

GASTAR EXPLORATION LTD
Form 10-Q/A
July 29, 2010
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2010**
OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO .**
Commission File Number: 001-32714

GASTAR EXPLORATION LTD.

(Exact name of registrant as specified in its charter)

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Alberta, Canada (State or other jurisdiction of incorporation or organization) 1331 Lamar Street, Suite 1080	98-0570897 (I.R.S. Employer Identification No.)
Houston, Texas 77010 (Address of principal executive offices)	77010 (ZIP Code)
(713) 739-1800 (Registrant's telephone number, including area code)	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Total number of outstanding common shares, no par value per share, as of May 4, 2010 was 50,399,695.

Table of Contents

EXPLANATORY NOTE

Gastar Exploration Ltd. ("Gastar", we or the Company) is filing this Amendment No. 1 on Form 10-Q/A (this Amendment) to our Quarterly Report on Form 10-Q for the period ended March 31, 2010 (the Form 10-Q), originally filed with the Securities and Exchange Commission (the SEC) on May 6, 2010. This Amendment is being filed to amend and restate our unaudited condensed consolidated financial statements as of and for the three months ended March 31, 2010 for the reasons stated below.

In conjunction with its review of our results of operations and hedging in connection with the quarterly review at June 30, 2010, management discovered that at March 31, 2010, the commodity derivative premium payable was inappropriately netted with the receivables from commodity derivative contracts resulting in an incorrect marked to market value for commodity derivative assets and understated unrealized natural gas hedge gains for the period. As a result of its analysis of the accounting error, management determined that the current receivables from commodity derivative contracts, the long-term receivables from commodity derivative contracts and the unrealized natural gas hedge gain were understated by \$1.9 million, \$7.5 million and \$9.4 million, respectively, and total equity was understated by \$9.4 million for the three months ended March 31, 2010. Accordingly, we are now restating our unaudited condensed consolidated financial statements as of and for the three months ended March 31, 2010 and related disclosure presented in the Form 10-Q to give effect to these adjustments to the commodity derivative assets and unrealized natural gas hedge gains. Please read Part I, Item 1. Financial Statements, Note 16 Restatement of Previously Issued Financial Statements to our condensed consolidated financial statements for further discussion of the restatement.

The restatement only affects, and this Amendment only revises, (i) certain information in Part I, Item 1, Financial Statements Condensed Consolidated Balance Sheets as of March 31, 2010 and December 31, 2009; (ii) certain information in Part I, Item 1, Financial Statements Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2010 and 2009; (iii) certain information in Part I, Item 1, Financial Statements Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2010 and 2009; (iv) certain information in Part I, Item 1, Financial Statements Notes to our Consolidated Financial Statements; (v) certain information in Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations; and (vi) certain information in Part I, Item 4, Controls and Procedures. In addition, as required by Rule 12b-15 under the Securities Exchange Act of 1934 (the Exchange Act), we are updating the exhibit table to add new certifications, as specified by Rules 13a-14(a)/15d-14(a) and 13a-14(b)/15d-14(b) of the Exchange Act, by our principal executive officer and principal financial officer to be filed or furnished, as indicated, as exhibits to this Amendment under Part II, Item 6, Exhibits hereof.

This Amendment speaks as of the date of the Form 10-Q. We have not updated the information in the Form 10-Q, including the information set forth in the sections referenced above, except as necessary to reflect the effects of the restatement described above. This Amendment does not reflect events occurring after the filing of the Form 10-Q and any information included herein that was not affected by the restatement remains unchanged and reflects the disclosures made at the time of filing the Form 10-Q on May 6, 2010. As a result, this Form 10-Q, as amended hereby, contains forward-looking information that has not been updated for events subsequent to the date of the original filing of the Form 10-Q. Accordingly, this Form 10-Q, as amended hereby, should be read in conjunction with our subsequent filings with the SEC, as information in such filings may update or supersede certain information contained in this Amendment. The filing of this Amendment shall not be deemed an admission that the Form 10-Q, when made, included any untrue statement of material fact or omitted to state a material fact necessary to make a statement not misleading.

Table of Contents

**GASTAR EXPLORATION LTD.
 QUARTERLY REPORT ON FORM 10-Q/A
 FOR THE THREE MONTHS ENDED MARCH 31, 2010**

TABLE OF CONTENTS

	Page
PART I FINANCIAL INFORMATION	
Item 1. <u>Financial Statements</u>	2
<u>Condensed Consolidated Balance Sheets as of March 31, 2010 and December 31, 2009</u>	2
<u>Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2010 and 2009</u>	3
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2010 and 2009</u>	4
<u>Notes to the Condensed Consolidated Financial Statements</u>	5
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	31
Item 4. <u>Controls and Procedures</u>	31
PART II OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	32
Item 1A. <u>Risk Factors</u>	32
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	33
Item 3. <u>Defaults Upon Senior Securities</u>	33
Item 4. <u>(Removed and Reserved)</u>	33
Item 5. <u>Other Information</u>	33
Item 6. <u>Exhibits</u>	33
<u>SIGNATURES</u>	34

Unless otherwise indicated or required by the context, (i) Gastar, the Company, we, us, and our refer to Gastar Exploration Ltd. and its subsidiaries and predecessors, (ii) all dollar amounts appearing in this Form 10-Q, as amended hereby, are stated in United States dollars (US dollars) and (iii) all financial data included in this Form 10-Q, as amended hereby, have been prepared in accordance with generally accepted accounting principles in the United States of America (US GAAP).

General information about us can be found on our website at www.gastar.com. The information on our website is neither incorporated into, nor part of, the Form 10-Q, as amended hereby. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as any amendments and exhibits to those reports, will be available free of charge through our website as soon as reasonably practicable after we file or furnish them to the SEC. Information is also available on the SEC website at www.sec.gov for our United States filings and on SEDAR at www.sedar.com for our Canadian filings. As of the opening of trading on August 3, 2009, a common share consolidation on the basis of one (1) common share for five (5) common shares (the 1-for-5 Reverse Split) became effective. All common share and per share amounts reported in the Form 10-Q, as amended hereby, have been reported on a post reverse split basis.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****GASTAR EXPLORATION LTD. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

	March 31, 2010 (Unaudited)	December 31, 2009
	(Restated - See Note 16)	
	(in thousands)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 11,737	\$ 21,866
Term deposit	76,576	69,662
Accounts receivable, net of allowance for doubtful accounts of \$600 and \$609, respectively	5,508	5,336
Receivable from unproved property sale	1,839	19,412
Receivables from commodity derivative contracts	10,417	4,870
Prepaid expenses	598	669
Total current assets	106,675	121,815
PROPERTY, PLANT AND EQUIPMENT:		
Natural gas and oil properties, full cost method of accounting:		
Unproved properties, excluded from amortization	143,965	132,720
Proved properties	314,979	313,100
Total natural gas and oil properties	458,944	445,820
Furniture and equipment	933	867
Total property, plant and equipment	459,877	446,687
Accumulated depreciation, depletion and amortization	(285,757)	(284,026)
Total property, plant and equipment, net	174,120	162,661
OTHER ASSETS:		
Restricted cash	50	50
Receivables from commodity derivative contracts	12,012	10,698
Deferred charges, net	668	764
Drilling advances and other assets	100	250
Total other assets	12,830	11,762
TOTAL ASSETS	\$ 293,625	\$ 296,238
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 10,700	\$ 8,291
Revenue payable	4,605	4,621

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Accrued interest	58	130
Accrued drilling and operating costs	1,296	736
Liabilities from commodity derivative contracts	3,829	3,678
Commodity derivative premium payable	1,918	1,190
Short-term loan		17,000
Accrued taxes payable	77,146	75,887
Other accrued liabilities	1,979	1,438
Total current liabilities	101,531	112,971
LONG-TERM LIABILITIES:		
Warrant derivative	57	205
Liabilities from commodity derivative contracts	3,532	4,047
Commodity derivative premium payable	7,448	8,176
Asset retirement obligation	6,049	5,943
Total long-term liabilities	17,086	18,371
Commitments and contingencies (Note 13)		
SHAREHOLDERS EQUITY:		
Preferred stock, no par value; unlimited shares authorized; no shares issued		
Common stock, no par value; unlimited shares authorized; 50,399,695 and 50,028,592 shares issued and outstanding at March 31, 2010 and December 31, 2009, respectively	263,809	263,809
Additional paid-in capital	21,501	20,782
Accumulated deficit	(110,302)	(119,695)
Total shareholders equity	175,008	164,896
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 293,625	\$ 296,238

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

Table of Contents**GASTAR EXPLORATION LTD. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

	For the Three Months Ended March 31,	
	2010	2009
	(Restated - See Note 16)	
	(in thousands, except share and per share data)	
REVENUES:		
Natural gas and oil revenues	\$ 6,758	\$ 13,461
Unrealized natural gas hedge gain (loss)	9,378	(196)
Total revenues	16,136	13,265
EXPENSES:		
Production taxes	123	157
Lease operating expenses	1,743	1,877
Transportation, treating and gathering	1,249	493
Depreciation, depletion and amortization	1,731	7,999
Impairment of natural gas and oil properties		68,729
Accretion of asset retirement obligation	95	87
General and administrative expense	3,832	2,958
Total expenses	8,773	82,300
INCOME (LOSS) FROM OPERATIONS	7,363	(69,035)
OTHER INCOME (EXPENSE):		
Interest expense	(78)	(1,162)
Investment income and other	792	13
Warrant derivative gain	148	
Foreign transaction gain (loss)	319	(3)
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	8,544	(70,187)
Provision for income taxes	(849)	
NET INCOME (LOSS)	\$ 9,393	\$ (70,187)
NET INCOME (LOSS) PER SHARE:		
Basic	\$ 0.19	\$ (1.69)
Diluted	\$ 0.19	\$ (1.69)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	48,997,016	41,452,423
Diluted	49,486,656	41,452,423

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

Table of Contents**GASTAR EXPLORATION LTD. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	For the Three Months Ended March 31, 2010 (Restated)	
	- See Note 16)	2009
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 9,393	\$ (70,187)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	1,731	7,999
Impairment of natural gas and oil properties		68,729
Stock-based compensation	759	1,421
Unrealized natural gas hedge (gain) loss	(9,378)	196
Realized loss (gain) on derivative contracts	1,039	(1,280)
Amortization of deferred financing costs and debt discount	96	686
Accretion of asset retirement obligation	95	87
Warrant derivative gain	(148)	
Changes in operating assets and liabilities:		
Accounts receivable	1,451	3,591
Commodity derivative contracts	1,114	2,889
Prepaid expenses	71	81
Accrued taxes payable	1,259	
Accounts payable and accrued liabilities	(112)	(942)
Net cash provided by operating activities	7,370	13,270
CASH FLOWS FROM INVESTING ACTIVITIES:		
Development and purchase of natural gas and oil properties		(10,830)