

Canacol Energy Ltd

Second Quarter 2025 Financial Results

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CORPORATE PARTICIPANTS

Charle Gamba--*President and Chief Executive Officer*

Jason Bednar--*Chief Financial Officer*

Carolina Orozco--*Vice President, Investor Relations and Communications*

PRESENTATION

Operator

Good day, and welcome to the Canacol Energy Second Quarter 2025 Financial Results Conference Call. [Operator Instructions].

I would now like to hand the call over to Carolina Orozco, Vice President of Investor Relations. Please go ahead.

Carolina Orozco

Good morning, and welcome to Canacol's Second 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's important to mention that the comments on this call that Canacol senior management can include projections of the corporation's future performance. These projections may 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 U.S. dollars.

We will begin the presentation with our President and CEO, Mr. Charle Gamba, who will summarize highlights from the corporation for the second 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 Second Quarter 2025 Conference Call. We reported another profitable quarter with realized natural average gas prices net of transportation of \$6.77 per Mcf given the favorable commodity pricing environment. Field operating costs held at \$0.54 per Mcf, generating robust natural gas operating netbacks of \$5.11 per Mcf with robust and stable operating margins of roughly 75%.

The strong margins translated into adjusted funds from operations of \$36.9 million, adjusted EBITDAX of \$47.4 million and a net income of \$13.9 million. This last year marks our fourth consecutive profit for the quarter and a sharp turnaround from the net loss recorded in Q2 of 2024.

Total natural gas and oil sales during the quarter were 127 million standard cubic feet equivalent per day with 119 million standard cubic feet per day corresponding to realized natural gas sales and 1,382 barrels of oil per day. With strong pricing and netbacks, Canacol remains well positioned to continue generating attractive results for the remainder of 2025.

Operationally, during the second quarter, we drilled a total of four successful wells, consisting of two appraisal and two exploration wells, expanding our track record of operational delivery and disciplined execution across our near field and rapid commercialization strategy in the Lower Magdalena Valley basin.

We drilled a Siku-3 appraisal well, which encountered 200 feet of high-quality CDO pay and a Fresa-4 appraisal well which encountered 122 feet of gas charged CDO sandstones. On the

exploration front, Zamia-1 and Borbon-1 were also successful encountering 32 and 157 feet of CDO pay respectively. These wells further add to our inventory of commercial opportunities.

Even though we drilled a total of four success wells during this period, from a production standpoint, only Siku-3, which sputtered on April 7th reached first gas within the quarter and contributed to mitigating the natural decline from base fields.

The other wells, Zamia-1, Borbon-1 and Fresa-4 were all spud by quarter end but did not contribute to production volumes during Q2 as completions and tie-ins extended into July. As a result, quarterly average production was lower than in Q1, reflecting the combined effect of natural base field decline and the timing of the new wells coming online post quarter.

I'd like to provide additional context on our drilling activities in the Sucre Norte area. Drilling operations at Zamia-1, Borbon-1 and Palomino-1 experienced temporary delays due to restricted site access caused by local unrest. Once access was restored, our teams mobilized quickly to continue with the drilling activity in this area without further disruptions.

Had these delays not occurred, production from these wells would likely have come online during Q2 as originally planned. That said, I'm pleased to report that Zamia-1, Borbon-1 and Fresa-4 are now tied in and flowing, bringing current gas sales to approximately 137 million standard cubic feet per day.

In the Tier 2, the rig has been released as a forward plan. is being prepared to drill a new Tier 3 well target in the gas charge sandstones encountered in the various sidetracks of in the Tier 2 well. The new drilling plan will incorporate drilling techniques to address the difficulty in running production liner across the over pressured gas chart sands encountered in the Porquero Formation.

I'm also pleased to announce that during the second quarter of 2025, we published our 2024 integrated ESG and TCFD reports. We believe that strong ESG principles are essential to build in a cleaner and equitable and accountable energy future. We invite you to read our full reports, which are available on our website.

I'll now turn over the presentation to Jason Bednar, our CFO, who will discuss 2025 second quarter results in more detail.

Jason Bednar

Thanks, Charle. The second quarter of 2025 was highlighted by resilient EBITDAX generation, strong netbacks and positive net income. Average realized natural gas prices net of transportation was \$6.77 per Mcf with royalties and field operating costs at \$1.12 and \$0.54 per Mcf, respectively, resulting in operating netbacks of \$5.11 per Mcf.

These strong unit economics generated revenues net of transportation of \$76.2 million, adjusted EBITDAX of \$47.4 million, adjusted funds from operations of \$36.9 million and operating cash flow of \$33.4 million, supported by positive net income of \$13.9 million for the quarter. That said, several financial metrics soften compared to the first quarter of 2025 and the second quarter of 2024.

As Charle noted, this variance is particularly, partially explained by the timing of our drilling activities as functioned from our Sucre Norte wells, Zamia-1 and Borbon-1 and potentially Palomino-1 was delayed following localized short unrest that impacted site access. Have those

wells come on stream as scheduled, the year-over-year volume shortfall would have likely been significantly lower.

Even so, firm pricing and disciplined cost control protected our margins and overall profitability. And with the Sucre Norte cluster now online, we expect both its volumes and financial contributions to strengthen throughout the remainder of the year.

The second quarter was capital intensive with \$57 million in capital expenditures, \$11.8 million in cash tax payments and the scheduled \$14 million semi-annual bond coupon payments. As a result, cash and cash equivalents stood at \$37 million as at June 30th.

Capital expenditures during the quarter were fully funded from operating cash flow and existing cash on hand. I'd like to note that capital expenditures are weighted towards the front half of the year as the bulk of the high cost Natilla-2 exploration well was absorbed in the first half spending. Looking ahead, while we intend to maintain an active drilling program, the second half, capital intensity is expected to ease.

On the tax side, current tax expense was \$9.3 million for the first quarter and \$23.9 million for the first half of 2025, both lower than prior year periods. On a cash basis, tax payments were significantly lowered \$11.8 million for the quarter, representing an 85% reduction year-over-year.

We continue to meet all financial covenants with ample headroom. As of June 30th, our consolidated leverage ratio was 2.7x, below the 3.25 in currency and 3.5x maintenance threshold. Our interest coverage ratio stood at 4.49x, nearly double the 2.5x minimum requirements while the current ratio was 1.14 times keeping us above the one-time minimum level under the Macquarie loan agreements.

I'd like to note that due to average realized contractual natural gas and oil sales volumes falling below 130 million cubic feet equivalent per day for two consecutive months, and accelerated amortization clause in our credit agreement with Macquarie was triggered. Consequently, the \$50 million term loan is scheduled to amortize in six equal monthly instalments beginning September 15th, 2025, unless the waiver is secured. The impact of the accelerated amortization clause is that the loan will be amortized in six months instead of 12 months.

Nonetheless, as part of our continued liability management strategy, we are currently engaged in discussions with two separate banking groups looking to amend our non-bond debt to better match our loan repayments with anticipated future cash flows over the course of 2026 to 2028. While we can't share specifics at this stage, we expect to finalize agreements this September, we will make a public announcement what's an amendment has been executed.

That concludes my comments. Back to you, Charle.

Charle Gamba

Thanks, Jason. Looking ahead to the remainder of this year, our priorities remain: firstly, a commitment to sustained and growing Canacol's EBITDAX and reserves base through a combination of commercial strategy, maximizing market pricing opportunities and a disciplined capital program that challenge investment towards high-return drilling and workovers.

Secondly, we will keep advancing with our program of high-impact gas exploration prospects across the lower and middle Magdalena Valleys which have the potential to add significant reserves and production capacity in the long term.

For the remainder of the year, aside from drilling some smaller appraisal and exploration wells in and around Jobo that can be quickly monetized and contribute to production and cash flow, we will be drilling a high-impact exploration well Valiente-1 targeting potentially material gas and condensate reserves. Valiente prospect is located on the VMM-10-21 contracts located in the Middle Magdalena basin, where Canacol holds a 100% operated working interest.

The Valiente prospect is a large hollow structure located approximately five kilometers up-dip and to the south of the Opon gas field. Discovered in 1965 by Cities Service and later developed and produced by Amoco in 1997.

Valiente-1 will be targeting the same productive sandstones of the La Paz Formation that is productive at Opon, but at significantly shallower depths of approximately 6,000 feet. The corporation anticipates spudding the well in October of this year, with results before year-end of this year.

Thirdly, we are layering, sorry, thirdly, we are laying the operational and commercial groundwork required to commence activities in Bolivia in 2026, positioning Canacol to replicate its Colombian gas success in a new prospective and profitable gas markets.

In Bolivia, the corporation is awaiting ratification and formalization by Congress of three exploration contracts, Arenales, Ovai, and Florida Este and one field redevelopment contract, Tita, in order to establish the effective date of all four contracts. The corporation is currently preparing to apply for the environmental permit for Tita along with formulating development plans in order to commence field activity, field reactivation activities in 2026.

Fourthly, we are focused on maintaining a strong and flexible capital structure to support long-term growth and resilience. And finally, we continue with our commitment to leading ESG practices aimed at every molecule of natural gas we produce being delivered responsibly and sustainably. Thank you for your attention. We look forward to keeping you updated on our progress in the coming months, and we're now ready to take questions.

QUESTION AND ANSWER

Operator

We will now begin the question-and-answer session. [Operator Instructions].

At this time, I will now turn the call back over to Carolina Orozco for the question-and-answer session.

Carolina Orozco

Thank you. The first question comes from Stefan Chaligne. Can we expect high impact drilling to take place this year? If positive, can you provide tentative calendar wells or any corresponding potential?

Charle Gamba

Yes, I mentioned in the presentation the Valiente-1 exploration well in the Middle Magdalena Valley of Columbia, that has the potential to add material gas and condensate reserves prior to year-end. We're also drilling a fairly extensive program in the Lower Magdalena Valley, consisting of the typical types of wells we've been drilling this year.

That would include the Palomino-1 well, which we're just finishing drilling on the Sucre Norte area. That will be followed by the Fresa-5 appraisal well, which we expect to be on production mid-September, which will be followed by the Mariner-1 exploration well, which we expect to be on production in mid-October.

Likewise, we're drilling a development well in Clarinete-8 and Clarinete-12. Spudding that well early September, we expect that well to be on in early October. Valiente, we will spud sometime in October of this year with results by year-end.

Carolina Orozco

Thank you, Charle. The next question comes from Peter Bowley from Jefferies. Can you confirm CapEx expected for the 3Q and 4Q of 2025?

Jason Bednar

Sorry, Carolina, can you repeat that question, please?

Carolina Orozco

Sorry. This question comes from Peter Bowley from Jefferies. Can you please confirm CapEx expected for 3Q and 4Q of 2025?

Jason Bednar

Okay. Thank you. The guidance our annual guidance released in February was between \$143 million and \$160 million of CapEx. I expect to be closer near the upper end of that at \$160 million. Q1 was 50. Q2 was 57. That would mean there is roughly, what, \$53 million left to go to hit the \$160. Once again, my expectation is that will be the range we're at. with it slightly weighted towards Q3, the remaining 53 towards Q3 as opposed to Q4.

Carolina Orozco

Thanks, Jason. The next question comes from [Fiber Rodriguez from Fiber Investments 0:15:22](#). The question is what's the roadmap for Natilla-3?

Charle Gamba

Natilla-3, we're currently just finalizing the drilling program, integrating the results of Natilla-2 well on the side-tracks thereof, to optimize the drilling program to try and better deal with some of the wellbore stability we encountered in the Porquero in Natilla-2. So once we finalize the drilling program, we'll be looking to approve the AFE internally and looking to drill that well early in 2026.

Carolina Orozco

Thank you. The next question is from Alexander Emery from S&P Global Platts. Can you provide us with more color on the work to be done in Bolivia next year and when you believe you might obtain the congressional approval?

Chale Gamba

Yes. As I mentioned in the introduction, in my words, we're currently waiting for the contracts to be ratified by Congress. That's expected to occur after the elections later this month. So sometime in late Q3 or early Q4 of this year. Simultaneously, we're elaborating the environmental permits for the Tita field reactivation, which we expect to be granted early to mid-year in 2026.

And with those environmental permits in hand, we will commence the re-entry and work over of some existing shut-in gas wells in the Tita field to bring those back onto production and production

test those. And with positive results from those workovers, we will proceed to start to construct some facilities and start to commercialize the field in early 2027.

Carolina Orozco

Thank you Charle. The next question is from Bill Newman from Research Capital. Can you clarify the five million cubic per foot per day difference between produced gas, which was 124 million feet per day and realized contractual sales, which were 119 million per day in Q2? Was this due to line pack inventory deals under delivered take-or-pay volumes? And if so, should we expect some of these volumes to flow through as incremental sales in Q3?

Charle Gamba

The difference between the gas production and gas sales in all quarters is related to the amount of gas we consume in compression.

Carolina Orozco

Thank you, Charle. Please give us a brief moment while we continue to assemble the roster. Okay. The next question comes from Joshua Nemser from Nine Left Capital. Can you provide some color around what went wrong with Natilla-2? What would be done differently with Natilla-3, cost and timeline? What gives the team confidence that Natilla-1 will work given challenges and costs with Natilla-2?

Charle Gamba

Natilla-2 encountered some wellbore stability issues in the Porquero, so we managed to drill the well without much difficulty, drill new formation that is, and we did encounter five or six gas charged sands in each of the sidetracks we drilled in the Natilla-2. So Natilla-2 did prove up the gas potential within the Porquero. However, the problem we ran into was well-borne instability after drilling the well impeded our ability to run production casing.

So even though we drilled successfully we're not able to run production liner successfully across those gas charge sands in order to production testing. Natilla-3 has been designed primarily to deal with -- deal with running production casing more easily. And towards that end, we will drill a wider diameter wellbore through the Porquero and run a narrower casing through the Porquero in order to maximize the success of running casing and production testing those Porquero sandstones.

So on the one hand, the Natilla-2 confirmed the significant accumulation of gas within the Porquero. On the other hand, we had difficulties casing the Porquero due to instability resulting in the Tier 3, which will address those concerns.

Carolina Orozco

Thank you, Charle. The next question is from Alejandra Andrade from JPMorgan. Can you please, can you please comment on taxes? You paid a significant amount in the second Q, what is the expectation for the second half 2025?

Jason Bednar

Yes. Thank you. We are down to essentially just the monthly withholding taxes of our monthly revenue checks that I've discussed many times in the range of historically 1.2 million or 1.3 million a month. The government just increased that withholding by a couple of percent. So it could be up to approximately 2 million a month but that would be it. And of course, that is to the credit of our prepaid tax account.

Carolina Orozco

Thank you, Jason. We have a question from Benjamin Rojas from BTG Pactual. Do you have any liquidity source in a stress period?

Jason Bednar

Thanks. I think the most obvious one that comes to mind is our recent wells that have come on production, which Charle has gone through extensively here being Zamia, Borbon and Fresa, whether it's the press release or the MD&A discusses those wells coming on for an additional 25 million cubic feet a day.

Palomino, which the press release and MD&A outlook section discusses with an expectation of 10 million to 12 million cubic feet a day. So that would total up to 37 million. But if I just did a simple math on, adding 30 million cubic feet a day, to pick a round number of \$12.50 in Mcf in sales price because these are sold above or over and above our take-or-pay volumes, that \$12.50 net of royalties and net of operating expenses, would approximate \$10 an Mcf net back.

So 30 million cubic feet a day at a \$10 netback would be about \$300,000 a day. In 30 days, that would be about \$9 million a month, in additional cash flow and EBITDA. So that would be the most obvious source of additional liquidity.

Carolina Orozco

Thank you, Jason. Please give us a brief moment again while we assemble the roster.

Operator

[Operator Instructions]. Carolina, you may continue.

Conclusion**Carolina Orozco**

Apologies. With this, we finish our Q&A session. We don't have any more questions for today. Thank you all for participating in Canacol's second quarter conference call, and we hope you'll have a good day today.

Operator

The conference has now concluded. Thank you for attending today's presentation, and you may now disconnect.