Pacific Coast Oil Trust
Form 10-Q
October 31, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

for the quarterly period ended September 30, 2018

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

for the transition period from to

Commission File Number: 1-35532

PACIFIC COAST OIL TRUST

(Exact name of registrant as specified in its charter)

Delaware	**80-6216242**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
The Bank of New York Mellon Trust Company, N.A., Trustee 601 Travis Street, 16th Floor Houston, Texas	**77002**
(Address of principal executive offices)	(Zip Code)

1-512-236-6555

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company x
Emerging growth company o	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of October 31, 2018, 38,583,158 Units of Beneficial Interest in Pacific Coast Oil Trust were outstanding.

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this report) contains forward-looking statements about Pacific Coast Oil Trust (the Trust) and its sponsor, Pacific Coast Energy Company LP, a privately held Delaware partnership (PCEC), that are subject to risks and uncertainties. All statements other than statements of historical fact included in this report, including, without limitation, statements under Trustee s Discussion and Analysis of Financial Condition and Results of Operations and Risk Factors are forward-looking statements. When used in this document, the words believes, expects, anticipates, intends or similar expressions are intended to identify forward-looking statements. The following important factors, in addition to those discussed elsewhere in this report, could affect the future results of the energy industry in general, and PCEC and the Trust in particular, and could cause actual results to differ materially from those expressed in such forward-looking statements:

- the effect of changes in commodity prices or alternative fuel prices;
- risks associated with the drilling and operation of oil and natural gas wells;
- the amount of future direct operating expenses and development expenses;
- the effect of existing and future laws and regulatory actions, including the failure to obtain necessary discretionary permits;

- conditions in the capital markets;
- competition from others in the energy industry;
- uncertainty of estimates of oil and natural gas reserves and production; and
- cost inflation.

You should not place undue reliance on these forward-looking statements. All forward-looking statements speak only as of the date of this report. The Trust does not undertake any obligation to release publicly any revisions to the forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events, unless required by law.

This report describes other important factors that could cause actual results to differ materially from expectations of PCEC and the Trust. All written and oral forward-looking statements attributable to PCEC or the Trust or persons acting on behalf of PCEC or the Trust are expressly qualified in their entirety by such factors.

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GLOSSARY OF CERTAIN OIL AND NATURAL GAS TERMS

In this report the following terms have the meanings specified below.

API The specific gravity or density of oil expressed in terms of a scale devised by the American Petroleum Institute.

Bbl One stock tank barrel of 42 U.S. gallons liquid volume, used herein in reference to crude oil and other liquid hydrocarbons.

Bbl/d Bbl per day.

Boe One stock tank barrel of oil equivalent, computed on an approximate energy equivalent basis that one Bbl of crude oil equals six Mcf of natural gas.

Boe/d Boe per day.

Brent Global benchmark price used for light sweet crude oil.

Btu A British Thermal Unit, a common unit of energy measurement.

Completion The installation of permanent equipment for the production of oil or natural gas, or in the case of a dry hole, the reporting of abandonment to the appropriate agency.

Dry hole A well found to be incapable of producing either oil and natural gas in sufficient quantities to justify completion as an oil or natural gas well.

Economically producible A resource which generates revenue that exceeds, or is reasonably expected to exceed, the costs of the operation.

Estimated future net revenues Also referred to as estimated future net cash flows. The result of applying current prices of oil and natural gas to estimated future production from oil and natural gas proved reserves, reduced by estimated future expenditures, based on current costs to be incurred, in developing and producing the proved reserves, excluding overhead.

Field An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature and/or stratigraphic condition.

Henry Hub The Henry Hub is a distribution hub on the natural gas pipeline system in Erath, Louisiana. Due to its importance, it lends its name to the pricing point for natural gas futures contracts traded on the NYMEX and the OTC swaps traded on the Intercontinental Exchange.

MBbl One thousand barrels of crude oil or condensate.

MBoe One thousand barrels of oil equivalent.

Mcf One thousand cubic feet of natural gas.

MMBtu One million British Thermal Units.

Net profits interest, or NPI A nonoperating interest that creates a share in gross production from an operating or working interest in oil and natural gas properties. The share is measured by net profits from the sale of production after deducting costs associated with that production.

Oil Crude oil and condensate.

Overriding royalty interest A fractional, undivided interest or right of participation in the oil or natural gas, or in the proceeds from the sale of oil and natural gas, that is limited in duration to the term of an existing lease and that is not subject to the expenses of development, operation or maintenance.

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Proved developed reserves Proved reserves that can be expected to be recovered (i) through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well, and (ii) through installed extraction equipment and infrastructure operational at the time of the reserves estimate.

Proved reserves The estimated quantities of crude oil, natural gas and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be economically producible in future years from known reservoirs under existing economic and operating conditions and government regulations. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time. This definition of proved reserves has been abbreviated from the applicable definitions contained in Rule 4-10(a)(2-4) of Regulation S-X.

Proved undeveloped reserves or PUDs Proved reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion. This definition of proved undeveloped reserves has been abbreviated from the applicable definitions contained in Rule 4-10(a)(2-4) of Regulation S-X.

Recompletion The completion for production of an existing well bore in another formation from which that well has been previously completed.

Reservoir A porous and permeable underground formation containing a natural accumulation of producible oil and/or natural gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.

Working interest The right granted to the lessee of a property to explore for and to produce and own oil, natural gas, or other minerals. The working interest owners bear the exploration, development, and operating costs on either a cash, penalty, or carried basis.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

PACIFIC COAST OIL TRUST

Statements of Assets, Liabilities and Trust Corpus

(Unaudited)

Thousands of dollars, except unit amounts	September 30, 2018		December 31, 2017	
ASSETS				
Cash and cash equivalents	$	11	$	88
Investment in conveyed interests, net of amortization		207,125		217,191
Total assets	$	207,136	$	217,279
LIABILITIES AND TRUST CORPUS				
Trust corpus (38,583,158 Trust units issued and outstanding)	$	207,136	$	217,279
Total Liabilities and Trust Corpus	$	207,136	$	217,279

The accompanying notes are an integral part of these financial statements.

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PACIFIC COAST OIL TRUST

Statements of Distributable Income

(Unaudited)

	Three Months Ended		Nine Months Ended	
Thousands of dollars, except unit and per unit amounts	**September 30, 2018**	**September 30, 2017**	**September 30, 2018**	**September 30, 2017**
Income from conveyed interests	$ 4,907	$ 1,999	$ 11,070	$ 5,874
PCEC operating and services fee	(272)	(267)	(808)	(795)
General and administrative expenses	(209)	(143)	(1,052)	(695)
Cash receipt from borrowing (Note 4)			81	10
Repayments on borrowing (Note 4)			(81)	(1,142)
Promissory note interest expenses				(10)
Interest income	5		5	
Cash reserves used (withheld) for Trust expenses	39	(58)	77	(43)
Distributable income	$ 4,470	$ 1,531	$ 9,292	$ 3,199
Distributable income per unit (38,583,158 units)	$ 0.11585	$ 0.03973	$ 0.24084	$ 0.08291

The accompanying notes are an integral part of these financial statements.

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PACIFIC COAST OIL TRUST

Statements of Changes in Trust Corpus

(Unaudited)

	Three Months Ended		Nine Months Ended	
Thousands of dollars	**September 30, 2018**	**September 30, 2017**	**September 30, 2018**	**September 30, 2017**
Trust corpus, beginning of period	$ 210,792	$ 221,678	$ 217,279	$ 226,544
Cash reserves (used) withheld for Trust expenses	(39)	58	(77)	43
Borrowing used for Trust expenses (Note 4)			(81)	(10)
Repayments on borrowings (Note 4)			81	1,142
Distributable income	4,470	1,531	9,292	3,199
Distributions to unitholders	(4,470)	(1,531)	(9,292)	(3,199)
Amortization of conveyed interests	(3,617)	(2,678)	(10,066)	(8,661)
Trust corpus, end of period	$ 207,136	$ 219,058	$ 207,136	$ 219,058

The accompanying notes are an integral part of these financial statements.

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PACIFIC COAST OIL TRUST

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

Note 1. Organization of the Trust

Formation of the Trust

Pacific Coast Oil Trust (the Trust) is a statutory trust formed in January 2012 under the Delaware Statutory Trust Act pursuant to a Trust Agreement among Pacific Coast Energy Company LP (PCEC), as trustor, The Bank of New York Mellon Trust Company, N.A., as Trustee (the Trustee), and Wilmington Trust, National Association, as Delaware Trustee (the Delaware Trustee). The Trust Agreement was amended and restated by PCEC, the Trustee and the Delaware Trustee on the inception date (May 8, 2012). References in this report to the Trust Agreement are to the Amended and Restated Trust Agreement.

The Trust was created to acquire and hold net profits and royalty interests in certain oil and natural gas properties located in California (the Conveyed Interests) for the benefit of the Trust unitholders pursuant to the Trust Agreement. The Conveyed Interests represent undivided interests in underlying properties consisting of PCEC s interests in its oil and natural gas properties located onshore in California (the Underlying Properties). The Conveyed Interests were conveyed by PCEC to the Trust concurrently with the initial public offering of the Trust s units of beneficial interest (Trust Units) in May 2012.

The Conveyed Interests are passive in nature and neither the Trust nor the Trustee has any control over, or responsibility for, costs relating to the operation of the Underlying Properties. The Conveyed Interests entitle the Trust to receive 80% of the net profits from the sale of oil and natural gas production from proved developed reserves on the Underlying Properties as of December 31, 2011 (the Developed Properties) and either 25% of the net profits from the sale of oil and natural gas production from all other development potential on the Underlying Properties (the Remaining Properties) or 7.5% of the proceeds (free of any production or development costs but bearing the proportionate share of production and property taxes and post-production cost) attributable to the sale of oil and natural gas production from the Remaining Properties located on PCEC s Orcutt properties, including but not limited to PCEC s interest in such production (the Royalty Interest Proceeds).

Basis of Accounting

The accompanying Statement of Assets and Trust Corpus as of December 31, 2017, which has been derived from audited financial statements, and the unaudited interim financial statements as of September 30, 2018 and for the three months and nine months ended September 30, 2018 and 2017 have been prepared pursuant to the rules and regulations of the SEC. Accordingly, certain information and disclosures normally included in annual financial statements have been condensed or omitted pursuant to those rules and regulations. Therefore, these financial statements should be read in conjunction with the financial statements and notes thereto included in the Trust s Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (2017 Annual Report).

In the opinion of the Trustee, the accompanying unaudited financial statements reflect all adjustments that are necessary for a fair statement of the interim period presented and include all the disclosures necessary to make the information presented not misleading.

Note 2. Distributions to Unitholders

Each month, the Trustee determines the amount of funds available for distribution to the Trust unitholders. Available funds are the excess cash, if any, received by the Trust from the Conveyed Interests and other sources from that month (such as interest earned on any amounts reserved by the Trustee), over the Trust s liabilities for that month, subject to adjustments for changes made by the Trustee during the month in any cash reserves established for future liabilities of the Trust. Distributions are made to the holders of Trust Units as of the applicable record date (generally within five business days after the last business day of each calendar month) and are payable on or before the 10th business day after the record date.

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The following table illustrates information regarding the Trust s distributions paid during the nine months ended September 30, 2018 and 2017.

Nine Months Ended September 30, 2018

Declaration Date	Record Date	Payment Date		Distribution per Unit
December 21, 2017	January 2, 2018	January 16, 2018	$	0.02776
January 26, 2018	February 5, 2018	February 20, 2018	$	0.01635
February 28, 2018	March 12, 2018	March 26, 2018	$	0.03987
March 29, 2018	April 9, 2018	April 23, 2018	$	0.02225
April 27, 2018	n/a	n/a	$	
May 31, 2018	June 11, 2018	June 25, 2018	$	0.01876
June 27, 2018	July 9, 2018	July 23, 2018	$	0.03635
July 30, 2018	August 9, 2018	August 23, 2018	$	0.03887
August 27, 2018	September 6, 2018	September 20, 2018	$	0.04063

Nine Months Ended September 30, 2017

Declaration Date	Record Date	Payment Date		Distribution per Unit
December 22, 2016	January 15, 2017	n/a	$	
January 31, 2017	February 15, 2017	n/a	$	
February 27, 2017	March 9, 2017	March 17, 2017	$	0.00487
March 28, 2017	April 7, 2017	April 14, 2017	$	0.02617
April 26, 2017	May 8, 2017	May 18, 2017	$	0.00542
May 24, 2017	June 5, 2017	June 15, 2017	$	0.00673
June 30, 2017	July 10, 2017	July 20, 2017	$	0.02776
July 28, 2017	August 7, 2017	August 17, 2017	$	0.00266
August 25, 2017	September 5, 2017	September 15, 2017	$	0.00931

Note 3. Related Party Transactions

Trustee Administrative Fee. Under the terms of the Trust Agreement, the Trust pays an annual administrative fee of $200,000 to the Trustee and $2,000 to the Delaware Trustee. During the three-month and nine-month periods ended September 30, 2018, the Trust paid $50,000 and $150,000, respectively, to the Trustee. During the three-month and nine-month periods ended September 30, 2018, the Trust paid $0 and $2,000, respectively, to the Delaware Trustee. During the three-month and nine-month periods ended September 30, 2017, the Trust paid $50,000 and $150,000, respectively, to the Trustee. During the three-month and nine-month periods ended September 30, 2017, the Trust paid $0 and $2,000, respectively, to the Delaware Trustee.

PCEC Operating and Services Fee. The Trust and PCEC are parties to an Operating and Services Agreement (the Operating and Services Agreement), pursuant to which PCEC provides the Trust with certain operating and informational services relating to the Conveyed Interests in exchange for a monthly fee that is revised annually based on changes to the Consumer Price Index. The monthly operating and services fee was $87,834 during the first quarter of 2017 and was $88,942 beginning April 1, 2017 through the end of the first quarter of 2018. As of April 1, 2018, the monthly operating and services fee increased to $90,837. The Operating and Services Agreement will terminate upon the termination of the Conveyed Interests unless earlier terminated by mutual agreement of the Trustee and PCEC. During the three-month and nine-month periods ended September 30, 2018, PCEC charged the Trust $0.3 million and $0.8 million, respectively, for the operating and services fee. During the three-month and nine-month periods ended September 30, 2017, PCEC charged the Trust $0.3 million and $0.8 million, respectively, for the operating and services fee.

Note 4. Funding Commitment and Letter of Credit

On May 10, 2018, the Trust entered into a promissory note with PCEC (the 2018 Promissory Note) and borrowed funds to pay general and administrative expenses as the Trust did not otherwise have sufficient cash to pay its ordinary course administrative expenses as they became due. Under the terms of the 2018 Promissory Note, the Trust agreed to pay interest on the principal amount at a rate of 5.44% per annum from May 10, 2018 until maturity. On May 10, 2018, the Trust borrowed $80,535 under the terms of the note and repaid the entire amount owed, including interest of $394, in June 2018, and no amount remained outstanding as of September 30, 2018. Interest expense on the outstanding borrowings was recorded as it was paid to PCEC. For the three-month and nine-month periods ended September 30, 2018, the Trust incurred a total of $0 and $394, respectively, in interest, which was included in the borrowings under the 2018 Promissory Note.

On February 25, 2016, the Trust entered into a promissory note with PCEC (as amended, the 2016 Promissory Note) and borrowed funds to pay general and administrative expenses as the Trust did not otherwise have sufficient cash to pay its ordinary course administrative expenses as they became due. Under the initial terms of the 2016 Promissory Note, the Trust agreed to pay interest on the principal amount at a rate of 8.5% per annum from February 25, 2016 until maturity. The 2016 Promissory Note, as amended and restated on August 10, 2016, bore interest at (1) 8.5% per annum from February 25, 2016 to August 9, 2016, and (2) 4.0% per annum from August 10, 2016 until stated maturity (March 31, 2018). The Trust repaid the entire amount of the 2016 Promissory Note in the first quarter of 2017. Interest expense on the outstanding borrowings was recorded as it was paid to PCEC. For the three-month and nine-month periods ended September 30, 2017, the Trust incurred a total of $0 and $10,141, respectively, in interest, which was included in the borrowings under the 2016 Promissory Note.

PCEC has provided the Trust with a $1.0 million letter of credit to be used by the Trust if its cash on hand (including available cash reserves) is not sufficient to pay ordinary course general and administrative expenses as they become due. Any funds provided under the letter of credit or loaned to the Trust by PCEC may only be used for the payment of current accounts or other obligations to trade creditors in connection with obtaining goods or services or for the payment of other accrued current liabilities arising in the ordinary course of the Trust s business, and may not be used to satisfy Trust indebtedness. No distributions will be made to Trust unitholders (except in respect of any previously determined monthly cash distribution amount) until all amounts drawn on the letter of credit, or borrowed from PCEC or any other source, including interest thereon, are repaid. PCEC has agreed to loan funds to the Trust necessary to pay such expenses (evidenced by written promissory notes) as stipulated by the Trust Agreement. As of September 30, 2018, the letter of credit remains unused.

Note 5. Commitments and Contingencies

Legal Proceedings

Securities Class Action. The Trust has been named as a defendant in a putative class action as described below.

On July 1, 2014, Thomas Welch, individually and on behalf of all others similarly situated, filed a putative class action complaint in the Superior Court of California, County of Los Angeles, against the Trust, PCEC, PCEC (GP) LLC, Pacific Coast Energy Holdings LLC, certain executive officers of PCEC (GP) LLC and others.

The complaint asserts federal securities law claims against the Trust and other defendants and states that the claims are made on behalf of a class of investors who purchased or otherwise acquired Trust securities pursuant or traceable to the registration statement that became effective on May 2, 2012 and the prospectuses issued thereto and the registration statement that became effective purportedly on September 19, 2013 and the prospectuses issued thereto. The complaint states that the plaintiff is pursuing negligence and strict liability claims under the Securities Act and alleges that both such registration statements contained numerous untrue statements of material facts and omitted material facts. The plaintiff seeks class certification, unspecified compensatory damages, rescission on certain of plaintiff s claims, pre-judgment and post-judgment interest, attorneys fees and costs and any other relief the Court may deem just and proper.

On October 16, 2014, Ralph Berliner, individually and on behalf of all others similarly situated, filed a second putative class action complaint in the Superior Court of California, County of Los Angeles, against the Trust, PCEC, PCEC (GP) LLC, Pacific Coast Energy Holdings LLC, certain executive officers of PCEC (GP) LLC and others. The Berliner complaint asserts the same claims and makes the same allegations, against the same defendants, as are made in the Welch complaint. In November 2014, the Welch and Berliner actions were consolidated into a single action.

On December 8, 2015, the above referenced parties agreed in principle to settle the consolidated action. On June 12, 2017, the Court entered a final judgment in the action approving the settlement in the amount of $7.6 million. The settlement was paid by PCEC and its insurers and no amounts were required to be paid by the Trust. On May 22, 2018 the Court authorized a distribution of a small amount of funds that had not been distributed to class members to a charity (a *cy pres* award). The Court authorization concluded all remaining matters related to the consolidated action and PCEC expects no further matters to arise in connection with the consolidated action. The Trust believes that it is fully indemnified by PCEC against any liability or expense it might incur in connection with the consolidated action. The approved settlement does not require any payment from the Trust.

Permitting. During 2015, the California Department of Conservation, Division of Oil, Gas & Geothermal Resources (DOGGR) discussed with PCEC the modification of existing well permits for approximately 25 water injections wells located in the conventional formations in the Orcutt oilfield (the Orcutt Conventional), which could require certain changes to operating procedures or well modifications. In September 2015, PCEC proposed, and has since implemented, a schedule to modify one of the affected wells each quarter until all have been modified. PCEC completed four such modifications in each of 2016 and 2017 and has completed four to date in 2018. If DOGGR were to order the modifications to be carried out more rapidly, PCEC s capital costs could significantly increase. Alternatively, PCEC could choose or be required financially to shut in all or a portion of the affected injection wells, which would result in a loss of production.

PCEC previously had submitted permit applications relating to the drilling of an additional 96 steam injection wells on certain oil and natural gas properties located onshore in California in the Diatomite zone at Orcutt (the Orcutt Hill Resource Enhancement Plan or OHREP). At a hearing in June 2016, the Santa Barbara County Planning Commission (the Planning Commission) instructed its staff to prepare Findings for Denial, which the Planning Commission adopted by a 3-2 vote in July 2016. In July 2016, PCEC filed an appeal to the Santa Barbara County Board of Supervisors which heard the appeal in November 2016 and voted 3-2 to deny the project, with the exception of approving permanent permits for the installation of seep cans on the Company s Orcutt Hill property. As a result of the Board of Supervisors decision, future cash flows associated with new permits for drilling in the Diatomite Zone at Orcutt, all of which would be attributable to Remaining Properties, is uncertain. At this time, PCEC has not filed any additional permits for drilling in the Diatomite Zone at Orcutt and currently is unable to estimate when it will submit such permits to Santa Barbara County. If PCEC submits any permits in the future, there can be no assurance that Santa Barbara County will approve such permits or that PCEC will be able to generate additional cash flows as a result.

Environmental Defense Center Complaint. On July 12, 2018, the Environmental Defense Center (EDC) filed a complaint against PCEC in the U.S. District Court for the Central District of California. The complaint alleges violations of California s General Permit for Storm Water Discharges Associated with Industrial Activities (Industrial Permit) under the Clean Water Act (CWA) at PCEC s Orcutt Hill facility. (See the Trust s 2017 Annual Report for a description of the CWA and risks associated with PCEC s compliance with environmental laws and regulations.) EDC alleges that the Orcutt Hill facility has and continues to discharge pollutants into local rivers, creeks and the Pacific Ocean in violation of the Industrial Permit, as well as other alleged violations related to the terms of the Industrial Permit. EDC seeks to enjoin PCEC from further violations of the Industrial Permit and the CWA, civil penalties for the alleged violations, and attorneys fees and costs. PCEC waived service of the complaint on October 5, 2018. At this time, PCEC cannot predict the outcome of the proceedings or estimate the magnitude of any costs or expenses that may result from any litigation. The costs and expenses PCEC incurs in connection with this matter (including legal expenses) will reduce the amounts available for distribution to the Trust, and, as a result, profits attributable to the Trust s Conveyed Interests will decrease in the future.

Note 6. Subsequent Events

In October 2018, PCEC made a cash payment to the Trust in the amount of $1.3 million related to the August 2018 production month. Also in October 2018, the Trust announced there will be a cash distribution of $0.01693 per Trust Unit, to Trust unitholders owning Trust Units as of November 5, 2018.

Item 2. Trustee s Discussion and Analysis of Financial Condition and Results of Operations.

The following review of the Trust s financial condition and results of operations should be read in conjunction with the financial statements and notes thereto, as well as Trustee s Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of the Trust s 2017 Annual Report. The following review should also be read in conjunction with Forward-Looking Statements in this report and with Part I Item 1A Risk Factors in the Trust s 2017 Annual Report.

Overview

The Trust is a statutory trust formed in January 2012 under the Delaware Statutory Trust Act. The business and affairs of the Trust are administered by the Trustee. The Trust s purpose is to hold the Conveyed Interests (described below), to distribute to the Trust unitholders cash that the Trust receives in respect of the Conveyed Interests and to perform certain administrative functions in respect of the Conveyed Interests and the Trust Units. The Trust does not conduct any operations or activities. The Trustee has no authority over or responsibility for, and no involvement with, any aspect of the oil and natural gas operations or other activities on the Underlying Properties. The Delaware Trustee has only minimal rights and duties as are necessary to satisfy the requirements of the Delaware Statutory Trust Act. The Trust derives all or substantially all of its income and cash flow from the Conveyed Interests, subject to the effects of the commodity derivative contracts. The Trust is treated as a grantor trust for U.S. federal income tax purposes.

The Trust was created to acquire and hold net profits and royalty interests in certain oil and natural gas properties located in California. The Conveyed Interests represent undivided interests in underlying properties consisting of PCEC s interests in its oil and natural gas properties located onshore in California (the Underlying Properties).

Concurrently with the Trust s initial public offering in May 2012, the Trust and PCEC entered into a Conveyance of Net Profits Interests and Overriding Royalty Interest (the Conveyance), pursuant to which PCEC conveyed to the Trust a net profits interest and an overriding royalty interest (the Conveyed Interests) in the Underlying Properties. The Conveyed Interests entitle the Trust to receive 80% of the net profits from the sale of oil and natural gas production from the proved developed reserves as of December 31, 2011 on the Underlying Properties (the Developed Properties) and either 25% of the net profits from the sale of oil and natural gas production from all other development potential on the Underlying Properties (the Remaining Properties) or 7.5% of the proceeds (free of any production or development costs but bearing the proportionate share of production and property taxes and post-production costs) attributable to the sale of oil and natural gas production from the Remaining Properties located on PCEC s Orcutt properties, including but not limited to PCEC s interest in such production (the Royalty Interest Proceeds).

The Trust calculates the net profits and royalties for the Developed Properties and Remaining Properties monthly. For any monthly period during which costs for the Remaining Properties exceed gross proceeds, if any, the Trust is entitled to receive the Royalty Interest Proceeds, if any, and the Trust will continue to receive such proceeds until the first day of the month following the day on which cumulative gross proceeds for the Remaining Properties exceed the cumulative total excess costs for the Remaining Properties (such occurrence being herein called a NPI Payout). Due to significant planned expenditures associated with the Remaining Properties for the benefit of the Trust, PCEC expects the Trust to receive payments associated with the Remaining Properties in the form of Royalty Interest Proceeds until the NPI Payout occurs in approximately 2020. The estimated date on which the NPI Payout is expected to occur is an estimate based on the annual reserve report and changes from time to time. In any monthly period following an NPI Payout, the Trust is entitled to receive Royalty Interest Proceeds if costs for the Remaining Properties exceed gross proceeds.

The Trust makes monthly cash distributions of all of its monthly cash receipts, after deduction of fees and expenses for the administration of the Trust, to holders of Trust Units as of the applicable record date (generally within five business days after the last business day of each calendar month) on the 10th business day after the record date. Actual cash distributions to the Trust unitholders fluctuate monthly based upon the quantity of oil and natural gas produced from the Underlying Properties, the prices received for oil and natural gas production, costs to develop and produce the oil and natural gas and other factors. Because payments to the Trust are generated by depleting assets with the production from the Underlying Properties diminishing over time, a portion of each distribution represents, in effect, a return of a unitholder s original investment. Oil and natural gas production from proved reserves attributable to the Underlying Properties will continue to decline over time.

The Trust is exposed to fluctuation in energy prices in the normal course of business due to the net profits interest in the Underlying Properties. The revenues derived from the Underlying Properties depend substantially on prevailing crude oil prices and, to a substantially lesser extent, natural gas prices. As a result, commodity prices affect the amount of cash flow available for distribution to the Trust unitholders. For example, from February 2016 through January 2017, primarily because of a decline in average realized prices, no cash distributions were made as Trust expenses exceeded the proceeds received from the Conveyed Interests. Lower prices may also reduce the amount of oil and natural gas that PCEC and its third-party operators can economically produce.

Commodity Prices

In the third quarter of 2018, the Brent crude oil spot price averaged approximately $75.07 per Bbl, compared with approximately $52.10 per Bbl in the third quarter of 2017. Lower crude oil prices not only decrease the Trust s distributable income, but may also reduce the amount of crude oil that PCEC can produce economically and therefore may decrease the Trust s crude oil reserves. In the third quarter of 2018, approximately 98% of production from the Developed Properties consisted of oil and 100% of production from the Remaining Properties consisted of oil.

Prices for natural gas in many markets are aligned both with supply and demand conditions in their respective regional markets and with the overall U.S. market. Natural gas prices are also typically higher during the winter period when demand for heating is greatest in the U.S. In the third quarter of 2018, the Henry Hub price averaged approximately $2.93 per MMBtu, compared with approximately $2.94 per MMBtu in the third quarter of 2017.

Fluctuations in commodity prices impact both distributable income to the Trust and the value of proved oil and gas reserves attributable to the Trust. For example, a prolonged period of lower commodity prices will likely reduce distributions to unitholders and have a significant impact on the volumetric quantities of our proved reserve portfolio. We are unable to predict future commodity prices.

Properties

The Underlying Properties consist of the Developed Properties and the Remaining Properties. Production from the Developed Properties that will be attributable to the Trust is produced from wells that, because they have already been drilled, require limited additional capital expenditures associated with new drilling but may require capital expenditures associated with regulatory compliance or drilling capital expenditures associated with utilizing the existing wellbores. Production from the Remaining Properties that will be attributable to the Trust will require capital expenditures for the drilling of wells and installation of infrastructure. PCEC will supply required capital on behalf of the Trust during this period; however, because the costs initially incurred will exceed gross proceeds, the Remaining Properties will have negative net profits during the drilling and development period. During this period of

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negative net profits, instead of receiving 25% of the net profits, the Trust will receive the Royalty Interest Proceeds. Once revenues from the Remaining Properties have repaid PCEC for the cumulative costs it has advanced on behalf of the Trust, including the aggregate amount of the Royalty Interest Proceeds, the net profits attributable to production from the Remaining Properties will be paid out in place of the Royalty Interest Proceeds, as described below. The Conveyed Interests entitle the Trust to receive the following:

Developed Properties

- 80% of the net profits from the sale of oil and natural gas production from the Developed Properties.

Remaining Properties

- 25% of the net profits from the sale of oil and natural gas production from all of the Remaining Properties, or

- the Royalty Interest Proceeds.

The Trust calculates the net profits and Royalty Interest Proceeds for the Developed Properties and the Remaining Properties separately. Any excess costs for either the Developed Properties or the Remaining Properties will not reduce net profits calculated for the other. The amount of Royalty Interest Proceeds paid is deducted in the calculation of the net profits attributable to production from the Remaining Properties, and PCEC will be repaid the aggregate amount of the Royalty Interest Proceeds prior to payment of the net profits to unitholders. If at any time cumulative costs for the Developed Properties or the Remaining Properties exceed cumulative gross proceeds associated with such properties, neither the Trust nor the Trust unitholders would be liable for the excess costs, but the Trust would not receive any net profits from the Developed Properties or the Remaining Properties, as the case may be, until future cumulative net profits for such properties exceed the cumulative total excess costs for such properties.

The Trust is not subject to any pre-set termination provisions based on a maximum volume of oil or natural gas to be produced or the passage of time. The Trust will dissolve upon the earliest to occur of the following: (1) the Trust, upon approval of the holders of at least 75% of the outstanding Trust Units, sells all of the Conveyed Interests and any assets constituting the Trust estate, (2) the annual cash proceeds received by the Trust attributable to the Conveyed Interests, in the aggregate, are less than $2 million for each of any two consecutive calendar years, (3) the holders of at least 75% of the outstanding Trust Units vote in favor of dissolution or (4) the Trust is judicially dissolved.

Permitting. During 2015, DOGGR discussed with PCEC the modification of existing well permits for approximately 25 water injections wells located at the Orcutt Conventional, which could require certain changes to operating procedures or well modifications. In September 2015, PCEC proposed, and has since implemented, a schedule to modify one of the affected wells each quarter until all have been modified. PCEC completed four such modifications in each of 2016 and 2017 and has completed four to date in 2018. If DOGGR were to order the modifications to be carried out more rapidly, PCEC s capital costs could significantly increase. Alternatively, PCEC could choose or be required financially to shut in all or a portion of the affected injection wells, which would result in a loss of production.

PCEC previously had submitted permit applications relating to the drilling of an additional 96 steam injection wells on certain oil and natural gas properties located onshore in California in the Diatomite zone at Orcutt (the Orcutt Hill Resource Enhancement Plan or OHREP). At a hearing in June 2016, the Santa Barbara County Planning Commission (the Planning Commission) instructed its staff to prepare Findings for Denial, which the Planning Commission adopted by a 3-2 vote in July 2016. In July 2016, PCEC filed an appeal to the Santa Barbara County Board of Supervisors, which heard the appeal in November 2016 and voted 3-2 to deny the project, with the exception of approving permanent permits for the installation of seep cans on the Company s Orcutt Hill property. As a result of the Board of Supervisors decision, future cash flows associated with new permits for drilling in the Diatomite Zone at Orcutt, all of which would be attributable to Remaining Properties, are uncertain. At this time, PCEC has not filed any additional permits for drilling in the Diatomite Zone at Orcutt and is unable to estimate when it will submit such permits to Santa Barbara County. If PCEC submits any permits in the future, there can be no assurance that Santa Barbara County will approve such permits or that PCEC will be able to generate additional cash flows as a result.

Environmental Defense Center Complaint. On July 12, 2018, the EDC filed a complaint against PCEC in U.S. District Court for the Central District of California. The complaint alleges violations of the Industrial Permit under the CWA at PCEC s Orcutt Hill facility. (See the Trust s 2017 Annual Report for a description of the CWA and risks associated with PCEC s compliance with environmental laws and regulations.) EDC alleges that the Orcutt Hill facility has and continues to discharge pollutants into local rivers, creeks and the Pacific Ocean in violation of the Industrial Permit, as well as other alleged violations related to the terms of the Industrial Permit. EDC seeks to enjoin PCEC from further violations of the Industrial Permit and the CWA, civil penalties for the alleged violations, and attorneys fees and costs. PCEC waived service of the complaint on October 5, 2018. At this time, PCEC

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cannot predict the outcome of the proceedings or estimate the magnitude of any costs or expenses that may result from any litigation. The costs and expenses PCEC incurs in connection with this matter (including legal expenses) will reduce the amounts available for distribution to the Trust, and, as a result, profits attributable to the Trust s Conveyed Interests will decrease in the future.

Results of Operations for the Three Months Ended September 30, 2018 and 2017

For the three months ended September 30, 2018, income from Conveyed Interests received by the Trust amounted to $4.9 million compared with $2.0 million for the three months ended September 30, 2017. The increase in income was primarily due to higher oil prices partially offset by lower production. The income received by the Trust during the three months ended September 30, 2018 was associated with net profits from oil and natural gas production from the Developed Properties during the months of May, June and July 2018, and Royalty Interest Proceeds from oil production from the Remaining Properties located in PCEC s Orcutt Conventional and Orcutt Diatomite properties during those same months. The income received by the Trust during the three months ended September 30, 2017 was associated with net profits for oil and natural gas production during the months of May, June and July 2017.

Oil and natural gas sales volumes are allocated to the net profits interests based upon a formula that considers oil and natural gas prices and the total amount of production expense and development costs. As oil and natural gas prices change, the Trust s share of the production volumes is impacted as the quantity of production to cover expenses and development costs in reaching the net profits break-even level changes inversely with price. Accordingly, the Underlying Property production volumes do not correlate with the Trust s net profits share of those volumes in any given period. Therefore, the comparative discussion of oil and natural gas volumes is based on the Underlying Properties as stated in the table below.

The following table displays PCEC s underlying sales volumes and average prices for the Underlying Properties, representing the amounts included in the net profits calculation during the three months ended September 30, 2018 and 2017.

	Three Months Ended September 30,			
		2018		**2017**
Developed Properties:				
Underlying sales volmes (Boe) (a)		204,443		222,673
Average daily production (Boe/d)		2,222		2,420
Average price (per Boe)	$	71.51	$	43.49
Production cost (per Boe) (b)	$	38.88	$	31.94
Remaining Properties:				
Underlying sales volmes (Boe) (c)		42,663		47,139
Average daily production (Boe/d)		464		512
Average price (per Boe)	$	69.59	$	41.21
Production cost (per Boe) (b)	$	33.60	$	28.02

(a) Crude oil sales represented 98% of sales volumes from the Developed Properties for each of the three-month periods ended September 30, 2018 and 2017.

(b) Production costs include lease operating expenses and production and other taxes.

(c) Crude oil sales represented 100% of total sales volumes from the Remaining Properties for each of the three-month periods ended September 30, 2018 and 2017.

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Computation of Net Profits and Royalty Income Received by the Trust

The Trust s net profits and royalty income consist of monthly net profits and royalty income attributable to the Conveyed Interests. Net profits and royalty income for the three months ended September 30, 2018 and 2017 was determined as shown in the following table:

	Three Months Ended September 30,			
Thousands of dollars		**2018**		**2017**
Developed Properties 80% Net Profits Interest				
Oil sales	$	14,571	$	9,598
Natural gas sales		49		86
Total revenues		14,620		9,684
Costs:				
Direct operating expenses:				
Lease operating expenses		7,404		6,655
Production and other taxes		545		457
Development expenses		806		232
Total costs		8,755		7,344
Total income		5,865		2,340
Net Profits Interest		80%		80%
Income from 80% Net Profits Interest:		4,692		1,872
Property taxes related to PCEC (2)		3		
Income from 80% Net Profits Interest	$	4,695	$	1,872
Remaining Properties 25% Net Profits Interest				
Oil sales	$	2,968	$	1,939
Natural gas sales		1		3
Total revenues		2,969		1,942
7.5% ORRI		212		127
Costs:				
Direct operating expenses:				
Lease operating expenses		1,382		1,210
Production and other taxes		53		111
Development expenses		1,472		46
Total costs		2,907		1,367
Total income (loss)		(150)		448
Net Profits Interest		25%		25%
Income from 25% Net Profits Interest (1)	$		$	112
25% Net Profits Interest Deficit (1)	$	(38)	$	
Total Trust Cash Flow				
Income from 80% Net Profits Interest	$	4,695	$	1,872
7.5% ORRI		212		127
Total income		4,907		1,999
PCEC operating and services fee		(272)		(267)
Total cash received		4,635		1,732
Trust general and administrative expenses and cash withheld for expenses		(170)		(201)
Interest income		5		
Distributable Income	$	4,470	$	1,531

		Three Months Ended September 30,		
		2018		2017
(1) 25% Net Profits Interest Accrued Deficit				
Beginning balance	$	(1,438)	$	(1,936)
Current period		(38)		112
Ending balance	$	(1,476)	$	(1,824)
(2) 80% Net Profits Interest PCEC Property Tax Adjustments				
Related to PCEC Property Tax Adjustment Not Applicable to the Trust				
Based on PCEC % ownership after IPO but prior to PCEC 100% divestiture of Trust				
Amount related to PCEC ownership from May 8, 2012 through September 23, 2013	$	7	$	
Amount related to PCEC ownership from September 23, 2013 through June 9, 2014		(4)		
Total PCEC Property Tax Adjustment Not Related to the Trust	$	3	$	

Three Months Ended September 30, 2018 and 2017

Developed Properties For the three months ended September 30, 2018, revenues from the Developed Properties exceeded direct operating expenses and development expenses by $5.9 million. For the three months ended September 30, 2017, revenues exceeded direct operating expenses and development expenses by $2.3 million. The $3.6 million period-over-period increase is attributable principally to higher oil prices, partially offset by lower production, higher lease operating expenses and higher development costs in the three months ended September 30, 2018 compared to the three months ended September 30, 2017. Average realized prices increased by $28.02 per Boe, or 64%, and sales volumes decreased 18 MBoe, or 8%. The decrease in production period over period is primarily due to lower-than-expected performance from the Los Angeles Basin properties as well as natural production declines. West Pico production declined in the 2018 period compared to the 2017 period due to a backlog of shut-in wells requiring workovers to be returned to production upon the resumption of unrestricted gas export from the property following the temporary shutdown downstream of the natural gas export pipeline from West Pico from December 2017 to April 2018. Production from East Coyote and Sawtelle declined in the 2018 period compared to the 2017 period due to the temporary shutdown of wells from sanding and well failures as well as injection constraints at both fields. In addition, Orcutt Conventional production declined in the 2018 period compared to the 2017 period due to water injection constraints that have since been resolved. Total lease operating expenses included in the net profits calculation during the quarter were $7.4 million for the three months ended September 30, 2018 compared to $6.7 million for the three months ended September 30, 2017. This increase is mainly due to increased utility and regulatory costs in Orcutt Conventional in addition to higher costs at West Pico due to increased frequency of well failures and repairs for the three months ended September 30, 2018 compared to the same period in 2017. Total capital expenditures were approximately $0.8 million for the three months ended September 30, 2018 compared to $0.2 million for the three months ended September 30, 2017. The increase is primarily due to the microturbine project in West Pico and higher abandonment costs in Orcutt Conventional. Production and other taxes were approximately $0.5 million for the each of the three-month periods ended September 30, 2018 and September 30, 2017.

Remaining Properties For the three months ended September 30, 2018, direct operating expenses and development expenses for the Remaining Properties exceeded revenues by $0.2 million. For the three months ended September 30, 2017, revenues exceeded direct operating expenses and development expenses by $0.4 million. The $0.6 million period-over-period decrease is attributable principally to lower production and higher development expenses, offset by higher oil prices in the three months ended September 30, 2018, compared to the three months ended September 30,

2017. Average realized prices increased by $28.38 per Boe, or 69%, and sales volumes decreased 4 MBoe, or 9%. The decrease in production period over period is primarily due to below expected oil recoveries from steaming operations, delays in the pace of Orcutt Diatomite redrills and natural production declines. Total lease operating expenses included in the net profits calculation during the quarter were $1.4 million for the three months ended September 30, 2018 compared to $1.2 million for the three months ended September 30, 2017. Capital expenditures were $1.5 million in the three-month period ended September 30, 2018, compared to less than $0.1 million for the three months ended September 30, 2017. The increase is primarily due to the commencement of the redrill program in Orcutt Diatomite. Since a cumulative deficit existed on the 25% net profits interest, the Trust received Royalty Interest Proceeds of approximately $0.2 million and $0.1 million during the three months ended September 30, 2018 and 2017, respectively, from the sale of all production from the Remaining Properties located on PCEC s Orcutt Conventional and Orcutt Diatomite properties. The cumulative deficit of the net profits interest on the Remaining Properties, including payments to the Trust pursuant to the 7.5% overriding royalty interest, decreased to approximately $1.5 million at September 30, 2018 compared to $1.8 million at September 30, 2017.

PCEC Operating & Services Fee PCEC charged the Trust approximately $0.3 million for operating and services fees for each of the three-month periods ended September 30, 2018 and 2017.

Trust Administrative Expenses The Trustee paid general and administrative expenses of $0.2 million for the three months ended September 30, 2018 compared to $0.1 million for the three months ended September 30, 2017.

Distributable Income The total cash received by the Trust from PCEC for the three months ended September 30, 2018 was $4.6 million compared to $1.7 million for the three months ended September 30, 2017. Distributable income was $4.5 million and $1.5 million for the three months ended September 30, 2018 and 2017, respectively.

Results of Operations for the Nine Months Ended September 30, 2018 and 2017

For the nine months ended September 30, 2018, income from Conveyed Interests received by the Trust amounted to $11.1 million compared with $5.9 million for the nine months ended September 30, 2017. The increase in income was primarily due to higher oil prices partially offset by lower production and higher development expenses. The income received by the Trust during the nine months ended September 30, 2018 was associated with net profits for oil and natural gas production from the Developed Properties during the months of November and December 2017, January through February 2018 and April through July 2018, and with the Royalty Interest Proceeds relating to production during these same months in addition to March 2018. The Trust did not receive any net profits income for oil and natural gas production from the Developed Properties during the month of March 2018, as operating expenses and capital expenditures exceeded revenues for the corresponding production period. The income received by the Trust during the nine months ended September 30, 2017 was associated with net profits for oil and natural gas production from the Developed Properties during the months of November and December 2016 and January through July 2017, and with the Royalty Interest Proceeds relating to production during these same months.

Oil and natural gas sales volumes are allocated to the net profits interests based upon a formula that considers oil and natural gas prices and the total amount of production expense and development costs. As oil and natural gas prices change, the Trust s share of the production volumes is impacted as the quantity of production to cover expenses and development costs in reaching the net profits break-even level changes inversely with price. Accordingly, the Underlying Property production volumes do not correlate with the Trust s net profits share of those volumes in any given period. Therefore, the comparative discussion of oil and natural gas volumes is based on the Underlying Properties as stated in the table below.

The following table displays PCEC s underlying sales volumes and average realized prices for the Underlying Properties, representing the amounts included in the net profits calculation during the nine months ended September 30, 2018 and 2017.

	Nine Months Ended September 30,			
		2018		2017
Developed Properties:				
Underlying sales volmes (Boe) (a)		603,639		670,302
Average daily production (Boe/d)		2,211		2,455
Average price (per Boe)	$	66.21	$	45.54
Production cost (per Boe) (b)	$	35.76	$	31.44
Remaining Properties:				
Underlying sales volmes (Boe) (c)		127,299		141,805
Average daily production (Boe/d)		466		519
Average price (per Boe)	$	63.61	$	43.11
Production cost (per Boe) (b)	$	31.07	$	27.09

(a) Crude oil sales represented 99% and 98% of sales volumes from the Developed Properties for the nine-month periods ended September 30, 2018 and 2017, respectively.

(b) Production costs include lease operating expenses and production and other taxes.

(c) Crude oil sales represented 100% of total sales volumes from the Remaining Properties for each of the nine-month periods ended September 30, 2018 and 2017.

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Computation of Net Profits and Royalty Income Received by the Trust

The Trust s net profits and royalty income consist of monthly net profits and royalty income attributable to the Conveyed Interests. Net profits and royalty income for the nine months ended September 30, 2018 and 2017 was determined as shown in the following table:

	Nine Months Ended September 30,			
Thousands of dollars		**2018**		**2017**
Developed Properties 80% Net Profits Interest				
Oil sales	$	39,868	$	30,289
Natural gas sales		98		237
Total revenues		39,966		30,526
Costs:				
Direct operating expenses:				
Lease operating expenses		19,914		19,693
Production and other taxes		1,673		1,382
Development expenses		5,256		2,697
Total costs		26,843		23,772
Total income		13,123		6,754
Net Profits Interest		80%		80%
Income from 80% Net Profits Interest:		10,498		5,403
Property taxes related to PCEC (1)		3		45
Income from 80% Net Profits Interest	$	10,501	$	5,448
Remaining Properties 25% Net Profits Interest				
Oil sales	$	8,095	$	6,102
Natural gas sales		3		10
Total revenues		8,098		6,112
7.5% ORRI		569		426
Costs:				
Direct operating expenses:				
Lease operating expenses		3,734		3,795
Production and other taxes		222		47
Development expenses		2,534		786
Total costs		6,490		4,628
Total income		1,039		1,058
Net Profits Interest		25%		25%
Income from 25% Net Profits Interest		260		265
Property taxes related to PCEC (3)				(14)
Income from 25% Net Profits Interest (2)	$	260	$	251
Total Trust Cash Flow				
Income from 80% Net Profits Interest	$	10,501	$	5,448
7.5% ORRI		569		426
Total income		11,070		5,874
PCEC operating and services fee		(808)		(795)
Total cash received		10,262		5,079
Trust general and administrative expenses and cash used for expenses		(975)		(738)
Promissory note amount borrowed from PCEC		81		10
Promissory note amount repayment to PCEC		(81)		(1,142)
Promissory note interest amounts				(10)
Interest income		5		
Distributable Income	$	9,292	$	3,199

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	Nine Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
(1) 80% Net Profits Interest PCEC Property Tax Adjustments				
Related to PCEC Property Tax Adjustment Not Applicable to the Trust				
Based on PCEC % ownership after IPO but prior to PCEC 100% divestiture of Trust				
Amount related to PCEC ownership from May 8, 2012 through September 23, 2013	$	7	$	45
Amount related to PCEC ownership from September 23, 2013 through June 9, 2014		(4)		
Total PCEC Property Tax Adjustment Not Related to the Trust	$	3	$	45
(2) 25% Net Profits Interest Accrued Deficit				
Beginning balance	$	(1,736)	$	(2,075)
Current period		260		251
Ending balance	$	(1,476)	$	(1,824)
(3) 25% Net Profits Interest PCEC Property Tax Adjustments				
Related to PCEC Property Tax Adjustment Not Applicable to the Trust				
Based on PCEC % ownership after IPO but prior to PCEC 100% divestiture of Trust				
Amount related to PCEC ownership from May 8, 2012 through September 23, 2013	$		$	(11)
Amount related to PCEC ownership from September 23, 2013 through June 9, 2014				(3)
Total PCEC Property Tax Adjustment Not Related to the Trust	$		$	(14)

Nine Months Ended September 30, 2018 and 2017

Developed Properties For the nine months ended September 30, 2018, revenues from the Developed Properties exceeded direct operating expenses and development expenses by $13.1 million. For the nine months ended September 30, 2017, revenues exceeded direct operating expenses and development expenses by $6.8 million. The $6.3 million period-over-period increase is attributable principally to higher oil prices, partially offset by lower production and higher development costs in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017. Average realized prices increased by $20.67 per Boe, or 45%, and sales volumes decreased 67 MBoe, or 10%. The decrease in production period over period is primarily due to lower-than-expected performance from the Los Angeles Basin properties as well as natural production declines. West Pico production declined in the 2018 period compared to the 2017 period due to a backlog of shut-in wells requiring workovers to be returned to production upon the resumption of unrestricted gas export from the property following the temporary shutdown downstream of the natural gas export pipeline from West Pico from December 2017 to April 2018. Production from East Coyote and Sawtelle declined in the 2018 period compared to the 2017 period due to the temporary shutdown of wells from sanding and well failures as well as injection constraints at both fields. In addition, Orcutt Conventional production declined in the 2018 period compared to the 2017 period due to water injection constraints that have since been resolved. Total lease operating expenses included in the net profits calculation were $19.9 million for the nine months ended September 30, 2018 compared to $19.7 million for the nine months ended September 30, 2017. Production and other taxes were approximately $1.7 million for the nine months ended September 30, 2018 compared to $1.4 million for the nine months ended September 30, 2017. Total capital expenditures were approximately $5.3 million for the nine months ended September 30, 2018 compared to $2.7 million for the nine months ended September 30, 2017. The increase is primarily due to the microturbine project in West Pico and higher abandonment costs in Orcutt Conventional.

Remaining Properties For the nine months ended September 30, 2018, revenues from the Remaining Properties exceeded direct operating expenses and development expenses by $1.0 million. For the nine months ended September 30, 2017, revenues exceeded direct operating expenses and development expenses by $1.1 million. The $0.1 million period-over-period decrease is attributable principally to lower production and higher development expenses, partially offset by higher oil prices in the nine months ended September 30, 2018, compared to the nine months ended September 30, 2017. Average realized prices increased by $20.50 per Boe, or 48%, and sales volumes decreased 15 MBoe, or 10%. The decrease in production period over period is primarily due to natural production declines. Total lease operating expenses included in the net profits calculation were $3.7 million for the nine months ended September 30, 2018 compared to $3.8 million for the nine months ended September 30, 2017. Production and other taxes were approximately $0.2 million for the nine months ended September 30, 2018 compared to less than $0.1 million for the nine months ended September 30, 2017. Capital expenditures were approximately $2.5 million for the nine months ended September 30, 2018 compared to $0.8 million for the nine months ended September 30, 2017. The increase is primarily due to the commencement of the redrill program in Orcutt Diatomite. Since a cumulative deficit existed on the 25% net profits interest, the Trust received Royalty Interest Proceeds of approximately $0.6 million and $0.4 million during the nine months ended September 30, 2018 and 2017, respectively, from the sale of all production from the Remaining Properties located on PCEC s Orcutt Field and Orcutt Diatomite properties. The cumulative deficit of the net profits interest on the Remaining Properties,

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including payments to the Trust pursuant to the 7.5% overriding royalty interest, decreased to approximately $1.5 million at September 30, 2018 compared to $1.8 million at September 30, 2017.

PCEC Operating & Services Fee PCEC charged the Trust approximately $0.8 million for operating and services fees for each of the nine-month periods ended September 30, 2018 and 2017.

Trust Administrative Expenses The Trustee paid general and administrative expenses of $1.1 million for the nine months ended September 30, 2018 compared to $0.7 million for the nine months ended September 30, 2017.

Distributable Income The total cash received by the Trust from PCEC for the nine months ended September 30, 2018 was $10.3 million compared to $3.9 million ($5.0 million less $1.1 million for repayment of the outstanding promissory note to PCEC) for the nine months ended September 30, 2017. Distributable income was $9.3 million and $3.2 million for the nine months ended September 30, 2018 and 2017, respectively.

Liquidity and Capital Resources

The Trust has no source of capital or liquidity other than cash, if any, it receives from the Conveyed Interests, borrowings from PCEC pursuant to PCEC s loan commitment as described below or, if available, from other lenders, the $1.0 million letter of credit provided by PCEC as described below, and other immaterial sources (such as interest earned on any amounts reserved by the Trustee). Other than Trust administrative expenses, including payment of the PCEC operating and services fee, payment of any Trust liabilities and the funding of any reserves established by the Trustee for future liabilities, the Trust s only use of cash is for distributions to Trust unitholders. Available funds are the excess cash, if any, received by the Trust from the Conveyed Interests and other sources (such as interest earned on any amounts reserved by the Trustee) in that month, over the Trust s expenses paid for that month. Available funds are reduced by any cash the Trustee determines to hold as a reserve against future expenses.

The Trustee may create a cash reserve to pay for future liabilities of the Trust. If the Trustee determines that the cash on hand and the cash to be received are, or will be, insufficient to cover the Trust s liabilities, the Trustee may cause the Trust to borrow funds to pay liabilities of the Trust. The Trustee may also cause the Trust to mortgage its assets to secure payment of the indebtedness. If the Trustee causes the Trust to borrow funds, as it did in May 2018 and from March 2016 to March 2017 as described in Note 4 to the financial statements, the Trust unitholders will not receive distributions until the borrowed funds, including interest thereon, are repaid.

The Trust calculates the net profits and Royalty Interest Proceeds for the Developed Properties and the Remaining Properties separately. Any excess costs for either the Developed Properties or the Remaining Properties do not reduce net profits calculated for the other.

Each month, the Trustee pays Trust obligations and expenses and distributes to the Trust unitholders the remaining proceeds, if any, received from the Conveyed Interests. The cash held by the Trustee as a reserve against future liabilities or for distribution at the next distribution date may be invested in a limited number of permitted investments. Alternatively, cash held for distribution at the next distribution date may be held in a non-interest-bearing account.

PCEC has provided the Trust with a $1.0 million letter of credit to be used by the Trust if its cash on hand (including available cash reserves) is not sufficient to pay ordinary course administrative expenses as they become due. Further, if the Trust requires more than the $1.0 million under the letter of credit to pay administrative expenses, PCEC has agreed to loan additional funds to the Trust to pay necessary expenses. Any funds provided under the letter of credit may only be used for the payment of current accounts or other obligations to trade creditors in connection with obtaining goods or services or for the payment of other accrued current liabilities arising in the ordinary course of the Trust s business, and may not be used to satisfy Trust indebtedness.

Off-Balance Sheet Arrangements

The Trust has no off-balance sheet arrangements and does not have any transactions, arrangements or other relationships with unconsolidated entities or persons that could materially affect the Trust s liquidity or the availability of capital resources.

New Accounting Pronouncements

As the Trust s financial statements are prepared on the modified cash basis, most accounting pronouncements are not applicable to the Trust s financial statements. No new accounting pronouncements have been adopted or issued that would impact the financial statements of the Trust.

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Critical Accounting Policies and Estimates

Please read Item 7. Trustee s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates of the Trust s 2017 Annual Report for additional information regarding the Trust s critical accounting policies and estimates. There were no material changes to the Trust s critical accounting policies or estimates during the quarter ended September 30, 2018.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Commodity Price Risk. The Trust s most significant market risk relates to the prices received for oil and natural gas production. The revenues derived from the Underlying Properties depend substantially on prevailing oil prices and, to a substantially lesser extent, natural gas prices. As a result, commodity prices also affect the amount of cash flow available for distribution to the Trust unitholders. Lower prices may also reduce the amount of oil and natural gas that PCEC or the third-party operators can economically produce.

Credit Risk. The Trust s most significant credit risk is the risk of the bankruptcy of PCEC. The bankruptcy of PCEC could impede the operation of wells and the development of the proved undeveloped reserves. The bankruptcy of PCEC also could adversely affect PCEC ability to make loans to the Trust. Further, in the event of the bankruptcy of PCEC, if a court were to hold that the net profits interests were part of the bankruptcy estate, the Trust might be treated as an unsecured creditor with respect to the net profits interests.

In addition, one customer accounted for 95% of PCEC s net sales in 2017. This customer s purchase of production from the Orcutt and West Pico properties therefore presents a credit risk to PCEC and consequently the Trust.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The Trustee maintains disclosure controls and procedures designed to ensure that information required to be disclosed by the Trust in the reports that it files or submits under Rules 13a-15 and 15d-15 under the Securities and Exchange Act of 1934, as amended (Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by the Trust is accumulated and communicated by PCEC to The Bank of New York Mellon Trust Company, N.A., as Trustee of the Trust, and its employees who participate in the preparation of the Trust s periodic reports as appropriate to allow timely decisions regarding required disclosure. As of the end of the period covered by this report, the Trustee carried out an evaluation of the Trustee s disclosure controls and procedures. Sarah Newell, as Trust Officer of the Trustee, has concluded that the disclosure controls and procedures of the Trust are effective.

Due to the nature of the Trust as a passive entity and in light of the contractual arrangements pursuant to which the Trust was created, including the provisions of (i) the Trust Agreement, (ii) the Operating and Services Agreement and (iii) the Conveyance, the Trustee s disclosure controls and procedures related to the Trust necessarily rely on (A) information provided by PCEC, including information relating to results of operations, the costs and revenues attributable to the Trust s interests under the Conveyance and other operating and historical data, plans for future operating and capital expenditures, reserve information, information relating to projected production, and other information relating to the status and results of operations of the Underlying Properties and the Conveyed Interests, and (B) conclusions and reports regarding reserves by the Trust s independent reserve engineers.

Changes in Internal Control over Financial Reporting

During the quarter ended September 30, 2018, there was no change in the Trustee s internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Trustee s internal control over financial reporting related to the Trust. The Trustee notes for purposes of clarification that it has no authority over, and makes no statement concerning, the internal control over financial reporting of PCEC.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

Securities Class Action. The Trust has been named as a defendant in a putative class action as described below.

On July 1, 2014, Thomas Welch, individually and on behalf of all others similarly situated, filed a putative class action complaint in the Superior Court of California, County of Los Angeles, against the Trust, PCEC, PCEC (GP) LLC, Pacific Coast Energy Holdings LLC, certain executive officers of PCEC (GP) LLC and others.

The complaint asserts federal securities law claims against the Trust and other defendants and states that the claims are made on behalf of a class of investors who purchased or otherwise acquired Trust securities pursuant or traceable to the registration statement that became effective on May 2, 2012 and the prospectuses issued thereto and the registration statement that became effective purportedly on September 19, 2013 and the prospectuses issued thereto. The complaint states that the plaintiff is pursuing negligence and strict liability claims under the Securities Act and alleges that both such registration statements contained numerous untrue statements of material facts and omitted material facts. The plaintiff seeks class certification, unspecified compensatory damages, rescission on certain of plaintiff s claims, pre-judgment and post-judgment interest, attorneys fees and costs and any other relief the Court may deem just and proper.

On October 16, 2014, Ralph Berliner, individually and on behalf of all others similarly situated, filed a second putative class action complaint in the Superior Court of California, County of Los Angeles, against the Trust, PCEC, PCEC (GP) LLC, Pacific Coast Energy Holdings LLC, certain executive officers of PCEC (GP) LLC and others. The Berliner complaint asserts the same claims and makes the same allegations, against the same defendants, as are made in the Welch complaint. In November 2014, the Welch and Berliner actions were consolidated into a single action.

On December 8, 2015, the above referenced parties agreed in principle to settle the consolidated action. On June 12, 2017, the Court entered a final judgment in the action approving the settlement in the amount of $7.6 million. The settlement was paid by PCEC and its insurers and no amounts were required to be paid by the Trust. On May 22, 2018 the Court authorized a distribution of a small amount of funds that had not been distributed to class members to a charity (a *cy pres* award). The Court authorization concluded all remaining matters related to the consolidated action and PCEC expects no further matters to arise in connection with the consolidated action. The Trust believes that it is fully indemnified by PCEC against any liability or expense it might incur in connection with the consolidated action. The approved settlement does not require any payment from the Trust.

Environmental Defense Center Complaint. On July 12, 2018, the EDC filed a complaint against PCEC in U.S. District Court for the Central District of California. The complaint alleges violations of the Industrial Permit under the CWA at PCEC s Orcutt Hill facility. (See the Trust s 2017 Annual Report for a description of the CWA and risks associated with PCEC s compliance with environmental laws and regulations.) EDC alleges that the Orcutt Hill facility has and continues to discharge pollutants into local rivers, creeks and the Pacific Ocean in violation of the Industrial Permit, as well as other alleged violations related to the terms of the Industrial Permit. EDC seeks to enjoin PCEC from further violations of the Industrial Permit and the CWA, civil penalties for the alleged violations, and attorneys fees and costs. PCEC waived service of the complaint on October 5, 2018. At this time, PCEC cannot predict the outcome of the proceedings or estimate the magnitude of any costs or expenses that may result from any litigation. The costs and expenses PCEC incurs in connection with this matter (including legal expenses) will reduce the amounts available for distribution to the Trust, and, as a result, profits attributable to the Trust s Conveyed Interests will decrease in the future.

Item 1A. **Risk Factors.**

There have been no material changes to the Risk Factors disclosed in Part I Item 1A. Risk Factors of our 2017 Annual Report.

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Item 6. Exhibits.

The following exhibits are filed or furnished as part of this Quarterly Report on Form 10-Q:

Exhibit Number	Description
3.1 *	Certificate of Trust of Pacific Coast Oil Trust (Incorporated herein by reference to Exhibit 3.4 to the Registration Statement on Form S-1, filed on January 6, 2012 (Registration No. 333-178928)).
3.2 *	Amended and Restated Trust Agreement of Pacific Coast Oil Trust, dated May 8, 2012, among Pacific Coast Energy Company LP, Wilmington Trust, National Association, as Delaware trustee of Pacific Coast Oil Trust, and The Bank of New York Mellon Trust Company, N.A., as trustee of Pacific Coast Oil Trust (Incorporated herein by reference to Exhibit 3.1 to the Trust s Current Report on Form 8-K filed on May 8, 2012 (File No. 1-35532)).
3.3 *	First Amendment to Amended and Restated Trust Agreement of Pacific Coast Oil Trust, dated June 15, 2012 (Incorporated by reference to Exhibit 3.1 to the Trust s Current Report on Form 8-K filed on June 19, 2012 (File No. 1-35532)).
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Asterisk indicates exhibit previously filed with SEC and incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PACIFIC COAST OIL TRUST

By:	The Bank of New York Mellon Trust Company, N.A., as Trustee
By:	/s/ Sarah Newell Sarah Newell Vice President

Date: October 31, 2018

The Registrant, Pacific Coast Oil Trust, has no principal executive officer, principal financial officer, board of directors or persons performing similar functions. Accordingly, no additional signatures are available and none have been provided. In signing the report above, the Trustee does not imply that it has performed any such function or that any such function exists pursuant to the terms of the Trust Agreement under which it serves.