

Financial Statements

(Expressed in Canadian Dollars)

Prepared by Management

For the Six Months Ended July 31, 2009

The accompanying Financial Statements for the Six months ended July 31, 2009 have not been reviewed or audited by the Company's Auditors.

Financial Statements

For the Six Months Ended July 31, 2009

Index

	Page
FINANCIAL STATEMENTS	
Balance Sheet	1
Statements of Operations & Deficit	2
Statements of Cash Flows	3
Notes to the Financial Statements	4 – 20

STATEMENTS OF OPERATIONS AND DEFICIT
For the Three and Six Months Ended July 31,
(Unaudited - Prepared by Management)

	3 months ended July 31,		6 months ended July 31,	
	2009	2008	2009	2008
REVENUES				
Interest	\$ -	\$ 35	\$ -	\$ 120
	-	35	-	120
EXPENSES				
Amortization and depletion	1,019	1,730	2,182	3,705
Professional fees	7,254	5,808	12,091	5,808
Management fees	19,500	15,000	39,000	30,000
Salaries, wages and benefits	3,555	-	3,555	10,369
Travel and accommodation	803	10,696	1,563	15,696
Consulting fees	893	30,000	893	75,000
Office supplies and services	4,772	10,131	11,102	12,024
Automobile Expenses		1,627		2,414
Share transfer, listing and filing fees	6,304	2,894	12,968	2,894
Shareholder information and communications	-	-		6,300
Telephone	-	2,243		3,310
Office rent	-	4,500		9,000
	44,100	84,629	83,354	176,520
Mineral Development Costs	-	-		24,000
	44,100	84,629	83,354	200,520
LOSS FOR THE PERIOD	(44,100)	(84,594)	(83,354)	(200,400)
DEFICIT, beginning of period	(11,171,525)	(11,135,140)	(11,132,271)	(11,019,334)
DEFICIT, end of period	\$(11,215,625)	\$(11,219,734)	\$(11,215,625)	\$(11,219,734)
LOSS PER SHARE	\$(0.01)	\$(0.01)	\$(0.03)	\$(0.02)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	3,086,085	13,030,527	3,086,085	12,998,659

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS
For the Three and Six Months Ended July 31,
(Unaudited - Prepared by Management)

	3 months ended July 31,		6 months ended July 31,	
	2009	2008	2009	2008
CASH PROVIDED BY (USED IN)				
OPERATING ACTIVITIES				
Loss for the period	\$ (44,102)	\$ (84,595)	\$ (83,356)	\$ (200,402)
Items not involving cash				
Amortization and depreciation	1,019	1,730	2,182	3,705
	(43,083)	(82,865)	(81,174)	(196,697)
Changes in non-cash working capital items				
Accounts receivable	-	(2,309)	-	(2,309)
Prepaid expenses	-	2,829	3,303	2,979
Taxes payable	(8,028)	-	(2,638)	-
Mineral development costs	-	-	-	-
Accounts payable and accrued liabilities	16,378	25,931	12,956	72,444
Cash used in operating activities	(34,733)	(56,414)	(67,553)	(123,583)
FINANCING ACTIVITIES				
Due to related parties	164,865	-	232,435	-
Share subscriptions received	-	70,000	-	94,000
Share subscriptions receivable	-	-	-	-
Cash provided by financing activities	164,865	70,000	232,435	94,000
INVESTING ACTIVITIES				
Resource property expenditures	(137,318)	-	(169,725)	-
Property option payments	-	-	-	-
Cash provided by (used in) investing activities	(137,318)	-	(169,725)	-
(DECREASE) INCREASE IN CASH	(7,186)	13,586	(4,843)	(29,583)
CASH, beginning of period	8,484	(378)	6,141	42,791
CASH, end of period	\$ 1,298	\$ 13,208	\$ 1,298	\$ 13,208
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Shares issued for resource property	\$ -	-	\$ -	\$ 24,000
See accompanying notes to financial statements.				

Notes to Financial Statements
Six Months ended July 31, 2009
(Unaudited - Prepared by Management)

NOTE 1 – NATURE AND CONTINUANCE OF OPERATIONS

WellStar Energy Corp. (the “Company”) was incorporated under the laws of the Province of British Columbia on August 26, 1985. The Company’s common shares are traded on the TSX Venture Exchange (“TSX-V”).

The Company is engaged in the acquisition and exploration of mineral properties in Canada. The underlying value of the properties and related exploration costs are entirely dependent on the existence of economically recoverable revenues, on the ability of the Company to obtain the necessary financing to complete development and upon future profitable production. The Company abandoned its oil and gas acquisition, development and production operations during the year ended January 31, 2008 (see Note 4).

These financial statements have been prepared under the assumption that the Company is a going concern. The ability of the Company to continue operations as a going concern is dependent upon obtaining additional capital to continue normal operations. Given the Company's limited operating history, lack of sales, and its operating losses, there can be no assurance that it will be able to achieve or maintain profitability. Accordingly, these factors raise substantial doubt about the Company's ability to continue as a going concern. Realization values may be substantially different from carrying values as shown in these financial statements should the Company be unable to continue as a going concern.

The Company's future capital requirements will depend on many factors, including the expenditures required to acquire and explore its properties, administrative expenses, costs to complete well production, if warranted, and global market conditions. The Company's anticipated recurring operating losses and growing working capital needs will require that it obtain additional capital to operate its business. As at July 31, 2009, the Company has a working capital deficiency of \$2,180,964 (Jan 31, 2009 - \$1,930,066) and an accumulated deficit of \$11,215,625 (Jan 31, 2009 - \$11,132,271).

Although the Company takes steps to verify title to the properties on which it is conducting exploration and in which it has an interest, consistent with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, unregistered claims, and non-compliance with regulatory requirements.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

(a) Financial statement presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. All balances are stated in Canadian dollars.

(b) Properties and Equipment

(i) Oil and Gas Properties

The Company follows the Canadian full cost method of accounting whereby all costs relating to the exploration for, and development of, petroleum and natural gas properties are capitalized into a single Canadian cost centre. Such costs include land acquisitions, lease rentals, drilling, well equipment, geological and geophysical, and overhead expenses related to exploration and development activities.

Proceeds received on the sale of interests in properties are normally deducted from the full cost pool without recognition of a gain or loss, unless such a disposition would alter the rate of depletion and depreciation by 20% or more.

When there has been a delay in exploration activity that extends beyond three years, capitalized costs are written down unless there is persuasive evidence that an impairment allowance is not required.

(ii) Depletion and Amortization

Depletion of petroleum and natural gas properties and amortization of production equipment and facilities are calculated using the unit-of-production method based upon estimated proved reserves, before royalties, as determined by independent engineers. For purposes of the calculation, petroleum and natural gas reserves and production are converted to equivalent volumes based upon relative energy content whereby one barrel of oil equals six thousand cubic feet of natural gas. In determining its depletion base, the Company includes estimated future costs to be incurred in developing proved reserves and excludes the cost of undeveloped properties until it is determined that proved reserves are attributable to the property or impairment has occurred.

(iii) Mineral Properties Interests

The Company is in the exploration stage with respect to its mineral properties interests and defers all expenditures related to its mineral properties interests until such time as the property to which they relate is put into commercial production, sold or abandoned. Under this method all costs related to the exploration for and development of the properties is capitalized and the carrying values do not necessarily reflect current or future values. If the properties are put into commercial production, the expenditures will be charged to operations by depletion based upon the proven reserves available. If the properties are sold or abandoned, the expenditures will be written off. The Company does not accrue the estimated future costs of maintaining in good standing its resource properties.

(iv) Wellhead Equipment

Amortization is provided on a declining-balance basis at 30% per annum.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Office Equipment and Furniture

Office equipment is recorded at cost, net of accumulated amortization. The cost of office equipment is amortized over its estimated useful life, at the rate of 20% per annum by the declining balance method.

(vi) Joint Venture

Substantially all of the Company's exploration, development and production activities related to oil and gas are conducted jointly with others, and accordingly, the accounts reflect only the Company's proportionate interest in such activities.

(vii) Ceiling Test

Effective February 2004, the Company adopted the requirements of the Canadian Institute of Chartered Accountant's ("CICA") Accounting Guideline 16 ("AcG-16"). AcG-16 modifies the ceiling test for how impairment is tested, requiring an impairment loss to be recognized when the carrying amount of a cost centre is not recoverable and exceeds its fair value. The carrying value is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows based on expected prices. Fair value is determined using the expected present value approach. This approach incorporates risk and uncertainties in the expected future cash flows, which are discounted using a risk-free rate.

(c) Long-lived Assets Impairment

Long-lived assets of the Company are reviewed when changes in circumstances suggest their carrying value has become impaired. Management considers assets to be impaired if the carrying value exceeds the estimated undiscounted future projected cash flows to result from the use of the asset and its eventual disposition. If impairment is deemed to exist, the assets will be written down to fair value. Fair value is generally determined using a discounted cash flow analysis.

(d) Asset Retirement Obligation

The Company recognizes an estimate of the liability associated with an asset retirement obligation ("ARO") in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a unit-of-production method over the life of the proved reserves. The liability amount can increase in each reporting period due to the passage of time and the corresponding amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded.

(e) Loss Per Share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method for calculating diluted loss per share. However, diluted loss per share is not presented where the effects of various conversions and exercise of options and warrants would be anti-dilutive. Shares held in escrow, other than when their release is subject to the passage of time, have not been included in the calculation of the weighted average number of common shares outstanding.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Share Issue Costs

Share issue costs are netted against capital stock proceeds.

(g) Revenue Recognition

Revenue from the sale of petroleum and natural gas is recognized when title passes to an external party and is based on volumes delivered to customers at contractual delivery points and rates.

The costs associated with the delivery, including operating and maintenance costs, transportation and production-based royalty expenses are recognized during the same period in which the related revenue is earned and recorded.

(h) Stock-Based Compensation

The Company accounts for stock-based compensation expense using the fair value based method with respect to all stock-based payments to directors, employees and non-employees, including awards that are direct awards of stock and call for settlement in cash or other assets, or stock appreciation rights that call for settlement by the issuance of equity instruments. Under this method, stock-based payments are recorded as an expense over the vesting period or when the awards or rights are granted, with a corresponding increase to contributed surplus under shareholders' equity. When stock options are exercised, the corresponding fair value is transferred from contributed surplus to capital stock.

(i) Income Taxes

The Company follows the recommendations of the CICA to account for income taxes, which requires the use of the asset and liability method. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets recognized, net of valuation allowance, is limited to the amount of the benefit that is more likely than not to be realized.

(j) Flow-Through Shares

The Company finances a portion of its exploration programs with flow-through common shares issued pursuant to certain provisions of the *Income Tax Act* (Canada) (the "Act"). Under the Act, where the proceeds are used for eligible expenditures, the related income tax deductions may be renounced to subscribers. Capital stock is reduced by an amount equal to the estimated future income tax effect as a result of the renunciations. Accordingly, the tax credits associated with the expenditures are recorded as an increase to future income tax liabilities.

(k) Share Purchase Warrants

The Company bifurcates units consisting of common shares and share purchase warrants using the residual value approach whereby it first measures the common share component of the unit at fair value using market prices as input values and then allocates any residual amount to the warrant component of the unit. The residual value of the warrant component is credited to contributed surplus. When warrants are exercised, the corresponding residual value is transferred from contributed surplus to capital stock.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of estimates include the rates for depletion, depreciation and, recoverability of property and equipment, balances of accrued liabilities, estimated asset retirement obligation and determination of the assumptions used in the calculation of stock-based compensation expense. Actual results could differ from those estimates and would impact future results of operations and cash flows.

(m) Financial Instruments

Financial instruments – recognition and measurement

This Section establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held for trading, available for sale, held to maturity, loans and receivables, or other liabilities.

Financial assets and liabilities classified as held for trading are measured at fair value, with gains and losses recognized in net earnings.

Financial assets classified as held to maturity, loans and receivables and financial liabilities (other than those held for trading) are measured at amortized cost using the effective interest method of amortization.

Available for sale financial assets are measured at fair value, with unrealized gains and losses recognized in other comprehensive income. Investments in equity instruments classified as available for sale that do not have a quoted market price in an active market are measured at cost.

The Company has classified its financial instruments as follows:

- Cash is classified as held for trading.
- Accounts payable and accrued liabilities and amounts due to related parties are classified as other liabilities.

The criteria for designating items as held for trading include financial assets that were acquired principally with the intention of generating a profit from price fluctuation. Available for sale assets are all financial assets not classified as either held for trading, accounts receivable, or held to maturity.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Comprehensive income

Comprehensive income is the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources, such as any unrealized gains and losses in financial assets classified as available for sale. In accordance with this new standard, the Company reports a statement of comprehensive income and a new category, accumulated other comprehensive income, is added to the shareholders' equity section of the balance sheet. The Company had no "other comprehensive income or loss" transactions during the period ended July 31, 2009 and no opening or closing balances for "accumulated other comprehensive income or loss".

Hedges

This Section establishes standards for how hedge accounting may be applied. The Company currently does not have any hedges in place, and therefore this standard has no impact on its financial statements.

(m) Financial Instruments (continued)

Financial instruments – disclosure and presentation

(i) Fair value of financial instruments

The Company's financial instruments include cash, accounts payable and accrued liabilities and amounts due to related parties. The fair values of these financial instruments approximate their carrying values because of their short term nature.

(ii) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to fulfill an obligation and cause the other party to incur a financial loss. The Company's cash is federally insured, and consequently the Company considers the credit risk to be minimal.

(iii) Foreign exchange risk

Foreign exchange risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company does not have material transactions designated in a foreign currency and therefore management considers the foreign exchange risk to be minimal.

(iv) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Company's cash and cash equivalents are currently held in cash and therefore management considers the interest rate risk to be minimal.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Capital management

The Company's objective in managing its capital, which is comprised of cash and instruments which are capable of being converted to cash, is to safeguard all cash resources by investing in government or bank instruments which can be liquidated promptly and which yield acceptable rates of return, and also to issue from its treasury shares, warrants and options which can be converted to cash. Treasury issuances of shares, options and warrants are part of the Company's capital raising process and are issued when cash is required, ideally under favorable market conditions, and with regard to dilution of the Company's capital structure. The exercise of warrants and options are not under the control of the Company's management. All capital transactions are subject to approval of the Company's directors.

(n) Recent Accounting Pronouncements Issued and Not Yet Applied

Goodwill and intangible assets

In February 2008, the CICA issued Handbook Section 3064, "Goodwill and intangible assets", replacing Section 3062, "Goodwill and other intangible assets", and Section 3450, "Research and development costs". This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The new section is effective for years beginning on or after October 1, 2008. The adoption of this Section will not have an impact on the financial statements.

(n) Recent Accounting Pronouncements Issued and Not Yet Applied (continued)

Convergence to International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accepted accounting principles with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of the amounts reported by the Company for the year ended January 31, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

NOTE 3 – CHANGE TO ACCOUNTING POLICY

Effective February 1, 2008, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (“CICA”). These accounting policy changes were adopted on a prospective basis with no restatement of prior period consolidated financial statements:

- i) CICA Section 1400 *General Standards of Financial Statement Presentation* provides revised guidance on management’s responsibility to assess and disclose the Company’s ability to continue as a going concern.
- ii) CICA Section 1535 *Capital Disclosures* requires the disclosure of both qualitative and quantitative information that provides users of financial statements with information to evaluate the entity’s objectives, policies and procedures for managing capital. The required disclosure is included in Note 2 to these financial statements.
- iii) CICA Section 3862 *Financial Instruments - Disclosures* and CICA Section 3863 *Financial Instruments - Presentation* replace Section 3861 *Financial Instruments - Disclosure and Presentation*. Section 3862 provides users with information to evaluate the significant of the financial instruments of the entity’s financial position and performance, nature and extent of risks arising from financial instruments, and how the entity manages those risks. Section 3863 deals with the classification of financial instruments, related interest, dividends, losses and gains and the circumstances in which financial assets and financial liabilities are offset. The required disclosure is included in Note 2 to these financial statements.
- iv) CICA Section 3031 *Inventories* establishes standards for the measurement and disclosure of inventories. The new standard provides more extensive guidance on the determination of cost, including allocation of overhead and requires impairment testing. The adoption of this standard did not have any material effect on the financial statements.

NOTE 4 – OFFICE EQUIPMENT AND FURNITURE

	July 31, 2009	January 31, 2009
Office equipment and furniture, cost	\$ 18,724	\$ 18,724
Less: Accumulated amortization	(8,053)	(5,871)
	\$ 10,671	\$ 12,853

NOTE 5 – OIL AND GAS PROPERTY AND DISCONTINUANCE OF ITS OPERATION

As at January 31, 2009 and 2008	Cost	Accumulated Amortization and Depletion	Write-Down Oil and Gas Property	Net
Participation fee	\$ 125,000	\$ -	\$ (125,000)	\$ -
Wellhead equipment	963,774	(197,338)	(766,436)	-
Asset retirement costs	150,000	-	(150,000)	-
Development costs	2,866,958	(361,993)	(2,504,965)	-
	<u>\$ 4,105,732</u>	<u>\$ (559,331)</u>	<u>\$ (3,546,401)</u>	<u>\$ -</u>

Virgo/Zama, Alberta, Canada

In the 2006 fiscal year the Company entered into a Participation Agreement with Warburg Resources Inc. ("Warburg") in consideration of a participation fee of \$125,000. Under the terms of the agreement, the Company was granted the right to earn from 50% to 75% interest before pay out ("BPO") and a 47.5% to 50% interests after pay out ("APO") in three properties, and a 45% and 30% interest in a fourth property subject to Crown and farmor royalties ranging from 5% to 22.5%. Warburg is a private company owned by a former Director of the Company. Warburg changed their name to "Interquest Incorporated" on January 1, 2007.

As at January 31, 2008, the Company decided to abandon the property. The abandonment altered the Company's rate of depletion and depreciation by more than 20% and accordingly the abandonment was accounted for as a discontinuance of operations for the 2008 fiscal year.

In the year ended January 31, 2009, the Company assigned its interest in the abandoned oil and gas wells and facilities and any environmental liabilities and obligations relating thereto to a company controlled by a former Director of the Company, and accordingly recognized a recovery of asset retirement obligations previously recognized on the oil and gas wells and facilities in the amount of \$150,000 (balance at January 31, 2009 - \$nil, 2008 - \$150,000).

Amounts included in discontinued oil and gas operations of the Virgo/Zama property for fiscal 2009 and 2008:

	2009	2008
Operating costs	\$ -	\$ (24,587)
Recovery of asset retirement obligations previously recognized	(150,000)	-
Write-down of property development costs	-	(1,768,736)
	<u>\$ -</u>	<u>\$ (1,793,323)</u>

NOTE 6 – MINERAL PROPERTY INTEREST

July 31, 2009	Atlin Project
Carrying amount, January 31, 2009	\$ 142,096
Acquisition costs	1,268
Exploration costs incurred during period:	
Assays	2,203
Assessment	12,569
Consulting	144,156
Field Supplies	702
Fuel	2,053
Geophysical	4,465
Mobilisation Demobilisation	2,110
Vehicle rental	200
Carrying amount, July 31, 2009	\$ <u>311,822</u>

On September 1, 2008, the Company entered into a mineral property option agreement with Blind Creek Resources Ltd. (a company with a common Director) whereby WellStar may earn a 50% interest in Blind Creek's 100% owned Main and Como Lake blocks of claims in Atlin, British Columbia, by spending \$750,000 over a three year period, with a minimum of \$250,000 being spent in each year ended December 31, 2009, 2010 and 2011 respectively.

Upon exercise of the option, the Company and Blind Creek Resources Ltd. will form a joint venture to further explore the claims.

NOTE 7 – CAPITAL STOCK

- (a) Authorized: Unlimited number of common shares without par value
- (b) Issued

	Number	Amount
Balance, January 31, 2007	1,857,141	\$ 8,010,500
Private placement at \$2.00 per unit for cash	355,250	710,500
Private placement at \$1.75 per unit for cash	313,714	548,899
Less: cost of issuance	-	(109,194)
Issuance of shares pursuant to mineral property option agreement	40,000	64,400
Future income tax on renouncement of resource property expenditures	-	(714,000)
Balance, January 31, 2008	2,566,105	\$ 8,511,205
Issuance of shares pursuant to mineral property option agreement	40,000	24,000
Private placement at \$0.25 per unit for cash	480,000	120,000
Adjustment due to rounding upon share consolidation (Note 5(b)(i))	(20)	-
Balance, January 31, 2009 and July 31, 2009	<u>3,086,085</u>	<u>\$ 8,655,205</u>

- (i) During the year ended January 31, 2009 the Company completed a one new for five old stock consolidation. The Company's share transactions, including the weighted average number of common shares outstanding calculation for purposes of determining earnings per share, have been restated retroactively for all of the above corporate capital transactions in these financial statements.
- (ii) On February 29, 2008, the Company issued 40,000 common shares pursuant to the terms of a mineral property option agreement at an estimated fair value of \$0.60 per share. The option agreement was abandoned as at January 31, 2008. The Company charged the stock-based payment against the gain on settlement of debt recognized during the year ended January 31, 2009, pursuant to a mutual release agreement entered into with the optionor of the mineral property.
- (iii) On August 7, 2008 the Company issued 480,000 units at a price of \$0.25 per unit. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one additional common share at a price of \$0.50 per share for two years with accelerated conversion if at any time after the expiry of four months and one day after the issuance date the common shares trade at a trading price of \$5.00 or above for a period of no less than 10 consecutive trading days, then the Company may give notice to the warrant holder that the expiry date of the warrants will be accelerated to thirty days from the date of notice. 300,000 of the units were purchased by the President of the Company.

NOTE 7 – CAPITAL STOCK (continued)

(b) Issued (continued)

- (iv) On March 2 and April 24, 2007, the Company completed a private placement of 355,250 units at a price of \$2.00 per unit. Each unit consisted of one common share and a one-half non-transferable warrant entitling the investor to purchase an additional common share for each whole warrant at a price of \$2.50 per share for a period of one year. The Company charged \$29,680 to share issue costs for finders' fees incurred in connection with this financing. Approximately one-half of the common shares are flow-through common shares and none of the warrants are flow-through warrants.
- (v) On April 30, 2007, the Company completed a private placement of 313,714 units at a price of \$1.75 per unit. Each unit consisted of one flow-through common share and a one non-transferable non-flow through warrant entitling the investor to purchase an additional common share for each whole warrant at a price of \$2.00 per share for the first year and at a price of \$2.50 per share for the second year. The Company charged \$60,000 cash and \$11,155 stock-based compensation on the issuance of 28,571 options to the agent to share issue costs for finders' fees incurred in connection with this financing.
- (vi) On May 16, 2007, the Company issued 40,000 common shares pursuant to the terms of mineral property option agreement at a deemed price of \$1.60. The option agreement was subsequently abandoned.

(c) Stock Options

A summary of the status of the Company's stock options as at July 31, 2009 and January 31, 2009 and the changes during the years is as follows:

	2009		2008	
	Number of Options	Weighted Average Exercise Price	Number of Options	Number of Options
Balance, beginning of year	163,710	\$ 3.35	186,139	\$ 3.70
Granted	-	-	28,571	\$ 1.75
Expired/cancelled	(97,771)	\$ 3.78	(79,571)	\$ 3.85
Exercised	-	-	-	-
Balance January 31, 2009 and September 31, 2009	65,939	\$ 3.23	135,139	\$ 3.35

As at July 31, 2009 and January 31, 2009 the following stock options were outstanding:

Expiry Date	Exercise Price	Number of Shares	
		2009	2008
July 11, 2010	\$ 2.75	30,939	45,939
April 10, 2011	\$ 3.50	-	13,000
May 18, 2011	\$ 4.25	35,000	76,200
		65,939	135,139

NOTE 7 – CAPITAL STOCK (continued)

(c) Stock Options (continued)

During the year ended January 31, 2008, the Company granted 28,571 stock options at an exercise price of \$1.75 to the Agent of the April 30, 2007 private placement (see Note 7(b)(v)). The Company charged \$11,155 against share issuance costs with an off-setting credit to contributed surplus (Note 8) to recognize the estimated fair value of the stock options granted as compensation. The Agent's options entitle the Agent to acquire one unit, consisting of one common share and a one non-transferable warrant entitling the Agent to purchase an additional common share for each whole warrant at a price of \$2.00 per share for the first year and at a price of \$2.50 per share for the second year.

The fair value of each option grant is calculated using the following weighted average assumptions:

	<u>2009</u>	<u>2008</u>
Risk free interest rate	-	4.1%
Expected life (years)	-	2
Expected volatility	-	56%
Expected dividends	-	0%

(d) Warrants

A summary of all warrants outstanding at July 31, 2009 is as follows:

Expiry date	Exercise Price	Balance January 31, 2009	Granted	Exercised	Expired/ Terminated	Balance July 31, 2009
April 30, 2009	\$2.50	313,714	-	-	(313,714)	-
Aug 7, 2010	\$0.50	480,000	-	-	-	480,000
Total		793,714	-	-	(313,714)	480,000
Weighted average exercise price		\$0.77	-	-	\$2.50	\$0.50

A summary of all warrants outstanding at January 31, 2009 is as follows:

Expiry date	Exercise Price	Balance January 31, 2008	Granted	Exercised	Expired/ Terminated	Balance January 31, 2009
March 2, 2008	\$2.50	135,250	-	-	(135,250)	-
April 24, 2008	\$2.50	44,375	-	-	(44,375)	-
April 30, 2009	\$2.50	313,714	-	-	-	313,714
Aug 7, 2010	\$0.50	-	480,000	-	-	480,000
Total		493,339	480,000	-	(179,625)	793,714
Weighted average exercise price		\$2.35	\$0.50	-	\$2.50	\$0.77

NOTE 7 – CAPITAL STOCK (continued)

(e) Flow-Through Shares

At January 31, 2009, the Company had a commitment to incur a further \$524,393 of eligible exploration and development expenditures on or before July 31, 2009, and incurred \$168,459 towards this commitment by July 31, 2009. The financial statement effect of not meeting this commitment can not be estimated.

NOTE 8 – RELATED PARTY TRANSACTIONS

Transactions with related parties not disclosed elsewhere in these financial statements comprise the following:

- (a) During period ended July 31, 2009, the Company incurred management fees of \$39,000 (2008 - \$30,000) to a director and officer of the Company and \$8,820 general office services (2008 - \$5,600) to the same director and officer.
- (b) During the period ended July 31, 2009, the Company incurred \$Nil (2008 - \$9,000) for accounting services and \$nil (2008 - \$1,800) for corporate services to a former director and officer of the Company and/or a private company controlled by the former director and officer.
- (c) During the period ended July 31, 2009, the Company incurred \$Nil (2008 - \$9,000) for office premises rent to a director and officer of the Company.
- (d) During the period ended July 31, 2009, the Company incurred legal expenses of \$316 to a law firm in which a director of the Company is a partner (2008 - \$nil).
- (e) During the year ended July 31, 2009, the Company incurred \$168,459 (2008 - \$nil) of exploration expenditures to a company in which one of the Company's directors is a director.
- (f) Amounts due to related parties are non-interest bearing, unsecured and have no repayment terms.

Transactions with related parties are measured at the exchange amount of consideration established by the related parties.

NOTE 9 – INCOME TAXES

As at January 31, 2009, the Company has accumulated non-capital losses for tax purposes of approximately \$2,114,614 (2007 - \$1,665,000) that may be applied against future taxable income for Canadian income tax purposes. The potential future tax benefits of these losses have not been recorded in these financial statements. The losses expire as follows:

2009	\$ 85,000
2010	109,000
2011	50,000
2015	50,000
2026	225,000
2027	791,000
2028	448,000
2029	152,000
	<u>\$ 1,910,000</u>

The Company has approximately \$976,000 of un-depreciated capital costs and approximately \$751,000 of Canadian Exploration Expenses, Canadian Development Expenses, Canadian Oil & Gas Property Expenses and Foreign Exploration & Development Expenses that may be carried forward and deducted from income indefinitely.

The reconciliation of income tax provision computed at statutory relates to the reported income tax provision is as follows:

	<u>2009</u>	<u>2008</u>
	30.87%	33.90%
Income tax benefit computed at Canadian statutory rates	\$ 34,864	\$ 885,940
Temporary differences	(990)	(744,882)
Permanent differences	11,057	(20,278)
Income tax rate changes	(109,609)	(2,779)
Unrecognized tax (losses) recovery	64,678	(118,001)
Future income tax arising from flow-through share renouncement	-	714,000
Income tax recovery	<u>\$ -</u>	<u>\$ 714,000</u>

Further income tax assets and liabilities are recognized for temporary differences between the carrying amounts of the balance sheet items and their corresponding tax values as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. Significant components of the Company's future tax assets and liabilities, after applying enacted corporate income tax rates, are as follows:

	<u>2008</u>	<u>2007</u>
Future income tax assets		
Temporary differences in resource properties	\$ 231,921	\$ 411,001
Temporary differences in fixed assets	297,292	287,575
Temporary differences in other balance sheet items	-	71,880
Net tax losses carried forward	<u>587,504</u>	<u>454,276</u>
	1,116,717	1,224,732
Valuation allowance for future income tax assets	<u>(1,116,717)</u>	<u>(1,224,732)</u>
Net future income tax assets	<u>\$ -</u>	<u>\$ -</u>

WELLSTAR ENERGY CORP.
Management Discussion and Analysis
For the six months ended July 31, 2009

The following discussion and analysis of the operations, results, and financial position of the Company for the six months ended July 31, 2009 should be read in conjunction with the July 31, 2009 Financial Statements and the related Notes. The effective date of this report is September 30, 2009. All amounts are expressed in Canadian dollars unless otherwise noted.

OVERVIEW

WellStar Energy Corp. (the "Company") was incorporated under the laws of the Province of British Columbia on August 26, 1985. The common shares are publicly traded on the TSX Venture Exchange ("WSE") and on the Frankfurt Stock Exchange ("W6V1"). The Company is in the business of acquisition, exploration and development of natural resources including petroleum and natural gas.

The Company's principal business activity is the exploration and development of mineral properties. The Company is in the process of exploring, developing and acquiring resource properties and has not yet determined whether it will be able to explore, develop or acquire resource properties that contain reserves that are economically recoverable. The recoverability of amounts shown for resource properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete development, confirmation of the Company's interest in the underlying properties and upon future profitable production or sufficient proceeds from the disposition of its resource properties.

The Company is continually investigating new exploration opportunities and mineral exploration is carried out on properties identified by management of the Company as having favorable exploration potential. Interests in such properties are acquired in various ways. In some cases, the Company, through its own efforts, stakes mineral claims or acquires exploration permits. In other cases the Company acquires interests in mineral properties from third parties. An acquisition from a third party is typically made either as an outright purchase (with payment of cash and/or shares) or by way of an option agreement, which requires the Company to make specific option payments and to incur a specific amount of exploration and development expenditures. Once having incurred the specified exploration expenditures, the parties will enter into a joint venture requiring each party to contribute towards future exploration and development costs, based on its percentage interest in the property, or suffer dilution of its interest.

The Company advances its projects to varying degrees by prospecting, mapping, geophysics and drilling. Once a property is determined to have limited exploration potential, the property is abandoned or sold. In cases where exploration work on the property reaches a stage where the expense and risk of further exploration and development are too high, the Company may seek a third party to earn an interest by furthering development. Optioning a property to a third party allows the Company to retain an interest in further exploration and development while limiting its obligation to commit large amounts of capital to any one project. The resource exploration business is high risk and most exploration projects will not become mines or producing wells.

The continuous disclosure materials of the Company, including its annual MD&A and audited financial statements, Information Circular and Proxy Statement, material change reports and press releases issued by the Company are available through the SEDAR system at www.sedar.com.

WELLSTAR ENERGY CORP.
Management Discussion and Analysis
For the six months ended July 31, 2009

SELECTED ANNUAL INFORMATION

The following are highlights of financial data on the Company for the most recently completed three financial years:

Expressed in Cdn \$

	2009	2008	2007
Loss before other items	(313,725)	(824,367)	(1,083,700)
Net loss	(112,927)	(1,899,396)	(3,381,407)
Loss per share	(0.040)	(0.799)	(0.41)
Total assets	164,393	96,517	1,846,992
Total liabilities	1,939,510	1,911,946	(2,212,886)
Working capital	(1,930,066)	(1,681,489)	(1,981,894)

FORWARD LOOKING STATEMENTS

The Management Discussion and Analysis is based on a review of the Company's operations, financial position and plans for the future based on facts and circumstances as of July 31, 2009. Except for historical information or statements of fact relating to the Company, certain information contained herein constitutes forward looking statements. Forward looking statements are based on the opinions, plans and estimates of management at the date the statements are made and are subject to a variety of risks, uncertainties and other factors that could cause the actual results to differ materially from those projected by such statements. The primary risk factors affecting the Company are discussed further under the heading "Risk Factors" below. The Company undertakes no obligation to update forwarding looking statements if circumstances or management's estimates, plans or opinions should change. The reader is cautioned not to place undue reliance on forwarding looking statements.

The Company's projections are estimates only based on management's assessment of facts at the time of the projections. Management believes these projections to be reasonable but actual results may differ.

**RISK FACTORS RELATING TO MINERAL EXPLORATION
INDUSTRY**

There are many risk factors facing companies involved in the mineral exploration industry. Risk Management is an ongoing exercise upon which the Company spends a substantial amount of time. While it is not possible to eliminate all the risks inherent to the industry, the Company strives to manage these risks, to the greatest extent possible. The following risks are most applicable to the Company.

Industry and Mineral Exploration Risk

Mineral exploration is highly speculative in nature, involves many risks and frequently is non-productive. There is no assurance that the Company's exploration efforts will be successful. At present, the Company's projects do not contain any proven or probable reserves. Success in establishing reserves is a result of a number of factors, including the quality of the project itself. Substantial expenditures are required to establish reserves or resources through drilling, to develop metallurgical processes, to develop the mining and processing facilities and infrastructure at any site chosen for mining. Because of these uncertainties, no assurance can be given that planned exploration programs will result in the establishment of mineral resources or reserves.

WELLSTAR ENERGY CORP.
Management Discussion and Analysis
For the six months ended July 31, 2009

The Company may be subject to risks which could not reasonably be predicted in advance. Events such as labour disputes, environmental issues, natural disasters or estimation errors are prime examples of industry related risks. The Company attempts to balance this risk through insurance programs where required and ongoing risk assessments conducted by its technical team.

Commodity Prices

The Company is in the business of metals exploration and as such, its prospects are largely dependent on movements in the price of various metals. Prices fluctuate on a daily basis and are affected by a number of factors well beyond the control of the Company. The mineral exploration industry in general is a competitive market and there is no assurance that, even if commercial quantities of proven and probable reserves are discovered, a profitable market may exist. Due to the current grassroots nature of its operations, the Company does enter onto price hedging programs.

Environmental

Exploration projects or operations are subject to the environmental laws and applicable regulations of the jurisdiction in which the Company operates. Environmental standards continue to evolve and the trend is to a longer, more complete and rigid process. The Company reviews environmental matters on an ongoing basis. If and when appropriate, the Company will make appropriate provisions in its financial statements for any potential environmental liability.

Title of Assets

Although the Company conducts title reviews in accordance with industry practice prior to any purchase of resource assets, such reviews do not guarantee that an unforeseen defect in the chain on title will not arise and defeat our title to the purchased assets. If such a defect were to occur, our entitlement to the production from such purchased assets could be jeopardized.

Competition

The Company engages in the highly competitive resource exploration industry. The Company competes directly and indirectly with major and independent resource companies in its exploration for and development of desirable resource properties. Many companies and individuals are engaged in this business, and the industry is not dominated by any single competitor or a small number of competitors. Many of such competitors have substantially greater financial, technical, sales, marketing and other resources, as well as greater historical market acceptance than does the Company. The Company will compete with numerous industry participants for the acquisition of land and rights to prospects, and for the equipment and labor required to operate and develop such prospects. Competition could materially and adversely affect the Company's business, operating results and financial condition. Such competitive disadvantages could adversely affect the Company's ability to participate in projects with favorable rates of return.

Financing

Historically, the Company has raised funds through equity financing and the exercise of options and warrants to fund its operations. The market price of natural resources is highly speculative and volatile. Instability in prices may affect the interest in resource properties and the development of and production from such properties. This may adversely affect the Company's ability to raise capital to acquire and explore resource properties.

WELLSTAR ENERGY CORP.
Management Discussion and Analysis
For the six months ended July 31, 2009

RECENT DEVELOPMENTS

Company Activity

Atlin Property, BC:

On Sept. 1, 2008, the company entered into a joint venture agreement with Blind Creek Resources (a company with a common director) whereby WellStar would earn a 50-per-cent interest in Blind Creek's 100-per-cent-owned Main and Como Lake blocks of claims in Atlin, B.C., by spending \$750,000 over a three-year period. The Main block consists of 47 contiguous mineral claims covering an area of 35,821.57 hectares. These claims are centred immediately east of Atlin, south of Pine Creek-Surprise Lake and north of the O'Donnel River. The second block of claims referred to as the Como Lake block comprises 2,261.17 hectares.

The Atlin placer gold camp, located in northwestern British Columbia on the eastern shore of Atlin Lake, ranks as the second largest producer of placer gold in the province. Mining has been the mainstay of the town of Atlin since the discovery of gold on Pine Creek in 1897. Reported placer gold production from creeks in the Atlin area totaled 634,147 ounces between 1898 and 1946. A number of the larger placer deposits continued to produce significant quantities of gold into the late 1980s.

WellStar Energy Corp. has completed the fall/winter work program on the company's Atlin project. The work program commenced Sept. 15, 2008. The work program for the six months ended July 31, 2009 is being conducted under the direction of Clive Aspinall, MSc, PEng, the "qualified person" under National Instrument 43-101.

During the six months ended July 31, 2009, the Company incurred \$168,459 in exploration costs on the Atlin Property.

**RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JULY 31, 2009
COMPARED TO THE SIX MONTHS ENDED JULY 31, 2008**

The review of results of should be read in conjunction with the audited financial statements of the Company for the six months ended July 31, 2009 and 2008.

The net loss for the six months ended July 31, 2009 ("interim 2009") was \$83,354 or \$0.03 per share which has significantly decreased when compared with the July 31, 2008 ("interim 2008") loss of \$200,400 or \$0.02 per share. The reduction in losses from continuing operations during the six months ended July 31, 2009 was due to reduced level of business activity resulting in the reduction of the following expenses:

WELLSTAR ENERGY CORP.
Management Discussion and Analysis
For the six months ended July 31, 2009

General and administrative expenses

During interim 2009 and interim 2008 the general and administrative expenses were as follows:

	Interim 2009	Interim 2008
GENERAL AND ADMINISTRATIVE EXPENSES		
Amortization and depletion	\$ 2,182	\$ 3,705
Consulting fees	893	75,000
Management fees	39,000	30,000
Office services and supplies and sundry items	11,104	12,024
Professional fees	12,091	5,808
Rent	-	9,000
Salaries and benefits	3,555	10,369
Share transfer and filing fees	12,968	2,894
Shareholder information and communications	-	6,300
Telephone	-	3,310
Automobile expenses	-	2,414
Travel and accommodations	1,563	15,696
	<u>\$ 83,356</u>	<u>\$ 176,520</u>

WELLSTAR ENERGY CORP.
Management Discussion and Analysis
For the six months ended July 31, 2009

CAPITAL STOCK

Authorized: Unlimited number of common shares without par value

	Number	Amount
	<hr/>	<hr/>
Balance, January 31, 2007	1,857,141	\$ 8,010,500
Private placement at \$2.00 per unit for cash	355,250	710,500
Private placement at \$1.75 per unit for cash	313,714	548,899
Less: cost of issuance	-	(109,194)
Issuance of shares pursuant to mineral property option agreement	40,000	64,400
Future income tax on renouncement of resource property expenditures	-	(714,000)
	<hr/>	<hr/>
Balance, January 31, 2008	2,566,105	\$ 8,511,205
Issuance of shares pursuant to mineral property option agreement	40,000	24,000
Private placement at \$0.25 per unit for cash	480,000	120,000
Adjustment due to rounding upon share consolidation (Note 5(b)(i))	(20)	-
	<hr/>	<hr/>
Balance, January 31, 2009 and July 31, 2009	3,086,085	\$ 8,655,205
	<hr/>	<hr/>

WELLSTAR ENERGY CORP.
Management Discussion and Analysis
For the six months ended July 31, 2009

Stock Options

A summary of the status of the Company's stock options as at July 31, 2009 and January 31, 2009 and the changes during the years is as follows:

	2009		2008	
	Number of Options	Weighted Average Exercise Price	Number of Options	Number of Options
Balance, beginning of year		\$ 3.35		
Granted	163,710	-	186,139	\$ 3.70
Expired/cancelled	(97,771)	\$ 3.78	(79,571)	\$ 1.75
Exercised	-	-	-	\$ 3.85
Balance January 31, 2009 and July 31, 2009	65,939	\$ 3.23	135,139	\$ 3.35

As at July 31, 2009 and January 31, 2009 the following stock options were outstanding:

Expiry Date	Exercise Price	Number of Shares	
		2009	2008
July 11, 2010	\$ 2.75	30,939	45,939
April 10, 2011	\$ 3.50	-	13,000
May 18, 2011	\$ 4.25	35,000	76,200
		65,939	135,139

WELLSTAR ENERGY CORP.
Management Discussion and Analysis
For the six months ended July 31, 2009

Warrants

A summary of all warrants outstanding at July 31, 2009 is as follows:

Expiry date	Exercise Price	Balance	Granted	Exercised	Expired/ Terminated	Balance
		January 31, 2009				July 31, 2009
April 30, 2009	\$2.50	313,714	-	-	(313,714)	-
Aug 7, 2010	\$0.50	480,000	-	-	-	480,000
Total		793,714	-	-	(313,714)	480,000
Weighted average exercise price		\$0.77	-	-	\$2.50	\$0.50

A summary of all warrants outstanding at January 31, 2009 is as follows:

Expiry date	Exercise Price	Balance	Granted	Exercised	Expired/ Terminated	Balance
		January 31, 2008				January 31, 2009
March 2, 2008	\$2.50	135,250	-	-	(135,250)	-
April 24, 2008	\$2.50	44,375	-	-	(44,375)	-
April 30, 2009	\$2.50	313,714	-	-	-	313,714
Aug 7, 2010	\$0.50	-	480,000	-	-	480,000
Total		493,339	480,000	-	(179,625)	793,714
Weighted average exercise price		\$2.35	\$0.50	-	\$2.50	\$0.77

WELLSTAR ENERGY CORP.
Management Discussion and Analysis
For the six months ended July 31, 2009

LIQUIDITY AND CAPITAL RESOURCES

At this time the Company has no operating revenues. Historically, the Company has funded its operations through equity financing and the exercise of stock options and warrants.

The Company is in the resource exploration and development business and is exposed to a number of risks and uncertainties inherent to the resource sector. This activity is capital intensive at all stages and subject to fluctuations in commodity prices, market sentiment, currencies, inflation, and other risks.

Material increases or decreases in the Company liquidity will be substantially determined by the success or failure of its exploration and development activities, as well as its continued ability to raise capital. The Company is not aware of any trends, demands, commitments, events or uncertainties that may result in its liquidity either materially increasing or decreasing at present or in the foreseeable future.

At July 31, 2009 the Company had a cash position of \$1,298 and a working capital deficiency of \$2,180,964. There are stock options outstanding for the purchase of 65,939 common shares and warrants to purchase 480,000 common shares.

During the Six months ended July 31, 2009, the Company raised no funds.

During the year ended January 31, 2009 the authorised and issued shares of the Company were consolidated on the basis of five common shares being consolidated into one common share.

On February 29, 2008, the Company issued 40,000 common shares pursuant to the terms of mineral property option agreement at a deemed price of \$0.60. The option agreement was subsequently abandoned.

On August 7, 2008, the Company issued 480,000 units (the "Units") at a price of \$0.25 per unit. Each unit consisted of one (1) common share (the "Shares") and one (1) share purchase warrant (the "Warrants"). Each purchase Warrant is non-transferable and will entitle the holder to purchase one additional common share at a price of \$0.50 per share until August 13, 2010. The Shares bear hold restrictions against resale or transfer until December 14, 2008.

CHANGES IN ACCOUNTING POLICY

Effective February 1, 2008, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"). These accounting policy changes were adopted on a prospective basis with no restatement of prior period consolidated financial statements:

- i) CICA Section 1400 *General Standards of Financial Statement Presentation* provides revised guidance on management's responsibility to assess and disclose the Company's ability to continue as a going concern.
- ii) CICA Section 1535 *Capital Disclosures* requires the disclosure of both qualitative and quantitative information that provides users of financial statements with information to evaluate the entity's objectives, policies and procedures for managing capital. The required disclosure is included in Note 2 to these financial statements.

WELLSTAR ENERGY CORP.
Management Discussion and Analysis
For the six months ended July 31, 2009

- iii) CICA Section 3862 *Financial Instruments - Disclosures* and CICA Section 3863 *Financial Instruments - Presentation* replace Section 3861 *Financial Instruments - Disclosure and Presentation*. Section 3862 provides users with information to evaluate the significant of the financial instruments of the entity's financial position and performance, nature and extent of risks arising from financial instruments, and how the entity manages those risks. Section 3863 deals with the classification of financial instruments, related interest, dividends, losses and gains and the circumstances in which financial assets and financial liabilities are offset. The required disclosure is included in Note 2 to these financial statements.

CICA Section 3031 *Inventories* establishes standards for the measurement and disclosure of inventories. The new standard provides more extensive guidance on the determination of cost, including allocation of overhead and requires impairment testing. The adoption of this standard did not have any material effect on the financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements

RELATED PARTY TRANSACTIONS

- (a) During period ended July 31, 2009, the Company incurred management fees of \$39,000 (2008 - \$30,000) to a director and officer of the Company and \$8,820 general office services (2008 - \$5,600) to the same director and officer.
- (b) During the period ended July 31, 2009, the Company incurred \$Nil (2008 - \$9,000) for accounting services and \$nil (2008 - \$1,800) for corporate services to a former director and officer of the Company and/or a private company controlled by the former director and officer.
- (c) During the period ended July 31, 2009, the Company incurred \$Nil (2008 - \$9,000) for office premises rent to a director and officer of the Company.
- (d) During the period ended July 31, 2009, the Company incurred legal expenses of \$316 to a law firm in which a director of the Company is a partner (2008 - \$nil).
- (e) During the year ended July 31, 2009, the Company incurred \$168,459 (2008 - \$nil) of exploration expenditures to a company in which one of the Company's directors is a director.

Amounts due to related parties are non-interest bearing, unsecured and have no repayment terms. Transactions with related parties are measured at the exchange amount of consideration established by the related parties.

WELLSTAR ENERGY CORP.
Management Discussion and Analysis
For the six months ended July 31, 2009

SUMMARY OF QUARTERLY RESULTS

(expressed in Cdn \$)

Period Ended	2009				2008			
	July 31 Q2	April 30 Q1	Jan. 31 Q4	Oct. 31 Q3	July 31 Q2	April 30 Q1	Jan. 31 Q4	Oct. 31 Q3
Net Revenue	-	-	-	-	-	-	-	-
Income (loss) before other items	(44,102)	(39,254)	(41,897)	(71,425)	(84,597)	(115,806)	(246,068)	(171,479)
Basic and diluted gain (loss) per share before other items	(0.01)	(0.00)	0.025	(0.00)	(0.01)	(0.01)	(0.02)	(0.01)
Net Income (loss)	(44,102)	(39,254)	71,449	16,014	(84,597)	(115,806)	(246,068)	(171,479)
Basic and diluted loss per share	(0.01)	(0.00)	(0.09)	(0.00)	(0.01)	(0.01)	(0.02)	(0.01)

PROPOSED TRANSACTIONS

No disclosure necessary.

DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

The following table is a breakdown of the material components listed for the three most recently completed financial years:

Expressed in Cdn \$

	2009	2008	2007
Capitalized exploration and development costs	142,096	-	1,058,984
Expensed exploration and development costs	-	298,215	-
Deferred development costs	-	-	-
Administration and other costs	262,937	820,073	1,079,757
Discontinued operations	(150,000)	1,793,323	2,467,250

WELLSTAR ENERGY CORP.
Management Discussion and Analysis
For the six months ended July 31, 2009

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, so that appropriate decisions can be made reading public disclosure. As at the end of the period covered by this Management's Discussion and Analysis, management has evaluated the effectiveness of the Company's disclosure controls and procedures, as required by Canadian securities laws.

Based on that evaluation, management has concluded that as of the end of the period covered by this Management's Discussion and Analysis, it needs to further evaluate the disclosure controls and procedures' effectiveness to provide reasonable assurance that information required to be disclosed in the Company's annual and interim filings (as such terms are defined under Multilateral Instrument 52-109, "Certification of Disclosure in Issuer's Annual and Interim Filings"), and other reports filed or submitted under Canadian securities laws, is recorded, processed, summarized and reported within the time periods specified by those laws, and that material information is accumulated and communicated to management as appropriate to allow timely decisions regarding such required disclosure.

INTERNAL CONTROLS

Management are responsible for designing internal controls over financial reporting or causing them to be designed in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. We have assessed the designed of our internal control over financial reporting as of July 31, 2009. During this process, management identified certain material weaknesses in internal controls over financial reporting, which are as follows:

- a) Due to the limited number of staff, it is not feasible to achieve complete segregation of incompatible duties, and
- b) Due to the limited number of staff, the Company does not have a sufficient number of finance personnel with all of the technical accounting knowledge to address all complex and non-routine accounting transactions that may arise and requires and receives assistance and advice on new accounting pronouncements, taxation issues, and complex accounting issues, which is common with companies of a similar size.

These weaknesses in the Company's internal control over financial reporting may result in a more than a remote likelihood that a material misstatement would not be prevented or detected. Management and the Board of Directors work to mitigate the risk of a material misstatement in financial reporting; however there can be no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement. It should be noted, that the Company's control system, no matter how well designed, can provide only reasonable, but not absolute, assurance of detecting, preventing and deterring errors or fraud.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Please see Note 2(m) in the notes to the interim financial statements of the Company for the six months ended September 31, 2009.

WELLSTAR ENERGY CORP.
Management Discussion and Analysis
For the six months ended July 31, 2009

SUMMARY OF OUTSTANDING SHARE DATA AS AT SEPTEMBER 29, 2009

- (1) Authorized: Unlimited number of common shares without par value
Issued and outstanding: 3,086,085
- (2) Stock options outstanding: 65,938
- (3) Warrants outstanding: 480,000