

WesternZagros Resources Ltd.

*Third Quarter Interim Report
for the period ended September 30, 2007*

MESSAGE TO SHAREHOLDERS

WesternZagros Resources Ltd. (“WesternZagros”) is pleased to provide its third quarter report and its first interim operating and financial results for the period ended September 30, 2007 as a new publicly-traded company.

WesternZagros is an international natural resources company engaged in acquiring properties and exploring for, developing and producing crude oil and natural gas. WesternZagros, through its wholly-owned subsidiaries, holds a Production Sharing Contract (“PSC”) with the Kurdistan Regional Government (the “KRG”) in the Kurdistan Region of Iraq. WesternZagros achieved the following milestones during the third quarter and in the subsequent period up to November 27, 2007.

- WesternZagros engaged a strong, experienced Board of Directors including: Fred Dymont (Executive Chairman), David Boone, John Frangos, Simon Hatfield, Jim Houck and Randall Oliphant. As Executive Chairman, Mr. Dymont will provide direction and leadership to management and chair the Board. The Board has extensive experience in the resource sector, both domestically and internationally.
- Mr. Simon Hatfield was appointed President of WesternZagros. His career spans 30 years with a proven track record of success in both the international and domestic arena. Mr. Hatfield has extensive experience in Iraq and he will play a key role in the strategic direction of WesternZagros.
- Joining WesternZagros as officers of the Company are Mr. Robert Theriault, Senior Vice President, Engineering and Operations and Mr. Greg Stevenson, Vice President, Finance. Mr. Theriault brings over 30 years of international and domestic experience upstream and midstream oil and gas operations, including senior management responsibilities for exploration, production and development. Mr. Stevenson was previously Controller at Western Oil Sands Inc. (“Western”). He has a Chartered Accountant designation and over 11 years of experience working with a major accounting firm as well as with large public companies in the oil and gas industry. Mr. Stevenson will lead the financial and accounting team in supporting the Company’s activities.
- Dr. George Pinckney was appointed Vice-President, Exploration. Dr. Pinckney has extensive international experience having spent the majority of his 32 year career with Mobil Oil and ExxonMobil in locations throughout North America and Southeast Asia. He is responsible for all of WesternZagros’ geotechnical work including the evaluation of the Company’s PSC area.

- Pursuant to the Plan of Arrangement between Western and Marathon Oil Corporation, each Western shareholder received one common share and one-tenth of a warrant of WesternZagros for each common share held.
- The Company's common shares (trading symbol "WZR") and warrants (trading symbol "WZR.WT") commenced trading on the TSX Venture Exchange on October 22, 2007. WesternZagros has issued and outstanding 170,057,183 common shares and warrants to acquire an additional 16,505,729 common shares.
- As previously disclosed, it was required that the Kurdistan Region Oil and Gas Council (the "Council") review the PSCs of the companies whose contracts predate the Kurdistan Region Oil and Gas Law to bring them into conformity with the Law and Model PSC. WesternZagros is among those companies. The Company has been in discussions with the Minister of Natural Resources of the KRG and the Council with respect to various amendments that have been requested to the existing contractual terms of the PSC. The amendments proposed include a reduction in the working interest held by WesternZagros and additional bonus payments. This review process is continuing; however, if these proposed amendments were to be implemented, they would have an adverse impact on the Company's interest.
- WesternZagros is committed to complete a minimum of 1,150 km of seismic surveying. Phase 1 of the seismic program was completed in October 2007 with WesternZagros acquiring over 750 km of its seismic. The Phase 2 seismic program is anticipated to commence in the latter part of the fourth quarter of 2007, with the objective of completing the remainder of the seismic commitment during the first exploration sub-period. Procurement of long lead time items is underway for WesternZagros' initial well.
- In pursuit of its efforts in the Kurdistan Region, WesternZagros employs a 16 person team at its head office in Calgary and 11 employees in Kurdistan including local nationals.

Regional Activity

In November 2007, the KRG signed an additional 12 PSCs with international oil companies. With these new PSCs executed, the Kurdistan Region has over 20 international oil companies working in the area. WesternZagros believes this increased activity is a result of the KRG's commitment to investment and security in the Kurdistan Region.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Amounts in United States Dollars unless otherwise indicated)

Period Ended September 30, 2007

Management's discussion and analysis ("MD&A") of WesternZagros Resources Ltd.'s ("WesternZagros" or the "Company") financial condition and results of operations should be read in conjunction with the unaudited Balance Sheet as at September 30, 2007 and the audited Balance Sheet as at August 31, 2007 and related notes prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The effective date of this MD&A is November 27, 2007.

Additional information relating to WesternZagros is available on SEDAR at www.sedar.com.

Forward-looking Information

This report contains certain forward-looking statements relating, but not limited, to our operations, anticipated financial performance, business prospects and strategies. Forward-looking information typically contains statements with words such as "anticipate", "estimate", "expect", "potential", "could", or similar words suggesting future outcomes. We caution readers and prospective investors of the Company's securities to not place undue reliance on forward-looking information as by its nature, it is based on current expectations regarding future events that involve a number of assumptions, inherent risks and uncertainties, which could cause actual results to differ materially from those anticipated by WesternZagros. WesternZagros' operations are subject to all risks normally incidental to the exploration, development and operation of crude oil and natural gas properties and the drilling of crude oil and natural gas wells, including those risks described in the Risk Factors section of this MD&A.

Overview

On October 18, 2007, WesternZagros, Western Oil Sands Inc. (now Marathon Oil Canada Corporation) ("Western"), Marathon Oil Corporation ("Marathon"), 1339971 Alberta Ltd. and WesternZagros Resources Inc. ("WZRI") completed a Plan of Arrangement (the "Plan"). Pursuant to the Plan, WesternZagros issued 165,057,183 common shares and 16,505,729 warrants to former shareholders of Western. Each warrant entitles the holder to purchase one common share of WesternZagros at a price of Cdn\$2.50 until January 18, 2008.

WesternZagros was incorporated for the sole purpose of participating in the Plan and did not carry on any active business prior to the Plan. WesternZagros now carries on the business of WZRI and its subsidiaries.

WesternZagros is a new publicly-traded Calgary-based, international natural resources company engaged in acquiring properties and exploring for, developing and producing crude oil and natural gas. WesternZagros, through its wholly-owned subsidiaries, holds a Production Sharing Contract ("PSC") with the Kurdistan Regional Government (the "KRG") in the Kurdistan Region of Iraq.

Under the Plan, WesternZagros, was further capitalized with Cdn\$82.5 million in cash, through a series of transactions. In addition, the Company completed a private placement of 5,000,000 common shares, at Cdn\$2.50 per share, resulting in gross proceeds of Cdn\$12.5 million.

WesternZagros Warrants

WesternZagros warrants trade on the TSX Venture Exchange. Each warrant entitles the holder to purchase one common share of WesternZagros at a price of Cdn\$2.50 until January 18, 2008. The registered holder may exercise its right to receive common shares by completing the warrant form and sending the form, together with payment, to Valiant Trust Company. These warrants may be exercised only by a holder who represents that, at the time of exercise, the holder is not located in the United States, unless a legal opinion or other evidence reasonably satisfactory can be provided to WesternZagros to the effect that the exercise of the warrants does not require registration under the U.S. Securities Act or state securities laws.

Operations

As at September 30, 2007, apart from the proceeds associated with the initial incorporation, WesternZagros had no other assets, nor did it have any other ongoing operations. Accordingly, WesternZagros had no revenue or operating expenditures through September 30, 2007.

On October 18, 2007, WesternZagros acquired WZRI through the Plan, including WZRI's PSC and related operating activities. These operating activities include those discussed in the PSC Update, Resources and Land, Commitments, Outlook and Risk Factors sections below. WZRI commenced operations in late 2004, and has completed operations to date related to acquiring seismic and other geological and geophysical data. As of September 30, 2007, WZRI had capitalized \$45.4 million in relation to this work, including \$24.1 million incurred during the nine months ended September 30, 2007. WZRI has also incurred related general and administrative and other costs in conducting these operations and the initial and continued negotiations of the PSC with the KRG. For the nine months ended September 30, 2007, WZRI incurred \$9.6 million in association with these costs (\$19.3 million from inception) which is included in WZRI's accumulated deficit as at September 30, 2007.

WesternZagros' operating activities will ultimately depend on the outcome of the exploration efforts of WZRI.

Resources and Land

The PSC provides for the exploration of conventional oil and gas in the Kurdistan Region. The PSC lands cover 2,120 square km and 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 PSC lands. These discoveries are all located within 110 km of the PSC lands and most reservoirs are Tertiary and Cretaceous carbonates. Stacked reservoirs are common within a single field and single zone discoveries are rare as most have deep reservoir potential. 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) and facies dependent.

Petroleum exploration wells have not been drilled on the PSC lands. Consequently, WesternZagros has not yet established any reserves in the Kurdistan Region of Iraq.

Commitments

WesternZagros, through the acquisition of WZRI, has entered into various contractual obligations and commitments in the normal course of its operations. With respect to the PSC, which is currently under review by the Council and will be subject to change, there are two exploration sub-periods of three years and two years, respectively, with a possible extension. The first exploration sub-period ends December 31, 2010. During such time, WesternZagros is required to complete a minimum of 1,150 km of seismic surveying and drill at least two exploration wells or spend a minimum of \$30 million on seismic, geologic studies and drilling. Under the terms of the current PSC, WesternZagros is committed to start its first exploration well in the first quarter of 2008.

At the end of the first exploration sub-period, WesternZagros may relinquish the entire contract area (other than any discovery or development areas), or continue further exploration operations during the second exploration sub-period and two one-year extension periods. If a discovery is made on the PSC lands, there is an obligation to appraise the discovery for commerciality. If such discovery is determined to be commercial, WesternZagros is obligated to develop the discovery. The declaration of a commercial discovery is at the discretion of WesternZagros. Discoveries that are determined to be commercial are subject to a 20-year initial term plus one five-year extension period.

Outlook

WesternZagros holds a 2,120 square km block in the Kurdistan Region. The Company believes there are a number of exploration prospects on its block with potential for multiple stacked reservoirs targets. WesternZagros' PSC area is approximately 60 km from Kirkuk – one of the largest oil discoveries in the world.

With the completion of the Phase 1 seismic program, WesternZagros has acquired over 750 km of seismic. The Phase 2 seismic program is anticipated to commence in the fourth quarter of 2007, with the objective of completing the remainder of the seismic commitment during the first exploration sub-period. Procurement of long lead time items is underway for the Company's initial well.

Liquidity and Capital Resources

WesternZagros will fund future general and administrative expenditures, working capital and capital obligations with the funds received from the Plan and the subsequent private placement.

It is anticipated that WesternZagros' capitalization at October 31, 2007 of Cdn\$95 million will enable the Company to complete its commitments for seismic and drilling work under the terms of the PSC. In addition, as part of the arrangement with Western and Marathon, WesternZagros had approximately 16.5 million warrants exercisable in January 2008 at a price of Cdn\$2.50 per share. To date, approximately 1.5 million warrants have been exercised for total proceeds of Cdn\$3.7 million. If the balance of these warrants is exercised, WesternZagros could receive an additional Cdn\$37.6 million. Any requirements for expenditures beyond the Company's existing PSC commitment will require additional financing. WesternZagros will continue to monitor its financing requirements as its operational programs move forward.

Outstanding Share Data

As at November 27, 2007, there were 171,552,913 shares issued and outstanding. The number of common shares reserves for issuance pursuant to options granted will not exceed 10 per cent of the issued and outstanding common shares. At this time, no stock options have been granted to directors, officers or consultants.

Risk Factors

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

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

For a complete list of risk factors please refer to the "Risk Factors" as included in Appendix G of the Information Circular dated September 14, 2007 associated with the Plan of Arrangement involving Western Oil Sands Inc., Marathon Oil Corporation, 1339971 Alberta Ltd. and WesternZagros Resources Ltd. which is available on SEDAR at www.sedar.com.

BALANCE SHEET

	<i>September 30</i>
<i>(Unaudited) (United States \$ thousands)</i>	<i>2007</i>
<i>Assets</i>	
<i>Current Assets</i>	
Cash	1
	1
<i>Shareholders' Equity</i>	
Share Capital <i>(note 2)</i>	1
	1

See Accompanying Notes to the Balance Sheet

Approved by the Board of Directors



M. Simon Hatfield
Director



Randall Oliphant
Director

NOTES TO THE BALANCE SHEET*(Unaudited) (Tabular amounts in United States \$ thousands)***1. Basis of Presentation**

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"), as described in note 3(a). The Corporation has not carried on any active business other than in connection with the Arrangement and related matters. In connection with the Arrangement, the Corporation acquired from Western (and a subsidiary of Western) all of the issued and outstanding shares of WesternZagros. WesternZagros is engaged in acquiring properties and exploring for, developing and producing crude oil and natural gas and is considered to be in the development stage. Through its subsidiaries, WesternZagros is party to a Production Sharing Contract with the Kurdistan Regional Government ("KRG") in respect of an exploration project area in the Kurdistan region of Iraq.

The Financial Statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles. In these Financial Statements, unless otherwise indicated, all dollar amounts are expressed in United States ("US") dollars. The Corporation has adopted the US dollar as its reporting currency as it is anticipated the majority of the Corporation's business is to be transacted in US dollars and, accordingly, the Corporation's functional and reporting currency is US dollars. All references herein to US\$ or to \$ are to US dollars and references herein to Cdn\$ are to Canadian dollars.

2. Share Capital**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

	<i>Number of Shares</i>	<i>Amount</i>
<i>Common Shares</i>		
Share Issuance	1,000	1
<i>Balance at September 30, 2007</i>	1,000	1

3. Subsequent Events***a) 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 outstanding shares in WesternZagros. 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 every Western share held. Each whole warrant is exercisable at a price of Cdn\$2.50 for a period of three months following closing. Certain persons have committed to exercise a portion of the warrants received pursuant to the Arrangement for Cdn\$1.4 million to the Corporation. In aggregate, 165,057,183 common shares and 16,505,729 warrants were issued to the former Western shareholders. The Corporation's common shares, issued and outstanding as at September 30, 2007 were repurchased for cancellation.

Pursuant to the Arrangement, the shareholders of Western will continue to hold their respective interests in the Corporation, resulting in no change of control. Therefore, the acquisition will be accounted for assuming continuity of business for WesternZagros and, consequently, no fair value adjustments will be made. As at September 30, 2007, WesternZagros had the following assets and liabilities:

<i>Assets</i>	
Cash	504
Property, Plant and Equipment	45,439
	<hr/> 45,943
<i>Liabilities</i>	
Accounts Payable and Accrued Liabilities	1,988
Due to Related Party ⁽¹⁾	52,297
	<hr/> 54,285
<i>Shareholders' Equity</i>	
Share Capital	2
Contributed Surplus	10,907
Deficit	(19,251)
	<hr/> (8,342)
	<hr/> 45,943

(1) As part of the Arrangement, prior to the acquisition of WesternZagros by the Corporation, all inter-company debt between the Corporation and subsidiaries of Western was settled with the issue of share capital on October 18, 2007.

The Corporation, under the Arrangement, was capitalized further with Cdn\$82.5 million in cash through a series of transactions. 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 Cdn\$12.5 million.

b) Stock Option Plan

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.

c) 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.

d) Listing on TSX Venture Exchange

On October 22, 2007, the Corporation's common shares (trading symbol "WZR") and warrants (trading symbol "WZR.WT") commenced trading on the TSX Venture Exchange ("TSX-V").

CORPORATE INFORMATION

Officers

FRED DYMENT
Executive Chairman

M. SIMON HATFIELD
President

GREG STEVENSON
Vice President, Finance

ROBERT THERIAULT
*Senior Vice President,
Engineering and Operations*

CHARLES BERARD
Corporate Secretary

Directors

DAVID BOONE
*President and Director,
Escavar Energy
Calgary, Alberta*

FRED DYMENT
*Executive Chairman
WesternZagros Resources Ltd.
Calgary, Alberta*

JOHN FRANGOS
*Independent Businessman
Calgary, Alberta*

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

JAMES HOUCK
*Independent Businessman
Calgary, Alberta*

RANDALL OLIPHANT
*Chairman and Chief Executive Officer,
Rockcliff Group Limited
Toronto, Ontario*

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Website

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Auditors

PRICEWATERHOUSECOOPERS LLP
Calgary, Alberta

Legal Counsel

MACLEOD DIXON LLP
Calgary, Alberta

Transfer Agent and Registrar

VALIANT TRUST COMPANY
Calgary, Alberta

Stock Exchange Listing

TSX VENTURE EXCHANGE
*Common Shares: WZR
Warrants: WZR.WT*