OGIB BULLETIN #228 - March 8th, 2018

COMPANY ANALYSIS

GEOPARK; GPRK-NYSE

Today I bought 10,000 shares of GeoPark at $9.80. GeoPark may be a familiar name to you as they are the JV partner on Parex's prolific LLA-34 property in the Llanos Basin of central Colombia.

LLA is the growth engine for Parex (and for GeoPark). GPRK has set itself up for a fantastic 2018. And with GeoPark, there is only 60 million shares out vs. 155 million for Parex (LEVERAGE). However, PXT has net cash of $163 million ($1/share) while GPRK has net debt of $284 million, or $4.73/share.

The expected 20% production growth is great—and it gets better: the company will generate $230 million in cash in 2018 while spending only $110 million. Incredible.

Driving this performance will be the LLA-34 block in Colombia. Wells here pay out in six months at $50 oil…better than pretty much anything else out there. And GPRK has big working interests in two plays they'll drill in 2018 that are adjacent to LLA-34. If those wells hit, this could be a Game Changer.

The stock had a great 2017, going from $4-$10—and I think there is more to come as the stock today trades at just under 4 times 2018 cash flow. To me, that says the stock has a great shot at being a double this calendar year, assuming Brent stays averages in the low $60s.

Do not ask me if you should sell Parex to buy GPRK--I would never do that. This is like doubling down and adding diversification at the same time--just in a more levered name.

QUICK FACTS

Unit Price:	$9.95
Basic Outstanding:	60.0 million
Market Cap:	$597 million
Net Debt:	$284 million
Enterprise Value (EV):	$881 million
Q4 2017 Production:	30,654 boe/d (83% oil)
Consensus 2018 Production Growth:	25%
2018 Cash Flow @ $62 Brent	$231 million
EV / 2018 Cash Flow:	3.8 times
2019 Cash Flow @ $65 Brent	$289 million
Net Debt / 2018 Cash Flow:	1.2 times
2018 Capex:	$121 million
2018 Free Cash Flow:	$110 million

POSITIVES

- Projected to grow 25% in 2018 while generating free cash flow
- Exposed to higher Brent oil prices
- Balance sheet should be excellent by the end of 2018
- Trades at a cheap multiple

NEGATIVES

- Colombian focus brings risks
- Requires continued exploration success (not a shale production machine)
- Discounted valuation may never go away given Latin American focus (US investors only care about US plays and Cdn investors don't care about US juniors in South America)

https://www.geo-park.com/en/index/

BACKGROUND/ASSETS

GeoPark was founded in 2002 by Gerald E. O'Shaughnessy and James F.

Park, who still own a combined 25% of the stock. O'Shaughnessy is the Chairman and Park is the CEO/Deputy Chairman.

GeoPark operates in Latin America with assets in Colombia, Chile, Brazil, Peru and Argentina, but its big focus is Colombia.

The company's history began with the purchase of AES Corporation's upstream oil and natural gas assets in Chile and Argentina. Activity in Chile has decreased with the company's larger and more profitable discoveries in Colombia.

On a production basis Q4 2017 GeoPark was split:

	4Q2017			4Q2016	
	Total (boepd)	Oil (bopd)[a]	Gas (mcfpd)	Total (boepd)	% Chg.
Colombia	24,378	24,293	509	17,535	39%
Brazil	3,328	44	19,704	2,535	31%
Chile	2,932	988	11,663	3,523	-17%
Argentina	16	16	-	-	-
Total	**30,654**	**25,341**	**31,876**	**23,593**	**30%**

Colombia represents 80% of production with Brazil and Chile splitting the other 20% almost evenly.

Colombia and Brazil are almost all oil weighted. Chile is natural gas. Looking at reserves the split across countries is a little more even:

The following table summarizes DeGolyer and MacNaughton reported net proved reserves in Colombia, Chile, Brazil and Peru as of December 31, 2016.

Country	Oil (mmbbl)	Gas (bcf)	Total net proved reserves (mmboe)[(1)]	% Oil
Colombia	37.3	-	37.3	100%
Chile	6.6	36.3	12.6	52%
Brazil	0.1	29.6	5.0	1%
Peru	18.6	-	18.6	100%
Total	**62.6**	**65.9**	**73.6**	**85%**

[(1)] We calculate one barrel of oil equivalent as six mcf of natural gas.

Colombia has just over half half of GeoPark's reserves with Peru at 25%, Chile at 17% and Brazil about 7%.

Note that all of the Peru reserves are non-producing.

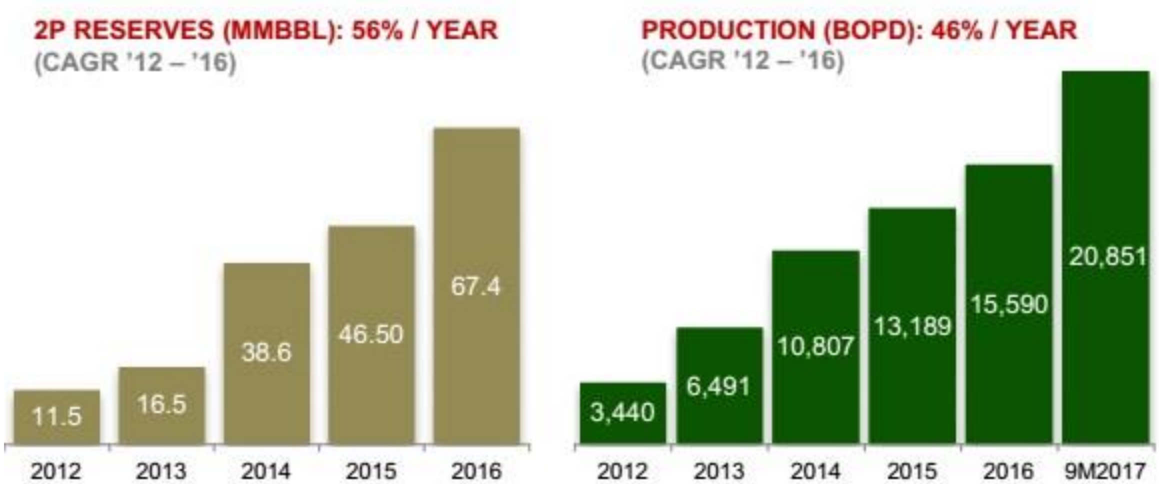
Over the past ten years GeoPark has gone from virtually no production to over 30,000 boe/d net. About 80% of current production is oil.

GeoPark – Colombia

GeoPark is the operator on a Colombian property that has grown from nothing to become the fourth largest producing property in the country in five years.

LLA-34 is proving to be the largest oil field discovery in Colombia in the last 20 years.

NET RESERVES AND PRODUCTION GROWTH



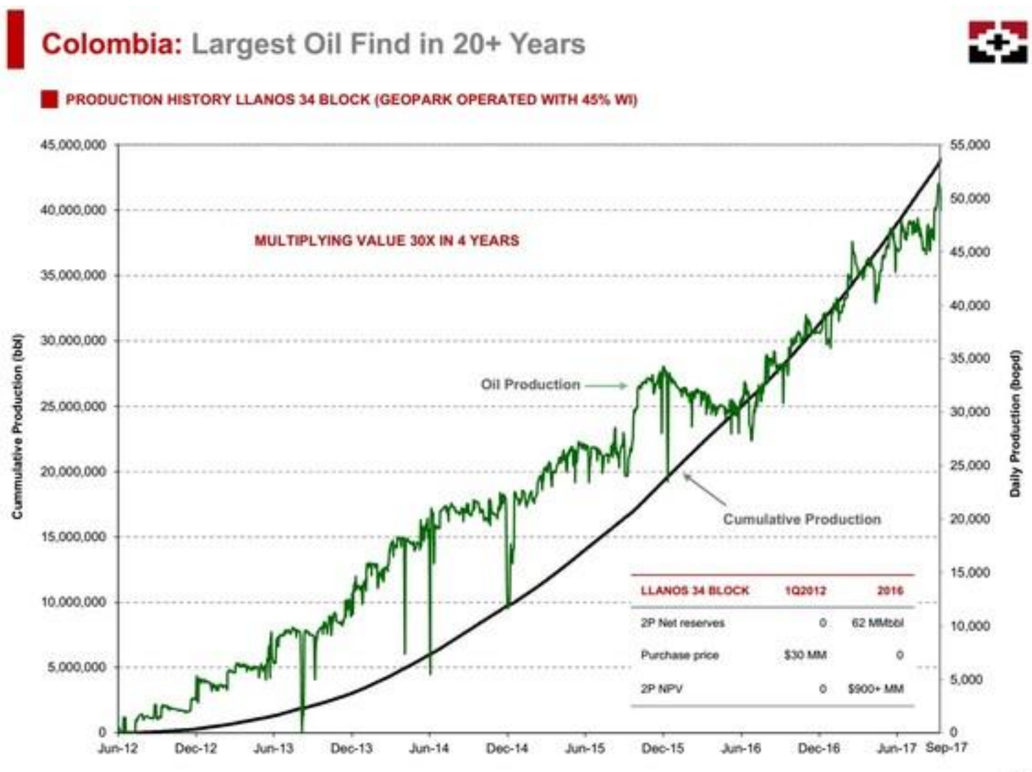
Gross production on the block has gone from 0 to 54,000 bopd (gross) in five years. As I mentioned GeoPark is operator and has a 45% working interest (WI). Parex has the other 55%.

The table below lays out GeoPark's full Colombian asset portfolio. As you can see LLA-34 is the only block with a significant amount of production and reserves.

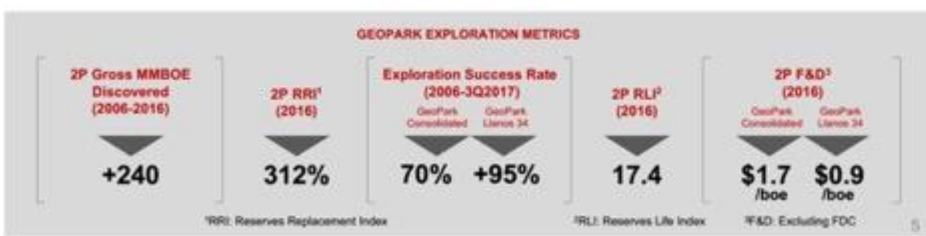
Block	Gross acres (thousand acres)	Working interest[1]	Partners[2]	Operator	Net proved reserves (mmboe)[3]	Production (boepd)	Basin	Concession expiration year
Llanos 34	82.2	45.0%	Parex	GeoPark	37.1	14,890	Llanos	Exploration: 2017 Exploitation: 2039
La Cuerva	47.8	100.0%	—	GeoPark	—	388	Llanos	Exploration: 2014 Exploitation: 2038
Yamú	11.2	89.5/ 100%[4]	—	GeoPark	0.1	7	Llanos	Exploration: 2013 Production: 2036
Llanos 17	108.8	36.8%	Parex	Parex	—	—	Llanos	Exploration: 2015 Exploitation: 2039
Llanos 32	100.3	10%	APCO; Parex	Parex	0.1	250	Llanos	Exploration: 2015 Exploitation: 2039
Jagüeyes 3432A	61.0	5.0%	Columbus	Columbus	—	—	Llanos	Exploration: 2014 Exploitation: 2038
VIM-3	225.0	100%	—	GeoPark	—	—	Magdalena	Exploration: 2021 Exploitation: 2045

I won't spend much time discussing the other Colombian blocks; at this point they're not relevant. I don't see that changing any time soon knowing where the company will be doing its capital spending.

LLA-34 covers 82,200 gross acres (333 sq. km). When GeoPark acquired it, no wells had ever been drilled on the property. To go from that to 54,000 bopd of production in five years is spectacular.



The rate of success that GeoPark has had drilling exploration wells has been off the charts – a success rate of 95%! (If only my beloved Canucks goaltenders could achieve a similar save average).



Like most successful Colombian exploration wells I've seen, these pay back capital really quick (six months at $40 Brent) and have terrific economics. In 2016 Finding and Development (F&D) costs on LLA-34 were just $1.80 per boe on a 1P basis and $0.90 per boe on a 2P basis.

As context, in North American shale (oil)—*if I can find 1P F&D under $30 I'm interested and under $25 I'm excited.*

The risk for a company like this is that the off the charts exploration success rate takes a nosedive.

A little background on the Eastern Llanos Basin for those interested in such things…..

It is a Cenozoic Foreland basin in the eastern region of Colombia. It contains two giant fields (Caño Limón and Castilla), three major fields (Rubiales, Apiay and Tame Complex) and 50-ish minor fields. The source rock for the basin is located beneath the east flank of the Eastern Cordillera, as a mixed marine-continental shaly basinal facies of the Gachetá formation.

The main reservoirs of the basin are represented by the Paleogene Carbonera and Mirador sandstones. Within the Cretaceous sequence, several sandstones are also considered to have good reservoirs.
On identified reserves, GeoPark has at least 40 development drilling locations ahead of it. There are also plenty of additional exploration targets to drill.

HIGHLIGHTS

- Grown Llanos 34 block (GeoPark operated) from 0 to 50,000+ bopd gross in 5 years
- Building value by introducing new paradigms– both above and below the ground – with new geological play-type and community approach
- Discovered new oil fields with 200+ MMbbl 3P gross reserves
- 2017 Work program focused on development / appraisal of Tigana / Jacana oil play and targeting new exploration prospects

9 Blocks	6 operated (98% of production)
Acreage	0.7 MM acres
2P Net Reserves[1]	67.4 MMbbl
3P Net Reserves[1]	94.9 MMbbl
Net Exploration Resources[2]	49-86 MMbbl
3Q2017 Net Production	22,367 bopd
2P RLI[3]	11.8 years
2P NPV[4]	$1,006 MM
Identified Drilling Locations (2P-3P)[4]	40-70

2018 Work Program (Base Case): $85-90 MM
- Focus: develop, appraise and explore potential in Tigana / Jacana oil play
- 23-25 gross wells (70% development / appraisal wells) + facilities + flowline

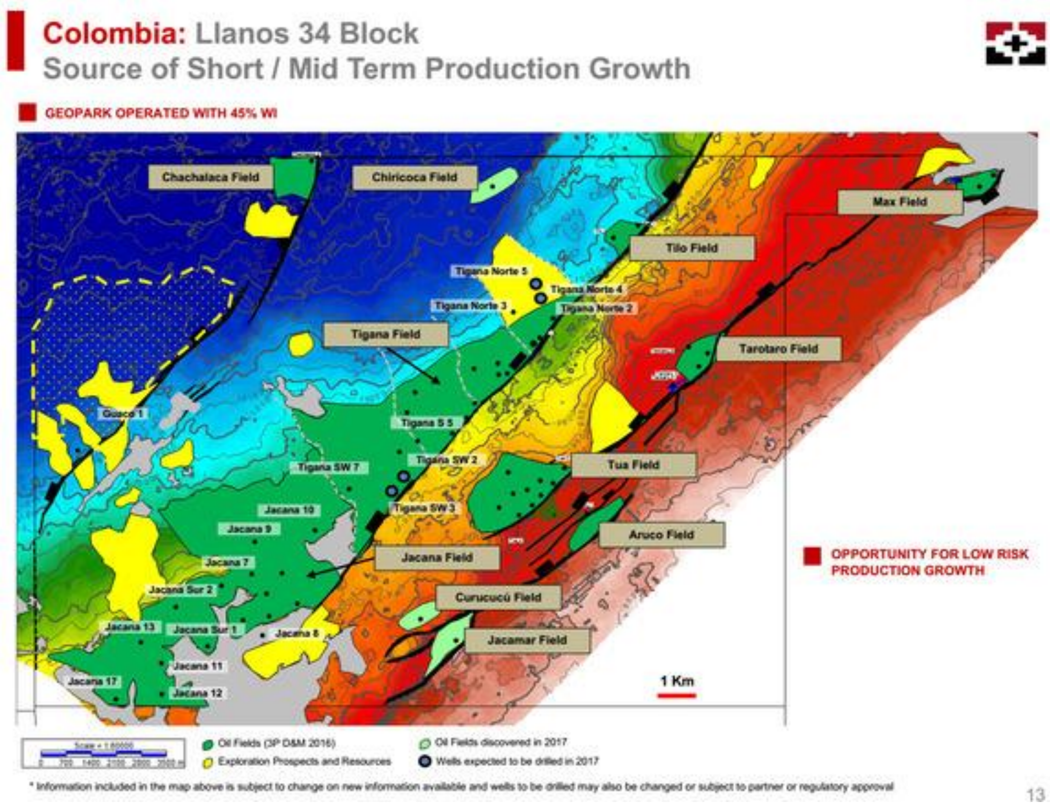
Short Term Outlook:
- Continue development and appraisal of big undeveloped fields in Llanos 34 block providing low risk, low cost, high returns and quick payback
- Exploration opportunities within /adjacent to Llanos 34 block

As of today three large discoveries represent 80%. Those fields are Tigana, Jacana and Tua. These are conventional oil fields with very attractive reservoir quality (20-25% porosity; 0.5-2.0 darcy permeability).

On Tigana and Jacana full field appraisal and delineation is still to be completed. Production declines to date have been low and operating costs are just $3 to $4 per barrel. On average a well here is recovering roughly 2.5 million barrels.

This conventional oil development works great when you have wells to drill. And to be perfectly clear LLA-34 has been an Absolute Homerun. The wells here are as good as it gets in the oil and gas business.

The drawback is that unlike shale you don't have 10 years of known drilling in front of you. So far that's not a problem.



In 2018 GeoPark is planning to drill 20-22 wells on LLA-34. Five will target new exploration prospects and 15-17 will further delineate the field. New exploration…who knows, but investors should hope for at least half of these delineation or "appraisal" wells as they're called, to be winners. At the same time, this field can't go on forever.

The following is a summary of expected drilling activities scheduled for Q1/18 with estimated total net capital expenditures of $30-35 million (drilling and completion costs of $12-15 million plus facilities and other costs of $18-20 million).

	Prospect/Well[a]	Country	Block	WI	Type
1	Tigana Norte 6	Colombia	Llanos 34	45%	Development
2	Tigana Norte 9	Colombia	Llanos 34	45%	Development
3	Jacana 20	Colombia	Llanos 34	45%	Development
4	Jacana 21	Colombia	Llanos 34	45%	Development
5	Jacana 22	Colombia	Llanos 34	45%	Development
6	Chachalaca Sur 1	Colombia	Llanos 34	45%	Exploration
7	619-AB 1	Brazil	POT-T-619	100%	Exploration

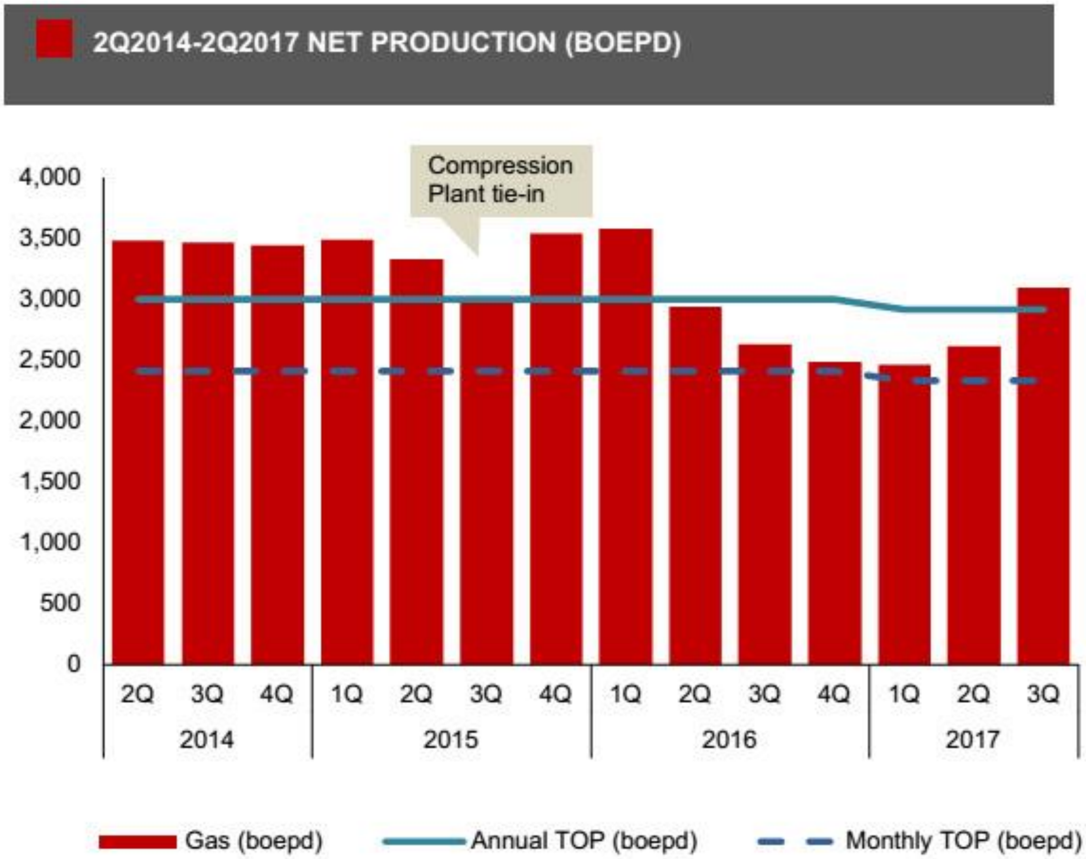
With LLA-34 carrying the company, 2018 should see YoY production growth of 20 to 25%--and only spend $100-$110 million (out of $235 million cash flow) to do that.

In fact GeoPark at current strip pricing should generate $100 million plus in free cash flow. Yes, that is cash flow beyond the capital spending required to drive over 20% production growth—not to just hold production flat.

Beautiful!

GeoPark – Brazil

GeoPark's lone cash flow producing (3,328 boe/d) asset—with Petrobras as the operator—is the Manati Field, located 65 km south of Salvador, offshore in 35 meters of water. Production began here in January 2007 and is stable.



At YE16, 11 wells had been drilled in the Manati Field, six of which are connected to a fixed production platform located 9 km from the coast. From the platform, the gas flows by sea and land through a 125 km pipeline to the Estação Vandemir Ferreira or EVF gas treatment plant.

HIGHLIGHTS

- Acquired participation in Manati Gas Field, one of Brazil's largest
- Stable production, minimal capital required and 100% proved developed producing reserves
- Generates free cash flow, unaffected by oil prices
- Exploration upside in Potiguar, Reconcavo and Sergipe Alagoas basins, mature proven basins and minimal capital requirements
- Attractive acquisition opportunities from Petrobras on-shore divestitures

10 Blocks*	9 operated
Acreage	0.3 MM acres
2P Net Reserves[1]	5.6 MMboe (96% PDP)
Net Exploration Resources*[2]	60-110 MMboe
3Q2017 Net Production	3,141 boepd
2P RLI[3]	5.2 years
2P NPV[4]	$81 MM

2018 Work Program (Base Case): $3-4 MM

- Focus: onshore exploration drilling in Reconcavo and Potiguar
- 2 shallow exploration wells

Short Term Outlook:

- Monetize Manati gas field reserves development
- Exploration drilling in onshore blocks

GeoPark also has 8 exploration blocks in onshore mature proven hydrocarbon basins (Potiguar, Reconcavo, and Sergipe Alagoas).

One already drilled exploration well (Jet-1) is being readied for testing and GeoPark will drill 1 exploration well in Q1 2018 to begin to test this exploration potential.

GeoPark – Peru

GeoPark is the operator with a 75% working interest on Morona which is a large block in the proven Maranon Basin.

This property has very large upside potential (roughly 320-500 million boe) with several high impact plays and prospects.

HIGHLIGHTS

- Core technical team with strong track-record in Argentine basins, participating in many large oil and natural gas discoveries
- Exposure to low risk, low cost, high potential exploration plays in prolific Neuquen Basin
- Vaca Muerta exposure
- Partnering with experienced regional players: Pluspetrol and Wintershall (BASF Group)
- Rio Grande Oeste oil field (CN-V block) discovered in 2017 to provide with a reserve, production and cash flow base in Argentina

3 Blocks	
Acreage	1.8 MM acres
Net Exploration Resources[1]	30-50 MMboe

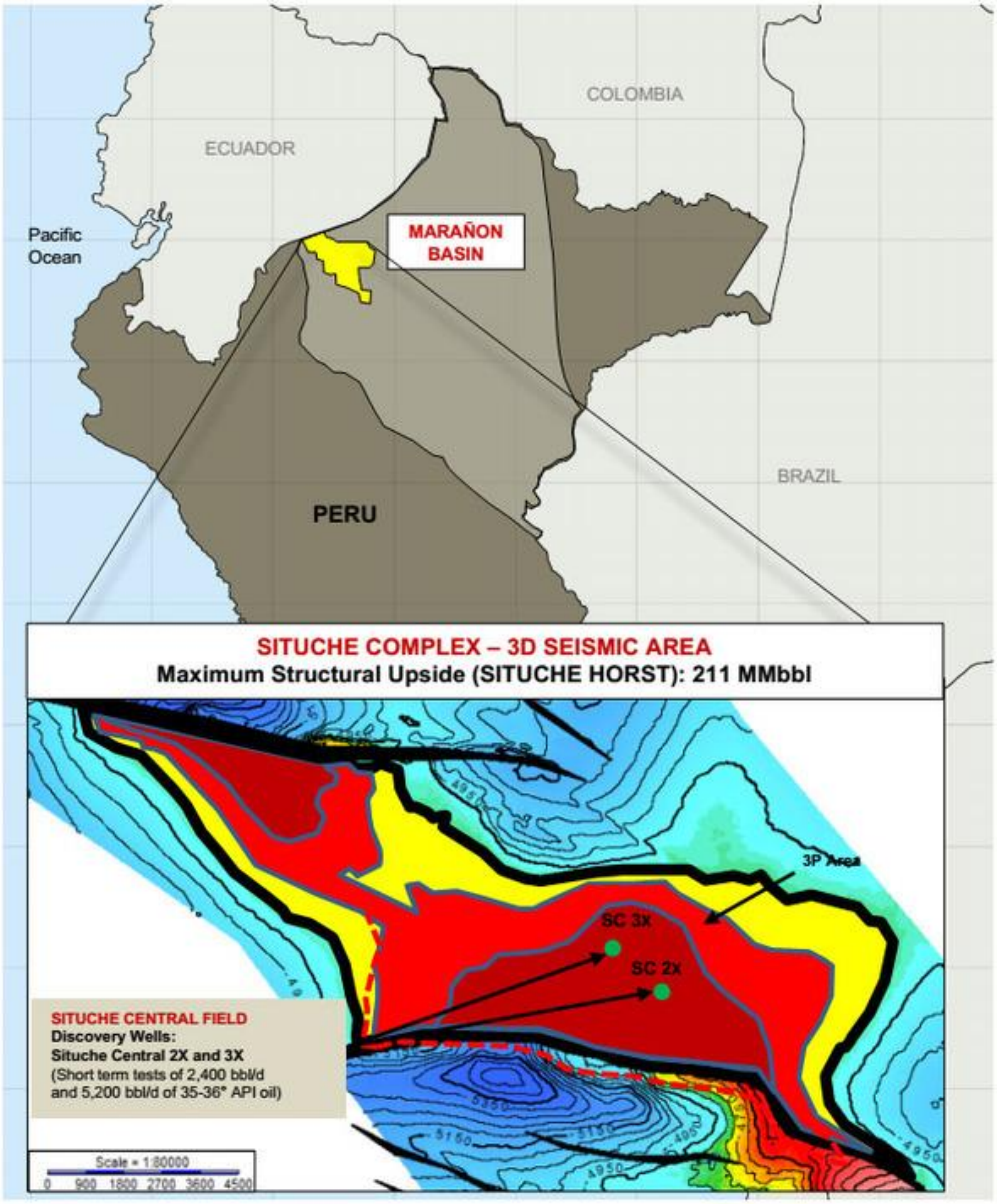
2018 Work Program (Base Case): $5-8 MM
- Focus: exploration drilling in Neuquen Basin
- 1 gross exploration well in CN-V block (Operated, 50% WI)
- 6 gross exploration wells in Sierra del Nevado / Puelen blocks (Non-operated, 18% WI)

Short Term Outlook:
- Increase production in Neuquen Basin

There is no production currently from this property. It could turn out to be a cash drain or it could turn into something impressive.

I’ve watched a few companies take a crack at Peru and it hasn’t worked out well for any of them.

The key asset within this block is the Situche Central oil field, which was discovered and proven up by two tested wells. Situche has certified gross 3P reserves of 83 million barrels, a big 200 million barrel potential, and the opportunity for near term cash flow.



GeoPark has designed a phased work program that allows a step-by-step development to put the Situche Central field into production—initially through a long-term test to begin generating cash flow.

GeoPark – Argentina

HIGHLIGHTS

- Core technical team with strong track-record in Argentine basins, participating in many large oil and natural gas discoveries
- Exposure to low risk, low cost, high potential exploration plays in prolific Neuquen Basin
- Vaca Muerta exposure
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3 Blocks	
Acreage	1.8 MM acres
Net Exploration Resources[1]	30-50 MMboe

2018 Work Program (Base Case): $5-8 MM

- Focus: exploration drilling in Neuquen Basin
- 1 gross exploration well in CN-V block (Operated, 50% WI)
- 6 gross exploration wells in Sierra del Nevado / Puelen blocks (Non-operated, 18% WI)

Short Term Outlook:

- Increase production in Neuquen Basin

GeoPark has high potential low risk exploration blocks in the Neuquen basin – with estimated net exploration resources of 30-50 million boe.

In December of 2017, GeoPark acquired an additional three blocks in the Neuquen basin in Argentina with oil and gas production, reserves and resources. The asset purchase agreement includes 100% working interest and operatorship of the Aguada Baguales, El Porvenir and Puesto Touquet blocks.

The blocks include oil and gas production of 2,700 boepd (70% oil) with approximately 12-14 million barrels of oil equivalent (mmboe), 3P reserves of approximately 18-20 mmboe, and exploration resources of approximately 15-30 mmboe (all GeoPark estimates).

GeoPark – Chile

HIGHLIGHTS

- First private oil and gas producer in Chile
- Large fully-operated land base across the Magallanes Basin, with existing reserves, production, steady cash flow and minor capital requirements
- Attractive operating environment with existing infrastructure, facilities and transportation, supported by a long term gas contract
- Grown production from zero to stable production with the flexibility to target oil or gas depending on underlying commodity prices
- Long term large shale oil opportunity with secured acreage
- 3Q2017 Net Production Mix: Oil 32% - Gas 68%

6 Blocks	100% operated
Acreage	0.9 MM acres
2P Net Reserves[1]	38.3 MMboe
Net Exploration Resources[2]	98-172 MMboe
Shale Oil Upside[3]	220-597 MMbbl
3Q2017 Net Production	2,817 boepd
2P RLI[4]	27.3 years
2P NPV[5]	$399 MM

2018 Work Program (Base Case): $1-2 MM
- Focus: business optimization + environmental and unconventional studies

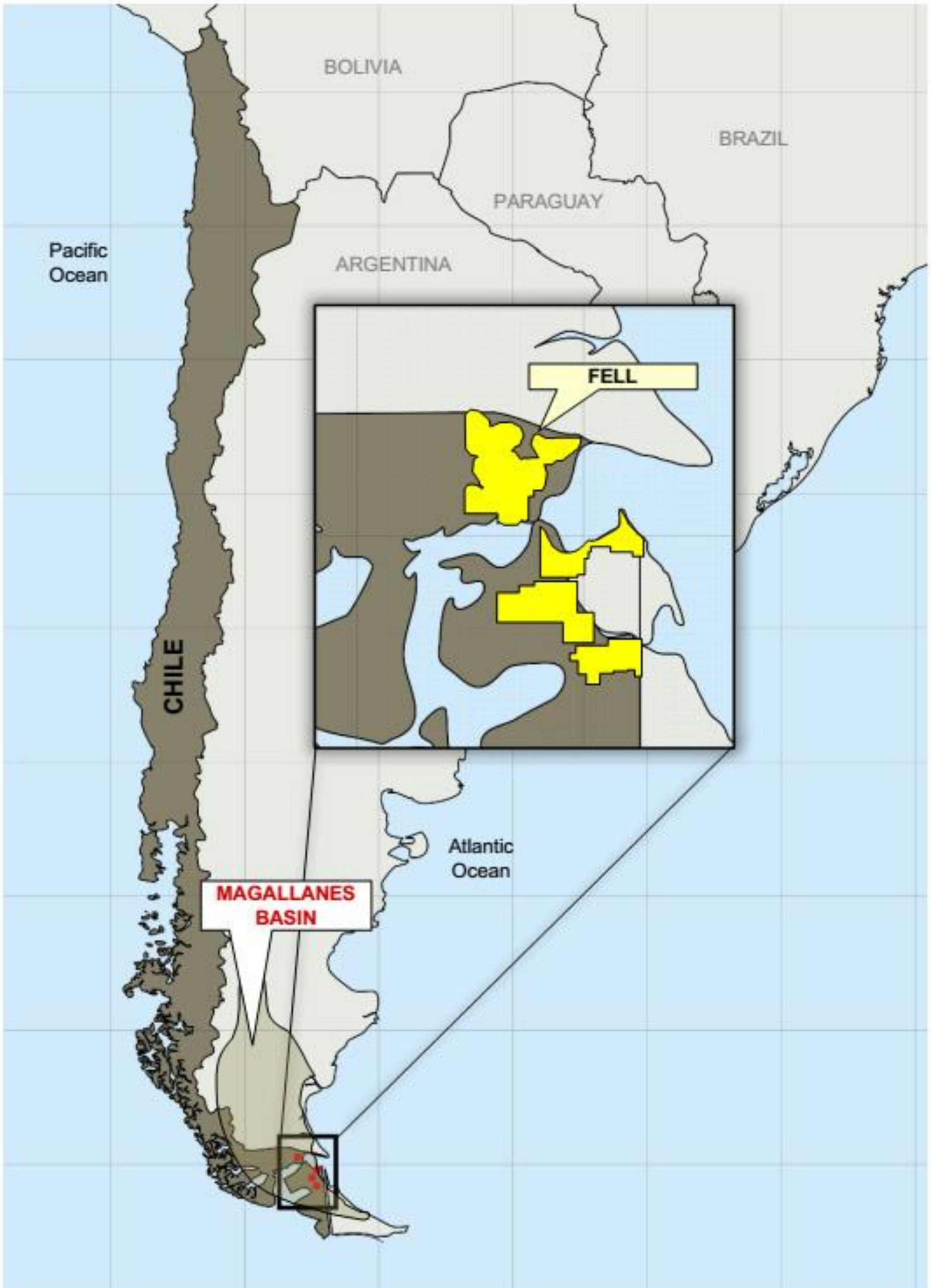
Short Term Outlook:
- Maintain production levels
- Make progress in understanding unconventional potential

GeoPark is Chile’s first private oil and gas producer. The company built this business from a flat-footed start-up in 2006 to a solid business with current production of approximately 3,500 boepd (64% gas, 36% oil), 2P reserves of 38 million boe and 6 blocks with approximately one million acres, consisting of approximately 320-770 million boe of exploration and unconventional resources. Production and reserves.

Block	Gross acres (thousand acres)	Working interest[1]	Partners[2]	Operator	Net proved reserves (mmboe)[3]	Production (boepd)	Basin	Concession expiration year
Fell	367.8	100%	—	GeoPark	12.4	3,816	Magallanes	Exploitation: 2032
Tranquilo	92.4	50%	Pluspetrol	GeoPark	—	—	Magallanes	Exploitation: 2043
Otway	49.4[4]	100%	—	GeoPark	—	—	Magallanes	Exploitation: 2044 Exploration: 2019
Isla Norte	130.2	60%[5]	ENAP	GeoPark	—	—	Magallanes	Exploitation: 2044 Exploration: 2020
Campanario	192.2	50%[5]	ENAP	GeoPark	—	—	Magallanes	Exploitation: 2045
Flamenco	105.9	50%[5]	ENAP	GeoPark	0.2	58	Magallanes	Exploration: 2019 Exploitation: 2044

Those Chilean blocks are located in the provinces of Ultima Esperanza, Magallanes and Tierra del Fuego in the Magallanes Basin, a proven oil- and gas-producing area. Currently, the Magallanes Basin accounted for all of Chile’s oil and gas production. Although this basin has been in production for over 60 years, we believe that it remains relatively underdeveloped.

Limited capital will be allocated to Chile as commitments are limited and economics are superior in LLA-34. GPRK plans to drill one to two wells per year in Chile to keep production flat.



BALANCE SHEET / VALUATION

2017 was a great year operationally and financially for Geopark. I'll give

you a high-level recap:
Production – Up from 22,394 in Q4 2016 to 30,654 in Q4 2017 (a 37% increase)
Reserves – 1P NPV10 increased 38% from year end 2016 to $1.5 billion, 2P NPV10 increased 21% to $2.3 billion
Finding and development costs - Consolidated 2P of $4.0/boe / Colombia 2P of $2.8/boe
Full Year EBITDA - Increased from $78.3 million to $175.8 million an increase of 124%

Growth, growth and more growth.

Now the really important part….all of that growth came while Geopark actually strengthened its balance sheet.

Any idiot can grow production if they leverage up their balance sheet and spend enough money. Geopark grew by almost 40 percent last year while spending less cash flow than operations generated……for the second year in a row.

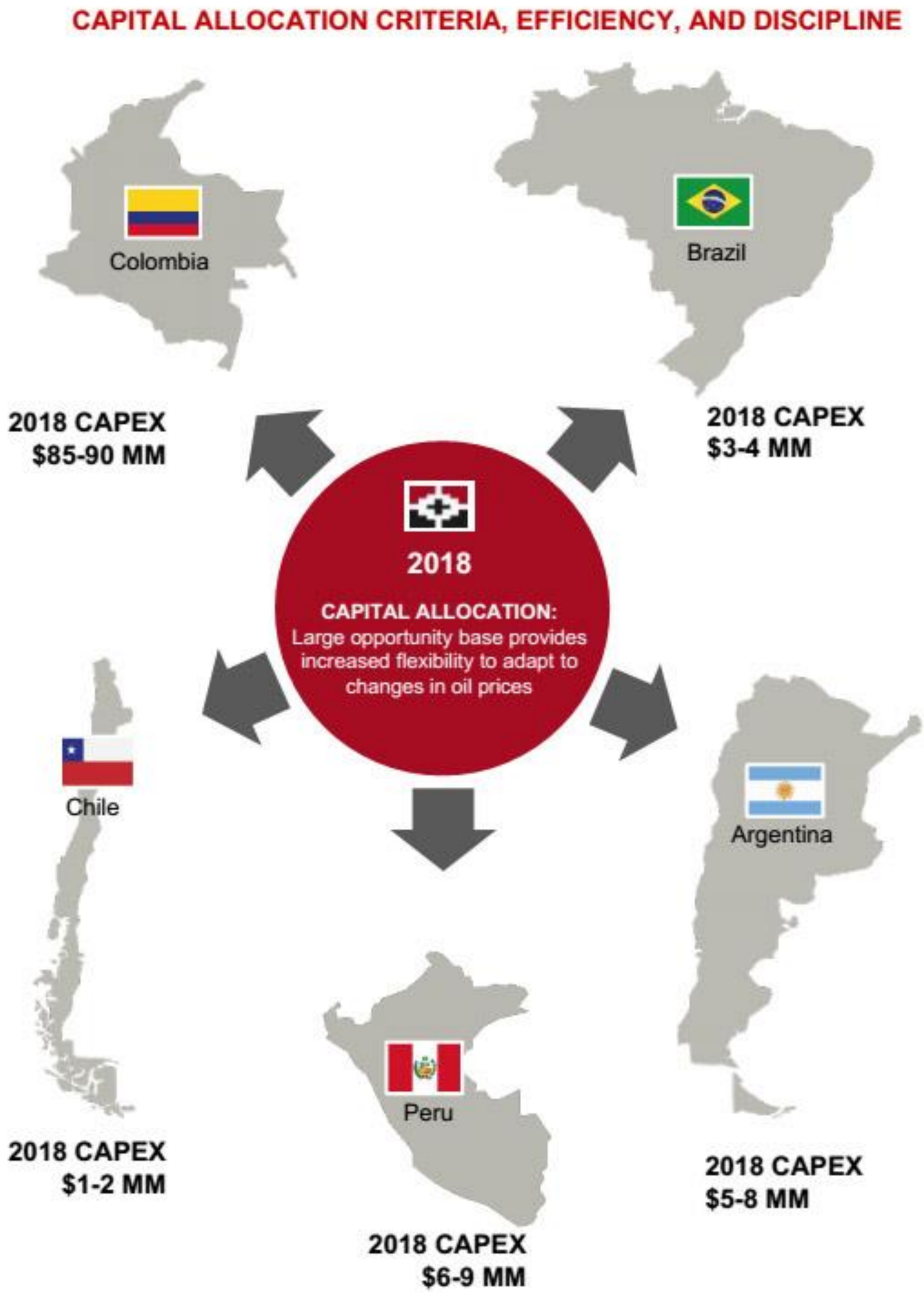
Amounts in US$ '000	Note	2017	2016
Cash flows from operating activities			
Loss for the year		(17,837)	(60,646)
Adjustments for:			
Income tax expense (benefit)	17	43,145	11,804
Depreciation		74,885	75,774
Loss on disposal of property, plant and equipment		190	14
Impairment loss (reversed) recognised for non-financial assets	20-36	-	(5,664)
Write-off of unsuccessful exploration efforts	20	5,834	31,366
Accrual of borrowing's interests		28,879	27,940
Borrowings cancellation costs	15	17,575	-
Amortisation of other long-term liabilities	28	(657)	(2,924)
Unwinding of long-term liabilities	28	2,779	2,693
Accrual of share-based payment		4,075	3,367
Foreign exchange loss (gain)		2,193	(13,872)
Unrealized loss on commodity risk management contracts	8	13,300	3,068
Income tax paid		(6,925)	(1,956)
Changes in working capital	5	(25,278)	11,920
Cash flows from operating activities – net		**142,158**	**82,884**
Cash flows from investing activities			
Purchase of property, plant and equipment		(105,604)	(39,306)
Cash flows used in investing activities – net		**(105,604)**	**(39,306)**

2018 looks like it is going to be another great year for

GeoPark. Expectations are for another year of 20% production growth while spending $110 million and generating $100 plus million of free cash flow.

Much of the drilling is development in nature so these projections should be pretty solid.

The slide below shows where the $110 million or so in capital spending is going to be allocated in 2018.



The company boasts assets in five different countries but it is clearly one country and one asset that will get almost all of the capital.

At the end of 2017, the balance sheet shows cash of $134 million against total debt of $425 million. All of that debt relates to a $425 million bond issuance that was placed in September 2017 and matures in September 2024. The interest rate on those bonds is a very reasonable 6.5%.

Debt to cash flow (D:CF) will be close to 1x by YE18, depending on what the company does with all of that free cash flow. Today it stands at 1.2x--last year it was as high as 3.7. That's what happens with 40% YoY growth and a 25% bump in oil prices. They paid some of it down but mostly just grew into their lower debt ratio (which is the way it's supposed to work...).

Valuation-wise the case here is pretty simple. GeoPark is trading at 3.8 times 2018 cash flow, will grow by 20% and generate $100 plus million in Free Cash Flow.

If we are going into an oil bull market, multiples will expand. It’s realistic to see GPRK and PXT trade 8x cash flow next December…and like I said, if oil stays here, then GPRK debt is very reasonable—in other words, there would be no excuse not to give them 7-8x multiple. That would be close to a double from here.

I don’t expect you would ever see a lot of multiple expansion on a Latin American focused explorer, but with 20% per year growth, huge Free Cash Flow (not just EBITDA, but FCF!), the stock has a great chance to appreciate from here.

STOCK CHART

WHAT THE ANALYSTS SAY

FIRM	TARGET
CANACCORD	$11.50
EIGHT CAPITAL	$14.25
JP MORGAN	$11.00
SCOTIABANK	$13.00

(expect all these to go up after yesterday's YE financials; GMP Securities is already at $20)

CONCLUSION

Parex is one of the very few int’l producers that get a domestic multiple (7-10x cash flow). GPRK doesn’t have that—which is a HUGE bonus for me right now. The downside is a lot less in a bad market.

But I don’t know that GPRK will ever get a good multiple. US investors only care about US assets; they are very myopic. Canadian investors (and brokerage firms/analysts) don’t care about US listed juniors in South America. So it’s quite likely the multiple here has to get VERY low to attract attention.

But the FCF here is something rare; almost unique, and at some point in time that will attract investor attention.

And I have more leverage with GPRK share structure.