

WESTERNZAGROS : MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A"), effective March 25, 2008, reviews WesternZagros Resources Ltd.'s ("WesternZagros" or the "Company") activities and results for the period ended December 31, 2007. It should be read in conjunction with the Audited Consolidated Financials Statements, together with the accompanying notes, included in this report. The Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

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

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 exploration and development plans and anticipated future production and resources. Forward-looking information typically contains statement with words such as "anticipate", "estimate", "expect", "potential", "could", or similar words suggesting future outcomes. Readers and prospective investors of WesternZagros should 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. For additional information relating to the risks and uncertainties facing WesternZagros, see "Risk Factors". Additional information relating to WesternZagros is available on SEDAR at www.sedar.com.

OVERVIEW

WesternZagros is an 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 the block is on trend with, and adjacent to, a number of prolific historic oil and gas discoveries.

STRATEGY

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

PLAN OF ARRANGEMENT

WesternZagros was incorporated on August 22, 2007 under the laws of the Province of Alberta. On October 18, 2007, WesternZagros, Western Oil Sands Inc. (now Marathon Oil Canada Corporation) ("Western"), Marathon Oil Corporation, 1339971 Alberta Ltd. and WesternZagros Resources Inc. ("WZRI") completed a Plan of Arrangement (the "Arrangement"). Pursuant to the Arrangement, each Western shareholder received one share and one-tenth of a warrant of WesternZagros for each Western share held, resulting in the issuance of 165,057,183 common shares and 16,505,729 warrants. Each whole warrant entitled the holder to purchase one WesternZagros share at a unit price of Cdn\$2.50 until January 18, 2008. Prior to expiry, 4,073,803 were exercised for total proceeds to WesternZagros of approximately Cdn\$10.2 million.

Upon closing of the Arrangement, WesternZagros indirectly received approximately Cdn\$82.5 million cash from Western as part of the transaction. In addition, following the transaction, WesternZagros completed a private placement at a price of Cdn\$2.50 per share for proceeds of Cdn\$12.5 million. WesternZagros began trading on the TSX Venture Exchange in Canada on October 22, 2007 under the symbol WZR.

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

The consolidated financial statements of WesternZagros, and the disclosures found throughout the MD&A, reflect the assets and liabilities of WZRI at their book value as reported in the consolidated financial statements of WZRI. The continuity of business accounting requires that the results of operations presented in the consolidated financial statements of WesternZagros include the operations of WZRI for the entire fiscal period in which the Arrangement took place. In addition, the comparative consolidated financial statements of WesternZagros were restated to reflect the financial position and results of operation as if WesternZagros and WZRI had been combined since their inception. As a result, references to WesternZagros in the MD&A incorporate the activities of WZRI and its subsidiaries from their inception.

KEY MILESTONES

In 2003, WesternZagros began examining oil and gas exploration and development opportunities in Iraq with a focus on the Kurdistan Region. In November 2004, WesternZagros signed a Memorandum of Understanding ("MOU") with the KRG Sulaymaniya Administration in order to conduct an exploration study in the southern Kurdistan Region. In March 2005, WesternZagros also signed an MOU with the federal Ministry of Oil in Baghdad with respect to the same exploration study and other technical cooperation projects.

Following the completion of studies and the adoption by national referendum of the Iraq Constitution in October 2005, WesternZagros proposed and negotiated an Exploration and Production Sharing Agreement ("EPSA"). The EPSA was originally signed in Sulaymaniya on May 4, 2006 with a requirement that the Company's contract be ratified by the unified KRG.

Later in 2006, the two antecedent administrations in the Kurdistan Region (located in the cities of Sulaymaniya and Erbil) unified as a single KRG. WesternZagros' EPSA was reviewed in late 2006 and early 2007 by the Minister of Natural Resources of the KRG to bring the Company's contract in line with the then draft KRG petroleum legislation. As a result of this review, and with the agreement of WesternZagros, the Company's EPSA was amended to, among other items, reduce the contract area with a corresponding decrease in the work commitment. The amended EPSA was signed in Erbil by WesternZagros and the KRG and ratified by the Prime Minister and Deputy Prime Minister of the Kurdistan Region on behalf of the Council of Ministers (Cabinet) of the KRG on February 27, 2007.

Subsequent to this, the Kurdistan National Assembly passed the Kurdistan Region Oil and Gas Law on August 6, 2007. This law encapsulated the principles of the then draft Federal Revenue Sharing Law and introduced the Model PSC and associated key economic terms. The KRG also created a Regional Oil & Gas Council to undertake a formal review of all Kurdistan Region

petroleum contracts, including WesternZagros' contract, executed prior to the enactment of the Kurdistan Region Oil and Gas Law. At this time, the Council requested conformity of WesternZagros' EPSA with the KRG's published Model PSC and economic terms. In this regard, during the latter half of 2007 and in early 2008, WesternZagros was in discussions with the Council. On February 28, 2008, WesternZagros concluded these discussions and signed an amended PSC with the KRG. Under the terms of this PSC, WesternZagros has a 40 per cent working interest, and the KRG has a direct 20 per cent interest in the PSC, primarily carried by WesternZagros. The remaining 40 per cent may be allocated to a third party or parties elected by the KRG within a six month period. The third party is required to pay a share of costs incurred by WesternZagros up to the effective date of its election in the block. The primary terms of the PSC include: capacity building support payable by WesternZagros over a 15 month period for the well being of the people in the vicinity of the PSC area, production bonuses payable by all parties at various threshold cumulative production levels and a minimum work commitment of 1,150 kilometres of 2-D seismic and three exploration wells.

HIGHLIGHTS

Operations

- Phase I of the Company's seismic program was completed in October 2007 with the Company acquiring 758 kilometres of seismic. In November 2007, the Company mobilized a new seismic crew and the Phase II seismic program commenced. Over 310 kilometres have been acquired under the Phase II program as of March 25, 2008, for a combined total of over 1,070 kilometres to date. WesternZagros is committed to complete a minimum of 1,150 kilometres of seismic surveying under its PSC.
- Processing of the Company's Phase I and II seismic program is ongoing and will continue into the third quarter of 2008. Interpretation is underway and, to date, the Company has confirmed the presence of several leads and prospects. Based on this work, WesternZagros plans to compile an inventory of drillable opportunities on the PSC lands.
- WesternZagros commenced engineering and related work on its initial drilling location, Sarqala-I (formerly East Shakal). The Company anticipates that it will spud this well early in the second quarter of 2008.
- During the fourth quarter of 2007, WesternZagros secured a drilling rig with a U.S. drilling contractor and refurbished the rig to the Company's specifications. Rig mobilization and well site preparations commenced in February 2008.
- Procurement of long lead time items for the Company's initial exploration well commenced in the fourth quarter of 2007 with the balance of procurement of goods and services completed in the first quarter of 2008.
- WesternZagros' operations did not experience any serious Health, Safety and Environment or security incidents during the year.
- In 2007, WesternZagros sponsored a number of programs as part of its training commitments including: a student sponsorship program for post-graduate studies for nine employees of the KRG which commenced in September in Calgary; a three week Executive Program which took place in Calgary for 14 participants of the KRG providing a high-level overview of the upstream, midstream and downstream oil and gas industry; and, two workshops (Corrosion Monitoring & Management and Safety Management) which were held in Istanbul, Turkey in June 2007 and attended by 17 and 15 participants, respectively, from the KRG.
- WesternZagros employs several local national staff in the Kurdistan Region of Iraq both in its office in Sulaymaniya and in field operations, including professional, technical and administrative roles. As of the end of December 2007, 17 local nationals were employed by WesternZagros in full-time positions and seven in part-time roles. WesternZagros also retains two geology professors from the University of Sulaymaniya on a part-time consulting basis. WesternZagros has also generated local employment for more than 400 individuals through its contracts with firms in Sulaymaniya and the surrounding area, primarily in field operations. In addition, another 50 local individuals have been employed on a casual basis for activities related to camp, lease and road construction.

Financial

- From October 18, 2007 to January 18, 2008, 4.1 million warrants were exercised at price of Cdn\$2.50 providing Cdn\$10.2 million in proceeds.
- In March 2008, WesternZagros completed a private placement for total net proceeds of Cdn\$70.8 million consisting of 33.3 million shares at a price of Cdn\$2.25 per share.
- With the Company's cash position at December 31, 2007 and proceeds from the warrant exercises and recent private placement, WesternZagros has available approximately US\$181 million. These funds will be used to carry out a multi well exploration program over the next two to three years on the Company's highly prospective block.

Corporate

- WesternZagros successfully completed the Arrangement and engaged a very experienced Board of Directors and management team with extensive experience in the resource sector, both domestically and internationally. In addition, in January 2008, WesternZagros welcomed Mr. William Wallace to its Board. Mr. Wallace has over 40 years industry experience and has served in various executive management positions with Texaco, CSX Oil and Gas Company and Barrett Resources/Plains Petroleum Company. He has also supervised international operations in Colombia, Ecuador, Venezuela, the United Kingdom, Ireland, France, New Zealand, Australia and Pakistan.

LAND

WesternZagros holds a PSC in the Kurdistan Region which provides for the exploration and development of crude oil and natural gas over a 2,120 square kilometre block (523,826 acres or 818 square miles). The PSC lands are on trend with, and adjacent to, a number of historic oil and gas discoveries, most of which were drilled on surface anticlines with hydrocarbon seeps. The prolific Kirkuk – Kor Mor – Chia Surkh structural trend runs through the PSC lands, and the Jambur – Pulkhana – Qamar trend skirts along the southern margin of the block. These discoveries are all located within 60 kilometres of WesternZagros' block and most reservoirs are Tertiary and Cretaceous carbonates. Stacked reservoirs are common within a single field and single zone discoveries are rare. Most reservoirs are highly fractured and fracturing is a key factor to well productivity and can significantly enhance flow rates. Carbonate reservoir porosities in the area are variable (three per cent to 36 per cent).

As at the year ended December 31, 2007, there were no petroleum exploration wells drilled on WesternZagros' block. As a result, WesternZagros has not yet established any reserves in Iraq.

FINANCIAL PERFORMANCE

Selected Annual Information

(US\$ thousands, unless otherwise specified)

	2007	2006
Total Revenues	817	–
Net Loss	10,426	8,222
Net Loss Per Share (US\$ Per Share) (Basic and Fully Diluted)	0.06	0.05
Capital Expenditures	34,556	13,154
Total Assets	160,777	21,499
Total Long-term Liabilities	–	20,215
Dividend (US\$ Per Share)	Nil	Nil

WesternZagros is currently exploring for crude oil and natural gas in the Kurdistan Region of Iraq and has no current reserves or production. WesternZagros' revenues are comprised entirely of interest earned on cash and cash equivalent balances held subsequent to the completion of the Arrangement.

Capital expenditures relate to exploration and related costs incurred by WesternZagros on its PSC lands, including the costs associated with Phase I seismic acquisition, the initial signature bonus paid with respect to the PSC, the construction of two base camps, other geological and geophysical programs associated with the PSC lands and related in-country general and administrative costs. The net loss is comprised of various general and administrative costs associated with the negotiation of the PSC, operational, technical, legal and other general and administrative costs incurred by WesternZagros. Certain of these expenditures were incurred, prior to the completion of the Arrangement, under a services agreement with Western.

Charges Under Service Agreement

For the year ended December 31, 2007, WesternZagros incurred \$9.1 million in charges under a service agreement compared to \$8.2 million for the year ended December 31, 2006. The charges related to operational, technical and other support expenditures incurred pursuant to a Services Agreement WZRI had with Western. Under the agreement, Western had paid for various PSC negotiation costs, capital, operational, technical, legal, general and administrative expenditures on behalf of WZRI. These transactions were measured at the exchange amount, which is the amount of consideration established and agreed by the related parties. These transactions were undertaken with the same terms and conditions as transactions with non-related parties. This services agreement was terminated upon the completion of the Arrangement on October 18, 2007.

General and Administrative Expenses

For the year ended December 31, 2007, WesternZagros incurred \$1.6 million in general and administrative expenses ("G&A"). This G&A represented the salaries and related expenditures WesternZagros incurred subsequent to the completion of the Arrangement on October 18, 2007.

Depreciation, Depletion and Amortization (DD&A)

For the year ended December 31, 2007, WesternZagros had \$0.04 million of DD&A related to certain administrative assets the Company had acquired compared to \$0.01 million for the prior year period. No depletion was included as it related to the Company's exploration activities and related assets as WesternZagros has yet to determine whether proved reserves are attributable to its PSC lands.

Foreign Exchange

WesternZagros adopted the U.S. dollar as its measurement and reporting currency since the majority of its expenses are or will be directly or indirectly denominated in U.S. dollars and to facilitate a more direct comparison to other international crude oil and natural gas exploration and development companies. 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. During the year ended December 31, 2007, WesternZagros incurred \$0.5 million of foreign exchange losses compared to \$0.01 million in 2006 relating to these conversions.

Income Taxes

As at December 31, 2007, WesternZagros had non-capital losses carried forward of \$12.6 million. However, no asset or associated income tax recovery has been recorded as there is no certainty that the non-capital losses carried forward can ultimately be realized given the developmental stage of WesternZagros.

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

Net Loss

For the year ended December 31, 2007, WesternZagros incurred a net loss of \$10.4 million compared to a net loss of \$8.2 million for the year ended December 31, 2006. WesternZagros is currently a development stage enterprise and apart from the Company's working interest in its PSC, WesternZagros has no other assets or ongoing operations.

Capital Expenditures

For the year ended December 31, 2007, WesternZagros incurred \$34.6 million of capital expenditures related mainly to the Company's PSC compared to \$13.2 million in 2006. This year-over-year increase was a result of increased operational activity which included:

- completion of the Phase I 2-D seismic program;
- construction of a northern base camp;
- mobilization of the seismic crew and equipment for the Phase II seismic program;
- commencement of the Phase II 2-D seismic program;
- procurement of long lead time items for the drilling of WesternZagros' initial well;
- refurbishment of the drilling rig to meet the requirements of managed pressure drilling;
- payment of the initial signature bonus; and
- higher in-country administrative costs related to the increased level of activities.

QUARTERLY INFORMATION

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

Selected Quarterly Information

(US\$ thousands, unless otherwise specified)

2007	Q1	Q2	Q3	Q4	Total
Revenues	–	–	–	817	817
Net Loss	2,246	3,677	3,667	836	10,426
Net Loss Per Share (US\$ Per Share) (Basic and Fully Diluted)	0.01	0.02	0.02	0.01	0.06
Capital Expenditures	5,765	6,870	11,428	10,493	34,556
Total Assets	27,236	36,104	45,943	160,777	160,777
Total Long-term Liabilities	27,994	39,084	52,297	–	–
Dividend (US\$ Per Share)	Nil	Nil	Nil	Nil	Nil
2006					
Revenues	–	–	–	–	–
Net Loss	1,593	2,848	2,063	1,718	8,222
Net Loss Per Share (US\$ Per Share) (Basic and Fully Diluted)	0.01	0.02	0.01	0.01	0.05
Capital Expenditures	197	174	–	12,783	13,154
Total Assets	8,460	8,749	8,707	21,499	21,499
Total Long-term Liabilities	11,461	14,623	16,645	20,215	20,215
Dividend (US\$ Per Share)	Nil	Nil	Nil	Nil	Nil

Fourth Quarter 2007

In the fourth quarter of 2007, WesternZagros was active in completing the Arrangement as previously discussed and in fulfilling the necessary requirements for listing the Company on the TSX Venture Exchange. During the fourth quarter of 2007, WesternZagros also completed its Phase I seismic program, commenced its Phase II seismic program, executed the drilling rig contract and commenced the procurement of the necessary services and tangible items required for drilling activities.

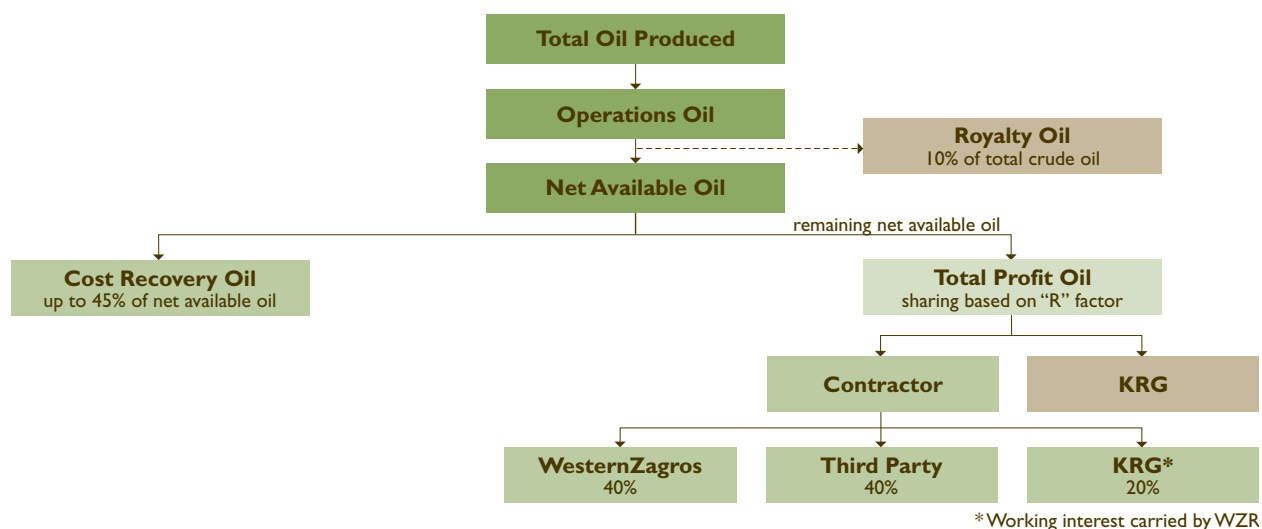
Production Sharing Contract – Summary

Under the terms of its PSC, WesternZagros has a 40 per cent working interest. The KRG will have a direct 20 per cent interest in the PSC, primarily carried by WesternZagros. The remaining 40 per cent may be allocated to a third party or parties elected by the KRG within a six month period ending on August 28, 2008. The third party is required to pay a share of costs incurred by WesternZagros up to the effective date of its election in the block. WesternZagros, the KRG and the third party or parties will be collectively the “Contractor Group” under the PSC. WesternZagros is the operator of the PSC lands for the first three years, and then a Joint Operating Committee is established, if so elected by the Contractor Group.

Production Sharing Contract – Commercial Terms

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

OIL REVENUE FLOW



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 the third party) 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, 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, payable by WesternZagros over a 15 month period and funding for certain technological, logistical, recruitment and training during the first exploration sub-period, and any subsequent sub-periods.

WesternZagros estimates that its 40 per cent share of the PSC work commitment for the first exploration sub-period, its previously paid signature bonus, the capacity building support and the requirement for the Company to primarily carry the KRG's interest through the work commitments to be approximately \$103 million.

During the second exploration sub-period, the Contractor Group, or those parties that have elected to participate in further exploration, is required to complete a minimum of 575 kilometres of seismic surveying, drill at least two exploration wells and commit a minimum of US\$35 million. 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 per cent 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 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 WesternZagros 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
Total	11,718	375	94	–	–	12,187

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

Health, Safety & Environment (“HSE”) & Security

WesternZagros continues to operate in Kurdistan in a safe and secure manner. WesternZagros believes that the Kurdistan Region maintains the safest operating environment within Iraq. The security in the Kurdistan Region is a direct result of the influence of the KRG through its Kurdish Region National Guard (the “Peshmerga”) and the Internal Security Agency of the KRG (the “Asaiysh”). Through the effective deployment of the Peshmerga and the Asaiysh, the KRG has been able to control its regional and international borders and maintain security in the region. WesternZagros takes further precautions and obtains regular security advice and protection from several sources including D.S. Vance, a subsidiary of GardaWorld, the largest private security provider in the world. In addition, WesternZagros has in place an Emergency and Security Response Plan with respect to its operations in the Kurdistan Region.

As a matter of practice, WesternZagros is generally following Alberta Energy Resources Conservation Board guidelines in conducting its operations in Kurdistan. In addition, the Company has met all requirements under the PSC to complete an Environmental Baseline Survey and Environmental, Health and Safety Plan. During the year ended December 31, 2007, and since the Company commenced exploration activities in 2005, WesternZagros had no serious HSE & Security incidents.

WesternZagros has adopted the International Code of Ethics for Canadian business and will follow this code in conducting business abroad.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2007, WesternZagros has approximately \$100 million in cash and cash equivalents and \$4.1 million in deposits held in trust. These balances will be used to fund future capital expenditures, including the minimum work commitments with respect to the first exploration sub-period under the PSC, including the requirement for WesternZagros to fund the KRG's 20 per cent carried interest; certain payments required under the amended PSC, including the capacity building payments; G&A expenditures; and working capital requirements. WesternZagros invests its cash and cash equivalents with major Canadian financial institutions with investment grade credit ratings and in Government of Canada instruments. This is in accordance with a Board of Directors approved Investment Policy with respect to investing funds.

Subsequent to December 31, 2007, 2,426,939 warrants were exercised for proceeds of Cdn\$6.1 million, bringing the total proceeds raised through the exercise of the warrants to Cdn\$10.2 million. Additionally, WesternZagros completed a private placement for 33,333,334 common shares on March 7, 2008 for additional net proceeds of Cdn\$70.8 million (gross Cdn\$75 million) at a price of Cdn\$2.25 per share. These proceeds will be used to carry out a multi well exploration program over the next two to three years on the Company's highly prospective 2,120 square kilometre block in the Kurdistan Region of Iraq.

Until the KRG elects the third party participant, required on or before August 28, 2008, WesternZagros will fund 100 per cent of the expenditures related to the PSC. Following the election, the third party will be required to pay WesternZagros a share of back costs. As a result, WesternZagros could use these proceeds to fund future capital expenditures, payments required under the PSC, G&A expenditures and working capital requirements. Subsequent to the election of the third party, WesternZagros will be required to fund its 40 per cent share of the expenditures related to the PSC and the 20 per cent KRG's fully carried interest.

WesternZagros will continue to monitor and assess its financing requirements as the Company's exploration activities progress and in consideration of the timing associated with the election of the third party under the provisions of the PSC.

OUTSTANDING SHARE DATA

As at March 25, 2008, WesternZagros had 207,464,320 shares issued and outstanding. The Company also issued 7,060,000 options to directors, officers and employees.

OUTLOOK 2008

WesternZagros' updated budget for 2008 is approximately \$78 million, excluding the capacity building support and other payments associated with the PSC signed in February 2008. Approximately 80 per cent of this budget is allocated to the seismic program and drilling activity in the Kurdistan Region.

WesternZagros has completed over 1,070 kilometres of its 1,150 kilometre seismic commitment to March 25, 2008. In order to complete an initial full seismic coverage of the Block, the Company has expanded its seismic program for 2008 by an additional 230 kilometres. When this seismic program is completed, WesternZagros would conclude and exceed the minimum seismic commitment under the PSC work program. The excess over the commitment may be credited to future seismic commitments.

During 2008, WesternZagros anticipates the drilling of two exploration wells and has selected Sarqala-I (formerly East Shakal) as its initial drilling location. WesternZagros has nearly completed construction of its drilling site at Sarqala-I, contracted the drilling rig and the procurement of the services and tangibles required for this well are close to completion. WesternZagros anticipates Sarqala-I to spud in April 2008 and drilling of this well would require approximately 120 days. Evaluation of the seismic data acquired under the Company's Phase I and Phase II seismic program will continue over the course of 2008 in order to determine additional drilling locations, including the Company's second and subsequent wells.

Due to the nature of oil and gas exploration and development, budgets are regularly reviewed in view of the success of the expenditures and other opportunities which may become available to WesternZagros. Accordingly, while WesternZagros anticipates that it will execute under the 2008 budget, there may be circumstances where, for sound business reasons, a change in budget may be prudent.

RISK FACTORS

The oil and gas industry is very competitive and is subject to many risks. Many of these risks are outside of WesternZagros' control. Management has identified certain key risks and their potential impact on WesternZagros' operations.

Foreign Activities

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

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

Political Issues

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

Legislative Issues

No federal Iraq legislation has yet been agreed to or enacted by the Iraq Council of Ministers (Cabinet) and Council of Representatives (Parliament) to address the future organization of Iraq's petroleum industry or the sharing of petroleum and other revenues within Iraq. Failure to enact legislation (or the enactment of federal legislation contradictory to Kurdistan Region legislation) could materially adversely impact WesternZagros' interest in the Kurdistan Region and the PSC. Disagreements have been reported to exist between the Iraq Minister of Oil and officials of the KRG in relation to the terms of the draft Federal Oil and Gas Law. Certain officials of the federal Iraq government have also expressed an opinion that the Kurdistan Regional Oil & Gas Law is invalid. It is possible that a subsequent review of the Company's PSC may be required under any federal Iraq legislation which may be enacted but this remains unknown at this time.

Prices, Markets and Marketing

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

Both oil and natural gas prices are unstable and are subject to fluctuation. Any material decline in prices could result in a reduction of the feasibility of WesternZagros' business plan.

Project Risks

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

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

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

Competition

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

Exploration, Development and Production Risks

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

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

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

Ability to Execute Exploration and Development Program

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

Availability of Drilling Equipment and Access

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

Management of Growth

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

Operational Experience

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

Reliance on Key Personnel

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

Insurance and Liability

WesternZagros' involvement in the exploration for and development of oil and natural gas properties may result in WesternZagros becoming subject to liability for pollution, blow outs, property damage, personal injury or other hazards. Although WesternZagros maintains insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability and may not be sufficient to cover the full extent of such liabilities. In addition, such risks are not, in all circumstances, insurable or, in certain circumstances, WesternZagros may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of any uninsured liabilities would reduce the funds available to WesternZagros. The occurrence of a significant event that WesternZagros is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on WesternZagros.

Conflicts of Interest

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

Substantial Capital Requirements

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

Additional Funding Requirements

WesternZagros' cash balances may not be sufficient to fund its ongoing activities at all times and carry the KRG's 20 per cent interest under the amended PSC. From time to time, WesternZagros may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause WesternZagros to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations.

Dilution

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

Issuance of Debt

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

Third Party Credit Risk

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

Foreign Exchange

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

Hedging

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

Dividends

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

CRITICAL ACCOUNTING ESTIMATES

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

Use of Estimates

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

Property, Plant and Equipment (“PP&E”)

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

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

Reserve estimates can have a significant impact on earnings, as they are a key component to the calculation of depletion. A downward revision in the reserve estimate would result in increased depletion and a reduction of earnings. PP&E assets are reviewed for impairment whenever events or conditions indicate that their net carrying amount may not be recoverable from estimated future cash flows. If an impairment is identified the assets are written down to the estimated fair market value. The calculation of these future cash flows are dependent on a number of estimates, which include reserves, timing of production, crude oil price, operating cost estimates and foreign exchange rates. As a result, future cash flows are subject to significant Management judgment.

Asset Retirement Obligation

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

Income Tax

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

CHANGES IN ACCOUNTING POLICY

Financial Instruments

On January 1, 2007, WesternZagros 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.

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, i.e. 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 WesternZagros 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. WesternZagros 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. WesternZagros has no such transactions and events which would require the disclosure of OCI. 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 be presented as a new category of Shareholder's Equity on the consolidated balance sheets.

Accounting Changes

On January 1, 2007, WesternZagros adopted CICA Handbook Section 1506, "Accounting Changes", which revises and replaces former Section 1506, "Accounting Changes". The 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.

Determining the Variability to be Considered in Applying AcG-15

On January 1, 2007, WesternZagros 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.

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 Company 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 Company'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.