

**First Annual Report  
Communication of Progress (“COP”)  
Implementing the Ten Principles of the UN Global Compact  
by  
WesternZagros Resources Ltd.**

**For the period September 2011 to August 2012**

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**1. Statement by CEO**

H.E Ban Ki-moon  
Secretary-General  
United Nations  
New York, NY 10017  
September 11, 2012

Dear Mr. Secretary-General,

WesternZagros Limited is an international natural resources company engaged in exploring for, developing and producing crude oil and natural gas. WesternZagros holds two production sharing contracts (“PSCs”) with the Kurdistan Regional Government. These are both located in the Garmian Region in the Kurdistan Region of Iraq and one of which is operated by WesternZagros. Our activity in the reporting period has included drilling of one well and production of one well in the block which we operate.

WesternZagros believes our reputation is a critical component in the creation of long-term value for our shareholders. We also recognize that ultimate success is measured by our behaviour beyond the bottom line. Protecting and enhancing our reputation and our social license to operate is a significant element of sustained success and motivates us to commit to a level of corporate social responsibility across our operations and throughout our organization in part by incorporating and supporting the ten principles of the United Nations Global Compact.

We are committed to making the Global Compact and its principles part of our strategy, our culture and our day-to-day operational decisions within our company. We are a committed corporate citizen in the Kurdistan Region of Iraq and engage in collaborative projects to broaden the development goals of the United Nations, particularly the promotion of the Millennium Development Goals in Iraq.

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 the 2012 Communication on Progress (“COP”).

Sincerely,



M. Simon Hatfield  
Chief Executive Officer

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**2.0 General Background**

WesternZagros Resources Ltd. (“WesternZagros”) has Policies, Procedures and Programs (“PP&Ps”) which directly relate to the Global Compact principles and as such fall into a number of the reporting headers. These PP&Ps are addressed in this section and are also referenced in the Principles section of the 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 that code when conducting business abroad. 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 is in respect to our obligations:

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

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

ii) Corporate Social Responsibility (“CSR”)

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, the Company has proven to be an industry leader and is fully committed to corporate social responsibility and is aware of, and pays careful attention to, the need to conduct business in a way which optimizes the benefits for the citizens of the Kurdistan Region of Iraq and all of the Iraqi people. WesternZagros will celebrate eight years as a corporate citizen in the Kurdistan Region of Iraq during 2012. The Company has completed many projects over the years which have focused on a variety of local improvements and have had a positive impact on many Kurdish

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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 and are guided by our leadership. In order to analyze our ongoing impact on the communities surrounding the operations, WesternZagros has undertaken a number of assessments (internally and externally) to ensure our treatment of various stakeholders is considered fair.

These assessments include a socio-economic baseline study of the local area in which the Company operates. WesternZagros also completed a social impact assessment, conducted by the American University of Iraq-Sulaimaniyah, for the purpose of gaining a better understanding of the impact of its operations. The intent of the assessment is to use it as a tool to provide the best possible benefit to surrounding communities.

The five key CSR initiatives that WesternZagros is committed to providing resources for are: health, water, education, local employment and youth recreation. As this is our first annual report, we provide examples of projects completed in the Garmian Region, over the last four years below. The local employment and water projects are discussed more fully in section 3b) Labour Principles and 3c) Environment Principles.

Project	Community	Year
Donated medical equipment (ECG, defibrillator, etc.)	Kifri Hospital	2009
Renovated primary school	Masoi Sar Chum	2009
Funded Challenge Cup (youth football tournament)	Kalar	2009
Provided Project Cure medical donations and equipment	Garmian Region clinics	2010
Provided subsidy for Hazi Kani medical support	Hazi Kani	2011
Purchased a bus to promote literacy	Garmian Region	2011
Ordered kits for Hazi Kani youth football team	Hazi Kani	2010
Built a football field for youth physical education	Shekh Tawil	2010
Provided kits for Sengaw youth football teams	Sengaw	2010
Donated sports equipment for Youth Activity Festival	Kalar	2010
Provided white boards for primary and secondary schools	Sengaw	2010
Provided school supply backpacks for primary schools	Shekh Tawil sub-district	2010
Refurbished health clinic	Omer Mil	2012
Refurbished primary school	Hasira	2011
Provided equipment for youth football team	Hasira	2011
Built a football field for youth and physical education	Hasira	2011

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Project	Community	Year
Donated sports equipment for Youth Activity Centre	Kalar	2011
Renovated primary school	Kawa Charmu	2011
Refurbished clinic/school	Aziz Qadr	2011
Funded of Global Citizen's Corp.'s community projects	Kalar/Sulaimaniyah	2011
Donated white board for schools	Sarqala sub-district	2012
Repaired primary school	Kareza	2012
Built a new health clinic	Hasira	2012
Refurbished meeting hall	Hasira	2012
Donated Smart board to High School	Sulaimaniyah	2012
Building a meeting hall	Mil Qasim	2012

iii) Health, Safety & Environment

The mandate of the “**Health, Safety and Environment Policy**” states that WesternZagros is committed to protecting the environment and to preventing harm to our employees, contractors and communities in which we operate in the Garmian Region. The “**Health, Safety and Environment Policy**” is available on the Company’s website at [www.westernzagros.com](http://www.westernzagros.com)

The Company has developed an evergreen and 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 continually it 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 HSE issues are systematically identified, controlled, and monitored. There are several reasons for selecting these standards as models for the HSEMS framework and are summarized as such:

- The ISO 14001 Standard for Environmental Management Systems is a widely accepted international standard for Environment Management Systems.
- The OHSAS 18002:2000 Occupational Health and Safety Management Systems is a newly accepted international standard for Occupational Health and Safety

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Management Systems.

- The API (American Petroleum Institute) Model EHS Management System is a voluntary tool for companies interested in developing an EHS 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 & correct, and review, which provide a process for continual improvement. Additionally, the HSEMS provides the structure for the delivery of the health, safety, and environment 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, set with objectives and meets target, 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 cause and prevention. Audit and management review 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 is a risk business and, as a result, the process of assessment, mitigation and control of risks is well established. Because of this core competence, 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 planned, 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 management's support and attendance.

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**3.0 Progress Report**

**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 Resources supports and respects the protection of internationally proclaimed human rights. We support and promote the protection of international human rights within our sphere of influence and we will not be complicit in human rights abuses. Our Code applies 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 of Business Conduct every year.

With respect to reducing Human Rights risks and responding to violations, WesternZagros has a formal dialogue within the “**Reporting of Inappropriate Activity Policy**,” which states all reports will be taken seriously and will be promptly and thoroughly investigated. In addition to the corporate internal complaint procedure, local, provincial and federal laws always prevail.

The Company’s “**Corporate Social Responsibility Policy**” states that WesternZagros is committed to acting in a socially responsible manner and will maintain highest standards and respect for human rights, local rights and property in the regions that we operate.

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

Risks, Actions & Measures

The greatest human rights risks arising from oil & gas resource exploitation activities are from expropriation of land and impacts of operations on communities, disrupting the lives of local inhabitants and removing their livelihoods. WesternZagros is focused on sustaining the communities within its zone of operations and to that end has a proactive community investment programme. Through providing local employment and contracting opportunities we have economically enhanced the local communities in which we operate and reduced the dependency on subsistence farming which was the main precarious livelihood. We have undertaken surveys of the community to assess what impact the company is having on the communities.



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**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 uphold the elimination of all forms of forced and compulsory labour.

Our local hiring policies in the Kurdistan Region Iraq adhere to the highest regional standards and we support the local communities in which we work through local hiring where we can. Local hiring strategies and principles are defined within WesternZagros's Field Local Hiring Procedures and are documented. WesternZagros adheres to all regional and international laws.

As per our hiring procedures the minimum age of worker allowed by the Company is 18 years of age. A local hiring committee made up of WesternZagros, the Asaiash and the Mayor of the relevant administrative sub-district, work in partnership in our hiring and local procurement practices to provide fair and transparent processes for each employment application. Approximately 70% of our staff in our Sulaimaniya office and our field operations are hired locally. Only 30% are expats, who hold specialized technical positions and who are recruited from around the world. Including all staff, contractors and service providers, approximately 82% of the people working for us in the region are Kurdish Iraqi nationals. Local hiring reporting data is submitted formally to the Regional Government to support these aspects.

**Risks, Actions & Measures**

The continuity and sustainability of operational activities associated with oil & gas exploration and development is somewhat uncertain until success is achieved and facilities developed which 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 has placed a strong emphasis on the safe incremental development of local personnel capacity. As at December 31, 2011, WesternZagros had 342 full-time local national staff and service contractors employed due to the company's operations, 61 of which are employed in the Company's field and staff offices in professional/semi-professional roles. Job creation and skills training is crucial for the livelihood of the families of the Kurdistan Region of

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Iraq. Initiatives related to the development of new jobs for local employment initiatives include the following:

- Trained and promoted local Garmian village personnel to positions on drilling crews and on the extended well testing operations;
- Trained and appointed additional Garmian personnel as Health, Safety and Environment Technicians and Materials & Logistics Supervisors; and
- Ensured the safety of all local Garmian rig labourers and rig crew through the completion of 'Rig Pass' training

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 health, safety and environment standards for its Kurdistan Region of Iraq operations. 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.

The Company tracks various labour statistics and the Health, Safety, Environment and Security ("HSE&S") group track lost-time incidents, near misses and has a stop work card program. Man-hours are documented to assure balancing of working hours. An Incident Management Practice is in-place to monitor our performance. As at June 2012 we surpassed the 2 million person hour mark without a lost time incident. This achievement is communicated with pride by the CEO. In the past, we have achieved over 4 million person hours without a lost time incident and we hope to repeat and exceed this achievement.

Training and communication are an important part of the process. The work stoppage procedures and policy 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 Management Plan dictates how these policies are implemented and is also supported by our Code.

WesternZagros's Calgary and Sulaimaniya offices have formed internal HSE Committees selected to scrutinize and oversee the HSE issues that are of importance around the Company's office buildings, staff houses, and Sulaimaniya area movements.

WesternZagros has established relationships with local health providers in Sulaimaniya and has an agreement with International SOS for emergency medical evacuation. International SOS, a specialist independent service provider, has also conducted an in-depth assessment of the health facilities. WesternZagros requires all of its major contractors to have their own insurance, medic with ambulance vehicle and a health, safety and environmental professional on site full time.

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The Code speaks directly to the elimination of discrimination or harassment which is highlighted within the details of the Workplace Conduct section. Senior management reviews and applies “Lessons Learned” in order to improve operational safety and the procedures enlisted that mark each significant milestone within our operations. 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 Code. Violations of law and/or violation of our policies and procedures must be reported through the appropriate channels. WesternZagros does not permit retaliation against those who make such reports in good faith.

**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 where these exceed local standards. We manage our Health, Safety and Environmental performance in a manner equal to any other of our critical business performance measures. The mandate of the “**Health, Safety and Environment Policy**” states that WesternZagros is committed to protecting the environment.

The Health, Safety and Environment Policy is available on the Company website at [www.westernzagros.com](http://www.westernzagros.com).

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

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

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Examples of environmental projects completed by WesternZagros include:

Project	Community	Year
Drilled water well	Gori Asp	2009
Biosand filter for potable water project and training	Garmian sub district	2009
Drilled water well	Kella Barza	2010
Drilled water well	Hazi Kani	2011
Qulijan Sarhad and Amin water projects	Qulijan sub district	2010
Water irrigation refurbishment	Jamrez	2010
Mercy Corp Water Supply and Distribution Project	Tula Qut/Hawza Gawre	2010
Water distribution system	Awa Spi	2010
Water distribution project	Shakal	2011
Water tankers for trees in Sarqala	Sarqala sub district	2011
Drilled water well	Mil Qasim	2011
Drilled water Well	Hasira	2012

Within this reporting period, WesternZagros has completed an Environmental Impact Assessment of our primary operations area and an environmental management plan is due for completion by year end.

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**d) Anti Corruption Principles**

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

WesternZagros has compiled the “**Code of Ethics and Business Conduct**” to address the ethical and legal obligations for all geographic locations and job positions. WesternZagros has 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, misrepresentation of material facts and this list is by-no-means limited by these examples. The giving and receiving of gifts is to be 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 of Ethics and Business Conduct**”. These were adopted to reflect the US Foreign Corrupt Practices Act, the Corruption of Foreign Public Official Act (Canada) and the new UK Bribery Act (although the Company 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 of Ethics and Business Conduct**” is available on the Company’s 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 the Contracts. The Management Committees for our two blocks are comprised of members appointed by the KRG and the Operator. In the WesternZagros operated block the Committee is made up of representatives of the KRG, WesternZagros and our co-venturer. Stated within the mandate of the Management Committees is the 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.

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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 expenditure in excess of \$1 million are numerous. In addition the logistics of bringing in these services and materials involves customs clearances and trans-national transportation.

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

- End of Report -