

Q3 2010

WINSTAR RESOURCES LTD.

2010 THIRD QUARTER REPORT
FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2010

SHAREHOLDERS' REPORT

The third quarter of 2010 was a very active period for Winstar Resources Ltd. ("Winstar" or the "Company") as it generated a record sustained level of Tunisian production and marked the commencement of a multi-well drilling campaign within the Chouech Essaida Concession in Southern Tunisia.

Q3 2010 Financial and Operating Results

	Three Months	Three Months Ended September 30,			Nine Months Ended September 30,		
	Ended June 30,	2010	2009	% Change	2010	2009	% Change
Financial from continuing operations	2010	2010	2009	% Change	2010	2009	% Change
Oil and gas sales	10,830	13,985	11,222	25	35,344	25,175	40
Net royalty	(1,378)	(1,744)	(1,263)	38	(4,164)	(2,609)	60
Operating expense	(2,010)	2,206	1,909	16	6,387	6,023	6
General and administrative expenses (excludes non-cash stock based compensation)	(1,442)	(1,421)	(1,633)	(13)	(4,211)	(4,026)	5
Current income tax	-	-	(328)	-	-	(1,025)	-
Funds from operations	5,824	8,525	6,582	28	20,159	12,412	62
Net income (loss)	(444)	779	694	-	754	(174)	-
Capital expenditures	8,634	7,004	1,131	519	23,320	13,807	69
Operating from continuing operations							
Total production (boepd)	1,716	1,998	1,790	12	1,741	1,452	20
Total sales (boepd)	1,536	1,888	1,790	5	1,648	1,452	11
Oil sales (bpd)	1,338	1,747	1,432	22	1,467	1,199	22
Average price (\$ per bbl)	79.43	81.84	73.29	12	80.65	65.31	23
Gas sales (mcf)	1,189	851	2,147	(60)	1,083	1,520	(29)
Average price (\$ per mcf)	10.72	10.68	7.92	35	10.28	9.22	11
Operating expense (\$ per boe)	14.38	12.70	11.59	10	14.20	15.21	(7)

The financial and operating results for Q3 2010, as compared to continuing operations reported during Q2 2010 and Q3 2009, show a marked improvement reflecting stronger commodity prices and increased production from Tunisia.

Production

Production from continuing operations was 1,998 boepd compared with 1,716 boepd during Q2 2010 and 1,790 during Q3 2009. Production during Q3 2010 was positively affected by the commencement of production from Chouech Essaida Triassic Development Well #11 (CS#11). This well produced an average of 550 bpd during the quarter as well as positive results from two workovers in Chouech Essaida which increased production by 661 bpd. The increases in oil production were partially offset by a 50% reduction in gas sales from Chouech Essaida relative to Q2 2010 and 75% decrease relative to Q3 2009 due to third party restrictions. Gas sales have improved again at the end of October 2010 at approximately 700 mcf, but there remains no assurance that current sales will remain stable.

Funds from Continuing Operations

Funds from continuing operations during Q2 2010 were \$8.5 million, which are a significant improvement relative to Q3 2009 of \$6.6 million and \$5.8 million during Q2 2010. Higher funds from continuing operations were primarily a function of increased field operating netbacks in Tunisia which were \$58.59 per boe; an increase of 23% and 9% compared with Q3 2009 and Q2 2010 respectively, which relate to commodity prices.

Due to the timing of tanker sales during the quarter, the Company was unable to sell 100% of Q3 production and crude oil inventory increased by 10,100 bbls, resulting in a September 30, 2010 inventory balance of 33,100 bbls. At current market prices of approximately US \$80, this inventory balance represents approximately \$2.4 million of incremental funds from operations, after deducting approximately \$360,000 in operating expenses booked as cost of crude inventory. The Company is currently planning tanker sales during Q4 to ensure that there will not be any meaningful inventory at year end 2010.

Q4 2010 Capital Program

Chouech Essaïda Triassic Development Well 13 (CS#13)

The Company completed the drilling of CS#13 to a total depth of 2,485 meters. The well, which spud on September 28, 2010, and was rig released on October 31, 2010, ahead of projected time and under budgeted costs. The 33 day drilling operation was the best performance by the Company to date, to this depth, and represents a significant improvement in the Company's drilling operations. The open-hole logs, obtained during the final week of October 2010 provided conflicting results with the information obtained during drilling, which indicated the Triassic sands had good oil and gas shows.

Following perforation of three zones and installation of completion equipment, the Company commenced testing of the well on November 3, 2010. Testing of the first two zones resulted in relatively low production rates of water and uneconomic traces of oil. The Company is currently testing the final zone which will be followed by a final test to flow all prospective zones commingled using coil tubing and nitrogen.

Chouech Essaïda Silurian Exploration Well 1 (CS Sil#1)

Following the completion of operations at CS#13, the drilling rig moved to the CS Sil#1 location and spud in early November. The well is targeted to drill a total depth of approximately 4,400 meters to test the Silurian Acacus formation and is anticipated to take 60 days to drill and complete with a budgeted cost of US \$12.0 million. Due to the multi-level nature of the Silurian Acacus formation, testing could take up to 30 days and is budgeted to cost up to US \$3.0 million depending on the number of potential hydrocarbon bearing zones encountered and whether the zones are oil or gas.



Charles de Mestral
Chief Executive Officer
November 11, 2010



David A. Monachello
President

REVIEW OF OPERATIONS

The third quarter of 2010 delivered steady production results for the Company. Preparation for the current drilling program in Southern Tunisia and the attempt to re-initiate production from the Chouech Essaida 8S well (CS#8S) dominated operations during this time.

Production

In Q3 2010, Winstar produced an average 1,998 barrels of oil equivalent per day (boepd) from its continuing operations, compared to 1,790 boepd in Q3 2009. Production from Tunisia continues to improve quarter over quarter and is currently between 2,000 – 2,200 boepd depending on gas sales to the Tunisian state utility company (STEG). It is anticipated that testing of the new well, Chouech Essaida 13 (CS#13), will be completed by mid-November and if results are positive, the well will be on production by month-end.

Events affecting production:

- Gas sales from the Chouech Essaida and Ech Chouech concessions continued to be restricted due to operational issues with STEG. Through much of the quarter, there were limited or no gas sales; however early in the fourth quarter, the Company started to sell a modest amount of gas to STEG. Current gas sales from Chouech Essaida are approximately 700 mcf/d.
- There were no major well workovers or production disruptions during the quarter. The new well, Chouech Essaida 11 (CS#11), produced an average of 550 bpd (water free) for the quarter.
- The well, Chouech Essaida 5 (CS#5), remained off line with no production during the quarter. This well historically produces a large quantity of solution gas associated with the oil production and this extra gas production cannot be sold during periods of low gas sales.

Country Updates and Outlook

Tunisia

As announced September 14, 2010, the Company elected to re-orient its fall drilling program to the oil prone regions of the Chouech Essaida concession. The 1,500 horsepower H&P rig was moved and spud the Triassic development well location, CS#13, in late September. The Company originally planned to re-enter and drill the ECS#1 well as its first operation with the rig, and the civil works for this location were built and all required material purchased and moved to the staging area in the south. The ensuing change in drilling strategy required a rapid response by the Tunisian operations staff to have a new location ready in time for the arrival of the rig. In spite of the challenging operating environment associated with both a very hot summer and the holy month of Ramadan, the Company was successful in completing the civil works for the CS#13 location in less than four weeks. The CS#13 well was drilled and completed in 31 days, two days faster than planned and 10 percent under the budgeted amount.

The rig subsequently moved and commenced drilling in early November at the Chouech Essaida Silurian 1 (CS Sil#1) location which is the Company's first exploratory well to test the potential of the Silurian Acacus formation (Silurian) on its concessions in Southern Tunisia.

The Company has the contractual option to drill a third well after CS Sil#1 and has yet to announce whether it will exercise the option or not. The Company's attempts to re-initiate flow from the Chouech Essaida 8S well (CS#8S), as previously reported, were unsuccessful. The well's very small tubular diameters presented very challenging operating conditions and in spite of one re-perforation attempt and the installation of a jet-pumping system, production was not re-established. The Company is currently evaluating its options to recover the reserves associated with this well.

Romania

Preparatory work is proceeding on schedule for the drilling of the Company's first well in Romania anticipated to spud in the second quarter of 2011. The proposed drilling program has been prepared and will be submitted to our partners (Rompetrol) and the national authorities for review and approval during Q4 2010.

Hungary

The Company was successful in the sale of its exploration commitments and operatorship of the Igal II exploration permit in west-central Hungary to the Hungarian exploration company, Presolaj, in exchange for a small net carried interest in future production. The sale commits Presolaj to assume all future work commitments and existing surface land and wellbore reclamation liabilities associated with past exploration activities on the Igal II lands.

At the Torokkoppány gas field, the Company realized some production in July before suspending operations due to uneconomic rates. There are no plans to re-initiate production from Torokkoppány in the near term.

A handwritten signature in blue ink, appearing to read "Roger McMechan".

Roger McMechan
Executive Vice-President
November 11, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This Management's Discussion and Analysis (MD&A), dated November 11, 2010, of the consolidated financial position and results of operations of Winstar Resources Ltd. (the "Company" or "Winstar") is for the three and nine month periods ended September 30, 2010 and 2009. This MD&A should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2009, the interim consolidated financial statements for the three and nine months ended September 30, 2010, and documents filed on SEDAR, including press releases and the Annual Information Form (AIF). These documents and additional information about the Company are available on SEDAR at www.sedar.com.

The financial information contained herein was prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). All comparative percentages are between the three and nine month periods ended September 30, 2010 and 2009, and all amounts are expressed in thousands of Canadian dollars except per share and per unit amounts, unless otherwise noted.

Statements throughout this report, that are not historical facts, may be considered "forward-looking statements" and should be read in conjunction with the Company's forward-looking statements found in Section 6.

1. Overview and highlights

Winstar is a publicly traded oil and gas exploration and development company focused primarily on Tunisia. The Company is headquartered in Calgary, Alberta, Canada. The international head office is located in Breda, The Netherlands, with offices in Switzerland, Tunisia, Hungary, and Romania. The Company's operations in the first three quarters of 2010 were conducted in two geographic segments: Tunisia and Eastern Europe. The Tunisian operations were the Company's primary focus during the first three quarters of 2010. The Eastern European segment was limited to ongoing operations and planning for 2011 drilling in Romania. Note 11 to the Interim Consolidated Financial Statements provide segmented information that forms the basis for much of the following discussion and analysis. The Company's Tunisian asset base is comprised of low-risk developments and high impact exploration opportunities, which the Company will evaluate and develop through existing working capital, internally generated funds, the possible use of its available line of credit, the sale of new equity and the establishment of joint venture relationships.

1.1 Highlights

- As of October 29, 2010, drilling of the, Chouech Essaida Triassic development well #13 (CS#13) had been completed. Testing from the first two of three perforated zones did not result in economic volumes of oil. Testing is currently ongoing at the final zone.
- The Company spud the Chouech Essaida Silurian Exploration Well 1 (CS Sil#1) in early November 2010. This location is four kilometers north east of Winstar's existing Triassic field and will test multiple zones in the Silurian Acacus and Tannezuft formations with an up-hole secondary exploration target in the Triassic formation.
- Gas sales at Chouech Essaida were restricted to rates between 0 – 550 mcf/d and averaged 397 mcf/d during Q3 2010 due to third party mechanical issues at El Borma operated by the Tunisian national utility company, STEG. During the last two weeks of October, sales increased to an average rate of 700 mcf/d but there remains no assurance that sales will continue at a stable rate. Winstar continues to investigate natural gas sales alternatives in order to assure greater volume of current and future production.
- On September 14, 2010, the Company announced the sale of the IGAL II permit in Hungary, in exchange for a 4% net working interest in future production from the permit.
- Following an operation at Chouech Essaida Triassic development well #8 (CS#8) to clear the wellbore of debris and re-perforate the upper zone, a jet pumping system was installed in an attempt to re-establish oil production. This operation was, however, unsuccessful and the well has been temporarily suspended.

1.2 Financial performance

- As at September 30, 2010, the Company's working capital amounted to \$9 million with no current or long-term bank debt.
- During Q3 2010, the Company generated \$8.5 million of funds from continuing operations (as defined in Section 2.1), which is an increase of \$1.9 million or 30% as compared to \$6.6 million generated in Q3 2009.
- During the third quarter of 2010, the Company increased its crude oil inventory by 10,100 bbls in Tunisia. As a result, as at September 30, 2010, the Company has approximately 33,100 bbls of crude inventory in Tunisia. The Company is currently planning numerous tanker sales during Q4 to ensure that there is no significant crude inventory as of December 31, 2010. At current market prices of approximately US \$80 per barrel, the 33,100 bbls of inventory mentioned above represents approximately \$2.4 million of incremental funds from operations, after deducting approximately \$360,000 in operating expenses booked as cost of crude inventory.
- Winstar recorded an increase in field operating netback per boe (as defined in Section 2.3), from Tunisia, of 23% to \$58.59 for Q3 2010, compared with \$47.51 for Q3 2009.
- The Company's \$10 million line of credit remains undrawn and available as at September 30, 2010 and as at the date of this report.

Financial and operating results from continuing operations

(\$ thousands)	Three months ended September 30,			Nine months ended September 30,		
	2010	2009	% change	2010	2009	% change
Sales and prices						
Oil and NGL sales (bpd)	1,747	1,432	22	1,467	1,199	22
Natural gas sales (mcf)	851	2,147	(60)	1,083	1,520	(29)
Average daily sales 6:1 (boepd)	1,888	1,790	5	1,648	1,452	13
Average oil and NGL price (\$/bbl)	81.84	73.29	12	80.65	65.31	24
Average natural gas price (\$/mcf)	10.68	7.92	35	10.28	9.22	11
Financial (\$ thousands except for per unit amounts)						
Oil and gas revenue	13,985	11,222	25	35,344	25,175	40
Funds from operations	8,525	6,582	30	20,159	12,412	62
Per share- basic and diluted	0.24	0.19		0.58	0.36	
Net (loss)/income	779	694	12	754	(174)	533
Per share- basic and diluted	0.02	0.02		0.02	(0.01)	
Field operating netback (\$/boe)	57.77	46.88	23	55.12	39.18	41
Capital expenditures	7,004	1,131	519	23,320	13,807	69
Working capital at period end	9,009	7,596	19	9,009	7,596	19
Common shares (thousands)						
Weighted average during period -						
- basic	34,864	34,223	2	34,478	34,223	1
- Diluted	34,996	34,223	2	34,610	34,223	1
Outstanding at period end	34,942	34,223	2	34,942	34,223	2

2. Results of operations

2.1 Funds from operations

Funds from operations are a non-GAAP measure, defined by the Company as cash flow from operating activities excluding:

- The change in non-cash working capital related to continuing and discontinued operations, which is eliminated to show the net cash effect on income;
- Geological and geophysical expenses from continuing and discontinued operations (as detailed in Section 2.6 Capital Expenditures and Exploration Expenses), which are costs incurred for the purpose of generating future investment opportunities and are therefore not indicative of operational performance; and
- Expenditures on asset retirement obligations and reclamation, which are also not indicative of current operational performance.

The Company also presents:

- Funds from operations per share, whereby amounts per share are calculated using weighted average common shares outstanding.

Management uses funds from operations to analyze performance and considers it to be a key measure as it demonstrates the Company's ability to generate the cash necessary to fund future capital investments. Winstar's determination of funds from operations may not be comparable to that reported by other companies nor should it be viewed as an alternative to cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with Canadian GAAP.

The following table reconciles the cash flow from operating activities to total funds from operations and funds from operations from continuing operations:

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Cash flow from continuing operating activities	7,102	3,363	19,901	15,454
Change in non-cash working capital from continuing operations	1,205	3,134	(466)	(3,532)
Geological and geophysical expense from continuing operations	218	85	724	490
Funds from continuing operations	8,525	6,582	20,159	12,412
Cash (used in)/from discontinued operations	(72)	373	(265)	950
Change in non-cash working capital from discontinued operations	82	(266)	370	(525)
Geological and geophysical expense from discontinued operations	-	-	25	20
Funds from discontinued operations	10	107	130	445
Total funds from operations	8,535	6,689	20,289	12,857

Three months ended September 30, 2010 vs. 2009

Funds from continuing operations increased by \$1.9 million to \$8.5 million in Q3 2010 as compared to \$6.6 million for Q3 2009. Primarily, the increase is a result of:

- An 18% increase in realized commodity prices;
- A 5% increase in sales boe; and
- Current taxes decreased by \$328,000 to nil during Q3 2010.

Additionally, during the third quarter of 2010, the Company increased its crude oil inventory by 10,100 bbls. As a result, as at September 30, 2010, the Company has approximately 33,100 bbls of inventory in Tunisia. The Company is currently planning numerous tanker sales during Q4 to ensure that there will be no significant crude inventory as at December 31, 2010. At current market prices of approximately US \$80 per barrel, the 33,100 bbls of inventory represents approximately \$2.4 million of incremental funds from operations after deducting approximately \$360,000 in operating expenses booked as cost of crude inventory.

2.2 Production

Three months ended September 30,	2010			2009		
	Oil and liquids (bpd)	Gas (mcf/d)	Total (boepd)	Oil and liquids (bpd)	Gas (mcf/d)	Total (boepd)
Hungary	-	72	12	-	-	-
Tunisia						
Chouech Essaida/Ech Chouech	1,595	397	1,661	1,099	1,637	1,372
Sabria	172	382	236	223	510	308
Sanrhar	89	-	89	110	-	110
Tunisia Total	1,856	779	1,986	1,432	2,147	1,790
Total continuing production	1,856	851	1,998	1,4432	2,147	1,790
Canada	-	-	-	90	720	210
Total production	1,856	851	1,998	1,522	2,867	2,000

Three months ended September 30, 2010 vs. 2009

Production in Tunisia increased by 11% in Q3 2010 compared to Q3 2009. Primarily, the increase is the result of:

- Production commenced at Chouech Essaida #11 during the second quarter of 2010 and the well produced approximately 550 bpd during Q3 2010.
- Successful workover operations at CS#1 and CS#7 increased production to 221 bpd and 396 bpd respectively, which are a 20% and a 74% increase, respectively, when compared to Q3 2009.
- These production increases were partially offset by lower gas sales from Chouech Essaida. During the quarter, Winstar did not sell gas for several weeks. Subsequent to September 30, 2010, gas sales have resumed at 700 mcf/d; however there are no assurances that future gas sales from Chouech Essaida will remain stable.

Nine months ended September 30,	2010			2009		
	Oil and liquids (bpd)	Gas (mcf)	Total (boepd)	Oil and liquids (bpd)	Gas (mcf)	Total (boepd)
Hungary	-	89	15	-	247	41
Tunisia						
Chouech Essaida/Ech Chouech	1,284	588	1,382	874	819	1,011
Sabria	185	406	252	224	454	300
Sanrhar	92	-	92	101	-	101
Tunisia total	1,561	994	1,726	1,199	1,273	1,411
Total continuing production	1,561	1,083	1,741	1,199	1,520	1,452
Canada (discontinued)	-	-	-	102	950	260
Total production	1,561	1,083	1,741	1,301	2,470	1,712

Production versus sales from continuing operations

	Three months ended September 30,			Nine months ended September 30,		
	2010	2009	% Change	2010	2009	% Change
Total production	183,821	164,665	12	475,298	396,028	20
-boepd	1,998	1,790		1,741	1,452	
Total sales	173,721	164,665	5	449,820	396,028	14
-boepd	1,888	1,790		1,648	1,452	

Sales are equal to production in Hungary and Canada; however in Tunisia, oil sales are recognized when oil is loaded onto tankers. As a result of this, from time to time, the Company's sales and production volumes may not be equal. The Company had an opening inventory of 23,000 bbl at June 30, 2010. During the third quarter of 2010, the Company's production exceeded sales by 10,100 bbl, resulting in an increase of crude oil inventories to 33,100 bbl.

2.3 Field operating netback

Field operating netback is a non-GAAP measure defined by the Company as presented below. Management considers field operating netback an important measure as it demonstrates the Company's profitability from field operations, before general and administrative costs, relative to current commodity prices.

The following tables outline the field operating netback for the three and nine months ended September 30, 2010 and 2009.

Field operating netback from continuing operations

	Three months ended September 30,				Nine months ended September 30,			
	2010		2009		2010		2009	
Sales volumes								
Oil sales (bbl)	160,678		131,783		400,543		326,857	
Gas sales (mcf)	78,256		197,513		295,660		415,028	
Total sales (boe)	173,721		164,701		449,820		396,029	
- Boepd	1,888		1,790		1,648		1,452	
Commodity sales and prices	\$	\$/unit	\$	\$/unit	\$	\$/unit	\$	\$/unit
Oil sales (\$/unit = \$/bbl)	13,150	81.84	9,658	73.29	32,305	80.65	21,347	65.31
Gas sales (\$/unit = \$/mcf)	836	10.68	1,564	7.92	3,039	10.28	3,827	9.22
Field operating netback	\$	\$/boe	\$	\$/boe	\$	\$/boe	\$	\$/boe
Realized oil and gas revenues	13,985	80.50	11,222	68.13	35,344	78.57	25,175	63.57
International royalty income	282	1.62	345	2.09	899	2.00	915	2.31
Royalties	(2,026)	(11.66)	(1,608)	(9.76)	(5,063)	(11.26)	(3,524)	(8.90)
Operating expense	(2,206)	(12.70)	(1,909)	(11.59)	(6,387)	(14.20)	(6,023)	(15.21)
Current tax expense	-	-	(329)	(2.00)	-	-	(1,025)	(2.59)
Field operating netback	10,035	57.77	7,721	46.88	24,793	55.12	15,518	39.18

Tunisia - field operating netback

	Three months ended September 30,				Nine months ended September 30,			
	2010		2009		2010		2009	
Sales volumes								
Oil sales (bbl)	160,596		131,783		400,461		326,857	
Gas sales (mcf)	71,603		197,513		271,392		347,529	
Total sales (boe)	172,530		164,701		445,693		384,778	
- Boepd	1,875		1,790		1,633		1,409	
Commodity sales and prices	\$	\$/unit	\$	\$/unit	\$	\$/unit	\$	\$/unit
Oil sales (\$/unit = \$/bbl)	13,150	81.88	9,658	73.29	32,305	80.67	21,347	65.31
Gas sales (\$/unit = \$/mcf)	782	10.92	1,564	7.92	2,846	10.48	3,170	9.12
Field operating netback	\$	\$/boe	\$	\$/boe	\$	\$/boe	\$	\$/boe
Realized oil and gas revenues	13,932	80.75	11,222	68.13	35,151	78.87	24,518	63.72
International royalty income	282	1.63	345	2.09	899	2.02	915	2.38
Royalties	(2,024)	(11.73)	(1,608)	(9.67)	(5,051)	(11.33)	(3,444)	(8.95)
Operating expense	(2,081)	(12.06)	(1,834)	(11.14)	(6,007)	(13.48)	(5,413)	(14.07)
Current tax expense	-	-	(300)	(1.82)	-	-	(996)	(2.59)
Field operating netback	10,109	58.59	7,825	47.51	24,992	56.07	15,580	40.49

Three months ended September 30, 2010 vs. 2009

Field operating netback in Tunisia increased 29% in Q3 2010 compared with Q3 2009, which corresponded to a 23% increase in netback per boe. This increase is primarily explained as follows:

- Oil and gas revenues increased by 24%, reflecting a 5% increase in sales volume and a 19% increase in realized commodity prices;
- A \$300,000 decrease in current tax expenses in Q3 2010 as a result of significant capital investment, primarily incurred at the Chouech Essaida concession, generated capital pools immediately deductible for tax purposes.

General and administrative expenses from continuing operations

(\$ thousands except per unit amounts)	Three months ended September 30,			Nine months ended September 30,		
	2010	2009	% Change	2010	2009	% Change
General and administrative (G&A)	1,421	1,633	(13)	4,211	4,026	5
Per sales boe	8.18	9.92	(18)	9.36	10.17	(8)
Non-cash stock-based compensation	168	192	(13)	741	378	96
Per sales boe	0.97	1.17	(17)	1.65	0.95	73
Total G&A from continuing operations	1,589	1,826	(13)	4,952	4,404	12
Per sales boe	9.15	11.08	(17)	11.01	11.12	(1)

Three months ended September 30, 2010 vs. 2009

The 13% decrease in cash G&A is primarily the result of fewer legal and regulatory costs incurred in Q3 2010 compared to Q3 2009 as well as the effect of foreign exchange as Tunisian costs are incurred in Tunisian dinars, which decreased in value compared to the Canadian dollar in Q3 2010.

2.4 Current and future income tax from continuing operations

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Current tax expense	-	328	-	1,025
Future tax expense/(recovery)	2,492	594	6,364	(1,639)
Total	2,492	922	6,364	(614)

The Company recorded no current tax for the three and nine months ended September 30, 2010 as the annualized estimated effective tax rate for Tunisia is expected to be nil in 2010. Intangible drilling costs are eligible for deduction when incurred within the relevant concessions; therefore the Company expects that taxes payable will be sheltered by these capital expenditures in 2010.

Future income tax from continuing operations was related exclusively to the Tunisian assets as the Company recorded a valuation allowance for the unused tax pools in Hungary, Romania and Canada.

2.5 Depletion, depreciation, and accretion (DD&A)

(\$ thousands except per unit amounts)	Three months ended September 30,			Nine months ended September 30,		
	2010	2009	% Change	2010	2009	% Change
Total	4,868	5,017	(3)	11,576	13,358	(13)
Per sales boe	28.02	30.46	(8)	25.73	33.73	(24)

DD&A from continuing operations in Q3 2010 reflected only the DD&A from Tunisia. DD&A per boe decreased to \$28.02 during Q3 2010, from \$30.46 in Q3 2009, primarily due to an increase in proved developed reserves at Chouech Essaida, as well as the effect of foreign exchange as Tunisian costs are measured in US dollars, which decreased in value compared to the Canadian dollar in Q3 2010.

Under the successful efforts method of accounting, the Company depreciates property and equipment using the unit of production method for each concession individually. The Company uses proved developed producing reserves as the denominator for the unit of production method. This method of depletion may not make the Company comparable with other companies which utilize different accounting policies related to their DD&A of property and equipment.

2.6 Capital expenditures and exploration expenses

(\$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Capital expenditures				
Tunisia	6,992	1,126	23,244	13,785
Corporate	11	5	76	23
Total capital from continuing operations	7,004	1,131	23,320	13,808

Capital activity was focused exclusively on Tunisia during the first three quarters of 2010. In Q3 2010, capital spending related primarily to purchased equipment and preparation of Chouech Essaida #13 (\$2.1 million) and the preparation of Chouech Essaida Silurian 1 (\$1.8 million) as well as operations at Chouech Essaida #8S (\$1.7 million) to re-establish production.

Under the successful efforts method of accounting, the costs of drilling exploratory wells are initially capitalized. If these wells are subsequently determined to be unsuccessful, they are charged to exploration expense as dry hole costs. All other exploration costs, geological costs, geophysical costs, and annual lease rentals, including seismic purchases, but excluding 3D seismic acquisitions covering proved reserves, are charged to geological and geophysical expense as incurred (collectively "G&G expense"). Exploration expense, as reported on the consolidated statement of operations and deficit, represents the summation of G&G expenses and dry hole costs.

(\$ thousands except per unit amounts)	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
G&G expense				
Tunisia	210	78	459	428
Hungary	-	7	217	55
Romania	8	-	48	7
Total G&G expense from continuing operations	218	85	724	490

In Q3 2010, G&G expenditures related primarily to the ongoing work associated with the Company's development and exploration program on the Chouech Essaida and Ech Chouech concessions.

3. Selected quarterly information

Total operations (unaudited)								
(\$ thousands except per unit amounts)	Q3/10	Q2/10	Q1/10	Q4/09	Q3/09	Q2/09	Q1/09	Q4/08
Average daily production volumes (boepd) (1)	1,998	1,716	1,505	1,816	2,000	1,553	1,581	1,550
Average daily sales volume (boepd) (1)	1,888	1,536	1,515	1,735	2,000	1,553	1,581	1,550
Realized sales price (\$/boe)	80.50	77.48	77.24	75.52	64.73	58.18	53.83	59.87
Field operating netback (\$/boe) (2)	57.77	53.24	53.72	58.79	40.21	31.26	18.19	37.00
Revenue	13,985	10,830	10,529	12,053	11,908	8,221	7,661	8,536
Funds from operations (2)	8,535	5,795	5,970	7,708	6,689	3,588	2,577	5,257
Per share - basic and diluted (2)	0.24	0.17	0.17	0.23	0.20	0.10	0.08	0.15
Earnings/ (Loss)	789	(473)	543	1,502	791	(7,855)	(1,035)	(3,810)
Per share - basic and diluted	0.02	(0.01)	0.02	0.04	0.02	(0.23)	(0.11)	(0.30)
Total assets	110,264	109,197	98,395	97,191	96,455	115,196	133,102	138,486
Bank debt	-	-	-	-	-	7,851	5,343	-

Production and sales in Q3 2010 increased in comparison to Q2 2010, primarily due to Chouech Essaida #11, which was on production for the entire quarter. This, in combination with an increase in realized commodity price, resulted in an increase in field operating netback, revenues, funds from operations and net earnings during the third quarter of 2010.

- (1) From time to time, the Company will hold significant quantities of crude inventory at quarter ends, which are sold in the subsequent period and recognized as revenue at that time.
- (2) Funds from operations and funds from operations per share (as defined in Section 2.1) and field operating netback (as defined in Section 2.3) are non-GAAP measures that represent cash generated from operating activities and continuing operating activities.

4. Business environment analysis

4.1 Risk factors

Winstar is exposed to certain risks and uncertainties inherent in exploring for, developing and producing crude oil and natural gas, which include, but are not limited to the risks summarized below. For a detailed analysis of the Company's risks and responses, reference is to be found in the December 31, 2009 annual report.

Commodity prices

Crude oil and natural gas prices are subject to market constraints of supply and demand and will fluctuate outside of the Company's control.

Exploration and development activities

Oil and gas exploration and development involves a high degree of risk and there is no assurance that expenditures made on future exploration and development activities by the Company will result in new discoveries of oil or gas or that such are commercially viable.

Production

The production of oil and gas involves risks such as environmental and physical disruptions that may temporarily or permanently impede reservoir deliverability.

Environment and safety

Environmental regulations impose, among other requirements, restrictions, liabilities and obligations in connection with hazardous substances and waste, as well as requirements regarding the operations, maintenance, abandonment and restoration of pipelines, wells, facilities and other properties associated with Winstar's operations.

Reserve replacement

Winstar's operations are dependent on the availability of existing and incremental oil and gas reserves, the recovery of which is governed by internal and external factors outside of the Company's control.

Foreign currency

Winstar's reporting currency is Canadian dollars; however transactions are conducted also in US dollars, Tunisian Dinar, Hungarian Forint, Swiss Franc, Euro and Romanian New Leu.

Political risk

Winstar operations may be adversely affected by political and economic developments or social instability.

Credit risk

The Company is and may in the future be exposed to third-party credit risk through its contractual arrangements with its current and future joint venture partners, marketers of its production and other parties.

4.2 Sensitivities

Winstar's financial performance is affected by factors such as changes in commodity prices and exchange rates. The estimated impact of these factors on the Company's financial performance for the three and nine months ended September 30, 2010, is summarized in the following table, based on an approximate WTI oil price of Cdn \$79.02 and \$80.30 respectively for the three and nine months ended September 30, 2010.

(\$ thousands, except per unit amounts)	Three months ended September 30, 2010		Nine months ended September 30, 2010	
	Net Income	Funds From Operations	Net Income	Funds From Operations
Price changes				
Oil increased \$1.00/bbl	144	144	349	349
Exchange rate changes				
US \$/Cdn \$ decreased by \$ US \$0.01	55	135	48	212

4.3 Liquidity and capital resources

Although the Company presently has sufficient financial resources and has been historically successful in obtaining equity financing to undertake exploration and development projects, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company. The ability of the Company to arrange such financing in the future will depend in part upon the prevailing capital market conditions, as well as the business performance of the Company.

As at September 30, 2010, the Company had \$9 million of working capital and no debt. The Company's working capital includes \$7.4 million of cash and cash equivalents, \$1.4 million of which is restricted to secure the outstanding letter of credit relating to reclamation liabilities in Canada. The Company's \$10 million undrawn line of credit, which was executed with HSBC and EDC in Q4 2009, secured by the Company's assets, is available to meet potential short term financing requirements.

Winstar has a bias toward conservatively financing operations under normal industry conditions, by utilizing equity financing and internally generated cash flow to offset the inherent risks of international oil and gas activities. From time to time, the Company may access the capital markets for new equity to supplement internally generated cash flow to finance its growth plans. Periodically, these markets may not be receptive to offerings of new equity from treasury, whether by way of private placement or public offerings. This may be further complicated by the limited market liquidity for shares of smaller companies, restricting access to some institutional investors.

Winstar has assessed its current accounts receivable balance with its counter parties. As at November 10, 2010, approximately 80% of the \$6.1 million receivables reported September 30, 2010, has been subsequently received. The remaining receivables are expected to be received within the pre-existing terms and are primarily related to various entities of the Tunisian state; being the Tunisian state oil company, ETAP; the Tunisian national utility company, STEG; and the Tunisian taxation authorities.

5. Conversion to International Financial Reporting Standards

As of September 30, 2010, the Company has made significant progress on its International Financial Reporting Standards ("IFRS") project and continues to be on target to meet the changeover date. The Company's IFRS conversion project began in 2009, at which time a formal project plan and project team were established. The project philosophy is to align with current accounting practices and policies, and where possible, to minimize the impact of any changes to the business and to ensure transparent and reliable reporting under the new standards. Regular reporting updates are provided to senior management and the Audit Committee of the Board of Directors regarding the project's status and key financial reporting issues.

During the second and third quarter of 2010, management drafted its preliminary IFRS accounting policy manual, preliminary quantitative analysis and draft IFRS conversion entries, all of which are subject to final executive and board of directors approval. Management has continued its training program with increased focus on disclosure requirements and conversion impacts and further executive training is scheduled for the fourth quarter of 2010. The Company's information technology system and control environment have been assessed and are considered to be effective given the scope of financial reporting requirements and process changes that management has identified in developing its IFRS accounting policies.

The adoption of IFRS does not impact the underlying economics of Winstar's operations or its cash flows. The most significant impacts are anticipated to arise from the application of new accounting policies reflected on the Company's balance sheet on conversion to IFRS and financial statement presentation changes. Based on the work performed to date management has identified potential adjustments that may change:

- the carrying value of PP&E;
- long-term provisions,
- future income taxes; and
- retained earnings.

As a result in these potential accounting policy changes, the Company's previously recorded quarterly net income during 2010 may be revised. The Company does not expect a change to the previously reported cash flows as a result of the adoption of IFRS.

IFRS 1 exemptions

The general principle that should be applied on first-time adoption of IFRS is that standards in force at the first reporting date should be applied retrospectively. However, IFRS 1: "First-time Adoption of International Financial Reporting Standards; contains a number of exemptions which converting entities are permitted to apply. Since the Company current accounts for its oil and gas assets using the successful efforts method, certain exemptions available to entities using full cost accounting are not available. Specifically, those exemptions regarding the retroactive application of changes to oil and gas related assets are not available to Winstar. The company expects to apply the following exemptions:

- not to restate prior business combinations that occurred before January 1, 2010;
- to reset cumulative translation adjustment to nil at January 1, 2010; and
- to apply a modified approach described in IFRS 1 to calculating the retrospective cost component of PP&E relating to the Company's asset retirement obligations ('ARO');

Management is currently unable to estimate the effect of the ARO exemptions given that IFRS accounting policies have not yet been finalized.

Depreciation of property, plant and equipment

IFRS does not provide any specific requirements governing the depreciation of oil and gas related tangible and intangible assets, contrary to Canadian GAAP which requires that these assets are depleted on a unit of production basis over proved developed reserves. The application of this standard may result in a change in the carrying value of property plant and equipment on conversion and depreciation expense on previously reported quarterly results for 2010. Management is currently unable to estimate the effect of these exemptions given that IFRS accounting policies have not yet been finalized.

Reversal of impairments

International accounting standard ("IAS") 36 requires that a historically reported impairment be reversed where there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist. Management has reviewed historical impairments, and identified up to \$5.5 million of impairments that may be subject to reversal on conversion to IFRS. The final impact on the Company's opening balance sheet cannot be estimated given that depletion policies have not been finalized.

Measurement of asset retirement obligations

IAS 37 – Provisions, Contingent Liabilities and contingent assets requires that an entity evaluate its assumptions for the measurement of provisions included abandonment and site restoration costs during each reporting period. The specific interpretation of these measurement requirements may result in an increase to the Company's asset retirement obligation liability as well as property, plant and equipment.

Measurement of future income taxes

Canadian GAAP offers a specific exemption to the recognition of future income taxes on exchange gains and losses that arise from the difference between the historical exchange rate and the current exchange rate translation of the cost of non-monetary assets or liabilities. This exemption does not exist under IFRS, therefore the measurement of future taxes will be revised for IFRS and future income tax liabilities on transition are expected to decrease by \$245,000. Fluctuations are also expected in previously reported 2010 quarterly future income tax expenses depending on the fluctuation in exchange rates between Tunisian Dinar and US dollars.

Exploration expenses

IFRS 6 allows for the capitalization of all expenditures classified as exploration and evaluation ("E&E"); however Winstar is unable to adopt this standard since its current successful efforts accounting policies are more in line with the IFRS framework than the exception provided in IFRS 6. Because Winstar's current accounting policies are in line with the IFRS framework, the Company must continue to apply these policies which allow for the capitalization of exploration wells until the economic feasibility can be determined at which point the assets are depreciated or expensed. All other E&E costs will continue to be expensed as incurred. The result is that Winstar's net income and operating cashflows will be decreased by the effect of E&E costs that may be capitalized by comparable entities that are eligible to apply IFRS 6.

6. Forward-looking statements

Statements throughout this report that are not historical facts may be considered "forward-looking statements". These forward-looking statements may include words to the effect that management believes or expects a stated condition or result. Since forward-looking statements address future events and conditions, by their nature, they involve certain inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to any number of factors, including such variables as new information regarding recoverable reserves, changes in demand for, and commodity prices of crude oil, condensate and natural gas, legislative, environmental and other regulatory or political changes, competition in areas where the Company operates, and other factors discussed in this interim report. Forward-looking statements are based on the estimates and opinions of the Company's management at the time the statements are made. The Company assumes no obligation beyond that which is required by law, to update the forward-looking statements should circumstances, management's estimate, or opinions change.

Statements and information related to "reserves" or "resources" are by their nature forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions regarding future condition, that the reserves or resources described can be profitably produced in the future.

Examples of forward-looking information in this document include, but are not limited to, the following:

Section 1.1

- Winstar continues to investigate alternatives with STEG to assure access to sales capacity and to contract for a greater volume of current and future production.

Refer to above referenced sections for a discussion on the underlying assumptions utilized in making these forward-looking statements.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Consolidated Balance Sheets (unaudited)

(CDN \$ thousands) As at	September 30, 2010	December 31, 2009
ASSETS		
Current		
Cash and cash equivalents	7,455	8,753
Restricted cash (note 5)	1,411	1,383
Accounts receivable	6,075	5,509
Prepays	775	719
Inventory	2,194	1,284
Current portion of future income tax asset	1,495	121
Discontinued operations (note 4)	142	208
	19,547	17,977
Property and equipment (note 6)	88,479	77,789
Other assets	2,238	1,875
	110,264	97,641
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	10,054	8,917
Discontinued operations (note 4)	484	925
	10,538	9,842
Future income tax liability	15,092	7,511
Asset retirement obligation and other provisions (note 7)	8,109	6,300
Discontinued operations (note 4)	280	280
Total Liabilities	34,019	23,933
Shareholders' equity		
Share capital (note 8)	111,524	108,490
Contributed surplus (note 8)	3,593	3,740
Accumulated other comprehensive loss	(15,408)	(14,199)
Deficit	(23,464)	(24,323)
	76,245	73,708
	110,264	97,641

See accompanying notes

Consolidated Statements of Operations and Deficit (unaudited)

(CDN \$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
REVENUE				
Petroleum and natural gas sales	13,985	11,222	35,344	25,175
International royalty income	282	345	899	915
Royalties	(2,026)	(1,608)	(5,063)	(3,524)
	12,241	9,959	31,180	22,566
EXPENSES				
Operating	2,206	1,909	6,387	6,023
General and administration	1,589	1,826	4,952	4,404
Exploration expense	218	85	724	490
Depletion, depreciation and accretion	4,868	5,017	11,576	13,358
Interest (income)/expense	(17)	68	15	178
Foreign exchange loss/(gain)	18	(543)	323	(1,049)
Other expense/(income)	88	(19)	85	(50)
	8,970	8,343	24,062	23,354
Earnings/(loss) before tax	3,271	1,616	7,118	(788)
Current income tax expense	-	328	-	1,025
Future income tax expense/(recovery)	2,492	594	6,364	(1,639)
	2,492	922	6,364	(614)
Net income/(loss) from continuing operations	779	694	754	(174)
Net earnings/(loss) from discontinued operations (note 4)	10	97	105	(7,925)
Net earnings/(loss) for the period	789	791	859	(8,099)
Deficit, beginning of period	(24,253)	(26,617)	(24,323)	(17,727)
Deficit, end of period	(23,464)	(25,826)	(23,464)	(25,826)
Net earnings/(loss) per share (note 8)				
Basic and diluted from continuing operations	0.02	0.02	0.02	(0.01)
Basic and diluted from discontinued operations	0.00	0.00	0.00	(0.23)
Basic and diluted	0.02	0.02	0.02	(0.24)

See accompanying notes

Consolidated Statement of Comprehensive Loss and Accumulated Other Comprehensive Loss (unaudited)

(CDN \$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Net earnings/(loss) for the period	789	791	859	(8,099)
Other comprehensive loss				
Unrealized exchange loss on translation of self-sustaining foreign operations	(2,139)	(6,129)	(1,209)	(10,485)
Other comprehensive loss	(2,139)	(6,129)	(1,209)	(10,485)
Comprehensive loss	(1,350)	(5,338)	(350)	(18,584)
Accumulated other comprehensive (loss)/income beginning of period	(13,269)	(6,174)	(14,199)	(1,818)
Other comprehensive loss	(2,139)	(6,129)	(1,209)	(10,485)
Accumulated other comprehensive loss, end of period	(15,408)	(12,303)	(15,408)	(12,303)

See accompanying notes

Consolidated Statements of Cash Flow (unaudited)

(CDN \$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
OPERATING ACTIVITIES				
Net income/(loss) from continuing operations	779	694	754	(174)
Add (deduct) non-cash items:				
Stock-based compensation	168	192	741	377
Depletion, depreciation and accretion	4,868	5,017	11,576	13,358
Future income tax expense/(recovery)	2,492	594	6,364	(1,639)
	8,307	6,497	19,435	11,922
Change in non-cash working capital	(1,205)	(3,134)	466	3,532
Cash flow from continuing operating activities	7,102	3,363	19,901	15,454
Cash flow from discontinued operations before change in non-cash working capital	10	107	105	425
Change in non-cash working capital from discontinued operations	(82)	266	(370)	525
Cash flow (used in)/from discontinued operations	(72)	373	(265)	950
Cash flow from operating activities	7,030	3,736	19,636	16,404
FINANCING ACTIVITIES				
Issuance of shares	793	-	2,114	-
Decrease in operating loan	-	(7,851)	-	-
Cash flow from/(used in) financing activities	793	(7,851)	2,114	-
INVESTING ACTIVITIES				
Additions to property and equipment	(7,004)	(1,131)	(23,320)	(13,807)
Change in non-cash working capital	14	(129)	431	(16,830)
Investing activities from continuing operations	(6,990)	(1,260)	(22,889)	(30,637)
Disposal of property and equipment from discontinued operations	-	9,477	-	9,445
Change in non-cash working capital from discontinued operations	-	(29)	-	(55)
Investing activities from discontinued operations	-	9,448	-	9,390
Cash (used in)/from investing activities	(6,990)	8,188	(22,889)	(21,247)
Effect of translation on foreign currency cash	(147)	(208)	(131)	(278)
Increase/(decrease) in cash and cash equivalents	686	3,865	(1,270)	(5,121)
Cash and cash equivalents, beginning of period	8,180	2,289	10,136	11,275
Cash and cash equivalents, end of period	8,866	6,154	8,866	6,154
<i>See accompanying notes</i>				
Supplementary cash flow information:				
Cash interest paid	15	45	40	154
Cash taxes paid	-	-	42	-

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine month periods ended September 30, 2010 and 2009 (unaudited)

1. Summary of significant accounting policies

Basis of presentation

The interim consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in Canada (GAAP), follow the same accounting policies and methods of computation as the consolidated financial statements for the year ended December 31, 2009. Certain information and disclosures normally required to be included in the notes to annual consolidated financial statements have been condensed or omitted. These unaudited interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and the notes thereto contained in the Company's annual report for the year ended December 31, 2009.

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results may differ from these estimates.

2. Financial instruments and financial risk factors

Financial instruments

The Company's financial instruments include cash and cash equivalents, restricted cash, bank debt, accounts receivable and payable, for which the amounts recorded on the balance sheet are reasonable estimates of their fair values due to the relatively short periods to maturity and the commercial terms of these instruments.

Financial risk factors

The Company is exposed to a number of different financial risks arising from the normal course of business exposures, as well as the Company's use of financial instruments. These risk factors include market risk relating to commodity prices, foreign currency risk and interest rate risk, as well as liquidity risk and credit risk.

(a) Market risk

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of the business. The market price movements that could adversely affect the value of the Company's financial assets, liabilities and expected future cash flows include commodity price risk (crude oil and natural gas), foreign currency exchange risk and interest rate risk. Refer to Section 4.2 of Management's Discussion and Analysis for a sensitivity analysis relating to commodity price and foreign exchange fluctuations.

(i) Commodity price risk

The Company's financial performance is closely linked to crude oil prices. The Company may use derivative instruments from time to time to hedge its exposure to commodity prices. As at September 30, 2010, Winstar has no such derivative instruments in effect.

(ii) Foreign currency exchange risk

The Company is exposed to fluctuations of foreign exchange rates in its international subsidiaries as revenues, expenses, capital expenditures, or financial instruments may fluctuate due to changes in rates. As crude oil, the Company's primary product, is priced in US dollars, fluctuations in US \$/Cdn \$ exchange rates may impact revenues. The Company's exposure is partially offset by sourcing capital projects in US dollars.

(iii) Interest rate risk

The Company is exposed to interest rate risk as changes in interest rates may affect future cash flows and the fair value of its financial instruments. The primary exposure is related to short term Bankers' Acceptance notes and interest on its short term credit facility.

(b) Liquidity risk

Liquidity risk is the risk that the entity will encounter difficulties in meeting obligations associated with financial liabilities. The Company believes that it has access to sufficient capital through internally generated cashflows, external sources and committed borrowing facilities to meet current spending forecasts.

Surplus cash is primarily held in the Company's Tunisian and Dutch bank accounts and restricted cash is invested into a range of short-term Bankers' Acceptance notes. The Company seeks to ensure security and liquidity of those investments.

The Company has no long term debt instruments; therefore financial liabilities consist of trade and other payables, all of which are classified as current. The Company has an available line of credit up to \$10 million, which is undrawn as of September 30, 2010.

(c) Credit risk

Credit risk is the risk that a customer or counter party will fail to perform an obligation or fail to pay amounts due causing a financial loss. The Company constantly monitors the exposure to any single customer or counterparties along with the financial position of the customer or counter party. Approximately 80% of the \$6.1 million reported September 30, 2010, has been subsequently received. The remaining receivables are expected to be received within the pre-existing terms and are primarily related to various entities of the Tunisian state; being the Tunisian state oil company, ETAP; the Tunisian national utility company, STEG; and the Tunisian taxation authorities.

3. Capital disclosures

The Company's capital structure consists of shareholders' equity excluding accumulated other comprehensive loss and working capital. The Company's primary capital management objectives are: to maintain a flexible capital structure which optimizes the costs of capital at acceptable risk while providing an appropriate return to its shareholders; and to maintain a strong capital base so as to maintain investor confidence and sustain ongoing development. The Company has the ability to adjust its capital structure by issuing new equity, modifying its capital expenditures program to the extent the capital expenditures are not committed and conducting capital projects through joint ventures.

The Company monitors its capital structure and short-term financing requirements using cash flow from operations and working capital. Management reviews its capital management on an ongoing basis. At September 30, 2010, the Company had \$9.0 million of working capital, no long term debt and a \$10 million available line of credit. The working capital surplus is anticipated to be invested primarily into Winstar's Tunisian operations.

4. Discontinued operations

(CDN \$ thousands)	September 30, 2010	December 31, 2009
As at		
ASSETS - DISCONTINUED OPERATIONS		
Current		
Accounts receivable	9	76
Prepays	133	132
	142	208
Current		
Accounts payable and accrued liabilities	235	676
Asset retirement obligations and other provisions	249	249
	484	925
Non-current		
Asset retirement obligations and other provisions	280	280
	764	1,205

(CDN \$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
REVENUE				
Petroleum and natural gas sales	-	686	-	2,615
Royalties	-	(127)	-	(323)
	-	559	-	2,292
EXPENSES				
Operating	30	348	32	1,510
General and administration	-	123	-	363
Exploration expense	-	-	25	21
Depletion, depreciation and accretion	-	-	-	1,146
Expiry of undeveloped land	-	-	-	122
Impairment of property and equipment	-	-	-	2,173
Other income	(40)	(9)	(162)	(7)
	(10)	462	(105)	5,328
Income/(loss) before tax	10	97	105	(3,036)
Future income tax expense	-	0	-	4,889
Net income/(loss) from discontinued operations	10	97	105	(7,925)

On August 11, 2009, the Company entered into an agreement with a third party for the sale of its Canadian oil and natural gas interests for a purchase price of \$9.5 million less sales costs of approximately \$300,000. The sale was effective September 1, 2009, so that the Company's only remaining Canadian oil and gas interest relates to its Sturgeon Lake assets. These assets continue to be classified as held for sale. The assets and liabilities of the Canadian operations have been reclassified as discontinued operations or liabilities of discontinued operations on the Consolidated Balance Sheets. Operating results related to these assets have been included in net income from discontinued operations of the Consolidated Statements of Operations and Deficit.

5. Restricted cash

As at September 30, 2010, the Company had a \$1.4 million irrevocable standby letter of credit issued by a Canadian chartered bank as required to meet future abandonment obligations existing on the Sturgeon Lake properties mentioned above properties. The Company has pledged \$1.4 million of short term investments as security, which are recorded as restricted cash.

6. Property and equipment

Septemeber 30, 2010 (\$ thousands)	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties			
Tunisia	139,066	57,741	81,325
Hungary	7,487	6,560	927
	146,553	64,301	82,252
Work in progress			
Tunisia	5,602	-	5,602
Other property and equipment	1,823	1,198	625
	153,978	65,499	88,479
December 31, 2009 (\$ thousands)			
Petroleum and natural gas properties			
Tunisia	114,897	46,855	68,042
Hungary	8,215	7,190	1,025
	123,112	54,045	69,067
Work in progress			
Tunisia	7,998	-	7,998
Other property and equipment	1,737	1,013	724
	132,847	55,058	77,789

During the three months ended September 30, 2010, \$51 of engineering salaries (2009 – nil) relating to those employees were capitalized.

7. Asset retirement obligation and other provisions

(CDN \$ thousands) As at	September 30, 2010	December 31, 2009
Balance, beginning of period	5,889	5,829
Change in estimate	640	412
Translation adjustment	(181)	(851)
Settlement of obligations during the period	(40)	(3)
Accretion expense	428	502
Balance, end of period	6,736	5,889
Other provisions	1,373	411
Asset retirement obligations and other provisions	8,109	6,300

The future asset retirement obligation relates to the Company's wells and facilities and was calculated by management using estimated costs to abandon and reclaim the properties and the estimated timing of the costs to be incurred in future periods. At September 30, 2010, the estimated total undiscounted asset retirement obligation from continuing operations was \$16.5 million (2009 - \$15.7 million). These obligations will be settled based on the useful lives of the underlying assets, the majority of which are expected to be settled within the next 20 years, primarily between 2022 and 2030. The discounted future asset retirement obligation was calculated using a weighted average discount rate of 10% and an expected inflation rate of 2%.

8. Share capital

(a) Authorized

Unlimited number of voting common shares with no par value

Unlimited number of first preferred shares

Unlimited number of second preferred shares

The first and second preferred shares may be issued in one or more series. The directors of the Company are authorized to fix the number of preferred shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the preferred shares.

	Number of shares (thousands)	Amount \$ thousands
Balance, December 31, 2008 and December 31, 2009	34,223	108,490
Issued on exercise of stock options	100	325
Re-classification of contributed surplus on exercise of options	-	125
Balance, March 31, 2010	34,323	108,940
Issued on exercise of stock options	345	997
Re-classification of contributed surplus on exercise of options	-	441
Balance, June 30, 2010	34,668	110,378
Issued on exercise of stock options	273	793
Re-classification of contributed surplus on exercise of options	-	353
Balance, September 30, 2010	34,942	111,524

(b) Stock-based compensation

The Company has established a stock option plan whereby options may be granted to the Company's directors, officers, employees and consultants for up to 10% of the outstanding common shares. As at September 30, 2010, the maximum number of remaining grantable options was 1,085,000 (2009 – 724,300). The exercise price of each option shall not be less than the weighted average trading price of the common shares on the TSX for the five trading days immediately prior to the grant date. Existing options have a maximum term of five years and option vesting is determined by the Board of Directors.

The following is a continuity of stock options outstanding for which shares have been reserved:

	Three months ended September 30, 2010		Year ended December 31, 2009	
	Options (thousands)	Weighted Average Exercise Price (\$ per share)	Options (thousands)	Weighted Average Exercise Price (\$ per share)
Opening balance	2,672	3.55	2,698	3.42
Granted	10	3.96	510	3.85
Exercised	(273)	2.90	(719)	3
Forfeited	-	-	(80)	4.38
Closing balance	2,409	3.62	2,409	3.62

The fair market value of options was estimated at the date of grant using a Black-Scholes option pricing model with the following assumptions:

Nine months ended September 30,	2010	2009
Risk free interest rate (%)	3	3
Expected life (years)	4	4
Expected volatility (%)	62	49

Based on fair market values, compensation expense for the three months ended September 30 2010, was \$168,000 (2009 - \$202,000) all of which (2009 - \$192,000) has been recorded as non-cash stock-based compensation expense classified as general and administrative expense.

The following summarizes information about stock options outstanding at September 30, 2010:

Range of exercise prices (\$ per share)	Weighted average exercise price (\$ per share)	Options Outstanding			Options Exercisable	
		Number outstanding at September 30, 2010 (thousands)	Weighted average remaining contractual life (years)	Weighted average exercise price (\$ per share)	Number outstanding at September 30, 2010 (thousands)	
2.02 – 2.70	2.29	594	2.45	2.35	481	
2.90 – 4.36	3.69	1,357	2.24	3.64	1,017	
4.90 – 5.65	5.15	458	2.52	5.15	458	
	3.62	2,409	2.50	3.68	1,996	

(c) Contributed surplus

The following table outlines the changes in the contributed surplus balance:

(\$ thousand)	September 30, 2010	December 31, 2009
Balance, opening	3,740	3,242
Stock-based compensation costs	776	498
Re-classification to common shares on exercise of stock options	(919)	-
Expiry of unvested options	(4)	-
Balance, closing	3,593	3,740

(d) Earnings per share

The following is a reconciliation of basic and diluted net (loss)/earnings per common share:

(CDN \$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Net income/(loss) from continuing operations	779	694	754	(174)
Net income/(loss) from discontinued operations	10	97	105	(7,925)
Net income/(loss) for the period	789	791	859	(8,099)
<i>(thousands of common shares)</i>				
Weighted average number of common shares	34,864	34,233	34,478	34,233
Dilutive securities issued under stock compensation plan	132	-	131	-
Weighted average number of diluted common shares	34,996	34,233	34,610	34,233
<i>(dollars per common share)</i>				
Basic and diluted from continuing operations	0.02	0.02	0.02	(0.01)
Basic and diluted from discontinued operations	0.00	0.00	0.00	(0.23)
Basic and diluted	0.02	0.02	0.02	(0.24)

Options have a dilutive effect under the treasury stock method only when the average market price of the common stock during the year exceeds the exercise price of the option.

9. Contingencies

During the second quarter of 2010, the Company entered into proceedings with the land owners of its Zinnia concession to settle land rental disputes relating to the period from 2006 to 2009. Given the preliminary nature of the proceedings, the likelihood and amount of the settlement cannot be determined at this time.

10. Commitments

On September 14, 2010, the Company announced the sale of the IGAL II Permit, in Hungary, in exchange for a 4% net working interest in future production from the permit. This eliminates the Company's seismic acquisition and drilling commitments required to extend the exploration permit.

11. Segmented disclosure

(CDN \$ Thousands)

Three month period ended September 30,	Tunisian Operations		European Operations (1)		Corporate (2)		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Revenues								
Oil and liquids	13,150	9,658	-	-	-	-	13,150	9,658
Natural gas	782	1,564	53	-	-	-	835	1,564
Petroleum and natural gas sales	13,932	11,222	53	-	-	-	13,985	11,222
International royalty income	282	345	-	-	-	-	282	345
Royalties	(2,024)	(1,608)	(2)	-	-	-	(2,026)	(1,608)
	12,190	9,959	51	-	-	-	12,241	9,959
Segmented expenses								
Operating	2,081	1,834	125	75	-	-	2,206	1,909
General and administrative	547	589	131	323	911	914	1,589	1,826
Exploration expense	210	78	8	7	-	-	218	85
DD&A	4,814	4,960	16	21	38	36	4,868	5,017
Interest expense	(17)	45	-	-	-	23	(17)	68
Foreign exchange loss/(gain)	18	(56)	-	-	-	(487)	18	(543)
Other (income)/expense	(37)	(14)	-	(5)	125	-	88	(19)
	7,616	7,436	280	421	1,074	486	8,970	8,343
Earnings/(loss) before tax	4,574	2,523	(229)	(421)	(1,074)	(486)	3,271	1,616
Current tax provision	-	300	-	28	-	-	-	328
Future income tax expense	2,492	594	-	-	-	-	2,492	594
Net earnings/(loss) from continuing operations	2,082	1,629	(229)	(449)	(1,074)	(486)	779	694
Net loss from discontinued operations	-	-	-	-	10	97	10	97
Net earnings/(loss)	2,082	1,629	(229)	(449)	(1,064)	(389)	789	791
Capital expenditures								
Development	6,987	1,113	-	-	-	-	6,987	1,113
Other	6	13	-	-	11	5	17	18
Discontinued operations	-	-	-	-	-	23	-	23
Total capital expenditure	6,993	1,126	-	-	11	28	7,004	1,154
Total assets	76,874	61,439	1,218	1,599	32,172	33,417	110,264	96,455

(1) European operations consist of two wholly owned subsidiary companies: Winstar Hungary Ltd. and Winstar Satu Mare SRL operating in Hungary and Romania respectively.

(2) As at September 30, 2010, Canadian operations were reclassified as discontinued operations in the corporate segment.

Nine month period ended September 30,	Tunisian Operations		European Operations (1)		Corporate (2)		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Revenues								
Oil and liquids	32,305	21,348	-	-	-	-	32,305	21,348
Natural gas	2,846	3,170	193	657	-	-	3,039	3,827
Petroleum and natural gas sales	35,151	24,518	193	657	-	-	35,344	25,175
International royalty income	899	915	-	-	-	-	899	915
Royalties	(5,051)	(3,444)	(12)	(80)	-	-	(5,063)	(3,524)
	30,999	21,989	181	577	-	-	31,180	22,566
Segmented expenses								
Operating	6,007	5,412	380	611	-	-	6,387	6,023
General and administrative	1,650	1,304	458	749	2,844	2,351	4,952	4,404
Exploration expense	459	428	265	62	-	-	724	490
DD&A	11,464	13,198	56	55	56	105	11,576	13,358
Interest expense	15	152	-	-	-	26	15	178
Foreign exchange loss/(gain)	291	(40)	-	-	32	(1,009)	323	(1,049)
Other (income)/expense	(36)	(31)	(3)	(17)	124	(2)	85	(50)
	19,850	20,423	1,156	1,460	3,056	1,471	24,062	23,354
Earnings before tax	11,149	1,566	(975)	(883)	(3,056)	(1,471)	7,118	(788)
Current tax provision	-	997	-	28	-	-	-	1,025
Future income tax expense	6,364	(1,639)	-	-	-	-	6,364	(1,639)
Net earnings/(loss) from continuing operations	4,785	2,208	(975)	(911)	(3,056)	(1,471)	754	(174)
Net earnings/(loss) from discontinued operations	-	-	-	-	105	(7,925)	105	(7,925)
Net earnings/(loss)	4,785	2,208	(975)	(911)	(2,951)	(9,396)	859	(8,099)
Capital expenditures								
Development	23,062	13,738	-	-	-	-	23,062	13,738
Other	182	43	-	-	76	27	258	70
Discontinued operations	-	-	-	-	-	50	-	50
Total capital expenditure	23,244	13,781	-	-	76	77	23,320	13,858
Total assets	76,874	61,439	1,218	1,599	32,172	33,417	110,264	96,455

- (1) European operations consist of two wholly owned subsidiary companies: Winstar Hungary Ltd. and Winstar Satu Mare SRL operating in Hungary and Romania respectively.
- (2) As at September 30, 2010, Canadian operations were reclassified as discontinued operations in the corporate segment.

INDEPENDENT DIRECTORS	
<p>Bruce Libin, Chairman of Winstar’s Board President, Logan International Inc.</p> <p>Douglas Baker Former Vice-President and Chief Financial Officer, Valiant Energy Inc.</p> <p>Bernard de Combret Former Deputy Chairman Executive Committee, TotalFinaElf S.A.</p> <p>Russ Duncan Vice-President, Sky Hunter Exploration Ltd.</p>	<p>Evgenij Iorich Pala Investments AG</p> <p>Bryan Lawrence Founder & General Partner, Yorktown Partners LLC</p> <p>Robert Mitchell Former Executive Vice-President, Talisman Energy Inc.</p> <p>Christopher Whyte President and Chief Executive Officer, PetroSantander Inc.</p>
EXECUTIVE MANAGEMENT	
<p>Charles de Mestral Chief Executive Officer, Director</p> <p>David Monachello President, Director</p> <p>Roger McMechan Executive Vice-President, Director</p> <p>Brad Giblin Chief Financial Officer</p>	<p>Mohamed Yaich General Manager, Tunisia</p> <p>Gabor Tihanyi General Manager, Hungary and Romania</p> <p>CORPORATE SECRETARY James O’Connor General Counsel & Corporate Secretary</p>
INVESTOR RELATIONS	THIRD PARTY ADVISORS
<p>David Monachello President, Director T: 403-513-4200 dmonachello@winstar.ca</p> <p>Brad Giblin Chief Financial Officer T: 403-513-4207 bgiblin@winstar.ca</p> <p>Charles de Mestral Chief Executive Officer T: +41 22 361 14 45 (Note: Mr. de Mestral is based in Europe, in a time zone eight hours ahead of Calgary time) cdemestral@winstar-resources.ch</p>	<p>Engineers: RPS Energy</p> <p>Bankers: HSBC Bank Canada ABN AMRO Arab Tunisian Bank Export Development Canada (EDC)</p> <p>Auditors: PricewaterhouseCoopers LLP</p> <p>Lawyers: Stikeman Elliott LLP</p>
WINSTAR LOCATIONS	
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ABBREVIATIONS	
<p>bbl barrel</p> <p>boe barrel of oil equivalent. A BOE is converted on the basis of one barrel of crude oil for 6,000 cubic feet of natural gas (6 Mcf = 1 bbl). This conversion factor is not based on either energy or current prices.</p> <p>boepd barrels of oil equivalent per day</p> <p>bpd barrels of oil per day</p>	<p>mdbl thousand barrels</p> <p>mboe thousands of barrels of oil equivalent</p> <p>mcf thousand cubic feet</p> <p>mcfd thousand cubic feet per day</p> <p>mdbl millions of barrels</p> <p>mmscf millions of standard cubic feet</p> <p>NGL natural gas liquids</p>