Q2 2026 Earnings Call

Company Participants

- Bill Langin, Executive Vice President, Exploration & Development
- Kyle Sahni, Investor Relations
- Paul Goodfellow, President and Chief Executive Officer
- Zachary B. Dailey, Executive Vice President and Chief Financial Officer

Other Participants

- Ajay Bakshani, Analyst, BMO Capital Markets
- Jack Cavanagh, Analyst, Goldman Sachs
- Michael Furrow, Analyst, Pickering Energy Partners
- Michael Scialla, Analyst, Stephens
- Nate Pendleton, Analyst, Texas Capital Securities
- Noel Parks, Analyst, Tuohy Brothers Investment Research
- Paul Diamond, Analyst, Citi Research
- Subash Chandra, Analyst, StoneX Group
- Tim Rezvan, Analyst, KeyBanc Capital Markets

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Talos Energy's Second Quarter 2026 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 Wednesday, August 5, 2026.

I would now like to turn the conference over to Kyle Sahni, Manager, Investor Relations. Please go ahead.

Kyle Sahni {BIO 20592702 <GO>}

Thank you, operator. Good morning, everyone, and welcome to our second quarter 2026 earnings conference call. Joining me today to discuss our results are Paul Goodfellow, President and Chief Executive Officer; Zach Dailey, Executive Vice-President and Chief Financial Officer; and Bill Langin, Executive Vice-President, Exploration and Development. Please refer to our second quarter 2026 earnings presentation that is available on our website under the Investor Relations section for a more detailed look at our results and operations.

Before we start, I would 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 obligations 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 would like to turn the call over to Paul.

Paul Goodfellow {BIO 18789103 <GO>}

Thanks, Kyle, and good morning to everyone joining us on the call today. We have a lot to cover this morning, but as always, I want to start by thanking our employees for their continued commitment to safety and environmental stewardship. The results that Zach and I have the privilege of discussing today are a direct reflection of their talent, drive and relentless focus on execution. I am incredibly proud of what the Talos team has accomplished during the first half of 2026.

Just over a year ago, we introduced our enhanced corporate strategy, built around three pillars designed to position Talos as a leading pure-play offshore E&P. Today, I am pleased to highlight the significant progress we have made through a series of strategic actions that demonstrate execution across all three pillars of our framework and further strengthen our long-term portfolio.

Before turning to those actions, I want to begin with the strength of the base business, which continues to provide the foundation for everything that we do. The second quarter was characterized by solid execution across our base business, which translated into stronger production and higher operational uptime, driven by production optimization initiatives across the organization.

Oil production averaged approximately 69,000 barrels per day, and total production averaged nearly 94,000 barrels of oil equivalent per day, both exceeding guidance expectations. In addition, the Cardona well, which was brought online at the beginning of the year, continues to outperform expectations.

These operational results translated into record free cash flow generation during the quarter and support an increase to our full-year 2026 production guidance. Zach will provide additional detail on these results later in the call.

Importantly, these results did not happen by accident. They are the outcome of a tremendous amount of work by our operations, production and development teams and a direct reflection of the progress being made under the optimal performance plan. We achieved greater than two-thirds of our 2026 target during the first half of the year, and those efforts are translating into meaningful improvements in production, uptime, and free cash flow generation. This is exactly what we mean when we talk about improving the business every day.

My second takeaway is that Talos continues to distinguish itself through best-in-class execution. One example of this is the Genovesa workover. We successfully completed the workover and returned the well to production ahead of schedule late in the second quarter with well performance in line with expectations.

However, what I'm most proud of is how the opportunity was approached. Before the intervention rig was on location and during the planning phase, the team identified additional work that could be completed to support future access to a secondary zone. That is exactly the kind of thinking that we encourage across Talos, finding ways to create incremental value while maintaining capital discipline. It speaks to our culture of thinking outside the box and continuously improving the business. Full credit goes to our operations and development teams for identifying and executing on that opportunity.

Execution excellence is also evident across our drilling and completion activities. Year-to-date, our program has operated with approximately 50% lower non-productive time than the Gulf of America based average. This level of performance not only enhances capital efficiency, but it also reinforces one of Talos' key competitive advantages as a technically differentiated offshore operator.

We also continued advancing several important projects during the quarter. At Monument, the first development well was successfully drilled and the operator will now shift to the second well. We continue to progress rig reactivation activities for the Brutus Program and now expect the first well to spud during the third quarter. In addition, we commenced the Daenerys appraisal program as part of our ongoing evaluation efforts. Operations are progressing as planned with result from the first appraisal well expected before year end.

And now I'd like to conclude with a few thoughts on the strategic actions we have taken to extend our resource life and further develop a long-lived portfolio. Collectively, our recently-announced Gulf of America bolt-on acquisition, offshore Mexico development farm-in, newly established offshore Honduras acreage position and non-core gas-weighted shelf divestment advanced all three pillars of our strategic framework. These actions immediately increase our deepwater scale with approximately 20% oil production growth, expand our development inventory in a proven basin through a high-impact greenfield opportunity and establish a large-scale position in an underexplored basin at an extremely low entry cost.

At the same time, the shelf divestment improves the overall quality and oil weighting of our portfolio, while eliminating approximately $54 million of future abandonment obligations. The strategic rationale is compelling and represents meaningful steps forward in positioning Talos as the leading pure-play offshore exploration production company.

As a brief update on the recently announced bolt-on, BP elected not to exercise its preferential right. This sets the stage for us not only to operate the Coulomb field, but also to become partner in the Na Kika platform and several other associated fields. The assets we are acquiring produced approximately 18,000 barrels of oil equivalent per day in the second quarter with an oil cut, unit operating expense and EBITDA margin that are all expected to be accretive to our company averages. This transaction further strengthens our leadership position in delivering top decile EBITDA margins across the entire E&P sector. Pre-close integration activities are underway, and we look forward to closing the transaction later in the third quarter.

Looking ahead, we're focused on advancing these newly announced opportunities across our portfolio. In the Gulf of America, we continue to evaluate the operated Coulomb drilling opportunity, which we expect to compete for capital in 2027, while also advancing additional ILX opportunities that could provide upside to the current production base.

In Block 29, our near-term efforts are centered on submitting the field development plan with our partner to SENER [ph] as we work towards a targeted FID in 2027, while progressing technical work in support of a future exploration well. Importantly, Block 29, where Talos and Repsol are the sole partners is a development-led opportunity anchored by two existing oil discoveries, providing a clear path to FID and development and production. We believe this differentiates the opportunity.

In Honduras, we're preparing to commence the first-ever 3D seismic program across the deepwater acreage in the second half of this year, an important step towards evaluating the basin's broader potential. While these opportunities are at different stages of maturity, the speed and alignment with which our teams and partners are advancing them is a key strength and differentiator for Talos.

Our ability to progress multiple strategic initiatives in parallel reflects the depth of our technical capabilities, the quality of our partnerships and our ability to execute across a broad portfolio. The common theme across all of these actions is disciplined execution. We are advancing our strategic priorities while continuing to deliver strong operational and financial performance from the base business.

As a result, we increased standalone production guidance despite the impact of the shelf divestment, generated record free-cash flow and we enter the second half of the year with significant momentum.

With that, I will turn the call over to Zach to discuss our financial results, enhanced financial flexibility, capital allocation activities and outlook in greater detail.

Zachary B. Dailey {BIO 23168128 <GO>}

Thanks, Paul. This morning, I will focus on three key takeaways: record free-cash flow generation, increased standalone production guidance, and enhanced financial flexibility resulting from our recent capital markets transactions. I will also touch briefly on our unchanged capital allocation framework. Starting with the quarter, the operational execution Paul just discussed translated directly into strong financial outcomes.

We generated adjusted EBITDA of approximately $402 million and record adjusted free-cash flow of approximately $232 million, driven by production that exceeded guidance and stronger crude oil realizations relative to WTI. On the heels of a great first six months, we're increasing our full-year 2026 production outlook for the standalone business. Our revised guidance range is 64,000 to 68,000 barrels of oil per day and 87,000 to 91,000 Boe per day. This updated outlook excludes the previously-announced Gulf of America acquisition, which hasn't yet closed, and it includes the impact of the non-core shelf divestment, which closed early in the third quarter. Said differently, the base business is performing well enough to more than offset the production impact of the divestiture.

For the third quarter, we expect oil production of 61,000 to 65,000 barrels per day of oil and total production of 81,000 to 85,000 per barrels of oil equivalent per day. As a reminder, this third quarter and full-year guidance excludes the Gulf of America bolt-on acquisition and we expect to provide updated guidance following the expected close of that transaction later in the third quarter.

During the second quarter, cash on hand increased to approximately $578 million and total liquidity increased to approximately $1.2 billion, while our leverage ratio declined to 0.5 times. This position of financial strength gave us the flexibility to execute an important financing in support of the previously announced Gulf of America acquisition, while also further enhancing liquidity and extending debt maturities.

We issued $800 million of new 8% senior notes due 2034 with proceeds used to fully redeem our $625 million 9% notes due 2029 and to fund a portion of the acquisition. The transaction extended our debt maturity profile, reduced the coupon on the refinance notes, and enhanced our financial flexibility. In addition, we secured $150 million of incremental commitments from our existing bank group, increasing our credit facility borrowing base from $700 million to $850 million, effective upon closing of the acquisition.

These positive transactions were executed from a position of strength. They support an acquisition that increases deepwater scale and cash flow, and they preserve the financial flexibility needed to execute across all three pillars of our strategy. We continue to expect pro forma year-end 2027 leverage to be below 1 times, consistent with our long-term leverage target.

Our return of capital framework remains unchanged. We continue to expect to return up to 50% of annual free cash flow to shareholders through share repurchases, while also investing in high-return projects, maintaining balance sheet strength and pursuing selective accretive growth.

During the second quarter, we did not repurchase shares due to the acquisition-related corporate blackout period. Since announcing the framework in the second quarter of 2025, we have returned approximately $135 million to shareholders through repurchases, reducing our outstanding share count by approximately 7%.

Bottom line, we delivered record free cash flow, increased standalone production guidance despite the shelf divestment, and enhanced financial flexibility through capital markets transaction that support our strategic priorities. These results reflect the strength of the underlying business, disciplined execution across the organization, and a balance sheet that provides the flexibility to pursue our strategic priorities while continuing to create long-term shareholder value.

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

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) First question comes from Jack Cavanagh from Goldman Sachs. Please go ahead.

Q - Jack Cavanagh {BIO 3246669 <GO>}

Good morning, team, and thank you for taking my question. For the latest announcements on Mexico and Honduras, I was wondering if you could walk us through the overall strategy behind these low upfront commitment ventures into new international offshore areas. And also, if you could kind of expand on the exploration and development opportunities you're seeing for Mexico and Honduras respectively.

A - Paul Goodfellow {BIO 18789103 <GO>}

Thanks, Jack. Let me start by giving a bit of the frame and then I'll pass it over to Bill who can sort of talk about the second part of the question. I think it's important, Jack, that we think about your specific question on Mexico and Honduras in the context of the totality of what we've done now. And so first and foremost, it really is the quality of the underlying operations here in the Gulf of America that's allowed us to actually pursue options in that sort of second and third pillar of the strategic frame that we set out a year ago now; the first one, of course, being the bolt-on with Na Kika that immediately enhances free cash flow through, giving us access to material and immediate production growth, gives us scale both through reserves and resource potential in terms of what we can do in the area around it and it is very accretive to the totality of the metrics that we look at.

That then has allowed us to sort of look at other opportunities where, as I've always said, we start with do we understand the rock and do our technical -- or can our technical capability actually maximize the value from the opportunity, and that's what I and we believe we've done with Mexico and Honduras. And so strategically, Mexico gives us a greenfield development opportunity that is pre-FID, two discoveries that are all on block with a high-quality partner, and also gives us exploration upside on block in addition to that such that we can then look at a development that is host-based, based off the initial hub, and allows us to sort of grow through the longevity.

The third part of this, of course, is Honduras, which actually gives us portfolio longevity through long-term exploration optionality at an incredibly low-cost. Yeah, this is a significant acreage position, some 4 million acres equivalent to 700 Gulf of America blocks, with a proven oil system on it, there was a discovery in the 1970s where we see that and the working petroleum system from 2D seismic really sort of gives us a level of excitement to move forward with that.

So that's the context. But let me hand it to Bill sort of talk about the near-term activities, which I think was the second part of your question. Bill?

A - Bill Langin

Yeah. Thanks, Paul. On Block 29 in Mexico, we're really excited to progress with Repsol as our partner on this project towards FID. And to be clear, the FID will be anchored by the two existing entirely on block discoveries of Polok and Chinwol. At the same time, we see additional exploration potential on the block and we're working with Repsol to prepare for a potential well late next year to derisk one of those opportunities.

And therefore, we could see further increased scope even within the block. At the same time, the infrastructure to produce Polok and Chinwol could ultimately be used to produce other stranded discoveries and create even additional value within the region. So we see this as a core development of Miocene sands, which is Talos' bread-and-butter from the US side of the Gulf. And so it fits our technical skill-sets quite strongly, and we trust Repsol as a partner to get after the project in a way that fits with our value system. So we're just excited to get moving there.

In Honduras and Paul mentioned several of the aspects that were attractive of around the working petroleum system from several previously drilled wells, evidence from 2D seismic and will commence the 3D seismic program within -- before the end of the year here, and quickly get after what we see as a really attractive deepwater opportunity set.

Once we acquire the 3D and apply the latest seismic processing methods and our team's expert skills in evaluating those, we'll have the decision ultimately to progress it, if it's attractive or not, if it's not. But that we see four to five exploration plays within the block we've acquired and the evidence of the working petroleum system gives us a lot of confidence that we can potentially see something that's worth going after.

Q - Jack Cavanagh {BIO 3246669 <GO>}

That's all really great color. Appreciate you guys expanding on those opportunities. For my follow-up, I was wondering if you could talk through the Coulomb development opportunity with the pending Gulf of America bolt-on and what you are seeing with that opportunity that makes it compete for capital in 2027 potentially?

A - Paul Goodfellow {BIO 18789103 <GO>}

Yeah. I mean, look, historically, Talos has been incredibly strong at acquiring assets like these and then looking for opportunities in the near-field that we can tie back in short-cycle and sort of bring production back. And so as we looked at this opportunity, we were already starting to look at the potential within the vicinity. This opportunity happened already to be under our leasehold and therefore, it's sort of the easiest one, let's say, the most mature one to bring forward to compete for capital as we sort of think through the 2027 plan.

Now, having said that, we will continue to do a lot of work in the vicinity to really understand the totality of the potential, which we think could be significant and take this project down the same line that we've taken Brutus and Ram Powell, others that Talos has acquired, which is to extend the life through doing low-unit cost, short-cycle tiebacks to build production.

Q - Jack Cavanagh {BIO 3246669 <GO>}

Thank you, guys.

Operator

Your next question comes from Phillip Jungwirth from BMO Capital Markets. Please go ahead.

Q - Ajay Bakshani {BIO 19831895 <GO>}

Hello, everyone. This is Ajay Bakshani on for Phil. Thanks for taking our question. I know you're still working on next year's program, but would you expect to include much of the $300 million boe on risk resource from the December lease sale? And generally, what's your level of excitement around the upcoming lease sale?

A - Paul Goodfellow {BIO 18789103 <GO>}

I'll take the first part and I'll pass the second part to Bill. I mean, I think, as I've said before, we look at those opportunities to compete for capital in 2027. Clearly, some of them are more advanced than others, but I would expect that at least two or three of those would be under consideration for us to invest in 2027. The key criteria, of course, is that they have the same type of return profile that we look for in all of the opportunities that we execute within the Gulf. But Bill, do you want to take the second part?

A - Bill Langin

Sure. I think we've looked at all the open blocks, and there aren't a tremendous amount of first-time open blocks, but we'll selectively look to add where we see the opportunities create value for Talos and meet our relatively high technical and commercial thresholds. So we're at the moment finalizing the list of blocks for consideration. And next week, we'll ultimately make decisions on those that we see as most attractive.

Q - Ajay Bakshani {BIO 19831895 <GO>}

Great. Thanks. And for my follow-up, one of the majors referenced -- sorry, one of the majors last week referenced AI-powered exploration, identifying additional opportunities and 4D seismic unlocking value. Recognizing it's a different scale, but how much is Talos able to leverage some of these new technologies across the Gulf? Or advance the exploration strategy across the new basins?

A - Paul Goodfellow {BIO 18789103 <GO>}

Yeah. I mean, look, it's fundamental to the work that we're doing across the totality of the organization is how do we think about the value that AI can bring, as a process and workflow level. And so I think we are not looking at it as a singular use-case approach, rather thinking process by process, how do we use the technology to drive efficiency of our work and effectiveness of the outcome of that.

Part of that is clearly in the exploration and subsurface process, but we're also advancing that same type of application within production processes. But equally within, let's say, the functional components of finance and accounting as well. And so whilst we clearly don't have the investment level that maybe some of the majors have, I think we have the ability and entrepreneurship to work with the right type of partners in this space to actually advance that work.

And I would say, stay-tuned, and in the coming quarters, I'm sure we'll be talking more-and-more about that.

Q - Ajay Bakshani {BIO 19831895 <GO>}

Awesome. Thanks.

Operator

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

Q - Tim Rezvan {BIO 22940940 <GO>}

Good morning, folks. Thanks for taking our questions. Paul, I know growth has been a four-letter word in the industry in the last couple of years. But as we look globally, everyone sees sort of the physical inventories dwindling. You've got the balance sheet in a spot, a strength that really has never been. You have a lot of opportunities on your plate. I know you're not going to give 2027 guidance, but can you talk about sort of what signals the Board might look for to kind of lean into growth as you sort of exit the year-around 110,000 with sort of more opportunities than you've ever had on your plate?

A - Paul Goodfellow {BIO 18789103 <GO>}

Yeah. Thanks, Tim. I mean, look, I would say, I think the Board and the management team are very aligned with this sort of strategic framework that we laid out. And so the lean-in is really leaning into that strategic frame, whether that's improving our business each and every day. And again, I don't want the announcements of Mexico and Honduras on Na Kika overshadow the phenomenal work that the organization is doing because that is the foundation that allows us to look for these types of opportunities and to grow and build out the company in a very disciplined way. And so the word we use is disciplined execution of everything that we do.

And so I think one of the things that I look for and the Board looks for is that continued disciplined execution in every opportunity that we bring forward and whether that's how to restore generation to production, how we're drilling Daenerys or how we look for new frontier opportunities that maybe have been overlooked by others, that I think is sort of the key key factor that will continue to drive our appetite to push that strategic frame to the next step, Tim.

A - Zachary B. Dailey {BIO 23168128 <GO>}

Hey, Tim. I'd just add on to what -- this is Zach. I'd just to add on to what Paul said is, as we think about the 2027 program and as we get into that capital allocation discussion later this year, I mean, it really is -- it's beyond just production growth. It's growing profitability and investing in the business for the long-term, which is what you're seeing play out in some of the strategic announcements we've made today and the last month.

Q - Tim Rezvan {BIO 22940940 <GO>}

Okay. That's fair. That's fair. We'll have to stay tuned on that. And then, Paul, just as a follow-up, you gave the good updates on Monument and Daenerys as well. Can you kind of give an update on sort of what the milestones are for the back half of the year? And then related to that, you're bringing the West Vela rig back. Is that going to be for incremental work at Daenerys? Just trying to kind of understand the outlook for these two prospects. Thanks.

A - Paul Goodfellow {BIO 18789103 <GO>}

Yes. So I think, look, the key milestones for the rest of the year, we sort of laid out in the deck, but clearly, finalizing the reactivation of Brutus and starting that program is an important step for us; clearly, with our partner and operator Beacon on the Monument field, executing the totality of that program and having production right at the back end of the year; clearly, successfully getting Daenerys down to TD and seeing what that well informs in terms of the next steps for the overall appraisal and development potentially, and then clearly, sort of the new steps related to Mexico and Honduras once those are finally closed, which would be the seismic in Honduras, of course. And then getting the regulatory approval and progressing both the development decision as well as the next exploration well on Block 29.

So those are sort of key milestones that we will continue to talk about and update you against. All the time making sure that each and every one of those fits within that financial framework that we have laid out. So clearly, and will continue to be one of the guiding principles by which we work.

Q - Tim Rezvan {BIO 22940940 <GO>}

Okay. Thank you.

A - Paul Goodfellow {BIO 18789103 <GO>}

And then sorry, on the West Vela rig, because I didn't get to that point. I mean, so look, so what we recognize with the portfolio that we're building now is that we can actually be a little bit more strategic in terms of how we think about contracting rig capacity. And this is sort of the next step you've seen us take on that with now we contract the rig for a full 12 months plus options beyond that. And that's because of the depth of opportunities that we have allows us to do that.

Now within that, we hope that follow-on activity at Daenerys will be part of that, but that rig commitment is not dependent on Daenerys alone. And as we've always said, we will go after the most value-accretive opportunities within the portfolio that fit within the overall strategic frame of what we're trying to deliver here.

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. Sticking quickly on West Vela, can you give us some idea of kind of the timing of operation 2027, basically when you expect it to come back? And also, was there any notable kind of directional move on the pricing you're seeing versus what you were planning for the prior round?

A - Paul Goodfellow {BIO 18789103 <GO>}

Bill, do you want to pick that one up in terms of the plan for next year?

A - Bill Langin

Sure. Notionally, right now, based on our work with Seadrill, we should expect to receive the rig around midyear depending on how their operations with its current contract go. And I think we've seen -- we were able to leverage the existing relationship and performance with Seadrill to hold pricing relatively close to where it's been. So I think we're really happy with that ongoing strategic relationship that we've developed with them because the ability to take a rig over a longer period of time, we'll just continue to improve its performance with us as we continue to embed our systems in ways of working.

So we see this as a significant opportunity to continue to deepen that relationship, and drive even better performance than we've seen before.

Q - Paul Diamond {BIO 16818858 <GO>}

Got it. Makes perfect sense. Circling back on the share buybacks, you guys have blacked out the quarter, but I mean, given the current market conditions and kind of where you see the pricing movement, should we expect -- how should we expect to see the cadence through 2H? Are you all expecting to jump right back in or is there still -- is there any shift there in methodology?

A - Zachary B. Dailey {BIO 23168128 <GO>}

Yeah. Hey, Paul, it's Zach. Thanks for the question. When it comes to cash returns in the back half of the year, first and foremost, the disciplined capital allocation framework that we speak about is unchanged. One element of that framework is to have the flexibility to grow the business through the selective accretive opportunities, which is exactly what we've done here with some of these deals we're talking about today.

And as you mentioned, buybacks were temporarily paused during the quarter due to the M&A-related blackouts, but shareholder returns remain an important part of how we allocate capital, and we'd expect to be back in the market. So look, the balance sheet provides a tremendous amount of financial flexibility for us to continue investing in the business, continue pursuing accretive bolt-ons, and return capital to shareholders while we run the business, execute the strategy, and keep long-term leverage under 1 times.

Q - Paul Diamond {BIO 16818858 <GO>}

Got it. Understood. Appreciate the time, and I'll leave it there.

A - Zachary B. Dailey {BIO 23168128 <GO>}

Thanks, Paul.

A - Paul Goodfellow {BIO 18789103 <GO>}

Thanks.

Operator

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

Q - Michael Scialla {BIO 4082882 <GO>}

Good morning. I want to go back to Honduras. Obviously, a huge acreage position there. I want to see how long do you have to evaluate that? And it looks like you have the option to bring in a partner. I wanted to get a sense of your thinking there. Would you look to do that before you drill or maybe even before you shoot seismic?

A - Paul Goodfellow {BIO 18789103 <GO>}

Bill, please.

A - Bill Langin

Yeah. Thanks for the question. So we'll commence the 3D seismic here, and at the same time, we're maturing a specific permit with the government to achieve, it's called the environmental permit to drill by the end of the year, and that will start a two-year clock once that permit's received. So we'll be well positioned to acquire the seismic and evaluate its potential by approximately the middle of next year, which gives us another year and a half to ultimately make the optional decision to drill or not. So we're comfortable with the time frame we've got. On thinking about a partner, we're framing those opportunities now, and we'll look at the potential of -- potential dilution pre-seismic or waiting till after we acquire, but we'll do it in a way we think creates the most value for Talos.

Q - Michael Scialla {BIO 4082882 <GO>}

Understood. Thanks for that. Appreciate it. Wanted to ask on the divestiture. Was there any compensation? I didn't see anything listed there. Is it just a matter of eliminating the ARO? And I guess with these things, you got to worry about the buyer. Is there -- does that completely eliminate your liability there or how confident, I guess are you the financial position of the buyer? And does this open up other opportunities to do similar non-core divestitures for you?

A - Paul Goodfellow {BIO 18789103 <GO>}

Yeah, thanks. Let me start on that, and then maybe I'll ask Zach to add into it. I mean, look, I think your question is the right question to ask. And so these were primarily non-operated activities. Gas weighted that didn't really sort of fit the portfolio or the strategy that we have on a go forward. But the most critical item for us was that the structure of the deal was done in such a way and that the likelihood of any return of that liability was eliminated. And that's what we have been able to do with this.

And as you saw in the release, it eliminates a sizable amount of future ARO liability that we have. And we are very comfortable with the construct and the counter party that we've transacted with here.

Q - Michael Scialla {BIO 4082882 <GO>}

Are there possibilities, or are you looking to do more non-core divestitures?

A - Paul Goodfellow {BIO 18789103 <GO>}

I mean, clearly, look, we're always looking to high-grade the portfolio. And if we see an opportunity to do that regardless of which part of the portfolio it sits in, and that leads to a path of creating more value for Talos then we will absolutely look at that. And I think this quarter has been, let's say, dominated by the acquisition side of portfolio management, but we're equally always looking at the high-grading side as well.

Q - Michael Scialla {BIO 4082882 <GO>}

Sounds good. Thank you.

A - Paul Goodfellow {BIO 18789103 <GO>}

Thank you.

Operator

Your next question comes from Michael Furrow from Pickering Energy. Please go ahead.

Q - Michael Furrow {BIO 23939425 <GO>}

Good morning. I'd like to hit on the offshore Mexico farm-in. The entrance seems development led from the Polok and Chinwol discoveries the 200 million barrels equivalent gross resource. My understanding is that there's kind of limited development infrastructure in the region and anything would be moving forward through an FPSO if the project reaches FID later this year. But with this update, it sounds like there's an additional 200 million barrels of equivalent resource potential, which could really lower the entry cost into the field.

So does this additional resource potential increase your confidence in the prospectivity of the original two discoveries? And if so, can you share if there's any sort of exploration or seismic that the operator plans in the near-term?

A - Paul Goodfellow {BIO 18789103 <GO>}

Yeah. I mean, the two discoveries are robust, let me say that. And so hence, Repsol was moving forward through the process towards FID. We have now joined them in that. We see prospectivity on the block. The block is a fairly large swath, and therefore we will look to progress the exploration opportunities almost in parallel with the development of Chinwol and Polok such that we then build a pipeline of, let's say, backfill to go to the host, which, as you rightly say, will most likely be an FPSO. But Bill, any color to add to that?

A - Bill Langin

Sure. As we mentioned, these are myocene sands, equivalent to the producing intervals on the northern side of the Gulf, which Talos has known very well and has deep experience in. They have clear seismic responses, which we can then use to calibrate against one another. So the exploration prospect that we will likely drill late next year has a similar seismic response to the two existing discoveries, as do the other identified prospects. So we have fairly high-quality seismic, so no need to add to that inventory in the near-term. So it will be about characterizing the additional volume that ultimately could either backfill or result in additional development.

A - Paul Goodfellow {BIO 18789103 <GO>}

Look, that was really one of the key elements of attractiveness to this was not only did we have an anchor development that was moving towards FID with a quality partner and operator, but we also saw the potential for fairly significant exploration upside on block as well.

Q - Michael Furrow {BIO 23939425 <GO>}

Great. Appreciate that response. As a follow-up, I'd like to hit on the confirmation of BP waiving its preferred on the Na Kika platform. Ultimately, the economics of near-term tieback should be more attractive going forward, right? So Paul, could you maybe help us understand what Talos' allocation of the ullages now? Does Talos now control ullage of the platform and its current interest or does that ullage just only apply to new developments?

A - Paul Goodfellow {BIO 18789103 <GO>}

Yeah. So Talos and our partner Ridgewood, of course, have done this deal with Shell, will step into Shell's allocation, and that's really sort of split between the overall platform allocation as well as the dedicated allocation that's linked to the operated field of Coulomb that ties back to Na Kika.

Q - Michael Furrow {BIO 23939425 <GO>}

Great. Thanks for the time.

A - Paul Goodfellow {BIO 18789103 <GO>}

Thank you.

Operator

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

Q - Nate Pendleton {BIO 24004152 <GO>}

Good morning. Congrats on the strong quarter.

A - Paul Goodfellow {BIO 18789103 <GO>}

Thank you.

Q - Nate Pendleton {BIO 24004152 <GO>}

Paul, in your prepared remarks, you talked about successful production optimization initiatives during the quarter. Can you elaborate on what some of those initiatives were? And perhaps on the Cardona outperformance, was there -- was that due to geology or was there something specific that your team was doing there?

A - Paul Goodfellow {BIO 18789103 <GO>}

Yeah, thanks for the question. Look, I mean, I think on the first part, it really is just great work by the production and development teams to think about how can they maintain the uptime of facilities, how can they maintain the throughput of facilities, great surveillance work to understand what's happening down hole and in wellbore. And as they see any changes, how do they intervene on those to make sure that well productivity stays up.

And so there is not one thing that I can point to. I would say it is just a high-quality team that is on top of its business, looking at the wells and making sure that they're producing as close to that optimal level as we can and great credit goes to Will Bunkers and his team for continuing to look for the opportunities.

Now, what then tends to happen, of course, is that in combination with the development teams, they start to look for optimization opportunities. Are there areas that maybe can compete for capital from a recompletion point of view through opening up a new horizon. That's exactly what you saw happen at Genovesa where clearly the prime drive was to reinstate that well.

But once the teams got to look at it, they saw an opportunity to access a lower zone that could put another maybe 4 million barrels into the inventory that otherwise would have been left behind pipe. And so it really is that constant questioning of how can we do better today than we did yesterday with all the available data that is at hand.

On Cardona, maybe let me ask Bill to give you a few specifics on that.

A - Bill Langin

I think on Cardona, in particular, the team did an excellent job in delivering that restoration ahead of schedule. And if you describe this operation, this is essentially hitting a half-inch target a few miles away -- sorry, from the rig. And I think if you -- when we brought the production online and saw how we could improve the throughput between the overall system optimization and the production, I think it's just an amazing testament to the way the teams continuously monitor the reservoir performance and tweak the parameters to get the most out of it.

Q - Nate Pendleton {BIO 24004152 <GO>}

That's really encouraging. Thanks for all the detail there. Shifting gears a little bit, while Mexico's Block 29 is still somewhat familiar, Honduras seems to represent a pretty material step-out from the historical focus on the Gulf of America. So what I'm really interested in, your willingness to further shift the portfolio internationally and how those opportunities compare to the growth opportunities you see in your current portfolio or kind of what you're looking at in the Gulf of America itself.

A - Paul Goodfellow {BIO 18789103 <GO>}

Yeah. Thanks. Look, we look at every opportunity through that strategic lens that we have from the three pillars and then the capital allocation framework. And as we've always said, we start with, do we understand the rock. And so that is first and foremost, and we look at that irrespective, if you like, of where the geography is, but do we understand the rock and does it fit into the skill set that we have that I think we have shown and proven over a number of years to become sort of masters of understanding and we can sort of take a very competitive view at that.

And so that is the lens that we look at. And as we've said, we will look at sort of where that geology exists, which in gross terms, should we say sort of down and up the Atlantic margin. And so that's the area of focus of where we are looking, and we'll continue to look. But of course, it all fits in that frame of investing in the base business, making sure that that is successful, making sure that we maintain the strength of the balance sheet that we return cash to shareholders, and then and only then looking at accretive acquisitions that can grow out the portfolio and actually give us the longevity that we're looking for where we can have projects compete for capital and also maybe take positions where we can create value by bringing partners in because we're very early into those and we can get value for the derisking activity that goes out in front of us.

Q - Nate Pendleton {BIO 24004152 <GO>}

Understood. Thanks for taking my questions.

Operator

Your next question comes from Subash Chandra from StoneX. Please go ahead.

Q - Subash Chandra {BIO 1504881 <GO>}

Yeah. Good morning. Does Pemex back in for 51%?

A - Paul Goodfellow {BIO 18789103 <GO>}

No, if you're referring to Block 29, then no, these are totally on block opportunities that were under Repsol's control and now are under Repsol and Talos partnership. Was that the question you were asking?

Q - Subash Chandra {BIO 1504881 <GO>}

Yes. Yeah, exactly. So I guess you know, it's different. It looks different than Zama. The politics look currently different than Zama. Is it fair to say that those are key distinctions that having Repsol operated, PEMEX, not in the operating group, these are differences to the Zama experience?

A - Paul Goodfellow {BIO 18789103 <GO>}

Yes, is the simple response to that. Clearly, the Zama situation arose because the discovery went off block onto a PEMEX block, and therefore that drove the unitization. We do not see that risk here at all. The map discoveries are all on block. And I think as well the sort of overall environment in Mexico is trending in a slightly more positive direction. The fact that Repsol has already taken this a fairway down -- the fairway in terms of being FID ready, were all elements that gave us the confidence that we could take a position here and help them move it forward through to find investment decision and onward to production.

Q - Subash Chandra {BIO 1504881 <GO>}

Right. Got it. And then on CaribX, they've been developing that prospect for quite some time. Just curious, when did Talos sort of begin to look at their data?

A - Paul Goodfellow {BIO 18789103 <GO>}

I mean, look, this has just been part of the ongoing strategy that we've had. And so since we announced that strategic frame last year, that's what kicked-off that work.

Q - Subash Chandra {BIO 1504881 <GO>}

Okay. And then just finally, was that negotiated between you and CaribX or were they sort of out there looking for partners and it was a bidding situation?

A - Paul Goodfellow {BIO 18789103 <GO>}

We're not going to get into the specifics. What I will say is, we will look at all opportunities that are out in front of us, either those that are going through some form of a public process or ones that we can identify with a counterparty to create the opportunity set that we need to.

Q - Subash Chandra {BIO 1504881 <GO>}

Thank you.

Operator

(Operator Instructions) Your next question comes from Noel Parks from Tuohy Brothers. Please go ahead.

Q - Noel Parks {BIO 3358841 <GO>}

Hi, good morning. It was good to hear some of the background on your thinking about evaluating the acquisition opportunities. And I was thinking specifically about these new international opportunities. I guess, for the last year, year and a half, you have been pretty clear that international projects were definitely part of what you would look -- would be looking for. And so I guess if you could maybe talk a little bit about, just in general terms, what sort of things you had been evaluating and sort of how Honduras, for example, sort of did manage to sort of get over your hurdle maybe when other types of projects didn't? And your remark just a minute ago about the sort of up and down the Atlantic margin. I just wondered, are you still considering yourself or are you considering yourself more or less confined to that geographically?

A - Paul Goodfellow {BIO 18789103 <GO>}

Thanks. I mean, look, I think we've been clear in terms of our strategic frame sort of leads all of our thinking and work, and that's the work that we have been doing over the last sort of 12 to 16 months. And I'm not going to comment on specific areas that we've looked at or will look at, but just to say that we are driven by the geology and the rock first and foremost, do we have the skills and the knowledge to actually evaluate those effectively and competitively, and do we feel that we have a skill set to bring that can actually create incremental value compared to whoever or whatever the position of the holding is at this point in time. And that's the approach that we've taken and that's the approach that we will continue to take.

Now, in general terms, we've said that those areas of interest happen to be down through South America and up the West Coast of Africa. And that's what we will continue to look at now. That doesn't mean to say that if there are other areas where we see that commonality of geology that we won't look, but we will be very, very, very careful, before we sort of step out of, let's say, our backyard of the sort of very near outboard of the Gulf of America and now sort of southern part of that in Mexico and through the Caribbean.

Q - Noel Parks {BIO 3358841 <GO>}

Great. Thanks. And we -- this year has sort of launched us into a pretty chaotic capital markets environment and a lot of capital looking for a home. And I was just wondering, if you were seeing, I guess I'd call it, intermediary or third-party capital, in other words, sort of outside of the traditional operators or majors, looking to get into the Gulf, and I just wonder if you had had approaches sort of from sort of unconventional sources just as -- certainly because deepwater projects offer a time horizon that could be attractive to folks looking to put capital to work.

A - Zachary B. Dailey {BIO 23168128 <GO>}

Hey, Noel. It's Zach. Appreciate the question. I mean, the short answer is yes, there's lots of interest in the Gulf, and you've seen that through multiple transactions over the last six to 12 months. We're always actively evaluating the best source of capital for us. I would take you, however, back to the refinancing that we just did and the bond deal that we executed in early July on the heels of the Na Kika Coulomb acquisition where we were able to extend our maturity out to 2034 and lower our interest rate from 9% to 8%. So I feel like we're in a really good spot right now and we've got a very strong balance sheet, and we'll always entertain other options to further strengthen that.

Q - Noel Parks {BIO 3358841 <GO>}

Great. Thanks a lot.

A - Zachary B. Dailey {BIO 23168128 <GO>}

Thank you.

Operator

There are no further questions. I'll turn the call back over to Paul for closing remarks.

A - Paul Goodfellow {BIO 18789103 <GO>}

Thank you, Vincent. And thank you all for joining today and your continued interest in Talos. To close, the second quarter demonstrated the strength of our base business, the quality of our team, and the durability of the strategy. We delivered exceptional operational execution, generated record free cash flow and advanced each of our three strategic pillars, all whilst maintaining the discipline that underpins our capital allocation framework.

We enter the second half of the year with strong momentum, a high-quality oil-weighted portfolio, enhanced financial flexibility and a clear path to continue building the foundation to be a leading pure-play offshore E&P. And we look forward to updating you on our progress in the months and quarters ahead. Thank you all.

Operator

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