Risks Management & Oversight Policy

General Framework

The Board oversees the Corporation´s principal risks and requires the senior executives to be fully engaged in risk management. In addition to mitigating risks, risk management enhances transparency and credibility, and improves internal reporting processes. Canacol evaluates and determines the risks in a structured and systematic way and has identified potential risks that may impact the Corporation´s business and operations. To develop an effective and efficient risk management process, based on the creation and protection of value, Canacol's Risk and Opportunity Management Planning adopts and adapts the principles and management framework established in the ISO31000 standard. Risk and Opportunity Management applied in a comprehensive and consistent manner increases the probability of achieving objectives, facilitating decision-making, and improving the performance of the different operational departments.

This also helps to meet legal and regulatory requirements, contribute to organizational governance, improve the confidence of stakeholders, increase operational effectiveness and efficiency, minimize losses, and improve organizational learning. Its systematic application is considered a fundamental part of decision-making, allowing Senior Management and/or Process Leaders to ensure desired results (objectives) through the control and management of uncertainty. Also, it allows senior management to anticipate (informed decision-making) possible events that can positively or negatively impact the Corporation´s strategic objectives. This is the basis for decision making and continuous improvement within processes and the system in general.

In our risk management process, we include the following main risk categories, which are aligned with S&P Global, an international provider of financial market data and infrastructure: internal risks, strategic risks, and emerging (external) risks.

Internal risk	Strategy risk	External & emerging risks
• Easily identifiable risks. • Organizations can often avoid or eliminate them by implementing traditional internal controls and processes. • Examples: Union strikes, unethical behavior, failure in operational and H&S processes.	• Risks that Companies intentionally accept to potentially generate higher returns. • Easily identifiable. • Can be managed with the help of a risk management framework to implement tolerance levels and reduce the potentiality of a risk occurring. • Material risks – significance for an organization that must be managed. • Examples: Human Rights, carbon emissions, tax strategy.	• Events outside an organization. • Beyond company's control. • Companies cannot prevent such risks, so it is important to focus on the identification and related mitigating measures. • Examples: Covid-19 pandemic, natural disasters, geopolitical shifts, market developments.

The company conducts routine risk reviews throughout its operations, including both on-site and office locations. Utilizing the ISO 31000 methodology, the company continuously evaluates its risk exposure. Canacol identifies and discloses potential risks while conducting both an internal and external audit of its risk management process.

In addition, the audit committee of the Board meets quarterly and reviews the Corporation's risk management process, exposures and mitigating solutions if applicable.

Risk and Opportunity Management System

Canacol incorporates Risk and Opportunities Management in its different processes to foresee all those events that may impact, both negatively or positively, its operations and/or goals. The objective of this process consists in reducing the probability of occurrence and/or level of impact of external events. The Risk and Opportunity Management system facilitates correct decision making and promotes the effective and efficient use of resources, thus ensuring business excellence.

This practice is developed step by step, according to the process described in the ISO 31000 – Risk Management Standard, which covers, in a summarized manner, the following aspects:

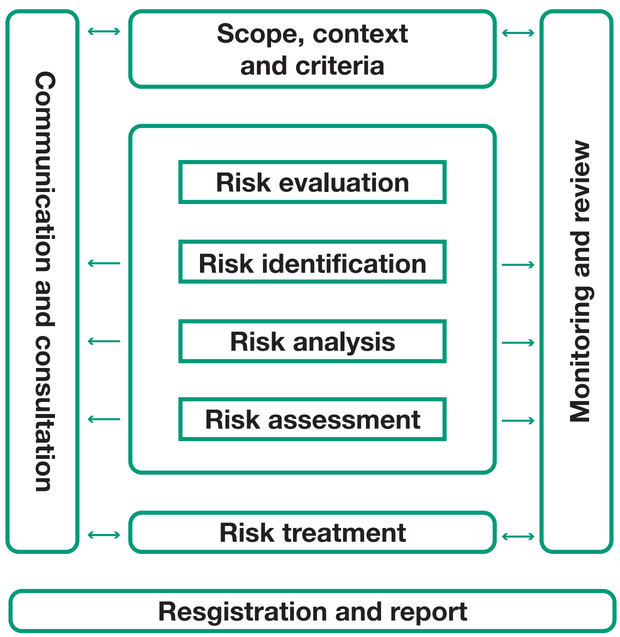

Figure #1. Risk Management Process – ISO 31000.

a. Scope, Context, and Criteria

The objective of defining the scope, the internal and external context, as well as other criteria is to acquire and develop a strong knowledge base to achieve an accurate risk evaluation and effective treatment method. The scope, context, and criteria define the framework or general system on which the exercise will be carried out. At this point, the amount of risk that can or cannot be assumed is defined, as well as those risk criteria that must be considered for the fulfillment of the objectives.

b. Communication and Consultation

This part of the process consists of ensuring that the Company's teams and all the stakeholders clearly understand the risks or opportunities, the activities with which decisions are made and the reasons why specific actions need to be taken. It is necessary to carry out an exchange of information (different visions and knowledge) to ensure an understanding between the parties.

c. Risk Evaluation

The evaluation of risks and opportunities allows the adoption of measures and effective decision-making focused on meeting Company objectives. It detects which risks can materialize, what opportunities can be exploited, and to what extent these will negatively or positively affect the defined objectives. Risk evaluation comprises the identification, analysis, and assessment of risk. Evaluation must be done periodically to maintain up to date definitions of the strategy, the objectives, and the duration of the project and/or activity to be evaluated. The identification of risks, like the management process, is of an iterative or cyclical type, where it is important to identify those risks that are under the control of the organization, process, or project (related to the business), as well as those that are not related to the business. Each identified risk must have an owner or person responsible for its management, its action plan, as well as its monitoring and control. The person responsible must have the technical and administrative skills required for its management.

Each Vice President, Manager, or Process Leader overseeing a project or activity will define the best frequency of each evaluation cycle, depending on the complexity and duration of the activities to be managed. For the evaluation of risks and opportunities, we implement the FPLN-02 "Risk and Opportunity Management" format, which complies with the requirements defined in the ISO 31000 standard.

d. Analysis

Analysis allows for the determination of how often specific events may occur and the magnitude of their consequences. It consists of understanding the characteristics and the level of risk, with the objective of establishing an assessment and prioritization of risks, to classify them. The analysis also involves a review of the sources of risks, their consequences, probabilities, events, situations, and controls, as well as the causes of risks, their consequences, and the probability of their occurrence.

The level of risk will be defined by both the probability of its occurrence and the consequence or impact that such risks would cause if materialized. These values are determined using different tools such as expert judgment (interviews or meetings with key people within the processes, projects, or activities), the use of historical data, and/or different statistical techniques of data analysis.

Analyses may be qualitative, semi-quantitative, quantitative, or a combination of these. The decision of which is the most appropriate for each case will depend on some factors such as:

- Size and complexity of objectives to be obtained.
- Available information.
- Availability of resources.
- Purpose of the analysis.
- Phase of the process in which the analysis takes place.

Probability

Impact					
	M	A	A	MA	MA
	M	M	A	A	MA
	L	M	M	A	A
	L	L	M	M	A
	L	L	L	M	M

Figure # 2. Risk Levels: Very High (MA), High (A), Medium (M), Low (L).

The processes, projects, or activities in general carry out qualitative analysis. Semi-quantitative or quantitative analyses may be carried out when required and when the corresponding historical information is available.

e. Assessment

A final assessment is conducted to provide effective information for decision-making. It involves comparing the results of the risk analysis with the established risk criteria (terms of reference), to determine in which scenario additional action is required. For the evaluation of risks and opportunities, the methodology of expert judgment will be used, unless the Manager or Process Leader considers using methodologies of greater complexity. When a risk (inherent risk) exceeds the required or desired risk criteria, it is necessary to look for new mechanisms, activities, or plans to reduce the risk to acceptable levels (residual risk). For this it is necessary to mention and define the following concepts:

The organization has a 5 x 5 risk matrix, five levels of Probability (A, B, C, D, E) and five levels of Impact (1, 2, 3, 4, 5).

The probability of occurrence of a risk can be estimated based on the times that the risk is estimated to materialize in a certain period, with the value “A” being the least frequent occurrence and “E” being the highest probability of occurrence.

In the case of the estimation of the impact or consequence, four parameters have been defined:

- Loss of value of the business: Ranges of impact are defined in monetary terms.
- Privilege to operate / Reputation: Levels of impact are defined, which can range from regional to international levels, with the corresponding impacts on reputation.
- Impact on people: Possible effects on people, from injuries to fatalities.
- Environmental: Possible effects on the environment, regardless of the size of the area effected.

The assessment of the probability may be carried out considering historical data or based on the expert judgment technique, defining a percentage of possibility that the event under assessment may occur. The assessment of Impact may be carried out in the same way, by means of the expert judgment technique or through quantitative terms with techniques such as expected monetary value, among others. The type of assessment (qualitative or quantitative) will be defined based on the complexity of the activity or the process in context.

For each identified risk, each one of these parameters is rated, assigning values from one (1) to five (5), with one being the lowest impact and five being the highest.

PROBABILITY / POSSIBILITY ASSESSMENT PARAMETERS					PROBABILITY / POSSIBILITY				
				Qualitative possibility	Not known to occur in industry	It has happened in the O&G industry	Occurs in industry sporadically	Of probable occurrence in the operation	Common occurrence in the O&G industry
				Time frame	May occur in 10 years or beyond	It can happen between 5 - 10 years	It can occur between 3 -5 years	It can occur between 1 -3 years	It can happen in the next year
				Probability	Less than 10 e-3	10 e -3 to 10e-2	0.01 - 0.1	0.1 - 0.25	Greater than 0.25
IMPACT OR CONSEQUENCE									
Value	Loss of business value	Privilege to operate / Reputation	Affectation to people	Environmental	A	B	C	D	E
5	>50 MU$	Affectation of reputation internationally Coverage by international media Rejection by shareholders and the public at an international level	3 or more fatalities	Environmental damage to a sensitive area / Recovery of more than a year / loss of environmental license	M	A	A	MA	MA
4	10M US - 50M US	Loss of license to operate / medium-term coverage by national media / serious damage to reputation	1 -2 Fatalities	Affectation of a sensitive area / higher sanctions or temporary suspension of licenses by authorities	M	M	A	A	MA
3	1M US- 10M US	Affectation of relations with regulatory entities, the industry and suppliers at the regional level.	Injuries and illnesses with permanent disability	Affectation of a sensitive area and the natural resources of the surrounding community, with remediation between one and six months	L	M	M	A	A
2	100 K US - 1M US	Non-compliance with third parties of a regional scope / event with coverage in regional media	Disabling injuries or illnesses and Days away from work	Affectation of an area outside the facilities with remediation in a period of days	L	L	M	M	A
1	<100K U$	Complaints from third parties and local communities	First aid injury or illness and medical treatment	Affectation of the internal area of the facilities with recovery in a period of days	L	L	L	M	M

Figure #3. 5 x 5 Risk Matrix.

For opportunities, the process is the same, that is, once the opportunity is identified, the values of probability and impact are defined in the following 3 x 3 matrix:

PROBABILITY / POSSIBILITY ASSESSMENT PARAMETERS				PROBABILITY / POSSIBILITY		
			Qualitative possibility	Not known to occur in industry	Ha ocurrido en la industria de O&G	It has happened in the O&G industry
			Time frame	May occur in 10 years or beyond	It can happen between 5 - 10 years	It can happen between 1 - 5 years
IMPACT OR CONSEQUENCE						
Value	Generate value to the business	Reputation / Impact Communities (+)	Environmental	A	B	C
3	>1 MMUSD	International recognition Recognition from shareholders.	Energy sustainable projects	M	A	A
2	100K USD - 1 MMUSD	National Level Recognition	Innovative Technologies that allow to reduce environmental impacts.	M	M	A
1	< 100 KUSD	Regional or Local Level Recognition	Reduction of impacts on Fauna, Flora and archaeological findings	L	M	M

Figure #4. 3 x 3 Opportunity Matrix.

This 3 x 3 matrix has 3 levels of opportunity (high, medium and low) and the management strategy will be defined in the treatment phase.

f. Treatment

Activities necessary to address the risk and/or the opportunity must be tangible, measurable, sustainable, and practical, as well as able to verify if the residual risk is acceptable. If it is not, an additional treatment must be carried out. Likewise, there must be a balance between the potential benefits provided by the treatment and the costs associated with its implementation. Treatment may consist in accepting or sharing the risk or seeking an opportunity; it may also consist in eliminating the source of risk, modifying the probability of occurrence, or reducing its consequence.

Proposed actions must be tangible, measurable (evidently reducing probability and/or impact), sustainable (their effectiveness is unlikely to weaken over time), and practical (achievable). Treatment plans for risks and opportunities shall be documented in the FPLN-02 Risk and Opportunity Management; defined as prevention and mitigation plans.