ASPEN EXPLORATION CORP
Form 10QSB
May 13, 2005

FORM 10-Q-SB

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

MARK ONE
[ X ] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2005

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 0-9494

ASPEN EXPLORATION CORPORATION
(Exact Name of Aspen as Specified in its Charter)

| | |
|---|---|
| Delaware | 84-0811316 |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |
| Suite 208, 2050 S. Oneida St., Denver, Colorado | 80224-2426 |
| (Address of Principal Executive Offices) | (Zip Code) |

Issuer's telephone number: (303) 639-9860

Indicate by check mark whether Aspen (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 Aspen was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [ X ] No [ ]

Indicate the number of shares outstanding of each of the Issuer's classes of common stock as of the latest practicable date.

| Class | Outstanding at May 10, 2005 |
|---|---|
| Common stock, $.005 par value | 6,719,308 |

Transitional small business disclosure format: _______ Yes _______XX No

Part One. FINANCIAL INFORMATION

Item 1. Financial Statements

ASPEN EXPLORATION CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

| | March 31, 2005 |
|---|---|
| Current Assets: | |
| Cash and cash equivalents, including $905,620 and $1,127,874 of invested cash at March 31, 2005 and June 30, 2004 respectively .................. | $ 1,109,628 |
| Precious metals .............................................. | 18,823 |
| Accounts receivables .......................................... | 635,711 |
| Receivable, related party ..................................... | 20,705 |
| Prepaid expenses .............................................. | 17,333 |
| Total current assets ...................................... | 1,802,200 |
| Investment in oil and gas properties, at cost (full cost method of accounting) ......................................... | 9,461,604 |
| Less accumulated depletion and valuation allowance ............. | (3,691,622) |
| | 5,769,982 |
| Property and equipment, at cost: | |
| Furniture, fixtures and vehicles ............................... | 145,593 |
| Less accumulated depreciation .................................. | (95,403) |
| | 50,190 |
| TOTAL ASSETS .............................................. | $ 7,622,372 |

(Statement Continues)
See notes to Consolidated Financial Statements



ASPEN EXPLORATION CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

| | March 31, 2005 |
|---|---|
| Current liabilities: | |
| Accounts payable and accrued expenses .......................... | $ 172,659 |
| Accounts payable - related party (Note 2) ...................... | 5,602 |
| Advances from joint interest owners ............................ | 35,051 |
| Notes payable - current (Note 6), net of discount .............. | 37,500 |
| Total current liabilities ...................................... | 250,812 |
| Asset retirement obligation (Note 3) ........................... | 87,582 |
| Deferred income taxes (Note 9) ................................. | 733,430 |
| Total long term liabilities .................................... | 821,012 |
| Total liabilities .............................................. | 1,071,824 |
| Stockholders' equity:<br>(Notes 1 and 5):<br>Common stock, $.005 par value:<br>Authorized: 50,000,000 shares<br>Issued and outstanding: At March 31, 2005,<br>6,719,308 shares and June 30, 2004, 5,958,979 .............. | 33,597 |
| Capital in excess of par value ................................. | 6,687,019 |
| Accumulated deficit ............................................ | (170,068) |
| Deferred compensation and consulting fees ...................... | -0- |
| Total stockholders' equity ..................................... | 6,550,548 |
| Total liabilities and stockholders' equity ..................... | $ 7,622,372 |

See Notes to Consolidated Financial Statements



ASPEN EXPLORATION CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

Three Months Ended
March 31,

| | 2005 | 2004 |
|---|---|---|
| Revenues: | | |
| Oil and gas | $ 1,103,687 | $ 401,941 |
| Management fees | 59,616 | 38,613 |
| Interest and other, net | 443 | (427) |
| Total Revenues | 1,163,746 | 440,127 |
| Costs and expenses: | | |
| Oil and gas production | 107,035 | 85,912 |
| Depreciation, depletion and amortization | 159,895 | 127,575 |
| General and administrative | 192,025 | 146,800 |
| Interest expense | 1,053 | 3,078 |
| Total Costs and Expenses | 460,008 | 363,365 |
| Income before taxes | 703,738 | 76,762 |
| Provision for income taxes | 1,273 | -0- |
| Net income | $ 702,465 | $ 76,762 |
| Basic income per common share | $ .11 | $ .01 |
| Diluted income per common share | $ .11 | $ .01 |
| Basic weighted average number of common shares outstanding | 6,406,510 | 5,863,828 |
| Diluted weighted average number of common shares outstanding | 6,640,818 | 5,951,553 |

The accompanying notes are an integral part of these statements.

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ASPEN EXPLORATION CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | Nine months ende |
|---|---|
| | 2005 |
| Cash flows from operating activities: | |
| Net income | $ 1,386,157 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities: | |
| Depreciation, depletion and amortization | 469,896 |

| | |
|---|---|
| Stock issued for interest expense and consulting fees ......... | 39,091 |
| Deferred income tax provision ................................ | 437,110 |
| Changes in assets and liabilities: | |
| Increase in receivable ....................................... | (87,116) |
| Decrease (increase) in prepaid expenses ...................... | (596) |
| Decrease in accounts payable and accrued expense ............. | (1,411,291) |
| Net cash provided by operating activities .................... | 833,251 |
| Cash flows from investing activities: | |
| Proceeds - sale of oil and gas properties .................... | -0- |
| Additions to oil and gas properties .......................... | (1,229,772) |
| Purchase of producing properties ............................. | (19,248) |
| Purchase of furniture, fixtures & equipment inventory ......... | (21,479) |
| Net cash (used) by investing activities ...................... | (1,270,499) |
| Cash flow from financing activities: | |
| Proceeds from issuance of common stock ....................... | 330,000 |
| Payment of notes payable ..................................... | (112,500) |
| Proceeds of notes payable .................................... | -0- |
| | 217,500 |
| Net decrease in cash and cash equivalents .................... | (219,748) |
| Cash and cash equivalents, beginning of year ................. | 1,329,376 |
| Cash and cash equivalents, end of year ....................... | $ 1,109,628 |
| Other information: | |
| Interest paid ................................................ | $ 5,831 |
| Non-cash investing activities | |
| Asset retirement obligation additions ........................ | $ 8,000 |

The accompanying notes are an integral part of these statements.

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ASPEN EXPLORATION CORPORATION

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2005

Note 1 BASIS OF PRESENTATION

The accompanying financial statements are unaudited. However, in our opinion, the accompanying financial statements reflect all adjustments, consisting of only normal recurring adjustments, necessary for fair presentation. Interim results of operations are not necessarily indicative of results for subsequent interim periods or the remainder of the year. These financial statements should be read in conjunction with our Annual Report on Form 10-KSB for the year ended June 30, 2004.

Except for the historical information contained in this Form 10-QSB, this Form contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed in this Report. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Report and any documents incorporated herein by reference, as well as the Annual Report on Form 10-KSB for the year ended June 30, 2004.

Note 2 RECEIVABLE - RELATED PARTIES, PAYABLE - RELATED PARTIES

The receivable from related parties constitutes amounts due from officers and consultants for joint operating costs of wells operated by us. The transactions are in the normal course of business with the same terms as other joint owners and are repaid in a normal business cycle. The payable from related parties represents unexpended prepayments made by officers and consultants on wells operated by us as well as unpaid business expenses due officers. These transactions are in the normal course of business.

Note 3 ASSET RETIREMENT OBLIGATION

We have adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 generally applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset. SFAS No. 143 requires us to recognize an estimated liability for the plugging and abandonment of our gas wells. We have recognized the future cost to plug and abandon the gas wells over the estimated useful lives of the wells in accordance with SFAS No. 143. A liability for the fair value of an asset retirement obligation with a corresponding increase in the carrying value of the related long-lived asset is recorded at the time a producing well is purchased or a drilled well is completed and ready for production. We will amortize the amount added to the oil and gas properties and recognize accretion expense in connection with the discounted liability over the remaining life of the respective well. The estimated liability is based on historical experience in plugging and abandoning wells, estimated useful lives based on engineering studies, external estimates as to the



Note 3 ASSET RETIREMENT OBLIGATION (CONTINUED)

cost to plug and abandon wells in the future and federal and state regulatory requirements. The liability is a discounted liability using a credit adjusted risk-free rate of 6%. Revisions to the liability could occur due to changes in plugging and abandonment costs, useful well lives or if federal or state regulators enact new regulations on the plugging and abandonment of wells.

A reconciliation of our liability for the nine months ended March 31, 2005 is as follows:

| | |
|---|---|
| Asset retirement obligations as of June 30, 2004 | $79,582 |
| ARO additions | 8,000 |
| Liabilities settled | -0- |
| Accretion expense | -0- * |
| Revision of estimate | -0- |
| Asset retirement obligation as of March 31, 2005 | $87,582 |

* - Accretion not material

Note 4 EARNINGS PER SHARE

We follow SFAS No. 128, addressing earnings per share. SFAS No. 128 established the methodology of calculating basic earnings per share and diluted earnings per share. The calculations differ by adding any instruments convertible to common stock (such as stock options, warrants, and convertible preferred stock) to weighted average shares outstanding when computing diluted earnings per share.

The following is a reconciliation of the numerators and denominators used in the calculations of basic and diluted earnings per share.

| | Nine Months Ended March 31, 2005 | | | |
|---|---|---|---|---|
| | Net Income | Shares | Per Share Amount | Net Income |
| Basic earnings per share: | | | | |
| Net income and share amounts | $ 1,386,157 | 6,406,510 | $ .22 | $ 219, |
| Dilutive securities: stock options | | 292,000 | | |
| Repurchased shares | | (57,692) | | |
| Diluted earnings per share: | | | | |
| Net income and assumed share conversion | $ 1,386,157 | 6,640,818 | $ .21 | $ 219, |

Note 5 STOCKHOLDERS' EQUITY

Common Stock
------------

During 2004, we issued a convertible debenture and detachable warrants to one accredited investor in exchange for the investor's payment to us of $300,000. On July 15, 2004, the debt and accrued interest were automatically converted into shares of our restricted common stock after our shares traded at prices greater than $1.00 per share for ten trading days. We issued 300,500 shares of our restricted common stock in satisfaction of the principal and interest due the investor. The debt net of unamortized discount related to warrants was recorded to equity upon conversion. See Note 6.

The convertible debenture included warrants for up to 600,000 shares of common stock exercisable as follows:

There are two warrants, each for 300,000 shares of common stock. The holder exercised the initial warrant on March 11, 2005 and we received $330,000 ($1.10 per share) and issued 300,000 shares of stock. Because the holder exercised the first warrant before March 31, 2005, we issued an additional warrant to purchase another 300,000 shares at $1.25 per share on March 11, 2005. The additional warrant will expire unless exercised by June 30, 2006.

The initial warrants were valued using the Black-Scholes valuation method at $39,281 and have been recorded as a discount to the debt.

On October 12, 2004 we entered into a six month investor relations consulting agreement with CEOcast, Inc. which provides for a monthly consulting fee and issuance of 28,000 shares of our restricted common stock. We valued the stock at $1.25 per share, or $35,000, and amortized that amount over the six month consulting engagement.

Stock Options
-------------

On August 15, 2004, one officer, a consultant and an employee exercised options for 92,000 shares of our common stock granted March 14, 2002 at an average exercise price of $0.57 per share. As consideration for the options purchased, the individuals surrendered common stock with a fair value equal to the exercise price of the option shares and held longer than six months. The fair value of the shares surrendered was based on a ten-day average bid price immediately prior to the exercise date. Total shares surrendered were 42,359. The effect of the transaction is a net increase to the common stock par value of $248 and a corresponding decrease to additional paid in capital of $248.

On March 19, 2005, one officer and one director exercised options for 100,000 shares of our common stock granted March 14, 2002 at an average exercise price of $0.57 per share. As consideration for the options purchased, the individuals surrendered common stock with a fair value equal to the exercise price of the option shares and held longer than six months. The fair value of the shares surrendered was based on a ten-day average bid price immediately prior to the exercise date. Total shares surrendered were 17,812. The effect of the transaction is a net increase to the common stock par value of $411 and a corresponding decrease to additional paid in capital of $411.

Note 5 STOCKHOLDERS' EQUITY (CONTINUED)

As of March 31, 2005, we had an aggregate of 292,000 common shares reserved for issuance under our stock option plans. These plans provide for the issuance of common shares pursuant to stock option exercises, restricted stock awards and other equity based awards.

The following information summarizes information with respect to options granted under our equity plans:

| | Number of Shares | Weighted Average Exercise Price of Shares Under Plans |
|---|---|---|
| Outstanding balance June 30, 2004 | 484,000 | $ .57 |
| Granted | -0- | -- |
| Exercised | (192,000) | .57 |
| Forfeited or expensed | -0- | -- |
| Outstanding balance March 31, 2005 | 292,000 | $ .57 |

The following table summarizes information concerning outstanding and exercisable options as of March 31, 2005:

| | Outstanding | | | Exercisable | |
|---|---|---|---|---|---|
| Exercise Price | Number Outstanding | Weighted Average Remaining Contractual Life In Years | Weighted Average Exercisable Price | Number Exercisable | Weighted Average Exercise Price |
| $.57 | 142,000 | 08/15/2005(1) | $.57 | 142,000 | $.57 |
| .57 | 150,000 | 08/15/2007(1) | .57 | 150,000 | .57 |
| | 292,000 | | | | |

(1) The term of the option will be the earlier of the contractual life of the options or 90 days after the date the optionee is no longer an employee,

consultant or director of the Company.



Note 5 STOCKHOLDERS' EQUITY (CONTINUED)

We account for the two stock option plans using APB No. 25 for directors and employees and SFAS No. 123 for consultants. There were 676,000 options granted in 2002. Directors and employees were granted 601,000 options and consultants were granted 75,000 options. The consultant options were valued using the fair value method of SFAS No. 123 as calculated by the Black-Scholes option-pricing model. The fair value of each option grant, as opposed to its exercisable price, is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: no dividend yield, expected volatility of 14.9%, credit adjusted risk free interest rates of 8.5% and expected lives of 3.4 to 4.4 years. The resulting compensation expense relating to the consultant option grant was included as an operating expense as the options vested.

Note 6 NOTES PAYABLE

The Company incurred the following debt:

| | March 31, 2005 | June 30, 2004 |
|---|---|---|
| Note payable to a bank | $ 37,500 | $ 150,000 |
| Convertible debenture issued to a privately held corporation | -0- | 300,000 |
| | 37,500 | 450,000 |
| Less discount | -- | (39,281) |
| | $ 37,500 | $ 410,719 |

Proceeds from the note payable to a bank were used for the acquisition of producing gas properties located in several counties in the Sacramento Valley, California. The note matures in June 2005, principal payments are $12,500 per month plus interest at the bank's prime rate plus 2%. The rate was 7.75% at March 31, 2005. The loan is collateralized by accounts receivable, other rights to payments and all inventory.

On June 28, 2004, we issued the convertible debenture to the accredited investor in exchange for the investor's payment to us of $300,000. The convertible debenture with a principal amount of $300,000, paid interest at 4% per annum and included warrants convertible into 300,000 shares of common stock. On July 15, 2004 the debenture was automatically converted into shares of our restricted common stock after our shares traded at prices greater than $1.00 per share for ten trading days. We issued 300,500 shares of our restricted common stock in satisfaction of the principal and interest due the investor. See Note 5.

Note 7 SEGMENT INFORMATION

We operate in one industry segment within the United States, oil and gas exploration.

Identified assets by industry are those assets that are used in our operations in that industry. Corporate assets are principally cash, furniture, fixtures and vehicles.

We have adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 requires the presentation of descriptive information about reportable segments which is consistent with that made available to the management of the Company to assess performance.

Our oil and gas segment derives its revenues from the sale of oil and gas and prospect generation and administrative overhead fees charged to participants in our oil and gas ventures. Corporate income is primarily derived from interest income on funds held in money market accounts.

During the nine months ended March 31, 2005 and 2004, there were no intersegment revenues. The accounting policies applied by each segment are the same as those used by us in general.

There have been no differences from the last annual report in the basis of measuring segment profit or loss. There have been no material changes in the amount of assets for any operating segment since the last annual report except for the oil and gas segment which capitalized approximately $1,263,139 for the development and acquisition of oil and gas properties and $7,360 in the corporate segment for the purchase of office equipment and computers.

Segment information consists of the following for the nine months ended March 31:

| | | Oil and Gas | Corporate | Consolidated |
|---|---|---|---|---|
| Revenues: | | | | |
| | 2005 | $ 3,135,040 | $ 3,338 | $3,138,378 |
| | 2004 | 1,257,443 | 4,338 | 1,261,781 |
| Income (loss) from operations: | | | | |
| | 2005 | $ 2,407,699 | $ (584,432) | $1,823,267 |
| | 2004 | 693,444 | (473,463) | 219,981 |
| Identifiable assets: | | | | |
| | 2005 | $ 6,188,211 | $ 1,434,161 | $7,622,372 |
| | 2004 | 4,723,147 | 790,705 | 5,513,852 |
| Depreciation, depletion and valuation charged to identifiable assets: | | | | |
| | 2005 | $(456,450) | $ (13,446) | $ (469,896) |

| | | | |
|---|---|---|---|
| 2004 | (371,749) | (13,775) | (385,524) |
| Capital expenditures: | | | |
| 2005 | $ 1,263,139 | $ 7,360 | $1,270,499 |
| 2004 | 1,033,040 | -0- | 1,033,040 |



Note 7 SEGMENT INFORMATION (CONTINUED)

Segment information consists of the following for the three months ended March 31:

| | Oil and Gas | Corporate | Consolidated |
|---|---|---|---|
| Revenues: | | | |
| 2005 | $ 1,163,303 | $ 443 | $1,163,746 |
| 2004 | 440,554 | (427) | 440,127 |
| Income (loss) from operations: | | | |
| 2005 | $ 900,855 | $ (197,117) | $ 703,738 |
| 2004 | 231,659 | (154,897) | 76,762 |

Note 8 MAJOR CUSTOMERS

We derived in excess of 10% of our revenue from various sources (oil and gas sales) as follows:

| | The Company | | |
|---|---|---|---|
| | A | B | C |
| Quarter ended: | | | |
| March 31, 2005 | 36% | 51% | * |
| March 31, 2004 | 23% | 51% | 14% |

* Less than 10% in 2005.

Note 9 INCOME TAXES

We have recorded net deferred income tax liability of $733,430 as of March 31, 2005. During the nine months ended March 31, 2005, we used approximately $1,229,100 in net operating loss carryforwards leaving approximately $774,700 in available federal net operating loss carryforwards as of March 31, 2005 (net operating losses expire beginning June 30, 2011 through the year ending June 30, 2023). For the three months ended March 31, 2005, we have recorded no income tax provision for federal or state income taxes due to the application of net operating loss carryforwards. We have recorded a deferred tax provision of $1,273. The deferred tax provision is nominal due to minimal additions to the oil and gas assets during the quarter resulting in minimal increase in net deferred tax liability.

The deferred tax consequences of temporary differences in reporting items for financial statement and income tax purposes are recognized, if appropriate. Realization of future tax benefits related to the deferred tax assets is dependent on many factors, including our ability to generate taxable income within the net operating loss carryforward period. We have considered these factors in reaching our conclusion as to the valuation allowance for financial reporting purposes. Primarily, our proved oil and gas reserves substantially exceed our expected future costs and hence, we believe it more likely than not that the benefit will be realized.

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Note 9 INCOME TAXES (CONTINUED)

At March 31, the income tax effect of temporary differences comprising the deferred tax assets and deferred tax liabilities on the accompanying balance sheet is the result of the following:

| | 2005 |
|---|---|
| Deferred tax assets: | |
| Federal tax loss carryforwards | $ 294,700 |
| Asset retirement obligation | 35,191 |
| | 329,891 |
| Deferred tax (liabilities): | |
| Property, plant and equipment | (1,362) |
| Oil and gas properties | (1,061,959) |
| | (1,063,321) |
| | $ (733,430) |

A reconciliation between the statutory federal income tax rate (34%) and the effective rate of income tax expense for the nine months ended March 31 is as follows:

| | 2005 | 2004 |
|---|---|---|
| Statutory federal income tax rate | 34% | 34% |
| Statutory state income tax rate, net of federal benefit | 9% | 9% |
| Other | (4)% | -0- |
| Net operating loss | (39)% | (43)% |
| Change in deferred tax liability | 23% | -0- |
| Effective rate | 23% | -0-% |

The provision for income taxes consists of the following components:

| | 2005 | 2004 |
|---|---|---|
| Current tax expense, state | $ -0- | $ -0- |
| Deferred tax expense | 437,110 | -0- |
| Total income tax provision | $ 437,110 | $ -0- |

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Note 10 DRILLING COMMITMENTS AND CONTINGENCIES

We have a proposed drilling budget for the period March through December 2005. The budget includes drilling ten wells in the Sacramento gas province of northern California, although the actual number of wells drilled will be based on permit, pipeline, and rig availability considerations. Our share of the estimated costs to complete this program is set forth in the following table:

| Area | Wells | Drilling Costs | Completion & Equipping Costs | Total |
|---|---|---|---|---|
| West Grimes Field Colusa County, CA | 4 | $415,000 | $312,000 | $727,000 |
| Malton Black Butte Field, Tehama County, CA | 2 | 115,000 | 122,000 | 237,000 |
| Colusa County, CA | 3 | 256,000 | 292,000 | 548,000 |
| Yolo County, CA | 1 | 17,500 | 43,000 | 60,500 |
| Total Expenditure | 10 | $803,500 | $769,000 | $1,572,500 |

NOTE 11 NEW ACCOUNTING PRONOUNCEMENTS

FASB 151 - Inventory Costs

In November 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 151, which revised ARB No.43, relating to inventory costs. This revision is to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). This Statement requires that these items be recognized as a current period charge regardless of whether they meet the criterion specified in ARB 43. In addition, this Statement requires the allocation of fixed production overheads to the costs of conversion be based on normal capacity of the production facilities. This Statement is effective for financial statements for fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after the date of this Statement is issued. We believe this Statement will have no impact on our financial statements once adopted.

FASB 152 - Accounting for Real Estate Time-Sharing Transactions

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



NOTE 11 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

FASB 153 - Exchanges of Nonmonetary Assets

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

FASB 123R (revised 2004) - Share-Based Payments

In December 2004, the FASB issued a revision to SFAS No. 123, Accounting for Stock Based Compensation. This Statement supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. This Statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This Statement does not change the accounting guidance for share-based payment transactions with parties other than employees provided in SFAS No. 123 as originally issued and EITF Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." This Statement does not address the accounting for employee share ownership plans, which are subject to AICPA Statement of Position

93-6, Employers' Accounting for Employee Stock Ownership Plans.

A public entity will initially measure the cost of employee services received in exchange for an award of liability instruments based on its current fair value; the fair value of that award will be re-measured subsequently at each reporting date through the settlement date. Changes in fair value during the requisite service period will be recognized as compensation cost over that period. A nonpublic entity may elect to measure its liability awards at their intrinsic value through the date of settlement.

The grant-date fair value of employee share options and similar instruments will be estimated using the option-pricing models adjusted for the unique characteristics of those instruments (unless observable market prices for the same or similar instruments are available).



NOTE 11 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Excess tax benefits, as defined by this Statement, will be recognized as an addition to paid-in-capital. Cash retained as a result of those excess tax benefits will be presented in the statement of cash flows as financing cash inflows. The write-off of deferred tax assets relating to unrealized tax benefits associated with recognized compensation cost will be recognized as income tax expense unless there are excess tax benefits from previous awards remaining in paid-in capital to which it can be offset.

The notes to the financial statements of both public and nonpublic entities will disclose information to assist users of financial information to understand the nature of share-based payment transactions and the effects of those transactions on the financial statements.

The effective date of this Statement for us is the first annual reporting period beginning July 1, 2006. We intend to comply with this Statement at the scheduled effective date for our relevant financial statements and believe the adoption of the Statement may have a material impact on our financial statements.

NOTE 12 SUBSEQUENT EVENTS

On April 12, 2005, the board of directors approved the issuance of 14,000 shares of restricted common stock to CEOcast, Inc. as partial consideration for consulting services to be provided over a six month term being performed pursuant to a consulting agreement dated April 12, 2005.

On April 22, 2005, the Board of Directors approved the following stock options:

| | |
|---|---|
| Officers and Directors as a group | 210,000 |
| Employee | 25,000 |
| Consultant | 25,000 |
| Total options granted | 260,000 |

========

The exercise price of these options is $2.67 per share and the options vest and may be exercised 1/3 each on January 1, 2006, 2007 and 2008. All of the options expire on January 1, 2010.

On October 18, 2004, we entered into an agreement with UR-Energy Inc., a privately held Canadian corporation, which stipulated, among other things, that Aspen would exchange 2,000,000 shares it currently holds in ISL Resources Corporation for 2,000,000 shares of UR-Energy Inc. restricted common shares. We also received warrants for an additional 1,000,000 shares of UR-Energy Inc. exercisable at $.75 Cdn per share.

The exchange of stock in ISL Resources Corporation stock in UR-Energy Inc. had no immediate financial impact on Aspen since Aspen had carried the ISL Resources Corporation shares at a zero basis on our books and no gain or loss was recognized on the exchange.

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NOTE 12 SUBSEQUENT EVENTS (CONTINUED)

On April 25, 2005, we entered into a transaction with UR-Energy Inc. exchanging the 2,000,000 shares of their common stock and the warrants referenced above for $560,000 (U.S.) and 500,000 shares of newly issued UR-Energy Inc. common stock. The funds received increased our working capital and will be used to cover a substantial portion of our fiscal 2005 drilling program. Financial and tax consequences of this transaction will be recognized during our fourth quarter.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This segment should be read in conjunction with the management's discussion and analysis of financial condition and results of operations contained in our Annual Report on Form 10-KSB for the year ended June 30, 2004, which has been filed with the Securities and Exchange Commission. The management discussion and analysis and other portions of this report contain forward-looking statements (as such term is defined in Section 21E of the Securities Exchange Act of 1934, as amended). These statements reflect our current expectations regarding our possible future results of operations, performance, and achievements. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

Wherever possible, we have tried to identify these forward-looking statements by using words such as "anticipate," "believe," "estimate," "expect," "plan," "intend," and similar expressions. These statements reflect our current beliefs and are based on information currently available to us. Accordingly, these statements are subject to certain risks, uncertainties, and contingencies, which could cause our actual results, performance, or achievements to differ materially from those expressed in, or implied by, such statements. These risks, uncertainties and contingencies include, without limitation, the factors set forth in our Form 10-KSB under "Item 6. Management's Discussion and Analysis of Financial Conditions or Plan of Operation - Factors that may affect future operating results." We have no obligation to update or revise any such forward-looking statements that may be made to reflect events or circumstances after the date of this Form 10-QSB.

## Overview

Aspen Exploration Corporation was organized in 1980 for the purpose of acquiring, exploring and developing oil and gas and other mineral properties. Since 1996, we have focused our efforts on the exploration, development and operation of natural gas properties in the Sacramento Valley of northern California. We are currently the operator of 47 gas wells and have a non-operated interest in 15 additional gas wells.

We currently have offices in Bakersfield, California and Denver, Colorado and have 2 full time employees as well as the Chairman of the Board who allocates a portion of his time to the Company. We also make extensive use of consultants for the conduct of our business, ranging from financial, engineering, land, legal, and geological and geophysical specialists.

We will typically review 20 to 25 prospects for every well we participate in, using 3-D seismic and well control geology to evaluate each prospect. Our goal is to identify low to moderate risk wells with good gas reserve potential.

Where possible, we attempt to be the operator of each property we invest in. Our knowledge of drilling and operating wells in the Sacramento Valley allows us to maximize the potential return of each property. Administrative charges to the properties help cover approximately 35% of our selling, general and administrative expenses.

## Outlook and Trends

We expect our natural gas production (in volume of gas produced) to increase substantially during fiscal 2005 due to recent drilling successes. Total production for the year will depend on the number of wells successfully



completed, the date they are put on line, their initial rate of production, and their production decline rates. We also anticipate that the average price for our product will be in the range of $6.00 to $6.50 per MMBTU for the fiscal year ended June 30, 2005 as compared to an average price of $4.96 per MMBTU during the fiscal year ended June 30, 2004. Based upon the increasing production levels and continued strong gas prices, which currently exceed $6.00 per MCF, Aspen expects continued strong earnings for the balance of the year.

Over the past five years we have been able to replace our produced reserves and increase our yearly natural gas production. We have also benefited from a general increase in natural gas prices over the past two years, from a low of $2.78 per MMBTU average during the first quarter of fiscal 2003 to $6.12 per MMBTU for the nine months ended March 31, 2005.

## Non-Cash Transactions

On October 18, 2004, we entered into an agreement with UR-Energy Inc., a privately held Canadian corporation, which stipulated, among other things, that Aspen would exchange 2,000,000 shares it currently holds in ISL Resources Corporation for 2,000,000 shares of UR-Energy Inc. restricted common shares. We also received warrants for an additional 1,000,000 shares of UR-Energy Inc. exercisable at $.75 Cdn per share.

The exchange of stock in ISL Resources Corporation stock in UR-Energy Inc. had no immediate financial impact on Aspen since Aspen had carried the ISL Resources Corporation shares at a zero basis on our books and no gain or loss was recognized on the exchange.

On April 25, 2005, we entered into a transaction with UR-Energy Inc. exchanging the 2,000,000 shares of their common stock and the warrants referenced above for $560,000 (U.S.) and 500,000 shares of newly issued UR-Energy Inc. common stock. The funds received increased our working capital and will be used to cover a substantial portion of our fiscal 2005 drilling program. Financial and tax consequences of this transaction will be recognized during our fourth quarter.

## Quantitative and Qualitative Disclosure About Risk

Our ability to replace reserves, dissipated through production or recalculation, will depend largely on how successful our drilling and acquisition efforts will be in the future. While we cannot predict the future, our historic success ratio over the past four years has been 87%. With the use of 3-D seismic and well control data, interpreted by our geological and geophysical consultants, we feel we can manage our dry hole risk as well as anyone in the industry.

Commodity prices are impacted by many factors that are outside of our control. Historically, commodity prices have been volatile and we expect them to remain volatile. Commodity prices are affected by changes in market demands, overall economic activity, weather, pipeline capacity constraints, inventory storage levels, basis differentials and other factors. As a result, we cannot accurately predict future natural gas and NGL (natural gas liquids) prices, and therefore, we cannot determine what effect increases or decreases in production volumes will have on future revenues.

On regulatory and operational matters, we actively manage our exploration and production activities. We value sound stewardship and strong relationships with all stakeholders in conducting our business. We attempt to stay abreast of emerging issues to effectively anticipate and manage potential impacts to our operations.



To manage commercial risk, we may use financial tools to hedge the price we will receive for our product. The primary purpose of hedging is to provide adequate return on our investments, grow our reserves while leaving as much commodity price upside as possible. During the period April 1, 2005 through September 30, 2005, we are contractually obligated to deliver 3,500 MMBTU per day to two of our natural gas purchasers as follows:

2,000 MMBTU/Day @ $6.49 per MMBTU
1,500 MMBTU/Day @ $6.90 per MMBTU

The average price received during the first nine months of fiscal 2005 for our natural gas was approximately $6.12 per MMBTU as compared to $4.88 per MMBTU during the first nine months of fiscal 2004.

During December 2003, we borrowed $225,000 from a bank for an acquisition. We currently pay 2% over the bank's prime rate for that facility. At March 31, 2005, the effective interest rate was 7.75% and the outstanding loan balance was $37,500. In June 2004, we borrowed $300,000 from an Oklahoma corporation to facilitate the drilling and completion of several wells in northern California. This debt was converted to our common stock on July 15, 2004.

## Liquidity and Capital Resources

We have historically financed our operations with internally generated funds and limited borrowings from banks and third parties, and farmout arrangements, which permit third parties (including some related parties) to participate in our drilling prospects. Our principal uses of cash are for operating expenses, the acquisition, drilling and production of prospects, the acquisition of producing properties, working capital, servicing debt and the payment of income taxes.

For the nine months ended March 31, 2005, the increase in cash flow from operations of $833,251, or 78%, was due primarily to:

An increase in net income of approximately $1,166,176 ($1,386,157 in 2005 as compared to $219,981 in 2004); and

A $1,411,291 decrease in accounts payable and accrued expenses in 2005 (which used cash during the 2005 period) compared to a decrease in accounts payable and accrued expenses in 2004 of $111,494; and

The increase in net income and decrease in payable were further reduced by an increase in receivables of $87,116 in 2005 (which used cash) compared to an increase in receivables of $38,445 during 2004.

Investing activities used cash to increase capitalized oil and gas costs and furniture and equipment of $1,270,499 and $1,033,040 in the nine months ended March 31, 2005 and 2004. Cash in the current nine month period ended March 31, 2005 was used for lease acquisition, seismic work, intangible drilling and well recompletions ($862,769), and the purchase of oil and gas well equipment ($400,370) and office equipment of ($7,360). These expenditures are net of the sale of interests in wells to be drilled charged to third party investors.

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We have a proposed drilling budget for the period March through December 2005. The budget includes drilling ten wells in the Sacramento gas province of northern California, although the actual number of wells drilled will be based on permit, pipeline, and rig availability considerations. Our share of the estimated costs to complete this program is set forth in the following table:

| Area | Wells | Drilling Costs | Completion & Equipping Costs | Total |
|---|---|---|---|---|
| West Grimes Field<br>Colusa County, CA | 4 | $415,000 | $312,000 | $727,000 |
| Malton Black Butte | 2 | 115,000 | 122,000 | 237,000 |

| | | | | |
|---|---|---|---|---|
| Field, | | | | |
| Tehama County, CA | | | | |
| Colusa County, CA | 3 | 256,000 | 292,000 | 548,000 |
| Yolo County, CA | 1 | 17,500 | 43,000 | 60,500 |
| Total Expenditure | 10 | $803,500 | $769,000 | $1,572,500 |

Our working capital (current assets less current liabilities) at March 31, 2005, was $1,551,388, which reflects an approximate $1,652,474 increase from our working capital deficit at June 30, 2004. Our working capital situation improved during the first nine months of our 2005 fiscal year because of our positive cash flow from operations and our ability to pay down our current liabilities, both made possible by our increase in net revenues and in net income recognized during the period. We anticipate that our working capital and anticipated cash flow from operations and future successful drilling will be sufficient to pay our current liabilities as long as our gas production continues to provide us with sufficient cash flow. As discussed below, this is dependent, in part, on maintaining or increasing our level of production and the national and world market maintaining its current prices for our gas production.

Our capital requirements can fluctuate over a twelve month period because our drilling program is usually carried out in California's dry season, from late April until November, after which wet weather either precludes further activity or makes it cost prohibitive.

We believe that internally generated funds will be sufficient to finance our drilling and operating expenses for the next twelve months. In June 2004, we borrowed $300,000 from an Oklahoma corporation to facilitate the drilling and completion of several wells in northern California. This debt and accrued interest were converted into 300,500 shares of our common stock at $1.00 per share on July 15, 2004. If our drilling efforts are successful, the anticipated increased cash flow from the new gas discoveries, in addition to our existing cash flow, should be sufficient to fund our share of planned future completion and pipeline costs.



## Results of Operations

### March 31, 2005 Compared to March 31, 2004

For the nine months ended March 31, 2005, our operations continued to be focused on the production of oil and gas, and the investigation for possible acquisition of producing oil and gas properties in California. During the nine months ended March 31, 2005, our revenues increased by approximately $1,877,000 as compared to the comparable period of our 2004 fiscal year because of:

Increased production (476,500 MMBTU sold as compared to 226,700 MMBTU sold during the first nine months of our 2004 fiscal year);

Increased price received for our production (an average of $6.12 per MMBTU during the first nine months of our 2005 fiscal year as compared to $4.88 per MMBTU received during that period in 2004); and

Increased management fees received ($201,441 during fiscal 2005 as compared to $150,634 during fiscal 2004) because we were operators of more wells during 2005 (47 wells compared to 33 wells in 2004).

For the three months ended March 31, 2005, our revenues increased by approximately $702,000 as compared to the comparable period of 2004 because of:

Increased production (169,150 MMBTU sold as compared to 71,900 during the three months ended March 31, 2004);

Increased price received for our production (an average of $6.52 per MMBTU during the three months ended March 31, 2005 compared to $5.28 per MMBTU received for the three months ended March 31, 2004); and

Oil and gas production costs increased $82,590, or 44%, for the nine months ended March 31, 2005 and increased $21,123, or 25%, for the three months ended March 31, 2005. The increase in operating costs can be attributed to the addition of 8 net wells, from 54 wells to 62 wells and our percentage working interests in these wells were somewhat higher than the average of wells owned at March 31, 2004. An operator of two of the wells we participated in provided us with a summary billing from inception to the current year which accounted for approximately 12% of the year to date increase. Equipment rental and water disposal fees increased due to the addition of compressors and increased water production in our more mature wells.

Depletion and depreciation expense increased $84,372 and $32,320 for the nine and three months ended March 31, 2005. These increases of 22% and 25%, respectively, were the result of using the approximate same depletion rate as fiscal 2004, but applying it to a larger full cost pool which resulted in the higher total depletion taken.

Management fees of $59,600, which is an increase of $21,000, or 54%, in management fees, received during the three month period ended March 31, 2005 compared to management fees of $38,600 received in the prior three month period. Management fees increased because our current year drilling program was completed prior to the end of the second quarter. When the second and third quarters of fiscal 2005 and 2004 are compared, management fees increased $14,700, or 14%, from $104,700 to $119,400 and reflects timing differences in the second and third quarters of 2004.



The following table sets forth certain items from our Condensed Consolidated Statements of Operations as expressed as a percentage of total revenues, shown for the nine months of fiscal 2005, 2004 and 2003:

| | For the Nine Months Ended | | |
|---|---|---|---|
| | 3/31/2005 | 3/31/2004 | 3/31/2003 |
| Total revenues | 100.0% | 100.0% | 100.0% |
| Oil & gas production costs | 8.6 | 15.0 | 16.0 |

| | | | |
|---|---|---|---|
| Income from operations | 91.4 | 85.0 | 84.0 |
| Costs and expenses | | | |
| Depreciation and depletion | 15.0 | 30.7 | 33.1 |
| Selling, general and administrative | 18.1 | 36.9 | 54.3 |
| Interest expense | - | - | - |
| Total costs and expenses | 33.1 | 67.6 | 87.4 |
| Income before income taxes | 58.3 | 17.4 | (3.4) |
| Provision for income taxes | 13.9 | - | - |
| Net income (loss) | 44.4 | 17.4 | (3.4) |

To facilitate discussion of our operating results for the nine months ended March 31, 2005 and 2004, we have included the following selected data from our Condensed Consolidated Statements of Operations:

| | Comparison of the Fiscal Nine Months Ended March 31, | | Increase (De |
|---|---|---|---|
| | 2005 | 2004 | Amount |
| Revenues: | | | |
| Oil and gas sales | $ 2,933,599 | $ 1,106,809 | $ 1,826,790 |
| Management fees | 201,441 | 150,634 | 50,807 |
| Interest and other | 3,338 | 4,338 | (1,000) |
| Total revenues | 3,138,378 | 1,261,781 | 1,876,597 |
| Cost and expenses: | | | |
| Oil and gas production | 270,891 | 188,301 | 82,590 |
| Depreciation and depletion | 469,896 | 385,524 | 84,372 |
| General and administrative | 568,493 | 464,026 | 104,467 |
| Interest expense | 5,831 | 3,949 | 1,882 |
| Total costs and expenses | 1,315,111 | 1,041,800 | 273,311 |
| Income before taxes | 1,823,267 | 219,981 | 1,603,286 |
| Provision for income taxes | 437,110 | -- | 437,110 |
| Net income | $ 1,386,157 | $ 219,981 | $ 1,166,176 |



Central to the issue of success of the nine months operations ended March 31, 2005 is the discussion of changes in oil and gas sales, volumes of natural gas sold and the price received for those sales. We present them here in tabular form:

| Oil & Gas | MMBTU | (1) |
|---|---|---|

| | Sales | Sold | Price/MMBTU |
|---|---|---|---|
| 2005 | | | |
| 1st Quarter | $697,553 | 130,000 | $5.31 |
| 2nd Quarter | 1,132,359 | 177,350 | 6.37 |
| 3rd Quarter | 1,103,687 | 169,150 | 6.52 |
| Year to date | 2,933,599 | 476,500 | 6.16 |
| 2004 | | | |
| 1st Quarter | 341,926 | 72,600 | 4.75 |
| 2nd Quarter | 362,942 | 79,900 | 4.64 |
| 3rd Quarter | 401,941 | 71,900 | 5.28 |
| Year to date | 1,106,809 | 224,400 | 4.88 |
| 2003 | | | |
| 1st Quarter | 198,431 | 65,800 | 2.78 |
| 2nd Quarter | 241,700 | 63,700 | 3.76 |
| 3rd Quarter | 314,222 | 57,900 | 5.47 |
| Year to date | 754,353 | 187,400 | 3.23 |
| Third Quarter change | | | |
| 2005 | | | |
| Amount | $701,746 | 97,250 | $1.24 |
| Percentage | 175% | 135% | 23% |
| 2004 | | | |
| Amount | $87,719 | 14,000 | $(.19) |
| Percentage | 28% | 24% | (3%) |

(1) Price per MMBTU may not agree with oil and gas sales because of the inclusion of oil and NGL sales.

Oil and gas revenue, volumes sold and price received for our product have shown a steady improvement over the first nine months of fiscal 2005 and the twelve months of fiscal 2004. As the table above notes, revenue has increased approximately 175% when comparing the two three month periods ended March 31, 2005 and 2004. Volumes sold increased approximately 135%, while the price received for our product increased 23%.

Total revenue increased $1,876,600, or 149% when comparing the two periods, while operating and production costs increased $82,600, or 44%.

A significant ratio presented is the percentage of management fees charged to operated wells versus our general and administrative costs. This coverage of general and administrative costs improved from approximately 32% for the nine months ended March 31, 2004 to approximately 35% at March 31, 2005.

When comparing general and administrative expense for 2005 and 2004, costs increased by $104,500, or 23% due to increased audit and accounting fees, officers salaries and the initiation of an investor relations service.

Results of operations and net income are presented in the following table:

Quarterly Financial Information (unaudited)

| | Total Revenues | (1) Operating Income | (2) Net Income (loss) |
|---|---|---|---|
| **2005** | | | |
| 1st Quarter | $784,299 | $715,249 | $389,781 |
| 2nd Quarter | 1,190,333 | 1,092,632 | 729,748 |
| 3rd Quarter | 1,163,746 | 1,056,268 | 703,738 |
| Total | 3,138,378 | 2,864,149 | 1,823,267 |
| **2004** | | | |
| 1st Quarter | 388,337 | 348,739 | 50,197 |
| 2nd Quarter | 433,317 | 365,761 | 93,022 |
| 3rd Quarter | 440,127 | 354,642 | 76,762 |
| Total | 1,261,781 | 1,069,142 | 219,981 |
| **2003** | | | |
| 1st Quarter | 264,896 | 223,246 | (41,650) |
| 2nd Quarter | 279,080 | 237,155 | (15,660) |
| 3rd Quarter | 337,476 | 271,845 | 28,748 |
| Total | $ 881,452 | $ 732,246 | $ (28,562) |

(1) Operating income is oil and gas sales plus management fees less direct operating costs.

(2) Before provision for deferred income taxes.

As can be seen in the table, revenues and operating income have improved in every quarter when comparing the nine month periods ended March 31, 2005 and 2004. We believe this is due to the steady increase in production volumes sold in each subsequent quarter and the fact that we have enjoyed an appreciating price received for our product. Operating income has increased because production costs have increased at a lesser rate than production and prices.

Contractual Obligations:

We had four contractual obligations as of March 31, 2005. The following table lists our significant liabilities at March 31, 2005:

| | Payments Due By Period | | | |
|---|---|---|---|---|
| Contractual Obligations | Less than 1 year | 2-3 years | 4-5 years | After 5 years |
| Employment Obligations | $214,714 | $500,678 | $261,020 | $- |
| Bank Loans | 37,500 | -0- | -0- | - |
| Operating Leases | 8,470 | -0- | -0- | - |
| Total contractual cash obligations | $260,684 | $500,678 | $261,020 | $- |

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In addition to the contractual obligations disclosed in the preceding table, we also have made certain commitments for drilling pursuant to a budget described in Note 10 to the financial statements for the nine months ended March 31, 2005. Based on that budget, we also expect to expend $733,500 in drilling ten wells through December 2005, and up to an additional $772,000 if all ten wells are completed and equipped for production.

We maintain office space in Denver, Colorado, our principal office, and Bakersfield, California. The Denver office consists of approximately 1,108 square feet with an additional 750 square feet of basement storage. We entered into a one-year lease agreement on the Denver office through December 31, 2004 at a lease rate of $1,261 per month. We are currently leasing this space on a month to month basis. The Bakersfield, California office has 546 square feet and a monthly rental fee of $730 to $770 over the term of the lease. The three year lease expires February 8, 2006. Rent expense for the nine months ended March 31, 2005 and 2004 was $18,921 and $18,337, respectively.

We have sufficient working capital to meet all of these commitments and obligations.

## Critical Accounting Policies and Estimates:

We believe the following critical accounting policies affect our most significant judgments and estimates used in the preparation of our Condensed Consolidated Financial Statements.

### Reserve Estimates:

Our estimates of oil and natural gas reserves, by necessity, are projections based on geologic and engineering data, and there are uncertainties inherent in the interpretation of such data as well as the projection of future rates of production and the timing of development expenditures. Reserve engineering is a subjective process of estimating underground accumulations of oil and natural gas that are difficult to measure. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation and judgment. Estimates of economically recoverable oil and natural gas reserves and future net cash flows necessarily depend upon a number of variable factors and assumptions, such as historical production from the area compared with production from other producing areas, the assumed effects of regulations by governmental agencies and assumptions governing future oil and natural gas prices, future operating costs, severance and excise taxes, development costs and workover and remedial costs, all of which may in fact vary considerably from actual results. For these reasons, estimates of the economically recoverable quantities of oil and natural gas attributable to any particular group of properties, classifications of such reserves based on risk of recovery, and estimates of the future net cash flows expected therefrom may vary substantially. Any significant variance in the assumptions could materially affect the estimated quantity and value of the reserves, which could affect the carrying value of our oil and gas properties and/or the rate of depletion of the oil and gas properties. Actual production, revenues and expenditures with respect to our reserves will likely vary from estimates, and such variances may be material.

Many factors will affect actual future net cash flows, including:

- The amount and timing of actual production;
- Supply and demand for natural gas;
- Curtailments or increases in consumption by natural gas purchasers; and
- Changes in governmental regulations or taxation.



Accounts Receivable:
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Accounts receivable balances are evaluated on a continual basis and allowances are provided for potentially uncollectable accounts based on management's estimate of the collectability of customer accounts. If the financial condition of a customer were to deteriorate, resulting in an impairment of its ability to make payments, an additional allowance may be required. Allowance adjustments are charged to operations in the period in which the facts that give rise to the adjustments become known.

Property, Equipment, Depreciation and Depletion:
------------------------------------------------

We follow the full-cost method of accounting for oil and gas properties. Under this method, all productive and nonproductive costs incurred in connection with the exploration for and development of oil and gas reserves are capitalized. Such capitalized costs include lease acquisition, geological and geophysical work, delay rentals, drilling, completing and equipping oil and gas wells, including salaries, benefits and other internal salary related costs directly attributable to these activities. Costs associated with production and general corporate activities are expensed in the period incurred. Interest costs related to unproved properties and properties under development are also capitalized to oil and gas properties. If the net investment in oil and gas properties exceeds an amount equal to the sum of (1) the standardized measure of discounted future net cash flows from proved reserves, and (2) the lower of cost or fair market value of properties in process of development and unexplored acreage, the excess is charged to expense as additional depletion. Normal dispositions of oil and gas properties are accounted for as adjustments of capitalized costs, with no gain or loss recognized.

We apply SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Under SFAS No. 144, long-lived assets and certain intangibles are reported at the lower of the carrying amount or their estimated recoverable amounts. Long-lived assets subject to the requirements of SFAS No. 144 are evaluated for possible impairment through review of undiscounted expected future cash flows. If the sum of undiscounted expected future cash flows is less than the carrying amount of the asset or if changes in facts and circumstances indicate, an impairment loss is recognized.

Asset retirement obligations:
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We recognize the future cost to plug and abandon gas wells over the estimated useful life of the wells in accordance with the provision of SFAS No. 143. SFAS No. 143 requires that we record a liability for the present value of the asset retirement obligation with a corresponding increase to the carrying value of the related long-lived asset. We amortize the amount added to the oil and gas properties and recognize accretion expense in connection with the discounted liability over the remaining lives of the respective gas wells. Our liability estimate is based on our historical experience in plugging and abandoning gas wells, estimated well lives based on engineering studies, external estimates as to the cost to plug and abandon wells in the future and federal and state regulatory requirements. The liability is discounted using a credit-adjusted risk-free rate of 6%. Revisions to the liability could occur due to changes in well lives, or if federal and state regulators enact new requirements on the plugging and abandonment of gas wells.



Item 3. CONTROLS AND PROCEDURES

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of the filing date of this report, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of our principal executive officer (who is also our principal financial officer), who concluded that our disclosure controls and procedures are effective. There have been no significant changes in our internal controls or in other factors, which could significantly affect internal controls subsequent to the date we carried out our evaluation.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

PART II

Item 1. Legal Proceedings.
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There are no material pending legal or regulatory proceedings against Aspen Exploration Corporation, and it is not aware of any that are known to be contemplated.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.
------------------------------------------------------------

During 2004, we issued a convertible debenture and detachable warrants to one accredited investor in exchange for the investor's loan to us of $300,000. On July 15, 2004, the debt was converted to 300,500 shares of restricted common stock as consideration for payment of principal and interest.

The convertible debenture included warrants for up to 600,000 shares of common stock exercisable as follows:

There were two warrants, each for 300,000 shares of common stock. The holder exercised the initial warrant on March 11, 2005 and we received $330,000 ($1.10 per share) and issued 300,000 shares of stock. Because the holder exercised the first warrant before March 31, 2005, we issued an additional warrant exercisable to purchase another 300,000 shares at $1.25 per share. The warrant will expire unless exercised by June 30, 2006.

The initial warrants were valued using the Black-Scholes valuation method at $39,281 and have been recorded as a discount to the debt.

On July 15, 2004, the debenture was automatically converted into shares of our restricted common stock after our shares traded at prices greater than $1.00 per share for ten trading days. We issued 300,500 shares of our restricted common stock in satisfaction of the principal and interest due the investor.



The following sets forth the information required by Item 701 in connection with that transaction:

(a) The conversion was completed effective July 15, 2004.

(b) There was no placement agent or underwriter for the transaction or the original transaction that took place in fiscal year 2004.

(c) The shares were not sold for cash. The shares of common stock were issued in exchange for (and in conversion of) outstanding convertible debt.

(d) We relied on the exemption from registration provided by Sections 3(a)(9) under the Securities Act of 1933 for the conversion transaction, and upon the exemptions from registration provided by Sections 4(2), 4(6), and Regulation D for the issuance of the initial debt. In addition, we did not engage in any public advertising or general solicitation in connection with this transaction; and we provided the accredited investor with disclosure of all aspects of our business, including providing the accredited investor with our reports filed with the Securities and Exchange Commission, our press releases, access to our auditors, and other financial, business, and corporate information. Based on our investigation, we believe that the accredited investor obtained all information regarding Aspen Exploration it requested, received answers to all questions it posed, and otherwise understood the risks of accepting our securities for investment purposes.

(e) The common stock issued in this transaction are not convertible or exchangeable. Warrants were issued in this transaction as described above. There are no registration rights associated with the issuance of the common stock or the warrants.

(f) We received no cash proceeds from the issuance of the shares of common stock. The original loan made by the accredited investor was used for working capital and drilling operations.

On April 12, 2005, the board of directors approved the issuance of 14,000 shares of restricted common stock to CEOcast, Inc. as partial consideration for consulting services to be provided over a six month term being performed pursuant to a consulting agreement dated April 12, 2005. The following sets forth the information required by Item 701 in connection with that transaction:

(a) The issuance was completed on April 22, 2005.

(b) There was no placement agent or underwriter for the transaction.

(c) The shares were not sold for cash. The shares of common stock were issued in exchange for services pursuant to a consulting agreement.

(d) We relied on the exemption from registration provided by Sections 4(2) and 4(6) under the Securities Act of 1933 and Regulation D for the issuance of the shares. In addition, we did not engage in any public advertising or general solicitation in connection with this transaction; and we provided the investor with disclosure of all aspects of our business, including providing the investor with our reports filed with the Securities and Exchange Commission, our press releases, access to our auditors, and other financial, business, and corporate information. Based on our investigation, we believe that the investor obtained all information regarding Aspen Exploration it requested, received answers to all questions it posed, and otherwise understood the risks of accepting our securities for investment purposes.



(e) The common stock issued in this transaction is not convertible or exchangeable. Aspen Exploration granted piggyback registration rights to CEOcast, Inc.

(f) We received no cash proceeds from the issuance of the shares of common stock.

## Item 3. Defaults Upon Senior Securities.

None.

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

No matter was submitted during the first quarter of the fiscal year covered by this report to a vote of security holders, through the solicitation of proxies or otherwise.

## Item 5. Other Information.

None.

## Item 6. Exhibits.

31. Rule 13a-14(a) Certification
32. Section 1350 Certification

In accordance with the requirements of the Securities Exchange Act of 1934, we have duly caused this report to be signed on our behalf by the undersigned, thereunto duly authorized.

ASPEN EXPLORATION CORPORATION

/s/ Robert A. Cohan

By: Robert A. Cohan,
Chief Executive Officer,
Principal Financial Officer

May 10, 2005