GASTAR EXPLORATION LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005

DATED: November 14, 2005

All information contained herein is effective as at November 14, 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 is available in Gastar's Annual Report and other filed documents.

Introduction

This management discussion and analysis, dated November 14, 2005, pertains to the consolidated operations, financial positions, and changes in cash flows of Gastar Exploration Ltd. and its subsidiaries (the "Company") for the nine month period ended September 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. As of September 30, 2005, we had leases on approximately 51,823 gross acres (34,036 net) in Texas and approximately 26,653 gross acres (13,267 net) in Appalachia. For the nine months ended September 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 industry 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 September 30, 2005, our acreage position in the Powder River Basin was approximately 55,797 gross acres (21,625 net), and our Australian acreage totaled approximately 3.4 million gross acres (1.75 million net). For the nine months ended September 30, 2005, our average daily net production from our CBM properties in the Powder River Basin was approximately 2.6 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;
- 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 closing date valued on a five day weighted average trading price immediately prior to the date of issuance.

On September 19, 2005, we issued to the holders of our senior secured notes an additional $10.0 million of senior secured notes on substantially the same terms as the original June 2005 private placement, including the issuance of 206,354 common shares to the note holders. The common shares issued in the transaction represented an aggregate value of CDN$714,286 based upon the five day weighted average trading price of CDN$3.4615 per share for the five trading days immediately prior to closing. In connection with the sale of the additional notes, we have agreed to issue to the purchasers of the notes, for no additional consideration, common shares in CDN$714,286 increments on each of the six, twelve and eighteen-month anniversaries of the closing date, valued on a five day weighted average trading price immediately prior to the date of issuance.

We have the right, exercisable quarterly to June 16, 2007, to require the original purchasers of the senior secured notes to purchase additional notes in an amount limited to an additional $10.0 million in principal. If additional notes are issued, the purchasers will also be entitled to receive, for no additional consideration, additional common shares and subscription receipts 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 as set forth in the senior secured notes (Note 9).

Geostar Acquisition. Concurrently with the private placement of senior secured notes, we closed the acquisition of additional leasehold and working interests from Geostar Corporation, a major shareholder, 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. The acquisition increased our working interest position in the Hilltop area to an average of over 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 6,373,694 common shares, calculated by dividing $17.0 million by an assumed value of CDN$3.25 per share 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. We may also be required to issue additional common shares to Geostar in the future based on the results of certain East Texas drilling, as described in Note 16.

Chesapeake Energy Corporation Transaction. On November 4, 2005, we closed the previously announced transaction with Chesapeake Energy Corporation whereby Chesapeake (i) acquired new common shares from us equal to 19.9% of our outstanding common shares, (ii) acquired a 33.33% working interest in our Deep Bossier play in the Hilltop prospect area of Leon and Robertson Counties of East Texas and (iii) formed an AMI to explore 13 counties in East Texas.

Under the terms of the agreement, Chesapeake acquired for cash approximately 27.2 million newly issued common shares for a price equal to CDN$3.31 per share, or approximately $76.0 million (CDN$89.9 million), before transaction expenses. After reflecting the newly-issued common shares, we have approximately 163.6 million common shares outstanding. Chesapeake has been granted registration rights for the shares issued pursuant to this transaction. Chesapeake also has the right, with certain exceptions, to maintain its percentage ownership on a fully diluted basis by participating in future stock issuances and has the right to an observer being present at meetings of the Board of Directors.

As part of the transaction, Chesapeake purchased from us for approximately $7.8 million, the commitment to acquire the shares described above and the drilling commitment described below, an undivided 33.33% of our leasehold working interest in the Deep Bossier Hilltop prospect, less and except the 160 acre units surrounding each of our existing well bores. Chesapeake will pay 44.44% of the drilling costs through casing point in the first six wells drilled by the parties in the Hilltop prospect to a depth sufficient to test the Deep Bossier formation (an approximate depth of 19,000 feet) in order to earn its 33.33% leasehold working interest. Further, Chesapeake has agreed to provide one to two additional drilling rigs to us in early 2006 if needed to accelerate drilling in the Hilltop Prospect.

The transaction also provided for the formation of an AMI covering all of Leon, Robertson, Houston, Cherokee, Madison, Anderson, Angelina, Nacogdoches, Trinity, Polk, Shelby, San Augustine and Sabine Counties, Texas (the "AMI Area"). For a period of three years from the closing date, we have offered Chesapeake the exclusive first right to purchase up to an undivided 50% of any leasehold/working interest rights acquired by Gastar in the AMI Area on pre-determined terms. The AMI is "one-way", that is Chesapeake will not be obligated to present us any interests it now owns or acquires in the future in the AMI Area.

In connection with the transaction, we have notified Chesapeake of a recent claim made by a third party that it has a right to purchase 33.33% of our interests in certain oil and gas leases located in Leon and Robertson Counties, Texas pursuant to a preferential right provision of an Operating Agreement dated July 7, 2000. This claim is set forth in a petition for breach of contract and declaratory judgment, filed as Cause No. 0-05-451, Navasota Resources, L.P., Plaintiff vs. First Source Texas, Inc., First Source Gas L.P., and Gastar Exploration Ltd. in the District Court of Leon County, Texas, 12th Judicial District on October 31, 2005. We contend, among other things, that the claimant neither properly nor timely exercised any preferential right election it may have had with respect to the inter-dependent transactions. Accordingly, we intend to vigorously defend the claims.

Pursuant to the terms of the Geostar note (Note 3) we will utilize a portion of the Chesapeake transaction proceeds to pay the Geostar note in full.

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, commenced production in late September 2004, with initial production rates of approximately 15.0 MMcfd (8.5 MMcfd net). As a result of the Geostar acquisition, our working interest in this well increased from 75% to 98%. Current daily production is approximately 4.1 MMcfd (3.1 MMcfd net).

- 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 in this well 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). Current daily production is approximately 0.9 MMcfd (0.7 MMcfd net) after restimulation in August 2005.

- 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 in this well increased from 73% to 98%. Current daily production is approximately 2.1 MMcfd (1.6 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 in this well 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). Current daily production is approximately 1.9 MMcfd (1.5 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. The completion attempt in the Bossier sands was not successful. A completion attempt in the Travis Peak was made in October, and current production results are being evaluated. As a result of the Geostar acquisition, our working interest increased from 78% to 100%.

- Gastar commenced drilling the Donelson #1 well in May 2005. This sixth Deep Bossier well in the Hilltop area of East Texas was drilled to a total depth of 19,200 feet. The well has encountered an apparent commercial gas discovery in the Pettet formation at approximately 10,000 feet. In addition, the Donelson #1 well has encountered a productive interval within the Knowles limestone. A dedicated Knowles well will be drilled on the Donelson #1 location in order to accelerate the development and production of the Knowles formation and to take advantage of current high natural gas prices. The Donelson #1 well also encountered apparently productive sands in the upper and middle Bossier formations along with a series of apparently productive pay zones in the lower or deep Bossier formation from approximately 17,000 feet to 19,000 feet. The lower Bossier sands appear to correlate to a similar series of sands discovered by Gastar in the earlier Belin Trust A-1 well. Gastar will undertake a completion in the lower Bossier pays immediately after the dedicated Knowles well is drilled. The Donelson Knowles well was spudded in early

November 2005 and will require approximately 45 days to drill and complete. As a result of the Geostar acquisition our working interest in this well increased from 78% to 100%.

- We have contracted with a third party to provide us with two 20.0 MMcfd of on-site processing facilities for our East Texas properties. For a monthly rental, the third party constructs and operates the natural gas processing plants. Current natural gas processing plant capacity is not anticipated to be reached until later 2006. Prior to reaching current plant capacity, we anticipate contracting with a third party to construct and operate additional needed plants for a similar monthly fee. Lead time to construct a new natural gas processing plant is approximately 60 to 90 days.

- Our CBM joint venture partners drilled two and completed three vertical CBM wells and one horizontal CBM well during the third and fourth quarters of 2004 on our 2.0 million gross acre PEL 238 project in New South Wales, Australia. The vertical wells were fracture stimulated with large volumes of sand proppant. These wells 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 natural gas from first production. 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 in the fourth quarter of 2005 and in the first quarter of 2006. During the first and second quarters of 2005, we drilled the first two dedicated CBM test wells on our EL 4416 license in the Gippsland Basin, located in Victoria, Australia. We hold a 75% working interest in the CBM and Mineral Sands rights on the 1.4 million gross acre concession with the balance owned and operated by a subsidiary of Geostar. The wells are anticipated to be completed utilizing openhole completion techniques commonly used in the Powder River Basin area of Montana and Wyoming.

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

	For the three month period ended September 30,		For the nine month period ended September 30,	
	2005	2004	**2005**	2004
	(in thousands, except share and per share data)			
Revenues	**$ 7,822**	$ 814	**$ 17,496**	$ 1,688
Net loss	**$ (6,107)**	$ (2,034)	**$ (14,642)**	$ (3,454)
Shares outstanding[1]	**136,440,445**	113,390,108	**136,440,445**	113,390,108
Weighted average shares outstanding	**132,409,512**	112,756,454	**121,205,445**	110,708,563
Fully diluted weighted average shares outstanding[1]	**136,045,730**	124,874,246	**126,532,916**	123,322,384
Per share net loss	**$ (0.046)**	$ (0.018)	**$ (0.121)**	$ (0.031)

(1) As of November 11, 2005, total common shares outstanding were 163,592,086.

		September 30, 2005		December 31, 2004		December 31, 2003 (restated)
				(in thousands)		
Exploration and development expenditures	$	**42,026**	$	30,294	$	6,816
Leasehold expenditures	$	**77,086**	$	4,651	$	4,529
Total assets	$	**209,035**	$	94,296	$	40,683
Total liabilities	$	**133,856**	$	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 September 30, 2005 compared to Three Months Ended September 30, 2004

Third Quarter 2005 versus Third Quarter 2004 Net Loss Variances:

		(000's)
3Q 2004 Net Loss	$	**(2,034)**
Change in:		
Oil volumes		**(14)**
Gas volumes		**3,942**
Oil prices		**8**
Gas prices		**3,072**
Production taxes and crown		**(368)**
Operating expenses		**(1,365)**
General and administrative expense		**(1,146)**
Compensation expense		**(121)**
Interest expense and debt issue costs		**(2,703)**
Depletion, depreciation and amortization		**(5,167)**
Accretion on asset retirement		**(23)**
Foreign exchange gain (loss)		**(207)**
Other		**19**
3Q 2005 Net Loss	**$**	**(6,107)**

	Three Months Ended September 30,				Increase (Decrease)		
		2005		**2004**		**Amount**	**Percent**
				(in thousands)			
Revenues	$	7,822	$	814	$	7,008	861%
Depletion, depreciation and amortization	$	5,595	$	428	$	5,167	1207%
Interest and debt related items	$	3,614	$	911	$	2,703	297%
Lease operating, production taxes transportation and selling	$	2,232	$	499	$	1,733	347%
General and administrative	$	2,336	$	1,069	$	1,267	119%

Revenues. Substantially all of our revenues are derived from the production of natural gas in the United States. We reported revenues of $7.8 million for the three months ended September 30, 2005, up from $814,000 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, the Greer #1 well in July 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, 56% was attributed to higher production rates and 44% 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 September 30,	
	2005	**2004**
Production:		
Natural gas (MMcf)	1,008.3	167.6
Oil (MBbls)	0.4	0.7
Total (MMcfe)	1,010.6	172.0
Natural gas (MMcfd)	11.0	1.8
Oil (MBod)	0.0	0.0
Total (MMcfed)	11.0	1.9
Average sales prices:		
Natural gas (per Mcf)	$ 7.74	$ 4.69
Oil (per Bbl)	$ 60.31	$ 40.30

Depletion, depreciation and amortization. We reported depletion, depreciation and amortization ("DD&A") of $5.6 million for the three months ended September 30, 2005, up from $428,000 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, 40% was attributed to higher production rates and 60% was due to an increase in DD&A rate per unit. The DD&A rate for the period ended September 30, 2005 was $5.52 per Mcfe, as compared to prior comparable period of $2.49 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 $3.6 million for the three months ended September 30, 2005, up from $911,000 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 in 2004, the sale of $30.0 million of convertible debentures in 2004 and the private placement of $73.0 million of senior secured notes and the issuance of unsecured subordinated notes to Geostar in 2005.

Lease operating, production taxes, transportation and selling. We reported expenses for lease operating, production taxes, transportation and selling of $2.2 million for the three months ended September 30, 2005, up from $499,000 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, production taxes, transportation and selling expense per Mcfe decreased to $2.21 per Mcfe during the three months ended September 30, 2005 from $2.90 per Mcfe for the comparable period.

General and administrative. We reported expenses for general and administrative of $2.3 million for the three months ended September 30, 2005, up from $1.1 million 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.

Nine Months Ended September 30, 2005 compared to the Nine Months Ended September 30, 2004

YTD 2005 versus YTD 2004 Net Loss Variances:

		(000's)
YTD September 30, 2004 Net Loss	$	(3,454)
Change in:		
Oil volumes		**19**
Gas volumes		**10,555**
Oil prices		**20**
Gas prices		**5,214**
Production taxes and crown		**(451)**
Operating expenses		**(2,636)**
General and administrative expense		**(2,350)**
Compensation expense		**(1,606)**
Interest expense and debt issue costs		**(9,253)**
Depletion, depreciation and amortization		**(10,624)**
Accretion on asset retirement		**(42)**
Foreign exchange gain (loss)		**(107)**
Other		**73**
YTD September 30, 2005 Net Loss	**$**	**(14,642)**

	Nine Months Ended September 30,				Increase (Decrease)		
	2005		2004		Amount		Percent
	(in thousands)						
Revenues	$	17,496	$	1,688	$	15,808	936%
Depletion, depreciation and amortization	$	11,501	$	877	$	10,624	1211%
Interest and debt related items	$	10,750	$	1,497	$	9,253	618%
Lease operating, production taxes transportation and selling	$	4,024	$	937	$	3,087	329%
General and administrative	$	5,872	$	1,916	$	3,956	206%

Revenues. Substantially all of our revenues are derived from the production of natural gas in the United States. We reported revenues of $17.5 million for the nine months ended September 30, 2005, up from $1.7 million 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, the Greer #1 well in July 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, 67% was attributed to higher production rates and 33% 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:

	Nine Months Ended September 30,	
	2005	**2004**
Production:		
Natural gas (MMcf)	2,614.8	353.0
Oil (MBbls)	1.6	1.1
Total (MMcfe)	2,624.3	359.4
Natural gas (MMcfd)	9.6	1.3
Oil (MBod)	0.0	0.0
Total (MMcfed)	9.6	1.3
Average sales prices:		
Natural gas (per Mcf)	$ 6.67	$ 4.67
Oil (per Bbl)	$ 50.19	$ 37.75

Depletion, depreciation and amortization. We reported depletion, depreciation and amortization of $11.5 million for the nine months ended September 30, 2005, up from $877,000 for the nine months ended September 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, 48% was attributed to higher production rates and 52% was due to an increase in DD&A rate per unit. The DD&A rate for the period ended September 30, 2005 was $4.37 per Mcfe, as compared to prior comparable period of $2.44 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 $10.8 million for the nine months ended September 30, 2005, up from $1.5 million for the nine months ended September 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 and the private placement of $73.0 million of senior secured notes and the issuance of unsecured subordinated notes to Geostar in 2005. During the first nine 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 $4.0 million for the nine months ended September 30, 2005, up from $937,000 for the nine months ended September 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, production taxes, transportation and selling expense per Mcfe decreased to $1.53 during the nine months ended September 30, 2005 from $2.61 for the comparable period in 2004.

General and administrative. We reported general and administrative expenses of $5.9 million for the nine months ended September 30, 2005, up from $1.9 million for the nine months ended September 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 nine months of 2005.

<u>2005 Asset Variances:</u>

		(000's)
Total Assets, year end 2004	$	**94,296**
Change in:		
Cash and equivalents		**(7,342)**
Accounts receivable		**(32)**
Revenue receivable		**2,676**
Due from related party		**63**
Prepaid expenses		**102**
Current portion of deferred lease charge		**(204)**
Deferred charges		**16,269**
Cash call receivable		**(5,196)**
Oil and gas properties:		
Expenditures		**118,185**
Sales		**(2)**
Depletion		**(11,480)**
Asset retirement costs		**1,392**
Mineral resource properties		**63**
Capital assets, net		**245**
Other		**-**
Total Assets, September 30, 2005	**$**	**209,035**

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

- Total assets increased approximately $114.7 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 $7.3 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 natural gas expenditures, retirement of senior note debt and general corporate purposes.
- Revenue receivable increased due to higher product prices and volumes of approximately $2.7 million.
- 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 $16.3 million, with $20.0 million in additions offset by $3.7 million in amortization expense.
- For the nine months ended September 30, 2005, Gastar advanced $14.9 million for well drilling activities in East Texas and Australia. The cash call receivable balance was reduced by $18.0 million due to drilling and completion spending on the Lone Oak Ranch #1, Greer #1, F-K #2, Donelson #1, 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 $118.2 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 $71.6 million including estimated purchase price effective date adjustments (Note 3).
    - Increase in properties due to expenditures of approximately $47.5 million, of which $43.8 million are in the Hilltop area, including the Cheney #1, Lone Oak Ranch #1, Greer #1, F-K #2 and Donelson #1 wells.

- Change in properties due to the reduction of $1.0 million related to the drilling advances on the Greer #1 well.
- Reduction in properties due to depletion of $11.5 million from increased production.

Liability variance:

Total liabilities increased during the nine months ended September 30, 2005 by approximately $69.8 million to a balance of $133.9 million, primarily due to increases in senior secured notes, a note payable to Geostar and accounts payable, offset by retirement of a senior note.

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.

	Sept. 30, 2005	June 30, 2005	March 31, 2005	Dec. 31, 2004	Sept. 30, 2004	June 30, 2004	March 31, 2004	Dec. 31, 2003
	(in thousands, except per share data)							
Production (MMcfed)[1]	**11.0**	8.4	9.5	8.3	1.9	1.1	1.0	0.6
Average Price ($/Mcfe)	**$ 7.74**	$ 6.50	$ 5.54	$ 5.75	$ 4.73	$ 5.11	$ 4.13	$ 3.91
Revenue net of crown[2]	**$ 7,822**	$ 4,942	$ 4,732	$ 4,373	$ 814	$ 516	$ 356	$ 207
Cash and cash equivalents	**$ 8,499**	$ 13,313	$ 4,546	$ 15,842	$ 555	$ 8,868	$ 1,828	$ 681
Revenue receivable	**$ 4,369**	$ 3,962	$ 3,198	$ 1,693	$ -	$ -	$ -	$ -
Current deferred charges	**$ 34**	$ 101	$ 170	$ 238	$ 134	$ -	$ -	$ -
Property and Equipment	**$ 172,966**	$ 163,352	$ 75,487	$ 64,563	$ 57,057	$ 45,363	$ 39,124	$ 37,725
Deferred Charges	**$ 21,566**	$ 19,769	$ 4,850	$ 5,298	$ 1,583	$ 1,530	$ 336	$ 400
Long Term Obligations	**$ 112,277**	$ 106,692	$ 61,530	$ 62,249	$ 19,421	$ 21,816	$ 4,008	$ 3,991
Short Term Obligations	**$ 21,579**	$ 19,716	$ 4,817	$ 1,800	$ 12,262	$ 6,015	$ 6,830	$ 4,474
Net Loss	**$ (6,107)**	$ (4,915)	$ (3,620)	$ (3,225)	$ (2,033)	$ (804)	$ (617)	$ (783)
Loss Per Share	**$ (0.046)**	$ (0.042)	$ (0.032)	$ (0.028)	$ (0.018)	$ (0.007)	$ (0.006)	$ (0.007)

(1) In developing thousand cubic feet equivalent (Mcfe), Gastar uses a conversion of 1.0 barrel of oil is equivalent to 6,000 cubic feet (6.0 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 as of September 30, 2005 are presented by country as follows:

	United States	Australia	Total
	(in thousands, except acreage data)		
Gross Acreage			
Developed	25,790	~2,200	~27,990
Undeveloped	111,523	~3.4 million	~3.5 million
Total	137,313	~3.4 million	~3.5 million
Book Value by Reserve Classification			
Proved	$ 116,494	$ 610	$ 117,104
Unproved	68,558	3,062	71,620
Total	$ 185,052	$ 3,672	$ 188,724
Book Value by Category			
Leasehold	$ 102,841	$ 3,112	$ 105,953
Drilling	93,088	3,566	96,654
Geological and geophysical	1,737	306	2,043
Asset sales	(12,614)	(3,312)	(15,926)
Subtotal	$ 185,052	$ 3,672	$ 188,724
Asset retirement	2,825	69	2,894
Accumulated depletion	(15,922)	-	(15,922)
Impairment	(2,605)	(519)	(3,124)
Total	$ 169,350	$ 3,222	$ 172,572

Gastar's strategy has been to acquire acreage in high potential gas fields. As a result, approximately 37% 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 September 30, **2005**	2004	Average for the nine month period ended September 30, **2005**	2004
Average Henry Hub Cash Price* ($ per MMBtu)	**9.53**	5.46	**7.63**	5.72
Average CIG Cash Price* ($ per MMBtu)	**7.69**	4.73	**6.46**	4.92
Average Henry Hub - CIG differential ($ per MMBtu)	**1.84**	0.73	**1.17**	0.80
Average Katy Hub Prices ($ per MMBtu)	**8.92**	5.35	**7.28**	5.57
Average Henry Hub – Katy differential ($ per MMBtu)	**0.61**	0.11	**0.35**	0.15
WTI Average ($ per Barrel)**	**63.13**	43.88	**55.36**	39.16

*Natural 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 natural gas price trends and regional natural gas prices. On a national basis, natural gas prices increased in 2004 generally due to increases in crude oil prices, economic growth,, general concerns about future natural gas supplies and recent production reductions resulting from hurricane activities in the Gulf of Mexico. 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 nine months ended September 30, 2005, natural gas production from our East Texas properties accounted for approximately 72% 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 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 unprecedented levels. 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.

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. The Company does not anticipate that this action will result in a material loss to the Company.

The contingency regarding the 1,989,475 warrants issued in conjunction with the $10.0 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 common shares pursuant to the senior secured notes financing completed in June and September 2005. 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.

We have 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 components of 2005 capital expenditures are:

- The Company expects to drill one Knowles dedicated well and commence completion of the Donelson #1 and F-K #2 wells by year end 2005. The estimated cost to drill and complete these wells is approximately $8.0 million. Gastar average working interest in these wells is approximately 98%. During the nine months ended September 30, 2005, the Company has drilled and completed the Greer #1 and the Lone Oak Ranch #1 wells;
- The Company expects to participate in a drilling program of up to approximately 100 CBM wells in Wyoming of which its net share of capital costs is projected to total approximately $3.0 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 over the next six months. 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 $4.0 million;
- The Company has drilled 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 costs is $1.6 million; and

- 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 September 30, 2005:

Commitments	Recognized in Financial statements		Amount	Due in 1 year	1-3 Years	4-5 Years	After 5 years
				(in thousands)			
Site restoration (Note 7)	Yes - Liability	$	3,182	537	850	1,504	291
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		73,000	-	-	73,000	-
Convertible notes	Yes - Liability and Equity		30,000	-	-	30,000	-
Subordinated, unsecured notes payable	Yes - Liability		3,250	-	-	3,250	-
Geostar unsecured note	Yes - Liability		15,000	12,000	3,000	-	-
Senior secured notes	Yes - Equity		12,748	8,499	4,249		
Total		$	138,053	21,600	8,408	107,754	291

Liquidity and Capital Resources

During the nine months ended September 30, 2005, we raised $91.7 million from various debt and equity financings, repaid $26.5 million of outstanding senior notes and expended approximately $81.2 million in cash on natural gas and oil properties. As of September 30, 2005, approximately $8.5 million in cash was available for future capital commitments.

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. 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 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 June 30, 2005, we completed a private placement of 6,617,736 common shares at CDN$3.31 per share. The net proceeds from this placement were approximately $16.3 million (CDN$20.5 million), after deducting placement fees and expenses.

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 6,373,694 common shares 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 September 19, 2005, we issued to the holders of our senior secured notes an additional $10.0 million of senior secured notes on substantially the same terms as the original June 2005 private placement, including the issuance of 206,354 common shares to the note holders. The common shares issued in the transaction represented an aggregate value of CDN$714,286 based upon the five day weighted average trading price of CDN$3.4615 per share for the five trading days immediately prior to closing. In connection with the sale of the additional notes, we issued subscription receipts to the purchasers of the notes, for no additional consideration, entitling the holders to receive common shares in CDN$714,286 increments on each of the six, twelve and eighteen-month anniversaries of the closing date, valued on a five day weighted average trading price immediately prior to the date of issuance.

We have the right, exercisable quarterly to June 16, 2007, to require the original purchaser of the senior secured notes to purchase additional notes in an amount limited to an aggregate of $10.0 million in principal, provided that we comply with proved plus probable reserve PV(10) value to net senior secured debt coverage ratio of 2.0:1 and other general covenants and conditions. The PV(10) value is to be based on a third party independent reserve report utilizing constant pricing based on the lower of current natural gas and oil prices, adjusted for area basis differentials, or $6.00 per Mcf of natural gas and $40.00 per barrel of oil. The senior secured notes prohibit us from issuing any debt senior to these notes.

On November 4, 2005, we closed the previously announced transaction with Chesapeake whereby Chesapeake (i) acquired new common shares from us equal to 19.9% of our outstanding common shares, (ii) acquired a 33.33% working interest in our Deep Bossier play in the Hilltop prospect area of Leon and Robertson Counties of East Texas and (iii) formed an AMI to explore 13 counties in East Texas. Under the terms of the agreement, Chesapeake acquired for cash approximately 27.2 million newly issued common shares for a price equal to CDN$3.31 per share, or approximately $76.0 million (CDN$89.9 million), before transaction expenses. As part of the transaction, Chesapeake purchased from us for approximately $7.8 million, the commitment to acquire the shares described above and the drilling commitment described below, an undivided 33.33% of our leasehold working interest in the Deep Bossier Hilltop prospect, less and except the 160 acre units surrounding each of our existing well bores. Chesapeake will also pay 44.44% of the drilling costs through casing point in the first six wells drilled by the parties in the Hilltop prospect to a depth sufficient to test the Deep Bossier formation (an approximate depth of 19,000 feet) in order to earn its 33.33% leasehold working interest. Further, Chesapeake has agreed to provide one to two additional drilling rigs to Gastar in early 2006 if needed to accelerate drilling in the Hilltop Prospect. We plan to use the proceeds from the stock offering and leasehold sale as well as other sources to accelerate our drilling activities, to reduce short term debt, and for general corporate purposes.

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 are approximately $50.0 million. 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 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 also attempt to balance future capital expenditures through joint venture development of certain properties with industry partners. We are in the early stages of exploration and development of our East Texas properties. Amounts and timing of future cash flows is dependent on confirmation of production from recently completed wells, together with the success of currently drilling and to be drilled wells. 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 and our recent debt and equity financings, we believe that sufficient cash will be available to execute our business and operational plans for at least the next 12 months.

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.

At September 30, 2005, we were in compliance with all debt covenants.

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 nine months ended September 30, 2005, a 10% change in the prices received for natural gas production would have had an approximate $1.7 million impact on our revenues.

Interest Rate Risk. The carrying value of our debt approximates fair value. At September 30, 2005, we had approximately $88.0 million of current and long term debt subject to floating interest rates. Of this debt, $73.0 million of the senior secured notes was at LIBOR plus 6% and the remaining Geostar note payable of $15.0 million was at LIBOR plus 4.5%. A 10% fluctuation in interest rates would have an approximate $357,000 impact on annual 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 2005 Geostar billed FSW $1.4 million in drilling overhead charges which was equal to 12.5% of projected development costs for the Greer #1 and F-K #2 wells. These costs have been capitalized to property and equipment and paid in the second quarter. The asset purchase agreement provides for certain post closing adjustments relating to expenditures incurred on the acquired properties which may include additional agreed upon drilling overhead charges. All post closing adjustments are to be finalized by year end 2005. 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 $63,000 receivable from Geostar at September 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. 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.