Canacol Energy, Ltd.

2023 Year End Financial Results

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CORPORATE PARTICIPANTS

Carolina Orozco – *Vice President, Investor Relations*

Charle Gamba – *President & Chief Executive Officer*

Jason Bednar – *Chief Financial Officer*

PRESENTATION

Operator
Good day and welcome to Canacol Energy's 2023 Year End Financial Results Conference call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero.

After today's presentation there will be an opportunity to ask questions. To ask a question, you may press star then one on a touchtone phone. To withdraw your question, please press star then two. Please note, this event is being recorded.

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

Carolina Orozco
Good morning and welcome to Canacol's Fourth Quarter 2023 Financial Results Conference call. This is Carolina Orozco, Vice President of Investor Relations. I am with Mr. Charle Gamba, President and Chief Executive Officer and Mr. Jason Bednar, Chief Financial Officer.

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

Please note that all finance figures on this call are denominated in US dollars.

We will begin the presentation with our President and CEO, Mr. Charle Gamba, who will summarize highlights from our fourth quarter and 2024 [sic] year-end results. Mr. Jason Bednar, our CFO, will then discuss financial highlights. Mr. Gamba will close the discussion of the corporation's outlook for the remainder of 2024. At the end, we will have a Q&A session.

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

Charle Gamba
Thanks, Carolina and welcome, everyone to Canacol's Fourth Quarter 2023 Conference call. In 2023, the corporation achieved several important goals, including record EBITDA of $237 million and 11% return on capital employed. This is achieved with average realized natural gas sales of 178 million standard cubic feet per day within our guidance for 2023 of 160 million to 206 million standard cubic feet per day. We also announced the entry to Bolivia with the award of three gas focused exploration contracts.

Starting in August of 2023, we experienced some unexpected production capacity issues related to both well performance in a couple of our smaller gas fields and production facility related issues at our Jobo gas processing plant. To offset these issues, we drilled additional development wells between October and December, executed a number of well workovers on existing producing wells, including those in the smaller fields that experienced premature water breakthrough and repaired the affected production facilities.

Our internal reserves analysis, as supported by our 2023 year-end reserves report from our third-party auditors, which we released yesterday, confirmed that the reserves in our largest fields, those accounting for over 80% of our production base were not affected by these issues. These fields not only have been performing as predicted, but also recorded positive technical revisions to proven and proven plus probable gas reserves as of year-end 2023 based on production performance.

Our 2P after tax NPV-10 increased 34% to $1.8 billion at December 31, 2023, compared to $1.3 billion at December 31, 2022, primarily due to stronger wellhead gas pricing and the corporation's tax restructuring in the fourth quarter of 2022, the results of which have been incorporated into this year-end 2023 reserves report. This has materially increased our estimated net asset value per share to C$15.14 on approved and C$40.24 on approved plus probable basis. In both cases, in Canadian dollars using after tax present values discounted at 10%. That means that our share price using a year-to-date average now represents very large discount of 60% to 85% to those proved and proven press probable net asset value per share estimates.

Our exploration drilling activities in 2023 met with limited success, as evidenced by the fact that our reserves replacement ratio was 32% and 31% for proven and proven plus probable reserves, respectively. Exploration success at Dividivi, Chimela and Lulo were offset by negative results at Piña Norte, Cereza and Fresa in our near field areas, as well as the inability to reach the target of the high impact in the Tier 1 exploration well on our SSJN7 contract due to mechanical drilling issues.

With respect to our achievements in ESG, we continue leading the industry as one of the cleanest oil and gas producers in both Colombia and North America. During 2023, through the continuous and successful implementation of our corporate ESG strategy, we achieved the distinction of being included in the S&P Global Sustainability Yearbook 2024 for high performance sustainable practices. Canacol was the best company in corporate governance in the oil and gas upstream and integrated segment and we ranked among the top 10% in our industry overall. We expect to be releasing our 2023 Sustainability Report during the month of May 2024.

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

Jason Bednar
Thanks, Charle. We reported approximately $237 million in adjusted EBITDAX for the full year of 2023, an 11% increase from 2022 and roughly in line with 11% increase in net revenues. These are strong financial results that allowed us to maintain our quarterly dividend throughout 2023, paying $26 million to shareholders.

Adjusted funds flow from operations was up 55% to $146 million but the majority of the 55% increase is due to the impact of a corporate restructuring that we undertook in the fourth quarter of 2022 in order to better optimize our business, which caused the one-time $65 million current tax expense in 2022. However, that corporate restructuring also increased our deferred tax asset base by $202 million on a one-off basis in 2022, which explains why our net income declined in 2023 relative to 2022, which had this large windfall deferred tax recovery.

Looking at our operational results on a quarterly basis, our operating netback increased to $4.39 per Mcf in the fourth quarter of 2023, driven by strong realized prices of over $6 per Mcf, more than offsetting higher royalties and operating costs as we saw higher spot prices driven by high demand resulting from the El Niño phenomenon lowering rainfall and hydropower availability, as well as higher firm contract prices starting in December, with both these factors contributing to our expectations for continued strong prices and netbacks in 2024.

The increase in operating expenses in the fourth quarter was due to a combination of factors, including previously delayed maintenance activities performed during Q4, an increase in water treatment costs during Q4 2023, which is expected to decrease in 2024 increased road maintenance costs, a one-time service cost relating to a compressor unit at the Jobo gas processing facility and of course, inflation. Op ex is trending higher than we saw historically, but we expect to see a reversion from the very high levels seen in the fourth quarter.

To further highlight the strength and stability in our business and financial results, we want to highlight the return on capital employed implied by our financial statements over the last five years. This return on capital employed remained above 10% for a fourth year in a row at 11% for 2023.

With respect to leverage, we were fully drawn on our revolver as at year-end in order to maximize short-term liquidity and flexibility. Our net debt to EBITDA leverage ratio was at 2.85x on a trailing 12-month basis at December 31st, up from 2.7x at June 30th and 2.6x at September 30th. To refresh everyone's memory, our bond leverage covenant is at 3.25x in current space and the revolver is at 3.5x maintenance. As such, we're still well within those covenant restrictions. Finally, as of December 31st, we had $39 million in cash.

Our 2024 guidance announcement didn't provide cash tax or after tax cash flow guidance, but I'd like to touch on that now, given some of the recent questions I've had on this topic. On our low end 2024 guidance of $250 million of EBITDA, I now expect 2024 current tax expenses of approximately $35 million. That represents less than half of the $78 million of current tax expense in the 2023 financial statements on a lesser amount of $237 million of EBITDA for 2023. This, of course, is primarily a result of the corporate restructuring, which is now fully in place.

We expect to fund our 2024 capital program from cash flow. However, the first half of 2024 does have some significant cash payments, including the January and February payments of the Q4 2023 capex relating to the active capital program that quarter.

There are also the final tax payments relating to 2023 taxes, as well as the prepayment of 2024 taxes as required under Colombian regulations, that will be paid in the first half of 2024. However, given our expectations for lower current taxes going forward, we expect the cash requirement to be relatively short-term, reverting through the second half of 2024 and into 2025, as we continue to utilize our now large, deferred tax assets.

That said, and with us now having fully drawn our revolving credit facility to facilitate these payments, we are increasingly of the view that cash liquidity and balance sheet preservation are corporate priorities. Therefore, as announced in our press release, we have made the difficult decision to discontinue our quarterly dividend.

Since initiating that dividend in late 2019, we paid out approximately $118 million over 17 quarters amounting to an aggregate of C$4.42 per share. However, it is now clear, in our view, that discontinuing the dividend in order to increase balance sheet flexibility and cash liquidity in the short term is in the best long-term interest of all stakeholders.

That concludes my comments. I'll hand it back to Charle.

Charle Gamba
Thanks, Jason. For 2024, the corporation is focused on the following objectives. Firstly, the corporation aims to optimize its production and increase reserves by drilling up to five development wells, install a new compression and processing facilities as required and work over operations of producing wells in the corporation's key gas fields. Secondly, we are planning to drill four exploration wells and continue acquiring 3D seismic to add new reserves and production and to identify new drilling opportunities.

Thirdly, maintaining a low cost of capital, cash liquidity and balance sheet flexibility to invest for the long-term. As a result, we have delayed plans to drill our Pola-1 exploration well in the Middle Mag Basin to 2025, as we announced in our February guidance release.

Fourthly, in Bolivia, we're targeting government approval of a fourth E&P contract that covers an existing gas fuel reactivation to begin development operations with a view to adding reserves in production and commencing gas sales in 2025. Lastly, we will continue with the corporation's commitment to its environmental, social and governance strategy.

We expect to achieve all of these goals within the context of the budget and guidance that we announced in February of 2024, which is summarized on the slide shown here and in our investor presentation. We expect to generate between $250 million to $290 million of EBITDA in 2024, representing year-over-year growth of 5% to 22%. While we believe that it makes sense to take a measured approach with lower exploration activities in the short-term, it's important to reiterate that we and our third-party resource auditor have identified approximately 900 Bcf of risk exploration resource potential remaining on our current exploration acreage located in the Middle Magdalena Valley, exposing us to considerable exploration upside continuing forward.

For the past six months, we’ve focused on development drilling to ensure that we have sufficient productive capacity to meet demand and potentially take advantage of strong pricing in the current spot market. Towards this end, I'm pleased to announce that we are currently in the process of bringing on to production our first exploration discovery of 2024, the Pomelo-1 well, which encountered 96 feet of gas bay within the Cienaga de Oro reservoir, our main producing reservoir there at Jobo.

We expect to spud our second exploration well Trandadora-1 [ph] situated 5 kilometers to the north of Pomelo within the next two weeks. In the first half of 2024, our exploration activities are likely to be focused on smaller near field opportunities, such as Pomelo and Trandadora that could be quickly tied into production. In the second half, we anticipate drilling a pair of larger high impact prospects targeting larger reserve adds.

We're now ready to take questions.

QUESTIONS AND ANSWERS

Operator
We will now begin the question and answer session. To ask a question you may press star than one on your touchtone phone. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. At this time, we will pause momentarily to assemble our roster.

The first question comes from the line of Alejandro Demichelis with Jefferies.

Alejandro Demichelis
Yes, good morning, all. Thank you very much for taking my questions. Couple of questions if I may. Could you please update us on where production is currently for the corporation?

Then the second question, Jason, you talked about the strong cash requirements in the first half of the year. So, what kind of other initiatives apart from the dividend are you taking to preserve the balance sheet? Can we see a situation where you breach that kind of covenant of the debt in the first half of the year?

Charle Gamba
With respect to production, January and February's gas sales averaged 156 million standard cubic feet per day.

I'll allow Jason to respond to your second question, Alejandro.

Jason Bednar
Yes, sure. With respect to liquidity, so I mentioned that the 2 covenants are 3.25x in current space and 3.5x maintenance. We expect to be well within even the 3.25x, perhaps not even breaching 3x, given that of course, the revolver is fully drawn, and we still are at 2.85x.

In terms of additional liquidity, we do have, if you recall, an investment in Arrow Exploration. That, of course, was the company that we sold our oil assets to in the fall of 2018, I believe. They've done a great job. Their share price has increased significantly recently and about 350%, I believe since they listed on the AM Exchange a couple of years ago. We hold 21% of that company, roughly 60 million shares. That equates to about $20 million. It's non-core and that's a position that I could sell into some strong handed shareholders of theirs.

I suppose secondly, if we needed to, given some unusual payments, REIT [ph], taxes, etc., this year that won't exist next year, given the guidance leverage ratios of 2.4x to 2.8x, I suspect they could put a small short-term facility in place just to get through, but those would be the two main sources with respect to additional liquidity, if required.

Alejandro Demichelis
Okay. That's fantastic. Thank you very much.

Operator
Next question comes from the line of Sergio Calci with UBS.

Sergio Calci
Thank you for the presentation, guys. Actually, both of my questions were answered, so nothing from me. Thanks.

Operator
Next question comes from the line of Anne Myong [ph] with Bank of America.

Anne Myong
Thank you very much for the call. I just would like to ask you if you could go over some of the items— it was just too fast for me to get it all down that you have in terms of the cash uses you had that for the

$200 million drawdown that you had of your revolver. I know you talked about $35 million in taxes and corporate restructuring and a few others. If you could just go through that very quickly, I'd appreciate it.

The second question I have is, what would the conditions be for reinstating the dividend in the future? Thank you.

Jason Bednar
I'll start with the dividend, perhaps. The press release states that it was discontinued. That particular word was carefully chosen, I suppose. It's not canceled as it could return in the future. It's not suspended, as I don't want to give false hope that it could return in the near-term. The company several times has stated that debt reduction is a priority and I think we would prefer to manage that as opposed to going back to a dividend in a near-term basis, but it is something that could return at some point in time.

Your first question I think was with respect to liquidity. So, the Q4 capex was roughly $70 million, so what would that be, $23 million a month. Of course, the November and December capex isn't paid until January or February. Of course, that took some extra liquidity out of the system, and we ultimately drew on the revolver. We do have about $30 million in cash currently, but if I were to compare $23 million of capex by month for Q4 of 2023, our low end guidance this year for capex is $137 million. We're still on track and I believe we'll be somewhere near that lower end guidance at capex and it's roughly half. So, proportionately, it's more this year— the end of last year than it will be at the end of this year.

We do have, as my opening comments discussed, that $78 million in current tax, there's some final payments of that that we have made that are due on varying months. Then of course the prepayment of 2024 tax, which under Colombian regulation is a formula based on the average of the last two years' taxes. Those years, of course, were 2022 and 2023. That was prior to the restructuring plan fully in place. As such, the prepayment of tax this year is relatively large compared to the prepayment of tax next year, which will be considerably smaller, like to the tune of $35 million or $40 million less small or smaller, I guess. Those were the biggest draws in terms of liquidity and hence the decision to take the revolver to the full $200 million.

Anne Myong
Okay and the $78 million on current taxes, I know you said it's due in varying months. Is it the first half of the year or the first quarter of the year?

Jason Bednar
Yes, it's February, April and May. I think we probably have about $20 million left to pay. It's not a— the bulk of it has already been paid.

Anne Myong
So that's taxes, no dividends. We can calculate the interest expense because we see where it was in the fourth quarter on your financial statements and that would be fair to use for the at least for the first half of the year.

Jason Bednar
I would caution you on the interest expense. When we refinance the bond, you're going to see additional— on the P&L, you'll see additional interest expenses as we amortize fees, etc. but that cash is already out the door. So, look through the MD&A and find the actual cash expense or we could have a follow-up call after this, if you want.

Anne Myong
Okay. Are you expecting any substantial changes in working capital, either positive or negative?

Jason Bednar
Not particularly. I guess a disposition of Arrow shares would be roughly $20 million for working capital.

Operator
Next question comes from the line of Oriana Covault with Balanz.

Oriana Covault
Hi. Thanks for taking my question. This is [indiscernible] Balanz. I had two questions. First on the reserves report. We noticed that your reserve replacement ratio was below 100% and probably below the average that we've seen in the last year. So, I just wanted— and mostly on the back of positive technical revision, so— and less so on discovery. So, I wanted to understand the strategy going forward in terms of reserves. What are you targeting in terms of reserves replacement? Then, how should we think of reserve [indiscernible] seeing that, of course, capex is going to be cut significantly during this year? That's the first question.

Charle Gamba
Yes. With respect to reserves replacement, as I mentioned in the context of my initial discussion, we had mixed results from our exploration program last year with a couple of small discoveries and some dry holes, as well as the inability to reach one of the larger prospects due to mechanical issues while drilling. So typically, we target a reserve, a 2P reserve replacement ratio of 200% with our exploration programs. We are going to try and achieve that again this year within the context of the exploration program we currently have budgeted, which includes four exploration wells. The first of which we've just— as I just mentioned was a discovery at Pomelo-1. So typically, exploration success drives our reserve replacement ratio.

Last year, we had mixed results with several dry holes. This year, we think we have a much better portfolio to drill, include some new wells off of the new 3D seismic surveys that we shot last year. We'll be drilling. So, we're fairly optimistic that we will return to our historical hit rate of over 80% on the exploration front within the context of our capital program that we outlined in our guidance.

Oriana Covault
And maybe just on the production side, you mentioned the average sales volume for January, February are 156. That looks below your low end of guidance. So, I just wanted to understand a bit more if you could provide color in terms of commercial strategy? I would have expected volumes start to recover more financially since January and especially seeing the pickup in demand and because of new event. So how should we think of volumes in the context of the guidance that you provided for the full year in the average volumes that you're running currently?

Charle Gamba
Yes. Within the context of our published guidance, we expect to average between 160 million and 180 million cubic feet per day. So, with additional exploration discoveries like the one we just announced today at Pomelo-1. We expect to land within that range of average production for the entire 12 months of 2024, within the context of our published guidance.

Oriana Covault
Understood. Thank you very much.

Operator
Next question comes from the line of Juan Cruz with Morgan Stanley.

Juan Cruz
Hi, good morning, guys and thanks for the call. Just wanted to clarify one thing. So, from the capex that you have still pending from last year, which I guess amortizes at $23 million per month or something like that. How much should we see in Q1 as being paid off and how much in total? I guess your guidance is $138 million to $150 million or so. So, what is the total capex expenditure expected for this year inclusive of what you still have left from 2023 is my first question?

Second, you have $30-some million left in cash. The revolver is tapped out and you could sell assets for about $20 million. If need to be, is there any other source of liquidity that you can use other than free cash flow assuming that you get there to make sure that you don't end up with too little cash on your balance sheet in Q1 or Q2? That would be helpful.

Jason Bednar
So $70 million of capex in Q4 is about $23 million a month, right? So, a payable cycle would mean that November and December invoices are typically paid in January and February. They have been paid, right? So, there's no more outstanding relating to last year. The point was simply that if you look at this year's capex program at $137 million, divide that by 12, you'll have $11.5 million a month. Of course, November and December 2024 will be paid in January and February 2025.

So early this year, there would have been $23 million per month instead of $11.5 million per month, which for those 2 months would be an extra $23 million out the door as compared to the $137 million. So, $137 million plus that $23 million, when you look at it, the cash out the door would be $150 million relating to capex out the door in 2024 as opposed to the $137 million that you see. Obviously, when you receive a bill on December 31st, you're not paying it that exact same day.

With respect to liquid— and sorry, once you get to be crystal clear, those have obviously already been paid. So, they're not amortized throughout the remainder of the year or anything like that.

With respect to additional liquidity above Arrow shares, I think I already answered that question. The most obvious one would be given our guidance of 2.4x to 2.8x ending leverage ratio and currently at 2.85x. If required or wanted, I believe I could set up a small working capital facility to enhance the first half of 2024 liquidity and deal with repaying that during the latter half or potentially even into early 2025.

Like by virtue of the way the Colombian tax regime works in prepaying your taxes, even at the modest $35 million of income tax we expect to pay this year on $250 million of EBITDA, I expect we're going to have prepaid an additional roughly $17 million relating to 2025. Like that $35 million is going to be an overpayment, which will carry over into 2025 and as such, the liquidity gets considerably better around year-end and into the first half of 2025.

Juan Cruz
Okay. Out of that working capital facility that you could potentially go into, if needed, what kind of size are we talking about? Is it nominal? Is it $25 million, $50 million? How much do you think you have available to you if need be?

Jason Bednar

Sorry, the size that I could take out?

Juan Cruz
Yes, correct.

Jason Bednar
Oh, I don't know, $20 million, $30 million. I mean I could potentially take out— like I've got a basket in my covenants where I could give security, which I don't expect to do and that could be in excess of $50 million. I could take out anything less than that, which I felt comfortable if I needed it.

Juan Cruz
And the $20 million to $30 million that you could easily do, would that be against receivables or gas deliveries [ph]?

Jason Bednar
I would expect it would be unsecured.

Juan Cruz
Unsecured, okay. Perfect. And lastly, if I may, what's the minimum cash balance that you feel comfortable holding given the dynamics now in the market where you need to do capex wise to replace reserves and the high prices for gas, etc.? What is the level you think you feel comfortable, and that the investment community should feel comfortable with seeing on the balance sheet?

Jason Bednar
Yes, I mean we usually run our models, whether short-term or long-term, with about $20 million cash on hand.

Juan Cruz
Okay. All right. Thank you. Appreciate it.

Jason Bednar
You're welcome.

Operator
Next question comes from the line of Albert Chang with Santander.

Albert Chang
Hey, good morning, guys. Thanks for the call. I was just looking for an update on the litigation surrounding the Jobo contracts. I mean, what's the status here and can you quantify the potential impact?

Charle Gamba
No comment on ongoing litigation.

Albert Chang
So, no updates on the shareholder class action either?

Charle Gamba
Nothing to update with respect to that.

Albert Chang
Got it, thank you. And just a few business as usual questions. What is your planned threshold for maintaining contracted sales as a percentage of revenue for this year?

Jason Bednar
Sorry, can you repeat that question— the percentage that we have under contract?

Albert Chang
Just your planned threshold for maintaining contracted sales, just as a percentage of revenue for this year?

Jason Bednar
I mean our existing take or pay basket is 124 million cubic feet a day, which is roughly 70% to 75% of the total sales anticipated.

Albert Chang
Got it. And you expect that to be kind of the going run rate for this year?

Jason Bednar
Yes.

Albert Chang
Got it. Do you have any visibility into the Jobo facility maintenance? Just for this year, as far as, planned stoppages or anything like that.

Charle Gamba
I beg your pardon? Can you repeat the question, Albert?

Albert Chang
Just if you had any visibility into scheduled maintenance at Jobo for this year?

Charle Gamba
Nothing outside of regular maintenance.

Albert Chang
Got it. Should we anticipate a ramp up in EBITDA and free cash flow this quarter given where Caribbean Coast spot [ph] is or is there a lag in the conversion to margin?

Jason Bednar
I mean the prices have been relatively healthy, probably somewhere in line with Q4 pricing. I think our average price that we anticipated for all of 2024, off top of my head, was in the $6.50 or $6.59 range. But the basket of contracts, I'll go back to that— so in 2022, our long-term take or pay basket of contracts was about $4.54 net of transportation. In 2023, it was $5.09 and in 2024 that basket is $6.04. Roughly 20% higher than it was last year, which made sense if you had a look at our corporate presentation as the supply coming from the three largest fields in Colombia is in decline. There's more stress on supply and hence off takers are willing to pay higher prices. So, we don't anticipate that to revert and as such, we expect to have strong pricing and cash flows and EBITDA moving forward.

Albert Chang

Got it. Thank you. Lastly, can you share any color on where your cash balances are now and where you see it at the end of the first half? It also would be helpful to know if you had any indication of interest or at least soft conversations with respect to that potential Arrow stake sale?

Jason Bednar
Yes, I mean the current cash balance, I already answered, was $30 million and there's abundant interest.

Charle Gamba
Let me just clarify that last point, sorry, with respect to Arrow. We've held a position, a very good position, very happy with our position.

[*Offline speaking*]

Charle Gamba
Sorry? Anyways, the place we're holding, we've held that position for a long time. We're very happy with the position. Arrow has a very aggressive development plan scheduled for this year. We expect to see very good growth in their share price. So, we continue, as we always do, to evaluate our position with respect to Arrow, our Arrow holding.

Operator
And our next question comes from the line of Bevan Rosenbloom with Seaport Global.

Bevan Rosenbloom
Hi. Thanks for taking my questions. You said it sounds like we can expect that capex number to be on that lower side of the '24 guidance, but can you provide a bit more color, just let's say the breakdown (let's say it's around $140 million) between what the exploration wells and the production wells will cost as a percentage of that $140 million?

Jason Bednar
It's in our year-end guidance, which is develop and maintenance of about $73 million. Exploration wells, which include seismic and EIA permitting of about $48 million and then there's other capex costs of about $17 million to total the $137 million.

Bevan Rosenbloom
Okay, thank you. Last question. In the reserve report, I noticed there was no, I guess, PDP Life Index provided unlike last year's. I imagine maybe that— some of that has to do with the technical revisions, but if we add back the technical revisions, is it fair to say that the PDP Life Index is somewhere around 1.6, 1.7?

Charle Gamba
PDP [indiscernible] correct proven, total proven category. We're still maintaining an eight year or so.

Bevan Rosenbloom
Okay. Thank you very much.

Operator
At this point, I'd like to hand the conference over to Carolina Orozco to take questions from the webcast.

Carolina Orozco

We have a couple of questions about Bolivia. There's one from Cristian Calderon from CAC Rivergate. Can you provide a general timeline progression to advance the Bolivia segment?

There's another question from Alexander Emery from S&P Global Platts, which is any work ongoing at your E&P blocks such as ad analysis in Bolivia or are all your contract pending congressional approval?

Charle Gamba
With respect to Bolivia, as we've mentioned, we're awaiting the approval [audio gap] of a fourth contract. We've had three exploration contracts approved by the Bolivian Congress and we're waiting on the approval of a fourth contract, which is more of a reactivation contract of an existing shut in abandoned gas field. We expect to receive that approval sometime early in Q2, early to mid Q2 and we expect to commence operations, so to speak or work, physical work, probably in the latter part of Q4 of this year with the main activities picking up primarily on the fourth contract in 2025.

So, at the moment, we're simply waiting for the fourth and final contract to be approved on the existing three contracts. We're simply doing internal work, proving up the prospectivity of those blocks, defining the prospects we plan to drill in those exploration blocks.

Carolina Orozco
We have another question from August [indiscernible] from Macquarie. Do you discard share buybacks for 2024?

Jason Bednar
Actually, the paperwork is on my desk to renew that, which we will. Having said that, given that the company's focus, as once again repeated in a couple of press releases, is respect to debt reduction, I wouldn't expect to see anything material during 2024 on a share buyback program.

Carolina Orozco
Thanks, Jason. We have another question from Kevin Salisbury from Ninety One. Can you please provide a bridge as to why you believe drilling to reserves was less successful in 2023 and what your confidence level is around improving your hit rate in second half of 2024?

Charle Gamba
Yes, I think I mentioned already to a previous caller, we did experience a couple of dry holes last year in the near field area as well as the inability to drill one of our higher impact prospects due to mechanical drilling issues, which did not allow us to reach the target. So, as I mentioned, this year, we are drilling off of new 3Ds that we shot last year. The portfolio looks very good. We have already just announced our first discovery at Pomelo, and we expect to return to our traditional hit rate of around 80%-plus from this year's portfolios. We expect a better reserve at resulting from this year's exploration program.

Carolina Orozco
Thanks, Charle. Another question on exploration from Mark Agaiby from BlueBay Asset Management. Could you explain in a bit more detail the exploration results that you've had at the start of the year? How much do you expect those wells to deliver in terms of a million feet per day?

Charle Gamba
Yeah, Pomelo-1, we just brought on production yesterday, for example. Tied it into the production facility. It's currently close 8 million cubic feet a day. We intend to ramp production up to be 10 million to 12 million cubic feet per day today and tomorrow from that well, which is a good rate. It's a good discovery,

but that's in the range of exploration deliverables or deliverables from our exploration portfolios.

Carolina Orozco
We have a question from Kevin Salisbury from Ninety One, as well. What is your position on bond buybacks in the second half of 2024? How much cash would you need on hand and what levels would you consider?

Jason Bednar
Yes. I've got this question a lot recently. Obviously, we are keenly aware that the easiest way to delever is to buyback discounted bonds at these types of prices. Having said that, I don't expect there would be anything material in 2024 if we get around to it then. As I previously discussed, our liquidity position is considerably better near the end of the year and into 2025 with the prepayment of taxes, overpaying taxes in 2023, etc. So, I wouldn't be looking for anything big on that front during 2024.

CONCLUSION

Carolina Orozco
With this, we finish today's conference call. Thank you, everyone, for participating and hope to see you during our next quarterly conference call.

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