

Chemours Co  
Form 10-K  
February 16, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

Commission File Number 001-36794

The Chemours Company

(Exact Name of Registrant as Specified in Its Charter)

Delaware	46-4845564
(State or other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
1007 Market Street, Wilmington, Delaware 19899	

(Address of Principal Executive Offices)

Registrant's Telephone Number: (302) 773-1000

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

Title of Each Class	Name of Exchange on Which Registered
Common Stock (\$.01 par value)	New York Stock Exchange

Securities are registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark whether the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act). Yes      No

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes      No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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      No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes      No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not 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-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer      Accelerated filer      Non-accelerated filer  
Smaller reporting company      Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes      No

The aggregate market value of common stock held by non-affiliates of the registrant as of June 30, 2017, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$7.0 billion. As of February 13, 2018, 182,524,068 shares of the company's common stock, \$0.01 par value, were outstanding.

Documents Incorporated by Reference

Portions of the registrant's definitive proxy statement relating to its 2018 annual meeting of shareholders (2018 Proxy Statement) are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. The 2018 Proxy Statement will be filed with the U. S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

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The Chemours Company

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The Chemours Company

Forward-looking Statements

This section and other parts of this Annual Report on Form 10-K contain forward-looking statements, within the meaning of the federal securities law, that involve risks and uncertainties. Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. The words “believe,” “expect,” “anticipate,” “plan,” “estimate,” “target,” “project,” and similar expressions, among others, generally identify “forward-looking statements,” which speak only as of the date the statements were made. The matters discussed in these forward-looking statements are subject to risks, uncertainties, and other factors that could cause actual results to differ materially from those set forth in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and within Item 1A – Risk Factors.

Forward-looking statements are based on certain assumptions and expectations of future events which may not be accurate or realized. Forward-looking statements also involve risks and uncertainties, many of which are beyond our control. Important factors that may materially affect such forward-looking statements and projections include:

- fluctuations in energy and raw materials pricing;
- failure to develop and market new products and applications, and optimally manage product life cycles;
- significant litigation and environmental matters, including indemnifications we were required to assume;
- significant or unanticipated expenses, including, but not limited to, litigation or legal settlement expenses;
- increased competition and increasing consolidation of our core customers;
- changes in relationships with our significant customers and suppliers;
- failure to manage process safety and product stewardship issues appropriately;
- global economic and capital markets conditions, such as inflation, interest and currency exchange rates, and commodity prices, as well as regulatory requirements;
- currency-related risks;
- our current indebtedness and availability of borrowing facilities, including access to our revolving credit facilities;
- business or supply disruptions and security threats, such as acts of sabotage, terrorism or war, weather events, and natural disasters;
- uncertainty regarding the availability of additional financing in the future, and the terms of such financing;
- negative rating agency actions;
- changes in laws and regulations or political conditions;
- ability to protect, defend, and enforce our intellectual property rights;
- our ability to predict, identify, and address changes in consumer preference and demand;
- our ability to complete potential divestitures or acquisitions and our ability to realize the expected benefits of divestitures or acquisitions if they are completed;
- our ability to deliver cost savings as anticipated, whether or not on the timelines proposed;
- our ability to meet our growth expectations through 2020;
- our ability to pay a dividend and the amount of any such dividend declared; and,
- disruptions in our information technology networks and systems.

Additionally, there may be other risks and uncertainties that we are unable to identify at this time, or that we do not currently expect to have a material impact on our business. We assume no obligation to revise or update any forward-looking statement for any reason, except as required by law.

Unless the context otherwise requires, references herein to “The Chemours Company,” “Chemours,” “the Company,” “our company,” “we,” “us,” and “our” refer to The Chemours Company and its consolidated subsidiaries. References herein to “DuPont” refer to E.I. du Pont de Nemours and Company, a Delaware corporation, and its consolidated subsidiaries

(other than Chemours and its consolidated subsidiaries), unless the context otherwise requires.

The Chemours Company

## PART I

### Item 1. BUSINESS

#### Overview

The Chemours Company (herein referred to as us, we, or our) is a leading, global provider of performance chemicals that are key inputs in end-products and processes in a variety of industries. We deliver customized solutions with a wide range of industrial and specialty chemicals products for markets, including plastics and coatings, refrigeration and air conditioning, general industrial, electronics, mining, and oil refining. Our principal products include titanium dioxide (TiO<sub>2</sub>), refrigerants, industrial fluoropolymer resins, sodium cyanide, and performance chemicals and intermediates. We manage and report our operating results through three reportable segments: Titanium Technologies, Fluoroproducts, and Chemical Solutions. Our Titanium Technologies segment is a leading, global producer of TiO<sub>2</sub> pigment, a premium white pigment used to deliver whiteness, brightness, opacity, and protection in a variety of applications. Our Fluoroproducts segment is a leading, global provider of fluoroproducts, including refrigerants and industrial fluoropolymer resins. Our Chemical Solutions segment is a leading, North American provider of industrial chemicals used in gold production, industrials, and consumer applications.

We operate 26 production facilities located in 10 countries and serve approximately 4,000 customers across a wide range of end-markets in nearly 130 countries.

The following chart sets forth the global sales of our businesses for the years ended December 31, 2017, 2016, and 2015.

(1)Europe, the Middle East, and Africa (EMEA).

(2)Latin America includes Mexico.

We are committed to creating value for our customers through the reliable delivery of high quality products and services around the globe. We create value for our customers and stockholders through: (i) operational excellence and asset efficiency, which includes our commitment to safety and environmental stewardship; (ii) strong customer focus to produce innovative, high performance products; (iii) focus on cash flows generation through optimization of our cost structure, and improvement in working capital and supply chain efficiencies through our transformation plan (described below); (iv) organic growth and inorganic expansions to current business; and, (v) creation of an organization that is committed to our corporate values of safety, customer appreciation, simplicity, collective entrepreneurship, and integrity.

Many of our commercial and industrial relationships span decades. Our customer base includes a diverse set of companies, many of which are leaders in their respective industries. Our sales are not materially dependent on any single customer. As of December 31, 2017, no one individual customer balance represented more than 5% of our total outstanding receivables balance and no one individual customer represented more than 10% of our net sales.

## The Chemours Company

### Corporate History

We began operating as an independent company on July 1, 2015 (Separation Date) after separating from E.I. du Pont de Nemours and Company (DuPont) (Separation). Effective prior to the opening of trading on the New York Stock Exchange (NYSE) on the Separation Date, DuPont completed the Separation of the businesses comprising its Performance Chemicals reporting segment, and certain other assets and liabilities, into us, a separate and distinct public company. The Separation was completed by way of a distribution of all of the then-outstanding shares of our common stock through a dividend-in-kind of our common stock (par value \$0.01) to holders of DuPont's common stock (par value \$0.30) as of the close of business on June 23, 2015 (Record Date).

On the Separation Date, each holder of DuPont's common stock received one share of our common stock for every five shares of DuPont's common stock held on the Record Date. The Separation was completed pursuant to a separation agreement and other agreements with DuPont, including an employee matters agreement, a tax matters agreement, a transition services agreement, and an intellectual property cross-license agreement. These agreements govern the relationship between us and DuPont following the Separation and provided for the allocation of various assets, liabilities, rights, and obligations at the Separation Date. These agreements also included arrangements for transition services provided to us by DuPont, which were substantially completed during 2016.

### Our Five-Point Transformation Plan

Following the Separation, we developed a five-point transformation plan to address changes to our organization, cost structure, and portfolio of businesses. We made considerable progress on our transformation plan from August 2015 through December 2017 and declared the transformation plan complete at the end of 2017.

The objectives of our multi-year, five-point transformation plan were to improve our financial performance, streamline and strengthen our portfolio, and reduce our leverage by:

- (i) reducing our costs through a simpler business model;
- (ii) optimizing our portfolio to focus on businesses where we have leading positions;
  - (iii) growing our market positions where we have competitive advantages;
- (iv) refocusing our investments by concentrating our capital expenditures on our core businesses; and,
- (v) enhancing our organization to deliver our values and support our transformation to a higher value chemistry company.

Through our cost reduction and growth initiatives, as well as improved market conditions, we delivered over \$800 million of incremental adjusted earnings before interest, income taxes, depreciation, and amortization (Adjusted EBITDA) improvement over 2015 through 2017. Through year-end 2017, we realized approximately \$350 million in cost savings since the Separation, which improved our pre-tax earnings by similar amounts. We continue to implement additional cost reduction initiatives in order to realize additional structural cost savings through 2018 and beyond. These improvements were realized after offsets related to the impact of divestitures completed during 2016, unfavorable price and mix of other products, and may also be impacted by market factors and other costs to achieve our plan.

For the year ended December 31, 2017, we had pre-tax income and Adjusted EBITDA of \$912 million and \$1.4 billion, respectively, compared with a pre-tax loss and Adjusted EBITDA of \$11 million and \$822 million, respectively, for the year ended December 31, 2016, and a pre-tax loss and Adjusted EBITDA of \$188 million and \$573 million, respectively, for the year ended December 31, 2015. Through a combination of higher cash flows from



operations and proceeds from asset sales, we reduced our leverage ratio (defined as the ratio of our net debt, or debt less cash and cash equivalents, to Adjusted EBITDA) to below 2.0 times at the end of 2017.

Adjusted EBITDA is a financial measure that is not defined by generally accepted accounting principles (GAAP) in the United States (U.S.) (i.e., it is a non-GAAP financial measure). For further discussion regarding our use of non-GAAP financial measures and reconciliations to their closest GAAP financial measures, see “Non-GAAP Financial Measures” within Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations.

#### Growth Expectations Through 2020

On December 1, 2017, we held our first investor day, during which we described how we expect each of our businesses to contribute to our overall growth. For our Titanium Technologies segment, we are implementing a value stabilization strategy in order to seek to reduce volatility for our Ti-Pure™ TiO<sub>2</sub> pigment earnings. For our Fluoroproducts segment, we are optimizing our fluorochemicals product mix with the expansion of Opteon™ refrigerants capacity and renewing our fluoropolymers portfolio through application development. For our Chemical Solutions segment, we are expanding our capacity to meet demand for our Mining Solutions products. To the extent we are successful in implementing such plans, as to which no assurance can be made, we aim to meet key financial targets through 2020, including goals for our future net sales growth, Adjusted EBITDA margin improvement, adjusted earnings per share (Adjusted EPS), Free Cash Flows (FCF), and Return on Invested Capital (ROIC).

## The Chemours Company

Adjusted Net Income, Adjusted EPS, FCF, and ROIC are non-GAAP financial measures. Adjusted Net Income is defined as our net income, adjusted for items excluded from Adjusted EBITDA, except interest expense, depreciation and amortization, and certain provision for (benefit from) income tax amounts. Adjusted EPS is presented on a diluted basis and is calculated by dividing our Adjusted Net Income by the weighted-average number of our common shares outstanding, accounting for the dilutive impact of our stock-based compensation awards. FCF is defined as our cash flows provided by operating activities, less purchases of property, plant, and equipment as shown in our consolidated statements of cash flows. ROIC is defined as Adjusted EBITDA, less depreciation and amortization (Adjusted EBIT), divided by the average of our invested capital, which amounts to our net debt plus equity. For further discussion regarding the risks associated with our failure to meet these key financial targets for 2020, see Item 1A – Risk Factors. For further discussion regarding our use of non-GAAP financial measures and reconciliations to their closest GAAP financial measures, see “Non-GAAP Financial Measures” within Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations.

## Segments

In our Titanium Technologies segment, we have a long-standing history of delivering high quality TiO<sub>2</sub> pigment using our proprietary chloride technology. We are one of the largest global producers of TiO<sub>2</sub>, and our low cost network of manufacturing facilities allows us to efficiently and cost-effectively serve our global customer base. During 2016, we further enhanced our operating cost advantage with the startup of a second production line at our Altamira, Mexico facility. We believe we are well-positioned to remain one of the lowest cost TiO<sub>2</sub> producers and continue to meet our customers’ growing needs around the world.

In our Fluoroproducts segment, we are one of two globally-integrated producers making both fluorochemicals and fluoropolymers. In our fluorochemicals business, we expect to see increased adoption of Opteon™, one of the world’s lowest global warming potential (GWP) refrigerants, as governments around the world pass legislation that makes the use of low GWP refrigerants a requirement. Our fluoropolymers offerings provide customers with tailored products that have unique properties, including very high temperature resistance and high chemical resistance. We will continue to invest in research and development (R&D) to remain a leader in these areas and ensure that we are able to meet our customers’ needs as regulations change.

In our Chemical Solutions segment, we completed a strategic review of our portfolio in 2016, which included the announced sales of our aniline facility in Beaumont, Texas, our Clean & Disinfect (C&D) business, and our Sulfur products business, as well as ceasing production at our Reactive Metals Solutions (RMS) facility in Niagara Falls, New York. We remain committed to retaining and improving our Mining Solutions business (previously known as our Cyanides business) and the product lines at our Belle, West Virginia site. As the largest global producer of solid sodium cyanide, our Mining Solutions business is recognized for our quality product offering, reliability of supply, and commitment to the safe production, storage, and use of our products. Global demand growth over the next three years is expected to remain healthy, driven by growth in gold ore processing volumes, and use as an intermediate in the synthesis of other chemicals (primarily in China). In the Americas region, the demand for sodium cyanide is expected to far exceed global demand growth rates, and as a result, we are currently building a new manufacturing facility in Mexico using a proprietary manufacturing technology that is inherently easier and safer to use. This new facility is expected to increase our sodium cyanide supply by approximately 50%, and it is expected to be completed in 2018.

We will maintain our commitment to responsible stewardship and safety for our employees, customers, and the communities where we operate. Meeting and exceeding our customers’ expectations while conducting business in accordance with our high ethical standards will continue to be a primary focus for us as we continue to transform into

a higher value chemistry company.

Additional information on our segments can be found in Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations and “Note 25 – Geographic and Segment Information” within the Consolidated Financial Statements.

## Titanium Technologies Segment

### Segment Overview

Our Titanium Technologies segment is a leading, global manufacturer of  $\text{TiO}_2$ .  $\text{TiO}_2$  pigment is used to deliver whiteness, opacity, brightness, and ultra-violet light protection in applications such as architectural and industrial coatings, flexible and rigid plastic packaging, polyvinylchloride (PVC) window profiles, laminate papers used for furniture and building materials, coated paper, and coated paperboard used for packaging. We sell our  $\text{TiO}_2$  pigment under the Ti-Pure™ brand name to approximately 700 customers globally. We also sell a chloride-based  $\text{TiO}_2$  pigment under the BaiMax™ brand name, which is exclusively produced for customers in Greater China. We operate four  $\text{TiO}_2$  production facilities: two in the U.S., one in Mexico, and one in Taiwan. In addition, we have a large-scale repackaging and distribution facility in Belgium and operate a mineral sands mining operation in Starke, Florida. In total, we have a  $\text{TiO}_2$  pigment capacity of approximately 1.25 million metric tons per year. We expanded our  $\text{TiO}_2$  production facility in Altamira, Mexico in 2016, and by late 2017, we demonstrated full production capacity.

## The Chemours Company

We are one of a limited number of producers operating a chloride process for the production of TiO<sub>2</sub> pigment. We believe that our proprietary chloride technology enables us to operate plants at a much higher capacity than other chloride technology-based TiO<sub>2</sub> producers, as we uniquely utilize a broad spectrum of titanium-bearing ore feedstocks to achieve the highest TiO<sub>2</sub> Beneficial Class Beneficial Class Ownership (1) (%) Ownership (1) (%)

----- Advisory Group 132,464 1.94% 0 0 Alex Campbell 7,047  
 \* 0 0 Alfred John Knapp, Jr. SEP c/o Citizens National Bank Custodian 70,046 1.01% 0 0 Alzarouni, Ali M.S. 14,123  
 \* 0 0 Alzarouni, Ayoub M.A. 21,184 \* 0 0 Alzarouni, Hesham M.S. 21,184 \* 0 0 Alzarouni, Sami Ismile 14,123 \* 0 0  
 Amarillys Inc. 71,188 1.04% 0 0 AMPM Enterprises 122,580 1.79% 0 0 Andrew Deitz 10,509 \* 0 0 Andrew P.  
 Echtermeyer 7,006 \* 0 0 Andrew W. Coulton 7,006 \* 0 0 Andrew W. Cumming 105,767 1.56% 0 0 Arthur J.  
 Niebauer 1,576 \* 0 0 Athens Building Inc. 70,485 1.03% 0 0 Avanti Resources, LTD 4,379 \* 0 0 Avv. Carlo Canal  
 70,860 1.04% 0 0 Balruddery Investments Inc. 105,067 1.54% 0 0 Bank Leumi le-Israel, Zurich 106,083 1.55% 0 0 32  
 Barfield Nominees A/C 12239 161,102 2.35% 0 0 Barnaby J. Howard 14,262 \* 0 0 Barry Alter 17,857 \* 0 0 Barry  
 Biniaris 28,019 \* 0 0 Barry Skolnick 17,512 \* 0 0 Bernard Klein Holdings Ltd. 17,832 \* 0 0 Braden Resources  
 Corporation 17,736 \* 0 0 Brent Alexander Oswald 1,429 \* 0 0 Brian Gruson 58,048 \* 0 0 Brownstone Resources  
 71,499 1.05% 0 0 BTR Global Arbitrage Trading Limited 175,111 2.55% 0 0 BTR Global Opportunity Trading  
 Limited 35,023 \* 0 0 Builders (Int'l) Limited 71,426 1.05% 0 0 C&J Pension Trust, James J. & Claire Woodcock  
 Trustees\* 143,325 2.09% 0 0 C.R. Bailey 7,043 \* 0 0 Candace G. Taylor 1,427 \* 0 0 Carlo Canal 70,045 1.03% 0 0  
 Carol Press 4,379 \* 0 0 Carole Hall 17,512 \* 0 0 Cedric Middleton 3,503 \* 0 0 CGT Management 350,222 5.10% 0 0  
 Charles Cannon Brookes 10,507 \* 0 0 Charles Schwab & Co Inc. fbo Susan Crowe Whitcomb, IRA 28,418 \* 0 0  
 Chris Deitz 31,787 \* 0 0 Christiaan Marie Rutten 14,266 \* 0 0 Christopher Vujnovich 35,024 \* 0 0 Conroy & Co.  
 24,940 \* 0 0 Credit Agricole Indosuez (Suisse) SA 178,483 2.62% 0 0 Crystal Oswald IRA 9,627 \* 0 0 Current  
 Capital Corporation 183,997 2.69% 0 0 33 Dale H. & Jean F. Dorn Testamentary Trust FBO Dale F. Dorn 35,371 \* 0  
 0 Daniel Luskind 1,576 \* 0 0 David Curran 10,670 \* 0 0 David Reitz 3,503 \* 0 0 David T. Annear 714 \* 0 0 Dennis  
 H. and Peggy L. Sun 1,426 \* 0 0 DL Family Limited Partnership 3,242 \* 0 0 Eaton Vance Emerald Emerging Markets  
 Fund 19,263 \* 0 0 Edward Ajootian 71,134 1.04% 0 0 Energy Properties Limited, LP 3,242 \* 0 0 Enza Vitiello  
 88,916 1.30% 0 0 Eurofinance, Inc. 431,756 6.17% 0 0 Excelsior Mining Fund 43,726 \* 0 0 Family Tree Corporation  
 17,848 \* 0 0 Finanz-Und Unternehmensberatung 26,771 \* 0 0 Francis D. Hopkins 2,102 \* 0 0 Franco Pivoli 28,502 \*  
 0 0 Garrett R. Bowden 3,503 \* 0 0 Gene A. Williams 354 \* 0 0 George Hardy 17,830 \* 0 0 George W. Clay IV  
 53,131 \* 0 0 Gerhard Jansen 4,167 \* 0 0 Gian Carlo Testori 7,006 \* 0 0 Global Undervalued Securities 700,442  
 9.84% 0 0 Great Eastern Energy & Development Corporation 70,588 1.04% 0 0 Hare & Co. 168,106 2.45% 0 0 Harry  
 Ptasynski and Nola Grace Ptasynski, husband and wife 4,052 \* 0 0 Henry D. Haskell 35,521 \* 0 0 Henry S. Krauss  
 1,576 \* 0 0 Herbert W. Mahler 7,119 \* 0 0 Ilia Gurevich 13,162 \* 0 0 34 Ivy L. Fredericks 8,406 \* 0 0 James Cleaver  
 14,189 \* 0 0 James J. Woodcock 100,000 1.45% 0 0 James Ladner 28,297 \* 0 0 Janine C. Lederman 35,023 \* 0 0  
 Jeffrey R. Shotbolt 17,743 \* 0 0 Jim Kirby 22,910 \* 0 0 Joel A.B. Clark 4,967 \* 0 0 Johathan Banks 17,764 \* 0 0 John  
 F. Dorn 35,371 \* 0 0 John Hunzinger 3,528 \* 0 0 John P. O'Shea 7,880 \* 0 0 Joseph Bongiorno 14,183 \* 0 0 Judith  
 Douglas 4,379 \* 0 0 Kane, Gillian 702 \* 0 0 Kelly Butler 7,006 \* 0 0 Kelly V. Oswald 7,140 \* 0 0 Ken M. Welshimer  
 and Theresa L. Welshimer, husband and wife 7,067 \* 0 0 Laurent Cohen 21,014 \* 0 0 Laurus Master Fund, Ltd.  
 166,667 2.40% 0 0 Lee M. Wheeler 17,512 \* 0 0 Leon Ventures Inc. 35,562 \* 0 0 Lillian C. Leiva 7,006 \* 0 0 Louis  
 A. Oswald III IRA 4,212 \* 0 0 Louis A. Oswald Jr. 2,857 \* 0 0 Lucia Gison 70,964 1.09% 0 0 Lynda Yablon 4,379 \*  
 0 0 Lyndon R. Wentz 3,563 \* 0 0 M&D Land Company 1,426 \* 0 0 Malto Investments LLC 35,024 \* 0 0 Mark  
 Wehde and Marilee 3,566 \* 0 0 Marrs McLean Bowman 35,371 \* 0 0 Mary and Keith Axelson, husband and wife  
 3,531 \* 0 0 35 Marrs McLean Bowman 16,667 0.37% 0 0 Mary and Keith Axelson, husband and wife 1,667 0.04% 0  
 0 Maxim Partners LLC 10,000 0.22% 0 0 Melvin T. and Laurie L. Baker, as tenants by the entirety 303 0.01% 0 0  
 Michael Hopkins 334 0.01% 0 0 Michael J. Hayward 6,667 0.15% 0 0 Michael R. Block 1,667 0.04% 0 0 Midhill, a  
 Wyoming Partnership, trustee f/b/o Susan E. Heiss IRA 6,055 \* 0 0 Mr. Gunnar C. Askeland 3,334 0.07% 0 0 Mr.  
 James Rosenfield 16,667 0.37% 0 0 Ms. Lee M. Wheeler 8,334 0.18% 0 0 Musgrave Investments, Ltd. 12,485 0.28%  
 0 0 Nicholas E. Wendland 1,514 0.03% 0 0 North Link Oil and Gas, Ltd. 6,667 0.15% 0 0 Orhan I. Sadik-Khan

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16,668 0.36% 0 0 P. Richard Restall 16,667 0.37% 0 0 Palm Beach Overseas Investment Limited 183,114 4.06% 0 0 Patrick O'Meara 33,334 0.74% 0 0 Paul Birmingham 10,002 \* 0 0 Paul Wehde 152 0.00% 0 0 Pershing Keen Nominees Limited A/C AGCLT 28,334 1.29% 0 0 Philip R. Kruse 6,667 0.15% 0 0 Pipeline Displays Ltd. 16,667 0.37% 0 0 R.F. Bailey 11,667 0.26% 0 0 Rachael Krutchkoff 6,667 0.15% 0 0 Regency Resources, Inc. 8,334 0.18% 0 0 Richard and Dianne Kane 334 0.01% 0 0 Richard Butler 20,000 0.44% 0 0 Richard Elder 33,334 0.74% 0 0 Richard Lamb 33,334 0.74% 0 0 Robert D. and Julie L. Annear, joint tenants 667 0.01% 0 0 36 Rockwell Capital Ventures 48,334 1.08% 0 0 Ron Amini 33,334 0.74% 0 0 Ronald Weslosky 757 0.02% 0 0 Russell N. Adkins 8,334 0.18% 0 0 S. Lee Bowden 1,667 0.04% 0 0 Sagi Genger 8,334 0.18% 0 0 Salomon Smith Barney, Trustee for the IRA of Karl F. Arleth 16,667 0.37% 0 0 Salvatore Somma 6,667 0.15% 0 0 Samuel D. Haskell 10,000 0.22% 0 0 Sapphire Capital Limited 33,334 0.74% 0 0 Sheldon Inwentash 8,334 0.18% 0 0 Shirley L. Shanker 834 0.02% 0 0 Simon Piggott - 0.00% 0 0 Snapper, Inc. 118,168 2.63% 0 0 Strategic Partners Ltd. 2,000,001 4.44% 0 0 Suncrest Securities Corporation 33,334 0.74% 0 0 The Advisory Group 36,667 0.81% 0 0 Third Millennium Russia Fund 166,667 3.70 0 0 Thomas D. & Sheila K. Lawson 6,667 0.15% 0 0 Timothy John Cawston 8,334 0.18% 0 0 Tradewinds Offshore Fund 8,334 0.18% 0 0 UFG Tradewinds Debt Strategies Fund, LP 25,000 0.55% 0 0 UFG Tradewinds Russia Value Fund, LLC 16,667 0.37% 0 0 Veronica Kristi Prenn 33,334 0.74% 0 0 Veronica Kristi Prenn 33,334 0.74% 0 0 Volga Fixed Income Fund, L.P. 33,334 0.74% 0 0 Vostok Fund LP 83,334 1.85% 0 0 William and Nancy Axelson 1,667 0.04% 0 0 William Flynn 3,027 0.07% 0 0 William Gaskey 4,167 0.09% 0 0 37 William J. Ritger 9,000 0.20% 0 0 William Ritger 25,000 0.55% 0 0 Wind River Resources, Inc. 1,514 0.03% 0 0 Wyatt R. Haskell 83,334 1.85% 0 0 Yergin, Daniel H. 25,001 \* 0 0 The above warrants are exercisable at \$6.00 per share. 38 COMMON STOCK: Before Offering After Offerings ----- Name and address of Amount and Amount and Beneficial Owner Nature of Percent of Nature of Percent of Beneficial Class Beneficial Class Ownership (1) (%) Ownership (1) (%) ----- Advisory Group 132,464 1.94% 0 0 Alex Campbell 7,047 \* 0 0 Alfred John Knapp, Jr. SEP c/o Citizens National Bank Custodian 70,046 1.01% 0 0 Alzarouni, Ali M.S. 14,123 \* 0 0 Alzarouni, Ayoub M.A. 21,184 \* 0 0 Alzarouni, Hesham M.S. 21,184 \* 0 0 Alzarouni, Sami Ismile 14,123 \* 0 0 Amarillys Inc. 71,188 1.04% 0 0 AMPM Enterprises 122,580 1.79% 0 0 Andrew Deitz 10,509 \* 0 0 Andrew P. Echtermeyer 7,006 \* 0 0 Andrew W. Coulton 7,006 \* 0 0 Andrew W. Cumming 105,767 1.56% 0 0 Arthur J. Niebauer 1,576 \* 0 0 Athens Building Inc. 70,485 1.03% 0 0 Avanti Resources, LTD 4,379 \* 0 0 Avv. Carlo Canal 70,860 1.04% 0 0 Balruddery Investments Inc. 105,067 1.54% 0 0 Bank Leumi le-Israel, Zurich 106,083 1.55% 0 0 39 Barfield Nominees A/C 12239 161,102 2.35% 0 0 Barnaby J. Howard 14,262 \* 0 0 Barry Alter 17,857 \* 0 0 Barry Biniaris 28,019 \* 0 0 Barry Skolnick 17,512 \* 0 0 Bernard Klein Holdings Ltd. 17,832 \* 0 0 Braden Resources Corporation 17,736 \* 0 0 Brent Alexander Oswald 1,429 \* 0 0 Brian Gruson 58,048 \* 0 0 Brownstone Resources 71,499 1.05% 0 0 BTR Global Arbitrage Trading Limited 175,111 2.55% 0 0 BTR Global Opportunity Trading Limited 35,023 \* 0 0 Builders (Int'l) Limited 71,426 1.05% 0 0 C&J Pension Trust, James J. & Claire Woodcock Trustees\* 143,325 2.09% 0 0 C.R. Bailey 7,043 \* 0 0 Candace G. Taylor 1,427 \* 0 0 Carlo Canal 70,045 1.03% 0 0 Carol Press 4,379 \* 0 0 Carole Hall 17,512 \* 0 0 Cedric Middleton 3,503 \* 0 0 CGT Management 350,222 5.10% 0 0 Charles Cannon Brookes 10,507 \* 0 0 Charles Schwab & Co Inc. fbo Susan Crowe Whitcomb, IRA 28,418 \* 0 0 Chris Deitz 31,787 \* 0 0 Christiaan Marie Rutten 14,266 \* 0 0 Christopher Vujnovich 35,024 \* 0 0 Conroy & Co. 24,940 \* 0 0 Credit Agricole Indosuez (Suisse) SA 178,483 2.62% 0 0 Crystal Oswald IRA 9,627 \* 0 0 Current Capital Corporation 183,997 2.69% 0 0 40 Dale H. & Jean F. Dorn Testamentary Trust FBO Dale F. Dorn 35,371 \* 0 0 Daniel Luskind 1,576 \* 0 0 David Curran 10,670 \* 0 0 David Reitz 3,503 \* 0 0 David T. Annear 714 \* 0 0 Dennis H. and Peggy L. Sun 1,426 \* 0 0 DL Family Limited Partnership 3,242 \* 0 0 Eaton Vance Emerald Emerging Markets Fund 19,263 \* 0 0 Edward Ajootian 71,134 1.04% 0 0 Energy Properties Limited, LP 3,242 \* 0 0 Enza Vitiello 88,916 1.30% 0 0 Eurofinance, Inc. 431,756 6.17% 0 0 Excelsior Mining Fund 43,726 \* 0 0 Family Tree Corporation 17,848 \* 0 0 Finanz-Und Unternehmensberatung 26,771 \* 0 0 Francis D. Hopkins 2,102 \* 0 0 Franco Pivoli 28,502 \* 0 0 Garrett R. Bowden 3,503 \* 0 0 Gene A. Williams 354 \* 0 0 George Hardy 17,830 \* 0 0 George W. Clay IV 53,131 \* 0 0 Gerhard Jansen 4,167 \* 0 0 Gian Carlo Testori 7,006 \* 0 0 Global Undervalued Securities 700,442 9.84% 0 0 Great Eastern Energy & Development Corporation 70,588 1.04% 0 0 Hare & Co. 168,106 2.45% 0 0 Harry Ptasynski and Nola Grace Ptasynski, husband and wife 4,052 \* 0 0 Henry D. Haskell 35,521 \* 0 0 Henry S. Krauss 1,576 \* 0 0 Herbert W. Mahler 7,119 \* 0 0 Ilia Gurevich 13,162 \* 0 0 41 Ivy L. Fredericks 8,406 \* 0 0 James Cleaver 14,189 \* 0 0 James J. Woodcock 100,000 1.45% 0 0 James Ladner 28,297 \* 0 0 Janine C. Lederman 35,023 \* 0 0 Jeffrey R. Shotbolt 17,743 \* 0 0 Jim Kirby 22,910 \* 0 0 Joel A.B. Clark 4,967 \* 0 0 Johathan

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Banks 17,764 \* 0 0 John F. Dorn 35,371 \* 0 0 John Hunzinger 3,528 \* 0 0 John P. O'Shea 7,880 \* 0 0 Joseph Bongiorno 14,183 \* 0 0 Judith Douglas 4,379 \* 0 0 Kane, Gillian 702 \* 0 0 Kelly Butler 7,006 \* 0 0 Kelly V. Oswald 7,140 \* 0 0 Ken M. Welshimer and Theresa L. Welshimer, husband and wife 7,067 \* 0 0 Laurent Cohen 21,014 \* 0 0 Laurus Master Fund, Ltd. 166,667 2.40% 0 0 Lee M. Wheeler 17,512 \* 0 0 Leon Ventures Inc. 35,562 \* 0 0 Lillian C. Leiva 7,006 \* 0 0 Louis A. Oswald III IRA 4,212 \* 0 0 Louis A. Oswald Jr. 2,857 \* 0 0 Lucia Gison 70,964 1.09% 0 0 Lynda Yablon 4,379 \* 0 0 Lyndon R. Wentz 3,563 \* 0 0 M&D Land Company 1,426 \* 0 0 Malto Investments LLC 35,024 \* 0 0 Mark Wehde and Marilee 3,566 \* 0 0 Marrs McLean Bowman 35,371 \* 0 0 Mary and Keith Axelson, husband and wife 3,531 \* 0 0 42 Maxim Partners LLC 21,014 \* 0 0 Melvin T. and Laurie L. Baker, as tenants by the entirety 649 \* 0 0 Michael Hopkins 702 \* 0 0 Michael J. Hayward 14,183 \* 0 0 Michael R. Block 3,566 \* 0 0 Midhill, a Wyoming Partnership, trustee f/b/o Susan E. Heiss IRA 12,967 \* 0 0 Mr. Gunnar C. Askeland 7,006 \* 0 0 Mr. James Rosenfield 35,023 \* 0 0 Ms. Lee M. Wheeler 17,512 \* 0 0 Musgrave Investments, Ltd. 26,235 \* 0 0 Nicholas E. Wendland 3,242 \* 0 0 North Link Oil and Gas, Ltd. 14,010 \* 0 0 Orhan I. Sadik-Khan 35,452 \* 0 0 P. Richard Restall 35,023 \* 0 0 Palm Beach Overseas Investment Limited 384,781 5.52% 0 0 Patrick O'Meara 70,312 1.03% 0 0 Paul Birmingham 21,124 \* 0 0 Paul Wehde 325 \* 0 0 Pershing Keen Nominees Limited A/C AGCLT 59,578 1.80% 0 0 Philip R. Kruse 14,266 \* 0 0 Pipeline Displays Ltd. 35,709 \* 0 0 R.F. Bailey 24,798 \* 0 0 Rachael Krutchkoff 14,010 \* 0 0 Regency Resources, Inc. 17,512 \* 0 0 Richard and Dianne Kane 702 \* 0 0 Richard Butler 42,910 \* 0 0 Richard Elder 70,045 1.03% 0 0 Richard Lamb 70,045 1.03% 0 0 Robert D. and Julie L. Annear, joint tenants 1,427 \* 0 0 Rockwell Capital Ventures 102,775 1.51% 0 0 Ron Amini 70,421 1.03% 0 0 43 Ronald Weslosky 1,591 \* 0 0 Russell N. Adkins 17,832 \* 0 0 S. Lee Bowden 3,503 \* 0 0 Sagi Genger 17,512 \* 0 0 Salomon Smith Barney, Trustee for the IRA of Karl F. Arleth 35,558 \* 0 0 Salvatore Somma 14,196 \* 0 0 Samuel D. Haskell 21,329 \* 0 0 Sapphire Capital Limited 70,045 1.03% 0 0 Sheldon Inwentash 17,876 \* 0 0 Shirley L. Shanker 1,752 \* 0 0 Simon Piggott - \* 0 0 Snapper, Inc. 250,087 3.67% 0 0 Strategic Partners Ltd. 420,754 6.16% 0 0 Suncrest Securities Corporation 70,860 1.04% 0 0 The Advisory Group 77,049 1.13% 0 0 Third Millennium Russia Fund 350,221 5.04% 0 0 Thomas D. & Sheila K. Lawson 14,286 \* 0 0 Timothy John Cawston 17,752 \* 0 0 Tradewinds Offshore Fund 17,512 \* 0 0 UFG Tradewinds Debt Strategies Fund, LP 87,556 1.29% 0 0 Veronica Kristi Prens 141,482 2.07% 0 0 Volga Fixed Income Fund, L.P. 71,042 1.04% 0 0 Vostok Fund LP 178,471 2.60% 0 0 William and Nancy Axelson 3,531 \* 0 0 William Flynn 6,361 \* 0 0 William Gaskey 8,930 \* 0 0 William J. Ritger 18,912 \* 0 0 William Ritger 52,533 \* 0 0 Wind River Resources, Inc. 3,242 \* 0 0 Wyatt R. Haskell 175,111 2.55% 0 0 Yergin, Daniel H. 52,878 \* 0 0 44 \* Less than 1% The number and percentage of shares beneficially owned is determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rule, beneficial ownership includes any shares as to which the selling stockholder has sole or shared voting power or investment power and also any shares, which the selling stockholder has the right to acquire within 60 days. The actual number of shares of common stock issuable upon the conversion of the convertible preferred stock is subject to adjustment depending on, among other factors, the future market price of the common stock, and could be materially less or more than the number estimated in the table. Unless otherwise indicated, the selling stockholders are registering an amount of shares underlying warrants equal to the amount of warrants on the Warrant chart above. Each warrant is exercisable at \$6.00 per share. LEGAL MATTERS The validity of the shares of common stock being offered hereby will be passed upon for us by Sichenzia Ross Friedman Ference LLP, New York, New York. EXPERTS Our consolidated financial statements at December 31, 2001 and 2002 appearing in this prospectus and registration statement have been audited by Ehrhardt Keefe Steiner & Hottman PC, Inc., independent auditors, as set forth on their report thereon appearing elsewhere in this prospectus, and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing. AVAILABLE INFORMATION We have filed a registration statement on Form SB-2 under the Securities Act of 1933, as amended, relating to the shares of common stock being offered by this prospectus, and reference is made to such registration statement. This prospectus constitutes the prospectus of Teton Petroleum Company, filed as part of the registration statement, and it does not contain all information in the registration statement, as certain portions have been omitted in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). We are subject to the informational requirements of the Securities Exchange Act of 1934 (the "Exchange Act") which requires us to file reports, proxy statements and other information with the Securities and Exchange Commission. Such reports, proxy statements and other information may be inspected at public reference facilities of the SEC at Judiciary Plaza, 450 Fifth Street N.W., Washington D.C. 20549; Northwest Atrium Center, 500 West Madison Street, Suite 1400, Chicago,

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Illinois 60661; and 5670 Wilshire Boulevard, Los Angeles, California 90036. Copies of such material can be obtained from the Public Reference Section of the SEC at Judiciary Plaza, 450 Fifth Street N.W., Washington, D.C. 20549 at prescribed rates. Because we file documents electronically with the SEC, you may also obtain this information by visiting the SEC's Internet website at [HTTP://WWW.SEC.GOV](http://WWW.SEC.GOV). ----- We furnish our stockholders with annual reports containing audited financial statements. 45 Index to Financial Statements Teton Petroleum Company Unaudited Consolidated Financial Statements September 30, 2003 Financial

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STOCKHOLDERS' EQUITY.....F-14 CONSOLIDATED STATEMENTS OF CASH

FLows.....F-15 NOTES TO CONSOLIDATED FINANCIAL

STATEMENTS.....F-16 - F-31 F-1 TETON PETROLEUM COMPANY Consolidated Balance

Sheets September 30, December 31, 2003 2002 (Unaudited) Assets ----- Current assets Cash

..... \$ 1,955,253 \$ 712,013 Proportionate share of Goloil accounts receivable

..... 19,121 642,525 Proportionate share of Goloil VAT and other accounts receivable ..... 1,857,283

913,583 Stock subscriptions receivable ..... -- 1,939,610 Proportionate share of Goloil

inventory ..... 979,360 502,989 Prepaid expenses and other assets .....

90,992 91,446 ----- Total current assets ..... 4,902,009 4,802,166

----- Non-current assets Oil and gas properties, net (successful efforts) ..... 10,488,152

4,896,308 Fixed assets, net ..... 419,256 313,921 ----- Total

non-current assets ..... 10,907,408 5,210,229 ----- Total assets

..... \$15,809,417 \$10,012,395 ===== Liabilities and

Stockholders' Deficit Current liabilities Accounts payable and accrued liabilities ..... \$ 233,104 \$

650,356 Proportionate share of Goloil accounts payable and accrued liabilities (Note 2) 3,745,121 1,534,344 Current

portion of proportionate share of notes payable owed to affiliate (Note 2) .....

5,107,805 2,441,424 Notes payable, net of discount of \$47,907 ..... 580,843 -- -----

Total current liabilities ..... 9,666,873 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

..... 9,666,873 5,133,125 ----- Commitments and contingencies

Stockholders' equity Common stock, \$0.001 par value, 250,000,000 and 100,000,000 shares authorized, 6,807,360 and

6,289,520 shares issued and outstanding at September 30, 2003 and December 31, 2002 ..... 6,807

6,290 Preferred stock, \$0.001 par value, 25,000,000 shares authorized, 606,335 shares issued and outstanding

..... 606 -- Additional paid-in capital ..... 30,193,042 26,165,214

Accumulated deficit ..... (25,163,412) (22,022,734) Foreign currency translation

adjustment ..... 1,105,500 730,500 ----- Total stockholders' equity

..... 6,142,545 4,879,270 ----- Total liabilities and stockholders' equity

..... \$15,809,417 \$10,012,395 ===== See notes to unaudited

consolidated financial statements F-2 TETON PETROLEUM COMPANY Unaudited Consolidated Statements of

Operations and Comprehensive Loss For the Three Months Ended September 30, ----- 2003 2002

----- Sales ..... \$ 2,718,066 \$ 2,204,613 Cost of sales and expenses Oil

and gas production ..... 618,141 664,241 Transportation and marketing ..... 199,446

189,115 Taxes other than income taxes ..... 1,486,250 1,172,574 Export duties

..... 334,789 295,356 General and administrative - Goloil ..... 261,420 149,091

General and administrative - Teton Petroleum ..... 921,761 439,061 Depreciation, depletion and amortization

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274,538	68,419		Total cost of sales and expenses	4,096,346	2,977,856
			(Loss) income from operations	(1,378,279)	(773,243)
			Other income (expense) Other income	(1,522)	700
			Financing charges		
			Interest expense	(55,034)	(52,675)
			Total other income (expense)	(118,125)	(1,442,926)
			Net loss before taxes	(1,496,404)	(2,216,169)
			Foreign income tax		
			Net loss	(1,477,534)	(2,216,169)
			Preferred stock dividend	(18,556)	--
			Net loss applicable to common stock		
			Other comprehensive (loss) income, net of tax		
			Effect of exchange rates		
			Other comprehensive (loss) income	(80,590)	(80,590)
			Comprehensive loss	\$(1,576,590)	\$(2,196,169)
			Basic and diluted weighted average common shares outstanding	6,807,360	
			Basic and diluted (loss) income per common share	\$ (0.22)	\$ (0.78)
			See notes to unaudited consolidated financial statements. F-3 TETON PETROLEUM COMPANY Unaudited Consolidated Statements of Operations and Comprehensive Loss For the Nine Months Ended September 30,		
			2003	2002	
			Sales		
			\$ 9,105,338	\$ 4,305,274	
			Cost of sales and expenses		
			Oil and gas production		
			Transportation and marketing	801,245	398,389
			Taxes		
			other than income taxes	4,163,956	2,249,313
			Export Duties		1,492,999
			General and administrative - Goloil	648,905	383,419
			General and administrative - Teton Petroleum	2,675,683	1,950,258
			Depreciation, depletion and amortization	662,769	149,806
			Total cost of sales and expenses	11,902,415	6,461,725
			Loss from operations	(2,797,076)	(2,156,451)
			Other income (expense)		
			Other income	0	2,508
			Financing charges	(61,916)	(5,444,901)
			Interest expense	(178,139)	(328,938)
			Total other income (expense)		
			Net loss before taxes	(3,037,131)	
			Foreign income tax	(103,548)	--
			Net loss		
			Preferred stock dividend	(18,556)	--
			Net loss applicable to common stock	(3,159,235)	(7,927,782)
			Other comprehensive (loss) income, net of tax		
			Effect of exchange rates	375,000	(112,000)
			Other comprehensive (loss) income	375,000	(112,000)
			Comprehensive loss	\$ (2,784,235)	\$(8,039,782)
			Basic and diluted weighted average common shares outstanding	6,614,638	2,500,058
			Basic and diluted (loss) income per common share	\$ (0.48)	\$ (3.17)
			See notes to unaudited consolidated financial statements. F-4 TETON PETROLEUM COMPANY Unaudited Consolidated Statements of Cash Flows For the Nine Months Ended September 30,		
			2003	2002	
			Cash flows from operating activities		
			Net loss	\$(3,140,679)	\$(7,927,782)
			Adjustments to reconcile net (loss) income to net cash used in operating activities		
			Depreciation, depletion, and amortization	628,458	149,806
			Stock and stock options issued for services and interest		
			Debt issued for services	--	211,313
			Amortization of note payable discount	62,257	5,327,989
			Changes in assets and liabilities		
			Accounts receivable	(320,296)	(787,856)
			Prepaid expenses and other assets		454
			Inventory	(476,371)	(187,846)
			Accounts payable and accrued liabilities	106,968	121,328
			Net cash used in operating activities	(3,041,307)	(3,337,822)
			Cash flows from investing activities		
			Oil and gas properties and equipment expenditures	(4,437,637)	(2,593,207)
			Net cash used in investing activities	(4,437,637)	(2,593,207)
			Cash flows from financing activities		
			Net (repayments) proceeds from advances under notes payable from affiliate	2,159,380	
			Proceeds from stock subscriptions	1,939,610	--
			Proceeds from deposits on convertible debentures	--	--
			Proceeds from convertible debentures	--	4,143,643
			Proceeds from issuance of stock, net of issue costs of \$208,100 (2003)....	3,619,444	692,505
			Proceeds from notes		



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payable .....	628,750	300,000	Payments on notes payable .....	--
(594,210) -----			Net cash provided by financing activities .....	8,347,184 6,282,093
-----			Effect of exchange rates .....	375,000 (112,000) -----
-----			Net (decrease) increase in cash .....	1,243,240 239,064 Cash - beginning of year
.....	712,013	182,502	-----	Cash - end of period
.....	\$ 1,955,253	\$ 421,566	=====	===== See notes to unaudited

consolidated financial statements. F-5 TETON PETROLEUM COMPANY Unaudited Consolidated Statements of Cash Flows Supplemental disclosure of non-cash activity: During the nine months ended September 30, 2003, the Company had the following transactions: o 7,408 shares of stock were issued to a consultant for services valued at \$20,000 provided in 2001 and accrued in accounts payable. o 73,422 shares of stock and 66,667 warrants exercisable at \$6.00 were issued to a consultant for services provided in 2002 valued at \$200,000 and accrued in accounts payable. o 3,700 warrants issued with debt and valued at \$10,592 were initially recorded as a discount on the note payable. At September 30, 2003, \$5,672 of the discount had been amortized and recorded as financing costs. o 87,500 warrants issued with debt and valued at \$69,072 were initially recorded as a discount on the debentures. At September 30, 2003, \$39,254 of the discount had been amortized and recorded as financing costs. o 37,500 warrants issued with debt and valued at \$30,500 were initially recorded as a discount on the debentures. At September 30, 2003, \$17,337 of the discount had been amortized and recorded as financing costs o Approximately \$1,888,000 of capital expenditures for oil and gas properties was included in accounts payable at September 30, 2003. o Dividends of \$18,556 were accrued on preferred stock. During the nine months ended September 30, 2002, the Company had the following transactions: o In exchange for the extension of principal payments on four notes payable, the Company modified expiration dates of certain warrants previously held by the note holders and issued an additional 10,417 such warrants. The fair value of the modification of the warrants totaled \$46,582 and has been recorded as financing costs. o A note payable of \$250,000 was converted into a convertible debenture with 83,333 warrants also being issued under the same terms of the Company's private placement offering of convertible debentures. o 1,647,881 of warrants issued with convertible debentures valued at \$811,559 were initially recorded as a discount on the debentures. At September 30, 2002, the full amount of the discount had been amortized and recorded as financing costs. o In-the money conversion features on convertible debt valued at \$3,880,035 were recognized as financing costs (\$3,746,285) and consulting expenses (\$133,750). o The Company issued 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. o The Company issued \$267,500 of convertible debentures with 89,167 warrants valued at \$14,250 for a total amount of \$281,750. Prepaid consulting services of \$70,437 remained at September 30, 2002. o 33,333 warrants were issued to a consultant for services valued at \$84,532. Prepaid consulting of \$80,305 related to future quarters in 2003 and 2004. o 20,000 shares of stock were issued to a consultant for services valued at \$10,000. o 41,667 warrants issued with a note payable valued at \$150,616 were initially recorded as a discount on the debentures. At September 30, See notes to unaudited consolidated financial statements F-6 TETON PETROLEUM COMPANY 2002, \$100,011 of the discount had been amortized and recorded as financing costs. o \$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. o Approximately \$515,000 of capital expenditures for oil and gas properties was included in accounts payable at September 30, 2002. See notes to unaudited consolidated financial statements F-7 Notes to Unaudited Consolidated Financial Statements Note 1 - Basis of Presentation and Significant Accounting Policies The September 30, 2003 financial statements are unaudited and reflect all adjustments (consisting only of normal recurring adjustments), which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. The unaudited financial statements as of September 30, 2003, as is customary in the oil and gas industry, reflect a pro-rata consolidation of the Company's 50% interest in ZAO Goloil, a Russian closed joint-stock company. The unaudited financial statements contained herein should be read in conjunction with the financial statements and notes thereto contained in the Company's financial statements for the year ended December 31, 2002, as reported in the Company's Form 10-KSB filed March 31, 2003. The results of operations for the period ended September 30, 2003 are not necessarily indicative of the results for the entire fiscal year. Foreign Currency Exchange Rates The conversion of the functional currency of Goloil (a Russian Company) in rubles to the reporting currency of U.S. dollars is based upon the exchange rates in effect. The exchange rates in effect at September 30, 2003 and 2002 were 30.61 and 31.64 rubles to the U.S. dollar, respectively. The average rates in effect

during the three and nine-month periods ended September 30, 2003 and 2002, were 30.44 and 31.00, and 31.60 and 31.25 rubles to the U.S. dollar, respectively. Earnings Per Share At the March 19, 2003 meeting, the Company's shareholders approved a reverse 1 for 12 stock split. All share amounts and earnings per share have been adjusted to reflect the split. All potential dilutive securities have an antidilutive effect on earnings (loss) per share and accordingly, basic and dilutive weighted average shares are the same. Note 2 - Proportionate Share of Liabilities The proportionate share of accounts payable and accrued liabilities of \$3,745,121 at September 30, 2003 are obligations of Goloil and not Teton Petroleum nor have they been guaranteed by Teton Petroleum. The following notes reflect the Company's 50% pro-rata share of notes payable advances made of Goloil owed to an affiliate. These advances are also obligations of Goloil at September 30, 2003 and not Teton Petroleum nor have they been guaranteed by Teton Petroleum. Pro-rata share of Goloil notes payable owed to an affiliate. The proceeds were used to pay certain operating expenses and capital expenditures of Goloil. These notes provide for interest rates of 8%, with quarterly interest payments, maturing through April 2004. These notes are secured by substantially all Goloil assets. The notes payable will be repaid from cash flow from ZAO Goloil as available, or extended to future periods. \$5,107,805 ----- Less current portion (5,107,805) ----- \$ - ===== Note 3 - Notes Payable During the second quarter, the Company received proceeds of \$478,750 from notes payable to stockholders. In connection with the notes, 91,200 warrants valued at \$79,664 were issued. At September 30, 2003, \$44,920 of the discount had been amortized and recorded as financing costs. The Company has recorded the value of these warrants using the Black-Scholes option-pricing model using the following assumptions: volatility of 73%, a risk-free rate of 3.5%, zero dividend payments, and a life of one year. In July 2003, the Company received proceeds of \$150,000 from a stockholder. In connection with the notes, 37,500 warrants valued at \$30,506 were issued. At September 30, 2003, \$17,337 of the discount had been amortized and recorded F-8 as financing costs. The Company valued the warrants using the Black-Scholes option-pricing model using the following assumptions: volatility of 73%, a risk-free rate of 3.5%, zero dividend payments, and a life of one year. Note 4 - Stockholder's Equity In March 2003, the stockholder's approved an increase in the amount of authorized common shares from 100,000,000 to 250,000,000 and also approved 25,000,000 of preferred stock authorized for future issuances. During the nine months ended September 30, 2003, the Company received \$1,091,900 of proceeds (net of costs of \$98,100) from the issuance of 437,010 shares of common stock plus \$2,527,538 of proceeds (net of costs of \$110,000) from the issuance of 606,335 shares of convertible preferred stock. The Company received \$1,939,610 during the nine months related to outstanding stock subscriptions receivable at December 31, 2002. The Company issued 1,043,204 warrants during the nine months ended September 30, 2003 in connection with the private placements to investors. The Company also issued 346,165 warrants to entities for their services directly related to raising capital under private placements during the quarter. F-9 Note 5 - Stock Options At the annual meeting on March 19, 2003, the Company's shareholders approved an employee stock option plan and authorized 2,083,333 shares of Common Stock for issuance thereunder. Under the plan, incentive and non-qualified options may be granted. During the second quarter of 2003, the Company issued 30,000 non-qualified options to outside advisory board members which has been recorded as compensation expense during the three-months ended June 30, 2003 valued at \$94,701, using the Black-Scholes option-pricing model with the following assumptions: volatility of 100%, a risk-free rate of 4%, zero dividend payments, and a life of ten years. The Company also issued 1,448,037 incentive options to employees, officers and directors valued at \$4,571,026 using the Black-Scholes option-pricing model under the same assumptions described above. In the third quarter, additional options valued at \$308,414 were issued to a director under the Company Plan. The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation cost has been recognized for stock options issued to employees, officers and directors under the stock option plan. Had compensation cost for the Company's options issued to employees, officers and directors been determined based on the fair value at the grant date for awards consistent with the provisions of SFAS No. 123, as amended by SFAS No. 148, the Company's net loss and basic loss per common share would have been changed to the pro forma amounts indicated below: For the nine Months Ended September 30, ----- 2003 2002 ----- Net loss - as reported (\$3,140,679) \$ 7,927,782 Less previously recorded compensation expense -- -- Add fair value of employee compensation expense (4,879,440) -- ----- Net loss per common share - pro forma (\$8,020,119) \$ 7,927,782 ===== Basic loss per common share - as reported \$ (0.48) \$ (3.17) ===== Basic loss per common share - pro forma \$ (1.21) \$ (3.17) ===== For the Three Months Ended September 30,

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----- 2003 2002 ----- Net loss - as reported (\$1,477,534) (\$2,216,169) Less previously recorded compensation expense -- -- Add fair value of employee compensation expense (308,414) -----  
 ----- Net loss per common share - pro forma (\$1,785,948) (\$2,216,169) ===== Basic loss per common share - as reported (\$\_\_\_\_.22) (\$0.78\_) ===== Basic loss per common share - pro forma (\$\_\_\_\_.26) (\$0.78\_) ===== F-10 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 F-11 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. F-12 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

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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. F-13 TETON PETROLEUM COMPANY  
Consolidated Statements of Changes in Stockholders' (Deficit) Equity For the Years Ended December 31, 2002 and  
2001 Common Stock Foreign Total Additional Currency Stockholders' ----- Paid-in Translation  
Accumulated Equity Shares Amount Capital Adjustment Deficit (Deficit) -----  
----- Balance - December 31, 2000 ..... 24,977,341 \$ 24,977 \$ 8,469,221 \$  
955,314 \$ (9,391,203) \$ 58,309 Common stock issued for cash ..... 3,466,772 3,467 1,294,806 -- -- 1,298,273  
Common stock and warrants issued for services ..... 44,444 44 32,581 -- -- 32,625 Compensation for  
variable plan warrants .... -- -- (30,000) -- -- (30,000) Net loss ..... -- -- -- (1,657,608)  
(1,657,608) Foreign currency translation adjustment .... -- -- -- (84,041) -- (84,041) -----  
----- Balance - December 31, 2001 ..... 28,488,557 28,488 9,766,608 871,273  
(11,048,811) (382,442) Common stock issued for cash ..... 14,684,845 14,685 3,318,775 -- -- 3,333,460  
Common stock subscriptions paid in 2003 .... 8,544,534 8,545 1,931,065 -- -- 1,939,610 Common stock and warrants  
issued for services ..... 2,654,376 2,654 834,472 -- -- 837,126 Common stock issued for conversion of  
convertible debentures ..... 21,101,929 21,102 5,333,887 -- -- 5,354,989 Warrants issued and in-the-money  
conversion feature on convertible debentures ..... -- -- 4,557,845 -- -- 4,557,845 Warrants issued with notes payable  
..... -- -- 150,016 -- -- 150,016 Warrants issued in connection with extensions on notes payable ..... --  
-- 203,362 -- -- 203,362 Net loss ..... -- -- -- (10,973,923) (10,973,923) Foreign currency  
translation adjustment .... -- -- -- (140,773) -- (140,773) -----  
----- Balance - December 31, 2002 ..... 75,474,241 \$ 75,474 \$ 26,096,030 \$ 730,500 \$(22,022,734) \$  
4,879,270 =====  
===== See notes to consolidated financial statements. F-14 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 F-15 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. F-16 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. F-17 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. F-18 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 December 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.

**F-19 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.

**F-20** 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. F-21 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).

Note 3 - Property and Equipment 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	=====			

F-22 Note 4 - Oil and Gas Properties Goloil License 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 requirements. The license requires Goloil to pay all taxes including mining tax, property tax and certain ecological taxes All geological information obtained at Goloil's expense 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.

**F-23** 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 modifications 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 extended to future periods .....

\$2,948,425	Less: current portion .....	(2,441,424)	-----	\$ 507,001	=====
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**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.

**F-24 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:

Weighted Average Exercise Shares 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
0.44	Granted	48,824,189	0.46 Forfeited/canceled
		(300,000)	0.40
-----	-----	-----	Outstanding - December 31, 2002
		55,053,361	\$ 0.46

F-25 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)			
Net loss - pro forma	-----	-----	-----
\$(1,657,608)			

Basic loss per common share - as reported	-----	-----	-----
(0.29)			
Basic loss per common share - pro forma	-----	-----	-----
(0.32)			

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			

Dividend yield	-----	-----	-----
87.20%			
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. F-26 The following table presents the activity for stock option's outstanding: Weighted

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

===== 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 carry forwards 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.

F-27 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 complied 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<sup>^</sup>, as drawn from the reserve data from our January 1, 2003 reserve report prepared by the independent engineering firm, Gustavason Associates, Inc.: 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	-----
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----- 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 ===== F-28 (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 the Years Ended December 31, ----- 2002 2001(1)(2) ----- Proved reserves (bbls), beginning of period .... 40,174,000 8,500,000 Production ..... (471,000) (95,000) Extension of reservoir.. ..... 2,000,000 8,800,000 Revisions of previous estimates ..... (28,439,000) 22,969,000 ----- Proved reserves (bbls), end of period ..... 13,264,000 40,174,000 ===== Proved developed reserves (bbls), beginning of period ..... 5,493,000 1,300,000 ===== Proved developed reserves (bbls), end of period ..... 4,567,000 5,493,000 ===== (1) Includes approximately a 30% minority interest share of the reserves in Goloil. F-29 (2) Proved developed reserves have been reduced by 650,000 bbls out of the total 1,950,000 bbls of Teton's share of the production payment. The remaining production payment quantity of 1,300,000 barrels of Teton's share assumes payment from proved undeveloped properties to be developed in the future. Standardized Measure of Discounted Future Net Cash Flows (Unaudited) SFAS No. 69 prescribes guidelines for computing a standardized measure of future net cash flows and changes therein relating to estimated proved reserves. The Company has followed these guidelines, which are briefly discussed below. Future cash inflows and future production and development costs are determined by applying year-end prices and costs to the estimated quantities of oil and gas to be produced. Estimated future income taxes are computed using current statutory income tax rates for those countries where production occurs. The resulting future net cash flows are reduced to present value amounts by applying a 10% annual discount factor. The assumptions used to compute the standardized measure are those prescribed by the Financial Accounting Standards Board and, as such, do not necessarily reflect the Company's expectations for actual revenues to be derived from those reserves nor their present worth. The limitations inherent in the reserve quantity estimation process, as discussed previously, are equally applicable to the standardized measure computations since these estimates are the basis for the valuation process. The following summary sets forth the Company's future net cash flows relating to proved oil and gas reserves based on the standardized measure prescribed in Statement of Financial Accounting Standards No. 69. For the Years Ended December 31, ----- 2002 2001 (1) ----- Future cash inflows ..... \$ 230,581,000 \$ 483,405,000 Future production costs ..... (151,167,000) (272,150,000) Future development costs ..... (18,556,000) (45,600,000) Future income tax expense ..... (16,365,000) (57,394,000) ----- Future net cash flows (undiscounted) 44,493,000 108,261,000 Annual discount of 10% for estimated timing of cash flows ..... (19,069,000) (67,899,000) ----- Standardized measure of future net discounted cash flows ..... \$ 25,424,000 \$ 40,362,000 ===== (1) Includes approximately a 30% minority interest share of the reserves in Goloil. F-30 Changes in Standardized Measure (Unaudited) The following are the principal sources of change in the standardized measure of discounted future net cash flows: For the Years Ended December 31,

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----- 2002 2001 (1) ----- Standardized measure, beginning of period, December 31, 2001 and 2000 ..... \$ 40,362,000 \$ 41,600,000 Net changes in prices and production costs 189,975,000 (33,421,000) Future development costs ..... 22,344,000 (109,233,000) Revisions of previous quantity estimates .. (274,605,000) 102,592,000 Extension of reservoir ..... 19,867,000 39,707,000 Sale of reserves in place ..... -- -- Accretion of discount ..... 4,036,000 4,160,000 Changes in income taxes, net ..... 23,445,000 (5,043,000) ----- Standardized measure, end of period, 2002, 2002 and 2001 ..... \$ 25,424,000 \$ 40,362,000 ===== (1) Includes approximately a 30% minority interest share of the reserves in Goloil. F-31 You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from the information contained in this prospectus. This document may only be used where it is 8,898,977 SHARES legal to sell the securities. The OF OUR information in this document may only OF COMMON STOCK be accurate on the date of this AND document. 4,215,937 WARRANTS TABLE OF CONTENTS Page ---- Prospectus Summary.....2 Risk Factors.....3 Teton Petroleum Company Use Of Proceeds.....5 Market For Common Equity And Related Stockholder Matters.....6 Management's Discussion And Analysis Or Plan Of Operation.....7 Business.....16 Management.....26 Certain Relationships And PROSPECTUS Related Transactions.....29 Security Ownership Of Certain Beneficial Owners And Management.....29 Description Of Securities.....30 Plan Of Distribution.....30 Selling Stockholders.....32 Legal Matters.....45 January 23, 2004 Experts.....45 Available Information.....45 Index To Financial Statements.....F-1