



BUY
AMEX: GST

Exploration & Production

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Neal Dingmann
SVP – Equity Research
(713) 658-9800
ndingmann@dahlmanrose.com

Gastar Exploration

Upgrading To BUY Due to Operational Successes Though Litigation Overhangs

- ▶ **Gastar's neighbor in the Deep Bossier has seen huge wells, giving us confidence that even bigger wells for Gastar are around the corner.** EnCana has announced wells producing as much as 65 Mmc/d from their acreage in the Amoroso Field in Robertson and Leon counties, which is neighboring Gastar's Hilltop acreage in the same counties. We believe it is only a matter of time until Gastar begins to find "sweet spots" on its acreage like EnCana, providing company changing production results from the play.
- ▶ **Gastar continues to produce positive results from the Deep Bossier.** The company recently announced the completion of the Holmes #1 which is expected to be completed in the next few weeks and brought onto production. Gastar has since moved its rig in the Bossier to drill the Lone Oak Ranch #6 well to target the middle Bossier sands.
- ▶ **The company continues to generate drilling locations in the Deep Bossier near strong wells.** Gastar has located and identified six direct offset locations from its Donelson #3 and Wildman Trust #3 wells in the Deep Bossier, providing a solid drilling inventory for the next two years on the current drilling pace. These two wells have the highest EUR's to date for Gastar, and we expect the next six to perform as well if not better. Gastar has one rig dedicated to drilling Bossier wells for the remainder of 2008.
- ▶ **The Knowles section is evolving into an unknown play into an economically viable opportunity for Gastar.** Gastar finished drilling the Brunette #1 horizontal well into the Knowles Limestone area and has produced 2 Mmc/d (1 Mmc/d net to Gastar) since mid-April despite mechanical issues restricting the sales. The Brunette #1 has been very positive to Gastar, the first player to economically produce from the area. We expect to see the drill additional wells and higher production. Gastar has one rig dedicated to drilling Knowles horizontal wells for this year and look for two rigs here next year.
- ▶ **Look for additional reserve adds in Australia as Gastar has net 2P reserves of 57 Bcfe on wells drilled on less than 1% of the acreage.** As this area (1.2 million acres underlain by coal) continues to be explored, delineated and developed the reserve number should ramp nicely, providing a solid asset base for Gastar and its partner to begin production in late 2008. First production in Australia is a nice step for Gastar, but the big picture of the Australia play is the large scale gas sales to power projects beginning in 2010. Once the larger sales begin, look for Gastar to change as a company due to the large production/sales coming from this area (two MOUs already in place).
- ▶ **Litigation remains on "look back" claim.** Though we do not believe GeoStar's suit has any merit, we believe the end result could be a small payment. GeoStar contends total proved and probable reserves of East TX properties 14x more than Netherland Sewell.
- ▶ **We upgrade Gastar to a BUY rating and set a \$3.00 price target** based on our net asset value (NAV). We believe we are being conservative with Gastar's assets considering the huge potential of the Deep Bossier and Australia assets.

Cash Flow Per Share

	2007	2008E	2009E
1Q	(\$0.01)	\$0.01	\$0.06
2Q	(\$0.00)	\$0.03	\$0.03
3Q	\$0.01	\$0.03	\$0.04
4Q	\$0.01	\$0.04	\$0.04
FY	<u>\$0.01</u>	<u>\$0.12</u>	<u>\$0.17</u>
P/CF	<u>152.8x</u>	<u>11.4x</u>	<u>8.2x</u>

Recommendation

Rating	Buy
Price Target	\$3.00
Exp. Return	117%
Div. ('08E)	\$0.00
Yield	n/a
Exp. Total Return	117%

Stock Statistics

Priced as of 4/26/2008	
Symbol	GST
Price	\$1.38
52W Range	\$0.87-\$2.25
Shares Out. (MM)	207.1
Mkt. Cap. (MM)	\$285.8
Net Debt (MM)	\$46.8

Fundamentals

NAV / Share	\$3.00
P / NAV	0.5x
EPS ('08E)	\$0.03
PE ('08E)	50.8x
EBITDA ('08E) (MM)	\$40.7
EV/EBITDA ('08E)	9.6x

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NET ASSET VALUATION (\$000's)

(In 000's except per share amount)	Unrisked	Risk Factor	Risked	Value Per Mcfe	Total Value	Value Per Share
Proven Reserves - net						
Natural Gas (MMcf)	54,822	98%	53,726			
Oil (Mbbls)	9	98%	9			
Total MMcfe - approx 65% developed	54,876	98%	53,778	\$3.33	\$179,082	\$0.80
Estimated Probables/Possibles - MMcfe						
East Texas Probable, Possible and Potential	440,000	25%	110,000	\$3.00	\$330,000	\$1.48
Powder River Basin Probable, Possible and Potential	5,000	25%	1,250	\$3.00	\$3,750	\$0.02
Australia (PEL 238) Probable, Possible and Potential	750,000	42%	315,000	\$0.60	\$187,425	\$0.84
Undeveloped Acreage						
Powder River Basin, Wyoming			12.0	\$250.00	\$2,998	\$0.01
Hilltop area, East Texas			12.1	\$250.00	\$3,036	\$0.01
Other			5.8	\$250.00	\$1,446	\$0.01
Gippsland and Gunnedah Basins, New Zealand			2,866.5	\$10.00	\$28,665	\$0.13
Working Capital (as of 12/31/07)					\$63,416	\$0.28
Other Property and Equipment (as of 12/31/07)					\$2,401	\$0.01
Total Debt (as of 12/31/07)					(\$132,685)	(\$0.59)
Estimated Net Asset Value					\$669,534	\$3.00
Preferred Stock					\$0	
Net Asset Value To Common					\$669,534	
Diluted Shares Outstanding					207,098.57	
Warrants and other Convertibles					16,000.0	
Total Shares Outstanding (Fully Diluted)					223,098.57	
Estimated net Asset Value Per Share					\$ 3.00	

Source: Dahlman Rose estimates and company documents

EPS	(\$0.01)	\$0.01	\$0.01	\$0.01	(\$0.10)	\$0.03	\$0.05
CFPS	\$0.01	\$0.03	\$0.03	\$0.04	\$0.01	\$0.12	\$0.17
EBITDA	\$6,859	\$9,729	\$10,697	\$13,428	\$12,709	\$40,713	\$50,280

Historical and Forecasted Income Statement
(amounts in thousands of \$, except as noted)

2008 Quarterly Results/Est.

	Mar-E	Jun-E	Sep-E	Dec-E	2007	2008-E	2009-E
Oil Prod. (M Bbls)	1.15	1.32	1.52	1.75	7.60	5.74	10.04
Price (\$/bbl)	\$96.01	\$104.47	\$102.49	\$100.89	\$74.11	\$100.97	\$97.91
Gas Prod. (bcf)	1,974.0	2,072.7	2,176.3	2,585.2	6575.80	8808.19	11699.44
Price (\$/mcf)	\$6.45	\$7.66	\$7.88	\$8.16	\$5.29	\$7.61	\$7.25
Total Production (Mmcfe)	1,980.9	2,080.6	2,185.5	2,595.6	6,621.4	8,842.6	11,759.7
Total Production Per Day (MMcfe)	22.01	22.86	23.76	28.21	18.1	24.2	32.2
% Natural Gas	99.7%	99.6%	99.6%	99.6%	99.3%	99.6%	99.5%
Sequential Growth	5.0%	5.0%	5.0%	18.8%	40.4%	33.5%	33.0%

Commodity Estimates

Gas (Henry Hub Spot); \$/bbl	\$8.62	\$9.93	\$10.16	\$10.51	\$6.96	\$9.80	\$9.52
Oil (WTI Cushing Spot); \$/mmbtu	\$97.76	\$106.22	\$104.24	\$102.64	\$72.21	\$102.72	\$99.66
Days in Period	90	91	92	92	365	365	365

Income Statement

Theor. Revs.	12,852	16,021	17,303	21,265	35,366	67,628	85,761
Oil & Gas Sales	12,852	16,021	17,303	21,265	34,565	67,441	85,759
Other	0	0	0	0	0	0	0
Total Revenues	12,852	16,021	17,303	21,265	34,565	67,441	85,759
Lease operating expenses	2,641	2,774	2,914	3,461	8,690	11,790	15,680
Impairment of Properties	0	0	0	0	0	0	0
Mineral Resource Properties	50	50	50	50	(133)	200	200
Share Based Compensation	0	0	0	0	0	0	0
DD&A/Impair./Goodwill/Accretion	4,292	4,508	4,371	5,191	21,737	18,362	24,451
G&A	3,302	3,468	3,642	4,326	13,299	14,738	19,600
Oper. Income	2,567	5,221	6,326	8,237	(9,028)	22,351	25,829
Interest	(3,848)	(3,848)	(3,848)	(3,848)	(14,079)	(15,391)	(15,391)
FX Gain or Loss	(4)	(4)	(4)	(4)	5	(16)	(16)
Other	0	0	0	0	3,196	0	0
Taxable Income	(1,285)	1,369	2,474	4,385	(19,906)	6,944	10,421
Taxes	0	0	0	(1,316)	0	(1,316)	(846)
Net Earnings Excl. Special Items	(\$1,285)	\$1,369	\$2,474	\$3,070	(19,906)	5,628	9,575
Preferred Divd	0	0	0	0	0	0	0
Special Items (After-Tax)	0	0	0	0	(10,634)	0	0
Reported Earnings	(\$1,285)	\$1,369	\$2,474	\$3,070	(30,540)	5,628	9,575
EBITDA	\$6,859	\$9,729	\$10,697	\$13,428	\$12,709	\$40,713	\$50,280
Basic Operating EPS	(\$0.01)	\$0.01	\$0.01	\$0.01	(\$0.10)	\$0.03	\$0.05
Basic Reported EPS	(\$0.01)	\$0.01	\$0.01	\$0.01	(\$0.15)	\$0.03	\$0.05
Diluted Operating EPS	(\$0.01)	\$0.01	\$0.01	\$0.01	(\$0.10)	\$0.03	\$0.05
Diluted Reported EPS	(\$0.01)	\$0.01	\$0.01	\$0.01	(\$0.15)	\$0.03	\$0.05
Basic Shares Outstanding	207,099	207,099	207,099	207,099	202,783	207,099	207,099
Diluted Shares Outstanding	207,099	207,099	207,099	207,099	202,783	207,099	207,099

Cash Flow Statement

Net Income	(\$1,285)	\$1,369	\$2,474	\$3,070	(19,906)	5,628	9,575
DD&A	\$4,292	\$4,508	\$4,371	\$5,191	21,737	18,362	24,451
Dfrd Taxes	0	0	0	1,052	0	1,052	677
Impairment	0	0	0	0	0	0	0
Cash Flow	\$3,007	\$5,878	\$6,845	\$9,313	\$1,831	\$25,043	\$34,703
Cash Flow/Share	\$0.01	\$0.03	\$0.03	\$0.04	\$0.01	\$0.12	\$0.17

Source: Company documents, Bloomberg, and Dahlman Rose estimates

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