Canacol Energy Ltd.

Q1 2025 Financial Results

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CORPORATE PARTICIPANTS

Carolina Orozco - *Vice President-Investor Relations & Communications*

Charle Gamba - *President and Chief Executive Officer*

Jason Bednar - *Chief Financial Officer*

PRESENTATION

Operator
Good day and welcome to the Canacol Energy First Quarter 2025 Financial Results Conference call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. If you would like to ask a question, you may submit one on the webcast portal.

At this time, I would like to turn the conference over to Carolina Orozco, Vice President of Investor Relations. Please go ahead, ma'am.

Carolina Orozco
Good morning and welcome to Canacol's First Quarter Financial Results Conference call. This is Carolina Orozco, Vice President of Investor Relations. I am with Mr. Charle Gamba, President and Chief Executive Officer and Mr. Jason Bednar, Chief Financial Officer.

Before we begin, it is important to mention that the comments on this call by Canacol's senior management can include projections of the corporation's future performance. These projections neither constitute any commitment as to future results nor take into account risks or uncertainties that could materialize. As a result, Canacol assumes no responsibility in the event that future results are different from the projections shared on this conference call. Please note that all finance figures on this call are denominated in US dollars.

We will begin the presentation with our President and CEO, Mr. Charle Gamba, who will summarize highlights for the corporation for the first quarter of 2025. Mr. Jason Bednar, our CFO, will then discuss financial highlights. Mr. Gamba will close with a discussion of the corporation's outlook for the remainder of 2025. At the end, we will have a Q&A session.

I will now turn over the call to Mr. Charle Gamba, President and CEO of Canacol Energy.

Charle Gamba
Thanks, Carolina and welcome, everyone, to Canacol's first quarter 2025 conference call.

We're pleased to report a strong and profitable first quarter supported by favorable commodity price environments, a solid commercial strategy, and our continued focus on cost control and financial discipline. These factors enable us to maintain robust and stable operating margins, demonstrating the strength and efficiency of our business.

In the first quarter of '25, we achieved an average realized natural gas price of $7.23 per million cubic feet per day net of transportation costs. Operating netbacks for natural gas rose 12% year-over-year to $5.48 per million cubic feet. While average realized sales of 135.5 million cubic feet per day for natural gas and oil, we kept operating expenses low at $0.50 allowing us to maintain a strong operational margin of 76% and supporting our continued strong financial performance. Importantly, natural gas sales volumes remain in line to meet our full-year guidance range of between 140 million and 153 million cubic feet per day.

Net income grew to $31.8 million, compared to $3.7 million in the same quarter last year. This increase was primarily driven by stronger operating netbacks and a $19.5 million deferred tax recovery. Our financial position remains strong with quarter end cash of $79 million, unchanged from our year-end 2024 balance. Additionally, our leverage ratio stood at 2.3, a notable improvement from 2.91 in the same period last year. It remains well within our 3.5 maintenance covenant threshold.

Operationally, during the first quarter, we drilled a total of four wells, three successful development and evaluation wells, which all encountered gas and have all been tied into production. We also drilled the Chibigui-1 exploration well, which encountered non-commercial volumes of gas.

At Natilla-2, we found approximately 550 feet of gas charged sandstones within the Porquero formations with pressures of up to 13,500 PSI. The well subsequently encountered difficulties while running casing and had to be temporarily suspended. Operations resumed last week to continue to drill the primary Cienaga de Oro target to a total planned depth of 16,500 feet. Upon completion of drilling, open hole encased hole logs will be run across the CDO and Porquero, and production tests will subsequently be conducted across any potential gas producing intervals.

I'm also pleased to share that Canacol has recently received the highest ESG performance rating from ISS, a leading provider of sustainability assessments for the global oil and gas industry. This recognition places us significantly ahead of the sector average in areas such as climate protection and energy transition. Our commitment to clean natural gas production, the ongoing reduction of venting and fugitive emissions, and our rigorous monitoring of water resources were key factors in this achievement.

In addition to the ISS rating, we've earned top ESG scores across several recognized international agencies. S&P Global awarded us 75 points in its corporate sustainability assessment, CSA, ranking Canacol in its top 10% of global oil and gas peers, and securing our second consecutive inclusion in its sustainability yearbook. Sustainalytics rated us 24.4, placing us in the top 4% of 301 global oil and gas producers. MSCI reaffirmed our A rating for the second consecutive year and CDP awarded us a B for both climate change and our first year of assessment for water security. Additionally, ISS governance scored us three for governance, one for environment and one for social, all of which are better than the industry average.

These outstanding results are a direct reflection of our more than a decade of hard work and dedication to embedding the highest ESG standards into our corporate strategy. They demonstrate our commitment to advancing a cleaner, more sustainable and responsible energy future.

I'll now turn the presentation over to Jason Bednar, our CFO, who will discuss our 2025 first quarter financial results.

Jason Bednar
Thanks, Charle.

The first quarter of 2025 marked another strong period of performance for Canacol with solid EBITDAX generation, strong netbacks and continued capital discipline. We realized average natural gas prices of $7.23 per Mcf net of transportation benefiting from a strong pricing environment. With operating expenses held steady at $0.50 per Mcf, our natural gas operating netback rose to $5.48 per Mcf, up 12% from the first quarter of last year.

These efficient unit economics translated into healthy financial performance. Revenue net of royalties and transportation totaled $72.7 million, while adjusted EBITDAX came in at $56.3 million. We also generated $39.3 million in adjusted funds from operations. Cash provided by operating activities reached $62.6 million, a 14% increase over the same quarter in 2024 demonstrating the continued resilience of our cash generating capacity.

Net income for the quarter was $31.8 million, supported by a stronger netback and a $19.5 million deferred tax recovery as the Colombian peso appreciated against the US dollar.
On the operational front, we invested $50.5 million during the quarter fully funded by operating cash flow. We drilled a total of four wells including three successful development wells being Siku-2, Lulo-3 and Fresa-3. We also continued progressing the drilling of Natilla-2 well and continued with the expansion of our compression capacity and ongoing workover program.

We ended the quarter with $79 million in cash, unchanged from year-end 2024, reflecting our disciplined approach to prioritizing higher return projects and optimizing capital allocation. This cash position remains unchanged since our February guidance update and provides us with ample headroom to fund near-term operations. Thanks to this combination of strong margins, disciplined spending and a resilient balance sheet, we remain well positioned to deliver on our 2025 program.

We continue to meet all financial covenants with ample room. At the quarter end, our leverage ratio was 2.32x, well below the 3.25x and 3.5x covenant thresholds. Our interest coverage ratio stood at 4.95x, well above the 2.5x minimum. And our current ratio was at 1.4x exceeding the required 1x. This strong covenant buffer, coupled with a strong cash position, reinforces our ability to meet operational needs and execute on our capital priorities with prudent financial flexibility.

One of the corporation's long-term key objectives is debt reduction. Our $50 million Macquarie term loan is scheduled to begin amortizing in four equal quarterly installments of $12.5 million starting in December of this year. Additionally, we are actively monitoring free cash flow availability throughout the year and may pursue additional discretionary debt repayments or bond buybacks without compromising our ability to fully fund the capital program and advance key exploration activities.

Therefore, as part of our ongoing balance sheet optimization, at the end of the quarter we carried out a targeted open market buyback of our 2028 senior notes, acquiring $5 million in principal for $2.7 million in cash, roughly half the par value. The repurchase senior notes were subsequently canceled in early April 2025.

Lastly, I want to address a topic we've received several inquiries about in recent weeks. To be absolutely clear, Canacol has not hired or even engaged in discussions with any restructuring advisor at any point during 2024 or 2025. Our full focus remains on executing our capital plan, advancing exploration and reducing debt through internally generated cash flow.

This concludes my comments. I will now hand it back to Charle. Thank you.

Charle Gamba
Thanks, Jason.

So, our 2025 focus continues to be centered on five items. Firstly, maintaining and growing our EBITDA generation and reserves through the investment in drilling work over in new facilities projects. Secondly, drilling high impact gas exploration opportunities in the Lower and Middle Magdalena Valley like Natilla, giving positive results. Thirdly, deleveraging of debt, as Jason just indicated, opportunistic buyback of debt at significantly reduced capital requirements. Fourth, laying the groundwork to be able to commence operations in Bolivia in 2026. And finally, to continue the corporation's commitment to its ESG strategy.

Our 2025 work program is focused on our core assets in the Lower and Middle Magdalena basins. In the Lower Mag Valley, we plan to drill up to ten natural gas exploration wells. While in the Middle Mag, we intend to drill one exploration well targeting both natural gas and condensate. These activities are designed to maintain and grow our production base and reserves. Additionally, we will continue installing additional compression and processing infrastructure where needed and execute targeted workovers across key producing fields.

The corporation is currently sidetracking the Natilla-2 exploration well. Current operations include the installation of a whip stock within the 7-inch casing prior to milling a window and initiating the drilling of the sidetrack. The objective of the sidetrack is to redrill the gas bearing Porquero interval, where we encountered 550 feet of gross gas pay and to continue on to drill the deeper primary Cienaga de Oro sandstone target reservoir.

In the Middle Mag Basin, we are preparing to drill the Valiente gas condensate prospect starting in the third quarter of this year. This large material prospect is located approximately five kilometers up dip of the Opon gas field, which had produced large volumes of gas and condensate in the past. We're also assessing the strategic options for drilling of the deeper high risk, high reward Pola prospect located in the Middle Magdalena Valley. Given the scale and complexity of Pola, we're carefully evaluating our options before committing to the drilling phase of this project.

Lastly, we are progressing with our regional expansion to Bolivia, currently awaiting con congressional ratification of three exploration contracts, Arenales, Ovai and Florida Este, as well as for the redevelopment of the Tita gas field. In the meantime, our team is advancing the environmental permitting process and preparing detailed development plans with the objective of initiating the Tita field reactivation in 2026.

Thank you for your attention and we look forward to updating you on our progress in the coming months. We're now ready to take questions.

QUESTION AND ANSWER

Operator
Thank you. Once again, if you would like to ask a question, you may do so by submitting one on the webcast portal. We will now pause for a few moments to gather our questions. Please stand by. Thank you.

I will now hand the call off to Carolina Orozco, who will take us through webcast questions. Thank you.

Carolina Orozco
Thank you. The first question comes from Alejandro Demichelis from Jefferies. “How do you see the new regasification projects in Colombia impacting the market and your price realizations?”

Charle Gamba
I'll take that. There are currently no fewer than 11 proposed projects for regasification in Colombia. Important to keep in mind that Colombia gas consumption is about 1 Bcf, so a relatively small market. Currently, this year, there's about a 40 million cubic foot a day shortfall, so very minor shortfall, but that shortfall is projected to expand in the next coming years.

With respect to the impact on Canacol's business, we expect to see significantly better pricing for our domestic gas sales. Current imported, landed and commercialized re-gasified gas prices are in the $16 to $18 range, which are four times or 400% higher than local domestic pricing historically. So, while 11 regasification projects is clearly a bit of overkill, there may be one or two that that actually reach some form of commercial viability. But nevertheless, the impact will be very, very positive with respect to domestic gas pricing as it will approach parity of imported gas pricing.

Carolina Orozco
Thank you, Charle. The next question is from Stefan Calien [ph] regarding Natilla-2. “As we speak, has the whipstock been installed and has drilling the CDO started?”

Charle Gamba
Thanks, Stefan. As I mentioned in the presentation, we are currently reentering the wellbore in order to set a whipstock in the 7-inch casing shoe, at which point we will mill a window out of the 7-inch casing and commence drilling operations. The objective being to redrill the Porquero, and then to continue drilling onto the CDO primary target.

Carolina Orozco
We have another question from Stefan. “Can you give us an indication of the contribution of successful drilling in Q1?”

Charle Gamba
Q1 or year-to-date, we have drilled a total of six wells, Lulo-3, Fresa-3, Siku-2 and 3, Clarinete-11 and Chibigui-1. Five of those wells were successful and are currently on production, and the Chibigui-1 well encountered noncommercial volumes of gas. So, very successful drilling program. We're looking forward for the remainder of this year to drill an additional nine wells in the Lower Magdalena Valley, the majority of those being exploration wells, as well as the Valiente exploration well in the Middle Magdalena Basin.

Carolina Orozco
Thank you. The next question is from Benjamin Rojas from BTG Pactual. “What are you thinking on Valiente? Are you looking to farm out?”

Charle Gamba
Valiente, no, we are not farming out. It is a fairly shallow prospect. We won't be drilling much deeper than 6,000 feet, so the well is not going to be particularly expensive. It is a very large target, much larger than the targets we drill for in the Lower Magdalena Valley. The target at Valiente is well in excess of 100 BCF of gas and condensate. And fortunately, the prospect is located very close to the TGI gas pipeline, so the connection into the interior market, Bogota and Medellin, will be very quick and efficient if we encounter gas at Valiente. So, the plan is we are currently executing the preparations necessary to access the location and build the platform, the plan is to drill the Valiente prospect at 100% working interest.

Operator
Once again, everyone, if you would like to ask a question, you may do so by submitting one on the webcast portal. Please stand by as we poll for more questions. Thank you.

Thank you for standing by. I will now hand it back to Carolina, who will take us through more questions.

Carolina Orozco
Our next question comes from Miguel Ospina from Compass Group. “Could you please give us some color about CapEx size and execution going forward?”

Jason Bednar
Q1, as reported, was $50 million of CapEx. Our budget as reported on or about February 24th was $143 million for the year, which leaves roughly $90 million to go. The schedule is relatively smooth for the final three quarters, although slightly still weighted towards Q2 as we continue to drill Natilla.

Carolina Orozco
Thanks, Jason. We now have a question from Juan Alarcon. “The public order problems being reported in the news with an estimated $8 million in losses due to the loss of the machinery are affecting the company's financial situation. How much will this affect the company's financial situation along with the lost time to conduct the exploration? Is the company responsible for the cost of the machinery? How will they solve the problem?”

Charle Gamba
As we did have an incident at one of our drilling platforms in Sucre Norte [ph] on Monday, where some terrorists entered the platform and burnt five yellow equipment, tow trucks, earth movers, etc. All of the damage sustained there is to third-party contractors. Obviously, Canacol and no oil and gas company owns their own yellow equipment, of course. So, with respect to the losses, those are all incurred by the third-party contractors, who of course have insurance policies in place with local serving insurance providers to recover any loss at the third party.

The $8 million, I have no idea where that number comes from. I'm not aware of the magnitude of the cost of the equipment to third parties that was burnt. So, I'm not sure where that $8 million number comes from. That's some misinformation, obviously, that's been circulated by interested parties, perhaps.

Carolina Orozco
Thank you, Charle. We have a question from Paul Don [ph]. “Can you please give details of the contracted volumes you have for 2025, including volumes, price and duration?”

Jason Bednar
So, the total take or pay contracts that we have in 2025 is 111 million cubic feet a day at a price of $6.30. The weighted average life of that 111 million cubic feet a day is 3 years. And typically, volumes would roll off on December 1st of every year as that balance goes down.

Carolina Orozco
Thanks, Jason. We have a question from Juan Sebastian at Alaya [ph]. The question came in Spanish [Speaking Spanish] which is basically if you are considering paying any dividend in 2025?

Jason Bednar
Our focus, as mentioned previously, is on debt reduction with excess cash, not paying dividends. And the banking covenants no longer allow us to pay dividends until at least the Macquarie loan is paid out.

Carolina Orozco
Thank you. The next question is from Cristian Fera from KNG. “Could you please comment on the CapEx jumping during the first quarter of 2025?”

Jason Bednar
Yes, I think that one's relatively easy. As Charle said, we drilled a handful of wells with the bulk of those being successful while at the same time we continued to drill Natilla. So, once the Natilla project is completed, the CapEx would smooth out for the remainder of the quarters as I alluded to earlier.

Carolina Orozco
The next question is from Oriana Covault from Balanz. “On the delays and challenges encountered in Natilla-2, are you expecting these to materially impact the ability to add volumes during the year?”

Charle Gamba
No, we're not, as we did not include any production from Natilla in our 2025 guidance. So typically, we do not include production from exploration wells in production guidance.

Carolina Orozco
The next question is from Joshua Nemser from Nine Left Capital. “Regarding Natilla, is the gas in the Porquero formation commercially viable? How do conditions encountered so far influence your expectations about the deeper CDO formation? Given high pressures in Natilla-2, how might production economics differ from your older fields?”

Charle Gamba
So first, we encountered 550 feet of gas within many sandstones in the Porquero at Natilla-2. We do produce from the Porquero in our producing operations around Jobo, so the Porquero is a proven reservoir that has and is producing gas for us, so it's a proven reservoir. We did encounter the gas at very high pressure as we're drilling much deeper depths here at Natilla. That will obviously have a very positive impact on productivity. Whereas a typical Porquero well that we produce from and are producing assets to the south might come on at 5 million cubic feet per day to 8 million cubic feet per day, at these pressures of 16,500 PSI, we would expect initial rates to be well in excess of 15 million to 20 million cubic feet per day from the Porquero.

And finding gas in the Porquero is indeed very positive with respect to the potential to find gas in the underlying CDO. The two occurred together in all of our producing fields in the South. Wherever there's Porquero gas, there is always underlying CDO gas, because essentially, if the structure that's trapped, Porquero gas is valid, then undoubtedly the same structure is trapping Cienaga de Oro gas in the deep horizon. So, the encountering of large volumes of Porquero gas at Natilla-2 bodes very well for the presence of gas within the underlying CDO reservoir.

Operator
Thank you. Once again, if you would like to ask a question, you may do so by clicking “Submit a Question” on the webcast portal. Please stand by as we poll for some more questions. Thank you.

Ladies and gentlemen, thank you for standing by. I'll now hand it back to Carolina to take us through some more questions.

Carolina Orozco
The next question comes from Oriana Covault from Balanz. “Can you comment on factors that led to the sequential jump in lifting cost during the quarter and what are your expectations for the remainder of the year?”

Jason Bednar
So, first of all, the cost in absolute dollars was actually down 6% compared to last year's quarter. On a per-unit basis, it was increased slightly and sat at $0.50. Essentially, the lifting costs are largely fixed, the bulk of which are attributable to the Jobo gas plant. So, very simply, as a function of how much you produce on a per-unit basis that would go up or down. So, having said that, we did have efficiencies with respect to the dollar amount going down and we don't expect on a per-unit basis that will increase past this level.

Carolina Orozco
Thank you, Jason. We have another question from Joshua Nemser from Nine Left Capital. “What are your thoughts on additional bond buybacks at these levels?”

Jason Bednar
As I alluded to earlier, we remain attentive to our working capital balance, our capital program. And from time to time when we feel comfortable, we would have the ability to buy back more bonds.

Carolina Orozco
Thank you. We have a question from Miguel Ospina from Compass. "Could you give us some color about working capital dynamics? It was big in the first quarter. Should we expect some reversal?"

Jason Bednar
So, the receivable balance went down. Essentially, in a nutshell, some of our off takers pay us the month before as they don't have letters of credit in place, which typically all our contracts do, so it's really just timing of when we receive that cash. Having said that, we receive everyone's cash within 30 days. So, it's more of a timing issue as opposed to something structural.

Carolina Orozco
The next question is from Aswini Krishnan from AllianceBernstein. "Can you share any color on how you see production evolving over the rest of the year given that first Q 2025 was below the low end of guidance?"

Charle Gamba
Yes. Our guidance for 2025 is between 140 and 153, and that guidance remains unchanged.

Carolina Orozco
Thank you, Charle.

CONCLUSION

Operator
Ladies and gentlemen, this will conclude today's conference call. Thank you for attending today's presentation. You may now disconnect your lines.