



**Winstar Resources Ltd.**

# Q1 First Quarter Report 2011

Three months ended March 31, 2011

## SHAREHOLDERS' REPORT

The first quarter of 2011 was strategically very important for Winstar as the Company announced strong test results from its first Silurian Exploration well in Southern Tunisia. The first quarter also was a period of significant political change in Tunisia, which subsequently spread to other countries in the North Africa and Middle East. We continue to monitor the political change as Tunisia prepares itself for democratic elections, of which the first step is scheduled for July 2011. It is as a result of the dedication and professionalism of our Tunisian colleagues, that the drilling and day-to-day operations of the Company in Q1 2011 were largely unaffected by these changes, including, in particular, the continuation of gas sales to the Tunisian domestic market.

### Testing Operations at Chouech Essaïda Silurian #1 (CS Sil #1)

Operational activities during Q1 2011 were focused on the testing of CS Sil #1, the results of which were announced on February 22, 2011. The testing of 3,379 boepd from the Silurian Acacus and Silurian Tannezuft aged reservoirs is of strategic importance as it:

- Proved the approximate 25 kilometer western extension of the Silurian play onto our two contiguous concessions of Chouech Essaïda and Ech Chouech, of Southern Tunisia and significantly lowered the exploration risk associated with the approximately ten additional Silurian leads and prospects identified on these concessions; and
- Materially increased the Company's proved and probable reserves by 1.2 million boe and net asset value by US \$43.5 million (net present value, after tax, discounted at 10%) as evaluated, subsequently to December 31<sup>st</sup>, 2010, by our independent evaluator, RPS Energy.

Due to the significant high flowing wellhead pressure (1,130 psi) associated with the 2,683 boepd test from the lowest most zone in the well, it was determined that a large scale gas and liquids separation plant would be required to place the zone on sustained production. Fortunately this plant was sourced from Winstar's 100% owned operations in Hungary saving both time and money and is being prepared to be moved to the Chouech Essaïda Concession. The gas plant has a capacity to treat 7-10 mmscf/d and approximately 800 – 1,000 bbl/d of fluid and it is expected to be commissioned sometimes during Q3 2011.

### First Quarter Financial Results

The financial and operating results for Q1 2011 are Winstar's first set of financial statements presented in accordance with International Financial Reporting Standards ("IFRS"). As reported and discussed in our Management Discussion and Analysis for the period ended March 31, 2011, the transition to IFRS is highlighted by the following items:

- The operations, strategic decisions and reporting of funds from operations have not been impacted; and
- The Company's depreciable base is now proved and probable reserves for those assets depreciated on a unit of production (as opposed to proved developed producing under the previous Canadian GAAP).

In addition the Company has changed its reporting currency from Canadian dollars to US dollars as the US dollar better reflects the business drivers of the Company's operations.



### Annual Special and General Meeting

The Annual Special and General Meeting will be held, in Calgary, on May 18, 2011, at 3 pm, at the Calgary Petroleum Club, Viking Room.

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Management and the Board thank the shareholders for their continued support, and also, again, express their appreciation to its Tunisian staff, and we look forward to reporting our Q2 2011 results in August.

**[SIGNED]**

Charles de Mestral  
Chief Executive Officer  
May 12, 2011

**[SIGNED]**

David Monachello  
President  
May 12, 2011

## REVIEW OF OPERATIONS

The first quarter of 2011 focused on the testing of the deep (4,390 meter) exploration well, Chouech Essaida Sil #1 (CS Sil #1) in southern Tunisia. The well's successful delineation of Silurian, Triassic and Devonian aged reservoir demonstrates the great oil and gas potential of Winstar's southern concessions.

There is great optimism within the Company. This CS Sil #1 proves the exploration model that material deeper potential exists on the Company's 77,591 net acres of contiguous land in Southern Tunisia. The CS Sil #1 well has reduced the risk on Winstar's remaining 10 Silurian anomalies currently defined on 3 D seismic.

CS Sil #1 is tied into the Chouech Essaida Central Production Facility (CPF) and is currently on long term test from two of the three reservoir levels that were successfully tested during the initial completion. The long term testing objectives are to bring greater precision to the preliminary reserves estimate

### Production

Winstar produced an average of 1,737 barrels of oil equivalent per day (boepd) in the first quarter of 2011 from its operations in Tunisia compared to 1,473 boepd in the first quarter of 2011. Production from Tunisia is currently 1,700 boepd. The following events have affected production:

- Gas sales from Chouech Essaida improved dramatically as gas sales to the national Tunisian utility, STEG increased significantly and averaged 2,771 mcf/d (462 boepd). It is anticipated that this trend will continue for the balance of 2011;
- The well, Chouech Essaida 9 (CS #9) continues to be suspended (-300 bbls/d) awaiting the arrival of a rig, to carry out the workover program required to repair the primary cement over the productive zones. This workover will be the first operation undertaken by the drilling rig when it is mobilized to the south; and
- All other wells have produced normally during the quarter.

### Operational Highlights

#### Chouech Essaida Silurian #1 Exploration Well:

Drilling was completed in late December, 2010 with the completion and testing program taking place in January and February, 2011. Results from the preliminary production testing program were as follows:

Test Number & Formation	Perforated Intervals (meters)	Hydrocarbon Liquids (bbls/d)	API(1) (degrees)	Natural Gas (Mcf/d)	Total (boepd)	Water-cut (%)	Flowing Wellhead pressure (psi)	Choke size (inches)
1 Tannezuft	4364.5 – 4366.0 4354.5 – 4357.5 4345.0 – 4353.0	1,400	51	7,000	2,683	2.0	1,130	44/64
2 Tannezuft	4331.5 – 4338.0	100	52	940	257	4.0	235	½"
3 Acacus A	4253.5 – 4256.5	292	50	880	439	3.0	265	½"
<b>Total</b>		<b>1,792</b>		<b>9,520</b>	<b>3,379</b>			

These test results confirm the extension of the prolific Silurian oil and gas play and demonstrate that commercial quantities of crude oil, condensate and natural gas are possible within Silurian age sandstones on Winstar's 100% owned and operated Chouech Essaida and Ech Chouech Concessions. Additionally, the Company also identified from log analysis, an additional 2.5 meters of potential oil pay within the untested Triassic TAGI Formation. A multi-dynamic testing (MDT) tool was used to obtain two oil samples and confirmed that the Triassic TAGI has good permeability, similar to the producing wells in the Chouech Essaida Triassic field six kilometers south of this well. This result is significant as it establishes the extension of this play and adds to the Company's growing inventory of drilling opportunities.

Preliminary Reserves and Net Asset Value associated with this well as determined by RPS Energy Services are:

	Proved (Thousands of Boes or Mboe)	Proved + Probable (Thousands of Boes or Mboe)
CS Sil #1 Incremental Reserves Summary		
CS Sil #1 incremental 100% working interest gross reserves (before ETAP back in on existing Triassic reserves and ETAP working interest following back in)	751	2,280
CS Sil #1 incremental Winstar working Interest gross reserves (before ETAP back in on existing Triassic reserves)	751	1,750
Impact of ETAP back-in on existing Triassic Winstar interest gross reserves	-	(577)
Incremental Chouech Essaida Winstar working Interest gross reserves attributable to CS Sil #1	751	1,173
Incremental Chouech Essaida Net Present Value after tax, after royalty (NPV-AT, 10% discount rate, million \$CAD)	\$23.5	\$44.5
Per share	\$0.67/share	\$1.26/share

It is of note that these reserves are for the Silurian aged reservoirs only and do not ascribe reserves for the Triassic or Devonian aged reservoirs that had indications of hydrocarbons.

CS Sil #1 has been tied into the central production facility and all fluids produced from test zones #2 and #3 during the current extended testing period can be processed and sold with the rest of the Chouech Essaida production. For the prolific zone #1, the Company is in the process of moving the existing 100% working interest gas plant from its production concession at Torokkopyany, Hungary directly to the CS Sil #1 wellsite where it will be reconstructed and used for initial processing of gas and condensate from the zone #1 long term test. It is currently forecast that this facility can treat 7-10 mmscf/d and approximately 800 – 1,000 bbl/d of fluid and can be ready by the third quarter of this year. Actual production rates will be dependent on both well deliverability and the quantity of gas that the Company can sell to STEG, the national Tunisian utility company.

## Country Updates and Outlook

### Tunisia

The Company recently announced its capital program for 2011 which forecasts total expenditures of approximately \$41 million with almost 75% of this to be spent on drilling, completions, testing and workovers in Tunisia. The detailed drilling program will be announced shortly but is expected to be directed towards a blend of low risk development and moderate risk exploration wells. Tubular and wellhead equipment are ordered for the next drilling campaign expected to commence in Q3, 2011. Currently the Company is negotiating for a rig which is anticipated to arrive to drill both Triassic and Silurian wells.

### Romania

In Romania, preparations for the commencement of Winstar's exploration program with our partner, Rompetrol at the Satu Mare Exploration permit are underway. The Company has received approval to drill two exploration wells in its Satu Mare exploration permit this year. Necessary regulatory and surface access issues are gradually being resolved and it is anticipated that both wells can be drilled before the end of Q3, 2011. A rig contract is currently being negotiated and all other materials and services have been procured and are ready to be moved to site once the drill access roads and locations are ready.

[SIGNED]

Roger McMechan  
Executive Vice-President  
May 12, 2011

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This Management's Discussion and Analysis (MD&A), dated May 12, 2011, of Winstar Resources Ltd. (the "Company" or "Winstar") is for the three months ended March 31, 2011 and should be read in conjunction with the unaudited Consolidated Financial Statements for the period ended March 31, 2011 ("interim Financial Statements") as well as the audited Annual Consolidated Financial Statements and MD&A for the year ended December 31, 2010 and documents filed on SEDAR, including press releases and the Annual Information Forms. These documents and additional information about the Company are available on SEDAR at [www.sedar.com](http://www.sedar.com).

The interim Financial Statements and comparative information have been prepared in United States dollars ("US \$" or "US dollars") except where another currency has been indicated and all amounts are expressed in thousands of US dollars except per share and per unit amounts, unless otherwise noted.

The interim Financial Statements and comparative information have been prepared in accordance with International Financial Reporting Standards 1 ("IFRS 1"), *First-time Adoption of International Financial Reporting Standards*, and with International Accounting Standard 34 ("IAS 34"), *Interim Financial Reporting*, as issued by the International Accounting Standards Board. Previously, the Company prepared its interim and Annual Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles ("Previous GAAP").

**Readers should also read the Forward-Looking Statements section at the end of this document which provides further information on statements throughout this report that are not historical facts and may be considered "forward-looking statements".**

### Overview and highlights

Winstar is an oil and gas exploration and development Company traded on the Toronto Stock Exchange. 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. Winstar's operations in 2011 were conducted in two geographic segments: Tunisia and Romania. The Tunisian operations were the primary focus of the Company's operations and development during 2010 and 2011. The Company's asset base is comprised of both low-risk development and high impact exploration opportunities, which are evaluated and developed through existing working capital, internally generated funds or the possible use of its available line of credit, equity markets, and joint venture relationships.

### Changes in Accounting Policy

On January 1, 2011, Winstar adopted International Financial Reporting Standards ("IFRS") for financial reporting purposes, using the transition date of January 1, 2011. The financial statements for the three months ended March 31, 2011, including required comparative information, have been prepared in accordance with IFRS 1, *First-Time Adoption of IFRS's* and with IAS 34, *Interim Financial Reporting*.

The adoption of IFRS has not had an impact on the Company's operations, strategic decisions, key performance indicators and cash flow from operations. The most significant impact was the change in depletion base related to the Company's Property and Equipment and the change of reporting currency from CDN dollars to US dollars. Further information on the IFRS impacts; including reconciliations and details of IFRS adjustments, are provided in the Transition to IFRS section of this MD&A and Note 18 to the interim Financial Statements.

### Operational Overview

For the three months ended March 31, 2011, Winstar's operations were highlighted by the following significant events:

- The Company reported test results from its first Silurian exploration well, CS SIL #1, of 3,379 boepd;
- Initiated the move of its 100% owned gas plant from Hungary to the Chouech Essaida Concession in Southern Tunisia which will be utilized to commence production of the significant high pressure gas and condensate zone at CS SIL #1 later in Q3 2011;
- An interim reserve evaluation from RPS Energy, Winstar's independent reserve evaluators, which estimated that the CS Sil #1 well added an incremental 1.2 million boe of proved and probable ("2P") reserves and increased the Company's net asset value by US \$43.5 million (2P after tax, discounted at 10%)
- Production averaged 1,737 boepd
- Announcement of a US \$41 million 2011 capital program which is expected to be funded from existing working capital and internally generated funds from operations

### Financial Overview

For the three months ended March 31, 2011, Winstar reported:

- Funds from Continuing Operations of \$9.2 million, a 63% increase compared with Q1, 2010
- Field operating netback in Tunisia was \$67.95 per boe; a 28% increase as compared with Q1, 2010.
- Net income from continuing operations was \$2.2 million (\$0.06 per share); as compared to a \$1.2 million in Q1 2010;
- Working capital of \$6.4 million at March 31, 2011.



### Three months ended March 31, 2011 vs. 2010

Funds from continuing operations increased by \$3.6 million to \$9.2 million in Q1 2011, as compared to \$5.6 million in Q1 2010. Primarily, the increase is a result of the following:

- Production volumes increased by 18% reflecting increased gas sale at Choueich Essaida; and
- Realized commodity prices increased by approximately 23% during Q1 2011 compared to Q1 2010.

### Production

Three months ended March 31,	2011			2010		
	Oil and Liquid (bbl/d)	Natural gas (mcf/d)	Total (boepd)	Oil and Liquid (bbl/d)	Natural gas (mcf/d)	Total (boepd)
<b>Tunisia</b>						
Choueich Essaida/Ech Choueich	1,000	2,771	1,462	1,005	577	1,101
Sabria	139	317	192	202	441	276
Sanhrar	83	-	83	96	-	96
<b>Tunisia total (continuing operations)</b>	<b>1,222</b>	<b>3,088</b>	<b>1,737</b>	<b>1,303</b>	<b>1,018</b>	<b>1,473</b>
Hungary & Canada (discontinued operations)	-	-	-	-	191	32
<b>Total production</b>	<b>1,222</b>	<b>3,088</b>	<b>1,737</b>	<b>1,303</b>	<b>1,209</b>	<b>1,505</b>

### Three months ended March 31, 2011 vs. 2010

Production from Tunisia increased 18% during Q1 2011, compared to Q1 2010, which is due to a reduction of gas sales constraints from Choueich Essaida which has enabled the Company to sell a significant percentage of the associated gas from the Triassic production since October 2010. During Q1 2011, the Company averaged 2.8 million cubic feet per day (mmcf/d) from Choueich Essaida, an increase of 2.2 mmcf/d compared to Q1 2010.

### Production versus sales from continuing operations

	Three months ended March 31,		
	2011	2010	% Change
<b>Total production</b>	156,313	132,549	18
-boepd	1,737	1,473	
<b>Total sales</b>	156,313	133,377	17
-boepd	1,737	1,482	

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. During Q1 2011 and Q1 2010 production was approximately equal to sales. As at March 31, 2011 the Company over lifted by 6,300 bbls of crude, which is valued at its contracted price of US\$116.57/bbl resulting in a \$743,000 overlifting liability which will be settled during Q2 2011.

### Field operating netbacks

Field operating netbacks are non-GAAP measures defined by the Company as presented below. Management considers field operating netbacks to be important measures as they demonstrate the Company's profitability from field operations, before general and administrative costs, relative to current commodity prices. Field operating netback includes sale of commodities less net royalties, operating expenses and current tax expenses. Because taxes in Tunisia are generated on a concessional basis and relate directly to operations, management considers these expenses to be applicable in the calculation of field operating netback.

The following tables outline the netbacks in Tunisia for the three months ended March 31, 2011 and 2010:

### Field operating netback from Tunisia

	Three months ended December 31,			
	2011		2010	
<b>Sales Volumes</b>				
Oil sales (bbls)		109,999		118,116
Gas sales (mcf)		277,881		91,564
Total sales (boe)		156,313		133,377
- boepd		1,737		1,482
<b>Netback</b>		\$ /boe	\$	\$/boe
Oil sales	11,379	103.45	9,120	77.21
Gas sales	3,042	10.95	868	9.48
		\$ /boe	\$	\$/boe
Realized	14,421	92.26	9,988	74.89
International royalty income	-	-	325	2.44
Royalties	(2,056)	(13.15)	(1,317)	(9.87)
Operating expense	(1,538)	(9.84)	(1,896)	(14.22)
Current tax expense	(206)	(1.32)	-	-
Operating netback	10,621	67.95	7,100	53.24

### Three months ended December 31, 2011 vs. 2010

Field operating netback per boe from Tunisia during Q1 2011 was \$67.95, a 28% increase from Q1 2010. The increase is explained as follows:

- A 23% increase in realized commodity prices during Q1 2011 compared to Q1 2009;
- Operating costs per boe decreased by \$4.38 or 31% due as there were no significant work-over activities expensed during Q1 2011.

Offset by:

- A provision for current income taxes of \$1.32/boe on the Ech Chouech Concession and;
- No International royalty income was recorded during Q1 2011, which arose in prior periods pursuant to a requirement for ETAP (the government-owned oil and gas Company of Tunisia) to pay Winstar a pre-determined total amount related to exploration expenses associated with its 55% working interest in the Sabria concession. During Q4 2010 the remaining balance of this amount was accrued and no further income is expected.

### General and administrative expenses from continuing operations

(\$ thousands except per unit amounts)	Three months ended March 31,		
	2011	2010	% Change
General and administrative (G&A)	1,580	1,296	22
Per sales boe	10.11	9.72	4
Non-cash Stock-based compensation	768	67	1,046
Per sales boe	4.91	0.49	902
<b>Total</b>	<b>2,348</b>	<b>1,363</b>	<b>72</b>
Per sales boe	<b>15.02</b>	<b>10.22</b>	<b>47</b>

G&A expenses (excluding stock-based compensation expenses) were 22% higher in Q1 2011, compared to Q1 2010 reflecting greater employee costs in Tunisia as a result of increased staff and operations. Stock-based compensation expenses were significantly greater during Q1 2011 as the Company granted 665,000 options to officers and employees during the period which under the terms of the options results in a significant expense at the time of granting. During Q1 2010, there was no stock option grant.

### Current and future Income tax from continuing operations

(\$ thousands)	Three months ended March 31,	
	2011	2010
Current	206	-
Future	3,176	2,476
<b>Total</b>	<b>3,382</b>	<b>2,476</b>

Winstar recorded \$206,000 in current taxes for the three months ended March 31, 2011, all of which were generated in the Ech Chouech concession. Since Tunisian tax legislation allows for intangible drilling costs to be expensed as incurred for tax purposes, the Company did not incur taxes in its other Tunisian concessions despite positive net income and operating netbacks for accounting purposes.

Future income tax is related only to the Tunisian assets as Winstar recorded a valuation allowance for the unused tax pools in Canada, Hungary and Romania. Future tax expense generated during the three month period was primarily the result of capital expenditures in Chouech Essaïda that were for the most part depreciated as incurred for tax purposes, generating temporary differences. Additionally, significant non-capital loss carry forwards were used to shelter taxable income generated in the Sanhrar and Sabria concessions.

## Depletion, depreciation, and other financing charges (DD&A) from Tunisia

(\$ thousands except per unit amounts)	Three months ended March 31,		
	2011	2010	% Change
Depletion & depreciation	2,683	1,640	64
Other financing charges	164	136	21
<b>Total</b>	<b>2,847</b>	<b>1,776</b>	<b>60</b>
Per Sales boe	18.21	13.32	37

DD&A per boe increased to \$18.21 during Q1 2011, from \$13.32 in Q1 2010. The increase is a result of:

- A significant increase in the depletable assets on the Chouech Essaida Concession resulting from 2010 and Q1 2011 capital expenditures;
- A decrease in the Company's 2P reserves which were disclosed in the 2010 Annual Consolidated Financial statements but did not impact the Q1 2010 DD&A estimates. These declines were partially offset by the significant 2P reserve additions of 1.2 million boe based on the interim Reserve Evaluation on the CS SII #1 well during Q1 2011.

## Capital expenditures and exploration expenses from continuing operations

(\$ thousands except per unit amounts)	Three months ended March 31,	
	2011	2010
<b>Tunisia</b>		
<u>Chouech Essaida</u>		
Drilling activities	4,913	5,429
Work-over activities	1,186	11
Pipeline and facilities	62	187
Other	38	1,559
<u>Sabria</u>		
Drilling activities	-	97
Work-over activities	-	-
Other	-	7
Zinnia/Sanhrar/Ech Chouech/Other	486	124
<b>Total Tunisia</b>	<b>6,685</b>	<b>7,414</b>
<b>Corporate</b>	<b>1</b>	<b>10</b>
<b>Total</b>	<b>6,686</b>	<b>7,424</b>
Change in non-cash working capital related to investing activities	5,091	(1,592)
<b>Capital expenditures per cash flow statement</b>	<b>11,777</b>	<b>5,832</b>

In Q1 2011, capital spending related primarily to the following operations:

- Testing operations at CS Sil #1 (\$5.0 million).
- Major work over projects associated with the CS #11, CS#9 and EC #1 wells totaled \$1.7 million with results as follows:
  - Work over operations was successful in placing CS #11 back on production late in Q1 2011 at 100 bopd, which is a reduced rate from 2010 production levels.
  - Operations at EC #1 were successful in installing down-hole equipment which will improve future well reliability.
  - CS#9 operations were temporarily suspended as the Company awaits a rig required to re-establish oil production. The well previously produced between 200-400 bopd along with associated gas prior to down-hole mechanical failures during the fourth quarter of 2010.

## Exploration expenses from continuing operations

(\$ thousands except per unit amounts)	Three months ended March 31,		
	2011	2010	% Change
Tunisia	101	134	(25)
Romania	96	-	-
<b>Total</b>	<b>197</b>	<b>134</b>	<b>47</b>

In 2011, G&G expenditures related primarily to:

- evaluating Silurian and Triassic opportunities in Winstar's Choueich Essaida and Ech Choueich Concessions
- reprocessing of 3D seismic data covering the Sabria Concession; and
- mapping and processing existing seismic data over the Satu Mare concession in Romania.

## Selected quarterly information

(\$ thousands except per unit amounts)	Q1/11	Q4/10	Q3/10	Q2/10	Q1/10	Q4/09 (3)	Q3/09 (3)	Q2/09 (3)
Average daily production volumes (boepd) (1)	1,737	1,938	1,998	1,716	1,505	1,816	2,000	1,553
Average daily sales volume (boepd) (1)	1,737	2,298	1,888	1,536	1,515	1,735	2,000	1,553
Petroleum and natural gas sales	14,421	17,363	13,412	10,539	9,988	12,053	11,908	8,221
Realized sales price (\$/boe)	92.26	81.96	77.86	74.91	73.97	62.68	62.93	57.43
Field operating netback (\$/boe) (2)	67.64	58.26	55.75	51.56	51.87	48.66	38.40	30.69
Funds from operations (2)	9,141	9,908	8,204	5,637	5,735	6,358	6,421	3,552
Per share - basic & diluted	0.26	0.29	0.23	0.17	0.16	0.19	0.19	0.10
Earnings/ (Loss)	2,147	1,192	1,179	(58)	1,096	1,239	759	(7,777)
Per share - basic & diluted	0.06	0.03	0.03	0.00	0.03	0.04	0.02	(0.23)
Earnings/(loss) from continuing operations	2,238	1,294	1,253	37	1,197	1,239	759	(7,777)
Per share - basic & diluted	0.06	0.04	0.04	0.00	0.03	0.04	0.02	(0.23)
Total assets	148,297	148,805	139,380	133,112	120,592	115,801	91,005	113,088
Bank Debt	1,028	-	-	-	-	-	-	7,707

- (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, funds from operations per share and field operating netbacks are non-GAAP measures that represent cash generated from operating activities and continuing operating activities as defined in their respective sections.
- (3) Selected quarterly information for the periods presented in 2009 are prepared under Previous GAAP and have been translated to US dollars, the Company's reporting currency effective January 1, 2009, in accordance with Note 19 of the interim Consolidated Financial Statements.

Funds from operations have trended upwards throughout the prior quarters, primarily due to increases in commodity prices and increasing production. Earnings has fluctuated primarily as a result of increasing commodity prices and production offset by increasing depreciation and depletion expenses and changes in foreign exchange rate between the Tunisian dinar and the US dollar, which impact deferred income tax expense.

## Outstanding share data

Authorized:

- Unlimited number of voting common shares with no par value; and,
- Unlimited number of first and second preferred shares.

	Three Months ended March 31,	
	2011	2010
Weighted average number of commons shares - basic	35,298	34,237
Dilutive securities issued under stock-based compensation plan	226	301
Weighted average number of common shares – fully diluted	35,524	34,538
Common shares outstanding at March 31,	35,478	34,323

As at March 31, 2011, the Company had 35.5 million shares and 2.5 million options outstanding. As at May 12, 2011 there were 35.7 million share outstanding and 2.3 million options outstanding.

## Risk factors associated with oil and gas activities

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 following:

### Commodity prices

Winstar produces 41° API, Zarzaitine grade crude from its Chouech Essaida, Ech Chouech, Sanhrar and Sabria concessions. Zarzaitine crude is generally sold at a small premium to Brent 38.5° API oil. The price paid for oil in Tunisia is based on the average price for Brent oil sold in the Mediterranean during the three days after loading onto tankers. The Company is required to sell 20% of its annual oil production from Sabria into the local market, which is sold at an approximate 10% discount to Zarzaitine crude oil. Benchmark oil prices are determined by international supply and demand as well as other factors that are largely out of Winstar's control.

Realized gas prices in Tunisia are tied to the nine month trailing average of low sulphur heating oil as quoted in Italy.

While hedging activities may have opportunity costs when hedged pricing is lower than otherwise realized pricing, such transactions are not meant to be speculative and are considered within the broader framework of financial stability and flexibility. Management continuously reviews the need to utilize such financing techniques; however there is currently no such activity. Winstar continuously monitors its exposure to commodity prices and is conservative in its outlook for capital budgeting purposes to ensure the sustainability of exploration and development projects.

### 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 that are commercially viable. The completion of projects depends upon numerous external factors, including the availability of processing capacity, availability of drilling and other equipment, government approvals and permits and other regulatory matters. Winstar mitigates the effect of project delays to the entity through its conservative capital structure and by financing exploration and development primarily through internally generated cash flows, available line of credit, and equity offerings.

### Production

The production of oil and gas involves risks such as environmental and physical disruptions that may temporarily or permanently impede reservoir deliverability. The majority of the Company's crude oil is marketed directly to third parties, and is subject to market demand and storage and transportation capacity. Winstar seeks to address this risk through the diversification of its capital deployment throughout various concessions and geological formations within Tunisia.

### Environment and safety

Environmental regulations impose, among other things, 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. Winstar expects to incur site restoration costs over a prolonged period as fields are depleted and provides for decommissioning liabilities in its Annual Consolidated Financial Statements in accordance with IFRS. Management conducts ongoing environmental assessments and reviews applicable changes in governing legislation.

### Reserve replacement

Winstar's operations are dependent on the availability of existing and incremental oil and gas reserves. Hydrocarbons are a limited resource and successful acquisition requires an assessment of recoverable reserves, exploration potential, future oil and gas prices and associated costs among other factors. The Company, along with the exploration and development of its existing opportunities, continues to cultivate its inventory of future opportunities through industry relationships and a focus on areas that are complementary to its existing technical expertise.

## 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. While Winstar has no reason to believe that it will be unable to collect on all its accounts receivable, there can be no assurance that this will occur. The majority of oil sales are marketed by way of large single party tanker sales, for which the Company considers the counterparty credit risk and will request letters of credit where it is deemed necessary.

The Company attempts to mitigate its business and operational risk exposures by: maintaining comprehensive insurance coverage on its assets and operations; employing or contracting competent technicians and professionals; instituting and maintaining high operational health, safety and environmental standards and procedures; and, maintaining a prudent approach to exploration and development activities. The Company also addresses and regularly reports to its shareholders on the impact of risks, writing down the carrying values of assets that may not be recoverable, all or in part.

## Risk Factors associated with International Operations

As a result of its international operations, Winstar is exposed to various risks and uncertainties which include, but are not limited to the following:

### Foreign currency

Winstar's reporting currency is United States dollars. However transactions are also conducted in Canadian dollars, Tunisian Dinar, Hungarian Forint, Swiss Francs, European Union Euros and Romanian New Leu. Fluctuations in exchange rates could result in unanticipated and material fluctuations in the reported financial results of the Company. Capital projects tend to be sourced in US dollars, which partially offsets Winstar's foreign currency risk. Commencing in 2011, the Company will report its financial results in US dollars.

### Political risk

Winstar operations may be adversely affected by political and economic developments or social instability. The Company's internal security and safety programs assist in mitigating security risks and aid in the recruitment and retention of qualified personnel. For all the countries in which Winstar operates, the social, political and civil environments are continuously monitored to ensure that any changes can be appropriately addressed. The Company is committed to operating as a good corporate citizen in a responsible manner.

During January 2011, as result of demonstrations throughout Tunisia precipitated by, among other things, in Winstar's view, high unemployment, increasing food prices, and corruption, the president of Tunisia left the country after 23 years in power. He was replaced by an interim government that intends to lead the country until elections of a Constitutional Assembly, currently scheduled to be held next July 24<sup>th</sup>.

To date, Winstar has not been materially affected by these events and political changes. The Company was able to maintain drilling and day to day operations throughout the political change; however delays in availability of equipment has been a recent challenge because of peaceful and limited, but nevertheless existing, public demonstrations. Following the political change in Tunisia, demonstrations and political unrest have spread throughout several North African and Middle East countries. While it is not expected that these events will have a direct impact on Winstar's operations and ability to finance future capital programs, the Company will continue to monitor the events within Tunisia and surrounding countries.

## 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 months and year ended March 31, 2011, is summarized in the following table, based on an approximate WTI oil price of US \$103.45 for the three months ended March 31.

	Three months ended March 31,			
	2011		2010	
(\$ thousands, except per unit amounts)	Net Income	Funds From Operations	Net Income	Funds From Operations
Price changes - Oil increased \$1.00/bbl	96	96	122	122

## 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 Winstar. 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 Winstar.

As at March 31, 2011, the Company had a \$6.4 million of working capital resulting from positive operating cash flows and prudent investment into development and exploration opportunities. Winstar's working capital includes \$7.3 million of cash and cash equivalents, \$2.3 million of which is restricted to secure the outstanding letter of credit relating to abandonment obligations in Hungary and Canada. The Company's \$10 million line of credit is available to meet potential short term financing requirements. If and when Winstar draws on its line of credit, it is

governed by the following financial covenants: (a) current asset to current liability ratio greater of than 1.1 to 1.0, where current liabilities exclude the outstanding balance drawn on the line of credit; and (b) funded debt to EBITA ratio of less than 1.5 to 1, where funded debt is the outstanding balance drawn on the line of credit and EBITA is financial statement net earnings plus financial statement interest, tax, depreciation/depletion, exploration and accretion expenses.

Under normal industry conditions, Winstar has a bias toward conservatively financing operations by utilizing equity financing and internally generated cash flow to offset the inherent risks of domestic and 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. In response to market uncertainty and volatility in commodity prices, Winstar has been, and will continue to be prudent in its capital spending. The Company's existing capital commitments are limited to the \$6.6 million Satu Mare work program in Romania to be completed by 2012, which is expected to be financed through internally generated cash flows.

Capital spending in 2011, which is uncommitted, will be focused in Southern Tunisia and is expected to be financed through operating cashflows.

Winstar has assessed its current accounts receivable balance with its counter parties. As at May 12, 2011, approximately 46% of the \$8.3 million reported at March 31, 2011, 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.

## Application of critical accounting estimates

Winstar's financial statements were prepared in accordance with IFRS. Certain accounting policies require management to make decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates and judgments have a risk of causing future material adjustment to the carrying amounts of assets and liabilities. Winstar's management reviews its estimates frequently; however, the emergence of new information and changed circumstances may result in actual results or changes to estimate amounts that differ materially from current estimates. Winstar attempts to mitigate this risk by employing individuals with the appropriate skill set and knowledge to make reasonable estimates, developing internal reporting systems, and comparing past estimates to actual results. The Company's financial and operating results include estimates of the following:

### Fair Value

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

#### (a) Property and equipment

The recoverable amount of property, plant and equipment is the estimated amount for which property, plant and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in property, plant and equipment) and intangible exploration assets is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports using risk adjusted discount rates specific to the respective assets with reference to general market conditions.

The market value of other items of property, plant and equipment is based on the quoted market prices for similar items.

#### (b) Cash, cash equivalents, trade and other receivables and trade and other payables

The fair value of cash and cash equivalents, trade and other receivables and trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At March 31, 2011, January 1, 2011 and December 31, 2010, the fair value of these balances approximated their carrying value due to their short term to maturity.

#### (c) Stock options

The fair value of employee stock options is measured using a Black Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), and the risk-free interest rate (based on government bonds).

### Estimated useful lives and reserves

Management estimates the useful lives of property, plant and equipment based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for amortization of property, plant and equipment for any period are affected by these estimated

useful lives. Estimated proved and probable reserves and reserve lives are based on annual reserve evaluations prepared by the Company's independent reserve engineers and are updated throughout the year for any material changes to the reserves. By nature, the estimates of reserves, including the estimative of future prices, costs, discount rates and future capital are subject to measurement uncertainty and it is possible that changes in these factors may cause significant changes in the estimated useful lives of the company's property, plant and equipment in the future.

### **Decommissioning Liability**

On retirement of its oil and gas assets, Winstar expects substantial costs associated with abandonment and reclamation activities. Estimates of costs are subject to uncertainty requiring estimates associated with the method, inflation rates, timing and extent of future retirement activities. The decommissioning liability is estimated based on existing laws, contracts or other policies. The fair value of the obligation is based on estimated future costs, discounted at a credit-adjusted risk-free rate.

### **Current Income tax expense**

The current period income tax expense is based on management's best estimate of the weighted average annual income tax rate expected for the full financial year determined on a concessional base. Management makes estimates of future production, commodity prices, operating costs, capital expenditures and utilization of existing tax loss carryforwards and undepreciated capital for the 12 month period in determining the expected annual income tax rate for the full financial year.

## **Accounting Policies and Estimates**

### **Adoption of International Financial Reporting Standards**

The Company has prepared its March 31, 2011 interim Consolidated Financial Statements, including required comparative information, have been prepared in accordance with IFRS 1, First-Time Adoption of IFRS's and with IAS 34, Interim Financial Reporting. Previously, the Company prepared its interim and Annual Consolidated Financial Statements in accordance with Canadian GAAP or "Previous GAAP".

The Company's IFRS accounting policies are provided in Note 3 to the interim Consolidated Financial Statements. In addition, Note 18 to the interim Consolidated Financial Statements presents reconciliations between the Company's 2010 Previous GAAP results and the 2010 IFRS results. The reconciliations include the Consolidated Balance Sheets as at January 1, 2010, March 31, 2010 and December 31, 2010 and Consolidated Statements of Operations, Retained Earnings and Deficit and Comprehensive Income for the three months ended March 31, 2010 and year ended December 31, 2010.

### **Accounting Policy Changes**

The following discussion explains the significant difference between Winstar's Previous GAAP accounting policies and those applied by the Company under IFRS. IFRS policies have been retrospectively and consistently applied except where specific IFRS 1 optional and mandatory exemptions permitted an alternative treatment upon transition to IFRS for first-time adopters.

### **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 entities are permitted to apply on conversion to IFRS. Since the Company currently accounts for its oil and gas assets using the successful efforts method, certain exemptions applicable to entities using full cost accounting are not available. Specifically, those exemptions not available to Winstar include the retroactive application of changes to oil and gas related assets. Upon transition to IFRS the company applied the following exemptions:

- Not to restate prior business combinations that occurred before January 1, 2011;
- To reset cumulative translation adjustment to nil at January 1, 2011 and \$18 million CAD was recognized as an adjustment to retained earnings on January 1, 2010. The reclassification had no impact on total shareholders' equity as 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 decommissioning liability.

### **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. Following a thorough evaluation of its oil and gas assets, management has determined their expected lives are best estimated based on the proved and probable ("2P") reserves associated with those assets. These 2P reserves are based on the commercial production more likely than not to occur based on currently available information. Included in the estimation of 2P reserves are expected future development costs, which will be added to the depreciation base in order to accurately reflect the expected depreciation associated with 2P reserves.

This change in estimate has been retroactively applied as exemptions available under IFRS 1 to companies previously reporting under the Canadian Institute of Chartered Accountants ("CICA") guideline on full cost accounting was unavailable to Winstar as it utilizes the successful efforts accounting policy. This change in estimate has been retroactively applied and increased the January 1, 2010 net book value of the Company's PP&E by US \$19.0 million, with an offset to retained earnings.

### Exploration expenses

IFRS 6: "Exploration for and Evaluation of Mineral Resources" allows entities that applied full cost accounting under Previous GAAP to capitalize expenditures classified as exploration and evaluation ("E&E"); however Winstar is unable to apply this policy since its current successful efforts accounting policies are more in line with the IFRS framework than the exception provided in IFRS 6. The Company will continue to utilize the successful efforts method of accounting of which the primary differences from IFRS 6 as follows:

- IFRS 6 provides Companies with greater flexibility in determining the timing of when unsuccessful exploratory costs are expensed where as the Company will charge the costs of exploratory wells to dry hole expense once determined they are unsuccessful
- IFRS 6 allows for the accumulation of exploration costs into a separate asset class which is reviewed for impairment where as successful efforts accounting accounts for costs incurred on geological and geophysical activities, excluding 3D seismic acquisitions covering proved reserves (collectively "G&G expense"), are expensed as incurred.

The result is that Winstar's net earnings and operating cash flows will be decreased by the effect of E&E costs that may be capitalized by comparable entities that are eligible to apply IFRS 6.

### Reversal of impairments

International accounting standard ("IAS") 36: "Impairment of assets," 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 were reversed upon conversion to IFRS. The net effect of these reversals, after deducting associated depreciation was an increase to the net book value of the Company's PP&E by US \$3.2 million with an offset to retained earnings. The Company has no further historical impairments that will be subject to ongoing review.

### Reporting Currency

The Company changed its reporting currency from Canadian dollars to US dollars as its reporting currency commencing in 2011. This change reflects the fact that a significant majority of its revenues and expenditures are transacted in US dollars and that its continued focus is in Tunisia and other international opportunities where US dollars represent the most relevant benchmark currency.

### Measurement of future income taxes

Previous GAAP offered 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 was revised for IFRS and future income tax liabilities on transition decreased by US \$795,000. Fluctuations in previously reported 2010 quarterly future income tax expenses result from the fluctuation in exchange rates between Tunisian Dinar and US dollars.

### Measurement of decommissioning liabilities

Under Previous GAAP, decommissioning liabilities were measured as the estimate fair value of decommissioning liabilities expected to be incurred. Liabilities were not remeasured to reflect period end discount rates. Under IFRS, the decommissioning liabilities are measured as the best estimate of the expenditure to be incurred and requires that decommissioning liabilities be remeasured using the period end discount rate.

The specific interpretation of these measurement requirements resulted in a change in the discount rate used to value the liability, which generated a US \$718,000 increase to the Company's asset decommissioning liability and a US \$348,000 increase to PP&E, with the remaining offset to retained earnings.

### Internal control over financial reporting

The adoption of IFRS impacts Winstar's presentation of financial results and accompanying disclosures. The Company has evaluated the impact of the adoption of IFRS on its processes, controls and financial reporting systems and has made modifications to its control environment accordingly. There have been no significant changes in Winstar's internal control over financial reporting during the three month period ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### Forward-looking statements

Certain statements contained within the Management's Discussion and Analysis, and in certain documents incorporated by reference into this document, constitute forward looking statements. These statements relate to future events or our future performance. All statements other than statements of historical fact may be forward looking statements. Forward looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe", "expect" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward looking statements.

In particular, this MD&A contains the following forward looking statements pertaining to, without limitation, the following:

- Timing of when equipment may become available;
- Company expectations on the timing of significant projects;
- Expectations of future production and ability to sell natural gas;
- Future impacts of the recent events and political changes in Tunisia;
- Winstar's ability to fund its working capital and forecasted capital expenditure;
- The future liquidity and financial capacity of the Company; and
- Collection of accounts receivables

In addition, statements relating to "reserves" are deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future.

With respect to the forward looking statements contained in the MD&A, Winstar has made assumptions regarding: future commodity prices; timing and the amount of capital expenditures; production of new and existing wells and the timing of new wells coming on-stream; future proved finding and development costs; future operating expenses; the performance characteristics of oil and natural gas properties; the size of oil and natural gas reserves; the ability to raise capital and to continually add to reserves through exploration and development; the continued availability of capital and skilled personnel; the ability to obtain equipment in a timely manner to carry out exploration and development activities; the ability to add production and reserves through exploration and development activities; and, the continuation of the current tax and regulation.

We believe the expectations reflected in those forward looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward looking statements included in, or incorporated by reference into, this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A or as of the date specified in the documents incorporated by reference into this Management's Discussion and Analysis, as the case may be. The actual results could differ materially from those anticipated in these forward looking statements as a result of the risk factors set forth in this Management's Discussion and Analysis: which include volatility in market prices for oil and natural gas; counterparty credit risk; access to capital; changes or fluctuations in production levels; liabilities inherent in oil and natural gas operations; uncertainties associated with estimating oil and natural gas reserves; competition for, among other things, capital, acquisitions of reserves and skilled personnel; geological, technical, drilling and processing problems; limitations on insurance; changes in environmental or legislation applicable to our operations, and our ability to comply with current and future environmental and other laws; changes in income tax laws, and the other factors discussed under "Risk Factors" in Winstar's Annual Information Form for the year ended December 31, 2010. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward looking statements contained in this MD&A and the documents incorporated by reference herein are expressly qualified by this cautionary statement. The forward looking statements contained in this document speak only as of the date of this document and Winstar does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable securities laws. This Management's Discussion and Analysis is dated as of May 12, 2011.

### **Related party transactions**

The Company did not enter into any related-party transactions during 2011.

### **Off Balance sheet arrangements**

The Company did not enter into any off balance sheet arrangements during 2011.

### **Financial instruments**

The Company's financial instruments include cash and cash equivalents, restricted cash, bank debt, accounts receivable, accounts payable and accrued liabilities, 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.

## INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

### Condensed Consolidated Balance Sheets

(US \$ thousands)	March 31, 2011	December 31, 2010	January 1, 2010
As at,			
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents (note 4, 12)	5,017	8,485	8,363
Restricted cash (note 7)	2,283	1,418	1,321
Accounts receivable (note 8)	8,324	10,426	5,259
Prepays	532	478	687
Inventory (note 9)	1,232	1,158	1,227
Discontinued operations (note 6)	111	137	204
	17,499	22,102	17,061
<b>Property and equipment (note 10)</b>	129,480	125,486	95,898
<b>Other assets (note 11)</b>	270	269	1,792
<b>Discontinued operations (note 6)</b>	1,048	947	1,049
	148,297	148,804	115,800
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current</b>			
Bank debt (note 4,12)	1,028	-	-
Accounts payable and accrued liabilities	7,808	13,646	8,455
Overlifting liability (note 13)	743	3,506	-
Discontinued operations (note 6)	1,531	1,596	1,090
	11,110	18,748	9,545
Deferred income tax liability	35,950	32,772	18,620
Decommissioning liability and other provisions (note 14)	9,368	9,204	6,063
Discontinued operations (note 6)	-	-	941
<b>Total Liabilities</b>	56,428	60,724	35,169
<b>Shareholders' equity</b>			
Share capital (note 15)	90,695	89,744	85,282
Contributed surplus (note 15)	3,238	2,826	3,319
Accumulated other comprehensive loss	350	71	-
Deficit	(2,414)	(4,561)	(7,970)
	91,869	88,080	80,631
	148,297	148,804	115,800

See accompanying notes

## Condensed Consolidated Statements of Net Earnings

(US \$ thousands)	2011	2010
Three months ended March 31,		
<b>REVENUE</b>		
Petroleum and natural gas sales	14,421	9,988
International royalty income	-	325
Royalties	(2,056)	(1,317)
	12,365	8,996
<b>EXPENSES</b>		
Operating	1,538	1,896
General and administration	2,348	1,363
Exploration expense	197	134
Depletion & depreciation	2,683	1,640
Other expenses	24	2
	6,790	5,035
Financing charges	162	146
Foreign exchange (gain)/loss	(207)	142
<b>Net financing (gains)/expenses</b>	(45)	288
<b>Earnings before tax</b>	5,620	3,673
Current income tax expense (note 16)	206	-
Deferred income tax expense	3,176	2,476
	3,382	2,476
<b>Net earnings from continuing operations</b>	2,238	1,197
<b>Net loss from discontinued operations (note 6)</b>	(91)	(101)
<b>Net earnings</b>	2,147	1,096
<b>Net earnings per share (note 15)</b>		
Basic and diluted from continuing operations	0.06	0.03
Basic and diluted from discontinued operations	-	-
Basic and diluted	0.06	0.03

See accompanying notes

## Condensed Consolidated Statement of Comprehensive Income and Accumulated Other Comprehensive Income/(Loss)

(US \$ thousands)	2011	2010
Three months ended March 31,		
<b>Net earnings</b>	2,147	1,096
<b>Other comprehensive income/(loss)</b>		
Unrealized gain/(loss) on translation of foreign operations	279	(10)
<b>Other comprehensive income/(loss)</b>	279	(10)
<b>Comprehensive income</b>	2,426	1,086
<b>Accumulated other comprehensive income beginning of period</b>	71	-
Other comprehensive income/(loss)	279	(10)
<b>Accumulated other comprehensive income/(loss), end of period</b>	350	(10)

See accompanying notes

## Condensed Consolidated Statement of Changes in Equity

(US \$ thousands)	Share Capital	Contributed Surplus	Accumulated other comprehensive income	Deficit	Total Equity
<b>Balance January 1, 2011</b>	<b>89,744</b>	<b>2,826</b>	<b>71</b>	<b>(4,561)</b>	<b>88,080</b>
Net earnings for the period	-	-	-	2,147	2,147
Other comprehensive income for the period	-	-	279	-	279
Comprehensive income for the period	-	-	<b>279</b>	<b>2,147</b>	<b>2,426</b>
Stock-based compensation	-	768	-	-	768
Issued on exercise of stock options	<b>951</b>	(356)	-	-	595
<b>Balance, March 31, 2011</b>	<b>90,695</b>	<b>3,238</b>	<b>350</b>	<b>(2,414)</b>	<b>91,869</b>
<b>Balance, January 1, 2010</b>	<b>85,282</b>	<b>3,319</b>	-	<b>(7,970)</b>	<b>80,631</b>
Net earnings for the period	-	-	-	1,096	1,096
Other comprehensive income for the period	-	-	(10)	-	(10)
Comprehensive income for the period	-	-	<b>(10)</b>	<b>1,096</b>	<b>1,086</b>
Stock-based compensation	-	67	-	-	67
Issued on exercise of stock options	<b>434</b>	(102)	-	-	332
<b>Balance, March 31, 2010</b>	<b>85,716</b>	<b>3,284</b>	<b>(10)</b>	<b>(6,874)</b>	<b>82,116</b>

## Condensed Consolidated Statements of Cash Flow

(US \$ thousands)	2011	2010
Three months ended March 31,		
<b>OPERATING ACTIVITIES</b>		
Net earnings from continuing operations	2,238	1,197
Add non-cash items:		
Stock-based compensation	768	67
Depletion, depreciation and non-cash financing charges	2,847	1,776
Deferred income tax expense	3,176	2,476
	9,029	5,516
Change in non-cash working capital	(1,536)	(38)
<b>Cash flow from continuing operating activities</b>	<b>7,493</b>	<b>5,478</b>
Cash flow from discontinued operations before change in non-cash working capital	(84)	(89)
Change in non-cash working capital from discontinued operations	46	(234)
<b>Cash flow used in discontinued operations</b>	<b>(38)</b>	<b>(323)</b>
<b>Cash flow from operating activities</b>	<b>7,455</b>	<b>5,155</b>
<b>FINANCING ACTIVITIES</b>		
Issuance of shares	591	312
Increase in operating loan	1,014	-
<b>Cash flow from financing activities</b>	<b>1,605</b>	<b>312</b>
<b>INVESTING ACTIVITIES</b>		
Additions to property and equipment	(11,777)	(5,832)
<b>Cash used in investing activities</b>	<b>(11,777)</b>	<b>(5,832)</b>
<b>Effect of translation on foreign currency cash</b>	<b>114</b>	<b>45</b>
Decrease in cash and cash equivalents	(2,603)	(320)
Cash and cash equivalents, beginning of period	9,903	9,684
<b>Cash and cash equivalents, end of period</b>	<b>7,300</b>	<b>9,364</b>
<i>See accompanying notes</i>		
Supplementary cash flow information:		
Cash interest paid	74	28
Cash taxes paid	-	-

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three month periods ended March 31, 2010 and 2009 (unaudited)

### 1. General

Winstar Resources Ltd. (the “Company” or “Winstar”) is a publicly traded international oil and gas exploration and development company. The Company is headquartered in Calgary, Alberta, Canada. The address of its registered office is 845, 401 – 9 Ave. SW Calgary, Alberta, Canada T2P 3C5. The International head office is located in Breda, The Netherlands, with offices located in Tunisia, Hungary, Romania and Switzerland. Winstar’s principle activities consist of the exploration, development and production of crude oil and natural gas fields primarily in Tunisia as well as exploration activities in Romania.

### 2. Basis of presentation and adoption of IFRS

The company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (“IFRS”), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these interim Consolidated Financial Statements. In the financial statements, the terms “Canadian GAAP” or “Previous GAAP” refer to Canadian GAAP before the adoption of IFRS.

These interim Consolidated Financial Statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34: interim Financial Reporting and IFRS 1: First Time Adoption of International Financial Reporting Standards. Subject to certain transition elections disclosed in note 17, the Company has consistently applied the same accounting policies in its opening IFRS balance sheet at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 18 discloses the impact of the transition to IFRS on the Company’s reported balance sheet, statement of net earnings, retained earnings deficit and cash flows, including the nature and effect of significant changes in accounting policies from those used in Winstar’s Consolidated Financial Statements for the year ended December 31, 2010.

The policies applied in these interim Consolidated Financial Statements are based on IFRS issued and outstanding as of May 12, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the company’s annual Consolidated Financial Statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The interim Consolidated Financial Statements should be read in conjunction with the Company’s Annual financial statements for the year ended December 31, 2010 reported under previous GAAP. Note 18 discloses IFRS information for the year ended December 31, 2010 not provided in the 2010 annual financial statements.

### 3. Significant accounting policies

#### Basis of measurement

The interim Consolidated Financial Statements have been prepared under the historical cost convention.

#### Consolidation

The interim Consolidated Financial Statements of the Company include the consolidated accounts of Winstar Resources Ltd. and its subsidiaries. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Subsidiaries are those entities which the Company controls by having the power to govern the financial and operating policies and are fully consolidated from the date on which control is obtained by the Company and are de-consolidated from the date that control ceases.

#### Jointly controlled assets

Several of the Company’s oil and natural gas activities involve jointly controlled assets. The interim Consolidated Financial Statements include the Company’s proportionate share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

#### Foreign currency translation

Items included in the financial statements of each consolidated entity are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The interim Consolidated Financial Statements are presented in US dollars, which differs from the Company’s functional currency of Canadian Dollars. Note 19 describes the translation from the Companies functional currency to its reporting currency. The interim Consolidated Financial Statements and the financial statements of entities that have a functional currency different from that of Winstar are translated as follows: assets and liabilities – at the period end exchange rate, and income and expenses – at the average rate of the period (as this is considered a reasonable approximation to actual rates). All resulting changes are recognized in other comprehensive income as cumulative translation adjustments.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the statement of income.

### **Cash and Cash equivalents**

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

Cash and cash equivalents that are not available for immediate use based on internal or third-party restrictions are classified as restricted cash.

### **Property and equipment**

#### **(a) Recognition and measurement**

##### **(i) Exploration and evaluation expenditures**

IFRS 6 allows entities that applied full cost accounting under Previous GAAP to capitalize expenditures classified as exploration and evaluation ("E&E"); however Winstar is unable to apply this policy since its current successful efforts accounting policies are more in line with the IFRS framework than the exception provided in IFRS 6; therefore, the Company has elected to continue with the application of its existing policies as outlined below.

Pre-license costs are recognized in the statement of net earnings as incurred.

Exploration and evaluation costs relating to geological and geophysical activities are expensed as incurred. Costs to acquire mineral properties and to drill and equip exploratory wells are capitalized as incurred and are expensed at the moment that the exploratory drilling proves to be unsuccessful.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and or (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units.

Drilling of costs related to exploration wells are capitalized initial as work in progressed and transferred into depletable development assets once drilling and testing is complete and it is determined that the well is commercially viable.

##### **(ii) Development and production costs**

Items of property and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. The Company has grouped its development and production assets into cash generating units ("CGUs") based on the Company's concessions. These CGUs represent the smallest identifiable group of assets that generate cash inflows largely independent of inflows from other CGUs. The cost of property and equipment at January 1, 2010, the date of transition to IFRS, was determined based on the above policies. When significant parts of an item of property and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

#### **(b) Subsequent costs**

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or CGU. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

#### **(c) Depletion and depreciation**

The net carrying value of development and production assets is depleted using the unit of production method by reference to the ratio of production in the period to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

Proven and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a 50 percent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and probable and a 50 percent statistical probability that it will be less.

Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production; and
- evidence that the necessary production, transmission and transportation facilities are available or can be made available.

Reserves may only be considered proven and probable if ability to produce is supported by either actual production or a conclusive formation test. The area of reservoir considered proven includes (a) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, or both, and (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geophysical, geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of oil and natural gas controls the lower proved limit of the reservoir.

The estimated useful lives for certain production assets, which are depreciated straight-line are based on estimate reserve life ranging between 20-40 years.

For other assets, depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property and equipment. The estimated useful lives for other assets for the current and comparative years range from 1 to 10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

### **Impairment of non-financial assets**

The carrying value of the Company's noncurrent assets, other than E&E assets and deferred tax assets, are reviewed quarterly to determine whether there is any indication of impairment of the assets of CGUs. If any such indication exists, then the asset's of CGU's recoverable amount is estimated. E&E assets are assessed for impairment when they are reclassified to property and equipment, as oil and natural gas interests, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into CGUs. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated pre-tax future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

### **Financial instruments**

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

#### **(a) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The company's loans and receivables comprise trade receivables and cash and cash equivalents, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

At each reporting date, the company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the company recognizes an impairment loss equal to the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

**(b) Financial liabilities at amortized cost**

Financial liabilities at amortized cost include trade payables which are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method.

**(c) Share capital**

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

**Share-based payments**

The Company has an equity settled, share-based compensation plan under which Winstar receives services from employees and directors as consideration for equity instruments (stock options) of the Company. The fair value of the stock options granted in exchange for the employee and directors services is recognized as compensation expense within general and administrative expenses with a corresponding increase in contributed surplus over the vesting period of the stock options. Fair values are determined at each grant date using the Black-Scholes option pricing model.

**Provisions, including decommissioning liabilities**

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

The Company's activities give rise to decommissioning liabilities. A provision is made for the estimated cost of decommissioning liabilities and capitalized in the relevant CGU. Decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the balance sheet date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas revisions due to changes in the estimated future cash flows are capitalized with a corresponding adjustment to the decommissioning liabilities. Actual costs incurred upon settlement of the decommissioning liabilities are charged against the provision or earnings.

**Revenue**

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party. For crude oil sales, this generally occurs upon loading onto transportation tankers, and for natural gas sales this is generally at the time product reaches sales metering facilities where custody is transferred. Revenue is measured net of discounts, customs duties and royalties. With respect to the latter, the entity is acting as a collection agent on behalf of others.

Sales in excess of production that result in an overlift position and are treated as a purchase of oil valued at the market price of oil at the date of overlifting. This is recorded as an overlifting liability representing Winstar's obligation to deliver oil out of its future production. Given that the Company's oil sales are contracted at market price, the overlift value approximates the contract price.

The Company recognizes international royalty revenue at the time the related oil production occurs and, under the relevant concession agreement, collection of the relevant receivable is probable and the sales price is fixed and reasonably determinable.

**Inventory**

Inventories consist of crude oil products, spare parts and consumable materials. Inventory of crude oil products is valued at the lower of cost (determined weighted average method) or market. The cost of production inventoried is determined on a property-by-property basis, consisting of lifting and transportation costs, depletion and depreciation. Inventory of materials includes spare parts for operation in the field, and is stated as acquisition cost less any allowance for obsolete items or impairment.

**Income tax**

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities that intend to settle on a net basis.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined using the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees.

The Company uses the treasury stock method to determine the dilutive impact of options. This method assumes that any proceeds from the exercise of options would be used to purchase common shares at the average price during the period. When the assumed proceeds purchase a greater number of shares than were issued, the impact is considered to be anti-dilutive and dilutive net income per share is considered equal to basic net income per share.

### Discontinued operations

The Company may choose to discontinue certain business segments, at which time the associated assets and liabilities are considered held for sale and measured at the lower of fair value less cost to sell and carrying value, with any differences between the fair and carrying value recorded as a gain or impairment for the period. Assets, liabilities and income for discontinued operations are presented separately from continuing operations and detailed in Note 6 to these financial statements.

### Accounting standards issued but not yet applied

International Financial Reporting Standard 9, *Financial Instruments* ("IFRS 9"): IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments and equity instruments. Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. No material impact is expected based on the future adoption of this standard, and the Company has no plans to adopt period to January 1, 2013.

## 4. Critical account estimates

The company makes estimates and judgments concerning the future that may not equal actual results. The following are the estimates and judgments applied by management that most significantly affect the Company's financial statements. These estimates and judgments have a risk of causing future material adjustment to the carrying amounts of assets and liabilities.

### Fair value

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

#### (d) Property and equipment

The recoverable amount of property and equipment is the estimated amount for which property and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in property and equipment) and intangible exploration assets is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports using risk adjusted discount rates specific to the respective assets with reference to general market conditions.

For the purposes of impairment testing, the recoverable amount of each CGU is estimated based on value-in-use calculations. These calculations use cash flow projections based on management's approved financial budgets, forecasted commodity prices and estimated rates of inflation, which are discounted based on a pre-tax discount rate appropriate for the specific risks of each CGU.

The estimated useful lives of property and equipment and based on the period during which the assets are expected to be available for use, and effect the amounts and timing of depreciation and depletion recorded. These estimates are reviewed at least annually and are updated as required based on actual and expected usage.

The market value of other items of property and equipment is based on the quoted market prices for similar items.

#### (e) Cash, cash equivalents, trade and other receivables and trade and other payables

The fair value of cash and cash equivalents, trade and other receivables and trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At March 31, 2011, January 1, 2011 and December 31, 2010, the fair value of these balances approximated their carrying value due to their short term to maturity.

**(f) Stock options**

The fair value of employee stock options is measured using a Black Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), and the risk-free interest rate (based on government bonds). Refer to note 15 for disclosures relating to the specific assumptions used to calculate the fair value of options granted during the period.

**Estimated useful lives and reserves**

Management estimates the useful lives of property and equipment based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for amortization of property and equipment for any period are affected by these estimated useful lives. Estimated proved and probable reserves and reserve lives are based on annual reserve evaluations prepared by the Company's independent reserve engineers and are updated throughout the year for any material changes to the reserves. By nature, the estimates of reserves, including the estimate of future prices, costs, discount rates and future capital are subject to measurement uncertainty and it is possible that changes in these factors may cause significant changes in the estimated useful lives of the company's property and equipment in the future.

**5. 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 normal course 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. This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements. The Board of Directors oversees managements' establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

**(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.

**(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 March 31, 2011, 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.

**(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 values of its financial instruments. The primary exposure is related to short term Bankers' Acceptance notes, which are classified as cash and cash equivalents and bank debt.

**(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.

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 90 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted. To achieve this objective, the Company prepares annual capital, operational and general expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures to further manage capital projects and cash availability. In

addition, the Company maintains a \$10 million credit facility to provide capital, of which \$9 million remains available at March 31, 2011 and the date of this report.

All trade payables are expected to mature within one year and maturities of other contractual obligations remain unchanged from those disclosed at December 31, 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. Receivables from oil and natural gas marketers are normally collected within 30 days following delivery to sales point. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large purchasers. The Company historically has not experienced any collection issues with its oil and natural gas customers, which are large public oil and gas companies and state owned enterprises. Joint venture partnerships are primarily with state-owned enterprises; however risk exists with joint ventures; as disagreements occasionally arise that increase the potential for non-collection. Approximately 46% of the \$8.3 million accounts receivable reported March 31, 2011, balance 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.

The Company does not anticipate any default as it transacts with creditworthy customers and management does not expect any losses from non-performance by these customers. As such a provision for doubtful accounts has not been recorded at March 31, 2011 and December 31, 2010.

### (d) Capital management

The Company's capital structure consists of shareholders' equity excluding accumulated other comprehensive loss, cash and cash equivalents. 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. Capital and financing decisions are made by management and the Board of Directors based on forecasts of the expected timing and level of capital and operating expenditure required to meet the Company's commitments and development plans.

At March 31, 2011 the Company had \$6.4 million of working capital net of a \$1 million short term operating loan, no long term debt and \$9 million remaining available on its line of credit. The working capital surplus is anticipated to be invested primarily into Winstar's Tunisian operations together with the completion of Winstar Satu Mare exploration obligations.

## 6. Discontinued operations

(US \$ thousands)	March 31, 2011	December 31, 2010	January 1, 2010
As at,			
<b>ASSETS - DISCONTINUED OPERATIONS</b>			
<b>Current</b>			
Accounts receivable	16	44	78
Prepays	95	93	126
	<b>111</b>	<b>137</b>	<b>204</b>
<b>Non-current</b>			
Property and equipment	1,048	947	1,049
	<b>1,048</b>	<b>947</b>	<b>1,049</b>
<b>LIABILITIES- DISCONTINUED OPERATIONS</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	304	316	646
Decommissioning liability and other provisions	1,227	1,280	444
	<b>1,531</b>	<b>1,596</b>	<b>1,090</b>
<b>Non-current</b>			
Decommissioning liability and other provisions	-	-	941
	<b>1,531</b>	<b>1,596</b>	<b>2,031</b>

(US \$ thousands)		
Three months ended March 31,	2011	2010
<b>REVENUE</b>		
Petroleum and natural gas sales	-	135
Royalties	-	(9)
	-	126
<b>EXPENSES</b>		
Operating	47	190
Exploration expense	(1)	181
Other expense/(income)	47	(145)
Financing charges	(2)	1
	91	227
<b>Loss before tax</b>	<b>(91)</b>	<b>(101)</b>
<b>Net loss from discontinued operations</b>	<b>(91)</b>	<b>(101)</b>

Discontinued operations include Canadian and Hungarian operations. Effective September 1, 2009 Winstar disposed of the majority of its Canadian assets and continues to evaluate disposal options for the remaining Sturgeon Lake assets. Effective September 14, 2010 the Company disposed of its Igal II exploration permits for a net royalty interest on future production and is actively pursuing the disposal of its remaining Hungarian Assets. Operations in Hungary were limited to intermittent production in 2010.

## 7. Cash, cash equivalents and restricted cash

(US \$ thousands)	March 31,	December 31,	January 1,
As at,	2011	2010	2010
Cash at banks and on hand	3,150	5,359	3,945
Short-term investments	1,900	3,126	4,418
Bank overdrafts	(33)	-	-
	<b>5,017</b>	<b>8,485</b>	<b>8,363</b>

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods between one day to three months, depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposit rates. The fair values of cash, short-term investments, bank overdrafts and restricted cash are equal to their carrying value.

As at March 31, 2011, the Company had two irrevocable standby letters of credit issued by a Canadian chartered bank and a Hungarian chartered bank for \$1.4 million and \$833,000 respectively as required to meet future abandonment obligations existing on certain oil and gas properties in Canada and Hungary. The Company has pledged \$1.4 million and \$833,000 million and of short term investments as security for the Canadian and Hungarian letters of credit respectively, which are recorded as restricted cash.

## 8. Accounts receivable

(US \$ thousands)	March 31,	December 31,	January 1,
As at,	2011	2010	2010
Trade receivables	5,108	7,468	3,372
Other receivables	541	553	1,330
International accrued royalty income	93	93	231
Taxation recoverable	2,582	2,312	326
	<b>8,324</b>	<b>10,426</b>	<b>5,259</b>

Trade receivables are non-interest bearing and are generally on 30-60 day terms.

## 9. Inventories

(US \$ thousands)	March 31,	December 31,	January 1,
As at,	2011	2010	2010
Materials	1,232	1,158	989
Oil in tankage			
Operating Expenses	-	-	75
Transportation Costs	-	-	16
Depletion	-	-	147
	<b>1,232</b>	<b>1,158</b>	<b>1,227</b>

## 10. Property and equipment

(US \$ thousands)	Oil and gas assets	Work in progress	Other Assets	Total
	- Tunisia	- Tunisia		
<b>As at January 1, 2010</b>				
Cost	113,600	9,224	1,591	124,415
Accumulated depreciation	(27,547)	-	(970)	(28,517)
Net book value	86,053	9,224	621	95,898
<b>Year ended December 31, 2010</b>				
Additions	24,825	13,942	122	38,889
Reclassification from work in progress to oil and gas assets	5,878	(5,878)	-	-
Depreciation for the year	(9,155)	-	(271)	(9,426)
Exchange differences	-	-	125	125
Closing net book value	107,601	17,288	597	125,486
<b>As at January 1, 2011</b>				
Cost	144,304	17,288	1,838	163,430
Accumulated depreciation	(36,703)	-	(1,241)	(37,944)
Net book value	107,601	17,288	597	125,486
<b>Three months ended March 31, 2011</b>				
Additions	5,757	918	10	6,685
Reclassification from work in progress to oil and gas assets	10,975	(10,975)	-	-
Depreciation for the year	(2,621)	-	(73)	(2,694)
Exchange differences	-	-	3	3
Closing net book value	121,712	7,231	537	129,480
<b>As at March 31, 2011</b>				
Cost	161,035	7,231	1,850	170,116
Accumulated depreciation	(39,323)	-	(1,313)	(40,636)
Net book value	121,712	7,231	537	129,480

During the three months ended March 31, 2011, \$42,000 of engineering salaries (2010 - \$8,000) and nil stock-based compensation expense (2010 - \$13,000) relating to those employees were capitalized.

## 11. Other Assets

(US \$ thousands)	March 31, 2011	December 31, 2010	January 1, 2010
As at,			
Non-current taxes receivable	108	108	1,655
Non-current deposits	70	69	65
Other	92	92	72
	<b>270</b>	<b>269</b>	<b>1,792</b>

## 12. Bank Debt

(US \$ thousands, except percentages)	Effective interest rate %	March 31, 2011	December 31, 2010	January 1, 2010
As at,				
Bank overdrafts - on demand maturity	Daily deposit rate	33	-	-
Current bank debt - on demand maturity	LIBOR +1	1,028	-	-

## 13. Overlifting liability

As at March 31, 2011, the Company overlifted 6,300 bbls of crude, which is valued at its contract price of \$116.57/bbl. This resulted in a \$743,000 (2010 - \$3.5 million) overlifting liability.

## 14. Decommissioning liabilities and other provisions

(US \$ thousands)	March 31,	December 31,
As at,	2011	2010
<b>Balance, beginning of period</b>	<b>7,887</b>	<b>5,670</b>
Increase in obligations during the period	-	1,639
Other financing charges	164	578
<b>Balance, end of year</b>	<b>8,051</b>	<b>7,887</b>
Other provisions	1,317	1,317
	<b>9,368</b>	<b>9,204</b>

The future decommissioning liabilities relate to the Company's wells and facilities and are 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 March 31, 2011, the estimated total undiscounted decommissioning liabilities from continuing operations were \$17.8 million (2010 - \$14.9 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 decommissioning liabilities were calculated using a risk free discount rate of 9% and an expected inflation rate of 3%.

## 15. Share capital

### (a) Authorized

Unlimited number of voting common shares with no par value  
 Unlimited number of first and second preferred shares

	Number of shares (thousands)	Amount (US \$ thousands)
<b>Balance, January 1, 2010</b>	<b>34,223</b>	<b>85,282</b>
Issued on exercise of stock options	1,057	3,113
Re-classification of contributed surplus on exercise of options	-	1,349
<b>Balance, December 31, 2010</b>	<b>35,280</b>	<b>89,744</b>
Issued on exercise of stock options	198	595
Re-classification of contributed surplus on exercise of options		356
<b>Balance, March 31, 2011</b>	<b>35,478</b>	<b>90,695</b>

### (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 March 31, 2011, the maximum number of remaining grantable options was 1,038,000 (2010 - 834,000). 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 March 31, 2011		Year ended December 31, 2010	
	Options (thousands)	Weighted Average Exercise Price (CDN \$ per share)	Options (thousands)	Weighted Average Exercise Price (CDN \$ per share)
<b>Opening balance</b>	<b>2,048</b>	<b>3.69</b>	<b>2,698</b>	<b>3.63</b>
Granted	665	4.04	510	3.85
Exercised	(198)	2.95	(1,057)	3.03
Forfeited	(9)	2.90	(103)	4.20
<b>Closing balance</b>	<b>2,506</b>	<b>3.85</b>	<b>2,048</b>	<b>3.69</b>

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

Three months ended March 31,	2011	2010
Risk free interest rate (%)	3	3
Expected life (years)	4	4
Expected volatility (%)	62	58

Based on fair market values, compensation expense for the three months ended March 31, 2011, was \$768,000 (2010 - \$86,000) all of which (2010 - \$69,000) has been recorded as non-cash stock-based compensation expense classified as general and administrative expense. No stock options were granted during the first quarter of 2010.

The following summarizes information about stock options outstanding at March 31, 2011:

Range of exercise prices (\$Cdn per share)	Options Outstanding			Exercisable	
	Weighted average exercise price (\$ Cdn/share)	Number outstanding at March 31, 2011	Remaining contractual life (years)	Weighted average exercise price (\$ Cdn/share)	Number outstanding at March 31, 2011
2.02 – 2.70	2.30	535	2.04	2.37	429
2.90 – 4.36	4.02	1,547	3.64	4.09	774
5.00 – 5.65	5.16	424	2.02	5.16	424
	<b>3.85</b>	<b>2,506</b>	<b>3.65</b>	<b>3.91</b>	<b>1,626</b>

### (c) Contributed surplus

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

(US \$ thousand)	
<b>Balance, January 1, 2010</b>	<b>3,319</b>
Stock-based compensation costs	881
Re-classification to common shares on exercise of stock options	(1,349)
Expiry of unvested options	(25)
<b>Balance, December 31, 2010</b>	<b>2,826</b>
Stock-based compensation costs	768
Re-classification to common shares on exercise of stock options	(356)
<b>Balance, March 31, 2011</b>	<b>3,238</b>

### (d) Earnings per share

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

(US \$ thousands)		
Three months ended March 31,	<b>2011</b>	2010
Net income/(loss) from continuing operations	<b>2,238</b>	1,197
Net income/(loss) from discontinued operations	<b>(91)</b>	(101)
Net income/(loss) for the period	<b>2,147</b>	1,096
Denominator - weighted average number of shares (thousands of common shares)		
Weighted average number of common shares	<b>35,298</b>	34,237
Dilutive securities issued under stock compensation plan	<b>226</b>	301
Weighted average number of diluted common shares	<b>35,524</b>	34,538
(dollars per common share)		
Basic earnings (loss) per share from:		
Basic and diluted from continuing operations	<b>0.06</b>	0.03
Basic and diluted from discontinued operations	-	-
Basic and diluted	<b>0.06</b>	0.03

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding. Excluded from diluted earnings per share is the effect of 424,000 options (2010 - 771,000) as their effect is anti-dilutive.

## 16. Income taxes

The current period income tax expense is based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual rate used for the three months ended March 31, 2010 was 15% (2010 - nil) relating to the Ech Chouech concession. Management estimates a tax rate of nil for all other operating concessions.

(US \$ thousands)		
Three months ended March 31,	2011	2010
Computed expected income tax expense at 26.5%, (2010 - 28%)	1,489	1,029
Higher foreign tax rates	1,540	988
Permanent differences	-	(163)
Stock-based compensation	204	19
Foreign exchange <sup>(1)</sup>	(9)	261
Benefits of tax losses not recognized	158	399
True-up from prior period	-	(57)
<b>Total expense</b>	<b>3,382</b>	<b>2,476</b>

(1) Winstar applies the liability method to recognize deferred income tax expense on temporary difference between the tax basis of assets and their carrying amounts in the financial statements. By application of this method, the Company recognizes gains and losses on deferred income tax due to the effect of the change in the value of the Tunisian Dinar on the tax bases of the fixed assets of its in Tunisian subsidiary, which has the U.S. dollar as its functional currency. These gains and losses are required by IFRS even though the devalued tax basis of the relevant assets will result in a reduced dollar value of amortization deductions for tax purposes in future periods throughout the useful life of those assets. The resulting deferred income tax expense does not represent a separate obligation for Winstar that is due and payable in any of the relevant periods.

## 17. Related parties

### Investments in subsidiaries

All 100% fully owned subsidiaries, as listed below, have been consolidated into the consolidation accounts of Winstar Resources Ltd. A list of the investments in subsidiaries (all of whose operations comprise one class of business, being Oil and Gas Exploration, Development and Production), including the name, country of operation and country of registration, is given below.

	Country of operation	Country of Registration
Winstar B.V.	Netherlands	Netherlands
Winstar Tunisia B.V.	Tunisia	Netherlands
Athanor Management Services	Switzerland	Switzerland
Winstar Hungary Oil and Gas Concession Ltd.	Hungary	Hungary
Winstar Satu Mare S.R.L.	Romania	Romania

## 18. Transition to IFRS

As disclosed in Note 2, these interim Consolidated Financial Statements represent Winstar's initial presentation of the financial results of operations and financial position under IFRS for the period ended March 31, 2011 in conjunction with the Company's annual audited Consolidated Financial Statements to be issued under IFRS as at and for the year ended December 31, 2011. As a result, these interim Consolidated Financial Statements have been prepared in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" and with IAS 34, "Interim Financial Reporting", as issued by the IASB. Previously, the Company prepared its interim and annual Consolidated Financial Statements in accordance with Previous GAAP.

IFRS 1 requires the presentation of comparative information as at the January 1, 2010 transition date and subsequent comparative periods as well as the consistent and retrospective application of IFRS accounting policies. To assist with the transition, the provisions of IFRS 1 allow for certain mandatory and optional exemptions for first-time adopters to alleviate the retrospective application of all IFRSs.

The following reconciliations present the adjustments made to the Company's Previous GAAP financial results of operations and financial position to comply with IFRS 1. A summary of the significant accounting policy changes and applicable exemptions are discussed following the reconciliations. Reconciliations include the Company's Consolidated Balance Sheets as at January 1, 2010, March 31, 2010 and December 31, 2010, and Consolidated Statements of Earnings, Comprehensive Income, Changes in Shareholders' Equity and Cash Flows for the three months ended March 31, 2010 and for the twelve months ended December 31, 2010.

### Transition elections

The Company has applied the following transition exception and exemption to full retrospective application of IFRS:

Exemption	Reconciliation Reference
Business combinations – Winstar has elected not to restate prior business combinations that occurred before January 1, 2010	N/A
Cumulative translation adjustment – Winstar has elected to reset cumulative translation adjustment to nil at January 1, 2010	f
Decommissioning liabilities – Winstar has elected to apply a modified approach described in IFRS 1 to calculating the retrospective cost component of PP&E relating to the Company's decommissioning liabilities.	c

**Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS**

(US \$ thousands)

As at,	January 1, 2010			March 31, 2010			December 31, 2010			
	Ref	Previous	Adj	IFRS	Previous	Adj	IFRS	Previous	Adj	IFRS
<b>ASSETS</b>										
<b>Current</b>										
Cash and cash equivalents		8,363	-	8,363	7,975	-	7,975	8,485	-	8,485
Restricted cash		1,321	-	1,321	1,389	-	1,389	1,418	-	1,418
Accounts receivable		5,259	-	5,259	4,649	-	4,649	10,426	-	10,426
Prepays		687	-	687	412	-	412	478	-	478
Inventory		1,227	-	1,227	1,206	-	1,206	1,158	-	1,158
Current portion of future income tax asset	g	116	(116)	-	71	(71)	-	4,062	(4,062)	-
Discontinued operations		204	-	204	254	-	254	137	-	137
		17,177	(116)	17,061	15,956	(71)	15,885	26,164	(4,062)	22,102
<b>Property and equipment</b>	a,b,c	<b>73,277</b>	<b>22,621</b>	<b>95,898</b>	<b>77,902</b>	<b>23,780</b>	<b>101,682</b>	<b>96,048</b>	<b>29,438</b>	<b>125,486</b>
<b>Other assets</b>		<b>1,792</b>	-	<b>1,792</b>	<b>2,026</b>	-	<b>2,026</b>	<b>269</b>	-	<b>269</b>
<b>Discontinued operations</b>		<b>1,049</b>	-	<b>1,049</b>	<b>999</b>	-	<b>999</b>	<b>947</b>	-	<b>947</b>
		<b>93,295</b>	<b>22,505</b>	<b>115,800</b>	<b>96,883</b>	<b>23,709</b>	<b>120,592</b>	<b>123,428</b>	<b>25,376</b>	<b>148,804</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>										
<b>Current</b>										
Bank debt		-	-	-	-	-	-	-	-	-
Accounts payable and accrued liabilities		8,455	-	8,455	9,359	-	9,359	13,646	-	13,646
Overlifting liability (note 13)		-	-	-	-	-	-	3,506	-	3,506
Discontinued operations	c	947	143	1,090	749	144	893	1,642	(46)	1,596
		9,402	143	9,545	10,108	144	10,252	18,794	(46)	18,748
Future income tax liability	d,e,g	7,177	11,443	18,620	9,027	12,066	21,093	20,680	12,092	32,772
Provisions	c	5,176	887	6,063	5,292	898	6,190	7,889	1,315	9,204
Discontinued operations	c	1,111	(170)	941	1,105	(164)	941	-	-	-
<b>Total Liabilities</b>		<b>22,866</b>	<b>12,303</b>	<b>35,169</b>	<b>25,532</b>	<b>12,944</b>	<b>38,476</b>	<b>47,363</b>	<b>13,361</b>	<b>60,724</b>
<b>Shareholders' equity</b>										
Share capital		85,282	-	85,282	85,716	-	85,716	89,744	-	89,744
Contributed surplus		3,319	-	3,319	3,284	-	3,284	2,826	-	2,826
Accumulated other comprehensive loss	f	1,111	(1,111)	-	1,117	(1,127)	(10)	1,192	(1,121)	71
Deficit	a,b,c,d,e,f	(19,283)	11,313	(7,970)	(18,766)	11,892	(6,874)	(17,697)	13,136	(4,561)
		70,429	10,202	80,631	71,351	10,765	82,116	76,065	12,015	88,080
		93,295	22,505	115,800	96,883	23,709	120,592	123,428	25,376	148,804

**Reconciliation of equity and compressive income as previously reported under Canadian GAAP to IFRS (continued)**

For the year and three month periods ended, (US \$ thousands)	Ref	December 31, 2010			March 31, 2010		
		Previous	Adj	IFRS	Previous	Adj	IFRS
<b>REVENUE</b>							
Petroleum and natural gas sales		51,302	-	51,302	9,988		9,988
International royalty income		1,069	-	1,069	325		325
Royalties		(6,934)	-	(6,934)	(1,317)		(1,317)
		45,437	-	45,437	8,996	-	8,996
<b>EXPENSES</b>							
Operating		8,904	-	8,904	1,896		1,896
General and administration		6,760	-	6,760	1,363		1,363
Exploration expense		849	-	849	134		134
Depletion & depreciation	a,c	16,044	(6,485)	9,559	2,799	(1,159)	1,640
Other expenses		247	-	247	2		2
		<b>32,804</b>	<b>(6,485)</b>	<b>26,319</b>	<b>6,194</b>	<b>(1,159)</b>	<b>5,035</b>
Financing charges	c	495	96	591	146	-	146
Foreign exchange loss/(gain)		528	-	528	142		142
		1,023	96	1,119	288	-	288
<b>Earnings before tax</b>		<b>11,610</b>	<b>6,389</b>	<b>17,999</b>	<b>2,514</b>	<b>1,159</b>	<b>3,673</b>
Current income tax expense		64	-	64	-	-	-
Future income tax expense	d,e	9,558	4,596	14,154	1,897	579	2,476
		<b>9,622</b>	<b>4,596</b>	<b>14,218</b>	<b>1,897</b>	<b>579</b>	<b>2,476</b>
<b>Net income from continuing operations</b>		<b>1,988</b>	<b>1,793</b>	<b>3,781</b>	<b>617</b>	<b>580</b>	<b>1,197</b>
<b>Net loss from discontinued operations</b>	c	<b>(401)</b>	<b>29</b>	<b>(372)</b>	<b>(103)</b>	<b>2</b>	<b>(101)</b>
<b>Net earnings/(loss)</b>		<b>1,587</b>	<b>1,822</b>	<b>3,409</b>	<b>514</b>	<b>582</b>	<b>1,096</b>
Unrealized exchange loss on translation of foreign operations	c	81	(10)	71	6	(15)	(9)
<b>Other comprehensive loss</b>		<b>81</b>	<b>(10)</b>	<b>71</b>	<b>6</b>	<b>(15)</b>	<b>(9)</b>
<b>Comprehensive loss</b>		<b>1,668</b>	<b>1,812</b>	<b>3,480</b>	<b>520</b>	<b>567</b>	<b>1,087</b>

**Explanatory notes**
**(a) Depreciation of property 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. Following a thorough evaluation of its oil and gas assets, management has determined their expected lives are best estimated based on the proved and probable ("2P") reserves associated with those assets. These 2P reserves are based on the commercial production more likely than not to occur based on currently available information. Included in the estimation of 2P reserves are expected future development costs, which are added to the depreciation base in order to accurately reflect the expected depreciation associated with 2P reserves. This change in estimate has been retroactively applied and increased the net book value of the Company's PP&E as at January 1, 2010 by \$19 million, with an offset to retained earnings. During 2010 the change in depletion methodology further increased the value of PP&E with an offset to depreciation expense by \$1.1 million and \$6.5 million for the 3 months ended March 31, 2010 and year ended December 31, 2010 respectively.

**(b) 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 \$5.5 million of impairments that are subject to reversal on conversion to IFRS. Specifically, these reversals relate to historical impairment booked to the Zinnia, Chouech Essaida and Echouech concessions for a net value of \$211,000, \$1.5 million and \$1.4 million respectively. Subsequent to these impairments, the Company completed several significant work-over and drilling projects on these concessions that increased their value in use, which management uses to measure the recoverable value of its concessions. The net effect of these reversals, after deducting associated depreciation is an increase to the net book value of the Company's PP&E by US \$3.2 million as at January 1, 2010, with an offset to retained earnings.

**(c) Measurement of decommissioning liabilities**

IAS 37 – Provisions, Contingent Liabilities and Contingent Assets requires that an entity evaluate its assumptions for the measurement of provisions including abandonment and site restoration costs during each reporting period. The specific interpretation of these measurement requirements resulted in a change in the discount rate used to value the obligation liability, which, as at January 1, 2010, generated a US\$718,000 increase to the Company's decommissioning liabilities and a US \$348,000 increase to PP&E, with the remaining offset to retained earnings. During 2010 the change in measurement further increased the Company's obligation liability by \$11,000 and \$428,000 for the 3 months ended March 31, 2011 and year ended December 31, 2010 respectively. PP&E was also increased by \$331,000 for the year ended December 31, 2010 to reflect the change in measurement on obligations added in 2010.

**(d) Measurement of deferred taxes**

Previous GAAP offers a specific exemption to the recognition of deferred 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 deferred tax as at January 1, 2010 decreased by US \$795,000. During 2010 the change in measurement further decreased the Company's deferred tax liability expense by \$501,000 and \$1.8 million for the 3 months ended March 31, 2010 and year ended December 31, 2010 respectively.

**(e) Tax implications of IFRS adjustments**

The IFRS adjustments discussed above have increased the carrying value of Winstar's property and equipment, which has correspondingly increased the temporary differences relative to the tax value of PP&E. The result is a \$11.4 million increase to the deferred tax liability with an offset to retained earnings as at January 1, 2010. During 2010 the change in temporary differences from IFRS adjustment increased the Company's deferred tax liability by \$579,000 and \$4.6 million for the 3 months ended March 31, 2010 and year ended December 31, 2010 respectively.

**(f) Reclassification of cumulative translation adjustment**

Winstar has elected to reclassify its \$1.1 million cumulative translation adjustment balance to retained earnings as at January 1, 2010 pursuant to the transition elections offered by IFRS 1.

**(g) Reclassification of the current portion of deferred taxes**

Under IFRS, all deferred taxes are considered non-current, therefore the current portion of \$116,000 was reclassified as non-current as at January 1, 2010.

**Adjustments to the cash flow statement**

The transition from Canadian GAAP to IFRS had no significant impact on the net operating; financing or investing cash flows generated by the company.

**Exploration expenses**

IFRS 6 allows entities that applied full cost accounting under Previous GAAP to capitalize expenditures classified as exploration and evaluation ("E&E"); however Winstar is unable to apply this policy 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 earnings 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.

**19. Change in reporting currency**

Effective January 1, 2010, the Company changed its reporting currency from the Canadian dollar ("Cdn") to the United States ("US") dollar. The change in reporting currency was undertaken to better reflect the Company's business activities. Prior to March 31, 2011, the Company reported its annual and quarterly consolidated balance sheet and the related consolidation statements of net earnings and cash flows in Canadian dollars. In making this change in reporting currency, the financial statements for all the periods presented have been translated into the new reporting currency using the current rate method. Under this method, the statements of net earnings and cash flows for each year were translated into the reporting currency using the average exchange rates prevailing during each reporting period. All monetary assets and liabilities were translated using the exchange rate prevailing at the consolidation balance sheet dates. Shareholders' equity transactions were translated using the historical transaction exchange rates. All resulting exchange differences arising from the translation were included as a separate component of other comprehensive income. As at March 31, 2011 the translation of the prior year balances yielded an accumulated gain due to foreign currency translation adjustment of \$350,000 (2010 – (\$10,000)).

Prevailing Rates (\$Cdn/\$US)	Period	Period
	Average	Close
March 31, 2009	0.80	N/A
June 30, 2009	0.86	N/A
September 30, 2009	0.91	N/A
December 31, 2009	0.95	0.98
March 31, 2010	0.96	0.98
June 30, 2010	0.97	0.95
September 30, 2010	0.96	0.97
December 31, 2010	0.99	1.00

## 20. Segmented disclosures

For management purposes, Winstar is organized into geographical segments, all of whose principle line of business includes the exploration, development and production of oil and gas. Geographic regions are segregated based on the physical location of exploration, development and production as well as the location of management responsible for those regions. No operating segments have been aggregated to form the above reportable operating segments.

(US \$ Thousands)

Three month period ended March 31,	Tunisian Operations		European Operations (1)		Corporate (2)		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Revenues								
Oil and liquids	11,379	9,120	-	-	-	-	11,379	9,120
Natural gas	3,042	868	-	-	-	-	3,042	868
Petroleum and natural gas sales	14,421	9,988	-	-	-	-	14,421	9,988
International royalty income	-	325	-	-	-	-	-	325
Royalties	(2,056)	(1,317)	-	-	-	-	(2,056)	(1,317)
	12,365	8,996	-	-	-	-	12,365	8,996
Segmented expenses								
Operating	1,538	1,896	-	-	-	-	1,538	1,896
Exploration expense	197	134	-	-	-	-	197	134
Depletion & depreciation	2,663	1,622	-	-	20	18	2,683	1,640
General and administrative	1,100	716	275	166	973	481	2,348	1,363
Other (income)	24	2	-	-	-	-	24	2
Financing charges	163	146	-	-	(1)	-	162	146
Foreign exchange (gain)/loss	(207)	125	-	-	-	17	(207)	142
	5,478	4,641	275	166	992	516	6,745	5,323
Earnings before tax	6,887	4,355	(275)	(166)	(992)	(516)	5,620	3,673
Current tax provision	206	-	-	-	-	-	206	-
Deferred income tax expense	3,176	2,476	-	-	-	-	3,176	2,476
Net earnings/(loss) from continuing operations	3,505	1,879	(275)	(166)	(992)	(516)	2,238	1,197
Net earnings/(loss) from discontinued operations	-	-	(45)	(224)	(46)	123	(91)	(101)
Net earnings/(loss)	3,505	1,879	(320)	(390)	(1,038)	(393)	2,147	1,096
Capital expenditures								
Development	6,667	7,406	-	-	-	-	6,667	7,406
Other	19	8	-	-	-	10	19	18
Discontinued operations	-	-	-	-	-	-	-	-
Total capital expenditure	6,686	7,414	-	-	-	10	6,686	7,424
Total assets	116,704	91,447	2,269	1,245	29,324	27,900	148,297	120,592

(1) The European segment consists of Winstar Satu Mare SRL operating in Romania as well as Hungarian operations which are classified as discontinued operations. Both segments are central operated by Winstar's European management team.

(2) The Corporate segment includes Canadian operations, which are classified as discontinued.

### INDEPENDENT DIRECTORS

**Bruce Libin**, Chairman of B.R. Libin, Capital Corp.  
**Douglas Baker**  
 Former Vice-President and Chief Financial Officer, Valiant Energy Inc.  
**Bernard de Combret**  
 Former Deputy Chairman Executive Committee, TotalFinaElf S.A.  
**Russ Duncan**  
 Vice-President, Sky Hunter Exploration Ltd.

**Evgenij Iorich**  
 Pala Investments AG  
**Bryan Lawrence**  
 Founder & General Partner, Yorktown Partners LLC  
**Robert Mitchell**  
 Former Executive Vice-President, Talisman Energy Inc.  
**Christopher Whyte**  
 President and Chief Executive Officer, PetroSantander Inc.

### EXECUTIVE MANAGEMENT

**Charles de Mestral**  
 Chief Executive Officer, Director  
**David Monachello**  
 President, Director  
**Roger McMechan**  
 Executive Vice-President, Director  
**Brad Giblin**  
 Chief Financial Officer

**Rafik Hamza**  
 General Manager, Tunisia  
**Mohamed Yaich**  
 Advisor to CEO, Tunisia  
**Gabor Tihanyi**  
 General Manager, Hungary and Romania  
**James O'Connor**  
 General Counsel & Corporate Secretary

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 Chief Executive Officer  
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 (Note: Mr. de Mestral is based in Europe, in a time zone eight hours ahead of Calgary time)

### THIRD PARTY ADVISORS

**Engineers:**  
 RPS Energy  
**Bankers:**  
 HSBC Bank Canada  
 ABN AMRO  
 Export Development Canada (EDC)  
**Auditors:**  
 PricewaterhouseCoopers LLP  
**Lawyers:**  
 Stikeman Elliott LLP

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### ABBREVIATIONS

bbl	barrel	mdbl	thousand barrels
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.	mboe	thousands of barrels of oil equivalent
boepd	barrels of oil equivalent per day	mcf	thousand cubic feet
bopd	barrels of oil per day	mcf/d	thousand cubic feet per day
		mmbbl	millions of barrels
		mmscf	millions of standard cubic feet
		NGL	natural gas liquids