MANAGEMENT DISCUSSION AND ANALYSIS

THIRD QUARTER INTERIM REPORT

FOR THE PERIOD ENDING SEPTEMBER 30th 2011

The following Management Discussion and Analysis ("MD&A") for Gastem should be read in conjunction with the Third Quarter ("Q3") 2011 unaudited condensed consolidated interim financial statements and the accompanying notes. This report, along with all recent press releases and previous financial statements with related documents are also available on Gastem's (the "Company") website at www.gastem.ca or at www.sedar.com.

The Company's Q3 2011 unaudited condensed consolidated interim financial statements and the accompanying notes form part of the first audited annual consolidated financial statements to be prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") for the year ended December 31st 2011 and have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting standards Board ("IASB") and using the accounting policies described therein.

This MD&A, prepared by Gastem's management, contains comments on the Company's financial statements to September 30th 2011 and a synopsis of current activities, including a brief outlook.

1. DATE

This MD&A for the interim period ended September 30th 2011 was completed on November 25th 2011. In accordance with regulations, the report contains notes and explanations to important events subsequent to September 30th 2011.

2. COMPANY PROFILE

The Company was incorporated under the Canada Business Corporations Act in 2002 and listed on the TSX-Venture Exchange in January 2004 under the symbol GMR.

Gastem is an oil and gas exploration and development company with exploration properties, rights and interests located in the St. Lawrence Lowlands, the Magdalen Islands and the Gaspe Peninsula in Quebec.

The Company also owns exploration leases situated in New York State and Virginia, held and operated by a wholly owned American subsidiary named Gastem-USA. It is also in the process of obtaining new properties in Appalachia and Eastern Canada. The Company has, at present, no formal oil or gas reserves and no revenue from oil and gas producing wells.

3. EXPLORATION ACTIVITIES

The Company's exploration activities for Q3 2011, with references to significant events after that date, are presented initially in the form of highlights, followed by a property exploration program summary table and a more detailed property review.

3.1 Highlights

Highlights of the Company's main activities for Q3 2011 are as follows:

- Magdalen Island Property
  - Identification of potential well sites
  - Water table study completed
  - Discussions with the community as to the proposed well

- Matapedia-Cyr Property
  - Permit application for a conventional well
  - Site preparation being completed

- St-Anicet Project (Dundee-Soulanges Property)
  - Identification of a drill target
  - Permit application being prepared

- St-Hyacinthe Property
  - Modification to the La Presentation No 1 well

- New York State
  - Permit application for conventional well in Chenango County on new property

3.2 Summary of Exploration Activities and Programs

A summary of the Company's main exploration properties, earn-in options, programs and projected expenses are presented in the following table. Exploration programs are subject to revision and control by the Board of Directors and may or may not be undertaken at the Board's discretion. Projected expenses may increase or decrease subject to results, priorities and available funds.

Bill 18 (An Act to Limit Gas Activities) was adopted on June 10th 2011 by the Quebec legislature. The Bill prohibits all gas and oil activities in the St. Lawrence River (art. 1), without compensation (art. 4) and revokes those permits or parts of permits situated in the St. Lawrence (art. 2). It also stipulates that all permit holders for petroleum, natural gas and underground reservoirs are exempted from undertaking exploration work required by law for the duration of the environmental assessment study (art. 3).

In effect, Bill 18 suspends all permit obligations during the Environmental Assessment Study which may take up to 3 years. Work on shale properties may be undertaken if approved by the Committee or the Ministry but is no longer required and therefore, the permits are still held by the Company but annual exploration expenses are no longer required and the life of the permits is extended accordingly. As for those parts of exploration permits situated in the St. Lawrence River, they are in nul and void and without compensation as a result of the expropriation. For Gastem, this expropriation without compensation impacts the Dundee-Soulanges property and is presently being reviewed by legal counsel.

Summary of Exploration Activities and Programs	
St. Lawrence Lowlands, Quebec	
Yamaska – 45,381 hectares (20% Gastem, 60% Lone Pine, 20% Questerre)	
Summary	• 2 vertical wells drilled by Gastem in 2007 and one frac-stimulated by Forest Oil in 2007/2008 • Partner Forest Oil earned 60% interest during Q3 2008 • Drilling and hydraulic fracture stimulations of 2 horizontal wells completed in early Q4 2008 with preliminary results announced in Q1 2009 • 81.5km 2-D seismic survey during Q2-Q3 2010 by operator Forest Oil (now Lone Pine) • Epsilon Energy has the right to participate for 5% (gross) of future wells • Several drilling targets identified based on new seismic survey, site locations under review
Proposed Program	• Program to be made known by Lone Pine Resources
Projected Expenses	• No significant expenses projected at this time
St-Hyacinthe – Farm In – 37,247 hectares (16.575% Gastem, 68% Canbriam, 0.425% Lone Pine, 15% Suncor et al.)	
Summary	• Joint Gastem–Canbriam Energy farm-in on Suncor et al. acreage • Adjacent and geologically similar to Yamaska property with Utica and Lorraine shales present • Gastem's participation for 19.5% of costs for a 16.575% working interest • Two vertical wells drilled in 2009 • One vertical and three horizontal wells drilled during Q2 and Q3 2010 • One horizontal well stimulated during Q3 2010 • Environmental characterisation of the three drilling sites during Q1 2011 • Modification to the La Présentation No 1 vertical well
Proposed Program	• Program to be made known by Canbriam
Projected Expenses	• No significant expenses projected at this time save and except for well maintenance
St-Jean East – 50,579 hectares (50% Gastem with 12.5% Epsilon, 50% Questerre)	
Summary	• Subject to a Joint Operating Agreement with Questerre Energy • Potential targets in platform carbonates and Utica Shale • High-resolution aeromagnetic survey undertaken during spring 2007
Proposed Program	• Program to be made known in 2012
Projected Expenses	• No significant expenses projected at this time
St-Jean West – 28,869 hectares (75% Gastem, 25% Epsilon)	
Summary	• Potential targets in platform carbonates and granite wash, analogous to Dundee-Soulanges • High-resolution aeromagnetic survey undertaken in 2007
Proposed Program	• Gastem reviewing existing data and developing a possible drilling program to test the platform targets
Projected Expenses	• No significant exploration expenses projected at this time
St-Jean North – 21,834 hectares (20% Gastem, 80% Questerre)	
Summary	• Permit obtained by Questerre with a subsequent 20% working interest transferred to Gastem • St-Jean No 1 well drilled to the base of Utica Shale in Q2 2008 and frac-stimulated in Q1 2009 • Exploration program may be integrated with the adjacent Gastem St-Jean East permits
Proposed Program	• No exploration program projected at this time
Projected Expenses	• No significant exploration expenses projected at this time
Dundee-Soulanges – 92,540 hectares initially, reduced to 71,736 ha after Bill 18 (75% Gastem, 25% Epsilon)	
Summary	• Current exploration focussed on identification of commercial reservoirs in Beekmantown fractured carbonates and in the granite wash at the Potsdam/basement contact • Permit-wide surface geochemical survey undertaken during summer 2007 • 19.5km 2-D seismic survey completed over gas seep anomalies in 2009 • 1,066km^2 airborne gravimetric survey initiated in December 2010, completed during Q1 2011 • Processing and interpretation of the gravimetric survey completed during Q2

	• Reprocessing of vintage seismic and integration to 2009 seismic during Q2 • Identification of a target in the western part of the permits to drill the Beekmantown and the Potsdam • Lease of drill site signed and completed
Proposed Program	• Two drill targets identified based on new seismic survey and rill site identified and under review • Drill program for this site under preparation
Projected Expenses	• Proposed exploration well planned for the Winter of 2012 if authorised
Joly – Farm In – 13,809 hectares (35% Gastem, 65% Intragaz)	
Summary	• Joint Intragaz–Gastem exploration project for production and storage • Gas exploration and storage play in highly porous, permeable formation adjacent to existing gas storage installations at St. Flavien • Gastem is Operator for all exploration activities pertaining to this project and has earned both a 35% interest on the property and a 34% interest in gas storage rights • Joly No 4 drilled in December 2007, expected dolomite sequence not encountered – well abandoned in early Q3 2009 • Spud of Joly No 5 delayed for surface and environmental issues • Filling of an application for a Certificate of Authorization for Joly No 5 during Q1 • Joly 6 site studied and leased (next to Joly 5)
Proposed Program	• Possible drill permit application for Joly No 6 to test Utica Shale at 3.5 km depth
Projected Expenses	• Possible exploration well in 2012, if authorised
Gaspe Peninsula, Quebec	
Matapedia – Cyr – 189,884 hectares (75% Gastem, 25% Epsilon)	
Summary	• Regional geochemical survey (2007) undertaken by Gastem in vicinity of recent MRNF and Petrolia seismic lines in northern part of block • Detailed geochemical survey (2008) undertaken by Gastem on the Causapscal Anticline • Regional tectonic and thermal maturity study undertaken by the Institut National de la Recherche Scientifique in Quebec City • Acquired 40km of 2-D seismic in 2009 • 8,727km^2 aeromagnetic survey initiated in December 2010, completed during Q1 2011 • Processing and interpretation of the magnetic survey completed during Q2 • Identification of drill target in the Cyr block
Proposed Program	• Drilling of one conventional test well, subject to authorizations, to obtain scientific information and to evaluate the hydrocarbon potential of the zone
Projected Expenses	• Drill program projected for Fall of 2011 and Winter of 2012 pending governmental authorizations
Magdalen Islands, Quebec	
Magdalen Islands – 17,520 hectares (100% Gastem)	
Summary	• Exploration permit acquired in July 2008 • Review of existing data and geophysical modelling (seismic, gravity, magnetism) completed • Detailed geological report completed • Water table study completed
Proposed Program	• Update on geophysical modelling based on new MRNF regional surveys, when available • Drilling program prepared, surface location under review
Projected Expenses	• Possible exploration well projected for 2012

Gastem – USA	
New York State Shale and Tight Sand Project – approx. 26,000 acres (80% Gastem, 20% Covalent Energy)	
Summary	• Covalent Energy (now Utica Energy LLC) drilled and completed two wells on acreage in the summer of 2007, with encouraging results • Gastem earned-in an 80% interest by drilling 1 vertical well and issuing 3,500,000 Gastem common shares as well as paying US$35,000 in early 2009 • All funds directed towards exploration and development programs

	• Aeromagnetic survey over about 85% of Chenango County, 20% of Broome County and 30% of Delaware County • 16.1km 2-D seismic acquired in Otsego County, focussing on the Oneida Sand Formation • Ross No 1 fracced for the Utica and Marcellus intervals, Oneida Sand interval tested • Drilling target identified and drilling application submitted to government during Q4
Proposed Program	• Drilling of one conventional test well subject to authorizations in the Fall of 2011 • Other programs subject to New York State regulations
Projected Expenses	• Exploration well projected for Fall 2011 or early 2012
Commonwealth of Virginia – approx. 2,300 acres (80% Gastem, 20% Covalent Energy)	
Summary	• Gastem-USA signed a Letter of Agreement with Covalent Energy in 2008 with regard to lease acquisition in the Commonwealth of Virginia, but the earn-in conditions (10,000 to 20,000 acres leased or 1,000,000 US$ spending) have not been triggered yet • Gastem-USA engaged the process of leases acquisition in 2009
Proposed Program	• The company continues evaluating lease acquisition opportunities
Projected Expenses	• No significant exploration expenses projected for 2011 at this time

3.3 Property Review

<u>3.3.1 St. Lawrence Lowlands Utica Shale</u>

In early 2009, Gastem significantly increased its net land position in the heart of the Utica fairway by signing a joint farm-in agreement for a 17% interest on 37,247 hectares held in a consortium led by Suncor Energy. The St-Hyacinthe acreage is adjacent to, and immediately south-east of the Yamaska block and shares a similar geology. According to the terms of the farm-in agreement, Canbriam and Gastem have to drill, evaluate and complete three vertical wells and three horizontal wells on this acreage prior to December 31st 2010. The partners drilled two vertical test wells on the St-Hyacinthe property during August and September 2009: the wells St-Hyacinthe No 1 and La Présentation No 1 reached their projected target depths in the Trenton Limestone immediately below the Utica Shale and were completed in the middle Dolgeville member of the Utica Shale during the winter 2009. The results of core and log analyses and the vertical fractures from these wells indicate significant Original Gas In Place (OGIP) values. The results of the Dolgeville stimulations, announced in early 2010, showed that stable gas rates could be achieved with vertical wellbores. Following detailed analysis of the stimulations and flowback operations, the partners expect that subsequent frac-stimulations in horizontal wellbores will significantly improve the gas rates.

The 2010 program for one vertical well and three horizontal wells in St-Hyacinthe has been completed. The horizontal well La Présentation No 1H was drilled in May, the vertical and horizontal wells St-Barnabé No 1 and St-Barnabé No 1H in July and the drilling of the last horizontal well, Saint-Hyacinthe No 1H, was finalised in August. Frac-stimulation of the La Présentation No 1H well was performed in July 2010. Due to the public hearings on shale gas development in the Province of Quebec, the frac-stimulation of the two remaining horizontal wells has been postponed until the end of the Strategic Environmental Assessment. Canbriam and Gastem prepared and filed two applications with the Ministère du Développement durable, de l'Environnement et des Parcs (MDDEP) in early Q2 2011, to obtain certificates of authorisation under Article 22 of the Environment Quality Act. Canbriam and Gastem are also monitoring carefully the gas vents and the gas surface migration (at extremely low levels) identified in the La Présentation No 1 vertical well, in collaboration with the Ministère des Ressources naturelles et de la Faune (MRNF) and MDDEP. Remediation process to the gas surface migration includes the partial abandonment of the La Présentation No 1 vertical well during Q3 2011. A comprehensive environmental characterization of the three St-Hyacinthe drilling sites was undertaken in order to fully validate the environmental situation.

No significant work was undertaken on the Yamaska property following an 81 km seismic line and its interpretation. Lone Pine Resources (as successor to Forest Oil) and Gastem are monitoring carefully the gas vents documented in two wells, in collaboration with the MRNF and MDDEP. In parallel to these operations, Gastem undertook a comprehensive environmental characterization of the two Yamaska drilling sites in order to fully validate the environmental situation.

Work on the Joly property resumed during the fall of 2010 with the preparation of a drilling program (Gastem, Joly No 5) to evaluate the shallow carbonate thrust sheets and the deep Utica Shale. The carbonates have a potential for gas storage (reservoirs analogous to St-Flavien) and the potential of the Utica Shale could be two-fold: the naturally fractured shale at moderate depths (analogous to Villeroy) and the underlying undeformed shale, the latter being located in the deepest of the three prospective zones of the Utica fairway, a zone that to date has never been tested. Acknowledging the possible risks inherent to the exploration of a new area, Gastem's program mitigates these risks in its test well by combining the deep Utica target with two alternative targets as discussed above. The drilling permit was delivered by the MRNF to Gastem on November 23rd 2010.

As a result of concerns by the regional office of the MDDEP regarding the possible presence of a swamp on a portion of the site (part of a former agricultural field, now abandoned), drilling preparations were stopped on December 8th. In order to resume the drilling operations of Joly No 5, an application has been filed with the MDDEP in Q1 2011 to obtain a certificate of authorisation under Article 22 of the Environment Quality Act. As a precautionary measure, an alternative site (Gastem, Joly No 6) located along the same seismic line as Joly No 5 has been identified, and permitting is underway. As with all Gastem wells, meetings with the municipality of Joly and the Municipalité Régionale de Comté (MRC) of Lotbinière have been the occasion to present the company's program and to address the communities' concerns and issues. Additional meetings are planned with the communities before the drilling operations resume.

The BAPE (Bureau d'audiences publiques sur l'environnement) Report, entitled the "Sustainable Development of the Shale Gas Industry in Quebec", was made public in late February 2011. The main recommendation of the Report consists in the undertaking of a "Strategic Environmental Assessment" (SEA). MDDEP announced on May 12th the mandate and membership of the committee that will supervise over the next 18 to 30 months the strategic environmental assessment for shale gas development in Quebec. The committee's mandate will include the preparation of a report to address the issues identified in the strategic environmental assessment and provide recommendations on how to improve the legal and regulatory framework to govern the development of shale gas. For the duration of the SEA study, the announced intention is that the committee will review and approve programs on the Utica Shale as well as hydraulic fracturing in Quebec. In principle, all other conventional exploration programs are expected to continue according to existing regulations and are not subject to the SEA study.

Recently, the Committee presented its timetable for the execution of its mandate and has asked for comments prior to December 15th 2012.

3.3.2 Dundee-Soulanges Property

During the autumn of 2009, Gastem undertook a 19.48 km 2-D seismic survey in the south western portion of the block, adjacent to the previous Gastem and Ditem Explorations wildcat wells and various methane seep anomalies observed during the 2007 soil geochemistry survey. After processing and interpretation of this survey, Gastem identified two possible drilling targets. Reprocessing and interpretation of 1997 vintage seismic lines during Q2-2011 led the company to focus on one specific drilling target. Jointly with the review, Gastem contracted a firm in December 2010 to perform a 1,066 km^2 airborne gravimetric survey over part of the property. The gravimetric survey was completed in March 2011, has been processed and interpreted. These data will help developing the exploration program for the northern part of the property.

Following the adoption of Bill 18 during late Q2, as discussed above, the surface area of the Dundee-Soulanges property has been unilaterally reduced by the government by some 22%, and those parts of the permit situated in the St. Lawrence River were revoked.

Site validations have confirmed the surface location for one test well targeting the Beekmantown dolostone and the Potsdam sandstone. Leasing has been completed for the well "Gastem, Saint-Anicet No 1". The municipality and the community of Saint-Anicet have been met and informed of the project by Gastem. The site location is on agricultural land and Gastem has applied for authorisation to the Commission de protection du territoire agricole du Québec. A conventional well program is in preparation and drilling could take place during the winter of 2012, subject to governmental authorisations.

3.3.3 Magdalen Islands Property

In July of 2008, the Company acquired the 17,520 hectares exploration permit (2008-PG-990) for the Magdalen Islands (Iles-de-la-Madeleine) located in the Quebec sector of the Magdalen Basin in the Gulf of St. Lawrence. Gastem has completed a comprehensive review and integrated re-evaluation of the existing available geological and geophysical data in late 2008 and early 2009, including the purchase of existing seismic data, with the processing and reinterpretation completed by Boyd Petrosearch of Calgary. This comparative analysis highlighted the need for complementary geophysical data and therefore, an onshore/offshore gravity survey was initiated in 2009. This survey and mapping report were prepared by Excel Geophysics, which integrated the 2009 survey data with the existing gravity database in order to refine the geophysical model and the geometry and structure of the salt diapirs underlying the Islands.

The primary onshore drill target was confirmed and delineated accordingly. The main exploration target is the Cable Head formation (Upper Carboniferous) which should be encountered at 2,300 meters or slightly less. A 94 km high quality seismic line located offshore south of Magdalen Islands was also acquired. The line has been interpreted and correlated with other seismic data by Boyd Petrosearch with the objective of increasing our level of confidence relative to the depth of the target formation. The results suggest that the Cable Head formation could be slightly higher than previous studies had indicated.

A detailed conventional drilling program and costs estimates have been prepared. A review and analysis of potential drill sites is being conducted. A comparative analysis of the different rig options was completed and preliminary discussions are held with a drilling contractor. The spud date has been postponed to Fall 2011 as a result of the negative repercussions of the BP accident in the Gulf of Mexico and the resulting increased concern by local environmental groups and representatives, with whom we are discussing.

A 6 km-long corridor of potential drilling site locations along the northern edge of the salt diapir has been identified. A hydrogeological study will be carried out in consultation with the municipal authorities by a specialized firm over the next few months to map out the location of the ground water table in order to optimize the site location.

The recent acquisition by Southwestern Energy Company of exclusive exploration licenses covering 2.5 million acres in New Brunswick is significant. The proposed three-year exploration program represents one of Southwestern's first ventures outside of the United States. The recently released five-year Geological Survey of Canada (GSC) study, Open File 6174, states that the Magdalen Basin, specifically the salt diapir zone associated with the Upper Carboniferous area, has a natural gas potential of several TCF (trillion cubic feet). The GSC resource assessment estimate for the Magdalen Basin is (P50) 21tcf, and the basin will indeed be an area for increased exploration in the near future.

In March 2011, the Governments of Canada and Quebec announced that they reached an important agreement related to the revenues from offshore oil and gas production for the Quebec portion of the Gulf of St. Lawrence. This is an important step towards an administrative agreement similar to those in force in Nova Scotia and Newfoundland and which may be expected to be completed in 2012.

Gastem submitted to the municipality and local interest groups an independant hydrogeological report prepared by Groupe Madelineau in late October. This report, prepared during July and August, reviews the hydrological situation on the Islands and identifies and evaluates possible drilling sites where the potential impact on the aquifer will be minimal or non-existant. There were also several other public meetings in the Fall of 2012.

The Company will proceed with this important program and hopes to undertake a conventional well during 2012.

3.3.4. Matapedia-Cyr Property

On the Matapedia-Cyr block in the Gaspe Peninsula, Gastem undertook two geochemical surveys in 2007 and 2008 in order to identify possible live oil seeps in the surface soils that would indicate potential subsurface oil accumulations. The surveys focussed on the Causapscal Anticline in the northern part of the block and covered over 19,000 hectares. Both surveys identified various live oil seeps in the surface soils and Gastem completed a 40 km 2-D seismic survey over these anomalies during fall 2009. The 2-D seismic data has been processed and interpreted.

A complementary aeromagnetic survey has also been initiated in December 2010, in order to refine the possible location of a test well on the Causapscal Anticline and to further assist in the delineation of the prospective zones in the southern part of the block. The aeromagnetic survey covers 8,727 km^2. It was completed in March 2011 and has been processed and interpreted during Q2.

The company has identified a conventional drill target in the southern part of the property . The proposed well "Gastem, Ristigouche-Partie-Sud-Est No 1" has two objectives: establish scientific information as to the various formations and test the hydrocarbon potential of the coral reefs in the Silurian West Point Formation and, at greater depth, the potential of the fractured limestones of the White Head Formation. A drill permit application has been submitted to the MRNF during Q4 and site preparation is underway. The municipality and citizens of Ristigouche-Partie-Sud-Est have been met and further meetings are planned to ensure that local concerns are being properly addressed.

3.3.5 Gastem-USA

In September 2010 Gastem-USA received from the New York State Department of Environmental Conservation the authorization to proceed with the frac-stimulation of the Marcellus Shale in the Ross No1 well and the Upper Utica Shale in the Sheckels No1 well. The Ross No1 fracs were performed during late October (Marcellus Shale). Gastem USA tested the Marcellus with a small two stage nitrogen assisted frac that produced a 120 mcf/d flow in the Ross 1.

Gastem-USA completed an aeromagnetic survey over about 85% of Chenango County, 20% of Broome County and 30% of Delaware County. This survey allowed Gastem-USA to evaluate land to the west and south of its current leases. Gastem USA completed a small 2D seismic program in the last quarter of 2010 and started to interpret the results during the First Quarter 2011. Initial 2D results are favorable in three areas to explore for natural gas reserves in the Oneida sandstone formation in Otsego County. This would expand the Oneida play to east of current Nornew Chenango County area. Areas to the south are also of interest.

Prospect exploration was conducted inside and outside of New York State. Marcellus and Utica shale prospects were studied both in Pennsylvania and Ohio and in other areas. In July of 2011, New York State Governor Cuomo signaled that the moratorium on the drilling of high volume unconventional shale wells might be lifted by the releasing of the new draft NYDEC SGEIS guidelines and the beginning of a sixty day public comment period to begin sometime in September. This action might enable companies to receive permits for shale gas exploration wells during the first quarter of 2012.

Gastem USA is continuing to evaluate conventional targets in New York State in order to develop local gas for local use. At present, the Company has undertaken a project to test production potential of the Oneida formation in the southern sector of its zone of interest. A new property near the town of Sidney in Chenango County has been obtained during Q3, in which the Company has a 100% working interest. At the time of writing this report, the company has applied for a conventional well permit and intends to drill a well to test the potential of the Oneida formation on this property.

Subject to all necessary authorisations, the objective of this project is to bring this natural gas resource to Sidney for local consumption. Discussions related to this pilot project are in an early phase and are on-going.

Gastem USA is continuing to evaluate conventional targets in New York State and elsewhere with the objective of developing local gas for local use.

4. SELECTED FINANCIAL INFORMATION

Listed below is selected Quarterly Information for the Quarter ending September 30th 2011 and will be discussed where useful in the present MD&A.

SELECTED QUATERLY INFORMATION	Results as of September 30th 2011	Results as of December 31st 2010	Results as of September 30th 2010
Shareholder Equity	$30,921,945	$33,261,187	$33,903,429
Accumulated Deficit	$18,408,547	$16,025,766	$15,282,127
Exploration Expenses	$1,343,717	$8,614,108	$2,127,804
General Expenses	$466,995	$3,129,967	$518,416
Net Loss	$327,452	$3,881,589	$931,395
Current Assets and Exploration Funds	$4,003,203	$8,824,133	$13,646,606
Gas Properties Net Value	$28,190,945	$26,142,826	$20,593,486
Total Assets	$32,651,747	$35,453,666	$35,072,502

5. ASSETS AND CAPITAL

Assets as of September 30th 2011 totalled $32,651,747 as compared to $35,453,666 on December 31st 2010. The decrease is mostly related to the use of exploration funds. Cash and cash equivalents, accounts receivable, exploration funds and prepaid expenses and deposits totalled $4,003,203. Property net book value increased from $26,893,564, at the end of Q2, to $28,190,945, at the end of Q3 2011, mostly as a result of exploration work on the Quebec conventional Dundee-Soulanges, Matapedia-Cyr and Magdalen Islands properties and the expenses related to work on a well on the St-Hyacinthe property.

Accounts receivable of $845,466, are composed of on-going accounts with companies for a total of $435,910 including $33,118 from Tawsho Mining for expenses and $322,728 from Ditem Explorations for on-going office and administrative expenses. The balance of $409,556 is composed of a US receivable, a partner’s contributions as well as $80,024 related to the provincial and federal sales tax, which has since been received.

Accounts payable of $1,729,802 are composed of statutory source deductions, salaries and accrued liabilities for amounts of $120,376, current exploration accounts of $1,571,802 and current US accounts of $37,624. At the time of this report, a total $207,399 has been paid.

Flow-through exploration funds are being used to finance drilling, exploration programs and related expenses on the Company’s Quebec properties. Funds have also been reserved for general and administrative expenses for 2011 and 2012. Present liquidities are sufficient to finance exploration obligations for the remainder of 2011.

Shareholder equity decreased from $31,219,031 at the end of Q2 to $30,921,945 at the end of Q3 2011 essentially as a result of the net loss.

6. CASH RESOURCES

6.1 Operation

During the Third Quarter of 2011, operating activities before the variations in the non-cash items of the working capital generated a negative cash flow of $327,452 as compared to $931,395 for the Third Quarter of 2010. The decrease in net loss is mostly due to 2010 deferred income taxes. The cumulated deficit increased to $18,408,547 as compared to $18,081,095, at the end of Q2.

Cost of operations and expenses for the Second Quarter of 2011, including stock-based compensation (options) to directors and officers and depreciation of equipment were $466,995 as compared to $518,416 for the Third Quarter of 2010.

The Company is continually striving to reduce general and administrative expenses and strong control measures were put in place in 2009 and 2010. Those policies continue to be improved and carried into 2011 but are subject to increase exploration and development activity.

REVENUES AND LOSSES FOR THE LAST 8 QUARTERS				
Quarter	**Total Revenues ($)**	**Net Loss ($)**	**Loss per Share ($0.00)**	
			Basic	**Diluted**
30/09/2011	$0	$327,452	$0.004	$0.004
30/06/2011	$0	$604,791	$0.007	$0.007
31/03/2011	$0	$1,450,538	$0.016	$0.016
31/12/2010	$0	$1,887,427	$0.023	$0.023
30/09/2010	$0	$931,395	$0.012	$0.012
30/06/2010	$0	$499,969	$0.003	$0.003
31/03/2010	$0	$562,798	$0.008	$0.008
31/12/2009	$11,226	$536,056	$0.012	$0.012

6.2 Financing

There have been no financings to date in 2011.

The following summarises all financings undertaken by the Company from January 1st 2006 to September 30th 2011.

FINANCINGS in 2006				
Date of Closing	**Shares Issued**	**$/Share**	**Warrants/ Price and Number**	**Total**
Jan. 31st 2006	1,462,500	$ 0.10	1,462,500 at $0.10	$ 146,250
May 19th 2006	4,666,000	$ 0.15	4,666,000 at $0.20	$ 699,900
Oct. 31st 2006	2,777,777	$ 0.18	None	$ 500,000
Dec. 27th 2006	4,600,000	$ 0.25	1,150,000 at $0.35	$ 1,150,000
Dec. 27th 2006	4,400,000	$ 0.25	1,500,000 at $0.35	$ 1,100,000
Dec. 29th 2006	420,000	$ 0.25	None	$ 105,000
			Total (2006)	**$ 3,701,150**
FINANCINGS in 2007				
Mar 16th 2007	4,615,000	$0.65	2,307,500 at $0.80	$ 2,999,750
Nov. 6th 2007	2,500,000	$0.60	1,250,000 at $0.70	$1,500,000
Nov. 6th 2007	1,428,571	$0.70	None	$1,000,000
Dec. 12th 2007	1,333,333	$0.60	1,333,333 at $0.75	$800,000
Dec. 12th 2007	292,000	$0.70	None	$204,400
			Total (2007)	**$6,504,150**
FINANCING in 2008				
April 3rd. 2008	4,725,000	$2.15	2,362,500 at $3.00	$10,158,750
			Total (2008)	**$10,158,750**
FINANCINGS in 2009				
Dec. 4th 2009	8,107,691	$0.65	8,107,691 at $0.85	$5,269,999
Dec. 9th 2009	1,507,693	$0.65	1,507,693 at $0.85	$980,001
Dec. 31st 2009	143,085	$0.65	143,085 at $0.85	$93,005
			Total (2009)	**$6,343,005**
FINANCINGS in 2010				
Mar. 23rd 2010	6,764,707	$0.85	6,764,707 at $1.05	$5,750,000
Aug. 17th 2010	8,510,000	$0.325	8,510,000 at $0.45	$2,765,750
			Total (2010)	**$8,515,750**
			Total (2006 to 2010)	**$35,222,805**

6.3 Investment

During Q3 2011, cash flow from investing activities after taking into account the cash reserved for exploration totalled ($221,177). The decrease compared to Q2 is due to the fact that exploration expenses exceeded restricted cash for exploration programs.

7. EXPLORATION EXPENSES AND USE OF PROCEEDS

Gastem exploration expenses for the Third Quarter of 2011 totalled $1,343,717. In Quebec, exploration and development expenses were focused on the Company conventional plays, mostly on Dundee-Soulanges, Matapedia-Cyr and Magdalen Islands properties. Furthermore, some work was done on the St-Hyacinthe property, with operator Canbriam. Gastem-USA expenses were related to the New York State project. The Company is continuing its program with the objective of developing production and acquiring new properties.

All Gastem exploration expenses were paid with Gastem funds.

7.1 Gastem Operations in Quebec

Exploration expenses in Quebec for the Quarter totalled $1,238,514, and were essentially related to drilling preparation and well modification.

On Matapedia-Cyr, the identification of drilling targets was completed end the drilling preparation is underway. On the Dundee-Soulanges property, Gastem prepares an exploration program at St-Anicet and apply for a drilling permit. Those drilling project will help to develop the conventional Quebec assets of the company.

Finally, Canbriam and Gastem worked on the abandonment for La Presentation No 1 well. The well modification is now completed and the monitoring is underway.

($)	Drilling and Drill Related Expenses	Site Preparation and Evaluation	Geological Programs	Professional Fees	Sampling	Well Abandonment	**TOTAL**
Dundee	0	177,526	108,459	8,000	991	0	**294,977**
St-Jean	0	1,221	0	0	0	0	**1,221**
St-Hyacinthe	112,536	6,653	502	0	1,110	249,864	**370,665**
St-Simon	0	566	0	0	0	0	**566**
Yamaska	8,691	3,412	0	0	449	0	**12,552**
Joly	0	5,588	394	5,500	854	0	**12,336**
Matapedia	200,000	326,413	5,509	15,590	689	0	**548,202**
Magdalen Isl.	0	69,755	-74,532	1,200	1,574	0	**-2,005**
TOTAL	**321,227**	**591,135**	**40,332**	**30,290**	**5,666**	**249,864**	**1,238,514**

7.2 Gastem-USA Operations

Gastem-USA exploration expenses for the Third Quarter of 2011 totalled $105,203 and were related to the preparation of the 2011 fall program. Furthermore, prospect exploration was conducted inside and outside of New York State.

($)	Drilling and Drill Related Expenses	Site Preparation and Evaluation	Geological Programs	Well Abandonment	**TOTAL**
New York	-7,373	58,776	1,046	52,753	**105,203**
Virginia	0	0	0	0	**0**
TOTAL	**-7,373**	**58,776**	**1,046**	**52,753**	**105,203**

7.3 Flow-Through Reserve

As of September 30th 2011, Gastem's flow-through reserve was $3,095,985.

FLOW-THROUGH EXPLORATION RESERVE			
	CEE	**CEE (Qc)**	**Total**
Flow-Through Reserve March 31st 2007	$ 753,164	$ 609,152	$1,362,316
Flow-Through Exploration Expenses to September 30th 2007	$753,164	$609,152	$1,362,316
Flow-Through Reserve to September 30th 2007	$0	$0	$0
Flow-Through Funds Raised in November and December 2007	$0	$1,204,400	$1,204,400
Flow-Through Exploration Expenses to January 31st 2008	$0	$1,204,400	$1,204,400
Flow-Through Reserve as of December 31st 2008	$0	$0	$0
Flow-through Funds raised in December 2009	$0	$6,343,005	$6,643,005
Flow-Through Reserve as of December 31st 2009	$0	$6,343,005	$6,343,005
Flow-Through Exploration Expenses to March 31st 2010	$0	$179,468	$6,163,537
Flow-Through Funds Raised in March 2010	$0	$5,750,000	$11,913,537
Flow-Through Exploration Expenses from March 31st to December 31st 2010	$0	$6,281,884	$5,631,653
Flow-Through Exploration Expenses from December 31st 2010 to September 30th 2011	$0	$2,535,668	$3,095,985
Flow-through Reserve as of September 30th 2011			**$3,095,985**

It is important to note that the flow-through reserve will be spent in admissible exploration expenses prior to December 31st 2011.

8. FINANCIAL COMMITMENTS AND LITIGATION

Financial commitments of the Company are related only to exploration expenditures and normal operating expenses. The Company has no outstanding debts (possible, indicated or alleged) and is capable of meeting all on-going operational obligations.

There are no commitments or obligations, other than normal and on-going exploration programs, which Gastem may or may not continue, depending on financial resources, new exploration programs and development or exploration opportunities. With the possible exception of an issue related to noise involving Lone Pine Resources Inc. (with Gastem as co-defendant) and for an amount not material, there are no known legal issues which may give rise to litigation and the Company, its Directors or Officers have not received directly or indirectly any information which may be construed as implying legal issues which could give rise to litigation.

9. RELATED PARTY TRANSACTIONS

The Company has its offices at 1155 University St., suite 1215 in Montreal and pays its share of the cost of the lease, communications, taxes, office insurance, telecommunications and sundries jointly with others to 3915671 Canada Inc. The sole shareholder of the latter is Gastem Director Raymond Savoie. 3915671 Canada Inc. does not charge fees for this service nor does it produce a profit or benefit on operations. The Company has been created solely to facilitate administration and reduce costs. Rent and office expenses are shared with two other companies.

10. CRITICAL ACCOUNTING ESTIMATES

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are as follows:

- Recoverability of mining properties and exploration and evaluation assets;
- Assessment of refundable tax credits related to resources;
- Estimate of the fair value of share-based payment and warrants;
- Recoverability of income tax assets;
- Estimate of the fair value of the liability related to flow-through shares.

11. TRANSITION TO IFRS

The Company has adopted IFRS for its First Quarter 2011 unaudited condensed consolidated interim consolidated financial statements. These financial statements, including the 2010 comparative figures, are prepared in accordance with IFRS and IAS 34, “Interim Financial Reporting”.

During the First Quarter of 2011 management finalized its IFRS accounting policy choices. These accounting policies are consistent with those disclosed in the 2010 Annual Report and have been approved by the Company’s Audit Committee. In addition, the Company has finalized in Q1 its unaudited opening consolidated balance sheet as well as the unaudited financial statements for each of the 2010 quarters based on these accounting policies.

The Company has also completed changes to its internal controls over financial reporting and disclosure controls and procedures for IFRS, which included enhancement of existing controls and the design and implementation of new controls, where needed. No material change in internal controls over financial reporting or disclosure controls and procedures resulted from the adoption and implementation of IFRS.

Reconciliations prepared in accordance with IFRS 1, “First-Time Adoption of International Financial Reporting Standards” are provided in note 12 to the unaudited condensed consolidated interim financial statements.

Future Accounting Standards

The following new standards have been issued but are not yet applicable to the Company:

(i) IFRS 9 Financial Instruments:

Effective for annual periods beginning on or after January 1^{st} 2013, with earlier adoption permitted.

As part of the project to replace IAS 39, *Financial Instruments: Recognition and Measurement*, this standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets. More specifically, the standard:

- deals with classification and measurement of financial assets;
- establishes two primary measurement categories for financial assets: amortized cost and fair value;
- prescribes that classification depends on entity's business model and the contractual cash flow characteristics of the financial asset;
- eliminates the existing categories: held to maturity, available for sale, and loans and receivables.

Certain changes were also made regarding the fair value option for financial liabilities and accounting for certain derivatives linked to unquoted equity instruments.

The extent of the impact of adoption of this new standard has not yet been determined.

(ii) IFRS 10 Consolidated Financial Statements:

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements*, which is effective for annual periods beginning on or after January 1^{st} 2013, with early adoption permitted. If an entity applies this Standard earlier, it shall also apply IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011) at the same time.

IFRS 10 replaces the guidance in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IAS 27 (2008) survives as IAS 27 (2011) *Separate Financial Statements*, only to carry forward the existing accounting requirements for separate financial statements.

IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 (2008).

The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning on January 1^{st} 2013. The Company does not expect IFRS 10 to have a material impact on the financial statements.

(iii) IFRS 11 Joint Arrangements

In May 2011, the IASB issued IFRS 11 *Joint Arrangements*, which is effective for annual periods beginning on or after January 1^{st} 2013, with early adoption permitted. If an entity applies this Standard earlier, it shall also apply IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011) at the same time.

IFRS 11 replaces the guidance in IAS 31 *Interests in Joint Ventures*.

Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method.

The Company intends to adopt IFRS 11 in its financial statements for the annual period beginning on January 1st 2013. The extent of the impact of adoption of IFRS 11 has not yet been determined.

(iv) IFRS 12 Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12 *Disclosure of Interests in Other Entities*, which is effective for annual periods beginning on or after January 1st 2013, with early adoption permitted. If an entity applies this Standard earlier, it needs not to apply IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) at the same time.

IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities.

The Company intends to adopt IFRS 12 in its financial statements for the annual period beginning on January 1st 2013. The Company does not expect the amendments to have a material impact on the financial statements, because of the nature of the Company's interests in other entities.

(v) IFRS 13 Fair Value Measurement

In May 2011, the IASB published IFRS 13 *Fair Value Measurement*, which is effective prospectively for annual periods beginning on or after January 1st 2013. The disclosure requirements of IFRS 13 need not be applied in comparative information for periods before initial application.

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income.

IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

The Company intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on January 1st 2013. The Company does not expect IFRS 13 to have a material impact on the financial statements.

(vi) Amendments to IAS 28 Investments in Associates and Joint Ventures

In May 2011, the IASB issued *Amendments to IAS 28 Investments in Associates and Joint Ventures*, which is effective for annual periods beginning on or after January 1st 2013, with early adoption permitted. If an entity applies this Standard earlier, it shall also apply IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011) at the same time.

IAS 28 (2011) carries forward the requirements of IAS 28 (2008) with several limited amendments.
The Company intends to adopt the amendments in its financial statements for the annual period beginning on January 1st 2013. The extent of the impact of adoption of the amendments has not yet been determined.

12. OIL AND GAS RESERVES

The Company's hydrocarbon reserves, resources and revenues are discussed in section 3 of this report, and states that the Company has no oil or gas reserves. Detailed data has been published as part of the Company's annual 51-101 report for 2010 deposited in April 29th 2011, within the Annual Information Form.

13. CERTIFICATION OF INTERIM FILINGS

For the financial period ending September 30th 2011, the Chief Executive Officer and the Chief Financial Officer in collaboration with the Audit Committee of the Company reviewed the interim financial statements and interim MD&A (together, the "interim filings") of the Company.

The Chief Executive Officer and the Chief Financial Officer of the Company represent that, based on their knowledge and having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, for the financial period covered by the interim filings and fairly presents in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the interim filings.

The Chief Executive Officer and the Chief Financial Officer are responsible for ensuring and confirming that processes are in place to provide them with sufficient knowledge to support the above mentioned representations.

14. ISSUED SHARES, WARRANTS AND OPTIONS

As of September 30th 2011, the Company had issued 89,787,007 shares and, on a fully diluted basis, 101,144,734 shares were outstanding.

14.1 Total Shares Issued

Shares Issued	Note
89,787,007	As of June 30th 2011
0	Share issued during Q3 2011
89,787,007	**As of September 30th 2011**

14.2 Warrants Not Exercised as of September 30th 2011

Warrants	Exercise Price	Date of Expiry
8,510,000	$0.45	2012-08-17
8,510,000	**Total**	

14.3 Options Not Exercised as of September 30th 2011

Options	Exercise Price	Date of Expiry
275,000	0.26 $	2011-12-19
355,000	0.35 $	2011-12-22
335,000	0.65 $	2012-08-31
711,355	0.60 $	2012-12-14
25,000	0.62 $	2013-01-28
25,000	2.18 $	2013-07-28
25,000	0.58 $	2014-01-28
25,000	0.37 $	2014-07-28
85,000	0.37 $	2014-07-31
526,372	0.58 $	2014-10-29
50,000	0.53 $	2015-02-06
250,000	0.20 $	2016-01-27
60,000	0.21 $	2016-02-04
50,000	0.12 $	2016-07-27
50,000	0.28 $	2020-08-31
2,847,727	**Total**	

15. FORWARD LOOKING STATEMENTS

The MD&A contains certain forward-looking statements that involve substantial known and unknown risks and uncertainties which could cause actual events or results to differ materially from those reflected in the MD&A. Forward looking statements are based on estimates and opinions of Management at the time the statements were made.

16. RISKS RELATED TO FINANCING AND EXPLORATION WORK

To date, the Company has incurred losses through exploration expenses. Exploration and development of the properties therefore depends on its ability to obtain the required financing. There can be no assurance that the Company will succeed in obtaining the required funding. Failure to do so may lead to substantial dilution or loss of its interests (existing or proposed) on its properties.

At the time of writing this report, Gastem has, subject to an on-going financing, sufficient funds to undertake exploration and development programs that are of importance for the Company, renew all existing properties and undertake exploration programs to which it is committed.

In Quebec, work on the Company's Utica Shale properties is subject to authorization by the Strategic Environmental Evaluation Committee created by the government and specifically the MDDEP and the Bureau des audiences publiques sur environnement (BAPE). Work may or may not proceed on these shale properties subject to their decision and their priorities during the period of study which June 2011 and may take 18 to 30 months. With one exception, Committee members are not from the industry and have very little or no experience with the industry's procedures or practices. The report of the Committee may or will propose, among other things, regulations concerning shale gas production and exploration.

In New York State, the revised draft of the Supplemental Generic Environmental Impact Statement Study has been presented on July 8th, 2011. The Draft GEIS that reports on hydraulic fracturing and makes suggestions regarding this procedure is now being reviewed.

The reader may wish to review the notes regarding Bill 18 at item 3.2.

17. OUTLOOK

The Company is presently applying for two drill permits for two conventional wells in Quebec namely the first for Ristigouche Sud-Est and the second for St-Léon-le-Grand. On these two wells, the objectives are to obtain sound scientific data and to confirm the hydrocarbon potential of their respective zones. At present, the permit for the Ristigouche Sud-Est well has been deposited at the Ministry and the St-Léon-Le-Grand should be presented during the first few days of December. Site preparation at Ristigouche Sud-Est is almost complete and we hope to begin the drill program by mid to late December. The Company is also in the process of applying for a third drilling permit for conventional well at St-Anicet on the Dundee Block. General information as well as the expected results of this well will be made public shortly.

In New York State, we hope that we will be granted the drill permit for our Chenango County Well this week or very early the following week. The proposed well is the beginning of an important project both for Gastem and for the Sidney area where, with the cooperation of key individuals and companies, we plan to service the Sidney area with local gas from conventional wells. We hope that it will be useful in establishing local energy for local development and help the community move forward both socially and economically.

Overall, Gastem should perform well in the coming months. In spite of increasing market difficulties, gas is performing well. The price of gas is expected to remain healthy in Quebec and New York State, the "local gas for local use" business approach to community needs and concerns is very well received and overall, gas continues to prove itself as one of the environmentally sound alternative for our basic energy needs.

November 25th 2011

(s) Raymond Savoie
Raymond Savoie
Chairman and CEO