

Transcript of
GeoPark Limited
Third Quarter 2018 Results Conference Call November
7, 2018

Participants

James Park – Chief Executive Officer
Augusto Zubillaga – Chief Operating Officer
Andres Ocampo – Chief Financial Officer
Stacy Steimel – Shareholder Value Director

Analyst

Jenny Xenos – Canaccord

Presentation

Operator

Good morning, and welcome to the GeoPark Limited conference call following the results announcement for the third quarter ended September 30, 2018.

After the speaker's remarks there will be a question-and-answer session. If you would like to ask a question at this time press star one on your telephone keypad. If you would like to withdraw your question, press the pound key.

If you do not have a copy of the press release, please call Sard Verbinen & Co. in New York at +1 (212) 687-8080, and we will have one sent to you. Alternatively, you may obtain a copy of the release at the Investor Support section on the company's corporate website at www.geo-park.com. A replay of today's call may be accessed through this website in the Investor Support section of the GeoPark corporate website.

Before we continue, please note that certain statements contained in the results press release and on this conference call are forward-looking statements rather than historical facts, and are subject to risks and uncertainties that could cause actual results to differ materially from those described. With respect to such forward-looking statements, the company seeks protections afforded by the Private Securities Litigation Reform Act of 1995.

These risks include a variety of factors, including competitive developments and risk factors listed from time to time in the company's SEC reports and public releases. Those lists are intended to identify certain principal factors that could cause actual results to differ materially from those described in the forward-looking statements but are not intended to represent a complete list of the company's business.

All financial figures included herein were prepared in accordance with the IFRS and are stated in U.S. dollars unless otherwise noted. Reserve figures correspond to the PRMS standards.

On the call today from GeoPark is Chief Executive Officer, James F. Park; Chief Financial Officer, Andrés Ocampo; Chief Operating Officer, Augusto Zubillaga; and Shareholder Value Director, Stacy Steimel.

And now I'll turn the call over to Mr. James F. Park. Mr. Park, you may begin.

James Park – Chief Executive Officer

Thank you, and welcome, everyone. We're joining you this morning with our executive team from Buenos Aires, Argentina.

Let's please start off mentioning some of our high-level, record operational and financial results for the third quarter, which helped illustrate our tremendous overall forward momentum, then move to highlight some of our active work programs in each country, which are further pushing performance and uncovering more value for the coming periods, and then touch on our newly approved work and investment program for 2019, which will drive GeoPark's growth next year and thereafter.

1) Third quarter results: Continuing our quarter-after-quarter, year-after-year oil and gas production growth, we are up 31% this quarter to over 37,200 bopd with oil production up 35% and gas production up 17%.

Our active drilling program with 11 wells drilled this quarter out of 38 wells targeted for the year continues finding more oil and gas fields and extending the boundaries of our known fields, giving us more reserves to support more production.

Financially, our EBITDA more than doubled to approximately \$100 million for the quarter, which was about 3x the invested capital this period, demonstrating our capital and operating efficiency.

Third quarter bottom line net income hit \$30 million. We have a cash cushion of over \$150 million, and our leverage ratio dropped below 1x. And most importantly, all of these

accomplishments are being made in a safe, environmentally protective and neighborly way, helping to ensure our long-term success.

2) Country activity: In Columbia, gross operated production exceeded 65,000 bopd and 10 new wells were drilled this quarter, developing known reserves and extending field limits further. Flowline construction to connect Llanos 34 to the main pipeline system is underway and on schedule for a first quarter 2019 completion. We also continued our portfolio consolidation by divesting of some non-core, higher operating cost projects for \$20 million.

- In Peru: the environmental impact assessment for our big Morona project was filed with the governments after a year of work that involved over 150 people, mostly from the local communities. Approval of this EIA will set in motion implementation and construction of the early production phase for the Situche Central light oil field.
- In Argentina: the takeover of the new project in the Neuquen Basin continued on schedule, with the workover program initiated to improve water flooding effectiveness and reserve recovery and an upcoming well to test tight gas potential on our blocks.
- In Chile: a promising new gas field discovery, the Jauke 1 exploration well, opened up the southern side of the big Dicky geological feature for additional development opportunities.
- In Brazil: platform construction is underway for a new exploration well next quarter in the mature onshore Reconcavo Basin, and production continued from the prolific Manati gas field.

And in every country, GeoPark's oil refiners and engineers are continuously working up new production, development, exploration and unconventional resource opportunities on our 6-million-acre land base to further expand our rich in-house project inventory.

3) 2019 Investment Program: Our deep pool of attractive opportunities was evident as we work to build our 2019 work program. For the management team, we just finished up the best 2 months of the year when we have the chance to spend our time together, visiting our teams and field operations in each country and reviewing all the new ideas being generated by each business unit.

This year, we were presented 135 different projects from our 5 different country units, which were then ranked on technical, economic and strategic criteria to allow us to zero in on and select the best shareholder value-adding projects for 2019. This GeoPark capital allocation

methodology is a powerful tool, which has continuously improved and evolved over time, and which is the key to us successfully managing a multi-country portfolio and business.

For 2019, we just approved a \$220 - \$240 million investment plan to be funded by our own cash flows with base production targeted to climb by 15%.

For another year, GeoPark will continue to be one of the most active independent drillers in Latin America with nearly 40 wells targeted for 2019, and which will test a variety of new opportunities from development of existing reserves to exploration of new fields and testing of some unconventional resource plays.

Columbia and our Llanos 34 block will continue to be our principal growth driver where to date, we have only produced less than 20% of delineated reserves on this generous and low breakeven project. A sizable component of the 2019 budget will be directed to put the high potential Morona project into production with cash flow by early 2020 and set in motion the next pillar of growth for GeoPark.

The Morona project includes the discovered Situche Central field with 2 oil wells that have tested a combined 7,500 bopd and which could be part of a potential 200 million bbl field. The project is located in Northern Peru near the Ecuador border in a prolific petroleum system that has been explored and operated over the last 50 to 60 years and produced over 1 billion bbls of oil.

Additional projects will be undertaken in Brazil (conventional oil), Argentina (oil and tight gas), Chile (gas and unconventional oil) demonstrating the variety and depth of hydrocarbon opportunities in GeoPark's portfolio and the technical capacities and strengths of the GeoPark team across the region.

As we approach the end of 2018 with another year of performance growth – we believe GeoPark's relentless 16-year track record is proving us to be the leading Latin American explorer, operator and consolidator – with the platform, team, cash flow and inventory that will take us to our long-term target of 100,000 bopd and beyond.

Thank you and our team here will be pleased to answer any questions now.

Operator

Thank you. Again, ladies and gentlemen, if you wish to ask a question at this time simply press star then the number one on your telephone keypad. Again, that is star one.

Our first question comes from the line of Jenny Xenos of Canaccord.

Jenny Xenos – Canaccord

I have 3 quick questions, please. First of all, with regards to your capital budget in Peru, what is the total CAPEX to bring the 10,000 bopd of production online? And please remind us, will you be carrying Petroperu during that stage?

The second question is on Argentina. Could you please update us on the progress of your optimization project there? And when do you expect to see a meaningful impact on production and operating costs?

And finally, the question about Brazil. You're generating significant amount of our free cash flow. So why take out a loan in Brazil?

Andres Ocampo – Chief Financial Officer

Thank you for your questions. So I'll start with the first one. With respect to Peru, the estimated CAPEX that we announced for 2019 is the bulk of what is needed to put the fields on production. So it's nearly \$100 million.

Our estimated CAPEX following that \$100 million for the following year so, for 2020, in Peru, it would be somewhere around \$25 million to \$30 million. So, it's not significant compared to what it is in 2019. So largely, we should expect cash flow on production coming from that field in 2020 to start repaying for that CAPEX in 2019 and obviously, fund all the CAPEX that is required in 2020.

So I would say, most of – or all of what is being invested in 2019 is expected to put the field on production. We are carrying Petroperu for their stake, which is 25% throughout these investments in 2019. And a portion of that carry is going to be reimbursed through their share of production starting in 2020 onwards.

With respect to Argentina, we already started 2 projects on the third quarter. We already started a pulling campaign to repair some wells for the water flooding. That's why you see the OPEX in Argentina increase. That's around \$8 to \$9 per barrel OPEX that is associated with the pulling campaign.

So the actual OPEX, operating expense, without those pulling campaigns, has already dropped this quarter around \$5 per barrel. And we are estimating, for next year, our opportunity in Argentina to average around \$20 to \$22 per barrel.

The bulk of the production growth is going to start coming towards the end of 2019 and 2020 in Argentina, mainly because some of this tight gas opportunity that we're testing, we're going to be testing it for some time until we define that the size and the delineation of that make sense for us to construct a pipeline to put the whole play connected with the system. So that will take us throughout most of 2019. So you start seeing the impact on production at the end of 2019 and most of it in 2020.

And then in Brazil, really, the loan was mainly to hedge the FX. Basically, if you remember from our previous quarters, we had a dollar-denominated intercompany loan between GeoPark corporate and the Brazilian subsidiary. Fluctuations in the foreign exchange in Brazil generated big swings in our noncash profits or losses.

So basically, what we did is we replaced that intercompany with a local currency loan. So on a net debt basis, we are the same. It's just fixing the currency of the cash flows with the currency of the debt.

Operator

Again, ladies and gentlemen, if you wish to ask a question simply press star then the number one on your telephone keypad.

I'm showing no further questions at this time, sir. Do you have any additional or closing remarks?

James Park – Chief Executive Officer

Well, thank you, everybody, for your interest in GeoPark and your continued support of our company. We encourage you to please visit us at our operations in each country and call us at any time for more information. Thank you.

Operator

Thank you ladies and gentlemen. This does conclude today's conference call. You may now disconnect and have a wonderful day.

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