

Transcript of
GeoPark
Second Quarter 2015 Results Conference Call
August 12, 2015

Participants

James Park – Chief Executive Officer
Augusto Zubillaga – Chief Operating Officer
Andrés Ocampo – Chief Financial Officer

Analysts

Diego Mendes – Itau
Andrés Cardona – BTG Pactual
Daniel Lerner – CarVal Investors
Jamie Somerville – TD Securities

Presentation

Operator

Good morning and welcome to the GeoPark Limited conference call following the results announcement for the second quarter ended June 30, 2015. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. (Operator instructions.)

If you do not have a copy of the press release, please call Grayling in New York at +1 (646) 284-9400 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 by dialing in on the numbers provided in the press release or by accessing the webcast in the Investor Support section of the GeoPark corporate website.

Before we continue, please note that certain statements contained in the results 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 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 to IFRS and are stated in US dollars unless otherwise noted. Reserve figures correspond to PRMS standards.

On the call today call from GeoPark is James F. Park, Chief Executive Officer; Augusto Zubillaga, Chief Operating Officer; Andrés Ocampo, Chief Financial Officer; and Pablo Ducci, Capital Markets Director.

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

James Park – Chief Executive Officer

Thank you, and good morning, everyone. In December last year, GeoPark quickly moved to adjust our work programs, investments and cost structure to prepare for and accommodate a sustained period of lower oil prices in the \$45 to \$50 per barrel range. Our strong performance during the second quarter reflects these decisive actions. Our overall cash costs made up of production, operating, G&G, G&A and selling costs were reduced by 38%.

Capital expenditures were cut back by 84%. Cash in hand increased to \$105 million and all the while production has been generally maintained. These efforts are ongoing and continue to generate new lower cost growth opportunities. We are also pleased to be back drilling again, which we will continue for the remainder of the year. Importantly, our successful drilling program on the Llanos 34 block in Colombia has been resumed and already with some good indications.

The Llanos 34 block operated by GeoPark represents the strongest growth story in the Colombian oil industry in the last two years. Our success in preserving cash and effectively allocating capital also demonstrate the underlying strength and diversity of our rich asset platform.

In addition to our certified 122 million barrels of discovered 2P oil and gas reserves valued at \$1.7 billion, an independent audit of our exploration resources was conducted and identified a potential of 770 million to 1.5 billion barrels of oil equivalent. These are resources located in proven hydrocarbon basins managed by an experienced team with a strong regional track record and a 70% historical drilling success rate. And while continuing to develop our organic assets, we also remained active in the search for an acquisition of new exceptional shareholder value adding projects, with our main focus on divestments by national oil companies, corporate M&A opportunity and individual attractive low cost bolt-on assets.

With GeoPark's existing five-country platform and operating teams, we have a wide universe of viable and attractive acquisition opportunities. In this regard, we are pleased to partner again with Wintershall, Germany's largest oil and gas producer on a new high potential low-cost block in the Neuquen Basin, which is a good strategic fit to our portfolio with respect to geology, potential cost and timing. We also would like to thank GeoPark's team for its professionalism and heart and which again is creating result in positioning us to continue on our nine-year track record of growth.

Thank you and let's please turn to Zubi for operational highlights.

Augusto Zubillaga – Chief Operating Officer

Thanks, Jim, and good morning to everyone. Let's please focus on three main operational pillars: production, cost optimization and drilling. One, due to the second quarter, oil and gas production averaged 19,500 barrel of oil per day led by continued production growth in Colombia along with a favorable production in Brazil and decline in production in Chile. This was impacted by no new wells being drilled in during the first half of the year.

Two, on cost optimization, our team have adjusted our entire cost structure across the board with meaningful results. Our work programs and investments have been reduced by over 80% and our production and operating cost have been reduced by over 40%.

This has opened up new some opportunities such as we started the profitable operation of projecting La Cuerva oilfield in Colombia after redesigning the operation due to reduced operating cost by over 50%. Our drilling costs

have also been reduced by over 20% which allowed us to generate attractive returns with payout ratios between 8 to 12 months for our drilling program this year, even at \$45 to \$50 per barrel oil prices.

And three, drilling restarted in June with the drilling of two new exploration prospects. Electric logs from the Chachalaca 1 well in Llanos 34 indicate the presence of hydrocarbons in both Mirador and Guadalupe formations. We will continue drilling for the remainder of the year with addition of another five to six wells in Colombia, representing our mix of exploration and development wells and currently, we are drilling Ghana I [ph].

So other activities worth noting during the quarter include, in Chile, [indiscernible] in Tierra del Fuego was full on production and also the treatment plant for the Ache Gas Field in the Fell Block is under construction with an expected startup in the fourth quarter.

In Brazil, the new compression plant for the Manati Field was constructed on time and within budget by our operator Petrobras. The design required Manati production to be shut in for 15 days during July and August. We also signed an amendment to expand our gas sales contract with Petrobras to cover 100% of Manati gas reserves.

Well, thanks and we now turn the call over to Andrés.

Andrés Ocampo – Chief Financial Officer

Thank you, Zubi, and good morning everyone. As a result of the drop in oil prices, our net revenues decreased by 53% to \$62 million during this quarter. Our ongoing cost reduction efforts and improved efficiencies combined with a depreciation of the local currencies has resulted in reducing our cash costs by 33% to \$20 per barrel of oil equivalent in the second quarter of 2015.

Our adjusted EBITDA generation for the quarter amounted to \$28 million, \$11 million higher than the first quarter and our operating netback per barrel increased to \$23 per barrel of oil equivalent, that's 44% higher than the first quarter. The net loss for this quarter amounted to \$9.4 million, mainly impacted by depreciation charges of \$24 million, \$8 million of financial expenses, \$5.5 million in taxes, and \$3.7 million in foreign exchange results that positively impacted our dollar denominated debt in Brazil during this quarter.

Our capital expenditures were down by 84% to \$10 million in the second quarter this year compared to \$66 million in the second quarter last year. The incremental adjusted EBITDA generation combined with the significant cap ex reduction allowed the company to generate \$14 million of positive net free cash flow during the quarter, and therefore increasing the cash position from \$91 million in March to \$105 million at the end of June.

GeoPark's total assets as of June 30th amounted to \$967 million, while our total financial debt was up \$370 million, including the \$300 million bond that is due in 2020 and the \$70 million credit facility with Itau Bank in Brazil. Our equity as of June decreased by \$47.5 million, compared to December due to the accumulated losses throughout this year and amounted to \$432 million, which included minority interest of \$98 million related to LG's participation in the Chilean and Colombian operation.

So as Jim mentioned, we are pleased to have restarted our drilling activities to find and produce more oil and gas and with the effectiveness of our cost efficiency efforts. We look forward to delivering more results into the second part of the year, and are strongly positioned with more cash on our balance sheet to execute the most value adding project selected from our wide portfolio of opportunities.

So thank you. I would like to now please ask the operator to open the call for questions and answers. Thank you.

Operator

(Operator instructions.) Our first question comes from the line of Diego Mendes with Itau. Please go ahead with your question.

<Q>: So I have two main questions. The first one is regarding our strategy for the next year. What are you thinking that you're going to do if oil prices remain more or less where they are today? So would you still continue drilling in Colombia, but what could happen to Chile and to Peru? And also, if you could provide the updates on what is happening on the Tierra del Fuego, if there was any involvement in the study there and also indicators of Peru if you're able to sign the new contract with Petroperu? Thank you.

James Park – Chief Executive Officer

When we first back in December—we decided the plan for two years of this low oil price, so really set everything in motion for a period of low oil prices for the next two years. As part of our capital allocation program, the way we look at projects, all our business units submit projects for our budgets and we rank those based on economic, technical, and strategic reasons to really determine what the program is. The great success that we have been having in Colombia was at Tigana and Tua fields, make those attractive programs. So we probably could expect that a lot of the capital would go towards the development and expansion of those particular fields.

With respect to Tierra del Fuego, we're actually having a meeting on that right after this call with our team from Chile. So that's an ongoing process and can answer that a little better next call.

Augusto Zubillaga – Chief Operating Officer

This quarter we were able to put on production a new field in Tierra del Fuego at Chile [indiscernible], that's what we mentioned in the introduction. And lastly, on the Peru question, we haven't yet closed the acquisition there. We are still [indiscernible]. We expect that to come during September. We continue working with the government entities to provide information necessary to get that process finished the sooner the better.

<Q>: And just last question, what is the production expectations for the first quarter coming from the Ache field in Chile?

Augusto Zubillaga – Chief Operating Officer

Well, the Ache field is going to be an important production in October. So that we are going to full on production between 200,000 to 250,000 cubic meters a day of that.

Operator

(Operator instructions.) Our next question comes from the line of Andrés Cardona. Please go ahead with your question.

<Q>: Just a quick question about La Cuerva. How much production are you expecting from this field now that [indiscernible]?

Andrés Ocampo – Chief Financial Officer

We were on production on this field in July and so we started with 600 barrel of oil per day and we are estimating to reach a production of 800 barrel of oil per day at the end of this month.

Operator

Our next question comes from the line of Daniel Lerner with CarVal Investors. Please go ahead with your question.

<Q>: Just a quick question, just to get an idea of the cost reductions that you've been able to implement. Can you give us any guidance as to how much of that is nominal price reduction as opposed to the assistance of a

depreciated currency in your markets? Just trying to get an idea of how much the currency helping you versus just real like-for-like cost reduction. Any possibility on giving us guidance there?

Andrés Ocampo – Chief Financial Officer

Yes. On a consolidated basis approximately 60% of our base costs are nominated in local currencies. So the impact in this quarter the impact of the valuation is approximately 40% to 50% of the cost reductions and the rest is basic reductions or making the operations more efficient. That's [indiscernible].

Operator

(Operator instructions.) Our next question comes from the line of Jamie Somerville with TD Securities. Please go ahead with your question.

<Q>: A couple of questions on the peripheral assets here, coming back to La Cuerva. So you've reduced the op ex by 50%. I think you've just clarified that about half of that is coming from the FX rate. Can you clarify what the rest is coming from? Is it lower transportation costs? What exactly is it? And maybe I'll follow that up with when you made the decision to put this asset back on stream where oil price is higher and you're actually achieving reasonably netbacks with the decline in oil price that we've seen over the last couple of months since June?

Andrés Ocampo – Chief Financial Officer

Yes. It was reduced by 50%, that's a combination of op ex there, probably in the case the 50% is driven by depreciation on a consolidated basis. In the case of La Cuerva it's higher the impact of really signing the operations. La Cuerva is a block that has the number of wells and [indiscernible]. So basically we put it back on with fewer wells producing with the most efficient wells on production and that's why the production is going to be around 800 opposed to 1,200 when it was started originally.

We also reduced the transportation cost significantly, the road mine [indiscernible] significantly. The headcount of the people working on the field has also been reduced significantly. We changed the fuel for running the energy for generating the energy in the fuel, which also reduced the cost a lot and that allowed us to put it back on production and make it generate positive cash flow at \$45 to \$50 oil price which is what we are using for the whole year.

<Q>: And then just, can you clarify with the Argentina deal that \$5 million farm-in [ph] is that what you expect to spend at 100% for these two wells to carry themselves through these first two wells or is there a spending cap there?

Andrés Ocampo – Chief Financial Officer

Yes. That's what we expect to spend on the cost of the wells.

<Q>: Can you talk strategically your interest in Argentina? It's interesting that I think you have overheads in Argentina, so there is maybe tax reasons to have production in Argentina but you are doing there an exploration farm-in [ph]. Is that strategically positioning yourself to be in Argentina when things potential change through the elections or how do you think about Argentina specifically?

Andrés Ocampo – Chief Financial Officer

Yes. One of the reasons we have a big corporate office here in Argentina, we always and our team knows all the basins here very well. We've bid already projects in Argentina for many years, never found the right one or a good one for us to participate. In this case, our technical team presented this project being one of the most attractive conventional plays in the Neuquen Basin with some unconventional upside as well.

It also is in partnership with a good operator, as Wintershall, and yes, for us, it makes sense to have some production in Argentina because we have a corporate office here. The commitment is modest and is extended in time. So it's not until the end of next year that we have to put capital in it. And also, it's a very good prospect with very high chances of success, our team was very positive about them, and that's why we decided to move in.

Operator

It seems that we have no further questions at this time. I'd like to turn the floor back to Mr. Jim Park for closing remarks.

James Park – Chief Executive Officer

Thank you all, again, for joining today to review our performance and opportunities in 2015. Please do not hesitate to contact us if you have any questions. Thank you.