TETON PETROLEUM CO
Form 10-Q
May 16, 2005

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

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2005

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

Commission file number: 001-31679

TETON PETROLEUM COMPANY

(Exact Name of Registrant as Specified in its Charter)

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

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

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

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

Yes X No __

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

Yes __No X

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

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

Yes __ No ___

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

As of May 4, 2005, 10,022,996 shares of the issuer's common stock were outstanding.

TETON PETROLEUM COMPANY

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PART I. FINANCIAL INFORMATION

TETON PETROLEUM COMPANY

PART I. FINANCIAL INFORMATION

Consolidated Balance Sheets

	March 31, 2005 (Unaudited)	December 31, 2004 (Audited)
Assets		
Current assets		
Cash and cash equivalents	$ 11,286,479	$ 17,433,424
Prepaid expenses and other assets	45,577	100,917
Total current assets	11,332,056	17,534,341
Non-current assets		
Unproved Oil & Gas properties (using successful efforts method of accounting)	6,387,272	--
Capitalized acquisition costs	529,491	25,000
Fixed assets, net	47,326	52,224
Total non-current assets	6,964,089	77,224
Total assets	$ 18,296,145	$ 17,611,565
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 392,496	$ 411,745
Commitments and contingencies		
Stockholders' equity		
Series A convertible preferred stock, $.001 par value, 25,000,000 shares authorized, 281,460 and 281,460 issued and outstanding at March 31, 2005 and December 31, 2004. Liquidation preference at March 31, 2005 and December 31, 2004 of $1,248,838	281	281
Common stock, $0.001 par value, 250,000,000 shares authorized, 9,741,773 and 9,130,257 shares issued and outstanding at March 31, 2005 and December 31, 2004, respectively	9,742	9,130
Additional paid-in capital	39,016,411	37,657,686
Accumulated deficit	(21,122,785)	(20,467,277)
Total stockholders' equity	17,903,649	17,199,820
Total liabilities and stockholders' equity	$ 18,296,145	$ 17,611,565

See notes to unaudited consolidated financial statements

TETON PETROLEUM COMPANY

Unaudited Consolidated Statements of Operations and Comprehensive Income (Loss)

	For the Three Months Ended March 31, 2005	2004
Cost and expenses:		
General and administrative	$ 691,997	$ 2,102,638
Depreciation	4,897	1,917
Exploration	37,226	--
Total cost of sales and expenses	734,120	2,104,555
Loss from operations	(734,120)	(2,104,555)
Other income		
Other income	78,613	17,640
Total other income	78,613	17,640
Loss from continuing operations	(655,507)	(2,086,915)
Discontinued operations, net of tax	--	(435,198)
Net loss	(655,507)	(2,522,113)
Imputed preferred stock dividends for inducements and beneficial conversion charges	--	(521,482)
Preferred stock dividend	(24,488)	(31,488)
Net loss applicable to common shares	(679,995)	(3,075,083)
Other comprehensive loss, net of tax effect of exchange rates	--	(285,156)
Comprehensive loss	$ (679,995)	$ (3,360,239)
Basic and diluted weighted average common shares outstanding	9,398,657	8,747,165
Basic and diluted loss per common share for continuing operations	$ (.07)	$ (0.30)
Basic and diluted loss per common share for discontinued operations	$ --	$ (0.05)

Basic and diluted loss per common share	$ (.07)	$ (0.35)

See notes to unaudited consolidated financial statements.

TETON PETROLEUM COMPANY

Unaudited Consolidated Statements of Cash Flows

	For the Three Months Ended March 31,	
	2005	2004
Cash flows from operating activities		
Net loss	$ (655,507)	$ (2,522,113)
Adjustments to reconcile net (loss) income to net cash used in operating activities		
Depreciation	4,897	1,917
Stock and warrants issued for services and interest	--	117,094
Changes in assets and liabilities		
From discontinued operations	--	460,668
Prepaid expenses	55,340	23,422
Accounts payable and accrued liabilities	(8,749)	355,832
	51,488	958,933
Net cash used in operating activities	(604,019)	(1,563,180)
Cash flows from investing activities		
Repayment of loans from discontinued operating entity	--	1,065,000
Increase in fixed assets	--	--
Increase in non-current of discontinued operating entity	--	(190,444)
Increase in oil and gas properties	(5,298,325)	--
Increase in capitalized acquisition costs	(504,491)	--
Net cash provided by (used in) investing activities	(5,802,816)	874,556
Cash flows from financing activities		
From discontinued operations	--	800,243
Proceeds from issuance of stock, net of issue costs of $13,000 & $50,000	284,377	449,997
Payment of dividends	(24,487)	(8,000)
Net cash provided by financing activities	259,890	1,242,240
Effect of exchange rates on cash	--	(285,156)
Net increase (decrease) in cash and cash equivalents	(6,146,945)	268,460

Cash and cash equivalents- beginning of year	17,433,424	7,588,429
Cash and cash equivalents - end of period	$ 11,286,479	$ 7,856,889

Supplemental disclosure of non-cash activity:

During the three months ended March 31, 2005 the Company had the following transactions:

The company issued 12,828 shares of common stock for settlement of accrued liabilities of $10,500 at December 31, 2004.

The company issued 450,000 shares of common stock, valued at $837,000 and 200,000 warrants valued at $251,949 in conjunction with a purchase of a 25% interest in Piceance Gas Resources, LLC.

During the three months ended March 31, 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.

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

See notes to unaudited consolidated financial statements.

TETON PETROLEUM COMPANY

Notes to Unaudited Consolidated Financial Statements

Note 1 - Basis of Presentation and Significant Accounting Policies

The March 31, 2005 financial statements are unaudited and reflect all adjustments (consisting only of normal recurring adjustments), which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. Prior to July 1, 2004 the unaudited financial statements include a pro-rata consolidation of the Company's 35.3% interest in ZAO Goloil, a Russian closed joint-stock company (`Goloil"). The Company sold all of its interest in Goloil effective July 1, 2004 (See note 5). At the time of sale, Goloil's activities represented all of the oil and gas operating activities of the Company. As a result, the activities of Goloil have been reported as "discontinued operations" for all periods presented. The unaudited financial statements contained herein should be read in conjunction with the financial statements and notes thereto contained in the Company's financial statements for the year ended December 31, 2004, as reported in the Company's Form 10-K. The results of operations for the period ended March 31, 2005 are not necessarily indicative of the results for the entire fiscal year.

Note 2 - Earnings Per Share

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

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

Note 3 - Stock Options

At the annual meeting on March 19, 2003, the Company's shareholders approved an employee stock option plan and authorized 25,000,000 shares of Common Stock for issuance thereunder. At the same annual meeting at which the 2003 Plan was adopted, the Company's shareholders also approved a 1:12 reverse split. Although the Board of Directors believed that a reasonable interpretation of both actions indicated that since the 2003 Plan was adopted at the same shareholders meeting as the reverse split and further since there were no shares technically outstanding at the time of the reverse split's approval, that no adjustment need be made to the plan, it nevertheless elected to take a conservative approach and to remove any ambiguity by asking the stockholders, at the Company's 2005 annual meeting, to approve a total pool of 3,000,000 options available for grant under the 2003 plan.

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 $268,898 using the Black-Scholes option-pricing model under the same assumptions described above. The Board issued the options in 2004 with the understanding that they would seek clarification from shareholders as to the ultimate number of options that can be issued. Accordingly, 994,000 of the options representing approximately $2,500,000 of the fair value of the total options granted could be voided if the shareholders do not approve an increase in the number of authorized shares available for issuance under the 2003 Employee Stock option plan.

At the annual meeting on July 16, 2004 the Company's shareholders approved a stock compensation plan for non-employees. The maximum number of shares of Common Stock with respect to which awards can be granted is 1,000,000 shares. On

April 5, 2005 the Board authorized the issuance of 100,000 restricted shares to the Company's Chief Financial Officer, 75,000 restricted shares to the Company's Legal Counsel and 25,000 restricted shares to a consultant providing land services on the Company's acquisitions. The awardees will have the option to exchange such restricted shares for options to purchase shares of the Company's common stock at $3.15 per share, assuming that the Shareholders approve a long-term incentive plan at its June 2nd Annual Meeting.

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

	For the Three Months Ended March 31, 2005	For the Three Months Ended March 31, 2004
Net income (loss) - as reported	$ (665,507)	($2,552,113)
Add fair value of employee compensation expense	--	(3,512,304)
Net income (loss) per common share - pro forma	$ (655,507)	($6,064,417)
Basic income (loss) per common share - as reported	$(0.07)	($0.35)
Basic income (loss) per common share - pro forma	$(0.07)	($0.75)

Note 4-Sale of Goloil Shares

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

The Company's loss from discontinued operations for the three months ended March 31, 2005 and 2004 is summarized as follows:

	For the Three Months Ended March 31, 2005	For the Three Months Ended March 31, 2004
Sales	$ --	$2,962,500
Cost of sales and expenses	--	3,342,167
Loss from operations	--	(379,667)
Other income (expense)		
Interest expense	--	(55,531)
Net loss from discontinued operations	$ --	$ (435,198)

Note 5- Investment in Piceance Gas Resources LLC

On February 15, 2005, the Company signed a membership interest purchase agreement with PGR Partners, LLC ("PGR") whereby the Company acquired 25% of the membership interest in Piceance Gas Resources, LLC, a Colorado limited liability company ("Piceance LLC"). Piceance LLC owns certain oil and gas rights and leasehold assets covering approximately 6,300 acres in the Piceance Basin in Western Colorado. The properties owned by Piceance LLC carry a net revenue interest of 78.75%.

The purchase price for the membership interest in Piceance LLC was $5.25 million in cash, the issuance of 450,000 unregistered shares of the Company's common stock, which had a fair market value of $837,000, and the issuance of warrants to purchase 200,000 shares of our common stock, exercisable for a period of five years at an exercise price of $2.00 per share. Assuming a volatility of 85%, a risk free interest rate of 3.71% and $0 dividends, the warrants had a fair value of $252,000 at the date of issuance.

Pursuant to the terms of the operating agreement, the Company is obligated to fund its share of the construction of a road on the leased area and 8 wells to be drilled during 2005. The Company estimates that its cash commitment to Piceance LLC for 2005 which includes all of the obligations, to be $3,500,000.

Piceance LLC has not commenced operations at March 31, 2005. The $6,387,000 in costs capitalized at March 31, 2005 includes the cash paid, due diligence and legal costs incurred during the acquisition and the fair value of the Common stock and warrants issued to PGR.

The Company will pro rata consolidate its investment in Piceance LLC whereby the Company's pro rata share of Piceance LLC's assets, liabilities, revenues, expenses and oil and gas reserves will be included in its financial statements.

Note 6– Capitalized Acquisition Costs

The Company signed a Letter of Intent on December 17, 2004 and a formal Purchase and Sale Agreement on January 10, 2005 with Apollo Energy, LLC and ATEC Energy Ventures, LLC. On April 14, 2005, Teton closed on leasehold interests covering over 123,000 acres based on due diligence work being performed on the full 180,000 acres. The remaining 57,000 acres are expected to close by the end of second quarter, pending the completion of routine title curative work. The properties carry a net revenue interest of approximately 82.3%.

The purchase price for the 123,000 acres was approximately $ 1,968,500 in cash, ($347,000 of which was earnest money paid by the Company prior to March 31, 2005 which is included in capitalized acquisition costs) plus 281,223 unregistered shares of common stock, valued at $430,000 and 140,611 warrants, exercisable at $1.75 per share for a period of three years with a fair value of $110,000 assuming a volatility of 82%, a risk free interest rate of 3.21% and $0 dividends.

Included in capitalized acquisition costs at March 31, 2005 is $182,000 in legal and due diligence costs incurred during the negotiation and for the acquisition of such properties.

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

FORWARD LOOKING STATEMENTS

With the exception of historical matters, the matters discussed herein are forward looking statements that involve risks and uncertainties. Forward looking statements include, but are not limited to, statements concerning anticipated trends in revenues, and may include words or phrases such as "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "projected," "intends to," or similar expressions, which are intended to identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Our actual results could differ materially from the results discussed in such forward-looking statements. There is absolutely no assurance that we will achieve the results expressed or implied in forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, market prices for natural gas and oil, economic and competitive conditions, regulatory changes, estimates of proved reserves, potential failure to achieve production from development projects, capital expenditures and other uncertainties, our ability to successfully implement our strategy to acquire additional oil and gas properties and our ability to successfully manage and operate any oil and gas properties acquired by us as well as those factors discussed below and in our Annual Report on Form 10-K for the year ended December 31, 2004 under the subsection "Caution Forward-Looking Statements" in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section, all of which are difficult to predict. In light of these risks, uncertainties and assumptions, the forward-looking events discussed may not occur.

Management Discussion And Analysis

Overview

Teton Petroleum Company is an independent oil and gas exploration and production company which is currently focused on a drilling program in the Piceance Basin in western Colorado of 6,300 acres and a separate acreage play of up to 180,000 acres in the eastern Denver-Julesburg basin. Teton's primary focus, until July 1, 2004 for accounting purposes was the Russian Federation and former Commonwealth of Independent States ("CIS"). The Company, through its wholly owned subsidiary, Goltech, owned a 35.30% equity interest in Goloil (see note 4 to the financial statements).

Financial highlights for the quarter ended March 31, 2005 include the following:

- The Company has reduced its loss from continuing operations from $2,086,915 ($.30 per share) to $655,507($.07 per share).

During the first quarter of 2005 Teton's activities were focused in four areas:

- Closing on the acquisition of a 25% interest in Piceance LLC.
- Continuation of its due diligence on the acquisition of up to 180,000 acres in the eastern Denver-Julesburg basin.
- Further evaluation and reduction of the Company's cost structure.
- Developing business plans for drilling and exploration in the Piceance and eastern Denver-Julesburg basins.

2005 Operational and Financial Objectives - Update

During the first quarter of 2005, the Company continued its efforts to shift its emphasis from Russia and the CIS to the Rocky Mountain region of the United States. To that end, the Company announced the signing of a binding letter of intent in December 2004 and subsequently the signing of a definitive purchase agreement in January 2005 regarding up to 180,000 acres in the eastern Denver-Julesburg basin. The Company completed the acquisition of 123,000 of such acres on April 14, 2005 and plans to close on the remaining acreage prior to the end of the second quarter. It is in the process of completing the due diligence on the remaining acreage. In addition, the Company closed a separate acquisition in February 2005, in which it purchased a 25% interest in 6,300 acres in the Piceance Basin in Western Colorado. See note 5 to financial statements.

The Company plans to investigate and pursue additional acquisitions on a limited basis. Thus, the Company may incur due diligence and legal expenses, which will be capitalized if the Company successfully completes an acquisition. If an acquisition is not successful, such costs will be included in its general and administrative expenses. In the first quarter of 2005, the Company devoted significant internal resources to evaluating and capturing acquisitions while also utilizing the services of outside technical, legal and accounting consultants.

Results of Operations

The Company has a net loss from continuing operations for the three months ended March 31, 2005 of $655,507 which is $1,431,408 less than the net loss from continuing operations for the same period in 2004. First quarter continuing general and administrative expense at the Company decreased from $2,102,638 in 2004 to $691,997 in 2005, a decrease of 67%. During the first quarter of 2004 the Company was in ongoing negotiations with RussNeft regarding the sale of Goloil while it was continuing its oversight of its investment in Goloil. In addition the Company was actively pursuing acquisitions in Russia which ultimately did not close so the costs incurred were classified as general and administrative expenses. Since the agreement to sell Goloil was signed in the second quarter of 2004, the Company has reduced its ongoing general and administrative expenses by among other things, eliminating its Moscow, Steamboat and Houston offices, significantly reducing its investor relations-related costs and corporate personnel associated with its discontinued operations. Specifically, the Company incurred in the first quarter of 2004, $417,000 related to the sale of Goloil and due diligence on Russian acquisitions. The Company incurred $268,000 in investor relation expenses in the first quarter of 2004 that were not incurred in 2005 and the Company has reduced compensation paid to employees by $405,000 due to the elimination of positions and the fact that bonuses were paid during the first quarter of 2004 for 2003 performance. General and administrative expenses for the first quarter of 2005 include $47,000 in severance payments and approximately $61,000 in one time charges relating to acquisitions not completed and the legal costs of drafting long-term incentive plans to be voted on at the annual general meeting. The Company is continuing to reduce its base level of general and administrative expenses, but could incur additional general and administrative expenses on special projects and on due diligence incurred on acquisitions that are not completed.

Exploration expenses for 2005 relate to delay rentals that the Company paid during the first quarter on the eastern Denver-Julesburg basin leases that were acquired in April.

Other income in 2005 includes interest income from the cash balances maintained. The Company expects to continue to streamline its costs in the future.

Discontinued Operations

See note 4 for a summary of the loss from discontinued operations. The Company considered the sale of Goloil to be effective July 1, 2004. Accordingly the operating activities of Goloil for the three months ended March 31, 2004 have been included in the Company's March 31, 2004 unaudited statement of operations as a net loss from discontinued operations.

Liquidity and Capital Resources

The Company had a cash balance of $11,286,479 at March 31, 2005 and a working capital surplus of $10,939,560.

During the first quarter of 2005 the Company completed its purchase of a 25% membership interest in Piceance LLC from PGR Partners LLC ("PGR"). In addition to the cash purchase price of $5.25 million, the Company estimates that its cash commitment to Piceance LLC for the year ending December 31, 2005 will total $3.5 million. At this point in time the Company anticipates utilizing its working capital to meet such commitment. However, the business plan for Piceance LLC includes using commercial bank financing, when practical, which if utilized, may reduce the Company's proportionate share of Piceance LLC future capital obligations.

In addition, the Company closed on April 14, 2005 on 123,000 acres in the Denver-Julesburg basin for a total cost of $1,968,500 plus legal and due diligence costs, $529,000 of which was incurred at March 31, 2005. The Company expects to close on up to 57,000 additional acres during the second quarter of 2005 for an estimated cost of $900,000, exclusive of any additional legal and due diligence costs. The Company will begin its evaluation of the prospects on such acreage immediately.

The Company may require additional financing during 2006 for the anticipated capital programs for the two captured acquisitions or if the Company identifies other acquisitions that meet its investment criteria. Such additional financing may be debt or equity or a combination of both.

Sources and Uses of Funds

Historically, Teton's primary source of liquidity has been cash provided by equity offerings. Such offerings may continue to play an important role in financing Teton's business. In addition, the Company may seek to establish a borrowing facility with one or more international banks, most likely in the form of a revolving line of credit that could be used for development, drilling and other capital expenditures.

Cash Flows and Capital Expenditures

During the three months ended March 31, 2005 the Company used $604,019 in its operating activities. This amount compares to $1,563,180 used in operating activities in 2004.

During 2004, the Company received the reimbursement of advances totaling $1,065,000 pursuant to its agreement with RussNeft. During 2005 the Company used $5,083,000 in its investing activities exclusively related to the completion of its acquisition of the membership interest in Piceance LLC and the Denver-Julesburg acreage.

During the first quarter of 2005 certain members of PGR exercised 148,688 warrants, purchasing common shares of the Company for net proceeds of $284,377. During 2004, the Company received $449,997 from the sale of preferred stock.

Income Taxes, Net Operating Losses and Tax Credits

At March 31, 2005, the Company has an inception to date net operating loss ("NOL") carry forward for U.S. income tax purposes of $12,300,000. Such NOL is subject to U.S. Internal Revenue Code Section 382 limitations. For losses incurred prior to 2004, utilization of the NOL is limited to approximately $900,000 per annum.

Subsequent Events

On April 14, 2005, Teton closed on leasehold interests covering over 123,000 acres based on due diligence work being performed on the full 180,000 acres. The remaining 57,000 acres are expected to close by the end of second quarter, pending the completion of routine title curative work. The properties carry a net revenue interest of approximately 82.3%.

The purchase price for the 123,000 acres was approximately $ 1,968,500 in cash, ($347,000 of which was earnest money paid by the Company prior to March 31, 2005), plus 281,223 unregistered shares of common stock, valued at $429,709 and 140,611 warrants, exercisable at $1.75 per share for a period of three years.

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

The Company has no current borrowings.

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

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

ITEM 4. CONTROLS AND PROCEDURES

As of March 31, 2005, an evaluation was performed by our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2005.

The Company reported the following "changes" to the Company's audit committee involving the internal controls over financial reporting for complex equity transactions: Since December 31, 2004 the Company has provided training for the Principal Accounting Officer on the accounting for "complex accounting transactions" and the Company has identified consultants that can provide expertise when necessary.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The securities described below represent our securities sold by us for the period starting January 1, 2005 and ending March 31, 2005 that were not registered under the Securities Act of 1933, as amended, all of which were issued by us pursuant to exemptions under the Securities Act. Underwriters were involved in none of these transactions.

ISSUANCES OF STOCK FOR SERVICES OR IN SATISFACTION OF OBLIGATIONS

Teton issued a total of 12,828 shares of Common Stock valued at $19,500 to three of its directors for service on its Board of Directors performed prior to December 31, 2004. These offers and sales were made in reliance on the exemption under Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities. As directors, the investors had access to information concerning the Company. The offers and sales were made to accredited investors and transfer of the Common Stock was restricted in accordance with the requirements of the Securities Act of 1933.

The Company issued 450,000 restricted shares of stock to the Members of PGR Partners, LLC and issued warrants to purchase 200,000 shares of common stock at an exercise price of $2.00 in conjunction with the purchase of an interest in Piceance Gas Resources, LLC.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

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

None

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS:

Exhibits

10.1 First Amendment to Purchase and Sale Agreement Niobrara Shallow Gas Project

10.2 Purchase and Sale Agreement Niobrara Shallow Gas Project

10.3 Membership Interest Purchase Agreement between PGR Partners, LLC and Teton Petroleum Company

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

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

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

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

SIGNATURES

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

Date: May 16, 2005

By: /s/ Karl F. Arleth

Karl F. Arleth,
President and
Chief Executive
Officer

Date: May 16, 2005

By: /s/ Patrick A. Quinn

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