California Resources Corporation

Q1 2022 Earnings Conference Call

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CORPORATE PARTICIPANTS

Mac McFarland – *President and Chief Executive Officer*

Francisco Leon – *Executive Vice President and Chief Financial Officer*

Shawn Kerns – *Executive Vice President and Chief Operating Officer*

Jay Bys – *Executive Vice President and Chief Commercial Officer*

Chris Gould - *Executive Vice President and Chief Sustainability Officer*

Joanna Park – *Vice President of Investor Relations and Treasurer*

PRESENTATION

Operator
Good afternoon, and welcome to the California Resources Corporation 2022 first quarter earnings call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star (*) key followed by zero (0). After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star (*) then one (1) on your telephone keypad. To withdraw your question, please press star (*) then two (2). Please note this event is being recorded.

I would now like to turn the conference over to Joanna Park – VP of Investor Relations and Treasurer. Please go ahead.

Joanna Park
Thanks. Welcome to California Resources Corporation's First Quarter 2022 conference call. Participating on today's call is Mac McFarland, President and Chief Executive Officer, Francisco Leon, Executive Vice President and Chief Financial Officer, as well as the entire CRC VP Executive Team. I'd like to highlight that we have provided slides on our Investor Relations section of our website, www.crc.com. These slides provide additional information into our operations and first quarter results, and we have also provided information reconciling non-GAAP financial measures discussed to the most directly comparable GAAP financial measures on our website as well as in our earnings release.

Today's conference call contains certain projections and other Forward-Looking Statements and these statements are subject to risks and uncertainties that may cause the actual results to differ. Additional information on factors that could cause our results to differ are available in the company's 10-Q and 10-K. A replay will be made available for 30 days following the call on our website. As a reminder, we have allotted additional time for question-and-answer at the end of our prepared remarks. We ask that participants limit their questions to a primary and one follow-up. With that, I will now turn the call over to Mac.

Mac McFarland
Thank you, Joanna. 2022 began with a reminder about the importance of reliable and affordable energy as well as a continued focus on energy transition and CRC made progress on both. First, our core low carbon intensity E&P business delivered on expectations. Quarterly production was in line with guidance, which accounted for our previously announced CGP1 maintenance along with the Lost Hills divestiture, and the business generated $61 million of free cash flow during the first quarter after the impact of these two events. If you normalize for the CGP1 outage, our free cash flow would've been $105 million.

Due to a favorable commodity outlook and strong anticipated returns, we are expanding our drilling program in the Los Angeles basin by adding an additional rig in our Wilmington Field for a total of 5 drilling rigs in our overall operations, and we are raising our 2022 oil production by 1,000 barrels of oil per day, raising the 2022 midpoint guidance of our EBITDAX by approximately $88 million and the midpoint free cash flow guidance by nearly $53 million to the full year.

Additionally, throughout the quarter, we continued to advance our commitment to the energy transition. On the permitting side, CRC's Carbon Management Team submitted 2 class VI permits for an incremental 80 million metric tons of CO_2 sequestration for 2 new projects in the Sacramento basin, thereby creating a 2nd CO_2 storage network in the San Francisco Back Bay

area. With these 2 permit applications, we are more than halfway to our 2022 goal of 200 MMT of complete permit applications submitted.

On Carbon TerraVault I, we continued to have very constructive conversations with our emitters who represent approximately 20 million tons of emissions per year, and our intent remains the same on Carbon TerrVault I. We are targeting year-end 2022 for selection of the first 1 million ton per annum emitter contract. Additionally on CTV1, we have submitted project permits, which include a Kern County conditional use permit, a Kern County environmental impact report, an EPA monitoring reporting and verification plan, and we are working to submit an LCFS application for CTV1 in the third quarter of this year. These efforts highlight CRC's uniquely positioned asset base that allows us to provide much needed low carbon energy today and Net Zero Fuel for the future.

Second, as we envision the Net Zero Future, we believe it will be necessary to leverage existing infrastructure to distribute low carbon and Net Zero solutions by creating a lower, or more specifically, an emissions free fuel. We are therefore excited about our prospects of creating the first Net Zero Carbon Barrel in California. These technology advanced projects can create additional energy transition jobs in our state while also offering Californians fuel with a substantially lower carbon intensity than that of an imported barrel and further lowering our overall CO_2 emissions and the state's carbon emissions.

Therefore, this Net Zero Energy is the solution and emissions are the enemy. So, let's focus on eliminating emissions. A recent report by the intergovernmental panel on climate change, or the IPCC, recently cited carbon dioxide removal as an essential step to meet the targets of the Paris Accord. Validating our view of the importance of building our carbon management business via Carbon TerraVault to store third-party emissions, thereby reducing atmospheric CO_2 concentration.

In addition to this, it is imperative that CRC finds ways to abate our own emissions and make progress towards our own Full-Scope 2045 Net Zero goal as well. Full scope being not only scope 1 and 2, but also offsetting scope 3 emissions for a true full scope Net Zero.

We have evaluated our portfolio and estimated that we have approximately 200 million barrels of potential CCS+ reserves at our Elk Hill Field utilizing CO_2 recovery, meaning CRC has the opportunity to permanently sequester our CO_2 emissions while replacing some of our production with an incremental supply of Net Zero barrels. For the past 12 months, we have analyzed and reviewed the DOE supported FEED study results for our CalCapture Project at CRC's 550 megawatt Elk Hills Power Plant.

As a reminder, this project captures the flue gas of the power plant for permanent storage in oil producing reservoirs. We concluded that further evaluation of operational strategies and cost proposals may yield better results and increase the viability of this project. As a result, we have agreed to explore the development of Next Carbon Solutions, or NCS, technology based on a FEL-II or pre-FEED study, which suggests significant capital reductions and operational improvements could be made to the original FEED study. Additionally, NCS has performed over 11 FEL FEED studies and has identified opportunities that work with low concentration CO_2 emissions similar to those at the Elk Hills Power Plant.

NCS is expected to conduct this FEED study over the next 6 plus months and positions us for an investment decision by the end of 2023. The project is slated for the Stevens Reservoir at Elk Hills, which has similar characteristics to CTV1 and is compliant with LCFS requirements and

eligible for 45Q credits. Said simply, this means permanent CO_2 storage. The project is expected to yield approximately 1.4 million tons of injected CO_2 emissions per annum or 28 million tons for the life of the project and producing an incremental 7,000 barrels of Net Zero Oil per day.

To put things in perspective, California leads in domestic electric vehicle sales with approximately 200,000 cars sold in 2021. Through CRC's CalCapture project, the equivalent emissions from 300,000 gas fueled vehicles will effectively be removed each year from the road, further supporting California's Climate Goals and the Paris Climate Accord. Said differently, the captured emissions equate to powering 300,000 gas fueled passenger vehicles every year with Net Zero fuel to create Net Zero tailpipe emissions.

We see this as one of the most efficient and economical ways to implement the energy transition broadly while leveraging existing in state infrastructure. This Full-Scope Net Zero barrel will be made in California by Californians in a state that has ambitious climate goals but also relies on crude imported from high carbon intensity sources with less stringent environmental standards to meets its demand. We believe carbon management is a natural extension of our core competencies and CRC is able to bring scalable and commercial carbon management solutions to help advance the energy transition to a lower carbon future.

Switching gears with ample liquidity of $744 million, we maintained our disciplined investing approach and solid financial foundation. We continue to see our equity deeply underappreciated and therefore, we are increasing our share repurchase program by $300 million to a total of $650 million and extending it through the second quarter of 2023. We believe this is the best path to providing returns to shareholders.

Again, I would like to thank the employees for their dedication and hard work. Our low carbon intensity E&P and carbon management teams continue to deliver strong results. Thank you for being here today, and with that, I'll turn the call over to Francisco.

Francisco Leon
Thanks, Mac. Good afternoon, everyone and thank you for joining us on this call. As Mac mentioned, 2022 began on a good note for CRC. During the first quarter, we produced 88,000 net barrels of oil equivalent per day, in line with our expectations given the planned CGP1 maintenance and Lost Hills sale. Speaking of CGP1, I would like to highlight that work was performed safely and ahead of schedule. I would like to thank the team for their efforts. CRC has generated positive free cash flow for the last 5 quarters in a row with $61 million during the quarter and $206 million of adjusted EBITDAX.

This demonstrates CRC's significant cash generation capability and potential for sustainable shareholder returns.

In fact, after investing in our 4-rig drilling program and advancing our carbon management business, we returned over 100% of the first quarter's free cash flow through a combination of our share repurchase program and our $0.17 per share dividend. Given the confidence in our assets and commodity backdrop, we are expanding our SRP by $300 million through the second quarter of 2023 for a total program of $650 million. We are also declaring $0.17 per share dividend for the second quarter.

Commodity realizations remained strong across all of our streams and for the remainder of 2022, we expect realizations to be within historical norms. Despite these strong realizations, our legacy RBL credit agreement hedges continue to be a headwind, resulting in a quarterly $181 million

cash loss. Moving forward, and taking into consideration the additional flexibility within the revised RBL amendment, our forward hedging strategy will focus on maintaining financial discipline and protecting our downside while supporting our capital allocation objectives, including the investment in our E&P assets, growing our carbon management business and shareholder return initiatives.

With respect to the new RBL amendment, post quarter end, CRC successfully amended the RBL credit agreement for 2 key items subject to a 1.5x or lower leverage test. First, CRC will no longer have minimum or rolling hedging requirements. The second item allows for an unlimited restricted payments basket providing additional flexibility for share repurchases or other shareholder returns and investments in our carbon management business.

As we turn to the cost side of the business on slide #9, we saw total quarterly operating costs rise by nearly $2 per BOE quarter-over-quarter mainly as a result of lost production from CGP1. In addition, increases in natural gas pricing drove energy related operating cost 22% higher on a per BOE basis from the previous quarter. Per unit non-energy operating costs were mostly in line with expectations accounting for the CGP1 plant turnaround. As a result, we expect our per barrel non-energy operating costs to return to our normal levels for the remainder of the year.

During the quarter, we invested $99 million of capital, which includes $65 of D&C and capital workovers and approximately $15 million for CGP1 maintenance.

Given the improved commodity environment and the expected results of our drilling program IRRs of over 100%, we are adding a 5th rig at our Wilmington Field in Long Beach. This rig is expected to bring an additional 1,500 net barrels of oil per day to our exit production assuming flat current prices.

I would like to take a moment to discuss our Wilmington Field assets. These are high quality waterfloods with high cumulative recoveries, low decline rates, and low maintenance capital needs. We expect IRRs of new wells to be above 160% at current commodity levels with paybacks of around 1 year, which is similar to the rest of our 2022 drilling program.

We continue to see the strength of our assets and the depth of our inventory performed above our expectations. I'd like to remind you that the PV-10 of our proved reserves at 2021 SEC price were $6.2 billion, which grows to $8 billion at $80 Brent and is more than double our current enterprise value. We expect our 2022 drilling program to deliver NPV of $445 million, or $5.73 per share, and brings forward value to our PDP, which already represents approximately 84% of the company's value.

We continue to see significant portfolio optionality in our low decline assets with a large number of drilling locations and vast mineral acreage. With close to 14 years of reserves life, we can continue to self-fund our low carbon E&P business, sustainably deploy additional shareholder returns and fund our carbon management activities.

The first quarter of 2022 was CRC's largest quarter of share repurchases to-date, further demonstrating CRC's commitment to shareholder returns. We have repurchased approximately $239 million since the inception of the program resulting in the repurchase of approximately 7% of our shares that we had at the emergence. Even after a quarter of higher capital investment and shareholder returns, we continue to build our cash balance to $328 million at the end of the quarter, from $305 of cash at the end of 2021 and improved our already strong net leverage ratio of less than half a turn.

Moving to our 2022 corporate guidance on slide #15 and given the rise in the longer term outlook for commodity prices, we are adjusting our 2022 guidance to reflect a $98 oil price and $5.30 natural gas price as well as the impacts of an additional rig in the Los Angeles basin, higher energy prices and some reclassifications.

In summary, we are raising our oil production guidance by 1,000 net barrels per day primarily due to the addition of the Wilmington Field rig. We are raising our 2022 full year operating cost guidance by $40 million primarily due to higher natural gas prices, which are driving up our energy costs and the cost of gas for our steamfloods.

As a reminder, this is a net benefit to CRC, as we are net long natural gas. We are raising our 2022 E&P capital program by $25 million due to the addition of the Wilmington Field rig. Additionally, on the carbon management front, we are adjusting our full year estimate of carbon management capital to remove approximately $15 million of expected lease acquisition costs that will be treated as carbon management expenses instead. Reflecting all of these changes, we are increasing our 2022 capital program by $10 million.

Finally, we expect to pay between $30-40 million in cash taxes for the year. As a result, we are raising our corporate free cash flow and adjusted EBITDAX guidance by 17% and 11% at the midpoint, respectively. Of note, prior to our carbon management business spending, CRC expects to generate between $425 and $480 million of free cash flow from the E&P business.

To conclude, CRC had a great start to the year, operating safely and prioritizing high return projects. On an exit-to-exit rate, we plan to maintain production this year by only spending approximately $275 of D&C and workover capital. We are excited to continue to develop our low carbon intensity assets with the addition of 5th rig.

Additionally, we continue to build a CRC's carbon management business as we explore additional options to further drive value and increase shareholder returns. Please note that we have provided detailed analysis of our quarterly financial and operational results and our 2022 guidance in the attachments to our earning release.

Thank you, and I will now return the call back over to Mac for closing remarks.

Mac McFarland
Thank you, Francisco. In conclusion, we continue to believe that CRC is well positioned for the future and to lead the energy transition as an E&P company. The company has a sound financial position, well managed operations and a growing carbon management business. Thank you for your interest in CRC and for joining us on today's call. We'll now open the line for questions. Operator?

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. To ask a question, you may press star (*) and then 1 on your telephone keypad. If you are using a speaker phone, please pick up your handset before pressing the keys. To withdraw your question, please press star (*) then two (2). At this time, we will pause momentarily to assemble our roster. Our first question will come from Scott Hanold with RBC Capital. You may now go ahead.

Scott Hanold
Yeah, thanks all. My first question on this CalCapture, revisiting it now with NCS, can you give us a little bit of background, obviously you had the DOE study, how did you get to the point where you looked at this new potential solution? Is it something that is in place already in other areas that can demonstrate you can do that capture at a lower cost? Did you go to them, or did they come to you? Can you just give us a little sense of background and really what the key factor is that makes you little bit more excited about this other process?

Mac McFarland
You know, sure. First Hi, Scott. How are you?

Scott Hanold
Good.

Mac McFarland
So, we have interacted with NCS, Next Decade over the course of as we started developing out the carbon management business. As we went through the FEED study and I am going to turn this over to Shawn Kerns who is leading the effort here, our Chief Operating Officer. As we went through the FEED study and came to conclusion that the DOE FEED study, we were also in the background working other carbon management activities and some of which, with Next Decade, thinking about how to use capture equipment and we came to the realization that over time things start to optimize, as we proceeded through, and so that is why we are embarking on this new FEED study with NCS. Now, I am going to turn it over to Shawn and talk some of the benefits.

Shawn Kerns
Thank you, Mac. This is Shawn. Hey, as Mac mentioned we were advancing our work on the FEED study with the DOE originally and in parallel with that we continued to engage with other technology parties that were bringing us different solutions to capture the carbon at Elk Hills. As you know, a lot of this technology has been around, which has not been implied at this scale and we were able to learn some things through the first FEED that were really encouraging, and we started engaging with Next Decade on the technology. They bring a lot of experience. They have looked at this around the world and we are really excited to have them looking at our Elk Hills plants here. As you know, it is right there at Elk Hills on top of our storage reservoirs and so we are excited to be advancing this project.

Scott Hanold
Great, and then my follow-up question is, I am going to stick on the carbon management side of things, but I guess recently the LCFS credits have been a little bit weaker. Can you give us a sense of what your view of that market is? What is going on there? Where do think it is going to go? And also, how does that impact the economics of some of these projects you are looking at with where those credits have gone here recently?

Mac McFarland
Scott, so, first of all I do not think that we would underwrite the projects based off of depending upon where the LCFS pricing is. If you use the type curve, they were already pulled down a bit and so when we think about it, we think about the total opportunities at being LCFS at a price as well as 45Q and they are underwriting these projects and obviously, we are going after the highest value projects first, but with respect to the LCFS market, let me turn that over to Jay, our Chief Commercial Officer.

Jay Bys
Good morning, Scott. Yeah, as Mac points out, none of our projects have been examined or evaluated using the spot price LCFS given various outcomes. Understandably, for California to achieve its carbon neutral objectives in timeline, they want this to specifically involving electrification. You are going to need to see some modification to this program as it moves forward.

Mac McFarland
Scott, we -- in the longer term, I think as Jay says, we remain fairly bullish on the implementation to get to the Net Zero in California by 2045 and if you believe that is the principle for us that is going to change regulation, change markets and change the LCFS, adds things into the LCFS program. We remain – we believe that that would drive prices back up. It is going to be necessary to expand that to get to Net Zero. We are going to have to go higher up on the marginal cost curve with some of these captured – some of these places that we are trying to capture carbon from and so that would eventually if we get to Zero, we will have to drive prices higher.

Scott Hanold
Okay, and as part of that question, do you have any sense of what has caused some of the recent pricing pressure?

Jay Bys
Everybody has their theory in particular points to the culprit, but the most widely circulating culprit has been the movement of ethanol to California and outside the State.

Scott Hanold
Got it, thank you.

Operator
Our next question will come from Leo Mariani of KeyBanc. You may now go ahead.

Mac McFarland
Hey, Leo.

Leo Mariani
Hey guys. I wanted to quickly touch base on the decision to add the rig here at Wilmington, when does that rig show up? And I guess I was a little surprised to see that it would only bump CapEx by $25 million there. Is it a pretty limited program here in 2022 because you all did talk about like a 1,500 barrel a day impact to the exit rate?

Shawn Kerns
Yeah Leo, this is Shawn. The rigs starts in the second half of the year and so that amount of capital is just for the program for the remainder of 2022.

Leo Mariani
Okay. I also wanted to ask about cash taxes, you all did not really book anything in the first quarter from what I can see in the financials, you all think you are going to start having to pay some cash taxes here, just given where prices are in 2022?

Francisco Leon
Hey Leo, this is Francisco. Yes, we do see us paying some cash taxes in fact that we are paying cash taxes. If you compare our guidance from this quarter, it came down from prior guidance

given the large change in California that was released our ability to be able to use some NOLs, so the guide is lower, but we do see ourselves paying some cash taxes this year.

Leo Mariani
Okay. I mean, is that going to be kind of limited? Do you think you ramped up to being more of a full payer next year? Can you just give us any high-level sense that we continue to see high commodity prices?

Francisco Leon
Yeah, I mean it really depends where do the prices go but I would say what you are seeing NOLs and those are not endless, so you would expect if prices continue what they are and the tax bill goes back to more of our statutory tax rate, which were much lower right now, so I mean it just really depends, but for now I would see much closer to that full tax payment in the coming years if prices stay where they are.

Leo Mariani
Okay and then just a question on LOE, I saw you all raised to LOE guidance a little bit here in 2022. I guess if I just take your first quarter run rate LOE and kind of multiply it by 4, puts me a little bit above the annual guide and I think the first quarter was kind of low on production for the year and since the first quarter we are only seeing energy cost come up, so is there something unique about the LOE in the first quarter where your confidence kind of start coming down here in the subsequent quarters? Can you just give me a little information on that?

Mac McFarland
Leo, I am going to let Francisco give you the specifics. The easy answer is it is just a denominator, right? It is a number of barrels produced in a quarter was impacted by CGP1 and so therefore it drives the dollar per BOE up and I think that if we make that adjustment, we will get back to more of a normalized run rate, so then if you take a look at the full year guidance I do not think these reflected the 4 times the first quarter.

Francisco Leon
Yeah, that is right, I mean there is some seasonality in costs, but as Mac is saying it is really – you know, we had less barrels going or less BOE flowing in the quarter due to CGP1 that gets normalized starting in April, so that – our guidance reflects our BOE and what are the costs are going to be, which pulls everything back to where we were before the maintenance.

Leo Mariani
Okay, and then just lastly on the hedging, just wanted to get it to make sure I understand the messaging here. Are you all signaling it is going to be more limited hedging going forward, it may be just using more, floors or collars in trying to get you all some upside here? Can you just give me a little color around the hedging?

Mac McFarland
Yeah, Leo, so page 23 in the presentation provides an overview by quarter of the forward look on the hedges broken down by a couple of things. I think one of the things that Francisco covered was that we amended the RBL to not require that - at the levels that were previously seen. We have done that once before, but we had further removed that requirement now with this RBL amendment, but when we exited bankruptcy, we had a number of hedges that had to be put on for a period of time. Those hedges and subsequent maintenance of the RBL covenant, and I am going to turn this over to Jay, basically account for 90% of the hedges put on. Now with respect

to go forward position and what we call strategic hedges, which is a third bucket there, I am going to let Jay answer that.

Jay Bys
Yeah, let me give you a little more color on background. Mac kind of talked at the higher level, but at the time of emergence, there was a covenant that required the company to hedge 75% of its crude production for two years and 50% for the 3rd year. That was done at a $40-45 price environment, and as you might expect, the impacts were significant. If you are looking at page 23, that would be the first row. If you go down one row, that's reflective of two things. First of all, we had an ongoing obligation to maintain that 50% on a rolling basis. In addition to that, again referencing back to the $40-45 price environment, we moved the hedge floor prices up, so we moved that up significantly from the $40 range to $60+ range. Those transactions were captured in the second line. The third line is reflective of a fairly limited number of transactions that were added since then. I would point out that, frankly, additional hedges in any material regard have not been added since fall of 2021. If you add these together, that is when you come up with the total of the hedge mark. Going forward, as mentioned by Francisco and Mac touched on it too, the RBL agreement provided more flexibility. It gives us more flexibility in terms of quantum. It also gives us more flexibility in terms of tools to use. Again, you are going to find that we are going to be focused on the hedging program on maintaining pre-tax cash flow, we have got a whole lot of E&P activity, we have got debt service, we have got the carbon business and we have got returns from shareholders, and that's what's going to guide our hedging going forward.

Mac McFarland
I would just add Leo, I think the question was where do you see hedges going forward, and right now, if you look at 2023, obviously because of the program that was put in before, it is lighter on the legacy hedges that were put in for RBL and obviously provides an update to our cash flow and EBITDAX, and I would also say that given the hedge levels that we have out there, we are comfortable right now with our hedge position and that is why we have not really hedged since the fall of 2021. Now, things change in the market, and we may change that, but we are comfortable now.

Operator
Our next question will come from Doug Leggate with Bank of America. You may now go ahead.

Doug Leggate
Good morning, guys. Thanks for taking my question. One of the ways to amplify your leverage to the commodity is to lean into a little bit more activity and you have done that by adding a rig back at Wilmington with this quarter. I am just curious how are you are thinking about the go forward picture because obviously the commodity deck and your exposure to that has changed dramatically since you came out of the bankruptcy. So, as you think about what you inherited as a CEO versus the outlook you have today, how you think about whether you might want to get a bit more aggressive in trying to recover some of the production loss over the last five years?

Mac McFarland
Yeah. Good morning, Doug. Thanks. Look, in the fourth quarter or late last year we brought on 4th rig, now we brought on 5th rig. We continue to think about how we deploy our capital across the portfolio, that portfolio being shareholder returns through the drill bit or in the carbon management business and we want to be very prudent about where we are. Now, you're right, the commodity backdrop can continue to explore, that is why we are bringing on this 5th rig. We are constantly evaluating should we bring on another rig given the market conditions or should the market conditions change, we also lay down rigs, but right now, our intent is to stick with the

five rig program, continue to evaluate and be ready to deploy a 6th rig if we chose that the market is receptive to that as part of our portfolio management, maybe we want to expand how we think about cash and deploying it to the drill bit, Francisco.

Francisco Leon
Hey Doug, this is Francisco. So, yeah first of all, as you know most of our fields are operated by CRC, we have high NRIs, so it gives a lot of control with the movements when adding more rigs, and we do have a big inventory of projects. The one, I guess, pleasant surprise has been the moving natural gas prices. It has brought in gassier projects into the mix, as we look at the portfolio options. Given the prices right now, we are able to basically check the box delivering on shareholder returns and be able to continue funding our carbon management business and then we said we would evaluate and stay flexible where the next dollar would go, and we're seeing very attractive returns on our wells, which show the elevation in Wilmington. They were ready to go ahead on number of rig projects and wells, we are building 10 wells there. We will continue looking. We have quite a bit more inventory that is ready to go this year, and we will just have to make a decision on what the next dollar goes to.

Doug Leggate
Well guys, I appreciate the answer. You have kind of taken the words out of my mouth for my second question, which is relative capital allocation between oil and gas, I am going to save my carbon questions for ESG next week, so thank you for that, but I think relates to -- if you go back and look at legacy CRC, there was a pivot a number of years ago to think about more aggressive development of the gas assets in your portfolio, so that is kind of really what I wanted to go here because, you are not hedged on gas, and my understanding is that the permitting backlog is quite rich on the gas opportunities relative to the oil opportunities. So, I am just wondering if you can maybe flesh that out just a little bit more, Francisco if you don't mind in terms of what that could look like. Is there significant gas opportunity currently within the CRC?

Mac McFarland
You know Doug, you must be reading our minds at some point because it is a very recent conversation we have been having about the Sacramento basin, which is our big gas field. Obviously with the changes in that commodity, which has been substantial over the last couple of months, we have looked at it, we are not committing or saying, we are going to do anything, but it is definitely a topic in our minds, in fact Francisco, Shawn and I were just talking about what that opportunity might look like. So, nothing to say here but it is almost like you are inside our heads.

Francisco Leon
Yeah, Doug, just where the ratio of oil versus gas is, given where gas is right now, it really comes into play and we are already the largest natural gas producer in the state, it is not just the Sac basin, but we also can drill more gas in Elk Hills, so we do have the inventory, we have not had think about gas relative to oil but it is -- the ratio is getting to be much more attractive and the gas wells are becoming much more competitive.

Doug Leggate
That is terrific. Thanks very much. I look forward to seeing you next week. Thank you.

Mac McFarland
Thanks Doug.

Operator
Our next question will come from Scott Hanold with RBC Capital. You may now go ahead.

Scott Hanold
Hey, thanks. One followup here and just looking at the buybacks in the pace of what you all are doing, obviously you made a pretty big step up ended in -- extended the window a little bit, but can you remind us if how you go about that? Is it very opportunistic, do you have a 10B-5 plan in place and also have you considered looking at privately negotiated kind of transactions to suck up some liquidity from the non-traditional holders?

Mac McFarland
Hey Scott – yeah so open market 10B-5 has been historically how they have been doing the program that is a really good way to participate in the market and buyback our shares. We do have capacity to look at other forms of buybacks going forward, but for now we're staying flexible and interested in seeing where the market is going.

Scott Hanold
Thank you

Operator
Our next question will come from Eric Seeve with GoldenTree. You may now go ahead.

Eric Seeve
Hey. Good morning, guys. Thanks for the call. Great to see you guys increasing activity levels. I just want to see if you could provide a little bit more clarity on what the production cadence might look like as we head into Q2 and to the end of the year, and one specific question – I'm just trying to understand, it seems like at the Q4 presentation, the exit rate oil guidance was around to keep it flat at around 58.5 a day and just wondering if now we should be expecting that to be 1,500 barrels of oil per day higher by virtue of the expanded drilling program.

Mac McFarland
Hey, Eric. How are you? Good to hear from you. The simple answer here is that it's that darn PSC. As we came into the year, we were more in the 80 -- low 80s and now we are in the mid-90s and because of that we lose barrels on net production. We have offset more than -- particularly offset those with this new 1,500 a day on exit, but Francisco, do you need to add to that?

Francisco Leon
You know, I mean sure. We had talked about offsetting the barrels to be sold on the Lost Hills sale and that price has stayed the same flat to what we were at the last time we had earnings - that would have indicated we had some growth. We have seen an increase in the oil prices so that – if you remember for every $1 change in Brent prices, we lose 100 barrels of oil due to the PSC effect, and it goes the other way as well. So, you know we have seen $15-20 move in oil prices, so we need the net production that way so the activity in with 5th rig should help offset that.

Mac McFarland
Yeah, and that is – it is one of these ironic things, Eric we're losing the barrels because of the PSC because prices are going up, we will take the prices going up.

Eric Seeve
Yeah, it seems like a good problem. Just as we think about the production progression, moving from sort of Q1 to rest of the year, should the oil production going to be sort of slowly climbing

throughout the year to get back to that 58.5 levels that how we should think about it and it looks like on the gas and NGL it looks like, when you adjust for the processing plant being down, it looks like production was almost flatish from Q4 to Q1. Can you just give me a little bit more help on kind of what I should see for both streams in the remaining quarters?

Mac McFarland
I think you are right on the NGLs and the gas, and if you think about with the addition of this rig in the second half, as Shawn said, you'll see that creep up towards the exit rate obviously so that – it'll creep up in the second half of the year, so that is the place of the PSC effect, so the PSC effects down for the full year because of the prices on the front end are even higher, and then that gets taken back into or upped, taking care of, if you will, the opposite direction you pull back up through the second half of the year. Okay.

Eric Seeve
Okay, terrific.

Mac McFarland
These are very degrees of difference though Eric. It is not big swings in our production.

Eric Seeve
Right, I appreciate that. Great, well thanks for the commentary. Thanks for the call and all the transparency you guys are giving and just want to sort of voice what I think Doug was getting out, which is that you know we are definitely supportive of the increase in drilling activity and I imagine that the returns in Elk Hills must be spectacular with this gas and NGL price environment, and you know look forward to seeing what you guys can do in the second half.

Mac McFarland
Thanks Eric.

Operator
Again, if you have a question, please press star (*) and then one (1). Our next question will come from Ray Deacon with Petro Lotus. You may now go ahead.

Ray Deacon
Yeah, Hey Mac. Good morning. I had a couple of questions on the CO_2 sequestration side, from an E&C standpoint, is there – if I look at the number of permits that are pending, I see you know 14 or so. Do those permits require that you have a plan, you know what kind of equipment it is going to be used yet? This is what I am asking?

Mac McFarland
Yeah. I going to let Chris Gould, our Chief Sustainability Officer tackle that question.

Chris Gould
Yeah, hey good morning. You're referring to the EPA website for the Class VI permit, is that correct?

Ray Deacon
Exactly right. Just checked it

Chris Gould
Understood. Yeah, I mean I think what you see on that website are permits that are deemed administratively complete, which means EPA has gone through looked at the permit and said all of the difference modules have been submitted. So subsequent to that, review and make it on the website and post it and after it goes through the technical review processing and then at that point you know hopefully you get the permit. In terms of identification of equipment, I think it is what your question was, certainly to get through the process, we hold ourselves to a very high standard on what we submit technically, in terms of capture and all the other things that make up a project or are desirable to getting a permit. I cannot speak to all the permits that are on their website, but that is the standard we hold ourselves to.

Ray Deacon
Okay, got it. So, if you are about to file another permit, you will be – if I am reading this correctly I think 4/5 that are submitted in California, so I guess – how is the process going communicating with these guys and moving forward? How does it seem to you?

Chris Gould
Yeah, so we have received on our first permit for Carbon TerraVault I, we have a schedule, from our understanding, with the EPA of 18-24 months. Carbon TerraVault1 reservoirs are world class high standard for CO^2 geological sequestration, and we – our permit filing was obviously on the website, it is administratively complete, and again we believe technically complete. We received a full round of comments from the EPA on the first reservoir that we submitted, A1 and A2, back in August of last year and we are in the process of responding as well as the second reservoir and that application as well. We are very pleased with the constructive dialogue and the feedback that we are receiving from EPA and confident in the timeline that we outlined.

Ray Deacon
That's great. I guess at what point I remember you went into a lot of detail about the stages of development, and I am just wondering how far out do you need to get before project finance becomes an option.

Mac McFarland
You know Ray, it's Mac. Page 17 of our deck has sort of a gant chart that outlines this with respect to CTV1, and you know our view is that we need to get the permit in order to underwrite and go to the FID on the first project. As we get more comfortable with subsequent permits and status of where they are, we might be able the change that timing, but right now, what we are looking to do is line up emitters, line up debt as well as our overall underwriting case and go FID effectively on the day after we receive the permit, something like that. That is our target and so that is why you know we continue to advance the emitter discussions and, as Chris said, he and his team have done a nice job in having a constructive dialogue with EPA on advancing these permits and we think if we do that on the first Carbon TerraVault I by the end of the next year. I hope that answers it.

Ray Deacon
Yeah, it does. Thanks very much.

Mac McFarland
Thanks Ray.

CONCLUSION

Operator
This will conclude the question-and-answer session. I would like to turn the conference back to over to Mac McFarland for any closing remarks.

Mac McFarland
Yeah, thank you and thanks for everyone who joined our call today, appreciate your interest in CRC. We continue to believe we are very well positioned as a low carbon intensity fuel for today and Net Zero fuel for the future. Have a good day. Thank you.

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