

WesternZagros Resources Ltd.

Second Quarter Interim Report
for the period ended June 30, 2009

Q2 2009

MESSAGE TO SHAREHOLDERS

WesternZagros Resources Ltd. ("WesternZagros" or the "Company") is pleased to report its results for the three and six month period ended June 30, 2009. Key highlights and activities to date include:

- WesternZagros spudded its second well, Kurdamir-I, in the Kurdistan Region of Iraq on May 11, 2009. Drilling progress has been close to the original schedule and the well is currently drilling below 2,100 metres in the Lower Fars Formation. Total depth for Kurdamir-I is planned to be approximately 4,000 metres which is expected to be reached in November 2009. Testing, if required, would occur subsequent to that date.
- As at June 30, 2009, WesternZagros had \$97.3 million in cash and cash equivalents.
- For the three month period ended June 30, 2009, WesternZagros incurred capital expenditures of \$14.8 million related to its 60 percent funding requirement for its Production Sharing Contract ("PSC") activities and certain payments required under the PSC. As of April 2009, WesternZagros completed all its Capacity Building Support payments required under its PSC.
- WesternZagros had a net loss of \$1.4 million for the quarter, mainly comprised of the general and administrative expenses incurred by the Company which was partially offset by the recovery of income tax originally paid by WesternZagros in 2008.
- At June 2009, WesternZagros' operations achieved a combined total of 3.4 million person hours with no Lost Time Incidents.
- During the second quarter of 2009, WesternZagros and its co-venturers continued to focus on three key corporate social responsibility initiatives in the Garmian region of Kurdistan – water supply and management, education and health care.

REGIONAL ACTIVITY

- June 1, 2009 marked the commencement of crude oil exports from the Kurdistan Region of Iraq, representing a landmark accomplishment for the Region. Production from the Region is currently averaging between 70,000 and 80,000 barrels per day and is expected to grow to 100,000 barrels per day. The payment mechanism for the exported crude is still unknown.
- On July 25, 2009, the Kurdistan Region of Iraq successfully held parliamentary and presidential elections. The vote underscored the democratic character of the Region and reinforced the process of peaceful elections through political competition.

In addition, on August 7, 2009, WesternZagros' Board of Directors approved a secured loan in the principal amount of Cdn\$200,000 to the Company's Senior Vice President, Engineering & Operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Period Ended June 30, 2009 *(Amounts in United States Dollars unless otherwise indicated)*

The following management's discussion and analysis ("MD&A") reviews WesternZagros Resources Ltd.'s ("WesternZagros" or the "Company") financial condition, activities and results of operations for the period ended June 30, 2009. It should be read in conjunction with the unaudited financial statements for the period ended June 30, 2009, the audited financial statements for the year ended December 31, 2008 and the related notes prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The effective date of this MD&A is August 7, 2009. All references herein to \$ are in United States 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, anticipated working capital 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. The forward-looking information included in this quarterly report is expressly qualified in its entirety by this cautionary statement. The forward-looking information included in this quarterly report is made as of August 7, 2009 and WesternZagros assumes no obligation to update or revise any forward-looking information to reflect new events or circumstances, except as required by law.

See "Risk Factors" below. Additional information relating to WesternZagros is also available on SEDAR at www.sedar.com.

OVERVIEW

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

OPERATIONS

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

WesternZagros spudded its second well, Kurdamir-1, in the Kurdistan Region of Iraq on May 11, 2009. Kurdamir-1 is located on an anticlinal structure approximately 30 kilometres northeast of Sarqala-1, the first well drilled on the Company's PSC lands. Kurdamir-1 is targeting four potential reservoir zones – the Oligocene and Pilaspi/Jaddala intervals in the Tertiary, and the Shiranish and Upper Qamchuqa intervals in the Cretaceous. Total depth for Kurdamir-1 is planned to be approximately 4,000 metres which is expected to be reached in November 2009. Testing, if required, would occur subsequent to that date.

Drilling progress has been close to the original schedule and the well is drilling currently below 2,100 metres in the Lower Fars Formation. Drilling was successfully completed through the halite (salt) deposits in the Lower Fars Formation which, as expected, were not as thick as the salt deposits encountered at Sarqala-1, and the 11¾" intermediate casing was set at 2,050 metres.

Gross costs for drilling Kurdamir-1 are expected to be approximately \$38 million to \$40 million, including contingency for logging, coring and early drill stem testing, if required. Any further testing conducted at final total depth of the well will require additional time and cost.

As operator, WesternZagros remains committed to the health and safety of all its employees and contractors as well as the security of its operations. At June 2009, WesternZagros' operations achieved a combined total of 3.4 million person hours with no Lost Time Incidents. In addition, during the second quarter of 2009, WesternZagros and its co-venturers continued to focus on three key corporate social responsibility initiatives in the Garmian region of Kurdistan – water supply and management, education and health care.

During the second quarter of 2009, WesternZagros completed an update of its inventory of prospects and leads and an assessment of Block 44's gross undiscovered resources. This assessment was independently audited by Sproule International Ltd. WesternZagros' best estimate of gross unrisksed prospective oil resources in Block 44 is 2.4 billion barrels as of March 31, 2009.

GENERAL AND ADMINISTRATIVE EXPENSES (G&A)

For the three and six month period ended June 30, 2009, WesternZagros incurred \$1.2 million and \$2.5 million in G&A expenses, respectively, compared to \$1.5 million and \$3.4 million for the comparable periods in the prior year. The lower G&A expenses in 2009 compared to 2008 is due to increased investment activity related to exploration and the application of an overhead recovery against these costs. The Company capitalized a larger portion of its G&A expenses due to the increased resources dedicated to exploration initiatives compared to the prior year period.

DEPRECIATION, DEPLETION AND AMORTIZATION (DD&A)

For the three and six month period ended June 30, 2009, WesternZagros had \$0.2 million and \$0.4 million, respectively, of depreciation related to certain administrative assets (2008: \$0.06 million and \$0.1 million). The increase in depreciation is related to the addition of assets in late 2008 and in 2009 which are now being depreciated. No comparable assets existed for the period ended June 30, 2008. No depletion on oil and gas related assets are recorded because WesternZagros has yet to determine whether proved reserves are attributable to the 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 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. For the three and six month period ended June 30, 2009, WesternZagros recorded a foreign exchange loss of \$0.008 million and foreign exchange gain of \$0.05 million, respectively. For the comparable periods in 2008, the Company recorded a foreign exchange gain of \$0.2 million and a foreign exchange loss of \$0.5 million.

INCOME TAX

For the second quarter of 2009, WesternZagros had an income tax expense of \$0.06 million. For the six months ended June 30, 2009, WesternZagros had an income tax recovery of \$0.9 million comprised of \$1.4 million of current income tax recovery and reduced by \$0.5 million of future income tax expense. The current tax recovery relates to the expected recovery of taxes incurred in 2008 on realized foreign exchange gains and losses in WesternZagros' wholly-owned Canadian subsidiary through the utilization of loss carry forwards and the associated G&A expenses incurred by the subsidiary.

NET LOSS

For the second quarter of 2009, WesternZagros had a net loss of \$1.4 million compared to a net loss of \$0.6 million during the second quarter of 2008. The increase in net loss is due to lower investment income which, in turn, is a result of lower interest rates. For the six month period ended June 30, 2009, WesternZagros recorded a net loss of \$1.7 million which is lower than the net loss of \$2.5 million recorded for the comparable period in 2008. This is due to lower G&A expenses during the six month period ended June 30, 2009. WesternZagros is an early stage exploration enterprise and, apart from its working interest in the PSC and cash and cash equivalents, the Company has no other significant assets.

CAPITAL EXPENDITURES

For the six month period ending June 30, 2009, capital expenditures totaled \$31.7 million compared to \$54.2 million for the comparable period in 2008. For the three month period ended June 30, 2009, capital expenditures were \$14.8 million, including \$11.6 million of costs related to the drilling of Kurdamir-1 and \$0.6 million of supervision and local office costs in support of drilling operations. Also included in the capital expenditures are \$1.5 million for Sarqala-1 (the final well cost of Sarqala-1 was \$48.9 million (gross) which includes \$1.2 million of direct head office costs), \$1.1 million for long-lead items and other tangibles for subsequent wells and consumables for testing operations. In the second quarter of 2008, WesternZagros'

capital expenditures were \$27.6 million. The decrease for both the three and six month period is primarily the result of the reduced funding requirement for WesternZagros associated with the operations on the PSC block after Talisman was elected by the KRG. WesternZagros' share of capital expenditures were 100 percent of the 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.

WesternZagros capitalized \$1.4 million of G&A expenses (June 30, 2008 – \$1.0 million), including \$0.5 million of stock-based compensation (June 30, 2008 – \$0.3 million) directly related to exploration activities for the six months ended June 30, 2009.

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 \$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, which concluded in April 2009, and funding for certain technological, logistical, recruitment and training during the first exploration sub-period, and any subsequent sub-periods. As at June 30, 2009, WesternZagros estimates its remaining commitments under the PSC to be approximately \$40 million to \$50 million, representing the Company's 60 percent funding requirement. This commitment includes the remaining costs associated with drilling Kurdamir-I and one additional exploration well 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. WesternZagros' remaining costs associated with drilling Kurdamir-I and the third exploration well on its PSC lands to total depth are estimated to be in the range of approximately \$30 million to \$40 million (net to WesternZagros), prior to the costs associated with any potential testing operations. WesternZagros estimates that its share of costs to test these wells, if required, could range between \$3 million and \$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 \$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. The following table summarizes the commitments WesternZagros has under these exploration related contracts and other contractual obligations.

(\$ thousands)	Six months	For the year ended December 31				Total
	2009	2010	2011	2012	2013+	
Exploration	1,895	660	–	–	–	2,555
Office	188	94	–	–	–	282
Total	2,083	754	–	–	–	2,837

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.

OUTLOOK

WesternZagros is in a strong position to execute on its business plan and meet its commitments under its PSC. WesternZagros has no outstanding bank debt or other interest bearing indebtedness.

WesternZagros' operational efforts for 2009 will focus on working with its co-venturers, the KRG and Talisman, on the drilling of Kurdamir-I and, upon exploration success, the potential completion and testing of the well. Following the drilling of Kurdamir-I, WesternZagros and its co-venturers will integrate the results from Kurdamir-I into the Company's ongoing prospects and leads evaluation prior to drilling the third exploration well.

Recent events in the Kurdistan Region, including the export of oil and the election process, demonstrate that the KRG is firmly committed to the continued democratic and economic development of the Region. WesternZagros will continue to monitor and assess the political developments in Iraq including progress on the Federal Petroleum Law; payment of revenues associated with oil export from the Kurdistan Region; the state of the capital markets; and exploration activities prior to deploying future capital beyond its PSC commitments.

WesternZagros' 2009 capital and operating budget has been increased to \$43 million from \$39 million. The additional \$4 million is for long lead items, and the potential site acquisition and construction for the third well location, which WesternZagros and its co-venturers may commit to in the second half of 2009. WesternZagros' anticipated remaining 2009 capital and operating budget is \$20 million, which includes the Company's 60 percent share of its PSC activities. Completion of Kurdamir-I, the assimilation of the results from this well with the Company's existing technical data, and general market conditions will all impact future drilling decisions and, as such, WesternZagros will review and update its budget as these factors evolve.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2009, WesternZagros had \$97.3 million in cash and cash equivalents. These balances will be used to fund future capital expenditures including: the work commitments with respect to the first exploration sub-period which ends on December 31, 2010; the requirement for WesternZagros to fund the KRG's 20 percent carried interest; certain payments required under the PSC; G&A expenditures; and 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. While WesternZagros has seen recent improvements in financial market conditions, the Company will seek to maintain financial flexibility and will monitor and assess its financing requirements as its exploration activities progress. It is possible that 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 in the future. Any 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.

OUTSTANDING SHARE DATA

As at June 30, 2009 and the date of this report, there were 207,464,320 shares issued and outstanding. The number of common shares reserved for issuance pursuant to options granted will not exceed 10 percent of the issued and outstanding common shares. For the six month period ended June 30, 2009, 1,615,000 stock options were granted to employees, directors, officers and consultants bringing the total stock options outstanding as of June 30, 2009 to 13,035,334.

SUPPLEMENTAL QUARTERLY INFORMATION

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

<i>(\$ thousands, unless otherwise indicated)</i>	June 30 2009	March 31 2009	Dec. 31 2008	Sept. 30 2008
Revenues	35	81	495	867
Net Loss	1,404	1,334	6,653	984
Net Loss per Share <i>(US\$/share)</i> (Basic and Fully Diluted)	0.006	0.002	0.032	0.005
Capital Expenditures	14,796	16,854	20,339	20,531
Total Assets	241,171	239,288	243,697	248,919
Total Long-term Liabilities	197	71	69	68
Dividend <i>(US\$ per Share)</i>	Nil	Nil	Nil	Nil
	June 30 2008	March 31 2008	Dec. 31 2007	Sept. 30 2007
Revenues	774	823	817	–
Net Loss	633	1,830	836	3,667
Net Loss per Share <i>(US\$/share)</i> (Basic and Fully Diluted)	0.003	0.010	0.012	0.022
Capital Expenditures	27,648	26,584	10,493	11,428
Total Assets	241,626	251,068	160,777	45,943
Total Long-term Liabilities	66	–	–	52,297
Dividend <i>(US\$ per share)</i>	Nil	Nil	Nil	Nil

RISK FACTORS

The risks factors that could influence actual results have not changed since the 2008 Annual Report and Annual Information Form including the risk that WesternZagros' ability to access the equity or debt markets in the future may be affected any market instability. The inability to access the equity or debt markets for sufficient capital, at acceptable terms and within required time frames, could have a material adverse effect on WesternZagros' financial condition, results of operations and prospects.

An investment in WesternZagros should be considered highly speculative due to the nature of its activities, the present stage of its development and its need for additional financing in the future for any acquisition, exploration, development and production of oil and gas reserves beyond current funding levels. WesternZagros' risk factors include, but are not limited to, all the risks normally incidental to the exploration, development and operation of crude oil and natural gas properties and the drilling of crude oil and natural gas wells, including geological risk, encountering unexpected formations or pressures, potential environment damage, blow-outs, fires and spills, all of which could result in personal injuries, loss of life and damage to property of WesternZagros and others; premature declines of reservoirs; environment risks; delay or changes in plans with respect to exploration or development projects or capital expenditures; the ability to attract key personnel; the risk of commodity price and foreign exchange rate fluctuations.

All of WesternZagros' assets are located in the Kurdistan Region of Iraq. As such, WesternZagros is subject to political, economic, and other uncertainties, including, but not limited to, the uncertainty of negotiating with foreign governments, expropriation of property without fair compensation, adverse determinations or rulings by governmental authorities, changes in energy policies or the personnel administering them, nationalization, currency fluctuations and devaluations, disputes between various levels of authorities, arbitrating and enforcing claims against entities that may claim sovereignty, authorities claiming jurisdiction, potential implementation of exchange controls, royalty and government take increases and other risks arising out of foreign governmental sovereignty over the areas in which WesternZagros' operations are conducted, as well as risks of loss due to civil strife, acts of war, guerrilla activities and insurrections. WesternZagros' operations may be adversely affected by changes in government policies and legislation or social instability and other factors which are not within the control of WesternZagros including, among other things, adverse legislation in Iraq and/or the Kurdistan Region, a change in crude oil or natural gas pricing policy, the risks of war, terrorism, abduction, expropriation, nationalization, renegotiation or nullification of existing concessions and contracts, taxation policies, economic sanctions, the imposition of specific drilling obligations and the development and abandonment of fields.

For a complete list of risk factors please refer to Company's Annual Information Form which is available at www.westernzagros.com or on SEDAR at www.sedar.com.

CHANGES IN ACCOUNTING POLICY

WesternZagros adopted Handbook Section 3064, Goodwill and Intangible Assets ("Section 3064") effective January 1, 2009. Section 3064 will replace the existing Goodwill and Intangible Assets standard. The new standard revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard did not have a material impact on the Company's financial statements.

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 jointly controlled assets. 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.

INTERIM CONSOLIDATED BALANCE SHEETS

<i>(United States dollars thousands) (Unaudited)</i>	June 30, 2009	December 31, 2008
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 97,312	\$ 90,016
Short-term Investments	–	39,967
Accounts Receivable	7,740	12,161
Prepaid Expenses	175	250
Income Tax Receivable	3,179	–
Future Income Taxes <i>(note 6)</i>	204	330
	<u>108,610</u>	<u>142,724</u>
Long-term Assets		
Property, Plant and Equipment <i>(note 4)</i>	132,561	100,663
Future Income Taxes <i>(note 6)</i>	–	310
	<u>132,561</u>	<u>100,973</u>
	<u>\$ 241,171</u>	<u>\$ 243,697</u>
Liabilities		
Current Liabilities		
Accounts Payable and Accrued Liabilities	\$ 15,773	\$ 13,326
Income Tax Payable	–	4,679
	<u>15,773</u>	<u>18,005</u>
Long-term Liabilities		
Asset Retirement Obligation <i>(note 5)</i>	168	69
Future Income Taxes <i>(note 6)</i>	29	–
	<u>15,970</u>	<u>18,074</u>
Shareholders' Equity		
Share Capital <i>(note 7)</i>	253,583	253,583
Contributed Surplus <i>(note 9)</i>	7,598	6,276
Deficit	(35,980)	(34,236)
	<u>225,201</u>	<u>225,623</u>
	<u>\$ 241,171</u>	<u>\$ 243,697</u>

Commitments and Contingencies *(note 13)*

See *Accompanying Notes to the Interim Consolidated Financial Statements*

Approved by the Board of Directors



Fred J. Dymont, Director



Randall Oliphant, Director

**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS,
COMPREHENSIVE LOSS AND DEFICIT**

(United States dollars thousands, except per share amounts) ("Unaudited")	Three months ended		Six months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Revenues				
Interest Income	\$ 35	\$ 774	\$ 116	\$ 1,597
Expenses				
General and Administrative	1,184	1,546	2,471	3,420
Depreciation	188	60	377	120
Foreign Exchange (Gain) Loss	8	(199)	(53)	520
	<u>1,380</u>	<u>1,407</u>	<u>2,795</u>	<u>4,060</u>
Loss Before Income Taxes	1,345	633	2,679	2,463
Income Tax Expense (Recovery) (note 6)	59	–	(935)	–
Net Loss and Other Comprehensive Loss	1,404	633	1,744	2,463
Deficit, Beginning of Period	<u>34,576</u>	<u>25,966</u>	<u>34,236</u>	<u>24,136</u>
Deficit, End of Period	\$ 35,980	\$ 26,599	\$ 35,980	\$ 26,599
Net Loss Per Share				
– Basic and Diluted (note 10)	<u>\$ 0.006</u>	<u>\$ 0.003</u>	<u>\$ 0.008</u>	<u>\$ 0.013</u>

See Accompanying Notes to the Interim Consolidated Financial Statements

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended		Six months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
<i>(United States dollars thousands) ("Unaudited")</i>				
Cash Provided By (Used In)				
Cash From Operating Activities				
Net Loss	\$ (1,404)	\$ (633)	\$ (1,744)	\$ (2,463)
Non-cash Items				
Depreciation	188	60	377	120
Accretion on Asset Retirement Obligation (note 5)	2	—	4	—
Stock-based Compensation	363	266	792	589
Future Income Tax Recovery (note 6)	196	—	465	—
	(655)	(307)	(106)	(1,754)
(Decrease) Increase in Non-Cash Working Capital (note 12)	(1,697)	137	(7,723)	(217)
	(2,352)	(170)	(7,829)	(1,971)
Cash From Financing Activities				
Share Issuance Under Private Placement (note 7)	—	—	—	71,436
Exercise of Warrants	—	—	—	6,048
	—	—	—	77,484
Cash From Investing Activities				
Short-term Investments	—	—	39,967	—
Capital Expenditures	(14,796)	(27,648)	(31,650)	(54,232)
Proceeds from Third Party Participants	—	50,675	—	50,675
Deposits Held in Trust	—	10,228	—	4,148
Increase (Decrease) in Non-cash Working Capital (note 12)	2,642	(10,021)	6,808	4,346
	(12,154)	23,234	15,125	4,937
Increase in Cash and Cash Equivalents	(14,506)	23,064	7,296	80,450
Cash and Cash Equivalents at Beginning of Period	111,818	157,753	90,016	100,367
Cash and Cash Equivalents at End of Period	\$ 97,312	\$ 180,817	\$ 97,312	\$ 180,817
Supplemental cash flow information:				
Income Taxes Paid	\$ 1,667	\$ —	\$ 6,362	\$ —

See Accompanying Notes to the Interim Consolidated Financial Statements

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and six months ended June 30, 2009 and 2008

(Tabular amounts in United States dollars thousands) (Unaudited)

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

WesternZagros Resources Ltd. (the "Corporation") was incorporated on August 22, 2007 under the laws of the Province of Alberta. The Corporation, an international oil and gas company, is engaged in acquiring properties and exploring for, developing and producing crude oil and natural gas in Iraq and is in the developmental stage. Through its subsidiaries, the Corporation's operations are related to its interest in a Production Sharing Contract ("PSC") with the Kurdistan Regional Government ("KRG") in respect of an exploration project area in the Kurdistan Region of Iraq.

Since inception and typical with developmental stage companies, the Corporation has incurred losses from operations and negative cash flows from operating activities, and has an accumulated deficit at June 30, 2009. The ability of the Corporation to successfully carry out its business plan beyond exploration is primarily dependent upon the continued support of its shareholders, the discovery of economically recoverable reserves, the resolution of remaining political disputes in Iraq and the ability of the Corporation to obtain financing to develop reserves.

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

The preparation of the Interim Consolidated Financial Statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Interim Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Such estimates relate to unsettled transactions and events as of the date of the Interim 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 Interim Consolidated Financial Statements include, but are not limited to, recovery of exploration costs capitalized in accordance with full-cost accounting, asset retirement obligation, income taxes, and fair value of stock-based compensation.

2. SIGNIFICANT ACCOUNTING POLICIES

The Interim Consolidated Financial Statements are presented in accordance with Canadian generally accepted accounting principles. The Interim Consolidated Financial Statements have been prepared following the same accounting policies and methods of computation as the Audited Consolidated Financial Statements for the year ended December 31, 2008, except as described in Note 3. The disclosures provided below are incremental to those included in the Annual Consolidated Financial Statements. The Interim Consolidated Financial Statements should be read in conjunction with the consolidated financial statements and the notes thereto in the Corporation's annual report for the year ended December 31, 2008.

3. CHANGES IN ACCOUNTING POLICIES AND FUTURE ACCOUNTING POLICY CHANGES

a) Goodwill and Intangible Assets Effective January 1, 2009, the Corporation adopted CICA Handbook Section 3064, "Goodwill and Intangible Assets", which replaced the existing Goodwill and Intangible Assets standard. The new standard revised the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard did not have a material impact on the Corporation's financial statements.

b) International Financial Reporting Standards ("IFRS") In January 2006, the AcSB adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, the AcSB confirmed in February 2008 that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP in 2011 for profit-oriented Canadian publicly accountable enterprises. As the Corporation will be required to report its results in accordance with IFRS starting in 2011, the Corporation is currently assessing the impact of these new accounting standards on its financial statements. A preliminary diagnostic of potential areas of impact has been completed to aid in the management of this transition, with the aim to ensure successful implementation within the required timeframe. The results of this preliminary diagnostic indicate that the significant impact to the Corporation's results of operations, financial position and disclosures will be on Property, Plant and Equipment, as it relates to the Corporation's policy of full-cost accounting for its exploration assets and the continued ability to utilize this policy, how these assets are ultimately depreciated and how impairment is ultimately determined and measured. Other areas of potential impact include stock-based compensation, asset retirement obligation and accounting for joint ventures. The Corporation continues to develop an implementation plan, including the consideration of the resources required to complete the conversion to IFRS and the impact to its financial systems.

4. PROPERTY, PLANT AND EQUIPMENT

As at June 30, 2009	Cost	Accumulated Depletion and Depreciation	Net Book Value
Kurdistan Region Exploration Project	\$ 131,533	\$ –	\$ 131,533
Corporate	1,685	(657)	1,028
	<u>\$ 133,218</u>	<u>\$ (657)</u>	<u>\$ 132,561</u>

As at December 31, 2008	Cost	Accumulated Depletion and Depreciation	Net Book Value
Kurdistan Region Exploration Project	\$ 100,327	\$ –	\$ 100,327
Corporate	616	(280)	336
	<u>\$ 100,943</u>	<u>\$ (280)</u>	<u>\$ 100,663</u>

On June 23, 2008, the Corporation announced that the KRG nominated a wholly-owned subsidiary of Talisman Energy Inc. ("Talisman") as the Third Party Participant in the PSC. Prior to June 30, 2008, the Corporation funded 100 percent of the PSC expenditures and, subsequent to June 30, 2008, the Corporation funds 60 percent of the PSC expenditures, representing the Corporation's 40 percent working interest and its obligation to carry the KRG's 20 percent working interest. Under the terms of the PSC, Talisman paid the Corporation \$50.7 million in costs incurred by the Corporation to June 30, 2008 and, subsequently, Talisman has and will fund its 40 percent share of costs going forward. This amount has been credited against the total cost pool previously recorded.

All costs included in the Kurdistan Region Exploration Project are excluded from depletion as they represent costs incurred related to properties in cost centres that are considered to be in the development stage. Currently, there are no proved reserves. All exploratory costs, net of any associated revenues, have been capitalized. The Corporation capitalized \$1.4 million of general and administrative costs (June 30, 2008 – \$1.0 million) including \$0.5 million of stock-based compensation (June 30, 2008 – \$0.3 million) directly related to exploration activities for the six months ended June 30, 2009.

5. ASSET RETIREMENT OBLIGATION

The Corporation records the fair value of legal obligations associated with the retirement and reclamation of tangible long-lived assets when incurred. The asset retirement cost, equal to the estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived asset. The estimation of this cost is based on engineering estimates using current costs and technology and in accordance industry practice.

The Corporation's share of total undiscounted amount of estimated cash flow required to settle the obligation is \$1.2 million, which is assumed to be paid in the year 2033 in the most likely case. The Corporation used a credit risk adjusted risk-free rate of 10 percent (December 31, 2008 – 10 percent) and an inflation factor of 4 percent (December 31, 2008 – 4 percent) to calculate the net present value of the future retirement obligation.

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

Six Month Period Ended	June 30, 2009
Balance, Beginning of Period	\$ 69
Liabilities Incurred	95
Accretion Expense	4
Balance, End of Period	<u>\$ 168</u>

6. INCOME TAXES

Six Month Period Ended	June 30, 2009	June 30, 2008
Current Income Tax Recovery	\$ (1,400)	\$ –
Future Income Tax Expense	465	–
Balance at End of Period	<u>\$ (935)</u>	<u>\$ –</u>

The Future Income Tax assets are comprised of:

As at	June 30, 2009	December 31, 2008
Current Future Income Tax Asset		
Non-Capital Loss Carryforwards	\$ –	\$ 1,341
Share Issue Costs	204	204
Unrealized Foreign Exchange Gains	–	(1,215)
	<u>\$ 204</u>	<u>\$ 330</u>
Long-term Future Income Tax Asset (Liability)		
Share Issue Costs	\$ 305	\$ 408
Book Values in Excess of Tax Values	(334)	(98)
	<u>\$ (29)</u>	<u>\$ 310</u>

7. SHARE CAPITAL

a) Authorized

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

b) Common Shares Issued and Outstanding

	Number of Shares	Amount
Balance at December 31, 2007	171,704,047	\$ 175,405
Issued on Exercise of Warrants (i)	2,426,939	6,048
Issued on Warrant Value Transferred on Exercise of Warrants	–	746
Issued Under Private Placement (ii)	33,333,334	75,645
Share Issuance Costs	–	(4,261)
Balance as at December 31, 2008 and June 30, 2009	207,464,320	\$ 253,583

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

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

8. STOCK OPTIONS AND STOCK-BASED COMPENSATION

Pursuant to the stock option plan, the Board of Directors may grant options to directors, officers, other employees and other service providers. The aggregate number of shares that may be reserved for issuance pursuant to stock options may not exceed 10 percent of the issued and outstanding common shares on a non-diluted basis of the Corporation at the time of granting. Stock options expire not more than five years from the date of grant, or earlier if the individual ceases to be associated with the Corporation, and vest at the discretion of the Board of Directors.

The following table presents the reconciliation of stock options granted as of June 30, 2009:

Six Month Period Ended	Number of Options	Weighted Average Exercise Price
Outstanding, Beginning of the Period	12,305,667	\$ 1.62
Granted	1,615,000	0.81
Exercised	–	–
Forfeited and Expired	(885,333)	1.53
Outstanding, End of Period	13,035,334	1.53

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

Six Month Period Ended	June 30, 2009
Weighted average fair value of stock options granted in period	\$ 0.50
Risk Free Interest Rate	1.60%
Expected Life	1.5 – 3 years
Expected Volatility	75%
Dividend Per Share	Nil

9. CONTRIBUTED SURPLUS

The following table presents the reconciliation of Contributed Surplus:

Six Month Period Ended	June 30, 2009
Balance, Beginning of Period	\$ 6,276
Stock-based Compensation	1,322
Balance, End of Period	<u>\$ 7,598</u>

10. LOSS PER SHARE

The basic weighted average number of common shares outstanding calculated for the three and six month period ended June 30, 2009 was 207,464,320 (June 30, 2008 – 207,464,320). In computing diluted per share amounts, all of the Corporation's options totaling 13,035,334 (June 30, 2008 – 7,705,000) have been excluded as they are anti-dilutive. Accordingly, no additional common shares were added to the basic weighted average shares outstanding to account for dilution.

11. SHAREHOLDER RIGHTS PLAN

On October 18, 2007, the Corporation adopted a shareholder rights plan (the "Plan"). Under the Plan, one right has been issued in respect of each currently issued common share and one right will be issued with each additional common share which is issued. The rights remain attached to the common shares and are not exercisable or separable unless one or more of certain specified events occur. If a person or group acting in concert acquires 20 percent or more of the common shares of the Corporation, the rights will entitle the holders thereof (other than the acquiring person or group) to purchase common shares at a substantial discount from the then market price. The rights are not triggered by a "Permitted Bid" as defined in the Plan. The Plan will remain in effect until termination of the annual meeting of shareholders in 2010, unless extended by resolution of the shareholders at such meeting.

12. CHANGES IN NON-CASH WORKING CAPITAL

	Three months ended		Six months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Operating Activities				
Accounts Receivable	\$ 108	\$ 110	\$ 67	\$ (134)
Prepaid Expenses	81	83	75	(29)
Income Tax Receivable	(1,900)	–	(3,179)	–
Accounts Payable and Accrued Liabilities	14	(56)	(7)	(54)
Income Tax Payable	–	–	(4,679)	–
	<u>\$ (1,697)</u>	<u>\$ 137</u>	<u>\$ (7,723)</u>	<u>\$ (217)</u>
Investing Activities				
Accounts Receivable	\$ 83	\$ (703)	\$ 4,354	\$ (648)
Accounts Payable and Accrued Liabilities	2,559	(9,318)	2,454	4,994
	<u>\$ 2,642</u>	<u>\$ (10,021)</u>	<u>\$ 6,808</u>	<u>\$ 4,346</u>

13. COMMITMENTS AND CONTINGENCIES

Commitments

- a) **Production Sharing Contract (“PSC”)** Under the terms of its PSC, the Corporation has a 40 percent working and the KRG has a direct 20 percent interest in the PSC which is carried by the Corporation. The remaining 40 percent was allocated to a wholly-owned subsidiary of Talisman by the KRG as announced on June 23, 2008. Under the terms of the PSC, Talisman paid the Corporation \$50.7 million in costs incurred by the Corporation and Talisman funds its share of costs going forward. The Corporation, the KRG and Talisman are collectively the “Contractor Group” under the PSC.

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

The PSC also includes capacity building support, payable by the Corporation over a 15 month period and funding for certain technological, logistical, recruitment and training during the first exploration sub-period and any subsequent sub-periods. The Corporation estimates its remaining commitments under the PSC as at June 30, 2009 to be approximately \$40 million to \$50 million. This commitment includes the remaining costs associated with drilling Kurdamir-1 and one additional exploration well 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. The remaining costs associated with drilling Kurdamir-1 and one exploration wells to total depth are estimated to be in the range of approximately \$30 million to \$40 million, which includes the costs associated with drilling Kurdamir-1 and the third exploration well prior to the costs of any testing required. The Corporation estimates its share of costs to test these wells, if required, could range between \$3 million to \$6 million per well, depending on the number of potential zones that are required to be tested.

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

The Corporation will be the operator of the PSC lands during the first exploration sub-period. For subsequent sub-periods, a joint operating company will be established between the Corporation, the KRG and Talisman, if so elected.

- b) **Participation Rights** The Corporation has granted participation rights for up to five percent in respect to the Corporation's interest in the PSC to certain third parties at the same terms as the Corporation has under the PSC. Certain portions of the participation interest may be funded by interest-bearing loans granted by the Corporation.

- c) **Other** The Corporation has entered into various exploration related contracts, including drilling equipment, services and tangibles, and seismic surveying equipment and services, in order to meet contractual commitments under the PSC.

The following table summarizes the commitments the Corporation has under these exploration related contracts and other contractual obligations at June 30, 2009:

	Six months		For the year ended December 31,				Total
	2009	2010	2011	2012	2013+		
Exploration	\$ 1,895	\$ 660	\$ –	\$ –	\$ –	\$ 2,555	
Office	188	94	–	–	–	282	
	<u>\$ 2,083</u>	<u>\$ 754</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 2,837</u>	

Contingencies

- a) **Regulatory** Oil and gas operations are subject to extensive controls and regulations imposed by various levels of government that may be amended from time to time. The Corporation's operations may require licenses and permits from various governmental authorities in the countries in which it operates. Under the PSC, the KRG is obligated to assist in obtaining all permits and licenses from any government agencies in the Kurdistan Region and from any other government administration in Iraq. There can be no assurance that the Corporation will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development of its projects.

The political and security situation in Iraq is unsettled and volatile. The Kurdistan Region is the only "Region" of Iraq that is constitutionally established pursuant to the Iraq Constitution, which expressly recognizes the Kurdistan Region. The political issues of federalism and the autonomy of the Regions of Iraq are matters about which there are major differences between the various political factions in Iraq. These differences could adversely impact the Corporation's interest in the Kurdistan Region including the ability to export any hydrocarbons as a result of our activities.

CORPORATE INFORMATION

OFFICERS

FRED DYMENT
Executive Chairman

M. SIMON HATFIELD
President

GREG STEVENSON
Vice President, Finance

ROBERT THERIAULT
*Senior Vice President,
Engineering and Operations*

LIANNE TYSOWSKI
Corporate Secretary

DIRECTORS

DAVID BOONE
*President & CEO
Barrick Energy Inc.
Calgary, Alberta*

FRED DYMENT
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WesternZagros Resources Ltd.
Calgary, Alberta*

JOHN FRANGOS
*Independent Businessman
Calgary, Alberta*

M. SIMON HATFIELD
*President
WesternZagros Resources Ltd.
Calgary, Alberta*

JAMES HOUCK
*President and Chief Executive Officer
The Churchill Corporation
Edmonton, Alberta*

RANDALL OLIPHANT
*Chairman
Western Goldfields Inc.
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VALIANT TRUST COMPANY
Calgary, Alberta

STOCK EXCHANGE LISTING

TSX VENTURE EXCHANGE
Common Shares: WZR