

Financial Statements
(Expressed in Canadian Dollars)

WELLSTAR ENERGY CORP.
(an exploration stage company)

For the six months ended July 31, 2006

The accompanying Financial Statements for the six months ended July 30, 2006 have not been reviewed or audited by the Company's Auditors.

WELLSTAR ENERGY CORP.
(an exploration stage company)

July 31, 2006

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FINANCIAL STATEMENTS (Unaudited)

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WELLSTAR ENERGY CORP.
(an exploration stage company)
Balance Sheets
July 31, 2006 and January 31, 2006

ASSETS		
	July 31, 2006 Unaudited	January 31, 2006 Audited
CURRENT		
Cash and cash equivalents	\$ 101,908	\$ 293,309
Amounts receivable	100,961	11,392
Advances receivable	20,940	25,500
Refundable deposits	135,000	-
Prepaid expense	3,250	2,574
	<u>362,059</u>	<u>332,775</u>
OIL AND GAS PROPERTIES (Note 3)	3,051,901	704,477
OFFICE EQUIPMENT (Note 4)	2,285	2,539
	<u>\$ 3,416,245</u>	<u>\$ 1,039,791</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 732,260	\$ 173,323
SITE RESTORATION LIABILITIES	<u>52,000</u>	<u>52,000</u>
	<u>784,260</u>	<u>225,323</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 5)	8,251,500	5,901,405
PAID SHARE SUBSCRIPTIONS	-	250,000
OPTION COMPENSATION (Note 6)	457,800	210,800
CONTRIBUTED SURPLUS (Note 7)	232,994	190,794
DEFICIT	(6,310,309)	(5,738,531)
	<u>2,631,985</u>	<u>814,468</u>
	<u>\$ 3,416,245</u>	<u>\$ 1,039,791</u>

Nature and continuance of operations and going-concern (Note 1)
Subsequent events (Note 9)

Approved on behalf of the Board:

"Andrew Rees"

Andrew Rees, Director

"Andrea Regnier"

Andrea Regnier, Director

See accompanying notes to financial statements.

WELLSTAR ENERGY CORP.
(an exploration stage company)
Statements of Operations and Deficit
For the Six Months Ended July 31,
(Unaudited - Prepared by Management)

	3 months		6 months	
	2006	2005	2006	2005
OIL AND GAS REVENUE	\$ 283,544	\$ -	\$ 356,811	\$ -
Oil and gas production expenses				
Operating costs	(80,584)	-	(152,918)	-
Royalties	(9,391)	-	(17,286)	-
	193,569	-	186,607	-
ADMINISTRATION EXPENDITURES				
Professional fees	15,835	3,560	23,988	4,766
Management fees	15,000	15,000	30,000	30,000
Salaries, wages and benefits	30,430	21,150	45,180	21,150
Travel and accommodation	34,323	17,027	62,318	18,639
Consulting fees	56,945	17,246	94,345	31,074
Stock based compensation	291,300	209,900	360,900	209,900
Office supplies and services	10,954	5,242	16,291	8,750
Share transfer, listing and filing fees	10,262	6,395	16,995	10,145
Shareholder information and communications	73,095	2,174	95,993	2,136
Office rent	4,500	1,200	6,300	2,400
Amortization	127	252	254	296
	542,771	299,146	752,564	339,256
OTHER (INCOME) EXPENSES				
Interest	(1,956)	(148)	(3,594)	(366)
Property investigation costs	-	9,925	9,415	37,780
	(1,956)	9,777	5,821	37,414
LOSS FOR THE PERIOD	(347,246)	(308,923)	(571,778)	(376,670)
DEFICIT, beginning of period	(5,963,063)	(5,058,870)	(5,738,531)	(4,991,123)
DEFICIT, end of period	<u><u>\$(6,310,309)</u></u>	<u><u>\$(5,367,793)</u></u>	<u><u>\$(6,310,309)</u></u>	<u><u>\$(5,367,793)</u></u>
LOSS PER SHARE	\$ (0.04)	\$ (0.08)	\$ (0.08)	\$ (0.10)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	9,166,528	3,693,689	7,406,543	3,715,397

See accompanying notes to financial statements.

WELLSTAR ENERGY CORP.
Statements of Cash Flows
(an exploration stage company)
For the Six Months Ended July 31,
(Unaudited - Prepared by Management)

	3 months		6 months	
	2006	2005	2006	2005
CASH PROVIDED BY (USED IN)				
OPERATING ACTIVITIES				
Loss for the period	\$ (347,246)	\$ (308,923)	\$ (571,778)	\$ (376,670)
Items not involving cash				
Amortization of equipment	127	252	254	296
Stock-based compensation	291,300	209,900	360,900	209,900
	(55,819)	(98,771)	(210,624)	(166,474)
Changes in non-cash working capital items				
Accounts receivable	(86,788)	(52,582)	(89,571)	(37,128)
Prepaid expenses	23,460	-	(675)	-
Advances receivable	4,560	-	4,560	-
Refundable deposit	(135,000)	(98,000)	(135,000)	(148,000)
Accounts payable and accrued liabilities	328,952	(1,876)	558,938	(16,972)
Cash used in operating activities	79,365	(251,229)	(127,628)	(368,574)
FINANCING ACTIVITIES				
Shares issued, net of issuance costs	2,038,016	653,067	2,278,395	653,067
Share subscriptions received	(1,125,100)	(325,710)	(250,000)	-
Cash provided by financing activities	912,916	327,357	2,028,395	653,067
INVESTING ACTIVITIES				
Resource property expenditures	(1,980,444)	(206,599)	(2,347,424)	(206,599)
Cash provided by (used in) investing activities	(1,980,444)	(206,599)	(2,347,424)	(206,599)
(DECREASE) INCREASE IN CASH	(988,163)	(130,471)	(191,401)	74,557
CASH AND CASH EQUIVALENTS, beginning of period	1,090,071	226,804	293,309	21,776
CASH AND CASH EQUIVALENTS, end of period	\$ 101,908	\$ 96,333	\$ 101,908	\$ 96,333

See accompanying notes to financial statements.

WELLSTAR ENERGY CORP.
(an exploration stage company)
Notes to Financial Statements
For the Six months Ended July 31, 2006
(Unaudited – Prepared by Management)

NOTE 1 – NATURE AND CONTINUANCE OF OPERATIONS

Wellstar Energy Corp. (the “Company”) was incorporated under the laws of British Columbia on August 26, 1985.

The Company’s shares are publicly traded on the TSX Venture Exchange (“TSX-V”) and on the Frankfurt Stock Exchange (“W6V”). The Company is in the business of acquisition, exploration and development of natural resources. In January 2006 the Company commenced production of oil and gas from one well located in Alberta, Canada. 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 substantial 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.

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, 2006, the Company has working capital deficit of \$370,200, and accumulated deficit of \$6,310,309.

Although the Company has taken 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 – INTERIM REPORTING

These unaudited interim financial statements have been prepared in accordance with the accounting principles generally accepted in Canada for interim financial information and, follow the same accounting policies and methods of their application as the Company’s most recent annual financial statements. These interim financial statements do not include all of the disclosure included in the annual financial statements, and accordingly, they should be read in conjunction with the annual Audited financial statements for the year ended January 31, 2006. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements. The results of operations for the interim periods are not necessarily indicative of the results of operations for the entire year.

NOTE 3 – OIL AND GAS PROPERTIES AND EQUIPMENT

	July 31, 2006	January 31, 2006
Participation fee	\$ 125,000	\$ 125,000
Wellhead equipment	818,471	358,410
Site restoration costs	52,000	52,000
Development costs	2,056,430	169,067
	<u>\$ 3,051,901</u>	<u>\$ 704,477</u>

WELLSTAR ENERGY CORP.
(an exploration stage company)
Notes to Financial Statements
For the Six months Ended July 31, 2006
(Unaudited – Prepared by Management)

NOTE 3 – OIL AND GAS PROPERTIES AND EQUIPMENT (continued)

Virgo/Zama, Alberta, Canada

In 2005 the Company entered into a Participation Agreement with Warburg Resources Inc. in consideration of a participation fee of \$125,000. Under the terms of the agreement, the Company was granted the right to earn a 50% interest before pay out (“BPO”) and a 32.5% 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%. During the period this transaction received regulatory approval.

NOTE 4 – OFFICE EQUIPMENT

Cost	Accumulated amortization	Net book value	
		July 31, 2006	January 31, 2006
\$ 3,337	\$ 1,052	\$ 2,285	\$ 2,539

NOTE 5 – SHARE CAPITAL

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

(b) Common Shares Issued and Outstanding

	Number	Amount
Balance, January 31, 2004	3,443,689	\$ 4,765,565
Exercise of Warrants at \$0.22 per share	250,000	55,000
Balance, January 31, 2005	3,693,689	4,820,565
Private placement at \$0.55 per unit	1,252,473	688,860
Private placement at \$0.80 per share	625,000	500,000
Less: cost of issuance	-	(108,020)
Balance, January 31, 2006	5,571,162	\$ 5,901,405
Private placement at \$0.70 per unit (Note 5(b)(i))	357,142	250,000
Less: cost of issuance	-	(9,622)
Private placement at \$0.60 per unit (Note 5(b)(ii))	3,040,166	1,824,099
Less: cost of issuance	-	(79,761)
Exercise of Warrants at \$0.75 per share	267,237	197,428
Exercise of Stock Options at \$0.55 per share	170,000	93,500
Transfer of stock based compensation from Option Compensation on exercise of Stock Options	-	71,700
Balance, July 31, 2006	9,405,707	\$ 8,251,500

WELLSTAR ENERGY CORP.
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Notes to Financial Statements
For the Six months Ended July 31, 2006
(Unaudited – Prepared by Management)

NOTE 5 – SHARE CAPITAL, (continued)

(b) Common Shares Issued and Outstanding

- (i) The Company completed a private placement of 357,142 units at a price of \$0.70 per unit. Each unit consisted of one common share and one-half a non-transferable warrant entitling the investor to purchase an additional common share for each whole warrant at a price of \$0.82 until April 12, 2007. The warrants have a forced conversion clause requiring the holder to exercise within 30 days of being notified by the Company that the shares have traded above \$0.82 per share for at least 20 consecutive trading days.
- (ii) The Company completed a private placement of 3,040,166 units at a price of \$0.60 per unit. Each unit consisted of one common share and one-half a non-transferable share purchase warrant entitling the investor to purchase an additional common share for each whole warrant at a price of \$0.75 until on May 3, 2007. The warrants have a forced conversion clause requiring the holder to exercise within 30 days of being notified by the Company that the shares have traded above \$1 per share for at least 20 consecutive trading days. A director participated in this placement as to 100,000 units. 2,940,166 of the common shares were issued as Tax Flow Through shares.
- (iii) In the period 170,000 options were exercised at a price of \$0.55 per share and accordingly the consideration paid by the stock option holders, \$93,500 and the option compensation associated with the stock options of \$71,700 was charged as share capital.

(c) Stock Options

- (i) A summary of the status of the Company's stock options as at July 31, 2006 and changes during the period are as follows:

	July 31, 2006		January 31, 2006	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	499,616	\$ 0.550	340,000	\$ 0.335
Granted	701,000	\$ 0.810	499,616	\$ 0.550
Expired/cancelled	(99,920)	\$ 0.550	(340,000)	\$ 0.335
Exercised	(170,000)	\$0.550	-	-
Outstanding, end of period	<u>930,696</u>	<u>\$ 0.740</u>	<u>499,616</u>	<u>\$ 0.550</u>

WELLSTAR ENERGY CORP.
(an exploration stage company)
Notes to Financial Statements
For the Six months Ended July 31, 2006
(Unaudited – Prepared by Management)

NOTE 5 – SHARE CAPITAL, (continued)

(d) Stock Options, continued

- (ii) During the period ended July 31, 2006 the Company granted 195,000 stock options at an exercise price of \$0.70 per share and 506,000 options at a price of \$0.85 per share. The Company charged \$69,600 and \$291,300 respectively (January 31, 2006 - \$210,800) against income with an off-setting credit to Option Compensation (Note 6). The charge includes the estimated fair value of the fully vested share purchase options granted as compensation.

The fair value of the share purchase options was estimated using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 3.5%, dividend yield of 0%, expected life of 3 years and a volatility factor of 86% as to 195,000 options and 89% as to 506,000 options.

(e) Warrants

A summary of all warrants outstanding at July 31, 2006 is as follows:

Expiry date	Exercise Price	Balance January, 31 2006	Granted	Exercised	Expired/ Terminated	Balance July 31, 2006
June 29, 2006	\$0.75	626,236	-	(267,237)	(358,999)	-
April 12, 2007	\$0.82	-	178,571	-	-	178,571
May 3, 2005	\$0.75	-	1,520,083	-	-	1,520,083
Total		626,236	1,698,654	(267,237)	(358,999)	1,698,654
Weighted average exercise price		\$0.75	\$0.74	\$0.75	\$0.75	\$0.74

NOTE 6 – OPTION COMPENSATION

	July 31, 2006	January 31, 2006
Balance, beginning of period	\$ 210,800	\$ 66,372
Stock-based compensation – options granted	291,300	210,800
Stock-based compensation – options expired	(71,700)	(66,372)
Balance, end of period	\$ 457,800	\$ 210,800

NOTE 7 – CONTRIBUTED SURPLUS

During the period ended July 31, 2006, \$42,200 (January 31, 2006: \$66,372) was transferred from option compensation to contributed surplus for stock options that expired in the period. The final amount of contributed surplus at July 31, 2006 is \$232,994 (January 31, 2006: \$190,794)

NOTE 8 – RELATED PARTY TRANSACTIONS

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

- (a) The Company paid \$30,000 to a director of the Company for management services.
- (b) The Company paid \$15,000 to a private company controlled by a Director for accounting and general corporate services.
- (c) A Director of the Company was paid \$6,300 for office premises rent, \$58,619 for travel and accommodation, \$2,618 for shareholder and investor information, \$4,250 for support staff, and \$5,115 for other administrative services.
- (d) The Company is involved in a participating agreement with a company that has a common director.
- (e) Advances receivable includes \$9,208 (January 31, 2006: \$19,000) advanced to a director.

NOTE 9 – COMPARATIVE FIGURES

Certain of the prior years comparative figures have been reclassified to conform to the presentation adopted for the current year.

NOTE 10 – SUBSEQUENT EVENTS

The Company announced its intent to conduct a private placement involving the issuance of 500,000 units at a price of \$0.60 per Unit. Each unit will consist of one common share, of which 50% will be tax flow-through, and ½ a non-transferable share purchase warrant entitling the investor to purchase an additional common share for each whole warrant at a price of \$0.75 for a one year period.