

Transcript of
GeoPark Limited
Second Quarter 2019 Results Conference Call
August 8, 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
Miguel Ospina – Compass Group

Presentation

Operator

Good morning and welcome to the GeoPark Limited Conference Call following the results announcement for the second quarter ended June 30, 2019. 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 here with you this morning with our executive team in Bogotá, Colombia, to report on our second quarter 2019 results with an emphasis on both performance and economics.

Firstly, thanks to the GeoPark team for continuing to execute and deliver.

Our quarterly metrics continue to climb:

- Oil and gas production up 9 percent;
- Netbacks up 8 percent - with operating costs down 5 percent and lower commercial discounts;
- EBITDA up 18 percent - to a new record even though oil prices were 9 percent lower;
- And, net income jumped 6 times.

These advances all contribute to an impressive first half of the year that put us on target for another full year of operational and financial growth, and to extend our relentless 16-year performance track record.

In addition to our on-the-ground, day-to-day operational success in finding and producing oil and gas, it is crucial, please, to look at the underlying economics resulting from our operational efficiency and the quality of our assets:

1. We are self-funded from our own cash flow generation,
2. Our low operating costs allow us to weather any oil price volatility,

3. Our low capital investment required to maintain and grow our production sets us apart from our peers both in Latin America and in North America.

This quarter, every \$1 invested in CapEx yielded \$3.40 in EBITDA. It only took 4 months of EBITDA this year to cover our full year investment budget. Our return on capital employed in the last 12 months is over 40 percent.

The significant excess cash flow from our projects also enables us to provide more value directly to our shareholders by investing in our own shares. We have bought back over \$50 million of our shares in the last 8 months.

Importantly, we are also continuing to build out our project inventory with strategic, high-value, low-cost acquisitions in targeted core hydrocarbon basins, which give us plenty of running room - in the short, medium, and long term - with a risk-balanced pool of great assets. Recent key acquisitions include blocks in the Oriente basins in Ecuador, and blocks in the Llanos basin in Colombia, representing another big acreage add to our over 6 million-acre land holdings across the region.

In recognition of our capabilities and how we do our job both above and below ground, we were honored to be chosen by the Colombian state oil company to partner with and operate for them in the principal basin in Colombia and our successful bid round participation together.

This adds to our growing list of alliances with national oil companies across the region, where we are also working with Petrobras in Brazil, Enap in Chile, YPF in Argentina, Petroperu in Peru, and Petroamazonas in Ecuador.

GeoPark's consistent performance and our strong regional reputation are built on our successful in-house ESG program, we call SPEED. This program was a founding element of our company and one of our proudest accomplishments, always pushing us to be the employer-of-choice, partner-of-choice, and neighbor-of-choice wherever we are operating.

Looking ahead to the second half of the year, we are going to have 8 rigs operating with new plays and prospects being tested across our growing portfolio. And there are attractive new bidding rounds in multiple countries. So, lots more coming.

And of course, we're gearing up for our annual capital allocation process starting next month when we get to hear about and dive into the abundance of new exciting ideas and projects being generated by our teams in each country business unit to drive us onward and upward in 2020 and beyond.

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

Operator

Thank you. 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. Our first question comes from the line of Gavin Wylie of Scotiabank.

Gavin Wylie – Scotiabank

Hey guys, good morning. Just a quick question on the Guaco well, hopefully I'm not pronouncing that too poorly. You – back in 2017 there was a dry well in that area called Sinsonte. And I'm just wondering what are your views in terms of the difference between Sinsonte and Guaco going forward, and what gives you confidence on this well potentially being successful or even what sort of a chance of success are you putting on the well?

I realize that this is only about a \$3 million net cost to GeoPark. So, it seems like the opportunity/risk reward here is quite good. But just want to get an understanding on where you're putting the chance of success and what the key risks are on the well?

Andres Ocampo – Chief Financial Officer

Hi Gavin, good morning. Your pronunciation of Guaco is very good. So yes, as you mentioned, we had the well Sinsonte drilled a few years ago. Sinsonte was a structure, was an actual pure structural play and it was a 3-way deep closure against the fault. According to our technical team, the reasons why Sinsonte was a dry well or a wet well was because the fault – the ceiling of the fault wasn't strong enough to close the structure.

In the case of Guaco, it's a completely different play. In fact, the information that we got from Sinsonte is that the area has a reservoir. Well, there is 2 plays – 2 potential plays in Guaco. And those are mainly stratigraphic plays. So, given they're stratigraphic, the risk associated to them is generally higher than the general risk that we have seen in the previous prospects in Llanos 34. I think the chances of success assigned to the prospect are more or less around 20 to 25 percent in the 2 potential targets.

I will leave Zubi to clarify more about these 2 potential targets.

Augusto Zubillaga – Chief Operating Officer

As Andrés mentioned before, the type of play is between stratigraphic and structural. And in this particular well, we are targeting 2 formations. One is Guadalupe and the other one is

Gachetá. We are thinking that the potential resources range will be between 20 to 40 million barrels.

Gavin Wiley – Scotiabank

Excellent detail. Thank you for that. Just one more question on the buyback. I'm just wondering it's a nice step up in Q2 there. And just wondering what are your thoughts on the buyback going into the second half of the year, are you expected to remain active on that? Just in terms of what your plans are? And what do you think is the optimal level to be buying back in the market today?

Andres Ocampo – Chief Financial Officer

Yes. Of course, I mean currently we invested already around \$50 million in our buyback. That's around 5 percent of the capital of the company. We have approval from our Board to go up to 10 percent that means we are halfway through our buyback for this year. So, for now, we're thinking that at least additional \$30 million will be allocated to our buybacks during the second half. We may decide to add some more and complete the full 10 percent.

But certainly at least I would assume \$30 million for the second half of the year. It's a reasonable amount for us to allocate. So that is at least almost complete, the approval that we have. And then closer to the end of the year, we will decide what we would do for next year. That will be part of our capital allocation procedure that is going to be kicked off at the end of August.

Gavin Wiley – Scotiabank

Excellent, thank you so much. I appreciate it.

Operator

Once again, if you'd like to ask a question, please press "star," "1." Your next question comes from the line of Jenny Xenos of Canaccord Genuity.

Jenny Xenos – Canaccord

Good morning, and congratulations on a great quarter. I have a few questions, please. Maybe I'll start with the financials ones. You already covered the share buybacks. As far as other uses of our free cash flow, would you consider debt reduction, buying back some of your own debts, so notes in other words? Or are you perfectly comfortable where you are with your debt levels?

Andres Ocampo – Chief Financial Officer

Hi Jenny, good morning. Our debt, well, we do consider debt reduction as part of the uses for excess cash. The debt is composed mainly by 2 instruments, the bold part is the bond and then we have \$15 million of debt in Brazil – it's an amortizing loan that matures in October next year. It's a dollar denominated loan that is hedged with a synthetic hedge transforming to Brazilian reais.

So, prepaying that is expensive because of the unwinding of that hedge, and it's low cost debt, so we are probably not going to be prepaying that because it's expensive, it's probably cheaper to keep it until maturity which is not far away.

And then on the point of buying back bonds, currently, we are standing at 1x net debt to EBITDA with our cash flow and cash generation growing. So net debt to EBITDA is expected to continue going down.

So, at this point, even though we do analyze potentially from time to time buying back bonds, we are allocating most of that priority to buying back shares rather than bonds. So, it's part of our analysis but we feel thoroughly confident or comfortable within the leverage that we have today, which is more or less around our long-term comfort levels - 1x net debt to EBITDA.

Jenny Xenos – Canaccord

OK. Great. Switching gears here, moving on to Peru. What is the status of your EIA application there? And what has been done over the last quarter to advance the project?

Andres Ocampo – Chief Financial Officer

So, in Peru, as you know, the EIA is the key document for us to move forward with the investments there. A few weeks ago, we announced that we were doing some works to reinforce the information being added and being completed in the study. This is a highly complex and lengthy document that gathers the input from many different stakeholders in the project and involves working with more than 10 different governmental entities within Peru.

So our team felt that we needed to do more work on the EIA so we are currently working on improving it, and the team in Peru is working on designing the different paths forward for us to refile that EIA and the different timings for the project that each one of those alternatives would imply.

We're expecting to have those discussions with the team down there during the capital allocation that is going to be done in September, so hopefully we will have a much clearer view

of the timings in our next conference call. Certainly, given that we have not got the approval yet as we had expected around June this year, we are not going to be investing the full amount that we had anticipated for 2019 - I think that the updated amount was like \$20 million. So, right now, that amount for 2019, it should be around \$10 million for Peru. But we will have better knowledge on the timings, hopefully for the next conference call.

Jenny Xenos – Canaccord

I guess the question becomes whether the 2020 spend and kind of the project moving forward is still intact? Because you're going to be entering kind of the next window of the construction season, if I understand it correctly, kind of at the – in November or thereabouts.

So ideally, you would start working on the project at that time. But it seems at this point that it's kind of unrealistic to expect that. So, is it likely then that the year-end 2020 timing for the project start-up will become 2021 or later?

Andres Ocampo – Chief Financial Officer

Yes. I mean, as I said, the timings, there are going to be different options in terms of timings, and we will see which one we decide. It is correct that it's unlikely that we will be able to get the first production during 2020 and it's more likely 2021. However, we are waiting to see all the options that are on the table before we actually give a formal guidance on what that timing would be.

Jenny Xenos – Canaccord

OK. Understood. Could you also provide us please with some color on the continued reduced demand for natural gas in Brazil? And if possible, kind of your outlook for the remainder of the year? And I also understand there is some gas regulations being proposed there, what could be the impact of them on GeoPark?

Andres Ocampo – Chief Financial Officer

Yes. Absolutely. I'll start by the last one. All the regulations that are – or the deregulations that are being proposed have the aim of lowering the gas prices in the country, and also deregulating the – generally the whole hydrocarbon commercialization system.

From what we understand and what we have seen so far, most of the measures are aimed for new production coming. That is mostly aimed for the Pre-salt large type of projects, not really the projects that are already existing with existing contracts like ours.

So, in our particular contract, we have a take or pay for 2,300 barrels a day for the year. During the first half of the year, we have been below. There is still time to recover that before the take or pay triggers. So, our outlook for the second half is that, at least on a cash flow basis, we should be getting out 2,300 BOE per day.

But it's difficult to predict. So, I would rely on the take or pay. But I can do inform you that today the production is full back on track and we're producing 2,600 barrels a day, and that's the full nomination that we got for the full month of August. Predicting beyond that is difficult.

But I would assume that it's unlikely that they actually decide to pay the take or – they settle the take or pay in cash rather than actually taking more gas in the second half of the year to compensate for the lower first half. I don't know if that was clear. It sounded a little bit complicated, but...

Jenny Xenos – Canaccord

Yes. No, that make sense. And finally, just wanted to ask about Argentina. You were – initially when you were doing your budgeting process at this time last year, you were planning to do quite a bit of gas targeted drilling, including at Challaco Bajo.

With gas prices declining consistently there as a result of the added Vaca Muerta gas production, what are your plans in Argentina for the remainder of the year, other than the Aguada Baguales exploration well that you announced in your operational update?

Andres Ocampo – Chief Financial Officer

I think the Aguada Baguales exploration well is one sign of what we are planning to do in Argentina as a result of the pressure on the gas prices. Aguada Baguales is actually an oil exploration well. It's a 2 to 3 million barrels prospect. So, we're trying to switch more towards the oil. We drilled 2 wells in Challaco Bajo as you said, the Challaco Bajo 1001 is still on production and a flat production of 40,000 cubic meters a day. That's choked by the gas transportation capacity within the block.

And then the wells that we drilled, they are still under evaluation. We drilled those wells and we fracked them during the first quarter of the year. They are under evaluation and we expect during the second half of the year to reenter at least one of those wells that may have an – apparently has an oil leg that we may be able to put on production. The other thing that we're doing in Argentina is working on the base production.

Our team has done an incredible job in improving the waterflooding and redesigning the puddles for water injection. So, they have been able to stop the decline pretty significantly. If

you look at our production in the second quarter last year and the second quarter this year, we're in both, around 2,400 barrels a day and that's mainly the result of a very successful pulling campaign done by the team, improving the waterflooding in those oilfields.

And then at the end of the year, we are working with YPF, our partner in Los Parlamentos, which is the large acreage position that we acquired in the northern Neuquen Basin in Mendoza. So, at the end of the year, we expect to start shooting seismic in that very attractive block. We are currently – well, the operator is currently, which is YPF is currently doing all the auctioning or asking for RFPs for that seismic that we should acquire at the end of the year.

Jenny Xenos – Canaccord

So, your CapEx will remain approximately the same then this year as you expected originally, just the focus will shift slightly more from gas to oil?

Andres Ocampo – Chief Financial Officer

Yes. That's all within the CapEx guidance that we have given.

Jenny Xenos – Canaccord

Great, thanks for taking my question.

Andres Ocampo – Chief Financial Officer

Thanks very much, Jenny.

Operator

Once again, if you'd like to ask a question, please press "star," "1." Your next question comes from the line of Miguel Ospina of Compass Group.

Miguel Ospina – Compass Group

Hello team, thank you for the presentation. I have two questions. The first one is how sustainable is the lower Vasconia differential that you have been posting quarter-over-quarter in Colombia? And my second question is, I just would like to understand your medium-term plans in Chile because I feel that it continues dragging down results? Thank you.

Andres Ocampo – Chief Financial Officer

Hi Miguel, good morning. Thank you for your questions. On the Vasconia differential, as you said, we are currently experiencing around \$2 or less. Our team believes it's not very sustainable, particularly for next year when the IMO 2020 comes into play. That should impact the pricing of the crudes that have sulfur content, such as ours. So, it is expected that the Vasconia differential should not be sustained for next year.

However, the impact is a mix – is a different mix of things. The reality is that the lower production from Venezuela is generating higher demand for the heavier crudes like ours. So, some of that will compensate some of this IMO 2020. We are working on trying to see if we can lock in some differentials for next year. However, the proposals or the things that we have analyzed so far seem to be too high.

So, for now we haven't decided on any yet, but we are looking to see if there is an opportunity to lock in at least some of these differentials for next year. But again, just to be clear, we do believe that the \$2 per barrels we're seeing today is – hopefully it does, but it's unlikely that it's going to sustain for next year.

Miguel Ospina – Compass Group

So how much do you think it could widen next year? \$1 makes sense or...

Andres Ocampo – Chief Financial Officer

It could be more. It could be up to \$5 probably. That's what people are saying. But as I said, it's very hard to predict.

Miguel Ospina – Compass Group

OK.

Andres Ocampo – Chief Financial Officer

Well, probably for our budget purposes, we will use something around \$5 per barrel. We will disclose what number we'll finally end up using when we disclose our budget for 2020. But that's what today we probably see for forecasting for next year.

And then with respect to your question about our midterm plan in Chile, we have a couple of things that we are working on in Chile. We have put on production the Jauke discovery, which is a very, very attractive gas field in the large Dicky structure, Fell block.

We drilled the second well there, which is Jauke 2, and now we are moving the rig during the third quarter to drill Jauke Oeste. Hopefully, we're going to move it in the third quarter most likely, drill it on the fourth quarter, which is when the winter has already passed.

This is a very attractive – Jauke Oeste is actually an appraisal well that could expand the size of the field. And then also towards the end of the year we are going to frack on an existing well that is targeting to test the productivity – potential productivity of the shale, which is the source rock basin. We have a lot of information, as we drill through this shale.

Every time we drill a well, we know there is oil in it – there is significant amount of oil in it. The question is whether - with the new technology and the fracking mechanisms - it could be put on production at economic levels. So, we are going to start testing this opportunity towards the end of this year.

Operator

Thank you. I'll 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 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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