



**Winstar Resources Ltd.**

# Third Quarter Report 2011

Three months ended September 30, 2011

## SHAREHOLDERS' REPORT

During the third quarter of 2011, Winstar conducted an extensive capital program on the Chouech Essaida Concession. The capital program included the successful work over operations at Chouech Essaida #9 ("CS#9"), the successful drilling of two new Triassic development wells, Chouech Essaida #8bis and #12, ("CS#8bis" and "CS#12" respectively) and the commissioning of a high pressure gas plant at Chouech Essaida Silurian #1 ("CS Sil #1").

The gas plant at CS Sil #1 is operational and the CS Sil #1 well is producing 500 bbls/day of water free condensate along with an estimated 450 to 550 boepd of natural gas. The Company continues to work through start up issues which primarily relate to the measurement of the relatively rich gas stream and therefore gas volumes have been estimated based on the gas/oil ratio and production parameters from the original well test.

As a result of the Q3, 2011 capital program, production and sales volumes increased from 1,294 boepd during Q3, 2011 to the current levels of 1,625 bbl/d of oil, primarily from Chouech Essaida, and 50 boepd of natural gas from Sabria. In addition it is estimated that 750 to 850 boepd of associated natural gas from the Chouech Essaida Concession is not being sold due to operational issues at the STEG gas plant at El Borma. During the months of November and December, the Company is planning to install downhole pumps in both CS#8bis and CS#12, which are expected to provide incremental oil and gas production prior to the end of 2011.

The Company's 4,450 meter deep exploration well, Chouech Essaida Sil #10 (CS SIL #10) continues to drill ahead targeting potential oil in the Triassic and condensate rich gas in the deeper Silurian. The well is currently at 4,000 meters depth and nearing total depth. Testing operations, subject to log results, are expected to commence in December. If the well establishes commercial quantities of liquid hydrocarbons, incremental production could occur in early 2012.

On August 18, 2011, The Company announced the execution of an agreement to farmout 50% of its current 45% working interest in the Sabria Concession. Formal documentation is being negotiated and finalized and the transaction is expected to close before year-end. Tunisian government approval of the transaction is expected during the first six months of 2012.

### Tunisian Elections

On October 23, 2011, Tunisia conducted its first free democratic election in the County's history. The newly elected Constituent Assembly will be responsible for writing a new constitution and have the power to appoint a new government which is intended to govern until full democratic elections can be held in the future. The peaceful and well organized elections are a testament to the Tunisian population's willingness and preparedness to transform the county towards a truly democratic republic.

Throughout the political process, which commenced with the departure of the former President, the drilling and day to day operations of the company have been largely unaffected, due to the strong commitment and dedication of the Company's Tunisian employees throughout. Minor delays have occurred, most notably the logistical challenges of moving and installation of equipment in the remote location of Winstar's Chouech Essaida concession. These delays have been a challenge and may continue to be challenges in the future but the Company will continue to manage the situation as to limit or avoid any material impact on the Company's operations and assets.

### Third Quarter Financial Results

- Realized oil and gas revenues per boe were \$107.19 a 38% increase over Q3 2010 as a result of realized oil prices of \$113.77 per bbl and realized natural gas prices of \$14.09 per mcf;
- After-tax field operating netbacks in Tunisia were \$73.68 per boe; a 31% increase as compared with Q3 2010;
- Funds from continuing operations were \$7.1 million (\$0.20 per share) and \$25.1 million (\$0.71 per share) for the three and nine months respectively during 2011;
- Net income from continuing operations was \$0.5 million (\$0.01 per share) as compared to \$1.1 million in Q3 2010;
- Capital expenditures were \$14.3 million;
- Working capital at September 30, 2011 was \$3.6 million.

## Financial and operating results summary from continuing operations

	Three months ended September 30,			Nine months ended September 30,		
	2011	2010	% change	2011	2010	% change
<b>Sales and Prices</b>						
Oil and liquid sales (bopd)	1,003	1,746	(43)	1,112	1,467	(24)
Natural gas sales (mcf/d)	1,749	778	125	2,524	1,085	133
Average daily boe sales 6:1 (boepd)	1,294	1,875	(31)	1,531	1,633	(6)
Average oil and liquid price (\$/bbl)	113.77	78.83	44	112.22	77.88	44
Average natural gas price (\$/mcf)	14.09	10.52	34	12.29	9.29	32
<b>Financial (\$ thousands except for unit amounts)</b>						
Oil and gas revenue	12,764	13,412	(5)	42,491	33,939	25
Funds from continuing operations	7,137	8,281	(14)	25,152	19,649	28
Per share- basic & diluted	0.20	0.24	(17)	0.71	0.57	25
Net earnings from continuing operations	478	1,090	(56)	5,052	2,766	83
Per share- basic & diluted	0.01	0.03	(67)	0.14	0.08	75
Field operating netback after tax (\$/boe)	73.68	56.41	31	71.98	54.14	33
Capital expenditures	14,347	6,742	113	27,422	22,568	22
Working capital at period end	3,562	5,935	(40)	3,562	5,935	(40)
<b>Common Shares (thousands)</b>						
Weighted average during period - basic	35,745	34,864	3	35,567	34,478	3
- diluted	35,873	34,996	3	35,623	34,610	3
Outstanding at period end	35,751	34,942	2	35,751	34,942	2

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  
November 10, 2011

[SIGNED]  
David Monachello  
President

## REVIEW OF OPERATIONS

The operational focus in the third quarter of 2011 was the start-up and implementation of the drilling program in Tunisia and ongoing operational and regulatory preparations for the drilling programs in Romania. Additionally, the Company's 100% owned gas plant from Hungary was successfully transported and re-constructed at the wellsite at Chouech Essaida Sil #1 ("CS Sil #1") in Southern Tunisia. A four well drilling and workover campaign at the 100% owned concession of Chouech Essaida was started in early July. By the end of the quarter, we had completed a major workover of one existing well, Chouech Essaida 9 ("CS #9") and also the drilling of Chouech Essaida 8bis ("CS #8bis"). Both operations resulted in producing wells. The rig was subsequently moved to start the drilling Chouech Essaida 12 ("CS #12") in early September

In Romania, preparations were completed for Winstar's two well exploration drilling program in the Satu Mare Exploration Permit. Surface land access issues were resolved for both locations and the civil construction for the access roads and drilling locations neared completion. Drilling is expected to start at Madaras 109 by mid November.

### Production

Winstar sold an average of 1,294 barrels of oil equivalent per day (boepd) in the third quarter of 2011 from its operations in Tunisia compared to 1,875 boepd in the third quarter of 2010.

Events affecting production were as follows:

- Reduced gas sales due to reduced deliverability from the wells and on-going maintenance issues with STEG that limited the gas sales from the Chouech Essaida concession.
- The CS#9 well was successfully repaired and put back in service at 300 boepd at the beginning of August, 2011.
- The well Chouech Essaida 5 (CS #5) has been off line since the beginning of the third quarter due to what is believed to be a downhole blockage of the perforations.
- The well Chouech Essaida #11 continued to be suspended awaiting the arrival of an appropriately sized electrical submersible pump to produce the lower TAGI (Triassic) interval. It is anticipated that this well will be back on production in Q1, 2012.
- The current production capability of the Company is 2,425 – 2,525 boepd with actual sales dependent on gas purchases by STEG at the Chouech Essaida concession. The significant increase in production from the Q3 2011 average rate of 1,294 boepd is a result of the incremental production from CS#9, CS#8bis and the successful commencement of gas and condensate volumes from CS SIL #1.

### Operational Highlights

The CS Sil #1 well continued to produce during the third quarter from the middle perforated zone within the Silurian Tannezuft. The well continued to flow at a stable rate of 150-170 boepd compared to the initial test rate of 257 boepd. This zone was shut-in during mid-September to prepare the well to produce from the lowest and most prolific gas/condensate zone that tested at a final rate of 2,683 boepd in Q1 2011. In order to produce this higher deliverability zone, the Company has moved a gas processing plant from Hungary directly to the CS Sil #1 wellsite where it has been installed. Start-up of production from this lower zone, into the new facility started on October 27 at a condensate rate of 400-500 bbl/d. Plant commissioning and start-up problems delayed gas sales. Current production rates continue to be stable at 500bbl/d condensate and an estimated 2,700 - 3200mcf/d (450 – 550 boepd). Daily sales of gas will continue to be dependent on both well deliverability and the quantity of gas that the Company can sell to STEG, the national Tunisian utility company.

The well CS#9 was the subject of a major workover in July to repair a gas leak from a lower, higher pressure gas zone. The workover was successfully completed and the well returned to production at approximately 270 boepd.

The well CS 8bis was drilled and completed in several Triassic TAGI zones. The well is currently flowing at 300 boepd from one zone and an electrical downhole pump will be installed in mid-November which is expected to increase the well's production rate.

Upon completion of the CS #8bis well, the rig was moved to the new CS #12 Triassic well which was drilled to a total depth of 2,500 meters by late September, several days ahead of forecast and below the budgeted cost. Open-hole logs identified up to three zones of potential oil pay in the Triassic sandstones (TAGI and TG) however, upon testing, only the bottom two proved to contain hydrocarbons which will be produced with the installation of downhole pumping equipment.. This equipment is currently being sourced and it is anticipated that installation will be completed in December of this year.

## Outlook

### Tunisia

The Company has elected to exercise its option under the contract terms for the H&P Rig 242 to conduct a fourth well operation following the rig release from the well CS #12 which occurred in early October, 2011. The well Chouech Essaida Silurian #10 ("CS Sil #10") was spud on October 10, 2011 to test for new oil reserves in the Triassic and Silurian Acacus zones as well as gas/condensate reserves in the Silurian Tannezuft zones. This well is currently expected to reach total depth by mid - November with logging and test evaluation program to commence directly thereafter. Upon completion of the CS Sil #10 well, the rig #242 will be released to another operator in the vicinity of Chouech Essaida.

The focus for the fourth quarter of 2011 will be the drilling and evaluation of the well CS Sil #10, the realization of production from CS Sil #1 through the new gas facility as well as installing the required electrical downhole pumps in the CS #8bis and CS #12 wells to optimize the production.

**Romania**

The Company has received the necessary approvals to begin the drilling of its first two exploratory wells in Romania which are named Madaras 109 and Moftinu 1000. The wells will be drilled to depths of 1,800 m and 1,550 m respectively and are targeting both oil and gas prospective reservoirs observed in nearby offset wells, which were drilled in 1970 by another operator. A local rig has been contracted and is currently being mobilized to the first location at Madaras 109 with an anticipated spud date in mid-November.

**[SIGNED]**

Roger McMechan  
Executive Vice-President  
November 10, 2011

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

This Management's Discussion and Analysis (MD&A), dated November 10, 2011, of Winstar Resources Ltd. (the "Company" or "Winstar") is for the three and nine months ended September 30, 2011 and should be read in conjunction with the unaudited Consolidated Financial Statements for the period ended September 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](http://www.sedar.com).

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

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

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

### Overview and highlights

Winstar is an oil and gas exploration and development Company traded on the Toronto Stock Exchange. The Company is headquartered in Calgary, Alberta, Canada. The international head office is located in Breda, The Netherlands, with offices in Switzerland, Tunisia, Hungary, and Romania. Winstar's operations in 2011 were conducted in two geographic segments: Tunisia and Romania. The Tunisian operations were the primary focus of the Company's operations and development during 2010 and 2011 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 and nine months ended September 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 September 30, 2011, Winstar's operations were highlighted by the following significant events:

- Completion of the moving of its 100% owned gas plant from Hungary to the Chouech Essaida Concession in Southern Tunisia. Production from the high pressure gas and condensate zone at Chouech Essaida Silurian #1 (CS Sil #1) commenced on October 27, 2011. The CS Sil #1 well is currently producing 500 bbls/day of water free condensate along with an estimated 450 – 550 boepd of natural gas but sales have been recently restricted due to third party mechanical issues at the sales point;
- The workover of Chouech Essaida #9 (CS #9) was completed and production was resumed. The well is currently producing approximately 270 boepd;
- Drilling and testing programs were completed on CS #8bis as of September 25, 2011 and the well is currently producing 300 boepd;
- Drilling operations began at the Triassic drilling location Chouech Essaida #12 (CS #12);
- Drilling of the Chouech Essaida Silurian #10 (CS Sil #10) well began on October 5, 2011 and is expected to be completed by the end of November, followed by a testing program expected to commence in December 2011;
- Production averaged 1,294 boepd during Q3 2011;

### Financial Overview

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

- Funds from Continuing Operations of \$7.1 million, a 14% decrease compared with Q3, 2010;
- After tax field operating netbacks in Tunisia were \$73.68 per boe; a 31% increase as compared with Q3, 2010;
- Net earnings from continuing operations were \$480,000 (\$0.01 per share); as compared to \$1.1 million (\$0.03 per share) in Q3 2010;
- Working capital of \$3.6 million at September 30, 2011;

- Capital expenditures were \$14.3 million during the quarter.

### Financial and operating results from continuing operations

	Three months ended September 30,			Nine months ended September 30,		
	2011	2010	% change	2011	2010	% change
<b>Sales and Prices</b>						
Oil and liquid sales (bopd)	1,003	1,746	(43)	1,112	1,467	(24)
Natural gas sales (mcf/d)	1,749	778	125	2,524	1,085	133
Average daily boe sales 6:1 (boepd)	1,294	1,875	(31)	1,531	1,633	(6)
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Oil and gas revenue	12,764	13,412	(5)	42,491	33,939	25
Funds from continuing operations	7,137	8,281	(14)	25,152	19,649	28
Per share- basic & diluted	0.20	0.24	(17)	0.71	0.57	25
Net earnings from continuing operations	478	1,090	(56)	5,052	2,766	83
Per share- basic & diluted	0.01	0.03	(67)	0.14	0.08	75
Field operating netback after tax (\$/boe)	73.68	56.41	31	71.98	54.14	33
Capital expenditures	14,347	6,742	113	27,422	22,568	22
Working capital at period end	3,562	5,935	(40)	3,562	5,935	(40)
<b>Common Shares (thousands)</b>						
Weighted average during period - basic	35,745	34,864	3	35,567	34,478	3
- diluted	35,873	34,996	3	35,623	34,610	3
Outstanding at period end	35,751	34,942	2	35,751	34,942	2

### 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 September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Cash flow from operating activities	6,505	6,951	21,811	19,583
Change in non-cash working capital	365	1,121	2,711	(476)
Geological and geophysical expenses (exploration expense less dry hole costs)	267	209	630	542
<b>Funds from Continuing Operations</b>	<b>7,137</b>	<b>8,281</b>	<b>25,152</b>	<b>19,649</b>
Cash flow used in discontinued operations	331	(181)	274	(608)
Change in non-cash working capital from discontinued operations	(112)	119	(193)	363
Geological and geophysical expense from discontinued operations	-	-	-	181
<b>Funds from Discontinued Operations</b>	<b>219</b>	<b>(62)</b>	<b>81</b>	<b>(64)</b>
<b>Total Funds from Operations</b>	<b>7,356</b>	<b>8,219</b>	<b>25,233</b>	<b>19,585</b>

### Three months ended September 30, 2011 vs. 2010

Funds from continuing operations decreased by \$1.2 million to \$7.1 million in Q3 2011, as compared to \$8.3 million in Q3 2010. The decrease is due primarily to temporary production disruptions in the Chouech Essaida concession during Q3 2011, which was partially offset a 38% increase in realized commodity prices during Q3 2011 compared to Q3 2010.

### Production versus sales from continuing operations

	Three months ended September 30,			Nine months ended September 30,		
	2011	2010	% Change	2011	2010	% Change
<b>Total production</b>	119,082	182,630	(35)	418,011	471,171	(11)
-boepd	1,294	1,985		1,531	1,726	
<b>Total sales</b>	119,082	172,530	(31)	418,011	445,693	(6)
-boepd	1,294	1,875		1,531	1,633	

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 Q3 2011 production was equal to sales. As at September 30, 2011 the Company was over lifted by 12,919 bbls of crude, which is valued at its contracted price of US\$110/bbl resulting in a \$1.4 million overlifting liability which has been settled during Q4 2011.

### Production

Three months ended September 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)
<b>Tunisia</b>						
Chouech Essaida/Ech Chouech	788	1,473	1,034	1,595	397	1,661
Sabria	140	275	186	172	382	236
Sanhrar	74	-	74	89	-	89
<b>Tunisia total (continuing operations)</b>	1,002	1,748	1,294	1,856	779	1,986
Hungary & Canada (discontinued operations)	-	-	-	-	72	12
<b>Total production</b>	<b>1,002</b>	<b>1,748</b>	<b>1,294</b>	<b>1,856</b>	<b>851</b>	<b>1,998</b>

### Three months ended September 30, 2011 vs. 2010

Production from Tunisia decreased 35% during Q3 2011, compared to Q3 2010, which is due primarily to:

- CS#9 was shut-in throughout 2011 until the end of July, when production was re-established following a successful work-over program. The well is currently producing approximately 270 boepd.
- Shut-in production from Chouech Essaida #5. Winstar plans to workover the well and may reestablish production in Q4 2011.

The decrease was partially offset by increased gas sales at Chouech Essaida. During Q3 2011, the Company averaged 1.5 million cubic feet per day (mmcf/d) from Chouech Essaida, an increase of 1 mmcf/d compared to Q3 2010. Although gas sales volumes in Q3 2011 were greater than Q3 2010, 2011 gas sales were partially restricted throughout the third quarter due to STEG equipment downtime.

Nine months ended September 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)
<b>Tunisia</b>						
Chouech Essaida/Ech Chouech	892	2,327	1,280	1,284	588	1,382
Sabria	140	197	173	185	406	252
Sanhrar	78	-	78	92	-	92
<b>Tunisia total (continuing operations)</b>	1,110	2,524	1,531	1,561	994	1,726
Hungary & Canada (discontinued operations)	-	-	-	-	89	15
<b>Total production</b>	<b>1,110</b>	<b>2,524</b>	<b>1,531</b>	<b>1,561</b>	<b>1,083</b>	<b>1,741</b>

### After tax field operating netbacks

After tax field operating netback is a non-GAAP measure 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 and nine month periods ended September 30, 2011 and 2010:

### After tax field operating netback from Tunisia

	Three months ended September 30,				Nine months ended September 30,			
	2011		2010		2011		2010	
<b>Sales Volumes</b>								
Oil sales (bbls)	92,269		160,596		303,171		400,461	
Gas sales (mcf)	160,876		71,603		689,041		271,392	
Total sales (boe)	119,082		172,530		418,011		445,693	
- boepd	1,294		1,875		1,531		1,633	
<b>Netback</b>	\$	\$/unit	\$	\$/unit	\$	\$/unit	\$	\$/unit
Oil sales	10,497	113.77	12,659	78.83	34,023	112.22	31,189	77.88
Gas sales	2,267	14.09	753	10.52	8,468	12.29	2,750	10.13
	\$	\$/unit	\$	\$/unit	\$	\$/bbl	\$	\$/bbl
Realized	12,764	107.19	13,412	77.74	42,491	101.65	33,939	76.15
International royalty income	-	-	271	1.57	-	-	868	1.95
Royalties	(1,766)	(14.83)	(1,948)	(11.29)	(5,957)	(14.25)	(4,877)	(10.94)
Operating expense	(2,224)	(18.68)	(2,003)	(11.61)	(5,808)	(13.89)	(5,803)	(13.02)
Operating netback	8,774	73.68	9,732	56.41	30,726	73.51	24,127	54.14
Current tax expense	-	-	-	-	(639)	(1.53)	-	-
After tax operating netback	8,774	73.68	9,732	56.41	30,087	71.98	24,127	54.14

### Three months ended September 30, 2011 vs. 2010

Winstar's operations generate high after tax field operating netbacks relative to commodity prices due to the following:

- Realized gas prices in Tunisia are tied to a nine month trailing average of low sulfur heating oil as quoted in Italy;
- Oil is sold at world oil prices benchmarked to Brent 38.5° API oil plus a small premium;
- Royalties are based on individual concession agreements which do not exceed 15%; and
- Tax regulations in Tunisia permit the immediate deduction of intangible drilling costs which reduce current taxes during the Company's capital programs in the relevant concessions along with existing tax loss carry forwards and undepreciated capital pools.

After tax field operating netback per boe from Tunisia during Q3 2011 was \$73.68 a 30% increase from Q3 2010. The increase is explained as follows:

- A 38% increase in realized commodity prices during Q3 2011 compared to Q3 2010;

Offset by:

- A 61% increase in operating expenses per boe due to the fixed nature of most operating expenses despite a temporary decrease in production during the period as well as workover activities conducted at Chouech Essaida #1 ("CS#1") during the quarter; and
- No international royalty income was recorded during Q3 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 September 30,			Nine months ended September 30,		
	2011	2010	% Change	2011	2010	% Change
General and administrative (G&A)	1,606	1,368	17	5,046	4,066	24
Per sales boe	13.49	7.93	70	12.07	9.12	32
Non-cash Stock-based compensation	327	162	102	1,807	719	151
Per sales boe	2.75	0.93	196	4.32	1.61	168
<b>Total</b>	<b>1,933</b>	<b>1,530</b>	<b>26</b>	<b>6,853</b>	<b>4,785</b>	<b>43</b>
Per sales boe	<b>16.23</b>	<b>8.87</b>	<b>83</b>	<b>16.39</b>	<b>10.74</b>	<b>53</b>

G&A expenses (excluding stock-based compensation expenses) were 17% higher in Q3 2011, compared to Q3 2010 reflecting greater employee costs in Tunisia as a result of increased staff and operations and general expenditures in Romania..

### Current and future Income tax from continuing operations

Winstar recorded nil current taxes for the three months ended September 30, 2011 related to the Sabria and Ech Chouech concessions. Management estimates the expected annual taxation rate for each concession based on projected revenues, expenditures and deductible capital additions. The incremental current tax expense recorded during the period reflects an expected annual effective tax rate of 15% and 6% for the Sabria and Ech Chouech concessions respectively. 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 deducted as incurred for tax purposes, generating temporary differences. Additionally, non-capital loss carry forwards were used to shelter taxable income generated in the Sanhrar concession. The effect of foreign exchange on temporary differences has been impacted by quarterly fluctuations in the value of the Tunisian Dinar compared to the US Dollar, which depreciated from Q2 2011 to Q3 2011. The effect of this has increased the future tax expense for Q3 2011. Gains and losses on foreign exchange are required to be recognized by IFRS despite the fact that the devalued tax basis of the relevant assets will not result in a theoretical reduction of future depreciation.

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

(\$ thousands except per unit amounts)	Three months ended September 30,			Nine months ended September 30,		
	2011	2010	% Change	2011	2010	% Change
Depletion & depreciation	2,370	2,261	5	7,551	5,542	36
Other financing charges	164	137	20	493	273	81
<b>Total</b>	<b>2,534</b>	<b>2,398</b>	<b>6</b>	<b>8,044</b>	<b>5,815</b>	<b>38</b>
Per Sales boe	21.28	13.90	53	19.24	13.05	47

DD&A per sales boe increased to \$21.28 during Q3 2011, from \$13.90 in Q3 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 nine months of 2011.
- A decrease in the Company's proved and probable ("2P") reserves which were disclosed in the 2010 Annual Consolidated Financial statements but did not impact the Q3 2010 DD&A estimates. These declines were partially offset by 2P reserve additions related to CS Sil #1 and the 2011 drilling campaign.

## Capital expenditures and exploration expenses from continuing operations

(\$ thousands except per unit amounts)	Three months ended September 30,		Nine months ended	
	2011	2010	2011	2010
<b>Tunisia</b>				
<u>Chouech Essaida</u>				
Drilling activities	12,117	4,228	21,059	18,285
Work-over activities	388	-	2,983	538
Pipeline and facilities	1,151	131	2,615	1,020
Other	-	1,331	55	1,527
Ech Chouech/Sabria/Sanhrar/Zinnia/Other	72	1,042	91	1,165
<b>Total Tunisia</b>	<b>13,728</b>	<b>6,732</b>	<b>26,803</b>	<b>22,535</b>
<b>Romania</b>	615	-	615	-
<b>Corporate</b>	4	10	4	33
<b>Total</b>	<b>14,347</b>	<b>6,742</b>	<b>27,422</b>	<b>22,568</b>

In Q3 2011, capital spending related primarily to the following operations:

- Drilling and testing of CS#8bis was successfully completed in Q3 (\$6.9), resulting in 300 boepd of production.
- Drilling was completed on CS# 12 (\$6.7 million), which was subsequently tested in October of 2011 and is currently awaiting the installation of a downhole pump.
- The company incurred \$0.6 million as it continued its operation to transport and install a high pressure gas plant at the Chouech Essaida concession and tie in production from CS Sil #1.
- Romania capital expenditures, \$0.6 million were comprised of the purchase of equipment and well site preparation of the two well drilling program to expected to commence in Q4 2011.

## Exploration expenses from continuing operations

(\$ thousands except per unit amounts)	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Tunisia	161	204	483	518
Romania	106	5	147	24
<b>Total</b>	<b>267</b>	<b>209</b>	<b>630</b>	<b>542</b>

During Q3 2011, exploration expenditures related primarily to:

- Evaluating Silurian and Triassic opportunities at the Chouech Essaida and Ech Chouech Concessions
- Processing of 3D seismic data at the Sabria Concession; and
- Mapping and processing existing seismic data at the Satu Mare Concession in Romania.

## Selected quarterly information

(\$ thousands except per unit amounts)	Q3/11	Q2/11	Q1/11	Q4/10	Q3/10	Q2/10	Q1/10	Q4/09
Average daily production volumes (boepd) (1)	1,294	1,567	1,737	1,938	1,998	1,716	1,505	1,816
Average daily sales volume (boepd) (1)	1,294	1,567	1,737	2,298	1,888	1,536	1,515	1,735
Petroleum and natural gas sales	12,764	15,306	14,421	17,363	13,463	10,539	9,988	12,053
Realized sales price (\$/boe)	107.19	111.21	92.26	81.96	77.50	75.39	73.97	62.68
After tax field operating netback (\$/boe) (2)	73.31	72.86	67.64	58.26	55.60	51.80	51.87	48.66
Funds from operations (2)	7,356	8,738	9,141	9,908	8,219	5,628	5,735	6,358
Per share - basic & diluted	0.21	0.25	0.26	0.29	0.24	0.16	0.16	0.19
Earnings	679	2,282	2,147	1,192	1,014	389	1,096	1,239
Per share - basic & diluted	0.02	0.06	0.06	0.03	0.03	0.01	0.03	0.04
Earnings from continuing operations	478	2,335	2,238	1,294	1,090	480	1,197	1,239
Per share - basic & diluted	0.01	0.07	0.06	0.04	0.03	0.01	0.03	0.04
Total assets	169,748	154,873	148,297	148,804	133,558	125,734	120,592	115,801
Bank debt	-	-	1,028	-	-	-	-	-

- (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 period presented in 2009 is prepared under Previous GAAP and has been translated to US dollars, the Company's reporting currency effective January 1, 2010, 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 Q3 2011 compared to Q2 2011 reflects temporary production shut-ins. Earnings has fluctuated primarily as a result of increasing commodity prices, and fluctuations in sales volumes offset by increasing depreciation and depletion expenses, current taxes and changes in foreign exchange rate primarily 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 September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Weighted average number of commons shares - basic	35,745	34,864	35,567	34,478
Dilutive securities issued under stock-based compensation plan	128	132	56	131
Weighted average number of common shares – fully diluted	35,873	34,996	35,623	34,609
Common shares outstanding at September 30,	35,751	34,942	35,751	34,942

As at September 30, 2011 and November 10, 2011, the Company had 35.8 million shares and 2.7 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, as per Tunisian legislation.

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 and sales of oil and natural gas

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.

The Company's natural gas is marketed directly through local markets via state owned utility companies. Natural gas sales are dependent on the local market demand and the available capacity of state owned utility companies to purchase Winstar's natural gas production. From time to time, changes in market demand or constraints at state owned utility companies may limit Winstar's ability to sell all of its produced natural gas.

### 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, 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 are generally sourced in US dollars, which partially offsets Winstar's foreign currency risk. Commencing in 2011, the Company reports 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 the president of Tunisia left the country after 23 years in power. He was replaced by an interim government that lead the country until elections of a Constituent Assembly, where were held on October 23, 2011. The newly elected constituent Assembly is charged with the responsibility of drafting a new constitution for Tunisia and has the power to appoint a new government, which is intended to govern until further democratic elections can be held in the future.

Throughout the significant events of late 2010 and in 2011, which included the abrupt departure of the former President in January 2011, the day to day production operations of the Company have been largely unaffected due to the strong commitment and dedication of the Company's Tunisian employees. Some minor delays have occurred, most notably the logistical challenges associated with moving equipment to the remote, southern location of Winstar's Chouech Essaida concession. These delays have been a challenge and may continue in the foreseeable future but the Company will continue to manage any such issues so as to limit or avoid any material impact on its operations and assets.

### Sensitivities

Winstar's financial performance is affected by factors such as changes in commodity prices and exchange rates. The estimated impact of these factors on the Company's financial performance for the three and nine months ended September 30, 2011, is summarized in the following table, based on an approximate WTI oil price of US \$89.40 for the three months ended September.

	Three months ended September 30,				Nine months ended September 30,			
	2011		2010		2011		2010	
	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	89	89	122	122	368	368	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 September 30, 2011, the Company had a \$3.6 million of working capital. The decrease in working capital resulted from significant capital activities in the second and third quarter of 2011. Winstar's working capital includes \$7.8 million of cash and cash equivalents, \$2.1 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 \$5.7 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 primarily 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 November 10, 2011, approximately 42% of the \$12.6 million reported at September 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 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 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 September 30, 2011, January 1, 2011 and December 31, 2010, September 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 Canadian government bonds).

### 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, 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 estimates. By nature, the estimates of reserves, including the estimates 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.

### 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 September 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 Canadian 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 September 30, 2011 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

### **Forward-looking statements**

Certain statements contained within the Management’s Discussion and Analysis, and in certain documents incorporated by reference into this document, constitute forward looking statements. These statements relate to future events or 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, but not limited to, 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 November 10, 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) As at,	September 30, 2011	December 31, 2010
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents <i>(note 7)</i>	5,673	8,485
Restricted cash <i>(note 7)</i>	2,089	1,418
Accounts receivable <i>(note 8)</i>	12,610	10,426
Prepays	457	478
Inventory <i>(note 9)</i>	1,679	1,158
Discontinued operations <i>(note 6)</i>	40	137
	<b>22,548</b>	<b>22,102</b>
Property and equipment <i>(note 10)</i>	146,265	125,486
Other assets <i>(note 11)</i>	274	269
Discontinued operations <i>(note 6)</i>	661	947
	<b>169,748</b>	<b>148,804</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	16,125	13,646
Overlifting liability <i>(note 12)</i>	1,425	3,506
Discontinued operations <i>(note 6)</i>	1,436	1,596
	<b>18,986</b>	<b>18,748</b>
Deferred income tax liability <i>(note 15)</i>	42,405	32,772
Decommissioning liability and other provisions <i>(note 13)</i>	11,852	9,204
<b>Total Liabilities</b>	<b>73,243</b>	<b>60,724</b>
<b>Shareholders' equity</b>		
Share capital <i>(note 14)</i>	91,794	89,744
Contributed surplus <i>(note 14)</i>	3,955	2,826
Accumulated other comprehensive loss	208	71
Retained earnings/(Deficit)	548	(4,561)
	<b>96,505</b>	<b>88,080</b>
	<b>169,748</b>	<b>148,804</b>

See accompanying notes

## Condensed Consolidated Statements of Net Earnings

(US \$ thousands, except per share amounts)	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
<b>REVENUE</b>				
Petroleum and natural gas sales	12,764	13,412	42,491	33,939
International royalty income	-	271	-	868
Royalties	(1,766)	(1,948)	(5,957)	(4,877)
	10,998	11,735	36,534	29,930
<b>EXPENSES</b>				
Operating	2,224	2,003	5,808	5,803
General and administration	1,933	1,530	6,853	4,785
Exploration expense	267	209	630	542
Depletion & depreciation	2,370	2,261	7,551	5,542
Other (income)/expenses	(8)	85	28	93
	6,786	6,088	20,870	16,765
Financing charges	164	118	503	417
Foreign exchange loss/(gain)	39	17	(152)	312
<b>Net financing expenses</b>	<b>203</b>	<b>135</b>	<b>351</b>	<b>729</b>
<b>Earnings before tax</b>	<b>4,009</b>	<b>5,512</b>	<b>15,313</b>	<b>12,436</b>
Current income tax expense (note 15)	-	-	639	-
Deferred income tax expense (note 15)	3,531	4,422	9,622	9,670
	3,531	4,422	10,261	9,670
<b>Net earnings from continuing operations</b>	<b>478</b>	<b>1,090</b>	<b>5,052</b>	<b>2,766</b>
<b>Net earnings/(loss) from discontinued operations (note 6)</b>	<b>201</b>	<b>(76)</b>	<b>57</b>	<b>(268)</b>
<b>Net earnings</b>	<b>679</b>	<b>1,014</b>	<b>5,109</b>	<b>2,498</b>
<b>Net earnings per share (note 14)</b>				
Basic and diluted from continuing operations	0.01	0.03	0.14	0.08
Basic and diluted from discontinued operations	0.01	-	-	(0.01)
Basic and diluted	0.02	0.03	0.14	0.07

See accompanying notes

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

(US \$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
<b>Net earnings</b>	<b>679</b>	<b>1,014</b>	<b>5,109</b>	<b>2,498</b>
<b>Other comprehensive income/(loss)</b>				
Unrealized gain/(loss) on translation of foreign operations	(487)	10	137	(94)
<b>Other comprehensive income/(loss)</b>	<b>(487)</b>	<b>10</b>	<b>137</b>	<b>(94)</b>
<b>Comprehensive income</b>	<b>192</b>	<b>1,024</b>	<b>5,246</b>	<b>2,404</b>
<b>Accumulated other comprehensive income beginning of period</b>	<b>695</b>	<b>(104)</b>	<b>71</b>	<b>-</b>
Other comprehensive income/(loss)	(487)	10	137	(94)
<b>Accumulated other comprehensive income/(loss), end of period</b>	<b>208</b>	<b>(94)</b>	<b>208</b>	<b>(94)</b>

See accompanying notes

## Condensed Consolidated Statement of Changes in Equity

(US \$ thousands)	Share capital	Contributed surplus	Accumulated other comprehensive income	Retained earnings/ (deficit)	Total equity
<b>Balance January 1, 2011</b>	89,744	2,826	71	(4,561)	88,080
Net earnings for the period	-	-	-	5,109	5,109
Other comprehensive income for the period	-	-	137	-	137
Comprehensive income for the period	-	-	137	5,109	5,246
Stock-based compensation	-	1,807	-	-	1,807
Issued on exercise of stock options	2,050	(678)	-	-	1,372
<b>Balance, September 30, 2011</b>	<b>91,794</b>	<b>3,955</b>	<b>208</b>	<b>548</b>	<b>96,505</b>
<b>Balance, January 1, 2010</b>	<b>85,282</b>	<b>3,319</b>	-	<b>(7,971)</b>	<b>80,630</b>
Net earnings for the period	-	-	-	2,498	2,498
Other comprehensive income for the period	-	-	(94)	-	(94)
Comprehensive income for the period	-	-	(94)	2,498	2,404
Stock-based compensation	-	719	-	-	719
Issued on exercise of stock options	3,016	(861)	-	-	2,155
<b>Balance, September 30, 2010</b>	<b>88,298</b>	<b>3,177</b>	<b>(94)</b>	<b>(5,473)</b>	<b>85,908</b>

## Condensed Consolidated Statements of Cash Flow

(US \$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
<b>OPERATING ACTIVITIES</b>				
Net earnings from continuing operations	478	1,090	5,052	2,766
Add non-cash items:				
Stock-based compensation	327	162	1,804	719
Depletion, depreciation and non-cash financing charges	2,534	2,398	8,044	5,952
Deferred income tax expense	3,531	4,422	9,622	9,670
	6,870	8,072	24,522	19,107
Change in non-cash working capital	(365)	(1,121)	(2,711)	476
<b>Cash flow from continuing operating activities</b>	<b>6,505</b>	<b>6,951</b>	<b>21,811</b>	<b>19,583</b>
Cash flow from discontinued operations before change in non-cash working capital	219	(62)	81	(245)
Change in non-cash working capital from discontinued operations	112	(119)	193	(363)
<b>Cash flow used in discontinued operations</b>	<b>331</b>	<b>(181)</b>	<b>274</b>	<b>(608)</b>
<b>Cash flow from operating activities</b>	<b>6,836</b>	<b>6,770</b>	<b>22,085</b>	<b>18,975</b>
<b>FINANCING ACTIVITIES</b>				
Issuance of shares	72	763	1,370	2,045
Decrease in operating loan	-	-	(19)	-
<b>Cash flow from financing activities</b>	<b>72</b>	<b>763</b>	<b>1,351</b>	<b>2,045</b>
<b>INVESTING ACTIVITIES</b>				
Additions to property and equipment	(14,347)	(6,742)	(27,422)	(22,568)
Change in non-cash working capital	8,511	13	1,963	438
<b>Cash used in investing activities</b>	<b>(5,836)</b>	<b>(6,729)</b>	<b>(25,459)</b>	<b>(22,130)</b>
<b>Effect of translation on foreign currency cash</b>	<b>(260)</b>	<b>93</b>	<b>(118)</b>	<b>35</b>
Decrease in cash and cash equivalents	812	897	(2,141)	(1,075)
Cash and cash equivalents, beginning of period	6,950	7,712	9,903	9,684
<b>Cash and cash equivalents, end of period</b>	<b>7,762</b>	<b>8,609</b>	<b>7,762</b>	<b>8,609</b>
<i>See accompanying notes</i>				
Supplementary cash flow information:				
Cash interest paid	18	20	92	68
Cash taxes paid	-	-	-	-

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine month periods ended September 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 main 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 November 10, 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 Consolidated Financial Statements for the year ended December 31, 2010 reported under previous GAAP and the March 31, 2011 and June 30, 2011 Interim Consolidated Financial Statements reported under IFRS. Note 17 discloses IFRS information for the year ended December 31, 2010 not already 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 if and when 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 ("2P") 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's 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 is 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 and 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 exploration and evaluation ("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 stock 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 are 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 September 30, 2011, September 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 September 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 September 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 42% of the \$12.6million accounts receivable reported September 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 ETAP, Tunisian state oil company; STEG, the Tunisian national Utilities company; 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 September 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.

As at September 30, 2011, the Company had a \$3.6 million of working capital. The decrease in working capital resulted from significant capital activities in the second and third quarter of 2011. Winstar's working capital includes \$7.8 million of cash and cash equivalents, \$2.1

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.

## 6. Discontinued operations

(US \$ thousands)	September 30, 2011	December 31, 2010
As at,		
<b>ASSETS</b>		
<b>Current</b>		
Accounts receivable	15	44
Prepays	25	93
	<b>40</b>	<b>137</b>
<b>Non-current</b>		
Property and equipment	661	947
	<b>661</b>	<b>947</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	336	316
Decommissioning liability and other provisions	1,100	1,280
	<b>1,436</b>	<b>1,596</b>

(US \$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
<b>REVENUE</b>				
Petroleum and natural gas sales	-	50	-	189
Royalties	-	-	-	(12)
	-	50	-	177
Operating	<b>45</b>	121	<b>139</b>	368
Exploration expense		-	-	181
Other (income)	<b>(226)</b>	(9)	<b>(160)</b>	(127)
Financing charges	<b>(20)</b>	14	<b>(36)</b>	23
<b>Net loss from discontinued operations</b>	<b>201</b>	(76)	<b>57</b>	(268)

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 profit 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 September 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 \$723,000 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 \$723,000 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)	September 30,	December 31,
As at,	2011	2010
Trade receivables	5,000	7,468
Other receivables	4,618	553
International accrued royalty income	93	93
Taxation recoverable	2,899	2,312
	<b>12,610</b>	<b>10,426</b>

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

## 9. Inventories

(US \$ thousands)	September 30,	December 31,
As at,	2011	2010
Materials	1,679	1,158
	<b>1,679</b>	<b>1,158</b>

## 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

### Nine months ended September 30, 2010

Additions	9,072	13,383	113	22,568
Reclassification from work in progress to oil and gas assets	13,461	(13,461)	-	-
Depreciation for the year	(5,383)	-	(159)	(5,542)
Exchange differences	-	-	(35)	(35)
Closing net book value	103,203	9,146	540	112,889

### 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

### Nine months ended September 30, 2011

Additions	12,078	16,348	46	28,472
Reclassification from work in progress to oil and gas assets	3,580	(3,580)	(118)	(118)
Depreciation for the year	(7,182)	-	(369)	(7,551)
Exchange differences	-	-	(24)	(24)
Closing net book value	127,366	18,767	132	146,265

### As at September, 2011

Cost	171,218	18,767	1,900	191,885
Accumulated depreciation	(43,852)	-	(1,768)	(45,620)
Net book value	127,366	18,767	132	146,265

During the three months ended September 30, 2011, \$69,000 of engineering salaries (2010 - \$50,000) and nil stock-based compensation expense (2010 - nil) relating to those employees were capitalized.

## 11. Other Assets

(US \$ thousands)	September 30,	December 31,
As at,	2011	2010
Non-current taxes receivable	108	108
Non-current deposits	66	69
Other	100	92
	<b>274</b>	<b>269</b>

## 12. Overlifting liability

As at September 30, 2011, the Company overlifted 12,900 bbls of crude, which is valued at its contract price of \$110.33/bbl, resulting in a \$1.4 million overlifting liability. As at December 31, 2010 the Company was overlifted by 37,300 bbls of crude, which was 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)	September 30, 2011	December 31, 2010
As at,		
<b>Balance, beginning of period</b>	<b>8,215</b>	<b>5,670</b>
Increase in obligations during the period	633	1,639
Other financing charges	164	578
<b>Balance, end of period</b>	<b>9,012</b>	<b>7,887</b>
Other provisions	2,840	1,317
	<b>11,852</b>	<b>9,204</b>

The future decommissioning liabilities relate to the Company's wells and facilities and are calculated by management using estimated costs to abandon and reclaim the properties and the estimated timing of the costs to be incurred in future periods. At September 30, 2011, the estimated total undiscounted decommissioning liabilities from continuing operations were \$19.3 million (2010 - \$15.0 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)
<b>Balance, January 1, 2011</b>	<b>35,280</b>	<b>89,744</b>
Issued on exercise of stock options	198	595
Re-classification of contributed surplus on exercise of options	-	356
<b>Balance, March 31, 2011</b>	<b>35,478</b>	<b>90,695</b>
Issued on exercise of stock options	248	707
Re-classification of contributed surplus on exercise of options	-	288
<b>Balance, June 30, 2011</b>	<b>35,726</b>	<b>91,690</b>
Issued on exercise of stock options	25	70
Re-classification of contributed surplus on exercise of options	-	34
<b>Balance, September 30, 2011</b>	<b>35,751</b>	<b>91,794</b>

### (b) Stock-based compensation

The Company has established a stock option plan whereby options may be granted to the Company's directors, officers, employees and consultants for up to 10% of the outstanding common shares. As at September 30, 2011, the maximum number of remaining grantable options was 825,000. The exercise price of each option shall not be less than the weighted average trading price of the common shares on the Toronto Stock Exchange for the five trading days immediately prior to the grant date. Existing options have a maximum term of five years and option vesting is determined by the Board of Directors.

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

	Three months ended September 30, 2011		Year ended December 31, 2010	
	Options (thousands)	Weighted Average Exercise Price (CDN \$ per share)	Options (thousands)	Weighted Average Exercise Price (CDN\$ per share)
<b>Opening balance</b>	<b>2,803</b>	<b>3.90</b>	<b>2,698</b>	<b>3.63</b>
Granted	-	-	510	3.85
Exercised	(25)	2.80	(1,057)	3.03
Forfeited	(28)	3.92	(103)	4.20
<b>Closing balance</b>	<b>2,750</b>	<b>3.90</b>	<b>2,048</b>	<b>3.69</b>

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

Three months ended September 30,	2011	2010
Risk free interest rate (%)	3	3
Expected life (years)	4	4
Expected volatility (%)	65	58

Based on fair market values, compensation expense for the three months ended September 30, 2011, was \$327,000 (2010 - \$167,000) all of which has been recorded as non-cash stock-based compensation expense classified as general and administrative expense.

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

Range of exercise prices (\$Cdn per share)	Options Outstanding			Exercisable	
	Weighted average exercise price (\$ Cdn/share)	Number outstanding at September 30, 2011	Remaining contractual life (years)	Weighted average exercise price (\$ Cdn/share)	Number outstanding at September 30, 2011
2.02 – 2.70	2.02	300	2.87	2.02	301
2.90 – 4.36	3.93	2,032	3.62	4.01	1,066
5.00 – 5.65	5.16	418	1.52	5.16	418
	<b>3.90</b>	<b>2,750</b>	<b>3.22</b>	<b>3.94</b>	<b>1,785</b>

### (c) Contributed surplus

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

(US \$ thousand)	
<b>Balance, January 1, 2011</b>	<b>2,826</b>
Stock-based compensation costs	768
Re-classification to common shares on exercise of stock options	(356)
<b>Balance, March 31, 2011</b>	<b>3,238</b>
Stock-based compensation costs	712
Re-classification to common shares on exercise of stock options	(288)
<b>Balance, June 30, 2011</b>	<b>3,662</b>
Stock-based compensation costs	327
Re-classification to common shares on exercise of stock options	(34)
<b>Balance, September 30, 2011</b>	<b>3,955</b>

### (d) Earnings per share

The following is a reconciliation of basic and diluted net earnings per common share:

(US \$ thousands)	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Net earnings from continuing operations	478	1,090	5,052	2,766
Net loss from discontinued operations	201	(76)	57	(268)
Net earnings for the period	679	1,014	5,109	2,498
Denominator - weighted average number of shares (thousands of common shares)				
Weighted average number of common shares	35,745	34,864	35,567	34,478
Dilutive securities issued under stock compensation plan	128	132	56	131
Weighted average number of diluted common shares (dollars per common share)	35,873	34,996	35,623	34,609
Basic earnings/(loss) per share from:				
Basic and diluted from continuing operations	0.01	0.03	0.14	0.08
Basic and diluted from discontinued operations	0.01	-	-	(0.01)
Basic and diluted	0.02	0.03	0.14	0.07

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 during which 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 September 30, 2011 was 6% in the Ech Chouech concession and 15% in the Sabria concession (2010 – nil). Management estimates a tax rate of nil for all other operating concessions.

(US \$ thousands)	Nine months ended September 30,	
	2011	2010
Computed expected income tax expense at 26.5%, (2010 - 28%)	4,058	3,482
Higher foreign tax rates	4,668	3,602
Permanent differences	(25)	(434)
Stock-based compensation	478	201
Foreign exchange <sup>(1)</sup>	192	1,426
Benefits of tax losses not recognized	927	1,220
Other	(37)	173
<b>Total expense</b>	<b>10,261</b>	<b>9,670</b>

(1) Winstar applies the liability method to recognize deferred income tax expense on temporary differences 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
Athamor Management Services S.A.	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 September 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 September 30, 2010 and Consolidated Statements of Earnings, Comprehensive Income, Changes in Shareholders' Equity and Cash Flows for the three and nine months ended September 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	September 30, 2010	
			Adj	IFRS
<b>ASSETS</b>				
<b>Current</b>				
Cash and cash equivalents		7,239	-	7,239
Restricted cash		1,370	-	1,370
Accounts receivable		5,899	-	5,899
Prepays		753	-	753
Inventory		2,131	-	2,131
Current portion of future income tax asset	g	1,452	(1,452)	-
Discontinued operations		138	-	138
		18,982	(1,452)	17,530
<b>Property and equipment</b>	a,b,c	<b>84,952</b>	<b>27,937</b>	<b>112,889</b>
<b>Other assets</b>		<b>2,173</b>	-	<b>2,173</b>
<b>Discontinued operations</b>		<b>966</b>	-	<b>966</b>
		<b>107,073</b>	<b>26,485</b>	<b>133,558</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current</b>				
Accounts payable and accrued liabilities		9,759	-	9,759
Discontinued operations	c	1,536	300	1,836
		11,295	300	11,595
Deferred income tax liability	d,e,g	14,656	13,633	28,289
Provisions	c	7,080	686	7,766
<b>Total Liabilities</b>		<b>33,031</b>	<b>14,619</b>	<b>47,650</b>
<b>Shareholders' equity</b>				
Share capital		88,298	-	88,298
Contributed surplus		3,177	-	3,177
Accumulated other comprehensive loss	f	1,033	(1,127)	(94)
Deficit	a,b,c,d,e,f	(18,466)	12,993	(5,473)
		74,042	11,866	85,908
		107,073	26,485	133,558

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

For the three and nine month periods ended, (US \$ thousands)	Ref	Three months ended September 30, 2010			Nine months ended September 30, 2010		
		CGAAP	Adj	IFRS	CGAAP	Adj	IFRS
<b>REVENUE</b>							
Petroleum and natural gas sales		13,412	-	13,412	33,939	-	33,939
International royalty income		271	-	271	868	-	868
Royalties		(1,948)	-	(1,948)	(4,877)	-	(4,877)
		11,735	-	11,735	29,930	-	29,930
<b>EXPENSES</b>							
Operating		2,003	-	2,003	5,803	-	5,803
General and administration		1,530	-	1,530	4,785	-	4,785
Exploration expense		209	-	209	542	-	542
Depletion & depreciation	a,c	4,550	(2,289)	2,261	10,777	(5,235)	5,542
Other expenses		85	-	85	93	-	93
		8,377	(2,289)	6,088	22,000	(5,235)	16,765
Financing charges	c	97	21	118	375	42	417
Foreign exchange loss/(gain)		17	-	17	312	-	312
		114	21	135	687	42	729
<b>Earnings before tax</b>		<b>3,244</b>	<b>2,268</b>	<b>5,512</b>	<b>7,243</b>	<b>5,193</b>	<b>12,436</b>
Current income tax expense		-	-	-	-	-	-
Future income tax expense	d,e	2,399	2,023	4,422	6,144	3,526	9,670
		2,399	2,023	4,422	6,144	3,526	9,670
<b>Net earnings from continuing operations</b>		<b>845</b>	<b>245</b>	<b>1,090</b>	<b>1,099</b>	<b>1,667</b>	<b>2,766</b>
<b>Net loss from discontinued operations</b>	c	<b>(82)</b>	<b>6</b>	<b>(76)</b>	<b>(284)</b>	<b>16</b>	<b>(268)</b>
<b>Net earnings/(loss)</b>		<b>763</b>	<b>251</b>	<b>1,014</b>	<b>815</b>	<b>1,683</b>	<b>2,498</b>
Unrealized exchange loss on translation of foreign operations	c	4	6	10	(77)	(17)	(94)
<b>Other comprehensive loss</b>		<b>4</b>	<b>6</b>	<b>10</b>	<b>(77)</b>	<b>(17)</b>	<b>(94)</b>
<b>Comprehensive loss</b>		<b>767</b>	<b>257</b>	<b>1,024</b>	<b>738</b>	<b>1,666</b>	<b>2,404</b>

**Explanatory notes****(a) Depreciation of property and equipment**

IFRS does not provide any specific requirements governing the depreciation of oil and gas related tangible and intangible assets, contrary to Canadian GAAP which requires that these assets are depleted on a unit of production basis over proved developed reserves. Following a thorough evaluation of its oil and gas assets, management has determined their expected lives are best estimated based on the proved and probable ("2P") reserves associated with those assets. These 2P reserves are based on the commercial production more likely than not to occur based on currently available information. Included in the estimation of 2P reserves are expected future development costs, which are added to the depreciation base in order to accurately reflect the expected depreciation associated with 2P reserves. This change in estimate has been retroactively applied and increased the net book value of the Company's PP&E as at January 1, 2010 by \$19 million, with an offset to retained earnings. During 2010 the change in depletion methodology further increased the value of PP&E with an offset to depreciation expense by \$2.3 million the 3 months ended September 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 Ech Chouech 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 September 30, 2010. PP&E was also increased by \$21,000 for the period ended September 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 \$1.4 million and \$470,000 for the 3 months ended September 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 \$1.6 million for the 3 months ended September 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 January 1, 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.

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 September 30,	Tunisian Operations		European Operations (1)		Corporate (2)		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Revenues								
Oil and liquids	10,497	12,659	-	-	-	-	10,497	12,659
Natural gas	2,267	753	-	-	-	-	2,267	753
Petroleum and natural gas sales	12,764	13,412	-	-	-	-	12,764	13,412
International royalty income	-	271	-	-	-	-	-	271
Royalties	(1,766)	(1,948)	-	-	-	-	(1,766)	(1,948)
	10,998	11,735	-	-	-	-	10,998	11,735
Segmented expenses								
Operating	2,224	2,003	-	-	-	-	2,224	2,003
General and administrative	670	570	264	70	999	890	1,933	1,530
Exploration expense	161	204	106	5	-	-	267	209
Depletion & depreciation	2,350	2,224	-	-	20	37	2,370	2,261
Other (income)	(8)	(35)	-	-	-	120	(8)	85
Financing charges	165	119	-	-	(1)	(1)	164	118
Foreign exchange (gain)/loss	37	17	-	-	2	-	39	17
	5,599	5,102	370	75	1,020	1,046	6,989	6,223
Earnings before tax	5,399	6,633	(370)	(75)	(1,020)	(1,046)	4,009	5,512
Current tax provision	-	-	-	-	-	-	-	-
Deferred income tax expense	3,531	4,422	-	-	-	-	3,531	4,422
Net earnings/(loss) from continuing operations	1,868	2,211	(370)	(75)	(1,020)	(1,046)	478	1,090
Net loss from discontinued operations	-	-	211	(85)	(10)	9	201	(76)
Net earnings/(loss)	1,868	2,211	(159)	(160)	(1,030)	(1,037)	679	1,014
Capital expenditures								
Development	13,710	6,727	616	-	-	-	14,326	6,727
Other	21	5	-	-	-	10	21	15
Discontinued operations	-	-	-	-	-	-	-	-
Total capital expenditure	13,731	6,732	616	-	-	10	14,347	6,742
Total assets	142,039	104,469	1,706	1,200	26,003	27,889	169,748	133,558

(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 centrally operated by Winstar's European management team.

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

Nine month period ended September 30,	Tunisian Operations		European Operations (1)		Corporate (2)		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Revenues								
Oil and liquids	34,023	31,189	-	-	-	-	34,023	31,189
Natural gas	8,468	2,750	-	-	-	-	8,468	2,750
Petroleum and natural gas sales	42,491	33,939	-	-	-	-	42,491	33,939
International royalty income	-	868	-	-	-	-	-	868
Royalties	(5,957)	(4,877)	-	-	-	-	(5,957)	(4,877)
	36,534	29,930	-	-	-	-	36,534	29,930
Segmented expenses								
Operating	5,808	5,803	-	-	-	-	5,808	5,803
General and administrative	2,797	2,117	734	346	3,322	2,322	6,853	4,785
Exploration expense	483	518	147	24	-	-	630	542
Depletion & depreciation	7,491	5,487	-	-	60	55	7,551	5,542
Other expenses	28	(27)	-	-	-	120	28	93
Financing charges	508	418	-	-	(5)	(1)	503	417
Foreign exchange (gain)/loss	(192)	281	-	-	40	31	(152)	312
	16,923	14,597	881	370	3,417	2,527	21,221	17,494
Earnings before tax	19,611	15,333	(881)	(370)	(3,417)	(2,527)	15,313	12,436
Current tax provision	639	-	-	-	-	-	639	-
Deferred income tax expense	9,622	9,670	-	-	-	-	9,622	9,670
Net earnings/(loss) from continuing operations	9,350	5,663	(881)	(370)	(3,417)	(2,527)	5,052	2,766
Net loss from discontinued operations	-	-	137	(372)	(80)	104	57	(268)
Net earnings/(loss)	9,350	5,663	(744)	(742)	(3,497)	(2,423)	5,109	2,498
Capital expenditures								
Development	26,766	22,535	616	-	-	-	27,382	22,535
Other	40	13	-	-	-	20	40	33
Discontinued operations	-	-	-	-	-	-	-	-
Total capital expenditure	26,806	22,548	616	-	-	20	27,422	22,568
Total assets	142,039	104,469	1,706	1,200	26,003	27,889	169,748	133,558

- (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 centrally 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**  
 Manager, 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  
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 (Note: Mr. de Mestral is based in Europe, in a time zone eight hours ahead of Calgary time)

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 RPS Energy  
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 HSBC Bank Canada  
 ABN AMRO  
 Export Development Canada (EDC)  
**Auditors:**  
 PricewaterhouseCoopers LLP  
**Lawyers:**  
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## ABBREVIATIONS

bbl	barrel	mdbl	thousand barrels
boe	barrel of oil equivalent. A BOE is converted on the basis of one barrel of crude oil for 6,000 cubic feet of natural gas (6 Mcf = 1 bbl). This conversion factor is not based on either energy or current prices.	mboe	thousands of barrels of oil equivalent
		mcf	thousand cubic feet
		mcf/d	thousand cubic feet per day
boepd	barrels of oil equivalent per day	mdbl	millions of barrels
bopd	barrels of oil per day	mmscf	millions of standard cubic feet
		NGL	natural gas liquids