

Q4 2025 Earnings Call

Company Participants

- Clay Jeansonne, Vice President, Investor Relations
- Paul Goodfellow, President, Chief Executive Officer, Board Member
- Zachary B. Dailey, Chief Financial Officer, Executive Vice President

Other Participants

- Greta Drefke, Analyst, Goldman Sachs
- Michael Scialla, Analyst, Stephens
- Nate Pendleton, Analyst, Texas Capital
- Noel Parks, Analyst, Tuohy Brothers
- Paul Diamond, Analyst, Citi
- Tim Rezvan, Analyst, Keybanc Capital

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Talos Energy Fourth Quarter and Full Year 2025 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 today, February 25th, 2026.

I would now like to turn the call over to Clay Jeansonne, VP, Investor Relations. Please go ahead.

Clay Jeansonne [{BIO 23952759 <GO>}](#)

Thank you, operator. Good morning, everyone, and welcome to our Fourth Quarter and Full Year 2025 Earnings Conference Call. Joining me today to discuss our results are Paul Goodfellow, President and Chief Executive Officer, and Zach Dailey, Executive Vice President and Chief Financial Officer. For our prepared remarks, please refer to our fourth quarter 2025 earnings presentation that is available on Talos' website under the Investor Relations section for a more detailed look at our results and operations update.

Before we start, I'd like to remind you that our remarks will include forward-looking statements subject to various cautionary statements identified in our presentation and earnings release. Actual results may differ materially from those contemplated by the company. Factors that could cause these results to differ materially are set forth in yesterday's press release and our Form 10-K for the period ending December 31st, 2025, filed with the SEC.

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 certain non-GAAP to GAAP measures is included in yesterday's press release, which was furnished with our Form 8-K filed with the SEC and is available on our website.

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

Paul Goodfellow [{BIO 18789103 <GO>}](#)

Thank you, Clay, and good morning to everyone joining us on our call today. I would like to start by thanking the entire Talos team for their hard work, dedication, and unwavering commitment to safety and delivery of our business during 2025. The results we'll discuss today are a direct result of their efforts. First, we're pleased to report continued strong safety performance with no serious injuries in 2025, underscoring our steadfast commitment to the health and well-being of our employees and contractors.

Additionally, our environmental stewardship remains a core focus with a spill rate significantly below industry averages, underscoring our commitment to protecting the communities and environment where we live and work. 2025 was the start of a transformation journey for Talos. The year was defined by a revamp strategy, operational excellence, strong financial delivery, supported by a new leadership team. Higher production, greater capital efficiency, and lower operating costs resulted in significant free cash flow generation, which led to meaningful return of capital via share repurchases. All of this was accomplished while navigating a weakening commodity price environment throughout the year.

As we look ahead to 2026 and beyond, we intend to build on the momentum we have created, executing our strategy while balancing the inherently volatile commodity business and long-cycle nature of offshore oil and gas. In June, we introduced a new corporate strategy. Our strategy is anchored on the three core pillars built to deliver results now, while also positioning Talos for the medium and long term, and underpinned by a disciplined capital allocation framework.

Since announcing this strategy, our team has been laser-focused on executing and building the foundation to be a leading pure-play offshore E&P company. Under the first pillar of the strategy, improving our business every day, the teams rose to the challenge to think creatively and we realized approximately \$72 million in free cash flow improvements in 2025, far exceeding our initial target of \$25 million. These savings were generated through more than 80 initiatives spanning margin enhancement, capital efficiency, commercial opportunities, and organizational improvements.

About half of that \$72 million was a one-time benefit in 2025, while the other half is structural and recurring, which gives us solid momentum heading into 2026. The team has many initiatives in flight and we look forward to updating you on our progress throughout the year. Our relentless focus on efficiency has strengthened our position as the low-cost E&P operator in the Gulf of America, in addition to delivering top-decile EBITDA margins across the sector.

Over the past three years, while the industry trend for E&Ps in the Gulf of America has been an increased cost structure, Talos' proactive management of its cost base and increasing production have resulted in a reduction in operating costs on a unit basis. In fact, for 2025, our operating costs are on average 30% lower than the offshore peer group average. This advantaged cost structure has helped us to generate top-decile EBITDA margins in the E&P sector for 2025.

These achievements reflect disciplined execution and a culture committed to continuous improvement. Within the second pillar of our strategy, growing production and profitability, we continue to advance organic growth throughout the year, achieving first production at Sunspear and Katmai West #2. Our teams continue to deliver outstanding operational results at our Katmai field, where production flows through three subsea completions tied back to the Talos-owned Tarantula facility.

Katmai West #1 continues to be a standout performer, ranking among the top-10 producing wells in the Gulf of America. In mid-2025, Tarantula's gross processing capacity was expanded to

35,000 barrels of oil equivalent per day to accommodate higher volumes following the success of the Katmai #2 well.

Most recently, targeted debottlenecking efforts have boosted throughput to approximately 38,000 barrels of oil equivalent per day. These recent debottlenecking efforts were achieved with minimum capital outlay, reflecting the team's commitment to grow production and profitability and their ability to unlock value through creativity and ingenuity.

Looking ahead, we expect production from the Katmai field to remain essentially flat throughout 2027. The production profile helps underscore our overall base decline rate in the mid-to-high teens, which is another differentiator for Talos relative to onshore peers. We're also excited about the Katmai North prospect, which provides potential exploration upside to the field. The team continues to mature this prospect with new seismic data and the recent blocks we strategically acquired in the lease sale near our Katmai complex further enhance our prospectivity in the area.

Under the third pillar, we continue to build a long-lived scaled portfolio that supports long-term sustainable growth. The discovery at the Daenerys exploration prospect marks the potential for a significant addition to our resource base, with appraisal activity set to begin in the second quarter of 2026. Additionally, Talos was pleased to be named the apparent high bidder on 11 new leases, with eight being awarded to date, totaling approximately \$15 million in last December's Big Beautiful lease sale.

These leases surround our Daenerys discovery, new positions in the Neptune and Katmai areas further leverage our existing infrastructure. We significantly expanded our resource potential, adding eight prospects, some of which span multiple blocks with more than 300 million barrels of gross unrisks resource potential across amplitude-supported Miocene and Wilcox opportunities. This represents approximately two times our current proved reserve base.

We increased our working interest in the Beacon-operated Monument project from 21% to roughly 30%. Monument is a large Wilcox discovery expected to come online at the end of this year and is expected to provide a durable production profile in 2027 and beyond. Talos continues to invest in state-of-the-art seismic technology and proprietary reprocessing, supported by a broad multi-client seismic footprint across the Gulf of America.

Our modern imaging capabilities and technical expertise help derisk prospects and improve success rates, which positions us well ahead of two federal Gulf of America lease sales expected every year over the next decade. Now, let me highlight the key projects we have planned for 2026. Talos successfully drilled the Cardona well in late 2025, delivering the project under budget and ahead of schedule. Production commenced earlier this year with the well flowing to the Talos-owned Pompano facility. Talos also recently drilled the CPN well ahead of schedule with first production expected in the second half of 2026.

The team continues to advance the Talos-operated Brutus rig reactivation program with the first of four wells scheduled to begin drilling in quarter two and the remaining wells to follow in sequence. We expect that the majority of drilling activities will be completed this year and anticipate bringing three wells online by year-end with the fourth well online in early 2027. The monument project operated by Beacon Offshore continues to advance towards a March spud with the rig planned to operate continuously throughout the year.

Both wells are expected to be completed in 2026, yielding first oil by year-end. Beacon plans to develop it as a subsea tieback to the Shenandoah production facility in Walker Ridge, and the project has firm committed capacity of 20,000 barrels of oil per day. While 2026 is a year marked

by capital investment and development in the project, we expect 2027 to benefit from a full year of production.

The Daenerys discovery was a significant highlight in 2025. As we've previously stated, the discovery well was temporarily suspended to preserve its future utility pending further appraisal. We plan to spud the appraisal well late in the second quarter of 2026. The appraisal program is designed to test the northern part of the prospect and is strategically planned to penetrate multiple prospective intervals, enabling a thorough assessment of the reservoir.

Additionally, the well has been engineered to accommodate multiple future sidetracks, enabling further appraisal and development. We expect results in the second half of this year. To sum it up, 2025 was a great year where we accomplished tremendous results all across the business. In 2026, we will continue to execute safely and will remain guided by the disciplined capital allocation framework that underpins our strategy. We'll stay true to our three strategic pillars as we advance the business, create long-term value, and achieve our clear vision for Talos to become a leading pure-play offshore E&P.

Now I'd like to turn it over to Zach to cover our fourth quarter and full year financial results, along with the 2026 budget and guidance.

Zachary B. Dailey {[BIO 23168128](#) <GO>}

Thanks, Paul. First, I'll recap 2025 through the lens of our strategic framework, then I'll discuss some fourth quarter specifics and end with the 2026 outlook before handing it over for Q&A. Underpinning our execution of the three strategic pillars, which Paul discussed, is a disciplined capital allocation framework designed to deliver strong financial outcomes. In 2025, that's exactly what Talos did. We invested about \$500 million of exploration and development capital and produced an average of 95,000 barrels of oil equivalent per day. This generated approximately \$1.2 billion in adjusted EBITDA and \$418 million of adjusted free cash flow despite a steady decline in oil prices throughout the year.

Our framework calls for returning up to 50% of annual free cash flow to shareholders, and that's what we did. Since announcing our capital allocation framework in Q2 of last year, we have returned approximately 44% of adjusted free cash flow to shareholders through share repurchases. Throughout 2025, we reduced our outstanding share count by about 7%, demonstrating consistent follow-through and clear focus on enhancing per-share value.

In the fourth quarter, we produced an average of 89,000 barrels of oil equivalent per day, including 65,000 barrels of oil per day. Fourth quarter volumes were impacted by about 3,000 barrels of oil equivalent per day due to the shut-in of our Genovesa well following a failure of its surface-controlled subsurface safety valve. We're working diligently to accelerate the delivery of an insert safety valve and we expect Genovesa to return to production in the third quarter of 2026.

Our fourth quarter oil cut was slightly higher than our 2025 average, and we expect that higher oil cut to continue through 2026, which will support our peer-leading margins. Another critical element of our financial framework is maintaining a strong balance sheet. We ended the year with low leverage of 0.7 times and approximately \$1 billion in total liquidity, including a year-over-year increase in cash-on-hand. We have no near-term debt maturities, and recently, we extended our credit facility to 2030 while reaffirming our borrowing base at \$700 million.

We believe this financial strength positions Talos to navigate commodity cycles and support the strategic growth elements of Pillars two and three. For example, last year, we increased our

working interest in the high-value Monument prospect and also increased our potential inventory with additional leases acquired in the big beautiful lease sale in December, as Paul mentioned. We believe we're well-positioned to continue strengthening our portfolio within the Gulf of America as well as in other conventional basins.

Now, I want to touch briefly on our year end reserves. Talos's proved reserves were 175 million barrels of oil equivalent, of which approximately 75% is oil. The PV-10 of our proved reserves was approximately \$3.2 billion, which is calculated at year-end SEC pricing. We also believe that Talos has significant value beyond our proved reserves with estimated probable reserves of 103 million barrels, adding an additional PV-10 of \$2.3 billion at year-end SEC prices, equating to approximately \$5.5 billion in 2P value. Our reserve replacement ratio over a trailing three-year period is approximately 140% of Talos' production.

During the fourth quarter, we recorded a non-cash impairment of \$170 million related to the full-cost ceiling test under the SEC guidelines. As a reminder, this test primarily compares the net capitalized cost of our oil and gas properties to the present value of future net cash flows from our proved reserves using a trailing 12-month pricing.

Next, let me share a quick overview of our hedge positions. We view hedging as a risk management tool to help stabilize cash flow in a downside scenario while also maintaining attractive exposure to higher oil prices. For the first quarter 2026, we've hedged approximately 29,000 barrels of oil per day with a floor price of approximately \$63 per barrel. That represents approximately 47% of our expected first quarter oil production at the midpoint of guidance. And for the year, we've hedged roughly 23,000 barrels of oil per day, representing approximately 36% of our expected annual oil production at the midpoint of guidance with floors above \$61 per barrel.

Turning to guidance. We expect our 2026 capital expenditures, excluding P&A to range between \$500 million and \$550 million. We expect to focus on low breakeven, high-margin oil projects with a balanced allocation across infrastructure-led development, exploration, and appraisals. Approximately 60% of the total CapEx is allocated towards Talos-operated projects, while about 40% is allocated to non-operated projects.

Our non-op spend is higher year-over-year, driven primarily by increased spending on the Beacon-operated monument project. As we invest for the future and advance our strategy to build a long-lived scaled portfolio, approximately 10% of our 2026 budget is allocated to exploration, which includes the Daenerys appraisal well.

Talos also plans to allocate \$100 million to \$130 million of capital towards P&A similar to 2025 levels. We remain committed to meeting our obligations while continuing to pursue opportunities to optimize and more strategically execute these projects.

In 2026, we expect production to average between 85,000 to 90,000 barrels of oil equivalent per day and 62,000 to 66,000 barrels of oil per day. As I mentioned, oil as a percentage of total production in 2026 is expected to increase a couple of percentage points year-over-year to approximately 73%.

Every year, we account for a few items in our production guidance that are unique to offshore operators, and our approach to 2026 guidance is consistent.

For example, we have planned maintenance projects throughout the year designed to ensure safe operations, high uptime, and lower unit operating costs for the life of those assets, but these activities reduce our production while they occur. We estimate planned downtime will

impact annual production by approximately 6,000 barrels of oil equivalent per day, which includes the annual impact of approximately 2,000 barrels of oil equivalent per day from the Genovesa well, which will be shut-in for the first half of the year.

We also account for weather-related downtime, such as hurricanes, in addition to an estimate of unplanned downtime associated with third-party facilities and pipelines. We have included a contingency of an aggregate 4,000 barrels of oil equivalent per day for these unplanned downtime and weather-related factors into our 2026 guidance, consistent with last year's approach.

Two important items to note. First, when normalizing for weather and deferred production at Genovesa, our 2026 oil guidance would have been higher year-over-year.

Additionally, we expect our year end 2026 exit rate to be higher than our 2025 year end exit rate due to the timing of new projects coming online and the return of the Genovesa well in the second half of the year. Additional guidance details can be found in our presentation, which is posted on our website.

To wrap up, 2025 was a phenomenal operational and financial year for Talos, and we're excited to build upon this success in 2026. We believe our vision, strategy, and strong financial delivery combine for an exciting value proposition to investors.

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

Questions And Answers

Operator

Thank you. (Operator Instructions) Your first question comes from Greta Drefke from Goldman Sachs. Please go ahead.

Q - Greta Drefke {[BIO 23628780 <GO>](#)}

Good morning, all, and thank you for taking my questions. My first is just on the Monument project this year. Can you speak a little bit more about the key next operational steps for the project and the path to the first oil for the first well by the end of 2026? You mentioned March spud for the project. Is that spud timing just for the first well or for both of the wells?

A - Paul Goodfellow {[BIO 18789103 <GO>](#)}

Yeah. Thanks, Greta. Look, we expect Beacon to mobilize the rig as we said at the early part of March, where they will have one rig working on the opportunity, and so they will drill both wells on a back-to-back basis and then complete the wells, which is why we expect both wells to be completed by the end of the year. And so the plan that we have at the moment is a continuous operation starting in March.

Q - Greta Drefke {[BIO 23628780 <GO>](#)}

Great. Thank you. And then just my second question is on the safety valve issues you experienced as part of the fourth quarter. Can you speak a little bit more about the next operational steps of remediation of the valve at Genovesa? How long do you expect it will take to receive the equipment you need and how much time would it take to procure or send a rig over to complete the fix?

A - Paul Goodfellow {[BIO 18789103 <GO>](#)}

Yeah. Thanks, Greta. Let me maybe go back, we operate about 120. We operate or have interest in about 120 subsea wells in the Gulf of America. And so this is a fairly isolated incidence. This well has been on production since 1998. It came as part of Fieldwood and it's produced about 12 million barrels so far. Sorry, it came online in 2018 and we've had subsea wells online since 1998. This produced over 12 million barrels so far. The failure that we've identified is a piston failure that meant that the flapper was closing.

Importantly, there was no leak or no environmental incident as a result of that. And the teams have worked incredibly hard to not only identify the leak and the cause, but then to pull a remediation plan together, which of course means getting access to a vessel, getting access to the right type of equipment. And what we're choosing to do here is to run an insert safety valve off an intervention vessel versus pulling and replacing the completion of a drill rig.

We expect that to take place in the early part of the second half of the year. I think it's important to understand that whilst we operate the well, we don't operate the facility, and therefore, we have to align timing with the operator of the facility, and this well is tied back to the Na Kika facility. And so we're working very cooperatively with the operator of Na Kika to line that up. And so our plan is to bring an intervention vessel in and insert safety valve and to have the well back online in the early part of the second half of the year.

I think it's also important to note that this failure as disappointing as it was, is very, very different from the issue we had with the safety valve at Sunspear earlier in 2025. That happened during the completion activities and was actually due to some problem during flowback becoming embedded in the flapper and causing that flapper not to seal. In that case, we were on location, we had a rig under contract, the best path and the only path there was to pull the completion and totally replace it, which is what we did, and we've seen great production and stability from that well ever since it came online. I hope that gives you both the color and the context, Greta.

Q - Greta Drefke {[BIO 23628780 <GO>](#)}

Thank you very much.

Operator

Your next question comes from Tim Rezvan from KeyBanc Capital Markets. Please go ahead.

Q - Tim Rezvan {[BIO 22940940 <GO>](#)}

Good morning, folks. Thank you for taking our questions. Paul, I was wondering, as a start, if you can give us a little more detail on next steps at Daenerys. You mentioned late 2026 as the timing of appraisal results. You operated much quicker than expected with your first discovery well. So I don't know if you could clarify kind of what late 2026 means. And then, if we do get positive appraisal results, I know you have to look at the results to get next steps, but how could things play out if things continue to trend positively there? Thanks.

A - Paul Goodfellow {[BIO 18789103 <GO>](#)}

Yeah. Thanks, Tim. So -- yeah, we expect to spud the well late in the second quarter. We've scoped the well, as we mentioned in our comments, in a way to give ourselves the maximum appraisal information in that secondary block, including the ability to have future utility of the well in terms of future side tracks. So we would expect that well would be drilled, evaluated as we get

to sort of the end of the third quarter, start of the fourth quarter, and then it's a matter of exactly, I think, as you said, what is the information and what does that then lead to in terms of a path forward.

I think, as we've always said, in a successful case where it looks like Daenerys may be a standalone, then we've already started the design basis of what that would look like. It may be a less optimistic outcome, where it's maybe more of a tie-back. We've also started looking at the optionality for that, and so we're working those in parallel. But it is just too early, Tim, to say in terms of exactly what the timeline would be. But we will continue to update you throughout the year as we get back on to that well, execute and get information. I would note, of course, given that we'll be executing that well through the summer months, there is the risk of weather impact in terms of a delay, but that is always a risk within the Gulf.

Q - Tim Rezvan [{BIO 22940940 <GO>}](#)

Okay. Okay. I appreciate the context. I guess we'll stay tuned on that. And then, as a second question, Paul, like to go kind of a little bigger picture here. You're almost at your one-year anniversary of joining, the share price was about \$9. I know it's selling off today on Genovesa, but still it's been pretty strong financial operational traction overall. You didn't take this job, I'm assuming to run a sort of maintenance program.

At some point, Talos needs to kind of be a growth company to get more relevance. You hinted at 2027 organic growth opportunities. Can you just talk about that as you think medium-term, your inclination or sort of the need to kind of grow the business to get more scale. And where I'm going, does this organic growth coming, does that preclude you from seeking inorganic growth opportunities? Just kind of curious, I know it's a broad question on sort of the lay of the land from here after a year in the role? Thanks.

A - Paul Goodfellow [{BIO 18789103 <GO>}](#)

Yeah. Thanks, Tim. And look, I think it's described very well in the strategy that we laid out in June, and our focus has been on rigorous execution of the strategy. Now clearly, the near-term actions are always more visible, and we are -- and I am incredibly proud of the work that the teams have done to really sort of drive that culture of improvement and improving our business each and every day, as that gives us the ability to think more mid and long-term. As we've spoken about in terms of the second and third pillars, we are actively working those.

You've seen us be very active in the, let's say, organic space in terms of lease sale activity. We're actually -- we started looking at that in the middle of last year with seismic that we -- further seismic that we acquired and interpreted that was informed what we wanted to do in the lease sale. The fact that we've sort of bought in roughly 300 million barrels of gross unrisk resource that is operated, I think is an important sort of point along the journey.

And clearly, as we've always said, we will look at continued bolt-ons, but also inorganic activity outside the Gulf of America, which sort of fits into more of that sort of pillar three that we've spoken about. And that work continues to be undertaken and executed, but within the very sort of disciplined capital allocation framework that we have laid out. And so we're not going to -- go to look to build the portfolio inorganically just to get bigger, we will look to do it to get better and therefore, any deal that we do will need to absolutely fit within the capital framework that we have.

But we also set an incredibly high bar in terms of the risk profile of that project, making sure that it ties into the core subsurface and operational skills that we have and that it's clearly sort of fit

strategically where our skillset is. And so yeah, I'm very, very pleased with where we are, as you say, almost a year into my tenure with a great team here that we've amassed that has phenomenal breadth of industry experience that I think is being brought to bear into not just thinking about how we sort of drive the culture, but how we sort of drive and shape Talos over the future.

Q - Tim Rezvan {[BIO 22940940](#) <GO>}

Okay. I appreciate the insight. Thank you.

Operator

Your next question comes from Paul Diamond from Citi. Please go ahead.

Q - Paul Diamond {[BIO 16818858](#) <GO>}

Thank you. Good morning, all. Thanks for taking the call. Just wanted to touch quickly on the trans [ph] facility, you talked about flow-through increasing up to 38 via some relatively low capital-intensive debottlenecking. I guess, question being how much more meat is on that bone, and talking to other assets like is that a -- is the process there kind of extrapolatable to other assets or is this more just like having to do with threshold [ph]?

A - Paul Goodfellow {[BIO 18789103](#) <GO>}

Yeah, thanks, Paul. Look, first thing to say is when we talk about improving our business each and every day, what Will Bunkers and John Spath and the team have done at Tarantula, I think just embodies that and is a real sort of visible example. And so as you know, we expanded the sort of nameplate capacity of Tarantula middle of 2025 to take account of the Katmai West #2 well up to 35,000 barrels a day.

And what the team have then done is what they do on every asset and opportunity is really look for where are the limiting factors and can we remove those limiting factors to eke a few more barrels of continued consistent throughput through the facility. And that's what, as I said, Will and the team have done a Tarantula where they've taken that from 35,000 barrels a day to now roughly 38,000 barrels a day. And to use your words, I think that bone is pretty clean.

And I don't think you'll see any more, let's say, optimization gains from Tarantula. We now sort of shift our attention to more of a growth side in terms of looking at Katmai North, which is a potential opportunity for us as we come into 2027 and dependent on the outcome of that and of course, other strategic leases that we've just taken, the big beautiful and so on and how we should prosecute, those will then determine the next step of expansion potentially at Tarantula that will be more capital-intensive and will most likely include the expansion of the pipeline connection that we have from the facility.

Now, the second part of your question in terms of how transferable is what the team has done at Tarantula. I would say it's absolutely transferable. And in fact, you see that working in practice today. So the approach of can we get more production, can we get more reliable production is something that I think has underpinned part of the tremendous results that the team have delivered in terms of improving our business each and every day.

We've seen it, for example, in terms of gas lift [ph] optimization, studies that we've done across the totality of the portfolio. We've seen it through putting a dedicated flow assurance team together to really make sure that we're optimizing flow assurance. And so, whilst you may not see a facility expansion where we are limited by facilities relative to well capacity, which was a

specific challenge at Tarantula, the idea of optimizing and increasing throughput is something that the teams are doing on every facility that we operate, Paul.

Q - Paul Diamond {[BIO 16818858](#) <GO>}

Understood. Appreciate that. And just circling back a little bit to the 11 wells you got -- 11 wells you guys talked about with the Big Beautiful Bill auction. Can you provide kind of a rough expectation of a timeline on those going forward and kind of where they fit in the larger development program, and from a priority perspective?

A - Paul Goodfellow {[BIO 18789103](#) <GO>}

Yeah, thanks, Paul. So, the criteria with which we looked at what leases to go and bid on were very sort of similar to the strategic frame that we have, which is, it has to be complementary to the skill set that we have. There's key plays that we want to exploit and explore. We wanted to look for prospectivity that raised the overall average size of prospect that we have, as well as adding material potential volume to the portfolio. But we wanted to do that in a way that we could take those opportunities through to competing for capital in a fairly sort of short-cycle.

And so the sort of timeline that we're generally working on, the teams are working on, is from lease award, which of course, once we named apparent high bidder, you then have to go through the process or the government goes through the process of formally awarding those leases. And as we mentioned, we've had 8 of the 11 formally awarded as of today. But from the point of lease award, we're looking at roughly plus/minus a year or so in terms of having an opportunity ready to compete on the drill schedule.

And so, I think we would be looking as we build the 2027 capital plan to be bringing those opportunities forward to compete for capital. Now, I think what's also really important point is, if you take it back a step in terms of from the ideation, getting the seismic, interpreting the seismic, going for the lease, that whole process up until being ready to compete on the drill schedule is probably somewhere less than two years, which I think is sort of a significant achievement, and I would say, towards the upper end of the norms within the industry.

Q - Paul Diamond {[BIO 16818858](#) <GO>}

Understood. Appreciate the time. I'll leave it back.

A - Paul Goodfellow {[BIO 18789103](#) <GO>}

Thanks, Paul.

Operator

Your next question comes from Michael Scialla from Stephens. Please go ahead.

Q - Michael Scialla {[BIO 4082882](#) <GO>}

Hi, good morning. You mentioned, Paul, the Cardona and CPN were both drilled and completed ahead of schedule and under budget. I guess Cardona has been online a little bit now. Can you say anything about the production expectations for those two wells, maybe how Cordona compares to what you anticipated and what you expect from CPN?

A - Paul Goodfellow {[BIO 18789103](#) <GO>}

Yeah. So I think the easiest comment to say is, both of those are in line with the expectations that we had. Again, I think both were executed very well. The CPN well, clearly, need to tie-in, and so the time for that should take place and that well should come online in the second half of the year, into the third quarter. And based on the flowback data we've got, we are very pleased with that well and confident that it will be at the upper end of the expectation range that we have.

And I think just to maybe tie back to a point that Zach was making in his comments, one of the reasons that we see our oil production rising towards the end of the year, of course, is because of those projects that will be coming on. So both the CPN well, the Brutus rig program, Genovesa coming back, and then, of course, Monument, hopefully right at the very end of the year, will give us an oil exit rate that should be in the low-double-digits higher than where we were at the exit rate of 2025, also with a higher sort of oil cuts, from a totality of a production sort of point of view.

So we would expect the average oil cut in 2026 to be sort of close to 73%. But of course, 90% plus of our margin comes from our oil production versus our gas production, and so the sort of pivot that we've had has been very sort of thoughtful, and we would expect to continue down that sort of frame as we go through '26 and into '27.

Q - Michael Scialla [{BIO 4082882 <GO>}](#)

I appreciate that detail. I wanted to ask about Katmai North. You said you've got new seismic data there that's maturing. I want to see what -- I think at one point, you had said that greater Katmai area, the resource there could be maybe double what the Katmai #1 and #2 suggested is right now. So want to see if that's still the case or what the potential resource looks like with the Katmai North and what the timing of testing that prospect looks like?

A - Paul Goodfellow [{BIO 18789103 <GO>}](#)

Yeah, Michael. So, I think we've said and there's no real change that Katmai North assume it comes successfully through the seismic interpretation process, and we'll compete for capital in 2027. We are still extremely encouraged by the sort of the greater Katmai area, which is why we took more leases in the recent lease sale, and we would see at least on the resource size that we've mentioned before, but we will update you as we do that work on those opportunities as we go throughout the year.

Q - Michael Scialla [{BIO 4082882 <GO>}](#)

Sounds good. Thank you, Paul.

A - Paul Goodfellow [{BIO 18789103 <GO>}](#)

Thank you, Michael.

Operator

Your next question comes from Nate Pendleton from Texas Capital. Please go ahead.

Q - Nate Pendleton [{BIO 24004152 <GO>}](#)

Good morning. On Slide 14, you mentioned investing in state-of-the-art seismic and proprietary reprocessing. Can you talk about those investments? And have there been any tangible results from those campaigns yet?

A - Paul Goodfellow {[BIO 18789103 <GO>](#)}

Yeah. Thanks, Nate. I mean, look, the first tangible results in terms of first step, of course, is the lease sales success that we've just had. And so, the areas that we were interested in actually went through advanced reprocessing, and we continue to do that in other areas that we have an interest in. I think the other thing that's important is our use of OBN seismic, where we actually use that to pick the Katmai #2 Westwell.

We've also used that on the current Brutus redevelopment program, and we believe that seismic data, advanced interpretation and actually sort of grounding our decisions in sort of the fundamentals of reservoir engineering and geology is absolutely critical to the success that we have had and will continue to have here at Talos.

Q - Nate Pendleton {[BIO 24004152 <GO>](#)}

Got it. Thank you. And as my follow-up, maybe regarding the capital program for next year, is that 10% exploration CapEx target what you see as a good long-term run-rate? And how should we think about your preferred long-term allocation of operated versus non-operated activity given the dominance of monument in the coming year?

A - Paul Goodfellow {[BIO 18789103 <GO>](#)}

Yeah, I mean, look, that's a sort of short-term view in terms of it just happens to be the big development project that we have at the moment is operated by Beacon, and therefore, there'll be a higher proportion of non-operated capital in the Gulf of America.

I think our strength actually comes from being an operator. I think we show that in terms of the sort of leading EBITDA margin results that we have the operating scale and low cost that we have and our ability to sort of drill complete, tie-in in a very sort of capital efficient way. So, look, we are very, very happy to partner with companies like Beacon and others. It's a key part of our portfolio. But I think we bring a real strength from an operating point of view, and so we will continue to look for operating opportunities, but we will never turn away a non-operated opportunity where we see value and where we can help the operator improve that value.

In terms of do we have a target for exploration spend, the answer is no, 10% happens to be where we are this year. I would expect, as we get into 2027, given the fact that those lease sale opportunities are maturing through to compete for capital because you can see something slightly higher than that. We'll bring it always back to the capital allocation framework that we have, which talks about investing in high-margin production, making sure that we maintain the strength of the balance sheet, return cash to shareholders, and then invest in accretive growth, and clearly, organic exploration falls into that fourth bucket.

Q - Nate Pendleton {[BIO 24004152 <GO>](#)}

Understood. Thanks for taking my questions.

Operator

And our last question comes from Noel Parks from Tuohy Brothers. Please go ahead.

Q - Noel Parks {[BIO 3358841 <GO>](#)}

Hi, good morning. I wanted to ask a bit about the service environment. And I just wonder if some of the optimism we've been hearing from the offshore drillers around 2027 and maybe even

taking into 2028, they're sounding like there's some possibility of maybe producers all crowding through the same door at the same time as far as getting access to rigs. I just wondered how much that might be figuring in your planning these days?

A - Paul Goodfellow {[BIO 18789103 <GO>](#)}

I mean, we always still look at where we are within the market. Clearly, we sort of plan many years ahead in terms of what notional opportunity sets could be, making sure that we are advancing, if you like, the procurement strategy that we have along with the technical strategy when we are ready to take an investment decision, we have the supply chain lined up, and that is the approach that we will continue to take. Now, many, many things, of course can change the outlook that any company has, certainly commodity price is one of those. And as I mentioned before, our focus from a commodity price point of view is to make sure that we build and think about projects that have the lowest breakeven cost possible.

And that's what we're doing for 2026 is driving forward with projects that have breakevens in the sort of \$30 to \$40 range. That gives us the resilience I think that we need. And so, we clearly see opportunities in terms of capacity in the marketplace as we go into the end of '26 and through to '27. But of course, for us, it's important to partner with the right type of providers that share the sort of ethos around sort of safety, environmental stewardship, and ultimately performance that I think you've seen us demonstrate over the last sort of 12 months or so in the partnership that we have had with the West Vela.

Q - Noel Parks {[BIO 3358841 <GO>](#)}

Great. Thanks. And I was wondering about the company's historical strategy of favoring assets that feature or include underutilized infrastructure? And I just wonder what you're seeing in the sort of market for legacy infrastructure out there. I was wondering if -- as there's more capital heading to the deepwater, are other producers like-minded in terms of the strategic value of sort of using current infrastructure as like a starting point or is that sort of too finer point, say for new or returning entrants who are looking to get a Gulf program just rolling or ramped-up?

A - Paul Goodfellow {[BIO 18789103 <GO>](#)}

Yeah, thank you. I'd offer maybe a couple of thoughts. I think clearly, we see more interest in the deepwater in the Gulf of America. I think I mentioned this when I first came into the role here in terms of I believe that the -- and we believe that these sort of low-carbon intensity, high-margin, deepwater barrel is vitally important in terms of supplying the energy that the country and the world needs. And I think it will be here for many, many years and decades to come.

Now, I do think that the technical barrier to entry is maybe higher than some think, the ability to operate in deepwater needs key source skills and capabilities, which we have got, and therefore that leads to the ability to actually get access to infrastructure, manage infrastructure. So clearly, infrastructure element, I think, will always be a consideration, and for ourselves as we think about what opportunities to drive within the deepwater, be it in the Gulf of America or elsewhere. Look, I can't really comment on how others sort of think about it, but that is certainly the lens through which we look at it.

Q - Noel Parks {[BIO 3358841 <GO>](#)}

Okay, great. Thanks a lot.

A - Paul Goodfellow {[BIO 18789103 <GO>](#)}

Thank you.

Operator

This is all the time we had for today's questions. I will now turn the call back over to Paul for closing remarks.

A - Paul Goodfellow {BIO 18789103 <GO>}

Thank you. And thank you, Julie, and thank you to all of you for joining today and your interest in Talos. I'd like to close by recognizing again our dedicated team and their commitment to providing safe, reliable, and responsible energy that really is vital to power our everyday lives and the world, and we look forward to updating you as we execute the plans we've laid out today throughout the year. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. You may now disconnect. Thank you.

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