effectively the Board and the Company have implemented the policies and principles of the governance guidelines. In addition, the Committee shall consider any other corporate governance issues that may arise, from time to time, and develop appropriate recommendations to the Board.

BOARD OF DIRECTORS

Guidelines for Selection of Director Nominees

To discharge its duties in identifying and evaluating Directors for selection to the Board and its committees, the Committee shall evaluate the overall composition of the Board as well as the qualifications of each candidate. In its evaluation process, the Committee shall take into account the following guidelines:

Criteria:

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1. Decisions for nominating candidates shall be based on merit, qualifications, performance, competency, and the corporation's business needs and shall comply with the corporation's anti-discrimination policies and federal, state and local laws.
2. A majority of the entire Board shall be composed of independent Directors, as defined by the Securities and Exchange Commission and AMEX.
3. The composition of the entire Board shall be taken into account when evaluating individual Directors, including: the diversity of experience and background represented on the Board; the need for financial, business, academic, public and other expertise on the Board and its committees; and the desire for Directors working cooperatively to represent the best interests of the corporation, its stockholders and employees.
4. Candidates shall be individuals of the highest professional and personal ethics and values and who possess significant experience or skills that will benefit the corporation and assist in discharging their duties as Directors.
5. Candidates shall be free of conflicts of interest that would interfere with their ability to discharge their duties as a director or would violate any applicable law or regulation.
6. Candidates shall be willing and able to devote sufficient time to effectively carry out their duties; their service on other boards of public companies should be limited to a reasonable number.
7. Candidates shall have the desire to represent and evaluate the interests of the corporation as a whole.
8. In conducting this assessment, the Committee considers diversity, age, skill, and such other factors as it deems appropriate given the current needs of the Board and the Company, to maintain a balance of knowledge, experience, and capability.
9. Any other criteria as determined by the Committee.

[PRELIMINARY COPY]

PROXY

PROXY

TETON PETROLEUM COMPANY

**PROXY FOR ANNUAL MEETING TO BE HELD ON JULY __, 2004
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

The undersigned hereby appoints H. Howard Cooper, as proxy, with the power to appoint his substitute, to represent and to vote all the shares of Common Stock of Teton Petroleum Company (the "Company"), which the undersigned would be entitled to vote, at the Company's Annual Meeting of Stockholders to be held on July __, 2004 and at any adjournments thereof, subject to the directions indicated on the reverse side hereof.

In their discretion, the proxy is authorized to vote upon any other matter that may properly come before the meeting or any adjournments thereof.

THIS PROXY WILL BE VOTED IN ACCORDANCE WITH THE SPECIFICATIONS MADE, BUT IF NO CHOICES ARE INDICATED, THIS PROXY WILL BE VOTED FOR THE ELECTION OF ALL NOMINEES

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AND FOR THE PROPOSALS LISTED ON THE REVERSE SIDE.

IMPORTANT--This proxy must be signed and dated on the reverse side.

**THIS IS YOUR PROXY
YOUR VOTE IS IMPORTANT!**

Dear Stockholder:

We cordially invite you to attend the Annual Meeting of Stockholders of Teton Petroleum Company to be held at The Pinnacle Club, located at 555 17th St., Suite 3700, Denver, Colorado 80202 on July __, 2004 at 9:30 AM (local time).

Please read the Proxy Statement which describes the proposals and presents other important information, and complete, sign and return your proxy promptly in the enclosed envelope.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE PROPOSAL

1. Election of Directors -- For Withhold
Nominees:

H. Howard Cooper	<input type="checkbox"/>	<input type="checkbox"/>
Thomas F. Conroy	<input type="checkbox"/>	<input type="checkbox"/>
Karl F. Arleth	<input type="checkbox"/>	<input type="checkbox"/>
James F. Woodcock	<input type="checkbox"/>	<input type="checkbox"/>
John T. Connor, Jr.	<input type="checkbox"/>	<input type="checkbox"/>

(Except nominee(s) written above)

	For	Against	Abstain
2. To consider and act upon a proposal to ratify the Board's selection of Ehrhardt Keefe Steiner & Hottman PC as the Company's independent auditors for the fiscal year ending December 31, 2004	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3. To approve the sale of the Company's indirect equity interest in the Siberian-Texan Joint Stock Company Goloil ("Goloil"), which constitutes substantially all of the Company's assets within the meaning of Section 271 of the Delaware General Corporation Law, to the Open-Joint Stock Oil and Gas Company RussNeft ("RussNeft"), the owner of the remaining interests in Goloil; all as set forth in the Share Sale and Purchase Contract dated April 20, 2004, between Goltech Petroleum LLC, our wholly owned subsidiary and 35.30% owner of Goloil, and RussNeft.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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4. 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.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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5. To approve the 2004 Non-Employee Stock	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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Compensation Plan

6. To transact such other business [] [] []
as may properly come before the Annual Meeting
and any adjournment or postponement thereof.

Dated: _____, 2004

Signature

Name (printed)

Title

Important: Please sign exactly as name appears on this proxy. When signing as attorney,
executor, trustee, guardian, corporate officer, etc., please indicate full title.

FOLD AND DETACH HERE

**VOTE BY TELEPHONE OR INTERNET
QUICK *** EASY *** IMMEDIATE**

TETON PETROLEUM COMPANY

- o You can now vote your shares electronically through the Internet or the telephone.
- o This eliminates the need to return the proxy card.
- o Your electronic vote authorizes the named proxies to vote your shares in the same manner as if you marked, signed, dated and returned the proxy card.

TO VOTE YOUR PROXY BY INTERNET

www.

Have your proxy card in hand when you access the above website. You will be prompted to enter the company number, proxy number and account number to create an electronic ballot. Follow the prompts to vote your shares.

TO VOTE YOUR PROXY BY MAIL

Mark, sign and date your proxy card above, detach it and return it in the postage-paid envelope provided.

TO VOTE YOUR PROXY BY PHONE

1-800-XXX-XXXX

Use any touch-tone telephone to vote your proxy. Have your proxy card in hand when you call. You will be prompted to enter the company number, proxy number and account number. Follow the voting instructions to vote your shares.

PLEASE DO NOT RETURN THE ABOVE CARD IF VOTING ELECTRONICALLY