

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.