

NEWS RELEASE

WesternZagros Provides Operational Update and Financial Results for 2008

Calgary, Alberta – March 9, 2009 – WesternZagros Resources Ltd. (TSX-V – WZR) (“WesternZagros” or “the Company”) announced today its operating and financial results for the fourth quarter and year ended December 31, 2008 and an operational update.

WesternZagros’ highlights and activities for the fourth quarter of 2009 and up to and including March 9, 2009 include:

Operational

- Sarqala-1 has been drilled to a depth of 4,357 metres. The well has penetrated through the Lower Fars, Jeribe and Euphrates Formations and has recorded numerous indications of oil and gas in these formations. Analysis of the oil shows indicate the oil is light (34 to 35 degrees API) and sweet (less than one percent sulphur). While attempting to complete wireline logging operations across the intervals with the oil and gas indications, the equipment encountered a wellbore obstruction which prevented logging. After drilling through the wellbore obstruction, the drilling assembly became stuck in the hole and subsequent recovery operations have been unsuccessful. The well will be suspended pending evaluation of the feasibility and merits of future drilling options on Sarqala, and in the meantime the drilling rig will be moved to Kurdamir-1.
- WesternZagros has completed engineering and related work on its second drilling location, Kurdamir-1 and plans to spud the well in May 2009.
- At the end of February 2009, WesternZagros operations achieved a combined total exposure of 3 million person hours with no Lost Time Incidents. This is a significant achievement and demonstrates the commitment of the Company’s employees and contractors to the safety and security of its operations.

Financial

- As at December 31, 2008, WesternZagros had \$130 million in cash and cash equivalents and short-term investments. The Company is well-positioned to weather the current conditions in the financial markets and will maintain flexibility in the deployment of capital over the course of 2009.
- For the year ended December 31, 2008, WesternZagros incurred capital expenditures of \$95.1 million related to its funding requirement for its PSC activities and certain payments required under the PSC. Prior to June 30, 2008 and the KRG’s allocation of the 40 percent third party working interest to Talisman, WesternZagros’ share of capital expenditures was 100 percent of the costs. Subsequent to that date, WesternZagros’ share of capital expenditures was 60 percent.
- WesternZagros had a net loss of \$10.1 million for the year ended December 31, 2008. This net loss comprised mainly of the general and administrative costs incurred by the Company and the income taxes generated by certain realized foreign exchange gains.

Operations Update

Sarqala-1

Sarqala-1 has encountered a number of operational delays related to overpressured zones which required the use of anomalously high drilling mud densities (up to 2,380 kilograms per cubic metre or 19.9 pounds per gallon). Some of the zones were pressurized to near formation fracture pressures resulting in time consuming well control operations. Additional delays also occurred related to lost circulation zones, that were controlled with the addition of specialized mud products. Drilling progress was further impacted by encountering thicker halite (salt) deposits in the Lower Fars Formation than originally prognosed. This resulted in the reservoir target zones being approximately 250 metres deeper than prognosed.

Sarqala-1 has been drilled to a depth of 4,357 metres. The well has penetrated through the Lower Fars, Jeribe and Euphrates Formations and has recorded numerous indications of oil and gas in these formations. Analysis of the oil recovered from the drilling mud indicate the oil is light (34 to 35 degrees API) and sweet (less than one percent sulphur).

While conducting wireline logging operations across the intervals with recorded shows, the equipment encountered a wellbore obstruction which prevented logging. WesternZagros successfully drilled through the obstruction, but subsequently the drilling assembly became stuck in the hole. During recovery operations the drill string parted. Recovery operations have been unsuccessful and the well will be suspended pending the evaluation of the feasibility and merits of future drilling options on Sarqala. In the meantime the drilling rig will be moved to Kurdamir-1.

Despite the disappointment that Sarqala-1 did not penetrate all the reservoir targets, nor obtain wireline logs across the Jeribe and Euphrates reservoir targets, WesternZagros views the numerous indications of oil and gas encountered in Sarqala-1 as positive and consider that they enhance the prospectivity of Block 44 as they reduce the risk that any undiscovered resources may be gas instead of oil.

In addition, the thick halite (salt) deposits in the Lower Far Formation also enhances the prospectivity of the block as they reduce the risk associated with top seal of the reservoir target intervals.

Kurdamir-1

Kurdamir-1, WesternZagros' second location, is located on an anticlinal structure approximately 30 kilometres northeast of Sarqala-1. The prognosed total depth for this well is 3,900 metres. Kurdamir-1 will target the Oligocene and Pilaspi/Jaddala intervals in the Tertiary, and the Shiranish and Upper Qamchuqa intervals in the Cretaceous. Well site construction for Kurdamir-1 was completed in the fourth quarter of 2008 and WesternZagros plans to spud the well in May 2009.

Although the prognosed total depth of Kurdamir-1 is less than Sarqala-1, WesternZagros has reviewed its drilling program and has planned for two intermediate casing strings to mitigate the risk of similar overpressure and lost circulation issues as encountered at Sarqala-1. WesternZagros, and its co-venturers Talisman and the KRG, continue to incorporate other key learnings from Sarqala-1 to identify and mitigate possible drilling issues that could be encountered while drilling Kurdamir-1.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A"), effective March 6, 2009, reviews WesternZagros Resources Ltd.'s ("WesternZagros" or the "Company") activities and results for the period ended December 31, 2008. It should be read in conjunction with the Audited Consolidated Financial Statements, together with the accompanying notes, included in this report. 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 or will be 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.

Forward-Looking Information

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 drilling plans and the timing associated therewith, estimated PSC commitments, anticipated capital and operating budgets and estimated costs. Forward-looking information typically contains statements with words such as "anticipate", "estimate", "expect", "potential", "could", or similar words suggesting future outcomes. The Company cautions readers and prospective investors in 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.

Forward looking information is based on management's current expectations and assumptions regarding, among other things, plans for and results of drilling activity, future capital and other expenditures (including the amount, nature and sources of funding thereof), future economic conditions, future currency and exchange rates, continued political stability and the Company's continued ability to obtain qualified staff and equipment in a timely and cost efficient manner. In addition, budgets are based upon WesternZagros' current exploration plans and anticipated costs both of which are subject to change based on, among other things, the actual results of drilling activity, unexpected delays and changes in market conditions. Although the Company believes the expectations and assumptions reflected in such forward-looking information are reasonable, they may prove to be incorrect. Forward-looking information involves significant known and unknown risks and uncertainties. A number of factors could cause actual results to differ materially from those anticipated by WesternZagros including, but not limited to, risks associated with the oil and gas industry (e.g. operational risks in exploration; inherent uncertainties in interpreting geological data; changes in plans with respect to exploration or capital expenditures; the uncertainty of estimates and projections in relation to costs and expenses and health, safety and environmental risks), the risk of commodity price and foreign exchange rate fluctuations, the uncertainty associated with negotiating with foreign governments and risk associated with international activity.

See the Risk Factors section of this MD&A for a further description of these risks. The forward-looking information included in this annual report is expressly qualified in its entirety by this cautionary statement. WesternZagros assumes no obligation to update or revise any forward-looking information to reflect new events or circumstances, except as required by law. For additional information relating to the risks and uncertainties facing WesternZagros, see “Risk Factors”. Additional information relating to WesternZagros is available on SEDAR at www.sedar.com.

Overview

WesternZagros is a publicly-traded, Calgary-based, 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 Production Sharing Contract (“PSC”) with the Kurdistan Regional Government (“KRG”) which covers a 2,120 square kilometres 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. WesternZagros (operator) holds a 40 percent working interest, the KRG holds a 20 percent working interest (carried by WesternZagros) and a wholly-owned subsidiary of Talisman Energy Inc. (“Talisman”) holds the remaining 40 percent working interest.

Strategy

WesternZagros' main focus is the exploration and development of its 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 gain access to opportunities and 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 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”). 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. Each whole warrant entitled the holder to purchase one WesternZagros share at a unit price of Cdn\$2.50 until January 18, 2008.

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. Of the 16,505,729 warrants issued pursuant to the Arrangement, 4,073,803 were exercised prior to expiry for total proceeds to WesternZagros of approximately Cdn\$10.2 million.

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, 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; however, certain direct year-over-year comparisons are impacted as results for the year ended December 31, 2007 only reflect revenue and expenses incurred between October 18, 2007 and December 31, 2007. This includes revenue, which was earned on the cash balances received subsequent to the date of the Arrangement, as well as general and administrative expenses and depreciation incurred on employees and related costs and assets, hired or purchased, subsequent to the Arrangement.

Highlights

WesternZagros’ highlights and activities to March 6, 2009 include:

Operations

- WesternZagros completed its seismic program in July 2008 and acquired a total of 1,547 kilometres of data under its Phase I and II programs, exceeding its seismic commitment of 1,150 kilometres under its PSC.
- WesternZagros commenced drilling its initial wildcat exploration well, Sarqala-1, in May 2008 and has drilled to a depth of 4,357 metres and has penetrated the Lower Fars, Jeribe and Euphrates Formations. Numerous indications of oil and gas were encountered in these formations. Analysis of the oil shows indicate the oil is light (34 to 35 degrees API) and sweet (less than one percent sulphur).
 - While drilling delays and unexpected events with wildcat wells are not unusual, especially in remote frontier areas, Sarqala-1 has experienced a number of operational delays related to overpressured zones which required the use of anomalously high drilling mud densities (up to 2,380 kilograms per cubic metre or 19.9 pounds per gallon). Some of the zones were pressurized to near formation fracture pressures resulting in time consuming well control operations. Additional delays also occurred related to lost circulation zones that were controlled with the addition of specialized mud products. Drilling progress was further impacted by encountering a thicker Lower Fars Formation than originally prognosed. This resulted in the reservoir target zones being approximately 250 metres deeper than prognosed.

- While conducting wireline logging operations across the intervals with recorded shows, the equipment encountered a wellbore obstruction which prevented logging. WesternZagros successfully drilled through the obstruction, but subsequently the drilling assembly became stuck in the hole. During recovery operations the drill string parted. Recovery operations have been unsuccessful and the well will be suspended pending the evaluation of the feasibility and merits of future drilling options on Sarqala. In the meantime the drilling rig will be moved to Kurdamir-1.
 - Despite the disappointment that Sarqala-1 did not penetrate all the reservoir targets, nor obtain wireline logs across the Jeribe and Euphrates reservoir targets, WesternZagros views the numerous indications of oil and gas encountered in Sarqala-1 as positive and consider that they enhance the prospectivity of Block 44 as they reduce the risk that any undiscovered resources may be gas instead of oil.
 - In addition, the thick halite (salt) deposits in the Lower Far Formation also enhances the prospectivity of the block as they reduce the risk associated with top seal of the reservoir target intervals.
- WesternZagros completed engineering and related work on its second drilling location, Kurdamir-1 and plans to spud the well in May 2009.
- May 2008 marked a full year of in-country operations with no Lost Time Incidents (LTI) and a combined total exposure of 1.8 million person hours. At the end of February 2009, WesternZagros operations achieved a combined total exposure of 3 million person hours with no Lost Time Incidents. This is a significant achievement and demonstrates the commitment of the Company's employees and contractors to the safety and security of its operations.

Financial

- 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.
- In June 2008, the KRG nominated Talisman as the Third Party Participant in the Kalar-Bawanoor Block, holding a 40 percent working interest. With Talisman's election, and for costs incurred by WesternZagros, Talisman paid WesternZagros \$50.7 million under the terms of the PSC. In addition, Talisman funds its 40 percent share of costs going forward.
- As at December 31, 2008, WesternZagros had \$130 million in cash and cash equivalents and short-term investments. The Company is well-positioned to weather the current conditions in the financial markets and will maintain flexibility in the deployment of capital over the course of 2009.
- For the year ended December 31, 2008, WesternZagros incurred capital expenditures of \$95.1 million related to its funding requirement for its PSC activities and certain payments required under the PSC. Prior to June 30, 2008 and the KRG's allocation of the 40 percent third party working interest to Talisman,

WesternZagros' share of capital expenditures was 100 percent of the costs. Subsequent to that date, WesternZagros' share of capital expenditures was 60 percent.

- WesternZagros had a net loss of \$10.1 million for the year ended December 31, 2008. This net loss comprised mainly of the general and administrative costs incurred by the Company and the income taxes generated by certain realized foreign exchange gains.

Corporate

- In February 2008, WesternZagros signed an amended PSC with the KRG. The Company completed 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 (operator) has a 40 percent working interest and the KRG holds a 20 percent working interest which is carried by WesternZagros.
- In support of the Company's corporate social responsibility efforts in Kurdistan in 2008, WesternZagros drilled 10 water wells, provided assistance in repairing local schools, and sourced medical supplies for communities in the Garmian region, and assisted the local Sulaymaniya Ground Water Directorate in completing an assessment of sources of water and in refurbishing its water well drilling rig.
- In 2008, WesternZagros continued its sponsorship of an academic scholarship program for nine employees of the KRG in order to complete graduate studies in technical and business related fields.

FINANCIAL PERFORMANCE

Selected Annual Information (US\$ thousands, unless otherwise specified)	2008	2007	2006
Total Revenue	2,959	817	-
Net Loss	10,100	10,426	8,222
Net Loss Per Share (US\$ Per Share) (Basic and Diluted)	0.05	0.06	0.05
Capital Expenditures	95,102	34,556	13,154
Total Assets	243,697	160,777	21,499
Total Long-term Liabilities	69	-	20,215
Dividend (US\$ Per Share)	Nil	Nil	Nil

WesternZagros is currently exploring for crude oil and natural gas in the Kurdistan Region of Iraq and has no reserves or production. The Company's revenue is comprised entirely of interest earned on cash and cash equivalent balances and short term investments. Capital expenditures and certain general and administrative costs represent WesternZagros' share of costs associated with PSC activities for the respective periods. Prior to June 30, 2008, when the KRG allocated the 40 percent third party working interest to Talisman, WesternZagros funded 100 percent of the PSC expenditures. Subsequent to June 30, 2008, WesternZagros funds 60 percent of the PSC expenditures,

representing WesternZagros' 40 percent working interest and its obligation to carry the KRG's 20 percent working interest.

Charges Under Service Agreement

For the year ended December 31, 2008, WesternZagros did not incur any charges under a service agreement compared to \$9.1 million for the year ended December 31, 2007. These 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, 2008, WesternZagros incurred \$7.3 million in general and administrative expenses ("G&A") compared to \$1.6 million in 2007. G&A for 2007 represented the salaries and related expenditures the Company incurred subsequent to the completion of the Arrangement on October 18, 2007 as prior to this G&A expenses were included under the services agreement provided by Western. The year-over-year increase is the result of a full 12 months of G&A expenses and the increased level of activity, associated staff and consulting costs as WesternZagros expanded its operational capability, including the drilling of its first exploration well. For the year ended December 31, 2008, WesternZagros capitalized \$2.1 million of G&A, as these costs were directly related to the supervision of the Company's drilling and geological capital programs, and included \$0.7 million of stock-based compensation.

Depreciation, Depletion and Amortization (DD&A)

For the year ended December 31, 2008, DD&A totaled \$0.2 million compared to \$0.04 million for the year ended December 31, 2007. The increase in DD&A is the result of a full 12 months of DD&A on administrative assets in 2008, compared to DD&A incurred subsequent to the completion of the Arrangement when WesternZagros acquired these administrative assets. No depletion was recorded relating to the Company's exploration activities and 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. WesternZagros holds over 95 percent of its cash and cash equivalents and short-term investments in U.S. dollar accounts and U.S. dollar priced Government of Canada bonds; however, 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. The Canadian dollar balances are held for the purpose of funding WesternZagros'

Canadian dollar expenditures, which are mainly related to the costs associated with general and administrative costs for its head office and certain drilling related services and tangibles procured from Canadian suppliers. For the year ended December 31, 2008, WesternZagros incurred \$1.4 million of foreign exchange losses compared to \$0.5 million for the year ended December 31, 2007 relating to these conversions.

Income Taxes

For the year ended December 31, 2008, WesternZagros had an income tax expense of \$4.0 million, comprised of \$4.6 million of current income tax expense and \$0.6 million of future income tax recovery. The current income tax expense relates to taxes generated on realized foreign exchange gains in WesternZagros' two Canadian companies. WesternZagros is required to file its two Canadian subsidiaries tax returns in Canadian dollars, and with WesternZagros converting the majority of its equity financings from Canadian dollars to and continuing to hold the majority of the cash and cash equivalents and short-term investments in US dollars, this has resulted in the two Canadian companies having realized foreign exchange gains of approximately Cdn\$33.4 million for Canadian tax purposes.

The future income tax recovery results from tax assets that will be utilized in the future to recover a portion of the current income tax expense. These tax assets include non-capital loss carryforward balances of Cdn\$5.7 million and share issuance costs. WesternZagros anticipates recovering the majority of the current income tax expense through the utilization of the tax assets and as it continues to incur G&A and related expenditures through exploration.

Revenue

WesternZagros' revenue is comprised entirely of interest earned on cash and cash equivalents and short-term investment balances held subsequent to the completion of the Arrangement. Interest of \$3.0 million was earned for the year ended December 31, 2008 compared to \$0.8 million for the year ended December 31, 2007. The increase in revenue resulted from a full 12 months of interest on the cash and cash equivalents and short-term investments compared to 2007 when interest was earned on the cash and cash equivalent balances and short-term investments only subsequent to the Arrangement.

Net Loss

For the year ended December 31, 2008, WesternZagros incurred a net loss of \$10.1 million compared to a net loss of \$10.4 million for the year ended December 31, 2007. The decrease in the net loss was the result of increased revenue on the cash and cash equivalent and short-term investment balances for the full 12 months in 2008, the increased level of capitalized G&A resulting from the commencement of drilling operations and the reduced funding of certain G&A amounts due to the allocation by the KRG of the third party interest to Talisman. This was mainly offset by the increase in income tax expense and an increase in the foreign exchange loss reported. 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, 2008, the total capital expenditures on WesternZagros' block were \$75.3 million, including \$49.4 million of drilling related costs, \$16.7 million of Phase II seismic costs and \$9.2 million of supervision and local office costs in support of drilling operations and Phase II seismic operations. Included in the drilling costs are \$37.3 million for operations at Sarqala-1, \$5.4 million for long-lead items and pre-spud costs for Kurdamir-1, and \$6.7 million for tangible items for subsequent wells and consumables for testing operations. For the year ended December 31, 2007, the total capital expenditures on WesternZagros' PSC block were \$26.5 million, including \$21.8 million associated with Phase I seismic, \$0.9 million related to the procurement of long lead items associated with Sarqala-1 and \$3.8 million of supervision and local office costs in support of both the Phase I seismic operations and certain pre-spud logistical expenditures.

For the year ended December 31, 2008, WesternZagros' share of capital expenditures associated with its PSC activities and other PSC costs were \$95.1 million compared to \$34.6 million for the year ended December 31, 2007. Higher capital expenditures for the year ended December 31, 2008 were the result of the increased operational activity associated with drilling operations, partially offset by the reduced funding requirements subsequent to the allocation of the third party interest by the KRG in June 2008. WesternZagros' share of capital expenditures were 100 percent of costs to June 30, 2008, prior to the allocation of the 40 percent third party working interest to Talisman by the KRG, and 60 percent of the costs subsequent to June 30, 2008, representing WesternZagros' 40 percent working interest and its obligation to fund the KRG's 20 percent working interest. Upon the allocation of the 40 percent working interest to Talisman, Talisman paid \$50.7 million to WesternZagros, representing 50 percent of the estimated recoverable costs under the PSC at June 30, 2008 as per the terms of the PSC.

For the year ended December 31, 2008, WesternZagros capitalized \$2.1 million in G&A and stock-based compensation costs directly related to exploration activities compared to \$nil million for the year ended December 31, 2007.

Quarterly Information

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

Selected Quarterly Information

2008 (US\$ thousands, unless otherwise specified) For the three months ended	March 31	June 30	Sept. 30	Dec. 31	Year Ended Dec. 31
Revenue	823	774	867	495	2,959
Net Loss	1,830	633	984	6,653	10,100
Net Loss Per Share (US\$ Per Share) (Basic and Fully Diluted)	0.01	0.005	0.005	0.03	0.05
Capital Expenditures	26,584	27,648	20,531	20,339	95,102
Total Assets	251,068	241,692	248,919	243,697	243,697
Total Long-term Liabilities	-	66	68	69	69
Dividend (US\$ Per Share)	Nil	Nil	Nil	Nil	Nil

2007 For the three months ended	March 31	June 30	Sept. 30	Dec. 31	Year Ended Dec. 31
Revenue	-	-	-	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

Fourth Quarter

In the fourth quarter of 2008, WesternZagros had a net loss of \$6.7 million compared to a net loss of \$0.8 million in the fourth quarter of 2007. The increase in net loss is mainly due to the increase in income tax expense and an increased foreign exchange loss in the fourth quarter of 2008 compared to the fourth quarter of 2007.

WesternZagros' capital expenditures totaled \$20.3 million in the fourth quarter of 2008 compared to \$10.5 million in the fourth quarter of 2007. This increase is primarily associated with drilling operations at Sarqala-1, the Company's initial well in the Kurdistan Region, which commenced in the second quarter of 2008 and continued into the fourth quarter of 2008. Higher capital expenditures in the fourth quarter of 2008 are also attributable to the procurement of tangible materials, equipment and services for subsequent wells, including Kurdamir-1, the procurement of consumables for testing operations, and costs associated with the amounts payable under the PSC to the KRG. This was partially offset by the decreased funding requirements resulting from the KRG's allocation of the third party interest in the PSC to Talisman in June 2008.

Production Sharing Contract - Summary

Under the terms of its PSC, WesternZagros has a 40 percent working interest and the KRG has a 20 percent interest in the PSC which is carried by WesternZagros. The remaining 40 percent was allocated to Talisman in June 2008 by the KRG. WesternZagros, the KRG and Talisman are collectively the "Contractor Group" under the PSC. WesternZagros is the operator of the PSC lands until the end of the first operating sub-period of the PSC ending December 31, 2010, when a Joint Operating Committee may be 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 percent 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 percent 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 percent to 16 percent 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 percent of the profit oil. The percentage is then reduced on a linear sliding scale to a minimum of 16 percent 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 Talisman) is required to complete a minimum of 1,150 kilometres of seismic surveying (which has been completed), drill three exploration wells and commit a minimum of US\$75 million in the aggregate on these activities. 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 payments, 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 remaining commitments under the PSC as at December 31, 2008 to be approximately \$60 million to \$70 million which represents the Company’s 60 percent funding requirement. This commitment includes the remaining costs associated with drilling all three exploration commitment wells by December 31, 2010 (the end of the first exploration sub-period), the associated supervision and local office costs in support of drilling operations and the remaining PSC payments, including the remainder of the capacity building payments. The remaining costs associated with drilling the three exploration wells to total depth are estimated to be in the range of approximately \$30 million to \$40 million (representing WesternZagros’ 60 percent funding requirement), which includes the costs for Sarqala-1, Kurdamir-1 and the third exploration well prior to the costs of any testing required. WesternZagros estimates its share of costs to test these wells, if required, could range between \$3 million to \$6 million per well, depending on the number of potential zones that are required to be tested.

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 on these activities. 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 percent 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 commitments under the PSC. The following table summarizes the commitments WesternZagros has under these exploration related contracts and other contractual obligations at December 31, 2008.

For the Year Ending December 31						
	2009	2010	2011	2012	2013+	Total
Exploration	3,163	-	-	-	-	3,163
Office	375	94	-	-	-	469
Total	3,538	94	-	-	-	3,632

Third Party Obligations and Commitments

The Company has granted rights to certain participants to acquire an aggregate working interest equal to five percent 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.

Liquidity and Capital Resources

WesternZagros is currently exploring for crude oil and natural gas in the Kurdistan Region of Iraq and currently has no reserves, production or operational cash flows. WesternZagros' revenue is comprised entirely of interest earned on cash and cash equivalent balances and short-term investments. WesternZagros invests its cash and cash equivalents and short-term investments 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. WesternZagros has no outstanding bank debt or other interest bearing indebtedness as at December 31, 2008.

During 2008, WesternZagros had the following sources of financing:

- In the first quarter of 2008, 2,426,939 warrants were exercised for proceeds of Cdn\$6.1 million. These warrants were exercisable until January 18, 2008 and represented the warrants issued under the Plan of Arrangement. This exercise brought 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 additional net proceeds of Cdn\$70.8 million (gross Cdn\$75 million) at a price of Cdn\$2.25 per share.

- In June 2008, when the KRG allocated the 40 percent third party interest to Talisman, WesternZagros received \$50.7 million under the terms of the PSC, representing 50 percent of the costs incurred by WesternZagros to June 30, 2008.

At December 31, 2008, WesternZagros had approximately \$130 million in cash and cash equivalents and short-term investments. 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; the requirement for WesternZagros to fund the KRG's 20 percent carried interest; certain remaining payments required under the amended PSC, including the capacity building payments; G&A expenditures; and working capital requirements.

Taking into account WesternZagros' cash and cash equivalent and short-term investment balances of \$130 million as at December 31, 2008, and the estimate of its remaining PSC commitments to be approximately \$60 million to \$70 million, WesternZagros anticipates having approximately \$60 million to \$70 million remaining to fund its share of any testing related expenditures on the exploration wells, other corporate G&A expenditures and its ongoing working capital requirements. With exploration success, WesternZagros will require further financial resources to complete an appraisal program and ultimately, if warranted, any development program.

WesternZagros assesses its financing requirements and its ability to access debt or equity markets on an ongoing basis. Given the current conditions in the financial markets, and with the continued delays in the conclusion of the Federal Petroleum Law of Iraq, WesternZagros will seek to maintain financial flexibility and will monitor and assess its financing requirements as its exploration activities progress. WesternZagros' ability to access the equity or debt markets in the future may be affected by prolonged market instability. The inability to access the equity or debt markets for sufficient capital, at acceptable terms, and within required timeframes, could have a material adverse effect on WesternZagros' financial condition, results of operations and prospects. Further discussion on these risks can be found in the "Risk Factors" section of the MD&A.

Outlook 2009

WesternZagros has updated its capital and operating budget for 2009 to approximately \$34 million from \$30 million. This increase reflects the operational delays and associated costs related to overpressured zones encountered by Sarqala-1 and the additional costs for the intermediate casing strings planned for Kurdamir to mitigate the risk of similar overpressure and lost circulation issues as encountered at Sarqala-1. This increase has been partially offset by a decreases related to both delayed spending on certain long-lead items for subsequent wells and a reduction in associated supervision and local office costs in support of drilling operations resulting from the strengthening of the US dollar relative to the Canadian dollar.

WesternZagros is well-positioned to weather the current conditions in the financial markets and execute on its business plan. Completion of the seismic interpretation, the results of both Sarqala-1 and Kurdamir-1 and the general financial market conditions will all impact future drilling decisions and, as such, WesternZagros will review and update its budget as these factors evolve. WesternZagros will also continue to monitor the political developments in Iraq, particularly as they relate to the Federal Petroleum Law, before committing to capital expenditures beyond the minimum commitments required under its PSC. WesternZagros currently has no plans to drill any additional wells in 2009 following the completion of Kurdamir-1 and is considering the possibility of a third party utilizing the drilling rig contracted to WesternZagros following Kurdamir-1. While WesternZagros

anticipates it will execute under the 2009 budget, there may be circumstances where, for sound business reasons, a change in budget may be prudent.

Outstanding Share Data

As at March 5, 2009, WesternZagros had 207,464,320 shares issued and outstanding. The number of common shares reserved for issuance pursuant to options granted will not exceed 10 percent of the issued and outstanding common shares. WesternZagros has a total of 12,095,700 stock options outstanding which represents 5.8 percent of the total shares outstanding.

RISK FACTORS

The oil and gas industry is very competitive and is subject to many risks. Many of these risks are outside of WesternZagros' control. Management has identified certain key risks and their potential impact on WesternZagros' operations. Financial market instability in 2008 and early fiscal 2009 has impacted WesternZagros' ability, and that of other exploration and development companies, to access equity or debt markets at all or with acceptable terms. For future capital requirements beyond the Company's current financing capability, which consists of its cash and cash equivalents balances and short-term investments at December 31, 2008, risks associated with the global economic conditions have increased significantly. Other risks are set out below.

Foreign Activities

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 in 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 and 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.

Political Issues

The political and security situation in Iraq (outside the Kurdistan Region) 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 Regions in Iraq are matters about which there are major differences between the various political factions in Iraq. These differences could adversely impact WesternZagros' interest in the Kurdistan Region.

Legislative Issues

No federal Iraq legislation has yet been agreed to or enacted by the Iraq Council of Ministers (Cabinet) and Council of Representatives (Parliament) to address the future organization of Iraq's petroleum industry or the sharing of petroleum and other revenues within Iraq. Failure to enact legislation (or the enactment of federal legislation contradictory to Kurdistan Region legislation) could materially adversely impact WesternZagros' interest in the Kurdistan Region and the PSC. Disagreements have been reported to exist between the Iraq Minister of Oil and officials of the KRG in relation to the terms of the draft Federal Petroleum Law. Certain officials of the federal Iraq government have also expressed an opinion that the Kurdistan Regional Oil & Gas Law is invalid.

Exploration, Development and Production Risks

Oil and natural gas operations involve many risks which even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of WesternZagros depends on its ability to find, appraise, develop and commercially produce oil and natural gas resources and reserves, which will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire additional producing properties or prospects. No assurance can be given that WesternZagros will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, WesternZagros may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that commercial quantities of oil and natural gas will be discovered or acquired by WesternZagros.

Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, sour gas releases and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or personal injury. In accordance with industry practice, WesternZagros is not fully insured against all of these risks, nor are all such risks insurable. Although WesternZagros maintains liability insurance in an amount that it considers consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event WesternZagros could incur

significant costs that could have a material adverse effect upon its financial condition. Oil and natural gas exploration, development and production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks could have a material adverse effect on WesternZagros.

Ability to Execute Exploration and Development Program

It may not always be possible for WesternZagros to execute its exploration and development strategies in the manner in which WesternZagros considers optimal. WesternZagros' exploration and development programs in Iraq involve the need to obtain approvals from the relevant authorities, which may require conditions to be satisfied or the exercise of discretion by the relevant authorities. It may not be possible for such conditions to be satisfied.

Project Risks

WesternZagros' ability to execute projects and market oil and natural gas will depend upon numerous factors beyond WesternZagros' complete control, including:

- the availability and proximity of pipeline capacity;
- security issues;
- the supply of and demand for oil and natural gas;
- the effects of inclement weather;
- the availability of drilling, production and related equipment and supplies, as well as services, all of which may be disrupted for a number of reasons;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- the availability and productivity of skilled labour;
- adverse legislation in the Kurdistan Region and/or Iraq; and
- the regulation of the oil and natural gas industry by various levels of government and governmental agencies in the Kurdistan Region and/or Iraq.

Because of these factors, WesternZagros could be unable to execute projects on time, on budget or at all, and may not be able to effectively market the oil and natural gas that it may produce.

Operational Experience

The management and directors of WesternZagros have significant international experience in the oil and gas industry; however, given the fact that WesternZagros was incorporated recently in 2007, the team has not, as a group, completed the drilling of a well or developed a conventional oil and gas project. There can be no assurance that any drilling and development operations will be successful.

Competition

The petroleum industry is competitive in all its phases. WesternZagros competes with numerous other organizations in the search for, and the acquisition of, oil and natural gas properties and in the marketing of oil and natural gas. WesternZagros' competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than WesternZagros. WesternZagros' ability to acquire or increase reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire other suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery.

Availability of Drilling Equipment and Access

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment and supplies (typically leased from third parties) in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment and supplies to WesternZagros and may delay exploration and development activities.

Management of Growth

WesternZagros may be subject to growth-related risks, including capacity constraints and pressure on its internal systems and controls. The ability of WesternZagros to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of WesternZagros to deal with this growth could have a material adverse impact on its business, operations and prospects.

Reliance on Key Personnel

WesternZagros' success depends in large measure on certain key personnel. The loss of the services of such key personnel could have a material adverse affect on WesternZagros. WesternZagros does not have any key person insurance in effect for management. The contributions of the existing management team to the immediate and near term operations of WesternZagros are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry can be intense and there can be no assurance that WesternZagros will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of WesternZagros.

Substantial Capital Requirements

WesternZagros anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. These expenditures also include WesternZagros' requirement to carry the KRG's 20 percent interest under the PSC. WesternZagros' results will impact its access to the capital necessary to undertake or complete future drilling and development programs. WesternZagros' ability to access the

equity or debt markets in the future may be affected by any prolonged market instability. There can be no assurance that debt or equity financing, or future cash (if any) generated by operations, would be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to WesternZagros. The inability of WesternZagros to access sufficient capital for its operations could have a material adverse effect on WesternZagros' financial condition, results of operations and prospects.

Additional Funding Requirements

WesternZagros' cash balances may not be sufficient to fund its ongoing activities at all times and carry the KRG's 20 percent interest. From time to time, WesternZagros may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause WesternZagros to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. WesternZagros' ability to access the equity or debt markets in the future may be affected by any prolonged market instability.

Dilution

WesternZagros may make future acquisitions or enter into financings or other transactions involving the issuance of securities of WesternZagros which may be dilutive.

Issuance of Debt

From time to time, WesternZagros may enter into transactions to acquire assets or the shares of other organizations. These transactions may be financed in whole or in part with debt, which may increase WesternZagros' debt levels above industry standards for oil and natural gas companies of similar size. Depending on future exploration and development plans, WesternZagros may require additional equity and/or debt financing that may not be available or, if available, may not be available on favourable terms. Neither WesternZagros' articles nor its by-laws limit the amount of indebtedness WesternZagros may incur. The level of WesternZagros' indebtedness from time to time, could impair WesternZagros' ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

Prices, Markets and Marketing

The marketability and price of oil and natural gas that may be acquired or discovered by WesternZagros is, and will continue to be, affected by numerous factors beyond its control including the impact that the various levels of government may have on the ultimate price received for oil and gas sales. WesternZagros' ability to market its oil and natural gas may depend upon its ability to secure transportation. WesternZagros may also be affected by deliverability uncertainties related to the proximity of its potential production to pipelines and processing facilities and operational problems affecting such pipelines and facilities as well as potential government regulation relating to price, the export of oil and natural gas and other aspects of the oil and natural gas business.

Both oil and natural gas prices are subject to wide fluctuation. In the first half of 2008, there was a steady rise in crude oil prices from approximately \$90 per barrel to a high of approximately \$147 per barrel, which was followed

by a precipitous drop to a low of \$40 per barrel. WesternZagros originally negotiated the economic terms of its PSC in 2007 in a \$50 per barrel crude oil price environment and any significant and sustained decline in crude oil prices from this price may impact the feasibility of WesternZagros' business plan.

Hedging

From time to time, WesternZagros may enter into agreements to receive fixed prices on any future oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, WesternZagros would not benefit from such increases. Similarly, from time to time, WesternZagros may enter into agreements to fix the exchange rate of various currencies used in its business in order to offset the risk of revenue or cost related losses in the event of currency fluctuations. There is no certainty that any such currency hedges which may be entered into will benefit WesternZagros.

Foreign Exchange

WesternZagros operations costs are generally 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.

Insurance and Liability

WesternZagros' involvement in the exploration for and development of oil and natural gas properties may result in WesternZagros becoming subject to liability for pollution, blow outs, property damage, personal injury or other hazards. Although WesternZagros maintains insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability and may not be sufficient to cover the full extent of such liabilities. In addition, such risks are not, in all circumstances, insurable or, in certain circumstances, WesternZagros may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of any uninsured liabilities would reduce the funds available to WesternZagros. The occurrence of a significant event that WesternZagros is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on WesternZagros.

Dividends

To date, WesternZagros has not declared or paid any dividends on the outstanding WesternZagros shares. Any decision to pay dividends on the WesternZagros shares will be made by the board of directors of WesternZagros on the basis of WesternZagros' earnings, financial requirements and other conditions existing at such future time. At present, WesternZagros does not anticipate declaring and paying any dividends in the foreseeable future.

Third-Party Credit Risk

WesternZagros is or may be exposed to third-party credit risk through its contractual arrangements with any potential joint venture partners, marketers of its petroleum and natural gas production, suppliers, contractors, and

other parties. In the event such entities fail to meet their contractual obligations to WesternZagros, such failures could have a material adverse effect on WesternZagros and its cash flow from operations. In addition, poor credit conditions in the industry may impact a joint venture partner's willingness to participate in a future WesternZagros' capital program.

Conflicts of Interest

Certain directors of WesternZagros are also directors of other oil and gas companies and as such may, in certain circumstances, have a conflict of interest requiring them to abstain from certain decisions. Conflicts, if any, will be subject to the procedures and remedies of the Business Corporations Act (Alberta).

CRITICAL ACCOUNTING ESTIMATES

WesternZagros' critical accounting estimates are defined as those estimates that have a significant impact on the portrayal of its financial position and operations and that require management to make judgments, assumptions and estimates in the application of Canadian GAAP. Judgments, assumptions and estimates are based on historical experience and other factors that management believes to be reasonable under current conditions. As events occur and additional information is obtained, these judgments, assumptions and estimates may be subject to change. WesternZagros believes the following are the critical accounting estimates used in the preparation of its consolidated financial statements. WesternZagros' significant accounting estimates can be found in note 2 to its annual consolidated financial statements.

Use of Estimates

The preparation of the consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Such estimates related 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 obligations and income taxes.

Property, Plant and Equipment ("PP&E")

WesternZagros capitalizes costs related to crude oil and natural gas properties in accordance with the full cost method, whereby all costs associated with the acquisition of, exploration for and the development of crude oil and natural gas, 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.

Depletion on crude oil properties is anticipated to be provided over the life of proved and probable reserves (assuming such reserves are established) on a unit of production basis and commences when the facilities are substantially complete and after commercial production has begun. Other PP&E assets are depreciated on a straight-line basis over their useful lives, except for lease acquisition costs, which are amortized and depreciated over the life of proved and probable reserves once established.

PP&E assets are reviewed for impairment whenever events or conditions indicate that their net carrying amount may not be recoverable from estimated future cash flows. If an impairment is identified the assets are written down to the estimated fair market value. The calculation of these future cash flows are dependent on a number of estimates, which include reserves, timing of production, crude oil price, operating cost estimates and foreign exchange rates. As a result, future cash flows are subject to significant Management judgment.

Asset Retirement Obligation

WesternZagros 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 Company determines the fair value by first estimating the expected timing and amount of cash flow, 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 appropriate for WesternZagros. Any change in timing or amount of the cash flow subsequent to initial recognition results in a change in the asset and liability, which then impacts the depletion on the asset and the accretion charged on the liability. Estimating the timing and amount of third-party cash flow to settle this obligation is inherently difficult and is based on Management's current experience.

Income Tax

WesternZagros follows the liability method of accounting for income taxes whereby future income taxes are recognized based on the differences between the carrying values of assets and liabilities reported in the Consolidated Financial Statements and their respective tax basis. Future income tax assets and liabilities are recognized at the tax rates at which Management expects the temporary differences to reverse. Management bases this expectation on future earnings, which require estimates for reserves, timing of production, crude oil price, operating cost estimates and foreign exchange rates. Management 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 than likely that future income tax assets will not be realized. As a result, future earnings are subject to significant Management judgment and changes.

CHANGES IN ACCOUNTING POLICY

WesternZagros adopted the following new accounting standards effective January 1, 2008:

- 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”).

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 did not impact the Company’s net loss or financial position.

Sections 3862 and 3863 replaced Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections placed increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The adoption of this standard did not impact the Company’s net loss or financial position.

International Financial Reporting Standards (“IFRS”)

In February 2008, the Accounting Standards Board confirmed that all Canadian publicly accountable enterprises will be required to adopt IFRS for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. WesternZagros is currently assessing the impact of the convergence of Canadian GAAP with IFRS on the Company’s results of operations, financial position and disclosures. A preliminary diagnostic of potential areas of impact has been completed to aid in the management of this transition, with the aim to ensure successful implementation within the required timeframe. The results of this preliminary diagnostic indicate that the significant impact to WesternZagros’ results of operations, financial position and disclosures will be on Property, Plant and Equipment, as it relates to the Company’s policy of full-cost accounting for its exploration assets and the continued ability to utilize this policy, how these assets are ultimately depreciated and how impairment is ultimately determined and measured. Other areas of potential impact include stock-based compensation and joint venture. WesternZagros continues to develop an implementation plan, including the consideration of the resources required to complete the conversion to IFRS and the impact to its’ financial systems.

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

	December 31,	
	2008	2007
Assets		
Current Assets		
Cash and Cash Equivalents	90,016	100,367
Short-term Investments <i>(note 5)</i>	39,967	-
Accounts Receivable	12,161	255
Prepaid Expenses	250	111
Future Income Taxes <i>(note 9)</i>	330	-
	142,724	100,733
Long-term Assets		
Property, Plant and Equipment <i>(note 6)</i>	100,663	55,896
Deposits Held in Trust <i>(note 7)</i>	-	4,148
Future Income Taxes <i>(note 9)</i>	310	-
	100,973	60,044
	243,697	160,777
Liabilities		
Current Liabilities		
Accounts Payable and Accrued Liabilities	13,326	4,938
Income Tax Payable	4,679	-
	18,005	4,938
Long-term Liabilities		
Asset Retirement Obligation <i>(note 8)</i>	69	-
	18,074	4,938
Shareholders' Equity		
Share Capital <i>(note 10)</i>	253,583	175,405
Warrants <i>(note 11)</i>	-	4,570
Contributed Surplus <i>(note 13)</i>	6,276	-
Deficit	(34,236)	(24,136)
	225,623	155,839
	243,697	160,777

Commitments and Contingencies *(note 17)*

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 Years Ended December 31,	
	2008	2007
Revenues		
Interest Income	2,959	817
Expenses		
Charges Under Service Agreement	-	9,072
General and Administrative	7,342	1,640
Depreciation	240	40
Foreign Exchange Loss	1,438	491
	9,020	11,243
Net Loss and Other Comprehensive Loss Before Income Taxes	6,061	10,426
Income Tax Expense (<i>note 9</i>)	4,039	-
	10,100	10,426
Net Loss and Other Comprehensive Loss	10,100	10,426
Deficit at Beginning of Year	24,136	9,661
Warrants Issued Under Plan of Arrangement (<i>note 4</i>)	-	4,049
	34,236	24,136
Deficit at End of Year	34,236	24,136
Net Loss Per Share		
– Basic and Diluted (<i>note 14</i>)	0.05	0.06

See Accompanying Notes to the Consolidated Financial Statements

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

	For the Years Ended	
	2008	December 31,
	2007	2007
Cash Provided By (Used In)		
Cash From Operating Activities		
Net Loss	(10,100)	(10,426)
Non-cash Items		
Depreciation	240	40
Accretion on Asset Retirement Obligation <i>(note 8)</i>	3	-
Stock-based Compensation <i>(note 12)</i>	1,938	-
Future Income Tax Recovery <i>(note 9)</i>	(640)	-
	(8,559)	(10,386)
Decrease (Increase) in Non-Cash Working Capital <i>(note 16)</i>	4,452	(107)
	(4,107)	(10,493)
Cash From Financing Activities		
Share Issuance Under Private Placement <i>(note 10)</i>	71,384	12,766
Exercise of Warrants <i>(note 11)</i>	6,048	4,201
Share Issuance Under Plan of Arrangement <i>(note 4)</i>	-	83,980
Class C Shares Under Plan of Arrangement <i>(note 4)</i>	-	1,027
Increase in Due to Related Party	-	42,828
	77,432	144,802
Cash From Investing Activities		
Short-term Investments <i>(note 5)</i>	(39,967)	-
Capital Expenditures	(95,102)	(34,556)
Proceeds from Third Party Participant <i>(note 6)</i>	50,675	-
Deposits Held in Trust	4,148	(4,148)
Decrease in Non-cash Working Capital <i>(note 16)</i>	(3,430)	4,659
	(83,676)	(34,045)
Increase (Decrease) in Cash and Cash Equivalents	(10,351)	100,264
Cash and Cash Equivalents at Beginning of Year	100,367	103
Cash and Cash Equivalents at End of Year	90,016	100,367

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 AND BASIS OF PRESENTATION

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, an international oil and gas company, is engaged in acquiring properties and exploring for, developing and producing crude oil and natural gas in Iraq and is in the developmental stage. Through its subsidiaries, the Corporation's operations are related to its interest in a Production Sharing Contract ("PSC") with the Kurdistan Regional Government ("KRG") in respect of an exploration project area in the Kurdistan Region of Iraq.

Since inception and typical with developmental stage companies, the Corporation has incurred losses from operations and negative cash flows from operating activities, and has an accumulated deficit at December 31, 2008. The ability of the Corporation to successfully carry out its business plan beyond exploration is primarily dependent upon the continued support of its shareholders, the discovery of economically recoverable reserves, the resolution of remaining political disputes in Iraq, and the ability of the Corporation to obtain financing to develop reserves.

These financial statements have been prepared on the basis that the Corporation will continue to operate as a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. These financial statements do not reflect adjustment in the carrying values of assets and liabilities reported, revenue or expenses and the balance sheet classification used that would be necessary if the going concern assumption was not appropriate. Such adjustment could be material.

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 functional and reporting currency since most of its expenses are directly or indirectly denominated in U.S. dollar. 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 U.S. \$ 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, fair value of stock-based compensation and the fair value of 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. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

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 and short-term investments, on an accrual basis.

vi. Property, Plant and Equipment ("PP&E")

(a) Petroleum and natural gas assets.

The Corporation accounts for its petroleum and natural gas operations in accordance with the Canadian Institute of Chartered Accountants' ("CICA") 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, depreciated and amortized 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 percent or more, in which case a gain or loss is recorded.

In determining the depletion base, the Corporation will include estimated future costs to be incurred in developing proved reserves and will exclude 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 6, which is in the development stage. The Corporation has no proven or probable reserves to form the basis for an estimate of future net cash flow from the properties. The Corporation has considered the conditions in CICA Accounting Guideline 11 for impairment which includes significant unfavorable economic, legal, regulatory, environmental, political and other factors. In addition, the Corporation's continued execution of its' business plan is a key factor considered as part of the assessment of the recoverability of the carrying amount of the properties. Whenever events or changes in circumstances indicate that the carrying amount of a property in the development stage may be impaired, capitalized costs are written down to the estimated recoverable amount. As at December 31, 2008, \$100.3 million has been capitalized to date related to this project. No revenues have been generated from this project to date and no impairment was identified at December 31, 2008.

(b) Corporate PP&E assets

Corporate PP&E assets are stated at historical cost less accumulated depreciation. Corporate assets are depreciated on a straight-line basis over their useful lives ranging from three to five years. The assets' residual values and useful lives are reviewed and adjusted, if required, at each balance sheet date.

vii. 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 deem 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 the expense, depletion on the asset, and accretion on the liability over the estimated life of the asset and liability. Actual expenditures, when incurred, will be charged against the accumulated obligation.

viii. 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. A

valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

ix. Stock-Based Compensation

For the Corporation's stock option plan, compensation expense is recorded in the Consolidated Statements of Operations as General and administrative expenses with a corresponding increase in Contributed Surplus in the Consolidated Balance Sheets for all common share options granted. Compensation costs directly related to exploration activities are capitalized. 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.

x. Financial instruments

Financial assets and liabilities, including derivative instruments, are initially recognized and subsequently measured based on their classification as "held-for-trading", "available-for-sale" financial assets, "held-to-maturity", "loans and receivables", or "other" financial liabilities. Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in net income for the period. Available-for-sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive income until the asset is removed from the balance sheet. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Derivative instruments, including embedded derivatives, are measured at their fair value with changes in fair value recognized in net income for the period, unless the instrument is a cash flow hedge and hedge accounting applies, in which case changes in fair value are recognized in other comprehensive income.

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 Corporation is currently assessing the impact of these new accounting standards on its financial statements. A preliminary diagnostic of potential areas of impact has been completed to aid in the management of this transition, with the aim to ensure successful implementation within the required timeframe. The results of this preliminary diagnostic indicate that the significant impact to the Corporation's results of operations, financial position and disclosures will be on Property, Plant and Equipment, as it relates to the Corporation's policy of full-cost accounting for its exploration assets and the continued ability to utilize this policy, how these assets are ultimately depreciated and how impairment is ultimately determined and measured. Other areas of potential impact include stock-based compensation, asset retirement obligation and accounting for joint ventures. The Corporation continues to develop an implementation plan, including the consideration of the resources required to complete the conversion to IFRS and the impact to its' financial systems.

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 ¹	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 ²	-
	<u>4,912</u>

Shareholders' Equity

Share Capital ^{1,2}	157,932
Deficit	(20,106)
	<u>137,826</u>
	<u>142,738</u>

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

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 11 and the proceeds received.

Following the completion of the Arrangement and related subsequent transactions, the Corporation completed a private placement of 5.0 million common shares at a price of Cdn\$2.50 per share for gross proceeds of US\$12.8 million (Cdn\$12.5 million).

5. SHORT-TERM INVESTMENTS

Short-term investments are carried at cost and are comprised of Government of Canada US Treasury Bills which mature within four to six months of purchase and will pay interest at a rate ranging from 0.15 percent to 0.35 percent.

6. PROPERTY, PLANT AND EQUIPMENT

<u>December 31, 2008</u>	<u>Cost</u>	<u>Accum. DD&A*</u>	<u>Net</u>
Kurdistan Region Exploration Project	100,327	-	100,327
Corporate	616	(280)	336
	<u>100,943</u>	<u>(280)</u>	<u>100,663</u>
<u>December 31, 2007</u>	<u>Cost</u>	<u>Accum. 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>

* *Accumulated Depreciation, Depletion and Amortization*

On June 23, 2008, the Corporation announced that the KRG nominated a wholly-owned subsidiary of Talisman Energy Inc. ("Talisman") as the Third Party Participant in the PSC. Prior to June 30, 2008, the Corporation funded one hundred percent of the PSC expenditures and subsequent to June 30, 2008 the Corporation funds sixty percent of the PSC expenditures, representing the Corporation's forty percent working interest and its obligation to carry the KRG's 20 percent working interest. Under the terms of the PSC, Talisman paid the Corporation \$50.7 million in costs incurred by the Corporation to June 30, 2008 and subsequently, Talisman has and will fund its 40 percent share of costs going forward. This amount has been credited against the total cost pool previously recorded.

All costs included in the Kurdistan Region Exploration Project are excluded from depletion as they represent costs incurred related to properties in cost centres that are considered to be in the development stage. Currently, there are no proved reserves. All costs, net of any associated revenues, have been capitalized. The Corporation capitalized \$2.1 million of general and administrative costs and \$0.7 million of stock-based compensation directly related to exploration activities for the year ended December 31, 2008 (December 31, 2007- \$ - nil).

7. DEPOSITS HELD IN TRUST

The Corporation had deposited in trust certain amounts to be utilized to fund certain exploration expenditures and amounts due under the PSC as described in note 17(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 December 31, 2008, there were no funds remaining on deposit in the trust accounts (December 31, 2007- \$4.1 million).

8. ASSET RETIREMENT OBLIGATION

The Corporation records the fair value of legal obligations associated with the retirement and reclamation of tangible long-lived assets when incurred. The asset retirement cost, equal to the estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived asset. The estimation of this cost is based on engineering estimates using current costs and technology and in accordance industry practice. With the commencement of the drilling of Sarqala-1, the Corporation recognized a net \$0.01 million liability. The Corporation's share of total undiscounted amount of estimated cash flow required to settle the obligation is \$0.6 million, which is assumed to be paid in the year 2033 in the most likely case. The Corporation used a credit risk adjusted risk-free rate of 10 percent and an inflation rate of 4 percent to calculate the net present value of the future retirement obligation.

The following table presents the reconciliation of the Corporation's asset retirement obligation:

	For the Year Ended December 31, 2008
Balance at Beginning of Year	-
Liabilities incurred	66
Accretion expense	3
Balance at December 31, 2008	69

9. INCOME TAXES

Year Ended December 31	2008	2007
Current Income Tax Expense	4,679	-
Future Income Tax Recovery	(640)	-
-		
Balance at December 31, 2008	4,039	-

As at December 31 the Future Income Tax assets are comprised of:

	2008	2007
Current Future Income Tax Asset:		
Non-Capital Loss Carryforwards	1,341	-
Share Issue Costs	204	-
Unrealized Foreign Exchange Gains	(1,215)	-
	330	-
Long-term Future Income Tax Asset:		
Non-Capital Loss Carryforwards	-	3,161
Share Issue Costs	408	-
Book Values in Excess of Tax Values	(98)	(7)
Allowance	-	(3,154)
	310	-

The following tables reconciles income taxes calculated at the Canadian statutory rate of 29.5 percent (December 31, 2007 – 32.12 percent):

	For the Years Ended December 31,	
	2008	2007
Net Loss Before Income Taxes	(6,061)	(10,426)
Income Tax Expense (Recovery) at Statutory Rate	(1,788)	(3,349)
Realized Foreign Exchange Gains	4,027	-
Unrealized Foreign Exchange Gains	1,684	
Foreign Tax Rate Differentials	1,385	385
Stock-based Compensation	572	-
Foreign Exchange Change on Non-Capital Loss Carryforwards	326	
Other	987	742
Valuation Allowance	(3,154)	2,222
Income Tax Expense	4,039	-

10. SHARE CAPITAL

a. 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 – 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 11)	-	506
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 11)	-	746
Issued – Under Private Placement	33,333,334	75,645
Share Issuance Costs	-	(4,261)
Balance at December 31, 2008	207,464,320	253,583

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).

11. 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, 2008. 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:

	<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)
	<hr/>	<hr/>
Balance at December 31, 2007	14,858,865	4,570
Warrant Value Transferred to Share Capital on Exercise	(2,426,939)	(746)
Warrant Value Transferred to Contributed Surplus on Expiry	(12,431,926)	(3,824)
	<hr/>	<hr/>
Balance at December 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.

12. STOCK OPTIONS AND STOCK-BASED COMPENSATION

On October 16, 2007, the shareholders 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.

The following table presents the reconciliation of options granted for the year ending December 31, 2008:

	Number of Shares	Weighted Average exercise price (\$)
Outstanding, beginning of the year	-	-
Granted	12,739,000	1.64
Exercised	-	-
Forfeited	(433,333)	2.15
Expired	-	-
Outstanding at December 31, 2008	12,305,667	1.62

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 weighted average assumptions used in their determination are as follows:

	Year Ended December 31, 2008
Fair Value (\$ Per Share)	0.64
Risk Free Interest Rate	3.68%
Expected Life (In Years)	2.86
Expected Volatility	58%
Dividend Per Share	-

During the year ended December 31, 2008, the Corporation recognized \$1.9 million in stock-based compensation in general and administrative expense and capitalized \$0.7 million.

The following table summarizes Stock Options outstanding and exercisable under the Stock Option Plan at December 31, 2008:

Exercise Price \$	Options Outstanding			Options Exercisable		
	Number of Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price \$	Number of Options Exercisable	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price \$
\$ 0.51 - \$1.00	4,279,000	4.95	0.55	-	-	-
\$ 1.00 - \$2.00	455,000	4.71	1.31	-	-	-
\$ 2.01 - \$3.00	7,251,666	4.12	2.21	2,193,333	3.97	2.15
\$ 3.00 - \$3.33	320,000	4.46	3.32	-	-	-
	12,305,666	4.42	1.62	2,193,333	3.97	2.15

13. CONTRIBUTED SURPLUS

The following table presents the reconciliation of Contributed Surplus:

	Year Ended December 31
	2008
Balance at Beginning of Period	-
Recognized on Expiry of Warrants (<i>note 11</i>)	3,824
Stock-based Compensation	2,452
Balance at December 31, 2008	6,276

14. LOSS PER SHARE

The basic weighted average number of common shares outstanding calculated on this basis for December 31, 2008 are 201,323,914 (December 31, 2007 - 166,303,062). The Corporation has calculated basic loss per share for the year ending December 31, 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. Due to a loss for the years ended December 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.

15. SHAREHOLDER 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.

16. CHANGES IN NON-CASH WORKING CAPITAL

Source/(Use)	For the Years Ended December 31,	
	2008	2007
Operating Activities		
Accounts Receivable	(58)	(50)
Prepaid Expenses	(139)	(111)
Accounts Payable and Accrued Liabilities	(30)	54
Income Tax Payable	4,679	-
	4,452	(107)
Investing Activities		
Accounts Receivable	(11,848)	(189)
Accounts Payable and Accrued Liabilities	8,418	4,848
	(3,430)	4,659

17. COMMITMENTS AND CONTINGENCIES

Commitments

a) Production Sharing Contract (“PSC”)

Under the terms of its PSC, the Corporation has a 40 percent working and the KRG has a direct 20 percent interest in the PSC which is carried by the Corporation. The remaining 40 percent was allocated to a wholly-owned subsidiary of Talisman by the KRG as announced on June 23, 2008. Under the terms of the PSC, Talisman paid the Corporation \$50.7 million in costs incurred by the Corporation and Talisman funds its share of costs going forward. The Corporation, the KRG and Talisman are 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 which the Corporation has already met and exceeded, drill three exploration wells and commit a minimum of \$75 million in the aggregate on these activities. 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 remaining commitments under the PSC as at December 31, 2008 to be approximately \$60 million to \$70 million. This commitment includes the remaining costs associated with drilling the three exploration wells to total

depth by December 31, 2010 (the end of the first exploration sub-period), the associated supervision and local office costs in support of drilling operations and the remaining PSC payments, including the remainder of the capacity building payments. The remaining costs associated with drilling the three exploration wells to total depth are estimated to be in the range of approximately \$30 million to \$40 million, which includes the costs associated with Sarqala-1, Kurdamir-1 and the third exploration well prior to the costs of any testing required. The Corporation estimates its share of costs to test these wells, if required, could range between \$3 million to \$6 million per well, depending on the number of potential zones that are required to be tested.

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 on these activities. 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 percent 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. For subsequent sub-periods, a joint operating company will be established between the Corporation, the KRG and Talisman, if so elected.

b) Participation Rights

The Corporation has granted participation rights for up to five percent 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.

c) Other

The Corporation has entered into various exploration related contracts, including drilling equipment, services and tangibles, and seismic surveying equipment and services, in order to meet contractual commitments under the PSC. The following table summarizes the commitments the Corporation has under these exploration related contracts and other contractual obligations at December 31, 2008:

	For the Years Ending December 31,					
	2009	2010	2011	2012	2013+	Total
Exploration	3,163	-		-	-	3,163
Office	375	94		-	-	469
	<u>3,538</u>	<u>94</u>		<u>-</u>	<u>-</u>	<u>3,632</u>

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 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 including the ability to export any hydrocarbons as a result of our activities

18. FINANCIAL INSTRUMENTS

Financial instruments of the Corporation consist of cash and cash equivalents and short-term investments, accounts receivable, 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. The Corporation's short-term investments are classified as "held-to-maturity" and is measured at amortized cost. 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 counterparty's inability to fulfill its payment obligations. The Corporation is currently exposed to credit risk on its cash and cash equivalents and short-term investments, 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 and short-term investments 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 17 (a), the KRG elected a wholly-owned subsidiary of Talisman as the third party participant under the PSC. The Corporation is subject to credit risk

associated with Talisman's 40 percent interest in the PSC and its share of related expenditures. As at December 31, 2008, the Corporation had \$12.0 million of receivables outstanding from Talisman. Under the terms of the PSC, penalty provisions are included for any amount in default.

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 Corporation's Investment Policy dictates 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 and short-term investments in U.S. dollars and sets out the type and duration of instruments that can be used to meet the Corporation's day to day foreign exchange needs. The Foreign Exchange Policy does allow the Corporation to hold other balances, mainly Canadian dollars, to meet the requirements to fund ongoing general and administrative and other spending requirements in these currencies. Neither policy permits the Corporation to enter into any economic hedging as it relates to interest or foreign exchange risks. As at December 31, 2008 had the U.S. Dollar changed by one percent against the Canadian dollar, with all other variables held constant, the Corporation's foreign exchange loss would have been affected by \$0.1 million.

The marketability and price of oil and natural gas that may be acquired or discovered by the Corporation is, and will continue to be, affected by numerous factors beyond its control including the impact that the various levels of government may have on the ultimate price received for oil and gas sales. The Corporation's ability to market its oil and natural gas may depend upon its ability to secure transportation. The Corporation may also be affected by deliverability uncertainties related to the proximity of its potential production to pipelines and processing facilities and operational problems affecting such pipelines and facilities as well as potential government regulation relating to price, the export of oil and natural gas and other aspects of the oil and natural gas business.

Both oil and natural gas prices are subject to wide fluctuation. In the first half of 2008, there was a steady rise in crude oil prices from approximately \$90 per barrel to a high of approximately \$147 per barrel, which was followed by a precipitous drop to a low of \$40 per barrel. The Corporation originally negotiated the economic terms of its PSC in 2007 in a \$50 per barrel crude oil price environment and any significant and sustained decline in crude oil prices from this price may impact the feasibility of WesternZagros' business plan.

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 its 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 and short-term investment balances. The Corporation is therefore required to fund its share of all commitments from existing balances or access additional sources of cash from the equity markets. The Board of Directors reviews the Corporation's cash and cash equivalent balances against the Corporation's commitments and assesses the timing and need for additional equity financing on a regular basis. However, the Corporation's results will impact its ability to access the capital necessary to meet these commitments. There can be no assurance that

debt or equity financing will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or 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.

During the latter part of 2008 and early 2009 the capital markets have seen a period of significant market instability. The Corporation's ability to access the capital markets in the future may be affected by any prolonged period of market instability.

19. CAPITAL STRUCTURE

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

- i) Ensure adequate levels of available cash and cash equivalents and short-term investments to meet the Corporation's commitments under the PSC.
- ii) To prudently fund expenditures related to the acquisition of properties, and for exploration, appraisal and development of crude oil and natural gas resources.

The Corporation funds its share of expenditures of all commitments from existing cash and cash equivalent balances received primarily from issuances of shareholders' equity. The Corporation 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 reviews the Corporation's cash and cash equivalents and short-term investments against the Corporation's expenditure commitments and assesses the timing and need for additional equity financing. The Corporation's results will impact its access the capital necessary to meet these expenditure commitments. There can be no assurance that equity financing will be available or sufficient to meet those commitments, 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. During the latter part of 2008 and early 2009 the capital markets have seen a period of significant market instability. The Corporation's ability to access the capital markets in the future may be affected by any prolonged period of market instability.

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. WesternZagros' shares trade in Canada 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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