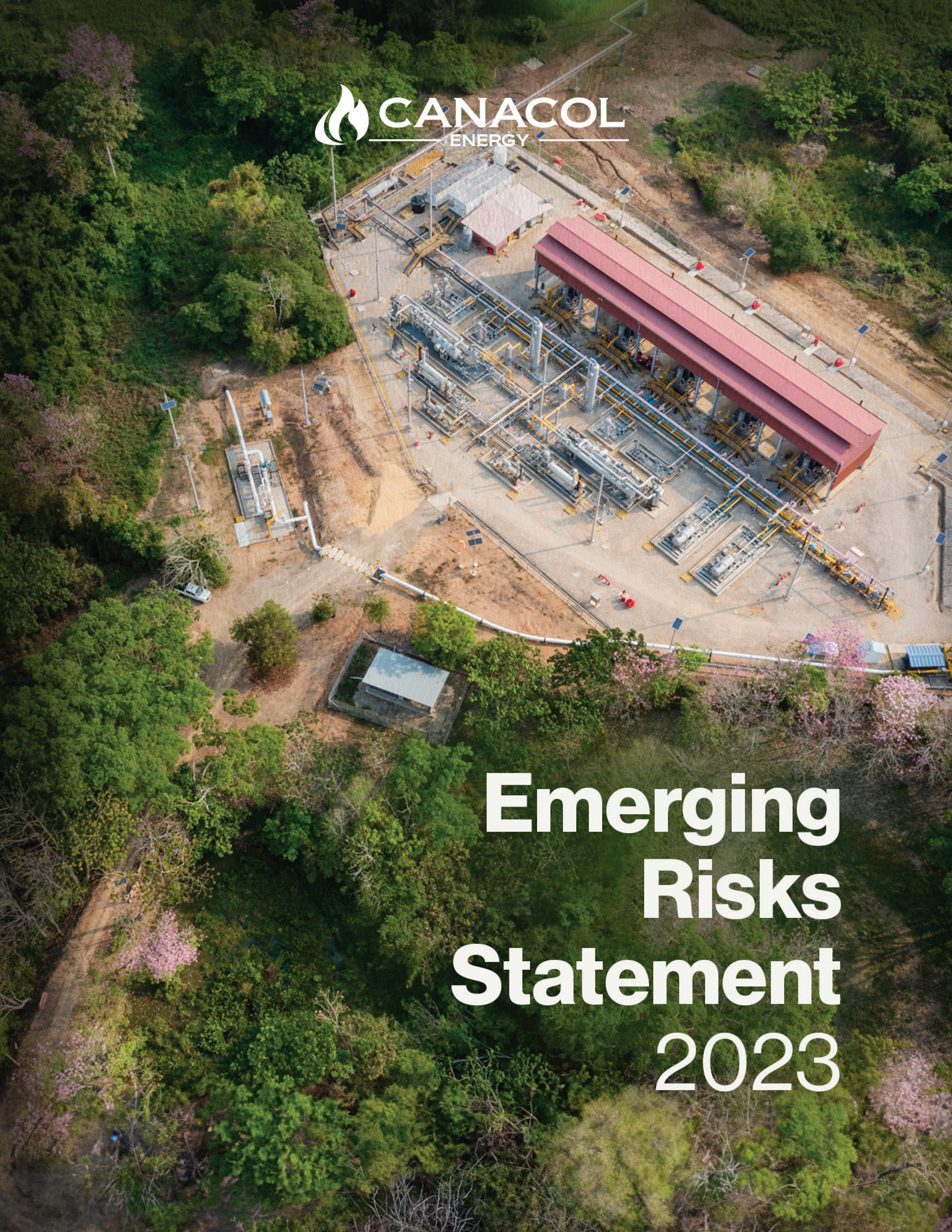

Emerging Risks Statement 2023

Introduction

Canacol's risk management framework is the responsibility of the executive team who review policies and processes to identify, evaluate, and effectively govern the Company's risk profile. Identification of emerging risks falls under the oversight of the Audit and ESG Committees which govern climate issues and are responsible for incorporating risks, opportunities, and targets into the corporate strategy to ensure that adequate policies and procedures are in place to address the risks. The coordination of the Audit and ESG Committees to identify and address emerging risks is critical to our ability to develop and implement mitigation plans.

Overview

Canacol categorizes emerging risks as those that are new or unexpected and await to have a long term impact on the Company and its operations. These risks may manifest in the next three to five years or beyond or may already be underway. By recognizing and identifying potential long term risks, Canacol conveys to its stakeholders that it is cognizant of such risks and can devise effective mitigation strategies. The World Economic Forum (WEF) Risk Report outlines five key categories of emerging risks: environmental, social, technological, geopolitical, and economic. While a calculation or estimation of the financial impact of these emerging risks may not be viable, it is important to describe how they could potentially affect business performance, strategy, the business model, and operations.

As outlined in the WEF Risk Report, for an emerging risk to be accepted it must meet six requirements:

1. The risk is new, emerging, or significantly increasing in importance.
2. The potential impact of the risk is long term.
3. The potential impact of the risk is significant, affecting large portions of the Company's business/operations or results in the Company adapting its strategy and/or business model.
4. The risk is an external risk, thus outside of the Company's control or influence.
5. The risks and their impacts on the Company are specific.
6. The risks and their impacts are publicly disclosed, i.e., in the ESG Report.

Canacol's internal efforts, conducted through its risk management framework, are aligned with best practices outlined in the Global Risk Report produced by the WEF in collaboration with risk professional service firms. Canacol recognizes and seeks to assess its exposure to various types of risk, considering their interdependencies, commonly referred to as "Polycrisis." Canacol has identified risks congruent with those highlighted in the Global Risk Report over both the two-year and ten-year time horizons. Particularly noteworthy within these time frames are the threats pertaining to the erosion of social cohesion, geoeconomic confrontation, as well as the proliferation of cyber crime and cyber insecurity.

The internal report used to generate the Emerging Risks Statement focuses on emerging risks stemming from new technologies, evolving business practices, environmental changes, and unforeseen events that have the potential to significantly impact the economy, society, or the environment. Marsh McLennan assisted Canacol in strategically selecting emerging risks linked to its operations, followed by their assessment and measurement. The quantification process employed the Poisson Probability Distribution, Lognormal Probability Distribution, and the Monte Carlo Simulation.

Canacol conducted stress tests on its identified emerging risks as part of a sensitivity analysis to gauge the potential impact of risk realization under adverse scenarios and extreme conditions. In quantifying regulatory risks, Canacol performed stress tests to explore extreme future scenarios based on existing classifications.

Emerging risk planning and trend identification

Canacol has created a well-structured risk analysis framework that facilitates decision-making, improves operational performance, and fulfills legal and regulatory requirements. Our risk management methodology adheres to the ISO 31000 standard:

1. **Scope:** Defining the scope of the activity.
2. **Context:** The internal or external process or activity's impact on the Company.
3. **Communication and consultation:** Clear exchange of information to ensure that stakeholders and employees understand the risk and/or opportunity.
4. **Criteria:** Defines the amount and type of risk that the Company can undertake.
5. **Assessment:** Defines the magnitude of the risk or opportunity, through an identification, analysis, and assessment approach.
6. **Treatment:** Defines the most appropriate measures to prevent identified risks from occurring.
7. **Registration and reporting:** Reporting of decision-making and results allows for review and follow-up of management's response to identified risks.
8. **Monitoring and review:** Involves the systematic planning, collecting, and analysis of information, culminating in the documentation of outcomes derived from the risk management process. Furthermore, the process also includes the provision of feedback on the outcome.

Following this methodology, we implement a five-stage cyclical process in our identification of emerging risks: identification, analysis, evaluation, processing, and registration and reporting.

In addition to the five-stage process, Canacol's methodology includes the review of published reports, benchmarking against peer companies that operate in Colombia, collaboration with partners and consulting firms, analysis of the industry and geopolitics in the areas of operation, and review of publications by global institutions such as the WEF Global Risk Report. Utilizing these avenues of information collection, Canacol implements its systematic approach to identify the potential emerging risks that could impact the Company and its operations.

Emerging risks evaluation

Canacol reviews and evaluates the potential impact of emerging risks determining whether the risk poses a very high, high, moderate, or low risk. Once this step has been completed, the Company identifies the time frame for the risk's emergence.

Impact	Description
Very High	• Major impact in both the short term and long term resulting in severe disruption to operations and environmental damage. • Potential reputational cost to the Company: International reputational impact/international media exposure, rejection by shareholders and public at the international level. • Potential financial cost the Company: US $50M. • Major impact in the short term and long term to the Company's reputation, long term corporate objectives, and business model. • Major legal/regulatory actions against the Company.
High	• Significant impact on operations in the short term and long term impacting operations and the environment. • Potential reputational cost to the Company: Loss of license to operate / medium term national media coverage / serious reputational impact. • Potential financial cost to the Company: $10M US - $50M US. • Major impact in the short term and significant impact in the long term to the Company's reputation, and moderate impact on corporate objectives and business model. • Moderate legal/regulatory actions against the Company.
Moderate	• Moderate impact in the short term on operations and the environment. • Potential reputational cost to the Company: International reputational impact/international media exposure, rejection by shareholders and public at international level. • Potential reputational cost to the Company: Affecting relations with regulators, industry, and suppliers at the regional level. • Potential financial cost to the Company: $1M US- $10M US. • Significant impact to the Company's short term reputation, and moderate impact on corporate objectives and business model. • Some legal/regulatory action against the Company.
Low	• Minor impact to operations and environment. • Potential reputational cost to the Company: Non-compliance with regional third parties / event with regional media coverage. • Potential financial cost to the Company: $100K US - $1M US. • Minor short term impact to reputation to meet corporate objectives. • Minor legal/regulatory action against the company.

Time Frame	Starting to experience	1 - 3 years	4 - 5 years	6 - 10 years	+10 years

In its internal report, Canacol identified four prioritized risk areas:

1. **Regulatory risk:** Defined as the economic uncertainty or potential impact associated with possible changes in existing regulations.
    - **Analysis:** In assessing the potential for regulatory risk, quantification methods experience challenges due to the unclear and delayed nature of the consequences resulting from changes in regulations. Therefore, to address this risk, Canacol utilized international indicators related to the ease of doing business to supplement the absence of internal data. This study adopted a stress test involving the exploration of extreme future scenarios of regulatory change. Based on the patterns observed in historical data and political risk reports, the regulatory risk index maintains a stable behavior due to the lack of abrupt variations in historical trends. Based on this information, Canacol has characterized its risk appetite as medium (US $1M to US $10M) to low (US $100K – US $1M) in this risk area.

2. **Cybersecurity/ cyber risk:** Defined as the potential for loss, retention or corruption of Company information resulting from malicious attempts at unauthorized access, viruses, network failures, email disruptions, theft, or equipment failures.
    - **Analysis:** Canacol utilized an expected loss model to quantify its cybersecurity risk. In using this model by frequency, Canacol was able to determine its values for tolerance and capacity to this risk. Based on the findings of this process, cybersecurity presents a very high level of risk exposure to the Company (US $50M).

3. **Social unrest and local conflicts risk:** Defined as a significant increase in the engagement of communities and other stakeholders in the development of projects or activities related to the Company's operations. This heightened community involvement may lead to the obstruction of activities.
    - **Analysis:** Reported events are documented to create a loss distribution function to distinguish the probabilities between frequency and severity of these events. Through this process Canacol developed three risk/loss scenarios derived from probabilistic dispersion tests. The three variables that were central to this exercise were: capacity to bear risk, risk tolerance, and risk appetite. In all three scenarios Canacol demonstrated a high appetite for risk as the tolerance level never exceeded 10% of the Company's risk capacity. This represents a low level (US $1M to US $10M) of risk for the Company.

4. **Supply chain crisis risk:** Characterized by the inability to access various essential inputs on time for the normal course of operations, potentially leading to economic losses resulting from work schedule delays.
    - **Analysis:** To assess the risk of supply chain disruptions, Canacol developed an exercise that established an aggregate loss distribution function linked to this risk, separating the risk based on frequency and severity. The objective of this was to determine the profile and quantify the variability of future events for supply chain disruptions based on past events. The outcomes of this exercise determined that this risk does not pose a significant threat to the Company as the risk tolerance parameter never exceeded 10% of the Company's risk capacity. As such, supply chain disruptions represent a low level (US $1M to US $10M) of risk.

Emerging risk treatment

Following this process, Canacol can begin to monitor and effectively plan mitigation measures to ensure that each identified risk either does not occur or the Company is able to effectively counter potential impacts.

Risk	Description/Impact	Mitigation Actions
Regulatory risk ***Category*** Political	Changes in political regulations may affect operations in Colombia and the financial performance of the Company's gas commercialization. In addition, changes in mining and energy regulations could result in a loss of confidence among investors and external stakeholders thus affecting share price performance, investment plans, and operational results (exploration and production) in the short, medium, and long term. Furthermore, the Company needs to ensure the correct identification and management of new regulation risks, to avoid disruptions to the business over the long term.	Canacol maintains a proactive approach to risk management by regularly updating the corporate risk and opportunity matrix. The Company analyzes how new political trends can potentially impact operational viability and compliance with National Government contracts, which are long term and encompass binding compliance clauses. Weekly strategic and operational meetings are conducted to review progress on operational goals and develop interdisciplinary action plans to mitigate legal and financial emerging risks. Canacol collaborates with the ACP (Asociacion Colombiana de Petroleo) to design strategies and propose alternatives that minimize the impact of initial legislation, ensuring a proactive response to changing regulatory environments.
Cybersecurity / cyber risk ***Category*** Technological	Canacol is critically dependent on information and information systems. The reputation that the Company enjoys is also directly linked to the way it manages such information. If important information were to be disclosed to third parties (which could result in inappropriate or illegal actions) or information systems were compromised, Canacol could suffer serious financial or reputational costs.	Canacol prioritizes cybersecurity by enforcing adherence to best practices, expecting all individuals associated with the Company to protect themselves and corporate assets from cyber attacks. Mandatory compliance is required with Canacol's Security and Data Protection Policy, as well as the relevant national cybersecurity laws in its countries of operation and is also supported by the training program "Know Be-4". The Company raises awareness through information campaigns and is aligned with the ISO 27000 standard. This includes system reviews, identifying improvement opportunities, and implementing policies such as access control, user/password management, network and communications security, operational security, and antivirus backup (XDR).

Risk	Description/Impact	Mitigation Actions
Social unrest and local conflict risk *Category* Political	Social unrest and local conflicts present formidable challenges for oil and gas exploration companies operating in Colombia. Geopolitical instability exacerbates these risks, potentially damaging the Company's operations and profitability. This instability arises from various factors such as civil unrest, terrorism, and political tension between countries. As a result, disruptions in supply chains, damage to infrastructure, regulatory uncertainty, and operational interruptions are heightened. Geopolitical instability also increases the cost of doing business, reduces investor confidence, and negatively impacts the Company's reputation, compounding the challenges faced by the Company in navigating the complex socio-political landscape of Colombia.	To mitigate multifaceted risks like social unrest and local conflict, the Company must adopt proactive measures. Robust community engagement fosters understanding and builds relationships, while collaboration with stakeholders enhances security and facilitates conflict resolution. Continuous risk assessment and investment in security measures safeguard personnel and assets. Developing crisis response plans ensures swift actions in emergencies. Additionally, Canacol implements contingency plans and engages stakeholders, maintaining operational continuity. Regular meetings with local authorities track security situations, while proactive engagement mitigates the emerging risk of community interference, ensuring uninterrupted operations.
Supply chain crisis risk *Category* Economic	Supply chain crises can pose a significant risk to Canacol's operations and profitability. These crises can be caused by a range of factors, such as natural disasters, geopolitical tensions, and pandemics, which can disrupt the flow of materials and products needed to run the business. The impact of supply chain crises can be significant, leading to delays in production, higher costs, and potential loss of customers.	Our approach includes diversifying suppliers and sources of raw materials. This involves developing new supplier relationships or expanding existing ones to include multiple suppliers. Canacol also implements contingency plans to address disruptions such as developing back-up plans for critical suppliers and establishing crisis management teams to ensure continuity of operations during a supply chain crisis. By taking these proactive steps, Canacol can mitigate the impact of supply chain crises and maintain operational resilience when unforeseen disruptions occur.