# California Resources Corporation

## Fourth Quarter Earnings Conference Call

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**CORPORATE PARTICIPANTS**

**Mac McFarland** - *President, Chief Executive Officer*

**Francisco Leon** - *Executive Vice President, Chief Financial Officer*

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

**Jay Bys** - *Executive Vice President, Chief Commercial Officer*

**Joanna Park** - *Vice President, Investor Relations & Treasurer*

## PRESENTATION

**Operator**

Good day, and welcome to the California Resources Corporation Fourth Quarter Earnings Conference Call. 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 "*"and then "1" on a touchtone phone. To withdraw your question, please press "*" then "2." Please note this event is being recorded.

And now, I would like to turn the conference over to Joanna Park. Please, Joanna, go ahead.

**Joanna Park**

Welcome to California Resources Corporation's fourth quarter 2022 conference call. Participating on today's call are Mac McFarland, President and Chief Executive Officer, Francisco Leon, Executive Vice President and Chief Financial Officer, as well as the entire Executive Committee.

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 fourth quarter results. 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, we are making some forward-looking statements based on current expectations. Actual results could differ due to risk factors described in our earnings release and in our 10-K and other periodic SEC filings. As a reminder, we have allotted additional time for Q&A at the end of our prepared remarks. We ask participants to limit their questions to one primary and one follow-up.

With that, I will now turn the call over to Mac.

**Mac McFarland**

Well, great. Thank you, Joanna. Good morning, everyone, and thank you for joining us today. Over the past two-plus years, following the company's emergence from its financial restructuring, we have evolved CRC into an enterprise focused on generating the highest cash flow from our assets and returning that cash to shareholders.

Case in point, in 2022, we returned ~120% of free cash flow to shareholders through share repurchases and dividends and we have bought back 14% of the company's outstanding shares since our emergence in late 2020. We also saw a tremendous opportunity for carbon management and have built a solid business around that. As any focused company should do, we continue to evolve.

As we look forward to 2023 and beyond, we are announcing a strategic realignment of the company's business operations and structure to adapt to current circumstances and build on our strong momentum. As I have said before, and to say it simply, we are focused on generating the highest cash flow per share possible from our E&P business so we can return that cash to shareholders.

Another case in point, if you take 2022 free cash flow of $311 million and the average fully diluted shares outstanding of 77.6 million during the year, we delivered $4.00 of free cash flow per share in 2022. And if you take the midpoint of our ‘23 guidance, the $385 million of free cash flow and the fully diluted shares outstanding of 73.6 million at the end of January, we would expect to deliver $5.23 of free cash flow per share in 2023. That would be roughly a 30% increase in cash flow per share, and that is before we buy any more shares back in 2023, which would drive the results even higher. That is the benefit of our low decline assets and the toggles we have available to us in the business.

In connection with the strategic alignment, we are announcing management and board changes to support the eventual separation of our E&P and carbon management businesses. We are also cutting costs to match activity levels, and we plan to increase our financial flexibility to accelerate shareholder returns. By taking these steps, we believe we can create a different kind of energy company and drive cash flow per share growth.

With the revised corporate structure, Francisco Leon will succeed me as CEO, and I will step back from the day-to-day management role. I will continue to serve on the board of CRC and will chair the newly formed board of our Carbon TerraVault subsidiary, which will be devoted to overseeing the continued growth of the carbon management business.

Two existing CRC nonexecutive Directors, Andrew Bremner and James Chapman, will also serve on the subsidiary board. Together, we will provide the business with insight into the commercialization of new technologies, provide expertise in corporate and financial structuring as well as provide knowledge relevant to early movers for carbon capture and storage in California. I've had the tremendous opportunity to work with the great people of CRC and forged many great friendships. And having spent more than two years working with Francisco side-by-side, I am confident he is the right person to lead us at this exciting time and going forward.

I'll now turn it over to Francisco to share more details on the steps we're taking to position our business for success. Francisco…

**Francisco Leon**

Thanks, Mac, and thank you, everyone, for joining the call. I will focus my comments on the actions we are taking to enhance value and deliver stronger shareholder returns and to maximize cash flow per share of the business. But first, we have provided detailed analysis about our 2022 quarterly and yearly financial and operational results and also our 2023 guidance in the attachments to our earnings release and in our slide deck.

I will refer you to those documents for that information rather than cover them on this call. But as you will see, 2022 year-end financial results were very strong, with over $300 million of free cash flow, helping showcase our resilient and valuable portfolio of assets. As we delivered on all of our 2022 priorities and look at what's in front of us in the next chapter, we must continue to evolve.

So here's our plan for 2023. We are going to focus our development and drilling plan on developing the highest returning projects with permits in hand. That, combined with well servicing and downhole maintenance, will help reduce our base production declines. We will do this by reducing capital investment to 1.5 rigs, which is based on permits in hand in the Wilmington field for high rate-of-return projects with short paybacks. This constitutes a run rate E&P CAPEX program of $155 million per annum as demonstrated with our 2023 program, and you can see this on slide 10 of our presentation.

We're also adding OPEX dollars to downhole maintenance, increasing our rig maintenance count by 6 to 38, which, combined with our capital program, we expect to deliver a 5% to 7% total decline for the company. We have a backlog of about 1,000 wells that we can go after and return to service and return to engineering that allow us to make high-impact investments with very little incremental operating expenditure dollars.

Given reduced activity levels across our E&P business, we're also looking to reduce all other non-energy operating costs and adjusted E&P corporate and other G&A costs by 5% to 10% by year-end, aligning our costs to activity levels. We have successfully implemented similar strategies in the past, and believe the company is well positioned to identify and achieve additional cost reductions while maintaining the high operational and safety standards that CRC has achieved over the years.

In addition to the revisions to our operating plan, we're also pursuing ways to increase our financial flexibility to bolster the company's ongoing shareholder return program and enable a potential future separation of the company. To help achieve this financial flexibility, we intend to refinance the $600 million high-yield notes and extend or replace our RBL. Clearly, having Carbon TerraVault operate on a standalone basis will broaden capital sourcing option for that business.

Our continued focus on costs, and our ability to maintain production due to the high quality of our assets, gives us confidence in our cash flow projections. And as such, CRC's board has authorized a ~30% increase to the share repurchase program for a total of $1.1 billion, with ~$640 million remaining of dry powder. With this plan in 2023, we expect to generate $455 million of E&P free cash flow and total corporate after-tax free cash flow of $385 million at midpoint of guidance, respectively. Of this, we intend to return ~100% to shareholders in 2023, continuing our track record of returning more than 100% of cash to shareholders and maximizing cash flow per share.

If market conditions persist in 2024 and beyond, we will repeat this plan. If we assume a 1.5 rig count going forward, we are confident that we can lower our capital plan of approximately $155 million of drilling and completion capital. We can make the appropriate reductions to our cost structure that we expect will ensure that we deliver improving operating and financial metrics on a per share basis.

I am really excited about the future of CRC and look forward to working with our talented team to take the steps to separate our quality, low decline, low carbon intensity and high cash flow generating E&P business in our California leading Carbon TerraVault, which will help unlock the company's full potential for delivering value to shareholders.

I want to take a moment to thank Mac for his leadership these last two years and look forward to working with him to accelerate the growth of our carbon management business.

Thank you for your interest in CRC and thank you for joining us on the call today. We'll now open the line for questions. Operator…

**QUESTION AND ANSWER**

**Operator**
Thank you.  We will now begin the question-and-answer session.  To ask a question you may press "*" then "1" on your telephone keypad. If you are using a speakerphone, please pick up

your handset before pressing the keys, to withdraw your question, please press "*" then "2." At this time we will pause momentarily to assemble our roster.

Our first question comes from Scott Hanold from RBC Capital. Scott, please go ahead.

**Scott Hanold**
Thank you, I appreciate it. Francisco, congrats on the promotion, well-deserved, and Mac, congrats on all your leadership to this point and in the future, so, good to see those moves in place. But my first question is going to be around permitting. And maybe a little bit of a multifaceted question, but let me give it a shot here. Could you give us a sense around the decision to go to this 1.5 rig count and lower activity pace. Has your view changed on the litigation that's ongoing in Kern County? Has that drive that opinion? And then could you also give us a sense of how many total permits do you have in hand, and in what basins? And just to give us a sense of how much runway you have outside of 2023?

**Francisco Leon**
Hey, Scott, thanks for your nice words and the question. So, we issued the 8-K a few weeks ago around the appeal process in Kern County. And I think what we were looking to do today after getting feedback from all of our investors was to showcase what the plan would be on a go-forward basis, and that's what we did today. So the 1.5 rigs is effectively all concentrated in the Wilmington field. As you know, we operate in three fields, in 3 basins, the Sacramento Basin, Kern County, San Joaquin Basin and then the LA Basin. So the litigation is only around Kern County, so that gives us optionality to go to these other two basins. So we're focusing activity in the LA Basin in the Wilmington field. And we have a lot of runway there. It's kind of an independent process to get permits.

Nothing has really changed around the appeal process. What we said is, okay, obviously, if we can get some good news there, and we're also working on alternative plans around individual fields, right? So remember, this is a Kern County-wide permitting process, but we can still go to individual fields to get those full permits replaced. So we're working through that, nothing's really changed, but what we wanted to provide was a view to our shareholders that what we would do in case the appeal process continues and drags on. So to us, there's upside to the story. We've already communicated when we saw the impact, and we think we can deliver 1.5 rigs on a go-forward basis if the appeal process continues to drag on.

**Scott Hanold**
Okay. I appreciate all that color. And as my follow-up question, I mean, there's a lot of different questions I could ask here, but obviously, you have to talk about the strategic repositioning of the company. And could you give us your view of the vision for what you think is going to transpire? And how you get there on this timeline? So it sounds like you're separating the two businesses. Do you have separate management teams? And is the path to separation first to get the EPA Class VI permit in hand and then go down that path? Or is it a little bit more of a longer or shorter process?

**Francisco Leon**
No, Scott. Yes, we haven't put out a specific timeline, but Mac and I and other members of the team, we built together Carbon TerraVault. We think it's a fantastic business and are very excited about that. And as we talk to investors, they want to understand better. Right now, it's all integrated, all consolidated. They want to understand better how each of the two businesses is advancing on a go-forward basis. So we wanted to start. The beginning is to take the steps of Mac moving back to the board, but then having much more direct oversight into Carbon TerraVault

by creating a board seat at the sub level. So that allows him to have that oversight and continue to help from that standpoint. We're also looking at cost of capital options and looking at flexibility of running the business and making sure we have the right people and the right assets allocated to the two businesses that at the end of the day, we think should be run separately. But it's going to take some time to get there. We were taking all the initial steps and it starts with the messaging today around our structuring decisions. But maybe Mac has a few additional thoughts to share about Carbon TerraVault.

**Mac McFarland**
Yeah. Hey, Scott, good morning or good afternoon, but look, I'm really excited about sharing the Carbon TerraVault subsidiary board and helping advance that. But you're exactly right. Look, we have a vision that these two businesses over time need to be run and potentially separated. That will mature over time. This is just the first step of many. As you look to stand up a business, it takes a lot of work, but we're ready to meet that challenge, and I'm excited about it. It is not dependent upon what happens with respect to different commercialization activities of Class VI or any of that. It's just over time, there's a lot of connective tissue, if you will, between the two businesses, and we're going to start looking at how do we effectuate change into an eventual separation down the road.

**Scott Hanold**
Okay, okay, understood. And I would assume the financials are going to be separated going forward? Is that going to happen, or we see that pretty soon here?

**Francisco Leon**
Yes, that's the intent to start giving much more visibility into the cost structure and the financials of the business in the near future.

**Scott Hanold**
Appreciate it. Thank you.

**Operator**
Our next question comes from Nate Pendleton from Stifel. Nate, please go ahead.

**Nate Pendleton**
Good morning and congratulations, Francisco.

**Francisco Leon**
Thanks, Nate.

**Nate Pendleton**
For my first question, regarding the recent announcement about your planned Direct Air Capture Hub, can you speak to how you view the potential for DAC compared to point source capture projects from an economic and an opportunity perspective for Carbon TerraVault going forward?

**Francisco Leon**
Yes, absolutely, Nate. We're very excited about the DAC consortium. And I'm going to let Chris Gould who's the architect to that answer the question. Go ahead, Chris.

**Chris Gould**
Hi, good morning, Nate. Yes, happy to share that. So the value proposition for Direct Air Capture, obviously starts with this DOE opportunity, right? It's a $3.5 billion funding opportunity that came

out of the DOE for a technology that's at the beginning stages of maturing and coming down the cost curve, much like wind and solar did in the past. We see the opportunity for Direct Air Capture to have a very long runway, building over time. It's estimated to be in the neighborhood of 15% to 20% of the requirements worldwide in California for emissions removals actually. So it's a substantial, significant emissions opportunity for CTV. The state has set, to my knowledge, the leading target for Direct Air Capture of north of 60 million tons per annum through 2045, and that's the evidence of the size and scale of it. So we think it's a great opportunity for us to come in with the DOE funding and progress. You all know that the incentives for Direct Air Capture from 45Q or $180 per ton.  So they are the largest incentives in that program. And in addition to that, California is home to the largest concentration of carbon direct removal credits from Fortune 100 companies and tech companies that are very eager to purchase these sorts of instruments to offset and fulfill their net zero goals.

**Nate Pendleton**
Thanks. That's really helpful.

**Mac McFarland**
Hey, Nate. Just a couple of things.

First of all, on the economics, look, if you look at the revenues, they're the highest that are going through 45Q, as Chris just said, to something like Carbon TerraVault or the credits, if you will, that we count as revenues. But the technical issue there, but any event, there are more credits that go to through 45Q to DAC than there are to other forms of carbon capture and that's important, but it's not enough because, as you know, that we're talking about parts per million capturing, so very low concentration out of the air and sequestering.

That said, we're really excited about this and the DOE work and the consortium that Chris has been put together has put together and we're advancing and responding to the DOE's request and we hope to put one of the DAC Hubs here in California through that consortium. And it's very, very exciting. I mean, I will tell you that the breadth and the participants of our DAC consortium are far greater than I ever expected. Chris has done a tremendous job getting it there and the response to it, whether it be through the government, local communities, colleges, all therest has been beyond expectation. So, I just, I'm just looking forward to keeping the momentum going here on what Chris has built. And it's really a tremendous opportunity for us.

**Nate Pendleton**
Absolutely.  Thanks for the color.  As my follow-up, staying on the carbon management business for a moment, can you provide any color around conversations or how they're progressing with future CDMA agreements?

**Francisco Leon**
Yeah, Nate. WeI mean, as you saw, we've been out the gate with two CDMAs with Lone Cypress and Grannus, excited about Blue Hydrogenand Blue Ammonia, then came the DAC Hub. And it's just, in a matter of a couple of months, we've been able to share some of those developments around more of the greenfield projects and but we're talking to all types of emitters. We are confident we have the leading position in the state in the several million tons of permits in the queue. So we're getting a lot of deal flow. So, maybe we can  – I'll turn it to Jay Bys who is leading discussions on the emitter front, see if he wants to add any more color.

**Jay Bys**
Thanks, Francisco. Now, I think, Nate, Francisco captured it. We're continuing conversations both with existing emitters and greenfield emitters. It's actually a pretty exciting time to be in the business. But just as with the arrangements we've announced to date, we'll announce subsequent arrangements really when we've gotten to detailed parameters and terms. We're just trying to be responsible in that regard. But I think the market is going to be pleased.

**Francisco Leon**
Yes. And I guess the last point I raised, existing emitters, we have to go through the price discovery that takes time at the end of the day. Our conditions in California are very different than the rest of the country around CCS and the incentives that we receive. So there's really no model. We're building it. We're having these commercial negotiations, but that will take time, but we still focus on point source emissions. We're also very focused on our own emissions through CalCapture. We made some really good progress on our FEED studies. I think that's going to be a really viable project. So more to come, but we're…like I said, we're talking to a lot of emitters and seeing a lot of deal flow and just a matter of time before we can talk about incremental activity there.

**Nate Pendleton**
Great. Thanks for taking my questions.

**Francisco Leon**
Thanks, Nate.

**Operator**
We now have a question from Leo Mariani from ROTH MKM. Leo, please go ahead.

**Leo Mariani**
Yeah, hi, everybody. Just wanted to follow-up on the future of the E&P business here. You guys are obviously talking about this kind of 5% to 7% type of decline in the production. You're going to do your best to stave it off. I just wanted to get a little bit more information around that. Do you see this as more of a long-term strategy for the company given that California hasn't been all that friendly to oil and gas companies? You made a comment in your prepared remarks that this is the plan for '23, but if market conditions persist, perhaps this continues. Do you see this as more of a likely long-term strategy or, for whatever reason, the permitting situation finally gets straightened out, would you guys potentially go back to kind of holding production flat in the next handful of years, I think, which was the original plan?

**Francisco Leon**
Hey, Leo, yes. So yes, we're not going to get into any kind of guidance for out years beyond '23. But what I will say is, I think the market was able to see how we performed in 2022, when we ran 4 rigs, kept production flat. So that model, I think it's clear to the market. What's maybe not as clear, and what we're hoping to highlight today is, with the new challenge from the appeal process, how we would manage the company going forward, right? So, I really want to highlight the very low decline of our assets. A lot of the value for CRC is concentrated on PDP. We're never a capital-intensive business that needs to have a lot of rigs to maintain production and to generate cash flow. And you can see that flow through our numbers, right?

In the year where we don't have all the permits, we think we can deliver a plan for 1.5 rigs this year unless we get a good outcome in the near term with the appeals process, but it's a 1.5 rig.

It's not going to be enough to hold production, but you can see the cash flow generation of the business is extremely high, and we're going to take every dollar to buy back shares. So going beyond '23 right now, we don't know where this is going to end up, but I think we proved what we can do in 2022 with permits, we're going to prove what we can do in '23 with a more limited set of permits and doing a 1.5 rig program.

**Leo Mariani**
Okay. So just phrasing this in a different way, if you guys had unlimited permits in '23, would you be laying a production decline?

**Francisco Leon**
So if we had a full permit we would be doing what we did in 2022.

**Leo Mariani**
Okay. That's what I was for trying to get at. Okay. And then just following up on the plan for this year, everything is in the Wilmington field, it sounds like focused on oil. Obviously, gas prices in California have been pretty volatile, but generally speaking, have been very robust. Why not try to drill some gas out there as well in California, you obviously have, I think, some opportunities and permits to do that, I believe.

**Francisco Leon**
Yes. So, we saw, in particular, in January, very, very strong natural gas prices around $47 per mcf that's flowing. As you know, we're a net long producer of natural gas. We produce about 30 bcf more than we consume. And so we see those prices coming in very strong. The question with gas always, it's very seasonal and it's more difficult to time. But definitely, we're focused on natural gas and trying to bring more gas on board, and that's a part of the plan here is to develop that inventory. But I don't know, Jay, if you want to add any other comments around what we saw in January and February. By the way, we are now doing first quarter guidance. We're doing quarterly guidance. And you can see the anticipated realizations of natural gas that we're expecting in Q1 flowed through those numbers.

**Jay Bys**
Okay. to speak to the realizations and what happened in December, we generally market most of our sales gas on a first month index basis. So during the month of December, for example, when prices ran up mid-month, we were not there to participate. Now obviously, that approach served us pretty well in that first month sales process. It served us well in January and again in February. To Francisco's point, roughly 90% to 95% of the natural gas consumed in California comes in from out of state. We'd like to have a larger impact going forward, and that's part of our plan to figure out where can we have that positive impact.

**Francisco Leon**
Maybe Mac has one more thing to add.

**Mac McFarland**
Yes. I mean that's the benefit of being a long natural gas producer. We produce more than we consume. And it was a nice result in Jan and Feb. Leo, I just wanted to go back and address something. You had posed a question in the hypothetical about rig count. Unfortunately, we don't deal in hypotheticals. We deal in the circumstances that are in front of us. And the circumstances that are in front of us is that we've laid out a drill plan that's based off of permits in hand and have reduced the uncertainty associated with any outcome associated with Kern County or any additional permits down the road.

Obviously, the question about gas is a good one because gas in the future has the possibility of being a transitionary fuel, if you will, or at least it's viewed as that way, and it's needed for the electrical grid out here. And so that's good to have that vision. But the reality is, is we're dealing with circumstances all the time. And what we look at in reality, non-hypothetical situation is, is how do we maximize cash flow generation? And then what do we do with that cash?

**Operator**
Thank you. We have a question now from Kalei Akamine from Bank of America. Kalei, please go ahead.

**Kalei Akamine**
Hey, good morning, guys. Thanks for taking my question. My first question is on cost. So CRC is always playing at the higher end of unit cost in the peer group. Pre-COVID, my understanding is that you guys did as much as you possibly could, yet you're focusing your efforts here. So I want to understand what's different today? Or maybe to ask it differently, under what premise are you guys cutting costs? Because you guys are declining this year between 5% and 7%, are you now optimizing your permanent cost structure around a declining business?

**Francisco Leon**
Kalei, hey, how are you doing? We've taken a lot of cost over the last couple of years. And we'll continue to be focused on cost. We did see, like everybody else, inflationary pressures and those inflationary pressures that are driving cost in the business need to be offset so that we can maintain the margins. So I think we're just committed to continue to evaluate cost in a year like this year where we're guiding to lower production, we need to align that cost structure to the production, right? That's what we're saying, but it's obviously a focus on cost. It's just for the long-term viability of the business, something that we always do.

**Kalei Akamine**
What is the sustaining CAPEX at the moment?

**Francisco Leon**
Say it again, what was the…if you don't mind, again.

**Kalei Akamine**
What is sustaining CAPEX, the capital needed to hold the business…hold production flat?

**Francisco Leon**
Yes. Well, we wish to hold the production falt…and then there's different moving parts. There's OPEX and CAPEX that ultimately helps us keep production flat. But what we said is about $300 million keeps production flat entry to exit. And this program is, like we said, more of a $155 million run rate, and that's why we're seeing and we're guiding to a 5% to 7% decline.

**Kalei Akamine**
Got it. My second question is on the Huntington Beach monetization. So, pre-bankruptcy the thought was that this land was worth about $1 billion, less remediation cost. What do you think that net value is today? And what is the pathway to readying that asset for sale and ultimately executing on the sale?

**Francisco Leon**

Yes. Yes, there's a lot in that question. And I think what we've answered in the past is, we're focused on a smaller property and because there's a lot of things to work through as we sell assets, but we have a fantastic real estate portfolio or assets that can be turned into real estate or in Elk Hills, for example, it's the mid-tier industrial park. So, we can do a lot with our fields.

The Huntington Beach Field is the largest, probably most attractive piece of that portfolio for a future development. But what we're doing there is we're starting abandonment.  We started the entitlement process, which is needed to change the surface use to the most appropriate and best use going forward. We're still producing oil, and it's a very valuable, very profitable field.  So we're taking the steps. We're trying to assess where to go. But right now, we're focused on monetizing the smaller property that ultimately helps inform the plans for the bigger piece of land.

**Kalei Akamine**
Do you think it's going to be difficult to get the rights to change the use of that land from oil and gas production to commercial development or real estate?

**Francisco Leon**
Frankly, we don't know. I mean it happens a lot in California. You can look…Kalei, there's a number of big developments, land that's been used for some for oil, some for other purposes. And you can see these projects get done, but the time line is variable, and that's the work that we were starting to do.

**Kalei Akamine**
Perfect.  Thank you both of you guys.

**Francisco Leon**
Thanks, Kalei.

**Mac McFarland**
Thank you.

**Operator**
Our next question comes from Eric Seeve from GoldenTree. Eric, please go ahead.

**Eric Seeve**
Hi, guys, congratulations to both of you on the announcement and the title changes. My first question is, with respect to the production guidance, can you give us a sense of where, not just 2023 average production, but beyond Q1 where you've already given guidance, can you give us a sense of the production cadence we should expect for Q2, Q3 and Q4 for an exit rate level?

**Francisco Leon**
Hey, Eric, so we are expecting, as we said, a very moderate decline as we go through the year. We exited the year last year with 3 rigs and obviously, that carries into this year.  And now we're reducing the activity to now 1 full-time rig in Wilmington. So that step-down in activity will, I should tell you that over the next few quarters, will be declining, and we think we can add OPEX dollars. I mean, that ultimately, the most efficient dollar that we can put to work is around downhole maintenance because that means it's an existing wellbore that we just need to be back online, followed by capital workovers, which we take a different zone using same wellbore, and then third is a new brand-new well. So by backing on the activity for new drilling, that's the capital needed to be able to fully offset the decline, and that's where we're, right now, looking to more of a 5% to 7% decline year-over-year.

**Eric Seeve**
Okay. And so you've given guidance for Q1, the midpoint of guidance is around 90,000 BOE a day. And I guess for the full year, the midpoint is around 88,000. That would sort of suggest that, hey, we could see production just stepping down sort of gradually maybe around 1,000 BOE per day per quarter. Is that a fair way to….and obviously, I appreciate that you don't know for sure, and there will be unexpected twists and turns. But is that a fair way for investors to sort of think about the progression here?

**Francisco Leon**
Yes. I mean you quoted your numbers. We obviously have ranges. There may be some differences there. But in terms of the way to think about it, that's right. So we have production coming in from last year that benefits Q1, but then you would expect a very gradual decline after that.

**Eric Seeve**
Okay. Great. Thank you. And just want to make sure I understand. You talked about a 1.5 rig program throughout the year. Does that mean 3 rigs in Q1 and then stepping down just to 1 rig for quarters two, three and four?

**Francisco Leon**
Yes. We exited with 3 rigs in '22, which means we entered in Q1 of this year in 3 rigs, but now we stepped on to just 1 rig at Wilmington. So that's right.

**Eric Seeve**
And I understand, obviously, the permitting issues in the San Joaquin Basin now. But in the L.A. Basin, why only 1 rig there? It seems like given some of the dynamics around permitting there, it would seem like an ideal time to be more active. Why only run 1 rig there?

**Francisco Leon**
Yes. As we looked at…in a year like this year, we really wanted to maximize cash flow. And it's the ability of this asset to do that and we've done this before. Sometimes you press forward and you accelerate activity and sometimes you back away. So this year, we felt the best dollars were in OPEX and downhole maintenance and capital workovers because obviously, we're ranking the portfolio on a returns basis. So we think that's the best use for every dollar. And it doesn't mean that another rig at Wilmington would not be attractive, it's just relative to where we thought we wanted to be for the year and what are the returns that we're getting for putting dollars in OPEX and capital workovers.

**Mac McFarland**
Hi, Eric, it's Mac. I just want to echo what Francisco said. And I think that the key to this year with the 1.5 rigs is to reduce uncertainty. So this is a plan based off of permits in hand. And as we go forward, if the circumstances change, we'll consider those. But right now, after going through last year, several different counts of rig lines, we wanted to put forth a plan that stabilize and then maximize the cash flow, as Francisco said, for the year.

**Operator**

Thank you. We have a follow-up question from Leo Mariani from ROTH MKM. Leo, please go ahead.

**Leo Mariani**
Yes, hi, guys. Just wanted to follow-up very quickly on the separation of the two businesses. You clearly talked about laying some groundwork here and understand there's preliminary steps involved here. But it sounds to me like you guys are pretty much intent on eventually getting these businesses separately. Do you envision potentially the carbon management business being a separate public company sort of down the road? Just trying to get a little bit more color around what the vision might be on the separate businesses here.

**Francisco Leon**
Great question. I don't know if I will answer it very clearly because we were working on a lot. And we are focused on maximizing the value of the company. I would tell you, Leo, that if I look at the reserves of the company, and if you look at the PDP value of the company, and then I look at what we think is the value of carbon management, we don't think it's there reflected in the stock price. So we're going to take the steps to unlock that. But in what form and what the timeline is, we still need to work through that to make sure we have the optimal outcome here.

**Leo Mariani**
Okay. I appreciate that. And then just on hedging, just given sort of the…at least for now kind of a less focus on less capital, would you guys anticipate doing less hedging with less forward CAPEX? How are you thinking about that?

**Francisco Leon**
Yes. So we talked about in the past a lot of the hedges that we had in place were put there when we went to bankruptcy. And those hedges are starting to roll off. So we're seeing the benefit, in particular in '24, where we don't have a lot of that impact of the bankruptcy hedges.

We think there's an amount of hedging that's needed in this business to be able to guarantee the returns as we invest on a go-forward basis. We'll continue to assess where we are. We'll see how the year progresses and how the market is behaving in terms of oil. But, at this point, we feel '23 is adequately hedged, and as the year progresses we'll see what we think of '24.

**Leo Mariani**
Okay. Thanks.

**Operator**
And this concludes our question and answer session. I would like to turn the conference back over to Francisco Leon, for any closing remarks. Please, Francisco, go ahead.

**CONCLUSION**

**Francisco Leon**
Great. Thanks, everybody, for listening-in. I look forward to seeing a lot of our shareholders next week at the various conferences, and thanks for tuning in.

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