

Transcript of
GeoPark Limited
First Quarter 2019 Results Conference Call
May 9, 2019

Participants

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

Analysts

Gavin Wylie – Scotiabank
Jenny Xenos – Canaccord

Presentation

Operator

Good morning and welcome to the GeoPark Limited conference call following the results announcement for the first quarter ending March 31, 2019. After the speakers' 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 & Company in New York at 212-687-8080 and we will have one sent to you.

Alternatively, you may obtain a copy of the release in the investor support section on the company's corporate website at www.geo-park.com. A replay of today's call maybe accessed through this webcast in the investor support section of the GeoPark corporate website.

Before we continue please note there's statements contained in the results press release and On this conference call are forward-looking statements rather than have historical facts and are subject to risk 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 Act, Reform Act of 1995. These risks include a variety of factors

including competitive developments and risk factors listed from time to time in a company's FCCs public reports and public releases.

Those listed are intended to identify certain principle 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 IFRS and are stated in the U.S. dollars unless otherwise noted. Reserves figures correspond to PRMS standards.

On the call today from GeoPark is James F. Frank, Chief Executive Officer; Augusto Zubillaga, chief operating officer; Andres 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 this morning with our executive team from Bogotá, Columbia. We are pleased to report another record quarter of operational and financial performance.

Oil and gas production, up 23 percent. Revenue's up 21 percent. EBITDA up 46 percent. Transportation and commercial costs down \$2 per barrel in Columbia. Free cash flow of \$44 million.

Net profit of \$20 million. Cash on hand of \$147 million. Continued returning value to our shareholders by investing \$16 million in our buyback program. And now we have seven rigs operating across our Latin American asset base.

Given the fundamental long-term nature of our business, it's helpful to step back from the quarterly developments and also look at the bigger picture with our approach, our foundation, and our sustained performance which differentiate GeoPark from the pack.

We started out with an ambitious long-term vision and plan, which we have consistently worked to build and execute. We agreed on the required skill sets to achieve this plan and then steadily invested in and built these capacities to create the strongest oil and gas team in the region.

And we developed an ESG value system from the get-go which we called SPEED, to ensure we are the employer of choice, partner of choice, and the neighbor of choice wherever we are operating.

Our strongest metric validating this 'big-prize' approach is GeoPark's 16-year track record of consistent growth in production, reserves, and net asset value which has occurred regardless of whatever financial industry or political crisis has been thrown at us.

Our oil finding ability was demonstrated by a 70 percent plus drilling success rate after drilling 300 wells, with over 350 million barrels discovered. We currently have over 180 million barrels of net-certified 2P reserves valued at \$2.7 billion.

Our technical and operating knowhow has led to peer-leading cost efficiencies with finding and development costs of just \$3.60 per barrel, and operating costs as low as \$4 per barrel at Llanos 34.

Our capital allocation discipline gives us an exceptional investment efficiency which generates \$3 of operating net back for every \$1 we invest.

And with a return on capital employed of 38 percent over the last 12 months. With more hydrocarbons and less cost, our cash generation keeps picking up speed with an EBITDA of \$360 million and free cash flow of \$130 million over the last 12 months.

And we have an in-place organic project inventory to continue growing production and reserves, which is all self-funded from our own cash flows and built on a rich platform of over 5 million acres, in 29 blocks, in 10 hydrocarbon basins in 6 countries.

We also have developed a \$4 billion plus inventory, have new potential acquisition projects across the region, and have proven our ability to develop important partnerships and strategic alliances.

The international investment community has taken increased notice of GeoPark's performance and rewarded our shareholders by making us the best performing upstream oil and gas company on the New York Stock Exchange for the last two years in a row.

Importantly, all of the strong, short-medium term performance gives us the luxury and means to look further down the road and acquire more ammunition for the long haul. For example, our recent successful entry to Ecuador is a major advancement.

One of the biggest, most attractive under-developed petroleum systems in Latin America, and the long-term target of GeoPark is the Marañon-Oriente-Putumayo basin complex stretching from Peru through Ecuador and then to Columbia with over 10 billion barrels of remaining conventional hydrocarbon resources.

With our existing platforms in Peru and Columbia, our Ecuador entry into the giant oil

province substantially opens up our growth horizon for many years to come. Thank you and we'll be pleased to take your questions.

Operator

Thank you, the floor is now open for questions. To ask a question please press star one on your telephone keypad. Our first question comes from Gavin Wylie, Scotiabank.

Gavin Wylie – Scotiabank

Yes, thanks. Just a couple quick questions from me just on the CAPEX side and free cash flow side, so Vasconia's running much better than expected.

Costs have come, I'd say in line maybe even a little bit better than expected, and when I think of Peru being delayed, that maybe frees up somewhere in the realm of \$100 million of CAPEX that can then be pushed into other projects.

And I know that at the presentation you've got the \$80 case that shows \$270 million of CAPEX, so, the two questions that I have are -- first is what do you expect CAPEX to be for 2019 given the fact that you have deferred some of that Peruvian expenditures and in two words the incremental capital going, and three given the fact that you're probably producing about \$150 million of free cash flow this year, how are you prioritizing your debt repayment and buybacks?

Because you weren't really super active on the buyback here in the first quarter, and just wondering if that's going to kick up as we go through the balance of the year. Thanks.

Andres Ocampo – Chief Financial Officer

Thanks Gavin, good morning. Yes, as you pointed out with Peru, there are prices that we have anticipated in our budget. We are seeing more free cash flow, to your point about the CAPEX program in 2019, we're estimating it's going to be around \$140 to \$150 million.

The team is continuously looking for different projects and we are doing almost an ongoing capital allocation just looking for projects and finding good portfolio opportunities for us to invest.

Our buyback program is one of those, and with the entire free cash coming from lower costs and higher oil prices, you should expect more cash being allocated to our buyback program.

At least for the second and third quarters of the year or probably the remainder of the year. So far, we have invested \$16 million and bought back \$1.1 million shares, more or less. So, we should expect that to pick up probably in the months that are coming forward.

Gavin Wiley – Scotiabank

Just a follow up to that buyback question, have you guys thought about or are looking at doing an automated buyback that wouldn't be subject to blackouts or are you just going to stay on the discretionary path?

Andres Ocampo – Chief Financial Officer

Well, we do both. On closed periods, we put it on automatic and non-closed periods, we do it on manual, basically. We have been doing it that way. The automatic orders that the buyback has been receiving were probably more conservative within the last few months than it should be going forward.

Gavin Wylie – Scotiabank

Perfect. Thank you.

Andres Ocampo – Chief Financial Officer

Sure.

Operator

Your next question comes from the line of Jenny Vinos of Canaccord Genuity. Jenny, your line is open.

Jenny Xenos – Canaccord

Good morning. Can you hear me?

Operator

Yes, we can hear you.

Jenny Xenos – Canaccord

Great, thank you very much. Good morning and congratulations on the great quarter. I have four questions, please. First, with regard to the commercial and transportation discounts, they have improved substantially in the first quarter of this year.

What was behind this reduction and is it sustainable for the remainder of the year and going forward? Second, when do you expect the Cuerva and Yamu disposition to close?

Third, could you please give us an update on the EIA approval in Peru? And finally, with regards to the IFRS 16 adoption, it had about a \$1.3 million positive impact on your profit, if I understand it correctly.

How will you be reporting it going forward? Will it always be kind of below the EBITDA line? Or will it become part of your kind of operating EBITDA, future reporting. Thank you.

Andres Ocampo – Chief Financial Officer

Great, thank you, Jenny. With respect to the commercial discounts, just a couple of things. The main idea here is that the commercial and transportation discounts this quarter, as reported, were reduced by two dollars per barrel.

We are expecting our flowline to be in operation before the end of the month. And with that, we expect for the second half of the year an extra dollar on top of the two that we have already achieved.

And then, your second question was? Oh, the Yamu-Cuerva closing, sorry. It really rests in the hands of the (ANH) and we're pending the approval to effectively transfer the assets. Hopefully somewhere in the second quarter. So, before the end of the quarter, it should happen.

Unfortunately, it is a bit outside of our hands but we shouldn't expect any problems because they're assets that are being transferred from a qualified operator to another qualified operator. So, we expect no surprises there. But unfortunately, sometimes these delays do happen.

With respect to the (EIA) in Peru, there was some delay. Part of this was because our team took more time to really address every single item that was included in the feedback from all the stakeholders into the EIA.

After that, it was filed back to Peru, to the SENACE and that's now in their hands to process and come back to us with the final approval. We expect that to occur this quarter, basically.

With that, I think we mentioned this on a previous call, but with that timing, we would expect the first oil to occur in 2020, more towards the last quarter of the year than the first as we had said in the past.

In the meantime, the team is making great progress on all the work that can still be advanced prior to getting the EIA approved.

For example, we've finalized the works at the base camp to receive the loads that are going to come once we are in operation. The flexi-pipe has been built, transported to Lima and now it's on the way to the camp.

So, everything that we can do to accelerate in the meantime until we get the approval has been done, so the project still moves and we expect to get the approval before the end of June.

And then your last question about IFRS16, as you pointed out, you see the \$1.3 million impact in our financial statement, so basically you have to account them as both assets and liabilities and then some of them get removed from the lines: OPEX lines or G&A lines.

So, on the assets and liabilities it's around \$14 million on each. Half of that is associated to the compression plant in Manati.

So, if you look in our financial statements, you won't be able to reconcile the OPEX lines or the EBITDA lines, but in our earnings release, if you look at our Adjusted EBITDA line, all of the OPEX lines and every single item that is included in our earnings release has been reconciled to be consistent going back and moving forward.

So, every time we disclosed our Adjusted EBITDA numbers, they are consistent with the methodology that we released in the past. And you can see the isolated impacts on note 2 in the financial statements. I hope that answers Jenny's question.

Operator

Again, to ask an audio question, please press star, one on your telephone keypad. I would now like to turn the call back over to Jim Park for any closing or additional comments.

James Park – Chief Executive Officer

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

Operator

Thank you, that does conclude today's GeoPark Limited conference call. You may now disconnect.

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