

2005 BCSECCOM 607

September 15, 2005

Headnote

Mutual Reliance Review System for Exemptive Relief Applications - NI 52-107 *Acceptable Accounting Principles, Auditing Standards and Reporting Currency*, s. 9.1 - ss. 3.1 and 3.2 - An issuer that is not yet an 'SEC issuer' wants to file financial statements prepared in accordance with US GAAP and audited in accordance with US GAAS - The issuer is contractually bound to become an SEC registrant; the issuer meets all the elements of the definition of 'foreign issuer' except that it is incorporated in Canada; the issuer will provide financial statements that comply with ss. 4.1 and 4.2

NI 51-102 *Continuous Disclosure Obligations*, s. 13.1 - s. 1.1, definition of SEC issuer - An issuer that is not yet an 'SEC issuer' wants to file MD&A in accordance with s. 5.2 - The issuer is contractually bound to become an SEC registrant; the issuer meets all the elements of the definition of 'foreign issuer' except that it is incorporated in Canada; the issuer will provide MD&A that complies with s.5.2

Applicable British Columbia Provisions

National Instrument 52-107 *Acceptable Accounting Principles, Auditing Standards and Reporting Currency*, ss. 3.1, 3.2 and 9.1

National Instrument 51-102 *Continuous Disclosure Obligations*, ss. 1.1 and 13.1

In the Matter of
the Securities Legislation
of British Columbia, Alberta, Ontario and Manitoba

and

In the Matter of
the Mutual Reliance Review System for Exemptive Relief Applications

and

In the Matter of Gastar Exploration Ltd. (the "Filer")

MRRS Decision Document

Background

The local securities regulatory authority or regulator (the "Decision Maker") in each of British Columbia, Alberta, Ontario and Manitoba (the "Jurisdictions") has

2005 BCSECCOM 607

received an application from the Filer for a decision under the securities legislation of the Jurisdictions (the “Legislation”) that:

1. the requirement contained in the Sections 3.1 and 3.2 of National Instrument 52-107 Acceptable Accounting Principles, Auditing Standards and Reporting Currency (“NI 52-107”) requiring financial statements other than acquisition statements, be prepared and audited in accordance with Canadian GAAP and GAAS accordingly, not apply to the Filer in respect of its September 30, 2005 interim financial statements and December 31, 2005 annual financial statements; and
2. the Filer be permitted to file MD&A in accordance with section 5.2 of National Instrument 51-102.

(the “Requested Relief”).

Under the Mutual Reliance Review System for Exemptive Relief Applications (the “System”), the Alberta Securities Commission is the principal regulator for this application and this MRRS decision document evidences the decision of each Decision Maker.

Interpretation

Unless otherwise defined, the terms herein have the meaning set out in National Instrument 14-101 Definitions.

Representations

This decision is based on the following facts represented by the Filer:

1. The Filer is a corporation governed by the *Business Corporations Act* (Alberta) with its head office in Houston, Texas.
2. The Filer is a reporting issuer under the Legislation and is not in default of any requirements of the Legislation.
3. The authorized capital of the Filer consists of an unlimited number of common shares without nominal or par value (“Common Shares”), of which 135,185,130 Common Shares are currently issued and outstanding. 17,329,600 Common Shares have been reserved for issuance pursuant to the Filer’s incentive stock option plan.
4. Of the 135,185,130 Common Shares outstanding, all of which hold one vote per share, 10,343,320 (7.6%) are directly or beneficially held by Canadian residents.

2005 BCSECCOM 607

5. The Common Shares are listed and posted for trading on the Toronto Stock Exchange.
6. The Filer is engaged in the exploration, development and production of oil and gas from properties located outside of Canada.
7. The Filer is the resulting entity of a reverse take over transaction and accordingly while the Corporation is governed by the *Business Corporations Act* (Alberta), the statements are those of its primary operating subsidiary which is governed by corporate laws outside of Canada. The Filer recently completed a financing which, pursuant to the terms thereof, the Filer is required to file an S1 with the Securities Exchange Commission ("SEC") of the United States which S1 is to be approved by the SEC and effective on or before December 17, 2005. The Filer will become an SEC Filer, as defined by NI 52-107, upon the Filer satisfactorily answering all comments raised by the SEC upon the S1, which is expected to occur December 15, 2005.
8. All of the Filer's operating subsidiaries are incorporated under the laws of a foreign jurisdiction.
9. The majority of executive officers and directors of the Filer are resident outside of Canada.
10. The majority of the consolidated assets of the Filer are located outside of Canada.
11. The business of the Filer is administered principally outside of Canada.

Decision

Each Decision Maker is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the Decision has been met.

The decision of the Decision Maker under the Legislation, is that the Requested Relief is granted, provided that:

1. the Filer files Financial Statements that are prepared in accordance with US GAAP;

2005 BCSECCOM 607

2. the notes to the first two sets of the Filer's annual financial statements after the change from Canadian GAAP to US GAAP and the notes to the Filer's interim financial statements for interim periods during those two years:
 - i. explain the material differences between Canadian GAAP as applicable to public enterprises and US GAAP that relate to recognition, measurement and presentation;
 - ii. quantify the effect of material differences between Canadian GAAP as applicable to public enterprises and US GAAP that relate to recognition, measurement and presentation, including a tabular reconciliation between net income reported in the financial statements and net income computed in accordance with Canadian GAAP as applicable to public enterprises; and
 - iii. provide disclosure consistent with disclosure requirements of Canadian GAAP as applicable to public enterprises to the extent not already reflected in the financial statements;
3. the financial information for any comparative periods in the Financial Statements that were previously reported in accordance with Canadian GAAP presented as follows:
 - i. as previously reported in accordance with Canadian GAAP;
 - ii. as restated and presented in accordance with US GAAP; and
 - iii. supported by an accompanying note that:
 - A. explains the material differences between Canadian GAAP as applicable to public enterprises and US GAAP that relate to recognition, measurement and presentation;
 - B. quantifies the effect of material differences between Canadian GAAP as applicable to public enterprises and US GAAP that relate to recognition, measurement and presentation, including a tabular reconciliation between net income as previously reported in the financial statements and net income as restated and presented in accordance with US GAAP.
4. the Financial Statements are accompanied by an auditor's report prepared in accordance with US GAAS that:
 - i. contains an unqualified opinion;
 - ii. identifies all financial periods presented for which the auditor has issued an auditor's report;

2005 BCSECCOM 607

- iii. refers to the former auditor's reports on the comparative periods, if the Filer has changed its auditor and one or more of the comparative periods presented in the financial statements were audited by a different auditor; and
 - iv. identifies the auditing standards used to conduct the audit and the accounting principles used to prepare the financial statements.
- 5. the Filer files the supplement to its management's discussion and analysis of the Financial Statements set out in section 5.2 of National Instrument 51-102;
- 6. where the Legislation requires financial statements to be audited, the Financial Statements are audited in accordance with US GAAS;
- 7. the Filer refiles the Financial Statements for the periods ended March 31, 2005 and June 30, 2005 using US GAAP and US GAAS; and
- 8. if the Filer does not receive the SEC Registration by December 31, 2005, the Filer will refile on SEDAR all the previous financial statements and management discussion and analysis it filed using US GAAP and US GAAS using Canadian GAAP and Canadian GAAS.

Agnes Lau, CA
Deputy Director, Capital Markets
Alberta Securities Commission