TETON PETROLEUM CO
Form 10QSB
August 14, 2003

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

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2003

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ______________ TO _______________

Commission file number: 001-31679

TETON PETROLEUM COMPANY
(Exact Name of Small Business Issuer as Specified in its Charter)

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

(303)-542-1878
(Issuer's Telephone Number)

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

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

Yes X____ No_____

Applicable only to corporate issuers:

As of August 12, 2003, 6,807,360 shares of the issuer's common stock were outstanding.

Transitional Small Business Disclosure Format: Yes __ No X____

TETON PETROLEUM COMPANY

FORM 10-QSB

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2003

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TETON PETROLEUM COMPANY

Consolidated Balance Sheets

	June 30,
	(Unaudi
Assets	
Current assets	
Cash	$
Proportionate share of Goloil accounts receivable	
Proportionate share of Goloil VAT and other accounts receivable	1,

Stock subscriptions receivable	
Proportionate share of Goloil inventory	
Prepaid expenses and other assets	
Total current assets	3,
Non-current assets	
Oil and gas properties, net (successful efforts)	9,
Fixed assets, net	
Total non-current assets	9,
Total assets	$ 13,

Liabilities and Stockholders' Deficit

Current liabilities	
Accounts payable and accrued liabilities	$
Proportionate share of Goloil accounts payable and accrued liabilities (Note 2)	2,
Current portion of proportionate share of notes payable owed to affiliate (Note 2)	4,
Notes payable, net of discount of $79,317	
Total current liabilities	7,
Non-current liabilities	
Proportionate share of notes payable advances owed to affiliate	
Total non-current liabilities	
Total liabilities	7,
Commitments and contingencies	
Stockholders' equity	
Common stock, $0.001 par value, 250,000,000 and 100,000,000 shares authorized, 6,807,360 and 6,289,520 shares issued and outstanding at June 30, 2003 and December 31, 2002	
Additional paid-in capital	27,
Accumulated deficit	(23,
Foreign currency translation adjustment	1,
Total stockholders' equity	5,
Total liabilities and stockholders' equity	$ 13,

See notes to unaudited consolidated financial statements

TETON PETROLEUM COMPANY

Unaudited Consolidated Statements of Operations and Comprehensive Loss

	For
	2
Sales	$ 2,
Cost of sales and expenses	
Oil and gas production	
Transportation and marketing	
Taxes other than income taxes	1,
Export duties	
General and administrative - Goloil	
General and administrative - Teton Petroleum	
Depreciation, depletion and amortization	
Total cost of sales and expenses	4,
(Loss) income from operations	(1,
Other income (expense)	
Other income	
Financing charges	
Interest expense	
Total other income (expense)	
Net loss before taxes	(1,
Foreign income tax	
Net loss	(1,
Other comprehensive (loss) income, net of tax	
Effect of exchange rates	
Other comprehensive (loss) income	
Comprehensive loss	$ (
Basic and diluted weighted average common shares outstanding	6,
Basic and diluted (loss) income per common share	$

See notes to unaudited consolidated financial statements

TETON PETROLEUM COMPANY

Unaudited Consolidated Statements of Operations and Comprehensive Loss

	For
	20
Sales	$ 6,
Cost of sales and expenses	
Oil and gas production	
Transportation and marketing	
Taxes other than income taxes	2,
Export Duties	1,
General and administrative - Goloil	
General and administrative - Teton Petroleum	1,
Depreciation, depletion and amortization	
Total cost of sales and expenses	7,
Loss from operations	(1,
Other income (expense)	
Other income	
Financing charges	
Interest expense	(
Total other income (expense)	(
Net loss before taxes	(1,
Foreign income tax	(
Net loss	(1,
Other comprehensive (loss) income, net of tax	
Effect of exchange rates	
Other comprehensive (loss) income	
Comprehensive loss	$ (1,
Basic and diluted weighted average common shares outstanding	6,
Basic and diluted (loss) income per common share	$

See notes to unaudited consolidated financial statements

TETON PETROLEUM COMPANY

Unaudited Consolidated Statements of Cash Flows

	Fo
	2
Cash flows from operating activities	
Net loss	$ (1,
Adjustments to reconcile net (loss) income to net cash used in operating activities	
Depreciation, depletion, and amortization	
Stock and stock options issued for services and interest	
Debentures issued for services	
Amortization of note payable discount	
Changes in assets and liabilities	
Accounts receivable	(
Prepaid expenses and other assets	
Inventory	(
Accounts payable and accrued liabilities	(
	(
Net cash used in operating activities	(2,
Cash flows from investing activities	
Oil and gas properties and equipment expenditures	(3,
Net cash used in investing activities	(3,
Cash flows from financing activities	
Net (repayments) proceeds from advances under notes payable from affiliate	1,
Proceeds from stock subscriptions	1,
Proceeds from deposits on convertible debentures	
Proceeds from convertible debentures	
Proceeds from issuance of stock, net of issue costs of $98,100	1,
Proceeds from notes payable	
Payments on notes payable	
Net cash provided by financing activities	4,
Effect of exchange rates	
Net (decrease) increase in cash	(
Cash - beginning of year	
Cash - end of period	$

See notes to unaudited consolidated financial statements

TETON PETROLEUM COMPANY

Unaudited Consolidated Statements of Cash Flows

Supplemental disclosure of non-cash activity:

During the six months ended June 30, 2003, the Company had the following transactions:

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

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

3,700 warrants issued with debt and valued at $10,592 were initially recorded as a discount on the note payable. At June 30, 2003, $347 of the discount had been amortized and recorded as financing costs.

87,500 warrants issued with debt and valued at $69,072 were initially recorded as a discount on the debentures. At June 30, 2003, none of the discount had been amortized and recorded as financing costs.

Approximately $1,818,000 of capital expenditures for oil and gas properties was included in accounts payable at June 30, 2003.

During the six months ended June 30, 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 868 such warrants. The fair value of the extension of the warrants and of the issued warrants totaled $46,582 and has been included in 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.

The Company issued $267,500 of convertible debentures with 89,167 warrants valued at $14,250 for a total of $281,750. Prepaid consulting services valued at $140,875 related to future quarters in 2002 and are included in prepaid expenses at June 30, 2002.

1,261,211 of warrants issued with convertible debentures valued at $201,559 were initially recorded as a discount on the debentures. At June 30, 2002, $120,935 of the discount had been amortized and recorded as financing costs.

In the money conversion features on convertible debt valued at $3,715,834 were recognized as financing costs ($3,582,084) and consulting expenses ($133,750).

The remaining discount on notes payable of $98,772 was amortized and recorded as financing costs.

$100,000 debenture and accrued interest of $1,178 were converted into 37,279 shares of stock valued at $111,834, which resulted in interest of $10,656 being recognized as a premium at conversion.

Approximately $800,000 of capital expenditures for oil and gas properties was included in accounts payable at June 30, 2002.

See notes to unaudited consolidated financial statements

Notes to Unaudited Consolidated Financial Statements

Note 1 - Basis of Presentation and Significant Accounting Policies

The June 30, 2003 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 June 30, 2003, 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. 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, 2002, as reported in the Company's Form 10-KSB filed March 31, 2003. The results of operations for the period ended June 30, 2003 are not necessarily indicative of the results for the entire fiscal year.

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 June 30, 2003 and 2002 were 30.38 and 31.51 rubles to the U.S. dollar, respectively. The average rates in effect during the three and six-month periods ended June 30, 2003 and 2002, were 30.89 and 31.31, and 31.27 and 31.08 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.

Note 2 - Proportionate Share of Liabilities

The proportionate share of accounts payable and accrued liabilities of $2,652,641 at June 30, 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 of Goloil owed to an affiliate. These advances are also obligations of Goloil at June 30, 2003 and not Teton Petroleum nor have they been guaranteed by Teton Petroleum.

Note 2 - Proportionate Share of Liabilities (continued)

Pro-rata share of Goloil notes payable owed to an affiliate. 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 April 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.	$ 4,347,453
Less current portion	(4,347,453)
	$ -

Note 3 - Notes Payable

The Company received proceeds of $478,750 from notes payable to stockholders. In connection with the notes, 91,200 warrants valued at $79,664 were issued. At June 30, 2003, $347 of the discount had been amortized and recorded as financing costs. 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.

In July 2003, the Company received proceeds of $150,000 from a stockholder. In connection with the notes, 37,500 warrants valued at $30,506 were issued. The Company valued the 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.

Note 4 - Stockholder's Equity

In March 2003, the stockholder's 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.

During the six months ended June 30, 2003, the Company received $1,091,900 of proceeds (net of costs of $98,100) from the issuance of 437,010 shares of common stock. The Company received $1,939,610 during the six months related to outstanding stock subscriptions receivable at December 31, 2002.

The Company issued 1,043,204 warrants during the six months ended June 30, 2003 in connection with the private placements to investors. The Company also issued 346,165 warrants to entities for their services directly related to raising capital under private placements during the quarter.

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Note 5 - 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.

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, offices 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 Six Mon June 30	
	2003	
Net loss - as reported	$ (1,663,145)	$
Less previously recorded compensation expense	-	
Add fair value of employee compensation expense	(4,571,026)	
Net loss per common share - pro forma	$ (6,234,171)	$
Basic loss per common share - as reported	$ (0.26)	$
Basic loss per common share - pro forma	$ (0.96)	$

	For the Three Mo June 30	
	2003	
Net loss - as reported	$ (1,137,209)	$
Less previously recorded compensation expense	-	
Add fair value of employee compensation expense	(4,571,026)	
Net loss per common share - pro forma	$ (5,708,235)	$
Basic loss per common share - as reported	$ (0.17)	$
Basic loss per common share - pro forma	$ (0.86)	$

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

FORWARD LOOKING STATEMENTS

WITH THE EXCEPTION OF HISTORICAL MATTERS, THE MATTERS DISCUSSED HEREIN ARE FORWARD LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. FORWARD LOOKING STATEMENTS INCLUDE, BUT ARE NOT LIMITED TO STATEMENTS CONCERNING ANTICIPATED TRENDS IN REVENUES. OUR ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THE RESULTS DISCUSSED IN SUCH FORWARD LOOKING STATEMENTS. THERE IS ABSOLUTELY NO ASSURANCE THAT WE WILL ACHIEVE THE RESULTS EXPRESSED OR IMPLIED IN FORWARD LOOKING STATEMENTS.

To the extent that financial information and management's discussion and analysis or plan of operation contain forward looking statements, such statements involve risks and uncertainties which could cause Teton's actual result to differ materially from the anticipated results discussed herein. Factors that might cause such a difference are set forth in the "Significant Factors in Company Operations" section of Teton's Registration Statement on Form 10-SB/A filed with the Securities and Exchange Commission ("SEC") on July 11, 2001 (SEC File Number: 000-31170), in Teton's Annual Report on Form 10-KSB filed with the SEC on March 31, 2003, and in Teton's Registration Statement on form SB-2 filed, as amended, on July 25, 2003. You are cautioned not to place undue reliance on the forward-looking statements made herein.

Critical Accounting Policies

We have identified the policies below as critical to our business operations and the understanding of our results of operations. The impact and any associated risks related to these policies on our business operations is discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations where such policies affect our reported and expected financial results.

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.

Pro-Rata Consolidation.

The financial statements 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 ZAO Goloil.

Teton and MOT's agreement with Goloil is that they will receive all of their investment back plus interest from the profits of Goloil before the other shareholder, Invest Petrol, can receive any distributions. 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. 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. Invest Petrol will have no interest in Goloil's losses or profits for the foreseeable future.

Under the pro-rata consolidation method we include our share of the assets, liabilities, revenues and expenses of the consolidated accounts of Goltech. The intercompany balances of Goloil, 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.

Recoverability of Oil and Gas Properties.

The recoverability of our investment in oil and gas properties is reviewed quarterly and based on the net discounted cash flows to be obtained from our share of the production of oil and gas by Goloil using assumptions similar to those in the reserve study prepared by an independent petroleum engineer. The reserve study is subject to inherent limitations and uncertainties and is prepared using economics for the Company's 100% interest in Goltech, LLC, which includes the Company's share of a 35.295% interest in Goloil. If the average cost of oil production sold, the costs to produce and transport the oil for sale or further development capital expenditures change adversely to the Company, such changes could cause a material write down of our investment in such properties or abandonment altogether of our continued efforts to develop and produce those oil and gas reserves. Management believes that the economic conditions will remain favorable to the Company for the oil and gas prices it receives from production and the costs we incur for producing, transporting and continued license development capital expenditures, and it will recover all such investments in its oil and gas properties.

Asset Retirement Obligations

Effective January 1, 2003, the Company adopted the provisions of Financial Accounting Standard No. 143 (SFAS 143) "Accounting for Asset Retirement Obligations". SFAS 143 requires record the fair value of a liability for an asset retirement obligation to be recorded in the period in which it is incurred. Overtime this liability is accreted to its expected future value with accretion being recorded as a charge to operations. The majority of the Company's asset retirement obligations relate to the projected costs to plug and abandon oil and gas wells, and closure of access roads on the license area in Russia.

The Company currently cannot make an assessment of the fair value for it's proportionate share of asset retirement obligations, and accordingly no liability for the fair value of these costs has been recorded in the accompanying financial statements. Currently the fair value of these costs is not able to be determined as a final plan of abandonment and closure for these future obligations has not been finalized with the applicable governmental bodies of the Russian government, and therefore the specific actions required to satisfy the obligations under the license are not known with a degree of certainty to enable reasonable estimation, although management believes that any ultimate liability to plug and abandon wells and close access roads will not be material to the financial condition or results of operations of the Company.

Oil and Gas Reserves and Supplemental Information.

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. That reserve study is prepared using economics for the Company's 100% interest in Goltech, LLC, which includes the Company's 35.295% interest in Goloil. Such reserves and resultant net cash flows are subject to the inherent limitations in those estimates that include the cost of oil and gas production, costs related to future capital expenditures, the price per barrel of oil sales, the Company's share of those reserves, the taxing structure of the Russian Federation and other factors. Changes in one or all of these items could cause a material change in the reserve estimates and the net cash flows from the sale of production generated from those reserves. Management believes that the current assumptions used in preparation of the reserve study are reasonable.

Results of Operations

Below is a brief analysis of the most important components of our revenues and operating costs. 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), the impact of changes is doubled in the "net to Teton" per barrel costs.

Three Months Ended June 30, 2003 compared to June 30, 2002

The Company had revenues from oil and gas production of $2,978,554 for the three months ended June 30, 2003 as compared to $1,279,661 for the three months ended June 30, 2002. The change in revenues is related to the increase in sales from 93,629 barrels to 164,273 barrels, net to Teton after a 50% production payment and an increase in the average price per barrel received from $13.67 to $18.13 from 2002 to 2003.

The cost of oil production increased to $512,511 for the three months ended June 30, 2003 from $127,504 for the three months ended June 30, 2002 due to the Company's increased production. The average cost per barrel of production, excluding taxes, increased from $1.36 to $3.12. The increase was mainly due to an increase in well maintenance expenses, an increase in payroll, along with the costs of an insurance policy for the Goloil oil pipeline that was initiated in the first quarter of this year. A fourth factor contributing to the increase in production cost was fuel consumption. Goloil currently uses diesel generators to provide electricity for its field operations and as the number of wells has increased, this cost has grown increasingly important. Once the new co-generation plant is installed, fuel costs are expected to be substantially reduced.

Export duties rose sharply, from $97,047 to $598,870 as a consequence of both the increased volumes sold for export, which more than doubled, and increases in the export tariff rate, from an average of $1.04 per barrel to $3.65 per barrel, year over year. The export tariff rate is based on a complex formula that results in high tariff rates whenever the price of exported crude rises above $25/barrel.

Transportation and marketing expenses rose from $130,612 for the three months ended June 30, 2002 to $320,834 in the current quarter. The increase was due mainly to the increased sales volume as well as increased transportation rates, which rose from $1.40 per barrel to $1.95 per barrel, year over year.

Taxes other than income, which include the Russian mining (extraction) tax, value added tax (VAT), and property and other miscellaneous taxes rose from $707,884 in the quarter ended June 30, 2002 to $1,250,134 during quarter ended June 30, 2003. The increase reflected both increased sales volumes and, to a lesser extent, an increase in the average tax paid per barrel of Russian taxes other than income increased from $7.56 per barrel to $7.61 per barrel.

Teton's pro-rata share of Goloil's general and administrative expense ("G&A") showed little change year over year, rising from $141,328 in the quarter ended June 30, 2002 to $167,928 in the quarter just ended.

General and administrative expenses for Teton itself of $981,023 were incurred for the three months ended June 30, 2003 as compared to $1,012,871 for the three months ended June 30, 2002. The decrease in G&A of $31,848 reflects mainly a decrease in consulting costs of $332,986, offset by increased expenses for legal and accounting ($42,201), and fees incurred to list the Company's shares on the American Stock Exchange ($83,025), engineering due diligence associated with potential acquisitions ($48,017), and its filing to register shares with the SEC during the quarter. The Company also incurred a non-cash charge for $97,901 for the issuance of Teton share options to the members of the Company's Advisory Committee.

Interest expense for the three months ended June 30, 2003 was $49,337 as compared to $234,793 for the three months ended June 30, 2002. This interest expense is principally from the pro-rata consolidation of Teton's ownership portion of Goloil's loans in which the interest rate declined from 15% to 8% and included approximately $75,769 of interest on convertible debentures outstanding during the same period last year. Financing charges in 2002 of $3,938,703 arose from the issuance of Convertible Debt and warrants, with in the money conversion features associated with convertible debt in 2002. The Company did not issue any convertible debt in 2003.

Six Months Ended June 30, 2003 compared to June 30, 2002

The Company had revenues from oil and gas production of $6,387,272 for the six months ended June 30, 2003 as compared to $2,100,661 for the six months ended June 30, 2002, an increase of 204%. The change in revenues is related to the increase in sales from 153,225 barrels to 315,577 barrels, net to Teton after a 50% production payment and an increase in the average price per barrel received from $13.77 to $20.24 from 2002 to 2003.

The cost of oil production increased to $839,316 for the six months ended June 30, 2003 from $217,959, for the six months ended June 30, 2002 due to the Company's increased production. The average cost per barrel of production, excluding taxes, increased from $1.43 to $2.66. As discussed in the section above, the increase was due in large part to increases in four items: well maintenance expenses, labor, pipeline insurance, and fuel consumption.

Export duties rose sharply, from $152,983 to $1,158,210 as a consequence of both the increased volumes sold for export and increases in the export tariff rate, from an average of $1.00 per barrel to $3.67 per barrel, year over year. As discussed in the section above, the per barrel tariff charge increases sharply when export prices exceed $25 per barrel as they did most of this period.

Transportation and marketing expenses rose from $209,275 for the six months ended June 30, 2002 to $601,199 in the current six months. The increase was due mainly to the increased sales volume as well as increased transportation rates, which rose from $1.37 per barrel to $1.91 per barrel, year over year.

Taxes other than income, which include the Russian mining (extraction) tax, value added tax (VAT), and property and other miscellaneous taxes rose from $1,076,739 in the six months ended June 30, 2002 to $2,677,706 during six months ended June 30, 2003. The increase reflected both increased sales volumes and an increase in the average tax paid per barrel of Russian taxes other than income increased from $7.06 per barrel to $8.49 per barrel This higher average was due principally to an increase in the Russian mining (extraction) tax, which is indexed to the world price of Urals Blend crude and applied to all production, regardless of where sold.

Teton's pro-rata share of Goloil's general and administrative expense ("G&A") rose from $234,328 in the six months ended June 30, 2002 to $387,485 in the six months just ended.

General and administrative expenses for Teton itself of $1,753,922 were incurred for the six months ended June 30, 2003 as compared to $1,575,182 for the six months ended June 30, 2002. Most of the increase was due to the aforementioned second quarter expenses for the Company's AMEX listing, due diligence activities, and registration application partially offset by reduced expenditures on consultants plus an increase in travel and entertainment of $124,555.

As discussed in Teton's 10-Q filing for the previous quarter, it is now anticipated Teton's General and Administrative expenses will exceed the $2,000,000 budget disclosed in our previously filed 10-KSB for the year ended December 31, 2002. The Company currently estimates that its 2003 G&A expense will be $3,250,000.

Interest expense for the six months ended June 30, 2003 was $123,452 as compared to $311,919 for the six months ended June 30, 2002. This interest expense is principally from the pro-rata consolidation of Teton's ownership portion of Goloil's loans, in which the interest rate declined from 15% to 8%, and also included approximately $100,000 of interest on convertible debentures of Teton that were outstanding in 2002. Financing charges of $4,043,294 in 2002 arose from the issuance of Convertible Debt and warrants, which were recorded at "fair value" which did not take place in 2003.

Liquidity and Capital Resources

The Company has cash balances of $375,644 at June 30, 2003, with a working capital deficit of $4,565,541. Approximately $474,000 of the working capital deficit is in Teton, with the remainder arising from the pro-rata consolidation of Goloil. Teton is not liable for Goloil's debts. Cash flow used from operations totaled $2,614,524, with non-cash adjustments to cash flow from operations for depreciation and depletion of $388,231.

The Company used $3,086,633 of cash in investing activities, which was all associated with oil and gas property and equipment expenditures. In particular, the Company financed its half of a new gas-powered electrical generating plant in the amount of $1,500,000 which will be operational in the third quarter of this year. The plant will provide substantial increases in electrical capacity as compared to the diesel generators that will be replaced and at a lower cost. The plant will be fueled by natural gas from our wells, reducing or eliminating the need to "flare" the gas. The Company financed the expenditures with existing cash and sale of Common Stock. The Company continues to expect significant additional investments to be made in the future to drill and develop additional producing wells.

The Company had cash provided by financing activities of $4,909,288, which consisted of 1,939,610 from stock subscriptions received, $1,091,900 from the sale of Common Stock, net $1,399,028 from advances under notes payable from an affiliate, and $478,750 in proceeds from promissory notes.

The Company anticipates future operations and significant oil and gas property expenditures will be able to be funded through a combination of note payable advances from an affiliate, cash raised from raising debt and equity financing and production of oil and gas reserves.

Although the Company has a $4,565,541 working capital deficit, $4,347,453 of that deficit relates to our proportionate share of notes payable from affiliates, which are expected to be extended if current cash flow does not permit repayment. Additionally, we are in the process of raising $5,000,000 through a private placement, which will be used to fund the remaining working capital deficit, and future working capital as discussed below. The Company anticipates it share of capital expenditures through the end of the year will be approximately $4.4 million, and will be also be funded through the private placement proceeds along with expected cash flow from Goloil's operations.

Other Matters:

The Company developed a plan of action to list its stock on the American Stock Exchange (AMEX) and began implementation in the first quarter of 2003. The plan included the implementation of a reverse 1 for 12 stock split as well as a listing. This program was successfully completed May 6, 2003.

The Company is currently exploring possibilities to acquire additional petroleum licenses in Russia. On May 28, the company signed a purchase and sale agreement to acquire the Anderman/Smith Overseas, Inc. interests in the LLC Chernogorskoye located in Western Siberia, near its existing operations. The selling price was not disclosed and the company is pursuing its due diligence for the acquisition. If consummated this acquisition could potentially increase average daily production by approximately 4,000 barrels. The company is pursuing raising additional equity and debt financing to fund the acquisition.

Subsequent Events:

On July 3, 2003 the Company announced the addition of John T. Connor to its Board of Directors. Mr. Connor, who will chair the Board's audit committee, 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. A former attorney at Cravath, Swaine & Moore in New York City, he has been a partner in leading law firms in New York, Washington and New Jersey. Mr. Connor is a member of the Council on Foreign Relations and the American Law Institute.

In July 2003, Teton received proceeds of $150,000 for a promissory note issued to a shareholder. The note has a maturity of six months and carries an interest rate of 10%.

ITEM 3. CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of our management, including the chief executive officer, or CEO, and chief financial officer, or CFO, of the effectiveness of the design and operation of our disclosure procedures. Based on that evaluation, our management, including the CEO and CFO, concluded that our disclosure controls and procedures were effective as of June 30, 2003. There have been no significant changes in our internal control over financial reporting in the second quarter of 2003 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

The securities described below represent our securities sold by us for the period starting April 1, 2003 and ending June 30, 2003 that were not registered under the Securities Act of 1933, as amended, all of which were issued by us pursuant to exemptions under the Securities Act. Underwriters were involved in none of these transactions.

PRIVATE PLACEMENTS OF COMMON STOCK AND WARRANTS FOR CASH

Not applicable.

SALES OF DEBT AND WARRANTS FOR CASH

On June 19, 2003, we issued a $350,000 six month 10% promissory note to a shareholder along with 87,500 warrants exercisable at $6.00.

On June 24, 2003, we issued a $128,750 promissory note to a director along with 3,700 options exercisable at $3.48.

On July 1, 2003, we issued a $150,000 six month 10% promissory note to a shareholder along with 37,500 warrants exercisable at $6.00.

OPTION GRANTS

On April 9, 2003, Teton issued an aggregate of 1,448,037 options to seven officers and directors pursuant to the 2003 Stock Option Plan. The options have an exercise price of $3.48 per share and expire on April 8, 2013.

On April 9, 2003, Teton issued 30,000 options to members of its Advisory Committee in consideration for serving on the Advisory Committee. The options have an exercise price of $3.48 per share and expire on April 8, 2013.

ISSUANCES OF STOCK FOR SERVICES OR IN SATISFACTION OF OBLIGATIONS

On April 9, 2003 we issued 291,667 warrants exercisable at $3.48 to a consultant for its involvement in assisting the Company in raising equity capital.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

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

Not Applicable.

ITEM 5. OTHER INFORMATION

Not Applicable.

ITEM 6. EXHIBITS AND REPORTS ON 8-K:

Exhibits

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

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

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

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

Reports on From 8-K

On May 15, 2003, we filed an 8-K containing a copy of a press release announcing 2003 first quarter revenues.

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SIGNATURES

In accordance with the requirements of the Exchange Act of 1933, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TETON PETROLEUM COMPANY

Date: August 14, 2003

By: /s/ Karl F. Arleth

Karl F. Arleth, President and CEO

Date: August 14, 2003

By: /s/ John Mahar

John Mahar, CFO

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