WESTERNZAGROS : MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

To discharge its responsibilities for financial reporting and safeguarding of assets, management depends on the Company's systems of internal accounting control. These systems are designed to provide reasonable cost effective assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements.

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

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

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

"Signed"	"Signed"
Fred J. Dyment Executive Chairman	Greg Stevenson VP Finance

March 25, 2008

WESTERNZAGROS : AUDITORS' REPORT

To the Shareholders of WesternZagros Resources Ltd.

We have audited the consolidated balance sheets of WesternZagros Resources Ltd. as at December 31, 2007 and 2006 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

March 25, 2008
Calgary, Alberta

December 31 *(United States $ thousands)*	**2007**	2006
Assets		
Current Assets		
Cash and Cash Equivalents	**100,367**	103
Accounts Receivable	**255**	16
Prepaid Expenses	**111**	–
	100,733	119
Long-term Assets		
Property, Plant and Equipment *(note 5)*	**55,896**	21,380
Deposits Held in Trust *(note 6)*	**4,148**	–
	60,044	21,380
	160,777	21,499
Liabilities		
Current Liabilities		
Accounts Payable and Accrued Liabilities	**4,938**	36
Long-term Liabilities		
Due to Related Party *(note 7)*	**–**	20,215
	4,938	20,251
Shareholders' Equity		
Share Capital *(note 9)*	**175,405**	10,909
Warrants *(note 10)*	**4,570**	–
Deficit	**(24,136)**	(9,661)
	155,839	1,248
	160,777	21,499

Commitments and Contingencies *(note 16)*

See Accompanying Notes to the Consolidated Financial Statements

Approved by the Board of Directors

"Signed" "Signed"

Fred J. Dyment, Director Randall Oliphant, Director

WESTERNZAGROS: CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

For the Year Ended December 31 *(United States $ thousands, except per share amounts)*	2007	2006
Revenues		
Interest Income	817	–
Expenses		
Charges Under Service Agreement *(note 7)*	9,072	8,208
General and Administrative	1,640	–
Depreciation	40	8
Foreign Exchange Loss	491	6
	11,243	8,222
Net Loss and Other Comprehensive Loss	10,426	8,222
Deficit at Beginning of Year	9,661	1,439
Warrants Issued Under Plan of Arrangement *(note 4)*	4,049	–
Deficit at End of Year	24,136	9,661
Net Loss Per Share – Basic and Diluted *(note 12)*	0.06	0.05

See Accompanying Notes to the Consolidated Financial Statements

For the Year Ended December 31 *(United States $ thousands)*	2007	2006
Cash Provided By (Used In)		
Cash From Operating Activities		
Net Loss	(10,426)	(8,222)
Non-cash Items		
Depreciation	40	8
	(10,386)	(8,214)
Increase in Non-cash Working Capital *(note 15)*	(107)	–
	(10,493)	(8,214)
Cash From Financing Activities		
Share Issuance Under Plan of Arrangement *(note 9)*	83,980	–
Class C Shares Under Plan of Arrangement *(note 4)*	1,027	–
Share Issuance Under Private Placement *(note 9)*	12,766	–
Exercise of Warrants *(note 9)*	4,201	–
Increase in Due to Related Party *(note 7)*	42,828	22,555
	144,802	22,555
Cash From Investing Activities		
Capital Expenditures	(34,556)	(13,154)
Deposits Held in Trust	(4,148)	–
Decrease (Increase) in Non-cash Working Capital *(note 15)*	4,659	(1,091)
	(34,045)	(14,245)
Increase in Cash and Cash Equivalents	100,264	96
Cash and Cash Equivalents at Beginning of Period	103	7
Cash and Cash Equivalents at End of Period	100,367	103

See Accompanying Notes to the Consolidated Financial Statements

1. NATURE OF OPERATIONS

WesternZagros Resources Ltd. (the "Corporation") was incorporated on August 22, 2007 under the laws of the Province of Alberta. On October 18, 2007, the Corporation, Western Oil Sands Inc. (now Marathon Oil Canada Corporation) ("Western"), Marathon Oil Corporation, 1339971 Alberta Ltd. and WesternZagros Resources Inc. ("WZRI") completed a Plan of Arrangement (the "Arrangement"). In connection with the Arrangement, the Corporation, through a series of transactions, acquired all of the outstanding shares in WZRI. Further information on the Arrangement can be found in note 4.

The Corporation is engaged in acquiring properties and exploring for crude oil and natural gas and is in the developmental stage. Through its subsidiaries, the Corporation is party to a Production Sharing Contract ("PSC") with the Kurdistan Regional Government ("KRG") in respect of an exploration project area in the Kurdistan Region of Iraq.

2. SIGNIFICANT ACCOUNTING POLICIES

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

a) **Principles of Consolidation** The Consolidated Financial Statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles and include the accounts of the Corporation and its wholly owned subsidiaries.

b) **Use of Estimates** The preparation of the Consolidated Financial Statements in conformity with Canadian Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Such estimates relate to unsettled transactions and events as of the date of the Consolidated Financial Statements. Accordingly, actual results may differ from these estimated amounts as future confirming events occur. Significant estimates used in the preparation of the Consolidated Financial Statements include, but are not limited to, recovery of exploration costs capitalized in accordance with full-cost accounting, asset retirement obligation, income taxes and the fair value of the warrants.

c) **Foreign Currency Translation** Monetary assets and liabilities denominated in foreign currencies are translated to U.S. dollars at rates of exchange in effect at the end of the period. Other assets and related depreciation, depletion and amortization, other liabilities, revenues and expenses are translated at rates of exchange in effect at the respective transaction dates. The resulting exchange gains and losses are included in earnings.

d) **Cash and Cash Equivalents** Cash and cash equivalents consist of cash in the bank, less outstanding cheques, and short-term deposits with a maturity of less than three months.

e) **Revenue** The Corporation recognizes revenue, which is related to the interest income earned on the Corporation's cash and cash equivalents, on an accrual basis.

f) **Property, Plant and Equipment** Property, plant and equipment ("PP&E") assets are recorded at cost less accumulated provisions for depreciation, depletion and amortization.

The Corporation accounts for its petroleum and natural gas operations in accordance with the Canadian Institute of Chartered Accountants' ("CICA") guideline on full-cost accounting in the oil and gas industry. Under this method, all exploration and development costs, including asset retirement obligations, are capitalized and accumulated within cost centres on a country-by-country basis. Such costs include land acquisition, geological and geophysical activity, drilling and testing of productive and non-productive wells, carrying costs directly related to unproved properties, major development projects and administrative costs directly related to exploration and development activities.

If the Corporation commences commercial production from the cost centres, capitalized costs accumulated within each cost centre will be depleted on the unit-of-production method based on the estimated proved reserves of that country using estimated future prices and costs. Proceeds from the disposal of properties are normally deducted from the full-cost pool without recognition of a gain or loss, unless that deduction would result in a change to the depletion rate by 20 per cent or more, in which case a gain or loss is recorded.

In determining the depletion base, the Corporation includes estimated future costs to be incurred in developing proved reserves and excludes the cost of unproved properties and major development projects. Costs of major development projects and costs of acquiring and evaluating significant unproved properties are excluded, on a cost centre basis, from costs subject to depletion until it is determined whether or not proved reserves are attributable to the properties or impairment has occurred. To date, no depletion related to the Corporation's properties has been recorded as commercial operations have not commenced.

The Corporation reviews the carrying amount of its properties relative to their recoverable amount (the "ceiling test") for each cost centre at each annual balance sheet date or more frequently if circumstances or events indicate impairment has occurred. The recoverable amount is calculated as the sum of:

- the undiscounted cash flow from proved reserves using expected future prices and costs;
- the cost of unproved properties; and
- the costs of major development projects less impairment.

If the carrying amount of the properties exceeds their recoverable amount, an impairment loss is recognized in depletion equal to the amount by which the carrying amount of the properties exceeds their fair value. Fair value is calculated as the sum of:

- the cash flows from proved and probable reserves using expected future prices and costs, discounted at a risk-free interest rate; and
- the cost, less impairment, of unproved reserves and major development projects that do not have probable reserves attributable to them.

The Corporation is currently engaged in the Kurdistan Region Exploration Project, as described in note 5, which is in the development stage. As at December 31, 2007, $55.3 million has been capitalized to date related to this project. No revenues have been generated from this project to date.

g) **Corporate and Other** Corporate PP&E assets are depreciated on a straight-line basis over their useful lives ranging from three to five years.

h) **Asset Retirement Obligation** The Corporation recognizes an asset and a liability for asset retirement obligations in the period in which they are incurred by estimating the fair value of the obligation. The fair value is determined by the Corporation by first estimating the expected timing and amount of cash flows, using third party costs, that will be required for future dismantlement and site restoration, and then calculating the present value of these future expenditures using a credit adjusted-risk-free-rate that Management of the Corporation deems appropriate. Any change in timing or amount of the cash flows subsequent to initial recognition results in a change in the asset and liability. The Corporation recognizes, over the estimated life of the asset and liability, depletion on the asset and accretion on the liability. Actual expenditures, when incurred, will be charged against the accumulated obligation. The Corporation currently does not have asset retirement obligation, as operations are in the early stage of development.

i) Income Taxes The Corporation follows the liability method of income tax allocation. Under this method, future tax assets and liabilities are determined based on differences between the Consolidated Financial Statements and tax bases of assets and liabilities and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Corporation assesses, based on all available evidence, the likelihood that the future income tax assets will be recovered from future taxable income and a valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

j) Stock-Based Compensation For the Corporation's stock option plan, compensation expense is recorded in the Consolidated Statements of Operations as general and administrative expense with a corresponding increase in Contributed Surplus in the Consolidated Balance Sheets for all common share options granted. The expense is based on the fair values of the options at the time of grant and is recognized in the Consolidated Statements of Operations over the requisite service period of the respective options on a straight-line basis. Fair values are determined, at the grant date, using the Black-Scholes option-pricing model. Consideration paid to the Corporation on exercise of options is credited to Share Capital and an amount equal to the compensation expense recognized to that date is reclassified from Contributed Surplus to Share Capital.

3. CHANGES IN ACCOUNTING POLICIES AND FUTURE ACCOUNTING POLICY CHANGES

a) Financial Instruments On January 1, 2007, the Corporation adopted the CICA Handbook sections 3855 "Financial Instruments – Recognition and Measurement," 3862 "Financial Instruments – Disclosures," 3863 "Financial Instruments – Presentation," 3865 "Hedges," 1530 "Comprehensive Income," and 3251 "Equity." The adoption of the financial instruments standards has not affected the current or comparative period balances on the consolidated financial statements, as all financial instruments identified have been fair valued.

Financial Instruments Section 3855 requires that all financial assets be classified as held-for-trading, available-for-sale, held-to-maturity, or loans and receivables and that all financial liabilities must be classified as held-for-trading or other. Financial assets and financial liabilities classified as held-for-trading are measured at fair value with changes in those fair values recognized in earnings. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method of amortization. Available-for-sale financial assets are measured at fair value with unrealized gains and losses, including changes in foreign exchange rates, being recognized in other comprehensive income. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost.

Derivative instruments are always carried at fair value and reported as assets where they have a positive fair value and as liabilities where they have a negative fair value. Derivatives may be embedded in other financial instruments. Under the new financial instrument standards, derivatives embedded in other financial instruments are valued as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host contract, the terms of the embedded derivative are the same as those of a free-standing derivative, and the combined contract is not held for trading. When an entity is unable to measure the fair value of the embedded derivative separately, the combined contract is treated as a financial asset or liability that is held-for-trading and measured at fair value with changes therein recognized in the earnings.

The fair value of a financial instrument on initial recognition is normally the transaction price, (for example the fair value of the consideration given or received). Subsequent to initial recognition, fair values are based on quoted market prices where available from active markets, otherwise fair values are estimated based upon market prices at reporting date for other similar assets or liabilities with similar terms and conditions or by discounting future payments of interest and principal at estimated interest rates that would be available to the Corporation at the reporting date.

Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading. Transaction costs related to other financial instruments are generally capitalized and are then amortized over the expected life of the instrument using the effective interest method.

Hedges Section 3865 replaces the guidance formerly in Section 1650, "Foreign Currency Translation", and Accounting Guideline 13, "Hedging Relationships", by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. The Corporation does not have any derivative instruments that have been designated as hedges.

Comprehensive Income Section 1530 establishes new standards for reporting the display of comprehensive income, consisting of Net Income and Other Comprehensive Income ("OCI"). OCI is the change in equity (net assets) of an enterprise during a reporting period from transactions and other events from non-owner sources and excludes those resulting from investments by owners and distributions to owners. The Corporation has no such transactions and events which would require the disclosure of OCI for the years ended December 31, 2007 and 2006. Any changes in these items would be presented in a consolidated statement of comprehensive income.

Equity Section 3251 replaces Section 3250, "Surplus", and establishes standards for the presentation of equity and changes in equity during a reporting period, including changes in Accumulated Other Comprehensive Income ("Accumulated OCI"). Any cumulative changes in OCI would be included in Accumulated OCI and would be presented as a new category of Shareholders' Equity on the consolidated balance sheets.

b) **Accounting Changes** On January 1, 2007, the Corporation adopted CICA Handbook Section 1506, "Accounting Changes", which revises and replaces former Section 1506, "Accounting Changes". This section establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies and estimates, and correction of errors.

c) **Determining the Variability to be Considered in Applying AcG-15** On January 1, 2007, the Corporation prospectively adopted the Emerging Issues Committee issued Abstract 163, "Determining the Variability to be Considered in Applying AcG-15", which addresses how an enterprise should determine the variability to be considered in applying AcG-15, "Consolidation of Variable Interest Entities". The adoption of this standard has not affected the current or comparative period balances on the consolidated financial statements.

d) **Future Accounting Policy Changes** The CICA has issued the following new accounting standards:

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

These new standards will become effective for the Corporation on January 1, 2008.

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

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

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

Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

4. PLAN OF ARRANGEMENT

On October 18, 2007, Western announced the completion of the Arrangement pursuant to which the Corporation, through a series of transactions, acquired all of the outstanding shares in WZRI. Under the Arrangement, the shareholders of Western received one share of the Corporation and one-tenth of a common share warrant to purchase the shares of the Corporation for each Western share held. Each whole warrant was exercisable at a price of Cdn$2.50 until January 18, 2008. In aggregate, 165,057,183 common shares and 16,505,729 warrants were issued to the former Western shareholders. Certain persons committed to exercise a portion of the warrants received pursuant to the Arrangement for Cdn$1.4 million to the Corporation. The Corporation's common shares, issued and outstanding as at October 18, 2007 prior to the Arrangement, were repurchased for cancellation.

Pursuant to the Arrangement, the shareholders of Western continued to hold their respective interests in the Corporation, resulting in no change of control. Therefore, the acquisition was accounted for assuming continuity of business for WZRI under Emerging Issues Committee 89 – Exchanges of ownership interests between enterprises under common control-wholly and partially-owned subsidiaries ("EIC-89"). Consequently, under EIC-89 no fair value adjustments were made.

The consolidated financial statements of the Corporation reflect the assets and liabilities of WZRI at their book value as reported in the consolidated financial statements of WZRI. The continuity of business accounting requires that the results of operations presented in the consolidated financial statements of the Corporation include the operations of WZRI for the entire fiscal period in which the Arrangement took place. In addition, the comparative consolidated financial statements of the Corporation were restated to reflect the financial position and results of operation as if the Corporation and WZRI had been combined since their inception. The shares of the Corporation issued under the Arrangement were valued at the carrying value of the net assets of WZRI, excluding the accumulated deficit, as at October 18, 2007.

As at October 18, 2007, WZRI had the following assets, liabilities and shareholders' equity:

Assets	
Cash (2)	87,990
Property, Plant and Equipment	49,948
Deposits Held in Trust	4,800
	142,738
Liabilities	
Accounts Payable and Accrued Liabilities	4,912
Due to Related Party (1)	–
	4,912
Shareholders' Equity	
Share Capital (1)(2)	157,932
Deficit	(20,106)
	137,826
	142,738

(1) Prior to the Arrangement and the acquisition of WZRI by the Corporation, $63.0 million of inter-company debt between WZRI and subsidiaries of Western was settled with the issue of share capital on October 18, 2007.

(2) WZRI, under the Arrangement, was capitalized further with $84.0 million (Cdn$81.5 million) in cash through a series of transactions.

Pursuant to the Arrangement, the Corporation received $1.0 million (Cdn$1.0 million) to purchase and cancel the Class C shares of Western that the Corporation had received as consideration for the issuance of the warrants. The Corporation recognized a charge to the deficit of $4.0 million representing the difference between the Black-Scholes fair value of the warrants as described in note 10 and these proceeds received.

Following the completion of the Arrangement and related subsequent transactions, the Corporation completed a private placement of 5,000,000 common shares at a price of Cdn$2.50 per share for gross proceeds of US$12.8 million (Cdn$12.5 million).

5. PROPERTY, PLANT AND EQUIPMENT

December 31, 2007	Cost	Accum. DD&A*	Net
Kurdistan Region Exploration Project	**55,320**	**–**	**55,320**
Corporate	**616**	**(40)**	**576**
	55,936	**(40)**	**55,896**

December 31, 2006	Cost	Accum. DD&A*	Net
Kurdistan Region Exploration Project	21,371	–	21,371
Corporate	20	(11)	9
	21,391	(11)	21,380

* Accumulated Depreciation, Depletion and Amortization

All costs included in the Kurdistan Region Exploration Project are excluded from depletion as they represent costs related to properties incurred in cost centres that are considered to be in the pre-production stage. Currently, there are no proved reserves. All costs, net of any associated revenues, have been capitalized.

6. DEPOSITS HELD IN TRUST

During the year ended December 31, 2007, the Corporation deposited in trust $4.8 million to be utilized to fund certain exploration expenditures related to the drilling contract and the purchase of long lead time tangible items for drilling operations as they were incurred and approved by the Corporation. The deposit accounts bear interest at prevailing market rates, with any associated interest utilized to satisfy requirements under the exploration expenditures. As at December 31, 2007, $4.1 million of these deposits remained.

7. DUE TO RELATED PARTY

During the year ended December 31, 2007, the Corporation was charged $9.1 million (December 31, 2006 – $8.2 million) relating to operational, technical and other support expenditures incurred pursuant to the Services Agreement with Western. Western had paid for various capital, operational, technical, legal, general and administrative expenditures on behalf of the Corporation. These transactions were measured at the exchange amount, which is the amount of consideration established and agreed by the related parties. These transactions were undertaken with the same terms and conditions as transactions with non-related parties.

The amount due to related party, which was non-interest bearing, was regularly settled through issuance of equity. Prior to the closing of the Arrangement, $63.0 million was settled through the issuance of equity. For the year ended December 31, 2006, $10.9 million was settled through the issuance of equity.

8. INCOME TAXES

As at December 31, 2007, the Corporation had non-capital losses carried forward of $12.6 million and a future income tax asset of $3.2 million relating to the difference in the carrying value and the tax basis of the assets. Since the asset is limited to the amount that is more likely than not to be realized, no asset has been recorded.

The following table reconciles income taxes calculated at the Canadian statutory rate of 32.12 per cent (December 31, 2006 – 34.49 per cent):

For the Years Ended December 31	**2007**	2006
Net Loss Before Income Taxes	**10,426**	8,222
Income Tax Recovery at Statutory Rate	**3,349**	2,836
Effect of Anticipated Timing of Use	**(742)**	(492)
Foreign Tax Rate Differentials	**(385)**	(1,060)
Valuation Allowance	**(2,222)**	(1,284)
Income Tax Recovery	**–**	–

9. SHARE CAPITAL

a) WesternZagros Resources Ltd.

Authorized

The Corporation is authorized to issue an unlimited number of ordinary and preferred shares.

The Common Shares are without nominal or par value.

Issued and Outstanding

	Number of Shares	Amount
Common Shares		
Issued on Incorporation	1	1
Repurchased – Plan of Arrangement	(1)	(1)
Issued – Plan of Arrangement *(note 9(b))*	165,057,183	157,932
Issued – Under Private Placement	5,000,000	12,766
Issued – Exercise of Warrants	1,646,864	4,201
Issued – Exercise of Warrants Previously Recognized *(note 10)*	–	506
Balance at December 31, 2007	171,704,047	175,405

b) WesternZagros Resources Inc.

Authorized

The Corporation is authorized to issue an unlimited number of ordinary and preferred shares.

The Common Shares are without nominal or par value.

Issued and Outstanding

	Number of Shares	Amount
Common Shares		
Balance at December 31, 2005	1	1
Issued – Settlement of Due to Related Party	18	10,908
Balance at December 31, 2006	19	10,909
Issued – Settlement of Due to Related Party *(note 4)*	6	63,043
Issued – Under Plan of Arrangement *(note 4)*	6	83,980
Balance at December 31, 2007	31	157,932

10. WARRANTS

Pursuant to the Arrangement, the Corporation issued 16,505,729 warrants on October 18, 2007. Each whole warrant was exercisable at a price of Cdn$2.50 and expired on January 18, 2007. On October 18, 2007, the issue date of the warrants, the Black-Scholes calculated fair value was Cdn$0.30 per warrant. The following table summarizes the assumptions used in applying the Black-Scholes model:

Risk Free Interest Rate	4.4%
Expected Life (in months)	3
Expected Volatility	60%
Dividend Per Share	Nil

The following table presents the reconciliation of warrants outstanding for the year ended December 31, 2007:

	Number of Warrants	Amount
Warrants		
Issued – Plan of Arrangement *(note 4)*	16,505,729	5,076
Exercised	(1,646,864)	(506)
Balance at December 31, 2007	14,858,865	4,570

Subsequent to December 31, 2007, a further 2,426,939 warrants were exercised for total proceeds of Cdn$6.1 million, bringing the total proceeds received in respect to the warrants to Cdn$10.1 million. The remaining 12,431,926 warrants expired on January 18, 2008 unexercised.

11. STOCK OPTIONS

On October 16, 2007, the shareholders of the Corporation approved a stock option plan for the Corporation. Under 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 per cent of the issued and outstanding common shares on a non-diluted basis of the Corporation at the time of granting. As at December 31, 2007, the Corporation had not issued any stock options, and, accordingly, had not recognized any stock-based compensation for the period ending December 31, 2007.

On February 5, 2008, the Corporation granted 7,060,000 options at an exercise price of $2.15 per share. The options vest over a three year period, with 1/3 of the options vesting on each of October 22, 2008, October 22, 2009 and October 22, 2010.

12. LOSS PER SHARE

The Corporation has calculated basic loss per share for the years ending December 31, 2007 and 2006 as if the shares issued under the Arrangement were issued effective January 1, 2006 and considering subsequent issuances after the completion of the Arrangement on October 18, 2007. The basic weighted average number of common shares outstanding calculated on this basis for December 31, 2007 are 166,303,062 and for December 31, 2006 are 165,057,183. Due to a loss for the years ended December 31, 2007 and 2006, no incremental shares were included in the diluted earnings per weighted average number because the effect would have been anti-dilutive.

13. SHAREHOLDERS' RIGHTS PLAN

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

14. FINANCIAL INSTRUMENTS

Financial instruments of the Corporation consist of cash and cash equivalents, accounts receivable, deposits held in trust and accounts payable and accrued liabilities. The estimated fair value of the financial instruments approximates their carrying values due to their short terms to maturity.

The Corporation is exposed to interest rate risk to the extent that changes in market interest rates will impact any interest earned on the Corporation's cash and cash equivalent and deposit held in trust balances. The Corporation enters into transactions for cash equivalents with major Canadian financial institutions with investment grade credit ratings, as well as purchases Government of Canada instruments.

The Corporation is exposed to foreign exchange risk. The majority of the Corporation's costs are anticipated to be incurred in U.S. dollars and the funds it will have available to it may be in other currencies. There is a possibility that operations and development costs may increase as a result of currency fluctuation. As a result, the Corporation holds the majority of its cash and cash equivalents in U.S. dollars.

15. CHANGES IN NON-CASH WORKING CAPITAL

For the Years Ended December 31 Source/(Use)	2007	2006
Operating Activities		
Accounts Receivable	(50)	–
Prepaid Expenses	(111)	–
Accounts Payable and Accrued Liabilities	54	–
	(107)	–
Investing Activities		
Accounts Receivable	(189)	86
Accounts Payable and Accrued Liabilities	4,848	(1,177)
	4,659	(1,091)

16. COMMITMENTS AND CONTINGENCIES

Commitments

a) *Production Sharing Contract ("PSC")* The Corporation, through WesternZagros Limited, a wholly owned subsidiary of the Corporation, has entered into a PSC with the KRG. The Corporation had been in discussions with the KRG regarding amendments to the Corporation's Exploration and Production Sharing Agreement (the "EPSA") which was signed in February 2007 in order to bring the EPSA into conformity with the KRG's recently developed Model PSC. On February 29, 2008, the Corporation announced that it had signed an amended PSC and completed these negotiations.

Under the amended terms of the PSC, the Corporation has a 40 per cent working interest. The KRG will have a direct 20 per cent interest in the PSC which will be carried primarily by the Corporation. The remaining 40 per cent may be allocated to a third party or parties by the KRG within a six month period ending on August 28, 2008, with a requirement that such third party or parties pay a share of the costs incurred by the Corporation. The Corporation, the KRG and the third party or parties will be 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, drill three exploration wells and commit a minimum of US$75 million in the aggregate on seismic, geologic studies and drilling. 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 share of the PSC work commitment for the first exploration sub-period, including the previously paid signature bonus, the capacity building payments, the various funding requirements and the requirement for the Corporation to primarily carry the KRG's interest through the work commitments, to be approximately US$103 million.

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 US$35 million. 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 per cent 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, and for subsequent sub-periods a joint operating company will be established between the Corporation, the KRG and any third party or parties if so elected.

The Corporation has granted participation rights for up to five per cent 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.

b) *Other* The Corporation has entered into various exploration related contracts, including for drilling equipment, services and tangibles, and seismic surveying equipment and services, to meet the requirements it has under the PSC. The following table summarizes the commitments the Corporation has under these exploration related contracts and other contractual obligations at December 31, 2007:

For the Year Ending December 31	2008	2009	2010	2011	2012+	Total
Exploration	11,343	–	–	–	–	11,343
Office	375	375	94	–	–	844
	11,718	375	94	–	–	12,187

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 amended 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.

17. SUBSEQUENT EVENTS

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$70.8 million).