California Resources Corporation

Fourth Quarter and Yearend Earnings Conference Call

Wednesday, February 26, 2020, 5:00 PM Eastern

CORPORATE PARTICIPANTS

Todd Stevens - *President and Chief Executive Officer*

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

Scott Espenshade - *Senior Vice President, Investor Relations*

PRESENTATION

Operator
Good afternoon and welcome to the California Resources Corporation Fourth Quarter and Year End 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 "*" then "1" on your touchtone phone. 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 Scott Espenshade. Please go ahead.

Scott Espenshade
Thank you. I'm Scott Espenshade, Senior Vice President, Investor Relations. Welcome to California Resources Corporation's fourth quarter and full year 2019 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 members 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 operation and our 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. Because our exchange offer is currently open in the market, we will be limiting our comments regarding transactions or information provided in our press release dated February 20th and the related 8-K. As previously mentioned, we will update the market after the early bird deadline on March 4th.

Today's conference call contains certain projections and other forward-looking statements within the meaning 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 will be filed later today. We'd ask that you review it and the cautionary statement in our earnings release.

A replay and a 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. We would ask participants to limit their question to a primary question and a follow-up.

I will now turn the call over to Todd.

Todd Stevens
Thanks Scott, and thank you to everyone for attending today's fourth quarter and year end 2019 earnings call. We closed 2019 and entered 2020 committed to our value-oriented strategy and to achieving a stronger balance sheet. Since our formation in 2014, we have consistently lived within cash flows, one of our primary tenants, and 2019 delivered $269 million in free cash flow. This resulted in a free cash flow yield of 61% based on our December 31st market capitalization. CRC also delivered strong adjusted EBITDAX in 2019, driven by cost reductions, strong price realizations and our marketing efforts.

Our operational excellence was highlighted by a stellar safety record and our improved margins. We again executed several major transactions that advance our debt reduction, deployed JV capital to support our drilling activity and validate our resource base. As you know, we recently launched an exchange offer as part of our continuing efforts to de-lever. If fully subscribed, the transaction will have the effect of reducing our debt by almost $1 billion.

The transaction would be credit and free cash flow accretive for the company. The successful conclusion of this transaction would significantly reduce our principal balances which would enable us to address other layers of our debt stack to continue our balance sheet strengthening. We are also continuing to focus on next steps and discussions on potential sales and monetizations involving an array of assets in our broad portfolio. We expect to provide an update on the current transaction after the early bird deadline on March 4th, and to close the exchange on March 20th.

Let me turn briefly to the current macroeconomic environment and its apparent implications for the early part of 2020. The coronavirus has caused recent volatility with Brent oil prices reversing course from recent highs in early January back to lower levels last seen in December of 2018. We've built our organization to deliver value and free cash flow through commodity cycle price fluctuations of this sort. Our differentiated asset portfolio is flexible, our team is nimble and pressure tested. As we have demonstrated we quickly adapt to a variety of price environments, and we are strategically allocating capital to the best value opportunities that lie ahead.

Our strategies are enabling us to remain on track toward our balance sheet goals and targeted long-term leverage ratio below three times. At the same time we continue to look to enhance our margins, as we work to control the controllables. We've made significant progress reducing our absolute costs in 2019 and believe we have more opportunities to achieve further operational synergies in 2020.

By consolidating and streamlining our operations teams in our core Bakersfield and Long Beach offices, we've been able to increase efficiency, reduce our staffing and improve margins. We expect these efforts to provide additional efficiencies for CRC in 2020. Growing our cash margins is important as we work to maintain and enhance the strong premiums we receive across our commodities and control our absolute and per unit production costs. Our low-decline assets with modest capital intensity underpin our valuable production base.

In 2020, we are planning to increase our relative capital allocation to workover activity, to help offset our base production decline. We will continue to utilize joint ventures to de-risk the value of our resource base while bringing forward production and accelerating cash flow. This strategy and our disciplined use of our VCI metric to allocate capital to our deep portfolio of investable opportunities have served us well.

Our 2019 capital program is expected to deliver a fully-burdened VCI of approximately 1.6 on our internally invested capital. We believe this is a time-tested benchmark, which ensures we invest in the best projects.

In 2019, we made solid progress in reducing our debt through multiple balance sheet strengthening transactions and drove our total debt below $5 billion, the lowest level since our 2014 spin. Many of our transactions are multi-step processes to ensure we are able to maximize value consistent with our credit agreements.

We continue to take steps to strengthen our balance sheet by dynamically responding to changes in commodity prices and market conditions. For example, in the back half of 2019, we took advantage of market conditions and made the conscious decision to slow our investment in our asset base and prudently reallocate our capital to more actively repurchase our debt for a VCI of approximately two.

Additionally, we sold a 50% interest in our Lost Hills property. The proceeds from this sale and our use of free cash flow directly contributed to our lower debt level. Our work continues to further strengthen the balance sheet and reduce debt to our targeted level. The investment committee has increasingly focused on environmental, social and governance matters.

CRC's ESG policy stems from our core values of character, responsibility and commitment to our co-workers, neighbors, communities and the environment. Like our enduring strategy focused on value, we have championed excellence in ESG performance since our spin. We believe this significantly differentiates CRC from most of our peers. I'd briefly like to highlight two recent examples of our 2019 performance for safety and climate disclosure.

Our workforce achieved the best safety record in the history of our operations in 2019, with zero recordable employee injuries and a safety rate including our contractors that is far better than the E&P industry and even better than most office jobs. Operations have been recognized by leading organizations like the National Safety Council every year since our formation, including 22 safety awards last year.

Further highlighting our ESG excellence, CRC received an A- last month for our 2019 climate disclosure from the CDP, formally known as the Carbon Disclosure Project, scoring at the CDP's leadership level. We are delighted to receive this distinction of CDP's highest rating among all U.S. oil and gas companies. This recognition reflects a thoughtful leadership of our employees in implementing our ESG policies and 2030 Sustainability Goals, that go beyond California's world-leading regulatory requirements, as well as, integrating climate change into our strategic planning to advance the state's ambitious long-term goals.

CRCs safety performance and CDP ranking illustrate that in-state production can meet both, California's intense energy demand and high standards, reducing the need to import energy from foreign countries that do not share our values or apply our standards.

As Californians we will continue to serve as an industry role model and believe our safety, environmental and operational track record coupled with our ESG policies and sustainability goals are a strategic differentiator among energy producers.

To further demonstrate our commitment, I am pleased to announce that CRC's Board has adopted additional sustainability metrics for incentive compensation that incorporate specific 2020 milestones for sustainability projects, workforce diversity and development and community partnerships which we will summarize in our 2020 proxy.

California is also in the political spotlight with the March 3rd presidential primary, the Governor's recent vow in the State of the State address to tackle homelessness and last Friday's bill introduction deadline in the legislature. We're actively engaged with coalitions from the business, labor, agricultural and nonprofit sectors in reviewing proposed bills and regulations that may affect our industry, our workforce and our communities.

We've included a slide in our appendix with the legislature's own flow chart detailing the process for new bill to become a law. This process lasts most of the year and often involves multiple committee hearings, formal analysis of fiscal impacts and opportunities for our workforce and coalitions to be heard prior to a final floor vote in both houses.

This process has historically resulted in more balanced, compromise solutions and we believe the state's leadership will continue to make these decisions responsibly as they have in the past. I would note, across America and throughout the world access to affordable, reliable energy, particularly through the E&Ps ingenuity has driven economic growth, a cleaner environment, longer lifespan and increased standard of living across all socioeconomic levels.

Petroleum has provided the basic building blocks for this progress, with complementary technological innovations in the efficient and environmentally sensitive production of oil, natural gas and renewables.

As we move into the next decade, the demand for sustainably produced energy will continue to grow. As state leaders promote ambitious long-term climate goals we must continue to deliver reliable, on-demand energy and daily necessities that working Californians can actually afford. Experience in our state and globally demonstrates that our society will need a diversified energy portfolio of traditional and renewable energy to ensure affordability, reliability and resilience, even as we pursue long term environmental goals.

CRC serves an essential role in securing an affordable, reliable, energy supply for Californians by safely and responsibly producing local resources from Huntington Beach to Yuba City, operating critical energy infrastructure and pioneering carbon capture and sequestration at our Elk Hills field.

Our 2019 capital program reflects our active investment in California. CRC's internally funded capital investment in 2019 totaled approximately $407 million, of which approximately $302 million was directed to drilling and capital workovers. Our JV partners invested approximately $205 million in 2019, all of which was directed to drilling.

We ended 2019 with a total of eight drilling rigs operating with seven rigs devoted to JV projects. CRC's net production averaged 128,000 BOE per day for the year, a 2% decrease from 2018, excluding asset sales. Meanwhile, we exited 2019 with reserves totaling 644 million barrels of oil equivalent. Our organic reserve replacement ratio was 111%, with a corresponding organic F&D cost of $8.75 per BOE.

We also removed certain PUD reserves at management's discretion, and some additional PUD reserves were impacted by the SEC's five-year rule. These PUD reserves date back to the time of our spin, a significantly higher price environment. Although these PUDs were re-categorized this year, they remain high quality, economic and with our long asset life that they will continue to be evaluated for investment as we manage our future capital plans.

Notably, thanks to the efforts of our talented team and the use of internally funded and joint venture capital, we increased unproved reserves once again, growing our inventory, as well as our actionable projects.

As in previous years, CRC ended 2019 with a very robust drilling permit inventory. To optimize our drilling program we target maintaining an inventory average of at least 90 rig-ready days of drilling permits for each rig, which we consistently exceed. This permit inventory gives us the

flexibility to focus on our highest VCI projects, in changing market conditions and we avoid costly non-productive rig time waiting on drilling permits. As a reminder, CRC benefits from a balanced mix of production from diverse fields and we are not dependent on any single drive mechanism or play type.

We have once again established a disciplined capital program for this year, given the oil price volatility of early 2020, as we have consistently done in the past. As I noted earlier, we are planning to increase our relative capital allocation to workover activity in 2020. We will utilize value driven decision-making to dynamically adjust the program during the year, to align with discretionary cash flow to ensure our capital investment best captures the opportunity before us.

Accordingly, we entered 2020 with an internally funded capital budget of $100 to $300 million, which we are looking to supplement with an additional $160 to $200 million of joint venture capital to support a total program of approximately $260 to $500 million. We'll continue to balance investing in our assets and deleveraging opportunities, while joint ventures will help us pursue additional high value projects and align CRC's capital investment with our cash flow.

We expect to invest approximately $100 to $125 million in combined CRC and JV capital in the first quarter of 2020, which, at the midpoint, is approximately 23% lower than our fourth quarter 2019 capital investment level. We also expect our internally funded capital in the first quarter of 2020 to be approximately half the level we invested in the fourth quarter of 2019.

We started the year with just one CRC rig and at current prices our capital plan will target the lower end of our guidance range. We provided a broad 2020 capital range and we will continue to dynamically adjust investment levels to remain free cash flow positive as market conditions change, as we've demonstrated in the past.

Based on our first quarter level of investment, we are targeting a slight decline in our net production this year. Although we expect stronger gross production levels as the bulk of our drilling activity will be conducted with joint venture capital. If macroeconomic conditions stabilize through the year, we could expect CRC's internal investment to be at the upper end of our guidance range, while still remaining cash flow positive.

We expect certain joint venture production to revert to CRC before our 2021 maturities. At current oil prices, we expect that BSP joint ventures cash flow to revert to CRC in early 2021, although if prices improve BSP could revert late this year, while MIRA's reversion could occur in 2022.

We expect first quarter 2020 production levels to include a reduction of approximately 1,000 BOE per day, due to scheduled maintenance at one of our power plants. We still anticipate strong EBITDAX generation, which is supported by the low decline nature of our asset base, robust realizations and continuing healthy California demand for our products.

For a more detail on the fourth quarter performance, I will now turn the call over to Mark.

Mark Smith
Thanks, Todd. CRC's team continued to demonstrate our focus on capital discipline, balance sheet strengthening and enhancing our margins, while continuously maximizing the underlying value of our assets through our market transactions and strategic joint ventures.

We are proud of a number of accomplishments through the year. One key accomplishment, our team generated a record annual adjusted EBITDAX since the spend of $1.14 billion, while driving down our total debt by additional $274 million in 2019. This contributed to a total debt reduction of $1.8 billion from our peak level.

Another key accomplishment, we generated record free cash flow of $269 million during the year and reaffirmed our borrowing base at $2.3 billion. Another key accomplishment in 2019, we finished the year with an adjusted net income of $70 million or $1.40 per diluted share. These accomplishments, among others, serve as a testament to our team's diligence and focus on value.

As we enter a new decade, our teams will continue to apply their technical expertise in California's diversified resource base to thoughtfully derive significant value from a world class, low decline asset base and our integrated infrastructure. We constantly work to strengthen our balance sheet given the “all-of-the-above” approach. This remains a top priority for us. Accordingly, the fourth quarter marks the eighth consecutive quarter that we’ve repurchased our Second Lian Notes, with cumulative repurchases in 2018 and 2019 totaling $435 million in face value.

I'd like to highlight that at the end of January our total debt stood below $4.9 billion, our lowest level since the spin and reflects a 4.3 times last twelve month debt to adjusted EBITDAX ratio. As Todd mentioned, we recently launched an exchange offer which we expect will deliver substantial deleveraging and we're continuing to make progress towards our stated goal of a leverage ratio below three times.

Our 2019 year-end reserves once again displayed the strength of our unique assets. We believe our long-life, low-decline assets and integrated infrastructure are clear differentiators that generate sustained value driven development and enhanced market-driven transactions. Based on the commodity environment and our level of capital investment, we can re-categorize some of our proved undeveloped reserves at year-end 2019 due to the SEC’s five-year rule and management's discretion based on development priorities. We believe these reserves remain very attractive, particularly to current or prospective joint venture partners.

In 2019, we drilled 294 gross wells, including wells funded by JV partners and continue to prove up resources with an organic reserve replacement ratio of 111%. During the year we produced 47 million BOE and ended the year with 644 million BOE of proved reserves. Our organic finding and development costs were $8.75 per BOE in 2019 and resulted in organic recycle ratio of 2.6 times.

Organic F&D costs have averaged $7.21 per BOE over the last five years, while organic recycle ratios averaged 2.7 times. In my experience, this track record of low finding and development costs combined with this high recycle ratio, demonstrates the strong underlying fundamentals of our asset base. Our continued low F&D costs were consistent with our previous years’ development costs and highlight the stacked nature of the reservoirs in which we operate, our substantial undeveloped resources, our integrated infrastructure, as well as, our deep insight into California's unique geology.

Our disciplined approach to capital allocation was demonstrated in our 2019 reserve additions from extensions and discoveries, as well as, in the choice of our projects. As we’ve discussed, we strive to optimize development based on our VCI metric and secondary factors such as pay-back period. Our extensive and high graded portfolio of high VCI projects supports our reserve

to production ratio of 14 years, which is in the upper quartile relative to our peer group. Another key point to consider is that we believe the value of our current proved developed reserves alone continues to exceed our enterprise value.

Returning to the income statement and our financial performance in the fourth quarter and full year of 2019. In the fourth quarter we produced an average of 123,000 BOE per day, including oil production of 76,000 barrels per day. This reflects a 6% decrease in total production year-over-year adjusting for the Lost Hills sale. CRC's quarterly production was at the low end of our guidance range, down 4% in the third quarter 2019 due to lower capital investment, power outages and fires in Southern California together with other factors.

Our full year 2019 production registered 128,000 BOE per day, including average oil production of 80,000 barrels per day. Our total BOE production was down 2% from 2018 due to the previously mentioned effects, combined with the Lost Hills divestiture that occurred in the second quarter of 2019. Aligned with our capital allocation that we discussed in our last earnings call, we internally funded $62 million of capital projects in the fourth quarter and our JV partners funded an additional $84 million with a total investment of $146 million in the quarter.

During the quarter we averaged eight drilling rigs. This included six rigs operating with joint venture capital. As Todd mentioned, in light of the commodity price environment we reduced our CRC rig count to one by the end of the fourth quarter, while continuing to deploy joint venture investments to develop our assets and aid our free cash flow generation.

Our drilling program in the fourth quarter of 2019 continued to focus primarily on the San Joaquin basin where we drilled 95 wells and the Los Angeles basin where we drilled nine wells. We have no active CRC drilling program in the Ventura and Sacramento basins which both continue to show a modest natural decline.

Our marketing efforts combined with CRC's preferred crude mix and infrastructure in the California market continue to drive industry leading Brent-based realizations. During the fourth quarter our unhedged oil realizations were $64.22 per barrel or 103% of Brent and $64.83 per barrel or 101% of Brent for the full year 2019. Our hedged oil realizations were $70.21 per barrel in the fourth quarter and $68.65 per barrel for 2019.

The strong California NGL market contributed to our quarterly realizations of $33.81 per barrel or 54% of Brent during the quarter, above our guidance range and $31.71 per barrel or 49% of Brent for the full year of 2019. Again, another strong positive differentiator with realizations approximately twice that of our peers.

Quarterly natural gas realizations also came in at the top end of our guidance range at 120% of NYMEX due to the anticipation of a cold California winter and milder temperatures in the rest of the U.S., with full year natural gas realizations at 107% of NYMEX.

Production costs for the fourth quarter of 2019 were $211 million or $18.67 per BOE, within our stated guidance range and reflecting our ongoing focus on operational efficiency. Although, our per unit production costs remained relatively flat year-over-year, they consistently trended down in 2019. In 2020, we look to focus on controllable costs and improving efficiency throughout our operations. Including PSC effects, our fourth quarter production costs would have been $17.32 per BOE, also sequentially trending down from $17.44 per BOE in the third quarter of 2019.

As we mentioned last quarter, operational and organizational efficiencies implemented by our teams resulted in a recent reduction of our workforce, and as a result we recorded a total charge of $41 million in the fourth quarter. We anticipate ongoing cost savings of approximately $50 million annually as a result of these organizational and operational improvements, with slightly more than 50% of the reduction in G&A expenses and the remainder in production costs.

Adjusted general and administrative costs were $5.49 per BOE, that's $0.13 below our prior quarter and below our guidance range. Most of the decrease from the previous quarter is primarily the result of our recent workforce reduction.

Taxes other than on income, which are largely comprised of local ad valorem taxes based on the value of minerals in the ground, production taxes, as well as our GHG taxes came in as we expected.

In the fourth quarter of 2019, we reported a net loss of $67 million attributable to our common stock or $1.36 loss per diluted share. Adjusting for unusual and infrequent items and other non-cash charges such as gains on early extinguishment of debt and workforce reduction, which are generally excluded from core earnings by investment analysts, our net income would have been $36 million or $0.73 per diluted share.

As for full year 2019, we reported a net loss of $28 million or a $0.57 loss per diluted share. With similarly adjusting for unusual and frequent items, our 2019 adjusted net income would have been $70 million or $1.40 per diluted share.

Adjusted EBITDAX for the fourth quarter registered $308 million. Our full year 2019 adjusted EBITDAX reached a record since the spin of $1.14 billion. This highlights both our adjusted EBITDAX margin expansion to 45%, as well as our continued focus on operational excellence.

CRC reported cash flow from operating activities of $136 million in the fourth quarter of 2019, lower than in the third quarter, primarily due to costs associated with workforce reduction that I mentioned earlier and bolstered by strong realizations.

In the fourth quarter, we generated approximately $133 million in discretionary cash flow and $552 million for the full year. This compared well with our previously mentioned internally funded capital investments of $62 million for the fourth quarter and $407 million for 2019. I'd like to highlight that these results demonstrate our focus on capital discipline which provided us with the ability to generate $269 million of free cash flow during 2019.

Todd noted that based on market capitalization as of December 31, CRC's 2019 free cash flow implies an approximately 61% free cash flow yield for 2019. We believe this is another key differentiator between CRC and both our peer group, as well as most other domestic exploration and production companies. In 2019, CRC not only delivered strong operational and financial results, but we also optimized our organization to improve efficiencies while further highlighting the breadth and underlying value of our diverse asset base.

As we enter a new decade, we strive to maintain our industry leading realizations, operational efficiencies and value-driven strategic joint ventures, while thoughtfully pursuing a strengthened balance sheet. Please note that we provide a detailed analysis of adjusted items, as well as key first quarter 2020 guidance information in the attachments to our earnings release. I'll be happy

to take any questions you may have on that information and other aspects of our results during the Q&A portion of this call.

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

Todd Stevens
Before we move to our Q&A, I'd like to make a few general observations about the domestic oil and gas sector. We're seeing a change in investor sentiment with energy investors searching for a low capital intensity, longer resource duration, and the ability to sustainably generate free cash flow. These have been CRC's hallmarks since our spin. We have consistently increased our resource base and lived within cash flow.

Our low decline, oil-weighted production allows us to further benefit from California's premium Brent-based pricing. These factors along with continued balance sheet strengthening further support the value of CRC's world class assets and enhance shareholder value. We're now happy to take your questions.

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 pickup your handset before pressing the keys, to withdraw your question, please press "*" then "2." Please limit your question to one and a single follow-up. If you have additional questions you may re-enter the queue. At this time we will pause momentarily to assemble our roster.

Our first question comes from Kalei Akamine with Bank of America. Please go ahead.

Kalei Akamine
Hi guys, good afternoon.

Todd Stevens
Hi Kalei.

Kalei Akamine
First question, I understand that you're trying to keep the comments on the exchange offer to a minimum. But I was just hoping that you could share some comments on the royalty itself. In particular, I'm wondering what the benefits are to monetizing it this way rather than through an outright sale.

Todd Stevens
Yes. I think, I'll be careful, but…talk about it at a very high level. I think this is a rather unique structure come up with our partners and advisers at Perella, and I think what it does here is really differentiating things. It allows us to capture both discount and it's free cash flow-accretive, but the other thing I would say is that if you pay down the debt of the royalty notes, we earn back part of the royalty by doing so. If you did a simple sale for it, you would never get it back. But I also got to take it back a step, because you got to realize, this all started if you want to think about it, with our JV with Ares Capital, because Ares allowed us to buy out Chevron of Elk Hills and by buying out Chevron of Elk Hills we've achieved annual operational synergies in excess of $30 million a year. So in effect we've taken those synergies we've achieved and monetized them as a part of this royalty. And I think just given the nature of Elk Hills, we'll

continue to see more synergies there, but this gives us a rather unique opportunity to effectively be able to earn back part of our royalty over time as this pays down.

Kalei Akamine
Got it. My second question is also on Elk Hills. The 8-K suggested, the 8-K that was released with the exchange offer, it suggested that Elk Hills received a substantial premium to Brent. I'm wondering if you can confirm that that's the case and help us understand why that would be.

Todd Stevens
Well, it has since our inception has received a premium to Brent and it has to do with…it is one of the blending stocks of crude in California. It has an 18G and 10G crude. The 10G is slightly heavier, but they are still higher quality than all the other super heavy crudes like at Midway-Sunset or Kern River, so this is effectively a blending stock for all the California heavy crudes and much lower carbon intensity.

Kalei Akamine
Got it, thanks Todd.

Todd Stevens
Thanks Kalei.

Operator
The next question is from Jason Wangler with Imperial Capital. Please go ahead.

Jason Wangler
Hi, good afternoon. I was wondering with the capital program that you laid out here and obviously right now oil prices have been pretty tough, but as you think about going through the year and likely generating some free cash flow, just where you have that earmarked, and I guess that's in conjunction with obviously the exchange, which is how you think about the plan going forward as far as you know further debt reduction on an operating basis that you have done in the last couple of years.

Todd Stevens
Yes, as we go into the year, you've seen how we operated in an environment that was worse from a commodity price perspective in 2016. We're going to live within our discretionary cash flow and generate some free cash flow and we're being very cautious coming into the year. We pulled back the reins, however our JV partner continues to work with us and our gross is going to stay flat to up as a company as we go through the year because of that.

So again, this is something that I think people when they put the puzzle together they don't realize there's a lot of moving parts here for them to analyze. But again, we're going to manage the business to generate some free cash flow. Maybe it's just a little where prices are today, but we're going to take the actions and we're fortunate to have the kind of assets and the type of operating control to be able to do so as we go through the year and to get the great Brent premium pricing we get here in California.

Jason Wangler
Thanks. And then you've mentioned in the past some other assets, you know whether it's infrastructure or some of the land like the beach front property you have that maybe could be asset monetization candidates as you go forward. Obviously with the royalty deal going through

hopefully here in the next couple of weeks, are those things that would still be candidates for divestiture as you move forward into this year?

Todd Stevens
Yes, I think since the spin, we knew we are over levered at the time of the spin and this is before prices started to collapse at our analyst day, and Halloween in 2014. So we knew we would be looking at doing monetizations or shrinking to grow if you want to think about it that way. So we're not at an optimal level from a debt perspective, so we're going to continue to look at any available alternative to us, any kind of clever asset monetizations. This structure came about simply because the price of our debt in the marketplace was not really reflecting the underlying fundamentals of the business. You would anticipate that the current prices reflect much lower commodity prices, so that's why we felt like this was a unique opportunity to take advantage of that, but we'll continue to look at creative ways of monetizations, whether it be surface land, other assets. We have a lot of parallel processes going on to look at monetization, but we're not here to hold any fire sales, that's for sure.

Jason Wangler
Great, thanks for the answers.

Todd Stevens
Thanks Jason.

Operator
The next question is from Karl Blunden of Goldman Sachs. Please go ahead.

Karl Blunden
Hi guys, thanks for the time. I'm pretty sure you're busy with a lot of work to extend some of your maturities. Something you didn't talk about was the 2021 term loan. Is there any information you can share about different approaches you can use to addressing or extending that?

Todd Stevens
Well, as you know that's a priority to us. We've mentioned that before in both prior public conferences and conference calls as we look to handle that maturity wall that's at the end of 2021. For us, that's a parallel process to what we're doing here. Arguably, we have the early bird date next week on the exchange, but we've been engaged to work on that process for some time and look at all kinds of creative ways. If you think back to the summer time in early August, we achieved the ninth amendment we have with our bank group to enable us to specifically go after the 1.5 liens at a premium, because that's what they were trading at the time, to enable us to take that out.

The market changed entirely, so we're just being flexible adapting to marketplace, and you'll see us work with our debt holders on both the, I'd say, the 1.5 and probably the 1.25 and ultimately the bank group as we look to level load our maturities and further strengthen our balance sheet and push them out. And over time, I know I've always said simplify the balance sheet, but we are complicating it a little bit more here, but I think this is really an excellent opportunity of value proposition for our shareholders. Again free cash flow positive, so I think that's really what we are targeting here as resimplifying the balance sheet over time and then turning around and level loading the maturities.

Karl Blunden

Okay, got it. And then you discussed some of the other levers to bring cash in the door. Just more specifically on royalties and JV transactions, you have that one outlined here and the exchange that you're currently pursuing. Is there potential for more down the line, should we think of that as something that's near term or a little further out after you work through the current one.

Todd Stevens
I think from our perspective everything is on the table. Like I said, the only thing that probably isn't on the table is Elk Hills, because it's just, it's such a big part of the company; you'd have to buy the company to own Elk Hills. I think anything else at the right value proposition for our shareholders we'll take a good hard look at. Like I said earlier, we have a ton of processes in place all in parallel, looking to achieve value for our shareholders and ultimately bring our balance sheet in line. We are not afraid to shrink to grow here from that perspective. So we're just going to do what's right for our shareholders.

Karl Blunden
Got you. Thanks for the time.

Todd Stevens
Thanks Karl.

Operator
The next question is from Pavel Molchanov with Raymond James. Please go ahead.

Pavel Molchanov
Thanks for taking the question. I'm going to start with a policy question. You showed how a bill becomes a law, but as you think about the proposals, maybe your initial perspective on what's in the legislature. Is there anything close, comparable, to the AB 345 from a year ago that caused such headaches?

Todd Stevens
Yes, I don't think it actually caused headaches, that was perceived, but there was a modified version of AB 345 passed out of the Assembly in a hurried basis a few weeks ago, and that is over at the Senate, but it's a different version. You'd have to really look at the specifics to understand it. I do think in the Senate and both the Governor's office who has already preempted this whole thing by talking about regulatory rule-making and using Lawrence Livermore lab scientists to look at this. I think that's the best outcome and I would assume that that's going to win out in the end as the more balanced approach, and scientific approach as opposed to something out of the Legislature. But, as we think about it, the filing deadline for new bills was last Friday, over 5,000 were submitted and less than 1% even mentioned oil and gas in the literature itself. So there's a lot of things out there.

Pavel Molchanov
Okay, and follow-up since this is our first conversation since last November when the Governor created some of his own unilateral restrictions on fracking and so forth. Can you just go back and remind us what impact if any have those executive actions had on CRC's operations?

Todd Stevens
It really has had no impact. I would say, you got to remember what they actually were. I think they were characterized differently and depending on the media outlet, but what did he do? He said let's have Lawrence Livermore Labs look at the stimulation and SB-4 permits on behalf of

CalGEM. We do a small amount of that, and we have some permits pending there, but we think at some point they will come out, but again, we have a diversified resource base that doesn't rely on any specific drive mechanism or play type. The other thing that it did was it specifically precluded folks from doing shallow steam injection over frac gradient, that was being done in some of the diatomite that caused the spill at Cymric, which I thought was at the time to be honest was a prudent response given what happened with the spill at Cymric.

Pavel Molchanov
Okay. Thank you very much.

Todd Stevens
Thanks Pavel.

Operator
The next question is from Brian Singer with Goldman Sachs. Please go ahead.

Brian Singer
Thank you. Good afternoon. You talked in your comments about a couple of one-offs in the fourth quarter from a production perspective, power outages, fires in Southern California and some other factors. Can you quantify that and would this help offset the maintenance you mentioned when you think about first quarter production? And then one other question on the production front which is if and when the BSP joint venture reverts end of this year or next year, as you see it what is the incremental production uplift to net CRC?

Todd Stevens
Brian, the fourth quarter was about 1,500 barrels a day equivalent. The majority of that was from fire-related outages in our Ventura Basin and that continued a little bit into the first quarter too before it got fully started up. So I think that’s really what we are talking about with regard to that.

Brian Singer
Got it, thanks. And then if the BSP joint venture reverts?

Todd Stevens
To the other point, I think there’s about 2,600 barrels a day from Lost Hills that’s out of there too. In the BSP reversion, just remember that’s a cash based one, that’s not a production. So that's somewhere between $17 and $20 million a quarter. So you can look at it as $75 to $80 million of cash flow that would revert to CRC.

Brian Singer
Thanks. And then lastly you mentioned in response to the earlier question on Elk Hills that was off the table. I think you might have been referring to that from an asset sale perspective. From a royalty perspective, would you carve out additional royalty interests in Elk Hills or does the inclusion of Elk Hills Royalty Co and Exchange offer, third party transactions for that asset or are less an area of focus and less likely?

Todd Stevens
It doesn't preclude it. I think when you look at typical assets depending where you sit, you know you have royalties as high as 30% really in the Permian, but California a typical royalty is somewhere between an eighth and 20%. The rarer case it might be 25%. So could we go from 4.3% here to 10% and still keep effectively all of our reserves economic? Yes, not worried

about tail reserves. So yes, we can look at that, but it would be about the value proposition. And as we look at the marketplace for royalties, again we got diverted to this structure simply because of the opportunity to earn it back over time. I think that was the great value proposition from our perspective.

Brian Singer
Thank you.

Todd Stevens
Thanks Brian.

Operator
The next question is from Andrew Ginsburg of RW Pressprich. Please go ahead.

Andrew Ginsburg
Hi guys, thanks for talking my call. Most of my questions were addressed. Just wanted to clarify a couple of things related to the production side and then also the royalty, so from the ban on fracking from Newsom last November, you mentioned didn't have really much effect at all. And then you also mentioned that you guys have a steady backlog of rig permits. Has that affected any of your backlog or you guys feel very comfortable with the amount of backlog you have for your permits?

Todd Stevens
It's something we track regularly and we're actually at a record level of overall permits. But the one thing I will point out, if you look at CalGEM in its entirety, they actually issue more permits every year for P&A-ing wells than they do for drilling new wells, so…but from our perspective, we have almost 180 days or more for every one of our rig lines and we do have some that are before them, a very small amount that require you know sign-off by Lawrence Livermore Labs, but again the ban that was put in place by the Governor last fall was very specific and it had to do with injecting steam over frac gradient into shallow formations, particularly the diatomite that caused the oil spill.

So again, I thought it was prudent. It wasn't a ban on hydraulic stimulation. It was a ban on that type of method that was directly causing an issue in the state, because there's very specific scientific review through the legislation that was passed under Governor Brown SB-4 again with all stimulation, so those permits come about. But remember, California's geology is rather unique. Mother nature has already naturally fractured a lot of the state’s tectonics. So from our perspective we use it in a very limited basis and when we do it’s on a very small scale relative to the ones you might think about elsewhere in our country.

Andrew Ginsburg
Great. And then my next question was related to the comments you made about increasing the royalty interest to possibly 10% and keeping it economical. Is that 10% level really that threshold where it starts to become uneconomical at that point? If not, what level did you really think is the max you could go on that?

Todd Stevens
No, I wasn't referring to economics. You got to remember Elk Hills, as you can look at some of these things, that’s in the lowest operating costs in our company, \$11, \$12 of OPEX and its crude is highly sought-after premium prices under Brent. So could we put a 25% royalty on it

and make it work? Yes. But at 25% you're probably going to cut some tail reserves out there, 40, 50 years out in the future on an absolute basis.

So from our perspective, we are trying to do as little as possible, because you're talking about the best piece of the best asset we have that we're trying to you know minimize that, but we'll use it prudently if we feel like we're getting the value proposition that makes sense for our shareholders. And again, this in my mind was a very cleverly done structure of a deal. And thanks to our friends at Perella and we are trying to continue to take the steps to strengthen our balance sheet and if it means doing something with a royalty at Elk Hills or elsewhere, we’ll look to do that. But we have a lot of things we have to work with and around with our debt holders and our banks.

Andrew Ginsburg
Great. Thank you.

Operator
This concludes the 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 for participating in today's call. CRC has a track record of completing meaningful transactions that enhance our capacity to grow free cash flow with attractive returns. We are keenly focused on additional transactions to further strengthen our balance sheet and advance our high VCI inventory.

We’ll continue to be guided by disciplined capital allocation, aligned with expected cash flows to capture the full value of our high quality, low decline and low risk resource base. With our unrelenting focus on operational excellence, our business model is built to perform through the various commodity price cycles and deliver consistent long-term value for our shareholders. Thank you and we'll see you on the road.

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