

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

For the period September 2013 to August 2014

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1. Statement by CEO

H.E. Ban Ki-moon
Secretary-General
United Nations, New York, NY 10017
March 10, 2015

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. Our actions are guided by strict adherence to our Corporate Social Responsibility (“CSR”) principles as we believe this provides for a strong and lasting foundation for our Company. Being signatory to the UN Global Compact has helped us in expanding the awareness of corporate sustainability and responsibility to all parts of our Company. Our relations with suppliers, communities and other stakeholders are seen within the framework provided by the UN Global Compact. Our field operations focus on minimizing any negative environmental impact and on being a good citizen of the communities of which we are part.

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. With our commitment to the UN Global Compact we continue to invest in the development of our Company, as well as our employees. Our employees receive ongoing training in the importance of compliance with laws and regulations and we focus on generating the awareness that all our employees can contribute to a safer working environment. We believe that an accident-free work place is a realistic and feasible goal. We see process optimization to reduce the materials consumption in our operations as a an on-going goal. We recognize that for all of the above, measuring and reporting is a key requirement, and we continue to invest in further improvements in this regard. By continuing our commitment to the Global Compact we will ensure that respect for CSR standards is integral to how we conduct our business.

Throughout 2015, we will assess and develop plans to manage and mitigate the potential impacts of a multi-well drilling program. Internally, our focus will be on encouraging strong community relations and identifying leading health, safety and environmental performance indicators and targets for 2015.

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 third Communication on Progress Report for the period September 2013 to August 2014.

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.

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 2014, WesternZagros celebrated a decade 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.

To analyze our ongoing impact on the communities surrounding our operations, WesternZagros continues to undertake assessments (internally and externally) to ensure our treatment of various stakeholders is in line with leading best practices.

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 third annual report, we have provided examples of projects completed in the Garmian Region over the period of the report with photos of several of the initiatives shown below. The local employment and water projects are discussed more fully in section 3b) Labour Principles and 3c) Environment Principles.

Project	Community	Year
CSR needs assessment	Garmian	2014
Women Health training course for 10 villages	Garmian	2014
Sport uniforms and equipment for the teams	Garmian	2014
Water distribution system/water well	Mil Qasim	2014
Refurbishment and expansion of primary school - additional capacity for 30 students	Mil Qasim	2014
Building of a secondary school/expansion - additional capacity for 20 students	Hasira	2014
School requirements (bags, pens, notebook, etc.) - backpacks and supplies to 2,000 children	Sarqala	2014
School library equipment (computer, printer)	Sulaimani	2014

Internship Program American University in Sulaymaniyah (AUIS) Students	Sulaimani	Ongoing, 2014
Mentorship Program/ AUIS Students	Sulaimani	Ongoing, 2014
Labor workforce assessment	Kurdistan	Ongoing, 2014
Humanitarian Donation/ Syrian Refugees	Kurdistan	March, 2014
Humanitarian Donation/ Refugees	Kurdistan	Ongoing, 2014



Graduates of the Women’s Health Training Course



Hasira Secondary School Expansion

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

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.

WesternZagros measures many performance indicators to continuously improve its HSE&S performance and enhance its safety culture. These metrics include: 1) lost time injury

frequency, 2) total recordable injury frequency, 3) environmental incidents, 4) vehicle accident rate, and 5) continuous improvement of its security team.

After successfully completing 266 days and more than 1.3 million hours free of Lost Time Incidents (“LTI”) in 2014, WesternZagros experienced its first minor LTI on September 24, 2014. The Company’s year-end Lost Time Incidents Frequency (“LTIF”) of 0.12 was below its 2014 LTIF target of 0.25 and the Canadian industry average.

The Company did not experience any other LTIs in 2014 but due to non-LTI recordable incidents, its total recordable injury frequency (“TRIF”) rate for 2014 was 1.06. This was above the target goal of 0.60 and above the Canadian industry average.

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, development and production 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 2014 ***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.

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. 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 400 temporary and permanent jobs in the Kurdistan Region of Iraq during 2014, 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 2014.

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 2014, 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 85% 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

Job creation and skills training is crucial for the livelihood of the families of the Kurdistan Region of Iraq. In mid-2014, WesternZagros's operations employed a total of 348 local company staff and service contractors' staff. In addition, 91 vehicles and pieces of heavy machinery were being rented from local communities.

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

- Continued to offer internships to local university graduates in the fields of drilling and petroleum engineering.
- Continued to train and promote additional local Garmian village personnel to positions on drilling crews;
- Continued to train and appoint additional Garmian personnel as HSE advisors, security coordinators and access controllers, community relations officers, materials and logistics supervisors, camp managers, chefs, maintenance technicians, administration and facilities supervisors, and IT and accounting administrators, amongst many other appointments;
- Continued to train all local Garmian rig labourers and rig crew through the completion of 'Rig Pass' training to ensure their safety at work; and
- Provided skills enhancement training in software applications, introduction to the oil and gas industry operations, HSE training covering crane and forklift operations, safe slinging

and lifting, proper use of Personal Protective Equipment (PPE) 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 and lessons learned from lost-time 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 elected 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.

WesternZagros executed an Environmental Impact Assessment (EIA) for the Sarqala 1 production facility upgrade compliant with KRG MNR environmental legislation which was formally introduced in 2014.

In 2014 WesternZagros developed and submitted to the KRG MNR a Best in Class Remediation Plan for relinquished assets. All remedial activities have been carried out as per provisions of the Remediation Plan.

We are also actively pursued recycling, waste management and waste water treatment solutions to further reduce our environmental impacts in the coming year.

In 2014 KRG MNR proposed for discussion new environmental legislation related to waste management and site abandonment. WesternZagros is planning to implement provisions of the proposed legislation in our operations prior to their formal introduction.

Examples of environmental projects completed by WesternZagros include:

Project	Community	Year
Donation of 5000 trees and plants	Sarqala sub-district	2014
Community waste clean-up	Hasira and Mil Qasim	2014
Water distribution system	Mil Qasim	2014
Recycled water bottle greenhouses - More than 100 greenhouses distributed	Garmian	2014
Agribusiness Program	Garmian	2014

The following photo is one of the greenhouses made from recycled plastic water bottles.



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.

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 -