
Audit Committee Terms of Reference

1. Constitution and Purpose

The Audit Committee (the “Committee”) shall be established by resolution of the Board of Directors (the “Board”) of Canacol Energy Ltd. (“Canacol” or the “Corporation”) for the purpose of assisting the Board in fulfilling its financial oversight responsibilities by reviewing the financial reports and other financial information provided by Canacol to regulatory authorities and shareholders, Canacol’s systems of internal controls regarding finance and accounting, and Canacol’s auditing, accounting and financial reporting processes. Consistent with this function, the Committee will encourage continuous improvement of, and should foster adherence to, Canacol’s policies, procedures and practices at all levels. The Committee’s primary roles and responsibilities are to:

- Serve as an independent and objective party to monitor the integrity and quality of Canacol’s financial reporting and internal control system and review Canacol’s financial reports.
- Review and appraise the qualifications, independence, engagement, compensation and performance of Canacol’s external auditors.
- Provide an open avenue of communication among Canacol’s auditors, financial and senior management and the Board.

2. Composition

The Committee shall be composed of at least three individuals appointed by the Board from amongst its members, all of which members will be independent within the meaning of National Instrument 52-110 - Audit Committees (“NI 52-110”) unless the Board determines to rely on an exemption in NI 52-110. “Independent” generally means free from any business or other direct or indirect material relationship with the Corporation that could, in the view of the Board, reasonably interfere with the exercise of the member’s independent judgment.

All of the members must be financially literate within the meaning of NI 52-110 unless the Board has determined to rely on an exemption in NI 52-110. Being “financially literate” means members have the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Corporation’s financial statements.

Each member of the Committee shall serve at the pleasure of the Board until the member resigns, is removed or ceases to be a member of the Board. The Board shall fill vacancies in the Committee by appointment from among the members of the Board. If a vacancy exists on the Committee, the remaining members shall exercise all its powers so long as a quorum remains in office. The Board shall appoint a chair for the Committee from its members (the “Chair”). If the Chair of the Committee is not present at any meeting of the Committee, one of the other members of the Committee who is present at the meeting shall be chosen by the Committee to preside at the meeting.

No Director who serves as board member of any other company shall be eligible to serve as a member of the Committee unless the Board has determined that such simultaneous service

would not impair the ability of such member to effectively serve on the Committee. Determinations as to whether a particular Director satisfies the requirements for membership on the Committee shall be made by the Corporate Governance and Nominating Committee.

No member of the Committee shall receive from the Corporation or any of its affiliates any compensation other than the fees to which he or she is entitled as a Director of the Corporation or a member of a committee of the Board. Such fees may be paid in cash and/or shares, options or other in-kind consideration ordinarily available to Directors.

3. Meetings

The Committee shall meet at least four times per year and/or as deemed appropriate by the Committee Chair. The Chair of the Committee, any member of the Committee, the external auditors of the Corporation, the Chairman of the Board, the Chief Executive Officer (“CEO”) or the Chief Financial Officer (“CFO”) may call a meeting of the Committee by notifying the Corporation’s corporate secretary, who will notify the members of the Committee. A majority of members of the Committee shall constitute a quorum.

As part of its job to foster open communication, the Committee shall meet at least annually with management and the external auditors in separate sessions. The CEO and CFO and a representative of the Corporation’s external auditors may, if invited by the Chair of the Committee, attend and speak at meetings of the Committee. The Committee may also invite any other officer or employee of the Corporation, legal counsel, the Corporation’s financial advisors and any other persons to attend meetings and give presentations with respect to their area of responsibility, as considered necessary by the Committee.

The minutes of the Committee meetings shall accurately record the decisions reached and shall be distributed to the Committee members with copies to the Board, the CFO or such other officer acting in that capacity, and the external auditors. Supporting schedules and information reviewed by the Committee shall be available for examination by any Director.

The Chair of the Committee shall be available at the annual general meeting of the Corporation to respond to any shareholder questions on the activities and responsibilities of the Committee.

IV. Authority

The Committee is authorised by the Board to:

- a. Investigate any matter within its Terms of Reference.
- b. Have direct communication with the Corporation’s external auditors.
- c. Seek any information it requires from any employee of the Corporation.
- d. Retain, at its discretion, outside legal, accounting or other advisors, at the expense of the Corporation, to obtain advice and assistance in respect of any matters relating to its duties, responsibilities and powers as provided for or imposed by these Terms of Reference or otherwise by law or the by-laws of the Corporation.

V. Roles and Responsibilities

The Committee shall have the roles and responsibilities set out below as well as any other functions that are specifically delegated to the Committee by the Board and that the Board is authorized to delegate by applicable laws and regulations. To fulfill its responsibilities, the Committee shall:

- a. **Accounting and Financial Reporting Matters**
 1. In consultation with the external auditors, review with management the integrity of Canacol’s financial reporting processes, both internal and external.

2. Review with the external auditors and management the extent to which changes and improvements in financial or accounting practices have been implemented.
3. At each meeting, consult with the external auditors, without the presence of management, about the quality of Canacol's accounting principles, internal controls and the completeness and accuracy of Canacol's financial statements.
4. Review the Corporation's interim and annual financial statements and management's discussion & analysis of operations (the "MD&A"), Annual Information Forms and earnings press releases prior to their public disclosure and Board approval, where required, and ensure that adequate procedures are in place for the review of the Canacol's public disclosure of financial information extracted or derived from the Corporation's financial statements for inclusion in documents such as the Management Information Circular and prospectuses.
5. Following such review with management and the external auditors, recommend to the Board whether to approve the annual or interim financial statements and MD&A and any other filings with the securities commissions.
6. Monitor in discussion with the external auditors the integrity of the financial statements of the Corporation before submission to the Board, focusing particularly on:
 - a. Significant accounting policies and practices under International Financial Reporting Standards ("IFRS") as applicable to Canacol and any changes in such accounting policies and practices as required by the standard setters or as suggested by the external auditors and management.
 - b. Major judgment areas including significant accruals, key assumptions and estimates, and the view of the external auditors as to appropriateness of such judgments.
 - c. Significant adjustments resulting from the audit.
 - d. The going concern assumption.
 - e. Compliance with accounting standards including the effects on the financial statements of alternative methods within generally accepted accounting principles.
 - f. Compliance with stock exchange and legal requirements.
 - g. Accounting treatment and disclosure of large transactions as well as unusual or non-recurring transactions.
 - h. Significant off-balance sheet and contingent assets and liabilities and the related disclosures.
 - i. Disclosure requirements for commitments.
 - j. Compliance with covenants under loan agreements.
 - k. Significant interim review audit findings during the year, including the status of previous audit recommendations.
 - l. All related party transactions with the required disclosures in the financial statements.
 - m. Timeliness of statutory payments.
7. On at least an annual basis, review with the Corporation's legal counsel and management, all legal and regulatory matters and litigation, claims or contingencies, including tax assessments, license or concession defaults or notifications, health and safety violations

or environmental issues, that could have a material effect upon the financial position of the Corporation, and the manner in which these matters may be, or have been, disclosed in the financial statements.

b. External Auditors

1. Consider and make recommendations to the Board for it to put to the shareholders for their approval in a general or special meeting in relation to the appointment, re- appointment and removal of Canacol's external auditors and to approve the compensation and terms of engagement of the external auditors for the annual audit, interim reviews and any other audit-related and non-audit-related services.
2. When there is to be a change in auditors, review the issues related to the change and the information to be included in the required notice to securities regulators of such change.
3. Require the external auditors to report directly to the Committee.
4. Discuss with the external auditors, before an audit commences, the nature and scope of the audit, and other relevant matters.
5. Review and monitor the performance of the external auditors and the effectiveness of the audit process taking into consideration relevant professional and regulatory requirements.
6. Obtain annually a formal written statement of external auditors setting forth all relationships between the external auditors and Canacol and confirming their independence from Canacol.
7. Review and discuss with the external auditors any disclosed relationships or services that may impact the objectivity and independence of the external auditors.
8. Review and approve Canacol's hiring policies regarding partners, employees and former partners and employees of the present and former auditors of the Corporation.
9. Discuss problems and reservations arising from an audit, and any matters the external auditors may wish to discuss (in the absence of management where necessary).
10. Upon completion of the audit, review the external auditors' report on the financial statements and any recommendation letters issued to management with management's responses including the management representation letter.
11. Review and pre-approve all audit and audit-related services and the fees and other compensation related thereto, and any non-audit services, provided by Canacol's external auditors and consider the impact on the independence of the auditors. The pre-approval requirement is waived with respect to the provision of non-audit services if:
 - a. The aggregate amount of all such non-audit services provided to Canacol constitutes not more than five percent of the total amount of revenues paid by Canacol to its external auditors during the fiscal year in which the non-audit services are provided.
 - b. Such services were not recognized by Canacol at the time of the engagement to be non-audit services.
 - c. Such services are promptly brought to the attention of the Committee by Canacol and approved prior to the completion of the audit by the Committee or by one or more members of the Committee who are members of Canacol Directors to whom authority to grant such approvals has been delegated by the Committee.

Provided the pre-approval of the non-audit services is presented to the Committee's first

scheduled meeting following such approval, such authority may be delegated by the Committee to one or more independent members of the Committee.

12. Consider the major findings of the external auditors and management's responses, including the resolution of disagreements between management and the external auditors regarding financial reporting.
 13. Following completion of the annual audit, review separately with management and the external auditors any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information.
 14. At each meeting, consult with the external auditors, without the presence of management, about the quality, not just the acceptability, of the accounting principles applied in the Corporation's financial reporting, effectiveness of internal controls and the completeness and accuracy of the Corporation's financial reports.
- c. **Disclosure Controls & Procedures ("DC&P") and Internal Controls over Financial Reporting ("ICFR")**
1. Monitor and review Canacol's disclosure policy on an annual basis.
 2. In conjunction with each fiscal year end, review management's assessment of the design and effectiveness of Canacol's DC&P including any control deficiencies identified and the related remediation plans for any significant or material deficiencies.
 3. In conjunction with each fiscal year end, review management's assessment of the design and effectiveness of Canacol's ICFR including any control deficiencies identified and the related remediation plans for any significant or material deficiencies.
 4. Review and discuss any fraud or alleged fraud involving management or other employees who have a role in Canacol's ICFR and the related corrective and disciplinary actions to be taken.
 5. Discuss with management any significant changes in the ICFR that are disclosed or considered for disclosure in the MD&A on a quarterly basis.
 6. Review and discuss with the CEO and the CFO the procedures undertaken in connection with the CEO and CFO certifications for the annual and interim filings with the securities commissions.
 7. Review the adequacy of internal controls and procedures related to any corporate transactions in which directors or officers of Canacol have a personal interest, including the expense accounts of senior officers of Canacol and officers' use of corporate assets.
- d. **Risk management**
1. Review the Corporation's risk management policies and processes established to effectively identify, assess and treat the Corporation's principal risks of the business and to receive an annual report thereon.
 2. Review the financial exposures undertaken by the Corporation together with any mitigating strategies including physical and financial positions in commodities markets, derivative strategies, capital commitments, sovereign and foreign exchange exposures, and interest rate fluctuations.

3. Review on an annual basis the adequacy and effectiveness of the Corporation's insurance policies including coverage for property damage, business interruption, liabilities, and directors and officers.
 4. Review the Corporation's major financings and its future financing plans and strategies considering current and future business needs and the condition of capital markets.
 5. Review and approve the discussion and disclosure of risks in public documents.
- e. Procedures for the Receipt and Treatment of Complaints regarding Accounting, Internal Accounting Controls, or Auditing Matters
1. Establish procedures for:
 - a. The receipt, retention and treatment of complaints received by Canacol regarding accounting, internal accounting controls, or auditing matters.
 - b. The confidential, anonymous submission by employees of Canacol of concerns regarding questionable accounting or auditing matters.
 - c. The investigation of such matters with appropriate follow-up actions.

VI. Committee Effectiveness Procedures

The Committee shall review its Terms of Reference on an annual basis, or more often as required, to ensure that they remain adequate and relevant, and incorporate any material changes in statutory and regulatory requirements and the Corporation's business environment. The Committee shall make recommendations to the Corporate Governance and Nominating Committee as to proposed changes, if any.

The procedures outlined in these Terms of Reference are meant to serve as guidelines, and the Committee may adopt such different or additional procedures as it deems necessary from time to time.

In setting the agenda for a meeting, the Chair of the Committee shall encourage the Committee members, management, the Corporation's external auditors, and other members of the Board to provide input in order to address emerging issues.

Prior to the beginning of a fiscal year, the Committee shall submit an annual planner for the meetings to be held during the upcoming fiscal year, for review and approval by the Board to ensure compliance with the requirements of the Committee's Terms of Reference.

Any written material provided to the Committee shall be appropriately balanced (i.e. relevant and concise) and shall be distributed in advance of the respective meeting with sufficient time to allow Committee members to review and understand the information.

The Committee shall conduct an annual self-assessment of its performance and these Terms of Reference and shall make recommendations to the Corporate Governance and Nominating Committee with respect thereto.

Members of the Committee shall be provided with appropriate and timely training to enhance their understanding of auditing, accounting, regulatory and industry issues applicable to the Canacol.

New Committee members shall be provided with an orientation program to educate them on the Corporation's business, their responsibilities and the Corporation's financial reporting and accounting practices.