Gastar Exploration Ltd.
Interim Consolidated Financial Statements
For the three months ended March 31, 2005
(Unaudited – Prepared by Management)

Contents

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

As at	March 31, 2005 (unaudited)	December 31, 2004 (audited)
Assets		
Current		
Cash	**$ 4,545,524**	$ 15,841,520
Revenue receivable (Note 9(c))	**3,198,489**	1,692,695
Accounts receivable	**25,697**	38,527
Prepaid expenses	**177,394**	307,088
Current portion of deferred charges (Note 5)	**170,015**	237,828
	8,117,119	18,117,658
Deferred charges (Note 5)	**4,849,942**	5,297,183
Cash call receivable (Note 3)	**5,339,200**	6,318,382
Property and equipment (Note 4)	**75,487,181**	64,563,233
	$ 93,793,442	$ 94,296,456
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	**$ 2,144,173**	$ 1,196,690
Accounts payable – joint venture partner (Note 9(a) and (c))	**2,672,486**	600,811
	4,816,659	1,797,501
Long Term		
Accrued liability	**77,500**	77,500
Drilling advances liability	**-**	1,002,513
Senior notes	**26,483,333**	26,483,333
Subordinated, unsecured notes payable	**3,250,000**	3,250,000
Convertible notes	**29,739,384**	29,725,168
Asset retirement obligation (Note 6)	**1,980,087**	1,710,631
	66,346,963	64,046,646
Shareholders' Equity		
Convertible notes	**284,309**	284,309
Share capital (Note 7(b))	**48,328,849**	48,304,624
Contributed surplus (Note 7(c))	**2,166,590**	1,373,853
Share purchase warrants (Note 7(d))	**2,846,902**	2,846,902
Translation loss	**(83,433)**	(83,434)
Deficit	**(26,096,738)**	(22,476,444)
	27,446,479	30,249,810
	$ 93,793,442	$ 94,296,456

Commitments and Contingencies (Note 11)

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 March 31	2005	2004 (Note 14)
Revenues, net of royalties	**$ 4,731,558**	$ 356,483
Expenses		
Depletion	**(3,096,780)**	(204,838)
Amortization		
Deferred financing cost	**(447,241)**	(75,521)
Capital assets	**(3,105)**	(518)
Compensation (Note 7(c))	**(792,737)**	-
Accretion on convertible notes	**(14,216)**	(113,800)
Accretion on asset retirement obligation (Note 6)	**(19,120)**	(13,333)
Interest on convertible notes	**(634,332)**	(177,006)
Interest on senior notes	**(993,125)**	-
Interest on subordinated, unsecured note payable	**(78,555)**	-
Lease operating, transportation and selling	**(1,314,456)**	(210,845)
General and administrative	**(972,379)**	(167,648)
Net loss before other items	**(3,634,488)**	(607,026)
Other items		
Investment income	**39,730**	3,785
Foreign exchange loss	**(25,536)**	(13,283)
	14,194	(9,498)
Net loss before future taxes	**(3,620,294)**	(616,524)
Future income taxes (Note 10)	**-**	-
Net loss for the period	**$ (3,620,294)**	$ (616,524)
Loss per share (Note 8)		
Basic and diluted	**$ (0.032)**	$ (0.006)

Interim Consolidated Statements of Deficit

For the three month period ended March 31	2005	2004 (Note 14)
Balance, beginning of period	**$ (22,476,444)**	$ (15,038,818)
Current loss	**(3,620,294)**	(616,524)
Purchase price of common shares repurchased in excess of carrying value	**-**	(342,294)
Balance, end of period	**$ (26,096,738)**	$ (15,997,636)

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

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

For the three month period ended March 31	2005	2004 (Note 14)
Cash from operating activities		
Net loss for the period	$ **(3,620,294)**	$ (616,524)
Adjustments for:		
Depletion and amortization	**3,547,126**	280,878
Amortization of deferred lease cost	**67,813**	
Compensation expense	**792,737**	-
Other income (loss)	**(2,466)**	-
Accretion expense on convertible notes	**14,216**	113,800
Accretion expense on asset retirement obligation (Note 6)	**19,120**	13,333
	818,252	(208,513)
Changes in non-cash working capital balances		
Accounts receivable	**(1,492,963)**	(161,806)
Foreign exchange	**(1,457)**	(6,295)
Prepaid expenses	**129,695**	6,836
Accounts payable	**947,473**	(267,577)
	401,000	(637,355)
Cash from investing activities		
Cash call receivable (Note 3)	**979,182**	1,219,982
Development and purchases of oil and gas properties (Note 4)	**(8,266,140)**	(1,313,565)
Sale of oil and gas properties (Note 4)	**1,290**	3,312,500
Purchase of furniture, fixtures and equipment	**(91,299)**	-
Development of mineral properties (Note 4)	**(26,824)**	(31,223)
Foreign exchange	**(164)**	-
	(7,403,955)	3,187,694
Cash from financing activities		
Payments on debt	**-**	(1,000,000)
Accounts payable – joint venture partner	**(4,318,846)**	-
Share issuance	**24,225**	-
Foreign exchange	**1,581**	-
Share cancellation costs	**-**	(2,529)
Repurchase of shares	**-**	(400,818)
	(4,293,040)	(1,403,347)
Increase (decrease) in cash	**(11,295,995)**	1,146,992
Foreign exchange loss on cash held in foreign currency	**(1)**	(420)
Cash, beginning of period	**15,841,520**	681,156
Cash, end of period	**$ 4,545,524**	$ 1,827,728

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

(United States Dollars)

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.

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 option, 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. Cash Calls Receivable

	Opening balance	Cash Call Advances	Amounts Spent	Cash Calls, ending
Gastar/Fridkin Kaufman #1 well	$ 1,219,982	$ -	$ 1,219,982	$ -
Cheney #1 well	-	9,014,855	9,014,855	-
Lone Oak Ranch #1 well	-	8,397,360	6,053,138	2,344,222
Greer #1 well	-	4,122,506	148,346	3,974,160
Balance as of December 31, 2004	$ 1,219,982	$ 21,534,721	$ 16,436,321	$ 6,318,382
Lone Oak Ranch #1 well	**$ 2,344,222**	**$ -**	**$ 2,067,727**	**$ 276,495**
Greer #1 well	**3,974,160**	**1,460,298**	**3,687,716**	**1,746,742**
Gastar/Fridkin Kaufman #2 well	**-**	**5,679,898**	**2,363,935**	**3,315,963**
Balance as of March 31, 2005	**$ 6,318,382**	**$ 7,140,196**	**$ 8,119,378**	**$ 5,339,200**

All cash calls are paid to the operator, Geostar. Geostar invoices the Company for their proportionate share of planned authorized expenditures upon the execution of the final drilling AFE by Gastar.

(United States Dollars)

4. 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:

Oil and gas properties From Inception to March 31, 2005:	**US**	**Australia**	**Canada**	**Total**
Cost	**$ 81,331,922**	**$ 2,862,869**	**$ -**	**$ 84,194,791**
Asset retirement	**1,673,026**	**79,762**	**-**	**1,752,788**
Impairment/Ceiling test allowance	**(2,605,437)**	**(519,054)**	**-**	**(3,124,491)**
Accumulated Depletion	**(7,539,201)**	**-**	**-**	**(7,539,201)**
Net Book Value at March 31, 2005	**$ 72,860,310**	**$ 2,423,577**	**$ -**	**$ 75,283,887**
Capital assets	**88,924**	**7,118**		**96,042**
Mineral resource properties	**-**	**88,346**	**18,906**	**107,252**
Total property and equipment	**$ 72,949,234**	**$ 2,519,041**	**$ 18,906**	**$ 75,487,181**

Oil and gas properties From Inception to December 31, 2004:	**US**	**Australia**	**Canada**	**Total**
Cost	$ 67,913,050	$ 2,628,834	$ -	$ 70,541,884
Asset retirement	1,422,690	79,762	-	1,502,452
Impairment/Ceiling test allowance	(2,605,437)	(519,054)	-	(3,124,491)
Accumulated Depletion	(4,442,422)	-	-	(4,442,422)
Net Book Value at December 31, 2004	$ 62,287,881	$ 2,189,542	$ -	$ 64,477,423
Capital assets	-	7,848		7,848
Mineral resource properties	-	61,356	16,606	77,962
Total property and equipment	$ 62,287,881	$ 2,258,746	$ 16,606	$ 64,563,233

Excluded from the depletion base are unproved property costs of $36,579,384 ($29,786,947 - December 31, 2004), which consists primarily of drilling in progress costs of approximately $17,999,629 ($13,881,891 – December 31, 2004) and acreage acquisition costs of approximately $18,579,755 ($15,905,056 – 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 $36,579,384 as detailed above, to its estimated future net revenue. At March 31, 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 ($/Barrel)	**Gas Price ($/MMBTU)**
2005	**$** 44.29	$ 6.74
2006	41.60	6.48
2007	37.09	6.08
2008	33.46	5.70
2009	31.84	5.41
2010	32.32	5.49
2011	32.80	5.58
2012	33.30	5.66
2013	33.79	5.75
2014	34.30	5.83
2015	34.82	5.92
2016	35.34	6.01
Thereafter	+1.5%	+1.5%

(United States Dollars)

4. Property and Equipment – continued

Of the total expenditures incurred on oil and gas properties in the amount of $14,656,710, $6,390,521 were incurred pursuant to the terms of the JOA with Geostar. Oil and gas properties were reduced by $1,002,513 upon reclassification of drilling advances and $1,290 upon sale of acreage.

Included in oil and gas properties are direct travel and supplies expenses capitalized in the amount of $105,081 (2003 - $99,238).

The carrying value of mineral resource properties is as follows:

		March 31, 2005		December 31, 2004
Gippsland Basin Mineral property	**$**	**88,346**	$	61,356
Mokoman (Knife) Lake Area, Saskatchewan		**16,440**		16,606
Other		**2,466**		-
	$	**107,252**	$	77,962

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

5. Deferred Charges

Deferred Financing Costs		**Cost**		**Accumulated Amortization**		**Net Book Value**
Balance as of December 31, 2004	$	6,386,494	$	(1,360,561)	$	5,025,933
Amortization for the period		**-**		**(447,241)**		**(447,241)**
Balance as of March 31, 2005	**$**	**6,386,494**	**$**	**(1,807,802)**	**$**	**4,578,692**
Deferred Lease Costs		**Cost**		**Expense**		**Net Remaining**
Gas Treating Agreements	$	542,500	$	(33,422)	$	509,078
Less Current Portion						(237,828)
Balance as of December 31, 2004					$	271,250
Amortization for the period	**$**	**-**	**$**	**(67,813)**	**$**	**441,265**
Less Current Portion						**(170,015)**
Balance as of March 31, 2005					**$**	**271,250**
Total Deferred Charges – March 31, 2005					**$**	**4,849,942**

(United States Dollars)

6. Asset Retirement Obligation

The undiscounted amount of expected cash flows required to settle the asset retirement obligations is estimated at $2,466,721). 89% of these payments are expected to be made over the next 5 years, 9% 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%:

	March 31, 2005	December 31, 2004
Asset retirement obligation, beginning of period	**$ 1,710,631**	$ 983,842
Liabilities incurred	**250,336**	166,031
Accretion expense	**19,120**	52,023
Reduction due to sale of working interest	**-**	(56,987)
Revision in estimated cash flows	**-**	565,722
Asset retirement obligation, end of period	**$ 1,980,087**	$ 1,710,631

7. Share Capital

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

(b) Issued

	Number of Shares	CDN$ Amount	USD$ Amount
Balance, December 31, 2004	113,390,108	$ 71,528,679	$ 48,304,624
Stock options exercised, cash (7(c))	**127,500**	**38,250**	**24,225**
Stock options exercised, non-cash (7(c))	**1,012,500**	**1,590,500**	**1,011,750**
Stock options cancelled in lieu of non-cash exercise (7(c))	**(332,175)**	**(1,590,500)**	**(1,011,750)**
Balance, March 31, 2005	**114,197,933**	**$ 71,566,929**	**$ 48,328,849**

(c) 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. As is provided in the stock option plan, options are allowed to be exercised on a cashless basis by giving up a percentage of options held. The number of options surrendered is based on fair value of the underlying stock calculated by using the trading value.

The Company has recorded $792,737 stock-based compensation expense in the Consolidated Statement of Operations for stock options granted to employees and directors in 2004 using the fair-value method with the following assumptions: volatility – 30% to 55%; risk-free interest rate – 5%; risk-free interest rate of 5%; and expected life of 4 years. The 5,470,000 options issued in 2004 had a fair value on grant date ranging from $0.47 to $1.42.

(United States Dollars)

7. Share Capital - continued

The table below details contributed surplus recorded.

		March 31, 2005
Contributed Surplus, December 31, 2004	$	1,373,853
Contributed surplus recorded for the period		792,737
Contributed Surplus, March 31, 2005	$	**2,166,590**

Details of options to purchase common shares outstanding as at March 31, 2005:

	Number of Shares	Option Price per Share Range in CDN$	Option Price per Share Range in USD$	WA[1] Remaining Life	WA[1] Exercise Price in CDN$	WA[1] Exercise Price in USD$
Options outstanding, Dec. 31, 2004	24,368,600	$0.30 - $3.70	$0.19 - $2.75	-	$2.26	$1.52
Options exercised 2005:						
February 4, 2005	**(32,500)**	**$0.30**	**$0.19**	**-**	**$0.30**	**$0.19**
February 9, 2005	**(700,000)**	**$0.30 - $2.76**	**$0.19 - $1.74**	**-**	**$1.35**	**$0.85**
February 11, 2005	**(75,000)**	**$0.30**	**$0.19**	**-**	**$0.30**	**$0.19**
February 21, 2005	**(39,833)**	**$0.30**	**$0.19**	**-**	**$0.30**	**$0.19**
March 2, 2005	**(200,000)**	**$1.66**	**$1.09**	**-**	**$1.66**	**$1.09**
March 8, 2005	**(37,500)**	**$0.30**	**$0.19**	**-**	**$0.30**	**$0.19**
March 14, 2005	**(55,167)**	**$0.30**	**$0.19**	**-**	**$0.30**	**$0.19**
Options outstanding, March 31, 2005	**23,228,600**	**$0.30 - $3.70**	**$0.19 - $2.75**	**1.71**	**$2.30**	**$1.55**

[1]WA – weighted average

In 2005, 1,140,000 stock options were exercised with exercise prices ranging from $0.19 - $1.74 (CDN $0.30 - $2.76). A portion of the stock options exercised were via a non-cash basis. The Company issued a total of 807,825 shares and 332,175 shares reserved for stock option exercise were cancelled. Shares related to the options exercised in March were issued in April 2005.

Of the total options outstanding, 14,533,700 options have vested as of March 31, 2005 which have a weighted average exercise price of $1.10 and a weighted average life of .83 years. The expiry dates for the issued 23,228,600 options outstanding are as detailed below:

Number of Shares	Option Price per Share Range in CDN$	Option Price per Share Range in USD$	Expiry date
5,971,500	$0.30	$0.19	May 31, 2005
-	$1.66	$1.09	July 9, 2005
11,087,100	$2.76	$1.74	July 13, 2006
700,000	$2.81	$1.79	April 26, 2007
825,000	$3.70	$2.75	April 20, 2009
4,645,000	$3.41	$2.59	August 4, 2009
23,228,600	$0.30 - $3.70	$0.19 - $2.75	

(United States Dollars)

7. Share Capital - continued

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 March 31		2005		2004
Net loss, as reported	**$**	**(3,620,294)**	$	(616,524)
Cost of compensation expensed using fair value		**(14,157)**		(28,929)
Net Loss, pro forma		**(3,634,451)**		(645,453)
Loss per share, as reported		**(0.032)**		(0.006)
Loss per share, pro forma	**$**	**(0.032)**	$	(0.006)

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%

(d) At March 31, 2005, the Company had 4,997,288 warrants outstanding. There was no change in the warrants outstanding from December 31, 2004.

(e) At March 31, 2005, the Company has reserved 35,075,203 shares to be issued pursuant to the conversion of convertible debt up to (6,849,315), exercise of options (23,228,600), and the exercise of warrants (4,997,288).

8. Loss per Share

The weighted average number of shares outstanding is 113,788,198 (127,798,410 diluted) for the three month period ended March 31, 2005 and 107,265,493 (122,011,970 diluted) for the three month period ended March 31, 2004.

9. 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 POA with Geostar. The POA was rescinded effective January 1, 2005 and replaced with a joint operating agreement as detailed in Note 9 (c) below. Pursuant to the terms of the original agreement, the Company had the option to participate as a working interest partner in properties in which Geostar and its subsidiaries have interests in on an “at cost” basis, subject to Gastar’s full due diligence review, prior to its participation election. Upon agreeing to participate, the Company was responsible for its proportionate share of actual costs expended by Geostar and its subsidiaries to various arms length parties on an “at cost” basis. The accounts payable balance of $600,811 at December 31, 2004, represented amounts owed to Geostar and its subsidiaries for oil and gas property development.

(b) The consolidated statements also include approximately $450 (2004 - $40,500) in seismic reprocessing and other administrative fees to a subsidiary of Geostar, based on current

9. Related Party Transactions – continued

independent, third-party industry billing rates. The seismic reprocessing fees were capitalized to oil and gas properties.

(c) Effective January 1, 2005, the Company, FSW, and Geostar entered into a Joint Operating Agreement ("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 will 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 subsequent wells. As a result, Geostar will no longer charge Gastar a proportionate amount of direct salary and shared premises rent expense for Geostar employees providing administrative and technical support services to Gastar. At

March 31, 2005, Geostar billed FSW $1,407,838 which was equal to 12.5% of development costs for the Greer #1 and F-K #2 wells. These have been capitalized to property and equipment (Note 4). These amounts were paid subsequent to the end of the quarter.

There is a balance of $2,672,486 payable to Geostar as the operator pursuant to the JOA at March 31, 2005. Of the total revenue receivable on the balance sheet, $3,040,552 (2004 - $1,588,633) represents amounts that will be owed from Geostar as operator of the properties, once it receives the revenue from the third party gas purchaser. These amounts were settled subsequent to the end of the quarter.

(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.

10. 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.

11. 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 $126,698 bearing interest at a rate of 2.71%, with a maturity date of January 15, 2006 and is non-secured.

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. 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

(United States Dollars)

11. Commitments and Contingencies - continued

2002 Agreement. A formal response to the Complaint is not due until June 2005. The Company believes that it has multiple strong defenses to this action and intends to vigorously advance its positions. Further, at this very preliminary stage, it would appear that the Company's exposure is significantly lower than that of the other defendants.

12. Financial Instruments

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, credit risk and fair value risk. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

Concentration risk
Approximately 81% of the Company's 2005 revenues are from the production at the Gastar/F-K #1 and Cheney well in Texas. The Gastar/F-K #1 well commenced production on September 28, 2004 and the Cheney well commenced production on February 9, 2005.

13. Statement of Cash Flows

Non-cash transactions have been disclosed in Notes 4, 6, and 7. The Company paid, in cash, interest of $897,691 (2004-$383,411).

14. 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 March 31		**2004**
Revenue	$	35,432
Lease operating expense		(35,432)
Net income	$	-

The comparative numbers presented for the first quarter of 2004 were neither reviewed nor audited by the Company's auditors.

(United States Dollars)

15. Subsequent Event

On April 19, 2005 Gastar announced that it had entered into a Letter of Intent ("LOI") with Geostar Corporation for the acquisition of Geostar's interest in the East Texas Deep Bossier play and in the Powder River Basin of Wyoming for $37.5 million in cash and $6 million in stock at closing and an additional $25 million cash payment in January 2006. In addition, Geostar will receive a payment in stock during the first quarter of 2007 based upon a look-back provision on the East Texas assets, based on a required number of wells, and based on net reserve additions valued at $1.75/mcf less attributable capital expenditures, attributable to Geostar's former position on the East Texas costs. In a separate transaction, Gastar announced its intention to acquire an option to purchase up to 50% interest in the brown coal mining rights to existing and future mining licenses held by a Geostar subsidiary in the Gippsland Basin of Victoria, Australia. The price of the option is $2.5 million at closing and $2.5 million in January 2006 for up to 25% interest and another $5 million payable on or before July 31, 2006 for an additional 25% interest. The option is exercisable for 90 days following the delivery to Gastar of a final feasibility study on the initial mining and processing facility. If exercised, the option cost will be US $1.00 per ton of coal reserves to be mined and processed in the initial facility related to the feasibility study. The option will be payable in a combination of cash and stock, not to exceed 50% in cash.

16. 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 March 31	**2005**	2004
Net loss as reported in accordance with Canadian principles	**$ (3,620,294)**	$ (616,524)
Impact of US principles:		
Depreciation, depletion and amortization[1]	**44,580**	(4,299)
Mineral resource property expenditures[4]	**(26,824)**	-
Amortization expense – deferred charge[6]	**160,533**	-
Amortization of debt discount[2]	**14,216**	(52,326)
Interest expense – debt discount[6]	**(160,533)**	-
Write-down of properties	**-**	-
Net adjustments	**31,972**	(56,625)
Net loss in accordance with US principles	**$ (3,588,322)**	$ (673,149)
Loss per common share in accordance with US principles		
Basic and diluted	**$ (0.032)**	$ (0.006)

(United States Dollars)

16. Differences Between Canadian and US Generally Accepted Accounting Principles - continued

For the three month period ended March 31	2005	2004
Revenues, net of royalties	**$ 4,731,558**	$ 356,483
Expenses		
Depletion expense[1]	**(3,052,200)**	(209,137)
Amortization expense:		
Debt issue cost	**(162,493)**	(75,521)
Capital assets	**(3,105)**	(518)
Deferred charge[6]	**(124,215)**	-
Interest on convertible notes	**(634,332)**	(177,006)
Interest expense on notes payable	**(78,555)**	-
Interest expense on senior notes	**(993,125)**	-
Interest expense on debt discount[6]	**(160,533)**	-
Compensation expense	**(792,737)**	-
Mineral resource property expenditures[4]	**(26,824)**	-
Expense on drilling advances	**-**	-
Amortization of debt discount[2]	**-**	(166,126)
Accretion expense	**(19,120)**	(13,333)
Write-down of properties	**-**	-
Lease operating, transportation and selling expense	**(1,314,456)**	(210,845)
General and administrative expenses	**(972,379)**	(167,648)
Net loss before other items – US GAAP	**(3,602,516)**	(663,651)
Other items		
Loss on abandonment of mineral resource properties	**-**	-
Investment income	**39,730**	3,785
Foreign exchange loss	**(25,536)**	(13,283)
Net loss for the period – US GAAP	**$ (3,588,322)**	$ (673,149)
Loss per share – US GAAP		
Basic and diluted	**$ (0.032)**	$ (0.006)

Statement of Comprehensive Income (Loss)

For the three month period ended March 31	2005	2004
Net loss – US GAAP	**$ (3,588,322)**	(673,149)
Foreign currency translation adjustment[3]	**-**	9,934
Comprehensive loss	**$ (3,588,322)**	$ (663,215)

(United States Dollars)

16. Differences Between Canadian and US Generally Accepted Accounting Principles - continued

(b) Condensed Consolidated Balance Sheet

	Canadian Principles at March 31, 2005	US Principles at March 31, 2005	Canadian Principles at December 31, 2004	US Principles at December 31, 2004
Assets				
Current assets	**$ 8,117,119**	**$ 8,117,119**	$ 18,117,658	$ 18,117,658
Deferred Charges[6]	**4,849,942**	**3,155,156**	5,297,183	3,441,864
Cash call receivable	**5,339,200**	**5,339,200**	6,318,382	6,318,382
Property, plant and equipment[1, 4, 5]	**75,487,181**	**76,488,571**	64,563,233	65,546,866
	$ 93,793,442	**$ 93,100,046**	$ 94,296,456	$ 93,424,770
Liabilities				
Accounts payable and accrued liabilities	**$ 2,144,173**	**$ 2,144,173**	$ 1,196,690	$ 1,196,690
Accounts payable – joint venture partner	**2,672,486**	**2,672,486**	600,811	600,811
Drilling advances	**-**	**-**	1,002,513	1,002,513
Accrued liability	**77,500**	**77,500**	77,500	77,500
Senior notes	**26,483,333**	**24,988,510**	26,483,333	24,839,740
Convertible notes[2]	**29,739,384**	**30,000,000**	29,725,168	30,000,000
Subordinated, unsecured notes payable	**3,250,000**	**3,050,037**	3,250,000	3,038,274
Site restoration	**1,980,087**	**1,980,087**	1,710,631	1,710,631
	66,346,963	**64,912,793**	64,046,646	62,466,159
Shareholders' Equity	**27,446,479**	**28,187,253**	30,249,810	30,958,611
	$ 93,793,442	**$ 93,100,046**	$ 94,296,456	$ 93,424,770

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

	March 31, 2005	December 31, 2004
Shareholder's Equity as reported with Canadian principles	**$ 27,446,479**	$ 30,249,810
Convertible notes, beneficial conversion feature[2]	**(260,616)**	(274,832)
Mineral resource properties[4]	**(58,046)**	(31,222)
Oil and gas properties[1,5]	**1,059,436**	1,014,855
Shareholders' Equity in accordance with US Principles	**$ 28,187,253**	$ 30,958,611

16. Differences Between Canadian and US Generally Accepted Accounting Principles – continued

[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 2003, 2002, 2001 and 2000 as a result of the application of the US ceiling test. At March 31, 2005, the result of management's evaluation shows no write-down currently, and the Company will further evaluate its reserves and ceiling limitation at future quarters and at year end.

(United States Dollars)

16. Differences Between Canadian and US Generally Accepted Accounting Principles – continued

[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.

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.

(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
March 31, 2004	$	678,071	5%	4	40%
June 30, 2004		656,918	5%	4	40%
September 30, 2004		262,455	5%	4	40%
December 31, 2004		285,659	5%	4	40%
2004 Total	$	1,883,103			
March 31, 2005	**$**	**270,258**	**5%**	**4**	**40%**
2005 Total	**$**	**270,258**			

For the three month period ended		**March 31, 2005**		March 31, 2004
Net loss – US GAAP, as reported	**$**	**(3,588,322)**	$	(673,149)
Cost of compensation expensed using fair value		**(270,258)**		(678,071)
Net loss – US GAAP, pro forma		**(3,858,580)**		(1,351,220)
Loss per share – US GAAP, as reported		**(0.032)**		(0.006)
Loss per share – US GAAP, pro forma	**$**	**(0.034)**	$	(0.013)

The differences between the pro-forma compensation expenses listed above disclosed under US principles and those in Note 7 under Canadian principles result from options issued prior to January 1, 2002, which had not been fully vested at January 1, 2002.