



MANAGEMENT DISCUSSION AND ANALYSIS

ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31ST 2010

The following Management Discussion and Analysis ('MD&A') is issued as a supplement to the audited financial statements for the period ending December 31st 2010 available at www.sedar.com under "Gastem, Public Documents." 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.

This MD&A prepared by Gastem's Management, contains comments on the Company's audited financial statements to December 31st 2010 and a synopsis of current activities and properties, including a brief outlook.

1. DATE

This MD&A for the year ended December 31st 2010 was completed on April 26th 2011. As required, this analysis contains notes and comments on important events subsequent to December 31st 2010.

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 Gaspé Peninsula in Quebec.

The Company also has properties 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 2010, 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 2010 are as follows:

- **ST-HYACINTHE PROPERTY:**
 - The La Presentation No 1H well was drilled in May and fraced in Q3
 - The vertical and horizontal wells at St. Barnabe were drilled in July
 - The Saint-Hyacinthe No 1H horizontal well was drilled in August
- **YAMASKA PROPERTY:**
 - 81.5 km of seismic line during Q2 and subsequent processing
 - Interpretation of the survey finalised and drill targets identified during Q4
- **MAGDALEN ISLANDS PROPERTY:**
 - Detailed conventional drill program prepared
 - Analysis of potential drill sites on-going
- **MATAPEDIA-CYR PROPERTY:**
 - Regional aeromagnetic survey initiated during Q4 and completed
- **DUNDEE-SOULANGES PROPERTY:**
 - Regional gravimetric survey initiated during Q4 and completed
- **JOLY PROPERTY:**
 - Spudding of Joly No 5, initially planned for December 2010, is now scheduled for 2011 due to surface environmental issues
- **NEW YORK STATE PROPERTIES (Gastem-USA):**
 - Completion of an aeromagnetic survey in Broome, Delaware, Otsego and Chenango Counties, NY during Q2
 - Finalization of OGIP calculations for the Ross No 1 well in Otsego County during Q3
 - Frac-stimulation of the Ross No 1 well during Q4
 - Acquisition, processing and interpretation of 16.1 km of seismic in Otsego County, NY during Q4
- A flow through financing for Quebec exploration programs was completed during Q1 and a financing for New York State activities was completed during Q3
- The secondary listing on the Oslo Exchange in Norway postponed as a result of difficult market conditions
- During Q3 and Q4 2010, Gastem participated actively in the public hearings by the Bureau d'audiences publiques (the BAPE hearings) on shale gas development in the Province of Quebec

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 and priorities.

Summary of Exploration Activities and Programs	
St. Lawrence Lowlands, Quebec	
Yamaska – 45,381 hectares (20% Gastem, 60% Forest Oil, 20% Questerre)	
Summary	<ul style="list-style-type: none"> • Shale gas prospect in the Utica and Lorraine shales • 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 • Epsilon Energy has the right to participate for 5% (gross) of future wells
Proposed Program	<ul style="list-style-type: none"> • Several drilling targets identified based on new seismic survey, site locations under review
Projected Expenses	<ul style="list-style-type: none"> • Program to be made known shortly by Lone Pine Resources (as successor to Forest Oil)
St-Hyacinthe – Farm In – 37,247 hectares (16.575% Gastem, 68% Canbriam, 0.425% Forest, 15% Suncor et al.)	
Summary	<ul style="list-style-type: none"> • 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
Proposed Program	<ul style="list-style-type: none"> • Frac-stimulations for two horizontal wells planned for 2011 and subject to permitting • Possible 3-D seismic program adjacent to test wells to define future horizontal targets and refine structural model
Projected Expenses	<ul style="list-style-type: none"> • Gastem participation equals 19.5% of costs, and total cost is presently estimated to be approximately \$5 M for frac operations
St-Jean East – 50,668 hectares (50% Gastem with 12.5% Epsilon, 50% Questerre)	
Summary	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Gastem reviewing existing seismic and aeromagnetic data • Possible program to test the Utica Shale potential in 2011
Projected Expenses	<ul style="list-style-type: none"> • To be determined at a later date
St-Jean West – 28,869 hectares (75% Gastem, 25% Epsilon)	
Summary	<ul style="list-style-type: none"> • Potential targets in platform carbonates and granite wash, analogous to Dundee-Soulanges • High-resolution aeromagnetic survey undertaken in 2007
Proposed Program	<ul style="list-style-type: none"> • Gastem reviewing existing seismic and aeromagnetic data and developing a possible drilling program to test the platform targets in 2011
Projected Expenses	<ul style="list-style-type: none"> • No significant exploration expenses projected for 2011 at this time
St-Jean North – 21,834 hectares (20% Gastem, 80% Questerre)	
Summary	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Project review on-going and work may be undertaken in 2011
Projected Expenses	<ul style="list-style-type: none"> • No significant exploration expenses projected for 2011 at this time

Dundee-Soulanges – 92,540 hectares (75% Gastem, 25% Epsilon)	
Summary	<ul style="list-style-type: none"> • 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 • 1,066km² airborne gravimetric survey initiated in December 2010
Proposed Program	<ul style="list-style-type: none"> • Two drilling targets identified based on new seismic survey, site locations under review • Gastem preparing exploration program for 2011 – Possible 2-well program in 2011 • Processing and interpretation of the gravimetric survey
Projected Expenses	<ul style="list-style-type: none"> • Estimated \$600,000 for exploration well program
Joly – Farm In – 13,809 hectares (35% Gastem, 65% Intragaz)	
Summary	<ul style="list-style-type: none"> • 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
Proposed Program	<ul style="list-style-type: none"> • Drilling of Joly No 5 to test Utica Shale at 3.5 km depth
Projected Expenses	<ul style="list-style-type: none"> • Possible exploration expenses projected for 2011 pending surface issues are solved
Gaspe Peninsula, Quebec	
Matapedia – Cyr – 189,884 hectares (75% Gastem, 25% Epsilon)	
Summary	<ul style="list-style-type: none"> • Regional geochemical survey (2007) undertaken by Gastem in vicinity of recent Ministry and Petrolia seismic lines in northern part of block • Detailed geochemical survey (2008) undertaken by Gastem on the Causapsal 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 • 8,727km² aeromagnetic survey initiated in December 2010
Proposed Program	<ul style="list-style-type: none"> • Processing and interpretation of the aeromagnetic survey • Gastem preparing exploration program for 2011 – Possible 1-well program based on new data
Projected Expenses	<ul style="list-style-type: none"> • Possible exploration expenses projected for 2011 pending drilling program development
Magdalen Islands, Quebec	
Magdalen Islands – 17,520 hectares (100% Gastem)	
Summary	<ul style="list-style-type: none"> • Exploration permit acquired in July 2008 • Review of existing data and geophysical modelling (seismic, gravity, magnetism) completed • Detailed geological report completed
Proposed Program	<ul style="list-style-type: none"> • Update on geophysical modelling based on new, MRNF regional surveys • Drilling program prepared and being reviewed, surface location under review
Projected Expenses	<ul style="list-style-type: none"> • Drill program being established and costs under final review
Gastem – USA	
New York State Shale and Tight Sand Project – approx. 32,000 acres (80% Gastem, 20% Covalent Energy)	
Summary	<ul style="list-style-type: none"> • 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 fraced for the Utica and Marcellus intervals, Oneida Sand interval tested

Proposed Program	<ul style="list-style-type: none"> • Land acquisition, seismic surveys and the drilling of new wells in 2011 • Other programs subject to results of new wells and New York State regulations
Projected Expenses	<ul style="list-style-type: none"> • Program to be prepared shortly • Further land acquisition and drilling programs subject to well results, regulations and funding
Virginia – approx. 2,300 acres (80% Gastem, 20% Covalent Energy)	
Summary	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • The company continues evaluating lease acquisition opportunities
Projected Expenses	<ul style="list-style-type: none"> • No significant exploration expenses projected for 2011 at this time

3.3 Property Review

3.3.1 St. Lawrence Lowlands

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 have been postponed to 2011.

Work on the Yamaska property with partner Forest Oil consisted of an 81.5 km 2-D seismic survey which was undertaken in June. The processing has been completed and the interpretation has indicated several drill targets. Further work on the property will be announced by the operator in the coming months.

Work on the Joly property resumed during the fall of 2010 with the preparation of a drill program (Gastem, Joly No5) 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 later 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 drill permit was delivered to Gastem on November 23th, 2010.

As a result of concerns by the regional office of the Ministère du Développement durable, de l'Environnement et des Parcs (MDDEP) regarding the possible presence of a swamp on a portion of the site

(part of a former agricultural land, now abandoned), drilling preparations were stopped on December 8th. In order to resume the drilling operations of Joly No5, an application has been filed with the Quebec Environment Department in early 2011 to obtain a certificate of authorization under Article 22 of the Environment Quality Act. As a precautionary measure, an alternative site (Gastem, Joly No6) located along the same seismic line as Joly No5 has been identified. As with all Gastem wells, meetings with the municipality of Joly and the 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 Evaluation Study” (SEES). MDDEP will soon set up a committee to prepare for the SEES study which may or will make recommendations to the government. For the duration of the SEES study, the announced intention is that the committee will review and approve programs on the Utica Shale as well as hydraulic fracturing in Quebec. All other conventional exploration program should continue as before.

3.3.2 Dundee 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. Site validations are underway and drilling of these targets could take place during 2011.

Jointly with this review, Gastem contracted a firm in December 2010 to perform an airborne gravimetric survey over part of the property. The gravimetric survey was completed after the end of the reporting period, in March 2011. It covers 1,066 km² and the data are currently being processed.

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 Q2 2009. This survey and mapping report was 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 remains 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 drill 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 were 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.

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 high TCF (trillion cubic feet) natural gas potential. 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.

3.3.4. Matapedia-Cyr Property

On the Matapedia-Cyr block in the Gaspé 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 2008 survey focussed on the Causapsal 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.

The company is currently reviewing identified targets over the anticline with an emphasis on defining areas in which to acquire additional seismic and potential drilling targets. A complementary aeromagnetic survey has also been initiated in December 2010, in order to refine the possible location of a test well on the Causapsal Anticline and to further assist in the delineation of the prospective zones in the southern part of the block. Processing of the survey is underway.

3.3.5 Gastem-USA

In September 2009, Gastem and its wholly owned subsidiary, Gastem-USA, announced an agreement with Utica Energy revising Gastem-USA's earn-in terms on the approximately 34,400 acres of land in New York State on which Gastem-USA has been a partner since January 2008. According to the terms of the new Agreement, Gastem-USA paid US\$35,000 and provided 3,500,000 common shares of Gastem vested over a period of six months to Utica Energy. The agreement also required Gastem-USA to drill and complete one vertical well for which Gastem-USA would pay 100% of the drilling and completion costs. As the terms were completed during the drilling and completion of the Ross No1 well discussed below, Gastem-USA now has an 80% interest in the acreage (including recently obtained leases). Utica Energy has a 20% working interest and retains a 2% ORRI on existing and new mineral rights leases within the partners Area of Mutual Interest in New York State. Utica Energy also retains the option to participate with a working interest of up to 20% in new land acquisitions within the AMI.

The Ross No1 well was drilled to target depth in the Utica Shale in August and September of 2009. The coring and logging program for the well was configured to analyse the natural gas potential of the Utica Shale, the Oneida Sandstone and Marcellus Shale, the latter two formations possessing proven commercial production in the region. Following an initial analysis of the sidewall cores, Gastem-USA completed the well in the Utica shale using nitrogen assisted hydraulic fracturing. Gastem-USA received the final report from Weatherford for Gas Storage Capacity and Gas in Place for the Utica and Marcellus Formations from the Ross No1. Highlights of this report have been released.

Gastem-USA applied for three oil and gas permits in 2010. 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. In Q4, the company completed a 10 mile high resolution 2D seismic program in the areas of interest in Otsego County New York, completed an evaluation of natural gas potential and selected three sites to target conventional gas wells in Otsego County.

Gastem-USA has added a new employee to oversee the water sampling and organization of the company's extensive database of water wells and surface waters. Our knowledge of the local aquifers was expanded by our continued testing water wells in the area of interest. To date we have extensive analysis on over 121 water wells and 38 surface waters in Otsego County.

To study the effects to local aquifers and surface waters from the impact of shale gas development, Gastem USA initiated a comparative study with the USGS, State Health Dept, Otsego County Soil & Water Conservation District, and SUNY College at Oneonta. This study includes water supply, water containment and transport, and water treatment and disposal as well as the issue of stray gas migration into potable aquifers. Furthermore, the company invited a scientist from Duke University to independently test water wells in the Ross 1 area to give an objective opinion on whether hydraulic fracturing of the Utica formation had any effect on local water wells.

Finally, Gastem-USA continued its policy of transparent awareness and environmental sensitivity to the Otsego County community by continuing discussions with all interested parties regarding water well testing, frac fluids and operations in general. A research plan was submitted to the United States Environmental Protection Agency to be considered as a candidate to document the potential impacts of hydraulic fracturing of organic rich shales through baseline water testing.

4. SELECTED FINANCIAL INFORMATION

Selected annual information for 2010 as compared to 2009 and 2008 is discussed where useful in the present MD&A.

SELECTED ANNUAL INFORMATION	Results as of December 31st 2010	Results as of December 31st 2009	Results as of December 31st 2008
Shareholder Equity	\$33,261,187	\$28,481,376	\$21,948,513
Accumulated Deficit	\$16,025,766	\$12,082,352	\$9,910,490
Exploration Expenses	\$8,764,588	\$6,830,746	\$7,488,568
Net Loss	\$1,642,516	\$1,636,206	\$1,302,169
Current Assets and Exploration Funds	\$8,824,133	\$10,621,838	\$12,207,446
Gas Properties Net Value	\$26,142,826	\$17,494,081	\$12,323,750
Total Assets	\$35,453,666	\$29,126,826	\$24,765,661

5. ASSETS AND CAPITAL

Assets as of December 31st 2010 totalled \$35,453,666. Cash, short-term investments, accounts receivable and exploration funds totalled \$8,824,133. Property net book value increased from \$17,494,081, at the end of 2009, to \$26,142,826, at the end of 2010, mostly as a result of exploration programs on the NYS projects, the St-Hyacinthe property and the Joly property.

Accounts receivable of \$1,178,800 are composed of sales tax returns for \$388,177, partner contributions for \$336,739 consisting of exploration and property expenses from Epsilon Energy and Covalent Energy, and

finally, on-going accounts with various companies and suppliers for a total of \$453,883 including \$33,118 from Tawsho Mining for expenses, \$296,949 from Ditem Exploration for on-going expenses, and \$123,777 for wages paid in advance to a director of the Company.

Accounts payable of \$2,192,479 are composed of statutory source deductions, salaries and accrued liabilities for amounts of \$174,075, current accounts of \$1,969,243 for exploration programs for which cheques have, on December 31st 2011, been made but all not yet deposited by the various service providers and current US accounts of \$49,161. At the writing of this report, a total \$2,017,866 has been paid and all cheques 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 and well into 2012.

Shareholder equity increased from \$28,481,376 at the end of 2009 to \$33,261,187 at the end of 2010 essentially as a result of March and August 2010 financings.

6. OPERATIONS AND DEFICIT

Revenues for Q4 2010 totalled \$21,773 for a total of \$93,456 for the year 2010 as compared to \$80,766 in 2009. The revenues in 2010 were composed entirely of interest on bank deposits.

Cost of operations and expenses for 2010, including stock-based compensation (options) to directors and officers, foreign exchange loss and gain on disposal of properties were \$3,223,423 as compared to \$2,092,972 for 2009. The increase is related to professional fees and the Oslo Stock Exchange proposed listing, as well as salaries including transfers from US project costs to the consolidated expenses. Expenses were in keeping with exploration activities in Quebec and New York State.

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
31/12/2010	21,773	813,983	0.010	0.010
30/09/2010	22,763	500,630	0.006	0.006
30/06/2010	29,531	109,204	0.001	0.001
31/03/2010	19,389	218,699	0.003	0.003
31/12/2009	11,226	536,056	0.012	0.012
30/09/2009	10,415	392,461	0.006	0.006
30/06/2009	21,058	303,530	0.005	0.005
31/03/2009	38,067	404,159	0.007	0.007

Net loss for Q4 was \$813,983 for a total of \$1,642,516 for the year 2010 as compared to \$1,636,206 for 2009. The increase in net loss is mostly due to fees and disbursements from the proposed Oslo Stock Exchange inscription. The cumulated deficit increased to \$16,025,766 as compared to \$12,082,352, at the end of 2009.

7. FINANCINGS

The following summarises all financings undertaken by the Company from January 1st 2006 to December 31st 2010.

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

On March 23rd, 2010, Gastem closed a private placement for a total of 6,764,706 flow-through units at a price of \$0.85 per unit for a total of \$5,750,000.

On August 17th 2010, Gastem closed a financing for a total of 8,510,000 units at a price of \$0.325 per unit to raise \$2,765,750. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of \$0.45 per share for a period of 2 years from the closing.

There have been no financings to date in 2011.

8. EXPLORATION EXPENSES AND USE OF PROCEEDS

In Quebec, exploration and development expenses in 2010 were focused in the St. Lawrence Lowlands. On the St-Hyacinthe property, Gastem with operator Canbriam completed the 2010 drilling program and has applied for the completion permits. Gastem also began a drilling program on the Joly property in fall of 2010. Other programs included notably, airborne surveys on the Dundee and the Matapedia properties.

Gastem-USA expenses were related to geological work and to a frac and test programs on specific formations in an existing well. The Ross well frac program has been completed and evaluations have been released. 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.

8.1 Gastem Operations in Quebec

Exploration expenses in Quebec for 2010 totalled \$6,567,288. Most of this amount was spent for the St-Hyacinthe and Joly drill programs as well as for airborne surveys on the Dundee and the Matapedia properties.

The St-Hyacinthe drill program included one vertical well and three horizontal wells. 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. Fracture stimulation of the La Présentation No 1H well was performed in July 2010. Due to the public hearings on shale gas development in Quebec, the fracture stimulation of the remaining horizontal wells has been postponed to 2011.

Work on the Joly property has resumed during the fall of 2010 with the preparation of a drill program (Gastem, Joly No5) to evaluate the shallow carbonate thrust sheets and the deep Utica Shale.

(\$)	Drilling and Drill Related Expenses	Magnetic Surveys and Related Programs	Other Geological Programs	Professional Fees	Sampling	TOTAL
Dundee	9,311	291,677	0	1,912	2,000	304,900
St-Jean	15,818	8,965	1,500	4,401	808	31,492
St-Hyacinthe	2,062,068	50,638	75	1,874	0	2,114,655
St-Simon	0	-2,2284	0	0	0	-2,284
Yamaska	569,502	35,723	891	7,625	404	614,145
LSP	0	0	0	0	0	0
Joly	2,479,363	91,593	26,008	147,256	5,216	2,749,436
Matapedia	9,311	547,313	6,655	700	1,500	565,479
Magdalen Isl.	9,488	29,611	53,675	77,537	19,154	189,465
TOTAL	5,154,861	1,056,236	88,804	241,305	29,082	6,567,288

8.2 Gastem-USA Operations

Gastem-USA applied for three oil and gas permits to the NYS authorities in late spring 2010. In September 2010 Gastem-USA has received from the NYS DEC 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 mcpd flow in the Ross 1.

In Q4, the company started and completed a cableless 10 mile high resolution 2D seismic program in the areas of interest in Otsego County New York and completed an evaluation of natural gas potential and selected three sites to target conventional gas wells in Otsego County New York.

(\$)	Drilling and Drill Related Expenses	Seismic and airborne surveys	Geological Programs	TOTAL
New York	1,204,085	692,554	150,181	2,046,820
Virginia	0	0	0	0
TOTAL	1,204,085	692,554	150,181	2,046,820

Flow-Through Reserve

As of December 31st 2010, Gastem's flow-through reserve was \$5,631,653.

FLOW-THROUGH EXPLORATION RESERVE			
	CEE	CEE (Qc)	Total
Flow-Through Reserve March 31 st 2007	\$ 753,164	\$ 609,152	\$1,362,316
Flow-Through Exploration Expenses to September 30 th 2007	\$753,164	\$609,152	\$1,362,316
Flow-Through Reserve to September 30 th 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 31 st 2008	\$0	\$1,204,400	\$1,204,400
Flow-Through Reserve as of December 31 st 2008	\$0	\$0	\$0
Flow-through Funds raised in December 2009	\$0	\$6,343,005	\$6,643,005
Flow-Through Reserve as of December 31 st 2009	\$0	\$6,343,005	\$6,343,005
Flow-Through Exploration Expenses to March 31 st 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 31 st to December 31 st 2010	\$0	\$6,281,884	\$5,631,653
Flow-through Reserve as of December 31st 2010			\$5,631,653

It is important to note that the flow-through reserve come from an amount of \$5,750,000, raised in March 2010, will be spent in admissible exploration expenses prior to December 31st 2011.

9. 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 Canadian Forest Oil (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.

10. 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.

11. CHANGES IN ACCOUNTING POLICIES

International Financial Reporting Standards (“IFRS”)

In February 2008, the Accounting Standards Board (“ASB”) confirmed that Canadian publicly accountable enterprises will be required to adopt IFRS in its version published by the International Accounting Standards Board (“IASB”) for fiscal years beginning on or after January 1, 2011. After that date, the IFRS will replace Canadian GAAP for these entities. Therefore, the Company will have to adopt IFRS from January 1, 2011, and as such these new standards will have to be applied to interim and annual financial statements for periods beginning on or after January 1, 2011. In its financial information for periods after that date, the Company will have to provide comparative information for equivalent periods of the prior year, and as such the date of transition will be January 1, 2010.

IFRS use a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures.

Conversion plan

The Company elaborated a conversion plan in four phases:

- Awareness phase – phase to mobilize the Company regarding the conversion, preliminary training.
- Assessment phase – detailed assessment of the IFRS transition’s impacts:
 - o Analysis of accounting policies differences and choices, including exemptions at transition date in accordance with IFRS 1 – First-time adoption of international financial reporting standards.
 - o Analysis of the impacts on business activities, internal control and information systems.
- Design phase – design of tools and planning of adjustments, preparation of blank financial statements, design of potential changes on business activities, internal control and information systems.
- Implementation phase – calculation of adjustments, preparation of financial statements with figures, implementation of potential changes on business activities, internal control and information systems.

The Company is assisted by its auditors at each phase. The awareness phase is completed. The Company is currently finalizing the assessment phase and plans to be able to complete other phases by the date of the issuance of its first interim financial statements of 2011.

Accounting policies

As part of the evaluation phase, and based on the analysis performed as of today, the Company analysed more particularly the impact of the following standards:

Standards according to which IFRS adjustments will be recorded:

IFRS 2 – Payments based on shares: When the acquisition of awards is gradual, this IFRS requires that each vesting be evaluated and accounted for separately. Also, under IFRS, forfeitures must be estimated; they may not be accounted for as they occur as is current practice for the Company. The impact of these differences may be assessed by the Company.

IAS 12 – Income Taxes: While the overall methodology for recording deferred taxes is consistent between Canadian GAAP and IFRS, there are several areas of differences that may have an impact on the Company's financial statements. The Company is currently in the process of evaluating these differences, in particular with respect to flow-through shares and refundable credits on mining duties.

Standards according to which no IFRS adjustments were identified as of today:

IFRS 1 – First-time adoption of international financial reporting standards: This guideline details the steps to follow when implementing the IFRS for the first time. Most adjustments required on transition to IFRS will be made, retrospectively, against opening deficit as of January 1, 2010, the date of the first comparative balance sheet presented under IFRS. However, IFRS 1 provides entities adopting IFRS for the first time a number of optional exemptions and mandatory exemptions, in certain areas, to the general requirement for full retrospective application of IFRS on the date of transition. The Company does not expect to apply any of the optional exemptions permitted by IFRS 1.

IFRS 6 – Exploration and Evaluation assets: According to this IFRS, the Company must establish an accounting policy in order to identify which exploration expenses and mineral resources should be capitalized. The Company's policy under Canadian GAAP requires exploration and evaluation costs to be capitalized when a project is determined to be potentially economically viable. The Company only capitalizes costs that are closely related to its exploration and evaluation activities. This policy is compliant with IFRS 6 and as such the Company plans to adopt the same policy under IFRS. As a result, there is no accounting policy change on transition on this respect.

IAS 36 – Impairment: Canadian GAAP generally uses a two-step approach to impairment testing while IFRS uses a one-step approach for both testing for and measurement of impairment. In addition, IFRS requires the reversal of any previous impairment losses where circumstances leading to the original impairment have changed while Canadian GAAP prohibits reversal of impairment losses. These differences are not expected to have an impact for the Company.

IAS 37 – Restoration obligation: A provision for restoration obligation is recognized on the basis of a legal or constructive obligation arising from a past event, if there is a probable outflow of resources and the amount can be estimated reliably, while under Canadian GAAP liabilities for asset retirement obligations are recognised only when there is a legal obligation. The Company evaluated that as of today this difference had no impact for the Company.

IAS 39 – Financial instruments: recognition and measurement: under IFRS all financial assets are classified into "loans and receivables", "held-to-maturity", "fair value through profit or loss" or "available-for-sale" categories. Canadian GAAP present certain differences from IFRS with respect to designating assets into the fair value through profit or loss category which is stricter under IFRS. Therefore under IFRS, the Company's cash and cash equivalents, restricted cash and exploration funds will not meet the criteria for

designation at fair value through profit and loss. Thus they will be classified as loans and receivables. This classification change will not have a financial impact but only a disclosure impact.

The Company does not anticipate that the IFRS transition will have significant impacts other than the above-mentioned differences and apart from the impact on financial information disclosures.

Information systems

The accounting process of the Company is rather simple as it is at the exploration stage. The Company considers that it will be able to adapt its information systems to IFRS quite easily.

Internal control

The Company does not expect that the IFRS transition will have a significant impact on its internal control over financial reporting neither on disclosure controls and procedures.

Training on IFRS is provided to members of the financial team on an on going basis.

Impact on business activities

The Company's business processes are simple and no significant challenge is expected in order to operate under IFRS. Business processes have been monitored during 2009 and 2010 and will still be during 2011, in order to identify potential impacts that would not have been initially identified.

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 ANNUAL FILINGS

For the financial period ending December 31st 2010, the Chief Executive Officer and the Chief Financial Officer in collaboration with the Audit Committee of the Company reviewed the annual financial statements and annual MD&A (together, the "annual 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 annual 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 annual 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 annual 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 December 31st 2010, the Company had issued 89,787,007 shares and, on a fully diluted basis, 118,177,576 shares were outstanding.

Total Shares Issued

Shares Issued	Note
74,302,300	As of December 31 st , 2009
15,484,707	Shares issued during 2010
89,787,007	As of December 31st, 2010

Share Issuance During 2010

Share Issuance	Note
0	Warrants exercised
210,000	Options exercised
15,274,707	Private Placement
15,484,707	Total Share Issuance during 2010

Warrants Not Exercised as of December 31st 2010

Warrants	Exercise Price	Date of Expiry
8,107,691	\$0.85	2011-06-04
1,507,693	\$0.85	2011-06-09
143,085	\$0.85	2011-06-30
6,764,706	\$1.05	2011-09-24
8,510,000	\$0.45	2012-08-17
25,033,175	Total	

Options Not Exercised as of December 31st 2010

Options	Exercise Price	Date of Expiry
295,000	\$0.26	2011-12-19
400,000	\$0.35	2011-12-22
425,000	\$0.65	2012-08-31
761,189	\$0.60	2012-12-14
25,000	\$0.62	2013-01-28
500,000	\$0.63	2013-02-21
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
691,205	\$0.58	2014-10-29
50,000	\$0.53	2015-02-06
50,000	\$0.28	2020-08-31
3,357,394	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 Ministère du Développement durable, de l'Environnement et des Parcs 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 is may, it is stated, take 18 to 30 months. The report of the Committee may or will propose, among other things, new regulations concerning shale gas production and exploration.

In New York State, the revised draft the Supplemental Generic Environmental Impact Statement Study is to be presented in June of 2011 and may or will contain various regulatory recommendations to the government regarding fracturing operations in the Marcellus and Utica shales.

17. OUTLOOK

In Quebec, the Bureau d'audiences publiques sur l'Environnement (BAPE) submitted its report on February 28th and the report was released by the Ministry on March 8th of this year. Following the BAPE's recommendations, a committee of 10 persons will undertake a Strategic Environmental Evaluation Study and during the preparation of the study will oversee Utica shale activities and, it was stated, all fracturing operations in Quebec. As the committee should be formed in early May, it remains to be seen how it will administer and execute its mandate. The Company is nevertheless hopeful that this Study will be constructive and will favour social acceptability of the proposed exploration programs for the Utica Shale properties in Quebec as stated by the Ministry's press release.

Over the coming months, Gastem expects to undertake with operator Canbriam, a fracture stimulation program for the two remaining St-Hyacinthe property horizontal wells, if authorised by the BAPE committee. The Company believes it will also receive authorisation for the Joly well as this is a key project. Both of these programs are important for the exploration and development of the Utica Shale in Quebec and are recognised as such.

The Company plans to move ahead with its conventional (non-Utica shale) projects in Quebec. The Magdalen Islands program is now being finalised for a conventional exploration well proposed for this fall. Gastem expects to present its revised project to the residents and municipal officers over the coming weeks. Conventional drill programs on the Dundee and the Matapedia properties are also proposed based on the results of this winter's airborne surveys. Permitting applications for these should be submitted shortly. As these are also conventional wells, the permits are not subject to the new procedures.

In New York State, pursuant to Executive Order No. 41, the New York Department of Environmental Conservation is expected to publish on or about June 1st 2011 a revised draft of the Supplemental Generic Environmental Impact Statement (SGEIS). Public comment on the revisions within a period of not less than thirty days may be accepted, and there may be public hearings on such revisions to be conducted in the Marcellus and Utica Shale region of the State. As a result, we are expecting that the new regulations allowing high-volume hydraulic fracturing and shale gas development could be in place by the end of 2011. The company will continue to move ahead with its objective of obtaining production from conventional wells. New projects are being analysed and will be announced as soon as possible.

Over the next few weeks, Gastem will also be discussing with third parties regarding new opportunities in proven jurisdictions for the purpose of undertaking exploration and production programs.

We thank shareholders for their continued support and look forward to seeing you at our Annual Shareholder's Meeting to be held on June 27th in Montreal at the Queen Elizabeth Hotel. Additional information concerning this meeting will be available shortly.

April 26th 2011

(s) Raymond Savoie _____
Raymond Savoie
Chairman and CEO