

## NEWS RELEASE

### WesternZagros Announces First Quarter Results

**Calgary, Alberta – May 15, 2008** – WesternZagros Resources Ltd. (TSX-V – WZR) ("WesternZagros") is pleased to announce today its results for the three month period ended March 31, 2008 and key highlights to date.

- WesternZagros began field preparations to drill its initial well, Sarqala-1, in February 2008 and spudded the well on May 8, 2008. The well is planned to target four potential reservoir zones, reaching a total depth of approximately 4,800 metres. Spudding of the well followed the safe movement of all necessary equipment and supplies into the Kurdistan Region and the construction of the initial drilling location.
- On February 28, 2008, WesternZagros signed an amended Production Sharing Contract ("PSC") with the Kurdistan Regional Government ("KRG"). The Company completed extensive negotiations with the KRG to amend its former Exploration and Production Sharing Agreement in order to bring it in line with the KRG's model PSC. Under the PSC, WesternZagros has a 40 per cent working interest, together with the KRG who hold a 20 per cent working interest. The remaining 40 per cent interest may be allocated by the KRG to a third party or parties by August 28, 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. The proceeds of the offering will be used to carry out a multi well exploration program over the next several years on the Company's contract area.
- WesternZagros has exceeded its seismic commitment of 1,150 kilometres under its PSC and continues to actively acquire seismic under its Phase II program.
- WesternZagros incurred capital expenditures of \$26.6 million in association with the Phase II seismic program, the 2008 drilling program and certain payments required under the PSC.
- WesternZagros had a net loss of \$1.8 million, mainly comprised of the general and administrative costs incurred by the Company.
- As at March 31, 2008 WesternZagros had \$157.8 million in cash and cash equivalents and, in addition, \$10.2 million in deposits held in trust. These balances will be used to fund future exploration activities and the \$19.3 million of accounts payable and accrued liabilities owing at March 31, 2008.

## **Regional Activity**

The KRG recently announced that it has held meetings with Iraqi federal government officials in Baghdad where a wide range of topics were discussed including the national hydrocarbon law. While the process may take some time, the KRG indicated that significant progress was made and both the KRG and the Federal Government are committed to finding and implementing long term and mutually agreeable solutions.

## **Operations Update**

During the first quarter of 2008, WesternZagros commenced mobilization of the drilling rig and well site preparations at Sarqala-1. These achievements culminated in the spudding of WesternZagros' first well in Kurdistan on May 8, 2008. Sarqala-1 is expected to take approximately 120 to 130 days to drill. This is the first well of a multi-well drilling exploration program planned over the next three years.

WesternZagros continues to actively acquire seismic under its Phase II program and expanded its program to allow for seismic coverage across the entire PSC block. WesternZagros has acquired 1,301 kilometres to date under the Phase I and Phase II seismic programs. When the Company's Phase II seismic program is completed, WesternZagros expects to have acquired a total of approximately 1,400 kilometres of seismic (under Phase I and II).

As the Company conducts its operations in Kurdistan, health, safety, environment and security are of utmost importance. WesternZagros has adopted relevant Canadian guidelines where appropriate, including those established by the Alberta Energy Resources Conservation Board in conducting its operations in Kurdistan. To date WesternZagros has completed the construction of the Sarqala-1 drilling location, the transportation of the drilling rig, related equipment and materials, the commissioning of the rig, and the continuation of the Phase II seismic program without any serious safety or security incidents.

## **Management's Discussion and Analysis**

For the Period Ended March 31, 2008 (Amounts in United States Dollars unless otherwise indicated)

Management's discussion and analysis ("MD&A") of WesternZagros Resources Ltd.'s ("WesternZagros" or the "Company") financial condition and results of operations should be read in conjunction with the unaudited Balance Sheet as at March 31, 2008 and the audited Balance Sheet as at December 31, 2007 and related notes prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The effective date of this MD&A is May 14, 2008.

WesternZagros was incorporated on August 22, 2007 under the laws of the Province of Alberta. On October 18, 2007, WesternZagros, Western Oil Sands Inc. (now Marathon Oil Canada Corporation), Marathon Oil Corporation, 1339971 Alberta Ltd. and WesternZagros Resources Inc. ("WZRI") completed a Plan of Arrangement (the "Arrangement"). In connection with the Arrangement, through a series of

transactions, WesternZagros acquired all of the outstanding shares of WZRI. As the shareholders of Western Oil Sands Inc. 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 operations 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.

Additional information relating to WesternZagros is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Forward Looking Information**

This report contains certain forward-looking statements relating, but not limited, to the Company's operations, anticipated financial performance, business prospects and strategies. 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 to 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. WesternZagros' operations are subject to all 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 those risks described in the Risk Factors section of this Company's MD&A.

### **Overview**

WesternZagros is a publicly-traded Calgary-based, international natural resources company engaged in acquiring properties and exploring for, developing and producing crude oil and natural gas in Iraq. WesternZagros, through its wholly-owned subsidiaries, holds a Production Sharing Contract (“PSC”) with the Kurdistan Regional Government (the “KRG”) in the Kurdistan Region of Iraq.

## **Operations**

WesternZagros is currently exploring for crude oil and natural gas in the Kurdistan Region of Iraq and has no current reserves or production. The Company's revenue is comprised entirely of interest earned on cash and cash equivalent balances.

During the first quarter of 2008, WesternZagros commenced mobilization of the drilling rig and well site preparations at Sarqala-1. These achievements culminated in the spudding of WesternZagros' first well in Kurdistan on May 8, 2008. Sarqala-1 is expected to take approximately 120 to 130 days to drill. This is the first well of a multi-well drilling exploration program planned over the next three years.

WesternZagros continues to actively acquire seismic under its Phase II program and expanded its program to allow for seismic coverage across the entire PSC block. WesternZagros has acquired 1,301 kilometres to date under the Phase I and Phase II seismic programs. When the Company's Phase II seismic program is completed, WesternZagros expects to have acquired a total of approximately 1,400 kilometres of seismic (under Phase I and II).

As the Company conducts its operations in Kurdistan, health, safety, environment and security are of utmost importance. WesternZagros has adopted relevant Canadian guidelines where appropriate, including those established by the Alberta Energy Resources Conservation Board in conducting its operations in Kurdistan. To date WesternZagros has completed the construction of the Sarqala-1 drilling location, the transportation of the drilling rig, related equipment and materials, the commissioning of the rig, and the continuation of the Phase II seismic program without any serious safety or security incidents.

## **Land**

WesternZagros' PSC provides for the exploration of conventional oil and gas in the Kurdistan Region of Iraq. The PSC lands cover 2,120 square kilometres and 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 the PSC lands 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 WesternZagros is currently drilling its initial well on the PSC lands, and no other exploration wells have been drilled on the block, the Company has not yet established any reserves in the Kurdistan Region of Iraq.

### **Charges Under Service Agreement**

For the three months ended March 31, 2008, WesternZagros had no charges under a service agreement compared to \$2.2 million for the prior year period. The charges incurred during 2007 related to operational, technical and other support expenditures incurred pursuant to a services agreement WZRI had with Western Oil Sands Inc. Under the agreement, Western Oil Sands Inc. paid for various PSC negotiation costs, capital, operational, technical, legal, general and administrative expenditures on behalf of WZRI. These transactions were measured at the amount of consideration established and agreed to 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 completion of the Arrangement on October 18, 2007.

### **General and Administrative Expenses (G&A)**

For the three months ended March 31, 2008, WesternZagros incurred \$1.9 million in general and administrative expenses compared with \$1.6 million for the fourth quarter of 2007 and nil for the three months ended March 31, 2007, when these costs were incurred under the service agreement with Western Oil Sands Inc. The increase is the result of increased activity and associated staff and consulting costs as WesternZagros continued to build the necessary infrastructure to support expanding operations.

### **Depreciation, Depletion and Amortization (DD&A)**

For the three months ended, March 31, 2008, WesternZagros had \$0.06 million of DD&A related to certain administrative assets the Company had acquired compared to \$0.04 million in the fourth quarter of 2007 and \$0.002 million for the prior year period. No depletion was recorded because WesternZagros has yet to determine whether proved reserves are attributable to the PSC lands.

### **Foreign Exchange**

WesternZagros adopted the US 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. For the three months ended March 31, 2008, WesternZagros incurred \$0.7 million of foreign exchange losses compared to a gain of \$0.3 million in the fourth quarter of 2007 and a foreign exchange loss of \$0.07 million for the three months ended March 31, 2007.

### **Income Taxes**

As at March 31, 2008, WesternZagros had non-capital losses carried forward of \$11.8 million and share issuance costs of \$4.2 million. Despite this, no asset or associated income tax recovery has been

recorded as there is no certainty the non-capital losses carried forward and the share issuance costs 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 three months ended March 31, 2008, WesternZagros had a net loss of \$1.8 million compared to \$0.8 million for the fourth quarter of 2007 and \$2.2 million for the three months ended March 31, 2007. WesternZagros is an early stage exploration enterprise and, apart from its working interest in the PSC and cash and cash equivalents, the Company has no other assets.

### **Capital Expenditures**

For the three months ended March 31, 2008, WesternZagros' capital expenditures totalled \$26.6 million compared to \$10.5 million in the fourth quarter of 2007 and \$5.8 million for the three months ended March 31, 2007. The increase in capital expenditures compared to the fourth quarter of 2007 is the result of costs incurred associated with the mobilization of the drilling rig, construction of the Sarqala-1 drilling site, the procurement of tangible materials, equipment and services for the 2008 drilling program and the required payments under the PSC to the KRG. WesternZagros capitalized \$ 0.6 million of general and administrative costs directly related to exploration activities for the three months ended March 31, 2008 (March 31, 2007 \$ - nil).

### **Contract Obligations and Commitments**

Under the terms of its PSC, WesternZagros has a 40 per cent working interest. 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 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.

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 \$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 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 commitment 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 \$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, 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 contracts for drilling equipment, services and tangibles, and seismic surveying equipment and services, to meet the requirements under the PSC. The following table summarizes WesternZagros' commitments under these exploration related contracts and other contractual obligations.

(\$000s)	Nine Months		For the year ended December 31			Total
	2008	2009	2010	2011	2012+	
Exploration	8,746	-	-	-	-	8,746
Office	281	375	94	-	-	750
Total	9,027	375	94	-	-	9,496

## Outlook

WesternZagros' budget for 2008 is approximately \$78 million, which excludes the capacity building support and other payments associated with the PSC signed in February 2008 and any funding of expenditures by a third party participant elected by the KRG, or recovery by WesternZagros of past expenditures incurred prior to the election. Approximately 80 per cent of this budget is allocated to the Company's seismic program and drilling activity in the Kurdistan Region.

WesternZagros' operational efforts for the remainder of 2008 will be focused on the drilling of Sarqala-1; the completion of its Phase II seismic program , including the processing and interpretation of the seismic data in order to compile an inventory of drillable prospects; and the selection, construction and drilling of its second well location.

### **Liquidity and Capital Resources**

At March 31, 2008, WesternZagros had \$157.8 million in cash and cash equivalents and, in addition, \$10.2 million in deposits held in trust. These balances will be used to fund future capital expenditures including: the work commitments with respect to the first exploration sub-period under the PSC, the requirement for WesternZagros to fund the KRG's 20 per cent interest; certain payments required under the amended PSC, including the capacity building payments; G&A expenditures; and, working capital requirements.

In the first quarter of 2008, 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. On March 7, 2008, WesternZagros completed a private placement for 33,333,334 common shares for net proceeds of Cdn\$70.8 million (gross Cdn\$75 million) at a price of Cdn\$2.25 per share.

WesternZagros currently funds 100 per cent of the expenditures related to the PSC. The election of a third party participant by the KRG reduces our funding requirements under the PSC to 60 per cent, and would allow WesternZagros with its existing financial resources to carry on a multi-well exploration program for the next two to three years, exceeding the commitments under the PSC. If no third party participant is elected by the KRG, WesternZagros has the financial resources available to it to fund only the capacity building support payments and to meet the drilling and seismic commitments under the PSC. Consequently, additional financial resources would be required to fund further exploration activities beyond the commitments in the PSC.

With any successful exploration wells WesternZagros will require further financial resources to complete an appraisal program, and ultimately if warranted any development program. 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 provision of the PSC.

### **Outstanding Share Data**

As at March 31, 2008, there were 207,464,320 shares issued and outstanding. The number of common shares reserved for issuance pursuant to options granted will not exceed 10 per cent of the issued and outstanding common shares. In the first quarter of 2008, 7,255,000 stock options were granted to directors, officers and employees and 300,000 were cancelled.

## Supplemental Quarterly Information

The following table summarizes the key financial information on a quarterly basis for the periods indicated.

(US\$ thousands, unless otherwise indicated)	March 31	Dec. 31	Sept. 30	June 30
	2008	2007	2007	2007
Revenues	823	817	-	-
Net Loss	1,830	836	3,667	3,677
Net Loss per Share (US\$/share)				
(Basic and Fully Diluted)	0.01	0.01	0.02	0.02
Capital Expenditures	26,584	10,493	11,428	6,870
Total Assets	251,068	160,777	45,943	36,104
Total Long-term Liabilities	-	-	52,297	39,084
Dividend (US\$ per Share)	Nil	Nil	Nil	Nil

	March 31	Dec. 31	Sept. 30	June 30
	2007	2006	2006	2006
Revenues	-	-	-	-
Net Loss	2,246	1,718	2,063	2,848
Net Loss per Share (US\$/share)				
(Basic and Fully Diluted)	0.01	0.01	0.01	0.02
Capital Expenditures	5,765	12,783	-	174
Total Assets	27,236	21,499	8,707	8,749
Total Long-term Liabilities	27,994	20,214	16,645	14,623
Dividend (US\$ per share)	Nil	Nil	Nil	Nil

## 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, 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; premature declines of reservoirs; 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 Company's Annual Information Form which is available at [www.westernzagros.com](http://www.westernzagros.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).

**WESTERNZAGROS RESOURCES LTD.**  
**CONSOLIDATED BALANCE SHEETS**  
**(United States \$ thousands)**

	<b>March 31</b>	<b>December 31</b>
	<b>2008</b>	<b>2007</b>
	“Unaudited”	
<b>Assets</b>		
Current Assets		
Cash and Cash Equivalents	157,753	100,367
Accounts Receivable	444	255
Prepaid Expenses	223	111
	158,420	100,733
Long-term Assets		
Property, Plant and Equipment <i>(note 5)</i>	82,420	55,896
Deposits Held in Trust <i>(note 6)</i>	10,228	4,148
	92,648	60,044
	251,068	160,777
<b>Liabilities</b>		
Current Liabilities		
Accounts Payable and Accrued Liabilities	19,252	4,938
<b>Shareholders' Equity</b>		
Share Capital <i>(note 8)</i>	253,635	175,405
Warrants <i>(note 9)</i>	-	4,570
Contributed Surplus <i>(note 11)</i>	4,147	-
Deficit	(25,966)	(24,136)
	231,816	155,839
	251,068	160,777

Commitments and Contingencies *(note 14)*

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)  
(“Unaudited”)

	<b>For the Three Month Period Ended March 31</b>	
	<b>2008</b>	<b>2007</b>
<b>Revenues</b>		
Interest Income	823	-
<b>Expenses</b>		
Charges Under Service Agreement	-	2,179
General and Administrative	1,874	-
Depreciation	60	2
Foreign Exchange Loss	719	65
	2,653	2,246
<b>Net Loss and Other Comprehensive Loss</b>	<b>1,830</b>	<b>2,246</b>
Deficit at Beginning of Year	24,136	9,661
	<b>25,966</b>	<b>11,907</b>
<b>Net Loss Per Share</b>		
– Basic and Diluted ( <i>note 12</i> )	<b>0.01</b>	<b>0.01</b>

*NOTICE OF NO AUDITOR'S REVIEW OF THE COMPARATIVE UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED MARCH 31, 2007.*

*Above comparative unaudited consolidated statements of operations, comprehensive loss and deficit of the Company for the period ended March 31, 2007 have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of the comparative unaudited consolidated statements of operations, comprehensive loss and deficit for the three month period ended March 31, 2007.*

*See Accompanying Notes to the Consolidated Financial Statements*

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

	<b>For the Three Month Period Ended March 31</b>	
	<b>2008</b>	<b>2007</b>
<b>Cash Provided By (Used In)</b>		
<b>Cash From Operating Activities</b>		
Net Loss	(1,830)	(2,246)
Non-cash Items		
Depreciation	60	2
Stock-based Compensation ( <i>note 10</i> )	323	-
	(1,447)	-
Increase in Non-Cash Working Capital ( <i>note 13</i> )	(354)	-
	(1,801)	(2,244)
<b>Cash From Financing Activities</b>		
Share Issuance Under Private Placement ( <i>note 8</i> )	71,436	-
Exercise of Warrants ( <i>notes 8, 9</i> )	6,048	-
Increase in Due to Related Party	-	7,780
	77,484	7,780
<b>Cash From Investing Activities</b>		
Capital Expenditures	(26,584)	(5,765)
Deposits Held in Trust	(6,080)	-
Decrease in Non-cash Working Capital ( <i>note 13</i> )	14,367	218
	(18,297)	(5,547)
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>57,386</b>	<b>(11)</b>
Cash and Cash Equivalents at Beginning of Period	100,367	103
<b>Cash and Cash Equivalents at End of Period</b>	<b>157,753</b>	<b>92</b>

*NOTICE OF NO AUDITOR'S REVIEW OF THE COMPARATIVE UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED MARCH 31, 2007.*

*Above comparative unaudited consolidated statement of cash flows of the Company for the period ended March 31, 2007 have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of the comparative unaudited consolidated statement of cash flows for the three month period ended March 31, 2007.*

*See Accompanying Notes to the Consolidated Financial Statements*

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

**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**

The interim consolidated financial statements are presented in accordance with Canadian Generally Accepted Accounting Principles. The interim consolidated financial statements have been prepared using the same accounting policies and methods of computation as the audited consolidated financial statements for the year ended December 31, 2007, except as described in Note 3. The disclosures provided below are incremental to those included in the annual consolidated financial statements. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto in the Corporation's annual report for the year ended December 31, 2007.

**3. CHANGES IN ACCOUNTING POLICIES AND FUTURE ACCOUNTING POLICY CHANGES**

**a) Capital Disclosures**

On January 1, 2008, the Corporation adopted the CICA Handbook sections 1535 "Capital Disclosures". The adoption of this standard requires specific 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.

**b) Inventories**

On January 1, 2008, the Corporation adopted CICA Handbook Section 3031, "Inventories", which eliminates the use of a LIFO (last-in-first-out) based valuation approach for inventory. As the Corporation at this time does not hold any inventory the adoption of this standard did not have an impact on the Corporation's net loss or financial position.

**c) Financial Instruments – Disclosure and Presentation**

On January 1, 2008, the Corporation adopted CICA Handbook Section 3862 “Financial Instruments – Disclosures” and CICA Handbook Section 3863 “Financial Instruments – Presentation”. The adoption of these standards increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

**d) Goodwill and Intangible Assets**

As of January 1, 2009, WesternZagros will be required to adopt the CICA Handbook Section 3064, “Goodwill and Intangible Assets”, which will replace the existing Goodwill and Intangible Assets standard. The new standard revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard should not have a material impact on WesternZagros’ Consolidated Financial Statements.

**e) International Financial Reporting Standards (“IFRS”)**

In January 2006, the CICA Accounting Standards Board (“AcSB”) adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, the AcSB confirmed in February 2008 that International Financial Reporting Standards (“IFRS”) will replace Canadian GAAP in 2011 for profit-oriented Canadian publicly accountable enterprises. As WesternZagros will be required to report its results in accordance with IFRS starting in 2011, the Company is currently assessing the impact of these new accounting standards on its financial statements.

#### **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.

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.

## 5. PROPERTY, PLANT AND EQUIPMENT

<u>March 31, 2008</u>	<u>Cost</u>	<u>Accum. DD&amp;A*</u>	<u>Net</u>
Kurdistan Region Exploration Project	81,904	-	81,904
Corporate	616	(100)	516
	<u>82,520</u>	<u>(100)</u>	<u>82,420</u>

  

<u>December 31, 2007</u>	<u>Cost</u>	<u>Accum. DD&amp;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>

\* *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. The Corporation capitalized \$0.6 million of general and administrative costs directly related to exploration activities for the three months ended March 31, 2008 (March 31, 2007 \$ - nil).

## 6. DEPOSITS HELD IN TRUST

The Corporation has deposited in trust certain amounts to be utilized to fund certain exploration expenditures and amounts due under the Production Sharing contract as described in note 14(a). The funds for exploration expenditures relate to the drilling contract and the purchase of long lead time tangible items for drilling operations. The deposits bear interest at prevailing market rates. As at March 31, 2008, \$10.2 million of these deposits remained.

## 7. INCOME TAXES

As at March 31, 2008, the Corporation has non-capital loss carry forwards of \$11.8 million and share issuance costs of \$ 4.2 million resulting in a future income tax asset of \$ 4.0 million. Since a future income tax asset is limited to the amount that is more likely than not to be realized and the Corporation is in a developmental stage, no asset has been recorded.

## 8. SHARE CAPITAL

### 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>
<b>Common Shares</b>		
Issued on Incorporation – August 22, 2007	1	1
Repurchased – Plan of Arrangement	(1)	(1)
Issued – Plan of Arrangement	165,057,183	157,932
Issued – Under Private Placement (note 4)	5,000,000	12,766
Issued – Exercise of Warrants	1,646,864	4,201
Issued – Warrant Value Transferred on Exercise of Warrants (note 9)	-	506
	<hr/>	
Balance at December 31, 2007	171,704,047	175,405
Issued – Exercise of Warrants	2,426,939	6,048
Issued – Warrant Value Transferred on Exercise of Warrants (note 9)	-	746
Issued – Under Private Placement	33,333,334	75,645
Share Issuance Costs	-	(4,209)
	<hr/>	
Balance at March 31, 2008	207,464,320	253,635

During the period January 1 to January 18, 2008 the Corporation received approximately \$6.0 million in total proceeds from the exercise of 2.4 million warrants. This brought the total proceeds to \$10.2 million from the exercise of 4.1 million warrants over the life of the warrants.

On March 7, 2008, the Corporation completed a private placement for 33.3 million common shares, at a price of Cdn \$2.25 per share, for gross proceeds of Cdn \$75 million (net Cdn \$71 million).

## 9. 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 presents the reconciliation of warrants outstanding:

	<u>Number of Warrants</u>	<u>Amount</u>
<b>Warrants</b>		
Issued – Plan of Arrangement (note 4)	16,505,729	5,076
Exercised	(1,646,864)	(506)
	<hr/>	<hr/>
Balance at December 31, 2007	14,858,865	4,570
Warrant Value Transferred to Share Capital on Exercise of Warrants	(2,426,939)	(746)
Warrant Value Transferred to Contributed Surplus on Exercise of Warrants	12,431,926	(3,824)
	<hr/>	<hr/>
Balance at March 31, 2008	-	-

The fair value originally recorded on the 12,431,926 warrants that expired on January 18, 2008 of \$3.8 million has been reclassified to Contributed Surplus, as the warrants associated with this amount were not exercised.

## 10. STOCK OPTIONS AND STOCK-BASED COMPENSATION

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. During the three month period ending March 31, 2008 the Corporation granted 7,255,000 options at an average exercise price of \$2.16 per share, representing the first stock options granted under the stock option plan. During the three month period ending March 31, 2008 there were 300,000 options cancelled. As at March 31, 2008 6,955,000 options remain outstanding.

The fair value of all options granted have been estimated at the grant date using the Black-Scholes option pricing model. The weighted average fair values of the options and the assumptions used in their determination are as follows:

	<b>Three Month Period Ended March 31, 2008</b>
Weighted Average Fair Value (\$ Per Share)	0.85
Risk Free Interest Rate	4.02 to 4.11%
Expected Life (In Years)	2.75 to 3.0
Expected Volatility	55%
Dividend Per Share	-

Accordingly, during the three month period ending March 31, 2008, the Corporation recognized \$0.3 million in stock-based compensation in general and administrative expense.

## 11. CONTRIBUTED SURPLUS

The following table presents the reconciliation of Contributed Surplus:

	<b>Three Month Period Ended March 31, 2008</b>	
Balance at December 31, 2007		-
Recognized on Expiry of Warrants ( <i>note 9</i> )		3,824
Stock-based Compensation		323
		<hr/>
Balance at March 31, 2008		<u>4,147</u>

## 12. LOSS PER SHARE

The Corporation has calculated basic loss per share for the three month period ended March 31, 2008 and 2007 as if the shares issued under the Arrangement were issued effective January 1, 2007 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 March 31, 2008 are 182,561,561 and for March 31, 2007 are 165,057,183. Due to a loss for the three month period ended March 31, 2008 and 2007, no incremental shares were included in the diluted earnings per weighted average number because the effect would have been anti-dilutive.

## 13. CHANGES IN NON-CASH WORKING CAPITAL

Source/(Use)	<b>For the Three Month Periods Ended March 31</b>	
	<b>2008</b>	<b>2007</b>
<b>Operating Activities</b>		
Accounts Receivable	(244)	-
Prepaid Expenses	(112)	-
Accounts Payable and Accrued Liabilities	2	-
	<hr/> <b>(354)</b>	<hr/> -
<b>Investing Activities</b>		
Accounts Receivable	55	-
Accounts Payable and Accrued Liabilities	14,312	218
	<hr/> <b>14,367</b>	<hr/> <b>218</b>

## 14. 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 its 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 \$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 \$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 \$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 March 31, 2008:

	9 months For the Year Ending December 31,					Total
	2008	2009	2010	2011	2012+	
Exploration	8,746	-	-	-	-	8,746
Office	281	375	94	-	-	750
	9,027	375	94	-	-	9,496

## 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.

## 15. 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 Corporation's cash and cash equivalents are designated as held-for-trading and are measured at carrying value, which approximates fair value due to the short-term nature of these instruments. Accounts receivable are designated as loans and receivables and recorded at amortized cost, which approximates fair value due to the short term nature of the instrument. Accounts payable and accrued liabilities are designated as other liabilities and are recorded at cost. The fair value of accounts payable and accrued liabilities approximate their carrying values due to the short term nature of these instruments.

The Corporation is exposed to credit risk, market risk, liquidity and funding risk. The following is a description of those risks and how the Corporation manages exposure to them:

### **Credit Risk**

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Corporation is currently exposed to credit risk on its cash and cash equivalents, to the extent that these balances are invested with various institutions. The Board of Directors of the Corporation has approved an Investment Policy to dictate the various types of instruments and institutions that can be invested in and monitors these against this policy on a regular basis. Currently, the Corporation has entered into transactions for cash equivalents with major Canadian financial institutions with investment grade credit ratings, as well as purchases Government of Canada instruments.

Under the terms of the PSC, as described in note 15 (a), the Corporation may have a third party elected by the KRG for a 40 per cent interest in the PSC. This election by the KRG is dependent upon receipt by the Corporation of its share of past costs incurred and recoverable under the terms of the PSC. If so elected, the Corporation would be subject to credit risk associated with the third parties 40 per cent interest in the PSC and its share of related future expenditures. Penalty provisions have been considered under the PSC for late payments and outstanding balances.

### **Market Risk**

Market risk is the risk of loss that may arise from changes in market factors such as interest rate, foreign exchange rates and equity or commodity prices. 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 is also exposed to foreign exchange risk, as the majority of costs are anticipated to be incurred in U.S. dollars and the funds it will have available to it may be in other currencies.

The Board of Directors of the Corporation has approved an Investment Policy to dictate the various types of instruments and institutions that can be invested in and monitors these against this policy on a regular basis. The Board of Directors has also approved a Foreign Exchange Policy to dictate the currencies held by the Corporation and the instruments that can be utilized by the Corporation to meet day to day needs. This Foreign Exchange Policy requires the Corporation to hold the majority of its cash and cash equivalents in U.S. dollars and the type and duration of instruments that can be used to meet the Corporation's day to day foreign exchange needs. Neither policy permits the Corporation to enter into any economic hedging as it relates to interest or foreign exchange risks.

### **Liquidity and Funding Risks**

Liquidity and funding risk is the risk that the Corporation may be unable to generate or obtain sufficient cash or its equivalent in a timely and cost-effective manner to meet our commitments as they come due. As the Corporation is engaged in acquiring properties and exploring for crude oil and natural gas and is in the developmental stage, it currently does not have a revenue source outside of interest on its cash and cash equivalent balances. The Corporation is therefore required to fund its share of all commitments from existing cash and cash equivalent balances or access additional sources of cash from the equity markets. The Board of Directors on a regular basis reviews the Corporation's cash and cash equivalent balances against the Corporation's commitments and assesses the timing and need for additional equity financing. However, the Corporation's results will impact its access to the capital necessary to meet these commitments. There can be no assurance that equity financing will be available or sufficient to meet these requirements or for other corporate purposes or, if equity financing is available, that it will be on terms acceptable to the Corporation. The inability of Corporation to access sufficient capital for its operations could have a material adverse effect on the Corporation's financial condition, results of operations and prospects.

## 16. CAPITAL STRUCTURE

The Company's objectives when managing its capital structure are to:

- i) Ensure adequate level of available cash and cash equivalents to meet the Company's commitments under the PSC.
- ii) To fund expenditures for the acquisition of properties and exploration for crude oil and natural gas.

The Company funds its share of expenditures of all commitments from existing cash and cash equivalent balances received primarily from issuances of shareholders equity. The company is has not entered into any debt financing arrangements at the balance sheet date and is not subject to any externally imposed capital requirements.

The Board of Directors regularly review the Company's cash and cash equivalents against the Corporations expenditures commitments and assesses the timing and need for additional equity financing. The Corporation's results will impact its access to the capital necessary to meet these expenditures commitments. There can be no assurance that equity financing will be available or sufficient to meet those requirements, or for other corporate purposes, or if equity financing is available, that it will be on terms acceptable to the Corporation. The inability of the Corporation to access sufficient capital for its operations could have a material adverse impact on the Corporation's financial condition, results of operations and prospects.

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### **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 in Iraq. WesternZagros, through its wholly-owned subsidiaries, holds a Production Sharing Contract with the Kurdistan Regional Government 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 Company's Annual Information Form which is filed at [www.sedar.com](http://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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