

Transcript of
GeoPark Limited
First Quarter 2020 Results Conference Call
May 14, 2020

Participants

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

Analysts

Robin Haworth – Stifel
Stephane Foucaud – Auctus Advisors
Ian Macqueen – Eight Capital

Presentation

Operator

Good morning and welcome to the GeoPark Limited Conference Call following the results announcement for the first quarter ended March 31, 2020. 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.geopark.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 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 the IFRS and are stated in U.S. dollars unless otherwise noted. Reserves figures correspond to PRMS standards.

On the call today from GeoPark is James F. Park, 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 are joining you this morning with our executive team united as ever in our efforts, but currently physically separated and calling in from our respective homes and locations in Bogota, Santiago and Buenos Aires.

At the outset, we would first like to express our profound gratitude and admiration for the GeoPark women and men who are working day and night, pushing us through this downturn and continuously making our Company perform, protecting our shareholders, and positioning us for the new world on the other side.

Across six countries, our team moved with quickness and agility to protect the health and safety of our employees, contractors and communities and ensure that our hydrocarbons keep flowing to the markets. With creative logistical support, our office staff could be moved to work from home, but our field operations require men and women to be on-site and have their hands on the iron. Our field teams again proved why they are the backbone of our Company.

Before opening up to questions, let's please look at four elements of our business during this first quarter.

Firstly, our team continued to drive performance with solid bottom-line results, including:

1. Record production of 45,700 barrels per day representing 16 percent growth compared to last year
2. Strong cash generation with an adjusted EBITDA of \$78 million, and
3. Leading capital efficiency with \$2.3 generated for every \$1 (investment).

On certain higher cost mature projects within our portfolio, we took non-cash accounting impairments of \$97.5 million, which made us record a net loss of \$89.5 million for the quarter.

Secondly, our team moved lightning-fast into battle-mode with the arrival of the global pandemic, the collapse in the world economy and the flooding of the oil markets with unneeded and unwanted barrels. In addition to quickly protecting the health and safety of our teams and contractors, we worked with our neighbors and communities to keep them informed of operations and risks and provide them with safety, medical and food supplies, particularly for the most vulnerable.

Following our tested business model and track record, our seasoned team simultaneously attacked every component and dimension of our business. So far, more than \$280 million of capital and cost savings have been implemented across the board with more coming. This included reducing our self-funded Work Program by 75 percent to \$45 million to \$50 million (focusing on our most strategic assets like the Llanos 34 and CPO-5 blocks in Colombia), and other savings, such as voluntary salary and bonus cuts by our team and Board.

We also temporarily shut in 6,500 to 7,500 barrels per day of higher cost production to preserve cash and shareholder value, resulting in higher cash flow with less CapEx. This also helped us minimize activity and the potential spread of the virus in the field and in our surrounding communities. It is expected that this production can be readily brought back on stream without suffering mechanical delays or reservoir damage.

Thirdly, the underlying strength of our assets and key characteristics of our Company provide a foundation to protect against and endure through this and other crises. Additional tools at hand include a strong balance sheet with \$165.5 million of cash and safety net funding alternatives such as a \$75 million oil prepayment with \$50 million committed and \$130 million in uncommitted credit lines, providing us with financial flexibility and liquidity, if needed.

GeoPark's long-term debt profile has no principal payments until September 2024, and Standard & Poor's and Fitch both recently reaffirmed our long-term corporate credit rating at B+.

We are also aggressively protecting our base oil price by effectively using hedges. With approximately 26,000 barrels per day (nearly 70 percent of our oil production) hedged in the second quarter and so far, approximately 17,500 barrels per day and 11,000 barrels per day in the third and fourth quarters, respectively.

Fourthly, as a long-term opportunity driven company, working in the most attractive hydrocarbon region today, we are looking ahead with excitement to the recovery and taking this opportunity to streamline and improve our overall business and more strongly position GeoPark for continued economic growth and success.

As always, we are protecting critical people, tools and capabilities for the short, medium and long term. And our flexible Work Programs, operational agility and big inventory of organic projects allow us to quickly expand our investment plan as prices begin to recover, with the first step-up at \$35 plus Brent.

We got a head start in this recovery effort by already closing on and integrating into GeoPark, the Amerisur Resources acquisition during January. This gave us additional important low-cost production, reserves and high potential acreage adjacent to and on trend with Llanos 34 block and a new entry into the Putumayo basin with production, reserves, a pipeline, attractive exploration acreage and a new partnership with Oxy.

In addition, we went to the capital markets in January and raised a \$350 million bond, which was oversubscribed more than six times by top-tier investors and achieved the lowest interest rate ever for a single B-rated company in Latin America.

Thank you, and we would be pleased to answer any questions you may have. And please be patient as we try to coordinate our question answering with our team located across the continent today.

Operator

At this time, I would like to remind everyone that if you would like to ask a question, to press star one on your telephone keypad now. Again, that's star one for any questions. We'll pause for just a moment to compile the Q&A roster.

The first question will come from Robin Haworth with Stifel. Please go ahead.

Robin Haworth – Stifel

Hello there. Thank you very much for taking my question. Just a couple of questions, if I may. Just on the CapEx budget. I should be interested to know, what was the last thing that came out of the capital budget, that is to say what is the highest returning opportunity in your portfolio that you're not able to do in the current environment?

Secondly, on the – I guess from the capital budget implies that you've ceased kind of pretty much all drilling programs from now on, given that you spent a large portion of the 2020 budget. So when should we start expecting to see underlying declines in the portfolio, ignoring the shut-in barrels, obviously?

And then thirdly and finally, and a bit more strategically, in terms of taking advantage of this downturn, you do have a wide footprint, would you be expecting to use this downturn to add

to the footprint? Or would you be expecting to use it to kind of slim down to your core Colombia asset base? Thank you.

Andres Ocampo – Chief Financial Officer

Thanks very much, Robin. Thanks for the questions. Can you hear me OK? This is Andrés.

Robin Haworth – Stifel

I can hear you fine, yes.

Andres Ocampo – Chief Financial Officer

(Great). So the first question about our CapEx. I'm not sure if I got it right, but we are estimating roughly our CapEx now for the year to be more or less \$45 million, \$50 million. And as you saw in our release, most of that, as you pointed out, most of that has already been invested. So really what is remaining is very limited, around \$5 million per quarter. Maybe in some quarters, we may go up to \$8 million.

But in this context of high volatility, in some cases, we are not even lifting some wells that go down because of either pump failure or things like that, which are pretty common on day-to-day business.

So I would say our CapEx has been done – has been compressed down to below what we would call a maintenance CapEx. There's just one workover rig in Llanos 34 working today, putting back one well on stream, and we'll release that rig even after that job is done, particularly or mainly because of the high volatility in oil prices. I mean Brent was probably in the 20 \$/bbl, 11 or 10 days ago, today is at 30 \$/bbl. So, the swings are pretty significant. So, it is uncertain how fast or how well we could achieve any returns on any of those investments.

So, to when we could be thinking of starting to invest again, luckily, we don't need levels over 40 \$/bbl or anything like that. We, I think, Jim mentioned in the introduction, with oil prices firmly about – at \$35 or higher, we're ready to go back to work. So hopefully, as soon as that happens, or there's some clarity in the market that that will happen and will be sustained, then we're ready to start putting or adding back investments into our portfolio.

I don't know if that answers your question about CapEx.

Robin Haworth – Stifel

Yes, it does. Just I guess to clarify, I was also asking about so the difference between your old CapEx guidance of \$70 million and now sort of \$45 million, \$50 million. That \$20 million or \$25 million, what was it that's come out there? And so what's the first thing that you do in the event of a slightly higher oil price?

Andres Ocampo – Chief Financial Officer

So, some of those were some activities that we have like facilities, building facilities, some workovers we have planned, we have around six or seven workovers that we postponed or delayed. There were some seismic works that were still on the budget. We also had some other activities for licensing, things like that. No wells – I mean the previous budget or the \$70 million budget already having no additional wells on it, only maybe one or two wells in CPO-5. So, in this case, we're just having no new wells and also some activities in Putumayo. Those are the type of things. Most of them – with the exception of the workovers, most of them had no immediate production associated to them.

With respect to the decline, as Jim pointed out, I mean, we have shut in production, and we expect that shut-in production to counterbalance the impact of potential declines. So really, the production we're seeing is more or less flat throughout the year, but it will depend on oil prices.

So, if you assume a \$30 Brent for the year, the production will remain – with the exception of the second quarter, will remain more or less in the levels of 40,000 barrels a day per quarter. So, you shouldn't be seeing declines because the shut-in wells would compensate for that.

In the second quarter, in particular, is when we have (today), more or less 6,500 to 7,500 barrels a day shut in. In the guidance we gave in our release, we are estimating that those are put back on in July, at the beginning of July. So that means that those barrels are out for the full quarter. But that is not what we expect. Hopefully, we will be able to bring those wells back on.

Actually, at today's prices, it is very economic to put those wells back. And by that, I mean, this \$30 Brent with a \$6 differential on Vasconia, that means \$24 effective price in Colombia. Most of those barrels that are shut in generate quite some cash flow at those levels. More than – let me see, almost \$10 per barrel could be generated from those. So, at these prices, we could consider bringing them back.

But as you probably know, it's not so easy to put – I mean you cannot be shutting in and shutting down wells every day. We will need some more clarity on how sustainable these prices are. And if we feel comfortable that both will remain, be sure that we'll bring those barrels back on production.

So, if you assume that those wells are not back on stream until the end of June, then production for the second quarter will be in the levels of 35,000, 36,000 barrels a day. If you

assume that they are put back on production at the beginning of June, it would be closer to 38,000. And then for the rest of the year, would be around 40,000 barrels a day per quarter, fairly flat.

I don't know if that covers your decline points.

Robin Haworth – Stifel

That's very clear. Thanks.

Andres Ocampo – Chief Financial Officer

And then – for the strategic aspect, obviously, the most profitable and the most – the biggest cash flow generation for the company, even particularly in this market, is Colombia. We're concentrating our little activity in Colombia, particularly in Llanos – mainly in Llanos 34 and CPO-5, and we expect that to be the case. We are significantly reducing or basically not investing in Peru, as you saw in the impairments in this environment is not economic. In particular, in Chile and Argentina, we also did some impairments related to the oil assets because of this scenario.

We still believe it's the right time to be looking for opportunities. So, we keep our eyes open, and we look at the market. But obviously, raising capital in this market is very tough as well. So we're probably concentrating more in Colombia at this time. But never close the door to any opportunities that may show up in such an attractive market for asset prices. And I don't know if that's the point you were referring to.

Robin Haworth – Stifel

Yes. That's very clear. Thank you very much.

Andres Ocampo – Chief Financial Officer

Thanks very much, Robin.

Operator

Once again, if you would like to ask a question, please press star one on your telephone keypad now. Again, ladies and gentlemen, that's star one for any questions. We'll pause for just a moment.

OK, the next question will come from Stephane Foucaud with Auctus Advisors.

Stephane Foucaud – Auctus Advisors

Hi, guys. Two questions for me. One, just a clarification. So from what you said is that if, oil price remains at \$30 a barrel until the end of the year, there won't be really any additional exploration wells in Colombia at (CPO-8)?

My second question is around – I was surprised by the netback, which is basically your operating netback so basically production is lower, but operating netback is basically unchanged or even a bit up. So, my question really is what has changed? The G&A has gone down, it's probably not increasing the operating netback. So, is it that you're forecasting lower OpEx, lower transport costs? Or is it simply because you're seeing better differential? Thank you.

Andres Ocampo – Chief Financial Officer

Stephane, could you please repeat the first question. I have the second clear. But can you repeat the first one? I did not understand. The line is a little bit noisy.

Stephane Foucaud – Auctus Advisors

It was just a clarification that at \$30 a barrel, we should not expect any further exploration drilling which I think was the question (following), but just to make sure I got that clear. No more exploration during at \$30 a barrel until the end of the year. Is that correct?

Andres Ocampo – Chief Financial Officer

Yes, that is correct. In our \$30 case, we're not anticipating any exploration (drilling). So maybe something in (CPO-5), but – and it wouldn't be a significant amount of capital.

For CPO-5, we're keeping maybe one appraisal well, one disposal well to increase production and maybe one exploration well. But all those together would account for more than \$3 million, net to GeoPark. And still it's unlikely that we would do them. So, I wouldn't consider those, unfortunately, at least until the end of the year.

And then to your second question, your point is right.

Stephane Foucaud – Auctus Advisors

And then the operating netback?

Andres Ocampo – Chief Financial Officer

Sorry, yes, the netback – your point is right. Basically, even in a scenario where we're shutting in production, although the production is lower, the netback is higher. And mainly there – and also, if you take the actual operating cash flow, if you factor in the CapEx, that is also lower, then the actual operating free cash flow is also much higher still.

The main impact there is OpEx. It's a reduction on OpEx, where not only our G&A has been cut down by almost 40 percent. And also, you need to include the fact in that analysis that we also took over a new company with its own G&A. So, if you factor in that we are comparing to 2019 numbers, where we didn't have that company in, then the cut would be much higher. But in any case, in the operating netback, as you pointed out, the G&A is not included.

But the main item there is OpEx. So, we're cutting down our OpEx significantly. In the new assets we acquired, for example, in Putumayo or in CPO-5, consolidated Amerisur was reporting \$18 to \$20 per barrel OpEx, we're cutting those down to \$10 per barrel in those group of assets.

In Argentina – in Chile, our OpEx is down 50 percent. We're targeting around \$9.5 per barrel. And last year, I think we reported something closer to \$20. In Argentina, we're cutting down around 40 percent of OpEx. And then in Colombia – in the other assets in Colombia, it's down by around 20 percent to 25 percent. So, all those reductions are generating the better impact on the netback.

Stephane Foucaud – Auctus Advisors

And as a follow-on, did you say some of those OpEx reduction has been structural or would you see that coming back as soon as oil price come back?

Andres Ocampo – Chief Financial Officer

Some of them are just not having pooling and things like that, but most of them are structural, structural changes. Either renegotiating contracts or redesigning operations or things that are in that sense. So, most of the reactions are efficiencies that we achieve.

Stephane Foucaud – Auctus Advisors

Thank you.

Andres Ocampo – Chief Financial Officer

Thank you, Stephane.

Operator

Once again, if you would like to ask a question, please press star one. Again, that's star one for any questions over the phone line.

We do have a question from Ian Macqueen with Eight Capital. Please go ahead. Ian, your line is open.

Ian Macqueen – Eight Capital

Sorry about that, I was on mute. So I'm just wanting to know about shut-ins and where they're occurring. I know you have 100 percent operated production in Chile and Argentina, but you have partners in Brazil and Colombia. Can you give us an idea of the BOEs per day that are going to be shut in, in Brazil, Chile, Argentina? And then in Colombia, where there would be shut-ins, whether it would be LLA-34, CPO-5 or Platanillo?

Andres Ocampo – Chief Financial Officer

Hi, Ian. Good morning. Absolutely. So, more or less the breakdown of those roughly 7,000-or-so barrels a day. In Chile, it's around 500 barrels a day related mainly to the oil production. The gas wells are still flowing with some small condensate that comes along with that. In Argentina, it's roughly 200 barrels a day related to also the oil assets. In Brazil, on the oil, it's 150 barrels a day, which is the one oilfield that we have there and some small oil that is produced by Manati.

And then in Colombia, it's more or less 1,000 barrels a day or so related to Platanillo. And then in Llanos 34, net to GeoPark is something around 5,000 to 6,000 barrels a day, more or less. And that is related to mainly the smaller fields. The higher water-cut fields like Max, Tarotaro and those type of fields.

And then the most recent ones, which we did this quarter, were related to Tua and the higher water-cut wells in Tigana and Jacana. So those are mainly the wells that are shut-in right now. In Llanos 34, total net to GeoPark is around, as I said, 5,000 to 6,000 barrels a day.

Ian Macqueen – Eight Capital

That's great, thank you very much, Andres.

Andres Ocampo – Chief Financial Officer

And to give you an idea of the impact, Ian, both are maybe on a gross basis around 10,000 barrels a day or so. And in water, that represents almost 100,000 barrels a day of water. That's why the impact of these wells on the netback is much better because it's almost on average, we – shut-in production with 90 percent (water cut).

Ian Macqueen – Eight Capital

Great, thank you.

Andres Ocampo – Chief Financial Officer

OK, thank you.

Operator

At this time, I would like to turn the conference back over to James Park for any closing comments.

James Park – Chief Executive Officer

Thank you, everybody, for your interest in GeoPark and your continued support of our Company. Once the world's borders begin to open again, we encourage you to please visit us at our operations in each country, and call us any time for more information or comments. Thank you, and please stay healthy and strong.

Operator

Ladies and gentlemen, thank you for participating. You may all disconnect.

END