



# Materiality

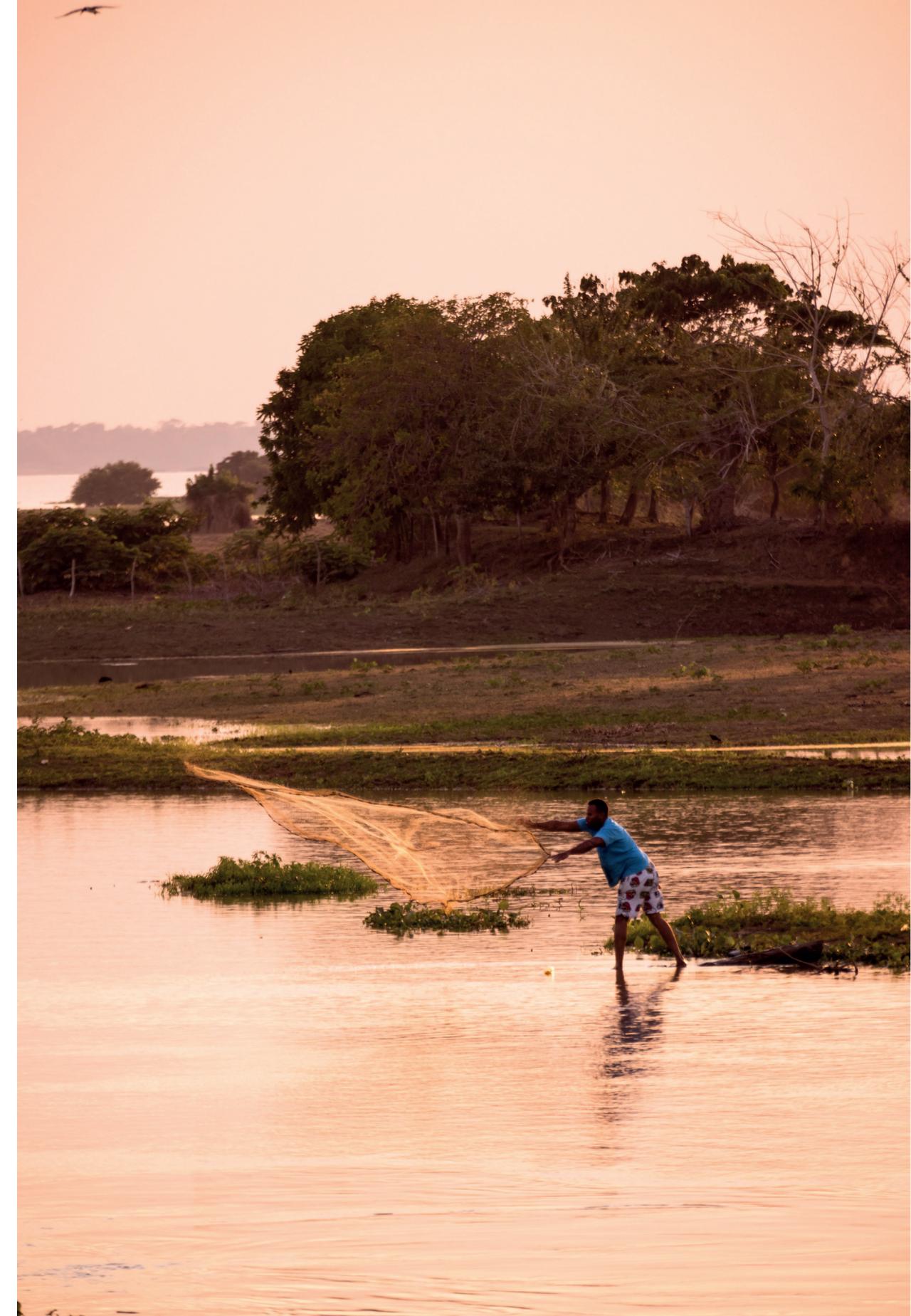
## Report 2022



# Introduction

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Canacol conducts an annual materiality assessment to identify the most significant material issues perceived by the Company and our stakeholders. We collaborated with a third-party consulting firm to establish three priorities for our ESG model and strategies, and to develop a stakeholder prioritization matrix. This inclusive process ensures the active participation of all stakeholders. Our inaugural materiality report provides a comprehensive analysis of the material risk identified for value creation, as well as the material issues identified by our external stakeholders.



# Materiality Analysis

We conduct our materiality analysis annually and our assessment consists of three primary steps:

1. Prioritization of stakeholders, according to their interest, and influence over Canacol's performance and ESG Strategy.
2. Comparison of identified key issues from previous years with the results of the engagement exercise and review of global trends.
3. Update and prioritization of the identified key issues for the year.

We sort key issues into three categories: material issues, strategic issues, and operational issues. We then determine their order of prioritization. The main material issues identified guide our ESG strategy and are aligned with global trends in the oil and gas industry. These material issues have dedicated internal policies and commitments and are covered in detail throughout our sustainability reports.

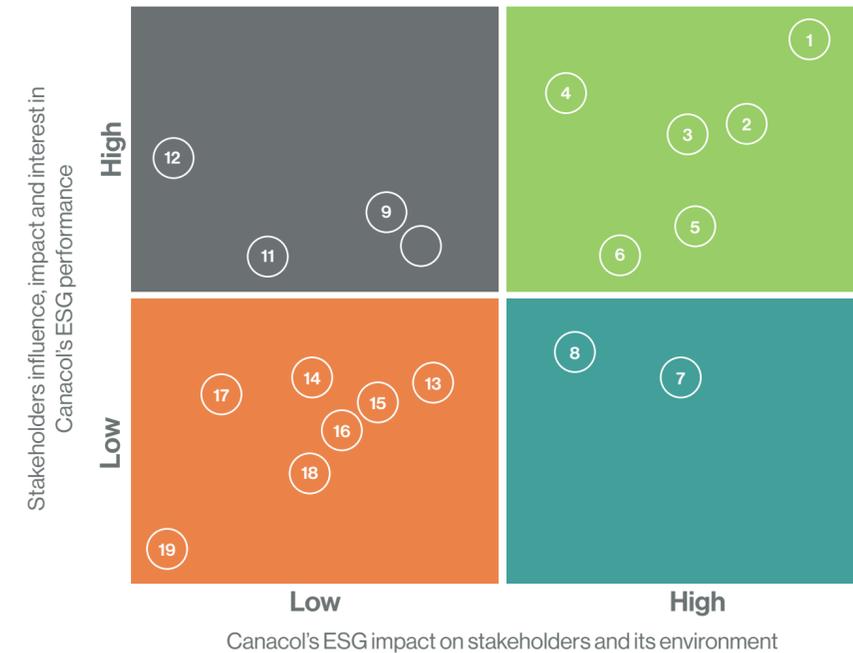
**Material issues:** These issues have a significant real or potential impact that can affect our short (1 year) and medium term (3 years) strategy and key financial indicators. We have identified four material issues in 2023: 1) relationships with communities and local authorities, 2) energy transition and climate, 3) efficient water management, and 4) industrial safety and occupational health.

**Strategic issues:** These issues can have a real or potential impact, though not critical, and can enable opportunities to improve our performance in the medium term (3 years). We have identified six strategic issues in 2023: 1) corporate governance and integrated risk management, 2) ethics, compliance, and transparency, 3) respect for human rights, 4) conservation of biodiversity, 5) local development, and 6) talent management and organizational culture.

**Operational issues:** These issues do not pose a risk or offer opportunities to improve financial performance or operational efficiency in the long term (greater than 5 years). We have identified two operational issues in 2023: 1) circular economy and 2) sustainable supplier management.

Our stakeholder groups are assessed by conducting interviews with senior management and supervisors who oversee the relationship based on their level of influence, interest, and current and potential effects. The use of a prioritization matrix enables us to determine appropriate engagement strategies and identify pertinent issues for our materiality analysis.

## Stakeholder prioritization matrix



**1. Employees**  
**2. Trade unions**  
**3. Customers**  
**4. Board of Directors**  
**5. Community (local workforce, rural, indigenous)**  
**6. Government (local and national)**

**Essential**

It is fundamental to strengthen relationships, assess and monitor impacts, focus efforts, and strengthen collaborative work.

**7. Environmental and archaeological control organizations**  
**8. Local suppliers**

**Immediate**

It is important to establish relationships, assess actual impacts and monitor potential impacts.

**9. Regulatory body - National Hydrocarbons Agency (ANH)**  
**10. Shareholders and bondholders**  
**11. Strategic suppliers (goods and services)**  
**12. Rating agencies**

**Adjacent**

Stakeholders need to be informed and their interests and expectations need to be monitored.

**13. Associations**  
**14. Allies**  
**15. Financial and stock market control bodies**  
**16. Media and opinion leaders**  
**17. Contractual partners**  
**18. Investors and analysts**  
**19. Tax monitoring and control bodies**

**Peripheral**

Stakeholders need to be informed.

# Material Issues for Enterprise Value Creation

Canacol has identified three significant material issues that could potentially impact our current and/or future value creation. To ensure a comprehensive understanding of these potential risks, Canacol has developed a rationale of the importance of these issues to our business. Additionally, we have outlined the primary business strategies, initiatives, and products to address this issue.

Furthermore, Canacol has established metrics to track our progress in addressing these three material issues. Identifying a specific target/metric, setting a target year, progress on achievement of the target, as well as how it is connected to Canacol's executive compensation plan.

## Material Issue One: Relationships with Neighboring Communities

**Business case:** Our relationship with local communities is important to our business. Since our operations directly impact the areas where we operate, it is imperative for us to prioritize community engagement and establish strong connections with our local communities. The success and sustainability of our business greatly depends on the support, cooperation, and goodwill of these communities. Any disruptions or strained relationships can potentially hinder our operations, impede our ability to access resources, and adversely affect our reputation. Therefore, by effectively managing our interactions with local communities, we mitigate risks, foster a conducive operating environment, and safeguard our long term value creation.

**Business Strategies:** Our strategy focuses on collaboration with local stakeholders. We foster an environment of consensus, reciprocity, respect for rights, transparency, appreciation and protection of culturally diverse contexts. Through these principles, we actively contribute to social progress in our operational areas. Adopting a proactive approach and considering multiple perspectives, we carefully manage the current and potential impact of our activities on communities, the environment, and social dynamics. By working closely with local stakeholders, we determine appropriate actions for our operations with the aim of achieving operational excellence and optimizing capital allocation.

**Metrics and Targets:** Our goals for 2023-2024 include:

1. **Improve the CRCC System:** Include a human rights and gender approach in the CRCC System.
2. **DEI Focus on Social Projects:** Guarantee that all diagnoses and indicators of social projects have a gender focus.
3. **Enhance the Corporate Matrix:** Develop a corporate matrix for measuring the impact of strikes on Canacol's operations, including the number of workers affected, hours lost, and economic and operational impacts.
4. **Training and Development:** Develop training sessions with 100% of the local communities on human rights and gender equality issues.

The achievement of the established metrics and targets are tied to executive compensation, contingent upon the improvement of the Company's sustainability score in relevant ESG rankings and ratings agencies.

## Material Issue Two: Health and Safety

**Business case:** Ensuring the health and safety of our employees, contractors, and all individuals involved in our operations is of paramount importance to Canacol. Several key factors support the significance

of prioritizing health and safety within our business. Firstly, a strong health and safety culture fosters the well-being, development, and productivity of our workforce, leading to enhanced operational efficiency and effectiveness. By investing in continuous improvement in our health and safety practices, policies, and processes, we mitigate the risks associated with workplace accidents and illnesses. Prevention of major incidents and diseases among our employees, contractors, and communities is crucial to maintaining operational continuity and safeguarding our reputation. Furthermore, by focusing on establishing a robust safety culture, we actively manage operational risks, reducing the potential for financial losses resulting from accidents or disruptions.

**Business strategies:** Our strategies to address this risk include employing an identification, evaluation, and assessment risk matrix for direct and contracted operations, thereby enabling us to determine controls and intervention measures to mitigate potential hazards. We also maintain compliance with the Ministry of Labor's Occupational Health and Safety Management System (OHSMS). To raise awareness of job-related risks, we have implemented the FOCUS awareness program, engaging employees and contractors in reflective activities and analysis. Our Skills Strengthening Program trains safe work ambassadors for riskier production and drilling operations. We also prioritize eliminating occupational hazards through measures such as remote work, prevention of musculoskeletal disorders, mitigating risks from exposure to chemicals, preventing noise-induced hearing loss, and addressing psychosocial risks. Through these focused strategies and initiatives, we support a healthy and compliant work environment.

**Metrics and Targets:** Our goals for 2023-2024:

1. **Audit and Disclosure:** Annually audit and disclose the performance of 100% of the most critical contractors in safety and health standards.
2. **Process Safety Events:** Achieve the disclosure of the number of process safety events – tier 1 per million hours worked.

The achievement of the established metrics and targets are tied to executive compensation, contingent upon the improvement of the Company's sustainability score in relevant ESG rankings and ratings agencies.

## Material Issue Three: Energy Transition

**Business case:** The energy transition represents a significant material issue for Canacol. Global shifts towards cleaner and more sustainable energy sources makes addressing this transition crucial for our business strategy, long-term viability, and competitiveness. By proactively embracing renewable energy solutions, GHG emissions reductions, and adapting our portfolio, we can mitigate regulatory and market risks while capitalizing on emerging opportunities. This strategic shift not only enhances our reputation and stakeholder relationships but also unlocks new revenue streams and ensures our alignment with evolving energy trends, standards, and regulations. Embracing the energy transition is essential to secure our position as a responsible industry-player in Colombia's evolving energy landscape.

**Business strategies:** Our low carbon roadmap and decarbonization strategy has been continually developed and implemented, alongside the adoption of Natural Climate Solutions. To enhance our commitment to climate action, we released our inaugural TCFD report in 2022, aligning ourselves further with climate initiatives to effectively manage climate-related risks and opportunities. Furthermore, our membership in the Natural Gas Sector Alliance: Road to Carbon



Neutrality strengthens our industry commitment towards achieving carbon neutrality by 2030 and 2050. Additionally, our membership in IPIECA further bolsters our commitment to sustainable practices. Our low carbon roadmap encompasses integrating climate risks into decision-making processes, implementing robust control and monitoring systems, optimizing operational efficiency, leveraging technology for transformative change, supporting community adaptation, and implementing Natural Climate Solutions to enhance carbon storage and safeguard biodiversity.

**Metrics and Targets:** By the end of 2023, our goals are to achieve the following objectives:

1. **Integration of Climate Risks:** Identify and include all climate-related risks in the corporate risk matrix.
2. **Incremental Adoption of Renewable Energy:** Commitment to achieving a year-over-year increase in the utilization of renewable and low/null carbon energy sources over the course of the next six years.
3. **Quantification of Impact Categories:** Identification and quantification of categories directly influencing operations, especially pertaining to the generation of scope 3 emissions.
4. **Climate-Aligned Incentive Program:** Establish a Management Incentives Program based on climate change concerns, aligned with the attainment of pre-defined targets.
5. **Holistic Risk Management:** The Company's strategy involves the identification, incorporation, and assessment of climate and water-related availability and quality risks within the corporate risk matrix, accompanied by rigorous sensitivity analysis and stress testing.
6. **Operational Enhancement for Decarbonization:** Develop operational efficiency and technological advancements to drive decarbonization processes.
7. **Zero Waste Model Implementation:** Complete the implementation of the Zero Waste Model across all operations.

**By 2024, our goals encompass the following:**

1. **Biodiversity and Ecosystem Analysis:** Conduct a thorough evaluation of the risks and opportunities associated with biodiversity and ecosystems.
2. **Internal Carbon Pricing:** Implement an internal carbon pricing mechanism.

The achievement of the established metrics and targets are tied to executive compensation, contingent upon the improvement of the Company's sustainability score in relevant ESG rankings and ratings agencies.



# Material Issues for External Stakeholders

## Material Issue One: Biodiversity Conservation

**Topic Relevance:** Biodiversity conservation is a material issue that has been identified by Canacol's external stakeholders. In 2021, through its Biodiversity Conservation Program, Canacol established ten biodiversity conservation agreements with our local communities. These agreements encompass properties containing remnants of the critical tropical dry forest ecosystem. This ecosystem has faced significant vulnerability in the region while providing essential ecosystem services to the local communities. The primary goal of these conservation agreements is to safeguard the integrity of these forests. This is achieved through a comprehensive approach involving environmental education, bolstering food security, equipping properties under the agreement with necessary tools, as well as promoting and emphasizing conservation actions. Our commitment to these agreements underscores our dedication to both biodiversity preservation and the well-being of the communities.

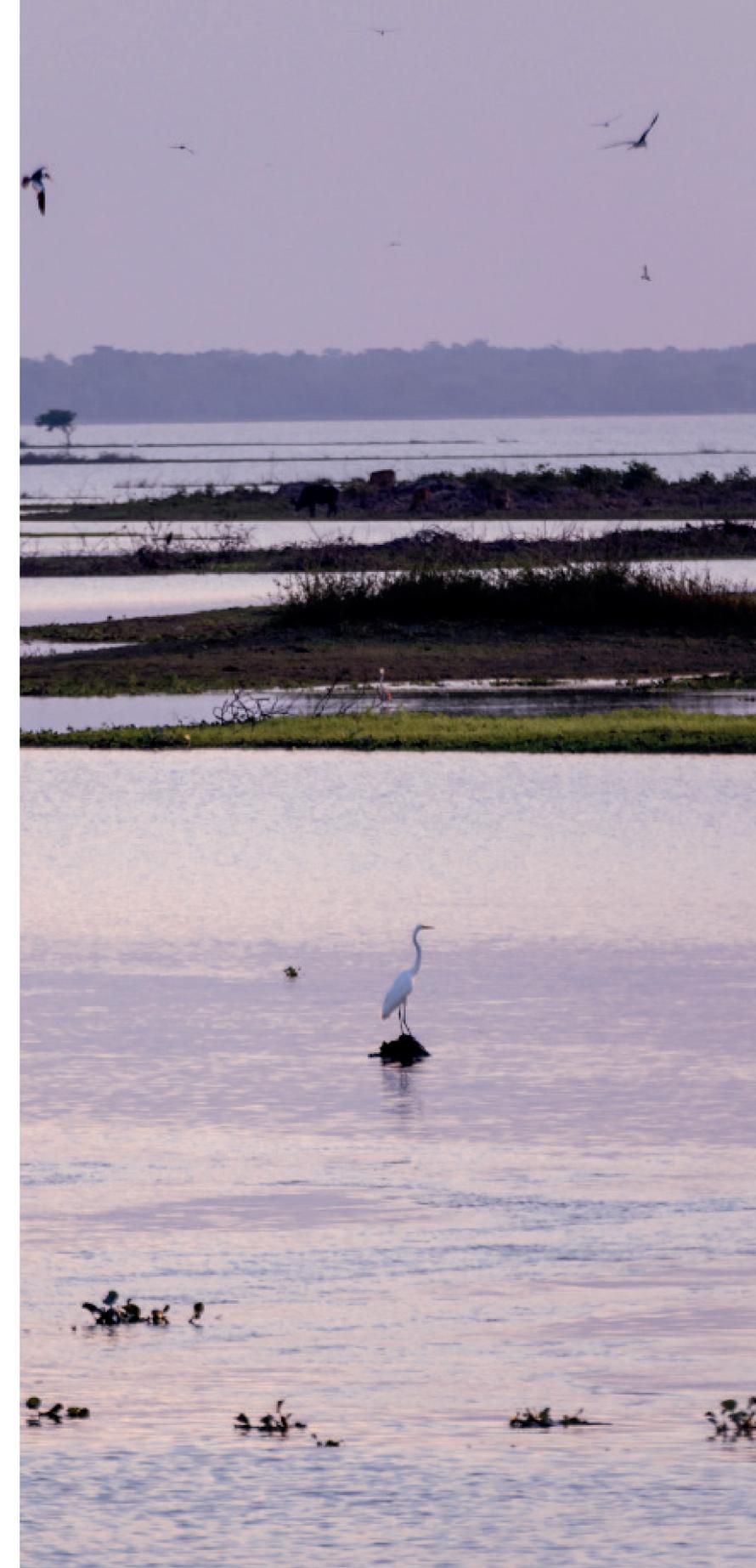
**Output Metric:** Amount of reforested land protected and reforested.

**Impact valuation:** The conservation agreements address the preservation of this vital ecosystem by engaging local communities and promoting sustainable practices. Social and environmental impacts that were valued include:

- 1. Societal Well-Being:** The conservation of the tropical dry forest directly impacts the quality of life of local communities. It contributes to their food security, traditional practices, and cultural heritage. By involving community members in conservation efforts, the agreements enhance social cohesion and empower stakeholders to take an active role in preserving their environment.
- 2. Ecological Balance/Ecosystem Services:** Tropical dry forests are essential for maintaining biodiversity, regulating water cycles, maintaining soil fertility, and mitigating climate change. These forests provide habitats for various species, including those that are threatened or endangered. Preserving this ecosystem helps ensure the resilience and health of local ecosystems and contributes to the overall stability of the environment. Additionally, the ecosystem services provided by the tropical dry forest benefit local communities and have broader regional and global implications.

**3. Public Disclosure:** The public disclosure of these conservation agreements demonstrate a commitment to transparency and responsible environmental stewardship. It informs all Canacol's stakeholders about the Company's efforts to mitigate its environmental impact and contribute positively to its neighboring communities.

**Impact metric:** The conservation agreements are established for a three-year duration and are subject to renewal through mutual agreement. These agreements are distributed across specific territorial jurisdictions: three properties within the Buenos Aires hamlet, one property in the municipality of San Marcos, three properties within the Boca Negra hamlet, two properties within the Museque hamlet, and one property within the La Corocita hamlet of Sahagun municipality. Collectively, these voluntary conservation agreements encompass a total of 60 hectares of tropical dry forest. Additionally, an area of 44.5 hectares has been successfully reforested as part of these initiatives.



## Material Issue Two: Social Development

**Topic of relevance:** Social development is a material issue identified by our stakeholders as our business has a direct impact on the societies where we operate. As such, there is an expectation to contribute to positive social development by promoting economic growth, creating employment opportunities, and supporting local communities. Furthermore, the type of relationship we develop with our local communities directly affects our brand image and reputation. The implementation of our gas massification program serves to help communities access affordable, cleaner, and more efficient fuel sources from natural gas replacing traditional sources such as wood, charcoal, and biomass.

**Output metric:** Number of individuals benefitting from gas system connections.

**Impact valuation:** The gas massification program is a positive and beneficial proponent of social development in Canacol's operational areas. The assessment of these impacts include:

- 1. Quality of life:** Improved quality of life by reducing cooking time allowing for greater time spent in work, family, or leisure activities, as well as improvements in safety with a more controlled fuel source and burn.
- 2. Improved Air Quality:** Air quality significantly improved among individuals connected to the gas network, with a reduction in health problems, particularly respiratory issues, as well as a reduction in the amount of greenhouse gas emissions generated.

**Impact metric:** The gas massification project launched in 2019 and began connecting local communities with gas installations. In 2021, Canacol completed the second phase of its gas massification project and we are now moving into the third phase. So far, the project has benefitted 1,319 people across 13 municipalities.

