

Q3 2024 Earnings Call

Company Participants

- Clay Jeansonne, Head of Investor Relations
- Joseph A. Mills, President and Chief Executive Officer
- Sergio L. Maiworm, Chief Financial Officer

Other Participants

- Greta Drefke, Analyst, Goldman Sachs
- Leo Mariani, Analyst, Roth MKM
- Michael, Analyst, Stifel
- Michael Favreau, Analyst, Pickering Energy Partners.
- Michael Scialla, Analyst, Stephens
- Paul Diamond, Analyst, Citi Research

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Talos Energy Third Quarter 2024 Earnings Conference Call. At this time, all lines are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. (Operator Instructions) This call is being recorded on Tuesday, November 12, 2024.

I would now like to turn the conference over to Clay Jeansonne, Head of Investor Relations. Please go ahead.

Clay Jeansonne {BIO 21128465 <GO>}

Thank you, operator. Good morning, everyone, and welcome to our third quarter 2024 earnings conference call. Joining me today to discuss our results are Joe Mills, Interim President and Chief Executive Officer; Sergio Maiworm, Executive Vice President and Chief Financial Officer; and John Spath, Executive Vice President and Head of Operations. For our prepared remarks, we will refer to our third quarter 2024 earnings slide presentation that we have prepared to accompany our discussion today. It is available on Talos' website under the Investor Relations section. We encourage you to review this presentation for a more detailed look at our results and operations update.

Now let's start on Slide 2, cautionary statements. I'd like to remind you that our remarks will include forward-looking statements. Actual results may differ materially from those contemplated by these forward-looking statements. Factors that could cause these results to

differ materially are set forth in yesterday's press release and our Form 10-Q for the period ending September 30th, 2024, which will be filed with the SEC on Tuesday, November 12th, 2024. Forward-looking statements are based on assumptions as of today, and we undertake no obligation to update these statements as a result of new information or future events. During this call, we may present GAAP and non-GAAP financial measures. A reconciliation of GAAP to non-GAAP measures is included in yesterday's press release, which was filed with the SEC and is available on our website.

And now I'd like to turn the call over to Joe.

Joseph A. Mills {BIO 15337668 <GO>}

Thank you, Clay. Good morning, ladies and gentlemen, and thank you for joining us this morning. I'm excited to be speaking with you today and proud to be here serving as Talos's Interim CEO. Since joining Talos's Board in March of 2024 as part of the QuarterNorth acquisition, I've been impressed by the highly talented Talos's team. The Board and I working closely together and continue to be very focused on delivering long-term value to our stockholders. For today's call, I'll discuss some of the operational highlights for the quarter and then I'll discuss some corporate matters. First, I'm pleased with our overall results, especially considering the challenges we faced during the quarter, including managing through four different named hurricanes affecting the Gulf of Mexico.

If you'll turn to Slide 5, we're happy to report another consecutive quarter of record production totaling 96,500 barrels of oil equivalent per day, which was 70% oil and including the NGL barrels a total of 80% liquids. Despite disruptions from the hurricanes, we managed to navigate the effects of those storms and achieved production that was the high-end of our third quarter guidance range. We reported EBITDA of \$324 million, which equates to an EBITDA netback margin of about \$37 per BOE. Our netback margin was slightly lower quarter-over-quarter due primarily to lower oil prices. However, we believe we rank in the top-quartile among public E&P companies in this important category. We spent \$119 million of capital expenditures, excluding plugging and abandonment, which in turn led to positive free cash flow generation of \$122 million during the quarter. With that free cash flow, we were able to continue paying down our debt. We paid down \$100 million of debt and lowered our leverage ratio to 0.9, hitting our leverage target of one or below ahead of schedule. Sergio will give more color on our debt paydown in a few minutes.

Looking at Slide 6, I want to highlight that Talos continues to deliver on key expectations. Our third quarter results are building on the track record of our previous two quarters this year as we delivered record production results and strong EBITDA and free cash flow growth. I'm proud of the work and dedication of the Talos team as we continue to execute on our base business, including our integration of the QuarterNorth assets and employees into the Talos organization and culture. We believe we're on track to realize our estimated synergies of \$65 million in 2025.

Moving to Slide 8 and 9. We are focused on our 2024 and 2025 drilling program, which we finally have underway. We have a robust drilling program starting with the drilling of our important Katmai West No. 2 delineation well in the Ewing Bank area, followed by the drilling of the high potential Daenerys exploration well, which will be located in the Walker Ridge area, followed by the Helm's Deep prospect in the Green Canyon area. Our plan is to utilize the

Seadrill West Vela seventh generation drillship to drill these wells. In addition to the West Vela rig, we've also committed to the Transocean Deepwater Conqueror, which is lined up for our Sunsphear Completion in early 2025. The Sunsphear well is expected to commence production during the second quarter 2025, and then we anticipate using the Conqueror rig to complete Katmai West No. 2 well beginning later in the second quarter of 2025.

Now I'd like to touch on our discovery at Ewing Bank 953, which is on Slide 10. In September, we announced that we logged approximately 127 feet of net pay, which was better than expected going into the project. Our preliminary assessments indicate an estimated recoverable resource potential of approximately 15 million to 25 million barrels of oil equivalent from a single subsea tieback to the Megalodon platform, which Talos partially owns and which we believe should lead to a production flow rate of between 8,000 to 10,000 barrels of oil equivalent. Talos owns a 33% work interest in the well and we expect first production by mid 2026. Next is our Katmai West No. 2 well, which is on Slide 11 of your presentation. We recently commenced drilling of the Katmai West No. 2 well in late October as a downdip delineation well to further appraise the field and potentially add additional proved reserves.

Our original plans were to spud this well earlier this year, but the rig was delayed by the previous operator and the various hurricanes in the Gulf of Mexico this past summer. Notwithstanding, our rig campaign is underway, and we still expect first production from the well around midyear 2025. Our Katmai field is a major asset and a key focus area for us. We continue to evaluate the reprocess seismic imaging of this area and see even more upside within the broader Katmai area. We estimate potential resources in the Greater Katmai area of up to 200 million barrels of oil equivalent gross. Recall, we own a 50% working interest and operate the Katmai field. Talos also owns 100% and operates the host facility, which we call Tarantula. In order to further increase throughput capacity at our Tarantula facility, in late October, we started additional topside work on the platform, which should enable us to increase the daily throughput from 27,000 barrels of oil equivalent per day to 35,000 barrels of oil equivalent per day. We recently completed the topside work and are currently bringing the platform back online and ramping up the volumes. We look forward to sharing more with you regarding the Katmai West No. 2 well results in early 2025 once we have the well down.

Turning next to our generics prospect on Slide 12. We are looking forward to drill and evaluate this high-impact four-way Subsalt Miocene prospect and see Daenerys as another potential Katmai size opportunity with estimated gross resource potential between 100 million and 300 million barrels of oil equivalent. We expect to spud Daenerys in the first quarter of 2025 following the drilling of Katmai. Talos is also the operator of Daenerys with a 27% working interest. If successful, Daenerys could be another key project to Talos' long-term organic growth potential. Another exciting area for Talos is the Wilcox Trend in the ultra-deep waters of the Gulf of Mexico, which we highlight on Slide 13. This geological trend has already produced over 1 billion barrels of oil equivalent out of 10 existing fields and is producing over 250,000 barrels of oil equivalent each day. Leading the way in this trend are the majors like Chevron, which are developing the successful adoption of high-pressure technology that is rated to safely operate at up to 20,000 PSI equipment and subsea trees.

Chevron recently announced the successful startup of their anchor field utilizing 20K equipment, which is key in helping to unlock the potential in this lower Wilcox Trend. Talos has a significant acreage position in the lower Wilcox Trend and we believe this represents a growth

opportunity for us with prospects like Coronado, Enterprise and Dunharrow being actively evaluated using current seismic technology. Back in August, we acquired a 21.4% interest in the Monument discovery operated by Beacon Offshore Energy. Looking at Slide 14, Monument was drilled and discovered with two well penetration and was FID for development back in February of this year. We estimate proved plus probable gross reserves of approximately 115 million barrels of oil equivalent and expect to flow production back to the Shenandoah production facility, which Beacon is expected to start up by mid 2025. We expect first production of Monument by late 2026 with incremental upside of another 25 -- up to 35 million barrels of oil equivalent from an additional prospective drilling location on the south side of the main trapping fault in the field. Talos is well positioned to be a key player in this growing Wilcox play and we intend to leverage our broader acreage position to drive future production and reserve growth.

Now before turning the call over to Sergio, I want to touch on the stockholder rights agreement that the board put in place at the beginning of October. The rights agreement was implemented in response to Control Empresarial De Capitales' continued accumulation of shares, resulting in a significant ownership stake of about 24%. The rights agreement is meant to protect all of our stockholders by preventing any single stockholder from taking actual or effective control of Talos without paying a premium for that control. We'll continue to work with Grupo Carso, which is controlled by Control Empresarial on our mutual investment in the Zama field in Mexico. We will continue to have open and constructive conversations with their team.

Now, I'll turn the call over to Sergio to address some financial details for the quarter.

Sergio L. Maiworm {BIO 20610222 <GO>}

Thank you, Joe, and good morning again, everyone. I'm very pleased to be working closely with Joe in his role as Interim CEO. But before I start, I would like to comment on the Talos Audit Committee internal review we announced with our earnings release, which has no material impact to our financial results. In September of 2024, the company received a notification from a third-party suggesting that a mid-level employee was engaged in an appropriate procurement practices. In response, the Audit Committee of the company's Board of Directors conducted a review of the matter with the help of independent legal counsel. This thorough review did not identify or implicate any other current or former employees. The employee in question is no longer with the company. The Audit Committee also concluded that there were no material financial impact to the company. However, in the course of this review, the company identified two material weaknesses in our control environment.

The first was due to our inability to rely on the review control performed by the subject employee with respect to the estimated future asset retirement obligations recognized on the balance sheet. This is an internal controls issue only. We concluded that the numbers we have presented in the past can continue to be relied on. The second material weakness identified was due to an inappropriate segregation of duties without designing and maintaining effective monitoring controls over the timely review of expenditures. Again, no numbers previously disclosed have changed as a result of this identification. Talos plans to file an amended Form 10-KA to our annual report on Form 10-K for the year ended December 31st, 2023, and an amended Form 10-QA for each of the quarterly reports on Form 10-Q for the quarters ended on March 31st, 2024, and June 30th, 2024, respectively, to amend and restate the disclosures to address the material weaknesses identified at the end of 2023 in our internal controls. We

expect to file these amended documents today after market in conjunction with the filing of our third quarter 10-Q. I want to reemphasize that the numbers have not changed at all. These amendments only address new disclosures around internal controls and investors can continue to rely on our previously disclosed numbers. As Joe emphasized, we continue to be laser focused on executing our business as demonstrated by our strong performance in the third quarter. We had another quarter of beating expectations across the board and reported strong results.

Looking at Slide 15, if you take the \$122 million of free cash flow in the third quarter and add that to what we achieved during the first half of the year, that ramps up to \$347 million of free cash flow. And as shown on Slide 16, during the third quarter, we repaid \$100 million of debt. Our leverage metric reached 0.9 times and we've achieved our long-term leverage ratio of below 1 times ahead of schedule. Our total debt at the end of September stood at \$1.375 billion. I wanted to point out that the \$550 million of debt that Talos is repaying this year equates to a value accretion to shareholders of over \$3 per share. In my opinion, this is a very robust form of value creation for shareholders. Finally, as I mentioned, we are on track to fully pay off the revolver by year end and the board continues to evaluate possible increases in capital return to shareholders, which will be compared to other investment opportunities the company may have in the near term to generate outsized returns to shareholders and as always be subject to market conditions.

I'd now like to turn the call back over to Joe to wrap up about Talos' key takeaways.

Joseph A. Mills {BIO 15337668 <GO>}

Thank you, Sergio. Before concluding, I want to touch briefly on the CEO transition and search. I'll then address my key initiatives, a few comments regarding the fourth quarter outlook and how we're gearing up for 2025. First, the CEO transition. In making the decision to change CEOs, the board determined after extensive deliberation that as Talos looks to the future and enters this next phase of growth, a new leadership approach and a different skill set was needed to align Talos' strategy and execution with the board's view of the best path forward. I want to reiterate that the board and I recognized Tim's significant achievements advancing Talos during his tenure, and we all thank him for his contributions as CEO. The board, in partnership with a nationally recognized external search firm is moving forward in a deliberate process to select a new permanent CEO and is interviewing some very impressive and seasoned executives. The board is looking for someone with strong offshore exploration and production experience running large operations in the Deepwater Gulf of Mexico and in international arenas with a demonstrated track record of disciplined execution and value creation. The board is also seeking a CEO who can build on Talos existing strengths and aligns with Talos' focus on high-margin oil-weighted assets and deepwater operations. We'll provide an update once the board has reached a final decision.

Now turning to my key initiatives. Following our successful post-merger integration of QuarterNorth, we expect to realize significant cost savings and synergies totaling more than \$65 million, surpassing our initial expectations. As we look to the future, I have prioritized continuously assessing Talos for further opportunities to reduce costs and improve efficiencies across our operations. As Interim CEO, I'm also prioritizing a strong focus on execution and capital discipline to generate significant free cash flow. Advancing Talos' drilling program is a key priority with specific emphasis on optimizing existing infrastructure and expanding capacity.

Additionally, we are continuing to pursue business development opportunities and invest high value and high impact assets with potential production and reserve growth similar to what we did with our Monument acquisition.

Now let's quickly look at the fourth quarter. I want to provide an update on the estimated impact on our production from last week's Hurricane Rafael in the Gulf and the previously discussed planned downtime at our Tarantula facility. Unfortunately, we're not free from hurricanes just yet. Hurricane season lasts from June through as late as the beginning of December. Fortunately, Hurricane Rafale did not have a material impact to our volumes and facilities. Given the uncertain trajectory of the storm, we did take precautions to evacuate all non-essential personnel and did have to suspend our drilling activities at Katmai. A few of our facilities were shut in for a few days, but we're bringing everything online as we speak, so we do not expect any material downtime from the storm. Despite the weather impact and planned shutting of Tarantula for its capacity expansion, we have improved our 2024 production guidance with a revised estimate of 91,000 to 94,000 barrels of oil equivalent per day and lowered our 2024 total capital expenditures guidance to \$510 million to \$530 million. As we approach the end-of-the year and reflect on Talos progress, slide 18 is a scorecard that points out Talos' strong performance and commitment to long-term value creation for our stockholders. Our focus on capital discipline, strategic growth and generating significant free cash flow has not only allowed us to achieve meaningful financial milestones, but also set the stage for an important drilling campaign in 2025.

As we gear up for our 2025 capital program, we are considering various scenarios that factor in a possible softer commodity price environment. Our team is in the process of finalizing the 2025 budget, carefully evaluating project mix and capital expenditure plans, which will be heavily dependent on commodity price trends. If oil prices decreased significantly, we have the flexibility to reduce discretionary CapEx in the latter half of 2025, while continuing to generate meaningful free cash flow even at lower commodity prices. We plan on announcing more detailed information on our capital budget in early 2025. Wrapping up, I also want to reemphasize the board's commitment to creating long-term stockholder value and ensuring we have the right leadership to make that happen. I'm here to ensure a seamless transition while continuing Talos' focus on executing its drilling programs and generating free cash flow until a permanent CEO is selected. I have the utmost confidence in Talos' management team, its board and the future direction and strategy of the company. While the board continues its search for a permanent CEO who shares Talos' long-term vision and strategy, the team and I will keep focusing on disciplined execution and doing our very best operationally.

On a final note, I want to thank all of the Talos employees for their focus on safe operations, dedication and unwavering commitment to Talos during this period of transition. Your efforts are crucial to our continued success, and I personally thank each of you.

With that, we'll now open the line up for Q&A.

Questions And Answers

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) Your first question comes from the line of Leo Mariani from ROTH. Your line is now open. Please ask your question.

Q - Leo Mariani {BIO 20899117 <GO>}

Hi, everyone. Wanted to follow up a little bit on the production here. I just wanted to get a better sense if you guys could quantify what the downtime was in 3Q, you know from the storms. And it sounds like, obviously the last storm Rafael had fairly limited downtime in fourth quarter, but you guys did mention shutting down Tarantula. So do you have kind of an estimate of what you're assuming for downtime in fourth quarter that's baked into the guidance?

A - Sergio L. Maiworm {BIO 20610222 <GO>}

Hey, Leo, good morning. Thanks for the question. So we did have some downtime in the third quarter, right? We have multiple named storms and hurricanes coming through the Gulf. So we did have to shut-in some of our facilities from time to time. We have not disclosed that publicly yet but suffice it to say that the asset base is performing incredibly well, even with those shut-ins, which were more or less in line with what we were estimating internally. The assets outperformed and ultimately, we ended up with a much better production number in the third quarter than -- than what everybody was expecting. So we're very pleased with the way the assets are performing. In the fourth quarter, as Joe mentioned, we did have to shut-in a few of our platforms for the -- for the Hurricane Rafael. We had to evacuate some non-essential personnel because the direction of the storm was very uncertain during various times there. But ultimately, the -- the impact is not going to be that high. I think we are still very confident on the 91 to 94 for the full year. That was after we analyzed the impact of Rafael. So we feel very, very good about fourth quarter, even with that -- even with that storm and even with the shut-in in our Tarantula facility, which is now complete, by the way.

Q - Leo Mariani {BIO 20899117 <GO>}

Okay. And then with respect to activity as we roll into '25, I mean, it sounds like that, that West Vela rig is going to be running the majority of the year -- next year, just looking at kind of the -- the drilling plan for the next three wells here, I just wanted to kind of get a sense, I mean, directionally, as a result of that, I'm assuming that you just think capital will be up in '25 versus '24?

A - Joseph A. Mills {BIO 15337668 <GO>}

Hey, Leo, this is Joe. Yeah, I'll take that one. So, yeah, look, obviously, as I mentioned earlier, the drilling program was delayed, due to previous operator in the hurricanes this summer. So that we got started with our drilling program a little bit later. So that means some of the shift of capital from this year moved into next year. So I think it's fair to say that our CapEx will be a little higher next year, in particular because of the West Vela. Right now, we've got a commitment to maintain the West Vela basically through kind of the Helm's Deep program. Then we have an option that we can exercise to keep it if we want to keep going or let it go at that time. So I think it's fair to say that West Vela will be with us probably until at least the end of the second quarter, possibly even into the beginning of the third quarter. As I mentioned earlier, we have committed to pick up the Conqueror rig from Transocean. And so that will allow us to complete

Sunspear. Our intentions now are to use that to also complete Katmai. We are in discussions with Transocean on whether or not we can keep that rig for the completion of Katmai. If we can't, then we'll have to use the West Vela to complete Katmai. So there's a little bit of timing issue here. So we're going to have to manage through that. But yes, so I think it's fair to say we'll keep the West Vela, certainly, through the end of the second quarter, probably into the third quarter.

Q - Leo Mariani {BIO 20899117 <GO>}

Okay. I appreciate that. Thanks.

Operator

Your next question comes from the line of Greta Drefke from Goldman Sachs. Your line is now open. Please ask your question.

Q - Greta Drefke {BIO 23628780 <GO>}

Hi, good morning, team, and thank you for taking my question. I was just wondering if you could speak a little bit about the outlook for M&A in the Gulf of Mexico, both on a kind of broader basis and for Talos specifically. How do you view the opportunity set for incremental acquisitions for Talos from here? And do you expect the Gulf of Mexico to continue to be a strong area of M&A activity? Thank you.

A - Joseph A. Mills {BIO 15337668 <GO>}

Yeah. Thank you, Greta. Well, good morning. I appreciate that question. Yeah, look, obviously, the Gulf of Mexico is our backyard, and we know it extremely well and remain very active in it. I think M&A activity -- well, first off, the financial assurance plan that the Biden administration rolled out certainly has put a little bit of a chilling effect on M&A in the Gulf. Certainly, the -- some of the uncertainty around how that program is going to be administered, I think has caused some of the majors to pull back in terms of some of their divestitures. Obviously, that's been a big source of opportunity for us and others is major selling off non-core assets that we see opportunities on. You know, now with the Trump administration coming in, it is a little unclear how that's going to affect the financial assurance plan. I suspect that there'll be changes, potentially even rolling it back some. I don't think they'll eliminate it, but potentially roll it back. So my hope is that will free up and we'll start to see some more M&A activity come back into the Gulf, which I think would be a good thing. Obviously, Talos has been a consolidator. We've grown through acquisitions. As I mentioned in my prepared remarks, we certainly are looking for additional business opportunities similar to what we did at Monument, right? We think there are some real opportunities out there for us to continue to grow. And look, I don't need to paint the picture for you.

So today at our size, producing 90,000 barrels plus a day, we're going to produce 33 million, 34 million barrels a year. So it's incumbent on us certainly to be looking for larger projects, larger targets, similar to what we did at Katmai, very similar to what we're doing at Daenerys. We're chasing bigger objectives now and that would include doing some larger M&A type projects. We obviously with our EnVen acquisition last year and QuarterNorth, which have been both very highly successful for us, I don't think you'll see us take down another big company.

Obviously, there's not a whole lot left in the Gulf, but we are trying to really focus on what we think are more high impact, high growth potential type acquisitions, very similar to what we did at Monument. So those are the type of things that we're focusing on. And I do think you'll see hopefully more opportunities out there. Look, I mean, as you know, the Gulf is not a place that anybody can do alone, not even the majors can do things alone. Everybody has got to partner up. We all know each other. We all work well together. So I think there'll be continued opportunities for us in the Gulf of Mexico next year.

Q - Greta Drefke {BIO 23628780 <GO>}

That's very helpful. Thank you. And then my second question also is on -- you're achieving the leverage target ahead of schedule and congratulations on that point. I was wondering if you could speak a bit on your appetite to further allocate free cash flow towards incremental debt reduction from current levels into next year? And any thoughts on how you weigh that relative to other applications of that capital? Thank you.

A - Sergio L. Maiworm {BIO 20610222 <GO>}

Hey, Greta. This is Sergio. I can answer that. So I can start answering, Joe can come in as well. So we are still focused on kind of repaying the revolver by year end and we feel very confident that we can get there. So that is the near-term focus. And beyond that, the board will continue to evaluate how we can deploy capital or deploy free-cash flow, whether that's going to be towards share repurchases or any other sort of -- or any other form of capital return to shareholders. We also need to weigh that to kind of the commodity backdrop and whether we should preserve liquidity versus actually actively buying back our stock and also look at other investment opportunities that we might have in the near term. We have a pretty robust pipeline of things that we could do. So all of those things will -- are being considered actively by the board. But I would say in the near term, the focus is to continue to repay the revolver, which we believe we're going to be successful at by the end of the year.

Q - Greta Drefke {BIO 23628780 <GO>}

That's very helpful. Thank you.

Operator

Your next question comes from the line of Michael from Stifel. Your line is now open. Please ask your question.

Q - Michael {BIO 1494617 <GO>}

Good morning. Joe, I wanted to ask you about the CEO changes. You and the board look to fill that position. The company has historically focused on acquiring assets in the Gulf of Mexico, exploiting them and drilling an occasional high impact well. There's obviously a big disconnect between the PV-10 value of your reserves and net of the debt and the stock price. Do you expect to change that strategy at all. I guess, what are you looking for specifically with the new CEO and where do you see that CEO taking the company?

A - Joseph A. Mills {BIO 15337668 <GO>}

Yeah. No, great question. Thanks, Michael. Yeah, look, as I said earlier, I mean, the board is being very deliberate. Look, we are talking to and interviewing a number of really, really high a very impressive, seasoned executives. Guys that I would say or individual, I would say that have real gravitas and that have been a part of building large organizations. Today, again, as I said earlier, Talos is now a large company producing 33 million, 34 million barrels a year. So we're going to have to chase bigger, bigger targets. And look, it's fair to say, we have to even look beyond our shores into international arenas to continue to pursue larger targets. So in terms of change in the strategy, I don't see the new CEO altering the strategy materially, meaning we will still continue to be an acquirer. But we also are going to have to pursue larger projects into the ultra-deep water plus even into the international arena.

Historically, the company has not done that and quite frankly, has not had the opportunity to really pursue more international type projects. Obviously, we have Mexico, great discovery in Zama, we're seven years into it and still -- still have not FID'd it. So a lot of frustration there as you can imagine, world class asset, but we don't get any credit for it today. So we definitely stepped on some landmines there and that's going to be part of what the new CEO is going to help us avoid is stepping on landmines as we think about international projects. So fundamentally, I don't see the strategy changing dramatically. I think if anything, there's an advancement of the strategy. But clearly, we have to be chasing bigger objectives now. So that's where the new CEO will come in to help us.

Q - Michael {BIO 1494617 <GO>}

Appreciate that detail. You mentioned about CapEx directionally being up next year, I guess with Katmai No. 2 coming on, Sunspear, this recent Brutus re-completion, obviously, you haven't given guidance here on '25 production yet, but just relative to '24, can you say directionally where you think that'll be?

A - Joseph A. Mills {BIO 15337668 <GO>}

Yeah, look, I mean, so as I touched on, we are -- I'm a big believer in building budgets that you focus on what's discretionary and what's non-discretionary. We are concerned about a potentially softer commodity price environment. You will -- you know as well as I do that everything that we do is long lead times, right? So it's not like some of the onshore guys that can pivot on a dime. We have to make long-term decisions kind of almost regardless of price just because these projects take one to two to three years to develop. So -- but we have tried to or are working on a budget that we've got a pretty fixed program in the first half of the year, obviously, with the West Vela rig committed, we're looking at really the second half of the year, which really impacts more of the 2026 profile. So in terms of what I see today, I mean, I think volumes will probably be in the flat to up and that's kind of where we're focusing on right now. Obviously, we're doing everything we can to accelerate where we can. If prices stay where they are, let's call it something in the -- with the 7 in front of it, I think you'll see us hopefully accelerate. If you see prices drop back into the 6 or even 5s you'll definitely see us look to slow activity down in order to protect the balance sheet and maximize free cash flow.

Q - Michael {BIO 1494617 <GO>}

I appreciate it. Thank you.

Operator

Your next question comes from the line of Paul Diamond from Citi. Your line is now open. Please ask your question.

Q - Paul Diamond {BIO 16818858 <GO>}

Thank you and good morning, all. Thanks for taking my call. Just wanted to touch quickly on the facility expansion at Tarantula. You mentioned going from 27 to 35. I just want to get some idea of, I guess how wrapable[ph] is that further? Is there -- what type of constraints would it be to expand that facility or any others incrementally?

A - Joseph A. Mills {BIO 15337668 <GO>}

Yeah. Thank you, Paul. I'll take that. Yeah, look, we -- we spend -- we spend a lot of time talking about that. You know, we -- so first off, you know, the turnaround is basically complete. We're starting to bring the volumes back up and slowly ramping them. We do have to commission a new vessel, so we won't be able to really hit kind of the full rate until -- and full rate right now is probably around 32,000 barrels a day until sometime in early December. You know, we will have to -- when we drill Katmai No. 2, and right now, obviously, we're going to bump up both Katmai No. 1 East, which is our East -- East well as well as Katmai West No. 1. We're drilling the No. 2 well, which again we hope to be online, say, second half of next year. At that point, we'll be able to hopefully bring all up to full rate at 35. Between now and then, we certainly are trying to figure out if there's incremental ways for us to debottleneck that facility. Part of our challenge really is the flow line between the manifold, i.e., at the ocean floor back to the host facility. That's part of our constraint is that pipeline itself is kind of limited about how much volumes we can push through it.

As I touched on, we are continuing to work our seismic reprocessing in this area and we are seeing additional opportunities that if they materialize, we think there could be incremental drilling in this area. If that's the case, then probably one of the things that we're going to have to evaluate and we are actively looking at it is laying what we call a loop line, right, an additional flow line from the manifold back to the Tarantula facility. In addition to that, we'll have to expand Tarantula. Expanding Tarantula, somewhat of our problem is we are constrained by the deck space. There's only so much room on the facility for us to be able to add additional equipment. We have -- I came via the QuarterNorth acquisition, so I was on that board and we had evaluated even building a sister kind of host platform next to it. Quite frankly, that's more CapEx that we want to spend. The right answer is trying to figure out if we can maximize kind of the deck space at Tarantula. We have plenty of export, pipeline capacity to get off a Tarantula.

Our real problem is just the deck space and how much equipment can we put on the facility itself. So a lot of work is going on into that as we speak. I mean, literally, we met on it. We meet on it about every week as we're trying to figure out how we can ramp up the facility there. One of the challenges we always face though and, and really our philosophy is we hate to build -- overbuild a facility, right, where you're building a facility for kind of a peak rate that will only last six months or less or a year and that's a lot of capital. So we tend to try and not build to the

maximum, but we try and build to a longer term trying to hold the facility flat for a longer period of time. We think that's a better use of capital, a better return on investment and quite frankly, sometimes better for the reservoir.

So all that's going into our analytics as we think about how we can expand that facility and bring on incremental capital or incremental production. Look, I'd love to get the facility up to about 40,000 barrels a day. And if I could hold it at 40,000 barrels a day, I think that would be an absolutely excellent outcome for us. So trust me when I tell you, there's a lot of smart people here working on that challenge. But again, I think ultimately for us to really ramp up the production even more, we'll have to consider laying an additional flow line, which I will tell you is not a cheap endeavor.

Q - Paul Diamond {BIO 16818858 <GO>}

Understood. I appreciate the clarity. And just one quick one on the hedging book. As you guys look out towards an uncertain pricing environment in '25 and beyond, I guess, how does that or how do you see that impacting your rate of hedge, your willingness to do so, and should we expect to see any modulation up or down from where we currently sit?

A - Sergio L. Maiworm {BIO 20610222 <GO>}

Hey, Paul, this is Sergio. Thanks for the question. So I mean, we are fairly consistent with our hedging practices. So I don't think we're necessarily going to deviate that much from it. We have a fair bit of '25s production already hedged in the 70s. We're always going to look to continue to add to the hedge book as we, as we go along. So like I said, I don't think we're going to change materially how we do it. I think it's a fairly consistent way and it's been very successful in the past. So we're going to continue to do that. But as I said, we have a fair bit, almost half of our 2025 production already hedged in the 70s and a little bit of '26, not too far from there.

Q - Paul Diamond {BIO 16818858 <GO>}

Understood. Appreciate the clarity. I'll leave it there.

Operator

(Operator Instructions) Your next question comes from the line of Michael Favreau of Pickering Energy Partners. Your line is now open. Please ask your question.

Q - Michael Favreau

Hi, good morning. I'd like to go back to your comments, Joe, surrounding the capital flexibility in the back half of '25, in a softer pricing environment. So recognize these are some long-term projects, but at some point, a decision needs to get made whether to go forward with that discretionary spending. So my question is, when does that decision get made? And does that look like a specific project gets pushed out in time or is this sort of the cutting of a high-risk project from the '25 plan?

A - Joseph A. Mills {BIO 15337668 <GO>}

Yeah, that's a great question. Thank you, Michael. Yeah, look, so yeah, I would describe it -- I think you've heard us talk about this before. We've -- we always -- we're moving forward with every project that we think we would want to drill next year and that includes getting permits and even spending capital on some long lead items. The projects that would be discretionary kind of in the second half of the year, I would describe those kind of as the mid-market rigs. So these are going to be not your big drill ships that we need to bring in, but kind of what we call the mid-market. And there's certainly more rig availability in that market. So these tend to be projects that are off of existing infrastructure that we can tie back to our existing infrastructure fairly quickly or to other host platforms that we either have PHAs or we're already in discussions with those -- host operators.

So in terms of timing, look, we pretty much have to start making decisions really by the end of the first quarter for those projects to kind of be go or no-go. And so it's not like we can pivot -- we've got to commit to the rigs. So I would say by the time we get to, call it March, we're either -- we're either committing to some of that capital or we're not. There's probably a little bit of -- it may drag into even the beginning of the second quarter that we can make some of those decisions, but we can't drag it out too long. So again, unlike my onshore counterparts where they can kind of pick up and drop rigs pretty quickly, we have to -- we have to work a little closely with the existing rig, providers in order to get those rigs secured.

Q - Michael Favreau

Great. Thank you. That's helpful color. But my next question is just on the impacts of hurricane season. Look, it's good to see the assets performing at the upper end of guidance and beating consensus of oil production estimates despite such a busy hurricane season. We always ask about the impacts that shut-ins and evacuations have on production, but I'd sort of like to take a different approach and ask how it impacts sort of the financial costs of evacuations and production shut-ins. So if there's any color you could provide on sort of the -- the operating or capital costs that are tied to such frequent evacuations during the hurricane season would be great?

A - Joseph A. Mills {BIO 15337668 <GO>}

Yeah. No, that's a great question, Michael. And I may ask John Spath to give you a little bit of color, but I'll take the first cut at it. Yeah. Look, every time a storm brews up, John and his team, we've got a whole group of guys that we pull together very quickly to evaluate decisions around shut-ins and evacuations. We always air on the side of conservative and being safe. We never want to put people at risk in case the storm and you know how these storms are. I mean, candidly, Hurricane Rafael, I'm not sure in my lifetime, I've seen a category one, category two storm be so erratic and just kind of float around the Gulf. So it was highly frustrating as we were trying to make decisions about shut-ins and obviously, we had to suspend drilling operations at Katmai because of the sea states. But look, there is a real cost every time we have to evacuate. I mean, case in point, we're like -- I mean, honestly, we've had over 500 people, non-essential people on some of our platforms over the past couple of weeks, in particular around the Tarantula turnaround.

So you can imagine when we say we're evacuating non-essential personnel, that is not a minor statement, okay? That is involving a lot of helicopters and a lot of boats having to get people off of these platforms and take them onshore and a lot of times put them up in hotels so that we can bring them back as soon as the storms are over. So there is a real cost every time we have one of these storms. So that's -- that's kind of where we are in terms of quantifying it, I mean it varies obviously from storm to storm. So it's hard for me to give you a number. But I wanted to give you a little sense that it is not an inconsequential number. Michael, did I lose you?

Q - Michael Scialla {BIO 4082882 <GO>}

No, you got me. Thank you. Okay, that's good detail.

A - Joseph A. Mills {BIO 15337668 <GO>}

Okay.

Operator

Thank you. We do not have further questions at this time. I would now like to turn back the call over to Joe Mills. Please go ahead.

A - Joseph A. Mills {BIO 15337668 <GO>}

Great. Thank you. All right. Well, ladies and gentlemen, look, first off, I really, really appreciate everybody's time. I hope this was helpful. Obviously, as I said earlier, I'm really excited and really proud to be here. It's just a -- Talos is just an extraordinary organization. The employees, we have some really high talented employees here and I couldn't be more proud to be a part of this organization. I do want to thank the employees. They've really embraced me, welcomed me into the organization. We have a lot to do here. We're super excited not only about what we've got going on now, but really into 2025. So again, thank you. Sergio and I definitely plan on being on the road. Hopefully, we get a chance to see some of you while we're on the road and can answer more questions in the future.

So with that, we'll let everybody -- we'll let you go.

Operator

This concludes today's conference call. Thank you for your participation and you may now disconnect.

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