TETON PETROLEUM CO
Form 10KSB
March 31, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC
FORM 10-KSB

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002.

Commission File No. 000-31170

TETON PETROLEUM COMPANY
(Name of small business issuer in its charter)

DELAWARE	1482290
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1600 Broadway, Suite 2400
Denver, Co. 80202 - 4921
(Address of principal executive offices)

Issuer's telephone number: 970.870.1417

Securities registered pursuant to Section 12(b) of the Exchange Act: None

Securities registered pursuant to Section 12(g) of the Exchange Act:

Common Stock
(Title of Class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the 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 [ ]

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [X]

The issuer's revenue for its most recent fiscal year was $6,923,320.

The aggregate market value of the common stock held by non-affiliates of the issuer, 64,272,101 shares of common stock, as of March 24, 2003, was approximately $23,330,772, based on the closing bid of $.363 for the issuer's common stock as reported on the OTC Bulletin Board. Shares of common stock held by each director, each officer named in Item 9, and each person who owns 10% or more of the outstanding common stock have been excluded from this calculation in that such persons may be deemed to be affiliates. The determination of affiliate status is not necessarily conclusive.

As of March 25, 2003, the issuer had 75,942,909 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE - NONE

Transitional Small Business Disclosure Format (Check one): YES [ ] NO[X]

PART I

Teton Petroleum Company, through its consolidated subsidiaries, is engaged in oil and gas exploration, development, and production in Western Siberia, Russia.

In 2001, four wells were drilled and completed on the license area. This brought the total number of producing wells on the license area to 7. At the end of 2001, the field was producing approximately 2,500 barrels of oil per day, 625 barrels of oil per day net to Teton. The construction of a 40-kilometer (25-mile) pipeline was also completed. The pipeline enables us to transport and produce oil on a year-round basis. In 2002, 6 additional wells were drilled and completed on the license area. This brought the total number of producing wells on the license area to 13. As of March 2003, the field was producing approximately 7,000 barrels of oil per day, 1750 barrels per day net to Teton.

Teton reorganized its structure in 2002. After MOT withdrew from Goltech Petroleum, LLC, Teton became the sole owner of Goltech. Goltech owns 35.295% of the shares of Goloil. Goloil holds the oil and gas license. In this report, "We" or "Teton" may include activities conducted by Teton, Goltech, and/or Goloil.

In 2002, Teton raised net proceeds of $4,143,643 from the issuance of convertible debt, which was converted into common stock and warrants on September 1, 2002, and $3,333,460 from the sales of common stock under private placement offerings. Thus, at the end of 2002, Teton had no outstanding debt obligations.

On March 19, 2003, the shareholders at the annual meeting of shareholders took the following actions:

1. Elected H. Howard Cooper, Thomas F. Conroy, Karl F. Arleth, and James C. Woodcock as directors.

2. Adopted an amendment to Teton's certificate of incorporation increasing the authorized amount of capital stock from 100,000,000 shares to 275,000,000 shares of which 25,000,000 shares will be blank check preferred stock.

3. Approved the 2003 Stock Option Plan.

4. Approved a one-for-twelve reverse stock split of our common stock.

5. Ratified the board of directors' selection of Ehrhardt Keefe Steiner & Hottman PC as the corporation's independent auditors for the fiscal year ending December 31, 2003.

Caution Concerning Forward-Looking Statements

We have included in this report, statements which are intended as "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. These include statements that are not simply a statement of historical fact but describe what we "believe," "anticipate," or "expect" will occur. We caution you not to place undue reliance on the forward-looking statements made in this report. Although we believe these statements are reasonable, there are many factors, which may affect our expectation of our operations. These factors include, among other things, the following:

- general economic conditions
- the market price of oil
- our ability to service our existing indebtedness
- our ability to raise additional capital, obtain debt financing, or generate sufficient revenues to fund our operating and development plan
- our success in completing development and exploration activities
- political stability in Russia
- changes in Russian law, currency regulations, and taxation
- our present company structure
- our accumulated deficit
- other factors discussed elsewhere in this document

Item 1. DESCRIPTION OF BUSINESS.

Structure of Teton.

Through our wholly-owned subsidiary, Goltech Petroleum LLC, we own 35.295% of Goloil. Mediterranean Overseas Trust (together with its affiliates, including McGrady, Fenlex, Petromed, and Energosoyuz, ("MOT")) owns 35.295% of Goloil and serves as Manager of Goloil. InvestPetrol, a Russian Joint Stock Company, owns the remainder (29.41%) of Goloil.

Goloil holds the license to produce oil and gas in Western Siberia. MOT and Teton (via Goltech) are obligated to each fund 50% of the Capital Expenditures of Goloil under their Memorandum of Understanding. Invest Petro is not funding any of this development. Based on the current structuring of Goloil and the development agreements with Teton and MOT, until Goltech and MOT each has been repaid its investments in Goloil, each receives a proportion of the production and revenues from Goloil (after the production payment to MOT) equal to the proportion of its investment to the total investments in Goloil. Since it is expected that this will continue for the foreseeable future, when we describe "net" amounts to Teton, these calculations are based on Teton's right (through its ownership of Goltech) to receive 50% of the production and revenues from Goloil (after the production payment to MOT). The agreements affecting the Goloil license are discussed below under "MOT Agreements."

Goltech Petroleum LLC is a limited liability company organized under the laws of Texas. For tax purposes it is treated as a partnership. We are the sole manager of Goltech and have complete authority to manage its business. Petromed (MOT) withdrew as a member and manager of Goltech in 2002. In connection with its withdrawal, Petromed received a distribution consisting of Goloil shares and return of its original $1 million contribution.

Goloil is a closed joint stock company organized under the laws of Russia. Russian joint stock companies are corporate entities with limited liability similar to corporations formed under United States laws. Shareholders of Russian joint stock companies generally are not liable for debts and obligations of the company. However, shareholders of a bankrupt joint stock company may be held liable for debts and obligations of the bankrupt company if they have exercised their authority to undertake an action knowing that bankruptcy would be a possible result of their actions. Any transfer of shares by a shareholder to a third party is subject to a right of first refusal by the other shareholders.

Under Russian law, a simple majority of voting shares is sufficient to control adoption of most resolutions. Resolutions concerning amendment of the company charter, reorganizations (including mergers) liquidation, any increase in authorized shares, or certain "large" transactions require the approval of the shareholders holding 75% of the outstanding shares.

A Russian joint stock company has no obligation to pay dividends to the holders of common shares. Any dividends paid to shareholders must be recommended by the board of directors and then approved by a majority vote at the general meeting of shareholders. The Memorandum of Understanding between MOT and Teton (the controlling shareholders) provides that any excess cash will be used to pay back investments on a quarterly basis.

Teton History.

Teton was formed by the November 1998 merger of EQ Resources Ltd. and American Tyumen Exploration Company. EQ was incorporated in Ontario, Canada, on November 13, 1962, under the name Mangesite Mines Limited. Its name was changed to EQ Resources Ltd. in August 1989. EQ was domesticated in Delaware immediately prior to the merger. In the merger, EQ, the survivor corporation, was renamed Teton Petroleum Company.

At the time of the merger, Teton's holdings consisted of licenses for the exploration of gold in Ghana, licenses for oil and gas in Dagestan, Russia, and the Goloil license. Following the merger, we decided to focus our efforts and resources on development of the Goloil license. We disposed of our interest in the Ghana gold licenses. We also wrote down the value of the Dagestan licenses to zero on our financial statements in 1998, and disposed of our subsidiary Teton Oil, Inc. which held the Dagestan licenses effective May 24, 2001. In our opinion, political instability in the Dagestan region made operations in Dagestan too risky. Due to inactivity most of our Dagestan licenses had terminated prior to our disposition of Teton Oil, Inc.

MOT Agreements.

In June 2000, Teton, Goltech and Fenlex Nominee Services Limited, as sole trustee of the Mediterranean Overseas Trust, a trust organized under the laws of Malta entered into a Master Agreement. The Master Agreement contemplated the following transactions:

(a) Purchase of 50% of the interest in Goltech in exchange for $1,000,000.
(b) Additional investment by MOT, of up to $5,600,000, through an oilfield development and leasing arrangement, paid on an as needed basis to cover certain costs related to the pipeline, processing facility, and drilling of five additional wells.
(c) Payment of leasing fees and repayment of amounts advanced by MOT through a production payment in the form of crude oil.
(d) Additional work, as agreed to by the parties.

The purchase of 50% of the interests in Goltech was completed in August 2000. See, also " - Structure of Teton."

As contemplated in the Master Agreement, Goloil and MOT (through Energosoyuz) entered into an oilfield development agreement and a lease agreement. These agreements provided, among other things, for the drilling and operation of five additional wells on the Goloil license lands and for Energosoyuz to fund up to $5,600,000 to cover certain costs related to development of a pipeline and processing facility and the drilling of five additional wells.

The wells and facilities constructed by Energosoyuz pursuant to the oilfield development agreement are leased to Goloil for a seven-year production payment. The production payment is equal to 50% of the crude oil produced by the new and existing Goloil wells. The production payment period will be extended if the production payment falls below an average of 80,000 tons (583,200 barrels) of oil per year or if the market price of Ural Oil Blend falls below a weighted average of $17 per barrel, for oil sold outside of Russia, over the seven year period.

At March 2002, the full $5,600,000 contemplated in the MOT agreements was invested by MOT. The pipeline and four of the wells were completed in 2001. The fifth well was completed in early 2002. Construction of a processing plant is also in progress and should be completed in 2003.

After the production payment is paid in full, the MOT agreements provide that one of the following shall occur:

1. Energosoyuz will merge into Goltech.
2. 100% of the capital stock of Energosoyuz will be transferred to Goltech.
3. The outstanding capital stock of Energosoyuz will be distributed equally between Teton and MOT or its nominee.
4. Any other action agreed to by the parties resulting in a division of the revenues of Energosoyuz between Teton and MOT or its nominees in proportion to their respective ownership in Goltech.

In late 2002, MOT elected to withdraw from Goltech in exchange for its 50% of the shares in Goloil held by Goltech. This has been accomplished under a Memorandum of Understanding and withdrawal agreement. A new management agreement for Goloil is the process of being completed and finalized consistent with the intent of the MOU. As part of these negotiations, the production payment agreement was clarified to state a fixed term of 7 years from inception (July 1, 2000) and that all oil received under the agreement would be sold as Russian domestic oil, thus allowing about 90% of the remainder to be sold in the export markets currently.

<u>Production and Distribution.</u>

A glossary of certain oil and gas terms used in this report is found at "DESCRIPTION OF PROPERTY--Glossary of Geologic Terms."

As of March 25, 2003, the wells on our license area were producing approximately 7,000 barrels per day (1,750 barrels net to Teton). Completion of a 40-kilometer (25-mile) pipeline on June 4, 2001 has enabled oil to be pumped from these wells all year long. Prior to completion of the pipeline, no oil was produced during certain times of the year because of transportation difficulties. At December 31, 2001, seven wells were completed on our license area. At December 31, 2002, 13 wells were completed on our license area. For 2003, 5 additional wells are planned to be drilled and completed.

Pursuant to the MOT agreements, MOT is entitled to a production payment in kind. See " - MOT Agreements." The production payment is projected to be completed in June, 2007, based on revised leases negotiated in late 2002.

Teton also pays processing and transportation fees to a third party to process and place its oil in the Trans-Siberia pipeline. The current charge for the processing and transportation is 2.5% of our daily production. Construction of a processing facility on the license area is in progress. When completed we will no longer incur the third-party processing charge. We expect the processing facility will be completed in the second quarter of 2003.

Teton's share of the oil production is sold in Poland, Germany, Belorussia, Ukraine and Russia. Sales in Poland, Germany, Ukraine and Belorussia are in United States dollars. Oil sold in Russia is in rubles. Pursuant to the terms of the Goloil license and pipeline quotas issued by Trans-Neft, the government owned pipeline monopoly, up to a maximum of 35% of Goloil's oil production may be sold outside of the CIS and an additional 10% can be sold to other CIS states. Currently, MOT is required to sell the oil it receives as a production payment into the Russian domestic market. Thus, until the production payment is paid in full, we are able to sell 90% of our share of the production outside of Russia. Currently there are no long-term contracts for the sale of our oil. We currently are not dependent on any principal customer.

The chart below sets forth certain production data for the last three fiscal years. Additional oil and gas disclosure can be found in Note 12 of the Financial Statements.

PRODUCTION DATA

Year Ended December 31	2002	2001	2000
Total Gross Oil Production, barrels	1,884,933	425,459	178,331
Total Gross Gas Production, MCF .	0	0	0
Net Oil Production, barrel(1) ...	471,233	94,879	142,664
Net Gas Production, MCF	0	0	0
Average Oil Sales Price, S/Bbl(2)	$15.38	$16.43	$11.00
Average Gas Sales Price, S/MCF ..	0.00	0.00	0.00
Average Production Cost per Barrel (3)	$9.96(4)	$11.22	$10.00
Gross Productive Wells			
Oil	13	7	3
Gas	0	0	0
	-	-	-
Total	13	7	3
Net Productive Wells(2)			
Oil	6.5	3.5	1.5
Gas	0	0	0
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Total	6.5	3.5	1.5

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(1) Net production and net well count is based on Teton's effective net interest as of the end of each year. Prior to August 2000 and after November, 2002, Teton owned 100% of the interests in Goltech.

(2) Average oil sales prices is a combination of domestic (Russian) and export price. As a result of the MOU signed December 1, 2002 and the increase in end of period oil prices, the current average price received by the company is $22.84 as of December 31, 2002.

(3) Excludes production payment to MOT.

(4) If the cost of the production payment, which requires Teton to cover all lifting and G&A costs, is included, the cost per barrel net to Teton is $15.51 per barrel. See also "MANAGEMENT'S DISCUSSION AND ANALYSIS - Results of Operations."

The following chart sets forth the number of productive wells and dry exploratory and productive wells drilled and completed during the last three fiscal years in the Goloil license area:

NET WELLS DRILLED

Year Ended December 31	2002		2001		2000	
	Gross	Net(1)	Gross	Net(1)	Gross	Net(1)
Number of Wells Drilled						

Exploratory (Research)						
Productive	0	0	1	.5	0	0
Dry	0	0	0	0	0	0
Total	0	0	1	.5	0	0
Development						
Productive	6	3	3	1.5	2	1
Dry	0	0	0	0	0	0
Total	6	3	3	1.5	2	1

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(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%.

United States Trade and Development Agency (TDA) Grants.

In October 2001, Teton finished its study of the feasibility of oil exploration in the Novo-Aganskoye, Galinovaya and East Galinovaya license area of Siberia pursuant to an agreement with Varioganneft JSC. The study was funded by a $250,000 grant from the TDA. In 2001, we received a final payment of $37,500 from the TDA for the study. Currently, we do not expect to make any investments in the Novo-Aganskoye, Galinovaya and East Galinovaya license area. Thus, we do not expect to incur any obligation to repay the amounts paid by the TDA in connection with this study.

Teton expects to complete its feasibility study of the Eguryak license area pipeline project in 2003. This study is also funded through a $300,000 grant from the TDA. Teton has received $255,000 of the grant amount. The balance of the grant funds will be paid upon completion of the study. Teton may be required to repay the TDA the grant amount if Teton makes certain investments in the Eguryak license area prior to December 31, 2005.

Competition.

We compete in a highly competitive industry. We encounter competition in all of our operations, including property acquisition, and equipment and labor required to operate and to develop our properties. Teton competes with other major oil companies, independent oil companies, and individual producers and operators. Many competitors have financial and other resources substantially greater than ours.

Regulations Governing Russian Joint Stock Companies.

Russian joint stock companies are corporate entities with limited liability similar to corporations formed under United States laws. Shareholders of Russian joint stock companies generally are not liable for debts and obligations of the company. However, shareholders of a bankrupt joint stock company may be held liable for debts and obligations of the bankrupt company if they have exercised their authority to undertake an action knowing that bankruptcy would be the result of their actions. In closed joint stock companies, i.e. companies with a limited number of shareholders, such as Goloil, any transfer of shares by a shareholder to a third party is subject to the pre-emptive right of the other shareholders to acquire such shares at the price offered to a third party.

Under Russian law, a simple majority of voting shares is sufficient to control adoption of most resolutions. Resolutions concerning amendment of the company charter, reorganizations (including mergers), liquidation, any increase in authorized shares, or certain "large" transactions require the approval of the shareholders holding 75% of the outstanding shares.

A Russian joint stock company has no obligation to pay dividends to the holders of common shares. Any dividends paid to shareholders must be recommended by the board of directors and then approved by a majority vote at the general meeting of shareholders. Dividends may be paid every quarter of a year. The Memorandum of Understanding between MOT and Teton (the controlling shareholders) provides that any excess cash will be used to pay back investments on a quarterly basis.

Environmental Regulation.

The government of the Russian Federations, Ministry of Natural Resources, and other agencies establish special rules, restrictions and standards for enterprises conducting activities affecting the environment. The general principle of Russian environmental law is that any environmental damage must be fully compensated. Under certain circumstances, top officers of the entity causing substantial environmental damage may be subject to criminal liability.

The law of the Russian Federation on subsoil requires that all users of subsoil ensure safety of works related to the use of subsoil and comply with existing rules and standards of environment protection. Failure to comply with such rules and standards may result in termination or withdrawal of the Goloil license.

Goloil Taxation.

As a Russian resident entity, Goloil is subject to all applicable Russian taxes, many of which currently impose a significant burden on profits. The most significant Russian taxes and duties affecting Goloil include:

(i) 20% value added tax (established pursuant to Chapter 21 of the Tax Code of Russia), applicable only to domestic sale of goods in Russia and the Ukraine. No value added tax is payable on goods exported to the West from Russia;

(ii) 20 to 24% profit tax which includes 6% federal profit tax, 12 to 16% regional profit tax and 2% local tax (in accordance with Chapter 25 of the Tax Code of Russia). Russian law allows the carry forward and use of losses, subject to limitations;

(iii) Income tax on dividends payable to Goloil's shareholders. The tax must be withheld by Goloil from the amount distributed to each shareholder. The current rate of tax on dividends payable to corporate foreign shareholders is 15%. However, dividends payable to Goltech, a United States resident company, are subject to regulations contained in the United States - Russia tax treaty which limits the tax on dividends payable to Goltech to 5% (as long as Goltech holds more than a 10% interest in Goloil);

(iv) Tax on production of minerals applicable to all subsoil users producing minerals, including crude oil. For the period ending on December 31, 2004, the tax is temporarily established at 340 rubles (ca. USD 10.83) per metric ton produced by the taxpayer multiplied by a factor (F) calculated pursuant to the formula:

$$F = (U-8) \times R/252$$

where:

U - means the average market price of Urals blend crude oil (in dollars per barrel) during the relevant tax period;

R - means the average ruble for dollar exchange rate quoted by the Central Bank of Russia for the relevant tax period.

After expiration of the temporary tax rate period, the tax will apply at the rate of 16.5% of the value of the oil produced by the taxpayer;

(v) Unified social tax (established pursuant to Chapter 24 of the Tax Code of Russia) at the rate of up to 35.6% of the payroll;

(vi) Transport tax (established pursuant to Chapter 28 of the Tax Code of Russia) payable by owners of motor vehicles at the rate established by regional authorities based on the type and capacity of the vehicle. The maximum amount of tax payable by an owner of a motor car per year is RUR 150 (ca. USD 4.78) per horsepower;

(vii) Oil export duty, currently in the amount of USD 25.9 per ton of crude oil being exported;

(viii) Regional property tax payable annually at 2% of the value of assets of the entity.

The Russian tax system currently is undergoing a major reorganization. New tax laws including those setting forth rules for application of the value-added tax, profit tax, and tax on the production of minerals were enacted within the last four years. The cost of legal and accounting advice to keep up with changes in the Russian tax laws may be significant and penalties for violations, even inadvertent ones, may be steep. If revisions impose confiscatory taxes, our profitability will be adversely affected.

Employees.

Teton currently has four full time and four part time employee. We also utilize the services of independent contractors on an as-needed basis. Goloil currently employs approximately 100 employees in Western Siberia and Moscow. Goloil also uses independent contractors on as needed basis.

Item 2. DESCRIPTION OF PROPERTY.

Glossary of Geological Terms.

Barrel: Equal to 42 U.S. gallons.

Basin: A depressed sediment-filled area, roughly circular or elliptical in shape, sometimes very elongated. Regarded as good areas to explore for oil and gas.

Field: A geographic region situated over one or more subsurface oil and gas reservoirs encompassing at least the outermost boundaries of all oil and gas accumulations known to be within those reservoirs vertically projected to the land surface.

License: Formal or legal permission to explore for oil and gas in a specified area.

Productive: Able to produce oil and/or gas.

Proved reserves: Estimated quantities of crude oil, condensate, natural gas, and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be commercially recoverable in the future from known reservoirs under existing conditions using established operating procedures and under current governmental regulations.

Proved undeveloped reserves: Economically recoverable reserves estimated to exist in proved reservoirs, which will be recovered from wells, drilled in the future.

Reserves: The estimated value of oil, gas and/or condensate, which is economically recoverable.

Tons: A ton of oil is equal to 7.29 barrels of oil.

Goloil License.

The Goloil license encompasses 187 square kilometers (78 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, and may be extended upon compliance with the specified program of operations and undertaking of additional operations after the end of its term. The Goloil license may be terminated prior to its term if Goloil fails to comply with the requirements of the license. We believe that we are currently in compliance with all material terms of the Goloil license.

Proved Reserves and Present Value Information.

Our estimated proved oil reserves and present value of the estimated future net revenues attributable to such reserves as of January 1, 2003, are based upon a report, as supplemented, issued by the independent consulting firm of Gustavson Associates, Inc. ("Gustavson"), located in Boulder, Colorado. In June 2001, based on a supplemental letter issued by Gustavson, our proved reserve estimate was reduced by 37.3 million barrels gross (12.4 million barrels net to Teton). In the supplemental letter, Gustavson noted that questions had been raised concerning the sufficiency and completeness of the data used to establish certain reserves recoverable by secondary recovery methods were "proved." Thus, Gustavson withdrew those reserves from the proved category. Subsequently, a water flood feasibility study was conducted by Gustavson. Based on that study, our estimated proved reserves were increased by 57.5 million barrels gross (33.6 million barrels net to Teton). Finally, an update to the study using data from recently drilled wells and other sources, reduced the reserve estimate to a proved amount of 39,6 million barrels gross, 19.8 million net to Teton. These reserve estimates include reserve quantities which are required to be delivered under the production payment and total 13.0 million gross barrels and 6.5 million net barrels, respectively. This update also determined that waterflooding techniques would not be needed for recovery in most areas of the field, thereby reducing the future projected recovery costs substantially. In addition fewer wells would be required to be drilled reducing future development costs, and accordingly as a result net development costs to Teton have been reduced from $91.2 million to $20.05 million.

The Securities and Exchange Commission requires that estimates of reserves, estimates of future net revenues and the present value of estimated future net revenues be based on the assumption that oil and gas prices will remain at current levels (except for gas prices determined by fixed contracts), and that production costs will not escalate in future periods. All such estimates have been adjusted for the anticipated costs of developing proved undeveloped reserves.

Reserve calculations require estimation of future net recoverable reserves of oil and gas and the timing and amount of future net revenues to be received therefrom. Such estimates are based on numerous factors, many of which are variable and uncertain. Accordingly, it is common for the actual production and revenues later received to vary materially from earlier estimates. Estimates made from the first few years of production from a property are not likely to be as reliable as later estimates based on longer production history. Hence, reserve estimates and estimates of future net revenues from production may vary from year to year.

The Company has not filed reserve estimates with any federal agency.

As of January 1, 2003, our proved reserves are estimated at 19.8 million barrels, net to Teton, including quantities required to be delivered under the production payment as summarized below:

Case	Net Reserves, Billion barrels(1)	Before Profits Tax (2) Total Undiscounted Cash flow, million US$	Before Profits Tax (2) Present Value Discounted @10%, million US$	After Profits Tax (2) Total Undiscounted Cash Flow million US$	After Profits Tax (2) Present Value Discounted @10%, million US$
Proved Developed Producing	3.8	$11.61	$10.03	$9.91	$8.66
Proved Developed Non-Producing	3.3	$11.82	$7.31	$9.01	$5.59
Proved Undeveloped	12.7	$37.83	$16.69	$29.15	$12.57
Total Proved	19.8	$61.26	$34.03	$48.07	$26.81

(1) Quantities presented include 2.0 million PDP, 2.5 million PDNP, for a total of 6.5 million barrels (which includes the 2.0 million for PDP and 2.5 million for PDNP) required to be delivered under a production payment for proved developed producing, proved developed non-producing, and total proved reserves, respectively.

(2) Cash flow amounts assume 50% economics net to Teton without payout. Teton's net share is 50% before payout and 35.295% after payout.

Reserve estimates were decreased in the current projections based upon assumptions revised for additional data derived from production and other data from the additional wells producing in 2002. While the reserve estimates have decreased, this additional data also decreased estimated costs of recovery and other capital investments as less wells will be needed and certain portions of the field will not require water flood techniques to be used.

The results are net to Teton and include the impact of the production payments due MOT, and financing and debt repayment. The present value of estimated future net revenues as of January 1, 2003, has not been adjusted for income taxes. Teton is not currently incurring any repatriation tax liability due to the structuring of capital input as a loan. Management believes that future repatriation tax liabilities will not be incurred if profits from this project are invested in other projects within Russia. If Teton does not incur repatriation tax liability for the life of this project, the undiscounted total before and after tax cash flow, after production payments would be $61.26 and $48.07 million or, discounted at 10%, $34.03 and $26.81 million, for total proved reserves.

There can be no assurance that the reserves described herein will ultimately be produced or that the proved undeveloped reserves described herein will be developed within the periods anticipated. Recovery of undeveloped reserves requires significant capital expenditures and successful drilling operation. The cash flows summarized herein should not be construed as representative of the fair market value of the reserves. Actual results are likely to differ greatly from the results estimated.

Capital expenditures required to achieve the above cash flows are estimated at $20.06 million net to Teton for development of proved reserves. Based on our reserve analysis, we expect that cash flow from operations will fully cover both operating expenses and capital investment starting in 2005.

Our current agreement with MOT requires MOT and Teton to each fund half of the capital expenditures required for development. In the event we are unable to fund our portion of the capital expenditures and MOT proceeds with the planned development, our share of the oil production will be decreased. The reverse is also true.

Until cash flow from operations is sufficient to fund operating expenses and capital investment, Teton must raise additional capital or obtain debt financing to fund its portion of capital expenditures or its interest in the oil production will be reduced. There can be no assurance that Teton will be successful in raising such additional funds.

The following table sets forth the total gross and net developed acres and total gross and net underdeveloped acres subject to the Goloil License as of December 31, 2002:

DEVELOPED AND UNDEVELOPED ACREAGE:

Eguryak License Area:	
Total Developed Acres	
Gross	1,236
Net	618
Total Proved Undeveloped Acres	
Gross	2,000
Net	1,000
Total Other Undeveloped Acres	
Gross	5,778
Net	2,889

Teton Offices.

Our offices are located in Denver, Colorado. We lease our offices from an unaffiliated third party.

Item 3. LEGAL PROCEEDINGS.

Teton currently is not a party to any material legal proceedings.

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

No matters were submitted to a vote of our security holders during the fourth quarter of 2002.

PART II

Item 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDERS MATTERS.

Market for Common Stock.

Teton's common stock has been quoted on the OTC Bulletin Board under the symbol "TTPT" since November 27, 2001. Prior to that and until our voluntary delisting in January 2002, our common stock was also listed on the Canadian Venture Exchange under the symbol "YTY.U." Beginning November 30, 2001, our common stock is also listed for trading on the Frankfort Stock Exchange (Germany) under the symbol "TP9."

The following table sets forth, on a per share basis, the range of high and low bid information for the common stock on the OTC Bulletin Board for the last quarter of 2001 and first quarter of 2002, and on the Canadian Venture Exchange for the last two fiscal years:

OTC BULLETIN BOARD

2001 PERIOD	HIGH	LOW
Fourth Quarter	$.50	$.17
2002 PERIOD		
First Quarter	$.67	$.18
Second Quarter	$.65	$.36
Third Quarter	$.60	$.27
Fourth Quarter	$.42	$.21
2003 PERIOD		
First Quarter	$.46	$.28

The quotations reflect interdealer prices without retail markup, markdown, or a commission, and may not necessarily represent actual transactions.

Holders. As of March 25, 2003, there were approximately 247 holders of record of Teton's common stock.

Dividends. Teton has not paid any dividends on its common stock since inception. Teton does not anticipate declaration or payment of any dividends at any time in the foreseeable future.

Item 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

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.

We use the pro-rata consolidation method to reflect the financial position and results of operations of our now 100% owned subsidiary Goltech Petroleum, LLC (Goltech) that owns 35.295% of the outstanding stock of Goloil. In the fourth quarter of 2002, the other 50% owner of Goltech (MOT) withdrew from Goltech in exchange for its 50% Interest in Goltech's investment in Goloil (35.295% of the stock of 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. Invest Petrol and its predecessor shareowners have not contributed any funds to the development of Goloil's license and its current equity in Goloil is negative, so Teton (via Goltech) and MOT have each been absorbing 50% of Goloil losses. Invest Petrol will have no interest in Goloil's losses or profits for the foreseeable future.

Goloil holds a license to develop oil & gas reserves in Western Siberia and constitutes the only significant asset we hold. Under the pro-rata consolidation method we include 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 & Gas Properties.

The recoverability of our investment in oil and gas properties is reviewed annually 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.

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.

Comparison of Year Ended December 31, 2002 to December 31, 2001.

We had revenues from oil and gas production of $6,923,320 for the twelve months ended December 31, 2002 as compared to $1,625,352 for the twelve months ended December 31, 2001. Revenues were increased by a significant increase in production throughout 2002 as new wells came on line. "Net to Teton" production at December 31, 2002 was approximately 1,750 barrels per day. This production increase was partially offset by a reduction in the price per barrel received as explained further below.

Under a production payment agreement entered into to finance the completion of 5 wells in 2001 and 2002, the completion of a pipeline to the Trans Neft pipeline, and the construction of a DNS plant (scheduled for completion in 2003), 50% of the oil produced on the license through June 30, 2007 is paid to the financing entity, which is an affiliate of MOT. The pipeline was completed in June 2001, allowing Goloil to transport oil 12 months a year, rather than the previous 7 or 8 months per year, because of adverse weather conditions.

Effective December 1, 2002, as well as prior to April 1, 2002, all oil transferred under the agreement is counted as Russian domestic sales, therefore the full Goloil export quota can be used for the remaining production. This results currently in approximately 90% of Teton's net production being exported. Between April 1 and December 1, the production payment participated proportionately in export as well as domestic sales.

The Production changes resulted in net barrels of approximately 450,000 to Teton in 2002 compared to net barrels of approximately 95,000 in 2001. The average price per barrel we received decreased in 2002 to approximately $15.38 from $16.43 in 2001. Because the production payment was participating in export sales for a portion of the year, the "net to Teton" sales in 2002 contained a larger portion of Russian domestic sales than in 2001. In addition, Russian domestic prices, particularly in the winter when ports are closed and tanker exports are precluded, were lower than in 2001. Higher export prices partially offset this difference. As a result of signing the MOU on December 1, 2002 and higher current oil prices, the Company was receiving an average price per barrel at year-end of approximately $22.84. The Company is optimistic that the oil prices received in 2003 will continue to remain higher than in the prior year.

Cost of oil and gas production before Depreciation, Depletion and Amortization increased to $2,741,303 for the twelve months ended December 31, 2002 from $1,068,250 or the twelve months ended December 31, 2001. The increase of $1,673,053 relates to substantial increases in volume produced to include oil produced under the production payments to MOT made for leasing new wells and the pipeline, offset by improved efficiencies from higher production and lower transportation costs in 2002.

Taxes other than income taxes, which includes VAT, excise, mining and other applicable taxes increased by $3,042,201 in 2002 to $3,537,990 from $495,789 in 2001. The increase is a result of a substantial increase in the mining (extraction) tax, which is indexed to the World price of Oil regardless of where the oil is actually sold. The increase in mining tax totaled approximately $2,430,000. The remaining increase is due to increased sales resulting in increased VAT in 2002.

The economics of the cost to produce an average barrel of oil, including taxes, decreased in 2002 from approximately $10.18 to $9.96. However, as a result of the production payment required with the Company covering all lifting costs and extraction taxes, the cost per barrel net to the Company was approximately $15.51 per barrel as the Company had fewer barrels net to cover these costs.

A breakdown of costs and expenses per bbl. is as follows:

Cost Category	2002 Before Production Payment	2002 Net of Production Payment	2001 Before Production Payment	2001 Net of Production Payment
Controllable Costs:				
Lifting Costs	$1.62	$3.24	$2.75	5.50
Goloil General & Administrative	0.73	1.46	1.62	3.24
Total Controllable Costs	$2.35	$4.70	$4.37	$8.74
Non-Controllable Costs:				
Mining & Misc. Taxes	3.20	6.40	1.91	3.82
Value Added Tax (VAT)	0.80	0.80	0.53	0.53
Transportation, Duties etc.	3.61	3.61	3.37	3.37
TOTAL Costs	$9.96	$15.51	$10.18	$16.46

Controllable costs, i.e. Lifting Costs and G&A Costs, have declined dramatically on a "per barrel" basis as a result of the higher levels of production and the efficiencies gained from that.

Taxes have risen, however, principally because of a new formula for the Mining or Extraction tax, which is indexed to the World Price of Oil, regardless of where the oil is sold. In December, this resulted in a per barrel mining tax that exceeded the per barrel receipts of sales in the Russian domestic market. The disparity between world prices and prices in the domestic market has been unusually large in 2002.

Currently, because of the renegotiated production payment, Teton's share of Goloil production may be sold 90% in the export market and 10% in the Russian domestic market, under a government agency (TransNeft) allotment, which the agency can change. Domestic oil sells at a lower price, but does not incur transportation costs and other costs and taxes related to export. This resulted in a December average selling price of $22.84 per barrel. Having the revised Production Payment in force for the full year 2003 will have the effect of raising the average price per barrel received without any increase in per barrel costs.

General and administrative expenses of $5,333,726 were incurred for the twelve months ended December 31, 2002 as compared to $1,521,970 for the twelve months ended December 31, 2001. The increase in general and administrative expenses of $3,811,756 reflects a significant increase in travel, consulting, legal, and accounting expenses in 2002. Increased capital raising required additional "road show" activities, public forum presentations, and increases in the number of individuals participating in these activities. This was reflected in increases in consulting fees, travel costs and legal fees. The addition of a COO, CFO, and a Russian accounting consultant increased consulting fees and travel costs. The restructuring of Goltech and the renegotiation of the production payment and related agreements also increased legal fees and travel costs. Goloil general and administrative expenses increased in 2002 by approximately $288,000 from 2001 due to the expanded operations. We expect that these expenses will return to a level of under $2,000,000 annually in 2003.

Depreciation, depletion and amortization was $451,930 for the twelve months ended December 31, 2002 as compared to $45,313 for the twelve months ended December 31, 2001. The increase in 2002 represents increased capitalized costs subject to depreciation and depletion, and an increase in amortization arising from changes in estimated recoverable reserves.

The Company also incurred financing costs of $5,498,106 during the twelve months ended December 31, 2002 for the amortization of discount related to warrants issued in connection with certain related party notes payable of $354,000 (non-cash), amortization of the discount on warrants issued with the convertible debentures and in-the-money conversion feature discounts of $4,558,000 (non-cash) immediately recognized, and $467,000 of expenses paid related to the 10% premium paid in common stock upon the conversion of the debentures on September 1, 2002. The remainder of these costs were expenses paid related to a debenture purchase agreement with a potential investor that was not consummated. 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 will not be indicative of future operations and will manage future capital raising programs to minimize or eliminate these costs.

Other income increased for the twelve months ended December 31, 2002 by $42,370, principally from interest on Goloil notes.

Interest expense for the twelve months ended December 31, 2002 was $385,939 as compared to $161,019 for the twelve months ended December 31, 2001. The increase of $224,920 reflects cash and non-cash interest costs on the convertible debt outstanding for a portion of the year.

Of our net loss of $10.97 million, we incurred significant non-cash charges totaling approximately $6.95 million, including 452,000 for depreciation, depletion and amortization, $1.1 million in equity compensation charges issued for services provided and $5.4 million for financing charges associated with our convertible debentures issued. These charges accounted for $.18 per share of our $.29 per share loss.

Liquidity and Capital Resources.

The Company has cash balances of $712,013 at December 31, 2002, with positive working capital of $176,042.

The Company received substantial subscriptions for Common Stock under its private placement offering in 2002. Through March 25, 2003, $1,939,610 has been received under these subscriptions. This amount has been recorded as Subscriptions Receivable at December 31, 2002.

Cash used from operations totaled $5,168,785, including non-cash adjustments to our net loss of 10,973,923 for 452,000 of depreciation, depletion and amortization, $1.1 million in equity compensation charges issued for services provided and $5.4 million for financing charges associated with our convertible debentures issued.

The Company used $3,222,349 of cash in investing activities, which was all invested in oil and gas property and equipment.

The Company had cash provided by financing activities of $9,061,418 which included $4,143,643 net proceeds from issuance of Convertible Debt, which was called on September 1, 2002 in exchange for Common Stock and Warrents, $3,333,460 net proceeds received from the sales of common stock under private placement offerings and, as part of the effects of the pro-rata consolidation of Goloil, advances from MOT to Goloil of $2,178,525. Teton is not a guarantor to MOT on the advances to Goloil, should Goloil not be able to repay them. Net reductions in Notes Payable of $594,210 also occured.

Our current agreement with MOT requires MOT and Teton to each fund half of the capital expenditures required for development. In the event we are unable to fund our portion of the capital expenditures and MOT proceeds with the planned development, our share of the oil production will be decreased. The reverse is also true.

Capital expenditures (our 50%) required to achieve the cash flows projected in our reserve report are now estimated at a total of $20.05 million net to Teton over the next 20 years for development of proved reserves, versus the prior estimate of $91.2 million net to Teton over 20 years. Based on our reserve analysis, we expect that cash flow to Teton from operations will fully cover both operating expenses and capital investment starting in 2005.

In 2003, we expect to invest approximately $6.5 million in capital expenditures. We anticipate that there will be sufficient operating revenue to fund a small percentage of the capital expenditures. Teton has funded approximately $3 million of this amount at March 31, 2003. Teton must raise additional capital or obtain debt financing to fund the balance of the expected capital expenditures. There can be no guarantee that Teton will be successful in raising these funds. If we are unable to fund our proportionate share of capital expenditures, MOT may fund our shortfall, in which event, our interest in production will be reduced.

Item 7. FINANCIAL STATEMENTS.

TETON PETROLEUM COMPANY

Consolidated Financial Statements
and
Independent Auditors' Report
December 31, 2002

TETON PETROLEUM COMPANY

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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 as of December 31, 2002, and the related consolidated statements of operations and comprehensive loss, changes in stockholders' (deficit) equity and cash flows for the years ended December 31, 2002 and 2001. 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 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 as of December 31, 2002, and the results of their operations and their cash flows for the years ended December 31, 2002 and 2001 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 28, 2003
Denver, Colorado

TETON PETROLEUM COMPANY

Consolidated Balance Sheet
December 31, 2002

Assets

Current assets	
Cash	$ 712,013
Proportionate share of accounts receivable	642,525
Proportionate share of accounts receivable (other)	913,583
Stock subscriptions receivable (paid in 2003)	1,939,610
Proportionate share of inventory	502,989
Prepaid expenses and other assets	91,446
Total current assets	4,802,166
Non-current assets	
Oil and gas properties, net (successful efforts)	4,896,308
Fixed assets, net	313,921
Total non-current assets	5,210,229
Total assets	$ 10,012,395

Liabilities and Stockholders' Equity

Current liabilities	
Accounts payable and accrued liabilities	$ 650,356
Proportionate share of accounts payable and accrued liabilities	1,534,344
Current portion of proportionate share of notes payable owed to affiliate	2,441,424
Total current liabilities	4,626,124
Non-current liabilities	
Proportionate share of notes payable advances owed to affiliate	507,001
Total non-current liabilities	507,001
Total liabilities	5,133,125

Commitments and contingencies

Stockholders' equity	
Common stock, $.001 par value, 100,000,000 shares authorized, 75,474,241 and 28,488,557 shares issued and outstanding at December 31, 2002 and 2001	75,474
Additional paid-in capital	26,096,030
Accumulated deficit	(22,022,734)
Foreign currency translation adjustment	730,500
Total stockholders' equity	4,879,270
Total liabilities and stockholders' equity	$ 10,012,395

See notes to consolidated financial statements.

TETON PETROLEUM COMPANY

Consolidated Statements of Operations and Comprehensive Loss

	For the Years Ended December 31,	
	2002	2001
Sales	$ 6,923,320	$ 1,625,352
Cost of sales and expenses		
Oil and gas production	2,741,303	1,068,250
Taxes other than income taxes	3,537,990	495,789
General and administrative	5,333,726	1,521,970
Depreciation, depletion and amortization	451,930	45,313
Total cost of sales and expenses	12,064,949	3,131,322
Loss from operations	(5,141,629)	(1,505,970)
Other income (expense)		
Other income	51,751	9,381
Interest expense	(385,939)	(161,019)
Financing charges	(5,498,106)	--
Total other income (expense)	(5,832,294)	(151,638)
Net loss	(10,973,923)	(1,657,608)
Other comprehensive loss, net of tax		
Effect of exchange rates	(140,773)	(84,041)
Comprehensive loss	$(11,114,696)	$ (1,741,649)
Basic and diluted weighted average common shares		

outstanding	37,262,817	26,927,259
Basic and diluted loss per common share	$ (0.29)	$ (0.06)

See notes to consolidated financial statements.

TETON PETROLEUM COMPANY

Consolidated Statements of Changes in Stockholders' (Deficit) Equity
For the Years Ended December 31, 2002 and 2001

	Common Stock		Additional	F
				C
			Paid-in	Tr
	Shares	Amount	Capital	Ad
Balance - December 31, 2000	24,977,341	$ 24,977	$ 8,469,221	$
Common stock issued for cash	3,466,772	3,467	1,294,806	
Common stock and warrants issued for services	44,444	44	32,581	
Compensation for variable plan warrants	--	--	(30,000)	
Net loss	--	--	--	
Foreign currency translation adjustment	--	--	--	
Balance - December 31, 2001	28,488,557	28,488	9,766,608	
Common stock issued for cash	14,684,845	14,685	3,318,775	
Common stock subscriptions paid in 2003	8,544,534	8,545	1,931,065	
Common stock and warrants issued for services	2,654,376	2,654	834,472	
Common stock issued for conversion of convertible debentures	21,101,929	21,102	5,333,887	
Warrants issued and in-the-money conversion feature on convertible debentures	--	--	4,557,845	
Warrants issued with notes payable	--	--	150,016	
Warrants issued in connection with extensions on notes payable	--	--	203,362	
Net loss	--	--	--	
Foreign currency translation adjustment	--	--	--	
Balance - December 31, 2002	75,474,241	$ 75,474	$ 26,096,030	$

See notes to consolidated financial statements.

TETON PETROLEUM COMPANY

Consolidated Statements of Cash Flows

	For the Years Ended December 31,	
	2002	2001
Cash flows from operating activities		
Net loss	$(10,973,923)	$ (1,657,608)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation, depletion, and amortization	451,930	45,313
Stock based compensation for variable plan warrants	--	(30,000)
Stock and stock options issued for services and interest	--	32,625
Warrants issued for notes payable extensions	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	(1,048,608)	(331,225)
Prepaid expenses and other assets	(57,446)	(18,063)
Inventory	(313,489)	(134,456)
Accounts payable and accrued liabilities	290,131	540,854
	5,805,138	105,048
Net cash used in operating activities	(5,168,785)	(1,552,560)
Cash flows from investing activities		
Oil and gas properties and equipment expenditures ...	(3,222,349)	(322,398)
Net cash used in investing activities	(3,222,349)	(322,398)
Cash flows from financing activities		
Net proceeds from (payments on) advances owed to affiliates under notes payable	2,178,525	(150,100)
Proceeds from issuance of convertible debentures	4,143,643	--
Issuance of common stock	--	1,298,273
Proceeds from notes payable	300,000	637,000
Payments on notes payable	(894,210)	(167,790)
Issuance of common stock	3,333,460	--
Net cash provided by financing activities	9,061,418	1,617,383
Effect of exchange rates	(140,773)	(31,806)
Net increase (decrease) in cash	529,511	(289,381)

Cash - beginning of year	182,502	471,883
Cash - end of year	$ 712,013	$ 182,502

Supplemental disclosure of cash flow information

Cash paid for:	Interest
2002	$ 120,008
2001	$ 28,123

Supplemental disclosure of non-cash activity:

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 125,000 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 1,000,000 warrants also being issued under the same terms of the Company's private placement offering of convertible debentures.

19,774,572 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 1,724,138 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 1,070,000 warrants valued at $14,250 for a total amount of $281,750 were issued for consulting services.

500,000 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 21,101,929 shares of stock with $466,771 being paid as a premium at conversion and recorded as financing costs.

2,654,376 shares of stock were issued to consultants for services valued at $607,790.

1,600,000 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 8,544,534 shares of stock. The cash for these subscriptions were paid during the first quarter of 2003.

During 2001, the Company had the following transactions:

44,444 shares of common stock valued at $16,667 were issued in exchange for consulting services.

100,000 stock warrants valued at $15,958 were issued in exchange for consulting services.

The Company assigned a $1,050,000 note payable to Goloil, which was then repaid from advances received under notes payable owed to affiliate. The Company recorded the net reduction of debt of $525,000 ($1,050,000 note payable less 50% share of the $1,050,000 advances from affiliate) as a reduction to oil and gas properties.

See notes to consolidated financial statements.

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 on the Russian Federation. Since the Company's operations are solely focused in the Russian Federation it is subject to 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.

Previously 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 we reflected our 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, 2002 and 2001, 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. 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.

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.

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 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. 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. Support equipment and other property and equipment are depreciated over their estimated useful lives. Currently the Company holds no unproved properties.

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.

Capitalized oil and gas property costs are depleted and depreciated using the units of production method based on estimated proved gross oil reserves as determined by an independent engineer. 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 did not have any significant development projects which have been excluded from depletion at Decemb er 31, 2002.

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 from 5 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. GNG may be required to reimburse the TDA in the form of a success fee if certain events occur by December 31, 2003, 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. The Company expects completion of the study in 2003 and has received $255,000 as of December 31, 2002 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, 2002 and 2001 the Company received $0 and $37,500 under TDA grants, respectively.

Minority Interest

As the share of minority interest losses exceeds the minority's investment, the Company has recorded 100% of current losses.

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, 2002 and 2001 were approximately 1 U.S. dollar to 31.78 and 30.52, Russian rubles, respectively.

Basic Loss Per Share

The Company applies the provisions of Statement of Financial Accounting Standard 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.

Fair Value of Financial Instruments

The carrying amounts of financial instruments including cash, accounts receivable, sundry receivables, accounts payable and accrued liabilities, and notes payable and convertible debentures approximated fair value as of December 31, 2002 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, 2002 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 2001 consolidated financial statements have been reclassified to conform to the 2002 presentation.

Recently Issued Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires the fair value of a liability for an asset retirement obligation to be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS No. 143 is effective for years beginning after June 15,2002. The Company has not yet determined the impact on its consolidated financial statements and is addressing whether it will be able to make a reasonable estimate of the fair value of such costs.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value, less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. SFAS 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, are to be applied prospectively. The Company believes that the adoption of this statement will have no material impact on its consolidated financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value when the liability is incurred. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company believes the adoption of this statement will have no material impact on its consolidated financial statements.

In November 2002, the FASB published interpretation No, 45 "Guarantor's Accounting and Disclosure requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". The Interpretation expands on the accounting guidance of Statements No. 5, 57, and 107 and incorporates without change the provisions of FASB Interpretation No. 34, which is being superseded. The Interpretation elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It also clarifies that at the time a company issues a guarantee, that company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and initial measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002, regardless of the guarantor's fiscal year-end. The disclosure requirements in the Interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company believes the adoption of this statement will have no material impact on its consolidated financial statements.

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation- Transition and Disclosure." This statement amends SFAS No. 123, "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 net income. The effective date for this Statement is for fiscal years ended after December 15, 2002. The Company believes the adoption of this statement will have no material impact on its consolidated financial statements.

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 (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, 2002. 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 154,000 tons of oil through December 31, 2002. The Company also has the obligation to compensate the affiliate for a minimum of 560,000 tons averaged of oil over a seven-year period for its investments under the oilfield development agreement.

Additionally, the affiliate has net direct loans to Goloil of approximately $6,000,000, 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).

<u>Note 3 - Property and Equipment</u>

Property and equipment consist of the following at December 31, 2002:

Building	$ 31,627
Vehicles	154,015
Computers and equipment	57,572
Well and production equipment	83,644
Furniture and fixtures	33,617
	360,475
Less: Accumulated depreciation	(46,554)
	$ 313,921

<u>Note 4 - Oil and Gas Properties</u>

<u>Goloil License</u>

The Company holds a 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 187 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 an area covering 187 square kilometers. 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 give preference to 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 the license rerquirements.

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 will be 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, will be the property of Goloil.

Capital expenditures for continued development of the license area are estimated at approximately $20 million net to Teton, with 6.5 million budgeted for 2003 as Teton's net share. Teton must raise additional equity or debt financing to fund their portion of these capital expenditures. There can be no assurance that Teton will be able to raise such financing on terms favorable to the Company or at all.

DCD Dagestan

In the second quarter of 2001, the Company divested itself of its subsidiary Teton Oil, Inc., which holds the remaining DCD Dagestan Licenses. The shares of Teton Oil, Inc. were distributed to two of the Company's stockholders and the stockholders also assumed any related obligations associated with the licenses. No gain or loss was recorded on the distribution as the net assets of Teton Oil, Inc. were written down to zero in 1998.

Note 5 - Notes Payable

During 2002, the 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 125,000 stock purchase warrants, with an exercise price of $0.50 that expire February 2004, which have 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 1,724,138 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 1,000,000 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, 500,000 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 modifcations totaled $353, 379 and have been recorded as financing costs during the year ended December 31, 2002.

Note 6 - Proportionate Share of Liabilities

The proportionate share of accounts payable and accrued liabilities of $1,534,344 at December 31, 2002 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 December 31, 2002 and not Teton Petroleum nor have they been guaranteed by Teton Petroleum.

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 February 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 entended to future periods............................	$ 2,948,425
Less: current portion	(2,441,424)
	$ 507,001

Note 7 - Stockholders' Equity

On January 3, 2001, the Stockholders of the Company approved an increase in the number of authorized shares of common stock from 50,000,000 to 100,000,000.

On March 19, 2003, the stockholders, increased the authorized common shares from

100,000,000 to 250,000,000 and authorized 25,000,000 of preferred stock available for future issuance.

Common Shares Issued for Service

During the years ended December 31, 2002 and 2001, 2,654,376 and 44,444 common shares were issued for consulting services which have been valued at $605,136 and $32,625, respectively.

In connection with a consulting agreement, the Company agreed to issue 88,888 shares of stock during the second quarter of 2002 for services provided in 2001 valued at $23,200. The Company has 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 (a $.25 conversion rate).

The debentures also included warrants to purchase common stock and have an exercise price of $.50 and a term of two years. Each debenture holder received one warrant for each $.25 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 $.25 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.

2002 Private Placement

During 2002, the Company issued 14,684,845 shares of common stock under private placement offerings receiving proceeds of $3,333,460. In connection with the private placement offerings, the Company also issued a warrant for each $.25 stock investment. The warrants have a term of two years and an exercise price of $.50.

At December 31, 2002 the Company had $1,939,610 of subscriptions receivable for 8,544,534 shares of common stock for which the cash was paid in 2003 and has been included in common stock in the accompanying financial statements.

Common Share Purchase Warrants

During 2002, the Company issued 1,600,000 warrants to consultants for services valued at $215,086. The Company also issued 7,401,480 to employees and directors for services performed.

During 2001, the Company issued 3,466,772 warrants in connection with private placement offerings with an exercise price of $0.41 and expire between May 15, 2006 and August 15, 2006. Also, the Company issued 100,000 warrants to a third party for consulting services. The warrants have an exercise price of $0.41 and expire September 9, 2006. The warrants were valued at $15,958 using the Black Scholes option pricing model with assumption of volatility of 100%, risk free rate of 5.5 and no dividend yield.

The following table presents the activity for warrants outstanding:

	Shares	Weighted Average Exercise Price
Outstanding - December 31, 2000	3,237,613	$ 0.61
Granted	3,566,772	0.22
Forfeited/canceled	(275,213)	0.17
Outstanding - December 31, 2001	6,529,172	0.44
Granted	48,824,189	0.46
Forfeited/canceled	(300,000)	0.40
Outstanding - December 31, 2002	55,053,361	$ 0.46

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

	Shares Outstanding		
Range of Exercise Prices	Number	Price*	Life*
$0.227 - 0.50	54,553,361	$ 0.45	1.67
$0.75 - 1.00	500,000	0.01	0.02
Total - December 31, 2002	55,053,361	$ 0.46	1.69

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

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 the stock option plans. Had compensation cost for the Company's option plan been determined based on the fair value at the grant date for awards consistent with the provisions of SFAS No. 123, the Corporation'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, 2002	2001
Net loss - as reported	$(10,973,923)	$ (1,657,608)

Net loss - pro forma	(11,945,964)	(1,657,608)
Basic loss per common share - as reported	(0.29)	(0.06)
Basic loss per common share - pro forma	(0.32)	(0.06)

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,	
	2002	2001
Approximate risk free rate	4.50%	-%
Average expected life	2 years	- years
Dividend yield	-%	-%
Volatility	87.20%	-%
Estimated fair value of total options granted.	$972,041	$ -

Stock Options

The Company maintains a stock option plan for the issuance of options to directors, officers, employees and consultants to the Company. The Company has reserved 1,950,000 shares for issuance under the plan.

The following table presents the activity for stock option's outstanding:

	Shares	Weighted Average Exercise Price
Outstanding - December 31, 2000	450,000	$ 0.40
Forfeited/canceled	(450,000)	(0.40)
Outstanding - December 31, 2001 and 2002	-	-

Note 8 - 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 carryforwards, no provision for income taxes has been recorded.

The Company has net operating loss carryforwards for U.S. tax purposes of approximately $8,950,000, which expire between 2012 and 2022, 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 tax, value-added tax ("VAT"), payroll taxes and property taxes.

The Company had no income tax liabilities or expense for the years ended December 31, 2002 or 2001. ZAO Goloil has net operating loss carryforwards which are available to offset future taxable income which will expire in 2012. The foreign income tax carryforwards for Russian tax purposes are limited to a maximum of 30% of taxable income in any year.

Management believes that it will not be subject to future repatriation tax if profits from the project are invested in other projects within Russia.

Note 9 - Commitments and Contingencies

Contingencies

There is currently a high level of political and economic instability and uncertainty in the Russian Federation. As a result of the financial crisis in August 1998, all financial markets were subject to significant downward adjustments. The national currency was severely devalued during the crisis and continued to deteriorate through the end of 1998. The Russian banking system suffered significant liquidity problems and several large Russian banking institutions stopped operations and/or experienced significant losses. The Russian Government defaulted on, and announced a restructuring of, its internal debt due to a lack of funds and is likely to seek forgiveness and/or restructuring of its external debt.

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, 2002.

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.

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.

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

The Company has employment agreements with its president and secretary through May 31, 2005 and December 1, 2002, respectively, which provide for certain salaries as specified and other related matters and may be terminated by the written consent of the employees prior to expiration.

Note 10 - 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, 2002	2001
Property acquisition costs	$ -	$ -
Development costs	4,150,742	322,398
Total	$4,150,742	$ 322,398

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

	For the Years Ended December 31, 2002	2001
Property acquisition costs	$ 595,558	$ 595,558
Development costs (1)	4,830,421	679,679
	5,425,979	1,275,237
Accumulated depreciation, depletion, amortization and valuation allowances	(529,671)	(106,137)
Net capitalized costs	$4,896,308	$ 1,169,100

(1) 2001 development costs reflect a net reduction of $525,000 to oil and gas properties for the repayment of debt by an affiliate which has been treated as a recovery on investment in the property.

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, 2002	2001
Oil and gas sales	$6,923,320	$ 1,625,352
Production costs	(2,741,303)	(1,068,250)
Taxes other than income taxes	(3,537,990)	(495,789)
Depletion, depreciation and amortization	(451,930)	(45,313)
Results of operations from oil and gas producing activities	$ 192,097	$ 16,000

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.

The following table presents estimates of the Company's net proved oil and gas reserves:

For t