California Resources Corporation

Q4 and Full Year 2018 Conference Call

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CORPORATE PARTICIPANTS

Todd Stevens - *President, Chief Executive Officer*

Mark Smith - *Senior Executive Vice President, Chief Financial Officer*

Scott Espenshade - *Senior Vice President of Investor Relations*

PRESENTATION

Operator
Good day and welcome to the Fourth Quarter and Full Year 2018 Conference Call for California Resources Corporation. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key followed by "0." After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*", then "1" on your telephone keypad, to withdraw your question, please press "*", then "2." Please note, this event is being recorded.

I would now like to turn the conference over to Mr. Scott Espenshade. Please go ahead.

Scott Espenshade
Thank you. I'm Scott Espenshade, Senior Vice President of Investor Relations and Land. Welcome to California Resources Corporation's Fourth Quarter and Full Year 2018 Conference Call.

Participating on today's call is Todd Stevens, President and Chief Executive Officer of CRC, and Mark Smith, Senior Executive Vice President and Chief Financial Officer, as well as several numbers of the CRC executive team.

I'd like to highlight that we have provided slides in our Investor Relations section on our website, www.crc.com. These slides provide additional insight into our operations and fourth quarter results plus additional information. Also, information reconciling non-GAAP financial measures discussed to the most directly comparable GAAP financial measures is available in the Investor Relations portion of our website and in our earnings release.

Today's conference call contains certain projections and other forward-looking statements within the meanings of federal security laws. These statements are subject to risk and uncertainties that may cause actual results to differ from those expressed or implied in these statements. Additional information on factors that could cause results to differ is available in the company's 10-K, which is being filed today. We'd ask that you review it and the cautionary statement in our earnings release.

A replay and transcript will be made available on our website following today's call and will be available for at least 30 days following the call. As a reminder, we have allotted similar time for earnings Q&A at the end of our prepared remarks, and would ask participants limit their questions to a primary question and a follow-up.

I will now turn the call over to Todd.

Todd Stevens
Thank you, Scott, and thank you to everyone for attending today's earnings call. 2018 was significant for CRC. We demonstrated that with the disciplined application of capital to CRC's assets, we can deliver value-driven organic growth. Supported by the Elk Hills acquisition, in addition to our targeted drilling and work-over investments, we stemmed our production decline and delivered sequential organic growth in the second half of the year, with oil production in the fourth quarter 2018 alone growing 8% year-over-year.

We achieved these results through continued successful execution of our strategy, which is focused on: one, capturing the full value of our portfolio; two, driving operational excellence;

three, allocating capital efficiently and effectively; and four, strengthening the balance sheet. Our strategy drove strong 2018 performance with significantly higher EBITDAX, profitable production growth and reserves growth over 2017 levels.

Recent volatility in both the macro environment and the oil and gas sector resulted in Brent oil prices reverting from 2018 highs in October back to lower levels in December. Our dynamic business model was built to perform through near term price fluctuations and deliver long-term value. Our business model and differentiated asset portfolio are flexible and our team is pressure tested, ready to quickly adapt to a variety of pricing environments to align operations with cash flow, allocate capital to best value opportunities that lie ahead, and remain on track to achieve our targeted leverage ratio and simplified balance sheet goals over the long-term.

In 2018, we showcased this high level of operating flexibility as we continued to drive cost out of the business, capture synergies from our Elk Hills consolidation, and demonstrate the advantage of our integrated infrastructure.

As a reminder, we now own the entire Elk Hills unit, one of the largest fields in the lower 48, in fee simple. This means we have 100% working interest and 100% net revenue interest across 47,000 surface and mineral acres at Elk Hills. The transaction was a strategic move that we envisioned for a long time. Importantly, the consolidation brings significant value to CRC well beyond the boundaries of Elk Hills, particularly since we also operate in many of the surrounding fields.

Since the close of the acquisition last April, we have delivered approximately $34 million of annualized synergies, well ahead of expectations and in a shorter timeframe than anticipated. This is in addition to the $20 million of one-time capital savings achieved through repurposed equipment that we deployed for use elsewhere.

Elk Hills is a very unique asset in our industry that will continue to deliver tremendous value for our shareholders. We exited 2018 with reserves totaling 712 million barrels of oil equivalent, reflecting our drive to capture the full value of our portfolio.

Our year-end 2018 reserves, approached 2014 levels, just after our spin and were achieved at an average oil price almost 30% below our 2014 levels. Notably, thanks to the efforts of our talented team and the use of internally funded and joint venture capital, we increased probable and possible reserves once again, growing our inventory as well as our actionable projects.

We also held the line on F&D costs, achieving an all-in F&D cost of $8.76 per barrel of oil equivalent, but factoring in reserves that could have remained on our books, but were removed at management's discretion, our all-in F&D would have been $7.63 per barrel of oil equivalent.

At a $60 flat Brent price deck, our 2018 capital program provided a healthy VCI of 1.5 on a fully burden basis. These results included our work over program, which constitutes roughly 15% of our total capital program and registered a 4.0 VCI, well above our target, further underscoring our ability to effectively allocate capital.

Our balance sheet strengthening efforts also gained traction on many fronts in 2018. We completed the accretive Elk Hills transaction, we delivered positive earnings growth, we amended our credit agreements to increase our ability to repurchase debt, and we repurchased $55 million face value of our bonds in the open market in the fourth quarter of 2018. This brought total repurchase for the year to $232 million of face value, capturing a $33 million discount.

All these actions were made possible by a thoughtful and disciplined process of focus on value creation and the support of our bank group. We intend to take similar approach as we pursue our targeted leverage ratio of two-to-three times in a simplified strength in balance sheet.

Given the volatility in late 2018, we have established a disciplined 2019 capital program, which we expect to dynamically adjust during the year to align with discretionary cash flow. We will utilize value-driven decision-making to decrease or increase the program as our expected cash flow dictates to ensure our capital investment best captures the opportunities before us.

Accordingly, we entered 2019 with an internally funded capital budget of $300 million to $385 million, which we are looking to supplement with an additional $100 million to $150 million of joint venture capital to support a total program of approximately $500 million.

Joint ventures will help us pursue additional high-value projects and aligns CRC's capital investment with our cash flow. At current prices, the program will be frontloaded. We expect to invest approximately $110 million to $140 million in combined CRC and JV capital in the first quarter of 2019, which at the midpoint is approximately 37% lower than our fourth quarter 2018 capital investment level.

Obviously, the reduction in 2019 activity will impact our production as we are currently targeting flat overall production and a modest increase in crude oil production for 2019 under our prudent capital program. We expect first quarter 2019 production levels to include a reduction of roughly 1000 BOE per day due to maintenance at one of our gas plants as well as PSC effects related to a slowdown in activity in associated capital.

During this first quarter outlook, we will anticipate strong EBITDAX generation, which is supported by the low decline nature of our asset base, robust realization and a continuing healthy California demand for our products. CRC's position remains strong with a large actionable inventory that adds value at a wide range of price levels.

Looking specifically at a $65 Brent case, we have more than 850 million BOE of actionable projects that meet our 1.3 VCI investment threshold. With considerable additional resources, we intend to continue discussions with new and existing JV partners for additional investment to further accelerate value in 2019 and beyond.

Similarly, our strong results have attracted significant interest in our exploration portfolio. We see many strategic investors who are attracted to conventional and unconventional potential in California. We are in active discussions with multiple parties in both development and exploration JVs.

Turning to the political landscape, I'd like to highlight the recent change in leadership in Sacramento as Gavin Newsom was sworn in as the 40th Governor of California last month. We look forward to working constructively with his administration to provide Californians with good paying oil and gas careers as we lessen the State's dependence on imported energy and meet its leading edge standards.

It's also worth noting that in over four years of operating as an independent company, CRC has not experienced a single day of rig downtime waiting on permits. In fact, using our current activity level of seven rigs our drilling permit inventory spans more than six months. It's our largest ever and well above our 90-day target. This provides us with important flexibility in deploying our rigs and speaks to CRC's strong track record of working constructively in California's regulatory environment in sustaining exemplary safety performance.

I am proud that our workforce received 14 awards from the National Safety Council. Our team also upheld CRC's important role as the net water supplier in the State, delivering a company record 5.3 billion gallons of reclaimed water for agricultural use in 2018. We also received the Carbon Disclosure Project's second highest rating among U.S. independent E&P companies.

As we move into 2019, we believe the other three key factors that will continue to set CRC apart. First, our large resource base with a robust inventory of actionable projects at numerous price scenarios; second, our integrated infrastructure designed for scale to supply customers statewide; and third, our flexible business model to facilitate dynamic capital allocation.

We will play to these strengths to our advantage as we continue to manage volatility, tapping into the optionality of our assets and flexibility of our business model to respond to a variety of price environments. In short, CRC remains a leading independent E&P company that can and will adjust quickly to deliver value in any operating environment.

For more details in the fourth quarter and the full year of 2018, I will now turn the call over to Mark.

Mark Smith
Thanks, Todd. In 2018, CRC once again showcased the strength of our asset base. The flexibility and optionality that it provides and CRC's focus on driving value. As Todd highlighted, our team is the key to CRC's successful performance.

Our team has delivered each year since our inception, enabling us to improve margins and advance our financial goals. Thanks to the team's effort, we generated core adjusted EBITDAX of $352 million and adjusted net income of $26 million, or $0.53 per diluted share in the fourth quarter of 2018.

During the year, we drove oil production growth, garnered healthy realizations, and managed our controllable expenses to deliver these improved results. The combination of per unit costs improvements in oil production growth also led to enhanced credit metrics.

We look forward to extending our track record in 2019, adjusting our dynamic financial and operating plans accordingly, all to maintain our team's strong drive for margin improvement and value creation.

As we've demonstrated in each of the past four years, CRC's balance sheet strengthening activities highlight the many options we have available to us. We intend to be thoughtful in our approach and disciplined in our execution to exercise these options for maximum benefit to our shareholders. We remain open to the best value alternatives that further our financial goals, building on the good work we completed in 2018 to simplify and strengthen our balance sheet.

We work closely with our bank group to allow for opportunistic bond repurchases, as Todd highlighted. Factoring in consideration for pricing volatility, pricing outlook and trading period restrictions, we'll continue to pursue balance sheet strengthening opportunities going forward with a keen eye toward liquidity.

As Todd mentioned, our year end reserves position continues to validate the valuable resource base with which we're blessed. During 2018, we drilled 343 gross wells across our four hydrocarbon basins. With consistent execution in our accretive Elk Hills transaction, we delivered a strong all-in reserve replacement ratio of 296%, reflecting 127% from our capital program alone.

Our all-in F&D cost was $8.76 per BOE in 2018, resulting in a recycle ratio of 2.5 times, further highlighting CRC's effective capital allocation and the strength of our underlying business. Organic F&D cost has averaged $6.42 per BOE over the past four years and our organic recycle ratios have averaged over 2.6 times.

In 2018 we produced 48 million BOE and added a net 142 million BOE improved reserves from all sources to end the year with 712 million BOEs. Our value-driven approach to capital allocation is reflected in both the reserves we add as well as those that we prioritize.

Exhibiting this discipline, we optimize our development schedule toward high graded PUDs and low risk probable's, which is consistent with our drive for value. This is also reflected in our SEC PV-10 value, which more than doubled to 9.4 billion from 4.5 billion at year in 2017, representing approximately 1.3 times our current enterprise value. I want to emphasize that our proved developed reserves value alone exceeds our current enterprise value.

Now turning to our financial performance for the fourth quarter and full year of 2018, we produced an average of 136,000 BOE per day in the fourth quarter, up 8% over the prior-year period. This result included oil production averaging 86,000 barrels per day, which was also up 8% over the prior-year period.

Most importantly, oil production grew 2% sequentially from the third quarter of 2018, driven by organic growth. Fourth quarter results included approximately 600 barrels per day of positive PSC effects compared to the third quarter 2018, due to lower realized prices, which were more than offset by gas plant shut in.

We continue to benefit in the fourth quarter from premium Brent base pricing and realizations. Oil differentials were healthy, registering a strong 97% of Brent, which was at the upper end of our guidance range.

The effects of our hedging contracts, which were first put in place when prices were much lower, tempered our realized pricing by $6.15 per barrel for an average realized price of $59.97 per barrel.

NGL realizations were stronger than expected at 64% of Brent and continue to reflect strong local markets. Natural gas realizations also came in above our guidance range at 111% of NYMEX due to seasonality trends magnified by limited third-party storage within California.

Production costs for the fourth quarter of 2018 were $233 million, or $18.61 per BOE, within our stated guidance range. Despite higher energy prices our focus on our controllable costs drove per unit costs down 5% from the prior-year period and down 2% sequentially.

Excluding PSC effects, our fourth quarter production costs would've been $17.44 per BOE. General and administrative costs were $5.19 per BOE, which were lower than guidance driven by lower costs associated with the cash settled equity-based incentive compensation across our workforce due to a decrease in CRC share price during the quarter.

As a reminder, changes in our stock price introduced volatility in our income statement because a portion of our total stock-based awards are cash-settled, which we pay based on our stock price as of the vesting date. Accounting rules require that we mark-to-market our obligation for unvested cash settled awards to the amount that would be paid using our stock price as of the end of each reporting period.

In the third quarter of 2018 recall, we recognized a significant increase in our stock-based compensation expense, which is followed by reduction in the fourth quarter when our stock price declined.

Taxes other than on income came in below our guidance range largely due to ad valorem taxes. For the fourth quarter of 2018 reported net income of $346 million attributable to our common stock, or $7 per diluted share.

Adjusting for unusual and infrequent items such as non-cash derivative gains and losses that are generally excluded from core earnings by investment analysts, our net income would've been $26 million, or $0.53 per diluted share.

Core adjusted EBITDAX for the fourth quarter was $352 million, which excluded the hedge payments on settled derivatives and cash settled stock-based compensation expense. This result reflected a 35% increase in core adjusted EBITDAX from the prior-year period.

Adjusted EBITDAX for the fourth quarter of 2018 was $314 million, up 36% from the prior-year period, reflecting margin expansion from 40% to 41%. We reported cash flow from operating activities at $68 million in the fourth quarter and $461 million for the full year of 2018.

Cash flow from operations were reduced by purchases of $124 million of greenhouse gas allowances over the course of the year of which $98 million related to allowances we sold in 2016 in order to enhance our liquidity at the lowest point of commodity price cycle.

The magnitude of these GHG payments is not expected in 2019. Cash flow was also affected by payments made to enter into our current hedge positions as well as by higher interest in our floating rate debt.

The company generated approximately $550 million in discretionary cash flow, which compares to our internally funded capital investments of $641 million. The difference is primarily due to our decision at the outset of the fourth quarter to lean in to 2019 by maintaining our activity level.

As Brent prices declined dramatically in the back portion of the quarter falling more than 30% from the 52-week high in October, we quickly adjusted our 2019 plans. Demonstrating our flexibility and responsiveness, we quickly dropped three rigs, with first quarter 2019 investment levels approximately 37% below each of the last three quarters of 2018.

Our high level of operational control over our diverse portfolio allows us to pivot during volatile periods and rapidly adjust plans to recalibrate our activity with expected cash flows. We've seen this before and we are ready to respond and adapt accordingly to succeed in this environment.

Entering 2019, our hedge program gives us additional comfort to align our activity set with cash flows. As noted previously, we've changed the underlying instruments on our hedge program to puts and put spreads, nearly half our 2019 crude oil production is protected at an average price of approximately $71 per barrel, and Brent plus approximately $15 of Brent were to fall below $56 per barrel.

Please refer to our earnings release for the details in our hedging positions. Nearly all of our 2019 hedges also allowed for full upside participation should Brent prices move higher during the year. These hedges could provide an uplift of nearly $100 million at $65 Brent. Our philosophy regarding hedging contracts continues to target up to 50% of our production generally over a 12-month to 18-month period in order to provide more certainty in cash flows and underpin our capital program.

We strengthened our financial position as planned in 2018, delivering solid results and aligning our organization well for the commodity environment at hand. We demonstrated the resilience of our assets at lower prices and the growth potential that accompanies positive pricing trends. Based on current prices, we look to maintain the recent efficiency gains from our operations to continue to de-risk our resource base and expand our strategic joint ventures, all the while thoughtfully pursuing a simplified and strengthened balance sheet.

Please note that we provide a detailed analysis of adjusted items as well as key first quarter of 2019 guidance information in the attachments to our earnings release. I'll be happy to take any question you may have on that information and on other aspects of results during the Q&A portion of this call.

Thanks, and I'll now turn the call back over to Todd.

Todd Stevens
Thanks, Mark. In 2018, CRC grew crude oil production through disciplined investment, while our focus on operating excellence allowed us to adjust costs through the recent cycle and continue margin expansion.

Commodity price volatility is not new for CRC and we expect it to continue. Because we have a large and diverse portfolio of projects, expanding both oil and gas, conventional and unconventional and all types of recovery methods, CRC maintains the flexibility to effectively deliver projects that create value and meet our VCI threshold in many different price scenarios.

We have faced pricing fluctuations before and have excelled at protecting our base production while finding ways to boost margins and enhance value. We intend to do that once again in 2019. Our portfolio has a low base decline and performs exceptionally well at mid-cycle pricing.

Our team has a firm handle on our operating expenses as we continue to control the controllables. Our efforts will be supported by our One CRC culture, which is entrepreneurial by design, and focus on execution, innovation and process improvement in everything we do.

Our team weighs the best alternatives available to capture value through the cycle. We remain steadfast in our safety first mentality that has consistently achieved exceptional HS&E results. We look forward to your support as we continue to build our business with strong returns both in 2019 and in the years to come.

We would now be happy to take the first question.

QUESTION AND ANSWER

Operator
We will now begin the question-and-answer session. To ask a question you may press "*", then "1" on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question please press "*", then "2." In the interest of time, please limit yourself to one question and one follow-up.

Our first question comes from Doug Leggate with Bank of America Merrill Lynch. Please go ahead.

Kalei Akamine
Hi, guys. Good afternoon. This is Kalei on for Doug.

Todd Stevens
Hi, Kalei.

Kalei Akamine
Hi. My first question is just on so right now despite the improvement for oil prices relative to prior years, it's relatively in vogue to challenge the E&P business model. You guys haven't been shy about your desire to engage in additional transactions to release value. But in order to do that you need a willing partner in any transaction. So I'm just kind of wondering how your discussions with those partners or potential partners are evolving against this backdrop.

Todd Stevens
I think they're getting stronger and it's picked up. I think there was a little temporary low there in the action as the…everyone is trying to figure out what happened at Christmas Eve. But I would say now it's as strong as it's really been in our four years…4.5 plus years of being our own company. So I'm pretty excited about the opportunity both on…just looking at different monetization's and ways to help strengthen our balance sheet and also additional joint ventures, both on the exploration front and the development front and looking at some pretty meaningful development joint ventures.

Kalei Akamine
Can you just remind us of any big ticket items in terms of midstream that you may have in your queue to monetize?

Todd Stevens
Well as you know, we did our joint venture with our partner where we monetized 50% of our power plant and gas processing plant at Elk Hills for over $750 million plus our partner took some equity at ARES. We still have well in excess of $4 billion to $5 billion of midstream value that really is underappreciated by the market.

Kalei Akamine
Thanks, Todd. And my follow-up questions just a housekeeping question on quarterly guidance. The guidance is underpinned by $60 Brent and that's lower than the 4Q average by about $6. Because of your PSC, there should be a volume benefit at lower oil prices. Just wondering if you can tell us what that benefit implied in your guidance is.

Todd Stevens
So remember there's two things that drive the PSC benefit. The PSC is driven by investment….and also prices. So if prices drop, we are going to have some net benefit. But with our spending…our investment that's dropping in the same area, it's going to be more impactful. So I'd say the price impact is probably hundreds of barrels a day and the investment pullback is probably 1000 plus or minus barrels a day. So when you net those out, you're probably going to see that it's going to be fairly modest.

Kalei Akamine
Thanks. I will let somebody else to get on.

Todd Stevens
Thanks Kalei.

Operator
Our next question comes from Jason Wangler with Imperial Capital LLC. Please go ahead.

Jason Wangler
Good afternoon, everyone. Wanted to ask

Todd Stevens
Hi, Jason.

Jason Wangler
You mentioned the capital program of $300 million to $385 million internally fund and the balance to the $100 million $150 million via JV. Can you give an estimate what's already on the books versus what you guys are still seeking out on that budget?

Todd Stevens
Well we are pretty flexible. I think as we guided for the first quarter, we are a little front end loaded. When we talk about $110 million to $140 million, that includes JV capital. So I think, when you look at it we have 7 rigs running right now. But if you looked at what we…..the current plan if we did no more joint ventures, to talk about plus or minus four rigs probably for the year. So that means a decrease in activity at some point in time. But in my mind, I think we're going to hold the activities at constant probably bring in some development, joint ventures and keep the rig activity constant. And our net investment, we'll manage that to what we see the product price environment.

Right now we're being cautious in budgeting 60, obviously, trying to balance out net new investment at higher prices versus strengthening the balance sheet, because we understand that's the thing we have to do. So those two things and we're just trying to pick out what's the best value proposition. If you have a quick payback work over or behind pipe project you can do that's going to pay you a four, five VCI, you're still going to do that before you buy in some debt. But if you're looking at some things that are a little bit skinnier economics and you look at where your debt is trading, maybe that's a better proposition. We still have a fairly large basket we can act upon as we balance trying to de-lever versus liquidity.

Jason Wangler
Sure. I appreciate that. And maybe for Mark, I was curious where the basket sits now. And then, as you think about the small amount, obviously, the $100 million due in 2020. But how do you think about repurchasing those or refinancing those obviously in the next year or so as they come through?

Mark Smith
Sure. There's two questions there. One is the basket and two goes to our ability to deal with the five's as they come due. As it relates to the baskets, recall we got the last amendment that we worked closely with on the banks. We restored a basket… a portion of basket that expired. Short answer is $300 million can be repurchased at any discount in the marketplace. As it relates to the 5% notes as they mature, we…at current prices, we believe we've got adequate liquidity to deal with those over the course of the year as we go into their maturity.

Jason Wangler
Okay. I appreciate it. I'll turn it back. Thank you.

Mark Smith
Thank you.

Operator
Our next question comes from Muhett Ghulam with Raymond James. Please go ahead.

Muhett Ghulam
Hi guys, thank you for taking the question. So I see that you guys provided a graph of your rig count outlook in the slide deck. How exactly should we think about how commodity price sensitive that number is? For example, where should we expect that number to go if oil prices were to reach peak levels that we saw a couple of months back?

Todd Stevens
Yes. So, I think the way you ought to think about it is iterate a typical rig line for us, depending on whether it's a deep, shallow, medium rig, let's just say a medium rig is going to be $45 million to $50 million of investment for a rig year. So I think that's the best way to articulate and think about it. And you can also look at the same way even if it was a shallow rig. You're just really drilling more wells, even though because they're shorter cycle economic.

But that's the way I would look at it is if you thought about our price sensitivity and then when you think about what are rig line costs, what we want to commit to an extra rig, I think the best way actually to think about it is really to look at it and say, we're going to effectively manage our activity at what we feel is a constant level using our joint ventures. And if the prices creep up to a level that has a value proposition for us, we'll add on that additional rig net to the CRC account.

Muhett Ghulam
Okay, understood. On a similar note, how should we think about hedging activity as the year progresses? How price sensitive is that? And for example, what will we see in terms of how the hedging portfolio changes, if we see a higher price environment?

Todd Stevens
Yes. We are looking to hedge up to 12-to-18 months out. And we want to do about 50% of our crude oil production is our goal, sometimes a little more, sometimes a little less. The

environment that you price those kind of hedges and options is, is driven by time and volatility. So if you have the right combination of that, you really look to that to layer on new hedges. And for us, we had a hedge book that was financed by selling calls in 2017 and 2018 to finance some puts in 2016 to help us weather the cycle. So I think for us you'll see us more try to be puts and put spreads to preserve upside. And we'll look for those days in the market, when it becomes dislocated by geopolitical or other events or perhaps the counterparty, because we do trade Brent options, we don't trade WTI options. So I think in that perspective, we are looking for those opportunities and we trade on them. So if we see the opportunity to start walking in more production in 2020 or more in the back half of this year, I feel pretty good about where we sit in the front half of the year. We will do that. But we are not going to do it at a detriment, where we feel like the value proposition isn't there, to effectively buy that insurance.

Muhett Ghulam
Okay. Understood. Thank you.

Operator
Our next question comes from Jacob Gomolinski-Ekel from Morgan Stanley. Please go ahead.

Jacob Gomolinski-Ekel
Hi. Good evening and thanks for taking the questions.

Todd Stevens
Jacob.

Jacob Gomolinski-Ekel
Hi. Just one question on G&A. Is there a seasonal effect in Q1 or should we expect it kind of coming out to about $82 million for the quarter. So should we expect it to run rate at that level for the year? And if so, what's driving that change year-on-year?

Todd Stevens
Well, the biggest change is driven by the G&A. It was driven lower in the adjustment in the fourth quarter, as Mark talked about, where it would've been around $77 million. As you think about this new year, obviously we have little one-offs of there in addition to cost of living increases. But you ought to remember the G&A impact from equity is going to be driven by our stock price. And so Mark alluded to this. So we budgeted $25 for the year. So we will have a mark-to-market. If the stock price is lower or higher the adjustment will be about $1.2 million for every dollar change in product price. So I think that that's a real one in. So the real thing is there's a little bit of catch-up, because we came back from the stock price collapsing at year end too. That's what you'll see.

Jacob Gomolinski-Ekel
Okay. And then on the PV-10 value, do you have a sense of what…I think you mentioned that the PDP value exceeds the EV. Maybe just a two-part question on that. Is that... could you… if that's a number you're comfortable kind of disclosing what the PDP value was? And just curious if both the PDP and the PV-10 value includes the payments to Ares kind of or the sort of the operating costs associated with the Elk Hills plant? Or if that's…

Todd Stevens
Yes. It includes everything. You have to calculate… when you calculate your PV-10, you include all the operating costs necessary to get the hydrocarbons to market. So yes, it includes all that. We haven't disclosed what the PDP only value is. But we can say that we are trading

inside of that at this point in time. So we feel like obviously a great value proposition given where a lot of people, as Mark pointed out, we're 1.3 times…our PV-10 is 1.3 times our current EV.

Jacob Gomolinski-Ekel
Okay. And then sorry just last question on the maintenance CapEx …sorry on CapEx for this year. It sounds like you're keeping production flat at call like $340-odd million of internal CapEx. Is that the right way we should be thinking about the maintenance CapEx going forward or is that sort of…is there a benefit from the spend in 2018 and sort of like an 18-month odd ramp in production or how should we be thinking about that?

Todd Stevens
Yes, so think about it. Remember, we always said $300 million to $400 million. We feel like to keep production flat for three to five years. And why is that? Because you can artificially create flat production year-over-year without consequence from the prior years for the follow-on years. So, I think it's important to understand. But, if you…and so if you went back into it here, you're looking at very low $300 million to effectively keep BOE production flat and grow oil production very modestly. That's what we are really telling you right now, based on sort of $60 Brent. But, we will wait and see as the year evolves where we actually come out and that's why we gave a wider guidance, because we're literally managing quarter-to-quarter and month-to-month. And we have because of the optionality in our assets, we have so many great options to be able to deploy capital up or down, because of a high level of operating control, which I think most people don't appreciate. And that's why you could see us slam on the brakes when we have that hiccup in the back half of the year which was…the Apex was there at Christmas Eve.

So, we are just trying to be mindful and conservative and preserve all our options in our liquidity going into the year as we execute our business model, which you've seen is done not in such short fashion before probably at a spend, but through the cycle, we pared back as much as possible in a short timeframe. At the spin we went from 20 something rigs down to three rigs, down to no rigs. So, we are prepared to handle this. I think 2017 is a good proxy to go look at how we manage the business through that cycle…part of that cycle. But, yes, the short answer is, I was very long-winded, kind of, low $300 million is going to give you what you…that outcome I told you. But, I think if you look at the long-term, three-to-five years, $300 million to $400 million with a bias probably towards $300 million is the answer in which we've always said as we…as our portfolio planning adjusts and our asset mix will adjust that also in the future.

Jacob Gomolinski-Ekel
Okay, great. Thanks very much. Appreciate it.

Operator
Our next question comes from John Herrlin with Societe Generale. Please go ahead.

John Herrlin
Hi, just one quick one for me on this year's activity plan. You've been kind of splitting evenly steam flood, water flood, and then primary-type drilling. Is that what you'll be doing this year with a lower budget?

Todd Stevens
John, that's pretty good indication. Remember, if you go back to how we've done things, again, work over's are typically 15% to 20% of our investment; facilities can be 15% 20%. But, if you look in the slides, I think you'll see there's a slide that basically lays out kind of drilling and the

like. But I think when you look at where the drilling is going, it's really kind of our…what we call our core properties: Elk Hills, Buena Vista in the Greater Elk Hills area, Huntington Beach in the LA Basin down there at Wilmington Field, and Kern Front. So, when you think about what are those properties Kern Front steam flood, Elk Hills and Buena Vista and Wilmington some version of all of the above, but mostly water floods in the LA Basin. So, I think you won't see the mix shift dramatically, but I think you'll see overall that it will be very similar to prior years.

John Herrlin
Okay, great. That's all I needed. Thanks.

Operator
Our next question comes from Sean Sneeden with Guggenheim. Please go ahead.

Sean Sneeden
Hi guys and thanks for taking the questions. Todd, when you look at realizations, if we kind of look at it on a percentage of Brent versus TI, it looks like you kind of dropped in the fourth quarter to about 88% of Brent? Was there something specific going on in California postings within the fourth quarter? And probably, more importantly, just given what's going on with Venezuela and ANS and elsewhere, how are you guys thinking about realization for the balance of the year and how much is that kind of factored into 2019 plans?

Todd Stevens
Hi Sean, yes, that's a good point. But what I wanted to point out is, that's after our hedge impact. What I was talking about was, we sold those calls in 2018 and 2017, and it was 97% before that hedge. But, so taking into account our hedging impacts, you're right, it's 88% it was 97%. We actually see that firming up this year, particularly with the thing you quoted Venezuela and Canadian crude coming off-line, some of the other issues. When you talk about mid to heavier grades and lighter heavies around the world, we have seen it be 98%, 99% on our portfolio and we see that there are some strong realizations in California at this point in time. I think we're currently guiding 94% to 99%. But, like I said, so far in the quarter, we've seen it to be pretty strong.

Sean Sneeden
Got it. That's helpful. And then, I guess, when you look at the balance sheet and Todd and Mark, you both kind of highlighted the desire to simplify the balance sheet over time. I know at Analyst Day that the thought was ultimately trying to return to an RBL unsecured structure. And it looks at the strip, that maybe tough to execute in one fell swoop. But, when you think about the next steps here, is the focus really on an extension of the maturity profile in that runway or how are you guys looking, when you think about the kind of next logical steps for simplification, how do you guys think about that?

Todd Stevens
Yes Sean, I think, where we were at Analyst Day and then the market kind of went into freefall after that, I think we would have thought there'd be different deals in monetization. Like I said, they kind of went cold there for a little bit. But we're back to the same spot. We're trying to get there. Clearly, in the long-term we'd like to get back to the traditional RBL and some unsecured bonds. But, that's not going to happen overnight. We understand that. So you'll see as increment our way into that. It will be driven by liquidity, make-whole provisions, and maturities. So….and so, as we manage, we anticipate our fixed charges will come down. We had this RBL and unsecured bonds at the spin and we knowingly complicated the balance sheet to create value.

Now, the time is to capture that value through refinancing some of those things as the make-wholes and other provisions roll-off, so that we can attack our fixed charges as well as the absolute level of our debt. I think if you look at, we had a…the curve that I keep in my briefcase in front of me and some of you know this or on the call, I track the make-wholes, particularly on the 2016 [Term Loan], which are the most expensive debt we have, LIBOR plus ten and three eights, because that is something I clearly…the market for CRC debt is not LIBOR plus ten and three eights at this point in time. So we're going to keep a close track on that and I think if you look at it, what makes the most sense is, for us to try to do something in the back half this year, but we're not going to rush into something that doesn't make sense for us, that doesn't bring down our debt and also bring down our fixed charges.

Sean Sneeden
Got it. That makes sense and it's super helpful. Thanks very much guys.

Operator
Our final question comes from Gregg Brody with Bank of America. Please go ahead.

Gregg Brody
Good afternoon guys. Just….you mentioned that the budget was put together I believe it's $50 Brent. It's meant to be within discretionary cash flow. Does that...when you think about discretionary cash flow, do you include the repayment of the joint venture interest positive [indiscernible] interest?

Todd Stevens
Yes, we do. And the other thing to think about we are still going to be focused on dedicating 10% to 15% of our discretionary cash flow to try to strengthen the balance sheet through the year also.

Gregg Brody
Got it. That's where I was going next. So since you answered that I'll move on. You gave the production guidance for the year you're saying it's going to be basically flat. Is that year-over-year or so? And is that...and you said modest growth in oil. Is that year-over-year as well or should we think about it from an exit rate?

Todd Stevens
We think about it 2018 to 2019 year-over-year. That's what we are targeting.

Gregg Brody
Got it. So is...and you mentioned. I think you mentioned production is down a bit this quarter because of PSC capital investment adjustments. How should we think about oil in the first quarter?

Todd Stevens
Are you talking about production down the fourth quarter?

Gregg Brody
No, you guided oil down a little bit. I guess your range...I think the average of your range...

Todd Stevens
You're talking about our guidance for the first quarter?

Gregg Brody
Yes, quarter-over-quarter.

Todd Stevens
Yes. I think it's a little bit of PSC effects on a net basis, when you take into account price and investment. And then we talked about the gas plant being down, one of our gas plants. And so, that's really the guide down. I think oil, we didn't guide that separately, but I think it's close to flat.

Gregg Brody
Flat. Quarter-over-quarter versus you're staying it’s close to flat in the first quarter versus the fourth quarter?

Todd Stevens
Yes, it's really natural gas driven most of the impacts quarter-to-quarter while we guided down a little bit.

Gregg Brody
Got it. And then...

Todd Stevens
So as I say they can figure out with realizations where they're at. And if oil production is flat, you can still see how we could have a pretty strong quarter, even though our production might be down a little bit.

Gregg Brody
That's very helpful. And then, how should we think about costs over the year? First quarter, if I think your production is going to decline a bit through the year. Should we think of the cost going up just on the margin on opinion?

Todd Stevens
Per BOE or absolute basis?

Gregg Brody
Yes, per BOE. Per BOE.

Todd Stevens
I think on an absolute basis, we are going to bring our OPEX down probably keep our G&A flat plus or minus probably it may be down a little bit. But on a…..obviously when you have a flat production year-over-year in that environment your per BOE is going to be very similar. So you take that part out of the equation.

Gregg Brody
Helpful. Have you guys thought about, how IMO is going to affect you?

Todd Stevens
We have. We’ve analyzed that quite a bit. My opinion is it's a net positive. If you consider when you look at the Nelson Complexity Index of the refineries in the West Coast and you also think about our single biggest asset, Elk Hills, being kind of premium blending crude. Some of the premium lights we get in excess of Brent most of the time for it. So I'm pretty bullish for our

portfolio. I think it will be an uplift for us. I think if you're just a heavy oil producer in California, you probably are going to get hit by the refiners. So I think that will be probably a net detriment to you. But that's...if you don't have the kind of portfolio of someone like ourselves.

Gregg Brody
And then just my last question, so you mentioned the capital infusion potentially from JVs, how many of those do you have from existing arrangements? And how many are you...I think you mentioned there is new potential capital. Can you...maybe help with a little bit of an idea around timing?

Todd Stevens
Yes, as we've talked about with our joint ventures, we have numerous smaller ones. One of them has been in the press is our small one with Royale up in the Rio Vista field. But the large ones, which we really talk about and which we are really referring, to are the multi-$100 million ones. I think we have the capacity to add one of those in the first half of this year clearly. That will be comparable to the size of kind of our current two joint ventures that we have, the large ones with MIRA and BSP. So we are excited about that.

We are also in the process of adding a fairly sizable exploration joint venture; we are excited about with a partner. And some smaller exploration joint ventures. So we are always adding some local, smaller development. When I look at the kind of meaningful beefy multi-$100 million one that's...we feel like there's a line of sight to at least one fairly large one on the development side by midyear.

Gregg Brody
I thought you said...

Todd Stevens
I only said by midyear because of attorneys.

Gregg Brody
Because of attorneys. I thought you had some capital to call on the benefit Street one? So is it...I guess why wouldn't...it doesn't sound like you're thinking about using that? Am I...is that an incorrect understanding? Or is it...

Todd Stevens
No, we do. We anticipate and we've been in discussions with our current partners about enlarging our current arrangements and drawing that, but also remember we have enormous inventory with extreme optionality. And so, for us, we have a lot of assets with people to come in and invest. And they've chosen to invest in certain assets and we still have a lot of capacity like I said probably a year, a year and a half now, we feel like there's a capacity to have well in excess of $1 billion of joint venture partners.

So we are still looking for that as we...because when we sit on this enormous inventory, we are committed to living within cash flow. We don't want to drawdown but we do want to accelerate that value forward and derisk opportunity, help manage our activity and the joint venture is just a great tool for us to do that. So I think it makes a lot of sense for our partners, because they come in and see we are not a shale producer. We don't have short cycle economics. We have low decline assets that create a lot of value.

Gregg Brody
I appreciate all the time and the color, guys.

Todd Stevens
Thanks.

Operator
This concludes our question-and-answer session.

I would like to turn the conference back over to Todd Stevens for any closing remarks.

CONCLUSION

Todd Stevens
Thank you everyone. I know it's late there in New York, particularly for John, for joining us on today's call. We believe CRC's 2018 results reinforce that we're positioned to create value through disciplined capital investment that matches current market dynamics. We benefit from a diverse asset portfolio that is highly competitive in delivering strong and differentiated value. To address the volatile price environment, we expect to use JV capital to help maintain activity and efficiency gains, while aligning with discretionary cash flow.

We remain focused on our controllable and enhancing margins with our One CRC culture and dedication to operational excellence ensure that safety always comes first. We expect our financial position to continue to improve as we target balance sheet strengthening, while working to simplify our capital structure. We believe CRC is a compelling investment opportunity and look forward to seeing many of you on the road in the coming weeks. Thank you.

Operator
The conference has now concluded. Thank you for attending today's presentation and you may now disconnect.