

GeoPark

Summary

GeoPark Ltd,ⁱ \$1 billion market capitalization, \$641 million in fixed income securities, 463 employees, is an independent Chilean oil and gas explorer, operator and consolidator with assets and growth platforms in Colombia, Ecuador, Chile, Brazil and Argentina. Adjusted revenuesⁱⁱ peaked at \$689 million in 2021.

The location of risk is GeoPark's Situche Central project ("Block 64" or "Morona Block"), in the Marañon Basin of Peruvian Amazon. The site Block 64 light oil field in the Morona District of Loreto Region, northern Peru, is near the border with Ecuador. Block 64 covers more than 7,600 km² of rainforest. Block 64 overlaps with much of the Indigenous Achuar Nation's 8,020 km² (3,100 m²) homeland, as well as a portion of the neighboring territory of the Wampís people. GeoPark owned 75 percent of this concession. Petroperú and GeoPark planned a 44 km pipeline across Achuar territory to a military base in the Wampís territory, from whence crude oil would be transferred by barge 225 km down the Morona River to the NorPeruano Pipeline.ⁱⁱⁱ In 2019, the Morona Block accounted for 16 percent of GeoPark's net proven reserves^{iv}, representing a substantial asset for the company.

October 1, 2014, GeoPark acquires a 75 percent interest Morona Block (Block 64) in a joint operation with Petroperú. Then on December 1, 2016, the Peruvian government approves the amendment to the License Contract of Morona Block (Block 64) appointing GeoPark as the operator and holder of 75 percent of the license/contract.

In 2020, GeoPark reported 50.6 million of barrels equivalent (MMboe) proven (1P) and probable (2P) reserves in Block 64. This was equal to 37% and 24% of total proven and probable reserves for GeoPark globally. Block 64 had a net present value of \$222 million and \$336 million proven and probable reserves, together at \$558 equal to 22% of GeoPark's total net present value of \$2.5 billion for the company's overall proven (1P) and probable (2P) reserves.^v

In the face of the environmental review process and ongoing protests by the Achuar and Wampís Indigenous Peoples' nations on which Block 64 overlapped, on July 15, 2020, GeoPark notified Peruvian authorities their irrevocable decision to retire from the non-producing Morona Block (Block 64) in Peru, due to extended force majeure, which allows for the termination of the license contract. GeoPark then executed an agreement to transfer the Morona block contract and operatorship to Petroperú. Petroperú accepted the assignment of Geopark Perú SAC's 75% stake in the license contract for Block 64. Petroperú obtained 100% of the rights and obligations as a contractor for the exploration and exploitation of hydrocarbons in the deposit.

Furthermore, GeoPark did not disclose forecast greenhouse gas (GhG) emissions associated with its proven (1P) and probable (2P) reserves.



Company Overview

Geopark Limited is an oil and gas exploration and production company. The Company owns, operates, and produces properties in Chile, Colombia, Brazil, and Argentina. GeoPark is currently ranked the third-largest oil operator in Colombia and the first private oil and gas producer in Chile. It also has a non-operating working interest in one of the largest non-associated gas field in Brazil. As of January 1 2022, GeoPark reported that it has 159 millions of barrels equivalent (MMboe) proven (1P) and probable (2P) reserves with 84.9 percent in Colombia, 10.7% in Chile, 2.5% in Argentina, and 1.9% in Brazil.

Climate, Community, and Environmental Risks

Climate Risks

A key development in the Peruvian Amazon has been the collaboration of the Agency for Environmental Assessment and Enforcement (OFEA) with Indigenous environmental monitors since 2017. OFEA accepts georeferenced information provided by monitors for its investigations.^{vi}

In 2014 the EU agreed. Directive 2014/95/EU (the Non-Financial Reporting Directive or NFRD), an amendment to Directive 2013/34/EU (the Accounting Directive). The NFRD requires certain companies to

report information regarding four sustainability issues (the environment, social and employee issues, human rights, and bribery and corruption), on an annual basis. The NFRD recommends disclosures on human rights due diligence and efforts to prevent human rights abuses, including Indigenous rights. It requires companies to disclose information about their business model, due diligence processes, outcomes, risks and risk management, and key performance indicators. The NFRD employs the “double materiality perspective”. This requires companies to disclose how sustainability issues affect its bottom line, but also how the company affects society and the environment. In June 2019, the European Commission published additional guidelines on climate-related information, which integrate the recommendations of the Task Force on Climate-Related Financial Disclosures.^{vii} This reporting requirement seeks to make non-financial information that is material to investment more reliable and comparable, more comprehensive, make companies more transparent, and make it easier for investors and others to find non-financial information. This process is intended to address systemic risks to the economy from investments that do not adequately price sustainability-related risks to the economy, and to promote accountability for impacts on society and the environment.^{viii}

Community Risks

GeoPark’s Block 64 venture followed failed attempts by a partnership of Occidental Petroleum Corp. and Canadian oil company Talisman. The land where Block 64 is located is the customary land of the Achuar and Wampís Indigenous Peoples. These Indigenous communities have been excluded from operational and drilling areas in their territories. Oil pipelines cross rivers that Indigenous communities are dependent on. GeoParks’ proposed oil platform would have been situated close communities and sensitive riparian areas.

Water sources upon which Achuar and Wampís people depend are being routinely contaminated by oil spills. Achuar representatives argue that lead and mercury deposits from oil exploration have leaked into groundwater and are causing deaths in their community.^{ix}

The Achuar and Wampís have had limited contact with non-indigenous people until recently and contact with oil workers has been associated with the introduction of diseases to which they have limited or no immunity.

Environmental Risks

A research report published in 2019 documented 474 oil spills along the in the Peruvian Amazon affecting 41 Indigenous communities. 65 percent of these were caused by corrosion in pipelines and operational failures. Indigenous communities were routinely blamed for these spills. Oil companies were not resourcing the costs of cleanup. The government of Peru has allocated up to \$51.4 million, which covers approximately 10 of the prioritized sites.^x

Risks to Investors and Costs to the Company

Costs to GeoPark

- GeoPark’s 2018 SEC filings note \$36.8 million in construction costs.
- GeoPark’s 2020 SEC filings note an impairment loss of \$34 million.^{xi}
- In 2020, GeoPark reported 50.6 millions of barrels equivalent (MMboe) proven (1P) and probable (2P) reserves in Block 64. This was equal to 37% and 24% of total proven and probable reserves for GeoPark globally. Block 64 had a net present value of \$222 million and \$336 million proven and probable reserves, together at \$558 equal to 22% of GeoPark’s total net present value of \$2.5 billion for the company’s overall proven (1P) and probable (2P) reserves.^{xii}

Risks to Investors

- With the loss of 22% of GeoParks proven (1P) and probable (2P) reserves with the cancellation of GeoPark’s Block 64, GeoPark is able may be positive for investors as it improves operating-cost reductions and frees investment capacity to pursue growth elsewhere.

Overall, the benefits of operating are overshadowed by the damages to Indigenous communities and to a firm's own reputation.^{xiii} Political risks include a trend of nationalization in the region, possibly sparked by Indigenous conflict.

Changing policies may result in greater regulatory scrutiny and financial liability for damages to the environment and communities. Policies globally to reduce GhG emissions are expected to place market pressure on fossil fuel energy producers and could result in stranded assets including both concessions and infrastructure.

To better understand the performance of a company, including the impacts of its activities, a company should disclose all relevant information on environmental and social matters. This includes information relating to risks of negative impacts on the climate and on the company. Social and environmental impacts of oil production operations should be reported because they materially affect the value of the company. In FY 2019, GeoPark's SEC filing Form 20-F indicated that:

“the Morona Block is located in land inhabited by native communities. Though we have already signed certain agreements with native communities authorizing the execution of the environmental impact assessment for the Morona Project, similar projects in the Peruvian rainforest have faced significant social conflicts and work delays due to community claims. Social conflicts or community claims could adversely affect the recoverability of our future investments, our future production and revenues related to the Morona Block.”^{xiv}

In this case, GeoParks mentions an impairment loss but does not address community opposition to the project in its 2020 SEC filing, which proved materially relevant.

Timeline:

- 1964 Oil discovered in Amazon
- 1995 Block 64 defined
- 1970 2D seismic study conducted by Occidental Petroleum Peru.
- 1999 Occidental Petroleum Corp and Burlington Resources win concession contract to explore 800,000 ha in Loreto Region. Occidental has been producing oil in Peru since the mid-1970s.
- 1999 Pluspetrol purchases Occidental production facilities and assumes responsibilities for land and operations.
- 2002 Geopark founded
- 2003 US based oil company Burlington Resources withdraws from Block 64 due to indigenous opposition. Occidental Petroleum Corp takes over Burlington's stake^{xv}
- 2004 May 17. Occidental Petroleum Corp in partnership with Talisman Energy Inc. and Ameranda Hess Corp. win concession to explore Block 64^{xvi}
- 2006 Indigenous environmental monitoring initiated in Amazonia. Environmental monitoring is voluntary with limited support. Evidence collected has resulted in a sharp increase in the number of documented oil spills.
- 2006 Occidental Petroleum Corp announces that it is pulling out of Peru. Occidental denies pressure from Indigenous people influence its decision, citing a refocus on operations in the Middle East and North America. Occidental owns drilling rights for three blocks of land totaling approximately 25.5 million ha.^{xvii}
- 2009 Indigenous peoples demonstrate against extractive industries and land grabs in the city of Bagua, where 34 people died in clashes.
- 2014 October 1, GeoPark acquires a 75 percent interest Morona Block (Block 64) in a joint operation with Petroperú.
- 2015 November 29. Wampís Nation autonomous territorial government declared.
- 2015 Peruvian government assumes responsibility for remediating impacted areas through a Contingency Fund for Environmental Remediation.
- 2016 December 1. Peruvian government approves the amendment to the License Contract of Morona Block (Block 64) appointing GeoPark as the operator and holder of 75 percent of the license/contract.

- 2017 Fourth Constitutional Court rules that a private company granted permission from the Peruvian government to run assessments on the Wampís' land could not continue their work without the approval of the Indigenous group's government.^{xviii}
- 2019 GeoPark withdraws its Environmental Impact Assessment due to a lack of definition from the Peruvian Government about whether a prior consultation process was needed for deforestation. Petroperú grants GeoPark a new *force majeure* until the Government pronounces a definite statement regarding the need of performing prior consultation for reforestation works.
- 2020 July 15. GeoPark notifies the government of its irrevocable decision to retire from the non-producing Morona Block (Block 64) in Peru, due to extended *force majeure*, which allows for the termination of the license contract. *Force majeure* refers to regulatory hurdles, but nowhere is it explicitly linked to community opposition.
- 2020 The 2020 income tax expense included the writedown of the deferred income tax asset in Peru due to the decision to retire from the Morona Block (US\$8.4 million).
- 2020 July 15, "On July 15, 2020, GeoPark notified its irrevocable decision to retire from the non-producing Morona Block (Block 64) in Peru, due to extended force majeure, which allows for the termination of the license contract. On April 6, 2021, the final agreement with Petroperu was signed and, on May 31, 2021, the joint operation agreement was terminated. On September 28, 2021, the supreme decree approving the assignment was issued by the Peruvian Government, and the public deed corresponding to that assignment was finally executed by GeoPark and Petroperu on November 15, 2021. Consequently, from such date, all the rights and obligations under the Morona Block license contract are the exclusive responsibility of Petroperu. During 2020, the Group recognized an impairment of its Property, plant and equipment for a total amount of US\$ 33,976,000, wrote-down VAT credits for US\$ 6,017,000 and Deferred income tax asset for US\$ 8,353,000, recognizing those charges within Other expenses and Income tax expenses, respectively, in the Consolidated Statement of Income, and recognized a provision for environmental obligations for a present value of US\$ 1,886,000, with impact in Other expenses in the Consolidated Statement of Income."^{xix}
As a consequence, the impairment loss recognized by GeoPark for its Morona block, when last reported in 2020 due the segment being merged within the Ecuadorian segment, was negative \$33,975,000.^{xx}
- 2022 According to GeoPark's 2022 20F:^{xxi}
"In October 2014, we expanded our footprint into Peru by acquiring the Morona Block in a joint operation with Petroperu. This transaction awarded us a 75 percent working interest of the Morona Block. In December 2016, we obtained final regulatory approval for our acquisition of the Morona Block in Peru. The Joint Investment and Operating Agreement dated October 1, 2014 and its amendments were closed on December 1, 2016, following the issuance of Supreme Decree 031-2016-MEM.
On July 15, 2020, we notified our irrevocable decision to retire from the non-producing Morona Block (Block 64) in Peru, due to extended force majeure, which allows for the termination of the license contract. On April 6, 2021, the final agreement with Petroperu was signed and, on May 31, 2021, the joint operation agreement was terminated. On September 28, 2021, the supreme decree approving the assignment was issued by the Peruvian Government, and the public deed corresponding to that assignment was executed by us and Petroperu on November 15, 2021. Consequently, from such date, Petroperu holds all the rights and obligations under the Morona Block license contract."
Thus, the current operating segment managing the Morona Block is now Ecuador. Aggregated at the Ecuador segment, which includes, resulted in 2021 adjusted EBITDA of negative \$2,071,000. 2021 adjusted EBITDA included a sub-account "Others" that "includes termination costs and write-down of tax credits in Argentina and, in 2020, also includes termination costs, and write-down of VAT credits and recognition of a provision for environmental liabilities in Peru".
2020 Operating Profit (loss) for the Morona Block were a loss of \$36,980,000.

References

- ⁱ GeoPark's ticker is GPRK US Equity, FIGI BBG000H2SMB5, ISIN BMG383271050, CINS G38327105, and GeoPark has \$641 million in fixed income securities spread across two corporate bonds, ISIN US37255BAB53 and ISIN US37255BAA70.
- ⁱⁱ Adjusted revenues are the amount of sales generated by a company after the deduction of sales returns, allowances, discounts, and sales based taxes. Includes revenues from financial subsidiaries in industrial companies if the consolidation includes those subsidiaries throughout the report. Includes subsidies from federal or local government in certain industries (e.g., transportation or utilities). Excludes turnover from joint ventures and/or associates. Excludes inter-company revenue. Excludes revenues from discontinued operations
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