

Edgar Filing: TRANS ENERGY INC - Form 10KSB

TRANS ENERGY INC
Form 10KSB
April 28, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2004

Transition Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

Commission File Number 0-23530

TRANS ENERGY, INC.

(Name of small business issuer in its charter)

Nevada

93-0997412

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

210 Second Street, P.O. Box 393, St. Marys, West Virginia 26170
(Address of principal executive offices) (Zip Code)

Issuer's telephone no.: (304) 684-7053

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

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

State the issuer's revenues for its most recent fiscal year. \$ 2,390,099

State the aggregate market value of the voting stock held by non-affiliates computed by reference to the price at which the stock was sold, or the average bid and ask prices of such stock as of a specified date within 60 days. \$5,656,224 (Based on price of \$1.90 per share on April 6, 2005)

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

Class	Outstanding as of March 31, 2005
----- Common Stock, Par Value \$.001 per share	----- 4,790,480

DOCUMENTS INCORPORATED BY REFERENCE

A description of "Documents Incorporated by Reference" is contained in Part

Edgar Filing: TRANS ENERGY INC - Form 10KSB

III, Item 13.

Transitional Small Business Disclosure Format. Yes [] No [X]

-1-

TRANS ENERGY, INC.

TABLE OF CONTENTS

PART I

Item 1. Description of Business

Item 2. Description of Property.....

Item 3. Legal Proceedings.....

Item 4. Submission of Matter to a Vote of Security Holders.....

PART II

Item 5. Market for Common Equity and Related Stockholder Matters.....

Item 6. Management's Discussion and Analysis or Plan of Operation.....

Item 7. Financial Statements.....

Item 8. Changes in and Disagreements with Accountants on Accounting and
Financial Disclosure.....

Item 8A. Controls and Procedures.....

Item 8B. Other Information.....

PART III

Item 9. Directors, Executive Officers, Promoters and Control persons;
Compliance with Section 16(a) of the Exchange Act.....

Item 10. Executive Compensation.....

Item 11. Security Ownership of Certain Beneficial Owners and Management.....

Item 12. Certain Relationships and Related Transactions.....

Item 13. Exhibits.....

Item 14. Principal Accountant Fees and Services.....

Signatures.....

PART I

Item 1. Description of Business

History

Trans Energy, Inc. is engaged in the transportation, marketing and production of natural gas and oil, and certain exploration and development activities. We own and operate 203 oil and gas wells in West Virginia and an interest in seven oil wells in Wyoming that we do not operate. We also own and operate an aggregate of over 20 miles of 4-inch and 6-inch gas transmission lines located within West Virginia in the Counties of Ritchie and Tyler. This pipeline system gathers the natural gas produced from these wells and from wells owned by third parties. We also have approximately 11,000 gross acres under lease in the Powder River Basin in Campbell, Crook and Weston Counties, Wyoming.

In 1998, we purchased from GCRL Energy, Ltd. all of its interest in the Powder River Basin in Campbell and Crook Counties, Wyoming, consisting of interests in five (5) wells, four (4) of which are producing, interests in 30,000 leasehold acres, and interests in approximately seventy-three miles of 3-D seismic data. The properties include three producing fields from Minnelusa Sandstone and were discovered on 3-D seismic. During 1999, the Sagebrush 3 well was drilled in the Sagebrush field in Campbell County Wyoming, to be used as a water disposal well for the Sagebrush #1 and #2. The well was put into operation as an injection well in 2004.

On November 5, 2004, we acquired Cobham Gas Industries, Inc. and certain wells, leases, pipelines, gas purchase agreements, oil hauling agreements, equipment, right of ways and other miscellaneous items related to the leases located in West Virginia. A total of 229 wells were acquired, of which 98 are currently producing, located on approximately 15,000 leased acres.

On January 31, 2005, we finalized the acquisition of Arvilla Oilfield Services, LLC, a West Virginia limited liability company, assuming all its operations, assets and liabilities. Arvilla provides well servicing, workover and related transportation services to independent oil and natural gas producers in the northeast region of the United States. It also performs ongoing maintenance and major overhauls necessary to optimize the level of production from existing oil and natural gas wells and provides certain ancillary services during the drilling and completion of new wells. Arvilla offers its services in Ohio, Pennsylvania, New York, Virginia, Kentucky and West Virginia.

On November 29, 2004, our board of directors and stockholders holding a majority of our outstanding common stock approved a one share for 150 shares reverse split of our common stock. The reverse split was effected on January 28, 2005.

Our principal executive offices are located at 210 Second Street, P.O. Box 393, St. Marys, West Virginia 26170, and our telephone number is (304) 684-7053.

Business Development

In 2001, we continued our interest in the Trenton - Black River deep gas field in the Appalachian Basin in West Virginia. We believes that this area may become active in the counties in which we operate. We continue to focus much of our efforts in this area to take advantage of the situation if the opportunity becomes available. In 1999, we sold many of our Appalachian Basin assets and purchased 51% of a producing well in the Powder River Basin in Wyoming.

Edgar Filing: TRANS ENERGY INC - Form 10KSB

In addition to the business of newly acquired Arvilla, we will continue our current business of the transporting, marketing and producing natural gas and oil and engaging in certain limited exploration and development activities.

-3-

Our business strategy is to economically increase reserves, production and the sale of gas and oil from existing and acquired properties in the Powder River Basin, Appalachian Basin and elsewhere, in order to maximize shareholders' return over the long term. Our strategic location in West Virginia enables us to actively pursue the acquisition and development of producing properties in that area that will enhance our revenue base without proportional increases in overhead costs.

We operate oil and natural gas properties and transport and market natural gas through our transmission systems in West Virginia. Although management desires to acquire additional oil and natural gas properties and to become more involved in exploration and development, this can only be accomplished if we can secure future funding. Management intends to continue to develop and increase the production from oil and natural gas properties that we currently own. Although we will continue to transport and market natural gas through our pipelines, there are no current plans to acquire or to lay additional pipeline. Accordingly, during 2004 we sold approximately 7.6 miles of our 6-inch pipeline and approximately 10 miles of our 4-inch pipeline for cash and other consideration. In 2004, we sold approximately 3 miles of 6-inch pipeline and approximately 5.7 miles of 4-inch pipeline.

On December 31, 2003, we sold our 75% working interest ownership in five oil and gas wells located in Tyler County, West Virginia to Ultra-Light Investments for \$380,000. Of the total proceeds, \$30,000 was used to pay off existing debt on the wells. The balance of \$350,000 was used to settle an ongoing dispute with Baker Hughes Oilfield Operations, Inc. d/b/a/ Baker Hughes Inteq, Western Geophysical, a division of Western Atlas International, Inc. The \$350,000 was considered as payment in full and we were given a release of all judgments and liens against us in the matter.

The following is a summary of our oil and gas assets including wells and pipelines that we acquired in September 1993:

Tyler Construction Company, Inc.

We acquired a 65% interest in Tyler Construction Company from Loren E. Bagley and William F. Woodburn, both of whom are directors of Trans Energy. Tyler Construction owns and operates a natural gas gathering pipeline system serving the industrialized Ohio Valley, initially consisting of approximately 27 miles of 6-inch pipeline and 10 miles of 4-inch pipeline.

Tyler Construction's trunk line system consists of 6-inch pipeline that begins at the town of St. Marys, West Virginia, located on the Ohio River in the County of Pleasants in western West Virginia, and proceeds twenty-seven miles due east to Bradden Station, West Virginia. Near Bradden Station, the pipeline intercepts major transmission lines of Equitable Natural Gas, Dominion Transmission, Inc. and Eastern American Energy. An intercepting line consisting of ten miles of 4-inch pipeline begins at a point eight miles east of St. Marys and proceeds north 10 miles to an industrial park located seven miles south of Sistersville, West Virginia. At this point, gas is delivered to OSI Specialties (formerly Union Carbide) and Consolidated Aluminum Corporation of America under a marketing agreement with Sancho. Pursuant to our agreement with Sancho, we

Edgar Filing: TRANS ENERGY INC - Form 10KSB

have the right to sell natural gas subject to the terms and conditions of a 20-year contract, as amended, that Sancho entered into with Hope Gas, Inc. in 1988. This agreement is a flexible volume supply agreement whereby we receive the full price which Sancho receives less a \$.05 per Mcf marketing fee paid to Sancho. The price of the natural gas is based upon the residential gas index and the Inside F.E.R.C. CNG Index.

On February 28, 2003, we sold 7.6 miles of the 6-inch pipeline to PC Pipeline, Inc., located in Morgantown, West Virginia. In consideration for the sale, we received 35% of the outstanding stock of Tyler Construction from Ecological Energy, Inc., an affiliate of PC Pipeline. As a result of the transaction, we now own 100% of the capital stock of Tyler Construction.

Also on February 28, 2003, we sold 10 miles of the 4-inch pipeline to Triad Energy Corporation, located in Marietta, Ohio, for the cash consideration of \$270,000. Proceeds from the sale were used to pay down existing short and long-term debt.

-4-

On March 17, 2004, Tyler Construction sold 16,000 feet of 6-inch pipeline located in Pleasants and Tyler Counties, West Virginia for \$70,000. Tyler Construction also sold 30,096 feet of 4-inch pipeline (the Pipeline Ltd.) located in Pleasants and Ritchie Counties, West Virginia for \$130,000. The buyer in both instances was Triad Energy Corporation of Reno, Ohio. Of the total proceeds, \$161,391 was used to pay off the bank debt of the pipelines and the balance was used as operating capital. Following the sale, we retain approximately 16.3 miles of 6-inch pipeline in Tyler County.

Spencer Wells -----

We acquired all rights, title and interest to six producing oil and gas wells located in West Virginia, in exchange for shares of Trans Energy common stock. Five of the wells identified as "Fowler," "Goff," "Locke," "McGill" and "Workman" are situated in Ritchie County in a proven reservoir field. The remaining well identified as "Spencer," is located in Tyler County. All six wells were completed in 1991 and have been producing oil and gas through the date hereof. In 1999, five of these wells were sold to an unaffiliated third party and in 2000, the sixth well was sold to an unaffiliated third party.

The Pipeline, Ltd. -----

We acquired from Tyler Pipeline, Inc. all rights, title and interest in the natural gas gathering pipeline system known as The Pipeline, Ltd. (the name of the pipeline, not a legal entity), a 4-inch pipeline that begins at Twiggs, West Virginia, nine miles east of St. Marys, West Virginia where it intercepts Tyler Construction's trunk line system and proceeds due south for a distance of six miles. The Pipeline, Ltd. system is used for purchasing gas from third party producers. Mr. Woodburn, our Secretary / Treasurer and a director, is also President and owns 50% of Tyler Pipeline. Mr. Bagley, our Vice President and a director, also owns 50% of Tyler Pipeline.

Ritchie County Gathering Systems, Inc. -----

We acquired all the issued and outstanding capital stock of Ritchie County Gathering Systems, Inc., a West Virginia corporation. Ritchie County Gathering owns and operates a 4-inch natural gas gathering line which begins five miles south of Cairo, West Virginia at Rutherford, and proceeds due south for 4.6

Edgar Filing: TRANS ENERGY INC - Form 10KSB

miles, crossing Mellon Ridge and ending at Macfarlan Creek approximately 1/2 mile north of the South Fork of the Hughes River. The Ritchie County Gathering pipeline is used for purchasing gas from third party producers and delivering such gas to Hope Gas.

Cobham Gas Industries, Inc.

On November 5, 2004, we finalized an agreement with Texas Energy Trust Company, a Delaware Business Trust with offices in Irving, Texas, whereby we acquired certain oil and gas leases and leasehold interests located in Wetzel and Marion Counties, West Virginia, and other assets. Our acquisition of Cobham includes its two subsidiaries, Penine Resources, Inc. and Belmont Energy, Inc. The acquisition was accomplished by our wholly owned subsidiary, Prima Oil Company, Inc., acquiring from Texas Energy Trust 100% of the issued and outstanding shares (2,100 shares) of Cobham Gas Industries, Inc., a Delaware corporation. Under the terms of the agreement, we acquired certain wells, leases, pipelines, gas purchase agreements, oil hauling agreements, equipment, right of ways and other miscellaneous items related to the leases located in West Virginia. A total of 229 wells were acquired, of which 98 are currently producing, located on approximately 15,000 leased acres. Among the assets acquired are certain vehicles and heavy equipment and various other drilling equipment.

In consideration for the acquired property, we paid a purchase price of \$892,344, of which approximately \$489,000 is payable in cash and the balance in 244,633 shares of restricted Trans Energy common stock, post-split, to be issued following the effectiveness of our one share for 150 shares reverse stock split in January 2005. An initial payment of \$250,000 was paid at the closing with the remaining balance to be paid quarterly in equal installments beginning January 1, 2005, with the final payment due October 1, 2005.

-5-

The wells are situated in well defined fields producing from the shallow Devonian formation. Big Injun, Gordon and Thirty Foot are sands in the Devonian foundation that have produced substantial natural gas in West Virginia. The field/acreage positions consist of three specific areas; Mannington, Smithfield/Wallace and Dents Run. The Mannington field consists of 107 wells encompassing 4,573 acres. These wells are Big Injun wells, at approximately 2,900 - 3,000 feet in depth, dependent on elevation. The Smithfield/Wallace field consists of 92 wells encompassing 9,223 acres. The preponderance of these wells are Big Injun wells, although there are several Gordon wells in the field. Management believes that future development can expand the Gordon and Bayard play. The Dents Run field consists of 30 wells encompassing 1,097 acres. These wells are completed through the Thirty Foot sand.

Powder River Basin Wyoming

On March 6, 1998, we entered into an agreement to purchase from GCRL Energy, Ltd. all of its interest in the Powder River Basin in Campbell and Crook Counties, Wyoming, consisting of interests in five (5) wells, four (4) of which are producing, interests in 30,000 leasehold acres, and interests in approximately seventy-three miles of 3-D seismic data. The properties include three producing fields from Minnelusa Sandstone and were discovered on 3-D seismic. We made an initial payment for the properties of \$50,000 and the balance of \$2,987,962 was paid for with proceeds from the sale of debentures.

The following table sets forth information concerning the existing oil production per day of the producing wells located on the GCRL property.

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Name of Well	Gross Bbls. Oil Per Day	Net % to TSRG	Net Bbls. to TSRG
-----	-----	-----	-----
Sagebrush Flat (one unit)	85	42.15%	36
Pinon Fee #1	21	51.2%	11
Swartz Draw	28	15.4%	4
	-----		-----
Total	97		51

Current Business Activities

We operate our oil and natural gas properties and transport and market natural gas through our transmission systems in West Virginia. Although management desires to acquire additional oil and natural gas properties and to become more involved in exploration and development, this can only be accomplished if we can secure future funding. Management intends to continue to develop and increase the production from the oil and natural gas properties that it currently owns.

We will continue to transport and market natural gas through our various pipelines in 2005. Apart from one well drilled in the Powder River basin in Wyoming (Sagebrush #3) and the seven re-entry Benson wells drilled in West Virginia, we have not participated in any new wells in the last four years.

Powder River Basin Wyoming - Prima

In December 1996 we purchased 420 acres in the Powder River basin in Wyoming for \$50,000 from an unaffiliated third party. Included in the purchase price was a condition that the previous owners would provide all of the geologic and geophysical work as part of the purchase price. In February 1997 we leased an additional 480 acres that joined with our acreage position. The target formation is the Minnelusa "B1" sand. There presently are no producing wells on such acreage and no proved reserves located on the acreage owned by us.

-6-

Five two-dimensional ("2-D") seismic lines and a 6-square mile three-dimensional ("3-D") seismic program have been shot across the acreage now held by us. Unlike 2-D seismic testing which provides a cross-sectional view of the subsurface of the Earth, 3-D testing provided a full, three-dimensional view of the subsurface. Such views allow for greater precision in the location of potential drilling sites. 3-D testing allows potential drillers to obtain accurate estimates of the size of oil and gas bearing structures and the profile of the structure. 2-D testing only informs the driller that an oil and gas bearing structure is in a particular area, without giving information as to size and shape. Without an accurate estimate of the size of the oil and gas bearing structures, it is difficult to accurately estimate the reserves in the structure, and, thus, the economic viability of drilling into a particular structure. Without an accurate profile of the structure, a driller may not hit the most economic portion of the structure.

Water pressure primarily is responsible for the movement of oil within the area of our acreage. Where water pressure is the cause of oil movement, finding the apex of the oil bearing structure is critical. Drilling into the apex of such a structure usually assures that a maximum amount of oil, and a minimal amount of water, will be recovered from a well. Hitting such a zone elsewhere than at the apex will result in a lower proportion of oil to water and reduced rates of recovery.

Edgar Filing: TRANS ENERGY INC - Form 10KSB

We completed drilling the Fowler 22-8 in January 1998 and determined the well to be a dry hole and was plugged. We have not done further drilling on the acreage.

Powder River Basin Wyoming - Wolfe Prospect

In 1997, we purchased a 30% working interest in the Wolfe Prospect in the Powder River Basin in Campbell County, Wyoming for \$65,000 from an unaffiliated third party. Included in the purchase price was a 30% working interest in the Wolfe #1-35 well and 30% interest in 240 acres. In October 1997, we participated in our share of the drilling of the Horizon 32-35 well. The target formation was the Minnelusa "B1" sand. The well was determined to be a dry hole and plugged. In November 1999 we purchased for \$16,000 an additional 51% working interest in the Wolfe 1-35 well from Renor Exploration Limited. In September 2002, we transferred this well to an unaffiliated third party in settlement of a lawsuit.

Arvilla Oilfield Services

On January 31, 2005, we finalized the acquisition of Arvilla Oilfield Services, LLC through a merger of our subsidiary, Trans Energy Acquisitions, with and into Arvilla, Inc., with Arvilla, Inc. being the survivor of the merger. Previously in June 2004, Clarence E. Smith and Rebecca L. Smith had acquired Arrow Oilfield Services Company from Belden & Blake Corporation ("B&B"), a privately held company engaged in the exploration, development and production of oil and natural gas reserves. Mr. and Mrs. Smith subsequently created Arvilla Oilfield Services, LLC as the operating entity and then created Arvilla, Inc., that acquired all the membership interests of Arvilla Oilfield Services, LLC. Thus, by acquiring Arvilla, Inc., we assumed all of the operations, assets and liabilities of Arvilla Oilfield Services.

In order to consummate the acquisition of Arvilla, on November 29, 2004 our board of directors and stockholders holding a majority of our outstanding common stock, approved a one share for 150 shares reverse split of our common stock. The reverse split was effected on January 28, 2005.

-7-

In consideration for Arvilla, Inc., we issued 1,185,024 shares of post-split Trans Energy common stock to the following Arvilla stockholders: Clarence E. Smith, 531,437 shares; Rebecca L. Smith 531,437 shares and Howell B. Williams, 122,150 shares. These shares represent approximately 25% of our total outstanding shares (post-split) following the transaction, including shares to be issued in connection with the separate acquisition of the Cobham Gas Industries assets. Arvilla, Inc. will operate as a separate business entity 100% owned by Trans Energy.

Business of Arvilla

Arvilla is engaged in providing well servicing, workover and related transportation services to independent oil and natural gas producers in the northeast region of the United States. Arvilla performs ongoing maintenance and major overhauls necessary to optimize the level of production from existing oil and natural gas wells and provides certain ancillary services during the drilling and completion of new wells. Arvilla offers its services in Ohio, Pennsylvania, New York, Virginia, Kentucky and West Virginia.

Typically, Arvilla will provide a well servicing or swab rig, the crew to operate the rig, and such other specialized equipment as may be needed to meet a

Edgar Filing: TRANS ENERGY INC - Form 10KSB

customer's requirements. Arvilla also owns a fleet of equipment that provides:

- o brine hauling and disposal;
- o pipeline and facility construction;
- o well location preparation and lease road construction;
- o oil hauling;
- o and trucking of oilfield equipment, such as rigs, casings, tubing and rods.

Strategy

Management believes that the Appalachian Basin in the northeastern portion of the United States provides significant opportunities for exploration and production companies to develop reserves at shallow depths. Because Arvilla operates in Ohio, Pennsylvania, New York, Virginia, Kentucky and West Virginia, we feel that Arvilla's well servicing operations are well positioned to capitalize on existing market opportunities and established demand for its services.

Arvilla's service area is located within 500 miles of major gas markets for the United States. This strategic location is important as oil and gas companies develop natural gas reserves for future markets. Management anticipates that demand for natural gas will grow significantly in the next few years and, as a result of the demand, it is expected that there to be a marked increase in drilling activity in the Appalachian Basin served by Arvilla. As drilling activity increases, the need for the services provided by Arvilla will increase. Every well drilled requires service of the type that Arvilla is able to provide. As the drilling activities increase, we anticipate demand for Arvilla's services in its operation area to also increase.

Services

Through its experienced work force, Arvilla is able to provide various services to the oil and gas industry that include:

Trucking services. Arvilla owns a fleet of trucks that can provide customers with the ability to move equipment, tanks, drill pipe, and other types of trucking needs necessary in the oil and gas business. Each time a well is drilled, all drilling equipment must be moved by trucks from one site to the next. This equipment includes generators, water pumps, drill pipe, air compressors, drilling rigs, and many other associated items used in drilling.

-8-

Excavating equipment. Arvilla provides dozer, excavators, and loaders that are used to build access roads, cut drill sites for wells, dig pits, reclaim drill sites after drilling is completed, reclaim access roads, and seed, fertilize, lime, and mulch disturbed areas.

Service and swab rigs. Arvilla maintains a fleet of 14 service rigs and swab rigs capable of servicing wells up to 6,000 feet in depth. This service includes running pipe, tubing, rods, and swabbing capabilities. All wells drilled require services of this type.

Brine and water hauling. Arvilla provides a fleet of 20 vacuum trucks designed to deliver water to drilling rigs and fracs. Arvilla also hauls and disposes of brine water from producing wells and disposes of pit water used in well completions.

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Disposal wells. Arvilla has 14 brine disposal wells located at various locations in Ohio. These wells are used for the disposal of brine and pit water.

Oil hauling. Arvilla maintains a fleet of 6 oil tankers that pick up oil from producers at the well site and delivers the oil to terminals, from which it is shipped to refineries.

Pipelines. Arvilla has the capability of constructing pipelines for the delivery of natural gas or oil. Most wells drilled require construction of a natural gas line to deliver gas from the well to a gathering system, which will ultimately take the gas to market.

Research and Development

We have not allocated funds for conducting research and development activities and, due to the nature of our business. We do not anticipate allocating funds for research and development in the immediate future.

Marketing

We operate exclusively in the oil and gas industry. Natural gas production from wells owned by us is generally sold to various intrastate and interstate pipeline companies and natural gas marketing companies. Sales are generally made on the spot market or under short-term contracts (one year or less) providing for variable or market sensitive prices. These prices often are tied to natural gas futures contracts as posted in national publications.

Natural gas delivered through our pipeline network is sold through a contract with Sancho Oil and Gas Corporation to Dominion Hope Gas, a local utility. Some of the gas is sold at a fixed price on a year long basis and some at a variable price per month per Mcf. Under our contract with Sancho, we have the right to sell natural gas subject to the terms and conditions of a 20-year contract, as amended, that Sancho entered into with Hope Gas in 1988. This agreement is a flexible volume supply agreement whereby we receive the full price which Sancho charges the end user less a \$.05 per Mcf marketing fee paid to Sancho. In addition to the natural gas produced by our wells, we also purchased approximately 960 Mcf of natural gas per day in 2004.

We sell our oil production to third party purchasers under agreements at posted field prices. These third parties purchase the oil at the various locations where the oil is produced.

Although management believes that we are not dependent upon any one customer, our marketing arrangement with Sancho accounted for approximately 78% of our revenue for the year ended December 31, 2004, and approximately 82% for 2003. This marketing agreement is in effect until September 1, 2008.

-9-

Arvilla markets its services through its various office locations. Each office has a designated person who will market the services for that office's given area. Currently, the marketing is done from Canton, Ohio, Pleasantville, Pennsylvania and St. Marys, West Virginia. Arvilla advertises its services in oil and gas trade journals as well as direct verbal and written communication to oil and gas companies operating in the areas served by Arvilla. Arvilla also maintains a web site at <http://www.arvillaoilfield.com> that is available for current and prospective customers to review. Brochures will also be prepared for distribution that will explain those services available.

Competition

Edgar Filing: TRANS ENERGY INC - Form 10KSB

We are in direct competition with numerous oil and natural gas companies, drilling and income programs and partnerships exploring various areas of the Appalachian and Powder River Basins and elsewhere competing for customers. Many competitors are large, well-known oil and gas and/or energy companies, although no single entity dominates the industry. Many of our competitors possess greater financial and personnel resources enabling them to identify and acquire more economically desirable energy producing properties and drilling prospects than us. Additionally, there is competition from other fuel choices to supply the energy needs of consumers and industry. Management believes that there exists a viable market place for smaller producers of natural gas and oil and for operators of smaller natural gas transmission systems.

Under our contract with Sancho, we have the right to sell natural gas subject to the terms and conditions of a 20-year contract, as amended, that Sancho entered into with Dominion Hope Gas in 1988. This agreement is a flexible volume supply agreement whereby we receive the full price which Sancho receives less a \$.05 per Mcf marketing fee paid to Sancho. The price of the natural gas is based upon indices that include the residential gas commodity charge of Dominion Hope Gas and the Inside F.E.R.C. CNG Index. Were it not for the relationship between Dominion Hope Gas and Sancho, Dominion Hope Gas would compete directly with us for the sale of gas to certain customers, specifically OSI Specialities, Inc. and Ormet Aluminum Company.

Arvilla is in direct competition with numerous other oilfield service companies that operate in the same areas in which Arvilla operates. Some of Arvilla's competitors include Bishop Well Services, Key Energy, Triad, Carper Well Services, Danny Long and S & H Water Service. Some existing and potential competitors have greater financial resources, larger market share and more customers than Arvilla, which may enable them to establish a stronger competitive position than we have. There is also much competition for qualified personnel that operate the equipment used in the oilfield service business. Management believes that Arvilla can successfully compete with these other businesses in securing trained personnel and additional customers.

Government Regulation

The oil and gas industry is extensively regulated by federal, state and local authorities. The scope and applicability of legislation is constantly monitored for change and expansion. Numerous agencies, both federal and state, have issued rules and regulations binding on the oil and gas industry and its individual members, some of which carry substantial penalties for noncompliance. To date, these mandates have had no material effect on our capital expenditures, earnings or competitive position.

Legislation and implementing regulations adopted or proposed to be adopted by the Environmental Protection Agency ("EPA") and by comparable state agencies, directly and indirectly, affect our operations. We are required to operate in compliance with certain air quality standards, water pollution limitations, solid waste regulations and other controls related to the discharging of materials into, and otherwise protecting the environment. These regulations also relate to the rights of adjoining property owners and to the drilling and production operations and activities in connection with the storage and transportation of natural gas and oil.

-10-

We may be required to prepare and present to federal, state or local authorities data pertaining to the effect or impact that any proposed operations may have upon the environment. Requirements imposed by such authorities could be costly, time-consuming and could delay continuation of production or exploration activities. Further, the cooperation of other persons or entities may be required for us to comply with all environmental regulations. It is conceivable that future legislation or regulations may significantly increase environmental

Edgar Filing: TRANS ENERGY INC - Form 10KSB

protection requirements and, as a consequence, our activities may be more closely regulated which could significantly increase operating costs. However, management is unable to predict the cost of future compliance with environmental legislation. As of the date hereof, management believes that we are in compliance with all present environmental regulations. Further, we believe that our oil and gas explorations do not pose a threat of introducing hazardous substances into the environment. If such event should occur, we could be liable under certain environmental protection statutes and laws. We presently carry insurance for environmental liability.

Our exploration and development operations are subject to various types of regulation at the federal, state and local levels. Such regulation includes the requirement of permits for the drilling of wells, the regulation of the location and density of wells, limitations on the methods of casing wells, requirements for surface use and restoration of properties upon which wells are drilled, and governing the abandonment and plugging of wells. Exploration and production are also subject to property rights and other laws governing the correlative rights of surface and subsurface owners.

We are subject to the requirements of the Occupational Safety and Health Act, as well as other state and local labor laws, rules and regulations. The cost of compliance with the health and safety requirements is not expected to have a material impact on our aggregate production expenses. Nevertheless, we are unable to predict the ultimate cost of compliance.

Although past sales of natural gas and oil were subject to maximum price controls, such controls are no longer in effect. Other federal, state and local legislation, while not directly applicable to us, may have an indirect effect on the cost of, or the demand for, natural gas and oil.

Employees

As of the date hereof Trans Energy employs eight people full-time, consisting of three executives, two marketing and clerical persons, and three production persons. Our newly acquired subsidiary, Arvilla Oilfield Services, has approximately 103 full time employees consisting of the following:

- o 43 rig hands that operate or work directly on a service rig or swab rig;
- o 25 truck drivers who drive various types of trucks that haul oil, brine or oilfield equipment;
- o 2 equipment operators who operate various types of excavating equipment;
- o 11 roustabouts who perform various types of labor work associated with oil and gas production such as setting tank batteries, meter runs and laying or repairing gas lines;
- o 10 mechanics that repair and maintain all types of trucks, rigs and equipment;
- o 4 clerical employees;
- o 6 managerial persons; and
- o 2 executives.

None of our employees or employees of Arvilla are members of any union, nor have they entered into any collective bargaining agreements. We believes that our relationship with our employees is good. With the successful implementation of our business plan, we may seek additional employees in the next year to handle anticipated potential growth. We anticipate that we may hire additional employees in the areas of rig operators, truck drivers, mechanics and roustabouts.

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Facilities

We currently occupy approximately 4,000 square feet of office space in St. Marys, West Virginia, which we share with our subsidiaries, Tyler Construction Company and Ritchie County Gathering Systems. We lease an aggregate of approximately 4,000 square feet from an unaffiliated third party under a verbal arrangement for \$1,400 per month, inclusive of utilities. Management anticipates that we will move our principal offices to Arvilla's corporate offices in June 2005.

Arvilla currently operates out of facilities located in or near its service areas. Arvilla's corporate headquarters are located at 7994 South Pleasant Highway, St. Marys, West Virginia 26170, and consist of a leased 6,400 square foot shop and office facility. This office manages work in West Virginia, Virginia, and Kentucky. Arvilla owns a 20,000 square foot office and shop located on 39 acres in Canton, Ohio, that manages most of Arvilla's work in Ohio and some in Western Pennsylvania. This office reports to the main office in St. Marys, West Virginia. Arvilla also uses a leased shop and office located in Cambridge, Ohio that manages work in Southern Ohio and reports to the Canton, Ohio office. Further, Arvilla maintains a leased shop and office located in Pleasantville, Pennsylvania that manages work in Pennsylvania and New York and reports to the main office in St. Marys, West Virginia.

Industry Segments

No information is presented as to industry segments. We are presently engaged in the principal business of the exploration, development, production, transportation and marketing of natural gas and oil. Reference is made to the statements of operations contained in the financial statements included herewith for a statement of our revenues and operating loss for the past two fiscal years.

Risk Factors

You should carefully consider the risks and uncertainties described below and other information in this report. If any of the following risks or uncertainties actually occur, our business, financial condition and operating results, would likely suffer. Additional risks and uncertainties, including those that are not yet identified or that we currently believe are immaterial, may also adversely affect our business, financial condition or operating results.

We have a history of losses and anticipate future losses

Although our revenues increased approximately 26% during the fiscal year ended December 31, 2004, and we may not achieve, or subsequently maintain profitability if anticipated revenues do not increase in the future. We have experienced operating losses, negative cash flow from operations and net losses in each quarterly and annual period for the past several years. As of December 31, 2004, our net operating loss carryforward was approximately \$24 million and our accumulated deficit was approximately \$29 million. We expect to continue to incur significant expenses in connection with

- * exploration and development of new and existing properties,
- * costs of sales and marketing efforts,
- * additional personnel, and
- * increased general and administrative expenses.

Accordingly, we will need to generate significant revenues to achieve and attain, and eventually sustain profitability. If revenues do not increase, we may be unable to attain or sustain profitability on a quarterly or annual basis. Any of these factors could cause the price of our stock to decline.

We have a significant working capital deficit that makes it more difficult to obtain capital necessary for our operations and which may have an adverse effect on our future business.

As of December 31, 2004, we had a working capital deficit of \$2,980,431. If our business when combined with Arvilla does not produce positive working capital in the future, our business and financial condition would most likely be materially and negatively impacted.

It may be necessary for us to seek additional funding, which may not be available on terms favorable to us, or at all

Management believes that we may need to raise funds in order to take advantage of anticipated expansion of our business. If we cannot meet future capital requirements through realized revenues from our ongoing business, we may have to raise additional capital by borrowing or by selling equity or equity-linked securities, which securities would dilute the ownership percentage of our existing stockholders. Also, these securities could also have rights, preferences or privileges senior to those of our common stock. Similarly, if we raise additional capital by issuing debt securities, those securities may contain covenants that restrict us in terms of how we operate our business, which could also affect the value of our common stock. If we borrow more money, we will have to pay interest and may also have to agree to restrictions that limit operating flexibility. We may not be able to obtain funds needed to finance operations at all, or may be able to obtain funds only on very unattractive terms. Management may also explore other alternatives such as a joint venture with other oil and gas companies. There can be no assurances, however, that we will conclude any such transaction.

There are many competitors in the oil and gas industry

We encounter many competitors in the oil and gas industry including the exploration and development of properties, the sale of oil and gas and oilfield services. Management expects competition to continue and intensify in the future. The market for the oilfield service industry is extremely competitive and the barriers to entry are relatively low. Increased competition could result in reduced operating margins, as well as a loss of market share for our Arvilla operations. Many existing and potential competitors have greater financial resources, larger market share and more customers than us, which may enable them to establish a stronger competitive position than we have. Also, there is considerable competition for qualified personnel to operate the equipment used by Arvilla. If we fail to address competitive developments quickly and effectively, we will not be able to grow and our business will be adversely affected.

If Arvilla fails to keep up with changes affecting the markets that it serves, it will become less competitive, adversely affecting future financial performance.

In order to remain competitive and serve its customers effectively, Arvilla must respond on a timely and cost-efficient basis to changes in technology, industry standards and procedures and customer preferences. Arvilla needs to continuously upgrade and update its services to address new developments and changing customer demands. In some cases these changes may be significant and the cost to comply with these changes may be substantial. We cannot assure you that we will be able to adapt to any changes in the future or that we will have the financial resources to keep up with changes in the marketplace. Also, the cost of adapting Arvilla's services may have a material and adverse effect on

Edgar Filing: TRANS ENERGY INC - Form 10KSB

our operating results.

-13-

Our operating results are likely to fluctuate significantly and cause our stock price to be volatile which could cause the value of your investment in our shares to decline

Quarterly and annual operating results are likely to fluctuate significantly in the future due to a variety of factors, many of which are outside of our control. If operating results do not meet the expectations of securities analysts and investors, the trading price of our common stock could significantly decline which may cause the value of your investment to decline. Some of the factors that could affect quarterly or annual operating results or impact the market price of our common stock include:

- o our ability to develop properties and to market our oil and gas;
- o the timing and amount of, or cancellation or rescheduling of, orders for our oil and gas;
- o our ability to retain key management, sales and marketing and engineering personnel;
- o a decrease in the prices of oil and gas; and
- o changes in costs of exploration or marketing oil and gas.

Due to these and other factors, quarterly and annual revenues, expenses and results of operations could vary significantly in the future, and period-to-period comparisons should not be relied upon as indications of future performance.

Our business could be adversely affected by any adverse economic developments in the oil and gas industry and/or the economy in general.

The oil and gas industry is susceptible to significant change that may influence our business development due to a variety of factors, many of which are outside our control. Some of these factors include

- o varying demand for oil and gas;
- o fluctuations in price; o competitive factors that affect pricing;
- o attempts to expand into new markets;
- o the timing and magnitude of capital expenditures, including costs relating to the expansion of operations;
- o hiring and retention of key personnel;
- o changes in generally accepted accounting policies, especially those related to the oil and gas industry; and
- o new government legislation or regulation.

Any of the above factors or a significant downturn in the oil and gas industry or with economic conditions generally, could have a negative effect on our business and on the price of our common stock.

Our future success depends on retaining existing key employees and hiring and assimilating new key employees. The loss of key employees or the inability to attract new key employees could limit our ability to execute our growth strategy, resulting in lost profitability and a slower rate of growth.

Our future success depends, in part, on the ability to retain Trans Energy's and Arvilla's key employees including executive officers. Following the acquisition of Arvilla we do not anticipate entering into employment agreements with their executives or key personnel. Also, we do not carry, nor do we anticipate obtaining, "key man" insurance on our executives. It would be

Edgar Filing: TRANS ENERGY INC - Form 10KSB

difficult for us to replace any one of these individuals. In addition, as we grow we may need to hire additional key personnel. We may not be able to identify and attract high quality employees or successfully assimilate new employees into our existing management structure.

-14-

If we are unable to manage our growth effectively, our operations and financial performance could be adversely affected .

The ability to manage and operate our business as we execute our anticipated growth will require effective planning. Significant future growth could strain our internal resources, leading to a lower quality of service and other problems that could adversely affect our financial performance. Arvilla's efforts to grow have placed, and we expect will continue to place, a strain on its personnel, management systems, infrastructure and other resources. Our ability to manage future growth effectively will also require us to successfully attract, train, motivate, retain and manage new employees and continue to update and improve our operational, financial and management controls and procedures. If we do not manage our growth effectively, our operations could be adversely affected, resulting in slower growth and a failure to achieve or sustain profitability.

Going concern issue

Our independent auditors have expressed a going concern issue. Our ability to continue as a going concern is dependant upon our ability to achieve a profitable level of operations. We may need, among other things, additional capital resources which we will seek through loans from shareholders or other forms of financing. Presently, management anticipates that the addition of the Arvilla Oilfield and Cobham Industries operations will be sufficient to cover our cash flow needs through fiscal 2005. However, management cannot provide any assurances that we will be successful in accomplishing any of our plans.

Risks relating to ownership of our common stock

The price of our common stock is extremely volatile and investors may not be able to sell their shares at or above their purchase price, or at all.

Our common stock is presently traded on the OTC Bulletin Board, although there is no assurance that a viable market will continue. The price of our shares in the public market is highly volatile and may fluctuate substantially because of:

- * actual or anticipated fluctuations in our operating results;
- * changes in or failure to meet market expectations;
- * conditions and trends in the oil and gas industry; and
- * fluctuations in stock market price and volume, which are particularly common among securities of small capitalization companies.

Future sales or the potential for sale of a substantial number of shares of our common stock could cause the market value to decline and could impair our ability to raise capital through subsequent equity offerings.

If we do not generate necessary cash from our operations to finance future business, we may need to raise additional funds through public or private financing opportunities. Issuing a substantial number of our common shares to individuals or in the public markets, or the perception that these sales may occur, could cause the market price of our common stock to decline and could materially impair our ability to raise capital through the sale of additional equity securities. Any such issuances would dilute the equity interests of existing stockholders. Following the acquisition of Arvilla, we have

Edgar Filing: TRANS ENERGY INC - Form 10KSB

approximately 495 million shares of common stock held in our treasury for possible future issuance.

We do not intend to pay dividends

 To date, we have never declared or paid a cash dividend on shares of our common stock. We currently intend to retain any future earnings for growth and development of business and, therefore, do not anticipate paying any dividends in the foreseeable future.

-15-

Possible "Penny Stock" Regulation

 Trading of our common stock on the OTC Bulletin Board may be subject to certain provisions of the Securities Exchange Act of 1934, commonly referred to as the "penny stock" rule. A penny stock is generally defined to be any equity security that has a market price less than \$5.00 per share, subject to certain exceptions. If our stock is deemed to be a penny stock, trading in our stock will be subject to additional sales practice requirements on broker-dealers. These may require a broker dealer to:

- * make a special suitability determination for purchasers of penny stocks;
- * receive the purchaser's written consent to the transaction prior to the purchase; and
- * deliver to a prospective purchaser of a penny stock, prior to the first transaction, a risk disclosure document relating to the penny stock market.

Consequently, penny stock rules may restrict the ability of broker-dealers to trade and/or maintain a market in our common stock. Also, many prospective investors may not want to get involved with the additional administrative requirements, which may have a material adverse effect on the trading of our shares.

Item 2. Description of Property

Our properties consist essentially of working and royalty interests owned by us in various oil and gas wells and leases located in West Virginia. On December 31, 2003, we sold our 75% working interest ownership in five oil and gas wells located in Tyler County, West Virginia to Ultra-Light Investments for \$380,000. The wells included Eastlack #1, Nolan #2, Nolan #3, Nolan #4 and Nolan #5. Our proved reserves for the years ended December 31, 2004, 2003 and 2002 are set forth below:

	2004	December 31, 2003	2002
	-----	-----	-----
Natural Gas (MMcf)			
Developed	542,955	-	1,131,415
Undeveloped	-	-	-
Total Proved	542,955	-	1,131,415
	=====	=====	=====
Crude Oil (MBbl)			
Developed	106,649	99,880	113,406
Undeveloped	-	-	-
	-----	-----	-----

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Total Proved	106,649	99,880	113,406
	=====	=====	=====

These estimates are based primarily on the reports of Robert L. Richards (Wyoming), Geologist and presently an officer and director of Trans Energy, and Mark V. Schumacher, PE (West Virginia). Such reports are, by their very nature, inexact and subject to changes and revisions. Proved developed reserves are reserves expected to be recovered from existing wells with existing equipment and operating methods. Proved undeveloped reserves are expected to be recovered from new wells drilled to known reservoirs on undrilled acreage for which existence and recoverability of such reserves can be estimated with reasonable certainty, or from existing wells where a relatively major expenditure is required to establish production. No estimates of reserves have been included in any reports to any federal agency other than the SEC. See SFAS 69 Supplemental Disclosures included as part of our consolidated financial statements.

-16-

Set forth in the following schedule is the average sales price per unit of oil, expressed in barrels ("bbl"), and of natural gas, expressed in thousand cubic feet ("mcf"), produced by us for the past three fiscal years. The increase in the cost of oil production in 2004 is attributed to expenses incurred putting water flood into operation.

Average sales price:	Years ended December 31,	
	2004	2003
Gas (per mcf)	\$ 7.40	\$ 7.04
Oil (per bbl)	30.24	23.38
Average cost of production:		
Gas (per mcf)	--	--
Oil (per bbl)	\$14.19	4.58

We have not filed any estimates of total, proved net oil and gas reserves with any federal authority or agency since the beginning of our last fiscal year.

The following schedule sets forth the capitalized costs relating to oil and gas producing activities by us for the past three fiscal years.

	Years ended December 31,	
	2004	2003
Proved oil and gas producing properties and related lease and well equipment	\$ 7,093,676	\$ 3,171,426
Unproved oil and gas properties	95,945	99,945
Accumulated depreciation and depletion	(3,870,874)	(2,555,878)
Net Capitalized Costs	\$ 3,318,747	\$ 715,493

Edgar Filing: TRANS ENERGY INC - Form 10KSB

The following schedule summarizes changes in the standardized measure of discounted future net cash flows relating to our proved oil and gas reserves.

	2004	Years ended December 31, 2003
	-----	-----
Standardized measure, beginning of year	1,864,377	\$ 4,314,941
Oil and gas sales, net of production costs	(1,539,222)	(2,411,293)
Sales of mineral in place	-	-
Purchases	5,132,087	-
Net change due to revisions in quantity estimates	(1,018,406)	(39,271)
	-----	-----
Standardized measure, end of year	\$ 4,438,836	\$ 1,864,377
	=====	=====

-17-

We do not anticipate investing in or purchasing assets and/or property for the purpose of capital gains. It is our intention to purchase assets and/or property for the purpose of enhancing our primary business operations. We are not limited as to the percentage amount of our assets we may use to purchase any additional assets or properties.

Item 3. Legal Proceedings

Certain material pending legal proceedings to which we are a party or to which any of our property is subject is set forth below.

Information concerning certain material pending legal proceedings to which we are a party, or to which any of our property is subject, is set forth below:

- o On September 22, 2000, Tioga Lumber Company obtained a judgment of \$43,300 plus interest in the Circuit Court of Pleasants County, West Virginia, against Tyler Construction Company for breach of contract. On February 28, 2002, we reached a negotiated payment schedule with Tioga and made the initial payment. We believe that we have satisfied the balance owed to Tioga of \$26,233.58, although the judgment has not yet been released. We are proceeding to secure the release of the judgment.
- o On January 15, 2003, a suit against us entitled Lario Oil & Gas Company vs. Trans Energy, Inc. (Civil Action No. 24575) was initiated in the Sixth District Court of Campbell County, Wyoming. Lario's suit asks for \$50,692.10 which it claims we owe for operating fees on the Sagebrush #1 and #2 and the Pinon Fee #1 wells, operated by Lario and in which we have working interests. We asked for a complete accounting of all monies owed. Lario retained our share of monthly oil production monies and applied them to the amount owed. On August 23, 2004, the court dismissed the action with prejudice.

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Item 4. Submission of Matters to a Vote of Security Holders

In connection with the reverse stock split effected January 28, 2005, we filed with the State of Nevada on the same date an amendment to our articles of incorporation to reflect the reverse split. The amendment reported the reverse stock split and stated that our current authorized capitalization will remain unchanged at 500 million shares of common stock with a par value of \$0.001. The reverse stock split and amendment were approved by the written consent of shareholders holding a majority of our common stock by a vote of 256,287,738 shares (51.6%) voting for, and zero shares voting against.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters

Our common stock is quoted on the OTC Bulletin Board under the symbol TENG. Prior to the effectiveness of our reverse stock split on January 28, 2005, our stock traded under the symbol of TSRG. Set forth in the table below are the quarterly high and low prices of our common stock as obtained from the Nasdaq Small-Cap Market and the OTC Bulletin Board for the past two fiscal years and adjusted for the one share for 150 shares reverse stock split.

	High	Low
	----	---
2004		
First Quarter	\$ 2.70	\$ 1.05
Second Quarter	\$ 4.50	\$ 0.75
Third Quarter	\$ 4.35	\$ 1.50
Fourth Quarter	\$ 2.55	\$ 1.35

-18-

	High	Low
	----	---
2003		
First Quarter	\$ 0.60	\$ 0.30
Second Quarter	\$ 1.05	\$ 0.30
Third Quarter	\$ 0.90	\$ 0.30
Fourth Quarter	\$ 4.20	\$ 0.45

As of April 15, 2005, there were approximately 406 holders of record of our common stock, which figure does not take into account those shareholders whose certificates are held in the name of broker-dealers or other nominee accounts.

Dividend Policy

We have not declared or paid cash dividends or made distributions in the past, and we do not anticipate that we will pay cash dividends or make distributions in the foreseeable future. We currently intend to retain and reinvest future earnings to finance operations.

Recent Sales of Unregistered Securities

During 2002, we issued 60,835,938 shares of common stock for cash, services and conversion of debt at an average of \$.01 per share, or an aggregate of \$337,250.

Edgar Filing: TRANS ENERGY INC - Form 10KSB

During 2003, we issued 27,841,311 shares of common stock for the extinguishment of certain debts and related interest valued at \$75,116, or an average price of \$.0027 per share, and an additional 150,000 shares upon the conversion of convertible debt in the amount of \$5,250, or \$.035 per share. We also issued 3,500,000 shares in exchange for services valued at \$10,500, or \$.003 per share.

Shares issued for cash, services and extinguishment of debt, were issued in reliance upon the exemption from registration under the Securities Act of 1933, provided by Section 4(2) thereunder. Issuances of shares upon conversion of debentures or other debt were pursuant to the exemption provided by Section 3(a)(9) of said Act.

In connection with the acquisition of Cobham Gas Industries, Inc. on November 4, 2004, we issued to Texas Energy Trust Company 244,633 "post-split" shares of Trans Energy's authorized, but previously unissued common stock. The shares are valued at \$1,485,794. The issuance of the shares was made in an isolated, private transaction to an informed investor having knowledge of Trans Energy and its business. Accordingly, the transaction is considered exempt from registration under the Securities Act of 1933 pursuant to Section 4(2) of that Act.

In connection with the closing of the merger agreement on January 31, 2005, Trans Energy issued to the holders of Arvilla, Inc. capital stock an aggregate of 1,185,024 shares of Trans Energy common stock. These shares were distributed as follows: Clarence E. Smith, 531,437 shares; Rebecca L. Smith 531,437 shares and Howell B. Williams, 122,150 shares.

Each recipient of the Trans Energy shares is a sophisticated and knowledgeable investor and has full access to all pertinent business and financial information related to Trans Energy and Arvilla. Accordingly, Trans Energy has relied upon the exemption from registration under the Securities Act of 1933 provided by Section 4(2) of the Act that exempts a transaction not involving a public offering.

-19-

On February 28, 2005, our board of directors authorized the issuance of 50,000 shares of authorized, but previously unissued shares of common stock to Liberty Consulting International, Inc. The shares are in consideration for services pursuant to a Consulting Services Agreement between the company and Liberty Consulting International. The shares have been issued and constitute less than 5% of the total outstanding shares of Trans Energy common stock. The issuance of shares is being made in a private transaction to a person with knowledge of the company's business in reliance upon an exemption from registration under the Securities Act of 1933, pursuant to Section 4(2) of that Act.

Item 6. Management's Discussion and Analysis or Plan of Operation

The following information should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this Form 10-KSB.

Results of Operations

The following table sets forth the percentage relationship to total revenues of principal items contained in the statements of operations of the consolidated financial statements included herewith for the two most recent fiscal years ended December 31, 2004 and 2003. It should be noted that percentages discussed throughout this analysis are stated on an approximate basis.

Edgar Filing: TRANS ENERGY INC - Form 10KSB

	Fiscal Years Ended
	December 31,
	2004

Total revenues.....	100%
Total costs and expenses.....	112
Total other income (expenses).....	(9)
Loss before income taxes and change in accounting principal	(21)
Income taxes.....	-
Change in accounting principal.....	-
Net (loss).....	(21)

For the Year Ended December 31, 2004 Compared to the Year Ended December 31, 2003

Total revenues of \$2,390,099 for the year ended December 31, 2004 ("2004") increased 26% compared to \$1,902,836 for the year ended December 31, 2003 ("2003"), due primarily to the increase of oil and gas prices and the addition of the Cobham assets for the last two months of 2004. In 2004, oil made up 22% of total revenues compared to 28% in 2003, and gas represented 76% of revenues in 2004 compared to 72% in 2003. The changes were considered minimal representing only a slight difference in percentage points.

We had an operating loss of \$284,127 for 2004 compared to a loss of \$1,187,448 in 2003. Total costs and expenses decreased 13% in 2004 primarily due to the 67% decrease in depreciation, depletion and amortization, attributed to the sale of certain assets and assets reaching the end of their useful lives. Salaries and wages decreased only slightly by 2% in 2004. These decreases were partially offset by the 13% increase in cost of oil and gas, attributed to higher oil and gas prices and increased pipeline costs, and the 14% increase in selling, general and administrative expenses primarily due to increases in insurance premiums and travel expenses and additional labor costs. As a percentage of revenues, total costs and expenses decreased from 162% in 2003 to 112% in 2004.

-20-

Other expenses as a percentage of revenues decreased from 15% in 2003 to 9% in 2004, attributed to the decrease in interest expense from \$404,336 in 2003 to \$193,683 in 2004 due to the paying off certain debt. We realized a gain on disposition of assets of \$416,560 in 2004, compared to \$231,702 in 2003, which was offset by a loss on the extinguishment of debt of \$653,257 in 2004 compared to a loss of \$11,268 in 2003.

Our net loss for 2004 was \$502,848 versus a net loss of \$1,582,180 for 2003. The decrease in net loss in 2004 is primarily attributed to decreases in depreciation and depletion and increases in miscellaneous revenues related to asset sales and debt settlement.

Net Operating Losses

We have accumulated approximately \$24 million of net operating loss carryforwards as of December 31, 2004, which may be offset against future taxable income through 2023. The use of these losses to reduce future income taxes will depend on the generation of sufficient taxable income prior to the expiration of the net operating loss carryforwards. In the event of certain changes in control, there will be an annual limitation on the amount of net

Edgar Filing: TRANS ENERGY INC - Form 10KSB

operating loss carryforwards which can be used. No tax benefit has been reported in the financial statements for the year ended December 31, 2004 because the potential tax benefits of the loss carryforward is offset by valuation allowance of the same amount.

Liquidity and Capital Resources

Historically, working capital needs have been satisfied through our operating revenues and from borrowed funds. Working capital at December 31, 2004 was a negative \$2,980,431 compared with a negative \$6,359,171 at December 31, 2003. We anticipate meeting working capital needs during the 2005 fiscal year with revenues from operations and possibly from capital raised through the sale of either equity or debt securities. We have no other current agreements or arrangements for additional funding and there can be no assurance such funding will be available to us, or if available, such funding will be on acceptable or favorable terms to us.

As of December 31, 2004, we had total assets of \$4,234,111 and stockholders' deficit of \$1,169,886 compared to total assets of \$1,292,875 and total stockholders' deficit of \$5,430,033 at December 31, 2003. The increase in total assets and decrease in stockholders' deficit at December 31, 2004 is attributed to the purchase of Cobham Gas Industries assets. We have recorded a long-term liability of \$1,571,749 as an asset retirement obligation that relates to, in part, the estimated cost to plug 203 Cobham wells in the event it becomes necessary.

In 1998, we issued \$4,625,400 face value of 8% Secured Convertible Debentures Due March 31, 1999. A portion of the proceeds were used to acquire the GCRL properties and interest in Wyoming. During 2000, all but one of the remaining outstanding debentures were converted into common stock. At December 31, 2004, we owed \$331,462 in connection with the debentures consisting of \$50,000 for a debenture and \$281,462 in penalties and interest. However, following an accounting adjustment, the amount owed has been reduced to \$50,000 plus approximately \$25,000 in interest.

Because we have generated significant losses from operations through December 31, 2004 and have a working capital deficit at December 31, 2004, there exists substantial doubt about our ability to continue as a going concern. Revenues have not been sufficient to cover operating costs and to allow us to continue as a going concern. Potential proceeds from the future sale of common stock, other contemplated debt and equity financing, and increases in operating revenues from new development would enable us to continue as a going concern. There can be no assurance that we can or will be able to complete any debt or equity financing.

-21-

In the opinion of management, inflation has not had a material effect on the operations of Trans Energy.

Forward-Looking and Cautionary Statements

This report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements may relate to such matters as anticipated financial performance, future revenues or earnings, business prospects, projected ventures, new products and services, anticipated market performance and similar matters. When used in this report, the words "may," "will," "expect," "anticipate," "continue," "estimate," "project," "intend," and similar expressions are intended to identify forward-looking statements regarding events, conditions, and financial trends that may affect our future plans of operations, business strategy, operating results, and financial position. We caution readers that a variety of factors could cause our

Edgar Filing: TRANS ENERGY INC - Form 10KSB

actual results to differ materially from the anticipated results or other matters expressed in forward-looking statements. These risks and uncertainties, many of which are beyond our control, include:

- * the sufficiency of existing capital resources and our ability to raise additional capital to fund cash requirements for future operations;
- * uncertainties involved in the rate of growth of our business and acceptance of any products or services;
- * volatility of the stock market, particularly within the technology sector; and
- * general economic conditions.

Although we believe the expectations reflected in these forward-looking statements are reasonable, such expectations cannot guarantee future results, levels of activity, performance or achievements.

Recent Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment, which is an amendment to SFAS No. 123, Accounting for Stock-Based Compensation. This new standard eliminates the ability to account for share-based compensation transactions using Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and generally requires such transactions to be accounted for using a fair-value-based method and the resulting cost recognized in our financial statements. This new standard is effective for awards that are granted, modified or settled in cash in interim and annual periods beginning after June 15, 2005. In addition, this new standard will apply to unvested options granted prior to the effective date. We will adopt this new standard effective for the fourth fiscal quarter of 2005, and have not yet determined what impact this standard will have on our financial position or results of operations.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs - an amendment of ARB No. 43, Chapter 4. This Statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that ". . . under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges. . . ." This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Management does not believe the adoption of this Statement will have any immediate material impact on the company.

-22

In December 2004, the FASB issued SFAS No. 152, Accounting for Real Estate Time-sharing Transactions, which amends FASB statement No. 66, Accounting for Sales of Real Estate, to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position (SOP) 04-2, Accounting for Real Estate Time-Sharing Transactions. This statement also amends FASB Statement No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. The accounting for those operations and costs is subject to the guidance in SOP

Edgar Filing: TRANS ENERGY INC - Form 10KSB

04-2. This Statement is effective for financial statements for fiscal years beginning after June 15, 2005. Management believes the adoption of this Statement will have no impact on the financial statements of the company.

In December 2004, the FASB issued SFAS No.153, Exchange of Nonmonetary Assets. This Statement addresses the measurement of exchanges of nonmonetary assets. The guidance in APB Opinion No. 29, Accounting for Nonmonetary Transactions, is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that Opinion, however, included certain exceptions to that principle. This Statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This Statement is effective for financial statements for fiscal years beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges incurred during fiscal years beginning after the date of this statement is issued. Management believes the adoption of this Statement will have no impact on the financial statements of the company.

Item 7. Financial Statements

Our financial statements as of and for the fiscal years ended December 31, 2004 and 2003 have been examined to the extent indicated in their report by H J & Associates, LLC, independent certified public accountants, and have been prepared in accordance with generally accepted accounting principles and pursuant to Regulation S-B as promulgated by the SEC. The aforementioned financial statements are included herein starting with page F-1.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

This Item is not Applicable.

Item 8A. Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. Based upon that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective to cause the material information required to be disclosed by us in the reports that we file or submit under the Exchange Act to be recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There have been no significant changes in our internal controls or in other factors which could significantly affect internal controls subsequent to the date we carried out our evaluation.

-23-

Item 8B. Other Information

Reports on Form 8-K

Since the beginning of our fiscal fourth quarter commencing October 1, 2004 through the date of this report, we have filed current reports on Form 8-K reporting the following:

Edgar Filing: TRANS ENERGY INC - Form 10KSB

- o October 8, 2004 - reporting under Item 801 a preliminary agreement with Texas Energy Trust Company, a Delaware Business Trust, whereby Trans Energy will acquire certain oil and gas leases and leasehold interests located in Wetzel and Marion Counties, West Virginia.

- o October 26, 2004 - reporting under Item 3.02 that Trans Energy distributed an aggregate of 203 million shares of its authorized, but previously unissued common stock in exchange for the conversion of debt in the amount of \$2,401,424 previously incurred by Trans Energy.

- o November 11, 2004 - reporting under Item 2.01 the finalization of the agreement with Texas Energy Trust Company whereby our wholly owned subsidiary, Prima Oil Company, Inc., acquired from Texas Energy Trust 100% of the issued and outstanding shares of Cobham Gas Industries, Inc., a Delaware corporation. We also reported under Item 3.02 that in connection with the transaction reported under Item 2.01, we agreed to issue to Texas Energy Trust Company 244,633 "post-split" shares of our authorized, but previously unissued common stock, to be issued after the one share for 150 shares reverse split has been finalized.

- o December 9, 2004 - reporting under Item 1.01 the entering into a letter of intent to acquire Arvilla Oilfield Services, LLC, a West Virginia limited liability company. The acquisition was formalize by executing on December 3, 2004 a merger agreement and plan of reorganization by and among Trans Energy, our wholly owned subsidiary Trans Energy Acquisitions, Inc., Arvilla, Inc., and the controlling stockholders of Arvilla, Inc.

- o February 2, 2004 - reporting under Item 1.01, the entering of a merger agreement and plan of reorganization dated December 3, 2004 to acquire Arvilla Oilfield Services with our wholly owned subsidiary Trans Energy Acquisitions, Inc., Arvilla, Inc., and the controlling stockholders of Arvilla, Inc. Also reported (i) under Item 2.01 that the merger agreement was finalized and closed on January 31, 2005; (ii) under Item 3.02 that in connection with the closing of the merger agreement we issued to the current holders of Arvilla, Inc. capital stock an aggregate of 1,185,024 shares of Trans Energy common stock; (iii) under Item 5.02 that in connection with the acquisition of Arvilla, Inc., immediately prior to the effective time of the merger transaction our board of directors unanimously appointed two new directors, Clarence E. Smith and Rebecca L. Smith, effective upon the closing of the transaction on January 31, 2005; and (iv) under Item 5.03 that in connection with the reverse stock split effected January 28, 2005, we filed with the State of Nevada on the same date an amendment to our articles of incorporation to reflect the reverse split.

-24-

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act

The following table sets forth the names, ages, and offices held by our directors and executive officers:

Name	Position	Director Since
----	-----	-----

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Clarence E. Smith	C.E.O. and Director	January 2005
Robert L. Richards	President and Director	September 2001
Loren E. Bagley	Vice President and Director	August 1991
John G. Corp	Vice President and Director	February 2005
William F. Woodburn and Director	Secretary / Treasurer	August 1991
Rebecca L. Smith	Director	January 2005

All directors hold office until the next annual meeting of stockholders and until their successors have been duly elected and qualified. There are no agreements with respect to the election of directors. We have not compensated our directors for service on the Board of Directors or any committee thereof, but directors are reimbursed for expenses incurred for attendance at meetings of the Board and any committee thereof. Executive officers are appointed annually by the Board and each executive officer serves at the discretion of the Board. The Executive Committee of the Board of Directors, to the extent permitted under Nevada law, exercises all of the power and authority of the Board in the management of the business and affairs of Trans Energy between meetings of the Board.

On August 10, 2004 John B. Sims, a long-time director of Trans Energy, passed away. Mr. Sims served as a director since 1988 and was formerly our President and C.E.O. The board did not immediately name a successor to Mr. Sims.

In connection with the acquisition of Arvilla, Inc., immediately prior to the effective time of the merger transaction our board of directors unanimously appointed two new directors, Clarence E. Smith and Rebecca L. Smith, effective upon the closing of the transaction on January 31, 2005.

On February 28, 2005, our board of directors appointed director Clarence E. Smith to become the company's new Chief Executive Officer. Robert L. Richards, a director, President and former Chief Executive Officer, will remain as President and a director. Also on February 28, the board appointed John G. Corp as a new director and a Vice President.

The business experience of each of the persons listed above during the past five years is as follows:

Clarence E. Smith became a director of Trans Energy upon the closing of the acquisition of Arvilla on January 31, 2005. He started Arvilla Well Service in 1981 providing well location construction and clean-up and wellhead hook-up services. Mr. Smith expanded his business into pipeline construction which became Arvilla Pipeline Construction Co., operating from Bristol, Tennessee to Corning, New York. This business provides construction services to most large gas companies in the area such as Dominion Transmission, Equitrans, Columbia

-25-

Natural Resources and other smaller companies. In the summer of 2004, Mr. Smith and his wife Rebecca purchased Arrow Oilfield Services from the Belden and Blake Corporation. Arrow was renamed Arvilla Oilfield Services, LLC. Mr. Smith also owns Arvilla Rental & Equipment, LLC and is registered with the State of West Virginia as an oil and gas producer. He graduated from St. Marys (West Virginia) High School and the PRT Technical School in 1981. Mr. Smith's wife Rebecca also serves as a director of Trans Energy.

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Robert L. Richards became a director and was appointed President and C.E.O. in September 2001. On February 28, 2004, Mr. Richards relinquished his position as C.E.O., but remained as a director and President. From 1982 to the present, he has been President of Robert L. Richards, Inc. as a consulting geologist with 27 years experience in the petroleum industry. He has also served as a geologist with Exxon, exploration geologist with Union Texas Petroleum, and regional exploration manager for Carbonit Exploration, Inc. From 2000 to the present, he has been President and C.E.O. of Derma - Rx, Inc., a formulator and marketer of skin care products. Also, from 1992 to August 2000, Mr. Richards was C.E.O. of Kaire Nutraceuticals, Inc., a developer and marketer of health and nutritional products. Mr. Richards served as Vice President of Continental Tax Corporation from March 1989 to August 1992. He has five and one-half years experience in the United States Air Force as an Instructor Pilot. Mr. Richards holds a B.S. degree in geology from Brigham Young University.

Loren E. Bagley served as our President and C.E.O. from September 1993 to September 2001, at which time he resigned as President and was appointed Vice President. From 1979 to the present, Mr. Bagley has been self-employed in the oil and gas industry as president, C.E.O. or vice president of various corporations which he has either started or purchased, including Ritchie County Gathering Systems, Inc. Mr. Bagley's experience in the oil and gas industry includes acting as a lease agent, funding and drilling of oil and gas wells, supervising production of over 175 existing wells, contract negotiations for purchasing and marketing of natural gas contracts, and owning a well logging company specializing in analysis of wells. Prior to becoming involved in the oil and gas industry, Mr. Bagley was employed by the United States government with the Agriculture Department. Mr. Bagley attended Ohio University and Salem College and earned a B.S. Degree.

John C. Corp became a director and Vice President on February 28, 2005. John G. Corp as a new director and a Vice President. Mr. Corp has more than 25 years of extensive experience in drilling, production and oilfield service operations in the Appalachian Basin. Prior to joining Trans Energy, Inc., he held various management positions with Belden & Blake Corp. from 1987-2004. He has a BS degree in Petroleum Engineering from Marietta (Ohio) College and is a member of the Society of Petroleum Engineers, the Ohio Oil & Gas Association and is chairman of the Technical Advisory Committee or the Ohio Department of Natural Resources.

William F. Woodburn has served as our Vice President from August 1991 to September 2001, at which time he resigned as Vice President and was appointed Secretary / Treasurer. Mr. Woodburn has been actively engaged in the oil and gas business in various capacities for the past twenty years. For several years prior to 1991, Mr. Woodburn supervised the production of oil and natural gas and managed the pipeline operations of Tyler Construction Company, Inc. and Tyler Pipeline, Inc. Mr. Woodburn is a stockholder and serves as President of Tyler Construction Company, Inc., and is also a stockholder of Tyler Pipeline, Inc. which owns and operates oil and gas wells in addition to natural gas pipelines, and Ohio Valley Welding, Inc. which owns a fleet of heavy equipment that services the oil and gas industry. Prior to his involvement in the oil and gas industry, Mr. Woodburn was employed by the United States Army Corps of Engineers for twenty four years and was Resident Engineer on several construction projects. Mr. Woodburn graduated from West Virginia University with a B.S. in civil engineering.

-26-

Rebecca L. Smith graduated from Harrisville (West Virginia) High School in 1986 and then from the Wilma Boyd Travel School in Pittsburgh, Pennsylvania. She was then employed as a travel agent in Philadelphia. Mrs. Smith joined Arvilla

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Well Service as a part-time employee in 1995 became a full-time employee of Arvilla Pipeline in 2000. Mrs. Smith is currently part owner and vice president of Arvilla Pipeline Construction Co., Inc. and is part owner and acting member of Arvilla Rental & Equipment, LLC and Arvilla Oilfield Services, LLC. Her responsibilities include supervising all the offices and the pipeline shop as well as overseeing the pipeline bid process. She is also active in the public relations business of both companies and contributed to the design of both Arvilla's brochure and web site. Mrs. Smith's Husband Clarence also serves as a director of Trans Energy.

The following persons are considered key employees of Arvilla:

Randy Ile. Mr. Ile is the rig superintendent for Arvilla's Ohio region and is primarily responsible for the region's service and swag rig activity. He has been with Arrow Oilfield Services (which is now Arvilla) since 1997. Mr. Ile graduated from high school in 1966 and served in the armed forces from 1966 to 1969. From 1971 to 1977, he worked as a "roughneck" (oilfield worker) for three years before becoming a driller. Mr. Ile also became a toolpusher for PEP Drilling from 1977 to 1987 and then a drilling superintendent from 1987 to 1997. He is a member of the Ohio Oil & Gas Association and completed BOP training in 1989.

James Hawkins. Mr. Hawkins is the supervisor of oil and water hauling for Arvilla's Ohio region. He has been with Arrow Oilfield Services (Arvilla) since 1982 when he was initially hired as a rig hand. While with Arrow, Mr. Hawkins has been a well tender, treat truck driver, roustabout, heavy equipment operator, oil truck driver and dispatcher of Arrow's Ohio fluid hauling operations.

Item 10. Executive Compensation

We do not have a bonus, profit sharing, or deferred compensation plan for the benefit of employees, officers or directors, nor have we entered into employment contracts with any of the aforementioned persons.

Cash Compensation

For the past three fiscal years ended December 31, 2004, we have not paid any cash compensation for services rendered by our executive officers.

Item 11. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth information, to the best of our knowledge as December 31, 2004, with respect to each person known by us to own beneficially more than 5% of our outstanding common stock, each director and all directors and officers as a group. Unless otherwise noted, the address of each person listed below is that of Trans Energy, 210 Second Street, St. Marys, West Virginia 26170.

Name and Address of Beneficial Owner -----	Amount and Nature of Beneficial Ownership -----	Percent of Class(1) -----
Robert L. Richards	91,275 (2)	1.9 %
Loren E. Bagley	239,647 (3)	5.1 %
William F. Woodburn	419,724 (4)	8.9 %
Clarence E. Smith	531,437	11.2 %
Rebecca L. Smith	531,437	11.2 %
All directors and executive officers a group (5 persons)	1,813,520	38.3 %

Edgar Filing: TRANS ENERGY INC - Form 10KSB

- (1) Based upon 4,740,097 shares of common stock estimated to be outstanding on following the one share for 150 shares reverse stock split, the acquisition of Arvilla and the transactions contemplated thereby, and the issuance of shares in connection with acquisition of oil and gas leases and leasehold interests from Texas Energy Trust Company. Percentage ownership is calculated separately for each person on the basis of the actual number of outstanding shares immediately following the acquisition of Arvilla.
- (2) Includes 80,084 shares held in the name of Argene Richards, wife of Mr. Richards.
- (3) Includes 33,667 shares held in the name of Carolyn S. Bagley, wife of Mr. Bagley, over which Mrs. Bagley retains voting power.
- (4) Includes 133,667 shares in the name of Janet L. Woodburn, wife of Mr. Woodburn, over which shares Mrs. Woodburn retains voting power, and 133,333 in the name of a corporation owned by William and Janet Woodburn.

Item 12. Certain Relationships and Related Transactions

During the past two fiscal years, there have been no transactions between us and any officer, director, nominee for election as director, or any shareholder owning greater than five percent (5%) of our outstanding shares, nor any member of the above referenced individuals' immediate family, except as set forth below.

(a) Loren E. Bagley is President of Sancho, a principal purchaser of our natural gas. Mr. Bagley's wife, Carolyn S. Bagley is a director and owner of 33% of the outstanding capital stock of Sancho. Under our contract with Sancho, we have the right to sell natural gas subject to the terms and conditions of a 20-year contract, as amended, that Sancho entered into with Hope Gas in 1988. This agreement is a flexible volume supply agreement whereby we receive the full price which Sancho receives less a \$.05 per Mcf marketing fee paid to Sancho. The price of the natural gas is based upon the greater of the residential gas commodity index or the published Inside F.E.R.C. Index, at our option, for the first 1,500 Mcf purchased per day by Hope Gas and thereafter the price is the Inside F.E.R.C. Index. The residential gas commodity index does not directly fluctuate with the overall price of natural gas. The Inside F.E.R.C. Index fluctuates monthly with the change in the price of natural gas. While such option provides certain price protection for us there can be no assurance that prices paid by us to suppliers will be lower than the price which we would receive under the Hope Gas arrangement. During 2004, we paid Sancho an aggregate of approximately \$11,059 pursuant to such contract.

(b) On May 7, 1996, we borrowed \$100,000 from William Stevenson. Such amount is repayable in one installment of principal and interest of \$110,000 on November 7, 1996. Messrs. Bagley, William F. Woodburn and John B. Sims are jointly and severally liable with us for the repayment of such obligation. Such obligation is secured by the pledge of 50,000 shares of common stock owned by Mr. Woodburn's wife, Janet L. Woodburn. The note was subsequently purchased by Culpepper Cattle Company and converted to 173,333 shares of Trans Energy common stock on October 4, 2004.

We occupy approximately 4,000 square feet of office space in St. Marys, West Virginia, which we share with Tyler Construction and Ritchie County Gathering Systems. Prior to 1997, the office space was paid for by Sancho and we used the office space rent free. We believe that the foregoing transactions with Sancho were made on terms no less favorable to us than those available from unaffiliated third parties.

It is our policy that any future material transactions between us and

Edgar Filing: TRANS ENERGY INC - Form 10KSB

members of management or their affiliates shall be on terms no less favorable than those available from unaffiliated third parties.

-28-

Item 13. Exhibits

Exhibits

Exhibit No. -----	Exhibit Name -----
2.1(1)	Stock Acquisition Agreement between Trans Energy and Loren E. Bagley and William F. Woodburn
2.2(1)	Asset Acquisition Agreement between Trans Energy and Dennis L. Spencer
2.3(1)	Asset Acquisition Agreement between Trans Energy and Tyler Pipeline, Inc.
2.4(1)	Stock Exchange Agreement between Trans Energy and Ritchie County Gathering Systems, Inc.
2.5(1)	Plan and Agreement of Merger between Trans Energy, Inc. (Nevada) and Apple Corp. (Idaho), to facilitate the change of our corporate domicile to Nevada
2.6(2)	Agreements related to acquisition of Vulcan Energy Corporation
2.7(5)	Agreement and Plan of Reorganization with Arvilla, Inc.
3.1(1)	Articles of Incorporation and all amendments pertaining thereto, for Apple Corp., an Idaho corporation
3.2(1)	Articles of Incorporation for Trans Energy, Inc., a Nevada corporation
3.3(1)	Articles of Merger for the States of Nevada and Idaho
3.4(1)	By-Laws 4.1(1) Specimen Stock Certificate
10.1(1)	Marketing Agreement with Sancho Oil and Gas Corporation
10.2(1)	Gas Purchase Agreement with Central Trading Company
10.3(1)	Price Agreement with Key Oil Company
10.4(3)	Settlement Agreement and Mutual Release
10.5(4)	Agreement with Texas Energy Trust Company
10.6(4)	Assignment and Agreement with Texas Energy Trust Company and Cobham Gas Industries, Inc.
21.1	Subsidiaries of Registrant (Revised)
31.1	Certification of C.E.O. Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Accounting Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of C.E.O. Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Principal Accounting Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1(1)	Reserve Estimate and Evaluation of oil and gas properties 99.2(1) Reserve Estimate and Evaluation for Dennis L. Spencer wells

-
- (1) Previously filed as exhibit to Form 10-SB.
 - (2) Previously filed as exhibit to Form 8-K dated August 7, 1995.
 - (3) Previously filed as exhibit to Form 8-K file January 23, 2004.
 - (4) Previously filed as exhibit to Form 8-K filed November 11, 2004.
 - (5) Incorporated by reference in the Form 8-K filed December 9, 2004 to the Preliminary Information Statement pursuant to Section 14C filed with the SEC on December 8, 2004.

Item 14. Principal Accountants Fees and Services

Edgar Filing: TRANS ENERGY INC - Form 10KSB

We do not have an audit committee and as a result our entire board of directors performs the duties of an audit committee. Our board of directors will approve in advance the scope and cost of the engagement of an auditor before the auditor renders audit and non-audit services. As a result, we do not rely on pre-approval policies and procedures.

-29-

Audit Fees

The aggregate fees billed by our independent auditors, H J & Associates, for professional services rendered for the audit of our annual financial statements included in our Annual Reports on Form 10-KSB for the years ended December 31, 2004 and 2003, and for the review of quarterly financial statements included in our Quarterly Reports on Form 10-QSB for the quarters ending April 30, June 30 and September 30, 2004 and 2003, were \$24,119 for 2004 and \$30,250 for 2003.

Audit Related Fees

For the years ended December 31, 2004 and 2003, there were no fees billed for assurance and related services by H J & Associates relating to the performance of the audit of our financial statements which are not reported under the caption "Audit Fees" above.

Tax Fees

For the years ended December 31, 2004 and 2003, fees billed by H J & Associates for tax compliance, tax advice and tax planning were \$1,101 and \$1,250, respectively.

We do not use H J & Associates for financial information system design and implementation. These services, which include designing or implementing a system that aggregates source data underlying the financial statements or generates information that is significant to our financial statements, are provided internally or by other service providers. We do not engage H J & Associates to provide compliance outsourcing services.

The board of directors has considered the nature and amount of fees billed by H J & Associates and believes that the provision of services for activities unrelated to the audit is compatible with maintaining H J & Associates' independence.

-30-

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TRANS ENERGY, INC.

BY: /S/ CLARENCE E. SMITH

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Clarence E. Smith,
President and C.E.O.

Dated: April 27, 2005

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature -----	Title -----
/S/ CLARENCE E. SMITH ----- Clarence E. Smith	C.E.O. and Director
/S/ ROBERT L. RICHARDS ----- Robert L. Richards	President and Director
/S/ LOREN E. BAGLEY ----- Loren E. Bagley	Vice President and Director Principal Financial Officer
/S/ JOHN G. CORP ----- John G. Corp	Vice President and Director
/S/ WILLIAM F. WOODBURN ----- William F. Woodburn	Secretary Treasurer/Treasurer and Director Chief Accounting Officer
/S/ REBECCA L. SMITH ----- Rebecca L. Smith	Director

-31-

Edgar Filing: TRANS ENERGY INC - Form 10KSB

December 31, 2004

F-1

C O N T E N T S

Report of Independent Registered Public Accounting Firm	F-3
Consolidated Balance Sheet	F-4
Consolidated Statements of Operations	F-6
Consolidated Statements of Stockholders' Equity (Deficit).....	F-7
Consolidated Statements of Cash Flows	F-8
Notes to the Consolidated Financial Statements	F-10

F-2

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
Trans Energy, Inc. and Subsidiaries
St. Mary's, West Virginia

We have audited the accompanying consolidated balance sheet of Trans Energy, Inc. and Subsidiaries (the Company) as of December 31, 2004 and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the years ended December 31, 2004 and 2003. 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 standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits 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.

Edgar Filing: TRANS ENERGY INC - Form 10KSB

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2004 and the results of their operations and its cash flows for the year ended December 31, 2004 in conformity with United States generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 8 to the consolidated financial statements, the Company has generated significant losses from operations, has an accumulated deficit of approximately \$29,000,000 and has a working capital deficit of \$2,980,431 at December 31, 2004, which together raises substantial doubt about its ability to continue as a going concern. Management's plans in regards to these matters are also described in Note 8. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ HJ & Associates, LLC

Salt Lake City, Utah
April 16, 2005

F-3

TRANS ENERGY, INC. AND SUBSIDIARIES
Consolidated Balance Sheet

ASSETS

	December 31, 2004

CURRENT ASSETS	
Cash	\$ 79,662
Accounts receivable, net (Note 1)	653,917
Receivable from related party (Note 4)	8,825
Other current assets	1,223

Total Current Assets	743,627

PROPERTY AND EQUIPMENT, NET (Note 2)	3,372,599

OTHER ASSETS	
Bonds	50,159
Deposits	1,400
Life insurance, cash surrender value	66,326

Total Other Assets	117,885

Edgar Filing: TRANS ENERGY INC - Form 10KSB

TOTAL ASSETS	\$4,234,111 =====
--------------	----------------------

The accompanying notes are an integral part of these consolidated financial statements.

F-4

TRANS ENERGY, INC. AND SUBSIDIARIES
Consolidated Balance Sheet (Continued)

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

	December 31, 2004 -----
CURRENT LIABILITIES	
Accounts payable - trade	\$ 1,277,375
Related party payables (Note 4)	719,199
Accrued expenses	844,858
Judgments payable (Note 7)	70,379
Debentures payable (Note 9)	50,000
Notes payable - current portion (Note 3)	762,247

Total Current Liabilities	3,724,058 -----
LONG-TERM LIABILITIES	
Notes payable (Note 3)	108,190
Asset retirement obligation (Note 1)	1,571,749

Total Long-Term Liabilities	1,679,939 -----
Total Liabilities	5,403,997 -----
COMMITMENTS AND CONTINGENCIES (Note 7)	
STOCKHOLDERS' EQUITY (DEFICIT) (Note 6)	
Preferred stock; 10,000,000 shares authorized at \$0.001 par value; -0- shares issued and outstanding	-- --
Common stock; 500,000,000 shares authorized at \$0.001 par	

Edgar Filing: TRANS ENERGY INC - Form 10KSB

value; 3,555,074 shares issued and outstanding	3,555
Capital in excess of par value	27,854,647
Accumulated deficit	(29,028,088)

Total Stockholders' Equity (Deficit)	(1,169,886)
--------------------------------------	-------------

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 4,234,111
--	--------------

The accompanying notes are an integral part of these consolidated financial statements.

F-5

TRANS ENERGY, INC. AND SUBSIDIARIES
Consolidated Statements of Operations

	For the Years Ended December 31,	
	2004	2003
REVENUES	\$ 2,390,099	\$ 1,902,836
COSTS AND EXPENSES		
Cost of oil and gas	1,736,444	1,536,434
Salaries and wages	375,539	381,743
Depreciation, depletion and amortization	321,115	961,181
Selling, general and administrative	241,128	210,926
Total Costs and Expenses	2,674,226	3,090,284
LOSS FROM OPERATIONS	(284,127)	(1,187,448)
OTHER INCOME (EXPENSE)		
Other income	12,891	--
Gain on disposition of debt	416,560	231,702
Interest expense	(193,683)	(404,336)
Loss on sale and valuation of assets, net	--	(266,496)
Loss on extinguishments of debt	(653,257)	(11,268)
Gain on disposition of assets	198,768	172,152
Total Other Income (Expense)	(218,721)	(278,246)

Edgar Filing: TRANS ENERGY INC - Form 10KSB

LOSS BEFORE INCOME TAXES, AND CHANGE IN ACCOUNTING PRINCIPAL	(502,848)	(1,465,694)
INCOME TAXES	---	---
CHANGE IN ACCOUNTING PRINCIPAL, NET OF INCOME TAXES	---	(116,486)
NET LOSS - attributed to common shareholders	\$ (502,848)	\$ (1,582,180)
BASIC LOSS PER SHARE		
Operations	\$ (0.22)	\$ (0.87)
Change in accounting principal	---	(0.07)
Total Basic Loss Per Share	\$ (0.22)	\$ (0.94)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	2,277,486	1,687,504

The accompanying notes are an integral part of these consolidated financial statements.

F-6

TRANS ENERGY, INC. AND SUBSIDIARIES
Restated Consolidated Statements of Stockholders' Equity (Deficit)

	Preferred Stock		Common Stock	
	Shares	Amount	Shares	Amount
Balance, December 31, 2002 (Restated)	--	--	1,583,463	1,584
Common stock issued for services	--	--	23,333	23
Common stock issued for conversion of convertible debt	--	--	1,000	1
Common stock issued for extinguishments of related party debt	--	--	152,221	152

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Common stock issued for extinguishments of debt	--	--	33,388	33
Net loss for the year ended December 31, 2003	--	--	--	--
Balance, December 31, 2003 (Restated)	--	\$ --	1,793,405	\$ 1,793
Common stock issued for debt and interest January 2004	--	--	163,704	164
Common stock issued for debt and interest October 2004	--	--	1,353,332	1,353
Common stock issued for Acquisition, December 2004	--	--	344,633	245
Contributed capital, December 2004	--	--	--	--
Net loss for the year ended December 31, 2004	--	--	--	--
Balance, December 31, 2004	--	\$ --	3,555,074	\$ 3,555

The accompanying notes are an integral part of these consolidated financial statements.

F-7

TRANS ENERGY, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

	For the Years Ended December 31,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (502,848)	\$ (1,582,180)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation, depletion and amortization	321,115	961,181
Loss on sale and valuation of assets	--	266,496
Loss on extinguishments of debt	653,257	11,268
Gain on disposition of assets	(198,768)	(172,152)
Common stock issued for services and beneficial conversion features	--	10,500
Gain on disposition of debt	(416,560)	(231,702)
Changes in operating assets and liabilities:		

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Decrease (increase) in accounts receivable	(397,761)	(60,070)
Decrease (increase) in other receivable	49,627	--
(Increase) decrease in prepaid and other current assets	2,872	(62,078)
(Decrease) increase in accounts payable	523,519	682,320
(Decrease) increase in advances from related parties	416,591	--
(Decrease) increase in accrued expenses	263,690	--
Decrease in judgments payable	(2,500)	(385,697)
Increase in environmental remediation	(103,138)	200,000
	-----	-----
Net Cash Provided (Used) by Operating Activities	609,096	(362,114)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of property and equipment	200,000	670,000
Expenditures for property and equipment	--	(152,848)
Proceeds from sale of life insurance cash value	53,367	--
Payment on other non current assets	(932)	--
	-----	-----
Net Cash Provided by Investing Activities	252,435	517,152
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in cash overdraft	(49,120)	49,120
Principal payments to related parties	(280,000)	(249,161)
Proceeds from related parties	--	233,650
Principal payments on notes payable	(241,402)	(217,980)
Principal payments on judgment payable	(212,000)	(217,980)
Proceeds from notes payable	--	17,289
	-----	-----
Net Cash (Used) by Financing Activities	\$ (782,522)	\$ (167,082)
	-----	-----

The accompanying notes are an integral part of these consolidated financial statements.

F-8

TRANS ENERGY, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Continued)

	For the Years Ended December 31,	
	2004	2003
	-----	-----
Cash acquired in acquisition of subsidiary	\$ 470	\$ --
	-----	-----
NET INCREASE (DECREASE) IN CASH	79,479	(12,044)
CASH, BEGINNING OF YEAR	183	12,227
	-----	-----
CASH, END OF YEAR	\$ 79,662	\$ 183
Bzat	=====	=====

Edgar Filing: TRANS ENERGY INC - Form 10KSB

CASH PAID FOR:	1,234,567	1,234,567
Interest	\$ --	\$ 295,947
Income taxes	\$ --	\$ --

NON-CASH FINANCING ACTIVITIES:

The Company acquired 100% of Cobham Gas Industries, Penine Resources, Inc., and Belmont Energy, Inc. The Company issued 244,633 shares of common stock for net assets of \$892,344 were acquired for common stock valued at \$403,645 and notes payable of \$488,699.

The Company issued 163,704 shares of common stock for debt relief of \$297,859. The Company recorded a loss of \$224,003 as part of this transaction.

Various key employees and consultants of the Company contributed \$1,346,530 of previously accrued liabilities.

The Company issued 1,353,332 shares of common stock for debt relief of \$2,436,000. The Company recorded a loss of \$543,913 as part of this transaction.

The Company settled \$519,773 of notes payable and accrued interest for \$210,000. The Company recorded at gain on settlement of debt in the amount of \$309,773.

The Company disposed net assets of \$63,632 for proceeds of \$131,000. The Company recorded a loss of \$67,368 on disposal of assets.

The Company recognized \$105,395 gain on settlement of aged accounts payables.

For the year ended December 31, 2003

The Company issued common stock for services and beneficial conversion features valued at \$10,500.

The Company issued common stock for conversion of debt and interest of \$80,366

The Company issued common stock issued for conversion of preferred stock and dividends.

F-9

TRANS ENERGY, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2004 and 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Organization

The Company was originally incorporated in the State of Idaho on January 16, 1964. On January 11, 1988, the Company changed its name to Apple Corporation. In 1988, the Company acquired oil and gas leases and other assets from Ben's Run Oil Company (a Virginia limited partnership) and has since engaged in the business of oil and gas production.

Edgar Filing: TRANS ENERGY INC - Form 10KSB

On November 5, 1993, the Board of Directors caused to be incorporated in the State of Nevada, a new corporation by the name of Trans Energy, Inc., with the specific intent of effecting a merger between Trans Energy, Inc. of Nevada and Apple Corp. of Idaho, for the sole purpose of changing the domicile of the Company to the State of Nevada. On November 15, 1993, Apple Corp. and the newly formed Trans Energy, Inc. executed a merger agreement whereby the shareholders of Apple Corp. exchanged all of their issued and outstanding shares of common stock for an equal number of shares of Trans Energy, Inc. common stock. Trans Energy, Inc. was the surviving corporation and Apple Corp. was dissolved.

b. Principles of Consolidation

The consolidated financial statements include the Company and its wholly owned subsidiaries, Prima Oil Company, Inc., Ritchie County Gathering Systems, Inc., Tyler Construction Company, Inc., Tyler Energy, Inc., Cobham Gas Industries, Inc., Penine Resources, Inc., and Belmont Energy, Inc. All significant intercompany accounts and transactions have been eliminated.

c. Accounting Method

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.

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.

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 resultant 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.

F-10

TRANS ENERGY, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2004 and 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c. Accounting Method (Continued)

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

Edgar Filing: TRANS ENERGY INC - Form 10KSB

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. During the year ended December 31, 2003, the Company recognized an impairment loss of \$87,040 on one of its natural gas wells.

The Company has elected a December 31 year-end.

d. Basic Loss per Share of Common Stock

The basic loss per share of common stock is based on the weighted average number of shares issued and outstanding at the date of the consolidated financial statements. Fully diluted loss per share of common stock is not disclosed as the common stock equivalents are antidilutive in nature.

	For the Years Ended December 31,	
	2004	2003
	-----	-----
Numerator:		
Loss from operations	\$ (502,848)	\$ (1,465,694)
Change in accounting principal	--	(116,486)
	-----	-----
Net Loss	\$ (502,848)	\$ (1,582,180)
	=====	=====
Denominator - weighted average shares	2,277,486	1,687,504
	=====	=====
Net loss per share:		
Change in accounting principal	\$ (0.00)	\$ (0.07)
Loss from operations	(0.22)	(0.87)
	-----	-----
Total Basic Loss Per Share	\$ (0.22)	\$ (0.94)
	=====	=====

At December 31, 2004, the Company had a convertible debenture and accrued interest which could have been converted into approximately 33,000 shares of common stock, which have been excluded from loss per share because the effect would be anti-dilutive.

e. Provision for Taxes

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

F-11

TRANS ENERGY, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2004 and 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Edgar Filing: TRANS ENERGY INC - Form 10KSB

e. Provision for Taxes (Continued)

Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Net deferred tax assets consist of the following components as of December 31, 2004 and 2003:

	2004 -----	2003 -----
Deferred tax assets:		
NOL carryover	\$ 9,747,505	\$ 8,183,500
Accrued expenses	246,200	--
Deferred tax liabilities:		
Accrued Wages	--	(493,900)
Valuation allowance	(9,993,705)	(7,689,600)
	-----	-----
Net deferred tax asset	\$ --	\$ --
	=====	=====

The income tax provision differs from the amount of income tax determined by applying the U.S. federal income tax rates of 39% to pretax income from continuing operations for the years ended December 31, 2004 and 2003 due to the following:

	2004 -----	2003 -----
Book income	\$ (196,110)	\$ (573,300)
Other	50	(16,831)
Penalties	--	5,370
Officer Insurance	1,460	6,645
Stock for Services	--	4,095
Accrued Wages	--	115,810
Loss on debt	299,490	--
Impairment Loss	--	33,945
Accrued Interest/Payroll	2,198	424,265
Valuation allowance	(107,088)	--
	-----	-----
	\$ --	\$ --
	=====	=====

At December 31, 2004, the Company had net operating loss carryforwards of approximately \$24,000,000 that may be offset against future taxable income from the year 2004 through 2024. No tax benefit has been reported in the December 31, 2004 consolidated financial statements since the potential tax benefit is offset by a valuation allowance of the same amount.

Due to the change in ownership provisions of the Tax Reform Act of 1986, net operating loss carryforwards for Federal income tax reporting purposes are subject to annual limitations. Should a change in ownership occur, net operating loss carryforwards may be limited as to

Edgar Filing: TRANS ENERGY INC - Form 10KSB

use in future years.

F-12

TRANS ENERGY, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2004 and 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f. Asset Retirement Obligation

The following is a description of the changes to the Company's asset retirement obligation from January 1 through December 31, 2004:

Reclamation obligation (asset retirement obligation)	
as reported at December 31, 2003	\$ 200,000
Impact of adopting SFAS No. 143	--
Acquisition of subsidiary	1,474,887
Accretion expense:	
Revision in reclamation cost estimates	(103,138)
Accretion expense - January 1, 2004 through December 31, 2004	--

Reclamation obligation at December 31, 2004	\$ 1,571,749 =====

g. Presentation

Certain 2003 balances have been reclassified to conform to the presentation of the 2004 consolidated financial statements.

h. Depreciation

Fixed assets are stated at cost. Depreciation on vehicles, machinery and equipment is provided using the straight line method over expected useful lives of five years. Depreciation on pipelines and well equipment is provided using the straight-line method over the expected useful lives of fifteen years. Wells are being depreciated using the units-of-production method on the basis of total estimated units of proved reserves.

i. 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 and disclosure 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.

j. Long Lived Assets

The Company reviews long-lived assets and identifiable intangibles whenever events or circumstances indicate that the carrying amounts of such assets may not be fully recoverable. The Company evaluates the

Edgar Filing: TRANS ENERGY INC - Form 10KSB

recoverability of long-lived assets by measuring the carrying amounts of the assets against the estimated undiscounted cash flows associated with these assets. At the time such evaluation indicates that the future undiscounted cash flows of certain long-lived assets are not sufficient to recover the assets' carrying value, the assets are adjusted to their fair values (based upon discounted cash flows).

F-13

TRANS ENERGY, INC. AND SUBSIDIARIES Notes to the Consolidated Financial Statements December 31, 2004 and 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k. Accounts Receivable

Accounts receivable are carried at the expected net realizable value. The allowance for doubtful accounts is based on management's assessment of the collectibility of specific customer accounts and the aging of the accounts receivables. If there were a deterioration of a major customer's creditworthiness, or actual defaults were higher than historical experience, our estimates of the recoverability of the amounts due to us could be overstated, which could have a negative impact on operations.

l. New Accounting Pronouncements

On December 16, 2004 the FASB issued SFAS No. 123(R), Share-Based Payment, which is an amendment to SFAS No. 123, Accounting for Stock-Based Compensation. This new standard eliminates the ability to account for share-based compensation transactions using Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and generally requires such transactions to be accounted for using a fair-value-based method and the resulting cost recognized in our financial statements. This new standard is effective for awards that are granted, modified or settled in cash in interim and annual periods beginning after June 15, 2005. In addition, this new standard will apply to unvested options granted prior to the effective date. We will adopt this new standard effective for the fourth fiscal quarter of 2005, and have not yet determined what impact this standard will have on our financial position or results of operations.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs - an amendment of ARB No. 43, Chapter 4. This Statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that ". . . under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges. . . ." This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Management does not believe the adoption of this Statement will have any immediate material

Edgar Filing: TRANS ENERGY INC - Form 10KSB

impact on the Company.

F-14

TRANS ENERGY, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2004 and 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

l. New Accounting Pronouncements (Continued)

In December 2004, the FASB issued SFAS No. 152, Accounting for Real Estate Time-sharing Transactions, which amends FASB statement No. 66, Accounting for Sales of Real Estate, to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position (SOP) 04-2, Accounting for Real Estate Time-Sharing Transactions. This statement also amends FASB Statement No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. The accounting for those operations and costs is subject to the guidance in SOP 04-2. This Statement is effective for financial statements for fiscal years beginning after June 15, 2005. Management believes the adoption of this Statement will have no impact on the financial statements of the Company.

In December 2004, the FASB issued SFAS No.153, Exchange of Nonmonetary Assets. This Statement addresses the measurement of exchanges of nonmonetary assets. The guidance in APB Opinion No. 29, Accounting for Nonmonetary Transactions, is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that Opinion, however, included certain exceptions to that principle. This Statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This Statement is effective for financial statements for fiscal years beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges incurred during fiscal years beginning after the date of this statement is issued. Management believes the adoption of this Statement will have no impact on the financial statements of the Company.

The implementation of the provisions of these pronouncements are not expected to have a significant effect on the Company's consolidated financial statement presentation.

m. Stock Split

On November 29, 2004 the board of directors and stockholders holding a majority of outstanding common stock of the Company approved a one share for 150 shares reverse split of the common stock. All references to per share data and common stock have been restated to reflect the effect of this reverse split.

Edgar Filing: TRANS ENERGY INC - Form 10KSB

F-15

TRANS ENERGY, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2004 and 2003

NOTE 2 - PROPERTY AND EQUIPMENT

At December 31, 2004, property and equipment consisted of:

Vehicles	\$103,118
Machinery and equipment	1,600
Furniture and Fixtures	1,848
Pipelines	1,387,440
Well equipment	280,155
Leasehold acreage	95,945
Accumulated depreciation	(1,241,745)

Total Fixed Assets	\$ 628,361
	=====

Depreciation expense for the year ended December 31, 2004 was \$195,150.

At December 31, 2004 the Company's proved properties consist of costs in the following:

Wells, Wyoming	\$ 3,079,481
Wells, West Virginia	2,346,600
Less: accumulated depletion	(2,681,843)

	\$ 2,744,238

Depletion expense for the year ended December 31, 2004 was \$125,965.

Productive Gas Wells

The following summarizes the Company's productive oil and gas wells as of December 31, 2004. Productive wells are producing wells and wells capable of production. Gross wells are the total number of wells in which the Company has an interest. Net wells are the sum of the Company's fractional interests owned in the gross wells.

	Gross	Net
	-----	-----
Productive oil wells, Wyoming	6	2
Oil and gas wells, West Virginia	203	203
	-----	-----
	209	205
	=====	=====

The Company operates its West Virginia wells and does not operate its Wyoming wells.

Edgar Filing: TRANS ENERGY INC - Form 10KSB

F-16

TRANS ENERGY, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2004 and 2003

NOTE 2 - PROPERTY AND EQUIPMENT (Continued)

Oil and Gas Acreage

The following table sets forth the undeveloped leasehold acreage, by area, held by the Company as of December 31, 2004. Undeveloped acres are acres on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and gas, regardless of whether or not such acreage contains proved reserves. Gross acres are the total number of acres in which the Company has a working interest. Net acres are the sum of the Company's fractional interests owned in the gross acres. In certain leases, the Company's ownership varies at different depths; therefore, the net acres in these leases are calculated using the lowest ownership interest at any depth.

	Gross -----	Net -----
Wyoming, approximately	11,418	10,763
West Virginia, approximately	15,000	13,125
	-----	-----
	26,418	23,888
	=====	=====

NOTE 3 - LONG-TERM DEBT

The Company had the following debt obligations at December 31, 2004:

Note payable to an individual, due on demand, bearing interest at New York prime +1%, interest payments due monthly, secured by equipment.	\$ 292,078
Union Bank of Tyler County, interest at 10% due quarterly, renewable, due on demand, unsecured	19,683
New York Life, 5.87% interest rate, due upon demand, secured by life insurance cash value	63,340
Union Bank of Tyler County, \$332 due monthly, 10% interest rate, due November 20, 2005, secured by a vehicle.	3,521
BB&T Bank, bank's prime + 1.25%, due October, 17, 2008, secured by well equipment	98,979
Ford Motor Credit, \$247 due monthly, 7.90% interest rate, due October 1, 2007, secured by a vehicle	7,098
Ford Motor Credit, \$245 due monthly, 8.99% interest rate,	

Edgar Filing: TRANS ENERGY INC - Form 10KSB

due August 28, 2007, secured by a vehicle	7,062

Balance forward	491,761

F-17

TRANS ENERGY, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2004 and 2003

NOTE 3 - LONG-TERM DEBT (Continued)

	\$ 491,761
Balance forward	
Ford Motor Credit, \$277 due monthly, 8.99% interest rate, due September 1, 2007, secured by a vehicle	8,675
Ford Motor Credit, \$491 due monthly, 5.90% interest rate, due February 1, 2007, secured by a vehicle	10,453
Wesbanco, interest payable quarterly, prime +1%, due on demand, secured by officers' personal assets.	285,417
Union Bank of Tyler County, principal and interest payments of \$326 due monthly, interest at 5.0%, secured by a vehicle.	13,357
Note due to a private individual, due on demand with interest at 7.00%, due upon demand	60,774

Total	870,437
Less Current Portion	762,247

Total Long-Term Debt	\$ 108,190
	=====

Future maturities of long-term debt are as follows:

2005	\$ 762,247
2006	40,542
2007	36,402
2008	31,246
2009	-
2010 and thereafter	-

Total	\$ 870,437
	=====

At December 31, 2004, total interest accrued for these debt obligations

Edgar Filing: TRANS ENERGY INC - Form 10KSB

was \$21,388.

NOTE 4 - RELATED PARTY TRANSACTIONS

a. Marketing Agreement - Sancho

Natural gas delivered through the Company's pipeline network is sold either to Sancho Oil and Gas Corporation ("Sancho"), a company controlled by the Vice President of the Company, at the industrial facilities near Sistersville, West Virginia, or to Dominion Gas, a local utility, on an on-going basis at a variable price per month per Mcf.

F-18

TRANS ENERGY, INC. AND SUBSIDIARIES Notes to the Consolidated Financial Statements December 31, 2004 and 2003

NOTE 4 - RELATED PARTY TRANSACTIONS (Continued)

a. Marketing Agreement - Sancho (Continued)

Under its contract with Sancho, the Company has the right to sell natural gas subject to the terms and conditions of a 20-year contract, as amended, that Sancho entered into with Dominion Gas in 1988. This agreement is a flexible volume supply agreement whereby the Company receives the full price which Sancho charges the end user less a \$0.05 per Mcf marketing fee paid to Sancho.

b. Well Drilling and Operating Agreement

In June 2000, the Company entered into a well drilling and operating agreement with Sancho Oil and Gas Corporation ("Sancho"), a company controlled by the Vice President of the Company, on an on-going basis. Sancho provided seven drill-down wells located in Tyler County, West Virginia and the Company was to pay 100% of the cost of drilling and completing the well including any topside equipment needed and other related equipment. The Company will receive 75% of the working interest in each of the wells completed.

c. Receivables and Payables

The Company has various payables to the officers and companies of the officers. These amounts have been grouped together with a net payable of \$719,199 and receivable of \$8,825 at December 31, 2004. At December 31, 2004, total interest accrued in the net related party payable was \$14,017, which is included in the total owed to the related parties.

NOTE 5 - ECONOMIC DEPENDENCE AND MAJOR CUSTOMERS

The Company's marketing arrangement with Sancho accounted for approximately 82% and 82% of the Company's revenue for the years ended December 31, 2004 and 2003, respectively in Tyler Construction Company. This marketing agreement is in effect until December 1, 2008. Another customer also generated sales of 99% and 99% of Ritchie County total sales in 2004 and 2003, respectively.

NOTE 6 - STOCKHOLDERS' EQUITY

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Preferred Stock -The Company has authorized 10,000,000 shares of \$.001 par value preferred stock. The preferred stock shall have preference as to dividends and to liquidation of the Company.

Common Stock - The Company has authorized 500,000,000 shares of \$.001 par value common stock.

In January 2003, the Company issued 23,333 shares of common stock valued at \$.45 per share for total cash consideration of \$10,500.

F-19

TRANS ENERGY, INC. AND SUBSIDIARIES Notes to the Consolidated Financial Statements December 31, 2004 and 2003

NOTE 6 - STOCKHOLDERS' EQUITY (Continued)

In March 2003, the Company issued 1,000 shares of common stock valued at \$5.25 per share for the conversion of convertible debt of \$5,250.

In June 2003, the Company issued 152,221 shares of common stock for the extinguishment of related party debt valued at \$30,043.

In December 2003, the Company issued 33,388 shares of common stock for the extinguishment of debts valued at \$33,805.

In January 2004, the Company issued 163,704 shares of common stock for debt relief of \$297,859.

In December 2004, the Company issued 1,353,332 shares of common stock for debt relief of \$2,436,000.

In December 2004, key employees of the Company contributed \$1,346,529 of accrued payroll and services.

In December 2004, the Company issued 244,633 shares of common stock for an acquisition of a subsidiary valued at \$403,645.

NOTE 7 - JUDGMENTS PAYABLE

Core Laboratories, Inc.

On July 28, 1999, Core Laboratories, Inc. (Core) obtained a judgment against the Company for non-payment of an accounts payable. The judgment calls for monthly payments of \$351 and is bearing interest at 10.00% per annum. At December 31, 2004, the Company had accrued a balance of \$13,587 including interest of \$4,720 which is included in judgments payable and accrued expenses, respectively.

RR Donnelly

On July 1, 1998, RR Donnelly (RR) obtained a judgment against the Company for non-payment of accounts payable. The judgment calls for monthly payments of \$3,244 and is bearing interest at 10.00% per annum. At December 31, 2004, the Company has accrued a balance of \$56,792 including interest of \$29,704 which is included in judgment payable and accrued expenses, respectively.

Edgar Filing: TRANS ENERGY INC - Form 10KSB

NOTE 8 - GOING CONCERN

The Company's consolidated financial statements are prepared using United States generally accepted accounting principles applicable to a going concern which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company has incurred cumulative operating losses through December 31, 2004 of approximately \$29,000,000, and has a working capital deficit at December 31, 2004 of \$2,980,431.

F-20

TRANS ENERGY, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2004 and 2003

NOTE 8 - GOING CONCERN (Continued)

Revenues have not been sufficient to cover its operating costs and to allow it to continue as a going concern. The potential proceeds from the sale of common stock, sale of drilling programs, and other contemplated debt and equity financing, and increases in operating revenues from new development and business acquisitions would enable the Company to continue as a going concern. There can be no assurance that the Company can or will be able to complete any debt or equity financing. The Company's consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 9 - CONVERTIBLE DEBENTURES

On September 10, 1998, the Company completed a debenture issue of \$4,625,400 face value of 8% Secured Convertible Debentures due March 31, 1999 (the "Debentures"). Pursuant to the terms of the Debentures, the Company had agreed to file a registration statement with the Commission to register the shares of the Company's Common Stock into which the Debentures may be converted. Upon effectiveness of the registration statement, the shares of the Company's Common Stock underlying the Debentures, when issued, will be deemed registered securities and will not be restricted as to the resale of such securities.

If the Company failed to file its registration statement within forty-five (45) days from the closing of the Debenture offering, the Company would be obligated to increase by up to fifteen percent (15%) the number of shares issuable upon conversion to each holder. The Company failed to obtain an effective registration statement.

At December 31, 2004, the Company owed a remaining \$52,500 on the debentures consisting of \$50,000 for a debenture, \$24,853 in accrued interest, and \$2,500 in penalties.

A convertible debentures dated 2001 bearing interest at 10% with interest and principal due upon demand; unsecured; convertible into the Company's common stock at \$0.035 per share	\$50,000 -----
Less current portion	50,000

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Long-term portion

\$ --
=====

NOTE 10 - BUSINESS SEGMENTS

The Company has adopted SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information." The Company conducts its operations principally as oil and gas sales with Trans Energy, Prima Oil, and Cobham Gas & Oil, Inc., Penine Resources, Inc., and Belmont Energy, inc. and pipeline transmission with Ritchie County and Tyler Construction.

F-21

TRANS ENERGY, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2004 and 2003

NOTE 10 - BUSINESS SEGMENTS (Continued)

Certain financial information concerning the Company's operations in different industries is as follows:

	For the Years Ended December 31,	Oil and Gas Sales	Pipeline Transmission
	-----	-----	-----
Oil and gas revenue	2004	\$ 986,220	\$ 1,403,879
	2003	535,278	1,367,558
Operating loss applicable to industry segment	2004	523,857	68,155
	2003	994,005	193,443
Interest expense	2004	(156,277)	(37,407)
	2003	(344,923)	(59,413)
Other income (expenses)	2004	--	--
	2003	20,386	105,704
Assets (net of intercompany accounts)	2004	2,033,346	680,956
	2003	766,733	638,316
Depreciation and amortization	2004	220,836	74,043
	2003	870,537	90,644
Property and equipment acquisitions	2004	2,613,460	--
	2003	152,848	--

NOTE 11 - OUTSTANDING STOCK OPTIONS

Edgar Filing: TRANS ENERGY INC - Form 10KSB

The Company applies Accounting Principles Board ("APB") Opinion 25, "Accounting for Stock Issued to Employees," and related Interpretations in accounting for all stock option plans. Under APB Opinion 25, compensation cost is recognized for stock options granted to employees when the option price is less than the market price of the underlying common stock on the date of grant.

FASB Statement 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), requires the Company to provide proforma information regarding net income and net income per share as if compensation costs for the Company's stock option plans and other stock awards had been determined in accordance with the fair value based method prescribed in SFAS No. 123. The Company estimates the fair value of each stock award at the grant date by using the Black-Scholes option pricing model.

The Company had no options granted or outstanding at December 31, 2004 and 2003.

F-22

TRANS ENERGY, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2004 and 2003

NOTE 12- SUBSEQUENT EVENTS

Acquisition - On January 31, 2005, the Company finalized the acquisition of Arvilla Oilfield Services, LLC., a West Virginia limited liability company, and have assumed all operations, assets and liabilities of Arvilla. Arvilla provides well servicing, work over and related transportation services to independent oil and natural gas producers in the northeast region of the United States. It also performs ongoing maintenance and major overhauls necessary to optimize the level of production from existing oil and natural gas wells and provides certain ancillary services during the drilling and completion of new wells.

Stock Issuance - Subsequent to December 31, 2004, the Company issued 50,000 shares of common stock to a consultant for services to be rendered.

NOTE 13- RESTATEMENT

The accompanying December 31, 2003 Statement of Stockholders' Equity has been restated to reflect changes from previously published financial statements as follows:

	As originally published 2003	Restated 2003	Change
	-----	-----	-----
Balance sheet data:			
Accrued expenses	\$ 954,749	\$ 675,787	\$ 278,962
Retained deficit	\$ 28,804,202	\$ 28,525,240	\$ (278,962)

The Company had accrued penalties associated with the issuance of convertible debentures. The Company failed to file a registration statement and accrued penalties. Many of the debentures converted into

Edgar Filing: TRANS ENERGY INC - Form 10KSB

common stock as full satisfaction of liabilities. The Company failed to reverse the accrual at the time of conversion. During 2004, the Company recorded this transaction as a prior period adjustment and has accordingly restated the accounts affected.

F-23

TRANS ENERGY, INC. AND SUBSIDIARIES
S.F.A.S. 69 Supplemental Disclosures
December 31, 2004 and 2003
(Unaudited)

S.F.A.S. 69 SUPPLEMENTAL DISCLOSURES

S.F.A.S. 69 SUPPLEMENTAL DISCLOSURES

- (1) Capitalized Costs Relating to Oil
and Gas Producing Activities

	December 31, 2004	2003
	-----	-----
Proved oil and gas producing properties and related lease and well equipment	\$ 7,093,676	\$ 3,111,111
Unproved oil and gas properties	95,945	---
Accumulated depreciation and depletion	(3,870,878)	(2,500,000)
	-----	-----
Net Capitalized Costs	\$ 3,318,747	\$ 711,111
	=====	=====

- (2) Costs Incurred in Oil and Gas Property
Acquisition, Exploration, and Development Activities

	For the Years Ended December 31,	
	2004	2003
	-----	-----
Acquisition of Properties		
Proved	\$ 2,346,600	\$ ---
Unproved	---	---
Exploration Costs	---	---
Development Costs	---	---

The Company does not have any investments accounted for by the equity method.

S.F.A.S. 69 SUPPLEMENTAL DISCLOSURES (CONTINUED)

- (3) Results of Operations for
Producing Activities

For the Year Ended
December 31,

Edgar Filing: TRANS ENERGY INC - Form 10KSB

	----- 2004 -----	2003 -----
Sales	\$ 557,765	\$ 535,278
Production costs	(198,000)	(299,851)
Depreciation and depletion	(220,837)	(841,250)
Income tax expenses	--	--
	-----	-----
Results of operations for producing activities (excluding the activities of the pipeline transmission operations, corporate overhead and interest costs)	\$ (137,928) =====	\$ (605,823) =====

F-24

TRANS ENERGY, INC. AND SUBSIDIARIES
S.F.A.S. 69 Supplemental Disclosures
December 31, 2004 and 2003
(Unaudited)

S.F.A.S. 69 SUPPLEMENTAL DISCLOSURES (CONTINUED)

(4) Reserve Quantity Information

	Oil BBL -----	Gas CF -----
Proved developed and undeveloped reserves		
End of the year 2003	99,880	--
Revisions of previous estimates		
Improved recovery	--	--
Purchases of minerals in place	23,506	550,866
Extensions and discoveries	--	--
Production	(16,287)	(7,911)
Sales of minerals in place	--	--
	-----	-----
End of the year 2004	106,649 =====	542,955 =====
Proved developed reserves:		
	Oil BBL -----	Gas CF -----
End of the year 2003	99,880	--
End of the year 2004	106,649	542,955

During the years ended December 31, 2004 and 2003, the Company had reserve studies and estimates prepared on its various properties. The difficulties and uncertainties involved in estimating proved oil and gas reserves makes comparisons between companies difficult. Estimation of reserve quantities is subject to wide fluctuations because it is

Edgar Filing: TRANS ENERGY INC - Form 10KSB

dependent on judgmental interpretation of geological and geophysical data.

F-25

TRANS ENERGY, INC. AND SUBSIDIARIES
S.F.A.S. 69 Supplemental Disclosures
December 31, 2004 and 2003
(Unaudited)

S.F.A.S. 69 SUPPLEMENTAL DISCLOSURES (CONTINUED)

(5) Standardized Measure of Discounted
Future Net Cash Flows Relating
to Proved Oil and Gas Reserves

At December 31, 2004

	Trans Energy and Subsidiaries -----
Future cash inflows	\$ 6,996,464
Future production and development costs	(1,539,222)
Future income tax expense	--

Future net cash flows	5,457,242
Discounted for estimated timing of cash flows	(1,018,406)

Standardized measure of discounted future net cash flows	\$ 4,438,836 =====

At December 31, 2003

Future cash inflows	\$ 3,220,287
Future production and development costs	(740,666)
Future income tax expense	--

Future net cash flows	2,479,621
10% annual discount for estimated timing of cash flows	(615,244)

Standardized measure of discounted future net cash flows	\$ 1,864,377 =====

Future income taxes were determined by applying the statutory income tax rate to future pre-tax net cash flow relating to proved reserves.

F-26

Edgar Filing: TRANS ENERGY INC - Form 10KSB

TRANS ENERGY, INC. AND SUBSIDIARIES
S.F.A.S. 69 Supplemental Disclosures
December 31, 2004 and 2003
(Unaudited)

S.F.A.S. 69 SUPPLEMENTAL DISCLOSURES (CONTINUED)

(5) Standardized Measure of Discounted
Future Net Cash Flows Relating to
Proved Oil and Gas Reserves (Continued)

The following schedule summarizes changes in the standardized measure of discounted future net cash flow relating to proved oil and gas reserves:

	For the Years Ended December 31,	
	2004	2003
	-----	-----
Standardized measure, beginning of year	\$ 1,864,377	\$ 4,314,941
Oil and gas sales, net of production costs	--	--
Sales of mineral in place	(125,966)	(2,411,293)
Purchases	2,375,205	--
Net change due to revisions in quantity estimates	325,220	(39,271)
Accretion of discount items	--	--
	-----	-----
Standardized measure, end of year	\$ 4,438,836	\$ 1,864,377
	=====	=====

The above schedules relating to proved oil and gas reserves, standardized measure of discounted future net cash flows and changes in the standardized measure of discounted future net cash flows have their foundation in engineering estimates of future net revenues that are derived from proved reserves and prepared using the prevailing economic conditions. These reserve estimates are made from evaluations conducted by independent geologists, of such properties and will be periodically reviewed based upon updated geological and production data. Estimates of proved reserves are inherently imprecise. The above standardized measure does not include any restoration costs due to the fact the Company does not own the land.

Subsequent development and production of the Company's reserves will necessitate revising the present estimates. In addition, information provided in the above schedules does not provide definitive information as the results of any particular year but, rather, helps explain and demonstrate the impact of major factors affecting the Company's oil and gas producing activities. Therefore, the Company suggests that all of the aforementioned factors concerning assumptions and concepts should be taken into consideration when reviewing and analyzing this information.