California Resources Corporation

Second Quarter 2022 Earnings

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CORPORATE PARTICIPANTS

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

Mac McFarland - *President and Chief Executive Officer*

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

Mike Preston - *Executive Vice President, Chief Administrative Officer and General Counsel*

PRESENTATION

Operator
Good day everyone and welcome to the California Resources Corporation second 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. To withdraw your questions, you may press * and 2. Please note today's event is also being recorded. At this time, I would like to turn the conference call over to Joanna Park, Vice President of Investor Relations and Treasurer. Ma'am, please go ahead.

Joanna Park
Thanks and welcome to California Resource's Corporation's second 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 CRC Executive Committee. I'd like to highlight that we have provided slides on our investor relations sector of our website, www.crc.com. These slides provide additional information into our operations and our second-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, we are making some forward-looking statements based on current expectations. Actual results could differ due to the factors described in our earnings release and in our period SEC filings. As a reminder, we have allotted additional time for question and answer at the end of our prepared remarks and we ask the participants limit to their questions to a primary and one follow-up. With that, I will now turn the call over to Mac.

Mac McFarland
Great. Thank you, Joanna. We continued to deliver safe, reliable operations and strong free cash flow generation while also demonstrating our commitment to prioritizing shareholder returns. For the second quarter in row, we returned more than 100% of our free cash flow generated in the quarter through our share repurchase program. In fact, our 2022, year-to-date, share repurchase program has already exceeded the 2021 program.

Operationally, our results and our revised outlook reflect solid execution amidst today's volatile environment. We are reaffirming our full-year total production outlook and raising our EBITDAX and free cashflow guidance. And this is after adjusting for inflationary pressures to our costs and changes to our full-year drilling programs related to the Kern County EIR litigation delay. Franciso will describe both these issues in greater detail later on in the call.

Where others have been forced to pause their programs, CRC continues to leverage our large portfolio of assets, which allows us to continue drilling. In fact, we are running five drilling and completion rigs in California, which is the majority of the active rigs in the state. Even with the earlier-than-anticipated impacts of inflation, and additional capital to support these changes I just described, CRC is raising the mid-point of our full-year guidance by 2% on EBITDAX and by 10% on free cash flow.

Post quarter end, we advanced our carbon management business by entering into a carbon-management partnership with Brookfield to develop industry-leading CCS projects in California.

The partnership will be owned 51% by Carbon TerraVault, our wholly owned subsidiary, and 49% by Brookfield, to pursue capture, transport, and storage projects, and is starting out with the initial commitment of $500 million from Brookfield for CCS projects that are jointly approved through the JV.

Brookfield will contribute $10 per ton for their 49% share of the storage assets as they are developed. The first project being developed will be our 26R reservoir at the Elk Hills Field.

The JV is targeting the injection of 5 million metric tons per year, or 200 million metric tons of permanent storage and achieving these targets would require an estimated $2.5 billion of total capital. Assuming full participation by Brookfield in the 5 million metric tons per annum through the JV suggests a potential follow-on investment of more than $1 billion from Brookfield, which to be clear, would be incremental to the original $500 million. We are excited about our partnership with Brookfield and how this partnership can advance decarbonization and the energy transition in California.

I'll now turn it over to Francisco to discuss our quarterly results before I provide greater detail on the Brookfield partnership later on in the call. Francisco?

Francisco Leon
Thank you, Mac. For the second quarter, we delivered adjusted net income of $1.13 per fully diluted share, which is line with the prior quarter, and generated $83 million of free cash flow. We returned $109 million to our shareholders in the form of dividends and repurchases of common stock on their share repurchase program during the second quarter.

Our assets continued to perform well, with total production averaging 91,000 BOE per day, up 3,000 barrels from the 88,000 BOE per day in the first quarter. As a reminder, in the first quarter, we completed the planned CGP-1 maintenance and sold our remaining 50% interest in the Lost Hills field. Our second quarter production was positively impacted by 5,000 BOEs per day, from the turning of our CGP-1 plant to production, which increased both our NGL and natural gas volumes. Additionally, our quarterly production was negatively impacted by approximately 800 BOE per day from asset divestitures and 1,000 barrels per day from PSC effects, which was all oil.

Changes in our development plan and well mix, in response to the Kern County Environmental Impact Report litigation, also modestly reduced our oil production volumes and increased our NGL and natural gas volumes. Our original drilling program anticipated a resolution to the EIR litigation in the first half of 2022. Another hearing is expected in the third quarter of this year and we're hopeful that a resolution could occur by the end of the year.

The Kern County EIR litigation represents an operational challenge for many operators in California. However, we continue to receive permits and have a strong inventory of drilling permits for our 5-rig program for the remainder of the year.

From a price perspective, CRC benefited from healthy, realized prices across all three hydrocarbons. Our average realized price for oil in the second quarter, after settlement payments on our derivate contracts, registered $63.17 per barrel. NGL pricing remained a bright spot, with realizations of 61% of Brent, or $68.29 per barrel, more than $5 higher than what we received for our oil after hedges. Natural gas prices have continued to strengthen, with five quarters of sequential increases. CRC realized 103% of NYMEX or, after derivative settlements, $6.72 per MCF.

The operations teams continued to focus on our non-energy related operating costs. However, we are experiencing cost pressures in certain categories as we renew our contracts. Specifically, on well workovers, surface operations, and maintenance as we also adjust our activity set. As it relates to energy-related costs, natural gas prices continued to increase. We use natural gas in our business to generate electricity for our operations and also to generate steam for our steamfloods.

Additionally, higher natural gas prices also increase our purchased electricity costs. As mentioned in prior quarters, we are net long in natural gas. This means that the natural gas we produce, and sell, is greater than the natural gas purchased for use in our operations.

While our inflation expectations are relatively more muted versus the rest of the lower 48, our full-year 2022 operating cost guidance is increasing by $40 million at the mid-point, mainly due to higher energy costs, inflation, and a change in well mix.

Production taxes increased by approximately 24%, or $8 million from the prior quarter, due to higher than expected increase during the second quarter in the tax rate assessed on our oil and gas, natural gas production by CalGEM. This was an adjustment to the millage rate and not a volume change.

G&A was $6.76 per BOE and adjusted G&A was $6.15 per BOE. Adjusted G&A, removes stock settled compensation expense and certain non-recurring expenses. On an absolute basis, G&A increased approximately $8 million from the first quarter, primarily due to compensation-related items, including the expected payout for the performance-based portion of our bonus plan, annual base pay increases, which took effect in March 2022, and growth in our dedicated carbon management team.

We have increased our total-year 2022 guidance for adjusted G&A by $15 million, to approximately $193 million at the mid-point, as we experienced wage inflation. Although we expect full-year adjusted G&A for E&P, corporate and other to revert to our run rate of less than $5.33 per BOE.

Also, for the full year, we are raising CRC's midpoint of EBITDAX and free cash flow guidance by 2% and 10%, respectively. This increase in full-year cash flow guidance takes into account the change in well mix, impact of inflation, and higher commodity price realizations. CRC's total 2022 BOE average production levels are expected to remain in line with our prior guidance while oil as a percent of total production will be lower by approximately 6% to account for the changes.

We also increased our 2022 capital program to a range of $380 to $410 million. This includes approximately $18 million for drilling and completion and an additional $13 million to addition to our work-over program. We also continued to invest in our carbon management business and increase the capital guidance by $5 million.

CRC continues to deliver on its shareholder returns strategy. Since we started our focus on shareholder returns in early 2021, CRC has returned approximately 66% of its free cash flow to shareholders through the combination of our share repurchase program and fixed dividends. Year to date, we have returned over 134% of our free cash flow generated as our return-driven strategy rewarded shareholders with strong total returns in what continues to be a healthy commodity price environment.

Even after our largest quarter of share repurchases and continued dividends, our cash balance remained healthy at $324 million and our liquidity stands a $740 million as of June 30, 2022. Please keep in mind that quarterly free cash flow results are subject to seasonal impacts. In fact, free cash flow in the second quarter exceeded our internal expectations and we remain confident in our increased annual guidance as we expect a strong free cash flows in the second half of the year, from higher revenues from Elk Hills Power, higher NGL yields, and stronger natural gas realizations.

Please note that we have provided detailed analysis to our quarterly financial and operational results in our revised 2022 guidance in the attachments to our earnings release. I'll now turn the call back over the Mac to discuss our Brookfield JV partnership.

Mac McFarland
Great. Thank you, Francisco. So a few more details on our partnership with Brookfield. CRC has leveraged our asset base and first-mover position to secure a strategic investment from one of the largest global transition funds in the world and advance our carbon management strategy. With $725 billion in assets under management and over $200 billion of that allocated towards energy transition and infrastructure projects, globally, Brookfield is one of the leading alternative asset managers.

More recently, Brookfield Renewable raised $15 billion through the Brookfield Global Transition Fund, or BGTF, the largest global transition fund raised to date, and it is BGTF that we are partnering with this in this JV. Combining our carbon management business with Brookfield's infrastructure and energy transition experience strengthens our CCS competitive position.

Brookfield's initial commitment will be directed toward CCS projects through two JV entities, Carbon TerraVault JV Storage Company, or Storage Co, and Carbon TerraVault JV Infrastructure Company, or Infra Co, are the two entities.

Storage Co will build, install, and operate storage facilities. As previously mentioned, Brookfield has acquired a 49% interest in Storage Co for the first reservoir, which is 26R, at our Elk Hills facility at an implied value of $10 per metric ton of permitted capacity. As we continue to contribute assets towards the JV, it will be done so at the same terms and the same milestones of the $10 per ton.

Brookfield's total investment for 26R is $137 million, payable in three installments. The first installment of $46 million was made at the closing of the JV, with the second installment due once CTV receives the initial permit from the EPA, followed by the third installment at a final investment decision, or FID, effectively, when we have our project committed for storage.

The other JV, Infra Co, will build, install, operate, and maintain $C0_2$ capture equipment and transportation assets.

We have structured these two entities separately because we believe it optimizes the ability to attract incremental capital through project financing. By structuring Infra Co to have more stable cash flows and fixed revenue streams, the JV lends itself to project financing for the most capital-intensive aspect of the CCS value chain. We also believe there will be future opportunities for other equity investors and partners to invest in Infra Co.

Assuming the JV develops the full five million metric tons per annum and Brookfield fully participates in their 49% share, the $10 per ton storage contribution from Brookfield would enable

CRC to fund all the capital needs related to its portion of our near-term goal, thus limiting the need for corporate capital to fund our carbon management business.

Let me explain a bit further.

Recall the economic-type curve we disclosed in our carbonate storage update last October. Assuming 1 million metric tons of injection requires about $500 million of capital investment across the entire value chain, which is the midpoint of the range we showed, the JV's target of 5 million metric tons of injection per year would require $2.5 billion of capital by the end of 2027. That would be the investment made through the JV.

CRC's unlevered portion of that would be about half, or roughly $1.3 billion. However, we anticipate utilizing at least 50% debt, which would bring CRC's capital needs to an approximate total of about $638 million over the next five years. All of this is shown illustratively on slide 16.

The 5 million metric tons per annum of targeted injection would require 200 million tons of pore space. Brookfield's 49% share of the pore space contribution at $10 per ton, out of 200 million tons, is approximately $1 billion, which is well in excess of the development capital, $638 million that I previously mentioned, required from CRC.

In fact, under this scenario, there would be excess cash flow from the CTV joint venture for distributions to CRC, or for reinvestment in additional carbon management activities. Achieving our target of 5 million tons could potentially provide an incremental $185 million of annual EBITDA, which is the mid-point of the economic-type curve we showed, net to CRC, and that would be with limited to no capital contributions from CRC to the JV. This means nearly 100% of the free cash flow generated from our core E&P business would be available for corporate objectives, including shareholder returns and strategic investments.

This significantly increases our capital allocation flexibility and means we have optionality for the more than $400 million of free cash flow generation that is expected in 2022 and annual expected cash flows in the years to come.

Not only are we forming a strategic partnership for carbon management with Brookfield, we are also strengthening our strategic partnerships within the communities that we live and operate. CRC is investing in energy transition with our Kern County energy transition pledge. The pledge aims to build local operating knowledge to support the development and innovation of CCS within California, and more specifically, within our Kern County community. The company has pledged $2.5 million to Kern County College District and California State University Bakersfield to provide resources for research and development, workforce training, energy transition related curriculum and scholarships. In addition to this pledge we are also forming CRC Carbon Management Institute at Kern CCD and the Cal State University Bakersfield Carbon TerraVault Lecture Series.

So, to conclude, we continue to deliver on our goals and are excited about our future. Our California Carbon Management partnership with Brookfield is an important step towards our Paris-Aligned Net Zero Goal. CRC's progress on our near-term goals demonstrates an economically viable energy transition future.

Once again, I'd like to thank the employees of CRC for their dedication and hard work.

Thank you for your interest in CRC and joining us on on today's call. We will now open the line for questions. Operator?

QUESTION AND ANSWER

Operator
Ladies and gentlemen at this time, we will begin the question-and-answer session. To ask a question, you may press * and then 1. If you are using a speaker phone, we do ask that you please pick up your handset prior to pressing the keys to ensure the best sound quality. To withdraw your question, you may press * and 2. Once again, that is * and then 1 to join the question queue.

Our first question today comes from Scott Hanold from RBC Capital Markets. Please go ahead with your question.

Scott Hanold
Thanks. Thanks all. Congrats on the JV with Brookfield. You know, certainly good to see a very strong and reputable partner underpinning the upside optionality you all see. Can you just give us a sense -- just to make sure I'm thinking about this right, you know with, their commitment and their carry of $10 per ton, am I wrong in kind of thinking that sort of sets a relative, we'll call it floor on, you know, what this thing's worth?

You know, the carbon management business? You know, because when I do the back of the envelope math, you know, that's sort of, with an implied 1 billion ton kind of floor, that implies, I think that, you know $15 to $20 of potential value to CRC. And that's, obviously, just a starting point. So, am I thinking about that right? And, in terms of what they're underpinning, as a minimum? If not, a lot more, given that they're going to return a good rate of return?

Mac McFarland
So, morning, Scott. Good to hear from you. What I would say about the JV is that it was a negotiated -- I don't know whether to describe it as a floor or however your put it -- but what I would say is, Brookfield is contributing $10 into the JV for each ton of pore space and that's the initial commitment. And then we're going to build projects on top of that, which will require incremental capital, which will have incremental returns on top of that. So I think that the way that I would say it is, is that $10 per ton for pore space is effectively the buy-in, if you will, to just be in pure pore space.

Francisco Leon
Yeah, hey, Scott. It's Francisco. It's a recognition that pore space has value. Right? So, it's an important value metric on an asset class, where very few transactions have been done in the space. So, it's establishing that has a value. Right? We're really talking about how CRC and Carbon TerraVault are really well positioned in the state to enable the CCS management business. And this is the first step to recognizing that pore space has value. On top of that you build the projects and get incremental returns. We're pretty excited about putting this marker out there.

Scott Hanold
Yeah, and that's kind of the point I was trying to get to. If they're willing to invest, yeah, I guess they're basically saying pore space, at a minimum is worth $10. Right? And obviously, they want to build a return off this as well. So, when you apply that to your, whether it's 200 million or 1 billion tons of potential, at an implied 51% ownership, that's a pretty substantial value, net to CRC. Like, when you step back and look at it. And that's kind of what I'm trying to get to, is that sort of thinking about it -- right? -- $10 per ton is sort of how they're thinking about it, like, they're buying the pore space. So at a minimum, that's what it's worth.

Mac McFarland
I think that's a fair readthrough. What I would say is, it's for perfected pore space. So, we've spent a lot of time over the last year and a half working to permit and perfect our pore space so that it avails itself to get LCFS credits, 45-Q, and that we'll receive a class six permit. That development work is leaning on our current assets, as we described, as well as our sub-surface knowledge, and a lot of the people that we have inside of CRC -- geologists, reservoir engineers -- that understand how to file these permits. So, it is basically the sweat equity along with our assets, which is the scarce resource in California, as we stated previously, that has lent itself to this JV for Brookfield coming in at that $10 a ton marker.

Scott Hanold
Got it. Okay. No, that's helpful. And, you know, my follow-up question is, you know, again on this JV, but, you know, obviously the 26R was the initial, you ,now, reservoir that's been put into the JV. And can you tell us about the process of what is the process of getting, you know, other reservoirs into the JV? Because it seems like, you ,now, there's an advantage to getting that into the JV and they compensated for that, to stay in front of the funding -- the capital calls, I guess, for the projects -- right? - so what is the process by which other ones will get put into the JV? What needs to happen?

Mac McFarland
Yeah, so, Scott one of the things that we wanted to do when we formed this JV is to make it highly actionable and that's why we started with 26R. It's been filed. It's a permit that's been filed for over a year. It's processing through. And so, that's why we contributed 26R into the JV. And that's why we received the initial funding and we're doing it in three installments, so that's basically 30 million tons of storage.

Our objective through this JV is to commit capital, both from us as well as from Brookfield, to develop 200 million tons of pore space to get an annual injection rate of 5 million tons. So it's, you know, this is laid out on page 16 in our deck. But basically, that means $2.5 billion of capital, as I mentioned in my remarks. So our intent is to deploy the capital, perfect 200 million tons of pore space, and achieve 5 million tons of injection by 2027, which aligns with our previously stated goals. We're now doing it with a partner that we really value, in Brookfield, in a 51%/49%, or you know, basically a 50%/50% JV.

Scott Hanold
Right. Right. And then, mechanically, you know, what gets, you know, the additional, you know 170 million tons of reservoirs into the JV? Is it the process of, you know, permitting it and perfecting it to be, you know, ready to move to the JV at some point?

Mac McFarland
That's exactly right. 26R is a year under file and it's gone through comments and we've responded to comments with the EPA. We have filed other permits -- right? -- last quarter we announced the other 80 million tons that we filed, which is CTV 2 and 3. And as those get perfected, they get shown to the JV, they get dropped into the JV, and then we start assigning them projects. Once we get to an investment with emitters that we've been talking to, and come to an FID, we can eventually drop those in.

So we will drop them, either in at permitting stage, along the permitting process, or when we go to FID with an infrastructure investment, through Infra Co, which is the capture part.

Francisco Leon
Yeah, that's what triggers the premium for the pore space.

Scott Hanold
Yep, now I got it. Thank you much.

Operator
Our next question comes from Kalei Akamine from Bank of America. Please go ahead with your question.

Kalei Akamine
Hey. Good morning, guys. Thanks for taking my questions. I've got a couple. First one is just on the conventional business. Hoping that you can help reconcile the oil guidance, the 53 to 58? With the comment in the press release that said, you know, oil production will be above the first quarter by year-end. You know, just given the performance, have you seen from your oil production, year to date, it looks like the midpoint should be an easy bar to hurdle. So, wondering why the low end is where it's at?

Francisco Leon
Yeah, ultimately there's, you know, as we talked about it -- the combination of the production-sharing contract that we have in Long Beach and the changes in the well mix. So, with the EIR litigation, we're having to change the plan on the wells that we're drilling. And so, where we can get the four to five rigs, the inventory there, there's that change in mix.

And that just adds variability into the program. So I think the guidance delay that we would have on there is just a result of that expected recognition there's some variability, as we wait for results in the EIR and at the end of the day, we have high confidence in delivering the projects -- the very good return projects, but they tend to be gas -- have more gas and NGLs in the mix. So that's where, I think the spread and the range is a recognition of that variability of what's going to happen in the second half of the year.

Kalei Akamine
Go ahead, Mac.

Mac McFarland
Yeah. So, we also try to build in the variability associated with the production-sharing contract, which is a bit of an arcane thing. But with the production sharing contract, if prices went back to where they were during the second quarter, which they're not doing right now, if you look at the screen, but we settled at almost $112 during the second quarter. That drove a lot of PSC barrels.

So in other words, a reduction from gross to net barrels as we gave barrels back under the production sharing contract. So, we tried to build in some of that variability -- if prices were to come in high, we would probably end up towards the low end of our oil range. If prices come in lower than what we're forecasting for the balance for the year, our net production would come in higher. So there's that variability that builds itself into the range as well.

Kalei Akamine
I guess the follow-up is, it appears that oil price had stabilized, at least from the script, here at the back end of the year. So, we're not too worried about the PSC effects. So I'm hoping that you can help me understand the other moving piece, which is the EIR. What is the pathway to resolution there?

Mac McFarland
So, well, let me just first address the well mix. This Kern County EIR -- I'll turn it over to Mike Preston, General Counsel in just a second to talk about the process there. But we were anticipating resolution earlier in the year because it's been litigated and we thought that it would be settled earlier. Right now, it's still in litigation and we don't anticipate resolution of that until the end of the year.

So what we had to do in the second quarter, and going into, you know, current day, was adjust our drilling program to use the permits that we have, which is a good thing, because we have a lot of permits and we can go drill and that's why we're keeping five rigs active. But we had to adjust and by doing so, what the outcome of that was that we ended up with more gas in our mix and, therefore, lower oil. So that's the impact of it. But, Mike, you want to talk about the resolution.

Mike Preston
Sure. In May, the court basically identified a small number of what were deemed deficiencies in the EIR process. And so those deficiencies are being addressed, essentially, by Kern County, and they're working on, essentially fixes to those. Those fixes will need to be taken back to the court. They're being briefed by the parties over the next few weeks. And then the court will have to make a judgment on those fixes, so to speak. So we expect that process to take several weeks and probably into early in the fourth quarter before we get some clarity.

Kalei Akamine
That's great. I appreciate that. My second question is on the CCS JV. So I understand that Brookfield is putting, up front, $500 million, and that buys the pore space for reservoir 26R. But all the capital was staying with the JV. So I'm trying to understand what the $500 million will buy, in terms of storage, transportation, and capture, and then what the cadence of that spend will be.

Mac McFarland
Well, so, great question. The $500 million will either buy pore space or it will actually invest in capture equipment or any other capital needs within the JV. So, again I go back to that our intent is to develop 5 million tons of injection by 2027. If we do that, it's going to require $2.5 billion, which is going to be in excess of the initial commitment of $500 million, but it will be on a project-by-project specific basis that we will make the capital commitments and the investment, us as well as Brookfield.

The difference that I was trying to establish earlier was that because of the $10 per ton that we are getting for their contribution in, for the 49%, that will alleviate our capital costs for future projects because we can recycle that capital for those capital costs.

Francisco Leon
And one thing to add, Kalei. So we talked about in the past, as we're developing this new business, we have the option to just be the off-takers, since we have the scare resource and the storage tanks. But we've also talked about how this business could very much be a full-service business. And I think the Brookfield partnership brings that second piece to reality. Because by having Brookfield as a partner, we are having this funding mechanism and then defining the JV as a storage or an Infra Co, I think what the takeaway should be that the intent is to deploy capital all the way down the value chain.

So that's capture, mid-stream, and storage, and that's where the JV is going to be focusing in providing a service at the California emitters, all the way from the emitter to the storage tanks.

So, the deployment for the capital is in addition to the, as Mac said, it -- buy the pore space and then deploy that capital so that we can put the infrastructure in place to be able to have 100% of that value stream.

Kalei Akamine
Thanks for that, guys. The last question is just on the economics. So, first off, congrats on getting some clarity on the funding, but I'm trying to understand how the revenue, on a metric ton basis, how that translates to free cash flow, net to CRC. Any guidance you can give us there would be extremely helpful. And I'll leave it there.

Francisco Leon
Yeah, Kalei, so the way to think about it is, it's a 51% JV Carbon TerraVault, 49% Brookfield. So the revenue line gets split along working interest levels. Then, if you're building a model, then you add the $10 per ton from Brookfield's side to our side of the share. And then you run the rest of the model through working interest levels. So, the expectation is the funding comes from the working interest basis and then the revenue, or the cash, gets split equally. Again, putting the $10 per ton as a contribution from Brookfield to CTV.

So, what that practically does -- right -- if you have the funding mechanism on the CTV side and you are able to use and recycle that capital contribution, that's what's going to open the immediate big share for capital costs. Now we fully expect these projects to have accessibility to project financing. Still very much early and we need to define what the loan to values are going to be and how this is going to play out, but at the end of the day, if you assume 50% of the capital is project finance and then have the other 50% equally split -- roughly equally split between the partners, from an equity call -- and we're also getting the share of our capital, ultimately we're recycling the funds from Brookfield. So that's why we're saying capital funding mechanism through the JV. That gives us full exposure to our share of the cash flow without having to put capital costs from the CRC parent.

Kalei Akamine
I appreciate that the project financing piece doesn't get figured it out. But maybe on a plain, vanilla basis, just on your equity exposure, can you help us understand how, perhaps $100 per metric ton of revenue credits will translate to free cash flow?

Francisco Leon
Yeah, so it's 51% to us and 49% to Brookfield and then, you take expenses associated with the project capital and then you get to your cash flow. So it's a -- pretty much a 50/50 JV, other than the initial contribution for the pore space.

Mac McFarland
So, one thing that I would point you back to is if you go to carbon day last October, where we laid our economic-type curve, we said somewhere between -- and there's assumptions laid out on that page -- but we've said the range of EBITDA would be $50 to $100 per ton of injected C02. Okay? And that still holds true, regardless of our joint venture. That's at the project level -- that would still hold true.

Then, there's the split, as Francisco was just describing, on how that gets, you know, the cash flows up. But to describe it a bit further, if you had just more of a storage-only type project, which means you're trying to recover a whole bunch of capital investment because that's typically associated with the capture system, you'd be toward the $50 a ton of EBITDA. If you needed

capital recovery, you'd be closer to the $100 a ton of EBITDA, but that's because you're basically recouping the initial capital investment.

The cash flows -- obviously, you have less cash out at the $50 in EBITDA, early on, and so it would fall more closely straight to the bottom line without taking into consideration taxes. The $100 would do the same, but you have a significant cash outflow, up front. That's how it would look at the project level. Does that help any?

Kalei Akamine
Yeah, that's very helpful. The last question, and I'm sorry to keep prying at this, but can you just tell me if it's taxed normally -- just like any other cap distribution would? Or if there's any anomalies associated with being a tax credit?

Francisco Leon
Yeah, I mean, ultimately, as of right now, the 45-Q is a tax credit. So yes, the modeling would be LCFS as a revenue line item and then 45-Q would be a tax credit that is able to offset some of the income generated by the partnership. So, there would be, I would say, specific tax modeling that you would have to do -- but very similar to what happens with solar and other renewable-type projects where you're collecting credits that offset the revenue and profitability of the enterprise.

Kalei Akamine
Great guys. I will leave it there.

Mac McFarland
Yeah, what I would just add on to Francisco -- as we've stated before, and we are a taxpayer this year and years going forward. And so we actually have an appetite for the tax credit. So there's a synergy there for us to flow through and to use those tax credits. In a typical, as Francisco was saying, renewable energy development, you'd have to bring in tax equity to the projects. We can actually flow through it a consolidated basis and use our tax credits.

Kalei Akamine
Great. Thanks guys.

Operator
Our next question comes from Eric Seeve from Goldentree. Please go ahead with your question.

Eric Seeve
Hey, guys. Thanks for the call and congratulations on the deal -- looks very exciting. Was just hoping you could give a little bit more color on outside of this deal what is going on with the CMB business and specifically are you still progressing on deals with emitters or do you have to sort of pause, given that now you have a partner and reassess?

And also, if you could give an update on how far along you are, in terms of submitting the 200 million tons for permitting? And also, given the sense of, you know, very exciting about these first 200 million tons, but you know, is there a potential for more projects beyond that, as well, and how are you thinking about the scope of this enterprise?

Mac McFarland
Good morning, Eric. There were about 8 questions in there -- all good ones. So, we set a goal to file 200 million tons of permits by the end of the year. We filed 80 at the beginning of this year, we announced, as of the first quarter earnings call. We had already filed before that, 40, so we're

at 120. Our goal is to be at 200 by the end of the year. We're still on track to do that. So that's an end-of-year goal. So we'll do that.

With respect to the JV, our goal is to get the first 5 million tons, which is injected, by 2027, which is 200 million tons of storage. But we hope that this JV is successful to where we can continue on and build on the backs of it even further. So we're not stopping there. Okay? We're not going to stop at 200 million tons of permits by the end of the year. We're going to keep going and file more permits, because that's the objective.

We think that there's a good business case for doing so. We think it's economic and we think that it helps the energy transition to the Net Zero barrel that we think we can produce by 2045. With respect to the commercial arrangements, they aren't stopping because of this JV. I would say that they're actually accelerating because of the JV. We now have additional forms of capital. We have an additional partner who brings not only the investment in the capital, but also origination structuring, deal development, all of the things that you would want.

I think that this is a really good partnership. It's scalable. I think that we're going to continue to do that. Now, we have been in the background, as we have always been, working to develop emitter contracts and we continue to do so and we've said, by the end of this year, we hope and we plan on, our target is to be aligned with an emitter that allows us to inject 1 million tons by year-end 2025.

Eric Seeve
That's great color, Mac. Thank you. And just sort of a follow-on and what I'm getting at is here, it's kind of a follow-up to Scott's question of just trying to frame what the potential value could be net to CRC. I mean, I get the quick and dirty math, because you could say, okay 200 million tons to the JV. There's no marker on that, at $10 per ton, so that's $2 billion, but then there's incremental projects that you can bring, you know, after the $200 million tons that you're looking at now.

I'm just trying to get some rough sense of -- could you remind us, you know, how do you think about what the potential beyond 200 million is? You know, is there, you know, in the portfolio. And I appreciate that it's early days and you're still figuring that out. But I'm just trying to get a rough sense of, you know, the range of what's -- what could be possible.

Mac McFarland
Yeah, so the $10 a ton is a contribution by Brookfield to acquire 49% of the pore space, with the objective of developing 200 million tons of storage, which allows 5 million tons per annum of injection. What I would say is, Brookfield and us are very aligned on investing the capital for the capture equipment and the storage, which we've estimated, if we got to our 5 million ton target would $2.5 billion, excluding financing, et cetera, split across the investors.

And we're very aligned with Brookfield. Their fund has return targets -- IRR targets -- and those targets align very well with what we see. We think we can develop at a project level. So that incremental cash flow. I think Francisco described it during Carbon Day, that when we're the 100% owner of this target, we would generate close to $400 million, roughly, of EBITDA by 2027, at the midpoint of our economic type curve shown then. Now, we're going to get roughly half of that because of the sell-down in the position, so 200 million tons. But we're also picking up the $10 ton for the pore space.

Francisco Leon
Yeah, that's right. So the initial assumption was $2 to $2.5 billion of capital, with ultimately resulting in about $400 million of annualized EBITDA. So now the math, net to CTV, is you lower the capital call by half, so $1.2 billion, results in $200 million of EBITDA shared to us. The difference, too, is that the $1.2 billion now is, as Brookfield acquires more pore space, that gets funded through that mechanism. So we're trying to optimize capital and ultimately improve returns and we've done that with this deal.

Eric Seeve
Sorry. What I'm trying to get at, guys, is, you now, beyond the 5 million tons that this JV contemplates, how much more do you think your asset base might support? How much more projects might be out there, beyond this 5 million tons?

Mac McFarland
So that goes back to the original target, where we said we've identified up to 1 billion tons of potential storage across our portfolio. We're trying to set interim goals but our long-term goal is net zero by 2045, which means that, by that time, we'd have to be injecting about 20 million tons per year and if you just do the conversion math that gets you to roughly 1 billion tons of storage. So, we're still on path to doing it, we're stating the interim goals right now that are within, you know, the next five years. So, Eric, I'd say that there's -- this is focused on the first 200 million tons of storage. We're also focused on the long-term goal of 1 billion tons of storage.

Eric Seeve
Awesome. Very exciting. Thanks for the call, guys.

Mac McFarland
Thanks, Eric.

Operator
Our next question is a follow-up from Scott Hanold from RBC Capital Markets. Please go ahead with your follow-up.

Scott Hanold
So, one again on the JV and then, you know, more of a financial side kind of question, but the fist one is, when you, you know, obviously partnered up with Brookfield, you know, can you talk to -- do they bring any kind of skillset that, you know, to the joint venture, in terms of whether it's capture or transport? Are they going to also, you know, bring some skills to the project? Or should we think about this, pretty much, you all have a lot of that already, kind of handled?

Francisco Leon
Thanks, Scott. So, yeah, we really like what Brookfield brings to the table. So beyond the financing, which has been the focus of the discussion, they are very advanced in their views around carbon capture and sequestration. They have invested into capture systems. They made a large investment into a company called Entropy, a Canadian company. That's, of course a combustion capture system.

And so, they have a really good sense of, not only the technology that's going to work, but also on the cost side of the equation, as to what the systems can be built towards and ultimately how you can scale that business. That also means they've looked at emitters and they've looked at ways to capture those emissions, not only in Canada, but in the U.S. And so, when we started

talking to them, you know, the match was pretty obvious, given all of the time and effort they've invested into CCS.

And as they look across the U.S., you know, they see that California is a differentiated opportunity given LCFS as a place to place money. And then, that CRC has the other components to really make this partnership work. So, and I talked a lot -- there's a structuring – they're the largest -- one of the largest renewable investors in the world. Right?

So there's structuring, there's origination, there's insurance products. There's a number of things that they can bring to the combination here of the partnership at the CTV level, that we're very excited about. But to us, they were head and shoulders above others, in terms of their understanding of the CCS markets, including the technology aspect of it.

Mac McFarland
And Scott, I just to add on, everything Francisco said is exactly why we formed this JV or this partnership. But to be very clear, it is our skill sets, it is our assets and the sub-surface knowledge of the pore space that is the focus area of this joint venture. Because we're building from there, out. And that's why they're contributing $10 a ton to the buy-in, for their 49%.

Scott Hanold
Yeah. Got it. Absolutely. That makes sense. And then, you know, my follow-up is, you know, obviously with this partnership is, as you said, you're going to, you know, have a lot of the funding needs taken care of initially and I think going back to last year when you kind of laid this all you talked about, I think about 50% of your free cash flow being allocated to shareholder returns and 50% potentially to carbon management.

When you think about, like now, that other half of the pool is kind of freed up. Like, what are your thoughts on how you allocated the residual free cash flow being generated by the upstream business, now that you don't need to fund the carbon-capture business? What can we expect with that?

Mac McFarland
Yeah, thanks, Scott. So, exactly. We previously said after we reinvest in the business to keep production effectively flat, then we would split the free cash flow, thereafter, after-tax free cash flow, thereafter, 50/50 between shareholder initiatives and carbon management. Now obviously with this joint venture and with the $10 a ton, we don't have the same capital needs, or capital call, on those cash flows. And so it gives us greater flexibility -- I think is the point you were actually making in your question -- it gives us greater flexibility with that cash.

We show that on page 29 in the deck, where over the next five years, we're forecasting over $2.5 billion of cumulative, after-tax free cash flow. And we can use that now, assuming that there's not a strong call on it for carbon management, because of the sort of self-funding mechanism, given the $10 a ton, for other aspects. So Franciso, you want to go into the uses there?

Francisco Leon
Hey, Scott, just to further what Mac was saying, the case presented on slide 29 has us investing in our core business to maintain our BOE production at first instance. And then, after you invest in the core business, we generate, in this scenario, over $2.5 billion -- $2.7 billion to be exact -- after-tax, free cash flow. So that's what we see on the cumulative cash flow generated over the next five years on the core business.

And then, that allows us to think about ways to deploy that in many different avenues. Certainly, we've had a very successful share repurchase program, where we bought back over 10% of the shares of the company since we started the company. We can also think about growing the fixed dividends. We looked at acquisitions. We can look at more investment into our core operations, perhaps, around enhanced oil recovery.

So, you know, by doing this transaction and the significant cash flow generation potential assets, we move into either shareholder initiatives or more investment into oil and gas as a result of being able to retain the cash and having the funding mechanisms that would be under Brookfield.

Scott Hanold
Thanks for that.

Operator
And our next question comes from Karl Blunden from Goldman Sachs. Please go ahead with your question.

Karl Blunden
Hi. Thanks very much for the time. Just one, with regard to the options around cash flow deployment. Would you be able to comment on your current restricted payment capacity under the bond indenture?

Francisco Leon
Sure. So we, essentially we looked, first at the RBL and we negotiated to have unlimited RP capacity, subject to leverage tests we described in the last earnings call. In terms of a high-yield indenture, we wanted to take a similar approach. We want the process to engage with the bond holders to making a similar request for equal terms that, from our perspective, would bring our high-yield indenture up to current market terms, given that we placed our bonds in January of 2021.

At the end of the day, there's been a lot of volatility in the market. You know, with The Fed doing a lot of twists and turns along the way, and we decided to pull back on that ask and bring something we'll continue thinking about. At the end of the day, though, we have specific baskets within the agreement. We have an ability to deploy cash as we rope off some of the lower pricing quarters in the last year and start with the insecured to net income tests over the last 12 months.

So, we're adding capacity as we go and it's more than sufficient to continue doing share buy backs, dividends and to do investments into carbon management. Certainly now with the Brookfield deal, it takes one of those investments -- it really reduces the capital call on CRC, so we'll re-assess where we want to be with the high-yield indenture, going forward. But certainly, after this Brookfield announcement, we're thinking differently about how to invest in the carbon management business. So, there's more to come on that.

CONCLUSION

Operator
And, ladies and gentlemen, with that, we will end today's question and answer session, as well as today's conference call. We do thank you for attending. You may now disconnect your lines.