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Transcript of GeoPark
Fourth Quarter 2014 Results Conference Call
March 23, 2015

Participants

James F. Park – Chief Executive Officer
Augusto Zubillaga – Chief Operating Officer
Andres Ocampo – Chief Financial Officer

Analysts

Diego Mendez
Daniel Simpson – JP Morgan
Gustavo Gattass – BTG
Felipe Santos – JP Morgan

Presentation

Operator

Good morning, and welcome to the GeoPark Limited Conference Call following our results announcements of the fourth quarter and full year ended December 31, 2014. At this time, all participants are in a listen-only mode. A brief question and answer session will follow the presentation. (Operator instructions.) As a reminder, this conference is being recorded.

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 development 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 ISRS and are stated in US 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; and Andres Ocampo, Chief Financial Officer; and Pablo Ducci, Capital Markets Director.

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

James F. Park – Chief Executive Officer
Thank you and good morning, everyone. A year ago GeoPark joined the New York Stock Exchange with our IPO and since that time we've done what we said we would do with record operational, financial, and strategic accomplishments in 2014. Bolstered by the discovery and development of the Tigana and Tua oil fields in Colombia, GeoPark's total production increased by 20%, 2P reserves are up 74% and our EBITDA is up 32%. These numbers include our new move into Peru, our fifth country platform with the acquisition of the high potential Morona Block.

Importantly, and despite a more than 50% drop in oil prices, our net present value per share also continued to increase. We salute our team in GeoPark for extending our growth record for the ninth consecutive year.

This track record of results coupled with our conservative risk managed history and our large diversified asset portfolio has successfully positioned GeoPark to manage through the current turbulence in our industry. We began 2015 with $130 million of cash, 20,000 barrels per day of production, a 2P reserve base of over 120 million barrels valued at $1.7 billion, a big upside exploration resource potential approaching one billion barrels, a long term maturing debt profile and a large number of attractive and largely discretional projects, both oil and gas, in multiple countries. This foundation, scale and diversification allow us to protect our balance sheet and preserve capital during the current oil price downturn by adjusting investment activity and selectively allocating capital to the optimal projects.

With the same discipline, agility and creativity that has build our company up from scratch, we have quickly responded to the new pricing environment with decisive and necessary cuts in our work programs, operating and administrative cost structures and workforce including shutting in underperforming fields and renegotiating obligations and by pivoting and focusing on the lower risk, higher netback, quicker cash flow producing projects within our portfolio. As a result our company is prepared to successfully work through the new lower oil price environment and to show we can still continue on our steady upward growth path.

Before turning the call over to Zubillaga for operational highlights, as also announced this morning regarding corporate matters we express our sincere thanks to Steve Quamme who has stepped down from the GeoPark board of directors after five years of valuable service. We know we can continue to rely on Steve's strong support of GeoPark in the future.

We're also pleased to announce that Mr. Robert Bedingfield of Washington DC, a respected senior former partner of Ernst & Young and recognized SEC financial professional, has joined GeoPark's board of directors and become our chairman of our audit committee. Thank you.

Zubi.

Augusto Zubillaga – Chief Operating Officer
Okay, thanks, James, and good morning to everyone. GeoPark's 2014 operational performance had five key milestones: one, oil and gas production; two, reserves; three, upside potential; four, operational safety; and five, new project acquisitions. In terms of production in 2014 we grew 20% with average production over 20,000 barrels of oil per day and a total of 7.5 million barrels of oil produced. Much of our new growth came from continuous expansion of the Tigana and Tua oil fields discovered and operated by GeoPark in the Llanos 34 block in Colombia. Tigana is one of the most significant discoveries in the Llanos Basin in recent years and which may open up similar play-types in the region.

In January of 2015 we successfully tested the Tilo well, our sixth discovery in the Llanos 34 Block with a production rate at 1,000 barrels of oil per day. It's an important technical evaluation we'll be undertaking to determine if the Tilo field is potentially a northeast extension of the larger Tigana field.

Our reserves were certified by DeGolyer & MacNaughton as of yearend 2014 at total net 1P reserve increased by 116% to 62.9 million barrels; total net 2P reserves increased by 74% to 122.3 million barrels, and the reserve life index is 15.3 years under 2P basis.

The DeGolyer & MacNaughton report also confirmed the underlying value of our assets with a 2P after tax net present value of $1.7 billion and a 3P NPV of $3.3 billion. This represents increases of 32% despite the weak oil price drop.

In talking about upside exploration resources those were assessed by our team in our 31 blocks across 5 countries to be 600 million barrels to 1.3 billion barrels of oil and which are being audited by an independent firm. This represents a tremendous resources platform consisting of multiple prospects and leads of different risks and sizes to support growth in the short, middle and long term.

Also our solid track record in terms of safety, environmental protection and respect for our neighbors represent a key performance measurement and point of differentiation in the region we operate.

In terms of new projects we acquired in Peru with the Morona Block, which has discovered an oil field and a high exploration potential; in Colombia with an attractive block on trend with our Colombian Llanos play and an exploration block in the lower Magdalena Valley; and in Argentina with two blocks in an under-explored region of the Neuquen Basin.

So now let's look at 2015 and our future, so the focus today is our cost and we have responded quickly to the new low oil price environment. Five key actions include: first, reducing our drilling and capital investment program by 75%; second, reducing operating, production and selling costs by 30+%; third, reducing workforce by 33%; fourth, shutting in marginally economic fields; and finally, renegotiation of commercial agreements and obligations. This is an ongoing process and we see the opportunity for doing more and finding more cost savings.

Our plan for 2015 is based on oil price assumption of $45 to $50 per barrel and represents a fully funded $60 million to $70 million work and investment program with a flat to 5% production growth over 2014 production levels. The bulk of this 2015 work program is targeted to further develop and produce GeoPark's Tigana and Tua oil fields in Colombia, which currently provide the lowest risk production and reserve growth opportunities with attractive operating netbacks, which are $15 to $20 per barrel and $45 to $50 oil prices.

The 2015 work program breakdown is approximately as follows: Colombia with $35 million to $40 million in new drillings and facility construction; Chile, with $5 million to $8 million in well workovers and facility construction; Brazil with $6 million to $7 million in the Manati compression plant installation and seismic processing; Peru with $8 million to $9 million mainly in environmental studies and facilities; and in Argentina with $3 million to $4 million in seismic studies.

We are quickly taking the steps necessary to manage through this new price environment and concentrate on the on the projects that will sustain our growth throughout the year.

Now I will turn the call over to Andres.

Andres Ocampo – Chief Financial Officer

Thank you, Zubi, and good morning, everyone. As mentioned we have closed another record year in all of our key indicators thanks to our continued strong operational performance. In 2014 we completed a work program that included drilling of 51 wells for a total cap ex of $238 million, which led our production to grow over 20,000 barrels a day as Zubi described. As a result of the increased production pace, our revenues increased by 27% to $429 million and adjusted EBITDA increased by 32% to $220 million, which allowed us to self fund our cap ex for the year.

Net profit amounted to approximately $16 million after $100 million of depreciation charge. This is around $13 per BOE similar to 2013, $30 million of exploration write-offs, $9.4 million of non-financial assets impairment related to the impact of the oil price decrease in la Cuerva field in Colombia; la Cuerva is a field that is located in a more remote area and requires higher transportation and logistic expenses. Then $51 million of financial costs, which include a $29 million of interest expenses, $19 million of foreign exchange different charges that are related to our dollar denominated debt under our Brazilian subsidiary, and finally $13 million in income taxes and other expenses.

With respect to the fourth quarter results the net revenues and adjusted EBITDA were impacted by the decrease in international oil prices despite the strong production increase and amounted to $81 million and $27 million respectively. In terms of net profits we recorded a net loss for the quarter of $34 million as a result of the lower EBITDA, which was also impacted by non-cash expenses such as depreciation charges for $28 million, exploration write-offs for $22 million, the impairment related to la Cuerva, and financial results of $19 million.

With respect to our balance sheet at the end of the fourth quarter we had a total cash position of approximately $128 million. Our total assets amounted to $1 billion while our total financial debt was $370 million including the $300 million bond that is due in 2020 and the $70 million credit facility with the Itau Bank in Brazil.

We have recently reached preliminary agreement with Itau to extend the $15 million maturities that were due in 2015. The final documentation for this is expected to be signed very soon.

Our equity reached $479 million, primarily related to profits recorded in the year and the net proceeds from the New York Public Exchange IPO in February 2014. And finally as of December of last year the company's gross leverage ratio continued to decrease reaching a level of 1.7 times or 1.6 times considering pro forma figures. Additionally, our interest coverage ratio for the year reached 7.5 times.

Looking now ahead into 2015 and following our risk management approach there are four main elements that allow us to succeed in this new tougher oil price environment. So first and as we mentioned we have a strong balance sheet with high liquidity, $128 million of cash in the bank and available unused credit facilities for approximately $60 million, financial discipline and a track record of raising new capital through diverse funding sources.

Second, we have a long term maturing debt with 80% of our debt maturing in 2020 and no material short term principal payments that are coming due. These are subject to incurrence covenants as is common in the high yield bond indentures, which as opposed to maintenance covenants means that in the event that financial ratios are not met it would not trigger an event of default.

Third, our high production base, as Zubi mentioned, from which around 25% represents gas derived from our intensive drilling activity allows us to continue generating cash flows even with reduced cap ex activity with lower oil prices.

And finally, we have a flexible and self-funded work program. Our 2015 budget was designed to protect our cash and liquidity and maximize optionality to have cap ex matching our EBITDA generation. GeoPark's business units in Colombia, Chile, Brazil, Peru and Argentina generated over 85 attractive projects to be considered for these work programs. Those projects were evaluated and run from a company wide basis in accordance with economic, technical and strategic considerations. Having this wide and diversified project inventory allows us to add or delete new projects in accordance with the movement in the oil price.

So finally we were able to allocate $60 million to $70 million to the lowest risk and highest reward projects reducing our cap ex by 75% from nearly $240 million in 2014.

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

Operator
(Operator instructions.) Our first question comes from the line of Diego Mendez with [indiscernible]. Please proceed with your question.

Diego Mendez
Good morning, so I have three questions. The first one is admiration that you are working to lower the cost, so I'd like to know when are we going to see these in the results, if you also could tell us how much the costs are going to drop and how open are the suppliers to reduce their costs?

The second question is regarding the impairment. What was the oil we used between there, like where a few [indiscernible] that are shut down some oil fields because of the lower oil prices, so I'd like to know what are the oil fields that are shut down?

And the last one is how confident [indiscernible] in the data that you have so far that Tilo is connected Tigana? If you could give us let's say some probability or given the data that you currently have?

Andres Ocampo – Chief Financial Officer
Thanks you, Diego; this is Andres. The first question you asked with respect to our cost reductions, most of—we're starting implementing all the measures starting in last quarter and this first quarter, so you will start seeing impact of those reductions probably in the second quarter of this year throughout the rest of the year.

In terms of general idea on the sites, first this is an ongoing process and we continue to work on making operations more efficient and reducing costs all across the company, but we are targeting in general between 20% to 30% improvement in our cost structure across the company.

And the last part of your question was with respect to suppliers. It's been a diverse feedback I would say, but in general suppliers are being recognizing the new environment in the industry and of course we have many, many renegotiation of contracts and discussions, but we've been able to succeed in renegotiating all of those, so suppliers have been accepting the new environment and have been able to continue operating under new conditions with improved price.

Your second question with respect to what prices we use to infer our assets, the curve, the exact price curve is in our financial statements. We used three different curves; one more optimistic, one medium and one more pessimistic. We assigned a percentage to each one of those curves, and they go from roughly $55 for the first year and increasing out for the following years. We also included in our financial statements some sensitivities to changes in that price curve and how it would impact our impairment tests going forward, so you can have a sense on how the impairment could change depending on changes in the oil prices.

And your last question was with respect of Tilo. I will let Zubi answer these questions.

Augusto Zubillaga – Chief Operating Officer
Okay, thanks. You ask about how confident we are with Tilo that's connected to Tigana, you know, we test the way in January, and right now we are waiting for the NH [ph] provision to do a long term test that well in production. So I would still feel pretty confident that the Tilo is connected to Tigana. Anyway, we need more production keys, I'm thinking in relation to determine if potentially connected to the big Tigana field.

Diego Mendez
Okay, thank you very much.

Andres Ocampo – Chief Financial Officer
I'm sorry you asked also about the fields that we have temporarily shutting, that is basically la Cuerva is currently shutting in Colombia and the [indiscernible] in Argentina, which is you may remember is a very small field that was producing 50 barrels a day, that is also temporarily shutting.

Diego Mendez
Okay, thank you very much.

Operator
Thank you, and our next question comes from the line of Daniel Simpson with JP Morgan. Please go ahead with your question.

Daniel Simpson – JP Morgan
Hello, guys, good morning. I have a couple of questions. First can you repeat again what are your maturities for 2015? I think that you mentioned that you already refinanced some of the short term debt.

And then the second question just for reference, when you look at your different businesses, which businesses should we compare it with Brent prices and which businesses to WTA? Thank you.

Andres Ocampo – Chief Financial Officer
Okay, thanks very much. So the maturities in 2015 were $15 million related to the $70 million term loan with Itau Bank. The loans were refinanced on the recommendation [indiscernible] is finalized, actually, and it's expected signature within the next few weeks. That's $15 million. And then all of our business can be related, all of our oil sales can be related to Brent because we sell oil in Colombia that the markets marker is [indiscernible], but generally follows Brent. And we sell the oil in Chile at prices that are following Brent as well, Brent minus discounts.

Daniel Simpson – JP Morgan
Thank you.

Operator
Thank you and our next question comes from the line Gustavo Gattass of BTG. Please go ahead with your question.

Gustavo Gattass – BTG
Hello, guys. I had a couple of questions here. The first one with regards to the Peruvian assets, could you give us an idea of how the work program and potential for production fit into the revised cap ex program? Should we see anything at all this year or not and basically when we might be seeing some action on that front?
I also wanted to just check with you guys if there is a chance that LG will join that project or not and whether or not that could turn out to be one of your more creative financing schemes that you mentioned in the call.

The second thing that I just wanted to check was with regards to Tigana and Tilo, when you mentioned that you have the possibility of the connection and the conviction of the connection in between the two, I was wondering if you could just put it into perspective for us how much do you believe you can actually grow the production there in the event that they're separate and what does the consolidation of the two assets potentially mean for your potential for low cost production growth, so that's the second question.

And just with regards to a third point, you mentioned the ramp-up in cap ex and potential ramp-up in production that you see as a possibility. I was just wondering how quickly can the company implement that, so if three months from now oil prices look very different, is it something that can only happen later on in the second half, or is it quick to implement in the event that conditions improve? Thank you.

Andres Ocampo – Chief Financial Officer
Okay, thank you and good morning, Gus. So first going to your Peru question we are still working on closing on the transaction. As you know, this acquisition has been signed. We haven't closed yet, so what that happens, which is probably going to happen around mid this year or the second half of this year, we will start operating. Currently the work program there is given these delays, we are going to be seeing probably more active or more cap ex in Peru next year and probably the second half of next year, so in terms of production, these long term projects, but production is likely going to start coming in after probably I would say in early 2017. We are redefining the project in terms of the timing given that there have been these delays in terms of the closing, so that's pretty much to give you an idea.

LG is analyzing its potential participation. It hasn't made a decision yet. It is a possibility that they could join us there. We are also looking to bring other partners. We are talking to other companies that may also join us there, but as we said before, the idea for that project is to have partners.

I'll take your last question with respect to cap ex if the environment changes it's fairly quickly that we can increase our activity. Remember that the work program that we have designed includes drilling wells in the second half of the year mostly in Colombia, so having a rig available and pulling back those investments, but to work it wouldn't take us a very long time. In the event that both the prices go back to higher levels, both the price and the outlook of the prices we could plug in more projects and increase our cap ex program.

So your second question about Tigana and Tilo, I would let Zubi respond on that.

Augusto Zubillaga – Chief Operating Officer
Gus, how are you? So just to put it in perspective we discovered Tigana still in December 2015, so since that time we had really eight wells there and they are in production right now, so they could be reserved in just Tigana and as I mentioned growth reserves are 52 million barrels, so you can see we have a development opportunity to drill there 40 wells or more. And in Tigana I mentioned before we had to take some technical assets [ph] and put them in production and see if they're connected or not, so just Tigana the gross production right now is 12,000 barrels of oil per day, so your question was about how much we can produce from there. So we can assume that we can produce more than 30,000 barrels of oil per day just in the Tigana field.

Gustavo Gattass – BTG
Okay, Zubi. Let me just do a quick follow-up here. Is it possible for you guys to tell us how many wells you're planning to drill in Tigana this year, or is that something that you'd rather not disclose?

Augusto Zubillaga – Chief Operating Officer
It's around four or five wells in the second half of the year, and remember this could change. This year what we're doing is we're managing these decisions more frequently, so this could go up or down, but currently the

plan that we are showing and the numbers that you see, the $60 million to $70 million program, includes four or five wells in Tigana and Tua.

Gustavo Gattass – BTG
Perfect. Thank you, guys.

Operator
Thank you. (Operator instructions.) Our next question comes from the line of Felipe Santos with JP Morgan. Please go ahead with your question.

Felipe Santos – JP Morgan
Gentlemen, good morning. Just a quick understanding, do you intend to return to the blocks in Chile to the government after writing off some assets?

And the second question is it's still not clear for me the reason for the cost increase on the Colombia operations. If you could provide any additional details they would be really valid. Thanks so much.

Andres Ocampo – Chief Financial Officer
Thank you, Felipe, right? So thank you. So in Chile we are continuing to operate there and this year we have a program that so far doesn't include drilling, but we have two gas projects that we are putting on stream during the second half of the year; and we continue to operate there. We're not planning to return blocks to the government. We still have our licenses there and continue to have plans to grow in the future. The blocks that maybe you make reference are the [indiscernible] blocks, which are the ones closer to the [indiscernible] that we drill a couple of years ago. Part of the write-off with this included $9 million related to those. Those blocks where we have no production or cap ex activity we may return back to the government. With respect to the rest being clear the [indiscernible] block and Tigana and Tua blocks we are not planning to return those.

Your second question was with respect to our cost increase and that's mostly related to the increase in production. Remember we had a strong pickup of production between last year and this year and that is basically increasing on our cost base. On a per barrel basis, you will find that our costs have gone down.

Felipe Santos – JP Morgan
Okay, thanks so much.

Operator
Thank you, and we'll hold for a few more moments to see if there are any further questions. (Operator instructions.) It seems that we have no further questions. I'd like to turn the floor back to James Park for closing remarks.

James F. Park – Chief Executive Officer
Thank you all again for joining us today to discuss GeoPark's 2014 results and the changes and moves we've made to successfully operate through 2015. Please do not hesitate to contact us if you have any questions. Thank you and good-bye.