

WesternZagros Resources Ltd.

Third Quarter Interim Report
for the period ended September 30, 2009

Q3 2009

MESSAGE TO SHAREHOLDERS

WesternZagros Resources Ltd. ("WesternZagros" or "the Company") is pleased to report its results for the three and nine month period ended September 30, 2009 and key highlights and activities to date.

- Kurdamir-I has reached an intermediate depth of 2,700 metres, and has drilled through the Oligocene and Pilaspi/Jaddala reservoir targets in the Tertiary interval. Logging and coring activities were completed in the Tertiary interval and two open hole drill stem tests conducted. The forward plan is to drill the well deeper to test the Cretaceous reservoir targets.
- Two cores were cut between 2,305 metres and 2,332 metres which exhibited hydrocarbon shows. Logging results indicated a gross hydrocarbon pay of 168 metres penetrated from the top of the porous Tertiary carbonate reservoir at 2,144 metres to the base of the porous reservoir at 2,312 metres.
- Two drill stem tests were conducted between 2,195 metres and 2,235 metres and between 2,280 metres and 2,352 metres. Combined test rates indicate approximately 27.5 million cubic feet per day of gas and 1,172 barrels per day of 61° API natural gas liquids (condensate). Test rates were limited due to testing equipment restrictions; however, initial well test analysis conducted by an independent third party indicates that reservoir production potential of approximately 52 million cubic feet per day of gas and 2,240 barrels per day of condensate could be expected from these intervals.
- WesternZagros is currently working with its external evaluators in order to provide resource estimates associated with the Tertiary interval at Kurdamir-I. These results will be forthcoming once this work has been completed.

- The Kurdamir-I well has encountered drilling related challenges due to wellbore instability in fractured carbonates which resulted in the need to undertake two sidetrack operations.
- As at September 30, 2009, WesternZagros had \$79.4 million in working capital, including cash and cash equivalents and the non-cash working capital deficiency. .
- For the three month period ended September 30, 2009, WesternZagros incurred capital expenditures of \$11.5 million related to its 60 percent funding requirement for its PSC activities and certain payments required under the PSC.
- WesternZagros had a net loss of \$2.7 million for the quarter, mainly comprised of the general and administrative expenses incurred by the Company.
- At September 2009, WesternZagros' operations achieved a combined total of 3.7 million person hours with no Lost Time Incidents.
- During the third quarter of 2009, WesternZagros and its co-venturers continued to focus on three key corporate social responsibility (CSR) initiatives in the Garmian region of Kurdistan – water supply and management, education and health care. In particular, during the peak of the drought, CSR activities focused extensively on providing potable water to villages near Kurdamir-I and within the PSC block. Three new water wells were drilled, five wells were repaired, emergency water tanker relief was provided to seven villages and water sumps or irrigation channels were dug in 15 villages.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Period Ended September 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 September 30, 2009. It should be read in conjunction with the unaudited financial statements for the period ended September 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 November 6, 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 November 6, 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.

Kurdamir-I has reached an intermediate depth of 2,700 metres, and has drilled through the Oligocene and Pilaspi/Jaddala reservoir targets in the Tertiary interval. Logging and coring activities were completed in the Tertiary interval and two open hole drill stem tests conducted. In addition, as drilling and coring progressed through the Tertiary interval, the Kurdamir-I well encountered challenges related to wellbore instability in fractured carbonates which resulted in the need to undertake two sidetrack operations in order to reach the current intermediate depth. The forward plan is to drill the well deeper to test the Cretaceous reservoir targets.

Highlights of activities in the Tertiary interval included:

- After setting the 11¾" casing at 2,050 metres, Kurdamir-I reached the top of the Tertiary carbonate reservoir at 2,140 metres. Hydrocarbon shows were encountered as drilling progressed through this reservoir.
- Two cores were cut between 2,305 metres and 2,332 metres which exhibited hydrocarbon shows. Logging results indicated a gross hydrocarbon pay of 168 metres penetrated from the top of the porous Tertiary carbonate reservoir at 2,144 metres to the base of the porous reservoir at 2,312 metres.
- Two drill stem tests were conducted between 2,195 metres and 2,235 metres and between 2,280 metres and 2,352 metres. Combined test rates indicate approximately 27.5 million cubic feet per day of gas and 1,172 barrels per day of 61° API natural gas liquids (condensate). Test rates were limited due to testing equipment restrictions; however, initial well test analysis conducted by an independent third party indicates that reservoir production potential of approximately 52 million cubic feet per day of gas and 2,240 barrels per day of condensate could be expected from these intervals.
- Up to 0.6% H₂S gas was detected during the test and all necessary safety precautions were taken during testing operations.
- As Kurdamir-I is located at the crest of the Kurdamir structure, and as no porous reservoir was encountered below 2,312 metres, it is uncertain whether the gas and condensate encountered is in a gas cap, associated with a deeper oil column downdip on the flanks of the structure, or in a non-associated accumulation without any oil downdip. Gas caps that occupy a crestal position are a common occurrence in the Tertiary reservoirs of the established fields in the Kirkuk area. They are frequently associated with downdip oil columns or deeper oil columns in the Cretaceous (e.g Kirkuk, Bai Hassan, Jambur, Khabbaz and Kor Mor fields).
- WesternZagros is currently working with its external evaluators in order to provide resource estimates associated with the Tertiary interval at Kurdamir-I. These results will be forthcoming once this work has been completed.

Kurdamir-I is currently drilling ahead, above the Cretaceous reservoirs, with the objective of setting the 9¾" casing in the Aaliji Seal, prior to targeting the Shiranish and Upper Qamchuqa reservoir intervals in the Cretaceous. The objective is to determine the presence of the Cretaceous reservoirs and the nature of any hydrocarbons (oil vs gas/condensate) that may be contained in these reservoirs.

As a result of drilling delays, and additional evaluation and testing activities, gross costs for drilling Kurdamir-I are now expected to be approximately \$60 million to \$65 million. The increased budget also allows for potential logging, coring and testing activities, if necessary, prior to reaching total depth. Any 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 September 2009, WesternZagros' operations achieved a combined total of 3.7 million person hours with no Lost Time Incidents. In addition, during the third quarter of 2009,

WesternZagros and its co-venturers continued to focus on three key corporate social responsibility (CSR) initiatives in the Garmian region of Kurdistan – water supply and management, education and health care. In particular, during the peak of the drought, CSR activities focused extensively on providing potable water to villages near its operations. WesternZagros drilled three new water wells and repaired five others, provided emergency water tanker relief to seven villages and dug water sumps or irrigation channels in 15 villages. In addition, WesternZagros is engaged in developing joint projects with a number of non-government organizations to provide longer term, broader drought relief initiatives. WesternZagros also pursued other facets of its CSR program, repairing two schools and arranging for medical supplies to be shipped to the Kurdistan Region to support six clinics and several hospitals in or near its operating block.

GENERAL AND ADMINISTRATIVE EXPENSES (G&A)

For the three and nine month period ended September 30, 2009, WesternZagros incurred \$2.4 million and \$4.8 million in G&A, respectively, compared to \$1.5 million and \$4.9 million for the comparable periods in the prior year. The increase in G&A during the third quarter of 2009 is a result of a higher proportion of G&A being associated with corporate activities compared to the same three month period in 2008.

DEPRECIATION, DEPLETION AND AMORTIZATION (DD&A)

For the three and nine month period ended September 30, 2009, WesternZagros had \$0.2 million and \$0.6 million, respectively, of depreciation related to certain administrative assets (2008: \$0.06 million and \$0.2 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 September 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 nine month period ended September 30, 2009, WesternZagros recorded a foreign exchange loss of \$0.04 million and foreign exchange gain of \$0.009 million, respectively. For the comparable periods in 2008, the Company recorded a foreign exchange loss of \$0.3 million and \$0.8 million, respectively.

INCOME TAX

For the third quarter of 2009, WesternZagros had an income tax expense of \$0.2 million. For the nine months ended September 30, 2009, WesternZagros had an income tax recovery of \$0.8 million comprised of \$1.4 million of current income tax recovery and reduced by \$0.6 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 costs incurred by the subsidiary.

NET LOSS

For the third quarter of 2009, WesternZagros had a net loss of \$2.7 million compared to a net loss of \$1.0 million during the third quarter of 2008. The increase in net loss is due higher G&A expenses and depreciation and lower investment income which, in turn, is a result of lower interest rates. For the nine month period ended September 30, 2009, WesternZagros recorded a net loss of \$4.5 million compared to \$3.4 million recorded for the comparable period in 2008. This year-over-year increase is primarily due to lower investment income

during the nine month period ended September 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 nine month period ending September 30, 2009, capital expenditures totaled \$43.1 million compared to \$74.8 million for the comparable period in 2008. Year to date expenditures for 2009 include \$37.2 million of drilling related costs, \$2.6 million of supervision and local office costs and \$3.3 million for long-lead items and other tangibles for a subsequent exploration commitment well. To date, well costs for Kurdamir-I have totaled \$39.0 million (gross). For the three month period ended September 30, 2009, capital expenditures were \$11.5 million, including \$8.4 million of costs related to the drilling of Kurdamir-I and \$1.1 million of supervision and local office costs in support of drilling operations. Also included in capital expenditures is \$2.0 million for long-lead items and other tangibles for a subsequent well and consumables for testing operations. In the third quarter of 2008, WesternZagros' capital expenditures were \$20.5 million.

The decrease for both the three and nine month period is due to the completion of the capacity building support payments under the PSC. During the nine month period, the year-over-year decrease is also a 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 \$2.1 million of G&A expenses (September 30, 2008 – \$1.9 million), including \$1.0 million of stock-based compensation (September 30, 2008 – \$0.5 million) directly related to exploration activities for the nine months ended September 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. To meet its remaining commitments, WesternZagros estimates expenditures of approximately \$40 million to \$45 million, prior to the costs of any testing, if required. This represents the Company's 60 percent funding requirement and includes the remaining costs associated with drilling Kurdamir-I and one additional exploration commitment 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. WesternZagros estimates 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)	Nine months	For the year ended December 31				Total
	2009	2010	2011	2012	2013+	
Exploration	1,453	660	–	–	–	2,113
Office	94	94	–	–	–	188
Total	1,547	754	–	–	–	2,301

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' operational activities over the remainder of 2009 will focus on working with its co-venturers, the KRG and Talisman, on the drilling and completion of Kurdamir-I and the evaluation of the commercial potential and technical feasibility of the gas and condensate discovered to date at Kurdamir-I, together with any additional discoveries yet to be made. The forward program at Kurdamir-I is drill ahead and set the 9 $\frac{3}{4}$ " casing in the Aalji Seal prior to targeting the Shiranish and Upper Qamchuqa reservoir intervals in the Cretaceous. Total depth for Kurdamir-I is planned to range between 3,600 metres and 4,000 metres and it is now anticipated that this target depth will be reached in the first quarter of 2010.

WesternZagros and its co-venturers are in the process of integrating the early results from Kurdamir-I into the Company's ongoing prospects and leads evaluation prior to the selection of the third exploration well. It is anticipated that WesternZagros and its co-venturers will select and commence the required planning, site construction and long lead item procurement for the next drilling location late in the fourth quarter of 2009.

WesternZagros is continuing to monitor and assess the political developments in Iraq including the Federal elections in Iraq scheduled for January 2010; progress on the Federal Petroleum Law; the state of the capital markets; and exploration activities prior to deploying future capital beyond its PSC commitments.

WesternZagros also continues to assess additional investment opportunities beyond the PSC.

WesternZagros' 2009 anticipated remaining capital and operating budget is \$16 million, which includes the Company's 60 percent share of its PSC activities. The capital and operating budget has increased for the additional drilling costs for Kurdamir-I to the end of 2009. Completion of Kurdamir-I, the assimilation of the complete 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 September 30, 2009, WesternZagros had \$79.4 million of working capital, including cash and cash equivalents and the non-cash working capital deficit. This balance 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.

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. WesternZagros will require further financial resources to complete an appraisal drilling program, and ultimately, if warranted, any development program. 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 September 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 nine month period ended September 30, 2009, 1,615,000 stock options were granted to employees, directors, officers and consultants bringing the total stock options outstanding as of September 30, 2009 to 12,766,000.

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>	Sept. 30 2009	June 30 2009	March 31 2009	Dec. 31 2008
Revenue	36	35	81	495
Net Loss	2,712	1,404	1,334	6,653
Net Loss per Share <i>(US\$/share)</i> (Basic and Fully Diluted)	0.013	0.006	0.002	0.032
Capital Expenditures	11,456	14,796	16,854	20,339
Total Assets	241,600	241,171	239,288	243,697
Total Long-term Liabilities	171	197	71	69
Dividend <i>(US\$ per Share)</i>	Nil	Nil	Nil	Nil
	Sept. 30 2008	June 30 2008	March 31 2008	Dec. 31 2007
Revenues	867	774	823	817
Net Loss	984	633	1,830	836
Net Loss per Share <i>(US\$/share)</i> (Basic and Fully Diluted)	0.005	0.003	0.010	0.012
Capital Expenditures	20,531	27,648	26,584	10,493
Total Assets	248,919	241,626	251,068	160,777
Total Long-term Liabilities	68	66	–	–
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 by any market instability or further drilling challenges and related increases to exploration well costs. 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>	September 30, 2009	December 31, 2008
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 88,208	\$ 90,016
Short-term Investments	–	39,967
Accounts Receivable	7,439	12,161
Prepaid Expenses	84	250
Income Tax Recoverable	1,417	–
Future Income Taxes <i>(note 6)</i>	204	330
	97,352	142,724
Long-term Assets		
Property, Plant and Equipment <i>(note 4)</i>	144,248	100,663
Future Income Taxes <i>(note 6)</i>	–	310
	144,248	100,973
	\$ 241,600	\$ 243,697
Liabilities		
Current Liabilities		
Accounts Payable and Accrued Liabilities	\$ 17,909	\$ 13,326
Income Tax Payable	–	4,679
	17,909	18,005
Long-term Liabilities		
Asset Retirement Obligation <i>(note 5)</i>	171	69
Future Income Taxes <i>(note 6)</i>	210	–
	18,290	18,074
Shareholders' Equity		
Share Capital <i>(note 7)</i>	253,583	253,583
Contributed Surplus <i>(note 9)</i>	8,419	6,276
Deficit	(38,692)	(34,236)
	223,310	225,623
	\$ 241,600	\$ 243,697

Commitments and Contingencies *(note 14)*

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		Nine months ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Revenues				
Interest Income	\$ 36	\$ 867	\$ 152	\$ 2,464
Expenses				
General and Administrative	2,362	1,490	4,833	4,910
Depreciation	189	60	566	180
Foreign Exchange (Gain) Loss	44	301	(9)	821
	<u>2,595</u>	<u>1,851</u>	<u>5,390</u>	<u>5,911</u>
Loss Before Income Taxes	2,559	984	5,238	3,447
Income Tax Expense (Recovery) (note 6)	153	–	(782)	–
Net Loss and Comprehensive Loss	2,712	984	4,456	3,447
Deficit, Beginning of Period	<u>35,980</u>	<u>26,599</u>	<u>34,236</u>	<u>24,136</u>
Deficit, End of Period	\$ 38,692	\$ 27,583	\$ 38,692	\$ 27,583
Net Loss Per Share				
– Basic and Diluted (note 10)	\$ 0.013	\$ 0.005	\$ 0.022	\$ 0.018

See Accompanying Notes to the Interim Consolidated Financial Statements

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended		Nine months ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
<i>(United States dollars thousands) ("Unaudited")</i>				
Cash Provided By (Used In)				
Cash From Operating Activities				
Net Loss	\$ (2,712)	\$ (984)	\$ (4,456)	\$ (3,447)
Non-cash Items				
Depreciation	189	60	566	180
Accretion on Asset Retirement Obligation (note 5)	3	2	7	2
Stock-based Compensation	401	386	1,193	975
Future Income Tax Recovery (note 6)	181	–	646	–
	<u>(1,938)</u>	<u>(536)</u>	<u>(2,044)</u>	<u>(2,290)</u>
(Decrease) Increase in Non-Cash Working Capital (note 12)	1,615	(194)	(6,108)	(411)
	<u>(323)</u>	<u>(730)</u>	<u>(8,152)</u>	<u>(2,701)</u>
Cash From Financing Activities				
Share Issuance Under Private Placement (note 7)	–	(52)	–	71,384
Exercise of Warrants	–	–	–	6,048
	<u>–</u>	<u>(52)</u>	<u>–</u>	<u>77,432</u>
Cash From Investing Activities				
Short-term Investments	–	–	39,967	–
Capital Expenditures	(11,456)	(20,531)	(43,106)	(74,763)
Proceeds from Third Party Participants	–	–	–	50,675
Deposits Held in Trust	–	–	–	4,148
Increase (Decrease) in Non-cash Working Capital (note 12)	2,675	(76)	9,483	4,270
	<u>(8,781)</u>	<u>(20,607)</u>	<u>6,344</u>	<u>(15,670)</u>
Increase in Cash and Cash Equivalents	(9,104)	(21,389)	(1,808)	59,061
Cash and Cash Equivalents at Beginning of Period	97,312	180,817	90,016	100,367
Cash and Cash Equivalents at End of Period	\$ 88,208	\$ 159,428	\$ 88,208	\$ 159,428
Supplemental cash flow information:				
Income Taxes Paid (Recovered)	\$ (1,693)	\$ –	\$ 4,669	\$ –

See Accompanying Notes to the Interim Consolidated Financial Statements

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 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 September 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, its joint venture partner's continued participation in the exploration activities under the PSC, 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 September 30, 2009	Cost	Accumulated Depletion and Depreciation	Net Book Value
Kurdistan Region Exploration Project	\$ 143,264	\$ –	\$ 143,264
Corporate	1,830	(846)	984
	<u>\$ 145,094</u>	<u>\$ (846)</u>	<u>\$ 144,248</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 \$2.1 million of general and administrative costs (September 30, 2008 – \$1.9 million) including \$1.0 million of stock-based compensation (September 30, 2008 – \$0.5 million) directly related to exploration activities for the nine months ended September 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 the 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 four percent (December 31, 2008 – four percent) to calculate the net present value of the future retirement obligation.

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

Nine Month Period Ended	September 30, 2009
Balance, Beginning of Period	\$ 69
Liabilities Incurred	95
Accretion Expense	7
Balance, End of Period	\$ 171

6. INCOME TAXES

Nine Month Period Ended	Sept 30, 2009	Sept. 30, 2008
Current Income Tax Recovery	\$ (1,428)	\$ –
Future Income Tax Expense	646	–
	\$ (782)	\$ –

The Future Income Tax assets are comprised of:

As at	Sept. 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)
	\$ 204	\$ 330
Long-term Future Income Tax Asset (Liability):		
Share Issue Costs	\$ 255	\$ 408
Book Values in Excess of Tax Values	(465)	(98)
	\$ (210)	\$ 310

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 September 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 September 30, 2009:

Nine 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	(1,154,667)	1.58
Outstanding, End of Period	12,766,000	1.52

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:

Nine Month Period Ended	September 30, 2009
Weighted Average Fair Value of Stock Options Granted in Period	\$ 0.89
Risk Free Interest Rate	1.64%
Expected Life	1.25 – 3 years
Expected Volatility	82%
Dividend Per Share	Nil

9. CONTRIBUTED SURPLUS

The following table presents the reconciliation of Contributed Surplus:

Nine Month Period Ended	September 30, 2009
Balance, Beginning of Period	\$ 6,276
Stock-based Compensation	2,143
Balance, End of Period	<u>\$ 8,419</u>

10. LOSS PER SHARE

The basic weighted average number of common shares outstanding calculated for the three and nine month period ended September 30, 2009 was 207,464,320 (September 30, 2008 – 207,464,320). In computing diluted per share amounts, all of the Corporation's options totaling 12,766,000 (September 30, 2008 – 8,160,000) 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		Nine months ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Operating Activities				
Accounts Receivable	\$ (241)	\$ (296)	\$ (174)	\$ (430)
Prepaid Expenses	91	75	166	46
Income Tax Receivable	1,762	–	(1,417)	–
Accounts Payable and Accrued Liabilities	3	27	(4)	(27)
Income Tax Payable	–	–	(4,679)	–
	<u>\$ 1,615</u>	<u>\$ (194)</u>	<u>\$ (6,108)</u>	<u>\$ (411)</u>
Investing Activities				
Accounts Receivable	\$ 542	\$ (7,688)	\$ 4,896	\$ (8,336)
Accounts Payable and Accrued Liabilities	2,133	7,612	4,587	12,606
	<u>\$ 2,675</u>	<u>\$ (76)</u>	<u>\$ 9,483</u>	<u>\$ 4,270</u>

13. RELATED PARTY TRANSACTIONS

Included in accounts receivable is a loan to a senior officer in the amount of \$0.2 million. The loan is non-interest bearing and matures on December 31, 2009. This transaction was measured at the exchange amount.

14. 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 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. To meet its remaining commitments, the Corporation estimates the expenditures to be approximately \$40 million to \$45 million prior to the costs of any testing, if required. This represents the Corporation’s 60 percent funding requirement and 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. 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 September 30, 2009:

	Three months		For the year ended December 31,				Total
	2009	2010	2011	2012	2013+		
Exploration	\$ 1,453	\$ 660	\$ –	\$ –	\$ –	\$ 2,113	
Office	94	94	–	–	–	188	
	<u>\$ 1,547</u>	<u>\$ 754</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 2,301</u>	

Contingencies

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

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

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
*Executive Chairman
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.
President and Chief Executive Officer
Silver Bear Resources Inc.
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WILLIAM WALLACE
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TRANSFER AGENT AND REGISTRAR

VALIANT TRUST COMPANY
Calgary, Alberta

STOCK EXCHANGE LISTING

TSX VENTURE EXCHANGE
Common Shares: WZR