Gastar Exploration Ltd.
Interim Consolidated Financial Statements
For the nine months ended September 30, 2005
(Unaudited – Prepared by Management)

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Gastar Exploration Ltd.
(United States Dollars)
Interim Consolidated Balance Sheets
(Unaudited – Prepared by Management)

As at	September 30, 2005 (unaudited)	December 31, 2004 (audited)
	(in thousands)	
Assets		
Current		
Cash	**$ 8,499**	$ 15,841
Revenue receivable	**4,369**	1,693
Accounts receivable	**7**	39
Receivable from related party (Note 14(c))	**63**	-
Prepaid expenses	**409**	307
Current portion of deferred charges (Note 6)	**34**	238
	13,381	18,118
Deferred charges (Note 6)	**21,566**	5,297
Cash call receivable (Note 4)	**1,122**	6,318
Property and equipment (Note 5)	**172,966**	64,563
	$ 209,035	$ 94,296
Liabilities and Shareholders' Equity		
Current		
Accounts payable	**$ 5,228**	$ 128
Accrued interest and debt related costs	**2,201**	651
Other accrued liabilities	**2,150**	418
Accounts payable – joint venture partner (Note 14(a))	**-**	601
Note payable (Note 3 and 20)	**12,000**	-
	21,579	1,798
Long Term		
Accrued liability	**77**	77
Drilling advances liability	**-**	1,002
Senior notes (Note 8)	**-**	26,483
Subordinated, unsecured notes payable	**3,250**	3,250
Note payable (Note 3 and 20)	**3,000**	-
Senior secured notes (Note 9)	**73,000**	-
Convertible notes	**29,768**	29,725
Asset retirement obligation (Note 7)	**3,182**	1,711
	133,856	64,046
Liability to be Settled by the Issuance of Shares		
Senior secured notes (Note 9)	**12,748**	-
	12,748	-
Shareholders' Equity		
Convertible notes	**284**	284
Share capital (Note 11(b))	**93,064**	48,305
Contributed surplus (Note 12)	**3,438**	1,374
Share purchase warrants (Note 11(h))	**2,847**	2,847
Translation loss	**(83)**	(83)
Deficit	**(37,119)**	(22,477)
	62,431	30,250
	$ 209,035	$ 94,296

Commitments and Contingencies (Note 16)

On behalf of the Board:

"Abby Badwi "
Director
Abby Badwi

"*Richard Kapuscinski "*
Director
Richard Kapuscinski

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

Gastar Exploration Ltd.
(United States Dollars)
Interim Consolidated Statements of Operations
(Unaudited – Prepared by Management)

	For the three month period ended September 30, 2005	2004	For the nine month period ended September 30, 2005	2004
	(in thousands, except per share data)			
Revenues	**$ 7,822**	$ 814	**$ 17,496**	$ 1,688
Expenses				
Depletion, depreciation and amortization	**(5,595)**	(428)	**(11,501)**	(877)
Interest and debt related items (Note 10)	**(3,614)**	(911)	**(10,750)**	(1,497)
Accretion on asset retirement obligation (Note 7)	**(35)**	(13)	**(78)**	(37)
Lease operating, transportation and selling	**(2,232)**	(499)	**(4,024)**	(937)
General and administrative	**(2,336)**	(1,069)	**(5,872)**	(1,916)
Net loss before other items	**(5,990)**	(2,106)	**(14,729)**	(3,576)
Other items				
Investment income and other	**25**	7	**87**	15
Foreign exchange gain (loss)	**(142)**	65	**-**	107
	(117)	72	**87**	122
Net loss before income taxes	**(6,107)**	(2,034)	**(14,642)**	(3,454)
Provision for income taxes (Note 15)	**-**	-	**-**	-
Net loss for the period	**$ (6,107)**	$ (2,034)	**$ (14,642)**	$ (3,454)
Loss per share (Note 13)				
Net loss per share (basic and diluted)	**$ (0.046)**	$ (0.018)	**$ (0.121)**	$ (0.031)

Interim Consolidated Statements of Deficit

	For the nine month period ended September 30, 2005	2004
	(in thousands)	
Balance, beginning of period	**$ (22,477)**	$ (15,039)
Current loss	**(14,642)**	(3,454)
Purchase price of common shares repurchased in excess of carrying value	**-**	(758)
Balance, end of period	**$ (37,119)**	$ (19,251)

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Gastar Exploration Ltd.
(United States Dollars)
Interim Consolidated Statements of Cash Flows
(Unaudited – Prepared by Management)

	For the three month period September 30, 2005	2004	For the nine month period September 30, 2005	2004
		(in thousands)		
Cash from operating activities				
Net loss for the period	**$ (6,107)**	$ (2,034)	**$ (14,642)**	$ (3,454)
Adjustments for:				
Depletion and amortization	**6,604**	596	**15,462**	1,237
Compensation expense	**524**	403	**2,064**	458
Other income	**-**	-	**(2)**	-
Accretion expense on convertible notes	**14**	-	**43**	134
Accretion expense on asset retirement obligation (Note 7)	**35**	13	**78**	37
	1,070	(1,022)	**3,003**	(1,588)
Changes in non-cash working capital balances				
Accounts receivable	**407**	79	**(3,308)**	59
Foreign exchange	**-**	(94)	**-**	(91)
Prepaid expenses	**(279)**	(628)	**(77)**	(789)
Accounts payable and accrued liabilities	**(2,637)**	1,308	**8,382**	1,631
	(1,439)	(357)	**8,000**	(778)
Cash from investing activities				
Cash call receivable (Note 4)	**1,700**	231	**5,196**	(1,121)
Development and purchase of oil and gas properties (Note 5)	**(14,975)**	(6,964)	**(50,287)**	(16,195)
Purchase of oil and gas properties from related party (Note 3)	**-**	-	**(30,900)**	-
Sale of oil and gas properties (Note 5)	**-**	-	**2**	3,296
Purchase of furniture, fixtures and equipment (Note 5)	**(172)**	-	**(265)**	(2)
Development of mineral properties (Note 5)	**(28)**	1	**(61)**	(31)
Bonds and deposits	**-**	-	**(25)**	263
Foreign exchange	**-**	(1)	**-**	-
	(13,475)	(6,733)	**(76,340)**	(13,790)
Cash from financing activities				
Payments on debt	**-**	(600)	**(26,483)**	(2,342)
Share issue costs	**-**	32	**(1,158)**	(571)
Share issuance	**413**	-	**18,669**	-
Proceeds from debt issuance	**10,000**	(500)	**73,000**	18,250
Bond issue costs	**(313)**	-	**(3,030)**	-
Repurchase of shares, net of costs	**-**	(156)	**-**	(894)
	10,100	(1,224)	**60,998**	14,443
Decrease in cash	**(4,814)**	(8,314)	**(7,342)**	(125)
Foreign exchange gain (loss) on cash held in foreign currency	**-**	1	**-**	(1)
Cash, beginning of period	**13,313**	8,868	**15,841**	681
Cash, end of period	**$ 8,499**	$ 555	**$ 8,499**	$ 555

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

1. Business and Basis of Presentation

These unaudited interim consolidated financial statements should be read in conjunction with the most recent audited annual consolidated financial statements. The significant policies and methods of computation follow that of the most recently reported annual consolidated financial statements. The disclosures provided below are incremental to those included with the annual audited consolidated financial statements. All amounts other than share and per share amounts are shown in thousands of dollars.

2. Significant Accounting Policies

The consolidated financial statements of the Company (in United States ("US") dollars unless otherwise noted) have been prepared by management in accordance with generally accepted accounting principles ("GAAP") in Canada. The preparation of consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality. The accounting policies used in these financial statements are consistent with those used in the Company's annual audited financial statements.

3. Asset Acquisition

On June 17, 2005, the Company acquired certain oil and gas properties from Geostar Corporation, a significant shareholder of the Company in consideration for cash, notes payable and shares. The acquisition has been accounted for using the purchase method, with results of operations from the date of acquisition to closing reflected as post closing adjustments. The Company acquired all of Geostar's working interests in East Texas and the Powder River Basin. Details of the acquisition are as follows (in thousands):

Fair values of net assets acquired:		
Oil and gas properties	$	72,579
Asset retirement obligation		(953)
	$	71,626
Consideration given:		
Cash	$	30,500
Note payable		32,000
Shares		6,000
Post closing adjustments		2,726
Acquisition costs		400
	$	71,626

Gastar paid a total of $68.5 million for the interest acquired from Geostar consisting of $30.5 million in cash, 1.65 million common shares ($6.0 million in common shares valued at CDN $4.50 per share) and $32.0 million in unsecured subordinated notes expiring on January 31, 2006, bearing interest at 3.42% per annum. On August 11, 2005, the Company executed an agreement with Geostar whereby the Geostar $32.0 million unsecured subordinated note was cancelled. In conjunction with the note cancellation, the Company agreed to issue Geostar 6.4 million common shares ($17.0 million in common shares valued at CDN $3.25) and a new unsecured subordinated

note for $15.0 million. The new Geostar note bears interest, payable monthly commencing February 15, 2006, at three-month LIBOR plus 4.5% and matures November 15, 2006. The note requires monthly principal payments of $1.5 million commencing February 15, 2006 and continuing for nine months thereafter with a final principal payment of $1.5 million due on November 15, 2006. The Company may elect to pay interest in kind through the issuance of additional notes with such notes maturing on January 15, 2007. If Gastar raises equity through the issuance of common shares or other securities junior and/or subordinated to Gastar's Senior Secured note, Gastar, at a minimum, must apply 25% of the first $25.0 million of net equity raised and 35% of all net equity raised in excess of $25.0 million to prepay the Geostar note. Any of the prepayments are applied first to the next scheduled monthly payment without acceleration of any remaining scheduled monthly payments.

The purchase price allocation is based on management's best estimate of what the fair values were at June 17, 2005. If events determine the allocation to be different, the difference will be treated as a purchase price adjustment in such subsequent period. In addition, the asset purchase agreement provides for certain post closing adjustments relating to additional expenditures incurred on the acquired properties. These adjustments are to be finalized by year end 2005. Any discrepancy between the amounts provided for by management and the agreed to ending adjustment will be treated as a purchase price adjustment when finalized.

Additional purchase price may be payable on certain properties using the look back provisions detailed in the purchase and sale agreements (Note 16).

4. Cash Calls Receivable

	Opening Balance	Cash Call Advances	Amounts Spent/Refunded	Cash Calls, Ending Balance
		(in thousands)		
Fridkin Kaufman #1 well	$ 1,220	$ -	$ 1,220	$ -
Cheney #1 well	-	9,015	9,015	-
Lone Oak Ranch #1 well	-	8,397	6,053	2,344
Greer #1 well	-	4,122	148	3,974
Balance as of December 31, 2004	$ 1,220	$ 21,534	$ 16,436	$ 6,318
Lone Oak Ranch #1 well	**$ 2,344**	**$ -**	**$ 2,344**	**$ -**
Greer #1 well	**3,974**	**1,460**	**5,434**	**-**
Fridkin Kaufman #2 well	**-**	**5,680**	**5,680**	**-**
Burong #2	**-**	**535**	**422**	**113**
Burong #3	**-**	**535**	**476**	**59**
Other prepaid cash calls	**-**	**6,696**	**5,746**	**950**
Balance as of September 30, 2005	**$ 6,318**	**$ 14,906**	**$ 20,102**	**$ 1,122**

Of the total cash calls paid, $8.2 million were paid to Geostar and the remainder was paid to other outside parties. Geostar invoices the Company for their proportionate share of planned authorized expenditures upon the execution of the final drilling AFE by Gastar.

In the second quarter of 2005, Geostar refunded to the Company $2.1 million of unused cash call balances pursuant to the acquisition of additional properties and working interest properties in East Texas (Note 3).

5. Property and Equipment

The amount capitalized as oil and gas properties was incurred for the purchase and development of various properties in the states of Wyoming, Montana, Texas, California, Pennsylvania and West Virginia in the US and in New South Wales and Victoria in Australia.

The following schedule represents costs distributed by country as of September 30, 2005 (in thousands):

Oil and gas properties **From Inception to September 30, 2005:**	**US**	**Australia**	**Canada**	**Total**
Cost	**$ 185,052**	**$ 3,672**	**$ -**	**$ 188,724**
Asset retirement	**2,825**	**69**	**-**	**2,894**
Impairment/Ceiling test allowance	**(2,605)**	**(519)**	**-**	**(3,124)**
Accumulated Depletion	**(15,922)**	**-**	**-**	**(15,922)**
Net Book Value at September 30, 2005	**169,350**	**3,222**	**-**	**172,572**
Capital assets	**247**	**6**	**-**	**253**
Mineral resource properties	**-**	**121**	**20**	**141**
Total property and equipment	**$ 169,597**	**$ 3,349**	**$ 20**	**$ 172,966**

Oil and gas properties From Inception to December 31, 2004:	**US**	**Australia**	**Canada**	**Total**
Cost	$ 67,912	$ 2,629	$ -	$ 70,541
Asset retirement	1,423	80	-	1,503
Impairment/Ceiling test allowance	(2,606)	(519)	-	(3,125)
Accumulated Depletion	(4,442)	-	-	(4,442)
Net Book Value at December 31, 2004	62,287	2,190	-	64,477
Capital assets	-	8	-	8
Mineral resource properties	-	61	17	78
Total property and equipment	$ 62,287	$ 2,259	$ 17	$ 64,563

Excluded from the depletion base are unproved property costs of $71.6 million ($29.8 million - December 31, 2004), which consists primarily of drilling in progress costs of approximately $18.6 million ($13.9 million – December 31, 2004) and acreage acquisition costs of approximately $53.0 million ($15.9 million – December 31, 2004).

As part of the Company's quarterly procedures, management conducts an internal ceiling test to evaluate and compare the carrying value of its oil and gas properties, excluding the $71.6 million as detailed above, to its estimated future net revenue. At September 30, 2005, the result of management's evaluation requires no writedown.

The prices used for the benchmark for purposes of the impairment test are as follows:

	Oil Price ($/Barrel)	**Gas Price – Wyoming ($/MMBTU)**	**Gas Price – Texas ($/MMBTU)**
2005	66.60	10.29	11.42
2006	67.41	8.93	9.92
2007	61.17	7.28	8.09
2008	43.92	5.24	5.82
2009	42.45	5.10	5.67
2010	43.09	5.14	5.70
2011	43.75	5.21	5.79
2012	44.39	5.29	5.88
2013	45.06	5.37	5.96
2014	45.74	5.45	6.06
2015	46.42	5.54	6.15
2016	47.12	5.61	6.23
Thereafter	+1.5%	+1.5%	+1.5%

Of the total expenditures incurred on oil and gas properties in the amount of $119.1 million, $15.0 million was related to notes payable issuance and $23.0 million was paid in common shares. Oil and natural gas properties were reduced by $1.0 million for reclassification of drilling advances and $2,000 for sale of acreage.

Included in oil and gas properties are direct travel and supplies expense capitalized in the amount of $105,000 (2004 - $105,000).

The carrying value of mineral resource properties is as follows (in thousands):

	September 30, 2005	December 31, 2004
Gippsland Basin Mineral Sands property	$ 122	$ 61
Mokoman (Knife) Lake Area, Saskatchewan	16	17
Other	3	-
	$ 141	$ 78

The recovery of the costs associated with these claims is dependent upon their future sale or commercial development.

6. Deferred Charges

Deferred Financing Costs	Cost	Accumulated Amortization (in thousands)	Net Book Value
Balance as of December 31, 2004	$ 6,386	$ (1,360)	$ 5,026
Additions in the period	**20,027**	**-**	**20,027**
Amortization for the period	**-**	**(3,758)**	**(3,758)**
Balance as of September 30, 2005	**$ 26,413**	**$ (5,118)**	**$ 21,295**

Deferred Lease Costs	
Balance – December 31, 2004, net	$ 509
Amortization expense	**(204)**
Reclass to current portion	**(34)**
Balance as of September 30, 2005	**$ 271**
Total Deferred Charges – September 30, 2005	**$ 21,566**
Total Deferred Charges – December 31, 2004	$ 5,297

The additions in the period related to $17.0 million (CDN - $20.9 million) committed pursuant to the Senior Note financing (Note 9) and is non-cash as it will be settled by the issuance of shares. An additional $3.0 million was incurred for related financing costs.

7. Asset Retirement Obligation

The undiscounted amount of expected cash flows required to settle the asset retirement obligations is estimated at $4.0 million. Of these payments, 90.8% are expected to be made over the next 5 years, 8.1% is expected to be made in years 6-10, with the remainder being paid in years 11-19.

The schedule below is a reconciliation of the Company's liability discounted at 6.8% (in thousands):

	September 30, 2005	December 31, 2004
Asset retirement obligation, beginning of year	**$ 1,711**	$ 984
Liabilities incurred	**471**	166
Accretion expense	**78**	52
Increase (reduction) due to acquisition (sale) of working interest	**922**	(57)
Revision in estimated cash flows	**-**	566
Asset retirement obligation, end of year	**$ 3,182**	$ 1,711

8. Senior Notes

On June 17, 2005 in connection with the issuance of $63.0 million in principal amount of senior secured notes, the Company paid the senior note balance of $26.5 million plus accrued interest of $1.9 million and a call premium of $662,000.

9. Senior Secured Notes

On June 17, 2005, the Company issued senior secured notes totaling $63.0 million in principal amount, together with the issuance of 1,217,269 common shares in a private placement transaction. The notes are secured by substantially all of the Company's assets, bear interest at the sum of the three-month LIBOR rate plus 6%, payable quarterly, and mature on June 18, 2010. Additionally, the Company agreed to issue the purchasers of the senior secured notes for no additional consideration, additional shares in increments valued at CDN $4.5 million on each of the six, twelve, and eighteen month anniversaries of the closing.

On September 19, 2005, the Company issued to the holders of our senior secured notes an additional $10.0 million of senior secured notes on substantially the same terms as the original June 2005 private placement, including the issuance of 206,354 common shares to the note holders. The common shares issued in the transaction represented an aggregate value of CDN$714,286 based upon the five day weighted average trading price of CDN$3.4615 per share for the five trading days immediately prior to closing. In connection with the sale of the additional notes, the Company issued subscription receipts to the purchasers of the notes, for no additional consideration, entitling the holders to receive additional common shares in CDN$714,286 increments on each of the six, twelve and eighteen-month anniversaries of the closing date, valued on a five day weighted average trading price immediately prior to the date of issuance.

Pursuant to the senior secured notes, the Company has the right, on a quarterly basis to June 16, 2007, to require the note holders to purchase up to an aggregate additional $10.0 million principal amount of additional notes. The issuance of the additional notes is contingent upon compliance with reserves to net senior secured notes debt coverage ratios and other general covenants and conditions. Under the senior secured note, the PV(10) valuation is to be based on a third party independent reserve report utilizing constant pricing based on the lower of current natural gas and oil prices, adjusted for area basis differentials, or $6.00 per Mcf of natural gas and $40.00 per barrel of oil. From the first anniversary of the issuance of the notes up to the second anniversary of the issuance of the notes, proved reserves PV(10) ("1P (PV10)") to net senior secured notes debt must be a minimum of 1.0:1. On the second anniversary date of the notes, the 1P PV(10) reserve ratio covenant increases to a minimum of 1.5:1 and it increases to 2.0:1 on the third anniversary date and for all test periods thereafter until maturity. Utilizing the same reserve pricing criteria above, the proved plus probable reserves PV(10) ("2P PV(10)") to net senior secured notes debt reserve maintenance ratio covenant must be a minimum of 1.5:1 from date of issuance of the notes up to the first anniversary date and 2.0:1 to issue additional notes. On the first anniversary date of the senior secured notes, the 2P PV(10) reserve ratio maintenance covenant increases to a minimum of 2.5:1, on the second anniversary to 3.0:1 and on the third anniversary and for all test periods thereafter until maturity to 3.5:1. The Company must maintain compliance with the reserve ratio covenants at all future quarterly and annual covenant determination dates or be subject to mandatory principal redemptions under certain conditions.

The Company had recorded a deferred charge of $14.5 million (CDN $18.0 million) to be amortized over the term of the initial $63.0 million of senior secured notes upon issuance of the initial note. Of this amount, $3.6 million (CDN $4.5 million) was recorded for the issuance of 1,217,269 shares issued and the remainder $10.9 million (CDN $13.5 million) will be settled by the issue of shares, as detailed above. The Company has recorded a deferred charge of $2.5 million (CDN $2.9 million) to be amortized over the term of the additional $10.0 million of notes. An additional $2.5 million, representing $606,000 (CDN $714,000), was recorded upon the issuance of 206,354 shares issued and the remainder $1.9 million (CDN $2.1 million) will be settled by the issue of shares as detailed above. The Company also recorded an estimated $3.0 million of direct financing costs for legal fees and fees paid to an agent and will amortize over the term of the notes.

The Company has provided the purchasers of the notes an undertaking to file a registration statement with the US Securities and Exchange Commission to register the shares issued (and to be issued) in conjunction with this financing in order that the shares are freely tradable in the US by December 15, 2005. In the event that the Company does not file a registration statement within 90 days that is declared effective within 180 days of closing of the financing, the Company will incur cash penalties equal to 0.50% per month of the value of the shares as of December 15, 2005. In addition, the Company has agreed to a potential make-whole cash payment to the holders of the shares for any decline in price between the price as of December 15, 2005 and the date that the registration statement is declared effective of the shares become freely tradable otherwise.

10. Interest Expense

The following table summarizes interest expense components (in thousands):

	For the three month period ended September 30,		For the nine month period ended September 30,	
	2005	2004	**2005**	2004
Cash and accrued	**$ 2,659**	**$** 744	$ **6,287**	$ 1,003
Call premium	**-**	-	**662**	-
Deferred financing cost amortization	**955**	167	**3,801**	494
Total	**$ 3,614**	$ 911	$ **10,750**	$ 1,497

11. Share Capital

(a) Authorized
Unlimited number of common shares without par value.

(b) Issued

	Number of Shares	CDN$ Amount (in thousands)	USD$ Amount
Balance, December 31, 2004	113,390	$ 71,529	$ 48,305
Stock options exercised, cash (12)	**3,722**	**1,116**	**707**
Stock options exercised, non-cash (12)	**2,670**	**2,058**	**1,327**
Stock options cancelled in lieu of non-cash exercise (12)	**(455)**	**(2,058)**	**(1,327)**
Share warrants exercised, cash (11h)	**208**	**485**	**413**
Share warrants exercised, non-cash (11h)	**1,834**	**4,223**	**3,597**
Share warrants cancelled in lieu of non-cash exercises (11h)	**(993)**	**(4,223)**	**(3,597)**
Issuance of shares (11 (c, d, e, f and g))	**16,064**	**55,259**	**44,798**
Share issue costs	**-**	**(1,429)**	**(1,159)**
Balance September 30, 2005	**136,440**	**$ 126,960**	**$ 93,064**

(c) On June 17, 2005, the Company issued 1.65 million common shares ($6.0 million) valued at CDN $4.50 per share (CDN $7.4 million) pursuant to the acquisition of additional leasehold and working interest properties in East Texas and the Powder River basin from Geostar Corporation (Note 3).

(d) On June 17, 2005, the Company issued 1.2 million common shares (an aggregate of CDN $4.5 million (US - $3.6 million) based upon a five day weighted average trading price of CDN $3.69 per share) pursuant to the private placement of $63.0 million Senior Secured Notes (Note 9).

(e) On September 19, 2005, the Company issued 206,354 common shares representing and aggregate value of CDN$714,000 (US $607,000) based upon a five-day weighted average trading price of CDN $3.4615 per share pursuant to the private placement of $10.0 million of senior secured notes (Note 9).

(f) On August 11, 2005, the Company issued to Geostar 6.4 million common shares at CDN $3.25 per share in conjunction with partial payment of $17.0 million of the $32.0 million note issued for property acquisition (Note 3).

(g) On June 30, 2005, the Company closed a private placement of common shares at CDN $3.31 per share. The Company received and accepted subscriptions for a total of 6.6 million shares. The proceeds from this private placement were $17.5 million (CDN $21.9 million). The Company recorded an estimated $1.2 million of share issuance costs.

(h) During the month of September 2005, the 2,005,027 common share warrants issued in conjunction with the drilling advance were exercised and converted into common shares of the Company. Of the warrants exercised, 207,813 were exercised for cash proceeds of $413,000 (CDN $485,000) and 1,834,527 on a cashless basis. The warrants exercised on a cashless basis resulted in the issuance of 841,224 net Company common shares. At September 30, 2005, the Company has 3.0 million warrants outstanding.

(i) At September 30, 2005, the Company has reserved 27.3 million shares to be issued pursuant to the conversion of convertible debt (6.9 million), exercise of options (17.4 million), and the exercise of warrants (3.0 million).

12. Stock-Based Compensation

The Company has a stock-based compensation plan that allows employees to purchase common shares of the Company. Option exercise prices approximate the market price for the common shares on the date the options were issued. Options granted under the plan are generally fully exercisable after four years and expire five years after the grant date. The Company can issue up to 25% of the issued and outstanding shares under this plan.

The Company permits option holders to exercise their options on a “cash-less” basis by reducing the number of shares issued under the option exercise by the option price due to the Company. The reduction in the number of shares to be issued is based on trading prices prevailing on date of exercise.

The Company recorded stock-based compensation expense for stock options granted to employees and directors of $2.1 million and $458,000 for the nine months ended September 30, 2005 and 2004, respectively, using the fair-value method with the following assumptions: volatility – 30% to 55%; risk-free interest rate – 5%; dividend yield - nil and expected life of 4 years. The 5.5 million options issued in 2004 had a fair value on grant date ranging from $0.47 to $1.42 per option. The 585,000 options issued in 2005 had a fair value on grant date ranging from $0.58 to $1.81 per option.

The table below details contributed surplus recorded (in thousands):

		September 30, 2005
Contributed surplus, December 31, 2004	$	1,374
Contributed surplus recorded for the period		2,064
Contributed surplus, September 30, 2005	**$**	**3,438**

The following is a summary of options to purchase common shares outstanding:

	Number of Options (in thousands)	Option Price per Share Range in CDN$	Option Price per Share Range in USD$	WA[1] Remaining Life in Years	WA[1] Exercise Price in CDN$	WA[1] Exercise Price in USD$
Options outstanding, Dec. 31, 2004	24,369	0.30 - 3.70	0.19 - 2.75	-	2.26	1.52
Options exercised 2005:						
Feb. 4, 2005 – May 26, 2005	(5,492)	0.30	0.19	-	0.30	0.19
Feb. 9, 2005	(700)	0.30 - 2.76	0.19 - 1.74	-	1.35	0.85
March 2, 2005	(200)	1.66	1.09	-	1.66	1.09
Options cancelled/expired:	(1,136)	0.30 - 3.70	0.19 - 2.75	-	1.19	0.84
Options granted, June 24, 2005	345	3.50	2.84	5 years	3.50	2.84
Options granted, June 28, 2005	50	3.40	2.76	5 years	3.40	2.84
Options granted, September 7, 2005	150	3.25	2.74	5 years	3.25	2.74
Options granted, September 20, 2005	40	4.00	3.42	5 years	4.00	3.42
Options outstanding, September 30, 2005	17,426	2.76 - 4.00	1.74 - 3.42	3.10 years	2.99	2.04

(1) WA – weighted average

To September 2005, 6.4 million stock options were exercised with exercise prices ranging from $0.19 - $1.74 (CDN $0.30 – CDN $2.76). A portion of the stock options exercised were via a cashless basis. The Company issued net 5.9 million shares upon exercise of options and cancelled 455,000 shares as a result of exercises on a cashless basis.

Of the total options outstanding, 12.8 million options have vested as of September 30, 2005, which have a weighted average exercise price of $2.83 and a weighted average life of 3.10 years. The expiry dates for the issued 17.4 million options outstanding are as detailed below:

Number of Options (in thousands)	Option Price per Share Range in CDN$	Option Price per Share Range in USD$	Expiry date
10,975	2.76	1.74	July 13, 2006
700	2.81	1.79	April 26, 2007
750	3.70	2.75	April 20, 2009
4,416	3.41	2.59	August 4, 2009
345	3.50	2.84	June 24, 2010
50	3.40	2.76	June 28, 2010
150	3.25	2.74	September 7, 2010
40	4.00	3.42	September 20, 2010
17,426	2.76 - 4.00	1.74 - 3.42	

Compensation expense has not been recorded for stock options granted prior to 2003. Pro-forma amounts for 2005 and 2004 are disclosed below for options issued prior to January 1, 2003:

	For the three month period ended September 30,		For the nine month period ended September 30,	
	2005	2004	**2005**	2004
	(in thousands)			
Net loss, as reported	**$ (6,107)**	**$** (2,034)	$ **(14,642)**	$ (3,454)
Cost of compensation expense using fair value	**(5)**	(13)	**(27)**	(60)
Net loss, pro forma	**$ (6,112)**	$ (2,047)	$ **(14,669)**	$ (3,514)
Loss per share, as reported	**$ (0.046)**	$ (0.018)	$ **(0.121)**	$ (0.031)
Loss per share, pro forma	**$ (0.046)**	$ (0.018)	$ **(0.121)**	$ (0.032)

The fair value of the options granted prior to January 1, 2003 is estimated on the date of grant using the Black-Scholes option-pricing model with weighted average assumptions for grants as follows:

Risk-free interest rate	5%
Expected lives (years)	4
Expected volatility	40%
Dividend yield	Nil

13. Loss per Share

The weighted average number of shares outstanding is 121,205,445 for the nine month period ended September, 2005; 132,409,512 for the three month period ended September 30, 2005; 110,708,563 for the nine month period ended September 30, 2004 and 112,756,454 for the three month period ended September 30, 2004.

14. Related Party Transactions

Except as disclosed elsewhere in these financial statements, the Company had the following related party transactions:

(a) In 2001, the Company entered into a Participation and Operating Agreement (“POA”) with Geostar. For the East Texas properties, the POA was replaced effective January 1, 2005 with a Joint Operating Agreement (“JOA”) (Note 14(c)). Pursuant to the terms of the original POA, which still governs West Virginia and certain of the Company’s Australian assets, the Company has the option to participate as a working interest partner in properties in which Geostar and its subsidiaries have interest in on an “at cost” basis, subject to our full due diligence review prior to our participation election. Upon agreeing to participate, the Company is responsible for its proportionate share of actual costs expended by Geostar and its subsidiaries to third parties on an “at cost” basis. The balance of $601,000 at December 31, 2004 represented amounts owed to Geostar and its subsidiaries for natural gas and oil property development.

(b) The consolidated statements also include approximately $1,000 (2004 - $40,000) in seismic reprocessing and other administrative fees to a subsidiary of Geostar, based on current, independent, third-party industry billing rates. The seismic reprocessing fees were capitalized to oil and gas properties.

(c) Effective January 1, 2005, the Company, First Sourcenergy Wyoming ("FSW"), and Geostar entered into a JOA covering an Area of Mutual Interest ("AMI") in the East Texas Basin, with Gastar as a non operator and Geostar as Operator. Under the terms of the JOA, Geostar was to receive overhead reimbursement equal to 12.5% of development costs for the first 10 wells drilled after the effective date, 10% of the development costs for the 11th through 20th wells and 8.5% of the developments costs for all subsequent wells. As such, Geostar no longer charged Gastar a proportionate amount of direct salary and shared premises rent expense for Geostar employees providing administrative and technical support services to Gastar.

During 2005 Geostar billed FSW $1.4 million in drilling overhead charges which was equal to 12.5% of projected development costs for the Greer #1 and F-K #2 wells. These costs have been capitalized to property and equipment (Note 5) and were paid in the second quarter. The asset purchase agreement provides for certain post closing adjustments relating to expenditures incurred on the acquired properties which may include additional agreed upon drilling overhead charges. All post closing adjustments are to be finalized by year end 2005. In conjunction with the execution of the JOA, the Company terminated the convertible debenture arrangement with Geostar and commenced operating the East Texas properties. Under the new arrangement, the Company is required to find financing for Gastar's share of future joint venture costs.

There is a balance of $63,000 receivable from Geostar at September 30, 2005, related to the revenue earned from the properties net of capitalized expenditures incurred during the period and net of the estimated post closing adjustments (Note 3). This amount, along with the final post-closing purchase price adjustments, will be settled as provided for in the Purchase and Sale Agreements between Geostar and the Company.

(d) Effective January 1, 2005 the Company has agreed to hire and employ directly certain Geostar employees as members of the management team. The Company will invoice Geostar for their share of common costs, if applicable.

All related party transactions in the normal course of operations have been measured at the agreed to exchange amounts, which is the amount of consideration established and agreed to by the related parties and which is similar to those negotiated with third parties.

15. Income Taxes

There has been no future tax recovery recorded in these interim statements as the ultimate utilization of future tax assets is currently uncertain.

16. Commitments and Contingencies

There were no material changes in commitments and contingencies from those disclosed in the audited annual consolidated financial statements for the year ended December 31, 2004 except for the following:

The Company has a letter of credit in the amount of $127,000 bearing interest at a rate of 2.71%, with a maturity date of January 15, 2006 issued as security under our current office lease.

On May 3, 2005 Western Gas Resources, Lance Oil and Gas Company, Inc and Williams Production RMT Company filed a lawsuit against First Sourcenergy Wyoming, Inc., First Sourcenergy Group, Inc. (the Company's subsidiaries) and others over a dispute that has arisen concerning a June 2002 Lease Exchange and Purchase Agreement between certain of the parties. The issue involves a certain gas gathering agreement and its applicability to some of the properties exchanged under the June 2002 Agreement. A formal response to the complaint was filed in June 2005. Discovery on this matter is just beginning, and as such it is premature to assess a probability of success in defense of this action or of the Company's exposure if liability were to be found. The Company believes that it has multiple strong defenses to this action and intends to vigorously advance its positions. While the Company does not anticipate that this action will result in a material loss to the Company, such determination is subject to measurement uncertainty. Losses, if any, will be recognized in the period of settlement.

The contingency regarding the 1,989,475 warrants issued in conjunction with the $10.0 million Senior Note financing price discrepancy has been resolved and the warrants are now issued at the correct price of $3.63.

The Company has committed to issue additional shares pursuant to the senior secured notes financing completed during 2005 (Note 9).

In addition, the Company has agreed to meet certain registration requirements for these shares by December 15, 2005. If the Company does not meet the requirements, the Company will be required to pay additional interest and bear the market risk on downward price fluctuations between December 15, 2005 and the date the registration statement goes final.

All of the Company's operating subsidiaries have provided a guarantee of the Company's borrowings under the Senior Secured Notes.

FSW has entered into an employment agreement with a certain executive officer. In addition to defining the terms of employment, the agreement entitles the executive to termination payments, equal to two times his most recent annual compensation (exclusive of bonuses received or other non-cash compensation) if notice is received after May 17, 2006. If notice is received prior to May 17, 2006, the severance amount equals one times his most recent annual compensation (exclusive of bonuses or other non-cash compensation). Severance benefits will be payable over the "Severance Pay Period", as set forth in the employment agreement for any reason other than "reasonable cause".

Pursuant to the Geostar property acquisition completed on June 17, 2005, Geostar may receive additional common shares based on look-backs at June 30, 2006 and June 30, 2007 on the East Texas assets, based on a required number of drilled wells, and net reserve additions valued at $1.50 per Mcf less attributable capital expenditures to Geostar's former ownership position in the East Texas development costs.

17. Financial Instruments and Other Concentrations

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to interest rate risk, foreign exchange risk and concentration risk. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

(a) Interest rate risk

The carrying value of our debt approximates fair value. At September 30, 2005, the Company had approximately $88.0 million of long term debt subject to floating interest rates. Of this debt, $73.0 million of the senior secured notes was at LIBOR plus 6% and the remaining Geostar note payable of $15.0 million was at LIBOR plus 4.5%. A 10% fluctuation in LIBOR interest rates would have an approximate $381,000 impact on annual interest expense.

(b) Foreign exchange risk

The Company holds monetary liabilities that are denominated in foreign currencies and is therefore exposed to foreign currency exchange risk. The Company raises equity financing in Canada and accordingly they are subject to fluctuations in exchange rates. The Company does not have any exposure to highly inflationary foreign currencies.

(c) Concentration risk

Approximately 75% of the Company's 2005 revenues for the nine months ended September 30, 2005, were from the production at the Gastar Fridkin-Kaufman #1 ("F-K #1"), Cheney #1 Lone Oak Ranch ("LOR") and Greer #1 wells in Texas. The F-K #1 well commenced production on September 28, 2004, the Cheney #1 well commenced production on February 9, 2005 ,the LOR well commenced production in May 2005 and Greer #1 in July 2005.

18. Statement of Cash Flows

Non-cash transactions have been disclosed in Notes 3, 4, 5, 6, 8, 9, 10 and 11. For the nine months ended September 30, 2005, the Company paid, in cash, interest of $4.6 million (2004- $513,000).

19. Comparative Presentation

The Company now reflects production taxes as lease operating expenses. The prior period comparatives were reclassified as follows:

	For the three month period ended September 30, 2004	For the nine month period ended September 30, 2004
	(in thousands)	
Revenue	$ 82	$ 170
Lease operating expense, transportation and selling	(82)	(170)
Net income	$ -	$ -

20. Subsequent Event

On November 4, 2005, Gastar closed the previously announced transaction with Chesapeake Energy Corporation whereby Chesapeake (i) acquired new common shares from the Company equal to 19.9% of its outstanding common shares, (ii) acquired a 33.33% working interest in its Deep Bossier play in the Hilltop prospect area of Leon and Robertson Counties of East Texas and (iii) formed an AMI to explore 13 counties in East Texas.

Under the terms of the agreement, Chesapeake acquired for cash approximately 27.2 million newly issued common shares for a price equal to CDN$3.31 per share, or approximately $76.0 million (CDN$89.9 million), before transaction expenses. After reflecting the newly-issued common shares, the Company has approximately 163.6 million common shares outstanding. Chesapeake has been granted registration rights for the shares issued pursuant to this transaction. Chesapeake also has the right, with certain exceptions, to maintain its percentage ownership on a fully diluted basis by participating in future stock issuances and has the right to an observer being present at meetings of the Board of Directors.

As part of the transaction, Chesapeake purchased from Gastar for approximately $7.8 million, the commitment to acquire the shares described above and the drilling commitment described below, an undivided 33.33% of the Company's leasehold working interest in the Deep Bossier Hilltop prospect, less and except the 160 acre units surrounding each of our existing well bores. Chesapeake will pay 44.44% of the drilling costs through casing point in the first six wells drilled by the parties in the Hilltop prospect to a depth sufficient to test the Deep Bossier formation (an approximate depth of 19,000 feet) in order to earn its 33.33% leasehold working interest. Further, Chesapeake has agreed to provide one to two additional drilling rigs to Gastar in early 2006 if needed to accelerate drilling in the Hilltop Prospect.

The transaction also provided for the formation of an AMI covering all of Leon, Robertson, Houston, Cherokee, Madison, Anderson, Angelina, Nacogdoches, Trinity, Polk, Shelby, San Augustine and Sabine Counties, Texas (the "AMI Area"). For a period of three years from the closing date, the Company has offered Chesapeake the exclusive first right to purchase up to an undivided 50% of any leasehold/working interest rights acquired by Gastar in the AMI Area on pre-determined terms. The AMI is "one-way", that is Chesapeake will not be obligated to present the Company any interests it now owns or acquires in the future in the AMI Area.

In connection with the transaction, Gastar has notified Chesapeake of a recent claim made by a third party that it has a right to purchase 33.33% of Gastar's interests in certain oil and gas leases located in Leon and Robertson Counties, Texas pursuant to a preferential right provision of an Operating Agreement dated July 7, 2000. This claim is set forth in a petition for breach of contract and declaratory judgment, filed as Cause No. 0-05-451, Navasota Resources, L.P., Plaintiff vs. First Source Texas, Inc., First Source Gas L.P., and Gastar Exploration Ltd. in the District Court of Leon County, Texas, 12th Judicial District on October 31, 2005. Gastar contends, among other things, that the claimant neither properly nor timely exercised any preferential right election it may have had with respect to the inter-dependent transactions. Accordingly, Gastar intends to vigorously defend the claims.

Pursuant to the terms of the Geostar note (Note 3) Gastar will utilize a portion of the Chesapeake transaction proceeds to pay the Geostar note in full.

21. Differences Between Canadian and US Generally Accepted Accounting Principles

The Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles in Canada. Canadian principles differ from US principles as follows:

(a) Reconciliation of Net Loss Under Canadian GAAP to US GAAP

Consolidated Statement of Operations – US GAAP

	For the three month period ended September 30, 2005	2004	For the nine month period ended September 30, 2005	2004
	(in thousands, except per share amounts)			
Net loss as reported in accordance with Canadian principles	**$ (6,107)**	$ (2,034)	**$ (14,642)**	$ (3,454)
Impact of US principles:				
Depreciation, depletion and amortization[1]	**1,498**	62	**2,438**	127
Natural gas and oil property impairment[5]	**-**	-	**(8,697)**	-
Mineral resource property expenditures[4]	**(28)**	(1)	**(63)**	(32)
Accretion expense on convertible notes[2]	**14**	-	**43**	(32)
Net adjustments	**1,484**	61	**(6,279)**	63
Net loss in accordance with US principles	**$ (4,623)**	$ (1,973)	**(20,921)**	(3,391)
Loss per common share in accordance with US principles				
Basic and diluted	**$ (0.035)**	$ (0.017)	**$ (0.173)**	$ (0.031)

	For the three month period ended September 30,		For the nine month period ended September 30,	
	2005	2004	**2005**	2004
	(in thousands, except per share amounts)			
Revenues	**$ 7,822**	$ 814	**$ 17,496**	$ 1,688
Expenses				
Depreciation, depletion and amortization[1]	**(4,097)**	(366)	**(9,063)**	(750)
Natural gas and oil property impairment[5]	**-**	-	**(8,697)**	-
Mineral resource property expenditures[4]	**(28)**	(1)	**(63)**	(32)
Interest and debt related items[2,6,7]	**(3,600)**	(911)	**(10,707)**	(1,529)
Accretion on asset retirement obligation	**(35)**	(13)	**(78)**	(37)
Lease operating, transportation and selling	**(2,232)**	(499)	**(4,024)**	(937)
General and administrative	**(2,336)**	(1,069)	**(5,872)**	(1,916)
Net loss before other items	**(4,506)**	(2,045)	**(21,008)**	(3,513)
Other Items				
Investment income and other	**25**	7	**87**	15
Foreign exchange gain (loss)	**(142)**	65	**-**	107
	(117)	72	**87**	122
Net loss before income taxes	**(4,623)**	(1,973)	**(20,921)**	(3,391)
Provision for income taxes[8]	**-**	-	**-**	-
Net loss	**$ (4,623)**	$ (1,973)	**$ (20,921)**	$ (3,391)
Loss per share – US GAAP	**$ (0.035)**	$ (0.017)	**$ (0.173)**	$ (0.031)

Statement of Comprehensive Income (Loss)

	For the three month period ended		For the nine month period ended	
	September 30, 2005	September 30, 2004	**September 30, 2005**	September 30, 2004
	(in thousands)			
Net loss – US GAAP	**$ (4,623)**	$ (1,973)	**$ (20,921)**	$ (3,391)
Foreign currency translation adjustment[3]	**-**	(93)	**-**	(92)
Comprehensive income (loss)	**$ (4,623)**	$ (2,066)	**$ (20,921)**	$ (3,483)

(b) Condensed Consolidated Balance Sheet

	Canadian Principles at September 30, 2005	US Principles at September 30, 2005	Canadian Principles at December 31, 2004	US Principles at December 31, 2004
		(in thousands)		
Assets				
Current assets	**$ 13,381**	**$ 13,381**	$ 18,118	$ 18,118
Deferred Charges[6,7]	**21,566**	**5,170**	5,297	3,442
Cash call receivable	**1,122**	**1,122**	6,318	6,318
Property, plant and equipment[1, 4, 5]	**172,966**	**158,644**	64,563	56,564
	$ 209,035	**$ 178,317**	$ 94,296	$ 84,442
Liabilities				
Accounts payable and accrued liabilities	**$ 9,579**	**$ 9,579**	$ 1,197	$ 1,197
Accounts payable – joint venture partner	**-**	**-**	601	601
Current portion of note payable	**12,000**	**12,000**	-	-
Note payable	**3,000**	**3,000**	-	-
Drilling advances	**-**	**-**	1,002	1,002
Accrued liability	**77**	**77**	77	77
Senior notes	**-**	**-**	26,483	24,840
Convertible notes[2]	**29,768**	**30,000**	29,725	30,000
Senior secured notes[7]	**73,000**	**69,528**	-	-
Subordinated, unsecured notes payable[6]	**3,250**	**3,074**	3,250	3,038
Site restoration	**3,182**	**3,182**	1,711	1,711
	133,856	**130,440**	64,046	62,466
Liability to be settled by the issuance of shares	**12,748**	**-**	-	-
Shareholders' Equity	**62,431**	**47,877**	30,250	21,976
	$ 209,035	**$ 178,317**	$ 94,296	$ 84,442

Reconciliation of Shareholders' Equity under Canadian GAAP to US GAAP:

	September 30, 2005	December 31, 2004
	(in thousands)	
Shareholder's Equity as reported with Canadian principles	**$ 62,431**	$ 30,250
Convertible notes, beneficial conversion feature[2]	**(232)**	(275)
Mineral resource properties[4]	**(141)**	(78)
Oil and gas properties[1,5]	**(14,181)**	(7,921)
Shareholders' Equity in accordance with US Principles	**$ 47,877**	$ 21,976

1. In accordance with Canadian principles, companies that have not reached commercial levels of production are considered to be in the pre-production stage. While in the pre-production stage, entities net their oil and gas revenue and lease operating expenses against oil and gas properties on the balance sheet. For US principles, entities must recognize revenue and expenses on the income statement without regard to levels of commercial production. In addition, while in the pre-production stage under Canadian principles, entities do not record depletion on their oil and gas properties. Once again, under US principles, depletion is calculated and reported on the income statement. The Company was in the pre-production stage until June 30, 2002.

2. In accordance with Canadian principles, these convertible notes are considered to be compound financial instruments and the liability component and the equity component must be presented separately as determined at initial recognition. For US principles, the total amount of convertible notes is recognized as debt and is offset by the value attributable to the beneficial conversion feature. The value of the warrants attached to debt as well as the value of the conversion feature of the convertible debt is recognized as paid in capital in Shareholders' Equity. The amortization of the beneficial conversion feature is to be amortized over the term of the related convertible notes.

3. In accordance with Canadian principles, the Company records foreign currency translation adjustments in Shareholders' Equity. For US principles, gains or losses arising from the translation of self-sustaining foreign operations are to be included in other comprehensive income.

U.S. GAAP requires the disclosure, as other comprehensive income, of changes in equity during the period from transactions and other events from non-owner sources. Canadian GAAP does not require similar disclosure.

4. In accordance with Canadian principles, the Company capitalizes expenditures on mineral resource properties. For US principles, expenditures on mineral resource properties must be expensed.

5. In 2003, the Company adopted the new Canadian guideline AcG-16 which restricts the capitalized costs less accumulated depletion from exceeding an amount equal to the estimated undiscounted value of future net revenues from proved oil and gas reserves, as determined by independent engineers, based on sales prices achievable under existing contracts and posted average reference prices in effect between the end of the year and the finalization of the year end audit and current costs, and after deducting estimated production related expenses, abandonment and reclamation costs, and applicable taxes. When the carrying value of the cost center exceeds the undiscounted value of future net revenues from proved oil and gas reserves, the Company is required to determine the fair value of proved and probable reserves and a writedown, if any is recorded. Unproved properties are tested separately for impairment. For US principles, entities are required to use discounted future net revenues (discounted at 10%)

In computing its consolidated net earnings for U.S. GAAP purposes, the Company recorded a write down of properties in years 2000-2004 as a result of the application of the US ceiling test. At June 30, 2005, the result of management's evaluation showed a write-down of $8.7 million with no additional write-down for the third quarter of 2005. The Company will further evaluate its reserves and ceiling limitation at future quarters and at year end.

6. In Accordance with Canadian principles, the Company records the fair value of the warrants as a deferred charge and amortizes over the life of the note. For US principles, the value of the warrants is allocated based on relative fair values and is netted against the debt and not deferred as a financing cost. The debt discount is amortized as interest expense.

7. In Accordance with Canadian principles, the Company records the fair value of the debt discount as a deferred charge and amortizes over the life of the note. For US principles, the debt discount is netted against the debt and not deferred as a financing cost. The debt discount is amortized as interest expense using the interest method.

8. There are no tax effects to the US GAAP adjustments as the Company currently is not taxable and a valuation allowance has been recorded for the entire balance of the future tax asset.

The Company operates in one industry segment, which is the exploration, development and production of natural gas and crude oil. The Company's operational activities are conducted in the United States and Australia with only the United States currently having revenue generating operating results. The identifiable assets for each country have been disclosed in Note 5.

(c) Additional Disclosure Based on US principles

Had the Company provided financial data in accordance with US principles in prior quarters, the following additional stock based compensation amounts would have been disclosed on a pro-forma basis as outlined in the table below:

Quarter ended		Stock based compensation expense	Risk-free Interest rate	Expected lives (years)	Expected volatility
		($ in thousands)			
March 31, 2004	$	678	5%	4	40%
June 30, 2004		657	5%	4	40%
September 30, 2004		262	5%	4	40%
December 31, 2004		286	5%	4	40%
2004 Total	$	1,883			
March 31, 2005	**$**	**284**	**5%**	**4**	**40%**
June 30, 2005		**274**	**5%**	**4**	**40%**
September 30, 2005		**5**	**5%**	**4**	**40%**
2005 Total	**$**	**563**			

	For the three month period ended September 30,				For the nine month period ended September 30,			
		2005		2004		**2005**		2004
	(in thousands, except per share amounts)							
Net loss – US GAAP, as reported	**$**	**(4,623)**	**$**	(1,973)	$	**(20,921)**	$	(3,391)
Cost of Compensation expense using fair value		**(5)**		(262)		**(563)**		(1,597)
Net loss – US GAAP, pro forma	$	**(4,628)**	$	(2,235)	$	**(21,484)**	$	(4,988)
Loss per share – US GAAP, as reported	$	**(0.035)**	$	(0.017)	$	**(0.173)**	$	(0.031)
Loss per share – US GAAP, pro forma	$	**(0.035)**	$	(0.020)	$	**(0.177)**	$	(0.045)

The differences between the pro-forma compensation expenses listed above disclosed under US principles and those in Note 12 under Canadian principles result from options issued prior to January 1, 2002, which had not been fully vested at January 1, 2002.