



WESTERNZAGROS RESOURCES LTD.

ANNUAL INFORMATION FORM
for the year ended December 31, 2010

Dated April 11, 2011

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ABBREVIATIONS AND CONVERSION FACTORS

In this Annual Information Form, the following abbreviations have the meanings set forth below.

Natural Gas

Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
MMcf	million cubic feet
MMcf/d	million cubic feet per day
Bcf	billion cubic feet
Bcf/d	billion cubic feet per day

Oil

bbl	barrel
bbl/d	barrel or barrels per day
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. BOEs may be misleading, particularly if used in isolation. 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
MMBOE	million barrels of oil equivalent
°C	degrees, Celsius
ft	feet
m	metre
m ³	cubic metre
km	kilometre
km ²	square kilometre

The following table sets forth certain standard conversions between Standard Imperial Units and the International System of Units (or metric units)

To Convert From	To	Multiply By
ft	m	0.305
m	ft	3.281
miles	km	1.610
km	miles	0.621
acres	km ²	0.004
km ²	acres	247.1
bbl	m ³	0.158
m ³	bbl	6.292
Mcf	1,000 m ³	0.0281
1,000 m ³	Mcf	35.493

DEFINITIONS

In this Annual Information Form, the following words and phrases have the meanings set forth below, unless otherwise indicated.

"**ABCA**" means the *Business Corporations Act* (Alberta), together with any or all regulations promulgated thereunder, as amended from time to time;

"**Arrangement**" means the plan of arrangement among WesternZagros, Western, Marathon Oil Corporation, 1339971 Alberta Ltd. and WZRI completed October 18, 2007;

"**Asaiysh**" means the Internal Security Agency of the KRG;

"**Board**" means the board of directors of the Corporation;

"**Class A Preferred Shares**" means the Class A preferred shares, issuable in series, in the capital of the Corporation;

"**Class B Preferred Shares**" means the Class B preferred shares in the capital of the Corporation;

"**COGE Handbook**" means the Canadian Oil and Gas Evaluation Handbook prepared jointly by The Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society), as amended from time to time;

"**Common Shares**" means the common shares in the capital of the Corporation;

"**Contractor Group**" means collectively, WesternZagros, the KRG and Talisman;

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

"**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;

"**EPSA**" means the Exploration and Production Sharing Agreement which was signed by the Corporation and the KRG on May 4, 2006, amended and ratified on February 26, 2007 and eventually replaced by the PSC;

"**Government of Iraq**" means the Federal Government of Iraq;

"**Iraq**" means the entirety of the Republic of Iraq, including without limitation, Kurdistan;

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

"**Iraq Ministry of Oil**" means the Ministry of Oil of the Government of Iraq;

"**KRG**" means the Kurdistan Regional Government;

"**Kurdistan**" means the Kurdistan Region of Iraq;

"**Kurdistan Council**" means the Regional Council for the Oil and Gas Activities of the Kurdistan Region of Iraq established under the Kurdistan Petroleum Law;

"**Kurdistan Petroleum Law**" means the *Oil and Gas Law of the Kurdistan Region - Iraq*, together with any or all regulations promulgated thereunder, as amended from time to time;

"**LTI**" means a lost time incident;

"**Model PSC**" means the model production sharing contract for use by the KRG;

"**NI 51-101**" means National Instrument 51-101, *Standards of Disclosure for Oil and Gas Activities*;

"**Peshmerga**" means the Kurdistan Region National Guard;

"**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;

"**Shareholders**" means holders of Common Shares and "**Shareholder**" means any one of them;

"**Sproule**" means Sproule International Ltd.;

"**Sproule December Report**" means the independent audit report of the Corporation's estimates of the gross contingent gas, condensate and oil resources and the gross prospective oil and solution gas resources in the Kurdamir Structure, Block 44, Kurdistan Region, Iraq, as set forth in the Sproule December Report, and as prepared by Sproule dated December 14, 2010, and effective December 14, 2010;

"**Sproule January 14 Report**" means the independent audit report of the Corporation's estimates of the gross prospective oil, condensate and associated gas resources for five prospects in Kalar Bawanoor Block 44, Kurdistan Region, Iraq as set forth in the Sproule January 14 Report and as prepared by Sproule date January 14, 2011, and effective January 14, 2011;

"**Sproule January 31 Report**" means the independent audit report of the Corporation's estimates of the gross prospective oil, condensate and associated gas resources for three additional prospects in Kalar Bawanoor Block 44, Kurdistan Region, Iraq as set forth in the Sproule January 31 Report, and as prepared by Sproule dated January 31, 2011 and effective January 31, 2011;

"**Sproule Reports**" means collectively, the Sproule December Report, the Sproule January 14 Report and the Sproule January 31 Report;

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

"**TSXV**" means the TSX Venture Exchange;

"**Warrants**" means purchase warrants to acquire Common Shares;

"**Western**" means Western Oil Sands Inc. (now Marathon Oil Canada Corporation)

"**WZRI**" means WesternZagros Resources Inc.

Certain other terms used herein but not defined herein are defined in NI 51-101 and, unless the context otherwise requires, shall have the same meanings herein as in NI 51-101.

PRESENTATION OF OIL AND GAS RESOURCES INFORMATION

All oil and natural gas resource information contained in this Annual Information Form has been prepared and presented in accordance with NI 51-101. In respect of the resources data contained in this Annual Information Form, the following terms have the meanings indicated:

"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. Contingencies may include factors such as economic, legal, environmental, political, and regulatory matters or a lack of markets. It is also appropriate to classify as contingent resources the estimated discovered recoverable quantities associated with a project in the early evaluation stage;

"Discovered Petroleum Initially-In-Place" or **"Discovered Resources"** is that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production. The recoverable portion of discovered petroleum initially-in-place includes production, reserves and contingent resources, the remainder is unrecoverable;

"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 and a chance of development;

"Undiscovered Petroleum Initially-In-Place" or **"Undiscovered Resources"** is that quantity of petroleum that is estimated, on a given date, to be contained in accumulations yet to be discovered. The recoverable portion of undiscovered petroleum initially in place is referred to as prospective resources the remainder as unrecoverable; and

"Unrecoverable" is that portion of discovered or undiscovered petroleum initially in place quantities which is estimated, as of a given date, not to be recoverable by future development projects. A portion of these quantities may become recoverable in the future as commercial circumstances change or technological developments occur; the remaining portion may never be recovered due to the physical/chemical constraints represented by subsurface interaction of fluids and reservoir rocks.

CURRENCY

WesternZagros has adopted the U.S. dollar as its functional and reporting currency. Unless otherwise indicated, references herein to "\$" or "dollars" are to United States dollars. References herein to "Cdn\$" are to Canadian dollars.

The following table sets forth, for each of the periods indicated, the high and low rates of exchange for one United States dollar expressed in Canadian dollars, the average rate of exchange during each such period and the end of period rate, each based on the noon buying rate published by the Bank of Canada.

	Year ended December 31,		
	2010	2009	2008
High	Cdn\$1.0778	Cdn\$1.3066	Cdn\$1.2969
Low	Cdn\$0.9946	Cdn\$1.0251	Cdn\$0.9719
Average	Cdn\$1.0299	Cdn\$1.1419	Cdn\$1.0060
End of Period	Cdn\$0.9946	Cdn\$1.0466	Cdn\$1.2246

FORWARD-LOOKING INFORMATION

This Annual Information Form contains certain forward-looking information relating, but not limited, to operational information, future drilling plans and testing programs 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 Corporation cautions readers and prospective investors in the Corporation'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. Accordingly, any such information is qualified in its entirety by reference to and is accompanied by the risk factors discussed throughout this Annual Information Form.

Forward-looking information is not based on historical facts but rather 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, timely receipt of any necessary government or regulatory approvals, resolution of negotiations among the Contractor Group regarding ongoing contractual arrangements for the PSC Lands, the continued participation of the Corporation's co-venturers in exploration activities, the timely receipt of any insurance proceeds due to the Corporation and the Corporation's continued ability to employ qualified staff and to obtain 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, the outcome of negotiations among the Contractor Group or of the Corporation's force majeure claim, unexpected delays and changes in market conditions. Although the Corporation 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; interruptions in operations together with any associated insurance proceedings; the uncertainty of estimates and projections in relation to costs and expenses and health, safety and environmental risks), risks associated with resource estimates, the risk of commodity price and foreign exchange rate fluctuations, the uncertainty associated with negotiating with foreign governments, the risk of rejection of the Corporation's force majeure claim and risk associated with international activity, including acts of insurgency and civil war.

These factors should not be considered exhaustive. These and other factors are discussed in this Annual Information Form under the heading "Risk Factors". Readers are also cautioned that disclosed test rates and potential production rates may not be indicative of ultimate production levels. In addition, the forward-looking information is made as of the date hereof, and the Corporation assumes no obligation to update or revise such to reflect new events or circumstances, except as required by law.

WESTERNZAGROS RESOURCES LTD.

Summary

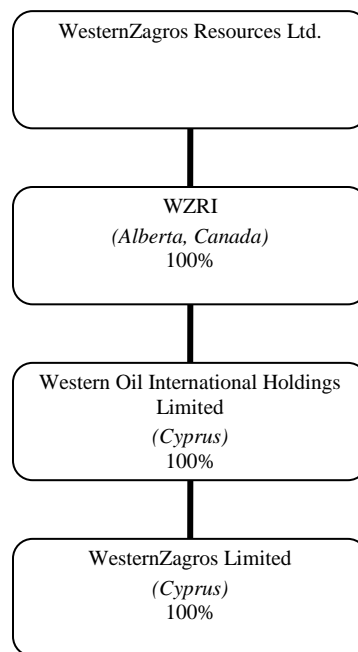
WesternZagros is an international natural resources company engaged in acquiring properties and exploring for, developing and producing crude oil and natural gas in Iraq. WesternZagros, through its wholly-owned subsidiaries, holds a Production Sharing Contract with the Kurdistan Regional Government covering a 2,120 km² block in the Kurdistan Region of Iraq. The Corporation's Common Shares are listed on the TSX Venture Exchange under the symbol "WZR".

Incorporation and Organization

WesternZagros was incorporated under the ABCA on August 22, 2007. On October 17, 2007, WesternZagros amended its articles to add the Class A Preferred Shares and Class B Preferred Shares to its authorized capital. WesternZagros' registered office is located at 3700, 400 - 3rd Avenue S.W., Calgary, Alberta, T2P 4H2 and its head office is located at 600, 440 - 2nd Avenue S.W., Calgary, Alberta, T2P 5E9.

Intercorporate Relationships

The percentage of votes attaching to all voting securities of WesternZagros' subsidiaries beneficially owned, or controlled or directed, directly or indirectly, by WesternZagros, as well as the jurisdiction where the subsidiary was incorporated, continued, formed or organized, as the case may be, is set forth below.



GENERAL DEVELOPMENT OF THE BUSINESS

WesternZagros was incorporated for the sole purpose of participating in the Arrangement which was completed on October 18, 2007. In connection with the Arrangement, through a series of transactions, WesternZagros acquired from Western Oil Sands Inc. (now Marathon Oil Canada Corporation) all of the outstanding shares of WZRI which held the EPSA. In connection therewith, a Business Acquisition Report was filed on SEDAR and can be accessed at www.sedar.com.

Pursuant to the Arrangement, WesternZagros issued 165,057,183 Common Shares and 16,505,729 Warrants to former shareholders of Western Oil Sands Inc. (now Marathon Oil Canada Corporation). Each Warrant entitled the holder to purchase one Common Share at a price of Cdn\$2.50 until January 18, 2008. Of the 16,505,729 Warrants issued pursuant to the Arrangement, 4,073,803 Warrants were exercised prior to expiry for proceeds of approximately Cdn\$10.2 million. In addition, immediately following the Arrangement in October 2007, WesternZagros indirectly received approximately Cdn\$82.5 million cash from Western and completed a private placement of 5 million Common Shares at a price of Cdn\$2.50 per Common Share for proceeds of approximately Cdn\$12.5 million.

During the latter half of 2007 and in early 2008, WesternZagros was in discussions with the Kurdistan Council with respect to the Council's requested conformity of the EPSA with the Model PSC introduced in August 2007 when the

Kurdistan National Assembly passed the Kurdistan Petroleum Law (see "Industry Conditions - Industry Structure"). On February 28, 2008, WesternZagros concluded these discussions and signed the PSC, amending and restating the EPSA.

On March 7, 2008, WesternZagros completed a private placement of 33.3 million Common Shares at a price of Cdn\$2.25 per Common Share for proceeds of approximately Cdn\$75 million.

During May 2008, the Corporation commenced drilling operations at Sarqala-1, the Corporation's first exploration well on the PSC Lands. Sarqala-1 reached a depth of 4,357 metres. While the well encountered numerous oil and gas shows during drilling, the Corporation was unable to test the well after the drilling assembly became stuck in the hole. The well was ultimately suspended in March 2009 pending further evaluation.

In June 2008 and pursuant to the terms of the PSC, the KRG allocated to Talisman a 40 percent working interest under the PSC resulting in WesternZagros holding a 40 percent working interest, Talisman holding a 40 percent working interest and the KRG holding a 20 percent working interest. In connection therewith and for costs incurred by WesternZagros, Talisman paid WesternZagros \$50.7 million under the terms of the PSC.

In May 2009, WesternZagros commenced drilling operations at Kurdamir-1, the Corporation's second exploration well on the PSC Lands. The well reached total depth of 4,077 metres in January 2010. Due to high formation pressures encountered at total depth and during sidetracking operations, the Corporation was required to conduct well control operations which were completed in October 2010. A significant hydrocarbon discovery within the Oligocene formation, consisting of natural gas and condensate, was confirmed in the Tertiary interval in November 2009. Subsequent to this, successful cased hole tests were conducted in November and December of 2010 which confirmed the existence of an oil column beneath the natural gas and condensate in the Oligocene formation. In addition, numerous oil and gas shows were encountered while drilling through the lower Eocene and Cretaceous formations, and for which the Corporation has also completed prospective resource estimates. See "Statement of Oil and Gas Information - Resource Information". Although wellbore conditions will not permit deeper drilling or testing at Kurdamir-1, WesternZagros anticipates that the Contractor Group will begin drilling a second Kurdamir well (Kurdamir-2) in late 2011.

On March 10, 2011, WesternZagros completed a private placement of approximately 89.7 million Common Shares at a price of Cdn\$0.48 per Common Share for proceeds of approximately Cdn\$43 million.

On March 29, 2011, WesternZagros began operations at Sarqala-1 to drill a short sidetrack and test the Miocene Jeribe Formation.

DESCRIPTION OF THE BUSINESS

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 is party to the PSC which covers a 2,120 km² exploration project area on the Kalar-Bawanoor Block in the Garmian area of Kurdistan and is on trend with, and adjacent to, a number of historic oil and gas discoveries. WesternZagros, as the operator, holds a 40 percent working interest in the PSC, the KRG holds a 20 percent working interest (carried by WesternZagros), and Talisman holds the remaining 40 percent working interest. The Corporation currently has no reserves or production. See "PSC Overview and Commitments" and "Statement of Oil and Gas Information" below for a description of the terms of the PSC, the PSC Lands, the Corporation's exploration activities, and the Corporation's contingent and prospective resource estimates for certain prospects within the PSC Lands.

The objective of WesternZagros is to be recognized, through consistently superior business performance and operations excellence, as one of the leading junior oil and gas companies active in Iraq. The Corporation is committed to apply the lessons learned from its operations and from operations occurring elsewhere within the Kurdistan Region to improve our operating performance. The Corporation is committed to operating in Kurdistan 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 that it has developed a relationship with government authorities, local communities and the business

community in Kurdistan that has allowed the Corporation to gain access to opportunities and to obtain the cooperation needed to execute its operational activities successfully.

Kurdistan features an emerging regulatory regime consistent with a rapidly developing region. WesternZagros is committed to meeting local regulations and to acting responsibly, and the Corporation will follow relevant Canadian oil and gas regulations and environmental practices where none have yet been developed locally.

WesternZagros believes that social capacity building and responsibility is important and takes this process seriously. The Corporation is aware of, and pays careful attention to, the need to conduct business in a way which optimizes the benefits for the citizens of Kurdistan and all the people of Iraq. The Corporation sees the long term potential for its involvement in Kurdistan and desires to work with the KRG, its co-venturers and the people of Kurdistan to realize the immense value located in this Region.

In support of the Corporation's corporate social responsibility efforts in Kurdistan in 2010, WesternZagros and its co-venturers continued to focus on three key initiatives in the Garmian region of Kurdistan: water supply, education and health care. In particular, activities during 2010 included providing local water tanker services and low cost methods of obtaining water through extensive earthworks projects for over 40 villages; implementing a partnership project with Mercy Corp. (an international non-governmental organization) and the local government in order to improve water access to two rural villages; implementation of, and training to maintain, a biosand water filter project in partnership with the Kurdistan Village Reconstruction Association (a local non-governmental organization); supporting the Garmian Sports Directorate's Youth Activity Festival (a seven day event attended by 1,400 children) through the donation of uniforms, trophies, medals and equipment; and partnering with Project Cure (an non-governmental organization committed to donating medical equipment) in order to supply and distribute beds, examination tables, crutches, wheelchairs and IV stands to three local clinics and one hospital in the Kalar-Bawanoor Block. WesternZagros remains committed to these efforts in 2011 and appreciates the continued support and assistance of both the KRG and Talisman in these endeavours.

WesternZagros develops its community investment program in Kurdistan in close conjunction with local government and other community leaders in the Garmian area. WesternZagros will continue to strive to assist in the training and employment of the local population and include them in the decisions that impact their lives.

As at December 31, 2010, WesternZagros had 25 full-time employees on Canadian payroll and 13 full-time local national employees in Kurdistan.

INDUSTRY CONDITIONS

The following is a brief summary of the economic and energy market conditions encountered in conducting oil and natural gas operations in Kurdistan. The industry related information in this section has been taken from public sources, including data compiled by IHS Inc., data obtained from the Iraq Ministry of Oil and the 2011 Oil & Gas Year Kurdistan Region of Iraq publication. Readers are cautioned that information from these sources as to the size of oil or gas fields or estimated reserves in Iraq may not have been prepared in a manner which would be in accordance with the guidelines outlined in the COGE Handbook and as such may not be comparable to other oil and gas data prepared in accordance with such guidelines.



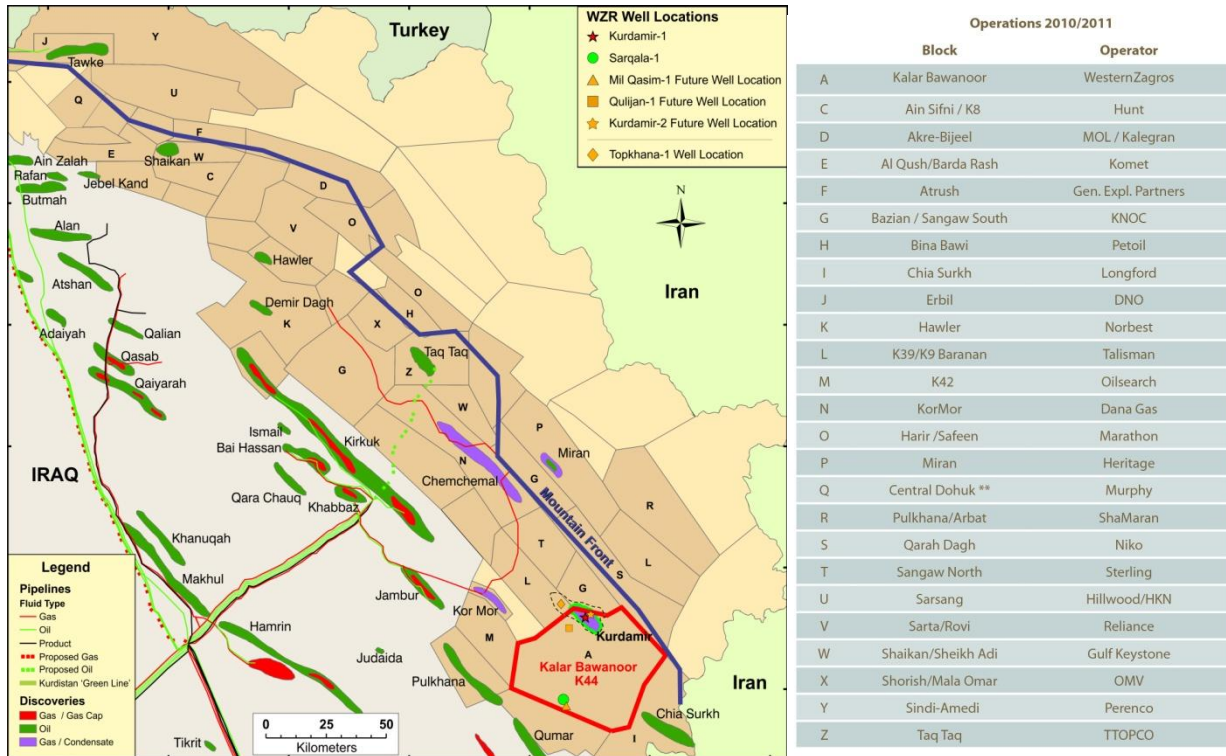
General

Iraq has numerous large undeveloped fields and unexplored areas. Out of 73 discovered oil fields, only 15 are producing. Seven of the discovered oil fields are classified as super-giant (over 5 Bbbl) and 22 as giant (500 MMbbl to 5 Bbbl). As at October 2010, Iraq is estimated to have approximately 143 Bbbl of proven oil reserves. Over 80 percent of Iraq's oil reserves are located in Cretaceous formations. Approximately two-thirds of the oil fields have only been drilled to Cretaceous formations. The remaining reserves are essentially found in the Tertiary formations. Iraq's total oil production in 2010 averaged 2.36 MMbbl/d, of which 1.89 MMbbl/d was exported. Iraq has established oil export routes to the Mediterranean via Turkey and directly to the Persian Gulf. Currently there are two oil fields on production in Kurdistan: Tawke (operated by DNO International ASA of Norway) and Taq Taq (operated by TTOPCO which is jointly owned by Sinopec Corp. of China and Genel Enerji International Limited of Turkey). The production from these two fields as at February 2011 is reported to be approximately 85,000 bbl/d. Oil production from Tawke is being delivered to the Iraq-Turkey export pipeline via a feeder pipeline and oil production from Taq Taq is being delivered by truck to the Khormala collection facilities on the northern end of the Kirkuk oilfield, blended with other production from the Kirkuk area and then delivered to the Iraq-Turkey export pipeline.

There are also seven natural gas fields planned for development by the Iraq Ministry of Oil, four of which lie in relative proximity to the PSC Lands (Mansuriyah, Kor Mor, Jeria Pika, and Chemchemical). In 2007, the KRG signed service contracts with Dana Gas (an Emirati company) for the development of the Kor Mor and Chemchemical gas fields and production commenced at Kor Mor in 2008. Iraq does not currently have the infrastructure for gas export and limited markets exist for natural gas within Iraq. Approximately 50% of Iraq's 1.4 Bcf/d current gas production is flared and due to the current surplus of gas in the country, the timing and feasibility of natural gas commercial development is uncertain. However, some value chain projects such as power generation and gas cycling (liquids stripping) may provide earlier commercial opportunities until a natural gas market or export infrastructure is developed within Iraq. Currently, Kor Mor is the only gas field on production in Kurdistan. Kor Mor is operated by Dana Gas, with ownership by Emirati company Crescent Petroleum, Austrian company OMV and Hungarian company MOL. Gas production from Kor Mor is being fed by pipeline to two power generating stations in Kurdistan at reported rates of up to 300 MMcf/d and the associated condensate production is being delivered by truck to Jambur at reported rates of up to 18,000 bbl/d. At Jambur, the condensate is being blended with crude oil and fed into the Kirkuk collection facilities and then into the Iraq-Turkey export pipeline.

Industry Structure

WesternZagros is one of 41 international companies with a production sharing contract in Kurdistan. These companies include Marathon Oil Corporation (a USA company), Murphy Central Dohuk Oil Company Limited (a subsidiary of Murphy Oil Corporation, a USA company), Gas Plus Khalakan Limited (a UK, Jersey based company), Hunt Oil Company of Kurdistan Region (a subsidiary of Hunt Oil Company of the USA), Kalegran Limited (a wholly-owned subsidiary of MOL Hungarian Oil and Gas plc of Hungary), Komet Group S.A. (a Moldovan company), PETOIL Petroleum and Petroleum Products International Exploration and Production Incorporated (a private Turkish company), Prime Natural Resources Inc. (a private USA company), Norbest Limited (a Russian company), Talisman Energy Inc. (a Canadian company), Dana Gas (a UAE public joint stock company), Heritage Oil plc (a UK company), Niko Resources Ltd. (a Canadian company), Sterling Energy plc (a UK company), KNOC Bazian Limited (owned by the Korean National Oil Corporation and Korean private sector oil exploration and development companies), HKN Energy Ltd. (a Hillwood International Energy company of the USA), Reliance Industries Limited (an Indian company), Gulf Keystone Petroleum Ltd. (a UK company), OMV (an Austrian energy company) and TTOPCO Taq Taq Operating Company (the joint operating company of Genel Energy International Limited of Turkey and Addax Petroleum International Limited – now owned by Sinopec Corp. of China).



**Murphy Central Dohuk Block unconfirmed location

The Government of Iraq is working to update its existing petroleum legislation, which dates back to the nationalization during the 1970s of Iraq's then concession-based petroleum industry. A committee comprising representatives of Kurdistan and the parties included in the Council of Representatives (Cabinet) of the Government of Iraq reached broad consensus on the Draft Federal Petroleum Law on February 15, 2007. However, certain material issues remained to be resolved, such as completion of the annexes to the Draft Federal Petroleum Law, the structure of certain federal institutions, the terms of the model petroleum agreements contemplated by the Draft Federal Petroleum Law, and the terms of a law governing revenue sharing for petroleum activities. From February 2007 until March 2010, the political differences that existed within Iraq regarding the terms of the Draft Federal Petroleum Law and, in particular, the authority of Regions to administer their petroleum resources (as granted under the new Iraq Constitution of 2006) and the issue of foreign investment/production sharing in Iraq's upstream petroleum resources resulted in the situation that the Draft Federal Petroleum Law has not yet been passed into law.

The Iraq Constitution grants, and the Draft Federal Petroleum Law contemplates, a role for Regions in awarding petroleum contracts for certain types of operations, and in regulating those petroleum operations occurring within the Regions. The KRG developed the Kurdistan Petroleum Law to be consistent with such a role and in conformity with the principles reflected in the Draft Federal Petroleum Law and in the draft federal law governing revenue sharing for petroleum activities proposed in June 2007. In the absence of progress on the Draft Federal Petroleum Law, on August 6, 2007, the Kurdistan National Assembly approved the Kurdistan Petroleum Law which came into force in Kurdistan with effect from August 9, 2007. WesternZagros' activities under its PSC fall within the jurisdiction of the Kurdistan Petroleum Law. Although certain officials of the Government of Iraq have expressed an opinion that the Kurdistan Petroleum Law is invalid and that contracts signed with the KRG are illegal, KRG officials maintain that the Kurdistan Petroleum Law is consistent with the Iraq Constitution and the KRG has obtained, and published, an expert legal opinion in this regard. The Kurdistan Petroleum Law created the Kurdistan Council comprised of the KRG Prime Minister and several senior KRG ministers. The Kurdistan Council has reviewed all of the contracts entered into before the Kurdistan Petroleum Law was adopted, including the EPSA, and amended them in order to bring them into conformity with the Model PSC and the guidelines for commercial terms for production sharing agreements.

In March 2010, Iraq held its first fully participating federal election, with the three main segments of Iraq's population all participating (Sunni Arabs, Shia Arabs and Kurds). The election resulted in no one party winning an absolute majority, and as a result the main parties have formed a coalition government. The forming of this coalition government took place in December 2010 when it was announced that the Prime Minister would be Nouri al-Maliki and that his State of Law Party would be joined in the coalition by members of the Kurdistan Alliance and by members of Ayad Allawi's Iiraqiya party. Prime Minister Maliki appointed Abdul Karim Luaibi as his Oil Minister and appointed the former Oil Minister Hussain al-Shahristani as one of the Deputy Prime Ministers, with responsibility for energy matters. Both Prime Minister Maliki and Oil Minister Abdul Karim Luaibi have been quoted that they would support Kurdistan's production sharing contracts in their current form, while Deputy Prime Minister Shahristani has been quoted that in his view changes to the contracts will be necessary.

In February 2011, the export of crude oil from Kurdistan recommenced from both the Tawke and Taq Taq fields, following an interim agreement between the Iraqi Central Government in Baghdad and the KRG. The export of this crude oil has been jointly managed by both the KRG and the North Oil Company (the subsidiary of the Federal Ministry of Oil responsible for petroleum operations in northern Iraq). The payment terms for the contractors of both these fields have not publicly been declared, but are anticipated to include at minimum payment for cost recovery.

There is no assurance that any Iraq federal petroleum legislation will be enacted authorizing and defining the role for Regions in awarding petroleum contracts such as the PSC, or that federal legislation, if enacted, will be consistent with the Draft Federal Petroleum Law. In addition, it is also possible that a subsequent review of the PSC, similar to the Kurdistan Council review described above, may be required under any Iraq federal legislation which may be enacted but this remains unknown at this time. Failure to enact federal petroleum legislation or the enactment of federal legislation contrary to the Kurdistan Petroleum Law could materially and adversely impact WesternZagros' interests in Kurdistan (see "Risk Factors — Legislative Issues").

Transportation Infrastructure

According to the International Energy Agency, the current pipeline system in Iraq has over 6 MMbbl/d of crude oil export capacity. However, much of the existing oil infrastructure remains in need of repair. If restored to its full operating capabilities, the Iraq pipeline system is believed to have abundant capacity. At the current time, the pipeline options potentially available to WesternZagros to export crude oil from any oil discoveries on the PSC Lands are depicted below and include the Ceyhan, Turkey System (1.6 MMbbl/d), the Kirkuk-Basra System (1.4 MMbbl/d), the Kirkuk-Baniyas, Syria System (250 Mbbbl/d), as well as a system proposed to be built within Kurdistan. Iraq does not currently have the infrastructure necessary for gas export.

A proposed Kurdistan pipeline project could allow transportation of oil from the Taq Taq field and other Kurdistan oil discoveries into the main existing Iraq-Turkey export pipeline to Ceyhan, Turkey. Such a pipeline could also be twinned by a gas pipeline providing access to the Turkish and central European gas markets. Effective execution of this proposed project would require collaboration with the KRG and the Governments of Iraq and Turkey and the timing and details of any such project are uncertain at this time.



WesternZagros is currently evaluating various options to export crude oil from any oil discoveries made on the PSC Lands. Trucking crude to export terminals at Kirkuk or Taq Taq or Jambur may provide a short term solution for any potential oil discoveries; however, WesternZagros may eventually require access to a pipeline system linked to an export terminal. There are also industrial consumers such as power plants and refineries which may provide markets within reach of trucking operations.

With respect to the Corporation's natural gas discoveries, Iraq does not currently have the infrastructure necessary for gas export and limited markets exist for natural gas within Iraq. A natural gas market within Iraq or a natural gas export market to Turkey and Europe may take several years to develop. As such, the Corporation continues to evaluate the commercial potential and technical feasibility of the gas and condensate it has discovered to date. Although the timing and feasibility of commercial development is uncertain, some value chain projects such as power generation and gas cycling (liquids stripping) may provide earlier commercial opportunities until a natural gas market or export infrastructure is developed within Iraq.

Competitive Advantages and Challenges

Although WesternZagros is a relatively small corporation in a large and competitive industry, it also has certain competitive advantages over some of the larger industry participants due to its early entry into Kurdistan and the relationships which it has developed. WesternZagros has the ability to respond expeditiously to opportunities. WesternZagros has an experienced and qualified Board and management team, especially in the areas of international oil and natural gas activity and the financing thereof. In addition, WesternZagros will continue to develop and maintain key business relationships, particularly with local partners and government representatives in Kurdistan and other regions of Iraq. WesternZagros has the ability to access current technology used in the onshore petroleum industry in North America and elsewhere. This ability is further enhanced by Talisman's participation in the PSC.

Offsetting these advantages is the distance between Kurdistan and WesternZagros' head office, requiring the establishment of branch offices with associated costs. Securing and retaining qualified staff for these operations

given the remote working conditions and potential security concerns may also present a challenge. For the same reasons, equipment and services may not be readily available, thus requiring more advanced planning, and higher costs or commitments not otherwise required elsewhere (see "Risk Factors").

Health, Safety, Environment & Security

Security risks still exist in Iraq outside of Kurdistan although they have greatly improved over the last few years. In WesternZagros' experience, Kurdistan maintains the safest operating environment in Iraq. Within Kurdistan, the limited number of insurgent activities have been directed towards the offices and personnel of the KRG. The beneficial security environment in Kurdistan is a direct result of the influence of the KRG through the Peshmerga and the Asaiysh. Through the deployment of the Peshmerga and the Asaiysh, the KRG has been largely effective in controlling its borders and maintaining security in the Region. Based on the general success achieved by the KRG and on advice from the Corporation's security advisors, WesternZagros assesses the threat level within the PSC Lands as low.

As WesternZagros conducts its operations in Kurdistan, health, safety, environment and security are of utmost importance. WesternZagros has adopted western and international health, safety and environment standards for its Kurdistan operations.

WesternZagros has also established relationships with local health providers in Sulaymaniya and has an agreement with International SOS for emergency medical evacuation. International SOS has also conducted an in-depth assessment of the health facilities. WesternZagros requires all of its major contractors to have their own expatriate insurance, medic with ambulance vehicle and health, safety and environmental professional on site full time.

WesternZagros has operated in Kurdistan with few serious safety or security incidents since 2004. During the course of its operations WesternZagros' operations achieved a combined total of four million person hours with no LTIs in December 2009, and subsequently, on March 2, 2010, the Corporation achieved the milestone of 1,000 days of operations with no LTIs. However, on May 15, 2010, while undertaking well control operations in order to stabilize a zone of high pressure in the Kurdamir-1 well, the drill string parted and part of the drill string became stuck in the blow out preventer at the wellhead. This resulted in a potentially dangerous situation which caused WesternZagros to activate its Emergency Response Plan and begin various additional well control operations. As a precaution, the Corporation moved non-essential personnel and local inhabitants outside of its Emergency Planning Zone. The Corporation safely and successfully secured the well on May 31, 2010 and the local residents who had been evacuated were able to return to their homes in early June. All of these achievements demonstrate the commitment of the Corporation's employees and contractors to the safety and security of the local residents and to its operations.

PSC OVERVIEW AND COMMITMENTS

Under the terms of the PSC, WesternZagros has a 40 percent working interest and the KRG has a 20 percent working interest which is carried by WesternZagros. The remaining 40 percent working interest is held by Talisman, which was allocated the interest in June 2008 by the KRG. WesternZagros is the operator of the PSC Lands until the end of the first exploration sub-period, when a joint operating company may be established if so elected by the Contractor Group. In addition, a management committee was established under the terms of the PSC during 2008 to provide direction on matters related to operations governed by the PSC. This management committee is made up of two members appointed by the KRG and two members appointed by WesternZagros as the operator. The management committee reviews and approves all work programs and budgets, and reviews, provides advice and makes certain recommendations on other operational matters as is required under the PSC. The Chairman of the management committee is a senior representative of the Ministry of Natural Resources of the KRG.

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 is 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 timing 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, which results in an extension 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 an extension of the first exploration sub-period 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" below.

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 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, WesternZagros estimates expenditures of approximately \$20 million to \$25 million, prior to the costs of any further well testing, if required, and assuming that the Corporation will be required to fund 100% of 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 the associated supervision and local office costs in support of drilling operations.

During the second exploration sub-period, the Contractor Group, or those parties that have elected to participate in further exploration, is required to complete a minimum of 575 kilometres of seismic surveying, drill at least two exploration wells and commit a minimum of \$35 million 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 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 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. The following table summarizes the commitments WesternZagros has under these exploration related contracts and other contractual obligations as at December 31, 2010.

(\$ 000's)	For the Year Ending December 31					Total
	2011	2012	2013	2014	2015+	
Exploration	2,335	-	-	-	-	2,335
Office	614	234	-	-	-	848
Total	2,949	234	-	-	-	3,183

Future PSC Operations

In parallel with, and as an alternative to the force majeure claim, WesternZagros remains involved in ongoing negotiations with both Talisman and the KRG regarding the optimal contractual arrangement 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% 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 those remaining PSC Lands. As such, this would require the Corporation to initially, or entirely, fund 100% of the costs associated with the third commitment well.

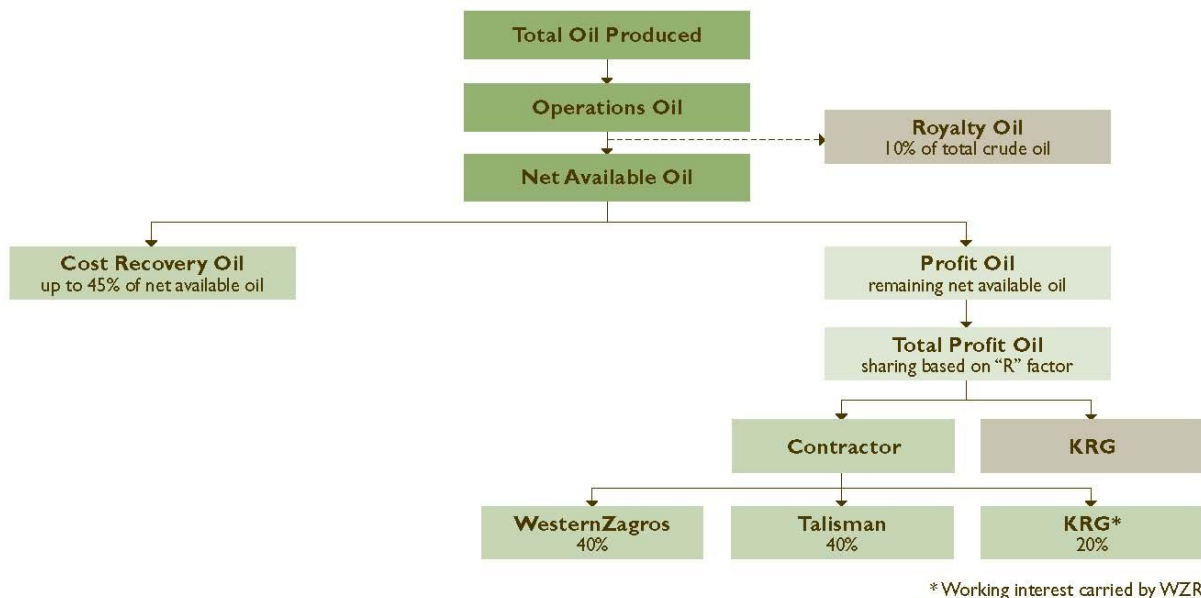
While these negotiations proceed, WesternZagros continues to work toward drilling the third exploration commitment well under the terms of the force majeure provision in the PSC in order to ensure that it meets the current requirements of the PSC in the event that these negotiations are not successfully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

Revenue

Oil Production Sharing Terms

The schematic below illustrates the sharing of oil under the PSC:

OIL REVENUE FLOW



Of the "Total Oil Produced", "Operations Oil" is available to the Contractor Group for operational needs for the work performed under the PSC. The remaining oil is subject to a 10 percent royalty payable to the KRG.

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 allocated to "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 applicable 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 the Contractor Group's cumulative revenues to their cumulative costs. When the ratio is below one, the Contractor Group is entitled to 35 percent of the "Profit Oil". The Contractor Group's percentage is then reduced on a linear sliding scale to a minimum of 16 percent at a ratio of two or greater.

Natural Gas Production Sharing Terms

The production sharing terms for natural gas are the same as the oil production share terms except that the "Net Available Gas" available for cost recovery is 55 percent and the profit sharing component is on a different scale. For natural gas, the portion of "Profit Natural Gas" available for the Contractor Group is based on a sliding scale from 40 percent to 20 percent depending on a calculated R-Factor. The R-Factor is established by reference to the ratio of the Contractor Group's cumulative revenue over cumulative costs. When the R-Factor is below one, the Contractor Group is entitled to 40 percent of the Profit Natural Gas. The Contractor Group's percentage is then reduced on a linear scale to a minimum of 20 percent at a ratio of 2.75 or greater.

Production

The PSC provides the Contractor Group with the exclusive right to develop and produce any commercial discoveries. The development period for producing a commercial discovery is an initial term of 20 years from the date of declaring a commercial discovery with a further automatic right to a five year extension. If commercial production is possible at the end of the last period then the Contractor Group shall be entitled to an extension of a further five years under the same terms as in the PSC if a request is made by the Contractor Group at least six months before the end of the first five year extension.

Pursuant to the PSC, WesternZagros maintains the right to market its share of oil on the world market. There is an obligation under the PSC to make oil production available to meet regional market demand. The price for such oil is a market-based oil price based on a basket of crudes. The price for natural gas is based on local commercial value and Iraq tariffs.

Stability Clause

In order to mitigate the political risk of the general region, stability clauses are included in the PSC. Such clauses guarantee the legal, fiscal and economic framework prevailing at the time the PSC was entered into. If there is any change in the legal, fiscal and/or economic framework under the laws of Kurdistan or other laws applicable in or to Kurdistan which detrimentally affects WesternZagros, necessary measures will be taken and/or the terms and conditions of the PSC will be altered so as to restore WesternZagros to the same overall economic position that it would have been in, had no such change in the legal, fiscal and/or economic framework occurred. Furthermore, to the extent future laws within Kurdistan are implemented and such laws would benefit WesternZagros, it is entitled to obtain such benefits on a prospective basis.

Third Party Obligations and Commitments

In 2003, WesternZagros entered into a consulting service agreement that provides for a three percent right to indirectly participate 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, WesternZagros 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.

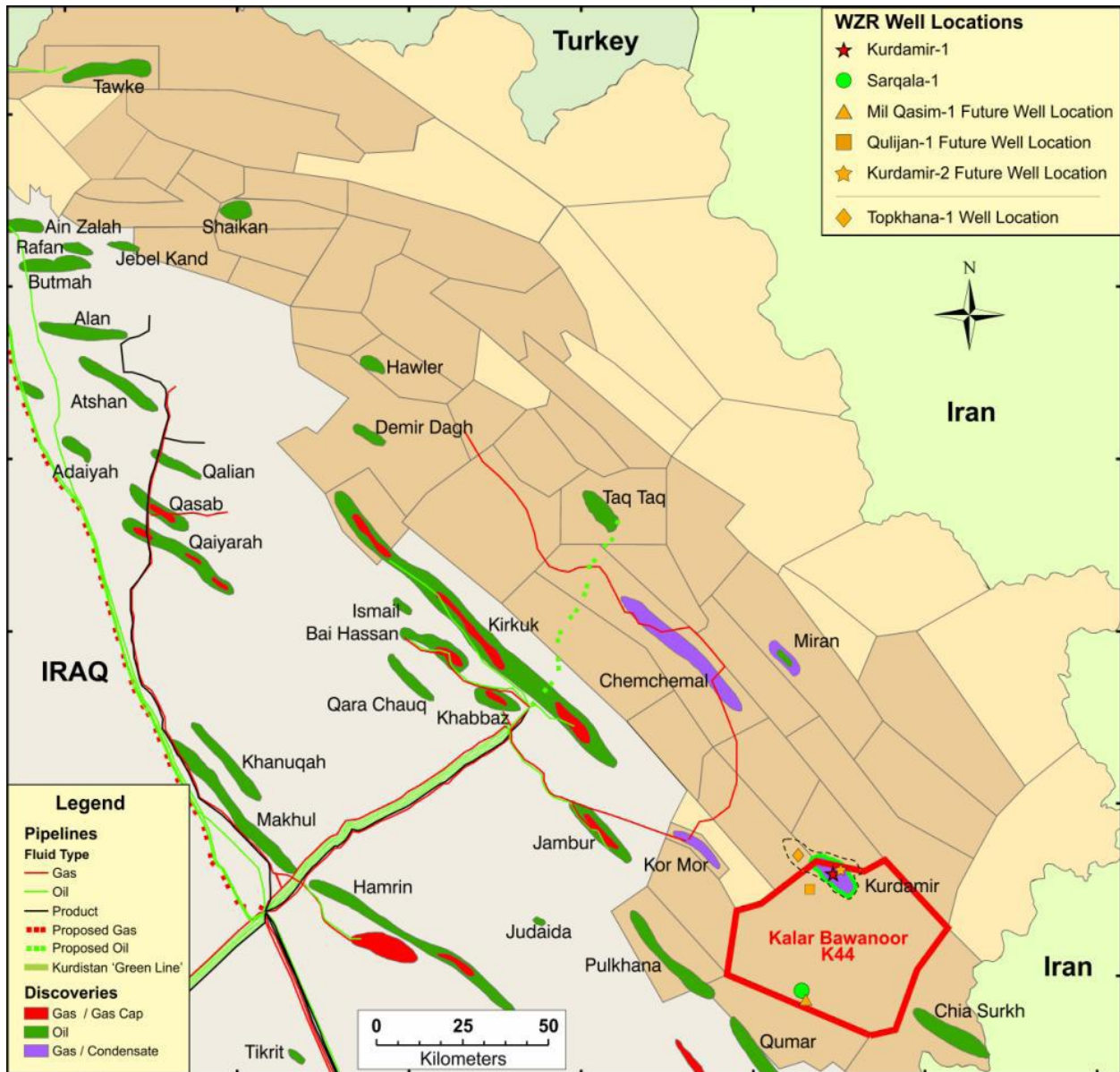
Further, in 2004, WesternZagros entered into a consulting service agreement that provides for a two percent right to indirectly participate in the future profits the Corporation may earn in respect to the PSC, in exchange for the provision of consulting services during the period 2004 to 2006. In the determination of profits under this agreement, WesternZagros 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.

STATEMENT OF OIL AND GAS INFORMATION

WesternZagros has not established any reserves in Iraq. See Schedule A for the Report of Management and Directors on Oil and Gas Disclosure.

Oil and Gas Properties

WesternZagros' main asset is its interest in the PSC. The PSC provides for the exploration of conventional oil and gas on the PSC Lands. The PSC Lands cover 2,120 km² and are on trend with, and adjacent to, a number of historic oil and gas discoveries, most of which were drilled on surface anticlines with hydrocarbon seeps. The prolific Kirkuk - Kor Mor - Chia Surkh structural trend runs through the PSC Lands, and the Jambur - Pulkhana - Qamar trend skirts along the southern margin of the PSC Lands. The locations of these fields and undeveloped discoveries are shown in the figure below. In these trends, all known oil and gas is contained in Tertiary and Cretaceous reservoirs. Stacked reservoirs are common within a single field and single zone discoveries are rare as most have deep reservoir potential. Most reservoirs are highly fractured; fracturing is a key factor to well productivity and it can also significantly enhance flow rates. Carbonate reservoir porosities in the area are variable (one percent to 36 percent) and facies-dependent.



Exploration and Development Activities

Seismic Programs

Under its seismic programs completed in 2007 and 2008, WesternZagros acquired a total of 1,547 kilometres of seismic, giving it 2D seismic coverage of approximately a three by three kilometre grid across its PSC Lands. The seismic acquired exceeds the Corporation's seismic obligation of 1,150 kilometres under the PSC for the first exploration sub-period and the additional 397 kilometres of seismic will be credited towards the 575 kilometre seismic obligation for the second exploration sub-period.

During 2009 and 2010, WesternZagros reprocessed 874 kilometres of the 2D seismic data on the PSC Lands. This reprocessing improved the quality of the original seismic data in order to better define and map prospects and to predict depths and formation pressures in potential drilling locations. The results were used to predict pore pressures in the Kurdamir-1 well, and were incorporated into a revised interpretation used to update the block prospectivity.

Sarqala-1

Drilling operations at the Corporation's first exploration well, Sarqala-1, commenced on May 8, 2008. Sarqala-1 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. Drilling progress was further impacted by encountering thicker halite (salt) deposits in the Lower Fars Formation than originally prognosed, resulting in reservoir target zones being approximately 250 metres deeper than prognosed. However, the thick halite deposits enhance the prospectivity as they increase the probability of the effectiveness of the top seal of the reservoir target intervals.

Sarqala-1 was drilled to a total depth of 4,357 metres in the Jaddala Formation. The well penetrated through the Lower Fars, Jeribe, Euphrates and Oligocene formations and recorded numerous indications of oil and gas in these formations. Analysis of the oil recovered from the drilling mud indicates the oil is light (34°API to 35°API). Subsequent analysis of oil from a minor casing leak indicates the oil is as light as 42°API.

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 were unsuccessful and in March 2009 the well was suspended pending the evaluation of the feasibility and merits of future drilling options on Sarqala-1.

WesternZagros views the numerous indications of oil and gas encountered at Sarqala-1 as positive and in 2010, it completed a promising study of the oil shows in the Miocene Jeribe Formation. See "Resource Information" below. Following the repair of a casing leak by the Contractor Group, on March 29, 2011, WesternZagros began operations to drill a short sidetrack and test this formation. Due to ongoing discussions among the Contractor Group with respect to the PSC, Talisman has elected not to participate in the Sarqala-1 re-entry sidetrack operations. See "PSC Overview and Commitments - Future PSC Operations".

Kurdamir-1

Drilling operations at the Corporation's second exploration well, Kurdamir-1, commenced on May 11, 2009 and the well reached total depth of 4,077 metres in January 2010. Due to the high formation pressures encountered at 4,077 metres, no deeper drilling was possible in the Kurdamir-1 well.

In the fourth quarter of 2009, the Corporation successfully completed logging and coring and conducted two open-hole drill stem tests in the Tertiary interval, which confirmed a significant hydrocarbon accumulation and the presence of a reservoir within the Oligocene formation in this interval (see "Resource Information"). Combined test rates indicate approximately 27.5 MMcf/d of gas and 1,172 bbl/d of 61°API natural gas liquids (condensate). Test rates were limited due to testing equipment restrictions; however, initial well test analysis conducted by an independent third party indicates that reservoir production potential of approximately 52 MMcf/d of gas and 2,240 bbl/d of condensate could be expected from these intervals. No formation water was recovered during the testing. In addition, the Corporation has received an independent geochemical evaluation of the condensate tested from this Oligocene reservoir which indicates that the condensate is from an oil-prone source and is likely to be associated with an oil column deeper in the Kurdamir structure.

Following testing of the Oligocene reservoir, Kurdamir-1 penetrated the Eocene and Cretaceous formations in which numerous oil and gas shows were encountered before the well was drilled into the Gulneri Seal where a high pressure zone was encountered. Well control operations to counter the high formation pressures at the bottom of the hole required cementing the drill string in the hole below 2,702 metres and were completed on March 19, 2010. A subsequent sidetrack that was attempted to drill through the Eocene formation and into the Cretaceous formation encountered a high pressure zone at 3,214 metres and further well control operations were required. These operations were completed on October 14, 2010 and required the well be cemented back to the base of the 9 5/8 inch casing.

Subsequently in November and December of 2010, the Corporation completed two successful cased hole tests through the 9 5/8 inch casing which proved the existence of an oil column in the Oligocene reservoir beneath the gas and condensate column tested in the fourth quarter of 2009. The oil tested from the deeper of the two cased hole tests was from a level that is interpreted to be deeper than the limit of closure of the Kurdamir structure as mapped from seismic data and as such indicates that the Oligocene reservoir has the potential to be involved in a closure significantly larger than previously mapped. Data from additional wells will be required to confirm the size of the oil column encountered in the Oligocene. As a result of information obtained from these cased hole tests in Kurdamir-1, the Corporation has completed both contingent and prospective resource assessments for the Oligocene reservoir, as well as prospective resource assessments for the deeper Eocene and Cretaceous formations. See "Resource Information" below.

Future Exploration Activities

In 2011 and early 2012, WesternZagros plans to focus on a program of drilling and testing to evaluate the formations discovered through the Sarqala-1 and Kurdamir-1 wells. These plans include the Sarqala-1 re-entry and the drilling of the third exploration commitment well and Kurdamir-2.

In March 2011, the Corporation began the first of these operations, re-entering the Sarqala-1 well bore with the intent to drill a 100 metre sidetrack to evaluate and test the Miocene Jeribe Formation which is the primary reservoir target in the Sarqala-1 well. Sidetracking operations have drilled down to 3,873 metres. The Corporation is currently completing the remaining sidetrack drilling before wireline logging and testing.

Following completion of the Sarqala sidetrack, WesternZagros plans to drill the third commitment well at Mil Qasim-1, located only three kilometres from Sarqala-1, in order to target potential oil-bearing sandstones in the Upper Fars reservoir. The Upper Fars reservoir is shallower than the Jeribe Formation and exhibited oil shows when penetrated in Sarqala-1. With a proposed total depth of 2,000 to 2,400 metres, Mil Qasim-1 will be a shallower well with less technical risk than either Sarqala-1 or Kurdamir-2.

Concurrent with the Corporation's drilling operations at Sarqala-1 and Mil Qasim-1, Talisman will be drilling the Topkhana prospect on its Block K39. Although WesternZagros has no working interest in Block 39, results from Topkhana-1 could provide information confirming the potential coalescing of the Kurdamir and Topkhana structures into one larger structure. The Contractor Group plans to drill the Kurdamir-2 well after Topkhana-1, likely with Talisman as operator. WesternZagros and Talisman are currently preparing the drilling plan for Kurdamir-2, including acquiring and preparing the drilling location lands and acquiring the long lead time materials.

Resource Information

In December 2010 and January 2011, WesternZagros engaged Sproule to audit the Corporation's resource assessments with respect to the Kurdamir, Sarqala, Mil Qasim, Baran and Qulijan prospects located in the PSC Lands.

Sproule carried out its independent audits in accordance with the current guidelines outlined in the COGE Handbook and in accordance with NI 51-101. Pursuant to the COGE Handbook, an audit is the process whereby an independent qualified reserves auditor carries out procedures designed to allow the independent qualified reserves auditor to provide reasonable assurance that a reporting issuer's resource data (or specific parts thereof) have, in all material respects, been determined and presented in accordance with the COGE Handbook and are, therefore, free of material misstatement.

Sproule has provided its opinion in the Sproule Reports that, as of the respective dates of such reports, the resource estimates audited by Sproule, as described below, were determined in accordance with industry practice and the guidelines and definitions contained in the COGE Handbook, were free of material misstatement and, in aggregate, were reasonable representations of the quantities of contingent and/or prospective resources, as applicable, contained in the respective prospects and the technical uncertainties currently associated with them.

Estimates of the oil, associated gas, gas condensate and solution gas resources in the formations at Kurdamir, Sarqala, Mil Qasim, Baran and Qulijan are as set forth in the following tables:

Table 1 Gross Unrisked Contingent Resources ^{(1), (2)} Kurdamir-1 Oil, Gas and Condensate (As of December 14, 2010)						
			Low Estimate ⁽⁶⁾	Best Estimate ⁽⁷⁾	High Estimate ⁽⁸⁾	Mean Estimate ⁽⁹⁾
Prospect	Reservoir	Hydrocarbon	P90	P50	P10	Mean
		Type	MMbbl/Bcf	MMbbl/Bcf	MMbbl/Bcf	MMbbl/Bcf
Kurdamir	Tertiary Oligocene	Oil	0.7	6.5	60	30
		Solution Gas	1	10	100	50
		Associated Gas ⁽⁴⁾	505	850	1420	920
		Condensate	22	33	48	35
Table 2 Gross Unrisked Prospective Resources ⁽³⁾ Kalar Bawanoor Block K44 Oil, Gas and Condensate (As of January 14, 2011) ⁽⁵⁾						
			Low Estimate ⁽⁶⁾	Best Estimate ⁽⁷⁾	High Estimate ⁽⁸⁾	Mean Estimate ⁽⁹⁾
		Type	MMbbl/Bcf	MMbbl/Bcf	MMbbl/Bcf	MMbbl/Bcf
Kurdamir	Tertiary Oligocene ⁽⁵⁾	Oil	85	260	560	280
		Solution Gas	125	405	910	475
		MMBOE	106	328	712	359
Kurdamir	Tertiary Eocene	Oil	18	86	273	124
		Solution Gas	24	150	630	265
		Associated Gas	30	60	110	65
		Condensate	1	1	3	2
		MMBOE	28	122	399	181
Kurdamir	Cretaceous	Oil	59	152	340	181
		Solution Gas	80	330	965	455
		Associated Gas	65	135	245	145
		Condensate	1	3	7	4
		MMBOE	84	233	549	285
Kurdamir Sub Total Mean MMBOE - Gross Unrisked Prospective Resources						825
Kurdamir Sub Total Mean Oil Only MMbbl - Gross Unrisked Prospective Resources						585
Mil Qasim	Upper Fars	Oil	7	63	265	106
		Solution Gas	5	45	225	90
		MMBOE	8	71	303	121
Sarqala Re-entry	Jeribe	Oil	9	66	248	101
		Solution Gas	15	120	540	215
		MMBOE	12	86	338	137
Table 2 Total Mean MMBOE - Gross Unrisked Prospective Resources						1083
Table 2 Total Mean Oil Only MMbbl - Gross Unrisked Prospective Resources						792

Table 3 Gross Unrisked Prospective Resources ⁽³⁾ Kalar Bawanoor Block K44 Oil, Gas and Condensate (As of January 31, 2011)						
			Low Estimate ⁽⁶⁾	Best Estimate ⁽⁷⁾	High Estimate ⁽⁸⁾	Mean Estimate ⁽⁹⁾
		Type	MMbbl/Bcf	MMbbl/Bcf	MMbbl/Bcf	MMbbl/Bcf
Sarqala	Oligocene	Oil	18	41	87	48
		Solution Gas	20	75	180	90
		MMBOE	21	54	117	63
Sarqala	Eocene	Oil	4	27	109	44
		Solution Gas	10	80	335	135
		Associated Gas	55	250	720	335
		Condensate	1	6	18	8
		MMBOE	16	88	303	130
Sarqala	Cretaceous	Oil	0.5	4	14	6
		Solution Gas	2	10	45	20
		Associated Gas	15	45	115	55
		Condensate	0.3	1	3	1
		MMBOE	4	14	44	20
Sarqala Sub Total Mean MMBOE – Gross Unrisked Prospective Resources						213
Sarqala Sub Total Mean Oil Only MMbbl – Gross Unrisked Prospective Resources						98
Baran	Oligocene	Oil	8	48	251	105
		Solution Gas	10	80	420	170
		Associated Gas	70	335	1430	620
		Condensate	2	12	59	24
		MMBOE	23	129	618	261
Baran	Eocene	Oil	0.6	4	27	11
		Solution Gas	1	10	65	25
		Associated Gas	10	45	205	85
		Condensate	0.2	1	5	2
		MMBOE	3	14	77	31
Baran Sub Total Mean MMBOE - Gross Unrisked Prospective Resources						292
Baran Sub Total Mean Oil Only MMbbl - Gross Unrisked Prospective Resources						116
Qulijan	Oligocene	Oil	7	45	157	66
		Solution Gas	10	60	210	90
		Associated Gas	60	220	550	270
		Condensate	2	8	23	11
		MMBOE	21	100	307	137
Qulijan	Eocene	Oil	1	9	34	14
		Solution Gas	2	15	65	30

		Associated Gas	10	45	140	65
		Condensate	0.2	1	4	2
		MMBOE	3	20	72	32
Qulijan	Cretaceous	Oil	0.4	3	13	6
		Solution Gas	1	10	40	15
		Associated Gas	5	20	60	30
		Condensate	0.1	1	2	1
		MMBOE	2	9	32	15
Qulijan Sub Total Mean MMBOE - Gross Unrisked Prospective Resources						183
Qulijan Sub Total Mean Oil Only MMbbl - Gross Unrisked Prospective Resources						86
Table 3 Total Mean MMBOE – Gross Unrisked Prospective Resources						688
Table 3 Total Mean Oil Only MMbbl – Gross Unrisked Prospective Resources						300
Table 2 and 3 Total Mean MMBOE – Gross Unrisked Prospective Resources						1,771
Table 2 and 3 Total Mean Oil Only MMbbl – Gross Unrisked Prospective Resources						1,092

Notes to Tables 1, 2, and 3:

- (1) The contingent resources are the gross volumes estimated for the indicated reservoirs, without any adjustments for working interest or encumbrances.
- (2) Contingent resources are 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). These estimates have not been risked for the chance of development. There is no certainty that the contingent resources will be developed and, if they are developed, there is no certainty as to the timing of such development or that it will be commercially viable to produce any portion of the contingent resources. There are several contingencies that prevent the classification of the contingent resources as reserves. WesternZagros has no current plans to develop the gas and/or condensate and/or oil resources at this time. There is limited local infrastructure and markets for natural gas and condensate in the area at this time, and export infrastructure for natural gas to gain access to international markets has not yet been developed. Additional information, likely to be obtained by drilling a well on the flank of the structure, will be required to determine the economic viability of development. WesternZagros will work with the Contractor Group, to evaluate the commercial potential and technical feasibility of developing the gas, condensate and oil discovered at Kurdamir-1. Beyond this contingency, no federal Iraq legislation has been agreed to or enacted 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 the Kurdistan Petroleum Law) could materially adversely impact WesternZagros' interest in Kurdistan and the PSC.
- (3) The prospective resources are the gross volumes estimated for the indicated reservoirs, without any adjustments for working interest or encumbrances. Prospective resources are 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). The chance of commerciality is the product of these two risk components. There is no certainty that any portion of the prospective resources will be discovered. If a discovery is made, there is no certainty that it will be developed or, if it is developed, there is no certainty as to the timing of such development or that it will be commercially viable to produce any portion of the prospective resources. In this case, prospective resources are undiscovered resources that indicate development potential in the event the discovery is commercial and should not be construed as reserves or contingent resources.
- (4) The gross unrisked contingent resources for gas reflect reductions for condensate recovery, surface losses, and fuel gas.
- (5) Except for the prospective resources for the Tertiary Oligocene reservoir at Kurdamir which are as of December 14, 2010.

- (6) Low Estimate is considered to be a conservative estimate of the quantity that will actually be recovered. It is likely that the actual remaining quantities recovered will exceed the low estimate. If probabilistic methods are used, there should be at least a 90 percent probability (P90) that the quantities actually recovered will equal or exceed the low estimate.
- (7) Best Estimate is considered to be the best estimate of the quantity that will actually be recovered. It is equally likely that the actual remaining quantities recovered will be greater of less than the best estimate. If probabilistic methods are used, there should be at least a 50 percent probability (P50) that the quantities actually recovered will equal or exceed the best estimate.
- (8) High Estimate is considered to be an optimistic estimate of the quantity that will actually be recovered. It is unlikely that the actual remaining quantities recovered will exceed the high estimate. If probabilistic methods are used, there should be at least a 10 percent probability (P10) that the quantities actually recovered will equal or exceed the high estimate.
- (9) Mean Estimate is the average from the probabilistic assessment.

The Corporation's material change reports filed on SEDAR at www.sedar.com and dated December 16, 2010, January 17, 2011 and February 22, 2011 contain additional detail on the information used in the resource assessments and include the risks and level of uncertainty associated with the recovery and development of the resources and the significant positive and negative factors relevant to the estimates.

Budgeted Capital Expenditures

WesternZagros currently estimates its 2011 exploration capital and operating budget, including the likely requirement for the Corporation to fully fund the Sarqala-1 re-entry and Mil Qasim-1 and to fund its share of the costs of the Kurdamir-2 well to be incurred in the fourth quarter of 2011, to be approximately \$95 million. This includes approximately \$80 million for drilling and related costs with the remainder of the budget comprised of funds for certain annual PSC payments, initial technical studies as part of the Kurdamir Discovery appraisal program, in-country operational support and corporate general and administration costs.

Completion of negotiations among WesternZagros, Talisman and the KRG may impact future decisions with respect to exploration activities and the Corporation's percentage share of the costs of such activities and, as such, WesternZagros will review and update its budget as these discussions evolve (see "PSC Overview and Commitments - Future PSC Operations"). WesternZagros will also continue to monitor the political developments in Iraq, particularly as they relate to the Draft Federal Petroleum Law and the ability to export oil and natural gas from Kurdistan in accordance with the economic terms under the PSC.

Due to the nature of oil and gas exploration and development, budgets are regularly reviewed in view of the success of the expenditures and other opportunities which may become available to WesternZagros. Accordingly, while WesternZagros anticipates that it will carry out planned operations under the 2011 budget, there may be circumstances where, for sound business reasons, a change in budget may be prudent. Readers should also be aware of the various risks related to the nature of WesternZagros' business and its present stage of development (see "Risk Factors").

Properties with No Attributed Reserves

The following table sets out WesternZagros' undeveloped land position, all of which is related to the PSC and located in Kurdistan:

Gross⁽¹⁾	Net⁽²⁾
524,000 acres	199,120 acres

Notes:

- (1) "Gross" means the total number of acres in which WesternZagros has a working interest.
- (2) "Net" means the number obtained by multiplying the number of gross acres by WesternZagros' 40 percent working interest therein, and then further reduced to net the minority participants interest being five percent of WesternZagros' interest.

WesternZagros does not expect its rights to explore, develop and exploit any of its undeveloped properties to expire within the next year. See "PSC Overview and Commitments" for a description of the Corporation's commitments in respect of the PSC Lands.

Costs Incurred

The following table summarizes the capital expenditures made by WesternZagros related to its operations in Iraq for the year ended December 31, 2010.

<u>Property Acquisition Costs⁽¹⁾</u>	<u>Exploration Costs⁽¹⁾⁽²⁾</u>	<u>Development Costs</u>
\$0.2 million	\$67.0 million	-

Note:

- (1) All costs were incurred in respect of unproved properties.
- (2) Exploration costs are prior to insurance recoveries.

Additional Information Concerning Abandonment and Reclamation Costs

The Corporation estimates the abandonment and reclamation costs of wells, facilities and pipelines based on engineering estimates using current costs and technology and in accordance with industry practice. As of December 31, 2010, the Corporation's only wells were Sarqala-1 and Kurdamir-1 and the Corporation had no other facilities or pipelines that would require abandonment or reclamation. The abandonment and reclamation costs, net of estimated salvage value, to be incurred in relation to Sarqala-1 and Kurdamir-1 is \$1.2 million, representing the Corporation's 60 percent share of these costs (\$0.2 million using a discount rate of 10%). The Corporation does not expect to incur any of these costs over the next three financial years.

Taxes and Exchange Controls

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

There are no existing exchange controls in Iraq which would affect the operations of WesternZagros.

DESCRIPTION OF CAPITAL STRUCTURE

WesternZagros is authorized to issue an unlimited number of Common Shares, Class A Preferred Shares, issuable in series, and Class B Preferred Shares.

Common Shares

Holders of Common Shares are entitled to one vote per Common Share at meetings of holders of Common Shares, to receive dividends if, as and when declared by the Board and to receive pro rata the remaining property and assets of WesternZagros upon its dissolution or winding-up, subject to the rights of shares having priority over the Common Shares.

Class A Preferred Shares

The Class A Preferred Shares will be issuable in series and each series of Class A Preferred Shares will have such rights, restrictions, conditions and limitations as the Board may from time to time determine. Holders of Class A Preferred Shares will be entitled, in priority to holders of Common Shares, to be paid rateably with holders of each other series of Class A Preferred Shares the amount of accumulated dividends, if any, specified to be payable preferentially to the holders of such series and, upon liquidation, dissolution or winding up of WesternZagros, in priority to holders of Common Shares, to be paid rateably with holders of each other series of Class A Preferred Shares the amount, if any, specified as being payable preferentially to holders of such series.

Class B Preferred Shares

The Class B Preferred Shares were created and issued solely for the purpose of facilitating certain required transactions in connection with the Arrangement. Following completion of these transactions, no Class B Preferred

Shares were issued or outstanding and WesternZagros has no intention of issuing any further Class B Preferred Shares in the future.

DIVIDENDS

WesternZagros has not declared or paid any dividends on its securities since its incorporation. Any decision to pay dividends on the Common Shares or any other outstanding class of shares, from time to time, will be made by the Board on the basis of the Corporation's 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.

PRIOR SALES

No unlisted securities of the Corporation were sold during the 2010 year.

MARKET FOR SECURITIES

The Common Shares are listed for trading on the TSXV under the symbol "WZR". The following table sets forth the price ranges and volume trade as reported by the TSXV on a monthly basis for the year ended December 31, 2010.

	High	Low	Volume
January	0.87	0.67	16,636,500
February	0.93	0.58	22,120,900
March	0.87	0.61	15,113,600
April	0.84	0.75	5,294,600
May	0.78	0.23	54,533,600
June	0.62	0.32	27,234,600
July	0.48	0.30	8,625,900
August	0.49	0.37	6,746,500
September	0.41	0.37	4,916,400
October	0.62	0.37	23,182,800
November	0.65	0.40	29,008,900
December	0.64	0.46	18,601,900

DIRECTORS AND EXECUTIVE OFFICERS

Name, Address and Occupation

The following table sets forth the names, province or state and country of residence, present positions with WesternZagros and principal occupations during the past five years of the executive officers and directors of WesternZagros as of the date hereof.

Name and Residence	Office(s) with WesternZagros	Principal Occupations
David J. Boone ⁽¹⁾⁽³⁾⁽⁴⁾ Alberta, Canada	Director	From September 2008 to present, President and Chief Executive Officer of Barrick Energy Inc., a wholly owned oil and gas subsidiary of Barrick Gold Corporation (a public gold and precious metals company). Prior thereto, President of Escavar Energy Inc., a private oil and gas company.
Fred J. Dymont Alberta, Canada	Director and Chairman	Independent businessman.
John Frangos ⁽³⁾⁽⁴⁾ Alberta, Canada	Director	Independent businessman.
M. Simon Hatfield Alberta, Canada	Director and Chief Executive Officer	From April 2009 to present, Chief Executive Officer of WesternZagros. Prior thereto, from October 2007 to April 2009, President of WesternZagros. Prior thereto, Vice President and Managing Director (Oil and Gas Group) of Western, a public oil and gas company.
James C. Houck ⁽¹⁾⁽²⁾⁽³⁾ Alberta, Canada	Director	From January 2009 to present, President and Chief Executive Officer of The Churchill Corporation, a public diversified construction company. Prior thereto, from April 2005 to October 2007, President and Chief Executive Officer of Western, a public oil and gas company.
Randall Oliphant ⁽¹⁾⁽²⁾ Ontario, Canada	Director	From December 2004 to present, President and Chief Executive Officer of Silver Bear Resources Inc., a public mining company. From June 2009 to present, Executive Chairman of New Gold Inc., a public mining company.
William Wallace ⁽²⁾⁽⁴⁾ Colorado, United States	Director	Independent businessman.
Gregory Stevenson Alberta, Canada	Chief Financial Officer	From December 2009 to present, Chief Financial Officer of WesternZagros. Prior thereto, from October 2007 to December 2009, Vice President, Finance of WesternZagros. Prior thereto, Controller of Western, a public oil and gas company.
Ian McIntosh France	Vice President, Kurdistan Business Unit	From December 2009 to present, Vice President Kurdistan Business Unit of WesternZagros. Prior thereto, General Manger, Libya, at Petro-Canada, a public oil and gas company.
George Pinckney	Vice President, Exploration and Reservoir Development	From January 2011 to present, Vice President, Exploration and Reservoir Development of WesternZagros. Prior thereto, from October 2007 to December 2010, Vice President, Exploration. Prior thereto, Exploration Manager (Oil and Gas Group) of Western, a public oil and gas company.

Notes:

- (1) Member of the Audit Committee.
- (2) Member of the Governance Committee.
- (3) Member of the Compensation Committee.
- (4) Member of the Health, Safety, Environment & Security Committee.

Messrs. Boone, Dymont, Frangos, Hatfield, Houck and Oliphant have been directors since 2007. Mr. Wallace has been a director since 2008. Each of the directors has been elected or appointed to serve as such until the next annual meeting of the Shareholders or until his successor is duly elected or appointed, unless his office is earlier vacated in accordance with the articles or by-laws of the Corporation.

As of the date hereof, the directors and executive officers of WesternZagros, as a group, beneficially own, directly or indirectly, or exercise control or direction over 12,976,551 Common Shares or approximately 4% of the issued and outstanding Common Shares. In addition, the directors and executive officers of WesternZagros, as a group, hold Options to purchase 11,468,000 Common Shares.

Cease Trade Orders and Bankruptcies

To the knowledge of management of the Corporation, no director or executive officer of WesternZagros, or, in the case of (b) below, a Shareholder holding a sufficient number of Common Shares to affect materially the control of

WesternZagros is or has been, within 10 years before the date hereof: (a) a director, chief executive officer or chief financial officer of any company (including WesternZagros) that (i) was subject to a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days (an "order") that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or (ii) was subject to an order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer; or (b) a director or executive officer of any company (including WesternZagros) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to its own bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Personal Bankruptcies

To the knowledge of management of the Corporation, no director or executive officer of WesternZagros, or a Shareholder holding a sufficient number of Common Shares to affect materially the control of WesternZagros, has, within 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or Shareholder.

Penalties or Sanctions

To the knowledge of management of the Corporation, no director or executive officer of WesternZagros, or a Shareholder holding a sufficient number of Common Shares to affect materially the control of WesternZagros, has been subject to: (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Conflicts of Interest

There are potential conflicts of interest to which the directors and executive officers of WesternZagros will be subject in connection with the operations of WesternZagros. In particular, certain of the directors and executive officers of WesternZagros are involved in managerial or director positions with other oil and gas companies whose operations may, from time to time, be in direct competition with those of WesternZagros or with entities which may, from time to time, provide financing to, or make equity investments in, competitors of WesternZagros. Conflicts, if any, will be subject to the procedures and remedies available under the ABCA. The ABCA provides that, in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided by the ABCA. As of the date hereof, management of the Corporation is not aware of any existing or potential material conflicts of interest between WesternZagros and any director or executive officer of WesternZagros.

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. Since inception and typical with development stage companies, WesternZagros has incurred losses from operations and negative cash flows from operating activities, and has an accumulated deficit at December 31, 2010. The ability of WesternZagros 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, meeting all commitments under the PSC, resolution of the PSC negotiations referred to under "PSC Overview and Commitments", the resolution of remaining political disputes in Iraq, progress on the Federal Petroleum Law and the associated ability to export oil and natural gas from Kurdistan in accordance with the economic terms under the PSC, the state of the capital markets, the ability of WesternZagros to obtain financing to

develop reserves, and the timely receipt of the remaining anticipated insurance proceeds from the current insurance claim associated with the Kurdamir-1 well control and recovery operations. Management of WesternZagros has identified certain key risks and their potential impact on WesternZagros' operations.

Additional Funding Requirements

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 when required. WesternZagros anticipates making substantial capital expenditures for the acquisition, exploration, appraisal, 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. In addition, any change in the continued participation of Talisman under the PSC could increase the Corporation's capital requirements (see "PSC Overview and Commitments - Future PSC Operations").

WesternZagros' cash balances may not be sufficient to fund its ongoing activities at all times and to 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. While the Corporation has been successful in obtaining its required funding in the past, there is no assurance that debt or equity financing, or future cash generated by operations (if any), would be available or sufficient to meet these requirements or, if debt or equity financing is available, that it will be on terms acceptable to WesternZagros.

Financial market instability in the past few years has impacted WesternZagros' ability, and that of other exploration and development companies, to access equity or debt markets at all or on acceptable terms. Future global economic events and conditions may result in further volatility in the financial markets which, in turn, could negatively impact WesternZagros' ability to access equity or debt markets over time. In addition, the results of the Corporation's exploration activities or any prolonged delay in the resolution of remaining political disputes in Iraq, progress on the Federal Petroleum Law or in the export of oil from Kurdistan in accordance with the economic terms under the PSC could negatively impact the future ability of the Corporation to access equity or debt markets.

The inability of WesternZagros to access sufficient capital for its operations on a timely basis could have a material adverse effect on WesternZagros' financial condition, results of operations and prospects and its ability to continue as a going concern and could cause WesternZagros to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations.

Foreign Activities

All of WesternZagros' assets are located in Kurdistan. 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 (including e.g. the Corporation's force majeure claim under the PSC), 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 Kurdistan, 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.

Continued Participation of the Corporation's Co-Venturers

WesternZagros' ability to execute its exploration and development strategies in the manner in which the Corporation considers optimal may be affected by the continued participation of the Corporation's co-venturers and the conclusion of discussions related to PSC activities, the resulting timing of work commitments therefrom and the Corporation's percentage share of costs relating thereto. Any change in the continued participation of Talisman under the PSC could increase the Corporation's capital requirements, see "PSC Overview and Commitments".

Political Issues

The political and security situation in Iraq (outside Kurdistan) is unsettled and volatile. Kurdistan is the only Region that is constitutionally established pursuant to the Iraq Constitution. 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 Kurdistan and the PSC.

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 legislation could materially adversely impact WesternZagros' interest in Kurdistan and the PSC.

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.

Resources Estimates

Resource estimates contained herein are only estimates and the ultimate resources may prove to be significantly less than the mean estimates. Estimates of resources depend in large part upon the reliability of available geological and engineering data. Geological and engineering data are used to determine the probability that a reservoir of oil and/or natural gas exists at a particular location, and whether, and to the extent to which, such hydrocarbons are recoverable from the reservoir.

Basic reservoir parameters will vary within the reservoir of interest and some of these parameters such as porosity, net hydrocarbon pay thickness and water saturation may affect the volume of hydrocarbon estimated to be present. Additional reservoir parameters such as permeability, the presence or absence of bottom water and the specific mineralogy of the reservoir rock may affect the effectiveness of the recovery process. Recovery of the resources may also be affected by the availability and quality of source water, availability of fuel gas, and well and plant equipment malfunction or failure. There is no certainty that certain mineral interests are not affected by ownership considerations that have not yet come to light.

The Corporation has engaged professional geologists and engineers to evaluate the reservoirs and prepare development and production plans, however implementation risk remains. This risk is related to factors such as the operational capacity and reliability of wells and facilities, the vertical and areal homogeneity of the reservoir, and the effectiveness of the drainage of oil in the reservoir to the production wells where it can be recovered to surface.

Ability to Execute Exploration, Appraisal and Development Program

It may not always be possible for WesternZagros to execute its exploration, appraisal 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, or be impacted by, numerous factors beyond WesternZagros' complete control, including:

- the availability and proximity of pipeline capacity and sales markets;
- 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;
- the hazards related to drilling and associated operations;
- unexpected cost increases;
- the continued participation of its co-venturers in the PSC activities;
- accidental events;
- currency fluctuations;
- the availability and productivity of skilled labour;
- adverse legislation in Kurdistan and/or Iraq; and
- the regulation of the oil and natural gas industry by various levels of government and governmental agencies in Kurdistan 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, developed a conventional oil and gas project.

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.

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 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.

Access to Export Infrastructure

WesternZagros' ability to export production from any potential oil and gas discoveries may depend on 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.

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 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 volatile as West Texas Intermediate ranging from US\$64 to US\$91 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.

Foreign Exchange

WesternZagros operations costs are generally incurred in U.S. dollars, while 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.

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 or determine not to continue to participate in the PSC activities, such events 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 ABCA.

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. 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.

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.

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.

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.

LEGAL AND REGULATORY PROCEEDINGS

WesternZagros is not a party to any legal proceeding nor was it a party to, nor is or was any of its property the subject of any legal proceeding, during the year ended December 31, 2010, nor is management of the Corporation aware of any such contemplated legal proceedings, which involve a claim for damages, exclusive of interest and costs, that may exceed 10 percent of the current assets of WesternZagros.

During the year ended December 31, 2010, there were no: (a) penalties or sanctions imposed against the Corporation by a court relating to securities legislation or by a securities regulatory authority; (b) penalties or sanctions imposed by a court or regulatory body against the Corporation that would likely be considered important to a reasonable investor in making an investment decision; or (c) settlement agreements the Corporation entered into before a court relating to securities legislation or with a securities regulatory authority.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director or executive officer of WesternZagros or any person or company that is the beneficial owner of, or who exercises control or direction of, more than 10 percent the Common Shares or any associate or affiliate of any of the foregoing persons has had any material interest, direct or indirect, in any transaction in the three most recently completed financial years or during the current financial year that has materially affected or will materially affect WesternZagros, except as set forth below.

On March 10, 2011, the Corporation completed a private placement of approximately 89.7 million Common Shares at a price of Cdn\$0.48 per Common Share for proceeds of approximately Cdn\$43 million. Two of the Corporation's major shareholders, Paulson & Co. Inc. ("Paulson") and Soros Fund Management LLC ("Soros"), participated in the private placement for 21,561,000 Common Shares and 20,833,000 Common Shares, respectively. In addition, certain directors and executive officers of the Corporation participated in the private placement for an aggregate of 4,061,494 Common Shares.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of WesternZagros are PricewaterhouseCoopers LLP, Chartered Accountants. Valiant Trust Company, at its principal offices in Calgary, Alberta and in Toronto, Ontario, is the registrar and transfer agent for the Common Shares.

MATERIAL CONTRACTS

Other than contracts entered into in the ordinary course of business, the Corporation has not entered into any material contracts within the most recently completed financial year or before the most recently completed financial year that are still in effect, except for the PSC and the shareholder rights plan agreement entered into between WesternZagros and Valiant Trust Company, as rights agent, on October 18, 2007.

INTERESTS OF EXPERTS

Resource estimates contained in this Annual Information Form have been audited by Sproule. As at the effective dates of the Sproule Reports, respectively, and as of the date hereof, the principals, directors, officers and associates of Sproule, as a group, owned, directly or indirectly, less than one percent of the outstanding Common Shares.

The auditors of the Corporation, PricewaterhouseCoopers LLP, are independent with respect to the Corporation, in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

ADDITIONAL INFORMATION

Additional information, including information as to directors' and executive officers' remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans, if applicable, is contained in the Proxy Statement and Information Circular of the Corporation prepared in connection with the most recent annual meeting of Shareholders that involved the election of directors. Additional financial information is provided in the Corporation's financial statements and management discussion and analysis for the year ended December 31, 2010, which are contained in the Annual Report of the Corporation for the year ended December 31, 2010.

Copies of this Annual Information Form, the Corporation's Annual Report, any interim financial statements of the Corporation subsequent to those statements contained in the Annual Report, the Corporation's Proxy Statement and Information Circular and other additional information relating to the Corporation are available on SEDAR at www.sedar.com.

SCHEDULE A
REPORT OF MANAGEMENT AND DIRECTORS ON OIL AND GAS DISCLOSURE

Terms to which a meaning is ascribed in National Instrument 51-101, Standards of Oil and Gas Disclosure have the same meaning herein.

Management of WesternZagros Resources Ltd. (the "Company") is responsible for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2010, estimated using forecast prices and costs.

The Audit Committee of the Board of Directors of the Company has reviewed the assets, data and position of the Company as of April 11, 2011 and has determined that, as of the last day of the Company's most recently completed financial year, the Company had no reserves.

An independent qualified reserves evaluator has not been retained to evaluate the Company's reserves data as the Company had no reserves as of the last day of the Company's most recently completed financial year and no report of an independent qualified reserves evaluator on reserves data will be disclosed by the Company for the year ended December 31, 2010.

The Audit Committee of the Board of Directors has reviewed the Company's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management of the Company. The board of directors has, on the recommendation of the Audit Committee, approved:

- (a) the content and filing with securities regulatory authorities of the Company's annual information form which contains the information detailing the Company's oil and gas activities as required by Form 51-101F1;
- (b) the Company not filing Form 51-101F2, which is the report of the independent qualified reserves evaluator on reserves data, because the Company has no reserves; and
- (c) the content and filing of this report.

Because reserves data are based on judgments regarding future events, actual results will vary and the variations may be material. Therefore, based on information available at December 31, 2010, the Audit Committee of the Board of Directors of the Company has determined that the Company had no reserves at that time.

(signed) "M. Simon Hatfield"

M. Simon Hatfield
Chief Executive Officer

(signed) "Gregory C. Stevenson"

Gregory C. Stevenson
Chief Financial Officer

(signed) "Randall Oliphant"

Randall Oliphant
Director

(signed) "James C. Houck"

James C. Houck
Director

April 11, 2011

Word Rendering Set Markup Options	
Name	MDStandard
Insertions	
Deletions	
Moves / Moves	
Inserted cells	
Deleted cells	
Merged cells	
Formatting	Color only.
Changed lines	Mark left border.
Comments color	ByAuthor
Balloons	True

compareDocs Settings Used	Category	Option Selected
Open Comparison Report after Saving	General	Always
Report Type	Word	Track Changes
Character Level	Word	False
Include Headers / Footers	Word	False
Include Footnotes / Endnotes	Word	True
Include List Numbers	Word	True
Include Tables	Word	True
Include Field Codes	Word	True
Include Moves	Word	False
Show Track Changes Toolbar	Word	True
Show Reviewing Pane	Word	False
Update Automatic Links at Open	Word	False
Summary Report	Word	End
Include Change Detail Report	Word	Separate
Document View	Word	Print
Remove Personal Information	Word	False

