



# Somos Energía

*[We are Energy]*

SUSTAINABILITY REPORT | 2018



# LETTER OF THE PRESIDENT

In 2018, year covered by this report, CANACOL reached ten years of existence; a decade of collective learning, of constant growth, in which we have overcome challenges and made momentous decisions for the business, such as becoming the main independent company in conventional natural gas exploration and production in Colombia.

2018 was a year with great operational achievements for the Corporation. Gas sales volumes increased 41%, from 80.5 MMcfd in 2017 to 113.3 MMcfd in 2018. In addition, 2P natural gas reserves increased 11%, reaching a total of 559 Bcf, which represents a 2P reserve replacement of 232%. Likewise, during this period, we met the purpose of divesting the most part of our crude oil assets, in order to focus our efforts on natural gas in Colombia. Figures show the commitment and professionalism of our team, which made every effort to meet the ambitious goals set by the Company's management team.

We are reaping the fruits not only of successful exploration campaigns but also of strategic activities carried out by CANACOL, such as improvement of the Jobo Station processing facilities and completion of the Sabanas flow line, the latter to boost our transport capacity.

However, I want to acknowledge other accomplishments equally fundamental for CANACOL's prosperity and sustainability, which particularly show the responsibility with which we have been assuming the commitments after our adhesion to the United Nations Global Compact in 2014. One of them is the upgrade of our corporate governance, so to be in line with high standards as to Ethics and Transparency and Human Rights. We developed the Business Ethics Manual and the Human Rights Manual, as well as the Human Rights Strategic Plan, among other activities.

Thus, we consistently and permanently adopted the ten universal principles covering four thematic areas: human rights, labor standards, environment and anti-corruption. Similarly, we have created strategies contributing to meeting the Sustainable Development Objectives (SDO) ensuring welfare and successful results for our stakeholders.



CHARLE GAMBA  
PRESIDENT & CEO

In 2018 the Corporation implemented a relationship strategy to strengthen the bonds of trust with our stakeholders, most especially with the communities in the area of influence of our operations. We met the commitments made, applying sectoral standards and good practices, and we granted a new leading role to communities in planning and execution of social investment plans supported by CANACOL, having them actively participate in planning and execution processes of the works, with excellent results.

A social investment of COP \$19,307 million/USD \$6.3 million (not including the associated logistic costs) was made; reflected in educational infrastructure works, health, productive projects, construction and improvement of community road infrastructure, among others.

Also in 2018, the Entretejiendo Foundation [Interweaving Foundation], created in 2017 with the purpose of having our voluntary social investment achieve a greater impact on the regions, was consolidated. The Foundation executed important projects with the economic support of CANACOL, but also thanks to the leverage of resources from several strategic allies.

I highlight, for example, the project for mass access to natural gas, which started to be executed in settlements close to our operations in the departments of Córdoba and Sucre. An ambitious initiative that is becoming a reality thanks to the strategic alliance established between CANACOL, the Entretejiendo Foundation and the Surtigás company. In the first phase, implemented during 2018, COP \$5,495 million were invested and around 1,500 families were benefited.

Protection and preservation of the environment continued being a relevant line of action for CANACOL; this is made evident, for example, with the efforts that we have been making to build the greenhouse effect gas (GHG) inventory of our activities and deepen our commitment to reduction of the carbon footprint, contributing to compliance with global objectives and commitments made by the Colombian government to counteract climate change. We still have challenges, such as measurement of Scope 3 gases, but we continue working to meet them in 2019.

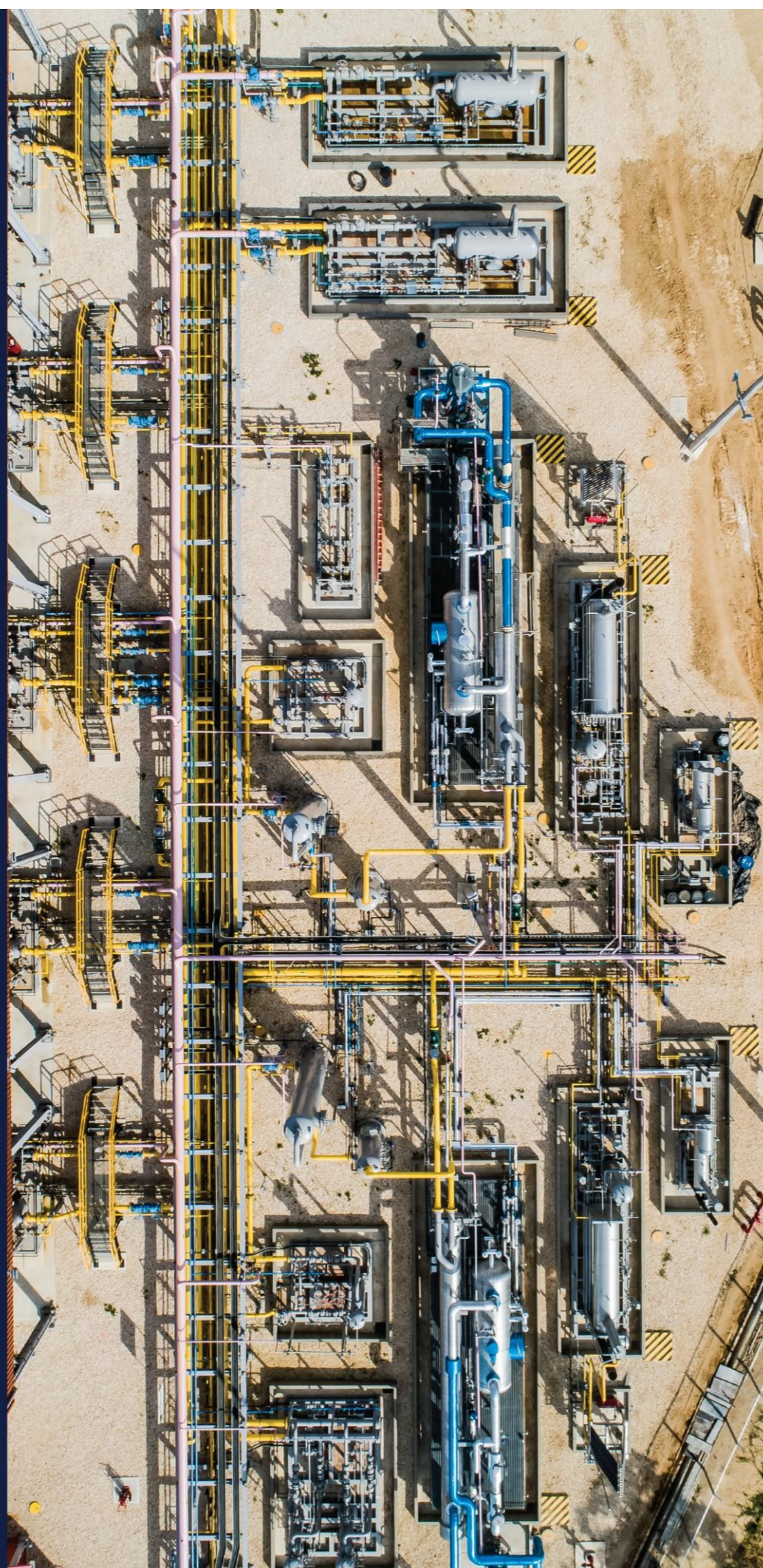
On the other hand, we are aware of the importance of water for the future of the planet. Therefore, we are not just acting in accordance with the law as to use of the water resource in the performance of our activities, but we also promote initiatives to ensure protection and preservation of water sources, absolutely vital for the communities surrounding us. The same with the use of energy; we know that we must be more responsible every day, and this is why we are substantially increasing the use of gas produced in our operations and reducing diesel consumption, as shown further ahead in this report.

In addition, I wish to highlight the good results in Safety and Health at Work. We satisfactorily met the goals set, evidencing that life and welfare of our employees are what is most important for the Corporation. No work-related diseases occurred in 2018 among employees and contractors, and we had zero (0) accidents of direct personnel. We will continue deepening the culture of self-care among all people that, in one way or another, relate to CANACOL's operations.

Finally, I wish to say, in all sincerity, that I am filled with a sense of pride when I take stock not only of 2018 but of these last ten years. It is gratifying to confirm that CANACOL's success has positively affected its surroundings. We wish to keep seeing our workers grow from the personal and professional point of view, families in the countryside happy, indigenous people respected in their rights and prospering, regional economies strengthened and our contractors competitive in the market. Impacts of this type are the ones we expect to continue generating while we continue consolidating ourselves in the gas sector in Colombia.

CHARLE GAMBA  
PRESIDENT, CEO & DIRECTOR  
CANACOL ENERGY LTD.

# ABOUT CANACOL



CANACOL is the premier independent conventional natural gas producing company in Colombia. Its exploration and production operations are located mainly in the Lower Magdalena Valley basin, in the departments of Córdoba and Sucre. It also has a minor production of conventional crude oil in the Eastern Plains basin.

After its foundation, and its operation for several years as a crude oil producer, in the year 2012 the Corporation started a strategic transformation process, abandoning its focus as a liquid hydrocarbon producer, and focusing on the conventional natural gas business Colombia.

Since the year 2012, CANACOL entered the natural gas sector in Colombia, and has achieved to position itself as an actor of great relevance in the Colombian conventional natural gas market. Currently, the Corporation has five (5) conventional natural gas Exploration and Production contracts in the Lower Magdalena Valley, with a total of 1.1 million net acres. It is the operator with 100% interest in the Esperanza, VIM-5, VIM-19 and VIM-21 contracts, and 50% interest in the SSJN-7 contract, with its partner ONGC Videsh, which has the remaining interest in this block.

Since its entry into the conventional natural gas business, CANACOL has added more than 480 Bcf of net 2P reserves of this clean fuel, from the commercial success in around 20 exploration and appraisal wells drilled, recording an exploratory success rate of more than 80% and a compounded annual growth in its 2P conventional natural gas reserves of above 50%. As a result of the foregoing, the Corporation's finding and development cost is leader in the national industry.

From a productive point of view, CANACOL has achieved to increase its contractual natural gas sales from something less than 20 million cubic feet of gas per day in 2013 to around 130 million cubic feet of gas per day during the first half of 2018. The compounded annual growth rate of 48% resulting from the production increase in these years is, again, a leading number in the national gas industry.

In this process of transformation towards the conventional natural gas sector, in 2018 the Corporation conducted the disposal of most of its conventional oil assets in Colombia. Currently, CANACOL maintains an interest in 3 oil Exploration and Production contracts: in the Rancho Hermoso contract, 100% interest, as operator; and in VMM-2 and VMM-3, 20% interest, with ConocoPhillips as operator with the remaining 80% interest.

Since its creation, CANACOL has been concerned with responding to the expectations of its various stakeholders, has rigorously respected the current regulation and has taken important steps to generate positive impacts on society and the environment.

The common shares of Canacol Energy Ltd. are traded on the Toronto Stock Exchange, the OTCQX in the United States of America, and on the Colombian Stock Exchange. Likewise, CANACOL has offices in Bogotá (Colombia) and Calgary (Canada); each one has its own functional structure, which ensures the achievement of the objectives of the business. CANACOL's personnel in Colombia closed the year 2018 with a total of 278 employees, all of them with direct indefinite-term contracts.



# OPERATIONS MAP



## CHANGES IN THE CORPORATE STRUCTURE

As a result of its strategy to redirect the business exclusively to Gas exploration and production, there were structural changes in CANACOL in 2018. After the sale of crude oil fields, around 50 contracts of its employees were assigned to the Carrao company (acquired by the Arrow company). This was a migration announced in advance and planned in detail, in order to generate the least impact possible on employees and reduce the uncertainty arising in these cases.

When informing about the changes in the Company, it was made clear to the employees directly affected that they would maintain their functions, as well as their conditions of seniority and labor liabilities.

On the other hand, the new direction of the business brought along important challenges for the Operations Vice Presidency and, most especially, for the Production Manager's Office, because they had to modify their structure for an exclusive focus on the Company's gas fields.

## CERTIFICATIONS, AFFILIATIONS AND MEMBERSHIPS

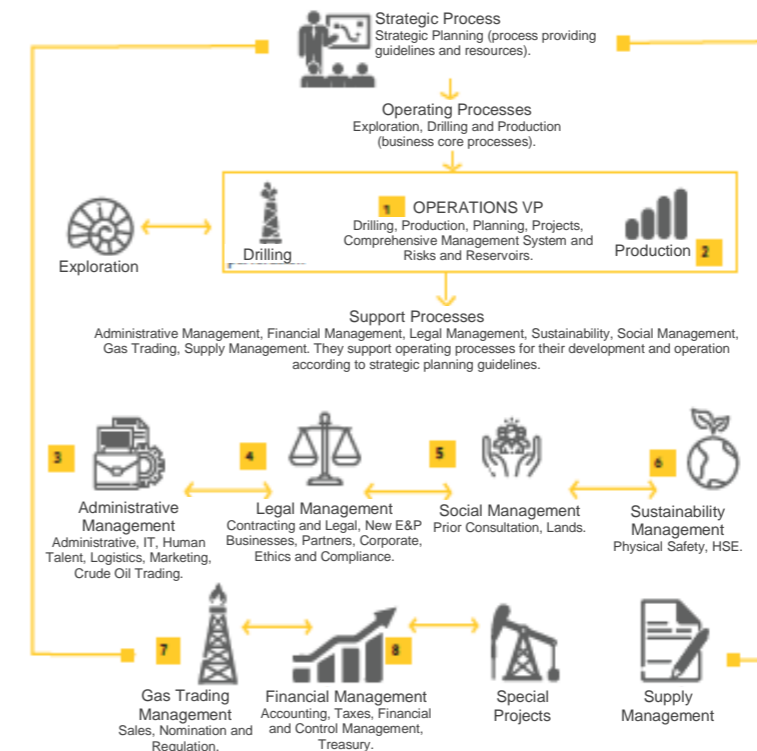
CANACOL is committed to compliance with the highest national and international standards and the best practices in quality, environment and Health and Safety at Work. Therefore, in 2018 it maintained in effect its ISO 9001:2015, ISO 14001:2015 and OSHAS 18001:2007 certifications for oil and gas exploration, drilling and production activities.

The Corporation is signatory of the Global Compact since the year 2014 and adopts the United Nations Voluntary Principles on Security and Human Rights. It is consequently guided by the ten universal principles covering four thematic areas: human rights, labor standards, environment and anti-corruption. Likewise, it has created strategies contributing to achieve the Sustainable Development Objectives (SDO) ensuring welfare and successful results for its stakeholders.

CANACOL understands its leading role in the hydrocarbon market in Colombia and finds added value in trade associations, not only because they represent its interests, but because such are key spaces to share and promote good sectoral practices. During 2018, the Corporation continued being member of the Colombian Oil Association, ACP [for its Spanish initials], the Colombian Association of Petroleum Engineers, ACIPET [for its Spanish initials], and Naturgas.

### PROCESS MAP

Processes identified in this map are divided as follows:



## INTEGRATED MANAGEMENT AND COMPLIANCE WITH STANDARDS

CANACOL has an Integrated Management System allowing optimization of all its processes and resources, ensuring compliance with standards and good corporate practices. In order to achieve effective management, the Corporation is based on a process map that encompasses all activities from the strategic, operational and support point of view.

Likewise, CANACOL permanently updates the map of risks associated with its operations.

# VALUE CHAIN



## PRODUCTION

Responsible for extraction, treatment, quantification, transfer and custody of hydrocarbons on a continuous basis with implementation of equipment and technology according to the type of hydrocarbon and of reservoir, to obtain hydrocarbons in compliance with regulatory requirements for transport and trading.

## TRADING

Monetization of reserves in the natural gas wholesale market, delivered at the wellhead through gas pipelines or any other conveying technology to reach demand sectors according to current applicable regulation for trading and transport.

CANACOL carries out gas exploration, production, trading and transportation activities ensuring the highest standards and best practices applicable. The Corporation has the support of contractor and supplier companies in the regions where it operates, which develop activities directly or indirectly associated with hydrocarbon projects. The purpose of CANACOL is to have all the parties in its value chain strengthened and increasingly competitive in the market.

## SEISMIC

Prospective assessment of existence of hydrocarbons in liquid or gaseous state for their future exploitation with commercial purposes.

ESTIMATED TIME: 12 to 18 months



## DRILLING

Drilling and completion of a vertical or deviated well to extract the hydrocarbon from the subsoil to the surface.

ESTIMATED TIME 1 to 2 months



COP \$435,980 MILLION

PURCHASE OF GOODS AND SERVICES

COP \$42,642 MILLION

PURCHASE OF REGIONAL GOODS AND SERVICES

652

PARTICIPATION OF CONTRACTORS AND SUPPLIERS IN THE SUPPLY CHAIN

172

PARTICIPATION OF LOCAL AND REGIONAL CONTRACTORS AND SUPPLIERS

18

INTERNATIONAL CONTRACTORS AND SUPPLIERS WITH SUBSIDIARY COMPANY IN COLOMBIA

# MILESTONES OF CANACOL IN 2018

TOTAL PRODUCTION VOLUMES OF GAS INCREASED 43% FROM 78.5 MMCFD IN 2017 TO 112.1 MMCFD IN 2018.

GAS CONTRACTUAL SALES INCREASED 4.1% FROM 80.5 MMCFD TO 113.3 MMCFD.

2P RESERVES OF NATURAL GAS INCREASED 11% TO 559 BCF AS AT DECEMBER 31 OF 2018.

SOCIAL INVESTMENT<sup>1</sup> FOR COP \$19,307 MILLION.

DIVESTMENT OF MOST OF THE CRUDE OIL ASSETS / SALE TO ARROW EXPLORATION CORP.

OUTSTANDING RESULTS IN THE DRILLING CAMPAIGN: PANDERETA-2, PANDERETA-3, CHIRIMIA-1, BREVA-1, AMONG OTHERS.

<sup>1</sup> This value does not include logistic costs for implementation of investment in communities (COP \$2,682 million), which are reflected in Economic Performance information in this report.

# ABOUT THIS REPORT

This is the fifth consecutive sustainability report prepared by CANACOL, with the last one having been published in the year 2017. It contains the results of economic, social and environmental management of the Corporation's hydrocarbon exploration and production activities, during the period from January 1 to December 31 of 2018. It was prepared according to the Global Reporting Initiative (GRI) Standards in the Essential option, including the Oil & Gas supplement.

The 10 Guiding Principles of the United Nations Global Compact were used as referents in human rights, work, environment and anti-corruption. Likewise, the standards suggested by Bloomberg and the methodology of the Sustainability Accounting Standards Board (SASB) were considered.

This report refers to the performance of the main subsidiaries of Canacol Energy Ltd.: Canacol Inc., Canacol Energy Colombia SAS (CECSA), CNE Energy SAS, CNE Oil & Gas S.A.S., CNEOG Colombia Sucursal Colombia, Geoproduction Oil & Gas Company of Colombia and Shona Energy (Colombia) Limited.

This includes information regarding hydrocarbon exploration, development and production activities of blocks operated by CANACOL during 2018 in Colombia, not of blocks in which the Corporation exclusively appears as partner. As reported under the heading Changes in the Corporate Structure, the sale of several crude oil fields was carried out, which will be reflected in the presentation of information compared to the 2017 report.

This report does not include reexpression of information, except for the Health and Safety at Work section, where reexpression is explained. Also, no changes were made in the preparation of the report.

Figures are presented in American dollars (USD) and in Colombian pesos (COP). The average market representative rate used in this report is COP \$3,062.53.

This sustainability report of CANACOL was not subject to external audit. Any concern with respect to this report may be sent to this email: [ohernandez@canacolenergy.com](mailto:ohernandez@canacolenergy.com)

The Signum Consulting S.A.S firm provided support in the process of research and preparation of the Corporation's 2018 sustainability report.



# OUR STAKEHOLDERS



For CANACOL, sustainability management is based on effective relationship with its stakeholders. Therefore, the Corporation creates spaces for dialogue ensuring their involvement in definition and materialization of strategic matters aimed at sustainable development.

In 2018, CANACOL reviewed and validated its stakeholders.

### ECONOMIC SETTING

SHAREHOLDERS  
INVESTORS  
STOCK EXCHANGES  
ANALYSTS  
RATING AGENCIES  
FINANCING ENTITIES  
PARTNERS AND ALLIES

### SOCIAL SETTING

CONTRACTORS AND PROVIDERS  
CLIENTS  
COLLABORATORS  
COMMUNITIES  
CIVIL SOCIETY ORGANIZATIONS  
COMMUNICATION MEDIA

### REGULATORY SETTING

GOVERNMENT  
SURVEILLANCE AND CONTROL  
BODIES

# MATERIALITY 2018

CANACOL designed and applied a methodology to identify and prioritize the material issues, that is, those in which the more relevant impacts of the Company are reflected in economic, social and environmental aspects.

30 material issues were considered, taking into account national and international standards such as the Guiding Principles of the United Nations Global Compact, Bloomberg and Global Reporting Initiative (GRI) and the methodology of the Sustainability Accounting Standards Board (SASB).

Through semistructured interviews, material issues were identified and assessed, as well as the impacts of such

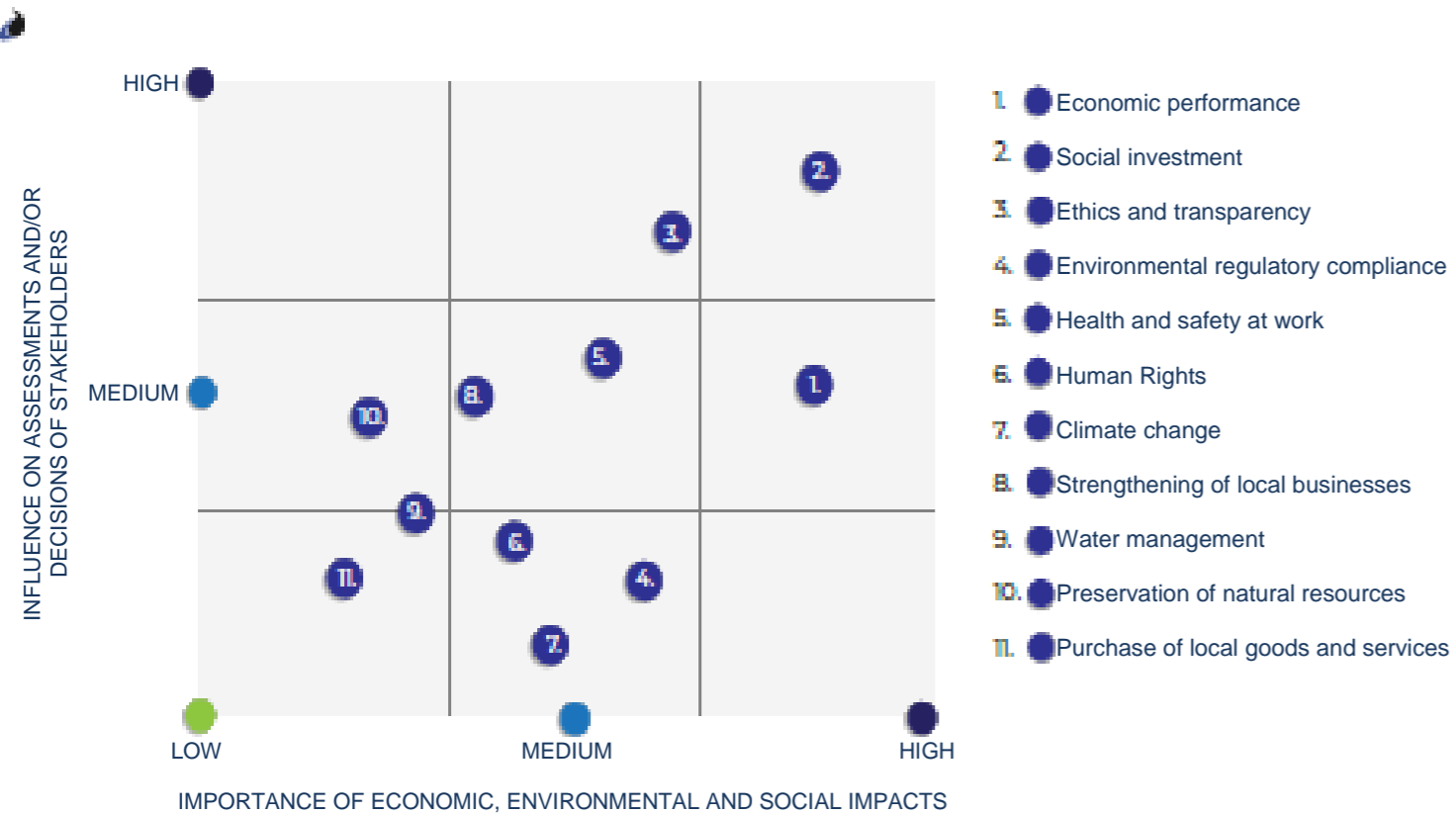
issues on decisions of its stakeholders.

A practical workshop was held with attendance of the ones responsible in the various work areas. The 11 participants valued the material issues and assessed how they influence corporate strategic variables. For the prioritization exercise, the average scores obtained and the frequency of responses were taken into account. There was also a dialogue with 62 representatives of the various stakeholders. In order to measure the influence of material issues on decisions of stakeholders, a random sample was taken from the interviews made to each one of them.



# MATERIALITY MATRIX

The 2018 materiality exercise results are presented in a matrix below.



## COVERAGE OF MATERIAL ISSUES

| MATERIAL ISSUE                       | INTERNAL COVERAGE   | EXTERNAL COVERAGE  |
|--------------------------------------|---|--|
| Economic performance                 | Financial Area, particularly, but involving all areas of the Company                                | Communities, Government, Partners and Allies, Investors, Rating Agencies, Analysts, Stock Exchanges, Shareholders, Financing Entities        |
| Social Investment                    | Comprehensive Social Responsibility Area, Entretiempo Foundation                                    | Communities, Government, Civil Society Organizations   |
| Ethics and transparency              | Board of Directors, Legal and Financial Areas, particularly, but involving all areas of the Company | Surveillance and Control Bodies, Investors, Shareholders, Financing Entities, Partners and Allies, Stock Exchanges, Rating Agencies, Clients |
| Environmental regulatory compliance  | Sustainability, Environment, Operations and Legal Areas   | Government, Surveillance and Control Bodies, Shareholders, Investors, Partners and Allies  |
| Health and safety at work            | Sustainability and H&S Areas  | Collaborators, Government, Surveillance and Control Bodies   |
| Human Rights                         | Legal and Sustainability Areas, but involving the entire Corporation                                | Government, Communities, Collaborators, Civil Society Organizations  |
| Climate change                       | Sustainability, Environment, Operations Areas   | Government, Communities, Investors, Civil Society Organizations, Stock Exchanges, Shareholders   |
| Strengthening of local businesses    | Supply, Operations and Comprehensive Social Responsibility Areas                                    | Government, Communities  |
| Water management                     | Sustainability, Environment, Operations   | Government, Communities, Surveillance and Control Bodies, Civil Society Organizations  |
| Preservation of natural resources    | Environment, Operations and, in general, all areas of the Organization                              | Government, Surveillance and Control Bodies, Communities   |
| Purchase of local goods and services | Supply Area, but involving the entire Corporation   | Contractors and Suppliers, Communities, Government   |



# CORPORATE GOVERNANCE

The Board of Directors is CANACOL's highest governance body and its composition is defined in the Annual General and Special Shareholders Meeting. It is responsible for supervising the administration of the business and the affairs of the Corporation and its subsidiaries. Likewise, it has the legal obligation and authority to protect and increase the assets of the Company.

The Board of Directors is responsible for following up on the administration's success in the implementation of the business strategy and for monitoring the progress of CANACOL in the achievement of its goals; as well as for reviewing and altering the direction in light of changing circumstances.

In compliance with generally accepted corporate governance practices and the recommendations contained in National

Policy 58-201 – Corporate Governance Guidelines adopted by the Canadian Securities Administrators and the requirements of all stock exchanges on which securities of the Corporation are listed, the Board of Directors assumes the responsibility for CANACOL's management.

In order to comply with its mandate, the highest governance body is supported by the Audit Committee, the Corporate Governance and Compensation Committee and the Reserves Committee.

In the Annual General and Special Shareholders Meeting held on the 3<sup>rd</sup> of July of 2018 in Calgary (Canada), the seven members of the Board of Directors were elected, and they comply with their functions for a period of a year, until their successors are duly elected and appointed.

The Board of Directors in 2018 was composed as follows:

## MEMBERS OF THE BOARD OF DIRECTORS OF CANACOL 2018

|                               |                           |
|-------------------------------|---------------------------|
| CHARLE GAMBA                  | PRESIDENT, CEO & DIRECTOR |
| MICHAEL HIBBERD               | CHAIRMAN OF THE BOARD     |
| DAVID WINTER                  | INDEPENDENT MEMBER        |
| GREGORY D. ELLIOT             | INDEPENDENT MEMBER        |
| FRANCISCO DÍAZ SALAZAR        | INDEPENDENT MEMBER        |
| ALBERTO JOSÉ SOSA SCHLAGETER* | INDEPENDENT MEMBER        |
| OSWALDO CISNEROS              | INDEPENDENT MEMBER        |

\*On October 4 of 2018, Alberto José Sosa Schlageter, member of the Board of Directors, passed away. He was replaced in this position by Gonzalo Fernández Tinoco, by resolution of the Board of Directors of the month of November of the same year.



# ETHICS AND TRANSPARENCY



## ETHICS AND COMPLIANCE CODE

For CANACOL, ethical and transparent behavior is a fundamental pillar of the business. For this reason, the Company has developed corporate policies and tools guiding the action of its officers and employees, with contractors, consultants and temporary agencies included in the latter category.

The Business Ethics and Compliance Code describes the principles that officers and employees must observe in the performance of their functions as well as in their relationship with stakeholders of the Corporation.

Management of the Code is a responsibility of the Company's Corporate Governance and Compensation Committee. Notwithstanding, the latter has delegated the daily responsibility of management and interpretation of the Code to the Executive President (the CEO) and the Financial Vice President (the CFO).

The Company encourages officers and employees to be proactive, seek guidance with respect to concerns that may arise as to ethics and conduct, and report violations of the Code, or of any other policy or procedure, or laws, rules or regulations, for which it is suggested to resort to the immediate superior or, if preferred, to the CFO, the CEO or the Chairman of the Committee. The communication may be in writing (identifying themselves or anonymously), by email or telephone. All reports shall be treated confidentially.

In the case of accounting matters, internal accounting controls or audit issues, they must resort to the Chairman of the Audit Committee or to a designee of the Audit Committee, using the same means mentioned above.

## BUSINESS ETHICS MANUAL

In 2017, CANACOL prepared and published the Business Ethics Manual, the purpose of which is to establish the general instructions and guidelines ensuring compliance with prevention, detection and report mechanisms with respect to acts of corruption that may occur in the Company. This in the framework of the implementation of the Business Ethics Program established in Law 1778 of 2016: Transnational Bribery, in Resolution 100-002657 of and in Circular No. 100-000003 of the Superintendence of Companies.

## WHISTLEBLOWING POLICY

CANACOL's Whistleblowing Policy makes clear that employees may report incorrect acts or allegedly incorrect acts without fearing victimization or subsequent discrimination or disadvantage. It applies to all employees and contractors, but it also opens the possibility to other stakeholders, such as suppliers, clients and shareholders, to express their concerns about the business conduct of the Company.

This Policy is within the framework of regulatory provisions of National Instrument 52-110 – Audit Committees of the Canadian Securities Association (CSA).

Any person with a complaint or concern about the Company may contact his/her supervisor or the manager responsible or, if preferred, (i) Charle Gamba, President, Chief Executive Officer and Member of the Board of Directors, at +1 (281) 210-8456; (ii) Anthony Zaidi, General Counsel (azaidi@canacolenergy.com), or at + 571 6211747 Ext. 1013; (iii) Trevor P. Wong-Chor, external lawyer of the Company, at (403) 698-8711; or iv) Jason Bednar, Chairman of the Audit Committee, at +1 (403) 607-4607.

The reports shall be treated confidentially, even if they have not been received anonymously. However, the content of all complaints shall be reported to the Board of Directors.

**LAFT**

CANACOL applies the current regulation with respect to Asset Laundering and Terrorism Financing (LAFT [for its Spanish initials]), in the terms established in the Basic Legal Circular, Chapter X, No. 100-000005 of the 22<sup>nd</sup> of November of 2017, issued by the Superintendence of Companies, and in Articles 102 to 107 of the Organic Statute of the Financial System.

During the year 2018, the Company upheld its commitment to Prevention of Corruption and of Asset Laundering and Terrorism Financing (LA/FT). In this regard, the Company carried out actions such as:

- a. Identify unusual, suspicious and attempted operations and conduct the relevant tracking and reporting actions before competent authorities.
- b. Detect and issue warning signs and make internal reports on operations generating them.
- c. Know its clients, suppliers, employees, shareholders and counterparties in general through implementation of due diligence measures.
- d. Control the handling of cash within the organization and in its relationship with counterparties.
- e. Train the company's exposed personnel and disseminate the importance of LAFT.
- f. Apply more rigorous controls with respect to operations that by their nature, amount, channel, jurisdiction or other risk factors may require increased due diligence.

The Company has an LA/FT Risk Compliance Officer and an Anti-Corruption Compliance Officer, appointed for coordination, monitoring and control of the LA/FT Risk and Anti-Corruption Self-Control and Management System, who have full support of the Corporation's senior management to carry out their duties.



In 2018, the Company's induction program with the associated topics of Ethics and Compliance was designed, and 18 training were made, broken down as follows:

- Launch of the Anti-Corruption Manual with participation of 57 employees.
- Training – Company's Ethics and Compliance Program – 12 talks with participation of 162 employees.
- Six (6) induction talks with participation of 30 new employees of the Company.
- Participation of the Company in training organized by the Superintendence of Companies with respect to Transnational Bribery.

The main monitoring activities for Prevention of Corruption and LAFT were focused on identification of risks, with the search for warning signs with counterparties, through a total of 2,091 queries in the Inspektor system and mass exchange of counterparties' databases with query sources used by the Company (Inspektor and Worldcompliance), which include restrictive and control lists of risks associated with corruption, fraud, asset laundering and terrorism financing.

The Company filed the relevant reports with the Information and Financial Analysis Unit – UIAF [for its Spanish initials], and to the Superintendence of Companies, as set out in Circular No.100-00005 of the 22<sup>nd</sup> of November of 2017.

**No reports for cases of corruption in CANACOL were presented in 2018**



**PAYMENTS TO GOVERNMENTS**

Payments by CANACOL to national and international governments in 2018, for taxes, fines and royalties, were made according to the Extractive Sector Transparency Measures Act (ESTMA) enacted in Canada in December of 2014. In 2018, payments of the Corporation to governments amounted to COP \$135.040 million, equal to USD \$44.1 million. Payment of royalties only was for COP \$76,033 million.

# HUMAN RIGHTS



The Company is committed to respect and promotion of human rights as provided in the United Nations (UN) International Charter of Human Rights; as well as to the International Labor Organization (ILO) Conventions and the UN Protect, Respect and Remedy framework. As stated in its Human Rights Policy, CANACOL makes the commitment with the support of the Guiding Principles on Business and Human Rights, the Voluntary Principles on Security and Human Rights and all obligations arising from the United Nations Global Compact.

The Legal Vice Presidency is in charge of definition of guidelines for human rights management and verification of compliance with them. Notwithstanding, the implementation of the Policy and of the Manual is a responsibility of each and every area of the Company.

In 2018, the Company updated its Human Rights Policy based on international standards and the National Plan for Human Rights of the National Government. Likewise, it developed the Human Rights Manual, through which guidelines are set to manage the Human Rights Strategic Plan, which under direction of the Human Rights Respect and Promotion Monitoring Committee.

The Human Rights Strategic Plan contemplates the following: (i) planning process based on analysis of risks, petitions, complaints and claims, judicial actions and reports related to human rights, as well as on regulatory changes

and development of good practices in the subject; (iii) identification, assessment and management of risks and impacts of human rights complying with due diligence and subsequent design and implementation of management plans; (iii) human rights dissemination and training, including a training program for new employees and an annual dissemination and training program for employees and contractors; (iv) mechanism for petitions, complaints and claims associated with possible violations of human rights arising from activities of the Company, through implementation of the new information and report channel: [derechoshumanos@canacolenergy.com](mailto:derechoshumanos@canacolenergy.com); and (v) verification of compliance with the Plan by the Legal Vice Presidency.

During 2018, 77 CANACOL employees were trained in Human Rights. Trainings given in the field were focused on gender rights. In this respect, importance of women in the hydrocarbon sector was highlighted, as well as mechanisms made available by the Company to solve concerns and complaints associated with respect for women rights.

On the other hand, the Company participated in Due Diligence workshops promoted by the National Hydrocarbon Agency, with the support of the Regional Center of Responsible Businesses and Undertakings (CREER [for its Spanish initials], the Ministry of Mines and the UN. Likewise, the Company attended four (4) working sessions aimed to define minimum indicators in Human Rights for the hydrocarbon sector.

**IN 2018 THERE WERE NO REPORTS OF VIOLATION OF HUMAN RIGHTS**

# CONCERNS, PETITIONS, COMPLAINTS AND CLAIMS



IPQRs  
LAST THREE YEARS

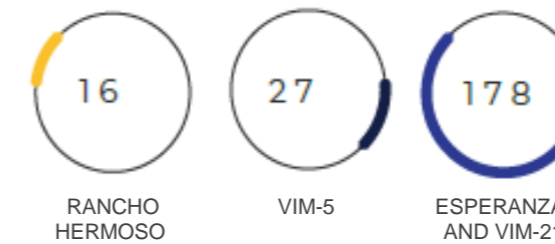


In 2018, 221 IPQRs were recorded in total; that is, 17 less than in the immediately previous year. At the end of the period reported herein, 219 IPQRs had been closed and two (2) were open. The Company improved its response times; at the end of 2017 it achieved to close 95% of the IPQRs and in 2018 it closed 99%.

According to what is established by current regulation, and following the Communication Plan defined by the Company, CANACOL timely and clearly conveys the scope of its projects and activities to its stakeholders and maintains active the mechanism for reception and processing of concerns, petitions, complaints and/or claims. Professionals of the Comprehensive Social Responsibility Management Office are responsible for receiving the IPQRs and submitting them to the area responsible for their management.

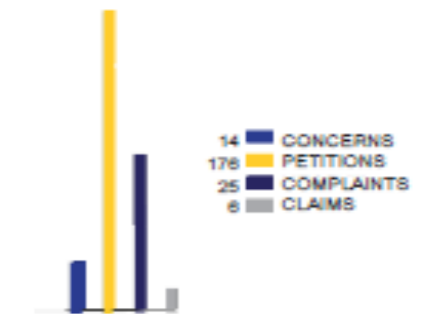
Each IPQR is entered in a monitoring matrix associated with the Quality Management System; thus, traceability of the process is maintained, and a timely response is ensured.

IPQRs  
2018



As may be seen, the higher number of IPQRs is reported in the Esperanza and VIM-21 blocks with 80% of the total. This is explained because such are the blocks with higher number of projects performed, compared to Rancho Hermoso and VIM-5, and both are in production phase. Likewise, the area of influence is wider and, therefore, the Company is related to a higher number of territorial units.

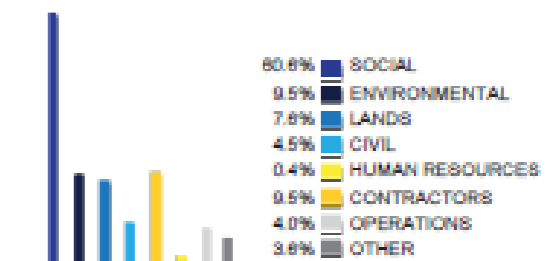
IPQRs  
2018



For the most part, IPQRs were petitions from the communities, which were analyzed taking into account corporate criteria and were duly responded to the interested parties. In second place, there were complaints, followed by concerns and, in a smaller proportion, claims associated with CANACOL activities. All of them were managed by the Company, considering the importance of effective relationship for viability and sustainability of operations.

IPQRs are classified by subject with the purpose of having them managed by the ones responsible within the Company, to identify early warnings and define possible improvement actions in specific functional areas of the Company.

IPQRs  
2018 BY SUBJECT



# ECONOMIC PERFORMANCE



In 2018, CANACOL achieved a significant growth in production and cash flow, with margins above 79%. Gas contractual sales increased 41%, that is, 113.3 MMscfpd, compared to 80.5 MMscfpd in 2017, this as a result particularly of the completion of the Sabanas flow line.

Total crude oil and natural gas revenues, before royalties and transport costs, increased 33% with respect to 2017, that is, they went from USD \$153.7 million to USD \$204.2 million. This increase is attributed particularly to increase in natural gas production, which, in turn, compensated the decrease in crude oil production due to the sale of the Company's oil assets in the year reported herein. For their part, natural gas net revenues, transport costs deducted, increased 42%, from USD \$138.1 million in 2017 to USD \$195.7 million in 2018.

Likewise, funds from operations increased 62% to USD \$104.9 million, compared to USD \$64.9 million in the immediately previous year.

Another aspect to highlight of 2018 was the private offer and sale of bonds for USD \$320 million at a rate of 7.25% with maturity in the year 2025.

At the end of the year, the Company recorded an EBITDAX de USD \$138.6 million, while at the end of the year 2017 it was \$126.1 million.

In the last quarter of 2018, the Company distributed USD \$20 million to its investors as capital refund through distribution of common shares of Arrow Exploration Corp. The Board of Directors did not authorize payment of dividends during the year.

In this same period, the Company obtained a credit (Credit Facility) for USD \$30 million with Credit Suisse. Part of these revenues (USD \$24.2 million) allowed the purchase of the Jobo 2 natural gas processing facility, which was previously under a financial lease agreement. With the remaining revenues of the 2018 Credit Facility, completion activities will be carried out for the expansion of the Jobo 3 plant.

2018 audited financial information of CANACOL may be found at: <http://www.canacolenergy.co/esp/financial-info.asp#y2018>.

**DURING 2018 THERE WERE NO JUDICIAL OR ADMINISTRATIVE ACTIONS AGAINST CANACOL FOR PRACTICES CONTRARY TO FREE COMPETITION IN THE MARKET**

**SALE OF CRUDE OIL ASSETS**

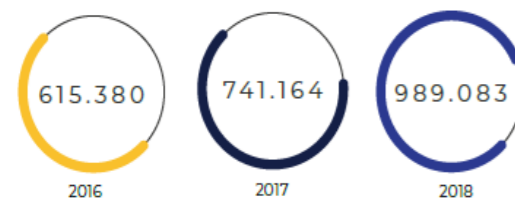
On September 28 of 2018, CANACOL closed the sale of most of its conventional crude oil assets with the Arrow Exploration Ltd. company (Arrow), current controlling company of Carrao Energy S.A. company, among which we highlight the LLA-23, VMM-2 and Santa Isabel exploration and production contracts, with a production of 1,375 oil barrels per day from six producing fields. The assignment of the abovementioned exploration and production contracts was authorized by the National Hydrocarbon Agency.

The value of the transaction was USD \$40 million, of which USD \$15 million were realized in cash, \$20 million in Arrow

Arrow common shares and USD \$5 million in a promissory note to be paid subsequently by Arrow. With the sale of these assets, exploration and transport commitments for the next three years decreased in USD \$66 million approximately and the Company's general and administrative expenses were significantly reduced.

With this relevant fact in 2018, CANACOL completed its transformation process, positioning itself as the main independent exploration and production company focused on natural gas in Colombia.

**ECONOMIC VALUE GENERATED (NET REVENUES) COP MM**



**ECONOMIC VALUE DISTRIBUTED COP MM**

|  | 2016           | 2017           | 2018                 |
|--|----------------|----------------|----------------------|
| RUNNING AND OPERATING EXPENSES           | 387.513        | 509.322        | 618.775 <sup>2</sup> |
| SALARIES AND BENEFITS                    | 32.700         | 42.529         | 52.044               |
| PAYMENTS TO CAPITAL PROVIDERS            | 40.224         | 43.099         | 46.574               |
| TAXES, ROYALTIES AND FINES               | 82.707         | 92.664         | 135.040              |
| INVESTMENT IN COMMUNITIES INFRASTRUCTURE | 12.478         | 17.165         | 21.990 <sup>3</sup>  |
| LAND AND EASEMENT MANAGEMENT             | 14.233         | 19.396         | 30.943               |
| TEMPORARY UNQUALIFIED PERSONNEL          | 4.874          | 6.282          | 4.159                |
| ENVIRONMENT                              | --             | 702            | 106                  |
|  | 17.232         | 21.125         | 12.015               |
| <b>TOTAL</b>                             | <b>591.960</b> | <b>752.285</b> | <b>921.646</b>       |

<sup>2</sup> This value includes donations made for COP \$7,940 million. Of this amount, COP \$6,140 million were donated to the Entrefejendo Foundation created by CANACOL in 2017.

<sup>3</sup> This value includes Social Investment, Prior Consultation, in addition to logistic costs associated with the implementation of social investment.



# OPERATIONAL PERFORMANCE

2018 was a year of operational excellence for CANACOL, in which a total of seven (7) wells were drilled, six (6) of them exploratory and appraisal wells and one (1) a development well. The Corporation maintained its historical drilling success rate: 80% in commercial gas findings in exploration programs and 100% in gas development wells.

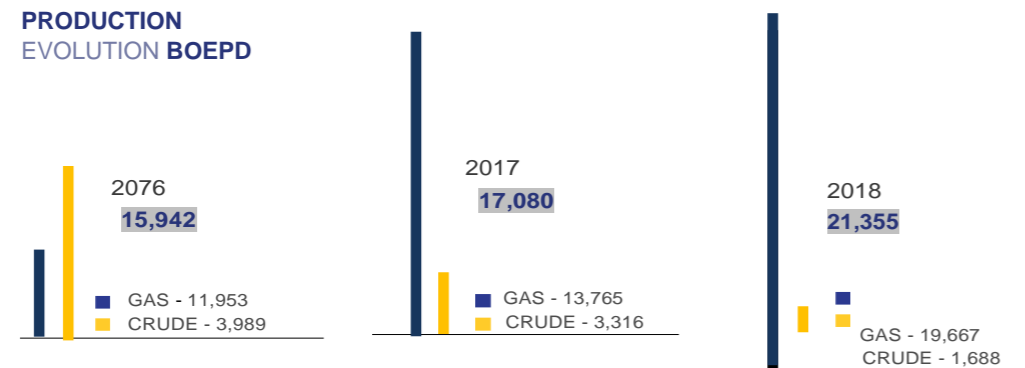
During the year the Cañahuate-Jobo flow line (4.6 km) and the Betania-Jobo loop (11 km) were constructed, and the construction of the Pandereta-Jobo flow line (24 km) was started, which will end in 2019.

The total production volumes of gas increased 43%, that is, they went from 13,765 Boepd in 2017 to 19,667 Boepd in 2018, thanks to 100% operational continuity and the entry into operation of the Sabanas flow line. The latter has a length of 84.3 km and is located between the towns of Sahagun and San Luis (Cordoba) and La Union and Corozal (Sucre). During 2018, the Sabanas flow line transported a daily average of 29 MMscfd of gas (5,087.7 BOPD).

CANACOL's total oil production in Colombia decreased 49% in 2018, as a result of the sale of crude oil assets in line with the strategy to direct the business exclusively to natural gas. It was also reduced because of the sale of the Libertador Project in Ecuador in early 2018.

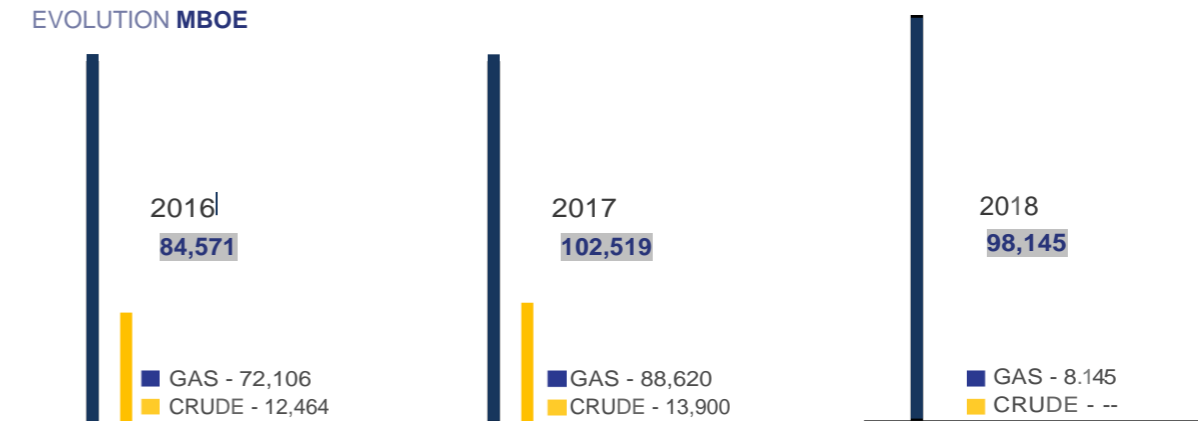


PRODUCTION EVOLUTION BOEPD



Natural gas 2P (proved + probable) reserves increased 11% in the same period, reaching a total of 98.1 MMboe, which leads to a 2P reserve replacement of 232%. This responded to the drilling of exploratory, appraisal and development wells in the Esperanza, VIM-5 and VIM-21 Blocks.

2P RESERVE EVOLUTION MBOE



Drilling programs for exploration and development continued increasing the reserves at F&D costs leading in the industry. With more than 140 exploration prospects and leads identified in its 1.1 million of net acres of exploration land, containing 2.6 TCF of gross mean prospective resources unrisks (Gaffney Cline & Associates, April 2018), CANACOL expects to maintain a robust growth in production and reserves for many years to come.

During 2019, the Corporation management will focus on: (i) completing the expansion of the Jobo gas processing facility to increase gas treatment capacity from the current levels of

200 MMscfpd to 330 MMscfpd. This before completing the expansion of the Promigas gas pipeline planned for the month of July of 2019, with which current gas sale will increase from 130 MMscfpd to around 215 MMscfpd; (ii) drilling eight (8) exploration, appraisal and development wells in a continuous program, aiming to a reserve replacement of more than 200%; and (iii) entering into a final agreement for the construction of a new gas pipeline from Jobo to the city of Medellin, with the purpose of increasing gas sales in additional 100 MMscfpd in the year 2021, and achieving total sales above 300 MMscfpd.



# HUMAN TALENT FOR NEW CHALLENGES

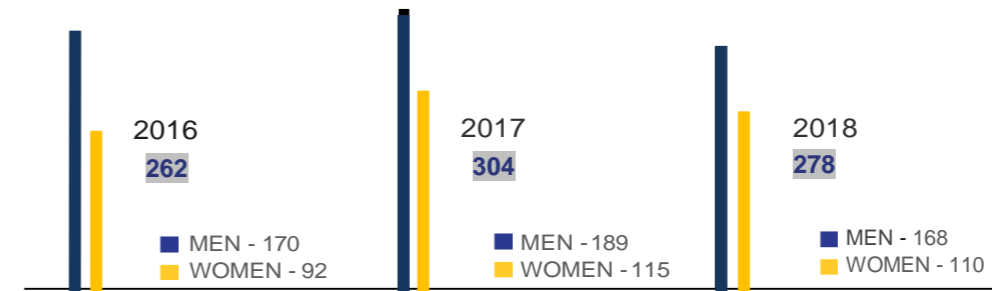
Human talent is CANACOL's main asset. In 2018, policies and guidelines were consolidated in this area, with the purpose of ensuring updated, transparent and inclusive processes. The Company attracts the best professional and technical profiles to meet its targets and promote the development of competences of its employees to address the challenges imposed by the changing environment of the business.

As at December 31 of 2018, CANACOL closed with a staff of 278 employees in Colombia, all of them with direct and indefinite-term contracts.

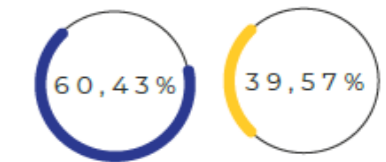
Participation of women in forming the organizational structure is very important for the Corporation; therefore, we ensure selection processes respectful of diversity and gender equity.



## DISTRIBUTION OF PERSONNEL BY GENDER



## INDEX (%)



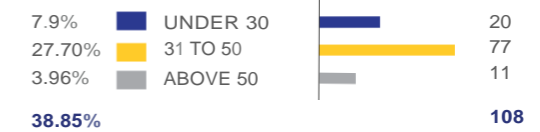
Turnover percentage in 2018 increased significantly; this as a result of the sale of crude oil assets (represented in 6 producing fields) and the transition of the Company to the natural gas market. The process has implied, in turn, the involvement of new profiles with experience in and specific knowledge of activities of exploration and production of this fuel.

## TURNOVER INDEX (%)<sup>4</sup>



<sup>4</sup> Turnover calculation does not include employees whose contracts were assigned to the Arrow company because of the sale of crude oil assets by CANACOL. These employees were timely informed of the structural changes of the Corporation and they were guaranteed the same labor conditions they had in CANACOL.

## TURNOVER INDEX OF PERSONNEL BY AGE



## TURNOVER INDEX OF PERSONNEL BY SEX

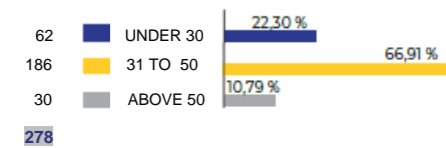


During the year subject of this report, 19 maternity and paternity leaves were granted, eleven (11) and eight (8) respectively, with 84% of employees reinstated. The latter evidences labor guarantee and stability in the Company.

In 2018 there were no reports of cases of discrimination by gender, race or any type of condition in selection, hiring, performance, development and/or compensation processes in CANACOL.

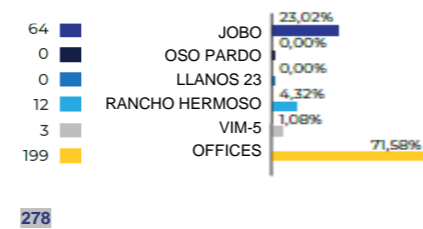
The Corporation includes in its staff employees of different ages, because it considers that all of them may significantly contribute to the achievement of business targets. Young people under 30 years of age are given opportunities to start a career in the sector, and at the same time the Corporation benefits from their innovative ideas. As can be seen, the range between 31 and 50 years concentrates the most part of employees, which is consistent with the standard of the hydrocarbon industry in Colombia.

### DIRECT EMPLOYMENT BY AGE (%)

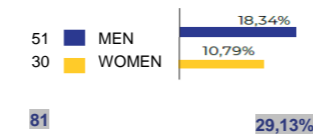


During 2018, CANACOL employees were based mainly in the offices in Bogota and in Jobo Station, where the more significant operations of the Corporation are carried out. It is important to note that the Oso Pardo and Llanos 23 fields ended the year without staff, because of the disposition of the same.

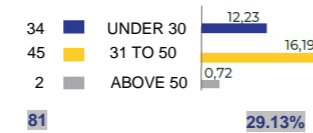
### DIRECT EMPLOYMENT BY REGION AND INDEX (%)



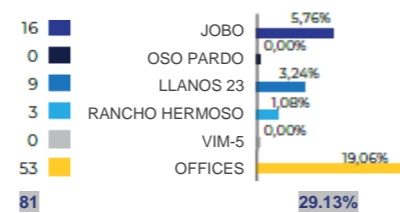
### NEW HIRINGS BY SEX AND INDEX (%)



### NEW HIRINGS BY AGE AND INDEX (%)



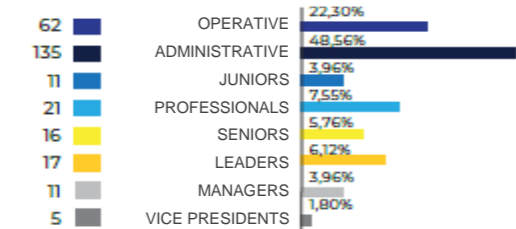
### NEW HIRINGS BY REGION AND INDEX (%)



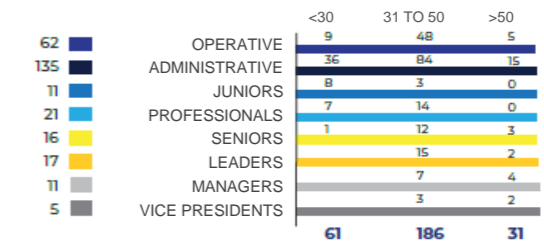
As may be seen, more than 70% of the employees is in the Operative and Administrative categories; the former, supporting the work directly associated with exploration and production activities, among others; and the latter, providing administrative support for an effective operation, particularly from the offices in Bogota.



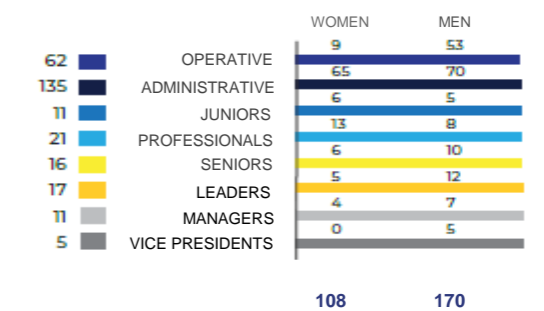
### PERSONNEL OF GOVERNANCE BODIES BY LABOR CATEGORY AND INDEX (%)



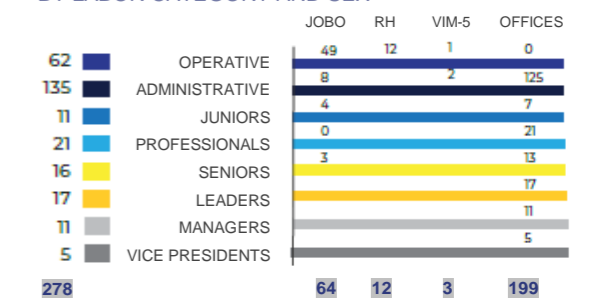
### DISTRIBUTION BY LABOR CATEGORY AND AGE



### DISTRIBUTION BY LABOR CATEGORY AND SEX



### DISTRIBUTION BY LABOR CATEGORY AND SEX



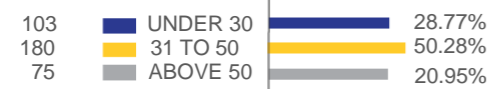
For the performance of specific activities and for a certain period, the Company hires personnel through temporary employment companies. These personnel, for the most part, support the operation in areas where the wells are located, especially in the Jobo Station.

**TEMPORARY PERSONNEL BY SEX**



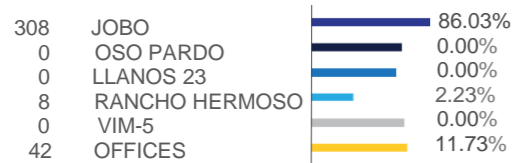
358

**TEMPORARY PERSONNEL BY TEMPORARY EMPLOYMENT COMPANIES BY AGE**



358

**TEMPORARY PERSONNEL BY REGION %**



358

During 2018, CANACOL continued engaging young SENA apprentices through apprenticeship contracts, in compliance with Law 789 of 2002. It is worth noting that, in that year, ten (10) of them were ultimately hired directly by the Corporation in administrative positions in the areas of Production, Human Talent, Administration, Drilling and Finance.



**SALARY EQUITY**

Canacol seeks to create salary equity conditions between both genders, based on objective compensation and competitiveness in the market. Important changes were achieved in 2018, thanks to the design and implementation of a new salary structure.

**SALARY AVERAGE BY POSITION**



## EMPLOYEE BENEFITS



The corporate benefit scheme is applied to all direct employees of the Company. In 2018, CANACOL entered into new agreements with its suppliers, in order to provide more welfare to its personnel. Among them there are:

- Renewal of prepaid medicine plan with seven (7) additional benefits, some of which are home care, oxygen therapy, gynecologic ultrasounds, among others.
- Migration to life and funeral policy with another entity with more coverage.
- Training courses for employees with pension funds. Two (2) courses were given in 2018 and there are more planned for 2019.
- Corporate bond, stock options, RSUs, programmed savings in the employees' fund, grocery vouchers (10% of the salary) and vacation premium (5 days of salary).

As a strategy to retain its employees, the Corporation has planned to implement a flexible benefit portfolio, with which it opens the possibility for each person to use them according to the person's needs.

### SALARIES AND BENEFITS 2018



CANACOL strictly complies with what is established by the regulation as to payment of employee benefits and Social Security. Likewise, it conducts audits to confirm that its suppliers make timely payment of contributions to Social Security of their workers.

### PAYMENT OF BENEFITS AND SOCIAL SECURITY 2018



## TRAINING AND DEVELOPMENT

CANACOL complied with 100% of the trainings proposed for 2018, which were recorded in the Annual Corporate Training Matrix and were made known to all employees at the beginning of the year. The activities performed during the year are listed below:

- Negotiation Workshop for 40 employees.
- Effective Presentations for 30 employees.
- More than 25 licenses for employees who started learning the English language. They achieved to go from level 1 to 3 out of 8 training levels.
- Gas and Maintenance technical program with 100% of coverage among technical personnel in the field.
- Effective Communication and Feedback Workshop for more than 70 employees with personnel reporting to them, in the framework of the Performance Management program.

For 2019, the purpose is to have virtual training for all employees in the field and in Bogota; this in order to strengthen induction processes for the admission of new employees, annual reinduction and development of internal trainings.

Investment in training in 2018 amounted to USD \$159,378.

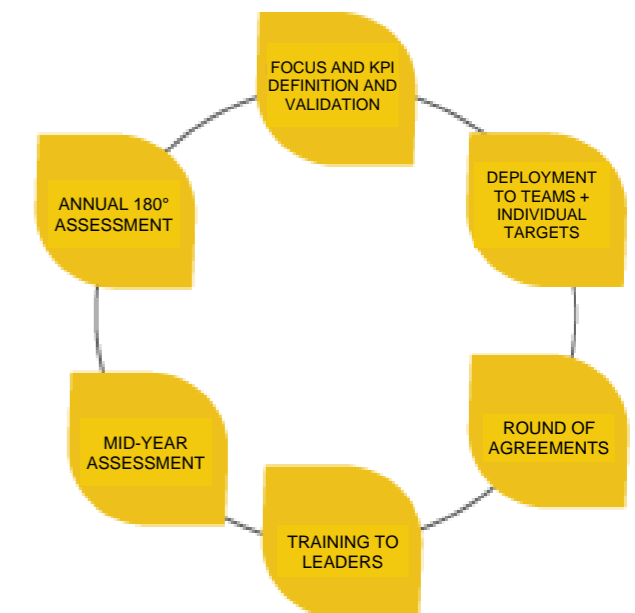


## PERFORMANCE MANAGEMENT

In 2018 CANACOL achieved to completely finish the annual performance management cycle, with inclusion of new phases such as training in effective feedback for leaders and mid-year monitoring.

A new performance assessment platform was developed, ensuring a transparent and open process. The assessment process was made known before the closing of the year to all employees and emphasis was placed on salary increases to be made in 2019 based on the results obtained.

### CYCLE AND PHASES OF THE PERFORMANCE MANAGEMENT PROGRAM



In the year that is reported herein, 100% of the employees participated in the performance assessment. The result was very positive, because 70% was placed in the highest scoring scales. Likewise, based on this exercise, a determination was made of education and training needs for 2019.

## GENERATION OF LOCAL EMPLOYMENT

CANACOL operations in the regions bring along employment opportunities which are managed in the framework of current regulation, respecting the participation percentages of local qualified and unqualified workforce required by law.

Hirings of personnel in the region are made through the Public Employment Service (SPE [for its Spanish initials]) platform, created by the National Government to ensure access of dwellers in the area of influence to the available vacancies.

During 2018, the Corporation promoted trainings in regulation, use of the SPE platform, stages of the selection process and definition of persons responsible. In these sessions, which were supported by the Ministry of Labor and the Family Compensation Funds, there was participation of community leaders, Company employees and the community in general. Thanks to this, during the year labor intermediation was considerably reduced.

## LABOR RELATIONS

CANACOL is committed to protection of rights of its employees, complies with current labor regulation, acts according to the agreements signed by the Colombian government with the International Labor Organization (ILO), and promotes the adoption of standards and good practices in labor relations. The Corporation shares its vision of labor and collective relations with all its stakeholders.

During the year 2018, the Company's Labor Relations area was consolidated. It started to operate in 2017 with the purpose of strengthening this strategic and essential component for operation viability and sustainability. Its work fronts are: (i) Relationship with Contractors; (ii) Relationship with Unions; (iii) Relationship with Labor Authorities; (vi) Relationship with Operating Companies; and (v) Cross-Cutting Support to the Value Chain.



## RIGHT OF ASSOCIATION

### PILLARS

FREEDOM / REGULATION / TRUST

(freedom in the exercise of enrollment and selection of organization) / (respect of and compliance with regulation) / (transparency in management of collective relations)

All workers of the Corporation have guarantees to exercise their fundamental right of association, with full freedom in its exercise and the selection of the union organization.

During the year 2018, the employees were linked to two industry unions, which are present in the Company: People First Worldwide (PFW) and Unión Sindical Obrera de la Industria del Petróleo [Oil Industry Workers' Union] (USO [for its Spanish initials]). By the end of 2018, PFW had 147 union member employees, representing 78% of CANACOL's employees, and USO had 15 union member employees, that is, 8% of the total employees.

In August 2018, the union with the most part of CANACOL's employees, People First Worldwide (PFW), filed a List of Petitions. The Corporation complied with addressing such list and signed a union guarantee record. After having exhausted the direct agreement stage provided by law, an agreement was reached between the parties and a Collective Agreement was signed with new benefits for employees.

Likewise, in the year reported herein, the minority union, Unión Sindical Obrera de la Industria del Petróleo (USO), filed a List of Petitions. CANACOL complied with addressing such list and provided all the requested bargaining guarantees. Several meetings were held during the direct arrangement stage and the extension provided by law; however, no comprehensive agreement could be reached. As a consequence of the above, the Company is waiting for the Ministry of Labor to assume the case and regulate the Compulsory Arbitration Tribunal.

On the other hand, the two unions held several meetings with workers of CANACOL's operations in the department of Cordoba, this in the framework of commitments of the Corporation with proper compliance with labor relations and adoption of good sectoral practices.

**PFW - 2018**  
**147 UNION MEMBERS**  
**78 % OF THE TOTAL EMPLOYEES**

**USO - 2018**  
**15 UNION MEMBERS**  
**8% OF THE TOTAL EMPLOYEES**

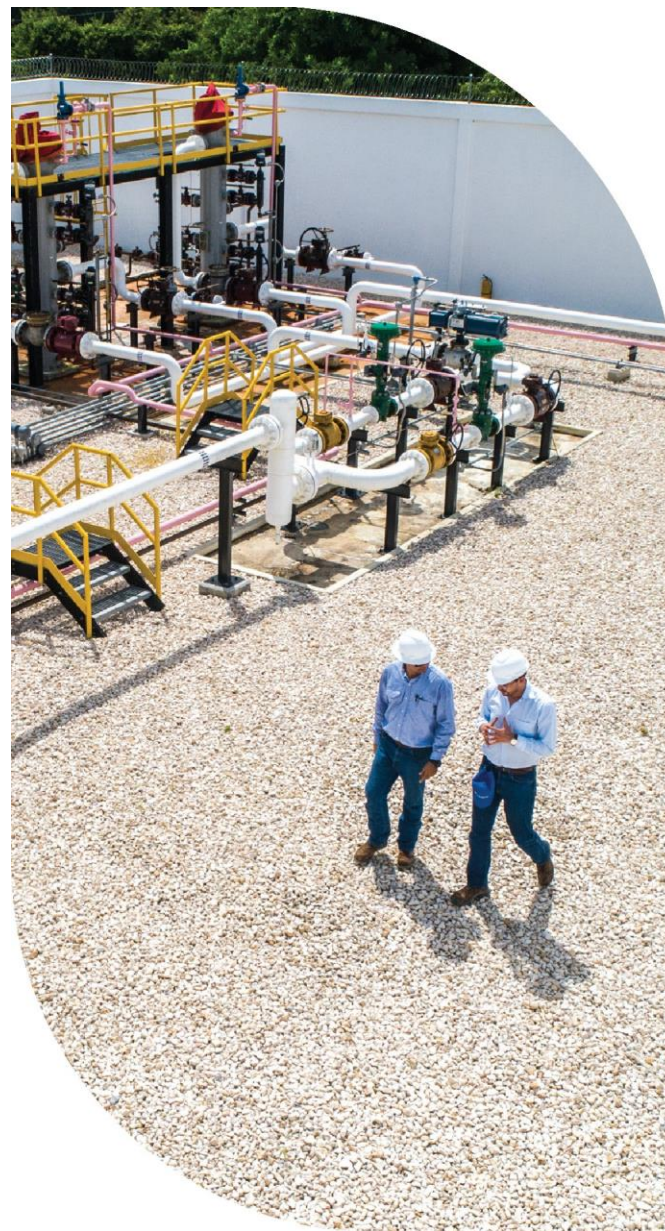
## GOOD LABOR PRACTICES (GLP) PROCESS

The Good Labor Practices (GLP) Process is the mechanism through which the Company monitors compliance of its contractor companies with labor obligations. By means of systematic audit schemes, CANACOL assesses compliance with the law as well as with extralegal commitments made through social agreements entered into in the regions.

The GLP mechanism started with a pilot made during the second half of 2017 and, thanks to the good results obtained as to assurance of labor rights and performance traceability of contractor companies, it was fully implemented in 2018.

The Labor Relations area defined a 360-degree scope for GLP audit schemes, constantly seeking the generation of a culture of compliance at a preventive level, and also providing the process with constant monitoring tools for assurance in a corrective phase. Thanks to this strategic vision, it has been possible to generate great impact on contractor companies as well as on the population of benefited workers. In addition, the GLPs made in 2018 became a fundamental input to establish the Corporation's road map for the year 2019.

**116 Good Labor Practice (GLP) exercises carried out in 2018**  
**2,759 contractors' workers benefited**



## ENCOUNTER WITH CONTRACTORS

In 2018, CANACOL once again held the annual labor meeting with contractor companies. This time there were representatives of the Ministry of Labor, Cordoba Territory, of the Public Employment Service (SPE), SPE Operators and contractor companies of the Corporation.

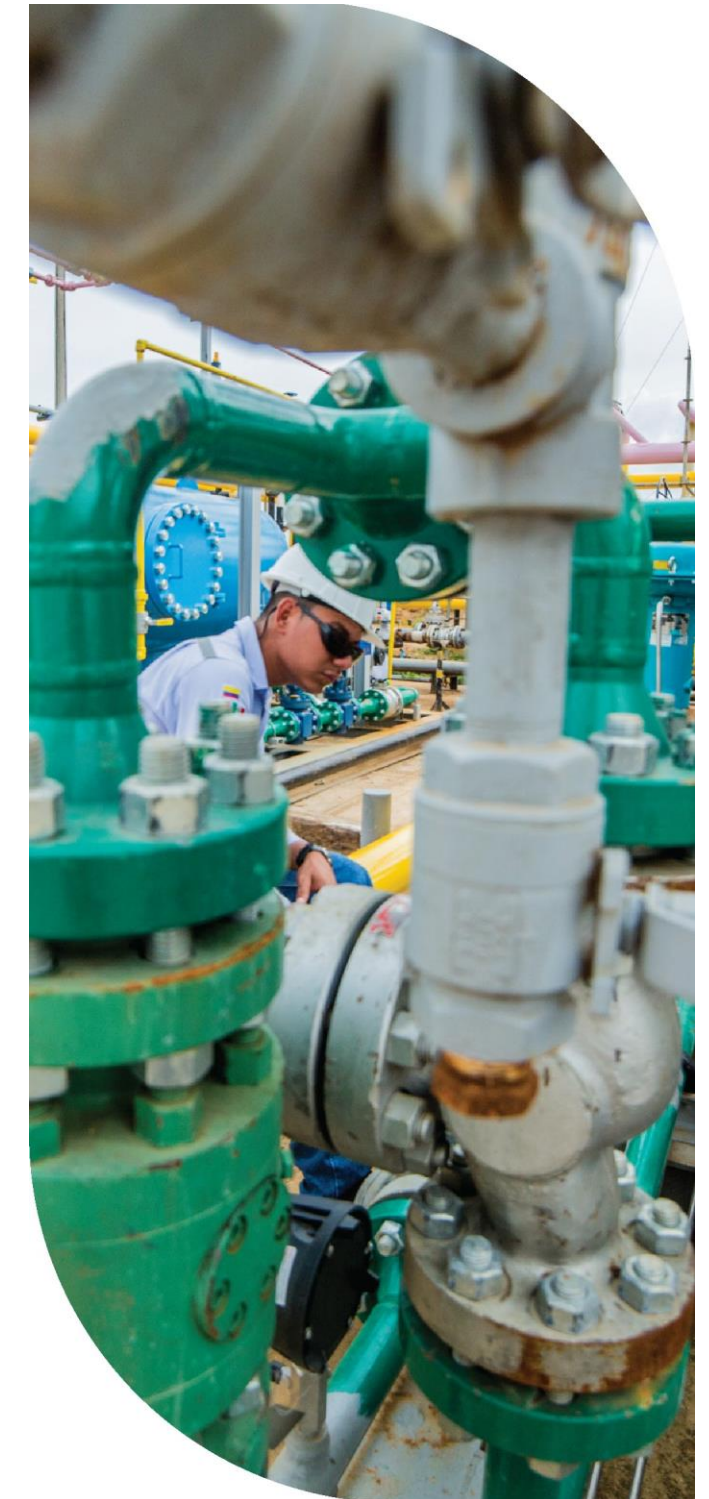
During the activity key aspects were addressed such as compliance with regulation (Public Employment Service - SPE), labor agreements with communities and respect for the free right of association. In total, thirty-five (35) contractor companies and seventy-five (75) labor specialists participated. The attendance of ten (10) businesses of the communities in the area of influence of CANACOL is also worth noting.

## LABOR COEXISTENCE COMMITTEES

The Company continued ensuring compliance with the law as to prevention of workplace harassment behaviors and, to this end, it formed its Labor Coexistence Committees for the period of 2018 to 2020.

The Committees, in turn, generated a work plan, which is controlled through meetings, as provided by Resolutions 652 and 1356 of 2012, and is informed to senior management in the terms of the law. One of the objectives of the work plan was the creation of different communication channels with employees, this with the purpose of having the Coexistence Committees consolidate themselves as fundamental axes in the development of labor relations within the Company.

On the other hand, the chair of each Committee developed a training scheme for its members, with accompaniment of one of the labor consulting firms with more recognition in Colombia. This with the purpose of implementing the best coexistence practices within CANACOL.



# SAFETY AND HEALTH AT WORK



CANACOL applies high Safety and Health at Work standards. Besides complying with current regulation, it has a clear commitment to strengthen a corporate culture that prioritizes the care of people's lives. The Corporation involves all its employees, partners, clients, suppliers, contractors and other stakeholders, in risk identification and control, and work-related accident and disease prevention activities, favoring healthy and safe work environments.

The commitment of the Company is explicitly stated in the Corporate Sustainability Policy and its execution is ensured by the Safety and Health at Work Management System (SGSST), according to Decree 1072 of 2015 and the OHSAS 18001 Standard.

## CONTINUOUS IMPROVEMENT OF THE SGSST

During the year 2018, the SGSST [Spanish initials for Safety and Health at Work Management System] was strengthened with clear guidelines as to safe procedures and practices, allowing minimizing risks associated with operation activities. Management processes were optimized for work permits, risk analyses and application of controls, through meetings and accompaniment in the various activities, the result of which was reflected in:

60% reduction of work accident ratio of own and contractors' workers.

Zero (0) accident ratio of CANACOL's direct personnel.

Actions arising from audits to the Safety and Health at Work System were met 100%.

The self-assessment made in 2017, of Safety and Health at Work minimum standards, allowed the structuring of the Annual SST [Spanish initials for Safety and Health at Work] Work Plan for 2018, with strengthening of personal skills, hazard identification and control, compliance with legal requirements and maintenance of healthy and safe spaces. Likewise, the OHSAS 180 01 certification was maintained.

## HIGH SAFE BEHAVIOR AWARENESS

With the purpose of motivating and obtaining the commitment of CANACOL's personnel for the adoption of safe practices and self-care of life, awareness and sensitization campaigns and sessions were implemented in 2018, aimed at employees and contractors. These were focused on identifying the main risks of tasks performed and setting up controls to manage them.

In the sessions, which totaled more than 1,300 hours, 753 people participated, among them direct collaborators, workers assigned for specific missions and contractors, and knowledge was deepened and skills were developed taking into account two fundamental pillars: learn to do (put what has been learned into practice) and learn to be (freedom of judgement, of feeling and of imagination, being architect of one's destiny) in HSE.

## EMPOWERMENT AND COMMITMENT OF OFFICERS AND LEADERS

CANACOL's senior management included the Safety and Health at Work targets in the strategic targets of the business. Indicators and clear goals were established so that managers of the various areas may be generators of results in H&S.

The proposed indicator of manager visits to the various operation areas exceeded 100%.

## PARTICIPATION AND CONSULTATION

The Joint Safety and Health at Work Committee – COPASST [for its Spanish initials] is in charge of promotion and surveillance of regulation on Safety and Health at Work matters in CANACOL. It has 16 active members, who have the mission of attending the meetings called on a monthly basis, monitoring and analyzing the suggestions brought by workers, supporting safety inspections, proposing the adoption of measures seeking to strengthen the culture of prevention as to safety and encouraging participation of as many direct and contractors' personnel as possible.

In 2018 the COPASST held 36 meetings

## INCIDENT MANAGEMENT

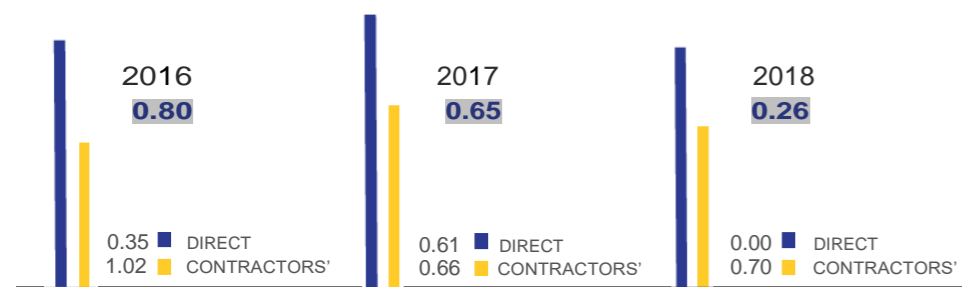
During 2018, management and prevention of labor incidents was strengthened by encouraging the report of near misses and redefining the safety cards (registration, categorization and action), with the purpose of anticipating hazards and activating warnings to prevent materialization of risks in Safety and Health at Work matters for people. This strategy also contributes to deepen learning and continuous improvement.

**In 2018, 4,600,000 man-hours were recorded and 2,900,000 kilometers were traveled in the framework of CANACOL's operations.**

**No fatalities or work-related diseases occurred among direct or contractors' personnel.**



### FREQUENCY INDEX<sup>5</sup> OF DISABLING ACCIDENTS (TRIR)



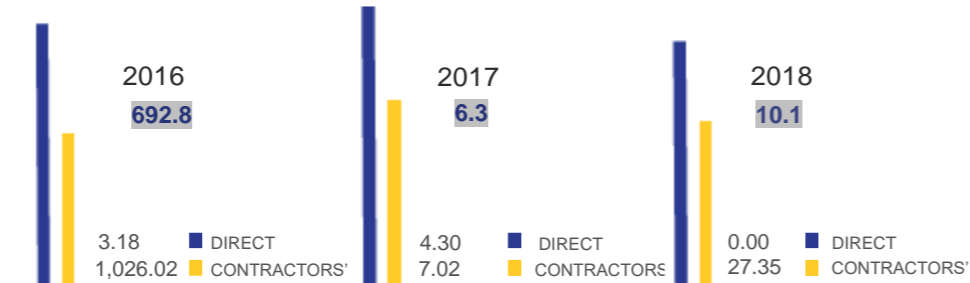
<sup>1</sup> The frequency of disabling accidents was calculated as follows:  
 $\Sigma (\# \text{ disabling work-related accidents}) * 240,000 / \Sigma \text{ worked hours}$ .

<sup>5</sup> The 2016 and 2017 Frequency Indices of Disabling Accidents were reexpressed to make them comparable to 2018, because in 2017 the national legislation changed the constant for calculation of indicators from 1,000,000 to 240,000. The formula remains the same.

Thanks to the strengthening of Safety and Health at Work management, the frequency index of disabling accidents (total direct and contractors' employees) recorded an important decrease from 0.65 in 2017 to 0.26 in 2018.

### SEVERITY INDEX<sup>6</sup>

The severity index is the relationship between number of days missed or charged for injuries, caused by work-related accidents during one year, and man-hours worked. In 2018, the indicator was below the target set for the year. Five (5) disabling accidents of contractors' workers occurred, and no disabling accidents of direct workers occurred.



<sup>2</sup> The severity index is calculated as follows:  
 $\Sigma (\# \text{ days missed}) * 240,000 / \Sigma \text{ worked hours}$ .

<sup>6</sup> The 2016 and 2017 severity indices were reexpressed to make them comparable to 2018, because in 2017 the national legislation changed the constant for calculation of indicators from 1,000,000 to 240,000. The formula remains the same.

Work absenteeism is defined as the absence of a person from his/her job post during working hours, whether justified or unjustified. In 2018 CANACOL recorded an incidence of employee absenteeism of 2.82 per each 1,000, related to non-work-related diseases and maternity leaves. This indicator shows a similar behavior in the last three years.

In 2019, the Corporation will continue strengthening personnel skills and deepening commitments of those responsible for works with planning and execution processes of the same and identification of hazards. Likewise, it has the challenge of improving the implementation of the hazardous energy control procedure and the practice of safe use of tools, equipment and machinery in operations.

### WORK ABSENTEEISM



The general purpose is to increase the degree of implementation of the Safety and Health at Work Management System through application of the Annual SST Work Plan, legal compliance assessment, management leadership, participation of employees and implementation of opportunities for improvement.



# VALUE CHAIN ACCOUNTABLE AND SOURCE OF DEVELOPMENT

## STRENGTHENING OF LOCAL BUSINESSES

Through the purchase of local goods and services, CANACOL impacts positively on the development of regions and improves the quality of life of communities in the area of influence of its operations. The Corporation drives local businesses always seeking their competitiveness in the market and turning them into its strategic allies to meet business targets.

No operations or suppliers with significant risk of cases of child labor or forced or compulsory work were identified.

CANACOL includes clauses in contracts, conducts audits, due diligence processes and constant monitoring of its contractors, to ensure compliance with current regulation and application of standards and good practices in hiring of local qualified and non-qualified labor, social security payments, Safety and Health at Work, environment, timely payment to subcontractors, promotion and respect of human rights, non-discrimination, and prevention of child work and forced work and any other form of corruption.



## CENSUS OF LOCAL SUPPLIERS AND CONTRACTORS

During 2018, CANACOL made a census of local suppliers and contractors in the municipalities of Caimito, La Union and San Marcos, department of Sucre; and Sahagun and Pueblo Nuevo, department of Cordoba. This with the purpose of identifying the offer of goods and services in areas of influence of its operations and to give more participation to local businesses, according to fair and equitable competition criteria, as well as to build long-term relationships.

In the process 362 local businesses, 219 in Cordoba and 143 in Sucre, of different sizes and in different economic sectors, were identified. The most part (70%) is in food supply and catering, hardware stores, maintenance services, minor civil works, communication services and lodging services.



Local companies registered in bidding processes, because of the census, were requested to comply with minimum requirements in legal, LAFT, administrative, environmental and Safety and Health at Work aspects, among others. Likewise, they were granted preferential rates for recognition in the single registry of bidders, with which participation and updating of information were encouraged.

Registration made the local offer of goods and services visible not only to CANACOL, but to other companies that take it into account for their bidding processes, so that the possibilities of contracting local businesses in different sectors of the country's economy were increased.



## DUE DILIGENCE FOR SUPPLIERS AND CONTRACTORS

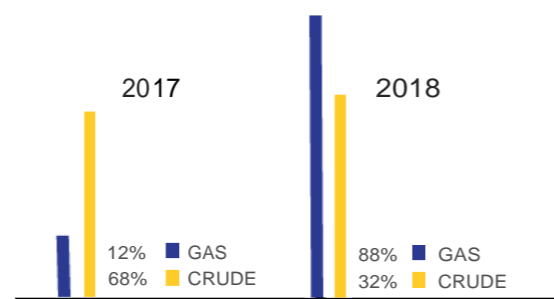
From the first moment in which a contractor or supplier is included in the single registry of bidders, it must make known its policies and procedures. If it does not have any one in particular, it is requested to adhere to CANACOL policies. The Corporation ensures compliance with internal policies on asset laundering and terrorism financing, as well as validation on restricted lists at national and international level with respect to rulings or investigations of legal, tax and financial matters, with the purpose of protecting its reputation.

## PURCHASE OF GOODS AND SERVICES

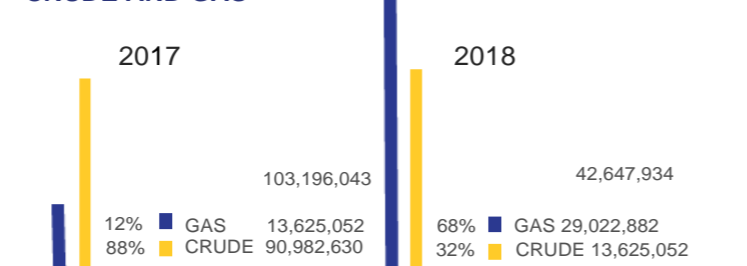
In 2018, the purchase of (regional, national and international) goods and services was of about COP \$436 thousand million, very similar to that of 2017. Participation of national suppliers went from 66.5% in 2017 to 74.4% in 2018 and participation of international suppliers grew from 9.8 to 15.8%; the latter because of the type of projects developed, which require equipment, materials and supplies not found in Colombia.

The purchase of regional goods and services decreased from 23.7% in 2017 to 9.8% in 2018, which is related, on the one hand, to the transition of exploration and production activities from oil to exclusively gas (see in the graph the increase of purchases and services associated with gas) and, on the other hand, the decrease of contracts for development of social investment projects; during 2018 the Community Action Boards started to have great prominence in the performance of social projects through agreements signed with CANACOL.

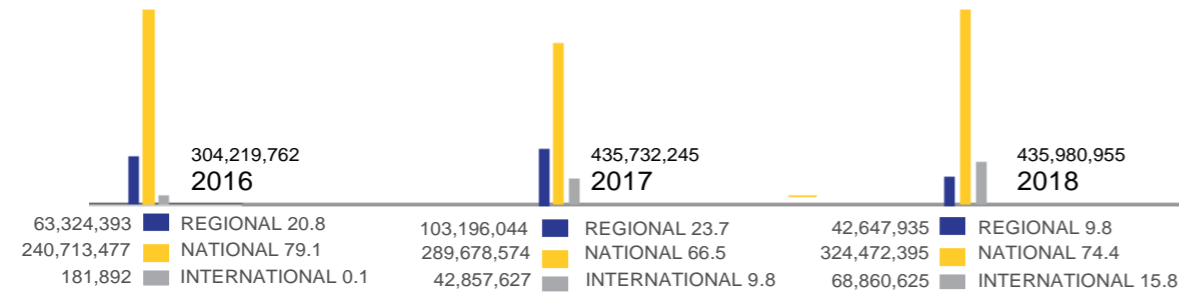
PURCHASE OF REGIONAL GOODS AND SERVICES



PURCHASE OF REGIONAL GOODS AND SERVICES CRUDE AND GAS



PURCHASE OF GOODS AND SERVICES 2018 COP MM



## EFFECTIVE MANAGEMENT OF CONTRACTS

CANACOL has a contract management program, the purpose of which is to train and instruct the employees responsible for this task in the Company. During 2018, two (2) training sessions were carried out, in which more than eighty (80) employees were certified.

Teaching to contract managers was provided by several support areas of the Corporation, building capacity and providing tools in supply, labor relations, finance, security, H&S, environment and social matters. Once the training sessions were completed, a virtual assessment process was carried out, ensuring participation of attendees, and an agenda with key ideas for each topic was delivered for its practical application.

Two (2) new sessions are planned for 2019, in which case studies will be presented. Thus, key elements in contract management may be evidenced, such as importance of having training for preparation of terms of reference and relevance of timely resolution of issues arising with contractors.

## ASSESSMENT OF CORPORATE PERFORMANCE

CANACOL's strategic contractors are linked to the Corporation's performance assessment. Through periodic meetings called SQMs (Service Quality Meetings), they systematically score the quality of services received through a balanced scorecard. This space, with participation of the Company's Country Manager and of officers of the contractor companies, contributes to the creation of long-term relationships.

The assessed matters, in general, are: H&S, CSR, Labor Control, service, commercial aspects, machinery and equipment and personnel. During 2018, 23 meetings were held, and CANACOL obtained outstanding results. For 2019 it is planned to expand the group of contractors assessing the performance of the Corporation.

On the other hand, based on the census made in the year reported herein, and the training needs identified in the companies of the area of influence of CANACOL's operations, the Corporation will design and carry out a local supplier development program.

Contractors take part in CANACOL's performance assessment

CASE OF SUCCESS

LOCAL BUSINESS PREPARED FOR CHALLENGES



Allianz Sucre, Ingenio y Desarrollo is a local company that was created with the expectation of becoming supplier of big companies coming to the territory, CANACOL among them. However, as told by its general manager, Carlos Uparela Vergara, "it had serious needs as to compliance with requirements in matters such as Comprehensive Management Systems, Safety and Health at Work and quality."

The local businessman states that when he introduced himself, in the framework of a selection process led by CANACOL's supply area, he said that he had several flaws in his organization, but also a great interest in progressing and complying with his initial purpose. So, he started to receive guidance from a multidisciplinary team delegated by the Corporation, and he took part in a series of workshops, in principle to address a list of amendable requirements.

Somos Energía

It was the only company, of several called, that finished the process established to identify amendable requirements; and, subsequently, it joined the CANACOL's Local Business Strengthening program. Being there, it received the economic support of the Corporation (50% of resources) and advice of the PAR Servicios company, and started its path toward certification in ISO 9001 2015, ISO 14001 2015 and OHSAS 18001 2007 standards, which was completed in November of the year 2018.

Today, Allianz Sucre, Ingenio y Desarrollo is a strategic ally of the Corporation and is qualified to compete in selection processes started by companies with high standards in Safety and Health at Work, environment and quality.

It currently has two lines of business: one environmental, specifically in plague control and reforestation, and another in electromechanical constructions and electrical instrumentation assembly. The company generates around twenty-five (25) local jobs, including professional, technical and technological workforce.

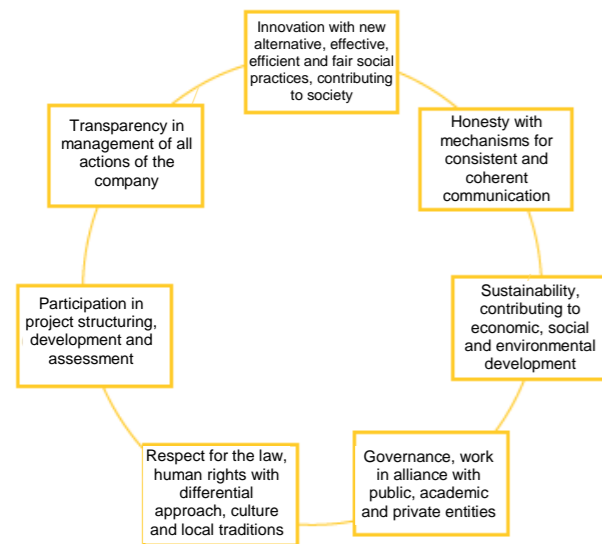
"We wish to express our gratitude to CANACOL for the support it has provided to us in business strengthening, which has led us to obtain the certification in quality standards for the growth of our business. We thank you for the opportunities provided and we expect to continue being a strategic ally for the achievement of your targets," Carlos Uparela says.

# SOCIAL INVESTMENT AND EFFECTIVE NETWORKING

As stated in its Comprehensive Social Responsibility Policy, CANACOL recognizes the impacts of its decisions on its stakeholders and assumes the commitment to contribute to sustainable development through generation of shared value. This is the spirit that supports all the socioenvironmental actions of the Company, including development of social investment programs and projects.

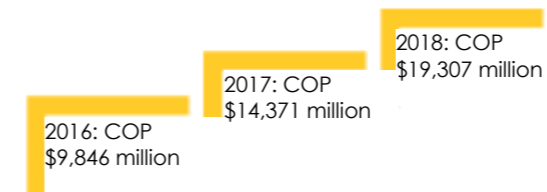
The application of Comprehensive Social Responsibility principles: honesty, transparency, participation, respect, governance, sustainability and innovation, is a guarantee of compliance with its commitments to stakeholders and, very especially, of those made to communities in the area of influence of its operations.

Likewise, the Corporation understands that dynamic communication and transparent and mutually beneficial relations are key aspects to build bonds sustainable over time.



CANACOL's social investment projects are previously agreed with communities in the area of influence of its operations and are in harmony with the Corporation's Social Responsibility guidelines, the National Hydrocarbon Agency's Programs for the Benefit of Communities (PBC [for the Spanish initials]) and departmental and municipal Development Plans. Strategic alliances are fundamental for project success and sustainability.

**CANACOL's social investment in 2018 amounted to COP \$19,307 million<sup>7</sup>, 34% more than in 2018**



During 2018, the Comprehensive Responsibility Management Office implemented a successful strategy to strengthen the trust bond with communities in the area of influence of operations, based on compliance with commitments made, generation of long-term positive impacts and strengthening of community self-management.

Community Action Boards (JAC [for the Spanish initials]) have found in the Corporation a partner generating

prosperity in the region and now assume specific responsibilities in the performance and maintenance of social projects driven by CANACOL, ensuring their sustainability. The JACs started to play a role in management of resources delivered by the Company, so that they have learned, among other things, to request quotes and conduct market studies and supplier selection processes. Likewise, they have developed their capacity in monitoring and assessment of works.

In 2018 there was also constant monitoring of commitments assumed by the Company in the framework of the Jobo Agreements (2015).

## LINES OF SOCIAL INVESTMENT



During 2018, CANACOL performed more than (50) social investment projects in Sahagun and Pueblo Nuevo municipalities in the department of Cordoba; in San Marcos, La Unión and Caimito municipalities in the department of Sucre; in Aguachica, department of Cesar; and in Yopal, Orocué and San Luis de Palenque municipalities in the department of Casanare. Some of the more relevant projects performed in the year are highlighted below.

<sup>7</sup> This value does not include the logistic costs for the implementation of investment in communities (COP \$2,682 million), which are seen reflected in the Economic Performance information in this report.

**STRENGTHENING  
OF INSTITUTIONAL AND COMMUNITY INFRASTRUCTURE**

The higher percentage of resources was invested in the line of Institutional and Social Strengthening, in projects such as construction and improvement of communal halls, vehicular bridges, treadplates, solar panels, cemeteries and houses, with more than 6,000 families benefited. Likewise, deep wells, micro-aqueducts in rural settlements, electric networks and elevated water tanks were constructed for more than 15 rural settlements in the area of influence, with more than 3,000 families benefited, thus complying with construction of Social Tissue and improvement of quality of life of communities.



**CONSTRUCTION  
AND EQUIPPING OF HEALTH CENTER**

In Los Chibolos town, located in the municipality of Sahagun, the Company supported the construction of a health center. In addition, a Dental Unit was equipped in El Crucero town, which provides services seven days a week. Usually more than 50 patients a day are seen, even from neighboring communities.

**MOBILITY  
FOR COMMUNITIES**

On the other hand, with the purpose of improving mobility of population in the area of influence of its operations, CANACOL made the maintenance of road infrastructure used by the community (not associated with its operations). The intervention, which included hydraulic works (sewers), was made along 30 kilometers approximately. Likewise, support was given to the construction of a bridge on the road that goes from the populated center of Sahagun to the rural settlement of Salguerito, with an investment of COP \$260 million and more than 100 families benefited. This work was of great importance for the region because there were floods in the rainy season and the dwellers were left without communication with the urban center.



**PROMOTION  
OF EDUCATION**

In the line of Education Strengthening, CANACOL delivered eight (8) classrooms, three (3) of them built in 2018 and five (5) more to be finished in 2019, positively impacting 1,000 students of the municipality of San Marcos. In addition, these classrooms will be used as infrastructure to provide university education to students of the Public University of Cartagena.

**NEW PRODUCTIVE  
ACTIVITIES**

On the other hand, in the line of Productive and Business Strengthening, the Company contracted the Corporación Colombia Internacional (CCI) with the purpose of developing new productive projects, with eight (8) associations of rural settlements in the area of influence.

In the framework of this contract, two (2) professional agronomist engineers of the region and one (1) project director were engaged to provide full-time technical assistance to each association in the year 2019. For the effective implementation of productive activities, in the year 2019 the Corporation will deliver to each association supplies, herbicides, fertilizers, tools and equipment, and land mechanization (rake, plow and pulverization), among other things, all this with the purpose of effectively implementing the productive activity.

**WOMEN  
ENTREPRENEURS**

Through an alliance with the Cordoba governor's office, the mayor's office of the municipality of Pueblo Nuevo and other private businesses present in the region, CANACOL supported the Betania Countrywomen Entrepreneur Association (ASOMUCAM [for its Spanish initials]), with the delivery of 680 bags of diamond yam for a value of COP \$50 million to benefit 36 families. The Corporation understands the importance of providing opportunities to women of communities in the area of influence of its operations. Many of them are mothers who are heads of households, with all the interest and capacity to bring to life different undertakings and make them successful.



Through the Line of Productive Projects, CANACOL achieves to have communities recover the farming vocation of Colombian countryside

| NAME  | LOCATION  | PRODUCTIVE LINE                                      |
|---|---|--|
| La Molienda Farming Producers Association – ASOMOLIENDA         | Vereda [Rural Territorial Division] Piñalito – La Unión | Dryland rice and yucca and crops                     |
| Milagro de Dios Association                                     | Vereda Oviadolandia – La Unión                          | Manufacture and trading of cookies and layer poultry |
| Oviadolandia Community Action Board                             | Vereda El Llano – San Marcos                            | Dryland rice   |
| Montenegro Farming Producers Association                        | Vereda El Limón – San Marcos                            | Bee honey  |
| Association for Progress and Community Welfare of the Plains    | Vereda Rincón Guerrano – San Marcos                     | Agriculture  |
| Rincón Guerrano Community Action Board                          | Las Bocas – Sahagún                                     | Raising of layer poultry, pigs and broiler poultry   |
| Las Bocas Association for Farming and Environmental Development | Vereda Rodania – Sahagún                                | Industrial yucca and corn                            |
| Rodania Farming Producers Association                           | Vereda Bocanegra – La Unión                             | Corn   |

**MANAGEMENT  
OF EASEMENTS**

In 2018, the times set for acquisition of easements in all operational projects proposed by the Company were reduced thanks to deepening of the relationship strategy and training of judicial authorities, driven by CANACOL.

# PROTECTION OF RIGHTS OF INDIGENOUS COMMUNITIES



During 2018, CANACOL timely managed, assuring Human Rights due diligence, the presence of new communities in the territory with expectations as to the conducting of Prior Consultations. The Company, which for many years has maintained a respectful relationship, direct and according to regulation, with indigenous population present in the area of influence of its operations, filed seven (7) actions for protection of fundamental rights (*tutelas*) before Colombian judicial authorities. These actions were decided in favor of CANACOL and, therefore, it was not required to make such consultations.

The Corporation will continue strengthening its relationship with indigenous population, rigorously complying with national legislation and international agreements signed by the government to ensure the protection of rights of indigenous peoples, among them the Prior Consultation. Likewise, it will maintain its strategy of building trust with communities, in general, honoring the commitments made and seeking mutual benefit.

During 2018 no reports were filed for violation of rights of indigenous peoples.

## CASE OF SUCCESS 2018

### PROPER HOUSING FOR INDIGENOUS COMMUNITIES



The San Carlos indigenous community, descendant of the Zenu people, migrated from San Andres de Sotavento to the Sahagun and San Marcos municipalities due to scarcity of land suitable for their activities and traditional crops. This region has afforded them better opportunities to improve their quality of life.

In the framework of the Prior Consultation conducted by CANACOL, in compliance with the law, the members of this community decided to use the compensation resources for housing improvement and basic sanitation. With an investment of COP \$8,700 million, eighty-seven (87) nuclear families and four hundred thirty-five (435) indigenous people comprising the indigenous council (*cabildo*) were benefited.

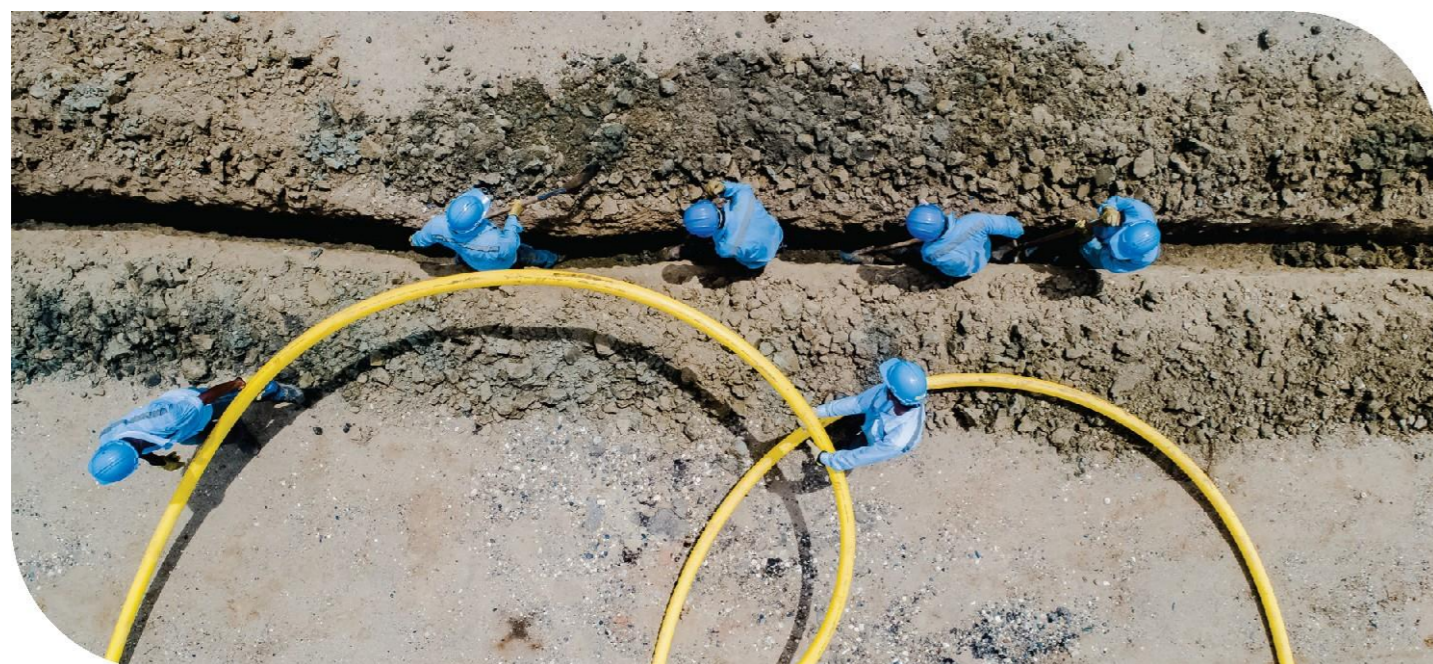
The San Carlos Council showed great management and leadership capacity during the planning and execution of the project, including resource administration. With the accompaniment of CANACOL, its members achieved to meet the needs that had been prioritized. Bathrooms, kitchens and bedrooms were built, floors were installed and roofs in poor condition were repaired.

### DISSEMINATION OF INDIGENOUS LEGISLATION

One of the more important initiatives developed by CANACOL in 2018, along with indigenous communities of the Zenu people in the departments of Cordoba and Sucre, was the publication and launch of the book "Legal Regime of Indigenous People in Colombia". The idea came precisely from the communities, which considered basic to have an organized and updated document making known the national legislation and agreements signed by Colombia as to indigenous matters.

The book is a valuable reference source allowing the Zenu people to have clarity about the scope of their rights. It is also a guide for relationship with other sectors of society and with State institutions such as governors' offices, mayors' offices, public ministry offices and the Ombudsman Office.

## CASE OF SUCCESS 2018

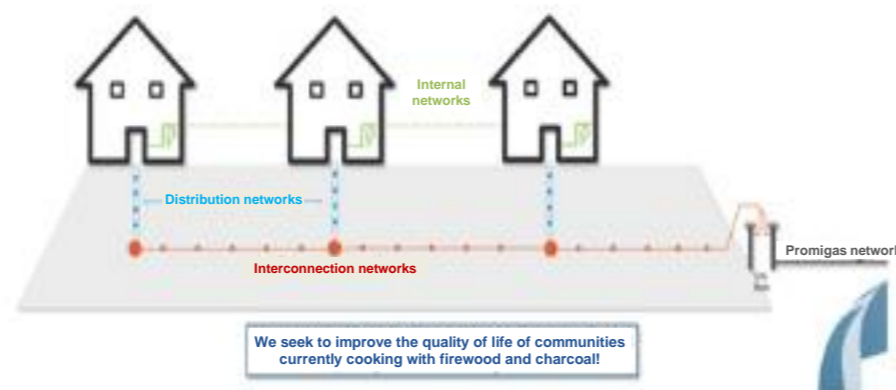


## STRATEGIC ALLIANCE GAS FOR COMMUNITIES

One of CANACOL's primary purposes is a wide and sustainable impact of its social investment on the quality of life of communities. Therefore, it has set the ambitious goal of facilitating access of the population in the area of influence of its activities in the departments of Sucre and Córdoba to household gas utility.

To make this initiative a reality, an alliance was made between CANACOL, Entretiempo Foundation (created by the Corporation in 2017) and Surtigas company. The gas utility provision project will be performed in four (4) phases. The first one started in 2018 and will be completed in October 2019, the second will be performed in the year 2020, the third in 2021, and the fourth and last during 2022. In this time, natural gas distribution networks, connections and internal installations will be constructed in 21 rural settlements of the municipalities of Sahagun and Pueblo Nuevo in the department of Córdoba and San Marcos and La Union in the department of Sucre.

Figure 1. Interconnection, distribution and internal connection networks.



The first phase started in 2018 with the signing of the agreement between the parties and an investment over COP \$5,495 million. Interconnection and internal distribution networks were constructed in seven (7) rural settlements: Kilómetro 9, El Crucero, La Corocita, Las Bocas, Aguas Vivas, Los Chibolos and Rodania, in the municipality of Sahagun. Approximately 1,500 families were benefited in this first stage of the gas utility provision project. During 2019, 2020 and 2021, the initiative will be extended to other rural settlements in the municipalities of San Marcos, La Union and Pueblo Nuevo.

A second area of work of CANACOL in the framework of the gas utility provision project is to facilitate access of the population to Liquefied Petroleum Gas (LPG) cylinders, so that families in the area of influence may use a clean fuel, such as gas, and not firewood for their cooking.

CANACOL delivers a bonus of COP \$40 thousand so that each family of the 21 rural settlements may have access to a 15 kg capacity gas cylinder. The price of each cylinder is COP \$50 thousand, so that the surplus is assumed by the family. In 2018, more than 1,600 subsidies were delivered to around 900 families of 18 rural settlements in the municipalities of Sahagun, Pueblo Nuevo and San Marcos.

The gas utility provision project, in general, improves the quality of life of the beneficiaries. On the one hand, the use for firewood for cooking is eliminated; as indicated by the World Health Organization, this practice may cause lower respiratory tract infections, a main cause of child mortality in the world, as well as other related diseases. On the other hand, deforestation associated with the use of firewood for food cooking decreases, thus protecting the ecosystems.

CANACOL, Entretiempo Foundation and Surtigas will continue performing this project with great commitment and responsibility. The strategic alliance of the three organizations ensures wide and sustainable impact and, above all, will change the life of thousands of Colombian families.



## ENTRETEJIENDO FOUNDATION THE GREAT IMPACT OF ALLIANCES



The Entretejiendo Foundation leveraged 62% of the resources invested in 2018

The Entretejiendo Foundation was created in March 2017, with the purpose of broadening the impact of voluntary social investment in the improvement of quality of life of communities in CANACOL's area of influence. In order to achieve a comprehensive intervention, it is focused on four areas: Human Development, Sustainable Productive Growth, Institutional Strengthening and Environment.

In 2018, the Foundation was consolidated as a serious and committed organization. Thanks to an investment amounting

to COP \$2,475,494 million and the leverage of COP \$4,070 million, projects were performed in five (5) municipalities of the departments of Córdoba and Sucre, with 7,683 beneficiaries.

In addition to participating in the alliance for the implementation of the natural gas utility provision project, together with CANACOL and the Surtigas company, the Entretejiendo Foundation drove several initiatives in 2018 with the contribution of important strategic allies.

### MI BICI [MY BYKE]

During the year reported herein, the Mi Bici project was performed, in alliance with the Hacienda Equipo [Teaming Up] Postobón Foundation. Through the latter, more than 610 bicycles were delivered to students so that they may commute more easily to their education institutions. Thanks to this, 80% of children and youths benefited reported increased attendance to classes and 60% assured to have more free time for other activities.

Linked to this initiative, another one came up, equally important, which was the creation of seven (7) mechanics undertaking projects to ensure maintenance service to bicycles.



### VIVA LA VOZ JOVEN [CHEERS TO THE YOUNG VOICE]

This is a project that the Entretejiendo Foundation made real with the support of the Cedesocial Foundation, the National Leadership Institute and the Sinú University, through which 100 youths of the Pueblo Nuevo and La Unión municipalities were trained in leadership and formulation of entrepreneurship and community development projects.

Subsequently, the students participated in two (2) entrepreneurship fairs, created in the framework of the initiative, where fifteen (15) productive, social and cultural projects were presented, and expert jurors assessed them. The five (5) winning projects received seed capital and technical, financial and legal assistance.



### PISOTÓN [STOMP]

Through a diploma course led by Universidad del Norte [Northern University], teachers, community mothers, social leaders and other people dedicated to care of children were trained in the Pisotón methodology, which aims to harmonious emotional and psychoaffective development in childhood. In total, 200 facilitators graduated and 884 minors were cared for. According to parents, 96% of the children improved self-esteem and communication with their families.





### BIOBLITZ

With the academic support of Universidad Piloto de Colombia [Pilot University of Colombia] and in alliance with the Humboldt Institute, the Entretiempo Foundation drove the training of 250 community scientists and future defenders of biodiversity and environmental wealth. The idea is that, upon finishing studies, they may be in capacity to drive plans for the protection of endangered species and proper management of invasive species in their territories. In the process, around 365 photographic records were taken, 23 identified species are being researched by the Colombian Biodiversity Information System – SIB [for its Spanish initials] and the Humboldt Institute; and two (2) species are of interest for the National Geographic.



### HEALTHCARE BRIGADES

With the support of the Colombian Air Patrol and in coordination with local authorities and local medical institutions, Healthcare Brigades were carried out in communities with difficult access to medical service. More than 30 doctors from recognized health institutions in Bogotá participated. 1,956 specialized consultations were made in ophthalmology, dermatology, obstetrics, pediatrics, general medicine, gynecology, dentistry and optometry. Likewise, 1,317 medications were delivered, 10 ophthalmological surgeries were performed and fifty (50) ecological cradles were delivered.



### SOCIAL INNOVATION LABORATORY KNOWLEDGE AND RESEARCH MANAGEMENT AS PILLARS OF DEVELOPMENT

The Social Innovation Laboratory is a space to come up with collective solutions to social problems through transformation of relationships.

This is a thought center created by the Entretiempo Foundation with the purpose of consolidating key elements for process planning, execution and constant improvement. In the laboratory, territorial diagnostics are born, and impact and result measurements and historic memory of each project performed are coordinated. During 2018, this space was strengthened and its products have become fundamental inputs for decision making and improvement of processes of the Foundation.

### LEGACY OF WELFARE

The Entretiempo Foundation leaves a legacy of welfare interwoven in the communities.

In 2019 it will continue driving the performance of the project for mass access to natural gas, phases one and two, and the Mi Bici, Pisotón Families and Bioblitz projects, and will continue the hard work of accompanying the formalization process of undertakings that were born from the Viva la Voz Joven leadership program. It will drive new projects such as the Diploma Course in Structuring of Production Royalty and Incentive Projects, with Los Andes University; Creative Leisure, with A la Rueda Rueda Foundation; Diploma Course in Rural Citizenship; medical, surgical and veterinary healthcare brigades; and productive project according to the vocation of the territory; and will implement the pilot plan for the Water for Life project, with which it is expected to positively impact on the health of more than 1,500 students.

# ENVIRONMENTAL REGULATORY COMPLIANCE

CANACOL is committed to compliance with Colombian environmental regulation and with its own conservation policies. CANACOL prepares Environmental Assessments (EAs) according to the terms of reference set by the authorities and performs its activities rigorously abiding by what is authorized in the Environmental Licenses granted by the national government and implementing the Environmental Management Plans and voluntary environmental initiatives to go further in its environmental management and performance. This is why in 2018 the Corporation did not have environmental fines or penalties, and improved its ISO 14001:2015 standards and environmental management results.

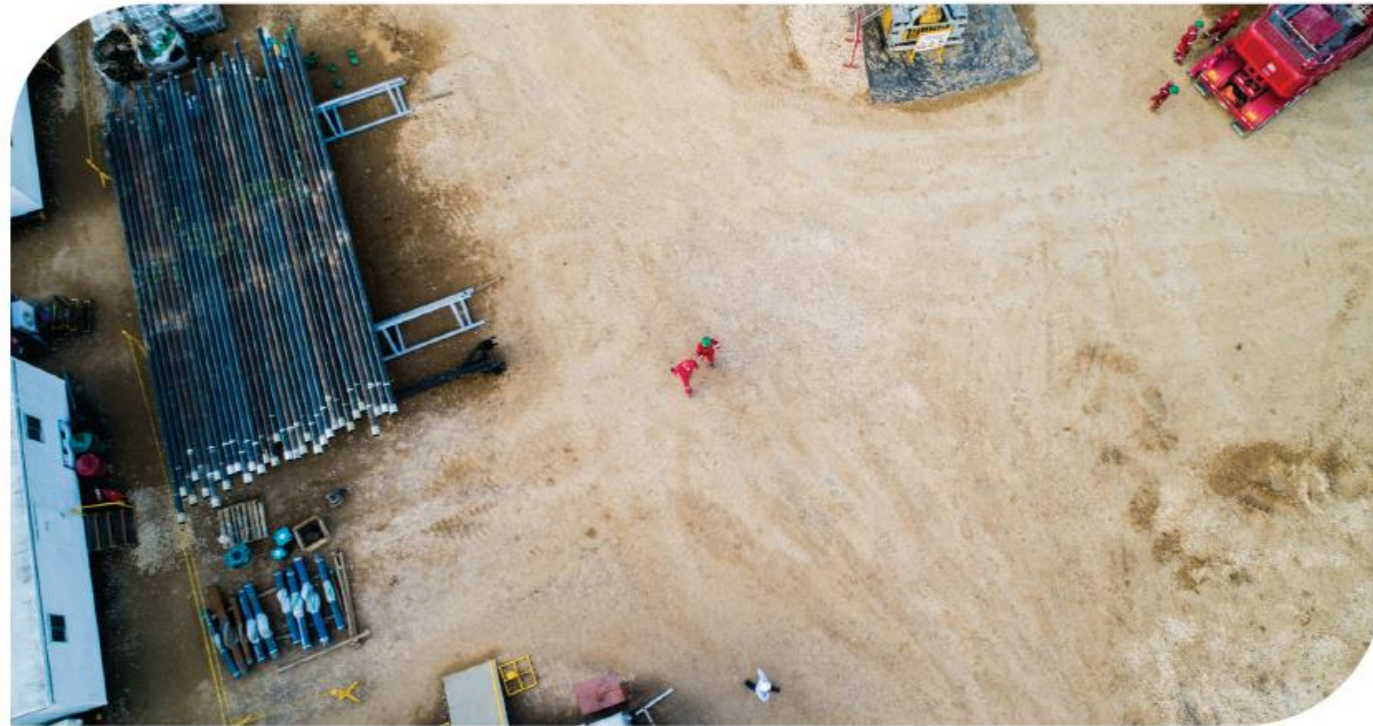
## **Zero (0) penalties and/or fines for breach of environmental regulation.**

Based on authorizations issued by the Colombian government for the performance of its gas and crude oil exploration, production and trading activities, CANACOL manages its impacts on the environment according to the precaution principle contained in national and international regulation. Thus, the Company contributes to sustainable development and protection of the environment in the areas where it carries out its operations.

CANACOL's sustainability policies and environmental guidelines set the path allowing its environmental professionals to make operations viable in strict compliance with legislation, and to perform plans and programs intended for saving and efficient use of resources. Such standards are required from contractor companies through the signing of an environmental agenda that is an integral part of the contracts, and an effective operational control conducted in the field.

In order to ensure effectiveness and transparency in the Company's environmental management, the Corporation conducts environmental audit processes through specialized third parties. Likewise, CANACOL engages local companies in the implementation of its environmental agenda creating incentives for cooperative work in favor of the sustainable development of the region.





### CARBON FOOTPRINT

Taking into account the importance gained by guidelines and initiatives intended to counter climate change at a global and national level, as well as the expectations of stakeholders as to the possible contribution of companies of the extractive sector in this regard, since 2018 CANACOL has been working on building the inventory of Greenhouse Effect Gas (GHG) emissions generated by its operations in the years 2016, 2017 and 2018, to establish and perform the relevant action plans.

In the inventory made during the year subject of this report, scope 1 (direct emissions) and scope 2 (indirect emissions) of GHGs were determined, for which CO<sub>2</sub>, N<sub>2</sub>O, SF<sub>6</sub> and CH<sub>4</sub> and fluorinated compounds were measured. A total emission of 23,484 tons of CO<sub>2</sub> equivalent was identified.

### TOTAL ANNUAL GHG EMISSIONS (METRIC TONS)

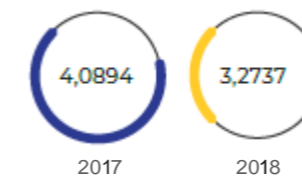


For 2019, CANACOL has the purpose of performing the measurement of GHG scope 3, as well as having more and better data to contribute to the Corporation's decision making in its purpose to reduce the carbon footprint.

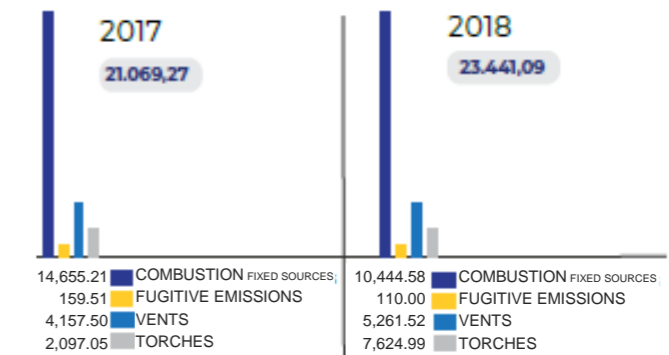
Likewise, an emission inventory by source type was made including combustion of fixed sources, fugitive emissions, vents and torches. This measurement will be used as baseline to assess the effectiveness of the emission reduction management in the next years and to analyze its behavior in the years 2017 y 2018, as shown below.

In order to determine if there is increase or decrease of annual CO<sub>2</sub> emissions, it was necessary to calculate the intensity of emissions, according to CO<sub>2</sub> tons emitted over the annual hydrocarbon production in barrels equivalent, based on the foregoing data. For 2018, it was found that the CO<sub>2</sub>/BBls-eq generation rate in production activities was of 3.27 kg CO<sub>2</sub> eq/BBls-eq, while in the immediately preceding year it was of 4.0894 kg CO<sub>2</sub> eq/BBls-eq, which translates into an 11% reduction of kg CO<sub>2</sub> eq/BBls-eq, as a result of the increase in natural gas production implying the use and optimization of treatment and production equipment; a clear progress in terms of energy efficiency.

### INTENSITY OF EMISSIONS (KG CO<sub>2</sub> eq/BBld -eq)



### ANNUAL DIRECT GHG EMISSIONS BY SOURCE TYPE (TONS CO<sub>2</sub> EQ)



One of the challenges proposed by CANACOL for 2018 was to include the energy consumption measurement of the Company's air flights. Therefore, we inform in this report that 228.3 tons of CO<sub>2</sub> equivalent were generated, corresponding to 1,670 flights.

For 2019, an additional approximate 5% reduction is planned in our emission rate per barrel equivalent, as a result of production water reinjection in natural gas fields, which will prevent the generation of emissions due to transport and delivery of the same by tank truck from the Jobo Station to the city of Cartagena.

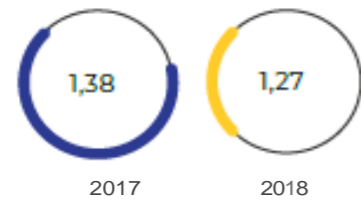
## ENERGY CONSUMPTION

The Corporation continued moving forward in its program to replace diesel fuel with natural gas. As can be seen in the following chart, it used 190.68 Mmscf of production gas for its operations and 22,204 gallons of diesel. These volumes are reflected in the fact that, in 2018, 97% of energy generation for the Company's operations came from gas, compared with 61% in the immediately preceding year. With energy self-generation and self-supply, by using a clean fuel, such as natural gas, CANACOL ensures operational sustainability and reduction of the carbon footprint as reflected in the section above.

In 2018 the total demand of energy increased 27.9% with respect to the immediately preceding year, reaching 203,202,380 million joules; this responds to production expansion and, with it, more energy requirements. Notwithstanding, CANACOL continues optimizing the use of high energy consumption equipment, such as gas compressors.

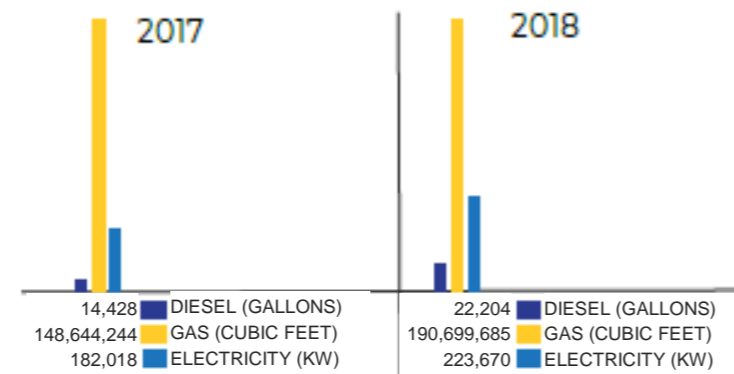
As to energy intensity, calculated based on total energy consumption per barrel equivalent, it decreased 7.9% in 2018 compared with the previous year.

### ENERGY INTENSITY KW/BARREL - E

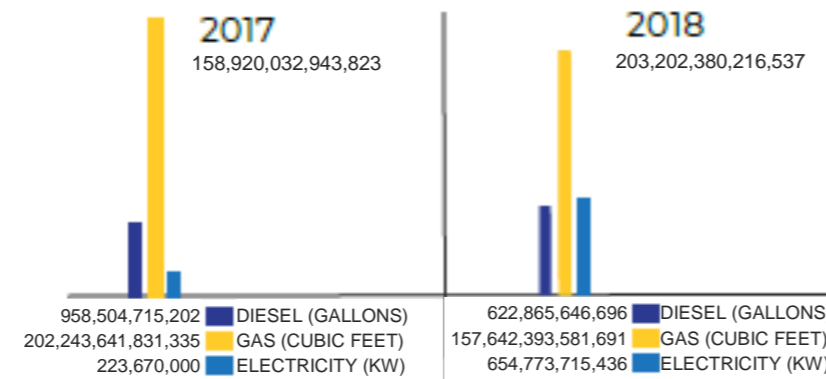


One of the purposes of the Company in 2019 is to reduce the use of diesel by 5% through: (i) reinjection of 100% of formation water; (ii) putting into operation a deep well in the Jobo station, and (iii) optimization of travels of officers and employees, particularly in the shift change and in internal mobilization in the fields.

### ENERGY CONSUMPTION WITHIN THE ORGANIZATION



### TOTAL CONSUMPTION OF ENERGY BY SOURCE (JOULES)



# WATER MANAGEMENT

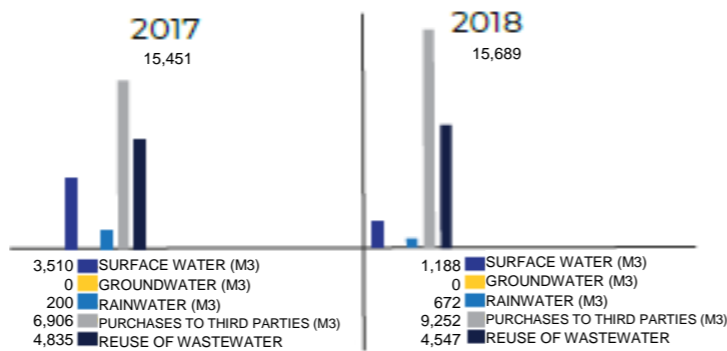
CANACOL understands the importance of the water resource for planet sustainability and, most especially, for the welfare of communities dwelling in the area of influence of its operations.

In 2018, CANACOL increased its operations with respect to those performed in 2017, using a total of 15,359 m3 of water with a minimum increase in consumption of 1.6%, as a result of the implementation of water saving and efficient use campaigns; so that, of the total, only 8% came from catchment from surface sources, 2% from rainwater collection and reuse, 60% from purchase to third parties in aqueducts with sale of bulk water, and the remaining 30% from reuse of wastewater treated by reverse osmosis for preparation of muds, cuts and watering of roads for particulate material control, particularly in drilling projects.

With respect to activities associated with production facilities, among others the expansion of the Jobo Station in 2018, a total of 5,983 m3 of water was consumed, of which 5% came from rainwater and 95% was purchased in municipal aqueducts; using only 0.015% of the supply capacity of aqueducts authorized for sale of bulk water, which did not affect water supply to local population. The Company performs its activities generating the least impact possible on water sources and promotes the protection and preservation of this vital resource through programs and application of reuse technologies.



WATER SUPPLY BY SOURCE (M<sup>3</sup>)



LEVEL OF EFFECT ON WATER SUPPLY SOURCES FROM OPERATIONS AND USE LEVEL 2018

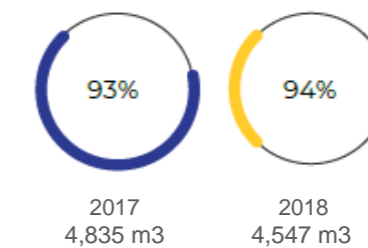
| NAME OF THE SOURCE       | PROACTIVA AGUAS DE MONTERÍA | SANTO DOMINGO STREAM | MONTE GRANDE STREAM | TOTAL   |
|--------------------------|-----------------------------|----------------------|---------------------|---------|
| Source type              | Municipal Aqueduct          | Surface              | Surface             |         |
| Source size (m3/sec)     | 1.0                         | 7.54                 | 16.65               | 25.19   |
| Authorized flow (m3/sec) | Not applicable              | 0,0027               | 0,0027              | 0,0054  |
| Used flow (m3/sec)       | 0.00015                     | 0                    | 0                   | 0,00015 |
| % of use of the source   | 0.015%                      | 0%                   | 0%                  | 0,0001% |

As shown in the next chart, water consumptions of CANACOL are significantly below the collection permits granted by environmental authorities and have a marginal impact on municipal waters.

In 2018, the Corporation continued using the reverse osmosis technology for wastewater treatment, making it usable for mud or brine preparation activities and watering of roads (mitigating impacts caused by the emission of particulate material because of the mobilization of equipment). 94% of wastewater produced in the framework of drilling projects was reused and the remaining 6% was sent to specialized companies in charge of its treatment and final disposal.

One of the positive operational changes implemented since December 2018 was the setting up of reinjection activity of formation water, which was being transported to the city of Cartagena for its treatment and final disposal. With this measure it is expected to cease the emission of approximately 1,700 tons of CO2 eq/year, resulting from 165,624 diesel gallons required for transport of these liquids, as well as to eliminate the spill risk of these waters due to continuous transport by road and impacts such as increase of heavy traffic and generation of particulate material.

RECYCLED AND REUSED WATER





## ENVIRONMENTAL ASSURANCE

CANACOL assesses the possible environmental risks that could occur because of activities executed by contractors and suppliers in their operations. To that end, the Company prepared an Environmental Activity Criticality Map, which is a guide to define the requirements contractually demanded to third parties involved in planning, performance and closure of projects, execution of works or other activities. Thus, the Company seeks to have its contractors and suppliers, as a whole, comply with current regulation and environmental standards.

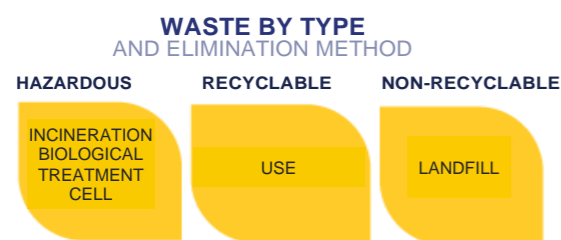
According to its environmental impact, the Corporation, from the procurement process, requires its contractors to have the ISO 14001:2015 standard certification, as well as documentation evidencing compliance with applicable licenses and permits, as well as with air quality and permissible noise level standards, among others. In turn, for certain tasks, the Company requires compliance with criteria associated with green purchases, according to the relevant stage in the life cycle of the project.

CANACOL conducts permanent monitoring and assessment activities with respect to environmental performance of its contractors and suppliers. In case of finding a nonconformity, it demands the closure of the same and the signing of an improvement commitment. The contract auditors prepare and present reports stating if corrective, preventive or improvement actions are required. From that moment, the contractor has three working days to generate the action plan, which must be approved by the Company. With the foregoing, CANACOL ensures the normal running of its operations and compliance with environmental regulation and the Company's own standards.

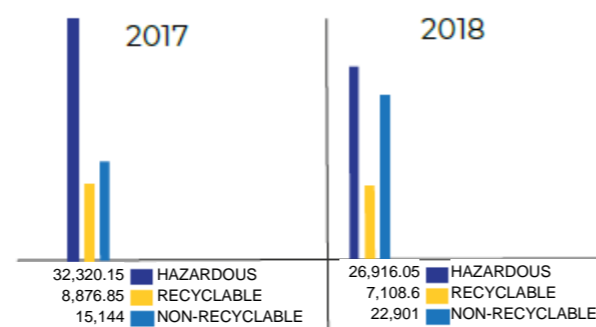
**AN ASSESSMENT ACCORDING TO ENVIRONMENTAL CRITERIA WAS MADE TO 100% OF CONTRACTORS AND SUPPLIERS.**

## WASTE

During the performance of drilling operations and projects in 2018, 26,916.05 kg of hazardous waste were generated, which received appropriate handling and final disposal by authorized third parties. Besides, 7,108.6 kg of recyclable waste were produced, which were all used. Finally, 22,901 kg of non-recyclable waste generated by the operation were taken to a duly authorized landfill, while 560.8 m3 of liquid waste were delivered to third parties.



**WASTE VOLUME GENERATED BY TYPE (KILOGRAMS)**



## DISCHARGES

During CANACOL's operations in 2018, there were no water discharges or runoffs that could significantly affect biodiversity.

**NO SPILLS AFFECTING THE ENVIRONMENT, WATER RESOURCE OR SOIL OCCURRED IN 2018.**

**NO FINES OR PENALTIES FOR BREACH OF ENVIRONMENTAL REGULATION WERE IMPOSED IN 2018.**

## PRESERVATION OF NATURAL RESOURCES

CANACOL responsibly assumes its commitment to protect the ecosystems present in the area of influence of its operations. Therefore, it adopts environmental approaches in line with national regulation, international standards, global initiatives and the best sectoral practices. In the framework of its operations, the Corporation conducts activities and projects aimed at the protection of natural resources and the promotion of a culture of respect and care for the planet.



# BIODIVERSITY

## IDENTIFICATION OF PROTECTED SPECIES

In the framework of the commitment regarding protection of wild flora and fauna, CANACOL makes forest inventories of areas to be intervened or which could be intervened during the performance of each project. The purpose of this is to identify species that could be in the IUCN Red List of Threatened Species, created in 1963.

The Company made a detailed inventory of flora and fauna that may be intervened by operations in the Esperanza Block. This study, made in 2016 by the Consultoría Colombiana S.A. company, produced the following result.



### SPECIES OF THREATENED BIRDS WITH POTENTIAL PRESENCE IN THE SURVEY AREA OF THE ESPERANZA BLOCK

| Order          | Family     | Species                | Common Name            | IUCN, 2015 -4 | Res. 0192 of 2014 | Red Book |
|----------------|------------|------------------------|------------------------|---------------|-------------------|----------|
| Anseriformes   | Anhimidae  | Chauna chavaria        | Northern screamer      | NT            | VU                | VU       |
|                | Anatidae   | Sarkidiornis melanotos | Knob-Billed Duck       |               |                   | EN       |
|                |            | Netta erythrophthalma  | Southern Pochard       |               |                   | CR       |
| Pelecaniformes | Ardeidae   | Agamia agami           | Agami Heron            | VU            |                   | NT       |
| Columbiformes  | Columbidae | Patagioenas subvinacea | Ruddy Pigeon           | VU            |                   |          |
| Passeriformes  | Tyrannidae | Contopus cooperi       | Olive-Sided Flycatcher |               |                   | NT       |

### SPECIES OF THREATENED MAMMALS WITH POTENTIAL PRESENCE IN THE SURVEY AREA OF THE ESPERANZA BLOCK

| Order     | Family         | Species            | Common Name              | IUCN, 2016 | Res. 0192 of 2014                 | Res. 0192 of 2014                 |
|-----------|----------------|--------------------|--------------------------|------------|-----------------------------------|-----------------------------------|
| Carnivora | Mustelidae     | Lontra longicaudis | Otter                    | DD         | VU                                | VU                                |
| Primates  | Aotidae        | Aotus griseimembra | Grey-Handed Night Monkey | VU         | VU                                | VU                                |
|           | Atelidae       | Ateles geoffroyi   | Black Spider Monkey      | EN         | EN (Ateles geoffroyi rufiventris) | EN (Ateles geoffroyi rufiventris) |
|           | Callitrichidae | Saguinus oedipus   | Cotton-Top Tamarin       | CR         | VU                                | VU                                |

IUCN Categories, Red Book and Res. 0192 February 2014: CR: Critically Endangered, EN: Endangered, VU: Vulnerable, NT: Near Threatened.

### SPECIES OF REPTILES THREATENED WITH EXTINCTION WITH PRESENCE IN THE SURVEY AREA OF THE ESPERANZA BLOCK

| Order      | Family         | Species                 | Common Name               | Res. 0192 2014 / Red Book |
|------------|----------------|-------------------------|---------------------------|---------------------------|
| Testudines | Emydidae       | Trachemys callirostris  | Colombian Slider          | NT                        |
|            | Testudinidae   | Chelonoidis carbonarius | Red-Footed Tortoise       | CR                        |
|            | Podocnemididae | Podocnemis lewyana      | Magdalena River Turtle    | EN                        |
|            | Chelydridae    | Mesoclemmys dahli       | Dahl's Toad-Headed Turtle | CR*                       |

\*Not in resolution 192 2014 but recognized by IUCN.



# Somos Energía

## OTHER ACTIVITIES FOR CONSERVATION OF BIODIVERSITY

In 2018, CANACOL continued supporting the project for conservation of felines in the Colombian Caribbean region, through an agreement entered into with the Regional Autonomous Corporation of the Sinu and San Jorge Valleys – CVS [for its Spanish acronym]. The protection of felines is a national purpose that CANACOL has embraced with enthusiasm. Therefore, it signed an agreement with the Regional Autonomous Corporation of the Sinu and San Jorge Valleys – CVS and the Herencia Ambiental Caribe [Caribbean Environmental Heritage] Foundation, the purpose of which is "Dissemination, citizen science and education as strategies to mitigate the human-feline conflict in the department of Cordoba".

This agreement seeks to characterize local public and private actors, in particular people of the livestock sector, to inform them about the current situation of felines in the Caribbean region and the department of Cordoba, and train them to apply a handling protocol for conflicts that could occur in the relationship with felines in the prioritized locations.

In addition, this project provides the development of a virtual tool, "Coexisting with Felines," allowing follow-up of cases that may occur through implementation of an entry and record system. In a complementary manner, a microsite on the web, operated by the CVS, will be made available to the communities, to be used as a communication and dissemination channel. This application will be implemented as a pilot in three (3) of the prioritized locations with the purpose of assessing its operation.

On the other hand, with the active participation of neighboring communities, the Company led the preparation of the "Wild Fauna Conservation" book. Through this publication it is intended to promote knowledge of species present in the area of influence and foster their care.



## REFORESTATION

Reforestation is one of the activities performed by CANACOL in compliance with environmental obligations associated with performance of its operations. In addition to generating a positive environmental impact on basins and rivers, forests, protected areas and environmental corridors, reforestation contributes to achieve the commitments of Colombia in the global fight against climate change.

During 2018, CANACOL reforested 20 hectares in the "El Trompo" ["The Top"] and "Para Que Se Vea" ["To Be Seen"] plots, located in the municipality of Sahagun (Cordoba). In order to develop this project, it was first necessary to select the plots according to their strategic importance from the environmental point of view, then they were purchased, and finally the sowing was made according to the biophysical characterization of the soil, the ecosystem and the landscape. The Corporation entered into contracts with local companies for reforestation and maintenance for three years and provided work to local personnel of the area of influence of the tasks.

In addition, as part of this initiative, environmental specialists of the Company facilitated more than 152 hours of environmental training to around 698 people, among them students, schoolteachers and dwellers in the area of influence of the projects. They went deeper into matters such as recycling, climate change and conservation of river basins, among others. Children and youths sowed trees in their rural settlements and gained knowledge about care of water sources and the trees they planted.

**More than 152 hours of environmental training**

**698 people trained**



# GRI INDEX

## UNIVERSAL STANDARDS

| GRI    | DESCRIPTION   | PAGE         |
|--------|---|--------------|
| 101    | FOUNDATIONS<br>GRI standard use report and statement principles                         | 12           |
|        | GENERAL CONTENT   |              |
| 102-1  | Organization profile  |              |
| 102-2  | Name of the organization  | 5, 8         |
| 102-3  | Activities, brands, products and services   | 10           |
| 102-4  | Location of the headquarters  | 7            |
| 102-5  | Location of operations  | 7,8          |
| 102-6  | Ownership and legal form  | 7            |
| 102-7  | Markets served  | 7            |
| 102-8  | Size of the organization  | 7            |
| 102-3  | Information on employees and other workers  | 36 to 45     |
| 102-9  | Supply chain  | 10           |
| 102-10 | Significant changes in the organization and its supply chain                            | 9            |
| 102-11 | Precaution principle  | 68           |
| 102-12 | External initiatives  | 9            |
| 102-13 | Affiliation to associations   | 9            |
| 102-14 | Statement of senior executives responsible for decision making                          | 4 to 5       |
|        | Ethics and Transparency   |              |
| 102-16 | Values, principles, standards and rules of conduct                                      | 20 to 23     |
| 102-17 | Advice mechanisms and ethical concerns  | 21 to 23     |
|        | Governance  |              |
| 102-18 | Governance structure  | 18           |
| 102-19 | Delegation of authority   | 18, 20       |
| 102-20 | Responsibility at executive level for economic, environmental and social matters        | 18           |
| 102-21 | Consultation to stakeholders on economic, environmental and social matters              | 15, 26 to 27 |
| 102-22 | Composition of the highest governing body and its committees                            | 18           |
| 102-23 | President of the highest governing body   | 18           |
| 102-24 | Nomination and selection of the maximum governing body                                  | 18           |
| 102-26 | Function of the highest governing body in the selection of targets, values and strategy | 18           |
| 102-29 | Identification and management of economic, environmental and social impacts             | 18           |
| 102-30 | Effectiveness of risk management processes  | 9            |
| 102-33 | Communication of critical concerns  | 21           |

# GRI INDEX

## UNIVERSAL STANDARDS

| GRI            | DESCRIPTION   | PAGE               |
|----------------|---|--------------------|
|                | <b>PARTICIPATION OF STAKEHOLDERS</b>                              |                    |
| 102-40         | List of stakeholders  | 14                 |
| 102-41         | Collective bargaining agreements                                  | 43                 |
| 102-42         | Identification and selection of stakeholders                      | 14                 |
| 102-43         | Approach regarding stakeholder participation                      | 14 to 15, 26 to 27 |
| 102-14         | Key matters and concerns mentioned                                | 16 to 17, 26 to 27 |
|                | <b>REPORT PREPARATION PRACTICES</b>                               |                    |
| 102-45         | Entities included in the consolidated financial statements        | 12                 |
| 102-46         | Definition of contents of the report and coverage of the matter   | 17                 |
| 102-47         | List of important matters   | 16                 |
| 102-48         | Reexpression of information                                       | 12, 48             |
| 102-49         | Changes in report preparation                                     | 12                 |
| 102-50         | Reported period   | 12                 |
| 102-51         | Date of last report   | 12                 |
| 102-52         | Report preparation cycle  | 12                 |
| 102-53         | Contact point for questions regarding the report                  | 12                 |
| 102-54         | Statement of preparation of the report according to GRI standards | 12                 |
| 102-55         | GRI content index   | XX                 |
|                | <b>THEMATIC STANDARDS</b>   |                    |
|                | <b>ECONOMIC PERFORMANCE</b>                                       |                    |
| Material issue | Explanation of the material issue and its coverage                | 129                |
| 103-1          | Management approach and its components                            | 29 to 30           |
| 103-2          | Management approach assessment                                    | 29 to 30           |
| 103-3          | Direct economic value generated and distributed                   | 30                 |

# GRI INDEX

## THEMATIC STANDARDS

| GRI            | DESCRIPTION  | PAGE               |
|----------------|--|--------------------|
| 203-1          | Investments in infrastructure and supported services   | 57 to 58, 61 to 63 |
| 203-2          | Significant indirect economic impacts  | 10, 52, 57 to 67   |
|                | Procurement practices  |                    |
| 204-1          | Proportion of spending in local suppliers  | 52                 |
| Material issue | Ethics and transparency  |                    |
| 103-1          | Explanation of the material issue and its coverage   | 20                 |
| 103-2          | Management approach and its components   | 21 to 23           |
| 103-3          | Management approach assessment   | 21 to 23           |
|                | Anti-corruption  |                    |
| 205-1          | Operations assessed for corruption related risks   | 8, 22              |
| 205-2          | Communication and training in anti-corruption policies and procedures                            | 22 to 23           |
| 205-3          | Cases of corruption and measures taken   | 23                 |
|                | Unfair Competition   |                    |
| 206-1          | Legal actions related to unfair competition and monopolistic and anti-free competition practices | 29                 |
|                | <b>ENVIRONMENT</b>   |                    |
|                | Materials  |                    |
| 301-1          | Materials used by weight or volume   | 76                 |
| 302-2          | Recycled inputs  | 76                 |
| 303-3          | Reused products and packaging materials  | 76                 |
|                | Energy   |                    |
| 302-1          | Energy consumption within the organization   | 72                 |
| 302-3          | Energy intensity   | 72                 |
| 302-4          | Reduction of energy consumption  | 72                 |
| 302-5          | Reduction of energy requirements of products and services  | 72                 |
| Material issue | Water Management   |                    |
| 103-1          | Explanation of the material issue and its coverage   | 74                 |
| 103-2          | Management approach and its components   | 74 to 75           |
| 103-3          | Management approach assessment   | 74 to 75           |
|                | Water and Effluents  |                    |
| 303-1          | Interaction with water as a shared resource  | 74                 |
| 303-2          | Management of impacts related to water discharge   | 77                 |
| 303-3          | Extraction of water by source  | 75                 |
| 303-4          | Water discharge  | 77                 |
| 303-5          | Water consumption  | 74 to 75           |

# GRI INDEX

## THEMATIC STANDARDS

| GRI            | DESCRIPTION  | PAGE  |
|----------------|--|---|
| 103-1          | Explanation of the material issue and its coverage   | 78  |
| 103-2          | Management approach and its components   | 78 to 83  |
| 103-3          | Management approach assessment   | 78 to 83  |
|                | Biodiversity   |   |
| 304-2          | Significant impacts of activities, products and services on biodiversity   | 82, 83  |
| 304-3          | Protected or restored habitats   | 82, 83  |
| 304-4          | Species appearing in the IUCN red list and in national conservation lists whose habitats are in areas affected by operations | 81  |
| Material issue | Climate change   |   |
| 103-1          | Explanation of the material issue and its coverage   | 70  |
| 103-2          | Management approach and its components   | 70  |
| 103-3          | Management approach assessment   | 70  |
|                | Emissions  |   |
| 305-1          | Direct GHG emissions (Scope 1)   | 70  |
| 305-2          | Indirect GHG emissions when generating energy (Scope 2)  | 70  |
| 305-3          | Other indirect GHG emissions (Scope 3)   | Not measured in 2018. Expected to be reported in 2019 |
| 305-4          | Intensity of GHG emissions   | 71  |
| 305-5          | Reduction of GHG emissions   | 71  |
| 305-7          | Nitrogen oxides (NOx), sulfur oxides (SOx) and other significant emissions into the air                                      | 70  |
| Material issue | Environmental regulatory compliance  |   |
| 103-1          | Explanation of the material issue and its coverage   | 68  |
| 103-2          | Management approach and its components   | 68  |
| 103-3          | Management approach assessment   | 68  |
|                | Environmental compliance   |   |
| 307-1          | Breach of environmental legislation and regulation   | 68  |
|                | Environmental assessment of suppliers  |   |
| 308-1          | New suppliers that have passed assessment and selection filters according to environmental criteria.                         | 77  |

# GRI INDEX

## SOCIAL STANDARDS

|                    |  |          |
|--------------------|--|----------|
|                    | <b>Employment</b>  |          |
| 401-1              | New hires of employees and personnel turnover  | 35 to 36 |
| 401-2              | Benefits to full-time employees not granted to part-time or temporary employees                                | 40, 41   |
| 401-3              | Parental leave   | 36       |
|                    | <b>Employee-Employer Relations</b>   |          |
| 402-1              | Minimum periods for notices on operational changes   | 9        |
|                    | <b>Health and Safety at Work</b>   |          |
| 403/Material issue | Explanation of the material issue and its coverage   | 46       |
| 103-1              | Management approach and its components   | 46       |
| 103-2              | Management approach assessment   | 46       |
| 103-3              | Frequency index of disabling work-related accidents of direct and contractors' employees                       | 48       |
| Own                | Severity index of work-related accidents of direct and contractors' employees                                  | 48       |
| Own                | Work absenteeism   | 49       |
| 403-1              | Health and Safety at Work Management System  | 46       |
| 403-2              | Hazard identification, risk assessment, and incident investigation.  | 46       |
| 403-4              | Worker participation, consultation and communication on health and safety at work                              | 47       |
| 403-5              | Training of workers in health and safety at work   | 47       |
| 403-6              | Promotion of health of workers   | 47       |
| 403-7              | Prevention and mitigation of impacts on health and safety of workers directly linked by business relationships | 47       |
| 403-8              | Workers covered by a health and safety at work management system   | 46       |
| 403-9              | Injuries from work-related accident  | 46       |
| 403-10             | Work-related ailments and diseases   | 46       |
|                    | <b>Training and Education</b>  |          |
| 404-2              | Programs to upgrade employee skills and transition assistance programs   | 40       |
| 404-3              | Percentage of employees receiving regular performance and professional development assessments                 | 41       |

# GRI INDEX

## SOCIAL STANDARDS

|                    |   |              |
|--------------------|---|--------------|
|                    | <b>Diversity and Equal Opportunity</b>  |              |
| 405-1              | Diversity in governance bodies and employees  | 35, 37       |
| 405-2              | Ratio of basic salary and remuneration of women to men  | 39           |
|                    | <b>Non-Discrimination</b>   |              |
| 406-1              | Cases of discrimination and corrective actions taken  | 36           |
|                    | <b>Freedom of Association and Collective Bargaining</b>   |              |
| 407-1              | Operations and suppliers whose right to freedom of association and collective bargaining could be at risk | 36           |
|                    | <b>Child Labor</b>  |              |
| 408-1              | Operations and suppliers with significant risk of cases of child labor                                    | 50           |
|                    | <b>Forced or Compulsory Labor</b>   |              |
| 409-1              | Operations and suppliers with significant risk of cases of forced or compulsory labor                     | 50           |
|                    | <b>Rights of Indigenous Peoples</b>   |              |
| 411-1              | Cases of violation of rights of indigenous peoples  | 60           |
|                    | <b>Human Rights</b>   |              |
| 412/Material issue | Explanation of the material issue and its coverage  | 25           |
| 103-1              | Management approach and its components  | 25           |
| 103-2              | Management approach assessment  | 25           |
| 103-3              | Human Rights Assessment   | 25           |
| 412-2              | Training of employees in human rights policies or procedures  | 25           |
|                    | <b>Social Investment</b>  |              |
| Material issue     | Explanation of the material issue and its coverage  | 56           |
| 103-1              | Management approach and its components  | 56, 57       |
| 103-2              | Management approach assessment  | 56, 57       |
| 103-3              | Social investment   | 57           |
| Own                |   |              |
|                    | <b>Strengthening of Local Businesses</b>  |              |
| Material issue     | Explanation of the material issue and its coverage  | 50           |
| 103-1              | Management approach and its components  | 50 to 51     |
| 103-2              | Management approach assessment  | 50, 53       |
| 103-3              | Identification of local service offer and strengthening programs  | 51, 54 to 56 |
| Own                |   |              |

## GRI INDEX

### SOCIAL STANDARDS

| GRI            | DESCRIPTION   | PAGE             |
|----------------|---|------------------|
| Material Issue | Purchase of local goods and services  |                  |
| 103-1          | Explanation of the material issue and its coverage  | 50               |
| 103-2          | Management approach and its components  | 50 to 52         |
| 103-3          | Management approach assessment  | 52, 53           |
| Own            | Purchase of local goods and services  | 52               |
|                | Local Communities   |                  |
| 413-1          | Operations with participation of the local community, impact assessment and development programs.<br>Social assessment of suppliers | 8, 50 to 52,     |
| 414-1          | New suppliers that have passed assessment and selection filters according to social criteria.                                       | 44 to 45, 50, 51 |



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