

NEWS RELEASE

WesternZagros Announces Fourth Quarter 2007 and Year End Results

Calgary, Alberta – March 26, 2008 – WesternZagros Resources Ltd. (TSX-V – WZR) ("WesternZagros or the Company") is pleased to announce its operating and financial results for the fourth quarter and year ended December 31, 2007 as well as key events which occurred subsequent to year-end.

Key highlights include:

Corporate

- On February 29, 2008, WesternZagros announced that it had signed an amended Production Sharing Contract ("PSC") with the Kurdistan Regional Government ("KRG"). Under the terms of this PSC, WesternZagros has a 40 per cent working interest, not subject to further dilution by the KRG. The KRG will have a direct 20 per cent interest in the PSC, primarily carried by WesternZagros. The remaining 40 per cent may be allocated to a third party or parties elected by the KRG within a six month period. The third party is required to pay a share of costs incurred by WesternZagros up to the effective date of its election in the block. The primary terms of the PSC include: capacity building support payable by WesternZagros over a 15 month period for the well being of the people in the vicinity of the PSC area, production bonuses payable by all parties at various threshold cumulative production levels and a minimum work commitment of 1,150 kilometres of 2-D seismic and three exploration wells.
- WesternZagros successfully completed the Plan of Arrangement (the "Arrangement") with Western Oil Sands Inc. (now Marathon Oil Canada Corporation) ("Western"), Marathon Oil Corporation, 1339971 Alberta Ltd. and WesternZagros Resources Inc. ("WZRI"). Upon closing of the Arrangement, WesternZagros indirectly received approximately Cdn\$82.5 million cash from Western as part of the transaction. In addition, following the transaction, WesternZagros completed a private placement at a price of Cdn\$2.50 per share for proceeds of Cdn\$12.5 million.
- WesternZagros engaged very experienced Board of Directors and management team with extensive experience in the resource sector, both domestically and internationally. In addition, in January 2008, WesternZagros welcomed Mr. William Wallace to its Board. Mr. Wallace has over 40 years industry experience and has served in various executive management positions with Texaco, CSX Oil and Gas Company and Barrett Resources/Plains Petroleum Company. He has supervised international operations in Colombia, Ecuador, Venezuela, the United Kingdom, Ireland, France, New Zealand, Australia and Pakistan.

Operations

- Phase I of the Company's seismic program was completed in October 2007 with the Company acquiring 758 kilometres of seismic. In November 2007, the Company mobilized a new seismic crew and the Phase II seismic program commenced. Over 310 kilometres have been acquired under the Phase II program as of March 25, 2008. WesternZagros is committed to complete a minimum of 1,150 kilometres of seismic surveying under its PSC.

- Processing of the Company's Phase I and II seismic program is ongoing and will continue into the third quarter of 2008. Interpretation is underway and, to date, the Company has confirmed the presence of several leads and prospects. Based on this work, WesternZagros plans to compile an inventory of drillable opportunities on the PSC lands.
- WesternZagros commenced engineering and related work on its initial drilling location, Sarqala-1 (formerly East Shakal). The Company anticipates that it will spud this well in the second quarter of 2008.
- During the fourth quarter of 2007, WesternZagros secured a drilling rig with a U.S. drilling contractor and refurbished the rig to the Company's specifications. Rig mobilization and well site preparations commenced in February 2008.
- Procurement of long lead time items for the Company's initial exploration well commenced in the fourth quarter of 2007 with the balance of procurement of goods and services completed in the first quarter of 2008.
- WesternZagros' operations did not experience any serious Health, Safety and Environment or security incidents during the year.
- In 2007, WesternZagros sponsored a number of programs as part of its training commitments including: a student sponsorship program for post-graduate studies for nine employees of the KRG which commenced in September in Calgary; a three week Executive Program which took place in Calgary for 14 participants of the KRG providing a high-level overview of the upstream, midstream and downstream oil and gas industry; and, two workshops (Corrosion Monitoring & Management and Safety Management) which were held in Istanbul, Turkey in June 2007 and attended by 17 and 15 participants, respectively, from the KRG.
- WesternZagros employs several local national staff in the Kurdistan Region of Iraq both in its office in Sulaymaniya and in field operations, including professional, technical and administrative roles. As of the end of December 2007, 17 local nationals were employed by WesternZagros in full-time positions and seven in part-time roles. WesternZagros also retains two geology professors from the University of Sulaymaniya on a part-time consulting basis. WesternZagros has also generated local employment for more than 400 individuals through its contracts with firms in Sulaymaniya and the surrounding area, primarily in field operations. In addition, another 50 local individuals have been employed on a casual basis for activities related to camp, lease and road construction.

Financial

- From October 18, 2007 to January 18, 2008, 4.1 million warrants were exercised at a unit price of Cdn\$2.50 providing Cdn\$10.2 million in proceeds.
- In March 2008, WesternZagros completed a private placement for total net proceeds of Cdn\$70.8 million consisting of 33.3 million shares at a price of Cdn\$2.25 per share.
- With the Company's cash position at December 31, 2007 and proceeds from the warrant exercises and recent private placement, WesternZagros has available approximately US\$181 million. These funds will be used to carry out a multi well exploration program over the next two to three years on the Company's highly prospective block.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A"), effective March 25, 2008, reviews WesternZagros Resources Ltd.'s ("WesternZagros" or the "Company") activities and results for the period ended December 31, 2007. It should be read in conjunction with the Audited Consolidated Financials Statements, together with the accompanying notes, included in this news release. The Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

In the MD&A, unless otherwise indicated, all dollar amounts are expressed in United States ("U.S.") dollars. WesternZagros has adopted the U.S. dollar as its measurement and reporting currency since most of its expenses are directly or indirectly denominated in U.S. dollars. When revenues are realized, it is expected that U.S. dollars will be received. In addition, the U.S. dollar facilitates a more direct comparison to other international crude oil and natural gas exploration and development companies. All references herein to US\$ or to \$ are to United States dollars and references herein to Cdn\$ are to Canadian dollars.

This discussion offers management's analysis of the financial and operating results of WesternZagros and contains certain forward-looking statements relating, but not limited, to operational information, future exploration and development plans and anticipated future production and resources. Forward-looking information typically contains statement with words such as "anticipate", "estimate", "expect", "potential", "could", or similar words suggesting future outcomes. Readers and prospective investors of WesternZagros should not place undue reliance on forward-looking information as by its nature, it is based on current expectations regarding future events that involve a number of assumptions, inherent risks and uncertainties, which could cause actual results to differ materially from those anticipated by WesternZagros. For a complete list of risk factors please refer to the "Risk Factors" as included in Appendix G of the Information Circular dated September 14, 2007 associated with the Plan of Arrangement involving Western, Marathon Oil Corporation, 1339971 Alberta Ltd. and WesternZagros Resources Inc. which is available on SEDAR at www.sedar.com.

Overview

WesternZagros is an international oil and gas company engaged in acquiring properties and exploring for, developing and producing crude oil and natural gas in Iraq. WesternZagros holds a PSC with the KRG which covers a 2,120 square kilometre exploration block in the Kurdistan Region of Iraq and it is on trend with, and adjacent to, a number of prolific historic oil and gas discoveries.

Strategy

The main focus of WesternZagros' business is the exploration and development of the Company's PSC lands. WesternZagros' objective is to be recognized through consistently superior business performance and operations excellence, as one of the leading independent oil and gas companies active in Iraq. The Company is committed to operating in the Kurdistan Region of Iraq in a safe and secure manner. In executing its strategy, WesternZagros has made it a priority to recruit and retain local personnel and to actively participate in, and contribute to, community development projects. WesternZagros believes it has developed a relationship with government authorities, local communities and the business community in the Kurdistan Region which has allowed the Company to obtain the cooperation needed to successfully execute projects.

Plan of Arrangement

WesternZagros was incorporated on August 22, 2007 under the laws of the Province of Alberta. On October 18, 2007, WesternZagros, Western, Marathon Oil Corporation, 1339971 Alberta Ltd. and WZRI completed the Arrangement. Pursuant to the Arrangement, each Western shareholder received one

share and one-tenth of a warrant of WesternZagros for each Western share held, resulting in the issuance of 165,057,183 common shares and 16,505,729 warrants.

Upon closing of the Arrangement, WesternZagros indirectly received approximately Cdn\$82.5 million cash from Western as part of the transaction. In addition, following the transaction, WesternZagros completed a private placement at a price of Cdn\$2.50 per share for proceeds of Cdn\$12.5 million. WesternZagros began trading on the TSX Venture Exchange in Canada on October 22, 2007 under the symbol WZR. Each whole warrant entitled the holder to purchase one WesternZagros share at a unit price of Cdn\$2.50 until January 18, 2008. Of the 16,505,729, warrants issued pursuant to the Arrangement, 4,073,803 were exercised for total proceeds to WesternZagros of approximately Cdn\$10.2 million prior to expiry.

In connection with the Arrangement, through a series of transactions, WesternZagros acquired all of the outstanding shares of WZRI. As the shareholders of Western ultimately continued to hold their respective interests in WZRI, there was no resulting change of control. Therefore, the acquisition was accounted for assuming continuity of business for WZRI under Emerging Issues Committee 89 – Exchanges of ownership interests between enterprises under common control-wholly and partially-owned subsidiaries (“EIC-89”). Consequently, under EIC-89 no fair value adjustments were made.

The consolidated financial statements of WesternZagros, and the disclosures found throughout the MD&A, reflect the assets and liabilities of WZRI at their book value as reported in the consolidated financial statements of WZRI. The continuity of business accounting requires that the results of operations presented in the consolidated financial statements of WesternZagros include the operations of WZRI for the entire fiscal period in which the Arrangement took place. In addition, the comparative consolidated financial statements of WesternZagros were restated to reflect the financial position and results of operation as if WesternZagros and WZRI had been combined since their inception. As a result, references to WesternZagros in the MD&A incorporate the activities of WZRI and its subsidiaries from their inception.

Key Milestones

In 2003, WesternZagros began examining oil and gas exploration and development opportunities in Iraq with a focus on the Kurdistan Region. In November 2004, WesternZagros signed a Memorandum of Understanding (“MOU”) with the KRG Sulaymaniya Administration in order to conduct an exploration study in the southern Kurdistan Region. In March 2005, WesternZagros also signed an MOU with the federal Ministry of Oil in Baghdad with respect to the same exploration study and other technical cooperation projects.

Following the completion of studies and the adoption by national referendum of the Iraq Constitution in October 2005, WesternZagros proposed and negotiated an Exploration and Production Sharing Agreement (“EPSA”). The EPSA was originally signed in Sulaymaniya on May 4, 2006 with a requirement that the Company’s contract be ratified by the unified KRG.

Later in 2006, the two antecedent administrations in the Kurdistan Region (located in the cities of Sulaymaniya and Erbil) unified as a single KRG. WesternZagros’ EPSA was reviewed in late 2006 and early 2007 by the Minister of Natural Resources of the KRG to bring the Company’s contract in line with the then draft KRG petroleum legislation. As a result of this review, and with the agreement of WesternZagros, the Company’s EPSA was amended to, among other items, reduce the contract area with a corresponding decrease in the work commitment. The amended EPSA was signed in Erbil by WesternZagros and the KRG and ratified by the Prime Minister and Deputy Prime Minister of the Kurdistan Region on behalf of the Council of Ministers (Cabinet) of the KRG on February 27, 2007.

Subsequent to this, the Kurdistan National Assembly passed the Kurdistan Region Oil and Gas Law on August 6, 2007. This law encapsulated the principles of the then draft Federal Revenue Sharing Law and

introduced the Model PSC and associated key economic terms. The KRG also created a Regional Oil & Gas Council to undertake a formal review of all Kurdistan Region petroleum contracts, including WesternZagros' contract, executed prior to the enactment of the Kurdistan Region Oil and Gas Law. At this time, the Council requested conformity of WesternZagros' EPSA with the KRG's published Model PSC and economic terms. In this regard, during the latter half of 2007 and in early 2008, WesternZagros was in discussions with the Council. On February 28, 2008, WesternZagros concluded these discussions and signed an amended PSC with the KRG. Under the terms of this PSC, WesternZagros has a 40 per cent working interest, not subject to further dilution by the KRG, and the KRG has a direct 20 per cent interest in the PSC, primarily carried by WesternZagros. The remaining 40 per cent may be allocated to a third party or parties elected by the KRG within a six month period. The third party is required to pay a share of costs incurred by WesternZagros up to the effective date of its election in the block. The primary terms of the PSC include: capacity building support payable by WesternZagros over a 15 month period for the well being of the people in the vicinity of the PSC area, production bonuses payable by all parties at various threshold cumulative production levels and a minimum work commitment of 1,150 kilometres of 2-D seismic and three exploration wells.

Land

WesternZagros holds a PSC in the Kurdistan Region which provides for the exploration and development of crude oil and natural gas over a 2,120 square kilometre block (523,826 acres or 818 square miles). The PSC lands are on trend with, and adjacent to, a number of historic oil and gas discoveries, most of which were drilled on surface anticlines with hydrocarbon seeps. The prolific Kirkuk – Kor Mor – Chia Surkh structural trend runs through the PSC lands, and the Jambur – Pulkhana – Qamar trend skirts along the southern margin of the block. These discoveries are all located within 60 kilometres of WesternZagros' block and most reservoirs are Tertiary and Cretaceous carbonates. Stacked reservoirs are common within a single field and single zone discoveries are rare. Most reservoirs are highly fractured and fracturing is a key factor to well productivity and can significantly enhance flow rates. Carbonate reservoir porosities in the area are variable (three per cent to 36 per cent).

As at the year ended December 31, 2007, there were no petroleum exploration wells drilled on WesternZagros' block. As a result, WesternZagros has not yet established any reserves in Iraq.

FINANCIAL PERFORMANCE

Selected Annual Information (US\$ thousands, unless otherwise specified)	2007	2006
Total Revenues	817	-
Net Loss	10,426	8,222
Net Loss Per Share (US\$ Per Share) (Basic and Fully Diluted)	0.06	0.05
Capital Expenditures	34,556	13,154
Total Assets	160,777	21,499
Total Long-term Liabilities	-	20,215
Dividend (US\$ Per Share)	Nil	Nil

WesternZagros is currently exploring for crude oil and natural gas in the Kurdistan Region of Iraq and has no current reserves or production. WesternZagros' revenues are comprised entirely of interest earned on cash and cash equivalent balances held subsequent to the completion of the Arrangement.

Capital expenditures relate to exploration and related costs incurred by WesternZagros on its PSC lands, including the costs associated with Phase I seismic acquisition, the initial signature bonus paid with respect to the PSC, the construction of two base camps, other geological and geophysical programs associated with the PSC lands and related in-country general and administrative costs. The net loss is comprised of various general and administrative costs associated with the negotiation of the PSC, operational, technical, legal and other general and administrative costs incurred by WesternZagros. Certain of these expenditures were incurred, prior to the completion of the Arrangement, under a services agreement with Western.

Charges Under Service Agreement

For the year ended December 31, 2007, WesternZagros incurred \$9.1 million in charges under a service agreement compared to \$8.2 million for the year ended December 31, 2006. The charges related to operational, technical and other support expenditures incurred pursuant to a Services Agreement WZRI had with Western. Under the agreement, Western had paid for various PSC negotiation costs, capital, operational, technical, legal, general and administrative expenditures on behalf of WZRI. These transactions were measured at the exchange amount, which is the amount of consideration established and agreed by the related parties. These transactions were undertaken with the same terms and conditions as transactions with non-related parties. This services agreement was terminated upon the completion of the Arrangement on October 18, 2007.

General and Administrative Expenses

For the year ended December 31, 2007, WesternZagros incurred \$1.6 million in general and administrative expenses ("G&A"). This G&A represented the salaries and related expenditures WesternZagros incurred subsequent to the completion of the Arrangement on October 18, 2007.

Depreciation, Depletion and Amortization (DD&A)

For the year ended December 31, 2007, WesternZagros had \$0.04 million of DD&A related to certain administrative assets that the Company had acquired compared to \$0.01 million for the prior year period. No depletion was included as it related to the Company's exploration activities and related assets as WesternZagros has yet to determine whether proved reserves are attributable to its PSC lands.

Foreign Exchange

WesternZagros adopted the U.S. dollar as its measurement and reporting currency since the majority of its expenses are or will be directly or indirectly denominated in U.S. dollars and to facilitate a more direct comparison to other international crude oil and natural gas exploration and development companies. The Company has certain assets and liabilities in currencies other than the U.S. dollar, mainly Canadian dollars, and converts these to U.S. dollars at the end of each period resulting in foreign exchange gains and losses. During the year ended December 31, 2007, WesternZagros incurred \$0.5 million of foreign exchange losses compared to \$0.01 million in 2006 relating to these conversions.

Income Taxes

As at December 31, 2007, WesternZagros had non-capital losses carried forward of \$12.6 million. However, no asset or associated income tax recovery has been recorded as there is no certainty that the non-capital losses carried forward can ultimately be realized given the developmental stage of WesternZagros.

Revenues generated by WesternZagros pursuant to the PSC will be on a tax paid basis and therefore no income taxes are payable by WesternZagros in Iraq.

Net Loss

For the year ended December 31, 2007, WesternZagros incurred a net loss of \$10.4 million compared to a net loss of \$8.2 million for the year ended December 31, 2006. WesternZagros is currently a development stage enterprise and apart from the Company's working interest in its PSC, WesternZagros has no other assets or ongoing operations.

Capital Expenditures

For the year ended December 31, 2007, WesternZagros incurred \$34.6 million of capital expenditures related mainly to the Company's PSC compared to \$13.2 million in 2006. This year-over-year increase was a result of increased operational activity which included:

- completion of the Phase I 2-D seismic program;
- construction of a northern base camp;
- mobilization of the seismic crew and equipment for the Phase II seismic program;
- commencement of the Phase II 2-D seismic program;
- procurement of long lead time items for the drilling of WesternZagros' initial well;
- refurbishing the drilling rig to meet the requirements of managed pressure drilling;
- payment of the initial signature bonus; and
- increased in-country administrative costs related to the increased level of activities.

Quarterly Information

The following table summarizes key financial information on a quarterly basis for the following two years:

Selected Quarterly Information (US\$thousands, unless otherwise specified)					
2007	Q1	Q2	Q3	Q4	Total
Revenues	-	-	-	817	817
Net Loss	2,246	3,677	3,667	836	10,426
Net Loss Per Share (US\$ Per Share) (Basic and Fully Diluted)	0.01	0.02	0.02	0.01	0.06
Capital Expenditures	5,765	6,870	11,428	10,493	34,556
Total Assets	27,236	36,104	45,943	160,777	160,777
Total Long-term Liabilities	27,994	39,084	52,297	-	-
Dividend (US\$ Per Share)	Nil	Nil	Nil	Nil	Nil
2006					
Revenues	-	-	-	-	-
Net Loss	1,593	2,848	2,063	1,718	8,222
Net Loss Per Share (US\$ Per Share) (Basic and Fully Diluted)	0.01	0.02	0.01	0.01	0.05
Capital Expenditures	197	174	-	12,783	13,154
Total Assets	8,460	8,749	8,707	21,499	21,499
Total Long-term Liabilities	11,461	14,623	16,645	20,215	20,215
Dividend (US\$ Per Share)	Nil	Nil	Nil	Nil	Nil

Fourth Quarter 2007

In the fourth quarter of 2007, WesternZagros was active in completing the Arrangement as previously discussed and in fulfilling the necessary requirements for listing the Company on the TSX Venture Exchange. During the fourth quarter of 2007, WesternZagros also completed its Phase I seismic program, commenced its Phase II seismic program, executed the drilling rig contract and commenced the procurement of the necessary services and tangible items required for drilling activities.

Production Sharing Contract - Summary

Under the terms of its PSC, WesternZagros has a 40 per cent working interest, not subject to further dilution by the KRG. The KRG will have a direct 20 per cent interest in the PSC, primarily carried by WesternZagros. The remaining 40 per cent will be allocated to a third party or parties elected by the KRG within a six month period ending on August 28, 2008. The third party is required to pay a share of costs incurred by WesternZagros up to the effective date of its election in the block. WesternZagros, the KRG and the third party or parties will be collectively the "Contractor Group" under the PSC. WesternZagros is the operator of the PSC lands for the first three years, then a Joint Operating Committee is established if so elected by the Contractor Group.

Production Sharing Contract – Commercial Terms

Under the PSC, the sharing of oil occurs as follows: of the total oil produced, operations oil is available to WesternZagros for use in carrying out its obligations under the PSC; the remaining oil is subject to a 10 per cent royalty payable to the KRG (the residual is considered to be "net available oil"). The net available oil is determined on a development by development basis. Up to 45 per cent of the net available oil is available for cost recovery with the remainder as "profit oil". Costs subject to cost recovery include all costs and expenditures incurred by the Contractor Group for exploration, development, production and decommissioning operations, as well as any other costs and expenditures incurred directly or indirectly with these activities. The portion of profit oil available to the Contractor Group is based on a sliding scale from 35 per cent to 16 per cent depending on a calculated R-Factor. The R-Factor is established by reference to the ratio of cumulative revenues over cumulative costs. When the ratio is below one, the Contractor Group is entitled to 35 per cent of the profit oil. The percentage is then reduced on a linear sliding scale to a minimum of 16 per cent at an R-Factor ratio of two or greater.

Contract Obligations and Commitments

The PSC contemplates two exploration sub-periods of three years and two years, respectively, with two possible one-year extensions. The first exploration sub-period ends December 31, 2010. During such time, the Contractor Group (WesternZagros, the KRG and the third party) is required to complete a minimum of 1,150 kilometres of seismic surveying, drill three exploration wells and commit a minimum of US\$75 million in the aggregate on seismic, geologic studies and drilling. At the end of the first exploration sub-period, WesternZagros and the other parties to the PSC may relinquish the entire contract area (other than any discovery or development areas), or continue further exploration operations during the second exploration sub-period which ends December 31, 2012. The PSC also includes capacity building support, payable by WesternZagros over a 15 month period and funding for certain technological, logistical, recruitment and training during the first exploration sub-period, and any subsequent sub-periods.

WesternZagros estimates that its 40 per cent share of the PSC work commitment for the first exploration sub-period, its previously paid signature bonus, the capacity building support and the requirement for the Company to primarily carry the KRG's interest through the work commitments to be approximately \$103 million.

During the second exploration sub-period, the Contractor Group, or those parties that have elected to participate in further exploration, is required to complete a minimum of 575 kilometres of seismic surveying, drill at least two exploration wells and commit a minimum of US\$35 million. At the end of the second exploration sub-period, WesternZagros, and the other parties to the PSC who have elected to participate in the second exploration sub-period, may relinquish the entire contract area (other than any discovery or development areas) or continue further exploration operations during two one-year extension periods, which would extend the total exploration period to December 31, 2014. At the end of the second exploration sub-period, and at the end of each subsequent extension period, the PSC requires WesternZagros, and other parties who have elected to participate, to relinquish 25 per cent of the remaining undeveloped area within the PSC lands or the entire contract area (other than any discovery or development areas).

WesternZagros has entered into various exploration related contracts, including for drilling equipment, services and tangibles, and seismic surveying equipment and services, to meet the requirements it has under the PSC. The following table summarizes the commitments WesternZagros has under these exploration related contracts and other contractual obligations at December 31, 2007:

For the Year Ending December 31						
	2008	2009	2010	2011	2012+	Total
Exploration	11,343	-	-	-	-	11,343
Office	375	375	94	-	-	844
Total	11,718	375	94	-	-	12,187

The Company has granted to certain participants rights to acquire an aggregate working interest equal to five per cent of WesternZagros' interest, and subject to the same terms as WesternZagros' interest. Certain portions of the participation interest may be funded by interest bearing loans granted by WesternZagros.

Health, Safety, Security and Environment (“HSS&E”)

WesternZagros continues to operate in Kurdistan in a safe and secure manner. WesternZagros believes that the Kurdistan Region maintains the safest operating environment within Iraq. The security in the Kurdistan Region is a direct result of the influence of the KRG through its Kurdish Region National Guard (the “Peshmerga”) and the Internal Security Agency of the KRG (the “Asaiysh”). Through the effective deployment of the Peshmerga and the Asaiysh, the KRG has been able to control its regional and international borders and maintain security in the region. WesternZagros takes further precautions and obtains regular security advice and protection from several sources including D.S. Vance, a subsidiary of GardaWorld, the largest private security provider in the world. In addition, WesternZagros has in place an Emergency and Security Response Plan with respect to its operations in the Kurdistan Region.

As a matter of practice, WesternZagros is generally following Alberta Energy Resources Conservation Board guidelines in conducting its operations in Kurdistan. In addition, the Company has met all requirements under the PSC to complete an Environmental Baseline Survey and Environmental, Health and Safety Plan. During the year ended December 31, 2007, and since the Company commenced exploration activities in 2005, WesternZagros has had no serious HSS&E incidents.

Liquidity and Capital Resources

At December 31, 2007, WesternZagros has approximately \$100 million in cash and cash equivalents and \$4.1 million in deposits held in trust. These balances will be used to fund future capital expenditures, including the minimum work commitments with respect to the first exploration sub-period under the PSC, including the requirement for WesternZagros to fund the KRG's 20 per cent carried interest; certain payments required under the amended PSC, including the capacity building payments; G&A expenditures; and working capital requirements. WesternZagros invests its cash and cash equivalents with major Canadian financial institutions with investment grade credit ratings and in Government of Canada instruments. This is in accordance with a Board of Directors approved Investment Policy with respect to investing funds.

Subsequent to December 31, 2007, 2,426,939 warrants were exercised for proceeds of Cdn\$6.1 million, bringing the total proceeds raised through the exercise of the warrants to Cdn\$10.2 million. Additionally, WesternZagros completed a private placement for 33,333,334 common shares on March 7, 2008 for additional net proceeds of Cdn\$70.8 million (gross Cdn\$75 million) at a price of Cdn\$2.25 per share. These proceeds will be used to carry out a multi well exploration program over the next two to three years on the Company's highly prospective 2,120 square kilometre block in the Kurdistan Region of Iraq.

Until the KRG elects the third party participant, required on or before August 28, 2008, WesternZagros will fund 100 per cent of the expenditures related to the PSC. Following the election, the third party will be required to pay WesternZagros a share of back costs. As a result, WesternZagros could use these proceeds to fund future capital expenditures, payments required under the PSC, G&A expenditures and working capital requirements. Subsequent to the election of the third party, WesternZagros will be required to fund its 40 per cent share of the expenditures related to the PSC and the 20 per cent KRG's fully carried interest.

WesternZagros will continue to monitor and assess its financing requirements as the Company's exploration activities progress and in consideration of the timing associated with the election of the third party under the provisions of the PSC.

Outstanding Share Data

As at March 25, 2008, WesternZagros had 207,464,320 shares issued and outstanding. The Company also issued 7,060,000 options to directors, officers and employees.

Outlook 2008

WesternZagros' updated budget for 2008 is approximately \$78 million, excluding the capacity building support and other payments associated with the PSC signed in February 2008. Approximately 80 per cent of this budget is allocated to the seismic program and drilling activity in the Kurdistan Region.

WesternZagros has completed over 1,170 kilometres of its 1,150 kilometre seismic commitment to March 25, 2008, including the acquisition of over 310 kilometres of seismic acquired under the Company's Phase II seismic program. In order to complete an initial full seismic coverage of the block, the Company has expanded its seismic program for 2008 by an additional 230 kilometres. When the Phase II seismic program is completed, WesternZagros would conclude and exceed the minimum seismic commitment under the PSC work program. The excess over the commitment can be credited to future seismic commitments.

During 2008, WesternZagros anticipates the drilling of two exploration wells and has selected Sarqala-1 (formerly East Shakal) as its initial drilling location. WesternZagros has nearly completed construction of its drilling site at Sarqala-1, contracted the drilling rig and the procurement of the services and tangibles required for this well are close to completion. WesternZagros anticipates Sarqala-1 to spud in April 2008

and drilling of this well would require approximately 120 days. Evaluation of the seismic data acquired under the Company's Phase I and Phase II seismic program will continue over the course of 2008 in order to determine additional drilling locations, including the Company's second and subsequent wells.

Due to the nature of oil and gas exploration and development, budgets are regularly reviewed in view of the success of the expenditures and other opportunities which may become available to WesternZagros. Accordingly, while WesternZagros anticipates that it will execute under the 2008 budget, there may be circumstances where, for sound business reasons, a change in budget may be prudent.

Risk Factors

An investment in WesternZagros should be considered highly speculative due to the nature of its activities and the present stage of its development. WesternZagros' risk factors include, but are not limited to, all the risks normally incidental to the exploration, development and operation of crude oil and natural gas properties and the drilling of crude oil and natural gas wells, including geological risk, encountering unexpected formations or pressures, premature declines of reservoirs, potential environment damage, blow-outs, fires and spills, all of which could result in personal injuries, loss of life and damage to property of WesternZagros and others; environment risks; delay or changes in plans with respect to exploration or development projects or capital expenditures; the ability to attract key personnel; the risk of commodity price and foreign exchange rate fluctuations.

All of WesternZagros' assets are located in the Kurdistan Region of Iraq. As such, WesternZagros is subject to political, economic, and other uncertainties, including, but not limited to, the uncertainty of negotiating with foreign governments, expropriation of property without fair compensation, adverse determinations or rulings by governmental authorities, changes in energy policies or the personnel administering them, nationalization, currency fluctuations and devaluations, disputes between various levels of authorities, arbitrating and enforcing claims against entities that may claim sovereignty, authorities claiming jurisdiction, potential implementation of exchange controls, royalty and government take increases and other risks arising out of foreign governmental sovereignty over the areas in which WesternZagros' operations are conducted, as well as risks of loss due to civil strife, acts of war, guerrilla activities and insurrections. WesternZagros' operations may be adversely affected by changes in government policies and legislation or social instability and other factors which are not within the control of WesternZagros including, among other things, adverse legislation in Iraq and/or the Kurdistan Region, a change in crude oil or natural gas pricing policy, the risks of war, terrorism, abduction, expropriation, nationalization, renegotiation or nullification of existing concessions and contracts, taxation policies, economic sanctions, the imposition of specific drilling obligations and the development and abandonment of fields.

For a complete list of risk factors please refer to the "Risk Factors" as included in Appendix G of the Information Circular dated September 14, 2007 associated with the Plan of Arrangement involving Western, Marathon Oil Corporation, 1339971 Alberta Ltd. and WZRI which is available on SEDAR at www.sedar.com.

WESTERNZAGROS RESOURCES LTD.

CONSOLIDATED BALANCE SHEETS
(United States \$ thousands)

	December 31	
	2007	2006
Assets		
Current Assets		
Cash and Cash Equivalents	100,367	103
Accounts Receivable	255	16
Prepaid Expenses	111	-
	<u>100,733</u>	<u>119</u>
Long-term Assets		
Property, Plant and Equipment (note 5)	55,896	21,380
Deposits Held in Trust (note 6)	4,148	-
	<u>60,044</u>	<u>21,380</u>
	<u>160,777</u>	<u>21,499</u>
Liabilities		
Current Liabilities		
Accounts Payable and Accrued Liabilities	4,938	36
Long-term Liabilities		
Due to Related Party (note 7)	-	20,215
	<u>4,938</u>	<u>20,251</u>
Shareholders' Equity		
Share Capital (note 9)	175,405	10,909
Warrants (note 10)	4,570	-
Deficit	<u>(24,136)</u>	<u>(9,661)</u>
	<u>155,839</u>	<u>1,248</u>
	<u>160,777</u>	<u>21,499</u>

Commitments and Contingencies (note 16)

Approved by the Board of Directors

(Signed) "Fred J. Dymant"
Director

(Signed) "Randall Oliphant"
Director

See Accompanying Notes to the Consolidated Financial Statements

WESTERNZAGROS RESOURCES LTD.

**CONSOLIDATED STATEMENTS OF OPERATIONS,
COMPREHENSIVE LOSS AND DEFICIT
(United States \$ thousands, except per share amounts)**

	For the Year Ended December 31	
	2007	2006
Revenues		
Interest Income	817	-
Expenses		
Charges Under Service Agreement (<i>note 7</i>)	9,072	8,208
General and Administrative	1,640	-
Depreciation	40	8
Foreign Exchange Loss	491	6
	11,243	8,222
Net Loss and Other Comprehensive Loss	10,426	8,222
Deficit at Beginning of Year	9,661	1,439
Warrants Issued Under Plan of Arrangement (<i>note 4</i>)	4,049	-
Deficit at End of Year	24,136	9,661
Net Loss Per Share		
– Basic and Diluted (<i>note 12</i>)	0.06	0.05

See Accompanying Notes to the Consolidated Financial Statements

WESTERNZAGROS RESOURCES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(United States \$ thousands)

	For the Year Ended	
	December 31	
	2007	2006
Cash Provided By (Used In)		
Cash From Operating Activities		
Net Loss	(10,426)	(8,222)
Non-cash Items		
Depreciation	40	8
	<u>(10,386)</u>	<u>(8,214)</u>
Increase in Non-Cash Working Capital <i>(note 15)</i>	(107)	-
	<u>(10,493)</u>	<u>(8,214)</u>
Cash From Financing Activities		
Share Issuance Under Plan of Arrangement <i>(note 9)</i>	83,980	-
Class C Shares Under Plan of Arrangement <i>(note 4)</i>	1,027	-
Share Issuance Under Private Placement <i>(note 9)</i>	12,766	-
Exercise of Warrants <i>(note 9)</i>	4,201	-
Increase in Due to Related Party <i>(note 7)</i>	42,828	22,555
	<u>144,802</u>	<u>22,555</u>
Cash From Investing Activities		
Capital Expenditures	(34,556)	(13,154)
Deposits Held in Trust	(4,148)	-
Decrease (Increase) in Non-cash Working Capital <i>(note 15)</i>	4,659	(1,091)
	<u>(34,045)</u>	<u>(14,245)</u>
Increase in Cash and Cash Equivalents	100,264	96
Cash and Cash Equivalents at Beginning of Period	<u>103</u>	<u>7</u>
Cash and Cash Equivalents at End of Period	<u>100,367</u>	<u>103</u>

See Accompanying Notes to the Consolidated Financial Statements

WESTERNZAGROS RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in United States \$ thousands)

1. NATURE OF OPERATIONS

WesternZagros Resources Ltd. (the "Corporation") was incorporated on August 22, 2007 under the laws of the Province of Alberta. On October 18, 2007, the Corporation, Western Oil Sands Inc. (now Marathon Oil Canada Corporation) ("Western"), Marathon Oil Corporation, 1339971 Alberta Ltd. and WesternZagros Resources Inc. ("WZRI") completed a Plan of Arrangement (the "Arrangement"). In connection with the Arrangement, the Corporation, through a series of transactions, acquired all of the outstanding shares in WZRI. Further information on the Arrangement can be found in note 4.

The Corporation is engaged in acquiring properties and exploring for crude oil and natural gas and is in the developmental stage. Through its subsidiaries, the Corporation is party to a Production Sharing Contract ("PSC") with the Kurdistan Regional Government ("KRG") in respect of an exploration project area in the Kurdistan Region of Iraq.

2. SIGNIFICANT ACCOUNTING POLICIES

In these Consolidated Financial Statements, unless otherwise indicated, all dollar amounts are expressed in United States ("U.S.") dollars. The Corporation has adopted the U.S. dollar as its measurement and reporting currency since most of its expenses are directly or indirectly denominated in U.S. dollars. When revenues are realized, it is expected that U.S. dollars will be received. In addition, the U.S. dollar facilitates a more direct comparison to other international crude oil and natural gas exploration and development companies. All references herein to US\$ or to \$ are to United States dollars and references herein to Cdn\$ are to Canadian dollars.

i. Principles of Consolidation

The Consolidated Financial Statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles and include the accounts of the Corporation and its wholly-owned subsidiaries.

ii. Use of Estimates

The preparation of the Consolidated 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 Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Such estimates relate to unsettled transactions and events as of the date of the Consolidated Financial Statements. Accordingly, actual results may differ from these estimated amounts as future confirming events occur. Significant estimates used in the preparation of the Consolidated Financial Statements include, but are not limited to, recovery of exploration costs capitalized in accordance with full-cost accounting, asset retirement obligation, income taxes and the fair value of the warrants.

iii. Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated to U.S. dollars at rates of exchange in effect at the end of the period. Other assets and related depreciation, depletion

and amortization, other liabilities, revenues and expenses are translated at rates of exchange in effect at the respective transaction dates. The resulting exchange gains and losses are included in earnings.

iv. Cash and Cash Equivalents

Cash and cash equivalents consist of cash in the bank, less outstanding cheques, and short-term deposits with a maturity of less than three months.

v. Revenue

The Corporation recognizes revenue, which is related to the interest income earned on the Corporation's cash and cash equivalents, on an accrual basis.

vi. Property, Plant and Equipment

Property, plant and equipment ("PP&E") assets are recorded at cost less accumulated provisions for depreciation, depletion and amortization.

The Corporation accounts for its petroleum and natural gas operations in accordance with the Canadian Institute of Chartered Accountants' guideline on full-cost accounting in the oil and gas industry. Under this method, all exploration and development costs, including asset retirement obligations, are capitalized and accumulated within cost centres on a country-by-country basis. Such costs include land acquisition, geological and geophysical activity, drilling and testing of productive and non-productive wells, carrying costs directly related to unproved properties, major development projects and administrative costs directly related to exploration and development activities.

If the Corporation commences commercial production from the cost centres, capitalized costs accumulated within each cost centre will be depleted on the unit-of-production method based on the estimated proved reserves of that country using estimated future prices and costs. Proceeds from the disposal of properties are normally deducted from the full-cost pool without recognition of a gain or loss, unless that deduction would result in a change to the depletion rate by 20% or more, in which case a gain or loss is recorded.

In determining the depletion base, the Corporation includes estimated future costs to be incurred in developing proved reserves and excludes the cost of unproved properties and major development projects. Costs of major development projects and costs of acquiring and evaluating significant unproved properties are excluded, on a cost centre basis, from costs subject to depletion until it is determined whether or not proved reserves are attributable to the properties or impairment has occurred. To date, no depletion related to the Corporation's properties has been recorded as commercial operations have not commenced.

The Corporation reviews the carrying amount of its properties relative to their recoverable amount (the "ceiling test") for each cost centre at each annual balance sheet date or more frequently if circumstances or events indicate impairment has occurred. The recoverable amount is calculated as the sum of:

- the undiscounted cash flow from proved reserves using expected future prices and costs;
- the cost of unproved properties; and
- the costs of major development projects less impairment.

If the carrying amount of the properties exceeds their recoverable amount, an impairment loss is recognized in depletion equal to the amount by which the carrying amount of the properties exceeds their fair value. Fair value is calculated as the sum of:

- the cash flows from proved and probable reserves using expected future prices and costs, discounted at a risk-free interest rate; and
- the cost, less impairment, of unproved reserves and major development projects that do not have probable reserves attributable to them.

The Corporation is currently engaged in the Kurdistan Region Exploration Project, as described in note 5, which is in the development stage. As at December 31, 2007, \$55.3 million has been capitalized to date related to this project. No revenues have been generated from this project to date.

vii. Corporate and Other

Corporate PP&E assets are depreciated on a straight-line basis over their useful lives ranging from three to five years.

viii. Asset Retirement Obligation

The Corporation recognizes an asset and a liability for asset retirement obligations in the period in which they are incurred by estimating the fair value of the obligation. The fair value is determined by the Corporation by first estimating the expected timing and amount of cash flows, using third-party costs, that will be required for future dismantlement and site restoration, and then calculating the present value of these future expenditures using a credit-adjusted-risk-free-rate that Management of the Corporation deems appropriate. Any change in timing or amount of the cash flows subsequent to initial recognition results in a change in the asset and liability. The Corporation recognizes, over the estimated life of the asset and liability, depletion on the asset and accretion on the liability. Actual expenditures, when incurred, will be charged against the accumulated obligation. The Corporation currently does not have asset retirement obligation, as operations are in the early stage of development.

ix. Income Taxes

The Corporation follows the liability method of income tax allocation. Under this method, future tax assets and liabilities are determined based on differences between the Consolidated Financial Statements and tax bases of assets and liabilities and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Corporation assesses, based on all available evidence, the likelihood that the future income tax assets will be recovered from future taxable income and a valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

x. Stock-Based Compensation

For the Corporation's stock option plan, compensation expense is recorded in the Consolidated Statements of Operations as general and administrative expense with a corresponding increase in Contributed Surplus in the Consolidated Balance Sheets for all common share options granted. The expense is based on the fair values of the options at the time of grant and is recognized in the Consolidated Statements of Operations over the requisite service period of the respective options on a straight-line basis. Fair values are determined, at the grant date, using the Black-Scholes option-pricing model. Consideration paid to the Corporation on exercise of options is credited to Share Capital and an amount equal to the compensation expense recognized to that date is reclassified from Contributed Surplus to Share Capital.

3. CHANGES IN ACCOUNTING POLICIES AND FUTURE ACCOUNTING POLICY CHANGES

a) Financial Instruments

On January 1, 2007, the Corporation adopted the CICA Handbook sections 3855 "Financial Instruments — Recognition and Measurement," 3862 "Financial Instruments — Disclosures," 3863 "Financial Instruments — Presentation," 3865 "Hedges," 1530 "Comprehensive Income," and 3251 "Equity." The adoption of the financial instruments standards has not affected the current or comparative period balances on the consolidated financial statements, as all financial instruments identified have been fair valued.

Financial Instruments

Section 3855 requires that all financial assets be classified as held-for-trading, available-for-sale, held-to-maturity, or loans and receivables and that all financial liabilities must be classified as held-for-trading or other. Financial assets and financial liabilities classified as held-for-trading are measured at fair value with changes in those fair values recognized in earnings. Financial assets held-to-maturity, loans and receivables, and other financial liabilities 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, including changes in foreign exchange rates, being 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.

Derivative instruments are always carried at fair value and reported as assets where they have a positive fair value and as liabilities where they have a negative fair value. Derivatives may be embedded in other financial instruments. Under the new financial instrument standards, derivatives embedded in other financial instruments are valued as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host contract, the terms of the embedded derivative are the same as those of a free-standing derivative, and the combined contract is not held for trading. When an entity is unable to measure the fair value of the embedded derivative separately, the combined contract is treated as a financial asset or liability that is held-for-trading and measured at fair value with changes therein recognized in the earnings.

The fair value of a financial instrument on initial recognition is normally the transaction price, (for example the fair value of the consideration given or received). Subsequent to initial recognition, fair values are based on quoted market prices where available from active markets, otherwise fair values are estimated based upon market prices at reporting date for other similar assets or liabilities with similar terms and conditions or by discounting future payments of interest and principal at estimated interest rates that would be available to the Corporation at the reporting date.

Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading. Transaction costs related to other financial instruments are generally capitalized and are then amortized over the expected life of the instrument using the effective interest method.

Hedges

Section 3865 replaces the guidance formerly in Section 1650, "Foreign Currency Translation", and Accounting Guideline 13, "Hedging Relationships", by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. The Corporation does not have any derivative instruments that have been designated as hedges.

Comprehensive Income

Section 1530 establishes new standards for reporting the display of comprehensive income, consisting of Net Income and Other Comprehensive Income ("OCI"). OCI is the change in equity (net assets) of an enterprise during a reporting period from transactions and other events from non-owner sources and excludes those resulting from investments by owners and distributions to owners. The Corporation has no such transactions and events which would require the disclosure of OCI for the years ended December 31, 2007 and 2006. Any changes in these items would be presented in a consolidated statement of comprehensive income.

Equity

Section 3251 replaces Section 3250, "Surplus", and establishes standards for the presentation of equity and changes in equity during a reporting period, including changes in Accumulated Other Comprehensive Income ("Accumulated OCI"). Any cumulative changes in OCI would be included in Accumulated OCI and would be presented as a new category of Shareholder's Equity on the consolidated balance sheets.

b) Accounting Changes

On January 1, 2007, the Corporation adopted CICA Handbook Section 1506, "Accounting Changes", which revises and replaces former Section 1506, "Accounting Changes". This section establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies and estimates, and correction of errors.

c) Determining the Variability to be Considered in Applying AcG-15

On January 1, 2007, the Corporation prospectively adopted the Emerging Issues Committee issued Abstract 163, "Determining the Variability to be Considered in Applying AcG-15", which addresses how an enterprise should determine the variability to be considered in applying AcG-15, "Consolidation of Variable Interest Entities". The adoption of this standard has not affected the current or comparative period balances on the consolidated financial statements.

d) Future Accounting Policy Changes

The CICA has issued the following new accounting standards:

- Handbook Section 1400, General Standards of Financial Statements ("Section 1400");
- Handbook Section 1535, Capital Disclosures ("Section 1535");
- Handbook Section 3031, Inventories ("Section 3031");
- Handbook Section 3862, Financial Instruments – Disclosures ("Section 3862"); and
- Handbook Section 3863, Financial Instruments – Presentation ("Section 3863").

These new standards will become effective for the Corporation on January 1, 2008.

Section 1400 has been revised to include specific requirements for assessing and disclosing an entity's ability to continue as a going concern.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Section 3031 eliminates the use of a LIFO (last-in-first-out) based valuation approach for inventory. The standard also requires any impairment to net realizable value of inventory to be written down at each reporting period, with subsequent reversals when applicable. This standard can be applied prospectively with an initial adjustment to retained earnings or applied retrospectively with restatement of comparative balances. The adoption of this standard will not impact the Corporation's net loss or financial position.

Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

4. PLAN OF ARRANGEMENT

On October 18, 2007, Western announced the completion of the Arrangement pursuant to which the Corporation, through a series of transactions, acquired all of the outstanding shares in WZRI. Under the Arrangement, the shareholders of Western received one share of the Corporation and one-tenth of a common share warrant to purchase the shares of the Corporation for each Western share held. Each whole warrant was exercisable at a price of Cdn\$2.50 until January 18, 2008. In aggregate, 165,057,183 common shares and 16,505,729 warrants were issued to the former Western shareholders. Certain persons committed to exercise a portion of the warrants received pursuant to the Arrangement for Cdn\$1.4 million to the Corporation. The Corporation's common shares, issued and outstanding as at October 18, 2007 prior to the Arrangement, were repurchased for cancellation.

Pursuant to the Arrangement, the shareholders of Western continued to hold their respective interests in the Corporation, resulting in no change of control. Therefore, the acquisition was accounted for assuming continuity of business for WZRI under Emerging Issues Committee 89 – Exchanges of ownership interests between enterprises under common control-wholly and partially-owned subsidiaries ("EIC-89"). Consequently, under EIC-89 no fair value adjustments were made.

The consolidated financial statements of the Corporation reflect the assets and liabilities of WZRI at their book value as reported in the consolidated financial statements of WZRI. The continuity of business accounting requires that the results of operations presented in the consolidated financial statements of the Corporation include the operations of WZRI for the entire fiscal period in which the Arrangement took place. In addition, the comparative consolidated financial statements of the Corporation were restated to reflect the financial position and results of operation as if the Corporation and WZRI had been combined since their inception. The shares of the Corporation issued under the Arrangement were valued at the carrying value of the net assets of WZRI, excluding the accumulated deficit, as at October 18, 2007.

As at October 18, 2007, WZRI had the following assets, liabilities and shareholders' equity:

Assets	
Cash ²	87,990
Property, Plant and Equipment	49,948
Deposits Held in Trust	4,800
	<u>142,738</u>
 Liabilities	
Accounts Payable and Accrued Liabilities	4,912
Due to Related Party ¹	-
	<u>4,912</u>
 Shareholders' Equity	
Share Capital ^{1,2}	157,932
Deficit	(20,106)
	<u>137,826</u>
	<u>142,738</u>

1. Prior to the Arrangement and the acquisition of WZRI by the Corporation, \$63.0 million of inter-company debt between WZRI and subsidiaries of Western was settled with the issue of share capital on October 18, 2007.

2. WZRI, under the Arrangement, was capitalized further with \$84.0 million (Cdn\$81.5 million) in cash through a series of transactions.

Pursuant to the Arrangement, the Corporation received \$1.0 million (Cdn\$1.0 million) to purchase and cancel the Class C shares of Western that the Corporation had received as consideration for the issuance of the warrants. The Corporation recognized a charge to the deficit of \$4.0 million representing the difference between the Black-Scholes fair value of the warrants as described in note 10 and these proceeds received. Following the completion of the Arrangement and related subsequent transactions, the Corporation completed a private placement of 5,000,000 common shares at a price of Cdn\$2.50 per share for gross proceeds of US\$12.8 million (Cdn\$12.5 million).

5. PROPERTY, PLANT AND EQUIPMENT

<u>December 31, 2007</u>	<u>Cost</u>	<u>Accum.</u> <u>DD&A*</u>	<u>Net</u>
Kurdistan Region Exploration Project	55,320	-	55,320
Corporate	616	(40)	576
	<u>55,936</u>	<u>(40)</u>	<u>55,896</u>

<u>December 31, 2006</u>	<u>Cost</u>	<u>Accum. DD&A*</u>	<u>Net</u>
Kurdistan Region Exploration Project	21,371	-	21,371
Corporate	20	(11)	9
	<u>21,391</u>	<u>(11)</u>	<u>21,380</u>

* *Accumulated Depreciation, Depletion and Amortization*

All costs included in the Kurdistan Region Exploration Project are excluded from depletion as they represent costs related to properties incurred in cost centres that are considered to be in the pre-production stage. Currently, there are no proved reserves. All costs, net of any associated revenues, have been capitalized.

6. DEPOSITS HELD IN TRUST

During the year ended December 31, 2007, the Corporation deposited in trust \$4.8 million to be utilized to fund certain exploration expenditures related to the drilling contract and the purchase of long lead time tangible items for drilling operations as they were incurred and approved by the Corporation. The deposit accounts bear interest at prevailing market rates, with any associated interest utilized to satisfy requirements under the exploration expenditures. As at December 31, 2007, \$4.1 million of these deposits remained.

7. DUE TO RELATED PARTY

During the year ended December 31, 2007, the Corporation was charged \$9.1 million (December 31, 2006 - \$8.2 million), relating to operational, technical and other support expenditures incurred pursuant to the Services Agreement with Western. Western had paid for various capital, operational, technical, legal, general and administrative expenditures on behalf of the Corporation. These transactions were measured at the exchange amount, which is the amount of consideration established and agreed by the related parties. These transactions were undertaken with the same terms and conditions as transactions with non-related parties.

The amount due to related party, which was non-interest bearing, was regularly settled through issuance of equity. Prior to the closing of the Arrangement, \$63.0 million was settled through the issuance of equity. For the year ended December 31, 2006, \$10.9 million was settled through the issuance of equity.

8. INCOME TAXES

As at December 31, 2007, the Corporation has non-capital losses carried forward of \$12.6 million and a future income tax asset of \$3.2 million relating to the difference in the carrying value and the tax basis of the assets. Since the asset is limited to the amount that is more likely than not to be realized, no asset has been recorded.

The following table reconciles income taxes calculated at the Canadian statutory rate of 32.12 per cent (December 31, 2006 – 34.49 per cent):

	For the Years Ended December 31	
	2007	2006
Net Loss Before Income Taxes	10,426	8,222
Income Tax Recovery at Statutory Rate	3,349	2,836
Effect of Anticipated Timing of Use	(742)	(492)
Foreign Tax Rate Differentials	(385)	(1,060)
Valuation Allowance	(2,222)	(1,284)
Income Tax Recovery	-	-

9. SHARE CAPITAL

a) WesternZagros Resources Ltd.

Authorized

The Corporation is authorized to issue an unlimited number of ordinary and preferred shares.

The Common Shares are without nominal or par value.

Issued and Outstanding

	<u>Number of Shares</u>	<u>Amount</u>
Common Shares		
Issued on Incorporation	1	1
Repurchased – Plan of Arrangement	(1)	(1)
Issued – Plan of Arrangement (note 9(b))	165,057,183	157,932
Issued – Under Private Placement	5,000,000	12,766
Issued – Exercise of Warrants	1,646,864	4,201
Issued – Exercise of Warrants Previously Recognized (note 10)	-	506
Balance at December 31, 2007	171,704,047	175,405

b) WesternZagros Resources Inc.

Authorized

The Corporation is authorized to issue an unlimited number of ordinary and preferred shares.

The Common Shares are without nominal or par value.

Issued and Outstanding

	<u>Number of Shares</u>	<u>Amount</u>
Common Shares		
Balance at December 31, 2005	1	1
Issued – Settlement of Due to Related Party	18	10,908
Balance at December 31, 2006	19	10,909
Issued – Settlement of Due to Related Party (<i>note 4</i>)	6	63,043
Issued – Under Plan of Arrangement (<i>note 4</i>)	6	83,980
Balance at December 31, 2007	<u>31</u>	<u>157,932</u>

10. WARRANTS

Pursuant to the Arrangement, the Corporation issued 16,505,729 warrants on October 18, 2007. Each whole warrant was exercisable at a price of Cdn\$2.50 and expired on January 18, 2007. On October 18, 2007, the issue date of the warrants, the Black-Scholes calculated fair value was Cdn\$0.30 per warrant. The following table summarizes the assumptions used in applying the Black-Scholes model:

Risk Free Interest Rate	4.4%
Expected Life (in months)	3
Expected Volatility	60%
Dividend Per Share	Nil

The following table presents the reconciliation of warrants outstanding for the year ended December 31, 2007:

	<u>Number of Warrants</u>	<u>Amount</u>
Warrants		
Issued – Plan of Arrangement (<i>note 4</i>)	16,505,729	5,076
Exercised	(1,646,864)	(506)
Balance at December 31, 2007	<u>14,858,865</u>	<u>4,570</u>

Subsequent to December 31, 2007, a further 2,426,939 warrants were exercised for total proceeds of Cdn\$6.1 million, bringing the total proceeds received in respect to the warrants to Cdn\$10.1 million. The remaining 12,431,926 warrants expired on January 18, 2008 unexercised.

11. STOCK OPTIONS

On October 16, 2007, the shareholders of the Corporation approved a stock option plan for the Corporation. Under the stock option plan, the Board of Directors may grant options to directors, officers, other employees and other service providers. The aggregate number of shares that may

be reserved for issuance pursuant to stock options may not exceed 10 per cent of the issued and outstanding common shares on a non-diluted basis of the Corporation at the time of granting. As at December 31, 2007, the Corporation had not issued any stock options, and, accordingly, had not recognized any stock-based compensation for the period ending December 31, 2007.

On February 5, 2008, the Corporation granted 7,060,000 options at an exercise price of \$2.15 per share. The options vest over a three year period, with 1/3 of the options vesting on each of October 22, 2008, October 22, 2009 and October 22, 2010.

12. LOSS PER SHARE

The Corporation has calculated basic loss per share for the years ending December 31, 2007 and 2006 as if the shares issued under the Arrangement were issued effective January 1, 2006 and considering subsequent issuances after the completion of the Arrangement on October 18, 2007. The basic weighted average number of common shares outstanding calculated on this basis for December 31, 2007 are 166,303,062 and for December 31, 2006 are 165,057,183. Due to a loss for the years ended December 31, 2007 and 2006, no incremental shares were included in the diluted earnings per weighted average number because the effect would have been anti-dilutive.

13. SHAREHOLDERS' RIGHTS PLAN

On October 18, 2007, the Corporation adopted a shareholder rights plan (the "Plan"). Under the Plan, one right has been issued in respect of each currently issued common share and one right will be issued with each additional common share which is issued. The rights remain attached to the common shares and are not exercisable or separable unless one or more of certain specified events occur. If a person or group acting in concert acquires 20 per cent or more of the common shares of the Corporation, the rights will entitle the holders thereof (other than the acquiring person or group) to purchase common shares at a substantial discount from the then market price. The rights are not triggered by a "Permitted Bid" as defined in the Plan. The Plan will remain in effect until termination of the annual meeting of shareholders in 2010, unless extended by resolution of the shareholders at such meeting.

14. FINANCIAL INSTRUMENTS

Financial instruments of the Corporation consist of cash and cash equivalents, accounts receivable, deposits held in trust and accounts payable and accrued liabilities. The estimated fair value of the financial instruments approximates their carrying values due to their short terms to maturity.

The Corporation is exposed to interest rate risk to the extent that changes in market interest rates will impact any interest earned on the Corporation's cash and cash equivalent and deposit held in trust balances. The Corporation enters into transactions for cash equivalents with major Canadian financial institutions with investment grade credit ratings, as well as purchases Government of Canada instruments.

The Corporation is exposed to foreign exchange risk. The majority of the Corporation's costs are anticipated to be incurred in U.S. dollars and the funds it will have available to it may be in other currencies. There is a possibility that operations and development costs may increase as a result of currency fluctuation. As a result, the Corporation holds the majority of its cash and cash equivalents in U.S. dollars.

15. CHANGES IN NON-CASH WORKING CAPITAL

Source/(Use)	For the Years Ended December 31	
	2007	2006
Operating Activities		
Accounts Receivable	(50)	-
Prepaid Expenses	(111)	-
Accounts Payable and Accrued Liabilities	54	-
	(107)	-
Investing Activities		
Accounts Receivable	(189)	86
Accounts Payable and Accrued Liabilities	4,848	(1,177)
	4,659	(1,091)

16. COMMITMENTS AND CONTINGENCIES

Commitments

a) Production Sharing Contract ("PSC")

The Corporation, through WesternZagros Limited, a wholly-owned subsidiary of the Corporation, has entered into a PSC with the KRG. The Corporation had been in discussions with the KRG regarding amendments to the Corporation's Exploration and Production Sharing Agreement (the "EPSA") which was signed in February 2007 in order to bring the EPSA into conformity with the KRG's recently developed Model PSC. On February 29, 2008, the Corporation announced that it had signed an amended PSC and completed these negotiations.

Under the amended terms of the PSC, the Corporation has a 40 per cent working interest which will not be subject to further dilution by the KRG. The KRG will have a direct 20 per cent interest in the PSC which will be carried primarily by the Corporation. The remaining 40 per cent will be allocated to a third party or parties by the KRG within a six month period ending on August 28, 2008, with a requirement that such third party or parties pay a share of the costs incurred by the Corporation. The Corporation, the KRG and the third party or parties will be collectively the "Contractor Group" under the PSC.

The PSC contemplates two exploration sub-periods of three years and two years, respectively, with two possible one-year extensions. The first exploration sub-period ends December 31, 2010. During such time, the Contractor Group is required to complete a minimum of 1,150 kilometres of seismic surveying, drill three exploration wells and commit a minimum of US\$75 million in the aggregate on seismic, geologic studies and drilling. At the end of the first exploration sub-period, the Corporation and the other parties to the PSC may relinquish the entire contract area (other than any discovery or development areas), or continue further exploration operations during the second exploration sub-period which ends December 31, 2012. The PSC also includes capacity building support, payable by the Corporation over a 15 month period and funding for certain technological, logistical,

recruitment and training during the first exploration sub-period, and any subsequent sub-periods. The Corporation estimates its share of the PSC work commitment for the first exploration sub-period, including the previously paid signature bonus, the capacity building payments, the various funding requirements and the requirement for the Corporation to primarily carry the KRG's interest through the work commitments, to be approximately US\$103 million.

During the second exploration sub-period, the Contractor Group, or those parties who have elected to participate in further exploration, is required to complete a minimum of 575 kilometres of seismic surveying, drill at least two exploration wells and commit a minimum of US\$35 million. At the end of the second exploration sub-period, the Corporation or those parties who have elected to participate in the second exploration sub-period, may relinquish the entire contract area (other than any discovery or development areas), or continue further exploration operations during two one-year extension periods, which would extend the total exploration period to December 31, 2014. At the end of the second exploration sub-period, and at the end of each subsequent extension period, the PSC requires the Corporation, and those parties who have elected to participate, to relinquish 25 per cent of the remaining undeveloped area within the PSC lands.

The Corporation will be the operator of the PSC Lands during the first exploration sub-period, and for subsequent sub-periods a joint operating company will be established between the Corporation, KRG and any third party or parties if so elected.

The Corporation has granted participation rights for up to five per cent in respect to the Corporation's interest in the PSC to certain third parties at the same terms as the Corporation has under the PSC. Certain portions of the participation interest may be funded by interest-bearing loans granted by the Corporation.

b) Other

The Corporation has entered into various exploration related contracts, including for drilling equipment, services and tangibles, and seismic surveying equipment and services, to meet the requirements it has under the PSC. The following table summarizes the commitments the Corporation has under these exploration related contracts and other contractual obligations at December 31, 2007:

	For the Year Ending December 31					
	2008	2009	2010	2011	2012+	Total
Exploration	11,343	-	-	-	-	11,343
Office	375	375	94	-	-	844
	11,718	375	94	-	-	12,187

Contingencies

Regulatory

Oil and gas operations are subject to extensive controls and regulations imposed by various levels of government that may be amended from time to time. The Corporation's operations may require licenses and permits from various governmental authorities in the countries in which it operates. Under the amended PSC, the KRG is obligated to assist in obtaining all permits and licenses from any government agencies in the Kurdistan Region and from any other government administration in

Iraq. There can be no assurance that the Corporation will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development of its projects.

The political and security situation in Iraq is unsettled and volatile. The Kurdistan Region is the only "Region" of Iraq that is constitutionally established pursuant to the Iraq Constitution, which expressly recognizes the Kurdistan Region. The political issues of federalism and the autonomy of the Regions of Iraq are matters about which there are major differences between the various political factions in Iraq. These differences could adversely impact the Corporation's interest in the Kurdistan Region.

17. SUBSEQUENT EVENTS

On March 7, 2008, the Corporation completed a private placement for 33.3 million common shares, at a price of \$2.25 per share, for gross proceeds of Cdn\$75 million (net Cdn\$70.8 million).

About WesternZagros Resources Ltd.

WesternZagros is an international natural resources company engaged in acquiring properties and exploring for, developing and producing crude oil and natural gas. WesternZagros, through its wholly-owned subsidiaries, holds a Production Sharing Contract with the KRG in the Kurdistan Region of Iraq. The Company's shares trade on the TSX Venture Exchange under the symbol WZR.

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This news release may contain forward-looking information based on assumptions that are subject to a wide range of business risks. WesternZagros' operations are subject to all risks normally incident to the exploration, development and operation of crude oil and natural gas properties and the drilling of crude oil and natural gas wells, including geological risk, encountering unexpected formations or pressures, premature declines of reservoirs, potential environment damage, blow-outs, fires and spills, all of which could result in personal injuries, loss of life and damage to property of WesternZagros and others; environment risks; delay or changes in plans with respect to exploration or development projects or capital expenditures; the ability to attract key personnel; the risk of commodity price and foreign exchange rate fluctuations.

All of WesternZagros' assets are located in Kurdistan. As such, WesternZagros is subject to political, economic, and other uncertainties of that region as well as risks of loss due to civil strife, acts of war, guerrilla activities and insurrections. WesternZagros' operations may be materially adversely affected by changes in government policies and legislation or social instability and other factors which are not within its control. Risks also include the uncertainty involved in the estimation of undiscovered resources. For further information on WesternZagros and the risks associated with its business, please see the Western Oil Sands Inc. Information Circular dated September 14, 2007 which is filed at www.sedar.com.

Forward-looking information typically contains statements with words such as “anticipate”, “estimate”, “expect”, “potential”, “could”, or similar words suggesting future outcomes. We caution readers and prospective investors of the Company’s securities not to place undue reliance on forward-looking information as by its nature, it is based on current expectations regarding future events that involve a number of assumptions, inherent risks and uncertainties, which could cause actual results to differ materially from those anticipated by WesternZagros.

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