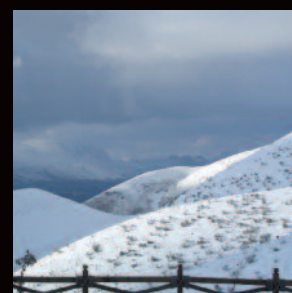


Management's Discussion and Analysis



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

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

FORWARD-LOOKING INFORMATION

This discussion offers management's analysis of the financial and operating results of WesternZagros and contains certain forward-looking statements relating, but not limited, to operational information, future drilling plans and the timing associated therewith, estimated PSC commitments, anticipated capital and operating budgets and estimated costs. Forward-looking information typically contains statements with words such as "anticipate", "estimate", "expect", "potential", "could", or similar words suggesting future outcomes. The Company cautions readers and prospective investors in the Company's securities to not place undue reliance on forward-looking information as by its nature, it is based on current expectations regarding future events that involve a number of assumptions, inherent risks and uncertainties, which could cause actual results to differ materially from those anticipated by WesternZagros.

Forward looking information is based on management's current expectations and assumptions regarding, among other things, plans for and results of drilling activity, future capital and other expenditures (including the amount, nature and sources of funding thereof), future economic conditions, future currency and exchange rates, continued political stability and the Company's continued ability to obtain qualified staff and equipment in a timely and cost efficient manner. In addition, budgets are based upon WesternZagros' current exploration plans and anticipated costs both of which are subject to change based on, among other things, the actual results of drilling activity, unexpected delays and changes in market conditions. Although the Company believes the expectations and assumptions reflected in such forward-looking information are reasonable, they may prove to be incorrect. Forward-looking information involves significant known and unknown risks and uncertainties. A number of factors could cause actual results to differ materially from those anticipated by WesternZagros including, but not limited to, risks associated with the oil and

gas industry (e.g. operational risks in exploration; inherent uncertainties in interpreting geological data; changes in plans with respect to exploration or capital expenditures; the uncertainty of estimates and projections in relation to costs and expenses and health, safety and environmental risks), the risk of commodity price and foreign exchange rate fluctuations, the uncertainty associated with negotiating with foreign governments and risk associated with international activity.

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

OVERVIEW

WesternZagros is a publicly-traded, Calgary-based, international oil and gas company engaged in acquiring properties and exploring for, developing and producing crude oil and natural gas in Iraq. WesternZagros holds a Production Sharing Contract ("PSC") with the Kurdistan Regional Government ("KRG") which covers 2,120 square kilometres in the Kurdistan Region of Iraq and it is on trend with, and adjacent to, a number of prolific historic oil and gas discoveries. WesternZagros (operator) holds a 40 percent working interest, the KRG holds a 20 percent working interest (carried by WesternZagros) and a wholly-owned subsidiary of Talisman Energy Inc. ("Talisman") holds the remaining 40 percent working interest.

STRATEGY

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

PLAN OF ARRANGEMENT

WesternZagros was incorporated on August 22, 2007 under the laws of the Province of Alberta. On October 18, 2007, WesternZagros, Western Oil Sands Inc. (now Marathon Oil Canada Corporation) ("Western"), Marathon Oil Corporation, 1339971 Alberta Ltd. and WesternZagros Resources Inc. ("WZRI") completed a Plan of Arrangement (the "Arrangement"). Pursuant to the Arrangement, each Western shareholder received one share and one-tenth of a warrant of WesternZagros for each Western share held, resulting in the issuance of 165,057,183 common shares and 16,505,729 warrants. Each whole warrant entitled the holder to purchase one WesternZagros share at a unit price of Cdn\$2.50 until January 18, 2008.

Upon closing of the Arrangement, WesternZagros indirectly received approximately Cdn\$82.5 million cash from Western as part of the transaction. In addition, following the transaction, WesternZagros completed a private placement at a price of Cdn\$2.50 per share for proceeds of Cdn\$12.5 million.

WesternZagros began trading on the TSX Venture Exchange in Canada on October 22, 2007 under the symbol WZR. Of the 16,505,729 warrants issued pursuant to the Arrangement, 4,073,803 were exercised prior to expiry for total proceeds to WesternZagros of approximately Cdn\$10.2 million.

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

The consolidated financial statements of WesternZagros, and the disclosures found throughout the MD&A, reflect the assets and liabilities of WZRI at their book value as reported in the consolidated financial statements of WZRI. The continuity of business accounting requires that the results of operations presented in the consolidated financial statements of WesternZagros include the operations of WZRI for the entire fiscal period in which the Arrangement took place. In addition, the comparative consolidated financial statements of WesternZagros were restated to reflect the financial position and results of operation as if WesternZagros and WZRI had been combined since their inception. As a result, references to WesternZagros in the MD&A incorporate the activities of WZRI and its subsidiaries from their inception; however, certain direct year-over-year comparisons are impacted as results for the year ended December 31, 2007 only reflect revenue and expenses incurred between October 18, 2007 and December 31, 2007. This includes revenue, which was earned on the cash balances received subsequent to the date of the Arrangement, as well as general and administrative expenses and depreciation incurred on employees and related costs and assets, hired or purchased, subsequent to the Arrangement.

HIGHLIGHTS

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

Operations

→ WesternZagros completed its seismic program in July 2008 and acquired a total of 1,547 kilometres of data under its Phase I and II programs exceeding its seismic commitment of 1,150 kilometres under its PSC.

→ WesternZagros commenced drilling its initial wildcat exploration well, Sarqala-I in May 2008 and has drilled to a depth of 4,357 metres and has penetrated the Lower Fars, Jeribe and Euphrates Formations. Numerous indications of oil and gas were encountered in these formations. Analysis of the oil shows indicate the oil is light (34 to 35 degrees API) and sweet (less than one percent sulphur).

- While drilling delays and unexpected events with wildcat wells are not unusual, especially in remote frontier areas, Sarqala-I has experienced a number of operational delays related to overpressured zones which required the use of anomalously high drilling mud densities (up to 2,380 kilograms per cubic metre or 19.9 pounds per gallon). Some of the zones were pressurized to near formation fracture pressures resulting in time consuming well control operations. Additional delays also occurred related to lost circulation zones that were controlled with the addition of specialized mud products. Drilling progress was further impacted by encountering a thicker Lower Fars Formation than originally prognosed. This resulted in the reservoir target zones being approximately 250 metres deeper than prognosed.

- While conducting wireline logging operations across the intervals with recorded shows, the equipment encountered a wellbore obstruction which prevented logging. WesternZagros successfully drilled through the obstruction, but subsequently the drilling assembly became stuck in the hole. During recovery operations the drill string parted. Recovery operations have been

unsuccessful and the well will be suspended pending the evaluation of the feasibility and merits of future drilling options on Sarqala. In the meantime the drilling rig will be moved to Kurdamir-I.

- Despite the disappointment that Sarqala-I did not penetrate all the reservoir targets, nor obtain wireline logs across the Jeribe and Euphrates reservoir targets, WesternZagros views the numerous indications of oil and gas encountered in Sarqala-I as positive and consider that they enhance the prospectivity of Block 44 as they reduce the risk that any undiscovered resources may be gas instead of oil. In addition, the thick halite (salt) deposits in the Lower Far Formation also enhances the prospectivity of the block as they reduce the risk associated with top seal of the reservoir target intervals.

→ WesternZagros completed engineering and related work on its second drilling location, Kurdamir-I, and plans to spud the well in May 2009.

→ May 2008 marked a full year of in-country operations with no Lost Time Incidents (LTI) and a combined total exposure of 1.8 million person hours. At the end of February 2009, WesternZagros operations achieved a combined total exposure of 3 million person hours with no LTIs. This is a very significant achievement and demonstrates the commitment of the Company's employees and contractors to the safety and security of its operations.

Financial

→ In March 2008, WesternZagros completed a private placement for total net proceeds of Cdn\$70.8 million, consisting of 33.3 million shares at a price of Cdn\$2.25 per share.

→ In June 2008, the KRG nominated Talisman as the Third Party Participant in the Kalar-Bawanoor Block, holding a 40 percent working interest. With Talisman's election, and for costs incurred by WesternZagros, Talisman paid WesternZagros \$50.7 million under the terms of the PSC. In addition, Talisman funds its 40 percent share of costs going forward.

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

Corporate

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

FINANCIAL PERFORMANCE

Selected Annual Information

(US\$ thousands, unless otherwise specified)

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

WesternZagros is currently exploring for crude oil and natural gas in the Kurdistan Region of Iraq and has no reserves or production. The Company's revenue is comprised entirely of interest earned on cash and cash equivalent balances and short term investments. Capital expenditures and certain general and administrative costs represent WesternZagros' share of costs associated with PSC activities for the respective periods. Prior to June 30, 2008, when the KRG allocated the 40 percent third party working interest to Talisman, WesternZagros funded 100 percent of the PSC expenditures. Subsequent to June 30, 2008, WesternZagros funds 60 percent of the PSC expenditures, representing WesternZagros' 40 percent working interest and its obligation to carry the KRG's 20 percent working interest.

Charges Under Service Agreement

For the year ended December 31, 2008, WesternZagros did not incur any charges under a service agreement compared to \$9.1 million for the year ended December 31, 2007. These charges related to operational, technical and other support expenditures incurred pursuant to a services agreement WZRI had with Western. Under the agreement, Western had paid for various PSC negotiation costs, capital, operational, technical, legal, general and administrative expenditures on behalf of WZRI. These transactions were measured at the exchange amount, which is the amount of consideration established and agreed by the related parties. These transactions were undertaken with the same terms and conditions as transactions with non-related parties. This services agreement was terminated upon the completion of the Arrangement on October 18, 2007.

General and Administrative Expenses

For the year ended December 31, 2008, WesternZagros incurred \$7.3 million in general and administrative expenses ("G&A") compared to \$1.6 million in 2007. G&A for 2007 represented the salaries and related expenditures the Company incurred subsequent to the completion of the Arrangement on October 18, 2007 as prior to this G&A expenses were included under the services agreement

provided by Western. The year-over-year increase is the result of a full 12 months of G&A expenses and the increased level of activity, associated staff and consulting costs as WesternZagros expanded its operational capability, including the drilling of its first exploration well. For the year ended December 31, 2008, WesternZagros capitalized \$2.1 million of G&A, as these costs were directly related to the supervision of the Company's drilling and geological capital programs, and included \$0.7 million of stock-based compensation.

Depreciation, Depletion and Amortization (DD&A)

For the year ended December 31, 2008, DD&A totaled \$0.2 million compared to \$0.04 million for the year ended December 31, 2007. The increase in DD&A is the result of a full 12 months of DD&A on administrative assets in 2008, compared to DD&A incurred subsequent to the completion of the Arrangement when WesternZagros acquired these administrative assets. No depletion was recorded relating to the Company's exploration activities and assets as WesternZagros has yet to determine whether proved reserves are attributable to its PSC lands.

Foreign Exchange

WesternZagros adopted the U.S. dollar as its measurement and reporting currency since the majority of its expenses are or will be directly or indirectly denominated in U.S. dollars and to facilitate a more direct comparison to other international crude oil and natural gas exploration and development companies. WesternZagros holds over 95 percent of its cash and cash equivalents and short-term investments in U.S. dollar accounts and U.S. dollar priced Government of Canada bonds; however, the Company has certain assets and liabilities in currencies other than the U.S. dollar, mainly Canadian dollars, and converts these to U.S. dollars at the end of each period resulting in foreign exchange gains and losses. The Canadian dollar balances are held for the purpose of funding WesternZagros' Canadian dollar expenditures, which are mainly related to the costs associated with general and administrative costs for its head office and certain drilling related services and tangibles procured from Canadian suppliers.

For the year ended December 31, 2008, WesternZagros incurred \$1.4 million of foreign exchange losses compared to \$0.5 million for the year ended December 31, 2007 relating to these conversions.

Income Taxes

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

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

Revenue

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

Net Loss

For the year ended December 31, 2008, WesternZagros incurred a net loss of \$10.1 million compared to a net loss of \$10.4 million for the year ended December 31, 2007. The decrease in the net loss was the result of increased revenue on the cash and cash equivalent and short-term investment balances for the full 12 months in 2008, the increased level of capitalized G&A resulting from the commencement of drilling operations and the reduced funding of certain G&A amounts due to the allocation by the KRG of the third party interest to Talisman. This was mainly offset by the increase in income tax expense and an increase in the foreign exchange loss reported. WesternZagros is currently a development stage enterprise and, apart from the Company's working interest in its PSC, WesternZagros has no other assets or ongoing operations.

Capital Expenditures

For the year ended December 31, 2008, the total capital expenditures on WesternZagros' block were \$75.3 million, including \$49.4 million of drilling related costs, \$16.7 million of Phase II seismic costs and \$9.2 million of supervision and local office costs in support of drilling operations and Phase II seismic operations. Included in the drilling costs are \$37.3 million for operations at Sarqala-1, \$5.4 million for long-lead items and pre-spud costs for Kurdamir-1, and \$6.7 million for tangible items for subsequent wells and consumables for testing operations. For the year ended December 31, 2007, the total capital expenditures on WesternZagros' PSC block were \$26.5 million, including \$21.8 million associated with Phase I seismic, \$0.9 million related to the procurement of long lead items associated with Sarqala-1 and \$3.8 million of supervision and local office costs in support of both the Phase I seismic operations and certain pre-spud logistical expenditures.

For the year ended December 31, 2008, WesternZagros' share of capital expenditures associated with its PSC activities and other PSC costs were \$95.1 million compared to \$34.6 million, for the year ended December 31, 2007. Higher capital expenditures for the year ended December 31, 2008 were the result of the increased operational activity associated with

drilling operations, partially offset by the reduced funding requirements subsequent to the allocation of the third party interest by the KRG in June 2008. WesternZagros' share of capital expenditures were 100 percent of costs to June 30, 2008, prior to the allocation of the 40 percent third party working interest to Talisman by the KRG, and 60 percent of the costs subsequent to June 30, 2008, representing WesternZagros' 40 percent working interest and its obligation to fund the KRG's 20 percent working interest. Upon the

allocation of the 40 percent working interest to Talisman, Talisman paid \$50.7 million to WesternZagros, representing 50 percent of the estimated recoverable costs under the PSC at June 30, 2008 as per the terms of the PSC.

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

QUARTERLY INFORMATION

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

Selected Quarterly Information

(US\$thousands, unless otherwise specified)

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

2007	For the three months ended				Year ended
	March 31	June 30	Sept. 30	Dec. 31	Dec. 31
Revenue	–	–	–	817	817
Net Loss	2,246	3,677	3,667	836	10,426
Net Loss Per Share (US\$ Per Share)					
(Basic and Fully Diluted)	0.01	0.02	0.02	0.01	0.06
Capital Expenditures	5,765	6,870	11,428	10,493	34,556
Total Assets	27,236	36,104	45,943	160,777	160,777
Total Long-term Liabilities	27,994	39,084	52,297	–	–
Dividend (US\$ Per Share)	Nil	Nil	Nil	Nil	Nil

Fourth Quarter

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

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

Production Sharing Contract – Summary

Under the terms of its PSC, WesternZagros has a 40 percent working interest and the KRG has a 20 percent interest in the PSC which is carried by WesternZagros. The remaining 40 percent was allocated to Talisman in June 2008 by the KRG. WesternZagros, the KRG and Talisman are collectively the "Contractor Group" under the PSC. WesternZagros is the operator of the PSC lands until the end of the first operating sub-period of the PSC ending December 31, 2010, when a Joint Operating Committee may be established if so elected by the Contractor Group.

Production Sharing Contract – Commercial Terms

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

Contract Obligations and Commitments

The PSC contemplates two exploration sub-periods of three years and two years, respectively, with two possible one-year extensions. The first exploration sub-period ends December 31, 2010. During such time, the Contractor Group (WesternZagros, the KRG and Talisman) is required to complete a minimum of 1,150 kilometres of seismic surveying (which has been completed), drill three exploration wells and commit a minimum of US\$75 million in the aggregate on these activities. At the end of the first exploration sub-period, WesternZagros and the other parties to the PSC may relinquish the entire contract area (other than any discovery or development areas), or continue further exploration operations during the second exploration sub-period which ends December 31, 2012.

The PSC also includes capacity building support payments, payable by WesternZagros over a 15 month period, and funding for certain technological, logistical, recruitment and training during the first exploration sub-period, and any subsequent sub-periods. WesternZagros estimates its remaining commitments under the PSC as at December 31, 2008 to be approximately \$60 million to \$70 million which represents the Company's 60 percent funding requirement. This commitment includes the remaining costs associated with drilling all three exploration commitment wells by December 31, 2010 (the end of the first exploration sub-period), the associated supervision and local office costs in support of drilling operations and the remaining PSC payments, including the remainder of the capacity building payments. The remaining costs associated with drilling the three exploration wells to total depth are estimated to be in the range of approximately \$30 million to \$40 million (representing WesternZagros' 60 percent funding requirement), which includes the costs for Sarqala-I, Kurdamir-I and the third exploration well, prior to the costs of any testing required. WesternZagros estimates its share of costs to test these wells, if required, could range between \$3 million to \$6 million per well, depending on the number of potential zones that are required to be tested.

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

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

	For the years ending December 31					Total
	2009	2010	2011	2012	2013+	
Exploration	3,163	—	—	—	—	3,163
Office	375	94	—	—	—	469
Total	3,538	94	—	—	—	3,632

Third Party Obligations and Commitments

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

LIQUIDITY AND CAPITAL RESOURCES

WesternZagros is currently exploring for crude oil and natural gas in the Kurdistan Region of Iraq and currently has no reserves, production or operational cash flows. WesternZagros' revenue is comprised entirely of interest earned on cash and cash equivalent balances and short-term investments. WesternZagros invests its cash and cash equivalents and short-term investments with major Canadian financial institutions with investment grade credit ratings and in Government of Canada instruments. This is in accordance with a Board of Directors approved Investment Policy with respect to investing funds. WesternZagros has no outstanding bank debt or other interest bearing indebtedness as at December 31, 2008.

During 2008, WesternZagros had the following sources of financing:

- In the first quarter of 2008, 2,426,939 warrants were exercised for proceeds of Cdn\$6.1 million. These warrants were exercisable until January 18, 2008 and represented the warrants issued under the Plan of Arrangement. This exercise brought total proceeds raised through the exercise of the warrants to Cdn\$10.2 million.
- On March 7, 2008, WesternZagros completed a private placement for 33,333,334 common shares for additional net proceeds of Cdn\$70.8 million (gross Cdn\$75 million) at a price of Cdn\$2.25 per share.
- In June 2008, when the KRG allocated the 40 percent third party interest to Talisman, WesternZagros received \$50.7 million under the terms of the PSC, representing 50 percent of the costs incurred by WesternZagros to June 30, 2008.

At December 31, 2008, WesternZagros had approximately \$130 million in cash and cash equivalents and short-term investments. These balances will be used to fund future capital expenditures including: the minimum work commitments with respect to the first exploration sub-period under the PSC; the requirement for WesternZagros to fund the KRG's 20 percent carried interest; certain remaining payments required under the amended PSC, including the capacity building payments; G&A expenditures; and working capital requirements.

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

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

Outlook 2009

WesternZagros has updated its capital and operating budget for 2009 to approximately \$34 million from \$30 million. This increase reflects the operational delays and associated costs

related to overpressured zones encountered at Sarqala-I and the additional costs for the intermediate casing strings planned for Kurdamir-I to mitigate the risk of similar overpressure and lost circulation issues as encountered at Sarqala-I. This increase has been partially offset by decreases related to delayed spending on certain long-lead items for subsequent wells and a reduction in associated supervision and local office costs in support of drilling operations resulting from the strengthening of the US dollar relative to the Canadian dollar.

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

Outstanding Share Data

As at March 6, 2009, WesternZagros had 207,464,320 shares issued and outstanding. The number of common shares reserved for issuance pursuant to options granted will not exceed 10 percent of the issued and outstanding common shares. WesternZagros has a total of 12,095,700 stock options outstanding which represents 5.8 percent of the total shares outstanding.

RISK FACTORS

The oil and gas industry is very competitive and is subject to many risks. Many of these risks are outside of WesternZagros'

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

Foreign Activities

All of WesternZagros' assets are located in the Kurdistan Region of Iraq. As such, WesternZagros is subject to political, economic, and other uncertainties, including, but not limited to, the uncertainty of negotiating with foreign governments, expropriation of property without fair compensation, adverse determinations or rulings by governmental authorities, changes in energy policies or in the personnel administering them, nationalization, currency fluctuations and devaluations, disputes between various levels of authorities, arbitrating and enforcing claims against entities that may claim sovereignty, authorities claiming jurisdiction, potential implementation of exchange controls and royalty and government take increases and other risks arising out of foreign governmental sovereignty over the areas in which WesternZagros' operations are conducted, as well as risks of loss due to civil strife, acts of war, guerrilla activities and insurrections.

WesternZagros' operations may be adversely affected by changes in government policies and legislation or social instability and other factors which are not within the control of WesternZagros including, among other things, adverse legislation in Iraq and/or the Kurdistan Region, a change in crude oil or natural gas pricing policy, the risks of war, terrorism, abduction, expropriation, nationalization, renegotiation or nullification of existing concessions and contracts, taxation policies, economic sanctions, the imposition of specific drilling obligations and the development and abandonment of fields.

Political Issues

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

Legislative Issues

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

Exploration, Development and Production Risks

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

participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that commercial quantities of oil and natural gas will be discovered or acquired by WesternZagros.

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

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

operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks could have a material adverse effect on WesternZagros.

Ability to Execute Exploration and Development Program

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

Project Risks

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

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

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

Operational Experience

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

Competition

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

Availability of Drilling Equipment and Access

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

Management of Growth

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

Reliance on Key Personnel

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

Substantial Capital Requirements

WesternZagros anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. These expenditures also include WesternZagros' requirement to carry the KRG's 20 percent interest under the PSC. WesternZagros' results will impact its access to the capital necessary to undertake or complete future drilling and development programs. WesternZagros' ability to access the equity or debt markets in the future may be affected by any prolonged market instability. There can be no assurance that debt or equity financing, or future cash (if any) generated by operations, would be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to WesternZagros. The inability of WesternZagros to access sufficient capital for its operations could have a material adverse effect on WesternZagros' financial condition, results of operations and prospects.

Additional Funding Requirements

WesternZagros' cash balances may not be sufficient to fund its ongoing activities at all times and carry the KRG's 20 percent interest. From time to time, WesternZagros may require

additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause WesternZagros to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. WesternZagros' ability to access the equity or debt markets in the future may be affected by any prolonged market instability.

Dilution

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

Issuance of Debt

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

Prices, Markets and Marketing

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

export of oil and natural gas and other aspects of the oil and natural gas business.

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

Hedging

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

Foreign Exchange

WesternZagros operations costs are generally incurred in U.S. dollars and the funds it will have available to it may be in other currencies. There is a possibility that operations and development costs may increase as a result of currency fluctuation.

Insurance and Liability

WesternZagros' involvement in the exploration for and development of oil and natural gas properties may result in WesternZagros becoming subject to liability for pollution, blow outs, property damage, personal injury or other hazards. Although WesternZagros maintains insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability and may not be sufficient

to cover the full extent of such liabilities. In addition, such risks are not, in all circumstances, insurable or, in certain circumstances, WesternZagros may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of any uninsured liabilities would reduce the funds available to WesternZagros. The occurrence of a significant event that WesternZagros is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on WesternZagros.

Dividends

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

Third Party Credit Risk

WesternZagros is or may be exposed to third party credit risk through its contractual arrangements with any potential joint venture partners, marketers of its petroleum and natural gas production, suppliers, contractors, and other parties. In the event such entities fail to meet their contractual obligations to WesternZagros, such failures could have a material adverse effect on WesternZagros and its cash flow from operations. In addition, poor credit conditions in the industry may impact a joint venture partner's willingness to participate in a future WesternZagros' capital program.

Conflicts of Interest

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

CRITICAL ACCOUNTING ESTIMATES

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

Use of Estimates

The preparation of the consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Such estimates related to unsettled transactions and events as of the date of the consolidated financial statements. Accordingly, actual results may differ from these estimated amounts as future confirming events occur. Significant estimates used in the preparation of the consolidated financial statements include, but are not limited to, recovery of exploration costs capitalized in accordance with full cost accounting, asset retirement obligations and income taxes.

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

WesternZagros capitalizes costs related to crude oil and natural gas properties in accordance with the full cost method, whereby all costs associated with the acquisition of, exploration for and the development of crude oil and natural gas, including asset retirement obligations are capitalized and accumulated within cost centres on a country-by-country basis. Such costs include land acquisition, geological and geophysical activity,

drilling and testing of productive and non-productive wells, carrying costs directly related to unproved properties, major development projects and administrative costs directly related to exploration and development activities.

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

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

Asset Retirement Obligation

WesternZagros recognizes an asset and a liability for asset retirement obligations in the period in which they are incurred by estimating the fair value of the obligation. The Company determines the fair value by first estimating the expected timing and amount of cash flow, using third-party costs that will be required for future dismantlement and site restoration, and then calculating the present value of these future expenditures using a credit adjusted risk free rate appropriate for WesternZagros. Any change in timing or amount of the cash flow subsequent to initial recognition results in a change in the asset and liability, which then impacts the depletion on the asset and the accretion charged on the liability. Estimating the timing and amount of third-party cash flow to settle this obligation is inherently difficult and is based on Management's current experience.

Income Tax

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

CHANGES IN ACCOUNTING POLICY

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

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

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

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

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

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

International Financial Reporting Standards ("IFRS")

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