**MANAGEMENT DISCUSSION AND ANALYSIS**

**FIRST QUARTER INTERIM REPORT**

**FOR THE PERIOD ENDED MARCH 31st 2013**

The following is Management's Discussion and Analysis ("MD&A") for Gastem Inc ("Gastem" or the "Company") to be read in conjunction with the Company's First Quarter ("Q1") 2013 unaudited condensed consolidated interim financial statements and the accompanying notes. This report, along with press releases and previous financial statements with related documents are also available on the Company's website at www.gastem.ca or at www.sedar.com.

The Company's Q1 2013 unaudited condensed interim consolidated financial statements and the accompanying notes are prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies described therein.

This MD&A represents views and comments of Management on the Company's current activities and contains a brief outlook of activities and objectives for the coming months.

## 1. DATE

This MD&A for the period ended March 31st 2013 was completed on May 30th 2013. As required, important activities and events after March 31st 2013 are also noted.

## 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 Inc. ("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. 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.

### 4. PROPERTIES AND EXPLORATION PROGRAMS

The Company's properties and programs for Q1 2013, with references to significant events after that date, are presented initially in the form of exploration highlights at 4.1, followed by a property and program summary table at 4.2 and finally by a detailed property review of active properties at 4.3.

#### 4.1 Q1 2013 Exploration Highlights

Highlights of main developments are as follows:

- Company review of potential and possible programs in the Maritimes and Appalachia;
- In March of 2013, Ristigouche Partie Sud-Est adopts a By-Law (a photocopy of the By-Law adopted by the town of Gaspe) affecting drilling within town limits. Gastem in order to protect its rights (which would otherwise expire) sends the Town a notice for damages;
- In May 2013, the Minister of Sustainable Development, Environment, Wildlife and Parks, announced the publication for a public consultation of the Draft Regulation respecting water withdrawals and water protection to protect drinking water sources;
- In May 2013, the Minister of Sustainable Development, Environment, Wildlife and Parks of Quebec deposited a Bill in the Quebec legislature to prevent shale gas exploration and development for a period of 5 years from the period of adoption of the Bill;
- In May 2013, Epsilon reassigns all of its rights and interests in Quebec properties to Gastem and withdraws from all operations in Quebec;
- BAPE hearings for the exploration well on the Magdalen Islands began in May 2013;
- Gastem properties and programs being re-evaluated in Quebec in light of the above.

#### 4.2 Summary of Exploration Activities and Programs

A summary of all of the Company's 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 River (art. 2). It also stipulates that all exploration permit holders for petroleum, natural gas and underground reservoirs are exempted from undertaking exploration work required by law, and permits will be extended, for the duration of the environmental assessment study (art. 3), which study began in May 2011, may last a proposed 30 months but, as was to be expected, will now be quite longer.

In effect, Bill 18 suspends all permit exploration obligations during the Environmental Assessment Study ("EAS").

A recent declaration made by the Committee responsible for the EAS stated that there will be no shale activities at all during the study period, contrary to previous declarations. As for those parts of exploration permits situated in the St. Lawrence River, they were declared null and void and without compensation as a result of the expropriation. For Gastem, this expropriation without compensation impacts roughly 20% the Dundee-Soulanges property.

In April 2013, the Minister of Sustainable Development, Environment, Wildlife and Parks announced that the “Bureau des audiences public sur l’environnement” (the BAPE) would hold an enquiry on effects of exploration and development work for gas on the water table of the Magdalen Islands, which began on the 14th of May 2013 and is expected to be completed in the fall of 2013. Will the conclusions be surprising?

In May 2013, the Minister of Sustainable Development, Environment, Wildlife and Parks of Quebec deposited a Bill in the Quebec legislature declaring a moratorium on shale gas exploration and development for a period of 5 years from the period of adoption of the Bill, in spite of the on-going shale gas study, the Strategic Environmental Assessment, now being completed by a panel named by the Ministry and referred to in Bill 18.

In May 2013, the Minister of Sustainable Development, Environment, Wildlife and Parks, announced a public consultation of the Draft Regulation respecting water withdrawals and water protection to protect drinking water sources effectively. The Regulation implements a set of measures to oversee oil and gas exploration and development projects “in accordance with the safest requirements in North America”. The Press Conference was cancelled by the Minister 7 minutes or so prior to the Conference for reasons not made known. The situation will not improve in the short term.

In May 2013, Epsilon signed an agreement with Gastem whereby ended the Gastem Quebec Agreement signed in 2007 and reassigned all of its 25% participating and undivided interests in all applicable properties in Quebec (the Dundee, St-Jean, Matapedia and Yamaska properties).Therefore, as a result, Epsilon no longer has any interest in any Gastem property.

| **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<br>• Partner Forest Oil (now Lone Pine) earned 60% interest during Q3 2008<br>• Drilling and hydraulic fracture stimulations of 2 horizontal wells completed in early Q4 2008 with preliminary results announced in Q1 2009<br>• 81.5 km 2-D seismic survey during Q2-Q3 2010 by operator Forest Oil (now Lone Pine)<br>• 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 save and except for well maintenance |
| | |
| **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<br>• Adjacent and geologically similar to Yamaska property with Utica and Lorraine Shales present<br>• Gastem’s participation in 19.5% of costs for a 16.575% working interest<br>• Two vertical wells drilled in 2009<br>• One vertical and three horizontal wells drilled during Q2 and Q3 2010<br>• One horizontal well stimulated during Q3 2010<br>• Environmental characterisation of the three drilling sites during Q1 2011<br>• The La Présentation No 1 vertical well has been cemented |
| **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, 50% Questerre) | |
|---|---|
| **Summary** | • Subject to a Joint Operating Agreement with Questerre Energy<br>• Potential targets in platform carbonates and Utica Shale<br>• High resolution aeromagnetic survey undertaken during spring 2007 |
| **Proposed Program** | • Programs on hold |
| **Projected Expenses** | • No significant expenses projected at this time |

| St-Jean West – 28,869 hectares (100% Gastem) | |
|---|---|
| **Summary** | • Potential targets in platform carbonates and granite wash, analogous to Dundee-Soulanges<br>• 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<br>• St-Jean No 1 well drilled to the base of Utica Shale in Q2 2008 and frac-stimulated in Q1 2009<br>• 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 (100% Gastem) | |
|---|---|
| **Summary** | • Current exploration focussed on identification of commercial reservoirs in Beekmantown fractured carbonates and in the granite wash at the Potsdam/basement contact<br>• Permit-wide surface geochemical survey undertaken during summer 2007<br>• 19.5 km 2-D seismic survey completed over gas seep anomalies in 2009<br>• 1,066 $km^2$ airborne gravimetric survey initiated in December 2010<br>• Processing and interpretation of the gravimetric survey completed<br>• Reprocessing of vintage seismic and integration to 2009 seismics<br>• Identification of a target in the western part of the permits to drill the Beekmantown and the Potsdam<br>• Lease of drill site signed and full report completed in 2012 |
| **Proposed Program** | • Two drill targets identified based on new seismic survey and drill site identified and under review<br>• Drill program for this site under preparation and drilling permit to be submitted |
| **Projected Expenses** | • Drill program and drill permit application |

| Joly – Farm In – 13,809 hectares (35% Gastem, 65% Intragaz) | |
|---|---|
| **Summary** | • Joint Intragaz–Gastem exploration project for production and storage<br>• Gas exploration and storage play in highly porous, permeable formation adjacent to existing gas storage installations at St. Flavien<br>• 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<br>• Joly No 4 drilled in December 2007, expected dolomite sequence not encountered – well abandoned in early Q3 2009<br>• Spud of Joly No 5 delayed for surface and environmental issues<br>• Filing of an application for a Certificate of Authorisation<br>• Joly 6 site studied and leased (next to Joly 5) |
| **Proposed Program** | • Joly 5 restoration |
| **Projected Expenses** | • Joly 5 restoration estimates to be obtained once permit to proceed is obtained but the amount is not expected to be significant |
| | |

| Gaspe Peninsula, Quebec | |
|---|---|
| **Matapedia – Cyr – 189,884 hectares (100% Gastem)** | |
| **Summary** | • Regional geochemical survey (2007) undertaken by Gastem in vicinity of recent MRNF and Petrolia seismic lines in northern part of block<br>• Detailed geochemical survey (2008) undertaken by Gastem on the Causapscal Anticline<br>• Regional tectonic and thermal maturity study undertaken by the INRS in Quebec City<br>• Acquired 40 km of 2-D seismic in 2009<br>• 8,727 $km^2$ aeromagnetic survey initiated in December 2010, completed during Q1 2011<br>• Processing and interpretation of the magnetic survey completed Q2 2011<br>• Identification of drill target in the Cyr block<br>• Site preparation completed |
| **Proposed Program** | • Drilling of one conventional test well, subject to authorizations, to obtain scientific information and to evaluate hydrocarbon potential of the zone |
| **Projected Expenses** | • Drill program projected for 2013, now subject to municipal issues |

| Magdalen Islands, Quebec | |
|---|---|
| **Magdalen Islands – 17,520 hectares (100% Gastem)** | |
| **Summary** | • Exploration permit acquired in July 2008<br>• Review of existing data and geophysical modelling (seismic, gravity, magnetism) completed<br>• Detailed geological report completed<br>• Water table study completed |
| **Proposed Program** | • Update on geophysical modelling based on new MRNF regional surveys, when available<br>• Drilling program prepared, surface location under review<br>• Environmental assessment requested by MRNF and MDDEP even prior to exploration well<br>• BAPE now underway |
| **Projected Expenses** | • Presence during the BAPE begun on May 14th 2013 |

| Gastem – USA | |
|---|---|
| **New York State Shale and Tight Sand Project – approx. 9,605 acres (100% Gastem)** | |
| **Summary** | • Covalent Energy (now Utica Energy LLC) drilled and completed two wells on acreage in the summer of 2007, with encouraging results<br>• Gastem USA earned-in an 80% interest by drilling one vertical well and issuing 3,500,000 Gastem common shares as well as paying US$35,000 in early 2009<br>• All funds directed towards exploration and development programs<br>• Aeromagnetic survey over about 85% of Chenango County, 20% of Broome County and 30% of Delaware County<br>• 16.1 km 2-D seismic acquired in Otsego County, focussing on the Oneida Sand Formation<br>• Ross No 1 fracture stimulated in the Utica and Marcellus intervals, Oneida Sand interval tested<br>• Drilling target identified and permit received<br>• Site preparation completed |
| **Proposed Program** | • Drilling of one conventional test well in Chenango County<br>• Cementing of 2 wells (Scheckells and Ross)<br>• Various leases in Otsego County not renewed<br>• Other programs subject to New York State regulations |
| **Projected Expenses** | • Hanehan exploration well to be drilled as soon as possible |
| | |
| **Commonwealth of Virginia – approx. 2,310 acres (100% Gastem)** | |
| **Summary** | • Gastem USA signed a Letter of Agreement with Covalent Energy in 2008 with regard to lease acquisition in the Commonwealth of Virginia<br>• No specific programs in this area at present |
| **Proposed Program** | • Gastem USA continues evaluating lease acquisition opportunities |
| **Projected Expenses** | • No significant exploration expenses projected for 2013 |

### 4.3 Property Review

### 4.3.1 St. Lawrence Lowlands Utica Shale

Since 2010 and the BAPE hearings, no significant work was undertaken on the Yamaska property following the 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 and approve the environmental situation.

Work on the Joly property with the preparation of a drill program to evaluate the deep Utica Shale has come to a stop. 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. The drilling permit was delivered by the MRNF to Gastem on November 23$^{rd}$ 2010. However, it is no longer possible to proceed.

As a result of concerns by the regional office of the MDDEP regarding the possible presence of a recently formed "swamp" on a portion of the site (part of a former agricultural field, now abandoned), drilling preparations on Joly 5 was stopped on December 8$^{th}$, 2010. In order to resume the drilling operations of Joly No 5, an application was 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 with all Gastem wells, meetings with the municipality of Joly and the Municipalité Régionale de Comté (MRC) of Lotbinière were the occasion to present the Company's program and to address the communities' concerns and issues. At present, Joly 5 is to be restored and Joly 6 has been refused by MAPAQ.

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 12$^{th}$ 2010 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 includes 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 but, surprisingly, no hydraulic fracturing will be allowed 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 but this has been subject to various discretionary decisions. Recent ministerial declarations from several ministries have made the situation somewhat Kafkaesque.

In May 2013, Epsilon signed an agreement with Gastem whereby ended the Gastem Quebec Agreement signed in 2007 and reassigned all of its 25% participating and undivided interests in all applicable properties in Quebec (the Dundee, St-Jean, Matapedia and Yamaska properties).Therefore, as a result, Epsilon no longer has any interest in any Gastem property.

### 4.3.2 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 property, 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. This data will help developing the exploration program for the northern part of the property.

Following the adoption of Bill 18 during late Q2 2011, 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 have discussed the project by Gastem. The site location is on agricultural land and Gastem has obtained an authorisation from the Commission de protection du territoire agricole du Québec. A conventional well program is in preparation and drilling is proposed, subject to governmental authorisations and proper financing. Epsilon no longer has a 25% interest in this property as of May 2013.

#### 4.3.3 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 Magdalen 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 has been completed. A comparative analysis of the different rig options was completed and preliminary discussions were held with a drilling contractor. A 6 km-long corridor of potential drilling site locations along the northern edge of the salt diapir has been identified.

A hydrogeological study was completed in consultation with the municipal authorities and by the Island's specialized hydrogeological firm, responsible for the water table on the Islands over the past 10 years, in order to examine a purported danger to the water table and to optimize the site location in terms of water table security. The conclusions, of course, were that a well could be drilled without endangering the water table and sites were identified. This was subsequently confirmed at Gastem's request by an international consultant. It should be stated that the Islands obtain their electricity from a heavy diesel generating station, and the diesel is brought to the Islands by boat and is transported to the generating site by a pipeline which is in itself a major problem for both the table and the Islanders.

On December 16$^{th}$ 2011, the Quebec Ministry of Natural Resources announced environmental public hearings to be held by the BAPE (Bureau d'audiences publiques sur l'environnement) over a 4 month period on the Magdalen Islands and related to the effects of exploration and development on the water table. As no drilling permit has been applied for, a BAPE under these conditions is unprecedented. On April 3$^{rd}$ 2013, the Minister of the Environment announced that the BAPE would hold an enquiry on effects of exploration and development work for gas and oil on the water table of the Magdalene Islands. These hearings began on the 14$^{th}$ of May 2013 and is expected to be completed in the fall of 2013. Gastem will continue to participate in so far as the hearings are carried out in a professional and fair manner.

#### 4.3.4. Matapedia-Cyr Property

After various airborne surveys, seismic reviews, geological reports and other preparatory work, 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, namely to establish precise information as to the geology and to test the hydrocarbon potential of the coral reefs in the Silurian West Point Formation and, at greater depth, the potential of the fractured limestone of the White Head Formation.

A drill permit application was submitted to the MRNF in December 2011 and site preparation was completed. The drill permit was finally received in July 2012, some 7 months later which is much too long, even under these circumstances. The municipality and citizens of Ristigouche-Partie-Sud-Est were met in the fall of 2012 and the discussions were cordial and mutually supportive.

On March 4th 2013, the Town of Ristigouche Partie Sud-Est adopted a By-Law, circulating in the Gaspe peninsula, establishing abusive and impossible conditions aimed at preventing drilling within the town limits. The Municipality did not make provide explanations or request prior to this town meeting.

Gastem has sent the Town a notice for damages and is at present studying its legal alternatives including the suit for damages. Work and programs on Ristigouche are on hold until the issue is resolved. Operations on the Matapedia properties may or may not be continued. Epsilon no longer has a 25% interest in this property as of May 2013.

#### 4.3.5 Gastem USA

In New York State, the high volume hydro fracturing announcement scheduled by the State for February or March 2013 has been postponed to early 2015 according to an announcement made by the New York State Department of Conservation. Low volume (80,000 gallons and less) hydro fracturing and high volume fracturing using nitrogen may continue to be permitted. Although it is reported that there may be a recommendation allowing hydro-fracking in six counties, there is now considerable uncertainty.

For the moment, we can only state that this solution and the notion of “home rule” presents numerous problems for those having to invest on costly pipeline infrastructure and exploration programs over various periods of time. Investors are uncomfortable with the current state of affairs for gas production in the State and although the region could certainly use the production, the current confusion renders good programs difficult. In spite of this, Gastem USA is continuing to evaluate conventional targets in southern New York State in order to develop local gas for local use.

Property discussions are on-going for Marcellus and Utica Shale prospects in Ohio and in other areas.

## 5. SELECTED FINANCIAL INFORMATION

Listed below is selected Quarterly Information for the Quarter ended March 31st 2013 and will be discussed where useful in the present MD&A.

| SELECTED ANNUAL INFORMATION | Results as of March 31st 2013 | Results as of March 31st, 2012 |
|---|---:|---:|
| Shareholder Equity | $23,850,587 | $27,119,918 |
| Accumulated Deficit | $25,488,980 | $22,229,168 |
| Exploration Expenses | $8,985 | $183,899 |
| General Expenses | $59,594 | $351,695 |
| Net Loss | $59,594 | $268,695 |
| Current Assets | $463,541 | $1,188,436 |
| Gas Properties Net Book Value | $23,904,455 | $29,232,524 |
| Total Assets | $26,635,067 | $30,862,090 |

## 6. ASSETS AND CAPITAL

For Q1 2013, total assets are evaluated at $26,635,067,739 as compared to $30,862,090 for Q1 2012. The decrease is mostly related to reduction of exploration and evaluation assets due to impairment notably in New York State and for the Joly property in December 2012. Cash and cash equivalents, accounts receivable (excluding long-term deposits), exploration funds and prepaid expenses and deposits totalled $463,541 as compared to $1,188,436 in Q1 2012. Gas properties and exploration and evaluation assets net book value decreased from $29,232,524 in 2012 to $25,904,455 in Q1 of 2013 as a result of the write down related to work programs on some Joly 5 and various leases in New York State which have not been renewed.

Accounts receivable total $274,765 to which one may add a deposit on long term assets with the Government of Quebec for $135,000. Another deposit of $150,000 is also with the government in non-current assets. Accounts receivable are composed of a partner's contribution of $241,687 and amounts related for on-going expenses. Amounts also include an amount of $33,078 from Tawsho Mining for expenses incurred which is now overdue and will be collected. Accounts payable of $2,784,480 are composed principally of programs and trade payables, sales taxes and accrued liabilities and should be settled shortly in Q2 or Q3 of 2013.

Shareholder equity decreased from $27,383,096 at the end of 2011 to $23,905,627 at the end of 2012 essentially as a result of the net loss.

## 7. CASH RESOURCES

### 7.1 Operations

Reduced expenses at $56,453 for Q1 2013 as compared to $351,540 in Q1 2012 are related to an important reduction in personnel in the summer and fall of 2012 and a major reduction in office space and expenses. The overhead burn rate is now at minimum and is expected to stay there until exploration and development activities increase as a result of new programs in better areas later this year. The Company is continually striving to reduce general and administrative expenses and strong control measures have been put in place.

For Q1 2013, net loss and comprehensive loss totaled $59,594 as compared to $268,695 for Q1 2012 for obvious reasons related to a decrease in activities. The cumulated deficit increased from $22,229,168 in 2012 to $23,850,587 in 2013 as a result of the net loss in Q1 2013.

| REVENUES AND LOSSES FOR THE LAST 8 QUARTERS | | | | |
|---|---|---|---|---|
| **Quarter End** | **Total Revenues ($)** | **Net Loss ($)** | **Loss per Share ($0.00)** | |
| | | | **Basic** | **Diluted** |
| 31/03/2013 | $0 | $59,594 | $0.001 | $0.001 |
| 31/12/2012 | $0 | $2,483,399 | $0.003 | $0.003 |
| 30/09/2012 | $0 | $457,853 | $0.005 | $0.005 |
| 30/06/2012 | $0 | $268,966 | $0.003 | $0.003 |
| 31/03/2012 | $0 | $268,695 | $0.003 | $0.003 |
| 31/12/2011 | $0 | $3,551,926 | $0.043 | $0.043 |
| 30/09/2011 | $0 | $327,452 | $0.004 | $0.004 |
| 30/06/2011 | $0 | $604,791 | $0.007 | $0.007 |

### 7.2 Financing

There have been no financings in during Q1 2013 as a result of market conditions and government interventions. However, a financing is planned later in 2013.

The following summarises all financings undertaken by the Company from January 1st 2006 to March 31st 2013. There were no financings in 2011 and 2012 or in Q1 2013.

| **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** |

## 8. EXPLORATION EXPENSES AND USE OF PROCEEDS

Gastem exploration expenses for Q1 totalled $8,985. In Quebec, exploration and development expenses are focused on the Company's conventional plays, mostly on Dundee-Soulanges, Joly, Matapedia-Cyr properties. Furthermore, some work was done on the St-Hyacinthe property, with operator Canbriam. Gastem-USA expenses were related to the Hanehan project and to the cementing of two wells and the project overview. The Company is continuing its program with the objective of developing producing properties in Chenango County and counties to the south of Chenango, along the Southern Tier. Other projects concerning the Maritimes and Appalachia are also being studied for 2013.

All Gastem exploration expenses were paid with Gastem funds.

### 8.1 Gastem Operations in Quebec in Q1 2013

Exploration expenses in Quebec for Q1 2013 totalled $7,974 and were essentially related to site preparation and property maintenance on the St-Hyacinthe Property. .

### 8.2 Gastem-USA Operations

Gastem-USA exploration expenses for 2012 totalled $1,011 and were related to the Hanehan No1 Well program. Furthermore, project exploration was conducted outside of New York State.

### 8.3 Flow-Through Reserve

As of March 31st 2013, the flow-through reserve was at nil. There have been no changes to date.

| 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 Exploration Expenses from September 31st 2011 to December 31st 2011 | | $3,095,985 | $0 |
| Flow-through Reserve as of December 31st 2012 | | | $0 |
| **Flow-through Reserve as of March 31st 2013** | | | $0 |

## 9. FINANCIAL COMMITMENTS AND LITIGATION

Financial commitments of the Company are related only to exploration expenditures and normal operating expenses. The Company is capable of meeting on-going operational obligations.

There are no commitments or obligations other than 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 (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 against the Company.

The Company may however undertake litigation against the Town of Ristigouche Partie Sud-Est regarding a By-Law adopted on March 4th 2013. The Company has sent a claim for damages to the Town and may continue to undertake legal proceedings.

## 10. RELATED PARTY TRANSACTIONS

The Company has its offices at 1155 University St., office 1308 in Montreal, Quebec 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 officer R. Savoie. 3915671 Canada Inc. does not charge fees for this service nor does it produce a profit or benefit on operations. 3915671 Canada Inc. has been created solely to facilitate administration and reduce costs. Rent and office expenses are shared with two other companies.

The Chairman and CEO has not received any salary during 2012 or to date in 2013.

## 11. CRITICAL ACCOUNTING ESTIMATES

The preparation of the present consolidated 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; and
- Estimate of the fair value of the liability related to flow-through shares.

## 12. OIL AND GAS RESERVES

The Company's hydrocarbon reserves, resources and revenues are presented in section 3 of this report, and states that the Company has at the time of this report no oil or gas reserves. Detailed data has been published as part of the Company's annual 2012 51-101 report with Form 3 which were deposited on SEDAR on April 29th 2013.

## 13. CERTIFICATION OF QUARTERLY FILINGS

For the financial period ending March 31st 2013, the Chief Executive Officer and the Chief Financial Officer, in collaboration with the Audit Committee of the Company, reviewed the Q1 2013 financial statements and the MD&A (together, the "Quarterly 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 Quarterly 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 Quarterly 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 these Quarterly 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. 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.

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 l'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 started June 2011. 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, the possibility of shale gas production and exploration. The reader may wish to review the notes regarding Bill 18 at item 3.2.

As stated, the BAPE process for the Magdalen Islands which began on May 14th 2013 is presently on-going and the results are not expected before this fall. As for Ristigouche Partie Sud-Est and the By-Law adopted on March 4th, the Company is presently examining legal alternatives to the situation.

In New York State, the draft of the Supplemental Generic Environmental Impact Statement Study for high volume hydro fracturing is being reviewed and may or may not be adopted by 2015. Questions and recent decisions related to Home Rule are expected to continue before the Courts in 2013 and perhaps 2014.

In Quebec, the Minister of the Environment has deposited a series of measure which aim to ban shale gas exploration and development for 5 years and another series of measures which will purportedly target the protection of water tables and water wells.

## 15. ISSUED SHARES, WARRANTS AND OPTIONS

As of March 31st 2013, the Company had 89,787,007 issued shares. All warrants have expired. As a result, on a fully diluted basis, the Company has 90,525,423 shares as of the date of this report.

### 15.1 Shares Issued as of March 31st 2013

| Shares Issued | Note |
|---|---|
| 89,787,007 | As of December 31st 2012 |
| 0 | Shares issued to March 31st 2013 |
| **89,787,007** | **Total as of March 31st 2013** |

### 15.2 Warrants as of March 31st 2013

| Warrants | Exercise Price | Date of Expiry |
|---|---|---|
| 0 | 0 | |
| **0** | **Total** | |

### 15.3 Options Not Exercised as of March 31st 2013

| Options | Exercise Price | Date of Expiry |
|---|---|---|
| 30,000 | 0.37 $ | 2014-07-31 |
| 448,416 | 0.58 $ | 2014-10-29 |
| 200,000 | 0.20 $ | 2016-01-27 |
| 60,000 | 0.21 $ | 2016-02-04 |
| **738,416** | **Total** | |

## 16. OUTLOOK

Recent declarations by Quebec government ministers in May of this year (a bill for a 5 year moratorium and a bill to protect water from exploration) and also various public declarations in March and April have made the situation almost untenable for exploration and development, save and except on Anticosti Island where there is considerable confusion regarding the government's position regarding the fracking of shale oil. Otherwise, in Quebec, if one adds the recent surge in the unfounded and irrational By-Laws adopted by some municipalities and the lack of leadership by several town councils in parts of Quebec, things have taken a turn for the worse.

The Company is at present looking at alternatives outside the Province where the issue has been properly dealt with as for example in the Maritimes or Appalachia. There seems to be little choice. Quebec has become an area where planned and rational gas and oil development is no longer possible in the short term. It will take several years for a correction to be implemented and for the industry to regain the confidence of the public and the municipalities.

There are excellent major opportunities in the Maritimes and Appalachia and that is precisely where we are working for our development. The Company is confident that these new areas will provide the necessary high impact projects required for our growth.

The Directors of the Company wish to thank all the shareholders for their continued support during this difficult period and invite you to our Annual and Special General Meeting of Shareholders to be held on the 26th of June in Montreal at the St-James Club. At this meeting the Company will present information regarding our new and existing projects as well as answering questions regarding future programs and recent government interventions.

May 30th 2013

*(s) Raymond Savoie*
Raymond Savoie
Chairman and CEO