

Transcript of
GeoPark Limited
First Quarter 2018 Results Conference Call May
8, 2018

Participants

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

Analysts

Andre Hachem – Itaú BBA
Brian Sorenson – Eight Capital
Arthur Byrnes – Deltec
Jenny Xenos – Canaccord

Presentation

Operator

Good morning, and welcome to the GeoPark Limited conference call following the results announcement for the first quarter ended March 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, please 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 at 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 the U.S. dollars unless otherwise noted. Reserves figures correspond to the PRMS standards.

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

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

James Park – Chief Executive Officer

Thank you, and welcome, everyone. We're joining you today with our executive team from London, England, to report on our results from the first quarter 2018. We've hit the ground running in this first period with all of our performance metrics up and allowing us to step things up even more for the rest of the year.

Oil and gas production climbed 28 percent. Reserves are expanding with our successful appraisal drilling in Columbia, which is now proving up the northeastern end of the Tigana field to be bigger than we had originally expected. Our Llanos 34 Block operated by GeoPark is now producing over 60,000 barrels per day gross.

Our team continues tightening operating costs, which decreased from the previous quarter. Our safety record was extended without incident, and our beneficial community partnerships continue to support our operations.

Cash generation is further multiplying with revenues up 86 percent, EBITDA up 63 percent, and our bottom-line net income increasing almost 5x to over \$25 million. This has given us \$120

million cash in hand, dropped our leverage ratio to 1.5x and given us another credit rating boost to B+.

We closed on an important new multi-block project in Argentina that will serve as a platform for future growth with a full complement of production, development and exploration targets and both conventional and unconventional opportunities. And we entered into a new long-term acquisition partnership with ONGC, the national oil company of India, which gives us a powerful tool in our expansion efforts across Latin America.

The market is increasingly recognizing the underlying value in the GeoPark story with our trading volume improving significantly to over \$4 million per day. And with our increased on-the-ground performance and the stronger oil price environment, we have geared up our work program for 2018, meaning more investments, more exploration and development drilling and more production, with the whole program still self-funded from our own cash flows and increasing our production growth targets to 25 to 30 percent, taking us to an exit production of 38,000 to 39,000 barrels per day.

Thank you, and we please invite any questions for our team.

Operator

At this time, if you wish to ask an audio question you may press star followed by the number one on your telephone keypad.

And your first question is from Andre Hachem from Itaú BBA.

Andre Hachem – Itaú BBA

Two quick questions, the first one on the work program. Could you guys give a little bit more detail on how this will impact the drilling schedule for this year? And where we should see investments being focused? Should the bulk of this be directed to Columbia, or should we also see some marginal investments increasing in Argentina and Peru?

The second question is relative to oil price discounts. We've seen a narrowing of the discounts towards heavier oils. How do you see this evolving towards the end of the year, which was the rest of the year?

Andres Ocampo – Chief Financial Officer

This is Andrés here. To your first question about more detail on the work program, so as we announced, this follows pretty much what we had announced in November last year, which is the upper side of our range with higher oil prices.

So, following this, we have upsized our work program to a range of \$140 to \$150 million. Most of that, as you pointed out, is going to be allocated to Columbia, nearly from the increase, around \$30 to \$35 million are going to Columbia. So that takes Colombian CAPEX to a range of around \$120 million. Most of that is going to be in Llanos 34, but we're also adding some other activities in some other blocks.

For example, we are including in this guidance Zamuro, which is a prospect that is in Llanos 32. This is a farming agreement that we announced in December. This is an exploration prospect that we had already announced, but it wasn't included in our work program when we originally announced it.

So now we are including it in the work program. We are also drilling a well in Yamu block, which is another block in the Llanos basin that today is producing around 300 barrels a day, 100 percent owned by GeoPark and operated by us. We are drilling a well there. We're also doing some workovers and facilities upgrades, both in Llanos 34 and the rest of the assets that we own in Columbia.

So that, for Columbia, is around \$120 million to \$125 million from the full \$140 to \$150 million. Then we're adding a well in Chile called Uaken. This well will cost around \$3 million and has 3 targets, El Salto formation, Springhill formation and Tobifera formation. It's a very nice prospect that our team in Chile has proposed for us to move forward, and we decided to allocate capital to that.

And then the rest is some more minor activities in some of the other countries. There's a small amount allocated to the recently acquired Argentina assets, some pulling on workovers and well repairs to try to quickly increase some production there. And hopefully, closer to the end of the year, we can move a rig and start drilling in those properties.

And then to your second question, yes, we have seen the discount to Brent. As you know, we sell most of our oil in Columbia on Vasconia, and Vasconia has been trading at a discount through Brent and at a premium to WTI. And the numbers we're using for the year are around \$4 per barrel discount on the Vasconia differential.

Andre Hachem – Itaú BBA

Great. If I could, I have a follow-up question. Do you have any preliminary estimate on the size of the extension of Tigana 9 well? How much that should impact your 2P reserves – 2P and 3P reserves? Or at this point, do you still not have any kind of estimates?

Andres Ocampo – Chief Financial Officer

Well, we usually wait -- given that we do full year campaigns, we're going to be drilling a lot of wells in Llanos 34 this year. We're going to have our certification in December, announced in February, as we usually do.

What we can say is that this is a well that was drilled outside the 3P boundary so that's why, as you mentioned in the introduction, it is expected to impact our reserves. Giving an estimation there is not something that we should be doing.

Operator

And our next question is from Brian Sorenson with Eight Capital.

Brian Sorenson – Eight Capital

Just a few quick questions from me. On the January 10 press release, Q1 capital expenditures were forecasted at \$30 to \$35 million while coming in at \$21 million.

Were there any efficiencies found, or were you behind on the June program at all? And the other question is, what is the Argentina acquisition currently producing, just the acquisition itself? And what do you expect Argentina as a whole to produce for the year with no CAPEX?

Andres Ocampo – Chief Financial Officer

Thank you for your questions. To your first question, this is, as you pointed out, lower CAPEX than expected. It's mainly under execution. That's probably more an accounting issue rather than really any cuts on our expectations. So, CAPEX throughout the year should be in line with the guidance that we gave.

And then with respect to your question about Argentina, the assets are today producing around 2,200- 2,300 barrels a day. And we expect them to remain within those levels by the end of the year. We think with some of the pulling activities and workovers that we will do, we will be able to maintain that production fairly flat from now until the end of the year.

Hopefully, if we are able to move a rig before the end of the year, we expect to start drilling and then start growing that production base to bigger levels.

Operator

As a reminder, to ask a question you may press star one on your telephone keypad.

Your next question is from Isero Ian with Radiant.

Isero Ian – Radiant

Quick question on the production profile. What's your current corporate decline rate, including the Argentina acquisition?

Andres Ocampo – Chief Financial Officer

Thank you for your question. Our decline rate, obviously, on a corporate basis is a combination of multiple different assets in multiple different basins and at different stages of maturity. So, we are combining there our biggest production base today, which is coming from Llanos 34, which is a fast-growing production asset.

And as Jim mentioned at the beginning today, it has already crossed the 60,000 barrels a day mark. And then we're combining that with assets in Chile and the ones we acquired in Argentina, which are broadly in more mature, stable phases; and the same case is Manati, which is more on a flat, mature, plateau phase. Factoring all this together, probably, we're estimating our corporate decline rates to be around 15 to 20 percent on an annual basis.

Isero Ian – Radiant

And then in the capital that you're spending, what kind of efficiency do you expect, both on the exploration side and the development side?

Andres Ocampo – Chief Financial Officer

We are allocating -- so I'm not sure if I understood the question, but from that CAPEX program, probably around 30 percent is going to be exploration and around 70 percent is dedicated to appraisal and development of fields. But I'm not sure if I understood your question.

Isero Ian – Radiant

If you spend \$145 million on average, what kind of production additions do you expect with that, both on the exploration side and on the development side?

Andres Ocampo – Chief Financial Officer

Well, all of our production guidance is associated to development and appraisal. Our guidance has no production associated to any of the exploration activities. And then from what is related to the development and appraisal drilling, our production growth is expected to be 25 to 30 percent compared to last year.

And the exit production is around 38,000 to 39,000 barrels a day, and we started the year around 30,000. So, with this CAPEX program, we're effectively adding around 8,000 to 9,000 barrels a day to exit 2018. Not sure if that covers the question.

Isero Ian – Radiant

Yes. It helps, yes. And one final question before I get off here. Given the much higher oil prices than even what's expected in the current budget, what will you do with the extra cash? Do you want to do organic growth or acquisitions? Or would you consider paying a dividend or buying back stock?

Andres Ocampo – Chief Financial Officer

Well, I'd just sum from this morning's release, our first place to allocate capital is our own asset base. And we did our first round with these higher oil prices, and we used \$60. We usually use conservative prices to run our CAPEX programs, and we used \$60. We recognized this is below what Brent is today, but also nobody can guarantee that it is going to stay as high as \$70 or \$75 for that long.

For now, our number 1 priority for allocating capital is our existing organic asset base. As you know, the consolidator part is a big component of our business model. We're explorers, operators and consolidators. And we've been proving over the last years that we've been building conservatively a portfolio of assets in Latin America and that we've been patient buyers, but acquisition is part of the things that we consider when allocating capital.

We throw in that mix ideas like dividends and buybacks. That's always something that we consider. We've never paid dividends. We did -- we have done some stock buybacks years ago. But currently, I think we're focusing more on our organic assets and also looking at the wide portfolio of opportunities that are out there in the region.

Operator

Your next question comes from Arthur Byrnes with Deltec.

Arthur Byrnes – Deltec

Two quick questions, Andrés. One of them is, could you explain a little bit how this joint venture with the Indian oil company is meant to work? And what the parameters are in terms of size? And what it could mean to the 35,000 or 38,000 barrels a day production over time, a? And b, could you tell me what the blended interest rate is on your \$400-odd million in debt?

James Park – Chief Executive Officer

This is Jim. Just with respect to your first question, so as Andrés just mentioned, the consolidator piece is a key part of our business. It's one of the components of our business. And for the last 10 years, we've been building an inventory of projects across Latin America.

So, the national oil company in India, which is the fastest-growing consumer of oil in the world today, is interested in expanding its presence in Latin America. And so this is a great partner for us in our new acquisitions.

There's not a specific joint venture on a specific deal, it's to work together on acquiring new assets. So we see them as good long-term partners that are focused on the right things in valuing oil and gas assets and bring a lot of strength to our overall business plan and acquisition efforts.

Arthur Byrnes – Deltec

Have you starting doing something with them in terms of analyzing? Is the thing going, or is it just still on the shelf?

James Park – Chief Executive Officer

No, it's running full blast. We've been working together continuously, sharing information on opportunities they have and opportunities we have.

Arthur Byrnes – Deltec

Jim, listen, you've come a long way. I congratulate you.

James Park – Chief Executive Officer Well,
Thanks for your support.

Arthur Byrnes – Deltec

Second question is on the interest rate, yes.

Andres Ocampo – Chief Financial Officer

Yes, Andres here. 100 percent of that debt is the \$425 million bond is a 7-year bullet and carries a coupon of 6.5 percent fixed.

Operator

Again, if you wish to ask a question you may press star followed by the number one on your telephone keypad.

Your next question is from Jenny Xenos with Canaccord.

Jenny Xenos – Canaccord

I'm wondering if you could give us an update on your progress in Mexico.

Andres Ocampo – Chief Financial Officer

Well, in Mexico, as you know, we're interested in setting a position there. And we have been participating in different onshore bidding rounds, both done by Pemex or the CNH, and also looked at some of the contract migration opportunities that are out there.

We haven't been able to secure an asset yet. Some of those bidding rounds have been very competitive, and we always use our organic portfolio to be our secret weapon to really become a patient buyer. We're patiently studying Mexico and developing relationships with potential partners. And there's an incoming bidding round now, Round 3.2.

We are expecting to evaluate assets that are going to be offered there and, hopefully, make reasonable bids. And at some point, we will be able to make our entry into the country. So far, we don't have much progress to report other than that we continue really working on it and, hopefully, trying to get assets at right prices, not crazy ones.

Jenny Xenos – Canaccord

Are there certain basins that you're focused on in Mexico?

Andres Ocampo – Chief Financial Officer

Yes, mostly onshore basins in the south area of Mexico, southeast.

Jenny Xenos – Canaccord

The reason why I ask is that Pemex put up a -- recently, a number of packages for farming opportunities. I think it was something like 40,000 barrels a day of production and reserves, plus some exploration opportunities there as well in the Sureste Basin. I'm wondering if this is something that you've looked at all, if it interests you.

Andres Ocampo – Chief Financial Officer

Yes, that's exactly what we're working on looking right now.

Operator

There are no further questions. I would now like to turn the floor back over to Jim for any additional or closing remarks.

James Park – Chief Executive Officer

Thank you to everybody for your interest in GeoPark and your continued support of our company. We encourage you to please visit us at our operations and invite you to please call us at any time for any information. Thank you, and good day.

Operator

Thank you. That does conclude today's conference call. Thank you for your participation. You may now disconnect.

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