



Winstar Resources Ltd.

Second Quarter Report 2011

Three months ended June 30, 2011

SHAREHOLDERS' REPORT

During the first half of 2011 portions of the Middle East and North Africa were destabilized as the population openly demonstrated for true democratic rule and personal freedoms. These popular movements known collectively as the Arab Spring have had a negative impact on the Company's share price, despite Tunisia's relative stability and progress towards holding its first democratic elections in October of 2011.

Operations during the second quarter were focused on several key projects which have the potential to add significant incremental production to the Company during the third quarter of 2011.

2011 Capital Program and Outlook

The most significant operational challenges that we, as a Company, have dealt with following the political change of January 2011, have been the logistical and transportation issues associated with securing and mobilizing a rig to the 100% owned and operated Chouech Essaida Concession located in southern Tunisia. As a result of successful negotiations and careful planning, a rig mobilized to the Chouech Essaida Concession at the end of June and commenced workover operations on the CS#9 well in early July. This well had been shut-in since December 2010. As a result of this workover, the well is currently producing 235 boe/d with rates still improving on a daily basis as the well continues to clean out excess downhole fluids.

Following the workover of CS#9, the rig was immediately mobilized to the Chouech Essaida #8bis ("CS#8bis") drilling location and the well was spud on July 25, 2011. This operation is expected to last approximately 30 days with an estimated cost of \$8.5 million. This new well is expected to intersect the same two Triassic zones tested in 2010 on the original CS#8S well which was subsequently rendered unusable. If successful, CS #8bis could be capable of 500 to 800 bopd of production plus associated gas.

Following the drilling of CS#8bis, the same rig will move to drill the next location at Chouech Essaida #12 ("CS#12") which is a Triassic development location targeting light oil plus associated gas at a depth of approximately 2,500 meters. The operation is expected to last approximately one month with an expected cost of \$8.0 million.

The rig contract provides Winstar with the option to conduct a fourth operation before the rig is released. The Company continues to review prospects within its inventory of development and exploration wells with a focus on identifying high impact potential locations that can bring on immediate incremental production and add significant shareholder value but at this time, a recommendation has not yet been approved.

In Romania, the Company plans to commence the drilling of its first two exploration wells on the Satu Mare Concession in October. These new wells will directly offset existing wellbores which tested hydrocarbons in the early 1970's but were not subsequently put on long term production.

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

The CS Sil #1 well continued to produce during the second quarter, initially from the Silurian Acacus zone and then from the Silurian upper Tannezuft zone. The well continues to produce at a stable rate of 165 boepd compared to the initial test rate of 257 boepd.

Operations in the field are progressing smoothly for initiating production from the prolific zone #1 which tested at a final rate of 2,683 boepd during the initial test during the first quarter of 2011. Following a thorough inspection and refurbishment at an engineering and equipment fabrication facility in Hungary, the Company has moved the existing 100% working interest gas processing plant from Hungary directly to the CS Sil #1 well site where it is currently being reconstructed. Start-up of production from zone #1 and the facility are anticipated in September at rates of 800 – 1,000 boepd. Actual produced 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.

Second Quarter Financial Results

The financial and operating results for Q2 2011 are presented in accordance with International Financial Reporting Standards (“IFRS”). As reported and discussed in our Management Discussion and Analysis for the period ended June 30, 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
- 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).

The Company has also changed its reporting currency from Canadian dollars to US dollars, effective January 1, 2010.

The financial and operating results for Q2 2011 were significantly improved compared with Q2 2010 reflecting stronger commodity prices and a corresponding increase in after-tax field operating netbacks;

- Realized oil and gas revenues per boe were \$107.32 a 42% increase over Q2 2010 due to realized oil prices of \$120.38/bbl and realized natural gas prices of \$12.62/mcf;
- After-tax field operating netback in Tunisia was \$74.95 per boe; a 44% increase as compared with Q2 2010;
- Funds from continuing operations were \$8.8 million (\$0.25 per share); 54% higher than that reported in Q2 2010;
- Net income from continuing operations was \$2.3 million (\$0.07 per share); as compared to \$0.5 million in Q2 2010.

Winstar sold an average of 1,567 boepd during Q2 2011 from its operations in Tunisia, compared to 1,536 boepd in Q2 2010. Production during Q2 2011 continued to be limited due to downhole mechanical problems at CS#9 and CS#11. The workover on CS#9 was successful at resuming production and we continue to investigate alternative pump designs to significantly increase production from CS#11 which averaged 30 bbl/d in the second quarter of 2010.

Although current production is between 1,600-1,700 boepd, actual sales are dependent on gas sales volumes at the Chouech Essaida concession. During July, as a result of what are believed to be temporary mechanical issues, production decreased to approximately 1,200. The primary issues which negatively affected production were:

- A loss of approximately 250 boepd from Chouech Essaida #5 (“CS#5”) which is believed to be due to down-hole blockage of the perforations.
- Reduced natural gas sales from Chouech Essaida as the third party purchaser of the Company’s natural gas resolved mechanical issues with their compressors.

The Company is awaiting equipment and services required to perform the required workover operation on CS#5 which is anticipated to occur in the fourth quarter of 2011. Effective August 10, 2011, partial gas sales resumed and the Company expects that gas sales restrictions will be further reduced in the next weeks.

Financial and operating results summary from continuing operations (excluding Canada and Hungary)

(\$ thousands)	Three months ended June 30,			Six months ended June 30,		
	2011	2010	% change	2011	2010	% change
Sales and Prices						
Oil and liquid sales (bopd)	1,109	1,338	(17)	1,166	1,325	(12)
Natural gas sales (mcf/d)	2,750	1,189	131	2,918	1,104	164
Average daily boe sales 6:1 (boepd)	1,567	1,536	2	1,652	1,509	9
Average oil and liquid price (\$/BBL)	120.38	77.29	56	111.55	77.25	44
Average natural gas price (\$/mcf)	12.62	10.43	21	11.74	10.00	17
Financial (\$ thousands except for unit amounts)						
Oil and gas revenue	15,306	10,539	45	29,727	20,527	45
Funds from continuing operations	8,791	5,719	54	18,019	11,369	58
Per share- basic & diluted	0.25	0.17	47	0.51	0.33	55
Net earnings from continuing operations	2,335	480	386	4,574	1,677	173
Per share- basic & diluted	0.07	0.01	600	0.13	0.05	160
Field operating netback after tax (\$/boe)	74.95	52.19	44	71.29	52.71	35
Capital expenditures	6,389	8,402	(24)	13,075	15,826	(17)
Working capital at period end	9,601	2,857	236	9,601	2,857	236
Common Shares (thousands)						
Weighted average during period - basic	35,652	34,345	4	35,478	34,292	3
- diluted	35,683	34,549	3	35,478	34,465	3
Outstanding at period end	35,726	34,668	3	35,726	34,668	3

Management and the Board thank the shareholders for their continued support, and also continue to express their appreciation to its Tunisian staff whose dedication to generating value for the shareholders has not waived throughout the political and social changes, which have occurred in the country since January 2011.

[SIGNED]
Charles de Mestral
Chief Executive Officer
August 11, 2011

[SIGNED]
David Monachello
President

REVIEW OF OPERATIONS

The operational focus in the second quarter of 2011 was preparing for the drilling programs in both Tunisia and Romania and the transportation of the Company's 100% owned gas plant from Hungary to the wellsite at Chouech Essaida Sil #1 ("CS Sil #1") in Southern Tunisia. Still in Tunisia, tubular and wellhead equipment were received and transported to site and the civil works for the various workover and drilling locations got underway. Following the successful and cooperative resolution of some local labour issues in nearby towns in Southern Tunisia, the Helmrich and Payne Rig #242 (H&P 242) was successfully mobilized from its base in the Tunisian coastal city of Sfax to the Chouech Essaida Concession and started the workover and drilling campaign that is expected to continue into the fourth quarter of this year. This is the same rig that was contracted for the drilling program of 2010 that included the CS Sil #1 discovery well.

In Romania, preparations progressed for Winstar's exploration drilling program with our partner, Rompetrol at the Satu Mare Exploration Permit. Approval was received from the National Agency for Mineral Resources of Romania (NAMR) for the drilling programs of two exploration wells which are expected to start drilling early in the fourth quarter of 2011. The contract for a drilling rig located in Romania was signed as was the surface land rental contract for the first location. The surface land rental contract for the second location is still under negotiation.

Production

Winstar sold an average of 1,567 barrels of oil equivalent per day (boepd) in the second quarter of 2011 from its operations in Tunisia compared to 1,536 boepd in the second quarter of 2010. Current productive capability is 1600-1700boepd with actual sales dependent on gas sales at the Chouech Essaida concession

Events affecting production were as follows:

- Gas sales from the Sabria concession were shut-in for almost the entire quarter due to operational issues associated with the company operating the pipeline which transports the Sabria gas to market.
- The CS#9 well remained suspended (300 bbls/d negative impact) awaiting the workover program that was completed in July.
- The well Chouech Essaida #11 produced at a greatly reduced rate of oil and gas in Q2 and in July, was shut in completely from the upper Triassic zone. A workover is planned for later this year to install a downhole pump and place the lower TAGI zone back on production once the necessary equipment has been received.

Operational Highlights

The CS Sil #1 well continued to produce during the second quarter, initially from the Silurian Acacus zone and then from the Silurian upper Tannezuff zone #2. The well continues to produce at a stable rate of 165-170 boepd compared to the initial test rate of 257 boepd. Operations in the field are progressing smoothly for initiating production from the prolific zone #1 which tested at a final rate of 2,683 boepd during Q1 2011.

Following a thorough inspection and refurbishment at an engineering and equipment fabrication facility in Hungary, the Company has moved the existing 100% working interest gas processing plant from Hungary directly to the CS Sil #1 wellsite where it is currently being installed. Start-up of production from zone #1 through the facility is anticipated in September at an expected rate of 800 – 1,000 boepd. Actual produced 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 successfully mobilized the H&P 242 rig to the Chouech Essaida Concession in southern Tunisia to start the first operation of its current workover and drilling campaign at the well CS #9. The workover operation went smoothly and was completed on budget. A downhole pump has been installed and the well was placed on production. The well is still cleaning up with production rates still improving on a daily basis from the current rate of 235 boepd. The rig has been moved to drill the well CS #8bis where operations are proceeding smoothly and on schedule. The next well to be drilled in the program after CS #8bis will be another Triassic development well CS #12 in the southern part of the Chouech Essaida concession. Plans for the fourth operation (optional under the rig contract) have not yet been decided.

Various other capital projects have been initiated and/or completed in southern Tunisia at Chouech Essaida including the installation of a spare parts warehousing facility and the purchase of two eight hundred kilo-volt ampere(kVA) gas driven generators to replace the diesel driven units that supply all of the electrical power for the camp and facility. These new generating units will reduce both operating costs and the reliance of significant trucked volumes of diesel fuel from the Tunisian coast to the desert.

Romania

The Company has received approval from NAMR for the drilling of two exploration wells in its Satu Mare exploration permit this year. The wells will be called Madaras 109 and Moftinu 1000. The wells will be drilled back to back to depths of 1,800 m and 1,600 m respectively and are targeting both oil and gas prospective reservoirs observed in nearby offset wells, which were drilled in 1970 by another operator. Most of the necessary regulatory and surface access issues have been resolved with just the surface rental contract for Moftinu 1000 still under negotiation. The contract for a local drilling rig has been signed to start drilling operations in October of this year and each well is expected to take approximately two weeks to drill. The civil works for the road and drilling site are nearing completion at the Madaras 109 location and the site at the Moftinu 1000 location is expected to be completed by early October. Tubular and wellhead equipment are being sourced from both the local Romanian market and from Winstar Hungary's existing stock.

Hungary

The plant site at Torokkoppány is now almost empty since the gas processing facility was moved to Tunisia. Abandonment of the wells and plant are scheduled to be completed this year.

[SIGNED]

Roger McMechan

Executive Vice-President

August 11, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This Management's Discussion and Analysis (MD&A), dated August 11, 2011, of Winstar Resources Ltd. (the "Company" or "Winstar") is for the three and six months ended June 30, 2011 and should be read in conjunction with the unaudited Consolidated Financial Statements for the period ended June 30, 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.

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 year to date. The Company's asset base is comprised of 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, 2010. The financial statements for the three months ended June 30, 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 on its financial statements was the change in depletion base related to the Company's Property and Equipment. 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 17 to the Interim Financial Statements.

Operational Overview

For the three months ended June 30, 2011, Winstar's operations were highlighted by the following significant events:

- Operations commenced to move its 100% owned gas plant from Hungary to the Chouech Essaida Concession in Southern Tunisia which will be utilized to commence production of the high pressure gas and condensate zone at CS SIL #1 later in Q3 2011;
- Production averaged 1,567 boepd
- In June 2011, mobilized a 1,500 horsepower drilling rig and associated services to Chouech Essaida, to conduct three operations: the repair of Chouech Essaida #9 (CS #9) and the twinning of Chouech Essaida #8 and the drilling of Chouech Essaida #12 (CS#12).
- Workover operations on CS #9 were completed in July and as a result of this workover, the well is currently producing 235 boe/d with rates still improving on a daily basis as the well continues to clean out excess downhole fluids.
- Drilling of CS #8 commenced on July 25, 2011 and is expected to be completed in 30 days with testing and operations to follow.

Financial Overview

For the three months ended June 30, 2011, Winstar reported:

- Funds from Continuing Operations of \$8.8 million, a 54% increase compared with Q2, 2010
- After tax field operating netback in Tunisia was \$74.95 per boe; a 44% increase as compared with Q2, 2010.
- Net earnings from continuing operations were \$2.3 million (\$0.07 per share); as compared to \$480,000 (\$0.01 per share) in Q2 2010;
- Working capital of \$9.6 million at June 30, 2011 as compared to \$3.4 million as at June 30, 2010.

Financial and operating results from continuing operations

(\$ thousands)	Three months ended June 30,			Six months ended June 30,		
	2011	2010	% change	2011	2010	% change
Sales and Prices						
Oil and liquid sales (bopd)	1,109	1,338	(17)	1,166	1,325	(12)
Natural gas sales (mcf/d)	2,750	1,189	131	2,918	1,104	164
Average daily boe sales 6:1 (boepd)	1,567	1,536	2	1,652	1,509	9
Average oil and liquid price (\$/bbl)	120.38	77.29	56	111.55	77.25	44
Average natural gas price (\$/mcf)	12.62	10.43	21	11.74	10.00	17
Financial (\$ thousands except for unit amounts)						
Oil and gas revenue	15,306	10,539	45	29,727	20,527	45
Funds from continuing operations	8,791	5,719	54	18,019	11,369	58
Per share- basic & diluted	0.25	0.17	47	0.51	0.33	55
Net earnings from continuing operations	2,335	480	386	4,574	1,677	173
Per share- basic & diluted	0.07	0.01	600	0.13	0.05	160
Field operating netback after tax (\$/boe)	74.95	52.19	44	71.29	52.71	35
Capital expenditures	6,389	8,402	(24)	13,075	15,826	(17)
Working capital at period end	9,601	2,857	236	9,601	2,857	236
Common Shares (thousands)						
Weighted average during period - basic	35,652	34,345	4	35,478	34,292	3
- diluted	35,683	34,549	3	35,478	34,465	3
Outstanding at period end	35,726	34,668	3	35,726	34,668	3

Funds from operations

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

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

The Company also presents:

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

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

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

(\$ thousands)	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Cash flow from operating activities	7,813	7,151	15,307	12,629
Change in non-cash working capital	811	(1,631)	2,348	(1,593)
Geological and geophysical expenses (exploration expense less dry hole costs)	167	199	364	333
Funds from Continuing Operations	8,791	5,719	18,019	11,369
Cash flow used in discontinued operations	(18)	(101)	(57)	(424)
Change in non-cash working capital from discontinued operations	(35)	10	(81)	244
Geological and geophysical expense from discontinued operations	-	-	-	181
Funds from Discontinued Operations	(53)	(91)	(138)	1
Total Funds from Operations	8,738	5,628	17,881	11,370

Three months ended June 30, 2011 vs. 2010

Funds from continuing operations increased by \$3.1 million to \$8.8 million in Q2 2011, as compared to \$5.7 million in Q2 2010. Primarily, the increase is a result of a 42% increase in realized commodity prices during Q2 2011 compared to Q2 2010 offset by higher current taxes.

Production versus sales from continuing operations

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	% Change	2011	2010	% Change
Total production	142,617	156,184	(9)	298,930	288,695	4
-boepd	1,567	1,716		1,652	1,595	
Total sales	142,617	139,787	2	298,930	273,163	9
-boepd	1,567	1,536		1,652	1,509	

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 Q2 2011 production was approximately equal to sales. As at June 30, 2011 the Company over lifted by 3,800 bbls of crude, which is valued at its contracted price of US\$121.58/bbl resulting in a \$462,000 overlifting liability which will be settled during Q3 2011.

Production

Three months ended June 30,	2011			2010		
	Oil and Liquid (bbl/d)	Natural gas (mcf/d)	Total (boepd)	Oil and Liquid (bbl/d)	Natural gas (mcf/d)	Total (boepd)
Tunisia						
Chouech Essaida/Ech Chouech	891	2,750	1,349	1,247	793	1,379
Sabria	140	-	140	181	396	247
Sanhrar	78	-	78	90	-	90
Tunisia total (continuing operations)	1,109	2,750	1,567	1,518	1,189	1,716
Total production	1,109	2,750	1,567	1,518	1,189	1,716

Three months ended June 30, 2011 vs. 2010

Production from Tunisia decreased 9% during Q2 2011, compared to Q2 2010, which is due primarily to:

- Chouech Essaida #9, which was shut-in since December 2010 pending a workover program that was completed in July 2011. As a result of this workover, the well is currently producing 235 boe/d with rates still improving on a daily basis as the well continues to clean out excess downhole fluids.
- Decreased production from Chouech Essaida #11, which produced 30 bpd in Q2 2011 compared to 167bpd in Q2 2010. Winstar is currently investigating alternative pump designs to establish increased production during the second half of 2011.
- Gas sales at Sabria were interrupted for the entirety of Q2 2011 due to purchaser constraints, which have been subsequently resolved.
- These decreases to total oil and gas production were partially offset by increased gas sales at Chouech Essaida. The elimination of gas sales constraints from Chouech Essaida has enabled the Company to sell a significant percentage of the associated gas from the Triassic oil production since October 2010. During Q2 2011, the Company averaged 2.8 million cubic feet per day (mmcf/d) from Chouech Essaida, an increase of 2.0 mmcf/d compared to Q2 2010.

Six months ended June 30,	2011			2010		
	Oil and Liquid (bbl/d)	Natural gas (mcf/d)	Total (boepd)	Oil and Liquid (bbl/d)	Natural gas (mcf/d)	Total (boepd)
Tunisia						
Chouech Essaida/Ech Chouech	946	2,761	1,406	1,127	686	1,241
Sabria	140	157	166	191	418	261
Sanhrar	80	-	80	93	-	93
Tunisia total (continuing operations)	1,166	2,918	1,652	1,411	1,104	1,595
Hungary & Canada (discontinued operations)	-	-	-	-	97	16
Total production	1,166	2,918	1,652	1,411	1,201	1,611

After tax field operating netbacks

After tax field operating netback are non-GAAP measures defined by the Company as presented below. Management considers after tax field operating netback 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 June 30, 2011 and 2010:

After tax field operating netback from Tunisia

	Three months ended June 30,				Six months ended June 30,			
	2011		2010		2011		2010	
Sales Volumes								
Oil sales (bbls)	100,903		121,749		210,902		239,865	
Gas sales (mcf)	250,284		108,225		528,165		199,789	
Total sales (boe)	142,617		139,787		298,930		273,163	
- boepd	1,567		1,536		1,652		1,509	
Netback	\$	\$/boe	\$	\$/boe	\$	\$/boe	\$	\$/boe
Oil sales	12,147	120.38	9,410	77.29	23,526	111.55	18,530	77.25
Gas sales	3,159	12.62	1,129	10.43	6,201	11.74	1,997	10.00
	\$	\$/boe	\$	\$/boe	\$	\$/bbl	\$	\$/bbl
Realized	15,306	107.32	10,539	75.39	29,727	99.44	20,527	75.15
International royalty income	-	-	272	1.95	-	-	597	2.19
Royalties	(2,136)	(14.98)	(1,612)	(11.53)	(4,192)	(14.02)	(2,929)	(10.72)
Operating expense	(2,046)	(14.35)	(1,904)	(13.62)	(3,584)	(11.99)	(3,800)	(13.91)
Operating netback	11,124	77.99	7,295	52.19	21,951	73.43	14,395	52.71
Current tax expense	(433)	(3.04)	-	-	(639)	(2.14)	-	-
After tax operating netback	10,691	74.95	7,295	52.19	21,312	71.29	14,395	52.71

Three months ended June 30, 2011 vs. 2010

After tax field operating netback per boe from Tunisia during Q2 2011 was \$74.95 a 42% increase from Q2 2010. The increase is explained as follows:

- A 44% increase in realized commodity prices during Q2 2011 compared to Q2 2010;

Offset by:

- A provision for current income taxes of \$3.04/boe on the Sabria and Ech Chouech Concession and;
- No International royalty income was recorded during Q2 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 June 30,			Six months ended June 30,		
	2011	2010	% Change	2011	2010	% Change
General and administrative (G&A)	1,860	1,402	33	3,440	2,698	28
Per sales boe	13.04	10.03	30	11.51	9.88	16
Non-cash Stock-based compensation	712	490	45	1,480	557	166
Per sales boe	4.99	3.51	42	4.95	2.04	143
Total	2,572	1,892	36	4,920	3,255	51
Per sales boe	18.03	13.53	33	16.46	11.92	38

G&A expenses (excluding stock-based compensation expenses) were 33% higher in Q2 2011, compared to Q2 2010 reflecting greater employee costs in Tunisia as a result of increased staff and operations. Stock-based compensation expenses were significantly greater during Q2 2011 as the Company granted 564,000 options to officers, directors and employees during the period which under the terms of the options results in a significant expense at the time of granting. During Q2 2010, there were 500,000 stock options granted.

Current and future Income tax from continuing operations

(\$ thousands)	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Current	433	-	639	-
Future	2,915	2,772	6,091	5,248
Total	3,348	2,772	6,730	5,248

Winstar recorded \$433,000 in current taxes for the three months ended June 30, 2011, all of which relate to the Sabria (15% effective tax rate) and Ech Chouech (10% effective tax rate) concessions where tax loss carry forwards have been fully utilized in prior periods. Since Tunisian tax legislation allows for intangible drilling costs to be expensed as incurred for tax purposes, the Company did not incur taxes in the Chouech Essaida concessions despite positive net income and operating netbacks for accounting purposes. The remaining two Tunisian concessions have sufficient remaining tax loss carry forwards to shelter current income taxes.

Future income tax is related exclusively 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 Essaida 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 concession.

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

(\$ thousands except per unit amounts)	Three months ended June 30,			Six months ended June 30,		
	2011	2010	% Change	2011	2010	% Change
Depletion & depreciation	2,498	1,641	52	5,181	3,281	58
Other financing charges	164	137	20	329	273	21
Total	2,662	1,778	50	5,510	3,554	55
Per Sales boe	18.67	12.72	47	18.43	13.01	42

DD&A per boe increased to \$18.67 during Q2 2011, from \$12.72 in Q2 2010. The increase is a result of:

- A significant increase in the depletable assets on the Chouech Essaida Concession resulting from capital expenditures in the last half of 2010 and the first half of 2011;
- A decrease in the Company's 2P reserves which were disclosed in the 2010 Annual Consolidated Financial statements but did not impact the Q2 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 June		Six months ended June 30,	
	2011	2010	2011	2010
Tunisia				
Chouech Essaida				
Drilling activities	4,111	7,881	8,942	14,057
Work-over activities	895	252	2,595	538
Pipeline and facilities	1,366	197	1,464	889
Other	4	15	55	196
Ech Chouech/Sabria/Sanhrar/Zinnia/Other	9	51	19	123
Total Tunisia	6,385	8,396	13,075	15,803
Corporate	4	6	-	23
Total	6,389	8,402	13,075	15,826

In Q2 2011, capital spending related primarily to the following operations:

- Preparation for the Company's 2011 drilling projects including civil work and purchases of tangible equipment totaling \$3.4 million
- Commencement of workover operations at CS #9, which were completed in July 2011. Costs incurred as at June 30, 2011 totaling approximately \$900,000 and as a result of this workover, the well is currently producing 235 boe/d with rates still improving on a daily basis as the well continues to clean out excess downhole fluids.
- Costs incurred to prepare Winstar's Hungarian gas plant for transportation and installation at the Chouech Essaida concession in southern Tunisia totaling \$400,000

Exploration expenses from continuing operations

(\$ thousands except per unit amounts)	Three months ended June 30,			Six months ended June 30,		
	2011	2010	% Change	2011	2010	% Change
Tunisia	126	180	(30)	323	314	3
Romania	41	19	116	41	19	116
Total	167	199	(16)	364	333	9

During Q2 2011, G&G expenditures related primarily to:

- evaluating Silurian and Triassic opportunities in Winstar's Chouech Essaida and Ech Chouech 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)	Q2/11	Q1/11	Q4/10	Q3/10	Q2/10	Q1/10	Q4/09	Q3/09
Average daily production volumes (boepd) (1)	1,567	1,737	1,938	1,998	1,716	1,505	1,816	2,000
Average daily sales volume (boepd) (1)	1,567	1,737	2,298	1,888	1,536	1,515	1,735	2,000
Petroleum and natural gas sales	15,306	14,421	17,363	13,412	10,539	9,988	12,053	11,908
Realized sales price (\$/boe)	-	92.26	81.96	77.86	75.39	73.97	62.68	62.39
Field operating netback (\$/boe) (2)	(32.68)	67.64	58.26	55.75	51.80	51.87	48.66	38.40
Funds from operations (2)	8,738	9,141	9,908	8,204	5,628	5,735	6,358	6,421
Per share - basic & diluted	0.25	0.26	0.29	0.23	0.16	0.16	0.19	0.19
Earnings/ (Loss)	2,282	2,147	1,192	1,179	389	1,096	1,239	759
Per share - basic & diluted	0.06	0.06	0.03	0.03	0.01	0.03	0.04	0.02
Earnings/(loss) from continuing operations	2,335	2,238	1,294	1,253	480	1,197	1,239	759
Per share - basic & diluted	0.07	0.06	0.04	0.04	0.01	0.03	0.04	0.02
Total assets	154,873	148,297	148,804	139,380	125,734	120,592	115,801	91,005

- (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 after tax field operating netback 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 18 of the Interim Consolidated Financial Statements.

Funds from operations have trended upwards throughout the prior quarters, primarily due to increases in commodity prices. The decrease in funds from operations in Q2 2011 compared to Q1 2011 reflects temporary decreases in production. Earnings has fluctuated primarily as a result of increasing commodity prices and production offset by increasing depreciation and depletion expenses current taxes 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 June		Six months ended June 30,	
	2011	2010	2011	2010
Weighted average number of commons shares - basic	35,652	34,345	35,478	34,292
Dilutive securities issued under stock-based compensation plan	31	204	-	173
Weighted average number of common shares – fully diluted	35,683	34,549	35,478	34,465
Common shares outstanding at June 30,	35,726	34,668	35,726	34,668

As at June 30, 2011, the Company had 35.7 million shares and 2.8 million options outstanding. As at August 11, 2011 there were 35.7 million share outstanding and 2.8 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 in October 2011.

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 at times been a 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 and six months ended June 30, 2011, is summarized in the following table, based on an approximate WTI oil price of US \$103.45 for the three months ended June 30.

	Three months ended June 30,				Six months ended June 30,			
	2011		2010		2011		2010	
(\$ thousands, except per unit amounts)	Funds From Net Income	Funds From Operations	Funds From Net Income	Funds From Operations	Funds From Net Income	Funds From Operations	Funds From Net Income	Funds From Operations
Price changes - Oil increased \$1.00/bbl	103	103	122	122	255	255	417	417

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 June 30, 2011, the Company had a \$9.6 million of working capital resulting from positive operating cash flows and prudent investment into development and exploration opportunities. Winstar's working capital includes \$7.0 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 August 11, 2011, approximately 60% of the \$11.1 million reported at June 30, 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 June 30, 2011, January 1, 2011 and December 31, 2010, June 30, 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 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 June 30, 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.

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 Winstar 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 expenses 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 June 30, 2011 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Outlook

The Q2 2011 workover at CS#9 represents the first operation of Winstar’s previously announced \$41 million capital campaign. Following the completion of this workover in July 2011 the rig was immediately mobilized to the CS#8 drilling location and the well was spud on July 25, 2011. This operation is expected to last approximately 30 days and is anticipated to cost approximately \$8.5 million. This new well, CIS#8bis is expected to intersect the same two Triassic zones tested during the sidetrack operation conducted in 2010 on the original CS#8S well but the wellbore had been rendered unusable due to a subsequent down-hole mechanical failure. If successful, CS #8bis well is anticipated to be capable of 500 to 800 bopd of production plus associated gas.

Following the above mentioned drilling of well CS#8 bis, it is planned that the same rig will move to drill the new location of Chouech Essaida #12 (“CS#12”), which is a Triassic development location targeting light oil plus associated gas at approximately 2,500 meters. The operation is expected to last approximately 1 month with an expected cost of \$8.0 million.

The rig contract provides Winstar with the option to conduct a fourth operation before the rig is released. The Company continues to review alternatives with regard to this fourth option. The Company continues to review its inventory of development and exploration wells primarily within

the Chouech Essaida and Ech Chouech Concessions, with a focus of identifying high impact wells which have the ability to bring on immediate incremental production as well as add significant shareholder value.

In Romania, the Company plans to commence the drilling of its first two wells on the Satu Mare Concession by October. These wells are twins to existing wellbores which previously both tested hydrocarbons in 1970 but were abandoned at that time.

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 August 11, 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)	June 30, 2011	December 31, 2010
As at,		
ASSETS		
Current		
Cash and cash equivalents <i>(note 7)</i>	4,673	8,485
Restricted cash <i>(note 7)</i>	2,277	1,418
Accounts receivable <i>(note 8)</i>	11,118	10,426
Prepays	590	478
Inventory <i>(note 9)</i>	1,353	1,158
Discontinued operations <i>(note 6)</i>	142	137
	20,153	22,102
Property and equipment <i>(note 10)</i>	133,382	125,486
Other assets <i>(note 11)</i>	271	269
Discontinued operations <i>(note 6)</i>	1,067	947
	154,873	148,804
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	8,512	13,646
Overlifting liability <i>(note 12)</i>	462	3,506
Discontinued operations <i>(note 6)</i>	1,578	1,596
	10,552	18,748
Deferred income tax liability <i>(note 15)</i>	38,874	32,772
Decommissioning liability and other provisions <i>(note 13)</i>	9,532	9,204
Total Liabilities	58,958	60,724
Shareholders' equity		
Share capital <i>(note 14)</i>	91,690	89,744
Contributed surplus <i>(note 14)</i>	3,662	2,826
Accumulated other comprehensive loss	695	71
Deficit	(132)	(4,561)
	95,915	88,080
	154,873	148,804

Condensed Consolidated Statements of Net Earnings

(US \$ thousands)	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
REVENUE				
Petroleum and natural gas sales	15,306	10,539	29,727	20,527
International royalty income	-	272	-	597
Royalties	(2,136)	(1,612)	(4,192)	(2,929)
	13,170	9,199	25,535	18,195
EXPENSES				
Operating	2,046	1,904	3,584	3,800
General and administration	2,572	1,892	4,920	3,255
Exploration expense	167	199	364	333
Depletion & depreciation	2,498	1,641	5,181	3,281
Other expenses	13	6	35	8
	7,296	5,642	14,084	10,677
Financing charges	175	152	338	298
Foreign exchange loss/(gain)	16	153	(191)	295
Net financing expenses	191	305	147	593
Earnings before tax	5,683	3,252	11,304	6,925
Current income tax expense (note 15)	433	-	639	-
Deferred income tax expense (note 15)	2,915	2,772	6,091	5,248
	3,348	2,772	6,730	5,248
Net earnings from continuing operations	2,335	480	4,574	1,677
Net loss from discontinued operations (note 6)	(53)	(91)	(145)	(192)
Net earnings	2,282	389	4,429	1,485
Net earnings per share (note 14)				
Basic and diluted from continuing operations	0.07	0.01	0.13	0.05
Basic and diluted from discontinued operations	-	-	-	(0.01)
Basic and diluted	0.06	0.01	0.12	0.04

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

(US \$ thousands)	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Net earnings	2,282	389	4,429	1,485
Other comprehensive income/(loss)				
Unrealized gain/(loss) on translation of foreign operations	345	(94)	624	(104)
Other comprehensive income/(loss)	345	(94)	624	(104)
Comprehensive income	2,627	295	5,053	1,381
Accumulated other comprehensive income beginning of period	350	(10)	71	-
Other comprehensive income/(loss)	345	(94)	624	(104)
Accumulated other comprehensive income/(loss), end of period	695	(104)	695	(104)

See accompanying notes

Condensed Consolidated Statement of Changes in Equity

(US \$ thousands)	Share Capital	Accumulated other			Total Equity
		Contributed Surplus	comprehensive income	Deficit	
Balance January 1, 2011	89,744	2,826	71	(4,561)	88,080
Net earnings for the period	-	-	-	4,429	4,429
Other comprehensive income for the period	-	-	624	-	624
Comprehensive income for the period	-	-	624	4,429	5,053
Stock-based compensation	-	1,480	-	-	1,480
Issued on exercise of stock options	1,946	(644)	-	-	1,302
Balance, June 30, 2011	91,690	3,662	695	(132)	95,915
Balance, January 1, 2010	85,282	3,319	-	(7,971)	80,630
Net earnings for the period	-	-	-	1,485	1,485
Other comprehensive income for the period	-	-	(104)	-	(104)
Comprehensive income for the period	-	-	(104)	1,485	1,381
Stock-based compensation	-	557	-	-	557
Issued on exercise of stock options	1,815	(521)	-	-	1,294
Balance, June 30, 2010	87,097	3,355	(104)	(6,486)	83,862

Condensed Consolidated Statements of Cash Flow

(US \$ thousands)	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
OPERATING ACTIVITIES				
Net earnings from continuing operations	2,335	480	4,574	1,677
Add non-cash items:				
Stock-based compensation	712	490	1,480	557
Depletion, depreciation and non-cash financing charges	2,662	1,778	5,510	3,554
Deferred income tax expense	2,915	2,772	6,091	5,248
	8,624	5,520	17,655	11,036
Change in non-cash working capital	(811)	1,631	(2,348)	1,593
Cash flow from continuing operating activities	7,813	7,151	15,307	12,629
Cash flow from discontinued operations before change in non-cash working capital	(53)	(91)	(138)	(180)
Change in non-cash working capital from discontinued operations	35	(10)	81	(244)
Cash flow used in discontinued operations	(18)	(101)	(57)	(424)
Cash flow from operating activities	7,795	7,050	15,250	12,205
FINANCING ACTIVITIES				
Issuance of shares	707	970	1,298	1,282
Decrease in operating loan	(1,033)	-	(19)	-
Cash flow from financing activities	(326)	970	1,279	1,282
INVESTING ACTIVITIES				
Additions to property and equipment	(6,389)	(8,402)	(13,075)	(15,826)
Change in non-cash working capital	(1,457)	(1,167)	(6,548)	425
Cash used in investing activities	(7,846)	(9,569)	(19,623)	(15,401)
Effect of translation on foreign currency cash	27	(103)	141	(58)
Decrease in cash and cash equivalents	(350)	(1,652)	(2,953)	(1,972)
Cash and cash equivalents, beginning of period	7,300	9,364	9,903	9,684
Cash and cash equivalents, end of period	6,950	7,712	6,950	7,712

See accompanying notes

Supplementary cash flow information:

Cash interest paid	15	45	74	73
Cash taxes paid	-	-	-	-

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six month periods ended June 30, 2011 and 2010 (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 17 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 August 11, 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 and the March 31, 2011 Interim Consolidated Financial Statements reported under IFRS. Note 17 discloses IFRS information for the year ended December 31, 2010 not provided in the 2010 Annual Consolidated 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 18 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 initially 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 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

IFRS 9, "Financial Instruments", which is the result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

IFRS 10, "Consolidated Financial Statements", which is the result of the IASB's project to replace Standing Interpretations Committee 12, "Consolidation – Special Purpose Entities" and the consolidation requirements of IAS 27, "Consolidated and Separate Financial Statements". The new standard eliminates the current risk and rewards approach and establishes control as the single basis for determining the consolidation of an entity.

IFRS 12, "Disclosure of Interests in Other Entities", which outlines the required disclosures for interests in subsidiaries and joint arrangements. The new disclosures require information that will assist financial statement users evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries and joint arrangements.

IFRS 11, "Joint Arrangements", which is the result of the IASB's project to replace IAS 31, "Interest in Joint Ventures". The new standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted. Under IAS 31, joint ventures could be proportionately accounted. The Company expects arrangements will continue to be joint operations and proportionately consolidated under the new standard.

IFRS 13, "Fair Value Measurement", which provides a common definition of fair value, establishes a framework for measuring fair value under IFRS and enhances the disclosures required for fair value measurements. The standard applies where fair value measurements are required and does not require new fair value measurements.

IAS 19, "Post Employment Benefits", which amends the recognition and measurement of defined benefit pension expense and expands disclosures for all employee benefit plans.

The company does not expect the impact from the implementation of these standards to be material.

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.

(a) 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.

(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 June 30, 2011, June 30, 2010 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). Refer to note 14 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 June 30, 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, all of which remains available at June 30, 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 60% of the \$11.1 million accounts receivable reported June 30, 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 June 30, 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 June 30, 2011 the Company had \$9.6 million of working capital and no long term debt with \$10 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)	June 30, 2011	December 31, 2010
As at,		
ASSETS - DISCONTINUED OPERATIONS		
Current		
Accounts receivable	47	44
Prepays	95	93
	142	137
Non-current		
Property and equipment	1,067	947
	1,067	947
LIABILITIES- DISCONTINUED OPERATIONS		
Current		
Accounts payable and accrued liabilities	338	316
Decommissioning liability and other provisions	1,240	1,280
	1,578	1,596

(US \$ thousands)	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
REVENUE				
Petroleum and natural gas sales	-	-	-	135
Royalties	-	-	-	(9)
	-	-	-	126
Operating	46	57	93	247
Exploration expense	-	-	-	181
Other expense/(income)	21	28	68	(118)
Financing charges	(14)	6	(16)	8
Net loss from discontinued operations	(53)	(91)	(145)	(192)

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 during Q1 2010.

7. Cash, cash equivalents and restricted cash

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 June 30, 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 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)	June 30, 2011	December 31, 2010
As at,		
Trade receivables	7,843	7,468
Other receivables	396	553
International accrued royalty income	93	93
Taxation recoverable	2,786	2,312
	11,118	10,426

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

9. Inventories

(US \$ thousands)	June 30, 2011	December 31, 2010
As at,		
Materials	1,353	1,158
	1,353	1,158

10. Property and equipment

(US \$ thousands)	Oil and gas assets - Tunisia	Work in progress - Tunisia	Other Assets	Total
As at January 1, 2010				
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
Six months ended June 30, 2010				
Additions	6,939	8,782	105	15,826
Reclassification from work in progress to oil and gas assets	12,778	(12,778)	-	-
Depreciation for the year	(3,123)	-	(158)	(3,281)
Exchange differences	-	-	311	311
Closing net book value	102,647	5,228	879	108,754
As at January 1, 2011				
Cost	155,593	5,999	1,838	163,430
Accumulated depreciation	(36,703)	-	(1,241)	(37,944)
Net book value	118,890	5,999	597	125,486
Six months ended June 30, 2011				
Additions	6,429	6,602	44	13,075
Reclassification from work in progress to oil and gas assets	566	(566)	(39)	(39)
Depreciation for the year	(5,072)	-	(109)	(5,181)
Exchange differences	-	-	41	41
Closing net book value	120,813	12,035	534	133,382
As at June 30, 2011				
Cost	162,554	12,035	1,931	176,520
Accumulated depreciation	(41,741)	-	(1,397)	(43,138)
Net book value	120,813	12,035	534	133,382

During the three months ended June 30, 2011, \$61,000 of engineering salaries (2010 - \$64,000) and nil stock-based compensation expense (2010 - \$11,000) relating to those employees were capitalized.

11. Other Assets

(US \$ thousands)	June 30, 2011	December 31, 2010
As at,		
Non-current taxes receivable	108	108
Non-current deposits	70	69
Other	93	92
	271	269

12. Overlifting liability

As at June 30, 2011, the Company overlifted 3,800 bbls of crude, which is valued at its contract price of \$121.58/bbl, resulting in a \$462,000 overlifting liability. As at December 31, 2011 the Company was overlifted by 37,300 bbls of crude, which is valued at a contract price of \$109.81/BBL resulting in a \$3.5 million overlifting liability.

13. Decommissioning liabilities and other provisions

(US \$ thousands)	June 30,	December 31,
As at,	2011	2010
Balance, beginning of period	8,051	5,670
Increase in obligations during the period	-	1,639
Other financing charges	164	578
Balance, end of period	8,215	7,887
Other provisions	1,317	1,317
	9,532	9,204

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 June 30, 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% based on the local market to which the liabilities relate. .

14. 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)
Balance, January 1, 2011	35,280	89,744
Issued on exercise of stock options	198	595
Re-classification of contributed surplus on exercise of options	-	356
Balance, March 31, 2011	35,478	90,695
Issued on exercise of stock options	248	707
Re-classification of contributed surplus on exercise of options		288
Balance, June 30, 2011	35,726	91,690

(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 June 30, 2011, the maximum number of remaining grantable options was 770,000. 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 June 30, 2011		Year ended December 31, 2010	
	Options (thousands)	Weighted Average Exercise Price (CDN \$ per share)	Options (thousands)	Weighted Average Exercise Price (CDN\$ per share)
Opening balance	2,506	3.69	2,698	3.63
Granted	564	3.60	510	3.85
Exercised	(248)	2.70	(1,057)	3.03
Forfeited	(19)	4.23	(103)	4.20
Closing balance	2,803	3.90	2,048	3.69

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 June 30,	2011	2010
Risk free interest rate (%)	3	3
Expected life (years)	4	4
Expected volatility (%)	68	58

Based on fair market values, compensation expense for the three months ended June 30, 2011, was \$712,000 (2010 - \$490,000) all of which (2010 - \$61,000) has been recorded as non-cash stock-based compensation expense classified as general and administrative expense.

The following summarizes information about stock options outstanding at June 30, 2011:

Range of exercise prices (\$Cdn per share)	Options Outstanding			Exercisable	
	Weighted average exercise price (\$ Cdn/share)	Number outstanding at June 30, 2011	Remaining contractual life (years)	Weighted average exercise price (\$ Cdn/share)	Number outstanding at June 30, 2011
2.02 – 2.70	2.02	306	3.12	2.02	204
2.90 – 4.36	3.92	2,078	3.84	3.99	1,092
5.00–5.65	5.16	419	1.77	5.16	419
	3.90	2,803	3.46	4.04	1,715

(c) Contributed surplus

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

(US \$ thousand)	
Balance, January 1, 2011	2,826
Stock-based compensation costs	768
Re-classification to common shares on exercise of stock options	(356)
Balance, March 31, 2011	3,238
Stock-based compensation costs	712
Re-classification to common shares on exercise of stock options	(288)
Balance, June 30, 2011	3,662

(d) Earnings per share

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

(US \$ thousands)	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Net earnings from continuing operations	2,335	480	4,574	1,677
Net loss from discontinued operations	(53)	(91)	(145)	(192)
Net earnings for the period	2,282	389	4,429	1,485
Denominator - weighted average number of shares (thousands of common shares)				
Weighted average number of common shares	35,652	34,345	35,478	34,292
Dilutive securities issued under stock compensation plan	31	204	-	173
Weighted average number of diluted common shares	35,683	34,549	35,478	34,465
(dollars per common share)				
Basic earnings (loss) per share from:				
Basic and diluted from continuing operations	0.07	0.01	0.13	0.05
Basic and diluted from discontinued operations	-	-	-	(0.01)
Basic and diluted	0.06	0.01	0.12	0.04

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.

15. 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 June 30, 2011 was 10% in the Ech Chouech concession and 18% in the Sabria concession (2010 – nil). Management estimates a tax rate of nil for all other operating concessions.

(US \$ thousands)	Six months ended June 30,	
	2011	2010
Computed expected income tax expense at 26.5%, (2010 - 28%)	2,996	1,939
Higher foreign tax rates	3,299	1,929
Permanent differences	(14)	(298)
Stock-based compensation	(392)	(156)
Foreign exchange ⁽¹⁾	(419)	666
Benefits of tax losses not recognized	1,287	1,182
Other	(27)	(14)
Total expense	6,730	5,248

(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 on foreign exchange 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 expenses resulting from changes in foreign exchange rates do not represent a separate obligation for Winstar that is due and payable in any of the relevant periods.

16. 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

17. 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 June 30, 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 June 30, 2010 and Consolidated Statements of Earnings, Comprehensive Income, Changes in Shareholders' Equity and Cash Flows for the three and six months ended June 30, 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,	Ref	CGAAP	June 30, 2010	
			Adj	IFRS
ASSETS				
Current				
Cash and cash equivalents		6,382	-	6,382
Restricted cash		1,330	-	1,330
Accounts receivable		4,517	-	4,517
Prepays		568	-	568
Inventory		1,253	-	1,253
Current portion of future income tax asset	g	2,869	(2,869)	-
Discontinued operations		132	-	132
		17,051	(2,869)	14,182
Property and equipment	a,b,c	83,107	25,647	108,754
Other assets		1,950	-	1,950
Discontinued operations		848	-	848
		102,956	22,778	125,734
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities		9,469	-	9,469
Discontinued operations	c	1,544	312	1,856
		11,013	312	11,325
Deferred income tax liability	d,e,g	13,673	10,192	23,865
Provisions	c	6,017	665	6,682
Total Liabilities		30,703	11,169	41,872
Shareholders' equity				
Share capital		87,097	-	87,097
Contributed surplus		3,355	-	3,355
Accumulated other comprehensive loss	f	1,029	(1,133)	(104)
Deficit	a,b,c,d,e,f	(19,228)	12,742	(6,486)
		72,253	11,609	83,862
		102,956	22,778	125,734

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

For the three and six month periods ended, (US \$ thousands)	Ref	Three months ended June 30, 2010			Six months ended June 30, 2010		
		CGAAP	Adj	IFRS	CGAAP	Adj	IFRS
REVENUE							
Petroleum and natural gas sales		10,539	-	10,539	20,527	-	20,527
International royalty income		272	-	272	597	-	597
Royalties		(1,612)	-	(1,612)	(2,929)	-	(2,929)
		9,199	-	9,199	18,195	-	18,195
EXPENSES							
Operating		1,904	-	1,904	3,800	-	3,800
General and administration		1,892	-	1,892	3,255	-	3,255
Exploration expense		199	-	199	333	-	333
Depletion & depreciation	a,c	3,428	(1,787)	1,641	6,227	(2,946)	3,281
Other expenses		6	-	6	8	-	8
		7,429	(1,787)	5,642	13,623	(2,946)	10,677
Financing charges	c	131	21	152	277	21	298
Foreign exchange loss/(gain)		153	-	153	295	-	295
		284	21	305	572	21	593
Earnings before tax		1,486	1,766	3,252	4,000	2,925	6,925
Current income tax expense		-	-	-	-	-	-
Future income tax expense	d,e	1,848	924	2,772	3,745	1,503	5,248
		1,848	924	2,772	3,745	1,503	5,248
Net income from continuing operations		(362)	842	480	255	1,422	1,677
Net loss from discontinued operations	c	(99)	8	(91)	(202)	10	(192)
Net earnings/(loss)		(461)	850	389	53	1,432	1,485
Unrealized exchange loss on translation of foreign operations	c	(86)	(8)	(94)	(81)	(23)	(104)
Other comprehensive loss		(86)	(8)	(94)	(81)	(23)	(104)
Comprehensive loss		(547)	842	295	(28)	1,409	1,381

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 \$1.8 million the 3 months ended June 30, 2010.

(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 workover 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 \$21,000 for the 3 months ended June 30, 2011. PP&E was also increased by \$80,000 for the period ended June 30, 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 \$395,000. During 2010 the change in measurement further decreased the Company's deferred tax liability expense by \$905,000 and \$285 for the 3 months ended June 30, 2010.

(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 \$400,000 for the 3 months ended June 30, 2010.

(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.

18. 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 June 30, 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 June 30, 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

19. 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 June 30,	Tunisian Operations		European Operations (1)		Corporate (2)		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Revenues								
Oil and liquids	12,147	9,410	-	-	-	-	12,147	9,410
Natural gas	3,159	1,129	-	-	-	-	3,159	1,129
Petroleum and natural gas sales	15,306	10,539	-	-	-	-	15,306	10,539
International royalty income	-	272	-	-	-	-	-	272
Royalties	(2,136)	(1,612)	-	-	-	-	(2,136)	(1,612)
	13,170	9,199	-	-	-	-	13,170	9,199
Segmented expenses								
Operating	2,046	1,904	-	-	-	-	2,046	1,904
Exploration expense	126	180	41	19	-	-	167	199
Depletion & depreciation	2,478	1,641	-	-	20	-	2,498	1,641
General and administrative	1,027	831	195	110	1,350	951	2,572	1,892
Other (income)	13	6	-	-	-	-	13	6
Financing charges	178	153	-	-	(3)	(1)	175	152
Foreign exchange (gain)/loss	(22)	139	-	-	38	14	16	153
	5,846	4,854	236	129	1,405	964	7,487	5,947
Earnings before tax	7,324	4,345	(236)	(129)	(1,405)	(964)	5,683	3,252
Current tax provision	433	-	-	-	-	-	433	-
Deferred income tax expense	2,915	2,772	-	-	-	-	2,915	2,772
Net earnings/(loss) from continuing operations	3,976	1,573	(236)	(129)	(1,405)	(964)	2,335	480
Net loss from discontinued operations	-	-	(29)	(63)	(24)	(28)	(53)	(91)
Net earnings/(loss)	3,976	1,573	(265)	(192)	(1,429)	(992)	2,282	389
Capital expenditures								
Development	6,355	8,384	-	-	-	-	6,355	8,384
Other	28	8	-	-	6	10	34	18
Discontinued operations	-	-	-	-	-	-	-	-
Total capital expenditure	6,383	8,392	-	-	6	10	6,389	8,402
Total assets	126,464	96,589	2,269	1,245	26,140	27,900	154,873	125,734

(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.

Six month period ended June 30,	Tunisian Operations		European Operations (1)		Corporate (2)		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Revenues								
Oil and liquids	23,526	18,530	-	-	-	-	23,526	18,530
Natural gas	6,201	1,997	-	-	-	-	6,201	1,997
Petroleum and natural gas sales	29,727	20,527	-	-	-	-	29,727	20,527
International royalty income	-	597	-	-	-	-	-	597
Royalties	(4,192)	(2,929)	-	-	-	-	(4,192)	(2,929)
	25,535	18,195	-	-	-	-	25,535	18,195
Segmented expenses								
Operating	3,584	3,800	-	-	-	-	3,584	3,800
Exploration expense	323	314	41	19	-	-	364	333
Depletion & depreciation	5,141	3,263	-	-	40	18	5,181	3,281
General and administrative	2,127	1,547	470	276	2,323	1,432	4,920	3,255
Other expenses	35	8	-	-	-	-	35	8
Financing charges	342	299	-	-	(4)	(1)	338	298
Foreign exchange (gain)/loss	(229)	264	-	-	38	31	(191)	295
	11,323	9,495	511	295	2,397	1,480	14,231	11,270
Earnings before tax	14,212	8,700	(511)	(295)	(2,397)	(1,480)	11,304	6,925
Current tax provision	639	-	-	-	-	-	639	-
Deferred income tax expense	6,091	5,248	-	-	-	-	6,091	5,248
Net earnings/(loss) from continuing operations	7,482	3,452	(511)	(295)	(2,397)	(1,480)	4,574	1,677
Net loss from discontinued operations	-	-	(75)	(287)	(70)	95	(145)	(192)
Net earnings/(loss)	7,482	3,452	(586)	(582)	(2,467)	(1,385)	4,429	1,485
Capital expenditures								
Development	13,056	15,808	-	-	-	-	13,056	15,808
Other	19	8	-	-	-	10	19	18
Discontinued operations	-	-	-	-	-	-	-	-
Total capital expenditure	13,075	15,816	-	-	-	10	13,075	15,826
Total assets	126,464	96,589	2,269	1,245	26,140	27,900	154,873	125,734

(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), 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

INVESTOR RELATIONS

David Monachello
 President, Director
 T: 403-513-4200
dmonachello@winstar.ca
Brad Giblin
 Chief Financial Officer
 T: 403-513-4207
bgiblin@winstar.ca
Charles de Mestral
 Chief Executive Officer
 T: +41 22 361 1445
cdemestral@winstar-resources.ch
 (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

WINSTAR LOCATIONS

Winstar Resources Ltd.
 845, 401 – 9 Ave. SW
 Calgary, Alberta T2P 3C5 Canada
 T: 403-205-3722
 E: info@winstar.ca
www.winstar.ca
Chief Executive Office
 Athanor Management Services SA
 c/o KPMG SA
 111, Rue de Lyon
 P.O. Box 347
 1211 Geneva 13, Switzerland
 T: +41 22 361 14 45

Winstar Tunisia B.V.
 Tunisian Operations Office:
 Immeuble Leman Centre
 3^{ème} étage Bloc D, Rue du Lac Leman
 Tunis 1053 Tunisia
 T: +216 71 963 517
Winstar Hungary Ltd.
 Hungarian Operations Office:
 Arany Janos u8
 Szolnok 5000 Hungary
 T: +36 56 514 371
Winstar Satu Mare
 Romanian Operations Centre:
 17 C.A. Rosetti, Floor 7, Room 706, 2nd District
 Bucharest 020011 Romania
 T: +40 722 647 572

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
		mcf	thousand cubic feet
		mcf/d	thousand cubic feet per day
boepd	barrels of oil equivalent per day	mmbbl	millions of barrels
bopd	barrels of oil per day	mmscf	millions of standard cubic feet
		NGL	natural gas liquids