

**Second Annual Report  
Communication of Progress  
Implementing the Ten Principles of the UN Global Compact  
by  
WesternZagros Resources Ltd.**

**For the period September 2012 to August 2013**

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## 1. Statement by CEO

H.E. Ban Ki-moon  
Secretary-General  
United Nations, New York, NY 10017  
December 10, 2013

Your Excellency,

WesternZagros Resources Limited (“WesternZagros”) is pleased to reaffirm its support of the Ten Principles of the United National Global Compact. In 2011, WesternZagros joined the UN Global Compact. Together with our core values, its ten principles form the basis of our holistic approach to corporate sustainability and responsibility. The Global Compact’s Ten Principles are embedded in all that we do: in the way that we operate our business and treat our people, the way we manage our impact on the environment and the way in which we give back to the communities we work in.

We continue to develop our reputation for being a trusted and respected company in the eyes of our people, our co-venturers and all of our other stakeholders. During 2013, one of the ways we demonstrated our commitment was through conducting a comprehensive workshop to review our conduct across all business functions and identify how each operational and administrative department could affect social performance and add value to our social footprint. As a result of this initiative, an updated CSR policy was prepared, committing to build on four broad elements of social performance: 1) corporate governance; 2) health, safety, environment and security; human resource development; and 4) community and land.

We also undertook a number of assessment (internally and externally) to ensure our treatment of various stakeholders was in line with leading best practices. These assessments included a socio-economic baseline study of the local area in which we operate and a social impact assessment for the purpose of gaining a better understanding of the impact of our operations. The assessments will be used as tools to provide the best possible benefits to surrounding communities.

Throughout 2014, we will assess the potential impacts of, and develop plans to manage and mitigate, a multi-well drilling program. Internally, our focus will be on encouraging strong community relations leadership and identifying leading health, safety and environmental performance indicators and targets for 2014.

WesternZagros is proud to make a clear statement of this commitment to our stakeholders and the general public. As a key requirement for participation in the Global Compact, we hereto attach our second Communication on Progress Report for the period September 2012 to August 2013.

Sincerely,



M. Simon Hatfield  
Chief Executive Officer

## 2.0 General Background

WesternZagros has policies, procedures and programs that directly relate to the Global Compact principles and, as such, fall under a number of the reporting headers. These initiatives are addressed in this section and are also referenced in section 3: Progress Report.

### i) Code of Ethics and Business Conduct

Our **Code of Ethics and Business Conduct** (the “Code”) acknowledges our adoption of the *International Code of Ethics for Canadian Business* and we follow these principles when conducting our business. This code applies to all directors, officers, employees and independent contractors of WesternZagros and its subsidiaries. The Code has been compiled based on the ethical and legal obligations of WesternZagros’s directors, officers, employees and contractors of all geographic locations and job positions. The Code was drafted taking into account our obligations:

1. under the law
2. to WesternZagros
3. to our customers, suppliers, competitors and other stakeholders
4. to our colleagues
5. to our shareholders
6. to the environment
7. to report violations, if any

The Code is available on our website at [www.westernzagros.com](http://www.westernzagros.com).

### ii) Corporate Social Responsibility (“CSR” or “Corporate Sustainability Governance and Leadership”)

WesternZagros is proud to conduct business in the Kurdistan Region of Iraq and to support initiatives to improve the lives of the Kurdish-Iraqi people and their communities. In this regard, we have proven to be an industry leader and are fully committed to CSR. We are keenly aware of, and pay careful attention to, the need to conduct business in a way that optimizes the benefits for the citizens of the Kurdistan Region of Iraq and all the Iraqi people. In 2013, WesternZagros will celebrate nine years as a corporate citizen in the Kurdistan Region of Iraq. Over the past year we have continued to build on the many projects we have initiated over the years, which have focused on a variety of local improvements that have had a positive impact on many Kurdish-Iraqi families, communities and businesses.

We conduct our business ethically, legally, and in a manner that is fiscally, environmentally and socially responsible. Corporate values of integrity and trust are entrenched through the conduct of our Board of Directors and are guided by our Executive Management Team.

WesternZagros's Health, Safety, Environment and Security Committee is comprised of three non-executive directors whose primary function is to assist the board in fulfilling its oversight responsibilities with respect to our health, safety, environment and security systems. This includes reviewing our health, safety, environment and security procedures, corporate social responsibility and related management systems, organizational and staffing needs, and assessing the measurable effectiveness of these policies. The committee makes recommendations to the board with respect to modifications and enhancements of these practices.

In February 2013, WesternZagros demonstrated its commitment to CSR by taking the unprecedented step of conducting a comprehensive workshop to review our conduct across all business functions and identify how each operational and administrative department could affect social performance and add value to our social footprint. The workshop was hosted in the Kurdistan Region of Iraq and facilitated by an external CSR consultant who also conducted a comprehensive audit on CSR compliance across all of our business functions. The workshop was attended by the CEO, all members of the Executive Management Team, and all Kurdistan based department managers. As a result of the workshop, two multi-function project teams were established and headed by members of the Executive Management Team, one in Canada and one in Kurdistan, with mandates to review and improve upon area-specific CSR frameworks and priorities. As a result of these initiatives an updated CSR policy was prepared, committing to build on four broad elements of social performance: 1) corporate governance; 2) health, safety, environment and security ("HSE&S"); 3) human resource development; and 4) community and land. The updated policy received board approval in April 2013.

To analyze our ongoing impact on the communities surrounding our operations, WesternZagros has undertaken a number of assessments (internally and externally) to ensure our treatment of various stakeholders is in line with leading best practices. These assessments include a socio-economic baseline study of the local area where we operate. WesternZagros also completed a social impact assessment, carried out by the American University of Iraq-Sulaimani, for the purpose of gaining a better understanding of the impact of our operations. The assessment will be used as a tool to provide the best possible benefits to surrounding communities.

The five key corporate community investment initiatives that WesternZagros is committed to providing resources for are: health, water, education, local employment and youth recreation. As this is our second annual report, we have provided examples of projects completed in the

Garmian Region over the period of the report. The local employment and water projects are discussed more fully in section 3b) Labour Principles and 3c) Environment Principles.

<b>Project</b>	<b>Community</b>	<b>Year</b>
Women’s journalism training course	Garmian	2012
Recreation and social children’s program	Sarqala sub-district	2012
Computer lab for Twimalek school	Sulaimani	2012
Library equipment for Asuda school	Sulaimani	2012
Building and upgrading recreation facilities	Hasira and Mil Qasim	2013
Purchase of bus for Thalessemia medical patients	Garmian	2013
Equipment donation to women’s recreation facility	Sulaimani	2013
Refurbishment of community meeting halls	Hasira and Mil Qasim	2013
Building of extension for a school	Hasira	2013

iii) Health, Safety & Environment

The mandate of our **Health, Safety and Environment Policy** states that WesternZagros is committed to protecting the environment and to preventing harm to our employees, contractors and communities where we operate. This policy is available on our website at [www.westernzagros.com](http://www.westernzagros.com)

WesternZagros has developed a comprehensive Health, Safety and Environment Management System (“HSEMS”) in order to provide employees and contractors with the fundamental information required to conduct all tasks in a safe, healthy and environmentally friendly manner. All personnel working with WesternZagros, at all locations, are required to understand and comply with the information contained in the HSEMS and to use it continually as a reference and a resource.

WesternZagros’s HSEMS consists of five phases and 18 key elements. Each key element contains specific objectives and expectations that communicate the corporate requirements to all personnel and contractors.

The HSEMS is built on the ISO 14001, OHSAS 18002:2000, and API Standard models to ensure that health, safety and environment (“HSE”) issues are systematically identified, controlled and monitored. There are several reasons for selecting these standards as models for the HSEMS framework:

- ISO 14001 Standard for Environmental Management Systems is a widely accepted international standard for environment management systems.
- OHSAS 18002:2000 Occupational Health and Safety Management Systems is a newly accepted international standard for occupational health and safety management.
- The American Petroleum Institute Model EHS Management System is a voluntary tool for companies interested in developing an HSE management system or enhancing an existing one, and is widely used within the petroleum industry. The standards are consistent with the key elements found in most management system models.
- The HSEMS utilizes the action steps: plan, implement, check and correct, and review. This provides a process for continual improvement. Additionally, the HSEMS provides the structure for the delivery of the HSE policy commitments made by WesternZagros.

The HSEMS starts with the HSE Policy and Statement of Management's Commitment. It is then supported by hazard identification, regulatory compliance, objectives and targets, and has practices and procedures that are prescriptive "how-to's". Documentation and record keeping help as a roadmap and a resource. Incident management and the reporting of incidents are learning tools. WesternZagros requires all reportable incidents and near misses be investigated to identify root causes and prevention. Audit and management reviews are the capstone of our system to ensure effectiveness and to manage risks. Detailed plans, procedures and industry practices such as the Waste Management Practice and Site Specific Emergency Response Planning are in place to address and detail each specific concern.

#### iv) Risk Management

Risk management is performed at all enterprise levels. Risk assessment and risk control are apparent in our decision making. The nature of oil exploration includes many hazards and, as a result, the process of assessment, mitigation and control of risks is well established. Because of this continual threat, risk assessments are carried out on all operational activities.

#### v) Emergency Response

WesternZagros's corporate Emergency Response Plan acts as a guide to define the response procedures and functional team checklists that are required during an emergency. Site specific emergency response plans provide details on specific uncertainties (risks) identified throughout the operations of WesternZagros. Detailed preparations, examples, checklists and specialized equipment required are identified, practiced and reviewed. Maps and geo-referenced diagrams are visual tools in the development of the emergency planning zones and safety-net areas. Desktop exercises have been conducted and continue to be developed as a training tool with the support and attendance of all levels of management.

### 3.0 Progress Report – Implementing the Ten Principles into Strategies and Operations

#### a) Human Rights Principles

**Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and**

**Principle 2: make sure that they are not complicit in human rights abuses.**

WesternZagros supports and respects the protection of international and regional human rights instruments. We also support and promote the protection of international human rights within our sphere of influence and we will not be complicit in human rights abuses. WesternZagros believes in the principle that human rights are both universal and inalienable. These beliefs are defined in our Code and they apply to all directors, officers, employees and independent contractors of WesternZagros and its subsidiaries. As an annual reminder of this, all stakeholders must sign our Code every year.

With respect to reducing human rights risks and responding to violations, WesternZagros has a formal grievance mechanism through our ***Reporting of Inappropriate Activity Policy***, which mandates that all reports will be taken seriously and be promptly and thoroughly investigated. In addition to this internal complaint procedure, WesternZagros is bound to local, provincial, federal and international laws. In line with the tripartite framework developed by the UN Special Representative, Professor Ruggie, the policy also provides for remedial action in respect of any reported substantiated breaches.

Our 2013 ***Corporate Social Responsibility Policy*** states that WesternZagros aspires to be an industry leader in CSR and will maintain highest standards of compliance with applicable Canadian and local laws alongside the highest international standards for property ownership rights in the regions where we operate.

The ***Code of Ethics and Business Conduct***, ***Reporting of Inappropriate Activity Policy*** and ***Corporate Social Responsibility Policy*** are all available on our website at [www.westernzagros.com](http://www.westernzagros.com).

Risks, Actions & Measures The greatest human rights risks arising from oil and gas resource exploration activities are from expropriation of land and impacts of operations on communities, which result in disruption of the lives of local inhabitants and removal of their livelihoods. WesternZagros is focused on sustaining the communities within its zone of operations and to that end has a proactive community investment program. Through the provision of local employment and contracting opportunities, we have economically enhanced the local communities where we operate and reduced the dependency on subsistence farming, which

was the main precarious livelihood. We have undertaken social impact surveys to assess what impact we are having on communities with a view to addressing and remedying any unforeseen negative impacts. With regard to acquisition of land for our exploration activities, WesternZagros works on a strict principle of consent where we engage with land owners and communities prior to the start of any operations and do not occupy any lands without obtaining prior agreement from landowners. In 2013, WesternZagros implemented new compensation procedures, along with our partner the KRG, to move toward a new system of land rental that better reflects community impacts and increased rates for compensation.

Perhaps the largest land usage challenge WesternZagros encountered in 2013 was the completion of two large seismic data acquisition projects. Seismic data acquisition by its very nature significantly increases our operational footprint to span over many communities. Specific to these two projects, WesternZagros designed and implemented: comprehensive pre- and post-project environmental surveys; a comprehensive community awareness and engagement program prior to the projects commencing; detailed processes for obtaining landowners' and communities' consent prior to works commencing; and comprehensive compensation mechanisms. In total, 751 landowners have been compensated for seismic activities on their lands and all but one landowner gave WesternZagros consent to work on their property. In keeping with our corporate commitment to community consent, the property of the landowner who did not consent was eliminated from the survey area and was not entered.

WesternZagros not only respects international human rights mechanisms, but also proactively strives to uphold and improve upon identified human rights priority areas and UN goals. Through our comprehensive local hiring priorities, WesternZagros promotes the right to work and in this regard created over 500 temporary and permanent jobs in the Kurdistan Region of Iraq during 2013, ensuring that our presence in Kurdistan has increased the standard of living for those within our sphere of operations. Both technical and vocational training has been provided to all newly appointed workers, thereby increasing their life-skills, future work opportunities, and their capacity for promotion. Our corporate community investment program demonstrates our active commitment to assist communities in enjoying the highest attainable standards of physical health and the right to an education. WesternZagros's commitment to the right of security of person is similarly demonstrated through the implementation of our HSE management systems and our physical security provision at all Kurdistan based sites, all of which were reviewed and upgraded during 2013.

## **b) Labour Principles**

**Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;**

**Principle 4: the elimination of all forms of forced and compulsory labour;**

**Principle 5: the effective abolition of child labour; and**

**Principle 6: the elimination of discrimination in respect of employment and occupation.**

WesternZagros upholds the freedom of association and recognizes the right to collective bargaining. We promote and support the elimination of all forms of forced and compulsory labour. During 2013, WesternZagros's management participated in numerous dialogues with Kurdish workers' and landowners' representatives, both in the form of formal union discussions and informal workers' delegations.

Our local hiring policies in the Kurdistan Region of Iraq adhere to the highest regional standards and we support the local communities where we work through local hiring and rental of local vehicles and equipment (in all instances where it is feasible to do so, without risk to the safety of our operations). Local hiring strategies and principles are defined within WesternZagros's Field Local Hiring Procedures and are also included as a contractual obligation for WesternZagros's third-party contracted service companies. WesternZagros adheres to regional and international laws.

We employ a system of local hiring committees composed of WesternZagros personnel, local government representatives and community leaders. The members of the committees work in partnership to ensure our local hiring and local procurement practices provide fair and transparent processes for each employment opportunity and to further ensure maximization of local income opportunities. Of the total staff, contractors and service providers working for us in the region, approximately 80% are Kurdish-Iraqi nationals. Additional expatriate staff are recruited from around the world to occupy specialized technical positions where no local recruits are available.. Local hiring reporting data is captured and reported periodically to our stakeholders through the PSC's Management Committee with the KRG and the local hiring committee chaired by the local village mayor.

### Risks, Actions & Measures

The continuity and sustainability of operational activities associated with oil and gas exploration and development is somewhat uncertain until sustainable production is achieved and facilities develop that require permanent staffing. Other labour risks are the exploitation of otherwise

unemployed workers at unreasonably low wages, unsafe working conditions and unreasonable working schedules. WesternZagros operates in rural Kurdish subsistence farming communities where it is normal for children to work in family farming activities; therefore, underage working has become a cultural norm. Our security personnel check national identification cards of all workers and prospective workers before they are being permitted to enter our work locations. No persons under the age of 18 are permitted access, with the rare exception of underage community residents seeking urgent medical attention.

WesternZagros has placed a strong emphasis on the safe incremental development of local personnel capacity. As at August 31, 2013, WesternZagros's operations employed a total of 658 company staff and service contractors' staff. In addition, 74 vehicles and pieces of heavy machinery were being rented from local communities. Job creation and skills training is crucial for the livelihood of the families of the Kurdistan Region of Iraq.

Initiatives related to the development of new local employment opportunities include the following:

- Trained and promoted additional local Garmian village personnel to positions on drilling crews;
- Trained and appointed additional Garmian personnel as HSE advisors, security coordinators, community relations officers, materials and logistics supervisors, camp managers, chefs, maintenance technicians, administration and facilities supervisors, and accounting administrators, amongst many other appointments; and
- Trained all local Garmian rig labourers and rig crew through the completion of 'Rig Pass' training to ensure their safety at work.
- Provided skills enhancement training in software applications, introduction to the oil and gas industry operations, HSE training, and also sponsoring the completion of NEBOSH HSE international certification.

As WesternZagros conducts its operations in the Kurdistan Region of Iraq, health, safety, environment and security are of utmost importance. WesternZagros has adopted Canadian and other well-recognized international HSE standards for its activities. It is important that all personnel conducting work on our operations feel safe and comfortable with their work environment. WesternZagros has operated in the Kurdistan Region of Iraq with an excellent safety and security record since 2004.

WesternZagros tracks various labour statistics and the HSE&S group tracks lost-time incidents and near misses, and has a stop work card program. Work hours are documented to assure balancing of working hours. An Incident Management Practice is in-place to monitor our performance. Unfortunately, earlier this year one person was hurt during our drilling

operations, so that they were not able to work on their next shift. Such incidents are taken very seriously within WesternZagros, and are called lost time incidents. Lessons learned from such incidents are reported to the Executive Management Team and action plans put in place to mitigate the risk of re-occurrence.

Training and communication are an important part of the process. The work stoppage procedures and policies exist so that any personnel that witness an unsafe action can halt the work until further precautions are put in place. Our rigorous HSE&S plan dictates how these policies are implemented and they are supported by our Code.

WesternZagros's Calgary and Sulaimani offices have formed internal HSE committees selected to scrutinize and oversee any issues that are identified around our office buildings, staff house, and Sulaimani area operations.

International SOS, a specialist independent service provider, has also conducted an in-depth assessment of the health facilities within Kurdistan. Based on these findings, WesternZagros has established relationships with the appropriate local health providers in Erbil and Sulaimani to provide medical services to staff. The company has an agreement with International SOS for emergency medical evacuation. WesternZagros has constructed a clinic, provided a fully-equipped ambulance, and employs an internationally qualified paramedic/nurse and local doctor, at our field headquarters camp. WesternZagros requires all of its major contractors to have their own insurance, a site-specific medic with ambulance vehicle, and a HSE professional on site full time.

Our Code speaks directly to the elimination of discrimination or harassment, which is addressed within the details of the section on workplace conduct. Directors, officers, employees and independent contractors must adhere to the standards as described in the Code. The Code is annually reviewed and acknowledged by signing the awareness statement on the final page. Violations of law and/or violation of our policies and procedures must be reported through the appropriate channels. WesternZagros will not permit retaliation against those who make such reports in good faith.

WesternZagros conducts periodic reviews of all local staff salary levels to ensure we keep pace with competitive local market rates. While reflecting the value we place in local staff retention, WesternZagros acts responsibly and takes a balanced approach to ensure we do not artificially inflate the local salary markets. We also take into consideration the Iraq Consumer Price Index to ensure the living standards of our local employees are improving.

WesternZagros provides all of our staff with generous leave and holiday entitlements. Our Human Resource personnel monitor leaves and holidays taken as part of our management system. In the field operations our site HSE representatives actively monitor and mandate staff

and contractors take adequate periods of rest, even in cases where staff are not personally inclined to do so. This is especially important when working in extreme climatic conditions.

### c) Environmental Principles

**Principle 7: Businesses should support a precautionary approach to environmental challenges;**

**Principle 8: undertake initiatives to promote greater environmental responsibility; and**

**Principle 9: encourage the development and diffusion of environmentally friendly technologies.**

WesternZagros strives to conduct its business to the highest standards and applies Canadian and international best practices to our operations. As a result, we often exceed local standards. We manage our HSE performance in a manner equal to any other of our critical business performance measures. The mandate of our ***Health, Safety and Environment Policy*** states that WesternZagros is committed to protecting the environment.

This policy is available on our website at [www.westernzagros.com](http://www.westernzagros.com).

WesternZagros conducted environmental impact baseline studies before starting drilling and seismic operations to assess the potential geographical, socio-economic and environmental impacts with respect to:

- Surface and groundwater
- Air quality and noise pollution
- Geology
- Soil testing
- Wildlife
- Land use
- Archeological resources

In 2013, WesternZagros actively strove to reduce our environmental footprint. Our field headquarters camp was connected to the national electricity grid in order to reduce our reliance on generator power. The grid connection has reduced our diesel fuel consumption by approximately 15,000 litres per month and significantly reduced carbon emission levels.

We are also actively pursuing recycling, emissions control, and waste and water management solutions to further reduce our environmental impacts in the coming year. In addition, the KRG

is introducing new environmental regulations, which Western Zagros is proactively addressing prior to formal introduction.

Examples of environmental projects completed by WesternZagros include:

<b>Project</b>	<b>Community</b>	<b>Year</b>
Tankers to water trees	Sarqala sub-district	2012
Community waste clean-up in five villages	Garmian	2012
Provided water support to agricultural centres	Sarqala sub-district	2013
Water distribution system	Baram	2013
Donated 6,000 trees and plants to community	Sarqala sub-district	2013
Recycled water bottles into small greenhouses	Hasira and Mil Qasim	2013

Within this reporting period, WesternZagros has completed an environmental impact assessment for the Sarqala/Hasira operational area. We are currently conducting an environmental impact assessment for the Baram-1/North Garmian area.

#### d) Anti-Corruption Principles

##### **Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery**

WesternZagros addresses the ethical and legal obligations for all geographic locations and job positions in its Code. We have earned a reputation for honesty and integrity by avoiding conflicts of interest between private and individual interests, and those of WesternZagros. We endeavor to only participate in fair dealings and, as such, believe no one should take unfair advantage of others through manipulation, concealment, abuse of privileged information, or misrepresentation of material facts. This list is not limited by these examples. The giving and receiving of gifts is limited to hospitality and must be reasonable and appropriate. It is unacceptable for any WesternZagros employee, director, representative or contractor to give or accept a gift if it is: excessive in value, a cash gift of any kind, violates any applicable laws, violates the provisions of the Code of WesternZagros, or violates the provisions of the *International Code of Ethics for Canadian Business*.

At the November 18, 2011, Board of Directors Governance Committee meeting, certain amendments were made to the WesternZagros Code. These updates were adopted to reflect the *U.S. Foreign Corrupt Practices Act*, the *Corruption of Foreign Public Official Act (Canada)* and the new *U.K. Bribery Act* ( although WesternZagros isn't subject to the act by its terms, the PSCs (which are governed by English law) specifically require compliance with the new act). The Code is available on our website at [www.westernzagros.com](http://www.westernzagros.com).

As defined by the PSCs, management committees have been established to provide direction on matters related to operations governed by these contracts. The management committees for our two blocks are made up of members appointed by the KRG and the co-venturers. In the WesternZagros operated Garmian Block, the committee is made up of representatives of the KRG, WesternZagros and our co-venturer, GazpromNeft Middle East B.V. Stated within the mandate of the management committees is a periodic review of WesternZagros policies and practices.

As we are subject to legislation that prohibits corrupt practices in dealing with foreign public officials and other private sector parties, these restrictions apply to our operations around the world, even where such practices may be considered to be the standard way of doing business. WesternZagros has a zero tolerance approach towards such improper payments or other inducements and, as such, failure to comply with these restrictions will be grounds for immediate termination of employment or contract.

### Risks, Actions and Measures

Our operations involve the contracting for goods and services in support of our operations. This involves the tendering process, and the approval of tenders according to our internal procedures, with our co-venturers and with the KRG. The nature of our business is such that contracts for annual expenditures in excess of \$1 million are numerous. In addition, the logistics of bringing in these services and materials to the Kurdistan Region involves customs clearances and trans-national transportation.

WesternZagros's procurement policies, including established procedures with the KRG and our own internal procedures, have ensured that the business operations have remained free of inappropriate behaviour.

- End of Report -