

Transcript of
GeoPark Limited
Fourth Quarter and Full Year 2018 Results Conference Call
March 7, 2019

Participants

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

Analyst

Shahin Amini – Pareto Securities
James Carmichael – Macquarie
Joel Musante – Alliance Global Partners
Ian Macqueen – Eight Capital
Jenny Xenos – Canaccord
Gavin Wylie – Scotiabank

Presentation

Operator

Good morning. Welcome to the GeoPark Limited conference call following the results announcement for the fourth quarter ended December 31, 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," "1" 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 Verbinnen & 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 webcast 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, Andres Ocampo; Chief Operating Officer, Augusto Zubillaga; and Shareholder Value Director, Stacy Steimel.

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

James Park – Chief Executive Officer

Thank you. Welcome, everyone. We're joining you today with our executive team from London, England. Many thanks and congratulations to the GeoPark women and men for our tremendous results in 2018. We broke records with double-digit-plus increases in every key metric.

Oil and gas production up 31 percent. Reserves up 15 percent, with a reserve replacement ratio of 285 percent. 2P Net asset value per share (Net debt adjusted) up 37 percent to \$40 per share.

EBITDA up 89 percent to \$330 million with a CAPEX of just \$125 million. Free cash flow of more than \$130 million. Net income of over \$100 million with earnings per share of \$1.19

And we improved our company across the board by being one of the region's most active explorers, drilling 33 wells with a more than 85 percent hit rate to find more oil and gas; being the low-cost and most efficient operator by continuing to drive down capital and operating costs; being the partner and neighbor of choice by continuing to make improvements in safety, environmental, employee and community performance; being a value consolidator by acquiring more acreage, including LGI's interest to expand our assets and opportunity base.

And our shareholders were richly rewarded by GeoPark being the number 1 performing E&P stock on the New York Stock Exchange for the second year in a row as well as by our newly implemented share buyback program.

GeoPark has always had a big value proposition, which has allowed us to have a long-term approach and the patience to put the right building blocks in place. This rock-solid foundation means we manage any volatility coming our way and allows us to just keep picking up steam and getting better and better.

Our key building blocks include: culture, long-term success as defined by the true character behavior of our company.

People. The oil business begins with the people, and we have purposely built the strongest oil and gas team in Latin America.

Track record. Our capabilities and toughness have been demonstrated by a continuous 16-year through thick and thin production and reserve growth record.

Value base. From scratch, we have steadily assembled and drilled up an oil and gas asset base certified with a net present value of \$2.7 billion.

Upside. We have an existing inventory of low-risk, high-impact exploration projects backed by our high success rate and a big list of new acquisition projects that will continue to fuel our growth.

Self-funding. We have been building our company from our own cash flow, meaning we are paying for our drilling, teams, operations and new acreage all out of our own pocket and still getting bigger.

Platform. Our biggest hidden value is the base we have built across Latin America with dynamic, independent operating teams in 5 countries and which are all delivering results. And we are sailing into 2019 with another self-funded 35-plus well drilling program in Columbia, Argentina, Chile and Brazil, targeting a 15 percent production growth plus the start-up of our big project in Peru and well positioned to capture the rich new opportunities being offered across the region.

So thank you, and we'll be pleased to answer any questions.

Operator

At this time, I would like to remind everyone, if you would like to ask a question, please press "star" then the number "1" on your telephone keypad. If your question has been answered and you wish to remove yourself from the queue, press the "pound" key.

Your first question comes from the line of Shahin Amini of Pareto Securities.

Shahin Amini –Pareto Securities

Looking forward, I was wondering if we could go through Slide 3 of your latest corporate presentation. You are essentially guiding to more than doubling your production by 2022 from existing acreage and new acreage. I was wondering if you could perhaps provide some more detail on the various countries and jurisdictions where you expect to see this growing production from.

Andres Ocampo – Chief Financial Officer

I guess you're referring to the bar chart on Page 3 that has the portion of the projections on pink bars and grey bars.

Shahin Amini –Pareto Securities

Exactly, yes.

Andres Ocampo – Chief Financial Officer

All right. So this is a long-term expectation for production target that we have going forward over the next few years. The 2019 bar is basically our production guidance that we should have at the end of last year. From 2020 to 2022, the pink side of those bars is what we expect to achieve organically within the assets that we own. So that means the assets that are already today in GeoPark's portfolio.

That includes Columbia, Peru. It includes Chile, Brazil and Argentina. And then the grey bars are an idea to give an indication on how we expect to achieve the remaining production that we are putting as a north or as a target in our long term to reach the 100,000 barrels a day. So the grey side of the bars is more schematic to try to picture what's our north going forward, but that

means it's production that should come from us that are not yet in the company. So that means additional acreage that we will continue incorporating or assets that we will buy in the market.

Shahin Amini – Pareto Securities

Let's just talk about the pink bars, I suppose, from 2020 onwards. I was hoping perhaps you could just give some ballpark breakdown into Columbia versus not Columbia and specifically how much of that is potentially coming from Peru. And then following on from that, with the grey bars, do you think that there is enough running room for you in Columbia and your other countries that you're currently active in? Would you see that effectively from new country entry strategies?

Andres Ocampo – Chief Financial Officer

OK. The pink bar is largely Columbia, so most of that is going to continue to be Columbia until 2022. But the portion of that, that is attributed to Peru, it should be somewhere around 5,000 to 7,000 barrels a day. We're putting a 50 percent factoring to that in our projection as a result of either bringing a partner in or risking the production from that project. So roughly 5,000, maybe a little bit more coming from Peru.

And the rest, you should assume Argentina, Brazil and Chile remaining fairly flat with a small decline on Brazil. So that's the ballpark of what we're going to give you in terms of guidance. And then on the grey bars, it's hard to explain more precisely where that is going to come from on the jurisdiction. I would say that certainly, the countries where we have a platform already are our key targets.

As we've mentioned in the past, we are looking into Mexico. Things currently are probably slowing down a bit in Mexico. We still remain open and interested in looking at opportunities there. And then the new country that we're targeting the work on is Ecuador. As you probably know, there's an incoming bid round, the Intracampes bid round, and we're qualified for that, and we're excited about the opportunities that are coming from Ecuador.

It's one of those cases which is unusual to see also prospects that have not been built that actually have been covered with 3D seismic. So some of the opportunities that we see there are fairly attractive, and we are looking to participate. Also, the change in the contracts from Ecuador has been very positive for oil companies like us, moving out of service side agreements, more concession licensing or production sharing agreements, which are the typical type of contracts that E&P companies like ourselves would look into. So probably those two countries I would add to the list of the ones that where we have a presence already.

Shahin Amini – Pareto Securities

That's very helpful. If I may just have a follow-on, a more detailed question. Just want to get a feel for how much reserve growth you could potentially see for 2019. It was really impressive to see your 3P numbers growing quite significantly both in Columbia and Peru. With your Campos oil investment guidance for this year, how much could you potentially be testing most importantly in Columbia? How much of that P3 effectively could be tested by your kind of drilling program for this year?

Andres Ocampo – Chief Financial Officer

Yes, it is – that's a great point. And as you mentioned, particularly in Columbia, the 3P reserves are 50 percent higher than our 2P. So we hope throughout the drilling of – continued drilling program in 2019, we hope we can turn a lot of value into 2Ps in Q1. It is very hard for us to give a guidance on that.

And typically, we don't give a guidance on potential reserve growth. So really looking at the future, you should rely on our track record really more than expecting a guidance from us. And the same thing in Peru. I mean, we've increased the 3Ps in Peru significantly. And hopefully, we will be able to, through the years, transform a lot of that into 2Ps in Q1 and Q2.

Shahin Amini – Pareto Securities

OK. Just final question. I promise this is the last one. You have more than doubled your 3P in Peru. What's the technical basis for that growth?

Andres Ocampo – Chief Financial Officer

Well, our team always believed that the 3P number for that field was around 200 million barrels. What they did with D&M at the end of last year is they spent more time looking at the information from the wells and the seismic information to understand and to have a better interpretation of the field itself. And the conclusion is that, really, most of the extension of the field is located at a zone that is higher than the lowest known noise. So that gave the team sufficient comfort to consider those potential volumes that were considered maybe contingent before we considered part of the field with a P3 risk associated to that, which is, as you know, somewhere around just 10 percent to 30 percent.

Operator

Next question comes from the line of James Carmichael of Macquarie.

James Carmichael – Macquarie

Just wondering if you could talk a bit around the reasons for the widening Vasconia discount in 2018 and how you see those dynamics playing out in 2019. And then also just if you could remind us of the likely OPEX saving once the ODL flowline is completed. And maybe also, what's required from your side to filling the increase in export capacity there?

Andres Ocampo – Chief Financial Officer

Thank you, James. To your first question about Vasconia, what we're seeing right now with Vasconia is a narrowing on that discount. We saw somewhere around \$5 per barrel on the fourth quarter. And at the beginning of the year, that gap has been narrowing as low as \$2 per barrel probably over the last month. The outlook for the trend seems to be that it is expected to remain at least for the near future.

And the main drivers of those is basically lower production of heavy crude from Venezuela and Mexico mainly. So those have been more or less the dynamics on the Vasconia differential. And your second question was with respect to the savings relating to the flowline.

So the flowline connection to the ODL is 98 percent completed. We are at the final stages, the commissioning of the project. We expect start-up of the project around the end of the quarter, around the end of March.

Savings are mainly on the transportation cost. You don't see them booked in our OPEX. It's mostly on the transportation cost, and we are expecting for 2019 to be at least \$1 to \$1.50 per barrel lower transportation cost.

There should be improvements also on our OPEX because the reduction of the truck activity will reduce the cost of maintaining the roads. We don't have the exact amount of that, but there should be some upside there on the OPEX side. But the main one is on the transportation. So \$1 to \$1.50 for 2019 and an extra \$1 probably following 2020 onwards.

Operator

Your next question comes from the line of Joel Musante of Alliance Global Partners.

Joel Musante – Alliance Global Partners

I just had a couple questions. Just wondering where you stood on your 2019 program. Is it reasonable to assume where prices are, that you're going to move forward with the base case?

Andres Ocampo – Chief Financial Officer

Joel, sorry, I was waiting. I thought you had more questions.

Joel Musante – Alliance Global Partners

I do have a couple.

Andres Ocampo – Chief Financial Officer

No, that's fine. Yes, 2019. So currently, we remain on our base case program for 2019. As you know, we announced that within a range of \$65 to \$75 Brent. Brent is right now wandering around the lower side of that range.

So you may see adjustments here and there, but nothing really significant. And so far, we keep on track with the base case program, targeting 15 percent production growth with somewhere above \$200 million worth of CAPEX, fully funded within the company's cash flow.

Joel Musante – Alliance Global Partners

OK. All right. And do you have any update on where you stand on Peru right now?

Andres Ocampo – Chief Financial Officer

Yes. So – well, as you know, Peru is a big component of our 2019 work program. The main activity that we are currently doing in Peru is completing or finalizing the environmental impact study. We presented the study to the SENACE, which is the body that worked with us on that in July.

We received comments and input from them around two weeks ago. This was around two to three weeks later than we had anticipated. That input includes the comments from all the stakeholders in the project. Most of the comments are related to engineering and construction, but our team is currently working diligently to address all of the questions and comments that were included in that document.

And the next step is to present that back to them for their final review and approval. So we expect that to come back sometime. That time is not in our control, but we expect that to come back to us somewhere between April, and we have up until June. Hopefully, it's not going to take that long.

Joel Musante – Alliance Global Partners

OK, great. And then just one more...

Andres Ocampo – Chief Financial Officer

Yes, sorry on that. One follow-up comment on that is that in the meantime, our team has been securing the equipment that we need to start the activities for us to make sure that we are ready to start working as soon as we get the final approval. That means the pipeline has already been built and is starting its way to the port of Lima. The port of the Morona camp has been upgraded to receive loads that are coming for the works that are necessary.

Joel Musante – Alliance Global Partners

OK, great. All right. And just one last question on Argentina. It looked like the costs were a little higher, and I was just wondering what you see going forward there. Do you see prices coming down?

Andres Ocampo – Chief Financial Officer

Yes, absolutely. The costs are specifically – I mean, the increasing cost is specifically related to a pulling campaign that we had. It was started at the end of the third quarter and continued for the full fourth quarter and continues today. We're drilling a pulling rig.

And given that this is well repairing, a start-up of old wells that are pulling back on production, this is accounted as OPEX. You can think of it as a CAPEX for \$2 million, \$2.5 million over the fourth quarter. But yes, given that this is an investment to increase production, but it's accounted as OPEX. So that's why it is showing an increase in OPEX on the fourth quarter.

Joel Musante – Alliance Global Partners

Right, right. OK. So it's like a work-over – or it is a work-over.

Andres Ocampo – Chief Financial Officer

Right. It's work-over that is accounted as pulling – as an OPEX basically.

Operator

Your next question comes from the line of Ian Macqueen of Eight Capital.

Ian Macqueen – Eight Capital

With respect to your roughly \$100 million budget for Peru, how is that going to be spent? Can you break that down? And how will the allocation change depending on timing of the EIA approval?

Andres Ocampo – Chief Financial Officer

If the EIA does not arrive on time, say – and by on time I mean if it doesn't come sometime around April, that means we may need to delay most of the activities that we plan for the year, at least for the first part. The team is developing alternatives to see if there's any other activities that we can anticipate on the second half of the year.

So what happens is that you miss the dry season, so most of the activities should be postponed for some time. So if the EIA doesn't come somewhere around April, that means that likely, the investments for this year should be somewhere around \$20 million to \$25 million, which is the low case for Peru, and that will delay the start-up of production from the first quarter 2020 to somewhere around the third or the fourth quarter.

We're still targeting to put it on production in 2020, but it may not be the first quarter. But again, this is something – today, it's more speculative really. We need to see when we're getting the EIA before we know that. And then if we do get it on time, then the total \$100 million is spent on a quarter-by-quarter basis. The bulk of it is spent on the second and third quarter. I don't have the exact numbers.

Ian Macqueen – Eight Capital

And it's basically to put the wells on – do all the work to put the wells on.

Andres Ocampo – Chief Financial Officer

Correct, yes. So around 50 percent, 60 percent is installing the transportation capacity, basically the flowline to connect the field with the camp. And then around 40 percent, 50 percent is related to on-site facilities and putting the wells on production.

Operator

Your next question comes from the line of Jenny Xenos of Canaccord Genuity.

Jenny Xenos – Canaccord

I have a few questions, if I may, please, starting in Columbia. Your marketing agreement expired with Trafigura late last year. Could you tell us a little bit more about how your marketing strategy has changed and how you expect that to impact your costs in 2019?

Andres Ocampo – Chief Financial Officer

As you said, the marketing agreement with Trafigura expired at the end of the year. There's still a remaining tail of around 8,000 barrels that remains in place throughout 2019. And for the remaining, basically, we're doing it every six months.

We're nominating and requesting for proposals for probably every potential buyer that exists in Columbia that includes Ecopetrol, Vitol, Trafigura, Frontera. A lot of companies are buying crude in Columbia, and we are assigning volumes to all of them. Well, not all of them, sorry. We choose the best of them, and we split those. Some of them are sold at the wellhead and some of them delivered through the pipeline.

So on a consolidated basis, the savings will come basically from the use of the new logistics, basically using the pipeline. And then on the pricing side, the agreement that we had with Trafigura was 100 percent transparent market prices. So there may be a few savings on the competition, but it's not going to be significant given that in the past, the existing agreement was really at market base. So again, the main saving for this year is going to be related to the

transportation, and most of that will go through the pipeline. And then on a consolidated basis in Columbia, that should be somewhere around \$1 to \$1.50 per barrel.

Jenny Xenos – Canaccord

OK, understood. And staying in Columbia, are you participating in the permanent competitive process? There are 20 blocks available for bid right now, plus you can nominate your own areas. So I'm wondering if some of these areas interest you.

If yes, sort of what basins are you looking at? And what's sort of criteria you use for choosing your acreage? Because all you have left now in Columbia is essentially Llanos 34 and 32, and you have an excellent team there. So what are your plans for the PCP?

Andres Ocampo – Chief Financial Officer

Thank you. And yes, we are already qualifying for that round. There's going to be, as you said, the first year of 20 blocks, most of those in the Llanos basins, some – or the rest in Magdalena and Sinu-San Jacinto. And we are very happy to see that finally, that acreage is coming out for bid, either through the round or the permanent process.

That is excellent news for us and for the industry and for the country. We're also very happy to see that apparently, they are going to be putting more weight on the activity committees rather than the royalties or things like that, which is also very beneficial for the country and for the developing of the industry in the country.

So very happy, very interested in participating. In this particular round, given that most of the blocks are in the Llanos, we're going to look at those. We're also going to look at the blocks in the other basins. We like the Magdalena basin. We like every basin in Columbia or in Latin America, I should say. So as you know, we do have big operations and great experience in the Llanos basin, but that doesn't make us shy with the other basins as well. So we'll participate in everything.

Jenny Xenos – Canaccord

OK. That's great. And maybe briefly if we could talk about Ecuador. As you mentioned, the Intracampes licensing round bids are coming up on March 12. Could you give us a little bit of a sense of the time line after that?

Do we find out who gets the blocks on that day or at some later time? And could you give us a sense of how competitive the round is? And is the government there expecting that you will also

bid spending activity, in other words, rather than royalties? Or give us some sense of what it's going to look like.

Andres Ocampo – Chief Financial Officer

Yes. I mean, the timing is that the bids are due very soon in the next few weeks. I think it's March 12. We qualified for that, and we are looking to participate. Some of the blocks that we look at are very attractive. As I mentioned at the beginning, there are some onshore prospects undrilled that are ready-to-drill type of prospect, so we're excited about that. In terms of how competitive we expect it to be, I would expect it to be fairly competitive.

At least 16 companies are qualified for that. I don't know how many of those will bid, but I would assume probably most of them. The terms that have been offered in terms of the contracts are attractive. These are not service contracts. It's production sharing. But really, when you look at it, it looks very much like a royalty scheme, very similar to the one in Columbia, with the government take going up depending on oil prices.

So as oil prices go up, the government take goes up. And as it goes down, it goes down. And the range, I think, goes somewhere between 12 percent to 40 percent or something like that. So it's not – does not allow for crazy bids, which is excellent. So we look forward to that. And my understanding is that we should know who got awarded blocks pretty much on the same day or the day after. But it's pretty fast.

Jenny Xenos – Canaccord

OK, great. Switching gears a little bit. Could you give us an update on your exploration and appraisal drilling, specifically Tigui 2 in Columbia, Praia dos Castelhanos in Brazil and Challaco Bajo in Argentina?

Andres Ocampo – Chief Financial Officer

Absolutely. In Columbia, we have – Tigui 2 has already started testing and is already on production. And so that's very encouraging, somewhere around 1,000 barrels a day with no water. So great news – very exciting news from Tigui 2. Praia dos Castelhanos in Brazil, we finished drilling.

Loading information indicates we have 10 meters oil pay in our land information and we're moving a rig to test that well before the end of March. I think it's in a week from now. And then (Challaco Bajo 1001), which is an old well that was opened up by us, is producing 30,000 cubic

meters a day. This is choked by basically the commercialization of the gas. We are using a virtual gas system that basically tracks the picking up at the wellhead and sell it through LNG tracks.

The productivity of the well is around 100,000 cubic meters a day. And we finished drilling Challaco Bajo 2002, and it's currently under completion. And the logging information shows so far, so good, as expected.

We started drilling Challaco Bajo 2005. All these wells are to potentially unlock a gas play that could have 60 to 80 Bcf. So hopefully, we'll have some exciting news out of there during the year.

Augusto Zubillaga – Chief Operating Officer

OK. Just to complement. Jenny, Zubi. Challaco 2002, we are just in the completion process. So it's a tight gas formation, so we need to hydraulic frack that well. And maybe in two to three days, we'll be testing that well. And in the same time, we are drilling the Challaco Bajo 2005. That's going to have – they're going to take information in – maybe in one to two weeks. And afterwards, we will test that well as well. And regarding Chile...

Jenny Xenos – Canaccord

You – yes. Go ahead, sorry.

Augusto Zubillaga – Chief Operating Officer

Yes, yes, Jenny?

Jenny Xenos – Canaccord

Do you expect to provide an update in your next operational update? Or when will we hear some concrete results of these?

Augusto Zubillaga – Chief Operating Officer

Yes. We think that we're going to update in the next operational update. So – and in Chile, we are drilling the Jauke structure, the Jauke 2, so we expect to finish that drilling in the next week. And we expect to continue the well in two weeks after the drilling process. And afterwards, we will drill the Jauke Sur, which is an exploration well in the same structure in Chile.

Jenny Xenos – Canaccord

That's a great update. And a final question, if I may. You announced at the end of December a large share buyback. Have you actually been out there buying stock? If you have, how much – how many shares have you purchased since December 21?

Andres Ocampo – Chief Financial Officer

Sure, thank you. Yes, we put in place a share buyback, and that's up to 10 percent of the capital of the company. So far, we have invested around \$12 million onto that buyback and bought back somewhere around 800,000 shares. We participate from time to time on the market, and basically, what we did is we added one more item to our portfolio of investment opportunity.

So obviously, we're probably not executing on it very aggressively, but we participate from time to time. And we also preserve cash to be able to invest in our very exciting 2019 program that's going to generate a lot of value for our shareholders as well. So it's basically balancing the two of them, the way we're executing on the program.

Operator

Your next question comes from the line of Gavin Wylie of Scotiabank.

Gavin Wylie – Scotiabank

Just a quick follow-up on the normal course issuer bid. Just how active – I guess, when you look at your capital plans, it's fairly heavily weighted towards the sort of Q3, Q4 time line, or at least it appears to be, including Peru. How active can you be second half of the year?

I mean, really, if you're not active in March and April, it doesn't really look like you'll be able to repurchase a massive number of shares. So just what's the intent to be right on top of that for the next couple of months? And just as a second question and follow-up on exploration side, on the maps, you've put in a couple large stratigraphic traps on block 34 and I'm just wondering what the timing of those wells in particular might be.

Andres Ocampo – Chief Financial Officer

To your first point on the buyback, really, the first half of the year is the most active one. I mean, most of the CAPEX is – particularly in Argentina, Chile and Columbia are burdened on the first

and second quarter. Peru's is mostly in the second and third quarter. So we will continue probably executing on the buyback the same way we have been so far, selectively and from different times.

And then for the particular question with respect to the stratigraphic plays in Columbia in Llanos 34, we agree with you. Those are very exciting structures. The first one that we're going to drill is Jauke. If you look at the map, it is the one that is southwest of Chachalaca field.

We are currently conducting the civil works, building the paths – the well path on that prospect. And the drilling is expected to start in August once we move the rig to that place. And probably the other prospects are also targeted somewhere in the second half of the year. We don't have a specific time yet or date.

Operator

I will now return the call to Mr. James Park for any additional or closing comments.

James Park – Chief Executive Officer

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 please call us at any time for more information. Thank you.

Operator

Thank you for participating in the GeoPark Limited conference call. You may now disconnect your lines and have a wonderful day.

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