

Management's Responsibility for Financial Reporting

Management is responsible for the reliability and integrity of the consolidated financial statements, the notes to the consolidated financial statements, and other financial information presented elsewhere in this annual report.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise as they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Financial information presented elsewhere in this annual report has been prepared on a basis consistent with that in the financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and for reviewing and approving the consolidated financial statements. The Board is assisted in exercising its responsibilities through the Audit Committee of the Board.

The Audit Committee meets periodically with management and the auditors to satisfy itself that each is properly discharging its responsibilities, to review significant accounting and reporting matters and to review the consolidated financial statements. The Audit Committee reports its findings and recommends the approval of the consolidated financial statements to the Board.

The consolidated financial statements have been audited on behalf of the shareholders by the independent auditors PricewaterhouseCoopers LLP, in accordance with Canadian generally accepted auditing standards.



M. Simon Hatfield
Chief Executive Officer



Greg Stevenson
Chief Financial Officer

April 11, 2011

Independent Auditor's Report

To the Shareholder of WesternZagros Resources Ltd.

We have audited the accompanying consolidated financial statements of WesternZagros Resources Ltd, ("the Corporation") which comprise the consolidated balance sheet as at December 31, 2010 and 2009 and the consolidated statement of operations, comprehensive loss and deficit and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statement that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of WesternZagros Resources Ltd. as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of matter

Without qualifying of our opinion, we draw attention to Note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Corporation's ability to continue as a going concern.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta

April 11, 2011

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

Consolidated Balance Sheets

(United States dollars thousands)

As At December 31	2010	2009
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 31,482	\$ 76,708
Accounts Receivable (note 5)	8,648	6,880
Insurance Recoveries Receivable (note 6)	17,597	—
Deposits held in trust (note 7)	420	—
Prepaid Expenses	39	183
Income Tax Recoverable	887	1,738
Future Income Taxes (note 9)	102	231
	59,175	85,740
Long-term Assets		
Property, Plant and Equipment (note 6)	182,056	154,911
Deposits held in trust (note 7)	—	420
Future Income Taxes (note 9)	—	6
	182,056	155,337
	\$ 241,231	\$ 241,077
Liabilities		
Current Liabilities		
Accounts Payable and Accrued Liabilities	\$ 21,525	\$ 18,297
	21,525	18,297
Long-term Liabilities		
Asset Retirement Obligation (note 8)	189	175
Future Income Taxes (note 9)	56	—
	21,770	18,472
Shareholders' Equity		
Share Capital (note 10)	253,583	253,583
Contributed Surplus (note 12)	11,353	8,749
Deficit	(45,475)	(39,727)
	219,461	222,605
	\$ 241,231	\$ 241,077

Going Concern Uncertainty (note 1)
Commitments and Contingencies (note 16)
Subsequent Events (note 20)

See Accompanying Notes to the Consolidated Financial Statements

Approved by the Board of Directors



Fred J. Dymont
Director



Randall Oliphant
Director

Consolidated Statements of Operations, Comprehensive Loss and Deficit

(United States dollars thousands, except per share amounts)

For the Years Ended December 31	2010	2009
Revenues		
Interest Income	\$ 87	\$ 184
Expenses		
General and Administrative	6,362	6,260
Depreciation	553	737
Accretion on Asset Retirement Obligation	14	11
Foreign Exchange Loss	62	12
	6,991	7,020
Loss Before Income Taxes	6,904	6,836
Income Tax Recovery (note 9)	(1,156)	(1,345)
Net Loss and Other Comprehensive Loss	5,748	5,491
Deficit, Beginning of Year	39,727	34,236
Deficit, End of Year	\$ 45,475	\$ 39,727
Net Loss Per Share		
- Basic and Diluted (note 13)	\$ 0.03	\$ 0.03

Going Concern Uncertainty (note 1)

See Accompanying Notes to the Consolidated Financial Statements

Consolidated Statements of Cash Flows

(United States dollars thousands)

For the Years Ended December 31	2010	2009
Cash Provided By (Used In)		
Cash From (For) Operating Activities		
Net Loss	\$ (5,748)	\$ (5,491)
Non-cash Items		
Depreciation	553	737
Accretion on Asset Retirement Obligation (note 8)	14	11
Stock-based Compensation	1,568	1,938
Future Income Tax Expense (note 9)	191	404
	(3,422)	(2,401)
Decrease (Increase) in Non-Cash Working Capital (note 15)	728	(6,440)
	(2,694)	(8,841)
Cash From (for) Financing Activities		
None	—	—
	—	—
Cash From (For) Investing Activities		
Short-term Investments	—	39,967
Capital Expenditures	(67,162)	(54,356)
Insurance Recoveries (note 6)	24,403	—
Deposits Held in Trust	—	(420)
Decrease in Non-cash Working Capital (note 15)	227	10,342
	(42,532)	(4,467)
Decrease in Cash and Cash Equivalents	(45,226)	(13,308)
Cash and Cash Equivalents at Beginning of Year	76,708	90,016
Cash and Cash Equivalents at End of Year	\$ 31,482	\$ 76,708
Supplemental cash flow information:		
Income Taxes Recovered (Paid)	\$ 2,198	\$ (4,669)
Going Concern Uncertainty (note 1)	See Accompanying Notes to the Consolidated Financial Statements	

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2010 and 2009

(Tabular amounts in United States dollars thousands)

1. GOING CONCERN UNCERTAINTY AND BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) on the basis that WesternZagros Resources Ltd. (the “Corporation” or “WesternZagros”) will continue to operate as a going concern, which implies the realization of assets and the settlement of liabilities and commitments in the normal course of business for the foreseeable future.

Since inception, and typical with development stage companies, the Corporation has incurred losses from operations and negative cash flows from operating activities, and has an accumulated deficit at December 31, 2010. During the year ended December 31, 2010, the Corporation had expenditures of \$3.4 million, before net change in non-cash working capital, for operating activities and \$67.2 million for oil and gas property expenditures, as well as an overall decrease in non-cash working capital of \$1.0 million. The Corporation will require additional funding over time to maintain ongoing exploration programs and property commitments, as well as for administration expenses. This requirement for funding will occur during the fiscal year ending December 31, 2011, with the amount dependant on the level and timing of exploration activities pursued by the Corporation.

There are material uncertainties that could raise significant doubt about the Corporation’s ability to continue as a going concern, as further outlined below:

Availability of Future Financing

Subsequent to December 31, 2010, the Corporation successfully obtained additional equity financing of Cdn\$43 million, by way of a brokered private placement of common shares that closed on March 10, 2011, which provided funds for planned operations at both Sarqala-1 and Mil Qasim-1 in 2011. The Corporation will require additional financing to re-drill the Kurdamir structure (Kurdamir-2) and to test the Oligocene, Eocene and Cretaceous formations that were originally encountered, but only partially evaluated, in Kurdamir-1.

In general, the Corporation’s ability to continue operations and exploration activities as a going concern is dependent upon its ability to obtain additional funding over time. While the Corporation has been successful in obtaining its required funding in the past, there is no assurance that sufficient funds will be available to the Corporation in the future, or if available, available on favourable terms. Factors that could affect the availability of financing include, but are not limited to: the continued support of its shareholders; resolution of the negotiations in respect of the Corporation’s Production Sharing Contract (“PSC”) referred to in Note 16(a); the results of its exploration activities; meeting all commitments under the PSC; the resolution of remaining political disputes in Iraq; progress on the Federal Petroleum Law and the ability to export oil and natural gas from the Kurdistan Region of Iraq in accordance with the economic terms under the PSC; the state of the capital markets and the ability of the Corporation to obtain financing to develop reserves; and the timely receipt of the remaining anticipated proceeds from the current insurance claim associated with the Kurdamir-1 well control operations.

Insurance Claim Related To Well Control Operations

The Corporation experienced two well control operations while drilling Kurdamir-1. The first of these began in the first quarter of 2010 and the second ended in the fourth quarter of 2010. Both were subject to an insurance claim. The Corporation received confirmation of coverage for the additional costs of these operations from the insurers during the second quarter of 2010. Subsequent to the conclusion of well control operations, the Corporation successfully completed and tested a portion of the well.

The insurance claim provides coverage for the Corporation’s share of allowable costs up to a maximum of \$45 million. The Corporation has submitted claims for \$45.9 million and has received \$35.9 million (both net to the Corporation) in insurance proceeds as at April 11, 2011. The Corporation continues to pursue payment for the remainder of the claim. However, any change in the determination of insurance coverage or delay in payment could impair the Corporation’s ability to fund ongoing activities under the PSC.

Continued Participation of the Corporation's Co-Venturers in the PSC:

The Corporation is involved in ongoing discussions with both Talisman (Block 44) B.V., a wholly owned subsidiary of Talisman Energy Inc. ("Talisman"), and the Kurdistan Regional Government ("KRG") regarding the optimal contractual arrangement for conducting future activities on the PSC lands as described in Note 16(a). As a consequence of these discussions, it is likely that Talisman will continue to participate in the funding of its working interest share of the costs of drilling Kurdamir-2, but it is unlikely that Talisman will participate in activities on the remaining PSC Lands and that the Corporation will likely be required to initially, or entirely, fund 100 percent of the costs associated with the third exploration commitment well under the PSC at Mil Qasim-1. In addition, due to these ongoing discussions among the Corporation, Talisman and the KRG, Talisman has elected not to participate in the Sarqala-1 re-entry operations.

These consolidated financial statements do not reflect adjustments in the carrying values of assets and liabilities reported, revenue or expenses, nor the balance sheet classification used that would be necessary if the going concern assumption was not appropriate. Such adjustments could be material.

2. NATURE OF OPERATIONS

WesternZagros Resources Ltd. (the "Corporation") was incorporated on August 22, 2007 under the laws of the Province of Alberta. The Corporation, an international oil and gas company, is engaged in acquiring properties and exploring for, developing and in due course 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 with the Kurdistan Regional Government ("KRG") in respect of an exploration project area in the Kurdistan Region of Iraq.

3. 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 determined the U.S. dollar to be its functional and reporting currency since most of its expenditures are directly or indirectly denominated in U.S. dollars. When revenues are realized, it is expected that U.S. dollars will be received. In addition, the U.S. dollar facilitates a more direct comparison to other international crude oil and natural gas exploration and development companies. All references herein to 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. Measurement Uncertainty

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, insurance recoveries receivable, asset retirement obligation, future income taxes, and fair value of stock-based compensation.

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, while non-monetary assets and liabilities are translated into U.S. dollars at historical rates. 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 three months or less.

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.

v. 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, 2010, \$181.8 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, 2010.

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 two to three years. The assets' residual values and useful lives are reviewed and adjusted, if required, at each balance sheet date.

vi. 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 interest rate that Management of the Corporation deems appropriate. Any change in timing or amount of the cash flows subsequent to initial recognition results in a change in the asset and liability. The Corporation recognizes the accretion expense on the liability and depletion on the asset over the estimated life of the asset and liability. Actual expenditures, when incurred, will be charged against the accumulated obligation.

vii. 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 carrying values 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.

viii. 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. When stock options are exercised, the cash proceeds together with the amount previously recorded as contributed surplus recorded as share capital. When stock options are forfeited, the previously recognized expense associated with non-vested stock options is reversed in the period in which the stock options were forfeited, while previously recognized expense associated with vested stock options is not reversed.

ix. 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. The Corporation has not identified any material embedded derivatives in any of its financial instruments. The Corporation has not designated any of its derivatives as hedges.

The Corporation classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The Corporation's fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets and liabilities (Level I);
- Inputs other than quoted prices included in Level I that are observable for the asset or liability, either directly or indirectly (Level II); and
- Valuation techniques with significant unobservable market inputs (Level III).

4. CHANGES IN ACCOUNTING POLICIES AND FUTURE ACCOUNTING PRONOUNCEMENTS

Changes in Accounting Policies

i. Accounting Changes

As of January 1, 2010, the Corporation adopted recent amendments to CICA Handbook Section 1506, "Accounting Changes", which now excludes from its scope changes in accounting policies upon the complete replacement of an entity's primary basis of accounting. These amendments apply to interim and annual financial statements related to years beginning on or after July 1, 2009 and did not have a material impact on the Corporation's financial statements.

Future Accounting Pronouncements

i. Convergence to 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. Companies will also be required to provide IFRS comparable information for the previous fiscal year. The transition date of January 1, 2010, will require WesternZagros to restate the 2010 comparative information for the 2011 financial statements to be prepared in accordance with IFRS.

5. RELATED PARTY TRANSACTIONS

As at December 31, 2009, there was a loan to a senior officer of \$0.2 million included in accounts receivable. The loan was non-interest bearing and was subsequently repaid during the year ended December 31, 2010.

6. PROPERTY, PLANT AND EQUIPMENT

As at December 31, 2010	Cost	Accumulated Depletion and Depreciation	Net Book Value
Kurdistan Region Exploration Project	\$ 181,795	\$ —	\$ 181,795
Corporate	1,831	(1,570)	261
	\$ 183,626	\$ (1,570)	\$ 182,056

As at December 31, 2009	Cost	Accumulated Depletion and Depreciation	Net Book Value
Kurdistan Region Exploration Project	\$ 154,244	\$ —	\$ 154,244
Corporate	1,684	(1,017)	667
	\$ 155,928	\$ (1,017)	\$ 154,911

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 associated recoveries, have been capitalized. For the year ended December 31, 2010, the Corporation capitalized \$3.0 million of general and administrative costs (2009: \$3.2 million), including \$1.0 million of stock-based compensation (2009: \$0.5million), directly related to exploration activities.

The Corporation initiated an insurance claim related to the cost of the well control and recovery operations at Kurdamir-1. The control of well insurance policy covering these claims has a net aggregate limit to the Corporation of \$45 million, with a \$0.4 million deductible. Under the terms of the insurance policy, the Corporation submits claims for these costs as they are incurred and paid and these claims are then subject to the review and approval of an adjuster appointed by the insurers. For the year ended December 31, 2010, the Corporation credited \$42.0 million of insurance recoveries, net of the \$0.4 million deductible, related to these well control and recovery operations at Kurdamir-1 against the Kurdistan Region Exploration Project. During the year ended December 31, 2010, the Corporation received \$24.4 million of insurance proceeds from the insurers. Subsequent to December 31, 2010, further insurance proceeds of \$11.5 million were received related to further approved interim claims. The Corporation has submitted the remaining costs incurred and continues to pursue the required approval for these amounts, and approval of an adjuster appointed by the insurers.

As at December 31, 2010, the Corporation had approximately \$157 million, net to WesternZagros, of cost pools available that may ultimately be recovered from future oil or natural gas sales in accordance with the terms of the PSC.

7. DEPOSITS HELD IN TRUST

As of December 31, 2010, the Corporation had a \$0.4 million deposit held in trust for a supplier to be utilized to fund certain expenditures for drilling operations. Subsequent to December 31, 2010, the funds held in trust were subsequently recovered.

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 with industry practice. The Corporation's share of total undiscounted amount of estimated cash flow required to settle the obligations is \$1.2 million. The asset retirement obligations are calculated based on a weighted-average approach under the assumption that the cash out-flows required to settle the obligations are incurred either two years after inception or 25 years after inception, with the most likely case that the obligations are paid in the years 2033 and 2034. The Corporation used a credit risk adjusted risk-free rate of 10 percent and an inflation factor of four 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 years ended December 31, 2010 and 2009:

For the Years Ended December 31	2010	2009
Balance, beginning of year	\$ 175	\$ 69
Liabilities incurred	—	95
Accretion expense	14	11
Balance at end of year	\$ 189	\$ 175

9. INCOME TAXES

For the Years Ended December 31	2010	2009
Current Income Tax Recovery	\$ (1,347)	\$ (1,749)
Future Income Tax Expense	191	404
Income Tax (Recovery) Expense	\$ (1,156)	\$ (1,345)

The Future Income Tax assets are comprised of:

As at December 31	2010	2009
Current Future Income Tax Asset:		
Non-Capital Loss Carryforwards	\$ —	\$ 27
Share Issue Costs	102	204
	\$ 102	\$ 231

As at December 31	2010	2009
Long-term Future Income Tax Asset (Liability):		
Share Issue Costs	\$ 275	\$ 387
Book Values in Excess of Tax Values	(158)	(198)
Valuation Allowance	(173)	(183)
	\$ (56)	\$ 6

Income tax expense differs from that which would be expected from applying the effective Canadian federal and provincial tax rates of 28 percent (2009 - 29 percent) due to the following:

For the Years Ended December 31	2010	2009
Net Loss Before Income Taxes	(6,904)	(6,836)
Income Tax Recovery at Statutory Rate	(1,933)	(1,982)
Losses in Foreign Jurisdictions With No Tax Benefit	968	808
Stock-based Compensation	439	717
Valuation Allowance	(10)	183
Effect of Tax Planning and Provision to Actual	(631)	(859)
Effect of Timing of Use	(37)	(154)
Other	48	(58)
Income Tax Recovery	(1,156)	(1,345)

10. SHARE CAPITAL

i. Authorized

The Corporation is authorized to issue an unlimited number of common and preferred shares. The common shares are without nominal or par value.

ii. Common Shares Issued and Outstanding

	Number of Shares	Amount (000's)
Balance as at December 31, 2009 and December 31, 2010	207,464,320	\$ 253,583

11. STOCK OPTIONS AND STOCK-BASED COMPENSATION

Pursuant to the stock option plan, the Board of Directors may grant options to directors, officers, employees, consultants 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. Stock options expire not more than five years from the date of grant, or earlier if the individual ceases to be associated with the Corporation, and vest at the discretion of the Board of Directors.

During 2010 the Corporation granted 9,764,900 options exercisable for voting common shares of the Corporation, while 2,417,334 options were forfeited. The following table presents the reconciliation of stock options granted for the years ended December 31, 2010 and 2009:

	December 31, 2010		December 31, 2009	
	Number of Options	Weighted Average Exercise Price (Cdn\$)	Number of Options	Weighted Average Exercise price (Cdn\$)
Outstanding, beginning of year	13,007,334	\$ 1.50	12,305,667	\$ 1.62
Granted	9,764,900	0.49	1,990,000	0.80
Forfeited	(2,417,334)	1.67	(1,288,333)	1.55
Outstanding, end of year	20,354,900	\$ 1.00	13,007,334	\$ 1.50

The following table summarizes stock options outstanding and exercisable under the Stock Option Plan at December 31, 2010:

Options Outstanding				Options Exercisable			
Range of Exercise Price Cdn\$	Number of Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price Cdn\$	Number of Options Exercisable	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price Cdn\$	
\$ 0.38 - \$0.49	9,739,900	4.97	0.49	3,226,634	4.97	0.49	
\$ 0.50 - \$1.00	4,756,667	3.10	0.63	3,275,664	3.09	0.65	
\$ 1.01 - \$2.00	435,000	2.85	1.37	263,334	2.79	1.34	
\$ 2.01 - \$3.28	5,423,333	2.12	2.19	5,378,333	2.12	2.19	
	20,354,900	3.73	1.00	12,143,965	3.15	1.30	

The fair value of all options granted have been estimated at the grant date using the Black-Scholes option pricing model and are summarized in the following table:

Year Ended December 31	2010	2009
Weighted average fair value of stock options granted	\$ 0.29	\$ 0.79
Risk Free Interest Rate	1.62% to 2.01%	1.64% to 1.73%
Expected Life	2 - 3 years	1 - 3 years
Expected Volatility	120%	80%
Dividend Per Share	Nil	Nil

During the year ended December 31, 2010, the Corporation recognized \$1.6 million (2009: \$1.9 million) of stock-based compensation as general and administrative expense and capitalized \$1.0 million (2009: \$0.5 million).

12. CONTRIBUTED SURPLUS

The following table presents the reconciliation of Contributed Surplus:

Year Ended December 31	2010	2009
Balance, beginning of year	\$ 8,749	\$ 6,276
Stock-based Compensation	2,604	2,473
Balance, end of year	\$ 11,353	\$ 8,749

13. LOSS PER SHARE

The net loss per share has been calculated based on the basic weighted average number of common shares outstanding for the year of 207,464,320 (2009: 207,464,320). In computing diluted per share amounts, the Corporation's options totaling 20,354,900 (2009: 13,007,334) have been excluded as anti-dilutive. Accordingly, no additional common shares were added to the basic weighted average shares outstanding to account for dilution.

14. 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 2013, unless extended by resolution of the shareholders at such meeting.

15. CHANGES IN NON-CASH WORKING CAPITAL

For the Years Ended December 31	2010	2009
Operating Activities		
Accounts Receivable	\$ (270)	\$ (68)
Prepaid Expenses	144	67
Income Tax Receivable	851	(1,738)
Accounts Payable and Accrued Liabilities	3	(22)
Income Tax Payable	—	(4,679)
	\$ 728	\$ (6,440)
Investing Activities		
Accounts Receivable	\$ (1,498)	\$ 5,349
Accounts Payable and Accrued Liabilities	1,725	4,993
	\$ 227	\$ 10,342

16. COMMITMENTS AND CONTINGENCIES

Commitments

Production Sharing Contract

Under the terms of its PSC, the Corporation has a 40 percent working interest and the KRG has a 20 percent working interest which is carried by the Corporation. The remaining 40 percent working interest is held by Talisman, which was allocated the interest by the KRG, as announced on June 23, 2008. The Corporation, 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 exploration sub-period of the PSC, when a joint operating company may be established if so elected by the Contractor Group.

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 ended December 31, 2010, subject to an extension under a force majeure claim described below. During such time, the Contractor Group was required to complete a minimum of 1,150 kilometres of seismic surveying (which has been completed), to drill three exploration wells (two of which have been drilled), and to commit a minimum of \$75 million in the aggregate on these activities (which has been completed). The PSC also includes capacity building support payments (which concluded in April 2009) and annual funding for certain technological, logistical, recruitment and training support during the exploration sub-periods.

During the drilling of the Kurdamir-1 well, certain situations occurred which caused additional time to be spent on well control and repair operations under conditions of force majeure. Under the terms of the PSC, when a force majeure event occurs, the time resulting from any such delay and the time necessary to repair any damage resulting from the delay is to be added to any time period provided under the PSC, including the first exploration sub-period. The period of force majeure started on January 22, 2010 and continued until October 14, 2010, a period of 265 days. The Corporation, on behalf of the Contractor Group, has notified the KRG of a force majeure event under the terms of the PSC and claimed a corresponding 265-day extension of the first exploration sub-period, i.e. until September 22, 2011.

Following the submission of the force majeure claim to the KRG, the KRG proposed certain contractual amendments in order to resolve the timing issues created by the force majeure event and other commercial concerns. Negotiations among the Contractor Group are ongoing with respect to these proposed amendments. See “Future PSC Operations”.

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 by entering into the second exploration sub-period, or request a one-year extension for further exploration and appraisal activities prior to deciding to enter into the second exploration sub-period.

To meet its remaining commitments for the first exploration sub-period, the Corporation estimates expenditures of approximately \$20 million to \$25 million, prior to the costs of any testing, if required, and assuming that the Corporation will be required to fund 100 percent for the remaining exploration commitment well (see “Future PSC Operations”). This estimate includes the remaining costs associated with drilling this additional exploration commitment well by the end of the first exploration sub-period, and providing associated supervision and local office support in support of drilling operations.

During the second exploration sub-period under the original PSC Agreement, the Contractor Group, or those parties who 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 to these activities. At the end of the second exploration sub-period, the Corporation and the other parties to the PSC who 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 and appraisal operations into the extension periods subject to the following relinquishment requirements. At the end of the second exploration sub-period, and at the end of each subsequent extension period, the PSC requires the Corporation, and other parties who 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).

Future PSC Operations

In parallel with, and as an alternative to, the force majeure claim, WesternZagros remains involved in ongoing negotiation with both Talisman and the KRG regarding the optimal contractual arrangements for conducting future activities on the PSC Lands. Proposals discussed to date include, but are not limited to:

- A one-year extension, to December 31, 2011, for drilling the third exploration commitment well;
- A requirement to complete the drilling of Kurdamir-2 prior to June 30, 2012, and subsequent to Talisman drilling the Topkhana-1 well on its adjacent Block 39;
- Talisman becoming operator for all future activity on the Kurdamir structure, with WesternZagros continuing as operator for all future activity on the remainder of the PSC Lands; and
- Talisman's future participation in activities on the PSC Lands being limited to the Kurdamir prospect, with the expectation that the KRG would assign Talisman's prior 40 percent interest in the remaining PSC Lands to a new third party participant following completion of the third exploration commitment well, which would be located on these remaining PSC Lands. As such, this would require the Corporation to initially, or entirely, fund 100 percent of the costs associated with the third commitment well.

While these negotiations proceed, WesternZagros continues to work toward drilling the third exploration commitment well under the terms of the force majeure provision in the PSC in order to ensure that it meets the current requirements of the PSC in the event these negotiations are not successfully concluded.

Consulting Services Agreements

In 2003 the Corporation entered into a consulting service agreement that provides for a three percent right to participate indirectly in the future profits the Corporation may earn in respect to the PSC, in exchange for consulting services provided since that date. In the determination of profits under this agreement, the Corporation is entitled to deduct the consultant's proportional share of all costs associated with acquiring the PSC and the exploration, appraisal, development and production expenditures incurred by the Corporation ("eligible costs"), together with interest on such percentage of eligible costs at LIBOR plus three percent. The Corporation is currently in negotiations to terminate this right.

Further, in 2004 the Corporation entered into a consulting service agreement that provides for a two percent right to indirectly participate in the future profits the Corporation may earn in respect to the PSC, in exchange for the provision of consulting services during the period 2004 to 2006. In determination of profits under this agreement, the Corporation is entitled to deduct one percent of all eligible costs, together with interest on such percentage of eligible costs at LIBOR plus ten percent. The consultant is required to fund the additional one percent of all eligible costs. The Corporation is currently in negotiations to terminate this right.

Other

The Corporation has entered into various exploration-related contracts, including contracts for drilling equipment, services and tangibles. The following table summarizes the commitments the Corporation has under these exploration-related contracts and other contractual obligations at December 31, 2010:

For the Years Ending December 31,

	2011	2012	2013	2014	2015+	Total
Exploration	2,335	—	—	—	—	2,335
Offices	614	234	—	—	—	848
	2,949	234	—	—	—	3,183

Contingencies

Litigation

From time to time the Corporation may become involved in legal or administrative proceedings in the normal conduct of business. Amounts involved in such matters are not reasonably estimable due to uncertainty as to the final outcome. The Corporation's assessment of the likely outcome of these matters is based on its judgment of a number of factors, including precedents and facts specific to the matters. The Corporation does not believe these matters, individually or in aggregate will have a material adverse effect on its consolidated financial position or results of operations.

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.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments of the Corporation consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. The Corporation's cash and cash equivalents are designated as held-for-trading and are measured at fair value, which approximates carrying value due to the short-term nature of these instruments. The fair value of cash and cash equivalents is classified as Level II fair value measurement. 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 amortized 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, interest rate risk, market risk, liquidity and funding risk. The following is a description of those risks and how the Corporation manages exposure to them:

Credit Risk

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

Under the terms of the PSC, as described in Note 16, 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, 2010, the Corporation had \$8.6 million of receivables outstanding mostly from Talisman under the credit terms defined by the PSC, including penalty provisions for any amount in default.

Market and Interest Rate 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. 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 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, 2010, had the U.S. Dollar changed by one percent against the Canadian dollar, with all other variables held constant, the Corporation's foreign exchange gain or loss would have been affected by approximately \$11,000.

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. During 2010, both oil and gas prices remained somewhat volatile with West Texas Intermediate ranging from \$68 to \$91 per barrel. WesternZagros originally negotiated the economic terms of its PSC in 2007 in a \$50 per bbl 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. In recent years, 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. The inability of the 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. Additionally, the Corporation currently expects to re-drill the Kurdamir structure in the future after first drilling the third commitment well required under the PSC. The Corporation will have to raise funds in order to be able to complete the Kurdamir re-drill.

18. CAPITAL STRUCTURE

The Corporation's capital consists of shareholder's equity and working capital. The Corporation will adjust its capital structure to manage its drilling program through the issuance of shares and adjustments to capital spending.

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

1. Ensure adequate levels of available cash and cash equivalents and short-term investments to meet the Corporation's commitments under the PSC.
2. 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 against the Corporation's expenditure commitments and assesses the timing and need for additional equity financing. The Corporation's results will impact its access to the capital necessary to meet these 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 2010 the capital markets have continued to see a period of 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. CHANGE IN FINANCIAL STATEMENT PRESENTATION

Certain comparative information has been changed in conformity to the current year's financial statement presentation.

20. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Subsequent to December 31, 2010, WesternZagros completed a private placement of common shares in which 89,665,352 common shares were issued at a price of Cdn\$0.48 per share. Total gross proceeds received were Cdn\$43 million.

DEFINITIONS

Carbonate means rock formed from the hard parts of marine organisms, mainly consisting of calcite, aragonite and dolomite.

Casing means a series of tubular steel pipes joined by threads and couplings that lines the wellbore to prevent water and rock from entering.

Condensate means liquids recovered during the production of natural gas, consisting primarily of pentane and heavier hydrocarbons.

Contingent Resources means those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingent resources have an associated chance of development (economic, regulatory, market and facility, corporate commitment or political risks). Contingent resources are not risked for the chance of development. There is no certainty that they will be commercially viable to produce any portion of the contingent resources.

Coring means collecting a cylindrical sample of rock, cut by a special bit during the drilling process.

Corporation or "WesternZagros" means WesternZagros Resources Ltd. and its subsidiaries, unless the context requires otherwise.

Discovered gas initially-in-place means that quantity of gas that is estimated, as of a given date, to be contained in known accumulations prior to production. The recoverable portion of discovered gas initially-in-place includes production, reserves and contingent resources; the remainder is unrecoverable.

Draft Federal Petroleum Law means the draft Iraq federal petroleum law for which consensus was reached on February 15, 2007 by a committee comprising representatives of Kurdistan and the parties included in the Council of Representatives (Cabinet) of the Government of Iraq.

Drilling Mud means specialized mud mixed at the drill site and pumped down the drillstring and up the annulus to prevent blowouts, remove cuttings and cool and lubricate the bit.

Drill Stem Test means a method of sampling fluid from a formation using a tool attached to the drill stem; the sample is used to assess the type and volume of fluids in the formation as well as their pressure and rate of flow.

Formation means a designated subsurface layer that is composed throughout of substantially the same kind of rock or rock types.

Gas means natural gas.

Iraq Constitution means the permanent constitution of Iraq approved by the people of Iraq in the general referendum on October 15, 2005.

Iraq Council of Ministers means the executive council of the Government of Iraq, appointed by the Presidency Council.

Iraq Council of Representatives means the main elected body of representatives in Iraq, who form the legislative branch of government.

Government of Iraq means the Federal Government of Iraq.

Hydrocarbon means a large class of liquid, solid or gaseous organic compounds, containing only carbon and hydrogen, which are the basis of almost all petroleum products.

Kirkuk Field means an oilfield in Iraq that was discovered in 1927 and is the basis of northern Iraqi oil production.

KRG means the Kurdistan Regional Government.

Kurdamir-1 means the second commitment well under the PSC. It was drilled by WesternZagros from May 2009 to February 2010.

Kurdistan means the Kurdistan Region of Iraq.

Kurdistan Regional Oil & Gas Law means a law passed on August 6, 2007 by the Kurdistan Regional Government concerning management of the Kurdistan Region's oil and gas resources.

Logging means gathering detailed depth-related records of certain significant details of an oil or gas well; usually obtained by lowering measurement instruments into a well;

Pay zone means the producing part of a formation.

Prospective Resources means those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated chance of discovery (geological chance of success) and a chance of development (economic, regulatory, market and facility, corporate commitment or political risks). Prospective resources are not risked for either the chance of discovery or the chance of development. There is no certainty that any portion of the prospective resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the prospective resources.

PSC means the Production Sharing Contract which was signed by the Corporation and the KRG on February 28, 2008.

PSC Lands means the area covered by the PSC consisting of a 2,120 km² exploration project area on Block 44 (the Kalar-Bawanoor Block) in the Garmian area of Kurdistan.

Region means a region of Iraq that is constitutionally established pursuant to the Iraq Constitution.

Reservoir means a porous and permeable underground rock formation containing a natural accumulation of crude oil or natural gas that is confined by impermeable rock or water barriers, and is separate from other reservoirs.

Sarqala-1 means the first commitment well under the PSC. It was drilled from May 2008 to March 2009.

Seismic program means a study using sound waves to create detailed models of underlying geological formations and to find oil and natural gas reservoirs.

Talisman means Talisman (Block 44) B.V., a wholly-owned subsidiary of Talisman Energy Inc.

Wellbore means a hole drilled or bored into the earth, usually cased with metal pipe, for the production of gas or oil.

Wildcat well means a well drilled in a previously unexplored area.

Wireline log means a measurement that was obtained by using special tools or equipment, such as logging tools, packers or measuring devices, designed to be lowered into the well on a wireline (small-diameter steel cable).

Undiscovered Resources means that quantity of petroleum that is estimated, as of a given date, to be contained in accumulations yet to be discovered; also referred to as "oil or gas initially-in-place."

WesternZagros thanks the Centre for Energy Information www.centreforenergy.com for many of the definitions used in this report.

ABBREVIATIONS

Natural Gas

cf	cubic feet
cm	cubic metre
Bcf	billion cubic feet
Bcf/d	billion cubic feet per day
Bcm	billion cubic metres
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
Mcm	thousand cubic metres
MMcf	million cubic feet
MMcf/d	million cubic feet per day

Oil

bbl	barrel
bbl/d	barrels per day
Mbbl	thousand barrels
MMbbl	million barrels
Bbbl	billion barrels

Other

API	American Petroleum Institute
°API	an indication of the specific gravity of crude oil measured on the API gravity scale. Liquid petroleum with a specified gravity of 28°API or higher is generally referred to as light crude oil.

BOE	barrels of oil equivalent. A barrel of oil equivalent is determined by converting a volume of natural gas to barrels using the ratio of 6 Mcf to one barrel. A BOE conversion ratio of 6 Mcf:1 BOE is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.
BOE/d	barrels of oil equivalent per day
°C	degrees, Celsius
ft	feet
km	kilometre
km²	square kilometre
m	metre
MMBOE	million barrels of oil equivalent