

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

For the period September 2014 to February 2016

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1. Statement by CEO

June 8, 2016

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

Your Excellency,

WesternZagros Resources Limited (“WesternZagros”) is pleased to reaffirm its support of the Ten Principles of the United National Global Compact (“UNGC”). Our commitment to the 10 principles of the UNGC, which we signed in 2011, and to the Company’s efforts to advance corporate citizenship and sustainability, is well-aligned with our core values and our corporate vision. Our actions are guided by strict adherence to our Corporate Social Responsibility (“CSR”) principles as we believe this provides for a strong foundation for our Company. Our relations with suppliers, communities and other stakeholders are seen within the framework provided by the UNGC. Through 2015, our field operations focused 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 UNGC 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 recognize that for all of the above, measuring and reporting is a key requirement, and we continued to invest in further improvements in this regard throughout 2015. By continuing our commitment to the Global Compact we will ensure that respect for CSR standards is integral to how we conduct our business.

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 fourth Communication on Progress Report for the period September 2014 to February 2016. Subsequent to that date, the Company’s status changed to a non-operator with respect to its operations, having transitioned its operatorship to its co-venturer pursuant to the terms of its production sharing agreement.

The Company continues to have an unwavering commitment to safety. We will work in cooperation with our co-venturers to ensure operations focus on optimum health, safety, environment and security procedures, and corporate social responsibility programs.

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 as operator of the Garmian Block, remained fully committed to CSR throughout 2015. 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.

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, 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 continued 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 committed to providing resources for were: health, water, education, local employment and youth recreation. The local employment and projects are discussed more fully in section 3b) Labour Principles and 3c) Environment Principles.

In 2015, WesternZagros celebrated its eleventh year as a corporate citizen in the Kurdistan Region of Iraq. Over the past year it has continued to build on the many projects it has 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 (photos of several of the initiatives are shown below). In general, WesternZagros's CSR programs assisted in the redevelopment and growth of the Garmian region of Kurdistan through initiatives designed to aid the efforts of the community. WesternZagros engaged key stakeholders by consulting with communities and working with non-governmental organizations and KRG institutions.

WesternZagros runs its business so that stakeholders benefit from the presence of the oil and natural gas industry. On the PSC Lands this was achieved on the ground through initiatives that created mutual benefits. In 2015, the Company supported six key corporate community investment initiatives including local employment, water supply, education, health care, agriculture and recreation. Specific CSR activities included local infrastructure projects on the Garmian Block, e.g.: construction and refurbishment work on schools, health clinics, fire-fighting department, community meeting halls and sports fields, and water well and road work initiatives. In addition, donations were made by the Company towards Sports Club uniforms, as well as school equipment and office equipment to the management office of the Arbat International Displaced Persons Camp. The Company was actively involved in supporting a job fair at the American University Iraq-Sulaymaniyah, and participating in the Agriculture Improvement Program in conjunction with the non-government agency Mcfadden & Associates. In addition, the Company initiated a scientific hydrogeology research study, in conjunction with the Sulaymaniyah University, to study the surface water levels and long-term effects of water management in the Garmian Region.



Aid relief to International Displaced Persons



Refurbishing and Restocking Health Clinicss

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.

Throughout 2015, the Company monitored its impact on the communities surrounding its operations. The Company’s 18 element HSE Management System ensured conformance to current Canadian legislative requirements or industry best practices. Additionally, in 2015 the Company undertook the development and implementation of:

- HSE Document Management Procedure
- New HSE Organizational Structure
- Occupation Health Reporting Procedure
- New Journey Risk Assessment
- New Field Waste Management Equipment
- WesternZagros 11 Life Saving Rules

The Company also initiated the development of:

- Consolidated 8 element HSE Management System
- Legal Register

- Minimum Requirements for Environmental Monitoring with respect to tendering of services
- HSE Competency Based Learning and Development System

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.

The Company successfully completed 312 days and more than 1.2 million hours free of Lost Time Incidents (“LTI”) in 2015. The Company’s year-end Lost Time Incidents Frequency (“LTIF”) of 0.16 was above its 2015 LTIF target of 0.12, though below the Canadian industry average. Unfortunately, a work-related fatality occurred in a motor vehicle accident on a public highway in the Kurdistan Region in late February 2015.

The Company did not experience any other LTIs in 2015 and its total recordable injury frequency (“TRIF”) rate for 2015 was 0.96. This was slightly above the 2015 target goal of 0.95 though below the Canadian industry average.

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.

iv) 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 current **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. Throughout 2015, WesternZagros focused on sustaining the communities within its zone of operations and to that end had a proactive community investment program. Through the provision of local employment and contracting opportunities, we economically enhanced the local communities where we operated and reduced the dependency on subsistence farming, which was the main precarious livelihood. We undertook 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 worked on a strict principle of consent where we engaged with land owners and communities prior to the start of any operations and did 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 promoted the right to work and in this regard created over 260 temporary and permanent jobs in the Kurdistan Region of Iraq during 2015, ensuring that our presence in Kurdistan increased the standard of living for those within our sphere of operations. Both technical and vocational training was provided to all newly appointed workers, thereby increasing their life-skills, future work opportunities, and their

capacity for promotion. Our corporate community investment program demonstrated 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 was 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 2015.

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 2015, 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.

As operator during 2015, our local hiring policies in the Kurdistan Region of Iraq adhered to the highest regional standards and we supported the local communities where we worked through local hiring and rental of local vehicles and equipment (in all instances where it was 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 employed a system of local hiring committees composed of WesternZagros personnel, local government representatives and community leaders. The members of the committees worked in partnership to ensure our local hiring and local procurement practices provided 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 Kurdistan Region throughout 2015, approximately 85% were Kurdish-Iraqi nationals. Additional expatriate staff were recruited from around the world to occupy specialized technical positions where no local recruits were available. Local hiring reporting data was 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 operated in rural Kurdish subsistence farming communities where it was 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 were permitted to enter our work locations. No persons under the age of 18 were permitted access, with the rare exception of underage community residents seeking urgent medical attention.

WesternZagros 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. Throughout 2015, WesternZagros endeavoured to utilize local vendor services including infrastructure and consumables purchases, construction, local vehicle and equipment rentals, local support services and contractor staffing.

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

- 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 conducted its operations in the Kurdistan Region of Iraq, health, safety, environment and security were 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 tracked various labour statistics and the HSE&S group tracks lost-time incidents and near misses, and has a stop work card program. Work hours were documented to assure balancing of working hours. An Incident Management Practice was in-place to monitor our performance and lessons learned from lost-time incidents were reported to the Executive Management Team and action plans put in place to mitigate the risk of re-occurrence.

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

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

International SOS, a specialist independent service provider, also conducted an in-depth assessment of the health facilities within Kurdistan. Based on these findings, WesternZagros 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 employed an internationally qualified paramedic/nurse and local doctor, at our field headquarters camp. WesternZagros required 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 conducted periodic reviews of all local staff salary levels to ensure we kept pace with competitive local market rates. While reflecting the value we placed in local staff retention, WesternZagros acted responsibly and took a balanced approach to ensure we did not artificially inflate the local salary markets. We also took into consideration the Iraq Consumer Price Index to ensure the living standards of our local employees were 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 monitored and mandated staff and contractors take adequate periods of rest, even in cases where staff were not personally inclined to do so. This was 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 managed 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.

We actively pursued recycling, waste management and waste water treatment solutions to further reduce our environmental impacts.

Examples of environmental projects completed by WesternZagros in 2015 included: water well and road work initiatives, participating in the Agriculture Improvement Program, which was initiated in June 2014 and continued in 2015 in conjunction with non-government agency Mcfadden & Associates. The program involves farmer training, seed distribution and evaluation of new farming methods to help support local agriculture development. In addition, the Company initiated a scientific hydrogeology research study, in conjunction with the Sulaymaniyah University, to study the surface water levels and long-term effects of water management in the Garmian Region.



Agriculture Improvement Program

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 of Business Ethics (COBE) and related policies requiring all employees, business partners and suppliers to abide by the spirit and letter of all antibribery and anticorruption laws. 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 Company's senior management is responsible and accountable for implementing its policies. WesternZagros communicates its anticorruption commitment to our employees via our Code and anticorruption policies, which are 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 Garmian Block, the committee is made up of representatives of the KRG, WesternZagros and our co-venturer, GazpromNeft Middle East B.V. During the period of this report, WesternZagros was operator of the Garmian Block. Operatorship of the Garmian Block transitioned to Gazprom Neft in February 2016. In the Kurdamir Block, the committee is made up of representatives of the KRG, WesternZagros and our co-venturer and operator of the Block, Repsol S.A. Stated within the mandate of the management committees is a periodic review of the operators 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 involved the contracting for goods and services in support of our operations. This involved 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 were numerous. In addition, the logistics of bringing in these services and materials to the Kurdistan Region involved customs clearances and trans-national transportation.

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

- End of Report -