

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re

TETON ENERGY CORPORATION, *et al.*,¹

Debtors.

Chapter 11

Case No. 09-13946 (PJW)

Jointly Administered

NOTICE OF AUCTION

PLEASE TAKE NOTICE OF THE FOLLOWING:

1. Teton Energy Corporation, Teton North America LLC, Teton Piceance LLC, Teton DJ LLC, Teton Williston LLC, Teton Big Horn LLC, Teton DJCO LLC, and Teton ORRI, LLC (collectively, the “Debtors”) have entered into a Plan Sponsorship Agreement (the “Plan Sponsorship Agreement”) with Rise Energy Partners II, LLC (the “Purchaser”) to transfer 100% of the membership interests in Teton Energy, as reorganized and as converted into a Delaware limited liability company, through a chapter 11 plan of reorganization (the “Plan”). The Debtors’ commitment to close the transactions contemplated by the Plan Sponsorship Agreement is subject to higher and better offers and the approval of the United States Bankruptcy Court for the District of Delaware (the “Bankruptcy Court”). The Debtors are soliciting Qualified Bids (as defined in the attached Bidding Procedures) for the purchase of substantially all of the Debtors’ assets and ownership interests (the “Assets”), and the Bankruptcy Court has entered an order [Docket No. 108] (the “Bidding Procedures Order”) approving auction procedures (the “Bidding Procedures”) for the Assets.²

2. If a Qualifying Bid is received by the Bid Deadline, December 14, 2009 at 5:00 p.m. (Eastern Time), the Bankruptcy Court has directed the auction of the Assets (the “Auction”) be held for 10:00 a.m. Eastern time on December 15, 2009 at the offices of Gersten Savage LLP, 600 Lexington Avenue, 9th Floor, New York, New York 10022. All interested parties are invited to submit a Qualifying Bid to purchase the Assets.

¹ The Debtors, along with the last four digits of their federal tax identification numbers, are: Teton Energy Corporation (2290), Teton North America LLC (2290), Teton Piceance LLC (2290), Teton DJ LLC (2290), Teton Williston LLC (2290), Teton Big Horn LLC (2290), Teton DJCO LLC (2290), and Teton ORRI LLC (2290). The Debtors’ mailing address for purposes of these cases is 600 17th Street, Suite 1600 North, Denver, Colorado 80202.

² Copies of the Bidding Procedures Order and the Plan Sponsorship Agreement will be provided upon written request to counsel to the Debtors, Paul A. Rachmuth, Gersten Savage LLP, 600 Lexington Avenue, 9th Floor, New York, NY 10022, prachmuth@gerstensavage.com.

3. The Auction, once convened, may be adjourned, from time to time, without further notice to creditors or parties in interest, by announcement to those in attendance at the Auction.

November 24, 2009
Wilmington, Delaware

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Bidding Procedures

BIDDING PROCEDURES

Set forth below are the bidding procedures (the “Bidding Procedures”) to be employed with respect to the Transfer (herein so called) of all of the Assets (herein so called) of Teton Energy Corporation and its subsidiaries. The Assets and the terms and conditions upon which the Debtors contemplate consummating their Transfer are further described in the form of the Plan Sponsorship Agreement (the “Plan Sponsorship Agreement”) with Rise Energy Partners II, LLC (the “Purchaser”) filed with and as *Exhibit A* to the Debtors’ Chapter 11 Plan of Reorganization. Copies of the Plan Sponsorship Agreement are available by sending a written request to counsel to the Debtors, Paul A. Rachmuth, Gersten Savage LLP, 600 Lexington Avenue, 9th Floor, New York, NY 10022, Email: prachmuth@gerstensavage.com. The Transfer of the Assets pursuant to the Plan Sponsorship Agreement and the Plan are subject to competitive bidding only as set forth herein and approval by the Bankruptcy Court pursuant to section 363 of the Bankruptcy Code and Rule 6004 of the Federal Rules of Bankruptcy Procedure.

I. The Confirmation Hearing

In connection with the confirmation of the Plan, the Debtors will seek approval from the Bankruptcy Court at a hearing that the Debtors have requested be held on **January 8, 2010**, before the Honorable Peter J. Walsh, at the United States Bankruptcy Court for the District of Delaware, 824 North Market Street, Sixth Floor, Courtroom #2, Wilmington, Delaware 19801 (the “Confirmation Hearing”) authorizing the Transfer to the Successful Bidder (as defined below) on terms and conditions consistent with the Plan Sponsorship Agreement and the Plan.

II. Participation Requirements

To participate in the Bidding Process (as defined below), each person or entity must deliver (unless previously delivered) to the Debtors, the following materials:

- (a) An executed confidentiality agreement in form and substance satisfactory to the Debtors; and
- (b) A statement demonstrating to the Debtors’ satisfaction a *bona fide* interest in purchasing and the financial ability to purchase the Assets of the Debtors.

Each person or entity that timely delivers such materials to the Debtors in a form reasonably acceptable to the Debtors is hereinafter referred to as a “Potential Bidder.” The Debtors will deliver a copy of all confidentiality agreements and statements of interest to the Purchaser.

In accordance with these Bidding Procedures, after a Potential Bidder delivers all of the materials required by subparagraphs (a) and (b) above, the Debtors shall provide the Potential Bidder access to the data room.

III. Determination by the Debtors

The Debtors, in consultation with the Prepetition Agent and The Bank of New York Mellon Trust Company, N.A., as Indenture Trustee for the 10.75% Secured Subordinated Convertible Debentures due June 18, 2013 (the “Indenture Trustee”), shall (a) coordinate the efforts of Potential Bidders in conducting their respective due diligence, (b) evaluate bids from Potential Bidders, (c) negotiate any bid made to acquire the Assets, and (d) make such other determinations as are provided in these Bidding Procedures (collectively, the “Bidding Process”). Neither the Debtors nor their representatives shall be obligated to furnish any information of any kind whatsoever relating to the Assets to any person who is not a Potential Bidder.

IV. Due Diligence

Due Diligence. The Debtors will reopen and bring current the Data Room. All Potential Bidders will be granted access to the Data Room by the Debtors once the Court has entered its order approving the Bidding Procedures. The Debtors shall afford any Potential Bidder such additional due diligence access or additional information as may be reasonably requested by the Potential Bidder that the Debtors, in their business judgment, determine to be reasonable and appropriate. No additional due diligence will be made available to Potential Bidders after the Bid Deadline (as defined below).

V. Bid Deadline

A Potential Bidder that desires to make a bid shall deliver copies of its bid by facsimile and email to (a) Teton Energy Corporation, 600 17th Street, Suite 1600 North, Denver, Colorado, (Attn: Jonathan Bloomfield), Email: jbloomfield@teton-energy.com; (b) counsel to the Debtors, Gersten Savage LLP, 600 Lexington Avenue, 9th Floor, New York, NY 10022 (Attn: Paul A. Rachmuth), Email: prachmuth@gerstensavage.com; and Morris, Nichols, Arsht & Tunnell LLP, 1201 North Market Street, Wilmington, DE 19899-1347 (Attn: Gregory W. Werkheiser), Email: gwerkheiser@mnat.com; (c) counsel to the Purchaser, Haynes and Boone, LLP, 2323 Victory Avenue, Suite 700, Dallas, TX 75219-7672, (Attn: Robert D. Albergotti), Email: robert.albergotti@haynesboone.com; (d) counsel to the Lenders, Vinson & Elkins LLP, 2001 Ross Avenue, Suite 3700, Dallas, Texas 75201, (Attn: William Wallander), Email: bwallander@velaw.com; and (e) counsel to the Indenture Trustee, Thompson & Knight LLP, 919 Third Avenue, 39th Floor, New York, NY 10022-3915, (Attn: Ira Herman), Email: ira.herman@tklaw.com, by no later than **December 14, 2009 at 5:00 p.m. Eastern Time** (the “Bid Deadline”).

VI. Qualified Bids and Deposit

To be considered a qualified bid (herein so called), a bid must include:

- (a) an offer to acquire the Assets in substantially the form of the Plan Sponsorship Agreement subject only to entry of the Confirmation Order, marked to show any proposed amendments and modifications to such Agreement (the “Marked Agreement”);

- (b) an agreement that the Potential Bidder's offer is binding and irrevocable until forty-eight (48) hours after the earlier of (i) consummation of the Plan and the closing of the Transfer of the Assets, (ii) the withdrawal of the Assets from the Auction by the Debtors, or (iii) thirty (30) days after the hearing on the confirmation of the Plan;
- (c) aggregate cash consideration of at least \$20,050,000, plus a commitment to pay in cash, in full, the outstanding amount, if any, of the DIP Loan (as defined in the Plan) (the "Qualifying Overbid Amount");³
- (d) a certified check or wire transfer in an amount equal to \$750,000 payable to the order of Teton Energy Corporation (a "Good Faith Deposit") and written evidence of available cash or a commitment for financing if selected as the Successful Bidder (as hereinafter defined) and such other evidence of ability to consummate the transaction as the Debtors may reasonably request.

The Debtors, in consultation with the Prepetition Agent and the Indenture Trustee, will review each bid received from a Potential Bidder to ensure that it meets the requirements set forth above. A bid received from a Potential Bidder that meets the above requirements will be considered a "Qualified Bid" and each Potential Bidder that submits a Qualified Bid will be considered a "Qualified Bidder." The Debtors, in consultation with the Prepetition Agent and the Indenture Trustee, will determine whether each bid meets the requirements of a Qualified Bid. The Debtors may value a Qualified Bid, in consultation with the Prepetition Agent and the Indenture Trustee, based upon any and all factors that the Debtors deem pertinent, including, among others: (a) the amount of the Qualified Bid; (b) the risks and timing associated with consummating a transaction with the Potential Bidder; (c) the risks associated with any non-cash consideration in any Qualified Bid; (d) any other factors that the Debtors may deem relevant to the Transfer. The Plan Sponsorship Agreement shall be deemed a Qualified Bid and the Purchaser shall be deemed a Qualified Bidder, for all purposes and requirements of the Bidding Procedures.

A Qualified Bid will be valued by the Debtors, in consultation with the Prepetition Agent and the Indenture Trustee, based upon any and all factors that the Debtors deem pertinent, including, among others, (a) the amount of the Qualified Bid, (b) the risks and timing associated with consummating a transaction with the Potential Bidder, (c) any excluded assets or executory contracts and leases, and (d) any other factors that the Debtors may deem relevant to the Transfer.

The Debtors, in their business judgment, and in consultation with the Prepetition Agent and the Indenture Trustee, reserve the right to reject any bid if such bid:

³ The Qualifying Overbid Amount is the sum of: \$18,000,000 (the purchase price for the Assets); \$750,000 (the Break-Up Fee); \$200,000 (the Expense Reimbursement); \$700,000 (Rise's obligation under the Cash Contribution (as defined in the Plan)); and \$400,000 (the initial overbid). As provided below, if the Qualified Overbid Amount is received, subsequent overbids will be in increments of \$100,000.

- (a) is on terms that are more burdensome or conditional than the terms of the Plan Sponsorship Agreement;
- (b) requires any indemnification of such Potential Bidder;
- (c) is not received by the Bid Deadline;
- (d) includes non-cash consideration;
- (e) is subject to any due diligence, financing condition, or other contingencies (including representations, warranties, covenants, and timing requirements) of any kind or any other conditions precedent to such party's obligation to acquire the Assets other than entry of the order confirming the Plan; or
- (f) does not meet the requirements for a Qualified Bid as set forth herein above.

Any bid rejected pursuant to this paragraph shall not be deemed to be a Qualified Bid.

VII. Auction

If at least one Qualified Bid other than the Purchaser's Plan Sponsorship Agreement is received by the Bid Deadline, the Debtors will conduct an auction (herein so called) for the Transfer of the Assets to be consummated through the Plan.⁴ The Auction shall take place at 10:00 a.m. (Eastern Time) on **December 15, 2009**, at the offices of counsel for Debtors, Gersten Savage LLP, 600 Lexington Avenue, 9th Floor, New York, New York 10022, or such later time or such other place as the Debtors shall designate and provide notice to all Qualified Bidders who have submitted Qualified Bids. Only a Qualified Bidder who has submitted a Qualified Bid will be eligible to participate at the Auction. Representatives of the Prepetition Agent and the Indenture Trustee and any other parties the Debtors deem appropriate shall be able to attend and observe the Auction.

At the Auction, participants will be permitted to increase their bids in an "open outcry" auction. The bidding shall start at the amount offered in the highest Qualifying Bid, plus \$100,000 and will continue in increments of at least \$100,000 in cash until the bidding ceases. In each bidding round, Purchaser shall be entitled to bid its Break-up Fee and Expense Reimbursement. The Debtors may alter the Bidding Procedures at the Auction if, in their reasonable judgment, in consultation with the Prepetition Agent and the Indenture Trustee, such alteration will better promote the goals of the Auction.

⁴ In accordance with Local Rule 6004-1(c)(ii), (A) each bidder participating at the Auction will be required to confirm that it has not engaged in any collusion with respect to the bidding or the sale, (B) the Auction will be conducted openly and all creditors will be permitted to attend the Auction, and (C) bidding at the Auction will be transcribed or videotaped.

Immediately prior to the conclusion of the Auction, the Debtors, in consultation with the Prepetition Agent and the Indenture Trustee, will: (a) review each bid made at the Auction on the basis of financial and contractual terms and such factors relevant to the Transfer process, including those factors affecting the speed and certainty of consummating the Transfer; (b) identify the highest or best bid (the “Successful Bid”) for the Assets of the Debtors at the Auction; and (c) notify all Potential Bidders at the Auction, prior to its conclusion, of the name of the person making the Successful Bid (the “Successful Bidder”), and the amount of the Successful Bid.

All bidders at the Auction will be deemed to have consented to the core jurisdiction of the Bankruptcy Court and waived any right to jury trial in connection with any disputes relating to the Auction, the Transfer of the Assets and the construction and enforcement of the Plan Sponsorship Agreement.

VIII. Implementation of Successful Bid

The Debtors may (a) determine, in their reasonable business judgment, in consultation with the Lenders and the Indenture Trustee, which Qualified Bid is the Successful Bid and the next best bid (the “Next Best Bid”) except that the Plan Sponsorship Agreement shall not be considered a Next Best Bid; and (b) reject at any time before entry of the confirmation order any bid, other than the Plan Sponsorship Agreement, that, in the Debtors’ reasonable judgment, is (i) inadequate or insufficient, (ii) not in conformity with the requirements of the Bankruptcy Code, the Bidding Procedures, or the terms and conditions of the Transfer, or (iii) contrary to the best interests of the Debtors and their estates.

The Debtors and the Successful Bidder shall use reasonable efforts to consummate the Plan and close the Transfer on or before January 8, 2010, unless a later date is agreed to by the Debtors and the Successful Bidder. If the Successful Bidder does not close the Transfer by such date as it may be extended, then the Debtors shall be authorized, but not required, to close with the party that submitted the Next Best Bid (the “Next Best Bidder”), without a further court order. If the Debtors decide to close with the Next Best Bidder, the Debtors and the Next Best Bidder will have an additional two (2) business days to close.

IX. No Fees for Potential Bidders or Qualified Bidders

Except for the Purchaser, Potential Bidders or Qualified Bidders shall not be allowed any break-up, termination, or similar fee. Moreover, neither the tendering of a bid nor the determination that a bid is a Qualified Bid shall entitle a Potential Bidder or Qualified Bidder to any break-up, termination, or similar fee and all Potential Bidders and Qualified Bidders are deemed to have waived any right to seek a claim for substantial contribution or any other payment from the Debtors or their estates.

X. Return of Good Faith Deposit

The Good Faith Deposits of the Successful Bidder and the Next Best Bidder shall be retained by the Debtors, notwithstanding Bankruptcy Court approval of the Plan, until forty-eight (48) hours after the earlier of (a) consummation of the Plan, (b) withdrawal of the Assets from the Auction by the Debtors, and (c) ten (10) days after the conclusion of the Confirmation

Hearing. Notwithstanding the foregoing, in the event the Purchaser is not selected as the Successful Bidder, the Purchaser's Good Faith Deposit shall be returned within twenty-four (24) hours of the selection of the Successful Bidder. All other Good Faith Deposits shall be returned within two business days after the conclusion of the Auction. In connection with consummation of the Plan, the Successful Bidder will be entitled to a credit for the amount of its Good Faith Deposit. If the Successful Bidder defaults in its obligations to the Debtors pursuant to its bid, then the Debtors shall retain the Good Faith Deposit as liquidated damages.

XI. Distributions of Proceeds by the Successful Bidder

Closing of the transaction with the Successful Bidder shall occur at the same time as and as part of the consummation of the Plan. If there are no other Qualified Bids, then, subject to the terms and conditions of the Purchaser's Plan Sponsorship Agreement, the Purchaser shall fund the Plan by delivering the sum of \$18 million to the Debtors, plus an additional amount, not to exceed \$750,000 plus accrued interest on such amount, to pay off any outstanding debtor in possession financing (the "DIP Loan"). Such amounts will be distributed promptly pursuant to the Plan to (i) the Prepetition Agent in full satisfaction of all of liens and claims of the Prepetition Agent and the Prepetition Secured Lenders against the Debtors, and (ii) the DIP Agent in full satisfaction of all liens and claims of the DIP Agent and the DIP Lenders. In the event the Successful Bidder funds the Plan with amounts in excess of those provided for in the Purchaser's Plan Sponsorship Agreement dated November 8, 2009, then such excess amounts will be promptly distributed by the Debtors to the Prepetition Agent until the Prepetition Agent and the Prepetition Secured Lenders have received payment in full of all amounts owed to the Prepetition Agent and the Prepetition Secured Lenders under the Senior Credit Facility. Any proceeds in excess of the amount required to pay the Prepetition Agent and Prepetition Secured Lenders in full will be distributed pursuant to the Plan first to the holders of Class 6 claims on a pro rata basis and then to holders of Class 5 Claims.