GASTAR EXPLORATION LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE SIX MONTHS ENDED JUNE 30, 2005

DATED: August 15, 2005

All information contained herein is effective as at August 15, 2005

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and as contemplated by Canadian securities regulators' Form 51-102F1. Although Gastar believes that its expectations are based on reasonable assumptions, it can give no assurance that its goals and assumptions will be achieved. Important factors that could cause actual results to differ materially from those in the forward looking statements contained herein, include, among others, the success and timing of certain projects, acquisitions, and the success in acquiring and drilling oil and gas properties. A further discussion of forward looking statements and potential factors that could cause results to differ materially from those in the forward looking statements are available in Gastar's Annual Report and other filed documents.

Introduction

This management discussion and analysis, dated August 15, 2005, pertains to the consolidated operations, financial positions, and changes in cash flows of Gastar Exploration Ltd. and its subsidiaries (the "Company") for the six month period ended June 30, 2005. This information should be read in conjunction with our consolidated financial statements included in the interim and annual filing documents. Where relevant, specific references to the notes accompanying the financial statements have been made in this discussion (references to "Note" refers to notes to the Interim Consolidated Financial Statements). These financial statements have been prepared in accordance with the accounting policies as described in Note 2 of the Company's Consolidated Financial Statements. A reconciliation between United States and Canadian generally accepted accounting principles ("GAAP") is included in Note 21. A discussion of the external economic and industry factors affecting us is presented in the Annual Information Form. Gastar's management is responsible for the reliability and timeliness of the information contained in this report. In 2001, we changed our reporting currency from Canadian dollars to United States dollars.

The Company began trading on the Toronto Stock Exchange under the symbol "YGA", with the opening of the market on Thursday, January 24, 2002.

Our Business

We are an independent energy company engaged in the exploration, development and production of natural gas and oil in the United States and Australia. Our principal business activities include the identification, acquisition, and subsequent exploration and development of natural gas and oil properties. Our emphasis is on prospective deep structures identified through seismic and other analytical techniques as well as unconventional natural gas reserves, such as coal bed methane. We seek to reduce exploration risk and financial exposure by acquiring properties that have wells previously drilled in close proximity or into the targeted geologic horizons, joint venturing with knowledgeable industry partners or by farming out acreage to other industry participants on terms that reduce our economic risk to levels deemed appropriate. Our current areas for natural gas or oil activities are:

- Deep Bossier play in East Texas;
- Powder River Basin in Wyoming and Montana;
- Gunnedah Basin in New South Wales, Australia;
- Gippsland Basin in Victoria, Australia;
- Appalachian Basin in West Virginia;
- San Joaquin Basin in California; and
- Cherokee Basin in Southeast Kansas.

We currently are pursuing conventional natural gas exploration in the Deep Bossier play in the Hilltop area in East Texas and the Appalachian Basin in West Virginia. In exploring for conventional hydrocarbons, we utilize advanced geophysics and geologic technologies to identify high potential natural gas prospects. As of June 30, 2005, we had leases on approximately 53,126 gross acres (34,000 net) in Texas and approximately 26,653 gross acres (13,267 net) in Appalachia. For the six months ended June 30, 2005, our daily net production from the Hilltop area averaged approximately 6.9 MMcfed, and from the Appalachian Basin, it averaged 0.1 MMcfed.

In our coal bed methane, or CBM, projects, we use advanced technologies to assist us in developing commercial natural gas production from known coal beds. Our primary CBM properties are in the United States in the Powder River Basin and in the Gunnedah and Gippsland Basins of Australia. As of June 30, 2005, our acreage position in the Powder River Basin was approximately 56,765 gross acres (21,869 net), and our Australian acreage totaled approximately 3.4 million gross acres (2.0 million net). For the six months ended June 30, 2005, our average daily net production from our CBM properties in the Powder River Basin was approximately 1.9 MMcfed. Exploration and long term production testing on our Australian CBM properties is currently underway. Thus, we currently have no natural gas sales from our Australian CBM properties.

Management Strategy

Management believes that:

- Natural gas is an environmentally friendly fuel that will be increasingly valued in the United States and Australia;
- Conventional natural gas exploration exposes us to potentially large natural gas reserves and significant increases in shareholder value;
- CBM projects provide us with lower risk exposure to long-lived natural gas production and reserves;
- We have made a significant natural gas discovery in the Deep Bossier play in the Hilltop area of East Texas that will require additional exploration and development;
- We have the ability to assemble the technical, commercial and financial resources needed to pursue these potential projects; and
- Our successful development of one or more large potential natural gas projects will create substantial shareholder value.

Based on these beliefs, we have pursued a strategy that includes:

- Accelerating exploration and development drilling on our Deep Bossier play in East Texas;
- Combining lower risk CBM projects, such as the Powder River Basin in the United States and Gunnedah and Gippsland Basins in Australia, with higher risk conventional natural gas exploration;
- Assembling a portfolio of high-potential natural gas exploration and development projects in the East Texas and Appalachian Basins; and
- Limiting capital commitments and reducing risk by maintaining financial flexibility through accessing various sources of capital and monetizing certain assets through joint venture arrangements with industry participants.

Recent Developments

Issuance of Senior Secured Notes and Common Shares. On June 17, 2005, we completed the private placement of $63.0 million in principal amount of senior secured notes and 1,217,269 common shares. The notes bear interest at three month LIBOR plus 6% and mature on June 18, 2010. We also committed to issue to the purchasers of the notes, for no additional consideration, common shares in CDN$4.5 million increments on each of the six, twelve and eighteen-month anniversaries of the original note issuance date valued on a five-day weighted average trading price immediately prior to the date of issuance.

We have the right, exercisable quarterly during the period from August 17, 2005 to June 16, 2007, to require the original purchasers of the senior secured notes to purchase additional notes in an amount limited to an aggregate of $20.0 million in principal, provided that we comply with certain financial and other covenants. If additional notes are issued, the purchasers will also be entitled to receive, for no additional consideration, additional common shares on similar terms as those issued with the original notes in a pro rata amount based on the additional principal amount of the notes. To issue these additional notes, we must meet certain requirements, including a minimum ratio 2.0:1 of our present value discounted at 10%, based on prices specified in the senior secured notes, of proved plus probable reserves to net senior secured debt.

Geostar Acquisition. Concurrently with the private placement of senior secured notes on June 17, 2005, we closed the acquisition of additional leasehold and working interest properties from Geostar Corporation in the Hilltop area of East Texas and in the Powder River Basin of Wyoming and Montana. We paid a total of $68.5 million for the interests acquired from Geostar consisting of $30.5 million in cash, 1,650,133 common shares valued at CDN$4.50 per share and $32.0 million in unsecured subordinated notes maturing on January 31, 2006. In addition, Geostar may receive additional common shares based on look-backs at June 30, 2006 and June 30, 2007 on the East Texas assets, based on a required number of drilled wells, and net reserve additions valued at $1.50 per Mcf less attributable capital expenditures to Geostar's former ownership position in the East Texas development costs. The acquisition increased our working interest position in our active Hilltop area to an average of over approximately 90% and gave us operational control of the properties. The acquisition of additional Powder River Basin interests provides us with a larger interest in properties currently being developed through an existing joint venture. The Board of Directors retained a qualified, independent investment banking firm to render an opinion regarding the fairness of the Geostar Acquisition The investment banking firm provided the Board of Directors with their opinion that the Geostar acquisition was fair for Gastar's shareholders from a financial perspective.

On August 11, 2005, we executed an agreement with Geostar whereby the Geostar $32.0 million unsecured subordinated note was cancelled. In conjunction with the note cancellation, we agreed to issue Geostar $17.0 million of our common shares issued at a value of CDN$3.25 and a new unsecured subordinated note for $15.0 million. The new Geostar note bears interest, payable monthly commencing February 15, 2006, at three-month LIBOR plus 4.5% and matures November 15, 2006. The note requires monthly principal payments of $1.5 million commencing February 15, 2006 and continuing for nine months thereafter with a final principal payment of $1.5 million due on November 15, 2006. We may elect to pay interest in kind through the issuance of additional notes with such notes maturing on January 15, 2007.

Common Share Placement. On June 30, 2005, we completed a private placement of 6,617,736 common shares at CDN$3.31 per share. The estimated net proceeds from this placement were $16.4 million (CDN$20.5 million), after deducting placement fees and expenses.

Management believes that the following recent operational events are important to the success of our business plan:

- The Fridkin-Kaufman #1, or F-K #1, well, is a Deep Bossier sand well located in the Hilltop area of East Texas. The F-K #1 well commenced production in late September 2004, with initial production rates of approximately 15.0 MMcfd (8.5 MMcfd). As a result of the Geostar acquisition our working interest increased from 75% to 98%. Current daily production is approximately 6.4 MMcfd (4.8 MMcfd net). A 20.0 MMcfd natural gas processing plant has been built at the F-K #1 well site.
- The Cheney #1 well completed drilling in the Hilltop area to test the Deep Bossier sand encountered in the F-K #1 well. This well is approximately one mile north of the F-K #1 well. The Cheney #1 well encountered approximately 400 net feet of potential pay zones based on natural gas shows while drilling and on logs. As a result of the Geostar acquisition our working interest increased from 75% to 98%. The well commenced production in mid-February 2005 at an initial rate of approximately 7.0 MMcfd (4.0 MMcfd net). We believe that our initial fracture stimulation of the primary pay zone in the Cheney #1 well was not effective, and we are planning to re-stimulate the well in August. Prior to the re-stimulating activities commencing, the well was producing at approximately 1.1 MMcfd (0.8 MMcfd net). A 20.0 MMcfd natural gas processing plant has been constructed on the Cheney #1 well site.
- We completed drilling the Lone Oak Ranch #1 well in the Hilltop area and began production operations in early May 2005 at an initial rate of approximately 7.0 MMcfd (3.8 MMcfd net). As a result of the Geostar acquisition our working interest increased from 73% to 98%. Current daily production is approximately 5.9 MMcfd (4.3 MMcfd net).
- We began drilling the Greer #1 well, our fourth Bossier Sand well in the Hilltop area in January 2005. The Greer #1 well is located approximately one mile from the F-K #1well. We drilled the Greer #1 well to a total depth of 17,800 feet. Based on natural gas shows during drilling and electric logs, the well encountered approximately 57 net feet of apparent pay with high indicative porosity similar to the producing zones in our previous wells. As a result of the Geostar acquisition our working interest increased from 73% to 98%. The well commenced production in July 2005 at an initial rate of approximately 5.0 MMcfd (3.9 MMcfd net).
- Drilling commenced in February 2005 on the Fridkin-Kaufman #2, or F-K #2, well to a total depth of 18,700 feet. Based on electric logs, the well encountered approximately 74 net feet of apparent pay in the Bossier lower "K" sand below 18,000 feet. The well also encountered over 120 feet of indicated pay in the shallower Travis Peak formation. The well is located approximately 2,200 feet from the F-K #1 well. Planned completion activities are expected to take approximately 60 days and, if successful, initial production is expected by mid-September 2005. As a result of the Geostar acquisition our working interest increased from 78% to 100%.
- Drilling commenced in May 2005 on the Donelson #1, well with a projected total depth of between 17,500 and 19,000 feet. The well is currently drilling at a depth in excess of 13,000 feet. As a result of the Geostar acquisition our working interest increased from 78% to 100%.
- Our CBM joint venture partners drilled and completed two vertical CBM wells and one horizontal CBM well during the third and fourth quarters of 2004 on our 2.0 million acre PEL 238 project in New South Wales, Australia. The vertical wells were fracture stimulated with large volumes of sand proppant. These three wells and two others commenced dewatering operations in the fourth quarter of 2004. The wells have demonstrated high water rates indicative of high permeability within the coal formation and have begun producing gas after 60 to 90 days of de-watering with several of the wells producing gas from the first days

dewatering began. We believe that the performance of these wells to date is confirmation of the presence of a significant CBM deposit that can be developed on a commercial basis. Further evaluation activities are anticipated for the third and fourth quarters of 2005 and in the first quarter of 2006. During the second quarter of 2005 we drilled the first two dedicated CBM test wells on our EL4416 license in the Gippsland Basin, located in Victoria, Australia. Gastar holds a 75% working interest in the CBM and Mineral Sands rights on the 1.4 million acre concession with the balance owned and operated by a subsidiary of Geostar Corporation. The wells are anticipated to be completed during the third quarter utilizing open-hole completion techniques commonly used in the Powder River Basin area.

Business Factors

The oil and natural gas exploration and production business is subject to certain internal and external factors and risks that can negatively impact companies in the industry. Gastar is impacted by external factors, as are other industry participants. The following external factors and risks are some, but certainly not all, of the factors and risks that could materially impact the oil and natural gas industry and Gastar: oil and natural gas prices; availability of capital; availability and cost of critical equipment including rigs, service equipment, and other equipment; environmental and regulatory laws and requirements; leases from governmental bodies; pipeline access; reliance on a few key individuals; environmental regulation, and other factors. See Gastar's Annual Information Forms and other filings for a further discussion on industry and company risks.

Overall Performance

All amounts in thousands, except for "per share net loss" figure.

	For the three month period ended June 30,		For the six month period ended June 30,	
	2005	2004	**2005**	2004
Revenue	**$ 4,942**	$ 517	**$ 9,674**	$ 873
Net Loss	**$ (4,915)**	$ (804)	**$ (8,535)**	$ (1,421)
Shares outstanding[1]	**128,811**	112,702	**128,811**	112,702
Weighted average shares outstanding	**117,287**	112,201	**115,547**	109,733
Fully diluted weighted average shares outstanding[1]	**124,473**	124,265	**123,330**	121,304
Per share				
Net loss	**$ (0.042)**	$ (0.007)	**$ (0.074)**	$ (0.013)

[1] As of August 15, 2005, total shares outstanding are 128,811,436.

	June 30, 2005	December 31, 2004	December 31, 2003 (restated)
Exploration and development expenditures	$ **28,766**	$ 30,294	$ 6,816
Leasehold expenditures	$ **75,446**	$ 4,651	$ 4,529
Total assets	$ **204,333**	$ 94,296	$ 40,683
Total liabilities	$ **126,408**	$ 64,046	$ 8,465

Income Statement Discussion

Gastar's natural gas production volumes increased materially with the initiation of production from the Company's East Texas property. Gastar's management cautions that this data may not give a complete picture of the Company's current and future performance. Review of the Company's quarterly results is presented in the section entitled Quarterly Operating and Financial Review.

Three Months Ended June 30, 2005 compared to Three Months Ended June 30, 2004

Second Quarter 2005 versus Second Quarter 2004 Net Loss variances:

		(000's)
2Q 2004 Net Loss	$	(804)
Change in:		
Oil volumes		**4**
Gas volumes		**3,358**
Oil prices		**8**
Gas prices		**1,055**
Production taxes and crown		**335**
Operating expenses		**(586)**
General and administrative expense		**(1,091)**
Interest expense and debt issue costs		**(4,750)**
Depletion, depreciation and amortization		**(2,562)**
Accretion on asset retirement		**(13)**
Foreign exchange gain (loss)		**112**
Other		**19**
2Q 2005 Net Loss	**$**	**(4,915)**

	Three Months Ended June 30,				Increase (Decrease)			
	2005		2004		Amount		Percent	
	(dollars in thousands)							
Revenues………………………………………..…	$	4,942	$	517	$	4,425	856%	
Depletion, depreciation and amortization………..	$	2,805	$	243	$	2,562	1054%	
Interest and debt related items…………..………	$	4,969	$	219	$	4,750	2169%	
Lease operating, production taxes transportation and selling…………………	$	478	$	227	$	251	111%	
General and administrative………………………..	$	1,771	$	680	$	1,091	160%	

Revenues. Substantially all of our revenues are derived from the production of natural gas in the United States. We reported revenues of $4.9 million for the three months ended June 30, 2005, up from $517,000 for the comparable period in 2004. This increase was attributable to the commencement of East Texas production of natural gas from the F-K #1 well in the third quarter of 2004, from the Cheney #1 well in the first quarter of 2005, from the Lone Oak Ranch #1 well in the second quarter of 2005 and additional production from new CBM wells drilled in the Powder River Basin. The acquisition of additional leasehold and working interest properties in East Texas and the Powder River Basin from Geostar and higher prices for both natural gas and oil also contributed to the increase. Of the increase in revenues, 76% was attributed to higher production rates and 24% resulted from price increases.

Natural Gas and Oil Production and Average Sales Prices. Natural gas represents substantially all of our production. The table below sets forth production and sales information for the periods indicated:

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004
Production:		
Natural gas (MMcf)………………………………	757.2	99.0
Oil (MBbls)………………………………………	0.5	0.3
Total (MMcfe)……………………………………	760.1	101.1
Natural gas (MMcfd)………………………………	8.3	1.1
Oil (MBod)………………………………………	0.0	0.0
Total (MMcfed)……………………………………	8.4	1.1
Average sales prices:		
Natural gas (per Mcf)………………………………	$ 6.50	$ 5.10
Oil (per Bbl)………………………………………	$ 49.03	$ 32.92

Depletion, depreciation and amortization. We reported depletion, depreciation and amortization ("DD&A") of $2.8 million for the three months ended June 30, 2005, up from $243,000 for the comparable period in 2004. DD&A increased primarily due to higher production rates attributable to the wells in East Texas and the acquisition of additional leasehold and working interest properties in East Texas and the Powder River Basin from Geostar Corporation. Of the increase in DD&A expense, 62% was attributed to higher production rates and 38% was due to an increase in DD&A rate per unit. The DD&A rate for the period ended June 30, 2005 was $3.68 per Mcfe, as compared to prior comparable period of $2.40 per Mcfe. The increase in the DD&A rate is primarily due to higher capital expenditures in East Texas.

Interest and debt related items. We reported interest and debt related items of $5.0 million for the three months ended June 30, 2005, up from $219,000 for the comparable period in 2004. This increase was due to higher debt outstanding as a result of a $3.25 million subordinated unsecured notes payable sale, the sale of $30.0 million of convertible debentures in 2004, the private placement of $63.0 million of senior secured notes and the issuance of $32.0 million in unsecured subordinated notes to Geostar. During the quarter, the $26.5 million senior unsecured notes were paid in full and the deferred charges relating to these notes were fully amortized.

Lease operating, production taxes, transportation and selling. We reported expenses for lease operating, production taxes, transportation and selling of $478,000 for the three months ended June 30, 2005, up from $227,000 for the comparable period in 2004. This increase was due to higher production volumes and an increased number of producing wells which was partially offset by a reduction in severance and property taxes**.** Our lease operating expense per Mcfe decreased to $0.63 per Mcfe during the three months ended June 30, 2005 from $2.25 per Mcfe for the comparable period.

General and administrative. We reported expenses for general and administrative of $1.8 million for the three months ended June 30, 2005, up from $680,000 for the comparable period in 2004. This increase in general and administrative expenses was primarily due to higher contract staff and professional service charges and the continued recording of compensation expense due to the issuance of stock options.

Six Months Ended June 30, 2005 compared to the Six Months Ended June 30, 2004

<u>YTD 2005 versus YTD 2004 Net Loss variances:</u>

		(000's)
YTD June 30, 2004 Net Loss	$	(1,421)
Change in:		
Oil volumes		**28**
Gas volumes		**6,603**
Oil prices		**17**
Gas prices		**2,153**
Production taxes and crown		**(82)**
Operating expenses		**(1,272)**
General and administrative expense		**(2,690)**
Interest expense and debt issue costs		**(6,550)**
Depletion, depreciation and amortization		**(5,457)**
Accretion on asset retirement		**(18)**
Foreign exchange gain (loss)		**100**
Other		**54**
YTD June 30, 2005 Net Loss	**$**	**(8,535)**

	Six Months Ended June 30,		Increase (Decrease)	
	2005	**2004**	**Amount**	**Percent**
	(dollars in thousands)			
Revenues…………………………………….…	$ 9,674	$ 873	$ 8,801	1008%
Depletion, depreciation and amortization………..	$ 5,905	$ 448	$ 5,457	1218%
Interest and debt related items…………...…….	$ 7,136	$ 586	$ 6,550	1118%
Lease operating, production taxes transportation and selling…………………	$ 1,792	$ 438	$ 1,354	309%
General and administrative………………………..	$ 3,537	$ 847	$ 2,690	318%

Revenues. Substantially all of our revenues are derived from the production of natural gas in the United States. We reported revenues of $9.7 million for the six months ended June 30, 2005, up from $873,000 for the comparable period in 2004. This increase was attributable to the commencement of East Texas production of natural gas from the F-K #1 well in the third quarter of 2004, from the Cheney #1 well in the first quarter of 2005, from the Lone Oak Ranch #1 well in the second quarter of 2005 and additional production from new CBM wells drilled in the Powder River Basin. The acquisition of additional leasehold and working interest properties in East Texas and the Powder River Basin from Geostar Corporation and higher prices for both natural gas and oil also contributed to the increase. Of the increase in revenues, 75% was attributed to higher production rates and 25% resulted from price increases.

Natural Gas and Oil Production and Average Sales Prices. Natural gas represents substantially all of our production. The table below sets forth production and sales information for the periods indicated:

	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Production:		
Natural gas (MMcf)	1,606.4	185.3
Oil (MBbls)	1.2	0.4
Total (MMcfe)	1,613.7	187.5
Natural gas (MMcfd)	8.9	1.0
Oil (MBod)	0.0	0.0
Total (MMcfed)	8.9	1.0
Average sales prices:		
Natural gas (per Mcf)	$ 5.99	$ 4.65
Oil (per Bbl)	$ 47.09	$ 32.84

Depletion, depreciation and amortization. We reported depletion, depreciation and amortization of $5.9 million for the six months ended June 30, 2005, up from $448,000 for the six months ended June 30, 2004. This increase was attributable to the commencement of production of natural gas from the wells in East Texas and the acquisition of additional leasehold and working interest properties in East Texas and the Powder River Basin from Geostar Corporation. Of the increase in DD&A expense, 62% was attributed to higher production rates and 38% was due to an increase in DD&A rate per unit. The DD&A rate for the period ended June 30, 2005 was $3.65 per Mcfe, as compared to prior comparable period of $2.38 per Mcfe. The increase in the DD&A rate is primarily due to higher capital expenditures in East Texas.

Interest and debt related items. We reported interest and debt related items of $7.1 million for the six months ended June 30, 2005, up from $586,000 for the six months ended June 30, 2004. This increase was due to higher debt outstanding as a result of a $3.25 million subordinated unsecured notes payable sale, the sale of $30.0 million of convertible debentures in 2004, the private placement of $63.0 million of senior secured notes and the issuance of $32.0 million in unsecured subordinated notes to Geostar. During the first six months of 2005, the $26.5 million senior unsecured notes were paid in full and the deferred charges relating to these notes were fully amortized.

Lease operating, production taxes, transportation and selling. We reported lease operating, production taxes, transportation and selling expenses of $1.8 million for the six months ended June 30, 2005, up from $438,000 for the six months ended June 30, 2004. This increase was due to higher production volumes and an increased number of producing wells which was partially offset by a reduction in severance and property taxes. Our lease operating expense per Mcfe decreased to $1.12 during the six months ended June 30, 2005 from $2.34 for the comparable period in 2004.

General and administrative. We reported general and administrative expenses of $3.5 million for the six months ended June 30, 2005, up from $847,000 for the six months ended June 30, 2004. This increase in general and administrative expenses was primarily due to higher contract staff and professional service charges and the continued recording of compensation expense due to the issuance of stock options.

Balance Sheet Discussion

As stated previously, Gastar's management believes that capital allocation and the amount of capital investment are better indicators of the Company's future potential. Presented below are the significant variances in assets that occurred in the first six months of 2005.

2005 Asset Variances:

		(000's)
Total Assets, year end 2004	$	94,296
Change in:		
Cash and equivalents		**(2,528)**
Accounts receivable		**(14)**
Revenue receivable		**2,269**
Due from related party		**858**
Current portion of deferred lease charge		**(137)**
Deferred charges		**14,472**
Cash call receivable		**(3,496)**
Oil and gas properties:		
Expenditures		**104,212**
Sales		**(1,004)**
Depletion		**(5,896)**
Asset retirement costs		**1,357**
Mineral resource properties		**36**
Capital assets		**84**
Other		**(176)**
Total Assets, June 30, 2005	**$**	**204,333**

The significant six-month 2005 asset variances from year-end 2004 are as follows:

- Total assets increased approximately $109.7 million primarily due to the acquisition of additional leasehold and working interest in oil and gas properties from Geostar and increased expenditures in the Hilltop area.
- Cash and equivalents decreased approximately $2.5 million during the year. Cash increases due to funds raised from the senior secured note financing and private placement offering were offset by oil and gas expenditures, retirement of senior note debt and general corporate purposes.
- Revenue receivable increased due to higher product prices and volumes.
- Due from related party increased as a result of revenue earned from the acquired properties net of capitalized expenditures incurred during the period and net of the estimated post closing adjustments.
- Deferred charges increased $14.5 million, with $17.3 million in additions partially offset by $2.8 million in amortization expense.
- For the year, Gastar advanced $12.8 million for well drilling activities in East Texas and Australia. The cash call receivable balance was reduced by $16.2 million due to drilling and completion spending on the Lone Oak Ranch #1, Greer #1, F-K #2, Burong #2 and Burong #3 wells. In the second quarter of 2005, Geostar refunded to the Company $2.1 million of unused cash call balances pursuant to the acquisition of additional properties and working interest properties in East Texas and the Powder River Basin (Note 4).
- Oil and gas properties increased by approximately $98.8 million. This was primarily due to the acquisition of additional leasehold and working interest oil and gas properties and increased expenditures in the Hilltop area. Significant variances are as follows:
    - Increase in properties due to the acquisition of Geostar properties amounted to $71.7 million including estimated purchase price effective date adjustments.
    - Increase in properties due to expenditures of approximately $34.0 million, of which $30.1 million are in the Hilltop area, including the Cheney #1, Lone Oak Ranch #1, Greer #1, F-K #2 and Donelson #1 well.
    - Change in properties due to the reduction of $1.0 million related to the drilling of the Greer #1 well.
    - Reduction in properties due to depletion of $5.9 million from increased production.

Liability variance:

Total liabilities increased in 2005 by approximately $62.4 million to a balance of $126.4 million primarily due to increases in senior secured notes, a note payable to Geostar and accounts payable, offset by retirement of a senior note. Drilling advances declined $1.0 million as the Company began drilling the Greer #1 well in the first quarter.

Quarterly Operating and Financial Review

Given the highly seasonal nature of natural gas pricing and production, Gastar believes that comparing full-year production results with partial year data is not representative of its actual performance. The Company is therefore presenting the following information on a quarterly basis. Interim financial data is not audited by the Company's independent auditors. All amounts shown in thousands except loss per share.

	June 30, 2005	March 31, 2005	Dec. 31, 2004	Sept. 30, 2004	June 30, 2004	March 31, 2004	Dec. 31, 2003	Sept. 30, 2003 (restated)
Production (Mcfed)[1]	**8,353**	9,484	8,260	1,868	1,111	960	574	575
Average Price ($/Mcfe)	**$ 6.50**	$ 5.54	$ 5.75	$ 4.73	$ 5.11	$ 4.13	$ 3.91	$ 4.11
Revenue net of crown[2]	**4,942**	4,732	4,373	814	516	356	207	218
Cash and cash equivalents	**13,313**	4,546	15,842	555	8,868	1,828	681	2,033
Revenue receivable	**3,962**	3,198	1,693	-	-	-	-	-
Current deferred charges	**101**	170	238	134	-	-	-	-
Property and Equipment	**163,352**	75,487	64,563	57,057	45,363	39,124	37,725	32,103
Deferred Charges	**19,769**	4,850	5,298	1,583	1,530	336	400	558
Long Term Obligations	**106,692**	61,530	62,249	19,421	21,816	4,008	3,991	3,649
Short Term Obligations	**19,716**	4,817	1,800	12,262	6,015	6,830	4,474	9,821
Net Loss	**(4,915)**	(3,620)	(3,225)	(2,033)	(804)	(617)	(783)	(1,117)
Loss Per Share	**$ (0.042)**	$ (0.032)	$ (0.028)	$ (0.018)	$ (0.007)	$ (0.006)	$ (0.007)	$ (0.010)

(1) In developing thousand cubic feet equivalent (Mcfe), Gastar uses a conversion of 1 barrel of oil is equivalent to 6,000 cubic feet (6 Mcf) of natural gas. Actual valuation may differ depending on location, quality differentials, current prices, and other factors. Gastar reports gas volumes net of royalties.

(2) In 2004, the Company reclassified production taxes, which were netted against revenues in prior years, to lease operating expenses.

Segmented Data

Gastar's two main geographic areas of operations are the United States and Australia. Since Gastar currently has no commercial production in Australia, the Company does not independently report earnings for Australia. The Company does not report oil and gas property book value by geographic location within a country. Investments in oil and natural gas assets are presented by country as follows (amount in thousands, except acreage):

	United States	Australia	Total
Gross Acreage			
Developed	24,267	~2,200	26,467
Undeveloped	115,317	~3.4 million	~3.5 million
Total	139,584	~3.4 million	~3.5 million
Book Value by Reserve Classification			
Proved	$ 79,890	$ 538	$ 80,428
Unproved	90,485	2,836	93,321
Total	$ 170,375	$ 3,374	$ 173,749
Book Value by Category			
Leasehold	$ 101,347	$ 3,122	$ 104,469
Drilling	80,062	3,258	83,320
Geological and geophysical	1,580	306	1,886
Asset sales	(12,614)	(3,312)	(15,926)
Subtotal	$ 170,375	$ 3,374	$ 173,749
Asset retirement	2,780	80	2,860
Accumulated depletion	(10,339)	-	(10,339)
Impairment	(2,605)	(519)	(3,124)
Total	$ 160,211	$ 2,935	$ 163,146

Gastar's strategy has been to acquire acreage in high potential gas fields. As a result, approximately 54% of Gastar's expenditures for property assets are considered unproved and do not have any proved reserves associated with them. Management can give no assurance that undeveloped properties will ultimately be produced commercially.

Business Environment

	Average for the three month period ended		Average for the six month period ended	
	June 30, 2005	June 30, 2004	**June 30, 2005**	June 30, 2004
Average Henry Hub Cash Price* ($ per MMBtu)	**6.95**	6.08	**6.68**	5.84
Average CIG Cash Price* ($ per MMBtu)	**5.98**	5.07	**5.85**	5.00
Average Henry Hub - CIG differential ($ per MMBtu)	**0.97**	1.01	**0.83**	0.84
Average Katy Hub Prices ($ per MMBtu)	**6.83**	5.97	**6.46**	5.69
Average Henry Hub – Katy differential ($ per MMBtu)	**.12**	.11	**.22**	.15
WTI Average ($ per Barrel)**	**53.07**	38.28	**51.48**	36.80

*Natual gas prices are from Natural Gas Week
**Oil prices are from Platts North American Crude Wire

The price we receive for our natural gas production is influenced by both national gas price trends and regional gas prices. On a national basis, natural gas prices increased in 2004 generally due to increases in crude oil prices, economic growth and general concerns about future natural gas supplies. Most of our production for the first three quarters of 2004 was located in the Powder River Basin of Wyoming and was sold on the Colorado Interstate Gas ("CIG") Pipeline. This pipeline system is the major pricing location for our Powder River natural gas production and gas on the system sells at a significant discount to Henry Hub prices.

With the beginning of our Texas production operations in the third quarter of 2004, the majority of our near term production is from Texas. For the first six months of 2005, natural gas production from our East Texas properties accounted for approximately 77% of our total natural gas production. Natural gas prices for our Hilltop area production will typically be priced based on the Katy, Texas regional hub which generally trades at a small discount to Henry Hub prices.

Crude oil prices increased in 2004 due to perceived tight crude supplies, the continued conflict in Iraq, and increasing global demand led by increased Asian demand for energy-related commodities. While substantially all of our production is natural gas, high crude prices support higher natural gas prices by keeping alternative fuels, such as heating oil and residual fuel, expensive.

During 2005, crude oil prices continued to increase, reaching prices not seen in many years. Continuing tightness of supply, stronger than expected economic growth and less sensitivity to higher energy prices in major global economies (United States, Europe and Asia) were credited with being the prime factors in higher sustained crude oil prices. The higher crude oil prices continued to support higher natural gas prices even though natural gas continued to trade at less than parity on an energy equivalent basis to crude oil.

We do not currently have any financial derivative or "hedge" positions on any of our future natural gas and oil sales. All natural gas and oil sales are either sold directly in spot markets or sold through marketing or sales contracts priced at daily or monthly spot prices. Further, the senior secured notes covenants restrict us from hedging more than 50% of future production.

Capital Commitments and Capital Obligations

Except for the following, Gastar's capital commitments and capital obligations remain essentially unchanged from the Annual MD&A:

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

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

The contingency regarding the 1,989,475 warrants issued in conjunction with the $10 million Senior Note financing price discrepancy has been resolved and the warrants are now issued at the correct price of $3.63.

The Company has committed to issue additional shares pursuant to a note financing completed in the second quarter of 2005 (Note 9).

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

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

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

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

Major discretionary 2005 capital expenditures are expected to be:

- The Company expects to participate in four to six deep Bossier wells to be drilled in East Texas. The estimated gross cost to drill and complete each well is $10 to $12 million. Gastar expects to own an average approximate 94% working interest position in these wells based on the projected locations of future wells. To-date, the Company has completed the drilling of the Greer #1 well and the F-K #2 wells and is currently drilling the Donelson #1 well to a projected total depth of 18,500 feet;
- The Company expects to participate in a drilling program of up to approximately 225 CBM wells in Wyoming of which its net share of capital costs is projected to total approximately $6 million;
- The Company expects to participate in the drilling of eight to ten additional CBM wells in New South Wales, Australia on the PEL 238 concession. In addition, the Company expects to participate in the construction of gathering systems and other infrastructure in the area. The projected total cost to Gastar for these activities is approximately USD $4.0 million;

- The Company expects to drill two CBM pilot wells in the Gippsland Basin in Victoria, Australia. In addition, the Company expects that it will participate in a coring program to evaluate the Mineral Sands potential on this property. Gastar's estimated net share of these projected costs is USD $1.6 million;
- The Company expects to continue to add to its leasehold positions in the East Texas Basin and in the Powder River Basin.

The Company has the following commitments at June 30, 2005:

Commitments	Recognized in Financial statements		Amount (000's)	Due in 1 year (000's)	1-3 Years (000's)	4-5 Years (000's)	After 5 years (000's)
Site restoration (Note 6)	Yes - Liability	$	3,111	525	761	1,425	400
Installation, mobilization, demobilization of Gas Plant F-K #1 well and Cheney #1 well	Yes – Liability		77	-	77	-	-
Equipment leases and related costs	No		796	564	232	-	-
Senior secured notes	Yes – Liability		63,000	-	-	63,000	-
Convertible notes	Yes – Liability and Equity		30,000	-	-	30,000	-
Subordinated, unsecured notes payable	Yes - Liability		3,250	-	2,950	300	-
Note payable	Yes - Liability		15,000	7,500	7,500	-	-
Note payable	Yes – Equity		17,000	17,000	-	-	-
Senior secured notes	Yes – Equity		10,930	7,286	3,644	-	-
Total		$	143,164	32,875	15,164	94,725	400

Liquidity and Capital Resources

During the six months ended June 30, 2005, we raised $80.5 million from various debt and equity financings, retired $26.5 million of outstanding senior notes and expended approximately $30.5 million on the drilling of natural gas and oil properties and $68.5 million, before adjustments, in property acquisition costs. At June 30, 2005 approximately $13.3 million remained in available cash for future capital commitments, and approximately $2.8 million remained as a cash call receivable for ongoing drilling and completion activities.

On June 17, 2005, the Company completed the private placement of $63.0 million of senior secured notes bearing interest at three month LIBOR plus 6%. The notes mature on June 18, 2010. We have the right, exercisable quarterly during the period from August 17, 2005 to June 17, 2007, to require the original purchasers of the senior secured notes to purchase additional notes in an amount limited to an aggregate of $20.0 million in principal, provided that we comply with certain financial and other covenants. Concurrently with the private placement of senior secured notes, we closed the acquisition of additional leasehold and working interest properties from Geostar in the Hilltop area of East Texas and in the Powder River Basin of Wyoming and Montana. We paid a total of $68.5 million, before effective date purchase price adjustments, for the interests acquired from Geostar consisting of $30.5 million in cash, 1,650,133 common shares valued at CDN$4.50 per share and $32.0 million in unsecured subordinated notes maturing on January 31, 2006.

On August 11, 2005, we executed an agreement with Geostar whereby the Geostar $32.0 million unsecured subordinated note was cancelled. In conjunction with the note cancellation, we agreed to issue Geostar $17.0 million of our common shares issued at a value of CDN$3.25 and a new unsecured subordinated note for $15.0 million. The new Geostar note bears interest, payable monthly commencing February 15, 2006, at three-month LIBOR plus 4.5% and matures November 15, 2006. The note requires monthly principal payments of $1.5 million commencing February 15, 2006 and continuing for nine months thereafter with a final principal payment of $1.5 million due on November 15, 2006. We may elect to pay interest in kind through the issuance of additional notes with such notes maturing on January 15, 2007.

On June 30, 2005, we completed a private placement of 6,617,736 common shares at CDN$3.31 per share. The estimated net proceeds from this placement were $16.4 million (CDN$20.5 million), after deducting placement fees and expenses.

We continually evaluate our capital needs and compare them to our capital resources. To execute our operational plans, particularly our drilling plans in East Texas, additional funds will be needed for acreage acquisition, seismic and other geologic analysis, drilling, undertaking completion activities and for general corporate purposes. Our current budgeted capital expenditures for the next twelve months is approximately $40.0 million. We expect to fund these expenditures from internally generated cash flow, cash on hand, the issuance of additional senior secured notes or the issuance of additional equity. We may have to significantly reduce our drilling and development program if our internally generated cash flow from operations and cash flow from financing activities are not sufficient to pay debt service and expenditures associated with our projected drilling and development activities. We may also attempt to balance future capital expenditures through joint venture development of certain properties with industry partners. We cannot be certain that future funds will be available to fully execute our business plan. During 2004 and continuing into 2005, the availability of capital for companies in the energy industry has been high. Given the continued forecasts for high natural gas and oil prices, we believe that sufficient capital will be available to execute our business and operational plans.

We are highly dependent upon natural gas pricing. A material decrease in current and projected natural gas prices could impair our ability to raise additional capital on acceptable terms and result in a financial covenant default under the senior secured notes. Likewise, a material decrease in current and projected natural gas prices could also impact our ability to divest ourselves of certain non-core assets. This could impact our ability to fund future activities. Under the terms of our senior secured notes, the proceeds from asset sales must first be offered to the holders of the senior secured notes as repayment of outstanding debt.

We currently have no natural gas price financial instruments or hedges in place. Similarly, we have no financial derivatives. Our natural gas marketing contracts use "spot" market prices. Given the uncertainty of the timing and volumes of our natural gas production this year, we do not currently plan to enter into any long term fixed-price natural gas contracts, swap or hedge positions, other gas financial instruments or financial derivatives in 2005. Further, the senior secured notes covenants restrict us from hedging more than 50% of future production.

We have no off-balance sheet arrangements and have no plans to enter into any at this time.

Quantitative and Qualitative Disclosure about Market Risk

Commodity Risk. Our major commodity price risk exposure is to the prices received for our natural gas production. Realized commodity prices received for our production are the spot prices applicable to natural gas in the region produced. Prices received for natural gas are volatile and unpredictable and are beyond our control. For the six months ended June 30, 2005, a 10% change in the prices received for natural gas production would have had an approximate $900,000 impact on our revenues.

Interest Rate Risk. As of June 30, 2005, the principal amount of our long term indebtedness was $111.0 million. Of this amount, $63.0 million of senior secured notes issued in June 2005 bears interest at three-month LIBOR plus 6% and $15.0 million of Geostar note bears interest at three-month LIBOR plus 4.5%, The remainder of our debt balance is at a fixed rate. If the senior secured notes and Geostar note had been outstanding for the six months ended June 30, 2005, a 10% fluctuation in interest rates would have had an approximate $135,000 impact on interest expense.

Currency Translation Risk. Because our revenues and expenses are primarily in U.S. dollars, we have little exposure to currency translation risk, and, therefore, we have no plans in the foreseeable future to implement hedges or financial instruments to manage international currency changes.

Related Party

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

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

(c) Effective January 1, 2005, the Company, FSW, and Geostar entered into a JOA covering an Area of Mutual Interest ("AMI") in the East Texas Basin, with Gastar as a non operator and Geostar as Operator. Under the terms of the JOA, Geostar will receive overhead reimbursement equal to 12.5% of development costs for the first 10 wells drilled after the effective date, 10% of the development costs for the 11th through 20th wells and 8.5% of the developments costs for all subsequent wells. As a result, Geostar will no longer charge Gastar a proportionate amount of direct salary and shared premises rent expense for Geostar employees providing administrative and technical support services to Gastar. During the first quarter of 2005 Geostar billed FSW \$1.4 million which was equal to 12.5% of development costs for the Greer #1 and F-K #2 wells. These have been capitalized to property and equipment (Note 5). These amounts were paid in the second quarter. In conjunction with the execution of the JOA, the Company terminated the convertible debenture arrangement with Geostar and commenced operating the East Texas properties. Under the new arrangement, the Company is required to find financing for Gastar's share of future joint venture costs.

There is a balance of \$858,000 receivable from Geostar at June 30, 2005, related to the revenue earned from the properties net of capitalized expenditures incurred during the period and net of the estimated post closing adjustments (Note 3). This amount, along with the final post-closing purchase price adjustments, will be settled as provided for in the Purchase and Sale Agreements between Geostar and the Company.

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

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

Critical Accounting Estimates

Gastar's related critical accounting estimates remain essentially unchanged from the Annual MD&A.

Changes in Accounting Policies

Gastar's related changes in accounting policies remain essentially unchanged from the Annual MD&A.

Financial Instruments and Other Instruments

Gastar's related financial instruments and other instruments remain essentially unchanged from the Annual MD&A.

Additional information is available in the Company's Annual Information Form for 2004 and other corporate filings. These documents are available at www. Sedar.com.

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and as contemplated by Canadian securities regulators' Form 51-102F1. Although Gastar believes that its expectations are based on reasonable assumptions, it can give no assurance that its goals and assumptions will be achieved. Important factors that could cause actual results to differ materially from those in the forward looking statements contained herein, include, among others, the success and timing of certain projects, acquisitions, and the success in acquiring and drilling oil and gas properties. A further discussion of forward looking statements and potential factors that could cause results to differ materially from those in the forward looking statements are available in Gastar's Annual Report and other filed documents.