

Q1

WINSTAR RESOURCES LTD.

First Quarter Report

For the three months ended

March 31, 2005

Corporate Profile

Winstar Resources Ltd. (“the Company”) is a junior oil and gas company, which explores for, develops, produces, and sells crude oil, natural gas and natural gas liquids in the Province of Alberta. The Company was incorporated on January 2, 1996 as 679601 Alberta Inc. On February 15, 1996, the Company amended its corporate articles and changed its name to Virginia Energy Corporation. On August 1, 2000, the Company amended its corporate articles to consolidate the common shares of the Company on the basis of one new for five existing shares and changed its name to Winstar Resources Ltd.

Winstar is a public company, whose common shares trade on the TSX-Venture Exchange under the symbol “WRL.” The Company has its business office in Calgary, Alberta, with field operations at Taber and Ferrier, Alberta.

ABBREVIATIONS

bbls	barrels
boe	barrels of oil equivalent of natural gas and crude on the basis of one barrel of crude oil for six thousand cubic feet of natural gas (6 Mcf = 1 bbl). (This conversion factor is not based on either energy content or current prices.)
bopd	barrels of oil per day
boepd	barrels of oil equivalent per day
BPO	before payout
bwpd	barrels of water per day
Mbbl	thousand barrels
Mcf	thousand cubic feet
Mcfd	thousand cubic feet per day
MMcf	million cubic feet
NGL	natural gas liquids

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Corporate Highlights

	Three Months Ended March 31		%
	2005	2004	Change
Production and Prices			
Natural gas sales (Mcf)	801	923	-13
Oil and NGL sales (bpd)	238	501	-52
Average daily sales 6:1 (boepd)	371	657	-44
Average natural gas price (\$/Mcf)	6.67	6.27	+06
Average oil and NGL price (\$/bbl)	47.53	39.65	+20
Financial (\$)			
Oil and gas revenue	1,628,885	2,284,843	-28
Cash flow from operations	445,747	633,358	-30
Net income (loss)	(143,908)	(86,545)	-66
Per share, basic and diluted	Nil	Nil	—
Working capital	1,621,333	1,091,693	+49
Long term bank debt	NIL	NIL	—
Shareholders' equity	12,426,139	13,746,228	-10
Common Shares			
Weighted average during the period			
Basic	37,216,590	35,516,686	+5
Diluted	37,983,743	37,047,901	+3
Outstanding at period end	37,221,243	36,607,105	+2

President's Message to Shareholders

On behalf of the Board of Directors, it is my pleasure to present the financial and operating results of the three months ending March 31, 2005.

Traditionally a quarterly report updates an on-going business plan to the shareholders. During Q1 2005, Winstar engaged in a multi faceted process that has re-defined the company's direction. This report will describe the new direction, the short-term implications and 2005 goals.

New Direction

In 2004 Winstar was successful in earning a valuable acreage position in (Q4-2004) Ferrier Whitecourt but it failed to meet production and cash flow goals. Less than expected growth resulted in the board reviewing a number of alternatives and supporting new direction.

The "new Winstar" is growth driven through a portfolio of low cost exploration and development opportunities in Canada, North Africa and Eastern Europe. Operations will be managed by "in-country" professionals reporting to Calgary officers and an international board. New capital programs are high net back projects selected from an \$80 million inventory.

Implementation of the new business plan resulted in five Q1 2005 initiatives;

- Rationalization and reorganization of 2004 assets (News Release January 25, 2005, January 26, 2005)
- Merger with a private company with production and significant undeveloped reserves in Tunisia (March 30, 2005)
- Acquisition of a private company with fresh gas production and high impact exploration upside in Hungary. (March 30, 2005)
- A new management team and board (News Release; November 18, 2004, March 30, 2005, April 4, 2005, April 27, 2005)
- A multi-million dollar equity issue and proposed share consolidation. (News Release; March 30, 2005)

Rationalization and reorganization of assets

Winstar 2004 assets generated mixed economic results. To ensure acceptable future rates of returns an asset rationalization was implemented. In February 2005, 350 boepd of high cost Saskatchewan production (representing 59% of 2004 production) was sold to an intermediate royalty trust for \$11.75 million. The sale proceeds purchased (\$2.45 million) additional Ferrier Whitecourt mineral rights with 80 boepd, drilled, or completed 5 gross (2.9 net) wells at Herronton, Ferrier, Williston Green and Brazeau and elimination of year end net debt (\$6.7 million).

Property Sale Impact

The February sale lowered Winstar's production and cash flow for the first quarter of 2005 as compared to Q1 2004. Production averaged 371 boepd during the three month period ending March 31, 2005 a 44 % decline over the equivalent period last year (average 657 boepd Q1 2004), and cash flow was \$445,747 a 30 % year over year decline (\$633,358 Q1 2004).

Asset rationalization improved the go-forward operating performance of Winstar's 230-250 boepd of residual Alberta production. During Q1 2005, the company (Saskatchewan excluded) decreased operating costs per boe by 22% to \$11.28 per boe (\$14.40/boe 2004) and increased its operating income net back by 34 % to \$24.69/boe (\$18.41/boe 2004).

Winstar discovered approximately 300 boepd (or replaced 86% of production sold in February) during the first quarter for some \$4,000,000 or 34% of sale proceeds. This high net back oil and gas is scheduled to be producing between May and August 2005.

Merger with a private Company with Tunisian production

During the first quarter the Company negotiated a merger (scheduled to close in July 2005, subject to TSX Venture exchange acceptance and shareholder approval) with Athanor B.V., a private company incorporated in the Netherlands with approximately 570 boepd of high net back production in Tunisia for 56.98 million Winstar common shares. Athanor owns (4 @ 100% working interest, 1@ 45% working interest) and operates five onshore concessions totaling 236 net square miles. The Sabria Concession (45% working interest) located in west-central Tunisia is Athanor's core asset with production 775 (350 net) bopd from a fractured Ordovician quartzite at 4000 meters. The Sabria field has an estimated 1.1 million barrels of net proven reserves and an additional 5.3 million barrels of net probable reserves (at December 31, 2004: APA Petroleum Engineers-Constant Price Evaluation). The value equation is converting probable reserves to production with infill development wells, targeted in early 2006

Acquisition of private Hungarian production company

The acquisition of a private company with 470 boepd of high net back gas production in Hungary, for \$5.8 million (after working capital adjustments, effective January 1, 2005) is a high impact growth platform into Eastern Europe. Production is derived from a single gas well, in south-western Hungary, completed in a Tertiary Limestone at less than 800 meters, with 2.6 Bcf remaining proved reserves (December 31, 2004 APA Petroleum Engineers- Constant Price evaluation) . The Company is optimistic

that additional high deliverability shallow gas wells will be delineated on in-house seismic (420 miles) and offset mineral rights (888 sq. miles) included in the purchase.

Reorganized management and Board

Winstar 2005 business plan will be managed by the new executive team and an expanded Board. Bruce Libin (Chairman), Russ Duncan (Director), Ken Woolner (Director) Chris Nixon (Corporate Secretary) will compliment management with their extensive Canadian oil and gas experience. International strategy will be spearheaded by Charles de Mestral (CEO), and augmented by the overseas experience of Bernard de Combret (Director), Bryan Lawrence (Director), and Robert Mitchell (Director).

Operations and financial reporting will be managed by myself (David Monachello-President), Roger Mc Mechan (Executive Vice President), Robert Cowper (CFO), Rick Youell (Land Manager), Don Umbsaar (Chief Geophysicist), Mohamed Yaich (General Manager Tunisia) and Gabor Tihanyi (General Manager- Hungary).

Further to the merger Winstar will emerge as a junior producer (1500 boepd) with an international board of nine directors, 24 full time seasoned employees (Calgary, Tunisia, Budapest) plus thirty seven field and people in field or district offices.

Directors

Bruce Libin – Chairman	<i>Destiny Resources Corp. Provident Energy Trust</i>
Bernard de Combret	<i>retired Deputy Chairman of the Executive Committee of Total Group</i>
Russ Duncan	<i>former director Paramount Resources Ltd., Newalta Corp.</i>
Bryan Lawrence	<i>co founder Yorktown Partners LLP-New York</i>
Robert Mitchell	<i>retired Executive Vice President Talisman Energy Inc.</i>
Ken Woolner	<i>Lightning Energy Ltd., Veteran Resources Ltd.</i>

Management

Charles de Mestral	Chief Executive Officer and Director <i>Athnor B.V- Geneva, Coparex International- Paris</i>
David Monachello	President and Director <i>Winstar Resources Ltd, Coparex Canada</i>
Roger Mc Mechan	Executive Vice President and Director

Burlington Resources Canada, PetroCanada

Robert Cowper Chief Financial Officer

Price - Waterhouse, RBC Dominion Securities

Rick Youell Land Manager

First Guardian Petroleum Corp., Viking Energy Royalty Trust

Don Umbsaar Chief Geophysicist

Encana Corporation, PetroCanada

Mohamed Yaich General Manager of Tunisia

Schlumberger, ETAP (Tunisian National Oil Company), Elf

Gabor Tihanyi General Manager of Hungary

MOL (Hungarian National Oil Company)

Multi-million equity issue and share consolidation

To exploit the defined opportunity inventory of high impact, low to medium risk projects the Company is in the process of a multi-million dollar equity issue (subject to TSX Venture exchange acceptance and shareholder approval) scheduled to close in early July. Subject to shareholder approval, common shares will be consolidated (or reverse split) on a basis of 10 existing to 1 new, resulting in approximately 14 million outstanding shares.

2005 Goal

The new Winstar is opportunity rich with some \$80,000,000 of net capital program defined. The combined Canadian, Tunisian and Hungarian entity is anticipated to exit 2005 at 2000-2400 boepd and generate cash flows (on a go forward basis) at \$14-\$18 million per year. These are very exciting times; new direction, new people and new enthusiasm.

Respectfully submitted on behalf of the Board,

A handwritten signature in black ink, appearing to read 'D. Monachello', with a stylized initial 'D'.

David A. Monachello
President and Chief Executive Officer
May 30, 2005

Management's Discussion and Analysis

The following is management's discussion and analysis (MD&A) of financial conditions and results of operations for the first quarter ended March 31, 2005. This MD&A, dated May 27, 2005, should be read in conjunction with the unaudited financial statements for the three months ended March 31, 2005, and the audited financial statements and MD&A for the year ended December 31, 2004. The financial information contained herein has been prepared in accordance with Canadian generally accepted accounting principles (GAAP). All comparative percentages are between the first quarters ended March 31, 2005 and 2004 and all dollar amounts are expressed in Canadian currency, unless otherwise noted. Additional information about the Company is available on SEDAR, at www.sedar.com.

Oil Equivalent Conversion (boe)

Barrels of oil equivalent "boe" amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas "Mcf" to one barrel of oil and natural gas liquids (6 Mcf = 1 bbl).

Forward Looking Statements

Statements throughout this quarterly report that are not historical facts may be considered "forward looking statements." These forward-looking statements sometimes include words to the effect that management believes or expects a stated condition or result. All estimates and statements that describe the Company's objectives, goals or future plans are forward-looking statements. Since forward-looking statements address future events and conditions, by their nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to any number of factors, including such variables as new information regarding recoverable reserves, changes in demand for, and commodity prices of crude oil and natural gas, legislative, environmental and other regulatory or political changes, competition in areas where the Company operates and other factors discussed in this quarterly report.

DESCRIPTION OF BUSINESS

The Company is an oil and gas company, which during Q1-2005 explores for, develops, produces, and sells crude oil, natural gas and natural gas liquids in the Provinces of Alberta and Saskatchewan. The Company was incorporated on January 2, 1996 as 679601 Alberta Inc. On February 15, 1996, the Company amended its corporate articles and changed its name to Virginia Energy Corporation. On August 1, 2000, the Company amended its corporate articles to consolidate the common shares of the Company on the basis of one new for five existing shares and changed its name to Winstar Resources Ltd.

Winstar is a public company, whose common shares trade on the TSX-Venture Exchange under the symbol "WRL." The Company has its principal business office in Calgary, Alberta, with field operations at Taber and Ferrier, Alberta.

SUMMARY OF FIRST QUARTER RESULTS

	Three months ended March 31	
	2005	2004
	\$	\$
Petroleum and natural gas sales	1,509,972	2,284,843
Net income (loss)	(143,908)	(86,545)
Per share, basic and diluted	Nil	Nil
Total assets	16,161,780	19,226,028
Bank debt	NIL	NIL

One of the most significant events related to the ongoing operations of the Company was the disposal (February) of Saskatchewan properties for \$11,750,000 plus purchase adjustments (effective February 1, 2005). The sale of the Saskatchewan properties along with the purchase of additional interest in the Ferrier area has given the Company the ability to refocus its exploration and development activities in the Ferrier area. It is anticipated that this focused exploration effort will provide the growth required to sustain the company into the future.

Results of operations

The first quarter of 2005 is the first look at the Company without Saskatchewan properties. The Saskatchewan properties are included in Q1-2005 for only one month as the sale was effective February 1, 2005. Results for revenue, cash flow and production in the three month period ended March 31, 2005 are all lower compared with the three months ended March 31, 2004.

Production

Combined oil, natural gas and natural gas liquids production for the quarter ended March 31, 2005 declined 44% compared to the same period in 2004. The Company's daily production averaged 371 boepd for the quarter ending March 31, 2005, down from 657 boepd during the corresponding period of 2004, further to the February 1, 2005 sale of the Southeast Saskatchewan properties. In the first quarter of 2005, three areas contributed approximately 95% of average production. Saskatchewan with light oil and gas was the contributed 32% of average production, Taber with medium oil, contributed 28% of quarterly average production, followed by Ferrier, Alberta with the largest share of production with light oil and gas and gas liquids, which contributed 36% of the Company's average production.

Quarterly Production (boepd)

Area	Three months ended March 31	
	2005	2004
S.E. Saskatchewan (2005 –January only)	117	343
Taber	103	137
Ferrier-Whitecourt (Willesden Green, Brazeau, Sunchild)	134	92
Herronton	10	59
Sturgeon Lake	5	25
Other	2	1
Total (boepd)	371	657

Revenue

During the quarter ended March 31, 2005, oil and gas sales decreased by 29% to \$1,628,180 as compared to \$2,284,843 for the same period in 2004 due to the sale of the Saskatchewan production.

Q1 2005 production is oil dominated; however the Company is anticipating that natural gas will be a more important revenue source in 2005 than in 2004. Although production decreased by 44%, revenue during Q1-2005 shrunk by 28%, as compared to the same period last year due to improved product pricing. Average product prices in the first quarter of 2005 were \$44.84 per boe, 17% higher than the \$38.32 per boe as per in the first quarter of 2004. Average oil and NGL prices increased 20% to \$47.53 per bbl from \$39.65 in 2004 and natural gas prices increased by 6% to \$6.67 per Mcf from \$6.27 per Mcf in 2004. Realized selling prices in Canadian dollars are influenced by currency exchange rates. The Canadian dollar strengthened to U.S. \$0.8164 in the first quarter of 2005, rising nearly 5 cents against its U.S. counterpart at U.S. \$0.7590 a year ago.

The Company sells its natural gas and crude oil on the spot market. The Company had no hedging / swapping transaction in the first quarter of 2005. For the period August 1, 2003 to March 31, 2004, the Company engaged in a commodity swap agreement with a Canadian bank, to sell 150 barrels per day of crude oil at WTI Cdn. \$41.30 per barrel. For the period January 1, 2004 to March 31, 2004 a loss of \$68,861 was incurred.

Royalties

For the quarter ended March 31, 2005, royalty expenses decreased to \$304,417 (\$9.10 per boe) from \$509,465 (\$8.54 per boe) in 2004, consistent with the lower Q1 production and revenue. As a percentage of revenue, the overall royalty rate decreased from 22% in 2004 to 20% in 2005. Crown royalties, from Ferrier-Whitecourt and Saskatchewan production, were approximately 12.5% of gross revenue 2005 unchanged compared to the period ended March 31, 2004 when Crown royalties were also approximately 12.5%. Freehold royalties averaged 7.7% of gross revenue, marginally higher than the 7.5% experienced in the first quarter of 2004. Crown royalties from Ferrier-Whitecourt production, resulted in an Alberta Royalty Tax Credit of \$3,375 in the first quarter of 2005 compared to \$23,315 in the first quarter of 2004.

Operating Expenses

Operating expenses, excluding transportation, were \$368,024 (\$11.00 per boe) for the quarter ended March 31, 2005 as compared to \$687,769 (\$11.63 per boe) for the three months ended March 31, 2004.

Operating costs per boe have improved over the average achieved during the full year of 2004 (\$14.40 per boe). Management believes that operating costs on a per unit basis will continue to improve throughout the year.

Transportation Expenses

Transportation expenses, including oil emulsion trucking and gas transportation and gathering charges, amounted to \$41,146 (\$1.23 per boe) for the quarter ended March 31, 2005 as compared with \$56,208 (\$0.95 per boe) in the first quarter of 2005. The decrease in expense is related to lower production levels in 2005 as compared to 2004.

General and Administration Expenses

General and administration (G&A) expenses were \$393,675 (\$11.76 per boe) for the quarter ended March 31, 2005 as compared to \$447,719 (\$7.51 per boe) for the same period of 2004. Overall G&A expenses declined 12% on a quarter over quarter gross basis however increased dramatically on a quarter over quarter per boe basis reflecting the boe reduction as a result of the Saskatchewan sale. The Company does not capitalize any G&A expenses.

Stock Based Compensation Expenses

The Company incurred \$43,128 in stock based compensation during Q1-2005 (nil during Q1-2004). The stock based compensation increased due to the increase in the number of options granted and due to the terms of our option plan. There were 400,000 of options granted in 2005. The Q1-2004 options granted (1,505,000) were not effective until approved by shareholders in June 2004 thus no expense was incurred in Q1- 2004. The cost of options granted is charged to operations in line with the vesting period of those options. Options granted since 2003 have been accounted for in accordance with the fair value based method for stock-based compensation. The 2005 stock-based compensation charge includes charges for both 2005 and 2004 option grants.

Interest Expenses

The Company retired bank debt outstanding at year end 2004 during the first quarter of 2005 using proceeds from the sale of Saskatchewan properties. During the quarter ended March 31, 2005 interest expenses totaled \$75,171. In the first quarter of 2004, the Company had no debt and therefore incurred no interest expense.

Net Income and Cash Flow

Cash flow is not a standard measure under Generally Accepted Accounting Principles. However, it has wide spread industry use and the Company believes it is a useful indication of the amount of cash generated from its operations and available to contribute to its ongoing activities.

The Company had cash flow of \$445,747 for the quarter ended March 31, 2005, a 30% decrease from cash flow of \$633,358 for 2004. The quarter-over-quarter decline in cash flow reflects a 43% decrease in production volumes and improved product prices during the first quarter of 2005.

The Company recorded a net loss of \$143,908 compared to net loss of \$86,545 for the same period in 2004. On a per share basis, net loss per share for the three months ended March 31, 2005 and March 31, 2004 was a net loss of less than \$0.01, on both a basic and diluted basis.

Depletion, Depreciation, and Accretion

Depreciation, depletion and accretion (DD&A) was \$513,964 (\$15.36 per boe) in the quarter ended March 31, 2005 as compared to \$693,830 (\$11.63 per boe) in the same period of 2004 and \$4,228,530 (\$19,21 per boe) for the fiscal 2004. The decrease in DD&A was primarily the result of decreased production in 2005 and a smaller asset base being depleted due to the sale of Saskatchewan properties.

Income Taxes

The Company did not incur current income tax and has approximately \$4.5 million of tax pools to shelter income in the future.

Capital Expenditures

In the quarter ended March 31, 2005, capital expenditures were \$3,677,130 on exploration and development activities compared to expenditures of \$2,429,955 in the same period in 2004. The Company spent approximately \$2,200,000 on land, seismic, geological and geophysical expenditures plus \$1,480,000 on drilling, completion and equipping in the quarter ended March 31, 2005, the majority of which was concentrated in the Ferrier-Whitecourt area of Alberta. In the remaining quarters of 2005, the capital expenditure program will continue to focus on the Ferrier-Whitecourt area of Alberta.

Liquidity

At March 31, 2005, the Company had working capital of \$1,621,333 compared to \$1,300,257 at March 31, 2004. To fund its ongoing activities, the Company will utilize cash flow, bank financing, the equity markets and asset sales. Winstar had a quarter-end \$2.95 million of bank financing available: a \$1.95 million revolving facility for general corporate purposes including capital expenditures and a \$1.0 million acquisition facility to be used in the acquisition and/or development of producing or proved non-producing petroleum and natural gas reserves. At March 31, 2005, the Company had not drawn on these credit facilities.

As of March 31, 2005, the Company had 37,216,590 weighted average common shares outstanding (2004 – 36,516,616) basic and 37,983,743 weighted average fully diluted (2004 – 36,837,105). As at May 30, 2005, there were 37,221,243 common shares outstanding.

New Accounting Standard

OIL AND GAS ACCOUNTING – FULL COST – ACCOUNTING GUIDELINE 16 (ACG-16)

The Company adopted this guideline effective January 1, 2004 as described in note 2 to the financial statements. AcG-16 establishes new rules for calculating the ceiling (impairment) test. The Company calculated the ceiling test under the new guideline on January 1, 2004 resulting in an impairment of \$3,597,084 being recorded as a reduction to property and equipment and an adjustment to the opening deficit in the amount of \$2,283,135 net of future income taxes. The Company calculated the ceiling test again on March 31, 2005 and March 31, 2004 and there was no impairment.

Business Risks

Being part of the oil and gas industry, the Company is subject to various governmental regulations which change from time to time and which are quite extensive in nature. The Company is very committed to operating as a good corporate citizen in a responsible manner. Having a very low involvement in the production of sour gas diminishes the Company's exposure to regulations involving sour gas, but there are environmental risks with any oil or gas production. The Company has in place and operates with a corporate safety and environmental standards policy. The Company also carries an adequate level of insurance for environmental liability, drilling, blowouts, business interruption and third party liability.

The oil and gas industry is continually exposed to the high risk of the uncertainty of finding new reserves, fluctuating commodity prices, variable interest rates, inflation, changing foreign exchange rates and unknown future income tax rates. The investor may rest assured that the Company is committed to a continual program of exploration and development guided by a very experienced and highly qualified team. When believed beneficial to the Company, hedging contracts for oil and gas are

entered into in order to guarantee a certain level of revenue. Furthermore, maintaining a reasonable net debt to cash flow ratio is an objective of management.

Balance Sheets

(unaudited)		
	March 31 2005	December 31 2004
	\$	\$
ASSETS		
Current		
Cash	662,560	27,420
Accounts receivable	1,778,056	2,027,537
Prepaid expenses	19,482	81,686
Product inventory	186,418	167,775
	2,646,516	2,304,418
Property and equipment (note 3)	11,074,226	21,480,512
Goodwill	2,441,038	2,441,038
	16,161,780	26,225,968
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	1,025,183	4,225,751
Bank Debt	-	4,790,000
	1,025,183	9,015,751
Future income taxes	1,450,024	1,417,461
Asset retirement obligation	1,260,434	3,285,917
	3,735,641	13,719,129
Shareholders' equity		
Share capital (note 4)	17,746,853	17,726,773
Contributed surplus (note 4)	847,594	804,466
Deficit	(6,168,308)	(6,024,400)
	12,426,139	12,506,839
	16,161,780	26,225,968

See accompanying notes

Notice to Reader

The accompanying interim Statements of Operations and Deficit and Cash Flows for the three month period ended March 31, 2004 have not been reviewed by the independent external auditors of the Company.

Statements of Operations and Deficit

Three months ended March 31 (Unaudited)

	2005	2004
	\$	\$
REVENUE		
Petroleum and natural gas sales	1,628,180	2,284,843
Royalties, net of Alberta Royalty Tax Credit	(304,417)	(509,465)
Interest	-	24,488
	1,323,763	1,799,866
EXPENSES		
Operating	368,024	687,769
Transportation costs	41,146	56,208
Depletion, depreciation and accretion	513,964	693,830
General and administration	393,675	447,719
Stock based compensation (note 5)	43,128	-
Interest expense	75,171	-
	1,435,108	1,885,526
Net (loss) before income taxes	(111,345)	(85,660)
Future income tax (recovery)	32,563	885
Net (loss) for the period	(143,908)	(86,545)
Deficit, beginning of period	(6,024,400)	(1,518,651)
Change in accounting policy (note 2)	-	(2,283,135)
Deficit, end of period	(6,168,308)	(3,888,331)
 Net (loss) per share (note 4)		
Basic and diluted	(\$0.00)	(\$0.00)

See accompanying notes.

Statements of Cash Flow

Three months ended March 31 (Unaudited)

	2005	2004
	\$	\$
OPERATING ACTIVITIES		
Net income (loss) for the period	(143,908)	(86,545)
Add items not requiring cash:		
Depletion, depreciation and accretion	513,964	693,830
Future income tax (recovery)	32,563	885
Stock based compensation	43,128	25,188
Funds provided by operations	445,747	633,358
Changes in non-cash working capital	(223,118)	(883,369)
	222,629	(250,011)
FINANCING ACTIVITIES		
Issuance of common shares for cash, net of costs	20,080	110,324
Repayment of bank debt	(4,790,000)	
Changes in non-cash working capital	-	(45,000)
	(4,769,920)	65,324
INVESTING ACTIVITIES		
Additions to property and equipment	(3,677,130)	(2,439,046)
Proceeds on disposition of property and equipment	11,543,970	
Changes in non-cash working capital	(2,684,409)	(2,802,086)
	5,182,431	(5,241,132)
Increase in cash	635,140	(5,425,819)
Cash, beginning of period	27,420	6,726,076
Cash, end of period	662,560	1,300,257

See accompanying notes.

Notes to Financial Statements

March 31, 2005 and 2004 (unaudited)

1. ACCOUNTING POLICIES

The accounting policies used in the preparation of these interim financial statements conform to those used in the Company's annual audited financial statements except as described in note 2. These interim financial statements do not include all of the disclosures in the annual financial statements. Accordingly, these interim financial statements should be read in conjunction with the most recent annual financial statements.

2. CHANGE IN ACCOUNTING POLICY

Property and equipment

Effective January 1, 2004, the Company adopted the CICA's Accounting Guideline 16 "Oil and Gas Accounting – Full Cost" ("AcG-16"). Under this new guideline, the Company tests impairment against undiscounted future net revenues from proved reserves using expected future prices and costs and the income tax and Alberta Royalty Tax Credit legislation in effect at the period-end. Impairment is recognized when the carrying amount of oil and gas assets is greater than the undiscounted future net revenues, at which time assets are written down to the fair value of proved and probable reserves plus the cost of unproved properties, net of impairment allowances. Fair value is determined using expected future prices and costs and the income tax and Alberta Royalty Tax Credit legislation in effect at the period-end, and amounts are discounted using a risk free interest rate.

Previously, the recoverable amounts for purposes of the test for impairment was the aggregate of estimated future net revenues from proved reserves and the costs of unproved properties, net of impairment allowances, less future estimated production costs, general and administrative costs, financing costs, site restoration and abandonment costs and income taxes.

The initial adoption of AcG-16 resulted in an impairment charge of \$3,597,084 on January 1, 2004. This amount has been recognized as the effect of a change in accounting policy and has been recorded as a reduction in the carrying value of oil and gas properties as at January 1, 2004 with an offsetting entry to opening deficit as at January 1, 2004 in the amount of \$2,283,135 net of future income taxes of \$1,313,949, without restatement of prior periods.

3. PROPERTY AND EQUIPMENT

March 31, 2005	Cost	Accumulated Depletion and Depreciation	Net Book Value
	\$	\$	\$
Petroleum and natural gas properties	19,633,152	9,615,589	10,017,563
Lease and well equipment	2,958,009	1,961,962	996,047
Office furniture and equipment	121,883	61,267	60,616
	22,713,044	11,638,818	11,074,226
December 31, 2004	\$	\$	\$
Petroleum and natural gas properties	28,842,507	9,177,026	19,665,481
Lease and well equipment	3,681,354	1,915,410	1,765,944
Office furniture and equipment	105,311	56,224	49,087
	32,629,172	11,148,660	21,480,512

At March 31, 2005, costs of \$ 6,616,142 related to unproven properties have been excluded from the depletion and depreciation calculation.

The amount of future development costs related to proved reserves used in the depletion calculation at March 31 2005 was \$497,700

Effective on February 1, 2005, the Company disposed of all its Saskatchewan properties for cash proceeds of \$11,750,000. As a result, property and equipment and the asset retirement obligation have been reduced by \$11,543,971 and \$2,080,668 respectively.

Also effective on February 1, 2005, the Company purchased the remaining 40% of the Ferrier properties located at Ferrier in Alberta which it did not already own, for cash consideration of \$2,450,000 and the transfer of Winstar's 60% working interest in 2 gross (1.20 net) sections, including the Boltan Creek 10-35 well bore.

4. SHARE CAPITAL

Authorized

Unlimited number of voting common shares with no par value

Unlimited number of first preferred shares

Unlimited number of second preferred shares

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

Issued – Common shares

	Number of Shares	Amount \$
Balance, December 31, 2004	37,148,923	17,726,773
Issued for cash on exercise of stock options	72,500	29,000
Share issue costs		(8,920)
Balance, March 31, 2005	37,221,423	17,746,853

Per share amounts

Per share amounts are calculated using the weighted average number of common shares outstanding during the period of 37,216,590 (2004, 36,516,686). The diluted per share amounts are calculated assuming the exercise of outstanding, in-the-money options. Such exercise of options is anti dilutive and has been excluded from the calculation of diluted net loss per share

5. STOCK BASED COMPENSATION

The Company has established a stock option plan whereby options may be granted to the Company's directors, officers, employees and certain consultants for up to 3,500,000 common shares. Options granted over the maximum common shares reserved cannot vest until an increase in the common shares available for issuance pursuant to the stock option plan is approved by the shareholders. The exercise price of each option equals the market price of the Company's stock on the date of the grant. An option's maximum term is five years and option vesting is determined by the board of directors.

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

	Three months ended March 31, 2005		Three months ended March 31, 2004	
	Options	Weighted Average Exercise Price \$	Options	Weighted Average Exercise Price \$
Balance beginning of period	2,635,000	0.91	2,202,330	0.33
Granted	400,000	0.68	1,505,000	1.14
Exercised	(72,500)	0.40	(477,330)	0.23
Expired	(65,000)	1.22		
Balance end of period	2,897,500	0.88	3,230,000	0.95

The fair market value of the options granted was estimated at the date of grant using a Black-Scholes option pricing model with the following assumptions for the quarter ending March 31, 2005: weighted average risk free interest rate of 4.5% (March 31, 2004 – 4.2%); dividend yield of 0% (March 31, 2004 – 0%); weighted average volatility factor of the market price of the Company's common shares of 46% (March 31, 2004 – 78%); and, an average expected life of the options of 4.0 years (March 31, 2004 – 3.5 years). Based on these fair market values, compensation expense in the quarter was \$43,128 (2004 – nil).

The following summarizes information about stock options outstanding at March 31, 2005:

Options Outstanding				Options Exercisable	
Range of exercise prices \$	Weighted average exercise price \$	Number outstanding at March 31, 2005	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number outstanding at March 31, 2005
0.36 – 0.68	0.50	1,162,500	3.0	0.44	779,166
1.01 – 1.28	1.17	1,735,000	3.1	1.15	1,303,327
	0.88	2,897,500	3.1	0.88	2,082,493

6. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation adopted in the current period.

7. SUBSEQUENT EVENTS

On March 30, 2005 the Company announced the following proposed transactions:

1. The proposed acquisition of Athanor B.V. ("Athanor"), a private company with production in Tunisia, in exchange for 56,975,884 Winstar common shares having an aggregate value of approximately \$38.2 million based upon the closing market price of \$0.67 on March 28, 2005.
2. The proposed acquisition of El Paso Hungary Oil and Gas Concession Limited Liability Company, a private company with production in Hungary, for US\$6.25 million, subject to adjustments.
3. The launch of a \$25 million equity financing.

Corporate Information

DIRECTORS

W. Russ Duncan ^{1, 2, 3}
Bruce R. Libin ^{1, 2, 3}
Roger G. McMechan
David A. Monachello
Kenneth S. Woolner ^{1, 2, 3}

1 Member of the Audit Committee
2 Member of the Compensation Committee
3 Member of the Reserves Committee

OFFICERS

Bruce R. Libin
CHAIRMAN OF THE BOARD

Roger G. McMechan
EXECUTIVE VICE PRESIDENT, ENGINEERING AND OPERATIONS

David A. Monachello
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Robert M. Cowper
CHIEF FINANCIAL OFFICER AND MANAGER OF INVESTOR
RELATIONS

Christopher W. Nixon
CORPORATE SECRETARY

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Trading Symbol: WRL

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ABBREVIATIONS

bbbl	barrel
boe	barrels of oil equivalent of natural gas and crude on the basis of one barrel of crude oil for six thousand cubic feet of natural gas (6 Mcf = 1 bbl). (This conversion factor is not based on either energy content or current prices.)
bopd	barrels of oil per day
boepd	barrels of oil equivalent per day
bpd	barrels per day
bwpd	barrels of water per day
Mbbl	thousand barrels
Mcf	thousand cubic feet
Mcfd	thousand cubic feet per day
MMcf	million cubic feet
NGL	natural gas liquids

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