

Pacific Coast Oil Trust  
Form 10-K  
March 08, 2019  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

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

For the Fiscal Year Ended December 31, 2018

or

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 001-35532

**PACIFIC COAST OIL TRUST**

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(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code: **(512) 236-6555**

Securities registered pursuant to Section 12(b) of the Act:

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
Units of Beneficial Interest	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

**None**

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No .

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  No

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 during the preceding 12 months (or for such shorter period that the registration was required to submit such files). Yes  No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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  Accelerated filer  Non-accelerated filer  Smaller reporting company

Emerging growth company

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.

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

The aggregate market value of the 38,583,158 Units of Beneficial Interest in Pacific Coast Oil Trust held by non-affiliates of the registrant at the closing price on June 29, 2018 of \$2.30 was approximately \$88,741,263.

As of March 8, 2019, 38,583,158 Units of Beneficial Interest of the Trust were outstanding.

Documents Incorporated By Reference: **None**

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References to the Trust in this document refer to Pacific Coast Oil Trust, while references to PCEC in this document refer to Pacific Coast Energy Company LP, a privately held Delaware partnership.

**FORWARD-LOOKING STATEMENTS**

This Annual Report on Form 10-K ( Annual Report ) includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, (the Securities Act ) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ). All statements other than statements of historical fact included in this Annual Report, including without limitation the statements under Trustee s Discussion and Analysis of Financial Condition and Results of Operations and Risk Factors regarding the financial position, business strategy, production and reserve growth, and other plans and objectives for the future operations of PCEC and any statements regarding future matters regarding the Trust are forward-looking statements. Such statements may be influenced by factors that could cause actual outcomes and results to differ materially from those projected. No assurance can be given that such expectations will prove to have been correct. When used in this document, the words believes, expects, anticipates, intends or similar expressions are intended to identify such forward-looking statements. The following important factors, in addition to those discussed elsewhere in this Annual 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 Annual 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 Annual Report or to reflect the occurrence of unanticipated events, unless required by law.

This Annual Report describes other important factors that could cause actual results to differ materially from expectations of PCEC and the Trust, including under Risk Factors in Item 1A of this Annual Report and Trustee's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Annual Report. 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. The Trust assumes no obligation, and disclaims any duty, to update these forward-looking statements.

#### **GLOSSARY OF CERTAIN OIL AND NATURAL GAS TERMS**

In this Annual 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.

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*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.

*Development Well* A well drilled into a proved oil or natural gas reservoir to the depth of a stratigraphic horizon known to be productive.

*Differential* The difference between a benchmark price of oil and/or natural gas, such as the NYMEX crude oil price, and the wellhead price received.

*Dry hole or well* A well found to be incapable of producing either oil or 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.

*Exploratory well* A well drilled to find a new field or to find a new reservoir in a field previously found to be productive of oil or gas in another reservoir. Generally, an exploratory well is not a development well.

*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

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expenditures, based on current costs to be incurred, in developing and producing the proved reserves, excluding overhead.

*FASB* Financial Accounting Standards Board.

*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.

*Gross acres or gross wells* The total acres or wells, as the case may be, in which a working interest is owned.

*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 ICE.

*ICE* -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.

*MMbbl* One million barrels of crude oil or condensate.

*MMBoe* One million barrels of oil equivalent.

*MMBtu* One million British Thermal Units.

*MMcf* One million cubic feet of natural gas.



*Net acres or net wells* The sum of the fractional working interests owned in gross acres or wells, as the case may be.

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*NGLs* The combination of ethane, propane, butane and natural gasolines that when removed from natural gas become liquid under various levels of higher pressure and lower temperature.

*Net profits interest, or NPI* A non-operating 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.

*Net revenue interest* An interest in all oil and natural gas produced and saved from, or attributable to, a particular property, net of all royalties, overriding royalties, net profits interests, carried interests, reversionary interests and any other burdens to which the person's interest is subject.

*NYMEX* New York Mercantile Exchange.

*Oil* Crude oil and condensate.

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

*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 or 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.

*Plugging and abandonment* Activities to remove production equipment and seal off a well at the end of a well's economic life.

*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.

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*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.

*U.S. GAAP* Generally accepted accounting principles in the United States.

*West Texas Intermediate, or WTI* Light, sweet crude oil with high API gravity and low sulfur content used as the benchmark for U.S. crude oil refining and trading. WTI is deliverable at Cushing, Oklahoma to fill NYMEX futures contracts for light, sweet crude oil.

*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.

*Workover* Operations on a producing well to restore or increase production.

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**Part I**

**Item 1. Business.**

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 (as amended, the 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 was created to acquire and hold net profits and royalty interests in certain oil and natural gas properties located in California for the benefit of the Trust unitholders. On May 8, 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 the net profits interests (Net Profits Interests) and a royalty interest (Royalty Interest), which are collectively referred to herein as the Conveyed Interests, in certain oil and natural gas properties located onshore in California (the Underlying Properties). The Conveyed Interests represent undivided interests in 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 Underlying Properties consist of (i) the proved developed reserves as of December 31, 2011 on the Underlying Properties, which are referred to as the Developed Properties, and (ii) all other development potential on the Underlying Properties, which are referred to as the Remaining Properties. Production from the Developed Properties attributable to the Trust is produced from wells that, because they have already been drilled, generally require limited additional capital expenditures. Production from the Remaining Properties that is attributable to the Trust requires capital expenditures for the drilling of wells and installation of infrastructure. PCEC supplies the required capital on behalf of the Trust during the drilling and development period; however, because the costs initially incurred exceed gross proceeds, the Remaining Properties currently have negative net profits. During this period of negative net profits, instead of being paid net profits, the Trust is paid 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 all 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). Once revenues from the Remaining Properties have paid back PCEC for the cumulative costs it has advanced on behalf of the Trust, then the NPI on the Remaining Properties will be paid out (NPI Payout) in place of the Royalty Interest Proceeds. Collectively, these 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 has no employees. The business and affairs of the Trust are administered by the Trustee. The Trust's purpose is to hold the Conveyed Interests, 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. The Trust is treated as a grantor trust for U.S. federal income tax purposes.

The Trustee can authorize the Trust to borrow money to pay Trust administrative or incidental expenses that exceed cash held by the Trust. The Trustee may authorize the Trust to borrow from the Trustee or an affiliate as a lender provided the terms of the loan are fair to the Trust unitholders and similar to the terms it would grant to a similarly situated commercial customer with whom it did not have a fiduciary relationship, although neither the Trustee nor any of its affiliates has any intention of lending or obligation to lend funds to the Trust. The Trustee may also deposit funds awaiting distribution in an account with itself, if the interest paid to the Trust at least equals amounts paid by the Trustee on similar deposits, and make other short-term investments with the funds distributed to the Trust.

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In connection with the formation of the Trust, the Trust entered into several agreements with PCEC that impose obligations upon PCEC that are enforceable by the Trustee on behalf of the Trust, including the Conveyance, an operating and services agreement and a registration rights agreement. The operating and services agreement provides that PCEC must perform specified operating and informational services on behalf of the Trust in a good and workmanlike manner in accordance with the sound and prudent practices of providers of similar services. The Trustee has the power and authority under the Trust Agreement to enforce these agreements on behalf of the Trust. The Trustee may from time to time supplement or amend the Conveyance, the operating and services agreement and the registration rights agreement without the approval of Trust unitholders in order to cure any ambiguity, to correct or supplement any defective or inconsistent provisions, to grant any benefit to all of the Trust unitholders, to comply with changes in applicable law or to change the name of the Trust. Such supplement or amendment, however, may not materially adversely affect the interests of the Trust unitholders. Additionally, the Trustee may, from time to time, supplement or amend these agreements without the approval of the Trust unitholders as long as such supplement or amendment would not materially increase the costs or expenses of the Trust or adversely affect the economic interest of the Trust unitholders; however, the Trustee may not modify or amend the Conveyance if the modification or amendment would change the character of the Conveyed Interests in such a way that the Conveyed Interests become working interests or that the Trust would fail to continue to qualify as a grantor trust for U.S. federal income tax purposes. The Trustee is entitled to rely upon a written opinion of counsel or certification of PCEC as conclusive evidence that any such amendment or supplement is authorized.

Other than Trust administrative expenses, including 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. As of December 31, 2018, the Trust had cash reserves of \$0 for future Trust expenses. Commencing with the distribution to unitholders payable in the first month of 2019, the Trustee intends to withhold the greater of \$10,000 or 3.5% of the funds otherwise available for distribution each month to gradually build a cash reserve of approximately \$350,000. Accordingly, in February 2019, the Trustee withheld approximately \$17,000 from the funds otherwise available for distribution. The Trustee may increase or decrease the targeted amount at any time, and may increase or decrease the rate at which it is withholding funds to build the cash reserve at any time, without advance notice to the unitholders. Cash held in reserve will be invested as required by the trust agreement. Any cash reserved in excess of the amount necessary to pay or provide for the payment of future known, anticipated or contingent expenses or liabilities eventually will be distributed to unitholders, together with interest earned on the funds.

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, the Trust unitholders will not receive distributions until the borrowed funds are repaid. The Trust calculates net profits and royalties from the Underlying Properties separately for each of the Developed Properties and the Remaining Properties. Any excess costs for either the Developed Properties or the Remaining Properties will 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 noninterest bearing account.

PCEC 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, PCEC may loan funds to the Trust necessary to pay such expenses, and PCEC has agreed to do so under certain circumstances and did so during 2016, early 2017 and May 2018. Any funds provided

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under the letter of credit or loaned 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. If the Trust draws on the letter of credit or PCEC loans funds to the Trust, no further distributions will be made to Trust unitholders (except in respect of any previously determined monthly cash distribution amount) until such amounts drawn or borrowed, including interest thereon, are repaid in full. Any loan made by PCEC will be on an unsecured basis, and the terms of such loan will be substantially the same as those which would be obtained in an arms-length transaction between PCEC and an unaffiliated third party. In May 2018, the Trust borrowed \$80,535 from PCEC as Trust expenses exceeded income from the Conveyed Interests for the month of March 2018, and repaid the entire amount owed, including interest of \$394, in June 2018. In February 2016, the Trust borrowed \$232,000 from PCEC as Trust expenses exceeded income from the Conveyed Interests for the month of February and March 2016. Subsequent borrowings, including interest thereon, and repayments added an additional \$900,450 to the original \$232,000 amount, resulting in an

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outstanding note balance as of December 31, 2016, of \$1,132,450 owed to PCEC, which was fully repaid in March 2017 with the proceeds received by the Trust. If the Trust draws on the letter of credit or PCEC loans additional funds to the Trust, no further distributions will be made to Trust unitholders (except in respect of any previously determined monthly cash distribution amount) until such amounts drawn or borrowed, including interest thereon, are repaid.

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 the Conveyed Interests, (2) the annual cash proceeds received by the Trust attributable to the Conveyed Interests, in the aggregate, is less than \$2.0 million for each of any two consecutive 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.

Upon dissolution of the Trust, the Trustee will sell all of the Trust's assets, either by private sale or public auction, and after payment or the making of reasonable provision for payment of all liabilities of the Trust, distribute the net proceeds of the sale to the Trust unitholders.

### **Marketing and Post-Production Services**

Pursuant to the terms of the Conveyance, PCEC has the responsibility to market, or cause to be marketed, the oil and natural gas production attributable to the Conveyed Interests. The terms of the Conveyance restrict PCEC from charging any fee for marketing production attributable to the Net Profits Interests other than fees for marketing paid to non-affiliates. Accordingly, a marketing fee will not be deducted (other than fees paid to non-affiliates) in the calculation of the Net Profits Interests; however, the terms of the Conveyance provide that costs and expenses PCEC allocates to marketing production from the Underlying Properties are deducted from the calculation of gross profits. The Royalty Interest Proceeds are free of any production or development costs but are subject to a proportionate share of production and property taxes and post-production costs. The net profits and royalties to the Trust from the sales of oil and natural gas production from the Underlying Properties attributable to the Conveyed Interests are determined based on the same price that PCEC receives for sales of oil and natural gas production attributable to PCEC's interest in the Underlying Properties. However, if the oil or natural gas is processed, the net profits and royalties receive the same processing upgrade or downgrade as PCEC.

During the year ended December 31, 2018, PCEC sold the oil produced from the Underlying Properties to third-party oil purchasers. Oil production from the Underlying Properties is typically transported by pipeline from the field to a gathering facility or refinery. PCEC sells the majority of the oil production from the Underlying Properties under contracts using market-sensitive pricing. The price received by PCEC for the crude oil production from the Underlying Properties is based upon published industry standard market-sensitive regional price postings, adjusted based upon delivery location and actual quality of the crude produced. In 2018 and 2017, Phillips 66 accounted for 88% and 95%, respectively, of PCEC's net sales. All natural gas produced by PCEC at Orcutt Hill is consumed in the lifting and production of the Diatomite and Conventional Orcutt crude; all other natural gas produced is marketed and sold to third-party purchasers, based upon published standard industry market-sensitive regional price postings for the natural gas.

### **Competition and Markets**

The oil and natural gas industry is highly competitive. PCEC competes with major oil and natural gas companies and independent oil and natural gas companies for oil and natural gas, equipment, personnel and markets for the sale of oil and natural gas. Many of these competitors are financially stronger than PCEC, but even financially troubled competitors can affect the market because of their need to sell oil and natural gas



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at any price to attempt to maintain cash flow. The Trust is subject to the same competitive conditions as PCEC and other companies in the oil and natural gas industry.

Oil and natural gas compete with other forms of energy available to customers, primarily based on price. These alternate forms of energy include electricity, coal and fuel oils. Changes in the availability or price of oil, natural gas or other forms of energy, as well as business conditions, conservation, legislation, regulations and the ability to convert to alternate fuels and other forms of energy, may affect the demand for oil and natural gas.

Price fluctuations for oil and natural gas will directly impact Trust distributions, estimates of reserves attributable to the Trust's interests and estimated and actual future net revenues to the Trust. In view of the many uncertainties that affect the supply and demand for oil and natural gas, neither the Trust nor PCEC can make reliable predictions of future oil and natural gas supply and demand, future product prices or the effect of future product prices on the Trust.

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*Description of Trust Units*

Each Trust Unit is a unit of beneficial interest in the Trust assets and is entitled to receive cash distributions from the Trust on a pro rata basis. The Trust Units are in book-entry form only and are not represented by certificates. The Trust had 38,583,158 Trust Units outstanding as of December 31, 2018.

**Distributions and Income Computations**

Each month, the Trustee determines the amount of funds, if any, 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 (such as interest earned on any amounts reserved by the Trustee) that month, over the Trust's liabilities for that month. Available funds are reduced by any cash the Trustee determines to hold as a reserve against future liabilities. 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) are entitled to monthly distributions payable on or before the 10th business day after the record date.

Unless otherwise advised by counsel or the Internal Revenue Service ( IRS ), the Trustee will treat the income and expenses of the Trust for each month as belonging to the Trust unitholders of record on the monthly record date. Trust unitholders generally will recognize income and expenses for tax purposes in the month the Trust receives or pays those amounts, rather than in the month the Trust distributes the cash to which such income or expenses (as applicable) relate, which may cause minor variances. For example, the Trustee could establish a reserve in one month that would not result in a tax deduction until a later month. See Federal Income Tax Matters.

**Transfer of Trust Units**

Trust unitholders may transfer their Trust Units in accordance with the Trust Agreement. The Trustee will not require either the transferor or transferee to pay a service charge for any transfer of a Trust Unit. The Trustee may require payment of any tax or other governmental charge imposed for a transfer. The Trustee may treat the owner of any Trust Unit as shown by its records as the owner of the Trust Unit. The Trustee will not be considered to know about any claim or demand on a Trust Unit by any party except the record owner. A person who acquires a Trust Unit after any monthly record date will not be entitled to the distribution relating to that monthly record date. Delaware law will govern all matters affecting the title, ownership or transfer of Trust Units.

**Periodic Reports**

The Trustee files all required Trust federal and state income tax and information returns. The Trustee prepares and mails to Trust unitholders annual reports directing them to correctly report their share of the income and deductions of the Trust. The Trustee also causes to be prepared and filed reports that are required to be filed under the Exchange Act and by the rules of The New York Stock Exchange, and causes the Trust to comply with applicable provisions of the Sarbanes-Oxley Act, including but not limited to, establishing, evaluating and maintaining a system of internal control over financial reporting.

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Pursuant to the operating and services agreement, PCEC has agreed to provide to the Trust such services as are necessary for the Trust and the Trustee to comply with the Trust Agreement and Article IV of the Conveyance, and such other operating and administrative services of similar character and scope to the foregoing that the Trustee may reasonably request that PCEC provide, including accounting, bookkeeping and informational services and other services as may be necessary for the preparation of reports the Trust is or may be required to prepare and/or file in accordance with applicable tax and securities laws, exchange listing rules and other requirements, including reserve reports and tax returns (collectively, the Administrative Services ).

### **Liability of Trust Unitholders**

Under the Delaware Statutory Trust Act and the Trust Agreement, Trust unitholders are entitled to the same limitation of personal liability extended to stockholders of private corporations for profit under the General Corporation Law of the State of Delaware. Nevertheless, courts in jurisdictions outside of Delaware could decline to give effect to such limitation.

### **Voting Rights of Trust Unitholders**

The Trustee or Trust unitholders owning at least 10% of the outstanding Trust Units may call meetings of Trust unitholders. The Trust will be responsible for all costs associated with calling a meeting of Trust unitholders unless such meeting is called by Trust unitholders, in which case the unitholders that called such meeting will be responsible for all costs associated with calling such meeting. Meetings must be held in such location as is designated by the Trustee in the notice of such meeting. The Trustee must send notice of the time and place of the meeting and the matters to be acted upon to all of the Trust unitholders at least 20 days and not more than 60 days before the meeting. Trust unitholders representing a majority of Trust Units outstanding must be present or

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represented by proxy to have a quorum. Each Trust unitholder is entitled to one vote for each Trust unit owned. Abstentions and broker non-votes shall not be deemed to be a vote cast.

Unless otherwise required by the Trust Agreement, a matter may be approved or disapproved by the affirmative vote of a majority of the Trust Units present in person or by proxy at a meeting where there is a quorum. This is true, even if a majority of the total Trust Units did not approve it. The affirmative vote of the holders of at least 75% of the outstanding Trust Units is required to:

- dissolve the Trust;
- amend the Trust Agreement (except with respect to certain matters that do not adversely affect the rights of Trust unitholders in any material respect); or
- approve the sale of all or any material part of the assets of the Trust (including the sale of the Conveyed Interests).

In addition, certain amendments to the Trust Agreement may be made by the Trustee without approval of the Trust unitholders.

### *Computation of Net Profits Interests and Overriding Royalty Interest*

The provisions of the Conveyance governing the computation of the net profits and royalties are detailed and extensive. The following information summarizes the material provisions of the Conveyance related to the computation of the net profits and royalties, but is qualified in its entirety by the text of the Conveyance, which is filed as an exhibit to this Annual Report.

#### **Net Profits Interests**

The amounts paid to the Trust for each Net Profits Interest are based on, among other things, the definitions of gross profits and net profits contained in the Conveyance and described below. Under the Conveyance, net profits are computed monthly. Each calendar month, 80% of the net profits from the sale of oil and natural gas production from the Developed Properties is paid to the Trust generally on or before the eighth business day after the last business day of the following month. For any monthly period during which costs for the Remaining Properties exceed gross proceeds, the Trust is entitled to receive the Royalty Interest Proceeds and the Trust continues to receive such proceeds until the first day of the month following an NPI Payout. In calendar months following an NPI Payout, 25% of the net profits from the sale of oil and natural gas production from all of the Remaining Properties will be paid to the Trust on or before the end of the following month. Due to planned capital expenditures to be made by PCEC on the Remaining Properties for the benefit of the Trust and also as a result of lower commodity prices, PCEC expects the Trust to only receive payments associated with the Remaining Properties in the form of Royalty Interest Proceeds until the NPI Payout occurs, which PCEC estimates will be in approximately 2020. The estimated date on which the NPI Payout is expected to occur is an

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estimate based on the annual reserve report and changes from time to time.

*Gross profits* means the aggregate amount received by PCEC that is attributable to sales of oil and natural gas production from the Underlying Properties from and after April 1, 2012 (after deducting the appropriate share of all royalties and any overriding royalties, production payments and other similar charges and other than certain excluded proceeds (including, with respect to the Remaining Properties, the Royalty Interest, to the extent paid), as described in the Conveyance), including all proceeds and consideration received (i) for advance payments, (ii) under take-or-pay and similar provisions of production sales contracts (when credited against the price for delivery of production) and (iii) under balancing arrangements. Gross profits do not include consideration for the transfer or sale of any Underlying Property by PCEC or any subsequent owner to any new owner, unless the Net Profits Interest in such Underlying Property is released (as is permitted under certain circumstances). Gross profits also do not include any amount for oil or natural gas lost in production or marketing or used by the owner of the Underlying Properties in drilling, production and plant operations.

*Net profits* means gross profits less the following costs, expenses and, where applicable, losses, liabilities and damages all as actually incurred by PCEC from and after April 1, 2012 and attributable to production from the Underlying Properties from and after April 1, 2012 (as such items are reduced by any offset amounts, as described in the Conveyance):

- all costs for (i) drilling, development, production and abandonment operations, (ii) all direct labor and other services necessary for drilling, operating, producing and maintaining the Underlying Properties and workovers of any wells located on the Underlying Properties, (iii) treatment, dehydration, compression, separation and transportation, (iv) all materials purchased for use on, or in connection with, any of the Underlying Properties and (v) any other operations with respect to the exploration, development or operation of hydrocarbons from the Underlying Properties;

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- all losses, costs, expenses, liabilities and damages with respect to the operation or maintenance of the Underlying Properties for (i) defending, prosecuting, handling, investigating or settling litigation, administrative proceedings, claims, damages, judgments, fines, penalties and other liabilities, (ii) the payment of certain judgments, penalties and other liabilities, (iii) the payment or restitution of any proceeds of hydrocarbons from the Underlying Properties, (iv) complying with applicable local, state and federal statutes, ordinances, rules and regulations, (v) tax or royalty audits and (vi) any other loss, cost, expense, liability or damage with respect to the Underlying Properties not paid or reimbursed under insurance;
- all taxes, charges and assessments (excluding federal and state income, transfer, mortgage, inheritance, estate, franchise and like taxes) with respect to the ownership of, or production of hydrocarbons from, the Underlying Properties;
- all insurance premiums attributable to the ownership or operation of the Underlying Properties for insurance actually carried with respect to the Underlying Properties, or any equipment located on any of the Underlying Properties, or incident to the operation or maintenance of the Underlying Properties;
- all amounts and other consideration for (i) rent and the use of or damage to the surface, (ii) delay rentals, shut-in well payments and similar payments and (iii) fees for renewal, extension, modification, amendment, replacement or supplementation of the leases included in the Underlying Properties;
- all amounts charged by the relevant operator as overhead, administrative or indirect charges specified in the applicable operating agreements or other arrangements covering the Underlying Properties or PCEC's operations with respect thereto;
- to the extent that PCEC is the operator of certain of the Underlying Properties and there is no operating agreement covering such portion of the Underlying Properties, those overhead, administrative or indirect charges that are allocated by PCEC to such portion of the Underlying Properties;
- if, as a result of the occurrence of the bankruptcy or insolvency or similar occurrence of any purchaser of hydrocarbons produced from the Underlying Properties, any amounts previously credited to the determination of the net profits are reclaimed from PCEC, then the amounts reclaimed;
- all costs and expenses for recording the Conveyance and, at the applicable times, terminations and/or releases thereof;

- amounts previously included in gross profits but subsequently paid as a refund, interest or penalty;
- at the option of PCEC (or any subsequent owner of the Underlying Properties), amounts reserved for approved development expenditure projects, including well drilling, recompletion and workover costs, which amounts will at no time exceed \$2.0 million in the aggregate, and will be subject to the limitations described below (provided that such costs shall not be debited from gross profits when actually incurred); and
- all costs accrued for future plugging and abandonment of any well or facility (provided that such amounts shall not be included as deductions in subsequent periods).

Costs deducted in the net profits determination will be reduced by certain offset amounts. The offset amounts are further described in the Conveyance, and include, among other things, certain net proceeds attributable to the treatment or processing of hydrocarbons produced from the Underlying Properties and certain other non-production revenues, including salvage value for equipment related to plugged and abandoned wells. If the offset amounts exceed the costs during a monthly period, the ability to use such excess amounts to offset costs will be deferred and utilized as offsets in the next monthly period to the extent such amounts, plus accrued interest thereon, together with other offsets to costs, for the applicable month, are less than the costs arising in such month.

The Trust is not liable to the owners of the Underlying Properties, PCEC, or any other operator for any operating, capital or other costs or liabilities attributable to the Underlying Properties. If the net profits relating to the Developed Properties for any computation period is a negative amount, the Trust will receive no payment for the Developed Properties for that period, and any such negative amount will be deducted from gross profits for the Developed Properties in the following computation period for purposes of determining the net profits relating to the Developed Properties for that following computation period. If the net profits relating to the Remaining Properties for any computation period is a negative amount, the Trust is entitled to receive the Royalty Interest Proceeds.

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Gross profits and net profits are calculated on a cash basis, except that certain costs, primarily ad valorem taxes and expenditures of a material amount, may be determined on an accrual basis.

#### **Overriding Royalty Interest**

For any monthly period during which costs for the Remaining Properties exceed gross proceeds, the Trust is entitled to receive an amount equal to 7.5% of the proceeds attributable to the sale of all production from the Remaining Properties located on PCEC's Orcutt properties, including but not limited to PCEC's interest in such production (free of any production or development costs but bearing its proportionate share of production and property taxes and post-production costs) (the Royalty Interest). Due to capital expenditures to be made by PCEC on the Remaining Properties for the benefit of the Trust and also as a result of lower commodity prices, PCEC expects the Trust to only receive payments associated with the Remaining Properties in the form of Royalty Interest Proceeds until the NPI Payout occurs, which PCEC estimates will be in approximately 2020.

Proceeds from the sale of oil, natural gas liquids and natural gas production from the Remaining Properties located on PCEC's Orcutt properties in any calendar month means the amount calculated based on actual sales volumes from such properties, in each case after deducting the Trust's proportionate share of:

- any taxes levied on the severance or production of the oil, natural gas liquids and natural gas produced from such properties and any property taxes attributable to the oil, natural gas liquids and natural gas produced from such properties; and
- post-production costs, which generally consists of costs incurred to gather, store, compress, transport, process, treat, dehydrate and market the oil, natural gas liquids and natural gas produced, as applicable (excluding costs for marketing services provided by PCEC).

Proceeds payable to the Trust from the sale of oil, natural gas liquids and natural gas production attributable to the Remaining Properties located on PCEC's Orcutt properties in any calendar month are not subject to any deductions for any expenses attributable to exploration, drilling, development, operating, maintenance or any other costs incident to the production of oil, natural gas liquids and natural gas attributable to such properties, including any costs to drill, complete or plug and abandon a well. Additionally, costs associated with any completion activities will be borne by PCEC or any third-party operator of the well.

#### **Additional Provisions**

If a controversy arises as to the sales price of any production, then for purposes of determining gross profit or the amount of Royalty Interest Proceeds:



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- any proceeds that are withheld for any reason (other than at the request of PCEC) are not considered received until such time that the proceeds are actually collected;
- amounts received and promptly deposited with a nonaffiliated escrow agent will not be considered to have been received until disbursed to it by the escrow agent; and
- amounts received and not deposited with an escrow agent will be considered to have been received.

The Trustee is not obligated to return any cash received from the Conveyed Interests. Any overpayments made to the Trust by PCEC due to adjustments to prior calculations of net profits, royalties or otherwise will reduce future amounts payable to the Trust until PCEC recovers the overpayments plus interest at a prime rate (as described in the Conveyance).

The Conveyance generally permits PCEC to transfer without the consent or approval of the Trust unitholders all or any part of its interest in the Underlying Properties, subject to the Conveyed Interests. The Trust unitholders are not entitled to any proceeds of a sale or transfer of PCEC's interest. Except in certain cases where the Conveyed Interests are released, following a sale or transfer, the Underlying Properties will continue to be subject to the Conveyed Interests, and the gross profits and if applicable, the royalties, attributable to the transferred property will be calculated for such transferred property on a stand-alone basis (as part of the computation of net profits and royalties described in this Annual Report), paid and distributed by the transferee to the Trust. PCEC will have no further obligations, requirements or responsibilities with respect to any such transferred interests, provided that PCEC delivers to the Trustee an agreement of the transferee of such transferred interests, reasonably satisfactory to the Trustee, in which such transferee assumes the responsibility to perform the Administrative Services that PCEC is required to provide to the Trust pursuant to the operating and services agreement relating to the interests being transferred.

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In addition, PCEC may, without the consent of the Trust unitholders, require the Trust to release the Conveyed Interests associated with any lease that accounts for less than or equal to 0.25% of the total production from the Underlying Properties in the prior twelve months, provided that the Conveyed Interests covered by such releases cannot exceed, during any twelve-month period, an aggregate fair market value to the Trust of \$500,000. These releases will be made only in connection with a sale by PCEC to a non-affiliate of the relevant Underlying Properties, are conditioned upon an amount equal to the fair market value (net of sales costs) to the Trust of such Conveyed Interests and will be treated as an offset amount against costs and expenses. PCEC has not identified for sale any of the Underlying Properties.

As the designated operator of a property included in the Underlying Properties, PCEC may enter into farm-out, operating, participation and other similar agreements to develop the property, but any transfers made in connection with such agreements will be made subject to the Conveyed Interests. PCEC may enter into any of these agreements without the consent or approval of the Trustee or any Trust unitholder.

PCEC will have the right to release, surrender or abandon its interest in any Underlying Property if PCEC determines in good faith and in accordance with the reasonably prudent operator standard that such Underlying Property that will no longer produce (or be capable of producing) hydrocarbons in paying quantities (determined without regard to the Conveyed Interests). Where PCEC does not operate the Underlying Properties, PCEC is required to use commercially reasonable efforts to exercise its contractual rights to cause the operators of such Underlying Properties to act as a reasonably prudent operator. Upon such release, surrender or abandonment, the portion of the Conveyed Interests relating to the affected property will also be released, surrendered or abandoned, as applicable. PCEC will also have the right to abandon an interest in the Underlying Properties if (a) such abandonment is necessary for health, safety or environmental reasons or (b) the hydrocarbons that would have been produced from the abandoned portion of the Underlying Properties would reasonably be expected to be produced from wells located on the remaining portion of the Underlying Properties.

PCEC must maintain books and records sufficient to determine the amounts payable for the Conveyed Interests to the Trust. Monthly and annually, PCEC must deliver to the Trustee a statement of the computation of the net profits for each computation period. The Trustee has the right to inspect and review the books and records maintained by PCEC during normal business hours and upon reasonable notice. Each Trust unitholder and his representatives may examine, for any proper purpose, during reasonable business hours, the records of the Trust and the Trustee relating to the Trust, subject to such restrictions as are set forth in the Trust agreement.

### ***Federal Income Tax Matters***

The following is a summary of certain U.S. income tax matters that may be relevant to the Trust unitholders. This summary is based upon current provisions of the Internal Revenue Code of 1986, as amended (the Code), existing and proposed Treasury regulations thereunder and current administrative rulings and court decisions, all of which are subject to changes that may or may not be retroactively applied. No attempt has been made in the following summary to comment on all U.S. federal income tax matters affecting the Trust or the Trust unitholders.

The summary has limited application to non-U.S. persons and persons subject to special tax treatment such as, without limitation: banks, insurance companies or other financial institutions; Trust unitholders subject to the alternative minimum tax; tax-exempt organizations; dealers in securities or commodities; regulated investment companies; real estate investment trusts; traders in securities that elect to use a mark-to-market method of accounting for their securities holdings; non-U.S. Trust unitholders that are controlled foreign corporations or passive foreign investment companies; persons that are S-corporations, partnerships or other pass-through entities; persons that own their interest in the Trust Units through S-corporations, partnerships or other pass-through entities; persons that at any time own more than 5% of the aggregate fair market value of the Trust Units; expatriates and certain former citizens or long-term residents of the United States; U.S. Trust unitholders whose functional currency is not the U.S. dollar; persons who hold the Trust Units as a position in a hedging transaction, straddle, conversion transaction or other risk reduction transaction; or persons deemed to sell the Trust Units under the constructive sale provisions of the Code. Each

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Trust unitholder should consult his own tax advisor with respect to his particular circumstances.

### **Classification and Taxation of the Trust**

Tax counsel to the Trust advised the Trust at the time of formation that, for U.S. federal income tax purposes, in its opinion, the Trust would be treated as a grantor trust and not as an unincorporated business entity. No ruling has been or will be requested from the IRS or another taxing authority. The remainder of the discussion below is based on tax counsel's opinion, at the time of formation, that the Trust will be classified as a grantor trust for U.S. federal income tax purposes. As a grantor trust, the Trust is not subject to U.S. federal income tax at the Trust level. Rather, each Trust unitholder is considered for federal income tax purposes to own its proportionate share of the Trust's assets directly as though no Trust were in existence. The income of the Trust is deemed to be

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received or accrued by the Trust unitholder at the time such income is received or accrued by the Trust, rather than when distributed by the Trust. Each Trust unitholder is subject to tax on its proportionate share of the income and gain attributable to the assets of the Trust and is entitled to claim its proportionate share of the deductions and expenses attributable to the assets of the Trust, subject to applicable limitations, in accordance with the Trust unitholder's tax method of accounting and taxable year without regard to the taxable year or accounting method employed by the Trust.

The Trust will file annual information returns, reporting to the Trust unitholders all items of income, gain, loss, deduction and credit. The Trust will allocate these items of income, gain, loss, deduction and credit to Trust unitholders based on record ownership on the monthly record dates. It is possible that the IRS or another taxing authority could disagree with this allocation method and could assert that income and deductions of the Trust should be determined and allocated on a daily or prorated basis, which could require adjustments to the tax returns of the unitholders affected by this issue and result in an increase in the administrative expense of the Trust in subsequent periods.

### **Classification of the Net Profits Interests and the Royalty Interest**

For U.S. federal income tax purposes, the Net Profits Interests attributable to the Developed Properties (the Developed NPI), Remaining Properties (the Remaining NPI) and the Royalty Interest will have the tax characteristics of a mineral royalty interest to the extent, at the time of its creation, such Developed NPI, Remaining NPI or Royalty Interest is reasonably expected to have an economic life that corresponds substantially to the economic life of the mineral property or properties burdened thereby. Payments out of production that are received in respect of a mineral interest that constitutes a royalty interest for U.S. federal income tax purposes are taxable under current law as ordinary income subject to an allowance for cost or percentage depletion in respect of such income.

Based on the reserve report and representations made by PCEC regarding the expected economic life of the Underlying Properties and the expected duration of the Conveyed Interests, tax counsel to the Trust advised the Trust at the time of formation that the Developed NPI will and the Remaining NPI and the Royalty Interest should be treated as continuing, non-operating economic interests in the nature of royalties payable out of production from the mineral interests they burden.

Consistent with the foregoing, PCEC and the Trust intend to treat the Conveyed Interests as mineral royalty interests for U.S. federal income tax purposes. The remainder of this discussion assumes that the Conveyed Interests are treated as mineral royalty interests. No assurance can be given that the IRS will not assert that any such interest should be treated differently. Any such different treatment could affect the amount, timing and character of income, gain or loss in respect of an investment in Trust Units.

### **Reporting Requirements for Widely-Held Fixed Investment Trusts**

The Trustee assumes that some Trust Units are held by middlemen, as such term is broadly defined in the Treasury regulations (and includes custodians, nominees, certain joint owners and brokers holding an interest for a custodian street name, collectively referred to herein as middlemen). Therefore, the Trustee considers the Trust to be a non-mortgage widely held fixed investment trust (WHFIT) for U.S. federal income tax purposes. The Bank of New York Mellon Trust Company, N.A., 601 Travis Street, 16th Floor, Houston, Texas 77002, telephone number 1-512-236-6555, is the representative of the Trust that will provide the tax information in accordance with applicable Treasury regulations governing the information reporting requirements of the Trust as a WHFIT. Notwithstanding the foregoing, the middlemen holding Trust Units on behalf of unitholders, and not the Trustee of the Trust, are solely responsible for complying with the information reporting requirements under the Treasury regulations with respect to such Trust Units, including the issuance of IRS Forms 1099 and certain written tax

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statements. Unitholders whose Trust Units are held by middlemen should consult with such middlemen regarding the information that will be reported to them by the middlemen with respect to the Trust Units. Any generic tax information provided by the Trustee of the Trust is intended to be used only to assist Trust unitholders in the preparation of their federal and state income tax returns.

### **Available Trust Tax Information and U.S. Federal Income Tax Rates**

In compliance with the Treasury regulations reporting requirements for non-mortgage widely-held fixed investment trusts and the dissemination of Trust tax reporting information, the Trustee provides a generic tax information reporting booklet which is intended to be used only to assist Trust unitholders in the preparation of their 2018 federal and state income tax returns. This tax information booklet can be obtained at [www.pacificcoastoiltrust.com](http://www.pacificcoastoiltrust.com).

The highest marginal U.S. federal income tax rate applicable to ordinary income is 37% for taxable years beginning on or after January 1, 2018, and the highest marginal U.S. federal income tax rate applicable to long-term capital gains (generally, gains from the sale or exchange of certain investment assets held for more than one year) and qualified dividends of individuals is 20%. The highest marginal U.S. federal income tax rate

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applicable to corporations is 21% for taxable years beginning on or after January 1, 2018, and such rate applies to both ordinary income and capital gains.

Section 1411 of the Code imposes a 3.8% Medicare tax on certain investment income earned by individuals, estates, and trusts for taxable years beginning after December 31, 2012. For these purposes, investment income generally will include a unitholder's allocable share of the trust's interest and royalty income plus the gain recognized from a sale of Trust Units. In the case of an individual, the tax is imposed on the lesser of (i) the individual's net investment income from all investments, or (ii) the amount by which the individual's modified adjusted gross income exceeds specified threshold levels depending on such individual's federal income tax filing status. In the case of an estate or trust, the tax is imposed on the lesser of (i) undistributed net investment income, or (ii) the excess adjusted gross income over the dollar amount at which the highest income tax bracket applicable to an estate or trust begins.

*California State Tax Matters*

At the time of the formation of the Trust, PCEC on behalf of the Trust obtained a two-year waiver from the State of California of the requirement to withhold 7% of the amounts paid to the Trust that are attributable to the Conveyed Interests held by unitholders not qualifying for an exemption from withholding. PCEC on behalf of the Trust will use its commercially reasonable efforts to maintain such waiver, including by seeking a renewal of such waiver prior to its expiration under California law. The Trust has received a renewal of the waiver for the years 2018 and 2019. The Trust may not be able to obtain such a waiver in the future, in which case PCEC on behalf of the Trust would be required to withhold such amounts beginning with the distribution expected to be paid in January 2020.

*Environmental Matters and Regulation*

*General.* PCEC's oil and natural gas exploration and production operations are subject to stringent, comprehensive and complex federal, regional, state and local laws and regulations governing the release, discharge or emission of materials into the environment, the handling of hazardous substances or otherwise relating to environmental protection. These laws and regulations may impose significant obligations on PCEC's operations, including requirements to:

- obtain permits or other approvals to conduct regulated activities;
- limit or prohibit drilling and production activities in sensitive areas, such as wetlands, streams, coastal regions or areas that may contain endangered or threatened species or their habitats;
- properly manage and dispose of waste and wastewater, and restrict the types, quantities and concentrations of materials that can be released into the environment in the performance of drilling and production activities;

- initiate investigatory and remedial measures to mitigate pollution from former or current operations, such as spills, restoration of drilling pits and plugging of abandoned wells;
- apply specific health and safety criteria addressing worker protection;
- minimize impacts to neighbors; and
- plug and abandon wells and restore properties upon which wells are drilled.

Failure to comply with environmental laws and regulations may result in the assessment of administrative, civil and criminal sanctions, including monetary penalties, the imposition of joint and several liability, investigatory and remedial obligations, and the issuance of injunctions limiting or prohibiting some or all of PCEC's operations. Moreover, these laws, rules and regulations may restrict the rate of oil and natural gas production below the rate that would otherwise be possible. The regulatory burden on the oil and natural gas industry may increase the cost of doing business in the industry and may consequently affect profitability. PCEC believes that it is in material compliance with all existing environmental laws and regulations applicable to its current operations. However, the recent trend in environmental law and regulation has been to place more restrictions and limitations on activities that may affect the environment. Since taking office, the Administration of President Trump has taken steps aimed at reducing regulatory burdens and costs for the oil and gas industry, at least at the federal level; nevertheless, changes in environmental laws and regulations or re-interpretation of enforcement policies that result in more stringent and costly construction, drilling, water management, completion, emission or discharge limits or waste handling, disposal or remediation obligations could have a material adverse effect on PCEC's development expenses, results of operations and financial position. Moreover, accidental releases or spills may occur in the course of PCEC's operations, and PCEC could incur significant costs and liabilities as a result of such releases or spills, including any third-

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party claims for damage to property, natural resources or persons. It is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the release of hazardous substances, hydrocarbons or other waste products in the environment. PCEC's inability to obtain future discretionary permits could limit the future performance of the Conveyed Interests.

The following is a summary of certain existing environmental, health and safety laws and regulations, each as amended from time to time, to which PCEC's business operations are subject.

*Hazardous substances and waste handling.* The Comprehensive Environmental Response, Compensation and Liability Act ( CERCLA ) and comparable state laws impose liability without regard to fault or the legality of conduct on certain classes of persons who are considered to be responsible for the release of a hazardous substance into the environment. Under CERCLA, these responsible persons may include the current or past owner or operator of the site where the release occurred, and entities that transport, dispose of, or arrange for the transport or disposal of hazardous substances released at the site. These responsible persons may be subject to joint and several strict liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources, and for the costs of certain health studies. CERCLA also authorizes the U.S. Environmental Protection Agency ( EPA ) and, in some instances, third parties to act in response to threats to the public health or the environment and to seek to recover from the responsible classes of persons the costs they incur.

The Resource Conservation and Recovery Act ( RCRA ) and comparable state statutes regulate the generation, transportation, treatment, storage, disposal and cleanup of hazardous and non-hazardous wastes. The EPA has delegated authority to the individual states to administer some or all of the provisions of RCRA, sometimes in conjunction with their own, more stringent requirements. Drilling fluids, produced waters and most of the other wastes associated with the exploration, production and development of crude oil or natural gas are currently regulated under RCRA's non-hazardous waste provisions. However, it is possible that certain oil and natural gas exploration and production wastes now classified as non-hazardous could be classified as hazardous wastes in the future. In accordance with a December 2016 settlement agreement, EPA agreed to decide by March 2019 whether to revise the EPA's current determination exempting oil and gas wastes from regulation as hazardous wastes under RCRA. While the EPA has not taken any action toward changing the status of oil and gas wastes under RCRA, any such change could result in an increase in the costs to manage and dispose of wastes, which could have a material adverse effect on the cash distributions to the Trust unitholders. PCEC may, from time to time generate hazardous waste that is subject to RCRA. Such wastes must be properly tested, characterized and disposed of according to state and federal regulations.

The real properties upon which PCEC conducts its operations have been used for oil and natural gas exploration and production for many years. Although PCEC may have utilized operating and disposal practices that were standard in the industry at the time, petroleum hydrocarbons and wastes may have been disposed of or released at or from the real properties upon which PCEC conducts its operations, or at or from other, offsite locations, where these petroleum hydrocarbons and wastes have been taken for recycling or disposal. In addition, the real properties upon which PCEC conducts its operations may have been operated by third parties or by previous owners or operators whose treatment and disposal of hazardous substances, wastes or hydrocarbons was not under PCEC's control. These real properties and the petroleum hydrocarbons and wastes disposed or released at or from these properties may give rise to liability for PCEC pursuant to CERCLA, RCRA and analogous state laws. Under such laws, PCEC could be required to remove or remediate previously disposed wastes, to clean up contaminated property and to perform remedial operations such as restoration of pits and plugging of abandoned wells to prevent future contamination or to pay some or all of the costs of any such action.

At the Orcutt Diatomite properties, the cyclic steam stimulation technique has the potential to stimulate the release of hydrocarbons from the separate, overlying outcrop formation. This outcrop formation at points is very shallow and reaches the surface at a number of locations.



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Historically, this has led to naturally occurring seeps onto the surface. A number of these seeps have occurred in the vicinity of PCEC's Diatomite operations. PCEC regularly inspects this surface area for seeps, and notifies appropriate authorities when required. PCEC uses collection drains to contain and collect these hydrocarbons under agency supervision so that they do not escape into the environment. The small amounts of hydrocarbons collected from the seeps are gathered along with PCEC's other production from its Orcutt properties.

*Water discharges.* The Clean Water Act ( CWA ) and analogous state laws impose restrictions and strict controls with respect to the discharge of pollutants, including spills and leaks of oil and other substances, into waters of the United States and waters of the state, respectively. The discharge of pollutants into regulated waters is prohibited, except in accordance with the terms of a permit issued by the EPA and/or an analogous state agency. The discharge of dredge and fill material in regulated waters, including wetlands, is also prohibited, unless authorized by a permit issued by the U.S. Army Corps of Engineers ( ACE ). CWA Section 401 provides that the applicant for an individual National Pollutant Discharge Elimination System ( NPDES ) permit to be issued by the EPA or an individual Section 404 permit to be issued by the ACE must notify the state in which the discharge will occur and provide

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an opportunity for the state to determine if the discharge will comply with the state's approved water quality program. In some instances this process could result in delay in issuance of the permit, more stringent permit requirements, or denial of the permit.

In September 2015, new EPA and ACE rules defining the scope of the waters of the United States, and EPA's and the ACE jurisdiction, became effective (2015 Rule). The 2015 Rule has been challenged in multiple courts on the grounds that it unlawfully expands the reach of CWA programs. Due to the status of pending litigation, the 2015 Rule is currently in effect in 22 states, including California. In the remaining states, regulations in effect before promulgation of the 2015 Rule and guidance interpreting relevant United States Supreme Court rulings are in effect. On December 11, 2018, the heads of the EPA and ACE signed a proposed regulation that would revise the definition of waters of the United States to reduce its reach from the 2015 Rule (2018 Pre-Proposal Rule). The fates of the 2015 Rule and the 2018 Pre-Proposal Rule and applicability of the rules during current and future litigation are uncertain; however, to the extent the 2015 Rule is in effect, it expands the scope of CWA jurisdiction, and PCEC could face increased costs and delays with respect to obtaining permits for dredge and fill activities in wetland areas or other waters of the United States.

The Clean Water Act also imposes spill prevention, control and countermeasure requirements, including requirements for appropriate containment berms and similar structures to help prevent the contamination of navigable waters of the United States in the event of a hydrocarbon tank spill, rupture or leak. Federal and state regulatory agencies can impose administrative, civil and criminal penalties for non-compliance with discharge permits or other requirements of the Clean Water Act and analogous state laws and regulations. In addition, the Clean Water Act and analogous state laws required individual permits or coverage under general permits for discharges of storm water runoff from certain types of facilities.

The primary federal law for oil spill liability is the Oil Pollution Act of 1990, as amended (OPA), which establishes a variety of requirements pertaining to oil spill prevention, containment and cleanup. OPA applies to vessels, offshore facilities and onshore facilities, including exploration and production facilities that may affect waters of the United States. Under the OPA, responsible parties, including owners and operators of onshore facilities, are required to develop and implement plans for preventing and responding to oil spills and, if a spill occurs, may be subject to oil cleanup costs and natural resource damages as well as a variety of public and private damages that may result from the spill. Effective as of September 2015, comparable California regulations require spill contingency plans for inland oil and gas facilities.

In addition, naturally occurring radioactive material (NORM) is at times brought to the surface in connection with oil and natural gas production. Concerns have arisen over traditional NORM disposal practices (including discharge through publicly owned treatment works into surface waters), which may increase the costs associated with management of NORM.

*Underground injection control (UIC).* The Safe Drinking Water Act (SDWA) and comparable state laws regulate the construction, operation, permitting and closure of injection wells that place fluids underground for storage or disposal. Under the SDWA's UIC Program, producers must obtain federal or state Class II injection well permits and routinely monitor and report fluid volumes, pressures and chemistry, and conduct mechanical integrity tests on injection wells. While in some states the EPA itself implements the UIC Program for Class II wells, which are used to inject brines and other fluids associated with oil and gas production, other states such as California have been delegated primary enforcement authority with respect to the regulation of Class II wells. In response to recent seismic events near underground injection wells used for the disposal of oil and gas-related wastewater, federal and some state agencies have begun investigating whether such wells have caused increased seismic activity, and some states have shut down or imposed moratoria on the use of such injection wells. As a result of these concerns, regulators in some states are considering additional requirements related to seismic safety.

In addition, in July 2014, the EPA sent a letter to the California Environmental Protection Agency and California Natural Resources Agency describing serious deficiencies in the state's UIC Program and setting forth comprehensive requirements and deadlines for bringing the program into compliance with federal regulations by February 2017. In its letter, the EPA mandated an in-depth review of all existing Class II wells in California that may be injecting into non-exempt aquifers as well as a review of the state's aquifer exemption process. In addition, the EPA directed the state to prohibit new and existing injections into aquifers that have not been approved as exempt by the EPA by February 15, 2017. The state responded by promising to comply with the EPA's directives through a combination of rulemaking and administrative orders. The California Department of Conservation, Division of Oil, Gas, and Geothermal Resources ( DOGGR ) has worked with the EPA and the California State Water Board to develop a corrective action plan with specific deadlines for ending Class II injection into non-exempt aquifers. The EPA's enhanced oversight of the California Class II injection well program is ongoing. The aquifers that PCEC injects into have all been tested and have over 10,000 milligrams per liter total dissolved solids, making the aquifers exempt and allowable for injection. The data has been submitted and accepted by the DOGGR.

*Air emissions.* The federal Clean Air Act ( CAA ), and comparable state laws, regulate emissions of various air pollutants through air emissions permitting programs and the imposition of other requirements. In addition, the EPA has developed, and continues to develop, stringent regulations governing emissions of air pollutants at specified sources. For example, in 2012 the EPA

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adopted federal New Source Performance Standards ( NSPS ) that require the reduction of volatile organic compound emissions from certain fractured and refractured natural gas wells for which well completion operations are conducted and further require that most wells use reduced emission completions, also known as green completions . These regulations also establish specific new requirements regarding emissions from production-related wet seal and reciprocating compressors, and from pneumatic controllers and storage vessels. In June 2016, the EPA published a final rule adopting additional NSPS requirements for new, modified, or reconstructed oil and gas facilities that require control of greenhouse gas methane from affected facilities, including requirements to find and repair fugitive leaks of methane emissions at well sites ( Methane Rule ). Following the 2016 presidential election and change in administrations, in 2017 the EPA proposed to delay implementation of the Methane Rule and also convened a reconsideration proceeding that resulted in two 2018 rulemaking projects aimed at rolling back certain Methane Rule requirements. These actions like the Methane Rule itself, have been (or are likely to be) challenged in courts. The ultimate fate of the Methane Rule requirements is unclear. Nevertheless, regulations promulgated under the CAA may require PCEC to incur development expenses to install and utilize specific equipment, technologies, or work practices to control emissions from its operations.

The EPA also is charged with establishing ambient air quality standards, the implementation of which can indirectly impact PCEC's operations. For example, in October 2015, the EPA lowered the National Ambient Air Quality Standard ( NAAQS ), for ozone from 75 to 70 parts per billion. A number of state and industry petitioners filed suit in the U.S. Court of Appeals for the District of Columbia Circuit, challenging the 2015 ozone NAAQS. The outcome of the litigation challenging the standard is unknown at this time. State implementation of the revised NAAQS could result in stricter permitting requirements, delay or prohibit PCEC's ability to obtain such permits, and result in increased expenditures for pollution control equipment, the costs of which could be significant.

Compliance with these rules or standards promulgated under the CAA could result in significant costs, including increased capital expenditures and operating costs, and could adversely impact PCEC's business. States can impose air emissions limitations that are more stringent than the federal standards imposed by the EPA, and California air quality laws and regulations are in many instances more stringent than comparable federal laws and regulations. Federal and state regulatory agencies can impose administrative, civil and criminal penalties for non-compliance with air permits or other requirements of the CAA and associated state laws and regulations. Regulatory requirements relating to air emissions are particularly stringent in Southern California and Santa Barbara County.

*Climate change.* In response to findings that emissions of carbon dioxide, methane and other greenhouse gases present an endangerment to public health and the environment, the EPA has issued regulations to restrict emissions of greenhouse gases under existing provisions of the CAA. These regulations include limits on tailpipe emissions from motor vehicles, preconstruction and operating permit requirements for certain large stationary sources, and methane emissions standards for certain new, modified and reconstructed oil and gas sources. The EPA has also adopted rules requiring the reporting of greenhouse gas emissions from specified large greenhouse gas emission sources in the United States, as well as certain onshore oil and natural gas production facilities, on an annual basis.

In December 2015, the EPA finalized rules that added new sources to the scope of greenhouse gases monitoring and reporting rule. These new sources include gathering and boosting facilities. The revisions also include the addition of well identification reporting requirements for certain facilities. In addition, as described above, in June 2016 the EPA published a final rule that requires operators to reduce methane emissions from certain new, modified or reconstructed oil and gas facilities, including production, processing, transmission and storage activities ( Methane Rule ). However, following the November 2016 presidential election and change in administrations, in 2017 the EPA proposed to delay implementation of the Methane Rule, and also convened a reconsideration proceeding that resulted in two 2018 rulemaking projects aimed at rolling back certain Methane Rule requirements. These actions, like the Methane Rule itself, have been (or are likely to be) challenged in courts. While the ultimate fate of the Methane Rule is unclear, it may require PCEC to incur development expenses to install and utilize specific equipment, technologies, or work practices to control methane emissions from its operations.

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In addition, from time to time Congress has considered adopting legislation to reduce emissions of greenhouse gases and many states have already taken legal measures to reduce emissions of greenhouse gases primarily through the implementation of state and/or regional greenhouse gas cap-and-trade programs. Most of these cap-and-trade programs work by requiring major sources of emissions, such as electric power plants, or major producers of fuels, such as refineries and gas processing plants, to acquire and surrender emission allowances. The number of allowances available for purchase is reduced each year in an effort to achieve the overall greenhouse gas emission reduction goal.

California has been one of the leading states in adopting greenhouse gas emission reduction requirements and has implemented a cap-and-trade program as well as mandates for renewable fuels sources. California's cap-and-trade program requires PCEC to report greenhouse gas emissions and essentially sets maximum limits or caps on total emissions of greenhouse gases from all industrial sectors that are or become subject to the program. This includes the oil and natural gas extraction sector of which PCEC is a part. PCEC's main sources of greenhouse gas emissions for its oil and gas operations are primarily attributable to emissions from

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internal combustion engines powering wells, emissions from drilling rigs and the steam generators that are used to produce steam for cyclic steaming. In June 2017, California passed AB 398, legislation extending the cap-and-trade program from its previous set termination of 2020 to 2030. The program will continue largely unchanged, and PCEC will continue to be required to obtain authorizations for each metric ton of greenhouses emitted, either in the form of allowances (each the equivalent of one ton of carbon dioxide) or qualifying offset credits. A portion of the allowance will be granted by California, but any shortfall between the state-granted allowance and the facility's emissions will have to be addressed through the purchase of additional allowances either from the state or a third party. The availability of allowances will decline over time in accordance with the declining cap, and the cost to acquire such allowances may increase over time. These regulations increase PCEC's costs for those operations and adversely affect its operating results and the amount of net profits it pays to the Trust. PCEC is in compliance with California's program.

The adoption of legislation or regulatory programs to reduce emissions of greenhouse gases could require PCEC to incur increased operating costs, such as costs to purchase and operate emissions control systems, to acquire emissions allowances, or comply with new regulatory or reporting requirements, or they could promote the use of alternative fuels and thereby decrease demand for the oil and gas PCEC produces. Any such legislation or regulatory programs could also increase the cost of consuming, and thereby reduce demand for, the oil and natural gas produced. Consequently, legislation and regulatory programs to reduce emissions of greenhouse gases could have an adverse effect on PCEC's business, financial condition and results of operations. Finally, it should be noted that some scientists have concluded that increasing concentrations of greenhouse gases in the Earth's atmosphere may produce climate changes that have significant physical effects, such as increased frequency and severity of storms, droughts, floods and other climatic events. Such climatic events could have an adverse effect on PCEC's financial condition and results of operations.

*National Environmental Policy Act and California Environmental Quality Act.* Oil and natural gas exploration, development and production activities on federal lands are subject to the National Environmental Policy Act, as amended (NEPA). Some of PCEC's production, most notably from the Sawtelle property, is located on federally-administered land and therefore permits or authorizations issued for this field may be subject to NEPA. NEPA requires federal agencies, including the Department of the Interior, to evaluate major agency actions with the potential to significantly impact the environment, including issuance by the ACE of an individual CWA Section 404 permit. In the course of such evaluations, an agency will prepare an Environmental Assessment that assesses the potential direct, indirect and cumulative impacts of a proposed project and, if necessary, will prepare a more detailed Environmental Impact Statement that may be made available for public review and comment. This process has the potential to delay, limit or increase the cost of developing oil and natural gas projects. Authorizations under NEPA are also subject to protest, appeal or litigation, any or all of which may delay or halt projects.

The California Environmental Quality Act (CEQA) imposes similar requirements on California state and local agencies to review environmental impacts from their proposed approvals and to develop and impose mitigation measures appropriate to reduce such impacts to insignificance where feasible. All of the Underlying Properties are located in California and are therefore subject to CEQA to the extent discretionary permits or approvals are required from California state or local agencies. In particular, any future plans by PCEC to increase production in the Orcutt Diatomite beyond the currently-permitted wells will require additional permits and approvals from various state, federal and local agencies, in addition to a new review under CEQA, including an environmental impact report. Such a process could take many months or longer, and there can be no assurance that such permits would be granted or timely obtained or on terms and conditions consistent with a PCEC proposed plan.

*Endangered Species Act.* The federal Endangered Species Act (ESA) and similar state statutes restrict activities that may affect endangered and threatened species or their habitats. The presence of endangered species or designation of previously unidentified endangered or threatened species could cause PCEC to incur additional costs or become subject to operating delays, restrictions or bans in the affected areas, including the obligation to obtain permits from

the United States Fish & Wildlife Service ( FWS ) or the California Department of Fish & Wildlife with respect to one or more such species. The habitats of certain protected species are known to include portions of PCEC 's areas of operation, and others may yet be found or proposed for protection at one or more of the Underlying Properties.

*OSHA and other laws and regulations.* The operations of PCEC are subject to a number of federal and state laws and regulations, including the federal Occupational Safety and Health Act ( OSHA ) and comparable state statutes, whose purpose is to protect the health and safety of workers. In addition, the OSHA hazard communication standard, the OSHA Process Safety Management, the EPA community right-to-know regulations under Title III of CERCLA and comparable state statutes require that information be maintained concerning hazardous materials used or produced in operations and that this information be provided to employees, state and local government authorities and citizens.

Accidental spills or releases may occur in the course of operations, and PCEC may incur substantial costs and liabilities as a result of such spills or releases, including those relating to claims for damage to property and persons. In addition, PCEC is likely to incur remediation costs for property, wells and facilities at the end of their useful lives. Moreover, the passage of more stringent laws

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or regulations in the future may have a negative impact on PCEC's business, financial condition and results of operations, or its ability to make distributions to the Trust.

*Idle Wells.* In September 2016, California passed AB 2729 with a stated intended purpose to reduce the state's inventory of idle wells and to ensure protection of public health and the environment. The bill is administered by DOGGR and beginning January 1, 2018, all operators must either (i) submit an idle well management plan ( IWMP ) for the management and elimination of all long-term idle wells or (ii) pay annual fees for each idle well by January 31 of each year. Required elimination of idle wells is based on the number of idle wells an operator has. For 2019, PCEC will be required to eliminate two more wells if an IWMP is submitted, otherwise fees will be due.

Beginning in April 2019, DOGGR is expected to implement new regulations that would require PCEC to undertake certain actions with respect to idle wells. These regulations are expected to require each idle well, within six years and every four to eight years thereafter, to pass a casing integrity pressure test ( CIPT ) to prove its mechanical integrity, which would involve placing a workover rig on the well to pressure test the casing. In addition, to ensure that each idle well remains in a condition conducive to its eventual abandonment, if necessary, DOGGR is expected to require operators to clean out or tag each idle well, within eight years and then every four years thereafter, to verify access for future abandonment. Finally, operators will be required to submit an engineering analysis for each idle well that provides satisfactory evidence that the well is viable to be returned to production and has mechanical integrity. If DOGGR determines that a well is not viable to return to production, the well must be abandoned within a specified timeframe. Because PCEC has not previously performed a CIPT and has not previously cleaned out or tagged idle wells to verify access for future abandonment, PCEC is unable to estimate how many of its idle wells will be in compliance with the CIPT or with the rules regarding cleaning out or tagging. If a well fails the CIPT or is unable to be cleaned out or tagged, DOGGR will require remedial action in the form of abandonment or repair. PCEC estimates that there are currently 116 idle wells on the Underlying Properties.

***Where You Can Find Other Information***

The Trust makes certain filings with the Securities and Exchange Commission (the SEC ), including its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments and exhibits to those reports, available free of charge through its website, [www.pacificcoastoiltrust.com](http://www.pacificcoastoiltrust.com), as soon as reasonably practicable after the date they are filed with, or furnished to, the SEC. These filings are also available through the SEC's website, [www.sec.gov](http://www.sec.gov). The Trust's press releases and any recent investor presentations made by PCEC are also available on the Trust's website.



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**Item 1A. Risk Factors.**

*Prices of oil and natural gas fluctuate, and changes in prices could reduce proceeds to the Trust and cash distributions to Trust unitholders.*

The Trust's reserves and monthly cash distributions are highly dependent upon the prices realized from the sale of oil and natural gas. Prices of oil and natural gas can fluctuate widely in response to a variety of factors that are beyond the control of the Trust and PCEC. These factors include, among others:

- regional, domestic and foreign supply and perceptions of supply of oil and natural gas;
- the level of demand and perceptions of demand for oil and natural gas;
- political conditions or hostilities in oil and natural gas producing countries;
- anticipated future prices of oil and natural gas and other commodities;
- weather conditions and seasonal trends;
- technological advances affecting energy consumption and energy supply;
- U.S. and worldwide economic conditions;
- the price and availability of alternative fuels;
- the proximity, capacity, cost and availability of gathering and transportation facilities;

- the volatility and uncertainty of regional pricing differentials;
- governmental regulations and taxation;
- energy conservation and environmental measures;
- the level and effect of trading in commodity futures markets, including by commodity price speculators; and
- acts of force majeure.

In 2018, Brent oil prices ranged from \$50.57 per Bbl to \$86.07 per Bbl. In 2017, Brent oil prices ranged from \$43.98 per Bbl to \$66.80 per Bbl. In 2018, Henry Hub natural gas prices ranged from \$2.49 per MMBtu to \$6.24 per MMBtu. In 2017, Henry Hub natural gas prices ranged from \$2.44 per MMBtu to \$3.80 per MMBtu. Profits to which the Trust is entitled are especially sensitive to oil prices, because oil is a high percentage of production from the Underlying Properties. In 2018, oil represented 99% of production from the Underlying Properties. Lower average realized prices have affected the Trust's cash distributions to unitholders. For example, for the periods from February 2016 through February 2017, no cash distributions were made as Trust expenses exceeded the proceeds received from the Conveyed Interests.

Changes in the prices of oil and natural gas may reduce profits to which the Trust is entitled and may ultimately reduce the amount of oil and natural gas that is economic to produce from the Underlying Properties. As a result, PCEC or any third-party operator could determine during periods of low commodity prices to shut in or curtail production from wells on the Underlying Properties. In addition, PCEC or any third-party operator could determine during periods of low commodity prices to plug and abandon marginal wells that otherwise may have been allowed to continue to produce for a longer period under conditions of higher prices. Specifically, PCEC or any third-party operator may abandon any well or property if it reasonably believes that the well or property can no longer produce oil or natural gas in commercially paying quantities. This could result in termination of any Conveyed Interest relating to the abandoned well or property. In addition, the costs of plugging and abandonment of wells or property, including costs that PCEC, in its sole discretion, may accrue for future plugging and abandonment, would be deducted from gross profits attributable to the Trust's interest and therefore would reduce future cash distributions to Trust unitholders.

The Underlying Properties are sensitive to decreasing commodity prices. The commodity price sensitivity is due to a variety of factors that vary from well to well, including the costs associated with water handling and disposal, chemicals, surface equipment

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maintenance, downhole casing repairs and reservoir pressure maintenance activities that are necessary to maintain production. As a result, a decrease in commodity prices may cause the expenses of certain wells to exceed the well's revenue. If this scenario were to occur, PCEC or any third-party operator may decide to shut-in the well or plug and abandon the well. This scenario could reduce future cash distributions to Trust unitholders. In addition, PCEC is also sensitive to increasing natural gas prices at its Orcutt properties, where it consumes natural gas in connection with its production of oil. Accordingly, at times when PCEC is a net buyer of natural gas, increases in the price of natural gas may reduce proceeds from production from PCEC's Orcutt Diatomite properties and could reduce future cash distributions to Trust unitholders.

*Actual reserves and future production may be less than engineers' estimates, which could reduce cash distributions by the Trust and the value of the Trust Units.*

The value of the Trust Units and the amount of future cash distributions to the Trust unitholders depends upon, among other things, the accuracy of the reserves and future production estimated to be attributable to the Trust's interest in the Underlying Properties as summarized in the reports the Trust obtains from its independent petroleum engineers. It is not possible to measure underground accumulations of oil and natural gas in an exact way, and estimating reserves is inherently uncertain. Ultimately, actual production and revenues for the Underlying Properties could vary both positively and negatively and in material amounts from estimates. Furthermore, direct operating expenses and development expenses relating to the Underlying Properties could be substantially higher than current estimates. Petroleum engineers are required to make subjective estimates of underground accumulations of oil and natural gas based on factors and assumptions that include:

- historical production from the area compared with production rates from other producing areas;
- oil and natural gas prices, production levels, Btu content, production expenses, transportation costs, severance and excise taxes and development expenses; and
- the assumed effect of expected governmental regulation and future tax rates.

Changes in these assumptions and amounts of actual direct operating expenses and development expenses could materially decrease reserve estimates. In addition, the quantities of recovered reserves attributable to the Underlying Properties may decrease in the future as a result of future decreases in the price of oil or natural gas.

*Developing oil and natural gas wells and producing oil and natural gas are costly and high-risk activities with many uncertainties that could adversely affect future production from the Underlying Properties. For example, the ultimate development of future production will require additional permits. Any delays, reductions, lack of permits or cancellations in development and producing activities could decrease revenues that are available for distribution to Trust unitholders.*

The process of developing oil and natural gas wells and producing oil and natural gas on the Underlying Properties is subject to numerous risks beyond the Trust's or PCEC's control, including risks that could delay PCEC's or other third-party operators' current drilling or production schedule and the risk that drilling will not result in commercially viable oil or natural gas production.

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PCEC is not obligated to undertake any development activities. As a result, any drilling or completion activities will be subject to the reasonable discretion of PCEC. Any plans to increase production in the Orcutt Diatomite and West Pico properties beyond the currently permitted wells will require additional permits and approvals from various state and local agencies. Such permits may not be issued in a timely manner or at all. Additionally, the ability of PCEC or any third-party operator to carry out operations or to finance planned development expenses could be materially and adversely affected by any factor that may curtail, delay, reduce or cancel development and production, including:

- delays imposed by or resulting from compliance with regulatory requirements, including permitting;
- unusual or unexpected geological formations;
- shortages of or delays in obtaining equipment and qualified personnel;
- lack of available gathering facilities or delays in construction of gathering facilities;
- lack of available capacity on interconnecting transmission pipelines;
- equipment malfunctions, failures or accidents;
- unexpected operational events and drilling conditions;

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- reductions in oil or natural gas prices;
- market limitations for oil or natural gas;
- pipe or cement failures;
- casing collapses;
- lost or damaged drilling and service tools;
- loss of drilling fluid circulation;
- uncontrollable flows of oil and natural gas, inert gas, water or drilling fluids;
- fires and natural disasters;
- environmental hazards, such as oil and natural gas leaks, pipeline ruptures and discharges of toxic gases;
- adverse weather conditions; and
- oil or natural gas property title problems.

If planned operations, including drilling of development wells, are delayed or cancelled, or if production from existing wells or development wells is lower than anticipated due to one or more of the factors above or for any other reason, distributions to Trust unitholders may be reduced. Further, if PCEC or any third-party operator incurs increased costs due to one or more of the above factors or for any other reason and is not able to recover such costs from insurance, distributions to Trust unitholders may be reduced.

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***The Trust is passive in nature and neither the Trust nor the Trust unitholders have any ability to influence PCEC or control the operations or development of the Underlying Properties.***

The Trust Units are a passive investment that entitle the Trust unitholder only to receive cash distributions from the Conveyed Interests. Trust unitholders have no voting rights with respect to PCEC and, therefore, have no managerial, contractual or other ability to influence PCEC's activities or the operations of the Underlying Properties. PCEC operated approximately 98% of the average daily production from the Underlying Properties located at Orcutt and West Pico for the year ended December 31, 2018 and is generally responsible for making all decisions relating to drilling activities, sale of production, compliance with regulatory requirements and other matters that affect such properties. Accordingly, PCEC may take actions that are in its own interest that may be different from the interests of the Trust.

***Shortages of equipment, services and qualified personnel could increase costs of developing and operating the Underlying Properties and result in a reduction in the amount of cash available for distribution to the Trust unitholders.***

The demand for qualified and experienced personnel to conduct field operations, geologists, geophysicists, engineers and other professionals in the oil and natural gas industry can fluctuate significantly, often in correlation with oil and natural gas prices, causing periodic shortages. Historically, there have been shortages of drilling rigs and other equipment as demand for rigs and equipment has increased along with the number of wells being drilled. These factors also cause significant increases in costs for equipment, services and personnel. Higher oil and natural gas prices generally stimulate demand and result in increased prices for drilling rigs, crews and associated supplies, equipment and services. Shortages of field personnel and equipment or price increases could hinder the ability of PCEC or any third-party operator to conduct the operations which it currently has planned for the Underlying Properties, which would reduce the amount of cash received by the Trust and available for distribution to the Trust unitholders.

***PCEC may transfer all or a portion of the Underlying Properties at any time without Trust unitholder consent.***

PCEC may at any time transfer all or part of the Underlying Properties, subject to and burdened by the applicable Conveyed Interests, and may abandon individual wells or properties reasonably believed to be uneconomic. Trust unitholders are not entitled to vote on any transfer or abandonment of the Underlying Properties, and the Trust will not receive any profits from any such transfer. Following any sale or transfer of any of the Underlying Properties, the applicable Net Profits Interest and if applicable, the Royalty Interest, will continue to burden the transferred property, and net profits and royalties attributable to such transferred property will be calculated for such transferred property on a standalone basis using the computation of net profits and royalties set forth in the Conveyance related to the Conveyed Interests. PCEC may delegate to the transferee responsibility for all of PCEC's obligations relating to the applicable Conveyed Interests on the portion of the Underlying Properties transferred.

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PCEC may, without the consent of the Trust unitholders, require the Trust to release the Conveyed Interests associated with any property that accounts for less than or equal to 0.25% of the total production from the Underlying Properties in the prior twelve months and provided that the Conveyed Interests covered by such releases cannot exceed, during any twelve-month period, an aggregate fair market value to the Trust of \$500,000. These releases will be made only in connection with a sale by PCEC of the relevant Underlying Properties and are conditioned upon an amount equal to the fair market value (net of sales costs) of such Conveyed Interests being treated as an offset amount against costs and expenses.

PCEC may enter into farm-out, operating, participation and other similar agreements to develop the property without the consent or approval of the Trustee or any Trust unitholder.

***The reserves attributable to the Underlying Properties are depleting assets and production from those reserves will diminish over time. Furthermore, the Trust is precluded from acquiring other oil and natural gas properties, net profits interests or royalty interests to replace the depleting assets and production. Therefore, proceeds to the Trust and cash distributions to Trust unitholders will decrease over time.***

The net profits and royalties payable to the Trust attributable to the Conveyed Interests are derived from the sale of production of oil and natural gas from the Underlying Properties. The reserves attributable to the Underlying Properties are depleting assets, which means that the reserves and the quantity of oil and natural gas produced from the Underlying Properties will decline over time.

Future maintenance projects on the Underlying Properties may affect the quantity of proved reserves that can be economically produced from wells on the Underlying Properties. The timing and size of these projects will depend on, among other factors, the market prices of oil and natural gas. Furthermore, with respect to properties for which PCEC is not designated as the operator, PCEC has limited control over the timing or amount of those development expenses. PCEC also has the right to non-consent and not participate in the development expenses on properties for which it is not the operator, in which case PCEC and the Trust will not receive the production resulting from such development expenses until after payout occurs pursuant to the applicable joint operating agreements. If PCEC or any third-party operator does not implement maintenance projects when warranted, the future rate of production decline of proved reserves may be higher than the rate currently expected by PCEC or estimated in the reserve reports.

The Trust Agreement provides that the Trust's activities are limited to owning the Conveyed Interests and any activity reasonably related to such ownership, including activities required or permitted by the terms of the Conveyance related to the Conveyed Interests. As a result, the Trust is not permitted to acquire other oil and natural gas properties, net profits interests or royalties to replace the depleting assets and production attributable to the Conveyed Interests.

Because the net profits and royalties payable to the Trust are derived from the sale of depleting assets, the portion of the distributions to Trust unitholders attributable to depletion may be considered to have the effect of a return of capital as opposed to a return on investment. Eventually, the Underlying Properties burdened by the Conveyed Interests may cease to produce in commercially paying quantities, and the Trust may, therefore, cease to receive any distributions of net profits and royalties therefrom.

***A change in oil price differentials may adversely affect the cash distributions available to Trust unitholders.***

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PCEC's oil production is sold in the local markets where the pricing is based on local or regional supply and demand factors. The difference between the benchmark price and the price PCEC receives is called a differential. PCEC cannot predict how the differential applicable to its production will change in the future, and it is possible that the differentials will change and the prices received for PCEC's oil production may decrease. Numerous factors may influence local pricing, such as refinery capacity, pipeline capacity and specifications, upsets in the midstream or downstream sectors of the industry, trade restrictions and governmental regulations. Changes in the differential between common benchmark prices for oil and the wellhead price PCEC receives could adversely affect the cash distributions available to Trust unitholders.

***The amount of cash available for distribution by the Trust is reduced by the amount of any costs and expenses related to the Underlying Properties and other costs and expenses incurred by the Trust.***

The Trust indirectly bears an 80% share of all costs and expenses related to the production from the Developed Properties and a 25% share of all costs and expenses related to the production from the Remaining Properties. These costs and expenses include direct operating expenses and development expenses, which reduce the amount of cash received by the Trust and thereafter distributable to Trust unitholders. Accordingly, higher costs and expenses related to the Underlying Properties will directly decrease the amount of cash received by the Trust in respect of a Net Profits Interest. Historical costs may not be indicative of future costs. For example, PCEC may in the future propose additional drilling projects that significantly increase the capital expenditures associated with the Underlying Properties, which could reduce cash available for distribution by the Trust. In addition, cash available for



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distribution by the Trust is further reduced by the Trust's general and administrative expenses and by the annual PCEC operating and services fee, which is currently \$1.1 million, and is adjusted each April 1 based on changes in the Consumer Price Index.

Net profits payable to the Trust depend upon production quantities, sales prices of oil and natural gas and costs to develop and produce the oil and natural gas. Royalty Interest Proceeds depend on the Trust's share of production and property taxes and post-production costs, if any. 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 cumulative gross proceeds for such properties exceed the cumulative total excess costs for such properties.

***The Trust has established a cash reserve for contingent liabilities and to pay expenses in accordance with the Trust Agreement, which would reduce net profits payable to the Trust and distributions to Trust unitholders.***

The Trust's source of capital is the net profits and royalty income received from its share of the net proceeds from the Conveyed Interests. Pursuant to the Trust Agreement, the Trust may establish a cash reserve through the withholding of cash for contingent liabilities and to pay expenses, which will reduce the amount of cash otherwise available for distribution to unitholders. In December 2018, the Trustee announced that commencing with the distribution to unitholders payable in the first month of 2019, the Trustee intends to withhold the greater of \$10,000 or 3.5% of the funds otherwise available for distribution each month to gradually build a cash reserve of approximately \$350,000. Accordingly, in February 2019, the Trustee withheld approximately \$17,000 from the funds otherwise available for distribution. The Trustee may increase or decrease the targeted amount at any time, and may increase or decrease the rate at which it is withholding funds to build the cash reserve at any time, without advance notice to the unitholders.

***The bankruptcy of PCEC or any third-party operator could impede the operation of wells and the development of proved undeveloped reserves.***

The value of the Conveyed Interests and the Trust's ultimate cash available for distribution is highly dependent on PCEC's financial condition. Neither PCEC nor any of the other operators of the Underlying Properties has agreed with the Trust to maintain a certain net worth or to be restricted by other similar covenants.

The ability to develop and operate the Underlying Properties depends on PCEC's future financial condition and economic performance and access to capital, which in turn will depend upon the supply and demand for oil and natural gas, prevailing economic conditions and financial, business and other factors, many of which are beyond the control of PCEC. PCEC is not a reporting company and is not required to file periodic reports with the SEC pursuant to the Exchange Act. Therefore, neither the Trust unitholders nor the Trustee have access to financial information about PCEC.

For its fiscal year ended December 31, 2018, PCEC had \$0.9 million of cash on its balance sheet and zero debt. PCEC has access to a credit facility with a maturity of December 31, 2019. If PCEC has borrowings on its credit facility at December 31, 2019, or otherwise has indebtedness or other liabilities or obligations and is unable to extend the maturity of its credit facility or access alternative capital sources, PCEC may file for bankruptcy. PCEC has open commodity derivative contracts with its credit facility lender, and if PCEC's credit facility is not extended, under the terms of the commodity derivative contract agreements, PCEC's credit facility lender is able to force a liquidation of the commodity derivative contracts.

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In the event of the bankruptcy of PCEC or any third-party operator of the Underlying Properties, the working interest owners in the affected properties, creditors or the debtor-in-possession could have to seek a new party to perform the development and the operations of the affected wells. PCEC or the other working interest owners may not be able to find a replacement driller or operator, and they may not be able to enter into a new agreement with such replacement party on favorable terms within a reasonable period of time. As a result, such a bankruptcy may result in reduced production of reserves and decreased distributions to Trust unitholders.

On May 15, 2016, Breitburn Energy Partners LP and affiliated debtors, including Breitburn Operating LP (collectively, Breitburn ), filed a voluntary petition for relief under chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. Breitburn is the operator for the East Coyote and Sawtelle properties and continued to operate these properties during its bankruptcy proceedings. On April 6, 2018, Maverick Natural Resources LLC ( Maverick ) announced that it had emerged from the bankruptcy proceedings as the successor to Breitburn. Breitburn Operating LP, a wholly-owned subsidiary of Maverick, continues to be the operator of East Coyote and Sawtelle.

***In the event of the bankruptcy of PCEC, if a court were to hold that the Net Profits Interests are part of the bankruptcy estate, the Trust may be treated as an unsecured creditor with respect to the Net Profits Interests.***

PCEC and the Trust believe that the Net Profits Interests would be treated as an interest in real property under the laws of the State of California. While no California case has defined the nature of a net profits interest, the California Supreme Court has held

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that an overriding royalty interest in an oil and natural gas lease (such as the Royalty Interest) is an interest in real property. The California Supreme Court has also explained that the nature of the interest created depends upon the intention of the parties involved.

Given that the Conveyance defines the Net Profits Interests as an overriding royalty interest payable on the basis of net profits and states that the parties expressly intend that the Net Profits Interests constitute, for all purposes, an interest in real property, a California court likely would hold that the Net Profits Interests are an interest in real property. Nevertheless, the outcome is uncertain because no dispositive California Supreme Court case directly concludes that a conveyance of a net profits interest constitutes the conveyance of a real property interest. As such, in a bankruptcy of PCEC, the Net Profits Interests might be considered an asset of the bankruptcy estate and used to satisfy obligations to creditors of PCEC, in which case the Trust would be an unsecured creditor of PCEC at risk of losing the entire value of the Net Profits Interests to senior creditors.

***The generation of profits and royalties for distribution by the Trust depends in part on access to and operation of gathering, transportation and processing facilities. Any limitation in the availability of those facilities could interfere with sales of oil and natural gas production from the Underlying Properties.***

The marketability of PCEC's oil and natural gas production depends in part upon the availability, proximity and capacity of gathering, transportation and processing facilities owned by third parties. In general, PCEC does not control these third-party facilities and its access to them may be limited or denied due to circumstances beyond its control. A significant disruption in the availability of these facilities could adversely affect PCEC's ability to deliver to market the oil and natural gas it produces and thereby cause a significant interruption in PCEC's operations. In some cases, PCEC's ability to deliver to market its oil and natural gas is dependent upon coordination among third parties who own the transportation and processing facilities it uses, and any inability or unwillingness of those parties to coordinate efficiently could also interrupt PCEC's operations. These are risks for which PCEC generally does not maintain insurance. The Trust does not maintain any type of insurance against any of these risks.

The facilities at PCEC's West Pico, East Coyote and Sawtelle properties are located in urban settings. The available means for alternative transportation of production from these properties are limited, due to the difficulties of building transportation systems in these areas as well as permitting restrictions pertaining to trucking. In addition, PCEC's Orcutt properties are currently serviced by a single gathering system, and there are a limited number of other transportation alternatives in the area. A change in PCEC's current takeaway arrangements, in the absence of satisfactory alternatives, would have an adverse effect on PCEC's operations. PCEC would be similarly affected if any of the other transportation, gathering and processing facilities it uses became unavailable or unable to provide services.

***Phillips 66 purchases virtually all of PCEC's production, and a decision by Phillips 66 to discontinue or reduce its purchases of PCEC's production may adversely affect the cash distributions available to Trust unitholders.***

In 2018, Phillips 66 accounted for 88% of PCEC's net sales. As a result, a decision by Phillips 66 to discontinue or reduce its purchases of PCEC's production may adversely affect the cash distributions available to Trust unitholders.

***The Trustee must sell the Conveyed Interests and dissolve the Trust prior to the expected termination of the Trust if the holders of at least 75% of the outstanding Trust Units approve the sale or vote to dissolve the Trust or if the annual cash proceeds received by the Trust attributable to the Conveyed Interests, in the aggregate, are less than \$2.0 million for each of any two***

*consecutive years. As a result, Trust unitholders may not recover their investment.*

The Trustee must sell the Conveyed Interests and dissolve the Trust if the holders of at least 75% of the outstanding Trust Units approve the sale or vote to dissolve the Trust. The Trustee must also sell the Conveyed Interests and dissolve the Trust if the annual cash proceeds received by the Trust attributable to the Conveyed Interests, in the aggregate, are less than \$2.0 million for each of any two consecutive years. If this occurs, the Trust Agreement requires the Trustee to sell the Conveyed Interests and to distribute the net proceeds to the Trust unitholders after paying all liabilities of the Trust and setting up cash reserves in such amounts as the Trustee in its discretion deems appropriate for contingent liabilities. As a result, Trust unitholders may not recover their investment.

*Current regulations and recent regulatory changes in California have and may continue to adversely affect PCEC's production in its Diatomite properties.*

Recent regulatory changes in California have adversely affected PCEC's Diatomite production. For instance, in 2010, Diatomite production decreased significantly due to the inability to drill new wells pending the receipt of permits from the California Department of Conservation, Division of Oil, Gas, and Geothermal Resources, or DOGGR. The current approval, among other things, includes stringent operating, response and preventative requirements relating to mechanical integrity testing and responses to integrity issues and surface expressions, among others. Compliance with these requirements and delays in regulatory reviews, as well

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as other regulatory action and inaction, has in the past and may in the future adversely affect the pace of drilling and steam injection and may adversely affect development from PCEC's Diatomite properties in the near term.

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 PCEC'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. As of the date of this Annual Report, PCEC has not filed any additional permit applications 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 permit applications 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.

The Orcutt Field also has experienced both seeps and surface expressions. Seeps of oil from a zone that is very near the surface and actually outcrops onto the surface have occurred in parts of the Orcutt Field over long periods of time pre-dating oil production and have occurred during periods of recent production. The seeps do not originate from the zone into which steam is being injected. Rather, they originate from an overlying, near-surface zone. When seeps occur, they are contained and monitored. If necessary, a simple canister is placed in the ground to contain any ongoing seepage. PCEC, in consultation with DOGGR, modified its injection practices in order to balance the amount of fluids injected and withdrawn into the Diatomite zone. Since this modification was made, the number of seeps has declined and four, three, zero, zero and one seep cans were installed in 2015, 2016, 2017, 2018 and 2019, respectively. The permitting of these seeps was part of the OHREP permitting process and was approved by Santa Barbara County. In the permit approval are conditions that, in order to comply, add additional expense including habitat restoration costs for habitat impacted in installation of seep cans, additional inspection and reporting costs and other costs that increase the expenses associated with operating the Orcutt Diatomite. Surface expressions are situations where steam intended to be injected into the Diatomite oil-bearing zone instead leaks from the well and reaches the surface. In 2011, two wells in the field developed casing leaks that allowed steam to reach the surface and these wells remain out of service. In 2014, two different wells allowed steam to reach the surface, which resulted in the curtailment of steaming operations in several wells to allow the conduct of investigations, which remain ongoing under the supervision of DOGGR. DOGGR may impose additional operational restrictions or requirements, including requiring that wells be shut in, as a result of incidents involving surface expressions. PCEC is allowed to produce from the Diatomite zone at its Orcutt Newlove property pursuant to a Project Approval Letter (PAL). This PAL is subject to change or revocation by DOGGR at its sole discretion.

The State of California, through DOGGR, administers the federal Safe Drinking Water Act with respect to underground injection of fluids in conjunction with oil field activities. The EPA is requiring DOGGR to review all of the injection wells in California to determine whether or not the appropriate standards were met to permit injection into the zones currently allowed. DOGGR is establishing a process, in conjunction with other California state agencies and with the approval of the EPA, to review the current injection practices and, in essence, re-permit injection into appropriate injection zones. DOGGR has issued a preliminary list of more than 2,000 permits/wells which it is reexamining. Although none of PCEC's injection wells have been ordered shut by DOGGR, if new regulatory initiatives are implemented that restrict or prohibit the use of underground injection wells in areas where PCEC relies upon the use of such wells in its operations, PCEC's operating costs may significantly increase and its ability to continue production may be delayed or limited, which could have an adverse effect on PCEC's results of operation and financial position.

### *The Trust Units may lose value as a result of title deficiencies with respect to the Underlying Properties.*

The existence of a material title deficiency with respect to the Underlying Properties could reduce the value of a property or render it worthless, thus adversely affecting the Conveyed Interests and the distributions to Trust unitholders. PCEC does not obtain title insurance covering mineral

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leaseholds, and PCEC's failure to cure any title defects may cause PCEC to lose its rights to production from the Underlying Properties. In the event of any such material title problem, profits available for distribution to Trust unitholders and the value of the Trust Units may be reduced.

*The trading price for the Trust Units may not reflect the value of the Conveyed Interests held by the Trust, which would adversely affect the return on an investment in the units.*

The trading price for publicly traded securities similar to the Trust Units tends to be tied to recent and expected levels of cash distributions. The amounts available for distribution by the Trust will vary in response to numerous factors outside the control of the Trust, including prevailing prices for sales of oil and natural gas production from the Underlying Properties and the timing and amount of direct operating expenses and development expenses. Consequently, the market price for the Trust Units may not necessarily be indicative of the value that the Trust would realize if it sold the Conveyed Interests to a third-party buyer. In addition, such market price may not necessarily reflect that the assets of the Trust are depleting assets, and that therefore a portion of each cash distribution

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paid with respect to the Trust Units should be considered by investors as a return of capital, with the remainder being considered as a return on investment. As a result, distributions made to a Trust unitholder over the life of these depleting assets may be less than the purchase price paid by the Trust unitholder.

***If we do not meet the NYSE's continued listing requirements, the NYSE may delist the Trust Units, which could affect the market price, trading volume, liquidity and resale price of the Trust Units.***

Under the NYSE's continued listing requirements, a company will be considered to be out of compliance with the NYSE's minimum price requirement if the company's average closing price over a consecutive 30 trading day period (the Average Closing Price) is less than \$1.00 (the Minimum Price Requirement). Under NYSE rules, a company that is out of compliance with the minimum price requirement has a cure period of six months to regain compliance if it notifies the NYSE within 10 business days of receiving a deficiency notice of its intention to cure the deficiency. During the cure period, the company's shares would continue to trade on the NYSE, subject to compliance with other continued listing requirements. A company may regain compliance if on the last trading day of any calendar month during the cure period the company has a closing share price of at least \$1.00 and an average closing share price of at least \$1.00 over the 30-trading-day period ending on the last trading day of that month. In the event that at the expiration of the cure period, both a \$1.00 closing share price on the last trading day of the cure period and a \$1.00 average closing share price over the 30-trading-day period ending on the last trading day of the cure period are not attained, the NYSE will commence suspension and delisting procedures.

The Trust was not in compliance with the Minimum Price Requirement for a brief period from late February 2016 until the beginning of April 2016. As of the close of business on December 31, 2018, the Average Closing Price of the Trust Units was \$1.64. Although the Trust Units have been trading at or above \$1.62 per unit since the beginning of 2019, the Average Closing Price could decline in the future and the Trust Units could be delisted as a result. If the Trust Units were to be delisted, they may be transferred to the over-the-counter (OTC) market, a significantly more limited market than the NYSE, which could affect the market price, trading volume, liquidity and resale price of the Trust Units. Securities that trade on the OTC markets also typically experience more volatility compared to securities that trade on a national securities exchange.

***Conflicts of interest could arise between PCEC and its affiliates, on the one hand, and the Trust and the Trust unitholders, on the other hand, which could harm the business or financial results of the Trust.***

As working interest owners in, and the operators of substantially all wells on, the Underlying Properties, PCEC and its affiliates could have interests that conflict with the interests of the Trust and the Trust unitholders. For example:

- PCEC's interests may conflict with those of the Trust and the Trust unitholders in situations involving the development, maintenance, operation or abandonment of certain wells on the Underlying Properties for which PCEC acts as the operator. PCEC may also make decisions with respect to development expenses that adversely affect the Underlying Properties. These decisions include reducing development expenses for those properties for which PCEC acts as the operator, which could cause oil and natural gas production to decline at a faster rate and thereby result in lower cash distributions by the Trust in the future.

- PCEC may sell some or all of the Underlying Properties without taking into consideration the interests of the Trust unitholders. Such sales may not be in the best interests of the Trust unitholders and the purchasers may lack PCEC's experience or its credit worthiness. PCEC also has the right, under certain circumstances, to cause the Trust to release all or a portion of the Conveyed Interests in connection with a sale of a portion of the Underlying Properties to which such Conveyed Interests relates. In such an event, the Trust is entitled to receive the fair market value (net of sales costs) of the Conveyed Interests released, which will be treated as an offset amount against costs and expenses. Please read Properties Abandonment and Sale of Underlying Properties in Item 2 of this Annual Report.

*The Trust is managed by a Trustee who cannot be replaced except by a majority vote of the Trust unitholders at a special meeting, which may make it difficult for Trust unitholders to remove or replace the Trustee.*

The affairs of the Trust are managed by the Trustee. The voting rights of a Trust unitholder are more limited than those of stockholders of most public corporations. For example, there is no requirement for the Trust to hold annual meetings of Trust unitholders or for an annual or other periodic re-election of the Trustee. The Trust does not intend to hold annual meetings of Trust unitholders. The Trust Agreement provides that the Trustee may only be removed and replaced by the holders of a majority of the Trust Units present in person or by proxy at a meeting of such holders where a quorum is present, including Trust Units held by PCEC, called by either the Trustee or the holders of not less than 10% of the outstanding Trust Units.



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***Trust unitholders have limited ability to enforce provisions of the Conveyance creating the Conveyed Interests, and PCEC's liability to the Trust is limited.***

The Trust Agreement permits the Trustee to sue PCEC or any other future owner of the Underlying Properties to enforce the terms of the Conveyance creating the Conveyed Interests. If the Trustee does not take appropriate action to enforce provisions of the Conveyance, Trust unitholders' recourse would be limited to bringing a lawsuit against the Trustee to compel the Trustee to take specified actions. The Trust Agreement expressly limits a Trust unitholder's ability to directly sue PCEC or any other third party other than the Trustee. As a result, Trust unitholders are not able to sue PCEC or any future owner of the Underlying Properties to enforce these rights. Furthermore, the conveyance creating the Conveyed Interests provides that, except as set forth in the Conveyance, PCEC will not be liable to the Trust for the manner in which it performs its duties in operating the Underlying Properties as long as it acts without gross negligence or willful misconduct.

***Courts outside of Delaware may not recognize the limited liability of the Trust unitholders provided under Delaware law.***

Under the Delaware Statutory Trust Act, Trust unitholders are entitled to the same limitation of personal liability extended to stockholders of corporations for profit under the General Corporation Law of the State of Delaware. Nevertheless, courts in jurisdictions outside of Delaware could decline to give effect to such limitation.

***The operations of the Underlying Properties are subject to environmental laws and regulations that could adversely affect the cost, manner or feasibility of conducting operations on them or result in significant costs and liabilities, which could reduce the amount of cash available for distribution to Trust unitholders.***

The oil and natural gas exploration and production operations on the Underlying Properties are subject to stringent and comprehensive federal, state and local laws and regulations governing the release, discharge or emission of materials into the environment, the handling of hazardous substances, or otherwise relating to environmental protection. These laws and regulations may impose numerous obligations that apply to the operations on the Underlying Properties, including the requirement to obtain a permit before conducting drilling, waste disposal or other regulated activities; the restriction of types, quantities and concentrations of materials that can be released into the environment; restrictions on water withdrawal and use; the incurrence of significant development expenses to install pollution or safety-related controls at the operated facilities; the limitation or prohibition of drilling activities on certain lands lying within wetlands and other protected areas; and the imposition of substantial liabilities for pollution resulting from operations. For example, in 2012 and 2016 the EPA published regulations that impose more stringent emissions control requirements for oil and natural gas development and production operations, which may require PCEC, its operators, or third-party contractors to incur additional expenses to control air emissions from current operations and during new well developments by installing emissions control technologies and adhering to a variety of work practice and other requirements. These requirements could increase the costs of development and production, reducing the profits available to the Trust and potentially impairing the economic development of the Underlying Properties. Portions of PCEC's areas of operation are located in areas that host several endangered plant and animal species. The known presence of these endangered species may limit future operations in certain areas of the properties and will result in increased costs of development as certain procedures must be used to protect such species and costs may be incurred to provide habitat areas or substitute replacement areas.

In addition, any future attempt by PCEC to increase production in the Diatomite formation beyond the currently permitted wells will require additional permits and approvals from various state, federal and local agencies, in addition to a new review under the CEQA, possibly including an environmental impact report. Such a process could take many months or longer, and such permits might not be timely obtained or on terms and conditions consistent with PCEC's proposed plan.

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For all of PCEC's operations, numerous governmental authorities such as the EPA, analogous state agencies such as the DOGGR and local agencies such as the County of Santa Barbara Planning and Development, Energy Division, have the power to enforce compliance with these laws and regulations and the permits issued under them, often times requiring difficult and costly actions. Failure to comply with these laws and regulations may result in the assessment of administrative, civil or criminal penalties; the imposition of investigatory or remedial obligations; and the issuance of injunctions limiting or preventing some or all of the operations on the Underlying Properties. Furthermore, the inability to comply with environmental laws and regulations in a cost-effective manner, such as removal and disposal of produced water and other generated oil and natural gas wastes, could impair PCEC's ability to produce oil and natural gas commercially from the Underlying Properties, which would reduce profits and royalties attributable to the Conveyed Interests.

The handling of petroleum hydrocarbons and wastes, air emissions and wastewater discharges related to operations, and historical industry operations and waste disposal practices could result in significant environmental costs and liabilities in the operations on the the Underlying Properties. Under certain environmental laws and regulations, PCEC could be subject to joint and several strict liability for the removal or remediation of previously released materials or property contamination regardless of whether

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PCEC was responsible for the release or contamination or whether PCEC was in compliance with all applicable laws at the time those actions were taken. Private parties, including the owners of properties upon which wells are drilled and facilities where petroleum hydrocarbons or wastes are taken for reclamation or disposal, may also have the right to pursue legal actions to enforce compliance as well as to seek damages for non-compliance with environmental laws and regulations or for personal injury or property damage. In addition, the risk of accidental spills or releases could expose PCEC to significant liabilities that could have a material adverse effect on PCEC's business, financial condition and results of operations and could reduce the amount of cash available for distribution to Trust unitholders. Changes in environmental laws and regulations occur frequently, and any changes that result in more stringent or costly operational control requirements or waste handling, storage, transport, disposal or cleanup requirements could require PCEC to make significant expenditures to attain and maintain compliance and may otherwise have a material adverse effect on its results of operations, competitive position or financial condition. PCEC may be unable to recover some or any of these costs from insurance, in which case the amount of cash received by the Trust may be decreased. The Trust indirectly bears an 80% share of all costs and expenses related to the production from the Developed Properties and a 25% share of all costs and expenses related to the production from the Remaining Properties, including those related to environmental compliance and liabilities associated with the Underlying Properties, including costs and liabilities resulting from conditions that existed prior to PCEC's acquisition of the Underlying Properties unless such costs and expenses result from the operator's negligence or misconduct. In addition, as a result of the increased cost of compliance, PCEC may decide to discontinue drilling.

***The operations of the Underlying Properties are subject to complex federal, state, local and other laws and regulations that could adversely affect the cost, manner or feasibility of conducting operations on them or expose the operator to significant liabilities, which could reduce the amount of cash available for distribution to Trust unitholders.***

The production and development operations on the Underlying Properties are subject to complex and stringent laws and regulations. In order to conduct its operations in compliance with these laws and regulations, PCEC must obtain and maintain numerous permits, drilling bonds, approvals and certificates from various federal, state and local governmental authorities and engage in extensive reporting. PCEC may incur substantial costs and experience delays in order to maintain compliance with these existing laws and regulations, and the Trust's income is reduced by its 80% share of such costs related to the production from the Developed Properties and a 25% share of such costs related to the production from the Remaining Properties. In addition, PCEC's costs of compliance may increase if existing laws and regulations are revised or reinterpreted, or if new laws and regulations become applicable to its operations. Such costs could have a material adverse effect on PCEC's business, financial condition and results of operations and reduce the amount of cash received by the Trust in respect of the Conveyed Interests. For example, in California, each of the legislative and executive branches in the past have proposed tax increases that have included a severance tax as high as 12.5% on all oil production in California. The County of Santa Barbara also recently considered imposing a severance tax. Although the proposals have not passed, the State of California could impose a severance tax on oil in the future. While PCEC cannot predict the impact of such a tax given the uncertainty of the proposals, the imposition of such a tax could have severe negative impacts on both its willingness and ability to incur capital expenditures to increase production, could severely reduce or completely eliminate PCEC's profit margins and would result in lower oil production in PCEC's properties due to the need to shut-in wells and facilities made uneconomic either immediately or at an earlier time than would have previously been the case. PCEC must also comply with laws and regulations prohibiting fraud and market manipulations in energy markets.

Laws and regulations governing exploration and production may also affect production levels. PCEC is required to comply with federal and state laws and regulations governing conservation matters, including:

- provisions related to the unitization or pooling of oil and natural gas properties;
- the spacing of wells;

- the plugging and abandonment of wells; and
- the removal of related production equipment.

Several jurisdictions in California, including Santa Barbara County, have proposed various forms of moratoria or bans on hydraulic fracturing and other hydrocarbon recovery techniques, including traditional waterflooding, acid treatments and cyclic steam injection. A local initiative in Santa Barbara County obtained sufficient signatures to be placed on the ballot in Santa Barbara County in November 2014 but did not receive enough votes to pass. If the initiative had passed, however, the proposed amendments would have directly or indirectly prohibited utilization of waterflooding, cyclic steam injection, acid use for stimulation or maintenance, water injection, and a variety of other recovery methods, on future well sites, and could have materially reduced or prohibited utilization of such recovery techniques from currently producing wells, within Santa Barbara County. The proposed amendments would have also prohibited the use of hydraulic fracturing in Santa Barbara County.

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Voter initiatives could lead to the adoption of new municipal or state land use regulations such as additional setback requirements from houses, schools and other improvements, which could effectively prohibit exploration and production activities or make such activities more difficult or expensive in the future. For example, in 2018, Colorado citizens voted on Proposition 112, which would have increased drilling location setbacks from 500 feet to 2,500 feet, severely limiting access to oil and natural gas. Although Proposition 112 was defeated, future voter initiatives are possible in other jurisdictions, including California. Meanwhile, state legislators and regulators and local governmental bodies could seek to implement similar restrictions. In California, in recent years the Los Angeles City Council has considered proposals to implement a 2,500-foot setback requirement. The Los Angeles City Council has requested a comprehensive report on the health, environmental, and financial impacts of an oil and gas setback for the Council's consideration. The final report is pending. If more stringent setback requirements are adopted, thereby placing limitations on the production and development of oil and natural gas in areas where PCEC conducts operations, PCEC may incur significant costs to comply with such requirements or may experience delays or curtailment in the permitting or pursuit of exploration, development, or production activities. Such requirements may be implemented through ordinances without public vote or with public vote. Additionally, state and federal regulatory authorities may expand or alter applicable pipeline safety laws and regulations, compliance with which may require increased capital costs on the part of PCEC and third-party downstream oil and natural gas transporters. These and other laws and regulations can limit the amount of oil and natural gas PCEC can produce from its wells, limit the number of wells it can drill, or limit the locations at which it can conduct drilling operations, which in turn could adversely affect Trust distributions, estimated and actual future net revenues to the Trust and estimates of reserves attributable to the Trust's interests.

New laws or regulations, or changes to existing laws or regulations, may unfavorably impact PCEC, could result in increased operating costs or have a material adverse effect on its financial condition and results of operations and reduce the amount of cash received by the Trust. For example, Congress has considered legislation that, if adopted, would subject companies involved in oil and natural gas exploration and production activities to, among other items, the elimination of certain U.S. federal tax incentives and deductions available to oil and natural gas exploration and production activities and the prohibition or additional regulation of private energy commodity derivative and hedging activities. These and other potential regulations could increase the operating costs of PCEC, reduce its liquidity, delay its operations or otherwise alter the way PCEC conducts its business, any of which could have a material adverse effect on the Trust and the amount of cash available for distribution to Trust unitholders.

***The assessment of significant property taxes against PCEC could materially adversely affect the amount of cash available for distributions by the Trust to unitholders.***

From time to time, PCEC receives property tax bills or supplemental property tax assessments from various counties where PCEC's properties are located. In some cases where PCEC does not agree with the tax assessments received, it pays the property taxes under appeal until an agreement can be reached with the county involved in the dispute. In cases where the resolution between PCEC and the county results in additional property tax expenses, the additional cost would be allocated to the Underlying Properties and the Net Profits Interests. These additional property taxes could be significant and consequently could affect the amount available for distributions by the Trust.

In March 2016, PCEC reached a settlement agreement with the Santa Barbara County Assessor's Office on supplemental property tax bills related to the tax years covering the periods July 1, 2011 through June 30, 2016. The supplemental tax bills relate to the settlement of disputed property values for Orcutt Conventional and Orcutt Diatomite field locations for these periods. Amounts attributable to the period from April 1, 2012 through June 30, 2016 totaled \$2.1 million for the Developed Properties and \$1.3 million for the Remaining Properties and were charged in part to the Trust in the March 2016 production month calculation of the net profits. The property tax adjustment amounts attributable to the Trust increased the cumulative Net Profits Interest deficits of the Developed Properties and the Remaining Properties by \$1.4 million and \$0.2 million, respectively. Similar property tax adjustments could occur again, including for other properties and with respect to other time periods and could result in decreases to amounts payable to the Trust pursuant to the Net Profits Interests.

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*Climate change laws and regulations restricting emissions of greenhouse gases could result in increased operating costs and reduced demand for the oil and natural gas that PCEC produces while the physical effects of climate change could disrupt their production and cause it to incur significant costs in preparing for or responding to those effects.*

In response to findings that emissions of carbon dioxide, methane and other greenhouse gases present an endangerment to public health and the environment, the EPA has issued regulations to restrict emissions of greenhouse gases under existing provisions of the CAA. These regulations include limits on tailpipe emissions from motor vehicles and pre-construction and operating permit requirements for certain large stationary sources. The EPA also has adopted rules requiring the reporting of greenhouse gas emissions from specified large greenhouse gas emission sources in the United States, including certain onshore oil and natural gas production facilities, on an annual basis. In addition, in 2016 the EPA adopted federal New Source Performance Standards ( NSPS ) for new, modified, or reconstructed oil and gas facilities that require control of the greenhouse gas methane from affected facilities, including requirements to find and repair fugitive leaks of methane emissions at well sites (the Methane Rule ). Following the 2016

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presidential election and change in administrations, in 2017 the EPA proposed to delay implementation of the Methane Rule and also convened a reconsideration proceeding that resulted in two 2018 rulemaking projects aimed at rolling back certain Methane Rule requirements. These actions, like the Methane Rule itself, have been (or are likely to be) challenged in courts. The ultimate fate of the Methane Rule requirements is unclear. Nevertheless, regulations promulgated under the CAA may require PCEC to incur development expenses to install and utilize specific equipment, technologies, or work practices to control greenhouse gas emissions from its operations.

In addition, from time to time the U.S. Congress has considered legislation to reduce emissions of greenhouse gases, and many of the states have already taken legal measures to reduce greenhouse gas emissions, primarily through the implementation of state and/or regional greenhouse gas cap-and-trade programs. Most of these cap-and-trade programs work by requiring either major sources of emissions or major producers of fuels to acquire and surrender emission allowances. The number of allowances available for purchase is reduced each year in an effort to achieve the overall greenhouse gas emission reduction goal.

California has been one of the leading states in adopting greenhouse gas emission reduction requirements and has implemented a cap-and-trade program as well as mandates for renewable fuels sources. California's cap-and-trade program requires PCEC to report greenhouse gas emissions and essentially sets maximum limits or caps on total emissions of greenhouse gases from all industrial sectors that are or become subject to the program. PCEC's main sources of greenhouse gas emissions for oil and gas operations are primarily attributable to emissions from internal combustion engines powering wells emissions from drilling rigs and the steam generators that are used to produce steam for cyclic steaming. In June 2017, California passed AB 398, legislation delaying the expiration of the cap-and-trade program from 2020 to 2030. The program will continue largely unchanged, and PCEC will continue to be required to obtain authorizations for each metric ton of greenhouse gases emitted, either in the form of allowances (each the equivalent of one ton of carbon dioxide) or qualifying offset credits. The state will grant a portion of the allowance but any shortfall between the state-granted allowance and the facility's emissions will have to be addressed through the purchase of additional allowances either from the state or a third party. The availability of allowances will decline over time in accordance with the declining cap, and the cost to acquire such allowances may increase over time. These regulations increase PCEC's costs for those operations and adversely affect its operating results. Because regulation of greenhouse gas emissions is relatively new, further regulatory, legislative and judicial developments are likely to occur. Such developments may affect how these greenhouse gas initiatives will impact PCEC and the Trust. Due to the uncertainties surrounding the regulation of and other risks associated with greenhouse gas emissions, PCEC cannot predict the financial impact of related developments on PCEC or the Trust.

***Due to the Trust's lack of geographic and industry diversification, adverse developments in California could adversely affect the results of operations and cash flows of the Underlying Properties and reduce the amount of cash available for distributions to Trust unitholders.***

The operations of the Underlying Properties are focused exclusively on the production and development of oil and natural gas within the state of California. As a result, the results of operations and cash flows of the Underlying Properties depend upon continuing operations in this area. This concentration could disproportionately expose the Trust's interests to operational and regulatory risk in this area. Due to the lack of diversification in geographic location, adverse developments in exploration and production of oil and natural gas in this area of operation could have a significantly greater impact on the results of operations and cash flows of the Underlying Properties than if the operations were more diversified.

***Cyber-attacks or other failures in telecommunications or information technology systems could result in information theft, data corruption and significant disruption of PCEC's business operations.***

In recent years, PCEC has increasingly relied on information technology (IT) systems and networks in connection with its business activities, including certain of its exploration, development and production activities. PCEC relies on digital technology, including information systems

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and related infrastructure, as well as cloud applications and services, to, among other things, estimate quantities of oil and natural gas reserves, analyze seismic and drilling information, process and record financial and operating data and communicate with employees and third parties. As dependence on digital technologies has increased, cyber incidents, including deliberate attacks and attempts to gain unauthorized access to computer systems and networks, have increased in frequency and sophistication. These threats pose a risk to the security of PCEC's systems and networks, the confidentiality, availability and integrity of its data and the physical security of its employees and assets. PCEC has experienced, and expects to continue to experience, attempts from hackers and other third parties to gain unauthorized access to its IT systems and networks. Although prior cyber-attacks have not had a material adverse effect on PCEC's operations or financial performance, PCEC might not be successful in preventing cyber-attacks or mitigating their effect. Any cyber-attack could have a material adverse effect on PCEC's reputation, competitive position, business, financial condition and results of operations, and could have a material adverse effect on the Trust. Cyber-attacks or security breaches also could result in litigation or regulatory action, as well as significant additional expense to PCEC to implement further data protection measures.



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In addition to the risks presented to PCEC's systems and networks, cyber-attacks affecting oil and natural gas distribution systems maintained by third parties, or the networks and infrastructure on which they rely, could delay or prevent delivery to markets. A cyber-attack of this nature would be outside PCEC's ability to control, but could have a material adverse effect on PCEC's business, financial condition and results of operations, and could have a material adverse effect on the Trust.

***Cyber-attacks or other failures in telecommunications or IT systems could result in information theft, data corruption and significant disruption of the Trustee's operations.***

The Trustee depends heavily upon IT systems and networks in connection with its business activities. Despite a variety of security measures implemented by the Trustee, events such as the loss or theft of back-up tapes or other data storage media could occur, and the Trustee's computer systems could be subject to physical and electronic break-ins, cyber-attacks and similar disruptions from unauthorized tampering, including threats that may come from external factors, such as governments, organized crime, hackers and third parties to whom certain functions are outsourced, or may originate internally from within the respective companies.

If a cyber-attack were to occur, it could potentially jeopardize the confidential, proprietary and other information processed and stored in, and transmitted through, the Trustee's computer systems and networks, or otherwise cause interruptions or malfunctions in the operations of the Trust, which could result in litigation, increased costs and regulatory penalties. Although steps are taken to prevent and detect such attacks, it is possible that a cyber incident will not be discovered for some time after it occurs, which could increase exposure to these consequences.

### **Tax Risks Related to the Trust's Trust Units**

***The Trust has not requested a ruling from the IRS regarding the tax treatment of the Trust. If the IRS were to determine (and be sustained in that determination) that the Trust is not a grantor trust for federal income tax purposes, the Trust could be subject to more complex and costly tax reporting requirements that could reduce the amount of cash available for distribution to Trust unitholders.***

Although the tax treatment of overriding royalty interests in specified developed wells that have been drilled is well developed, the law is less developed in the area of overriding royalty interests on exploration prospects that are not classified as proved, probable or possible reserves and are undeveloped wells that may be drilled in the future. Based on the state of facts on the date on which this Annual Report was filed, the Trust continues to treat the Trust Units as mineral royalty interests for U.S. federal income tax purposes. However, no ruling has been requested from the IRS regarding the proper treatment of the Trust Units; therefore, the IRS may assert, or a court may sustain the IRS in asserting, that the Trust Units should be treated as production payments that are debt instruments for U.S. federal income tax purposes subject to the Treasury Regulations applicable to contingent payment debt instruments.

If the Trust were not treated as a grantor trust for federal income tax purposes, the Trust may be properly classified as a partnership for such purposes. Although the Trust would not become subject to federal income taxation at the entity level as a result of treatment as a partnership, and items of income, gain, loss and deduction would flow through to the Trust unitholders, the Trust's tax compliance requirements would be more complex and costly to implement and maintain, and its distributions to Trust unitholders could be reduced as a result.

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Neither PCEC nor the Trustee has requested a ruling from the IRS regarding the tax status of the Trust, and neither PCEC nor the Trustee intends to request such a ruling or can assure you that such a ruling would be granted if requested or that the IRS will not challenge these positions on audit.

Trust unitholders should be aware of the possible state tax implications of owning Trust Units and should consult with their tax advisors.

*Certain U.S. federal income tax preferences currently available with respect to oil and natural gas production may be eliminated as a result of future legislation.*

The passage of any legislation or changes in U.S. federal income tax laws could eliminate or postpone certain tax deductions that are currently available with respect to oil and natural gas exploration and development, which could reduce the cash available for distribution to the Trust unitholders or adversely affect the value of the Trust Units.

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***Unitholders are required to pay taxes on their share of the Trust's income even if they do not receive any cash distributions from the Trust.***

Trust unitholders are treated as if they own the Trust's assets and receive the Trust's income and are directly taxable thereon as if no Trust were in existence. Because the Trust generates taxable income that could be different in amount than the cash the Trust distributes, unitholders are required to pay any federal and applicable California income taxes and, in some cases, other state and local income taxes on their share of the Trust's taxable income even if they receive no cash distributions from the Trust. A unitholder may not receive cash distributions from the Trust equal to such unitholder's share of the Trust's taxable income or even equal to the actual tax liability that results from that income.

***A portion of any tax gain on the disposition of the Trust Units could be taxed as ordinary income.***

If a unitholder sells Trust Units, the unitholder will recognize a gain or loss equal to the difference between the amount realized and the unitholder's tax basis in those Trust Units. A substantial portion of any gain recognized may be taxed as ordinary income due to potential recapture items, including depletion recapture. Potential investors should consult with their tax advisors prior to acquiring Trust Units. Please see Federal Income Tax Matters in Item 1 Business in this Annual Report for additional information.

***The Trust allocates its items of income, gain, loss and deduction between transferors and transferees of the Trust Units each month based upon the ownership of the Trust Units on the monthly record date, instead of on the basis of the date a particular Trust Unit is transferred. The IRS may challenge this treatment, which could change the allocation of items of income, gain, loss and deduction among the Trust unitholders.***

The Trust generally allocates its items of income, gain, loss and deduction between transferors and transferees of the Trust Units each month based upon the ownership of the Trust Units on the monthly record date, instead of on the basis of the date a particular Trust Unit is transferred. It is possible that the IRS could disagree with this allocation method and could assert that income and deductions of the Trust should be determined and allocated on a daily or prorated basis, which could require adjustments to the tax returns of the Trust unitholders affected by the issue and result in an increase in the administrative expense of the Trust in subsequent periods.

***As a result of investing in Trust Units, unitholders may become subject to state and local taxes and return filing requirements in California.***

In addition to federal income taxes, Trust unitholders will likely be subject to other taxes, including state and local taxes that are imposed in California, where the Underlying Properties are located, even if the Trust unitholders do not live in California. Trust unitholders likely are required to file state and local income tax returns and pay state and local income taxes in California. Further, Trust unitholders may be subject to penalties for failure to comply with those requirements. It is the responsibility of each Trust unitholder to file all federal, state and local tax returns.

At the time of the formation of the Trust, PCEC on behalf of the Trust obtained a two-year waiver from the State of California of the requirement to withhold 7% of the amounts paid to the Trust that are attributable to the Conveyed Interests held by unitholders not qualifying for an exemption from withholding. PCEC on behalf of the Trust will use its commercially reasonable efforts to maintain such waiver, including by seeking a renewal of such waiver prior to its expiration under California law. The Trust has received a renewal of the waiver for the years 2018

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and 2019. The Trust may not be able to obtain such a waiver in the future, in which case PCEC on behalf of the Trust would be required to withhold such amounts beginning with the distribution expected to be paid in January 2020.

**Trust unitholders should consult their tax advisors as to the specific tax consequences of the ownership and disposition of the Trust Units, including the applicability and effect of U.S. federal, state, local, and foreign income and other tax laws in light of their particular circumstances.**

### **Item 1B. Unresolved Staff Comments.**

None.

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**Item 2. Properties.**

**Description of the Underlying Properties**

The Underlying Properties consist of producing and non-producing interests in oil units, wells and lands located onshore in California in the Santa Maria Basin, which contains PCEC's Orcutt properties, and the Los Angeles Basin, which contains PCEC's West Pico, East Coyote and Sawtelle properties.

PCEC acquired its Orcutt properties in the Santa Maria Basin in 2004. PCEC operates 100% of the average daily production associated with these assets and has an average working interest and net revenue interest of approximately 98% and 95%, respectively, in its Orcutt properties. PCEC acquired its West Pico and Sawtelle properties in the Los Angeles Basin in 1993 and acquired its East Coyote properties in 1999 and 2000. PCEC operated approximately 95% of the average daily production associated with its West Pico properties in the Los Angeles Basin during 2013 and its interests in Sawtelle and East Coyote were operated by Breitburn Operating LP ( BOLD ), a subsidiary of Breitburn Energy Partners LP.

As of December 31, 2018, the Underlying Properties had proved reserves of 19.0 MMBoe. As of December 31, 2018, approximately 83% of the volumes of the proved reserves associated with the Underlying Properties and 90% of the volumes of the proved reserves associated with the Trust were attributed to proved developed reserves. All of the Underlying Properties are held by production or owned in fee. For the year ended December 31, 2018, the average net sales (after royalties and other interests) were approximately 2,194 Boe/d from the Developed Properties and 479 Boe/d from the Remaining Properties. In 2018, approximately 99% of production from the Developed Properties consisted of oil and 100% of the production from the Remaining Properties consisted of oil.

PCEC's interests in the Underlying Properties require PCEC to bear its proportionate share of the costs of development and operation of such properties. The Underlying Properties are burdened by non-cost bearing interests owned by third parties consisting primarily of overriding royalty and royalty interests.

**Reserves**

Netherland, Sewell & Associates, Inc. ( NSAI ), independent petroleum and geological engineers, estimated crude oil, NGL and natural gas proved reserves of the Underlying Properties' full economic life and for the Trust life as of December 31, 2018. Numerous uncertainties are inherent in estimating reserve volumes and values, and the estimates are subject to change as additional information becomes available. The reserves actually recovered and the timing of production of the reserves may vary significantly from the original estimates. The technical person primarily responsible for overseeing the preparation of the reserve estimates and the third-party reserve reports is Randall Breitenbach, the Chief Executive Officer of PCEC. Mr. Breitenbach holds both a B.S and M.S. degree in Petroleum Engineering from Stanford University and an M.B.A. from Harvard Business School. Mr. Breitenbach is the co-founder and has been Chief Executive Officer or Co-Chief Executive Officer of PCEC and its predecessors since 1988. Mr. Breitenbach oversees the PCEC team that consults with NSAI during the reserve estimation process to review properties, assumptions and relevant data.

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See Appendix A to this Annual Report for the estimates of proved reserves provided by NSAI. Within NSAI, the technical persons primarily responsible for preparing the estimates set forth in the NSAI reserves report incorporated herein are Mr. C. Ashley Smith and Mr. Shane M. Howell. Mr. Smith, a Licensed Professional Engineer in the State of Texas (No. 100560), has been practicing consulting petroleum engineering at NSAI since 2006 and has over five years of prior industry experience. He graduated from University of Missouri-Rolla (Missouri University of Science & Technology) in 2000 with a Bachelor of Science Degree in Petroleum Engineering. Mr. Howell, a Licensed Professional Geoscientist in the State of Texas, Geology (No. 11276), has been practicing consulting petroleum geoscience at NSAI since 2005 and has over seven years of prior industry experience. He graduated from San Diego State University in 1997 with a Bachelor of Science Degree in Geological Sciences and in 1998 with a Master of Science Degree in Geological Sciences. Both technical principals meet or exceed the education, training, and experience requirements set forth in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the Society of Petroleum Engineers; both are proficient in judiciously applying industry standard practices to engineering and geoscience evaluations as well as applying SEC and other industry reserves definitions and guidelines.

Information concerning changes in net proved reserves attributable to the Trust, and the calculation of the standardized measure of the related discounted future net revenues is contained in Supplemental Note A to the financial statements of the Trust included in this Annual Report. PCEC has not filed reserve estimates covering the Underlying Properties with any other federal authority or agency.

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The following table summarizes the estimated proved reserve quantities and discounted future net cash flows attributable to the Trust and Underlying Properties as of December 31, 2018:

	Trust Net Profits Interests			Discounted Future Net Cash Flows (\$ in thousands)	Underlying Properties			Discounted Future Net Cash Flows (\$ in thousands)
	Oil(a) (MBbl)	Natural Gas (MMcf)	Total (MBoe)		Oil(a) (MBbl)	Natural Gas (MMcf)	Total (MBoe)	
<b>Developed Properties</b>								
Developed	3,229.8	362.7	3,290.3	121,024.3	13,589.9	1,247.1	13,797.8	151,298.4
Undeveloped								
<b>Total Developed Properties</b>	<b>3,229.8</b>	<b>362.7</b>	<b>3,290.3</b>	<b>121,024.3</b>	<b>13,589.9</b>	<b>1,247.1</b>	<b>13,797.8</b>	<b>151,298.4</b>
<b>Remaining Properties</b>								
Developed	48.0		48.0	6,718.5	2,040.4		2,040.4	28,313.6
Undeveloped	387.0		387.0	7,973.5	3,171.6		3,171.6	30,184.5
<b>Total Remaining Properties</b>	<b>435.0</b>		<b>435.0</b>	<b>14,692.0</b>	<b>5,212.0</b>		<b>5,212.0</b>	<b>58,498.1</b>
<b>Total Proved</b>	<b>3,664.8</b>	<b>362.7</b>	<b>3,725.3</b>	<b>135,716.3</b>	<b>18,801.9</b>	<b>1,247.1</b>	<b>19,009.8</b>	<b>209,796.5</b>

(a) Estimated proved reserves of oil include condensate and natural gas liquids.

For purposes of the estimates of proved reserves reflected in Appendix A to this Annual Report, the net reserves to the PCOT net profits interest are determined monthly using the economic interest method. By reserves category, the sum of the net profits payment and PCOT's share of the production taxes and ad valorem taxes is divided by the effective price per barrel of oil equivalent. The resulting net equivalent reserves are then allocated between oil and gas in the same proportion as the Underlying Properties. This methodology differs from the working interest method which would allocate the net reserves to PCOT as 20% of Developed Properties reserves and 7.5% of Remaining Properties reserves until NPI Payout and then 25% thereafter. The economic interest method has been used since the formation of the Trust.

Proved undeveloped reserves increased to 387 MBoe at the end of 2018 compared to 313.6 MBoe at the end of 2017 primarily due to the incorporation of 21 Orcutt Diatomite redrill projects in the 2018 reserve estimates. Six of the original 17 redrill projects were executed in 2018 shifting these projects to proved developed reserves, and an additional 21 locations have been identified.

The FASB requires supplemental disclosures for oil and natural gas producers based on a standardized measure of discounted future net cash flows relating to proved oil and natural gas reserve quantities. Under this disclosure, future cash inflows are computed by applying the average prices during the 12-month period prior to fiscal year-end, determined as an unweighted arithmetic average of the first-day-of-the-month benchmark price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions. Future price changes are only considered to the extent provided by contractual arrangements in existence at year end. The standardized measure of discounted future net cash flows is achieved by using a discount rate of 10% per year to reflect the timing of future cash flows relating to proved oil and natural gas reserves.

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The changes in standardized measure of discounted future net cash flows relating to proved oil and natural gas reserves attributable to the Trust for the three years ended December 31, 2018, 2017 and 2016 were as follows:

Thousands of dollars	Year Ending December 31,		
	2018	2017	2016
Beginning balance	\$ 84,695	\$ 51,048	\$ 109,189
Net change in sales and transfer prices, net of production expense	86,811	46,731	(37,467)
Accretion of discount	8,469	5,105	10,919
Revision of previous estimates and other	(29,138)	(10,697)	(30,748)
Income from conveyed interests	(15,121)	(7,492)	(845)
Standardized measure	\$ 135,716	\$ 84,695	\$ 51,048



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The average adjusted production prices weighted by production over the remaining lives of the properties are \$67.92 per Bbl of oil and \$2.71 per Mcf of gas for net proved reserves attributable to the Trust. The average adjusted production prices weighted by production over the remaining lives of the properties are \$67.32 per Bbl of oil and \$2.87 per Mcf of gas for net proved reserves attributable to the Underlying Properties.

The decline in oil and natural gas prices since October 2014 increases the uncertainty as to the impact of commodity prices on proved oil and natural gas reserves attributable to the Trust. We are unable to predict future commodity prices with any greater precision than the futures market. A prolonged period of depressed commodity prices may have a significant impact on the volumetric quantities of our proved reserve portfolio.

### **Production and Price History**

The production and price history for the Developed and Remaining Properties during 2018 was primarily associated with net profits for oil and natural gas production during the months of November and December 2017 and January through October 2018. The production and price history for the Developed and Remaining Properties for the year ended December 31, 2016 was primarily associated with the net profits for oil and natural gas production during the months of November and December 2015 and January through October 2016. The production and price history for the Developed and Remaining Properties during 2015 was primarily associated with net profits for oil and natural gas production during the months of November and December 2014 and January through October 2015.

The following table summarizes our production and sales prices of oil and natural gas for the years ended December 31, 2018, 2017 and 2016:

	Year Ended December 31,		
	2018	2017	2016
<b>Developed Properties:</b>			
Underlying sales volumes (Boe) (a)	800,890	890,698	940,180
Average daily production (Boe/d)	2,194	2,440	2,569
Average price (per Boe)	\$ 67.65	\$ 46.59	\$ 34.24
Production cost (per Boe) (b)	\$ 36.83	\$ 32.04	\$ 31.74
<b>Remaining Properties:</b>			
Underlying sales volumes (Boe) (a)	174,706	187,275	241,663
Average daily production (Boe/d)	479	513	660
Average price (per Boe)	\$ 65.12	\$ 44.12	\$ 33.50
Production cost (per Boe) (b)	\$ 30.80	\$ 28.31	\$ 29.65

(a) Oil sales represented 99%, 98% and 98% of total sales volumes from the Developed Properties for the years ended December 31, 2018, 2017 and 2016, respectively.

(b) Oil sales represented 100% of total sales volumes from the Remaining Properties for each of the years ended December 31, 2018, 2017 and 2016.



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**Producing Acreage and Well Counts**

All of the acreage composing the Underlying Properties is held by production. Although many of PCEC's wells produce both oil and associated natural gas, all of PCEC's wells are classified as oil wells because the majority of production is oil-based. The Underlying Properties are interests in properties located in the Santa Maria Basin and Los Angeles Basin. The following is a summary of the approximate acreage of the Underlying Properties at December 31, 2018:

	Total Acreage	
	Gross	Net
Santa Maria Basin	4,130	3,342
Los Angeles Basin	2,107	1,028
Total	6,237	4,370

The following is a summary of the producing wells on the Underlying Properties as of December 31, 2018:

	Oil	
	Gross Wells (1)	Net Wells
Santa Maria Basin	199	195
Los Angeles Basin	100	61
Total	299	256

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(1) Total wells include 235 wells operated by PCEC, 62 wells operated by BOLP and 3 wells operated by Sentinel Peak.

The following is a summary of the number of development wells drilled on the Underlying Properties during 2018, 2017 and 2016:

	For the Year Ended December 31,					
	2018		2017		2016	
	Gross (1)	Net	Gross (1)	Net	Gross (1)	Net
Development Wells:						
Productive						
Dry holes						
Total						

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(1) There were no wells in progress at December 31, 2018, 2017 or 2016.

**Santa Maria Basin**

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The Santa Maria Basin consists primarily of oil reserves and prospects in multiple geologic horizons and is one of California's largest producing oil regions. Conventional production from PCEC's Orcutt properties is derived from the Monterey, Point Sal and SX Sand formations, which are characterized by long-lived reserves. In addition, the Diatomite and Careaga formations, located at depths less than 1,100 feet below the surface, provide access to unconventional oil reserves. The portion of the Underlying Properties located in the Orcutt oilfield consists of 4,130 gross (3,342 net) acres. The conventional formations may be referred to as Orcutt Conventional while the unconventional formations are referred to as Orcutt Diatomite or the Diatomite Zone at Orcutt.

The following table sets forth the productive zones, recovery method and certain additional information related to the Orcutt properties in the Santa Maria Basin included in the Underlying Properties:

<b>Productive Zone</b>	<b>Recovery Method</b>	<b>Working Interest</b>	<b>Net Revenue Interest</b>
Monterey / Point Sal	Waterflood	94%	89%
SX Sand	Waterflood	100%	100%
Diatomite	Cyclic steam	100%	100%
Careaga	Collection	100%	100%

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*Orcutt Conventional*

The Orcutt oilfield was discovered in 1901. Initial production from the Orcutt oilfield came from the Monterey and Point Sal formations, which are located at depths between 2,000 and 4,000 feet below the surface. The Monterey formation in the Orcutt oilfield is a fractured dolomitic shale that is highly productive. The Point Sal formation is a shallow marine deposited turbidite sandstone that is also highly productive. Oil recovery from these formations is enhanced by waterflood injection. Beginning in 2005, the SX formation underlying PCEC's Orcutt properties was developed. The SX formation is a silty sandstone at a depth of 1,300 feet below the surface. A waterflood was initiated for the SX formation in 2009 to maintain reservoir pressure. The producing wells are all artificially lifted with either conventional rod pump, progressive cavity pumps or electric submersible pumps. There are currently 125 Monterey, Point Sal and SX formation producing wells, and 58 waterflood injection wells on PCEC's conventional Orcutt properties. PCEC has operated its Orcutt properties for over eleven years. PCEC operates 100% of these assets and has an average working interest of approximately 96%.

*Orcutt Diatomite*

The Diatomite is a massive silica-rich rock composed of the shells of single-cell organisms that were abundant during certain geologic periods. The Diatomite formation matrix has very high porosity (up to 70%) but very low permeability, meaning fluids will not easily flow through the rock. As a result of the low permeability, the commercially productive, oil rich areas are unable to flow oil to a well bore without the enhanced recovery techniques of cyclic steam injection. In the 1990s, companies in California began to develop the heavy oil bearing Diatomite formation utilizing cyclic steam injection. The recovery process in the Diatomite consists of injecting steam into each well, letting the steam soak for one to two days, and then producing the well by flowing the hot oil and water to surface. The process is sometimes enhanced by pumping the oil and water for an additional one to four weeks, until the well is ready to be steamed again.

The Diatomite formation in the Orcutt oilfield lies approximately 500 to 1,100 feet below the surface. PCEC began cyclic steam development in 2005 and was producing from about 75 active Diatomite wells using the process described above as of December 31, 2018. Current production is about 700 Boe per day. PCEC began a project expansion (Module 2) in 2011 to increase the total Diatomite project to 96 wells. Since 2011, Module 2 has been successful in key parameters including project cost, execution timing, and well performance. Initial production from these wells averaged 25 Boe/d per well with an overall steam to oil ratio of 2.5 barrels of steam injected to produce one barrel of oil.

PCEC has targeted the Diatomite formation at depths greater than 400 feet below the surface for development, the area of which covers 750 acres within PCEC's Orcutt properties. PCEC has developed approximately 50 acres to date and produced over 2,538 MBoe from the Diatomite oilfield. Please read Risk Factors Current regulations and recent regulatory changes in California have and may continue to negatively impact PCEC's production in its Diatomite properties in Item 1A of this Annual Report.

*Careaga formation*

Overlying the Diatomite formation in the Orcutt oilfield is the Careaga sandstone reservoir. The Careaga outcrops at the surface in some locations and extends to depths of 90 to 160 feet below the surface. This reservoir contains very heavy oil in the range of 9-10 degree API. PCEC collects the Careaga oil that flows to the surface in containers utilizing French drains. PCEC produces approximately 48 Bbls/d of the Careaga oil that is pumped from the cisterns and sold with the rest of its oil production.

**Los Angeles Basin**

The Underlying Properties in the Los Angeles Basin consist of the West Pico, Sawtelle and East Coyote properties. The portion of the Underlying Properties located in the Los Angeles Basin consists of 2,107 gross (1,028 net) acres.

The following table sets forth the recovery method and certain additional information about the oil fields in the Los Angeles Basin included in the Underlying Properties:

<b>Field</b>	<b>Operator</b>	<b>Recovery Method</b>	<b>Working Interest</b>	<b>Net Revenue Interest</b>
West Pico (1)	PCEC	Waterflood	95.4%	78.5%
Sawtelle	BBEP	Waterflood	37.6%	29% - 30.5%
East Coyote	BBEP	Waterflood	37.6%	35.2%

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(1) Located in the East Beverly Hills field and includes the West Pico Unit and three Stocker JV wells (a joint venture between PCEC and E&B Natural Resources ( E&B )).

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*West Pico*

The West Pico Unit was developed from an urban drilling and production site which came on production in 1966. In 2000, PCEC undertook a modernization of its facility and installed a permanently enclosed, electric, soundproof drilling and workover rig that allows for uninterrupted drilling and workover operations despite its close proximity to residential neighborhoods. Production from the West Pico Unit comes from sandstone reservoirs ranging in depths between 4,000 and 7,000 feet below the surface. Oil recovery is enhanced by waterflood injection. The producing wells in the West Pico Unit are all artificially lifted with hydraulic rod pumps and electric submersible pumps. There are currently 39 producing wells and 4 waterflood injection wells in the West Pico Unit. PCEC has the right to drill up to 10 additional wells in the West Pico Unit.

West Pico also includes three wells held by the Stocker JV, a joint venture between PCEC and E&B. The wells were previously owned and operated by Sentinel Peak Resources California LLC, which sold and assigned the wells, including all contractual obligations under the joint venture, to E&B in a transaction that closed in 2018. E&B operates these three wells that were drilled from its facility to three lease line locations between E&B's and PCEC's production units. These wells are equally owned by PCEC and E&B, and PCEC receives the production attributable to its properties.

*Sawtelle*

PCEC's Sawtelle property is similarly situated in an urban environment. The Sawtelle oilfield was discovered in 1965 and is currently the deepest producing oilfield in the Los Angeles Basin with well depths up to 11,500 feet below the surface. Production at PCEC's Sawtelle property comes from sandstone reservoirs in three separate pools ranging in depth between 7,500 and 11,500 feet below the surface. Oil recovery is enhanced by waterflood injection in two of the three pools. The producing wells are all artificially lifted with hydraulic pumps, and electric submersible pumps. There are currently 11 producing wells and three waterflood injection wells in PCEC's Sawtelle property. PCEC's non-operated interest in the Sawtelle field is operated by BOLP.

*East Coyote*

The East Coyote oilfield was discovered in 1909. Production at PCEC's East Coyote property comes from three sandstone formations ranging in depth from 2,000 to 6,000 feet below the surface. The producing wells are all artificially lifted with rod pumps and electric submersible pumps. There are currently 51 producing wells, and 19 waterflood injection wells in PCEC's East Coyote property. PCEC's non-operated interest in the East Coyote field is operated by BOLP.

**Abandonment and Sale of Underlying Properties**

PCEC or any transferee has the right to abandon its interest in any well or property if it reasonably believes a well or property ceases to produce or is not capable of producing in commercially paying quantities. Upon termination of the lease, the portion of the Conveyed Interests relating to the abandoned wells or property will be extinguished.

PCEC generally may sell all or a portion of its interests in the Underlying Properties, subject to and burdened by the Conveyed Interests, without the consent of the Trust unitholders. In connection with any such sale, PCEC will have no further obligations, requirements or responsibilities with respect to any such transferred interests, provided that PCEC delivers to the Trustee an agreement of the transferee of such transferred interests, reasonably satisfactory to the Trustee, in which such transferee assumes the responsibility to perform the administrative services that PCEC is required to provide to the Trust pursuant to the operating and services agreement relating to the interests being transferred. In addition, PCEC may, without the consent of the Trust unitholders, require the Trust to release the Conveyed Interests associated with any lease that accounts for less than or equal to 0.25% of the total production from the Underlying Properties in the prior twelve months and provided that the Conveyed Interests covered by such releases cannot exceed, during any twelve-month period, an aggregate fair market value to the Trust of \$500,000. These releases will be made only in connection with a sale by PCEC to a non-affiliate of the relevant Underlying Properties, are conditioned upon the Trust receiving an amount equal to the fair market value (net of sales costs) to the Trust of such Conveyed Interests and will be treated as an offset amount against costs and expenses. PCEC has not identified for sale any of the Underlying Properties.

#### **Title to Properties**

The properties composing the Underlying Properties are or may be subject to one or more of the burdens and obligations described below. To the extent that these burdens and obligations affect PCEC's rights to production or the value of production from the Underlying Properties, they have been taken into account in calculating the Trust's interests and in estimating the size and the value of the reserves attributable to the Underlying Properties.



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PCEC's interests in the oil and natural gas properties composing the Underlying Properties are typically subject, in one degree or another, to one or more of the following:

- royalties and other burdens, express and implied, under oil and natural gas leases and other arrangements;
- overriding royalties, production payments and similar interests and other burdens created by PCEC's predecessors in title;
- a variety of contractual obligations arising under operating agreements, farm-out agreements, production sales contracts and other agreements that may affect the Underlying Properties or their title;
- liens that arise in the normal course of operations, such as those for unpaid taxes, statutory liens securing unpaid suppliers and contractors and contractual liens under operating agreements that are not yet delinquent or, if delinquent, are being contested in good faith by appropriate proceedings;
- pooling, unitization and communitization agreements, declarations and orders;
- easements, restrictions, rights-of-way and other matters that commonly affect property;
- conventional rights of reassignment that obligate PCEC to reassign all or part of a property to a third party if PCEC intends to release or abandon such property;
- preferential rights to purchase or similar agreements and required third-party consents to assignments or similar agreements;
- obligations or duties affecting the Underlying Properties to any municipality or public authority with respect to any franchise, grant, license or permit, and all applicable laws, rules, regulations and orders of any governmental authority; and

- rights reserved to or vested in the appropriate governmental agency or authority to control or regulate the Underlying Properties and also the interests held therein, including PCEC's interests and the Conveyed Interests.

PCEC has informed the Trustee that PCEC believes that the burdens and obligations affecting the properties composing the Underlying Properties are conventional in the industry for similar properties. PCEC has also informed the Trustee that PCEC believes that the existing burdens and obligations do not, in the aggregate, materially interfere with the use of the Underlying Properties and will not materially adversely affect the Conveyed Interests or their value.

In order to give third parties notice of the Conveyed Interests, PCEC has recorded the conveyance of the Conveyed Interests in California in the real property records in each county in which the Underlying Properties are located, or in such other public records as required under California law to place third parties on notice of the conveyance.

PCEC believes that its title to the Underlying Properties is, and the Trust's title to the Conveyed Interests are, good and defensible in accordance with standards generally accepted in the oil and natural gas industry, subject to such exceptions as are not so material to detract substantially from the use or value of such properties or royalty interests. Under the terms of the Conveyance creating the Conveyed Interests, PCEC has provided a special warranty of title with respect to the Conveyed Interests, subject to the burdens and obligations described in this section. Please read Risk Factors The Trust Units may lose value as a result of title deficiencies with respect to the Underlying Properties in Item 1A of this Annual Report.

### **Item 3. 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,

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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 consolidation action. On June 12, 2017, the Court entered a final judgment in the action approving the settlement in the amount of \$7.6 million. PCEC and its insurers paid the settlement 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 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. 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 4. Mine Safety Disclosures.**

Not applicable.

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**PART II**

**Item 5. Market for the Registrant's Trust Units, Related Unitholder Matters and Issuer Purchases of Trust Units.**

The Trust Units are listed on the New York Stock Exchange ( NYSE ) under the symbol ROYT. At December 31, 2018, there were 38,583,158 Trust Units outstanding. On March 5, 2019 there were three unitholders of record. This number does not include owners for whom Trust Units may be held in street name.

**Distributions**

Each month, the Trustee determines the amount of funds available for distribution to the Trust unitholders, based on information provided by PCEC. 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) that month, 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.

**Equity Compensation Plans**

The Trust does not have any employees and does not maintain any equity compensation plans.

**Sales of Unregistered Securities and Use of Proceeds**

There were no sales of unregistered securities during the period covered by this Annual Report.

**Purchases of Equity Securities**

There were no purchases of Trust Units by the Trust or any affiliated purchaser during the fourth quarter of 2018.

**Item 6. Selected Financial Data.**

As a smaller reporting company as defined in Item 10(f)(1) of Regulation S-K, the Trust is not required to provide information required by this Item.

#### **Item 7. Trustee's Discussion and Analysis of Financial Condition and Results of Operations.**

This discussion contains forward-looking statements. Please refer to [Forward-Looking Statements](#) for an explanation of these types of statements.

#### **Overview**

The Trust is a statutory trust formed in January 2012 under the Delaware Statutory Trust Act pursuant to the Trust Agreement. The business and affairs of the Trust are administered by The Bank of New York Mellon Trust Company, N.A. (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 have any employees and 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](#). Wilmington Trust, National Association, as the Delaware Trustee (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](#). The Trust is treated as a grantor trust for U.S. federal income tax purposes.

Concurrently with the Trust's initial public offering, on May 8, 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 net profits interests (the [Net Profits Interests](#)) and an overriding royalty interest (the [Royalty Interest](#)), and collectively with the [Net Profits Interests](#), the [Conveyed Interests](#) in certain oil and natural gas properties located onshore in California (the [Underlying Properties](#)). The [Conveyed Interests](#) represent undivided 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

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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 all oil and natural gas production from the Remaining Properties located in 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 month in which costs for the Remaining Properties exceed gross proceeds, the Trust is entitled to receive the Royalty Interest Proceeds. The Trust would 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, an event we refer to as a NPI Payout . Due to planned capital 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. The Trust is entitled to receive Royalty Interest Proceeds in any month following an NPI Payout 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 its Trust Units as of the applicable record date (generally within five business days after the last business day of each calendar month) on or before 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 attributable to the Underlying Properties have declined and will continue to decline over time.

The Trust is exposed to fluctuations 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 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***

Over the last three years, oil and natural gas prices have exhibited significant volatility. The Brent crude oil spot price reached a low of \$26.01 per Bbl on January 20, 2016, but rose thereafter and ended the year at its highest price of \$54.96 per Bbl. During 2017 Brent crude oil spot prices rose steadily to end the year at \$66.73 and averaged \$54.12, compared with \$43.67 per Bbl in 2016. Brent crude oil prices peaked at \$86.07 in October 2018 before ending the year at \$50.57. Through February 25, 2019, the Brent crude oil spot price has averaged \$61.31 per Bbl. Lower crude oil prices may not only decrease our distributable income, but also may reduce the amount of crude oil that PCEC can produce economically and therefore potentially lower the crude oil reserves attributable to the Trust.

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 greater in the U.S. In 2018, the Henry Hub price averaged approximately \$3.15 per MMBtu compared with approximately \$2.98 per MMBtu a year earlier. Through February 25, 2019, the natural gas spot price at Henry Hub has averaged approximately \$2.92 per MMBtu.

The significant decline in oil and natural gas prices since 2014 increases the uncertainty as to the impact of commodity prices on proved oil and gas reserves attributable to the Trust. We are unable to predict future commodity prices with any greater precision than the futures market. A prolonged period of depressed commodity prices may have a significant impact on the volumetric quantities of our proved reserve portfolio. Fluctuations in commodity prices impact the value of proved oil and gas reserves attributable to the Trust.

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*2019 Capital Program Summary*

PCEC has informed the Trustee that its 2019 capital program is expected to total approximately \$2.0 to \$2.7 million for regulatory, safety and mandatory projects. Of the total, \$1.0-7 million is for Orcutt Conventional (\$1.0 million assumes two water injection well modifications in the Orcutt Conventional and \$1.7 million assumes four such modifications, as discussed below under the header *Properties Permitting* ), \$0.3 million for Orcutt Diatomite, \$0.3 million for West Pico, and \$0.4 million for non-operated properties. This total includes expected investments of approximately \$2.0 to \$2.6 million (\$1.5 to \$2.1 million net to the Trust's interest) in the Developed Properties and approximately \$0.1 million expected to be spent on the Remaining Properties (\$0.04 million net to the Trust's interest).

*Properties*

The Underlying Properties consist of the Developed Properties and the Remaining Properties. Production from the Developed Properties attributable to the Trust is produced from wells that, because they have already been drilled, generally require limited additional capital expenditures. Production from the Remaining Properties attributable to the Trust requires capital expenditures for the drilling of wells and installation of infrastructure. PCEC is providing required capital on behalf of the Trust during this period; however, because the costs initially incurred exceed gross proceeds, the Remaining Properties have negative net profits during the drilling and development period. During this period of negative net profits, instead of being paid net profits, the Trust is being paid a 7.5% overriding royalty on the portion of the Remaining Properties located on PCEC's Orcutt properties. Once revenues from the Remaining Properties have paid back PCEC for the cumulative costs it has advanced on behalf of the Trust, including the aggregate amount of the 7.5% overriding royalty, 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 does not reduce net profits calculated for the other. The amount of Royalty Interest Proceeds paid is deducted in the calculation of the Net Profits Interest for the Remaining Properties, and PCEC will be repaid



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the aggregate amount of the Royalty Interest Proceeds prior to payment of the 25% Net Profits Interests 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 will 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, is less than \$2.0 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 injection wells located at the Orcutt Conventional, which could require certain changes to operating procedures or well modifications. Initially, in September 2015, PCEC proposed, and implemented, a schedule to modify one of the affected wells each quarter until all had been modified. In January 2019, PCEC proposed, and has since implemented, a schedule to reduce the number of modifications of affected wells from one per quarter to two per year until all have been modified. However, it is possible that the water injection wells may require repairs at a rate of more than two per year in which case PCEC will be required to make such repairs. PCEC has completed 12 modifications to date and plans to complete two more in 2019. 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.

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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 PCEC'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 the Remaining Properties, are uncertain. As of the date of this Annual Report, PCEC has not filed any additional permits for drilling in the Diatomite Zone at Orcutt and is currently unable to estimate when it will submit such permits to Santa Barbara County. If submitted 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.

### Results of Operations

For the years ended December 31, 2018, 2017 and 2016, income from Net Profits Interests received by the Trust amounted to \$15.1 million, \$7.5 million, and \$0.8 million, respectively. The net profits income received by the Trust during 2018 was primarily associated with net profits for oil and natural gas production during the months of November and December 2017 and January through October 2018. The net profits income received by the Trust during 2017 was primarily associated with net profits for oil and natural gas production during the months of November and December 2016 and January through October 2017. The net profits income received by the Trust for the year ended December 31, 2016 was primarily associated with the net profits for oil and natural gas production during the months of November and December 2015 and January through October 2016.

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 for distributions paid during the years ended December 31, 2018, 2017 and 2016:

	Year Ended December 31,		
	2018	2017	2016
<b>Developed Properties:</b>			
Underlying sales volumes (Boe) (a)	800,890	890,698	940,180
Average daily production (Boe/d)	2,194	2,440	2,569
Average price (per Boe)	\$ 67.65	\$ 46.59	\$ 34.24
Production cost (per Boe) (b)	\$ 36.83	\$ 32.04	\$ 31.74
<b>Remaining Properties:</b>			
Underlying sales volumes (Boe) (a)	174,706	187,275	241,663
Average daily production (Boe/d)	479	513	660
Average price (per Boe)	\$ 65.12	\$ 44.12	\$ 33.50
Production cost (per Boe) (b)	\$ 30.80	\$ 28.31	\$ 29.65

(a) Oil sales represented 99%, 98% and 98% of total sales volumes from the Developed Properties for the years ended December 31, 2018, 2017 and 2016, respectively.

(b) Oil sales represented 100% of total sales volumes from the Remaining Properties for each of the years ended December 31, 2018, 2017 and 2016.



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*Computation of Net Profits 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 years ended December 31, 2018, 2017 and 2016 were determined as shown in the following table:

	Year Ended December 31,		
	2018	2017	2016
<b>Developed Properties 80% Net Profits Interest</b>			
Oil sales	\$ 54,022	\$ 41,198	\$ 31,860
Natural gas sales	162	300	329
Total revenues	54,184	41,498	32,189
Costs:			
Direct operating expenses:			
Lease operating expenses	27,207	26,663	25,408
Production and other taxes (1)	2,291	1,877	4,435
Development expenses	6,787	4,364	2,195
Total costs	36,285	32,904	32,038
Total income	17,899	8,594	151
Net Profits Interest	80%	80%	80%
Income from 80% Net Profits Interest:	14,319	6,875	121
Property taxes related to PCEC (2)	3	45	302
Income from 80% Net Profits Interest	\$ 14,322	\$ 6,920	\$ 423
<b>Remaining Properties 25% Net Profits Interest</b>			
Oil sales	\$ 11,372	\$ 8,250	\$ 8,077
Natural gas sales	5	13	19
Total revenues	11,377	8,263	8,096
7.5% ORRI	799	572	422
Costs:			
Direct operating expenses:			
Lease operating expenses	5,048	5,143	4,567
Production and other taxes (1)	332	158	2,597
Development expenses	4,397	978	1,997
Total costs	9,777	6,279	9,161
Total income (loss)	801	1,412	(1,487)
Net Profits Interest	25%	25%	25%
Income (loss) from 25% Net Profits Interest	200	353	(372)
Property taxes related to PCEC (4)		(14)	51
Income from 25% Net Profits Interest (3)	\$ 200	\$ 339	\$
25% Net Profits Interest Deficit (3)	\$	\$	\$ (321)
<b>Total Trust Cash Flow</b>			
Income from 80% Net Profits Interest	\$ 14,322	\$ 6,920	\$ 423
7.5% ORRI	799	572	422
Total income from conveyed interests	15,121	7,492	845
PCEC operating and services fee	(1,081)	(1,062)	(1,053)
Total cash received (paid)	14,040	6,430	(208)
Trust general and administrative expenses and cash withheld	(1,427)	(933)	(660)
Promissory note amount borrowed from PCEC	81	10	1,174
Promissory note amount repayment to PCEC	(81)	(1,142)	(42)
Promissory note interest amounts		(10)	(35)
Interest income	6		
Distributable Income	\$ 12,619	\$ 4,355	\$ 229



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(1) Production and other taxes in the second quarter of 2016 include supplemental property tax bills from the Santa Barbara County Assessor's Office related to the tax years covering the periods July 1, 2011 through June 30, 2016. Amounts attributable to the periods from April 1, 2012 through June 30, 2016 total approximately \$2.1 million for the Developed Properties and \$1.3 million for the Remaining Properties.

	2018	Year Ended December 31,		2016
		2017		
<b>(2) 80% Net Profits Interest PCEC Property Tax Adjustments</b>				
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	\$	247
Amount related to PCEC ownership from September 23, 2014 through June 9, 2014	(4)			55
Total PCEC Property Tax Adjustment Not Related to the Trust	\$ 3	\$ 45	\$	302
<b>(3) 25% Net Profits Interest Accrued Deficit</b>				
Beginning balance	\$ (1,736)	\$ (2,075)	\$	(1,754)
Current period	200	339		(321)
Ending balance	\$ (1,536)	\$ (1,736)	\$	(2,075)
<b>(4) 25% Net Profits Interest PCEC Property Tax Adjustments</b>				
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)	\$	40
Amount related to PCEC ownership from September 23, 2014 through June 9, 2014		(3)		11
Total PCEC Property Tax Adjustment Not Related to the Trust	\$	\$ (14)	\$	51

### *Comparison of Net Profits and Royalty Income Received for the Years Ended December 31, 2018, 2017 and 2016*

*Developed Properties* Excess of revenues over direct operating expenses and development expenses was \$17.9 million for the year ended December 31, 2018 compared to excess of revenues over direct operating expenses and development expenses of \$8.6 million for the year ended December 31, 2017. The approximately \$9.3 million year-over-year increase is attributable principally to higher oil prices, partially offset by lower production, higher lease operating expenses and development costs in 2018 compared to 2017. Average realized prices increased \$21.06, or 45%, and sales volume decreased 90 MBoe, or 10%. The decrease in production year over year is primarily due to a decline in the steam flow between wells in the Orcutt Diatomite area, a temporary shut down of the gas export pipeline at West Pico and natural production declines. Total lease operating expenses included in the net profits calculation increased in 2018 to \$27.2 million from \$26.7 million in 2017, or an increase of 2%, which was primarily due to increases in Orcutt Conventional, such as electric utility rate increases, increased price of steel products due to tariffs, increased prices of petroleum-based products due to higher oil prices, and expenses relating to the storm water prevention plan. In addition, expenses at West Pico increased year over year due to increased workover activity. Production and other taxes included in the net profits calculation were \$2.3 million for 2018 compared to \$1.9 million for 2017. Total development expenses included in the net profits calculation were \$6.8 million for 2018 compared to \$4.4 million for 2017. The increase is primarily due to the microturbine project in West Pico, higher costs of

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DOGGR-mandated injector upgrades in Orcutt Conventional in 2018 compared to 2017, increased costs at Orcutt Conventional related to well abandonments in 2018 compared to 2017 and an overall increase in capital activity at Orcutt Conventional. Income from Net Profits Interest was \$14.3 million for the year ended December 31, 2018 compared to \$6.9 million for the year ended December 31, 2017.

Excess of revenues over direct operating expenses and development expenses was \$8.6 million for the year ended December 31, 2017 compared to excess of revenues over direct operating expenses and development expenses of \$0.2 million for the year ended December 31, 2016. The approximately \$8.4 million year-over-year increase is attributable principally to higher oil prices and lower production and other taxes, partially offset by lower production and higher lease operating expenses and development costs in 2017 compared to 2016. Average realized prices increased \$12.35, or 36%, and sales volume decreased 49 MBoe, or 5%. The decrease in production year over year is primarily due to a decline in the steam flow between wells in the Orcutt Diatomite area and

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natural production declines. Total lease operating expenses included in the net profits calculation increased in 2017 to \$26.7 million from \$25.4 million in 2016, or an increase of 5%, which was primarily attributable to higher operating expenses and workover expenditures at Orcutt Conventional, Orcutt Diatomite, and Sawtelle. The overall increase period over period is mainly due to two pods of Orcutt Diatomite wells coming back online in 2017 and also costs associated with seep can mitigation regulations. Production and other taxes included in the net profits calculation were \$1.9 million for 2017 compared to \$4.4 million for 2016. Ad valorem taxes were unusually high in 2016 due to a settlement of supplemental tax bills. Total development expenses included in the net profits calculation were \$4.4 million for 2017 compared to \$2.2 million for 2016. The increase is primarily due to DOGGR-mandated injector upgrades in the Orcutt Conventional and West Pico, increased costs in the non-operated properties, and additional perforation projects in Orcutt Diatomite. Income from Net Profits Interest was \$6.9 million for the year ended December 31, 2017 compared to \$0.4 million for the year ended December 31, 2016.

*Remaining Properties* Excess of revenues over direct operating expenses and development expenses was \$0.8 million for the year ended December 31, 2018 compared to excess of revenues over direct operating expenses and development expenses of \$1.4 million for the year ended December 31, 2017. The approximately \$0.6 million year-over-year decrease is attributable principally to lower production and higher development expenses, partially offset by higher prices in 2018 compared to 2017. Average realized prices increased \$21.00, or 48%, and sales volume decreased 12.6 MBoe, or 7%. The decrease in production year over year is primarily due to a decline in the steam flow between wells in the Orcutt Diatomite area and natural production declines. Total lease operating expenses included in the net profits calculation were \$5.0 million in 2018 compared to \$5.1 million in 2017. Production and other taxes were \$0.3 million in 2018 compared to \$0.2 million in 2017. Development expenses were \$4.4 million for 2018 compared to \$1.0 million for 2017. The increase was primarily attributable to the commencement of the redrill program in Orcutt Diatomite and an overall increase in capital activity at Orcutt Conventional. Since a cumulative deficit existed on the 25% net profits interest, the Trust received \$0.8 million for 2018 and \$0.6 million for 2017 from the 7.5% Overriding Royalty attributable to 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, was \$1.5 million as of December 31, 2018 compared to \$1.7 million as of December 31, 2017.

Excess of revenues over direct operating expenses and development expenses was \$1.4 million for the year ended December 31, 2017 compared to a \$1.5 million excess of operating expenses and development expenses over revenues for the year ended December 31, 2016. The approximately \$2.9 million year-over-year increase is attributable principally to higher oil prices, lower production and other taxes and development expenses, partially offset by lower production and higher lease operating expenses in 2017 compared to 2016. Average realized prices increased \$10.62, or 32%, and sales volume decreased 54.4 MBoe, or 23%. The decrease in production year over year is primarily due to a decline in the steam flow between wells in the Orcutt Diatomite area and natural production declines. Total lease operating expenses included in the net profits calculation were \$5.1 million in 2017 compared to \$4.6 million in 2016. The overall increase year over year is mainly due to two pods of Orcutt Diatomite wells coming back online in 2017. Production and other taxes were \$0.2 million in 2017 compared to \$2.6 million in 2016. Ad valorem taxes were unusually high in 2016 due to a settlement of supplemental tax bills. Development expenses were \$1.0 million for the year ended December 31, 2017 compared to \$2.0 million for the year ended December 31, 2016. The decrease was primarily attributable to Orcutt Diatomite. Since a cumulative deficit existed on the 25% net profits interest, the Trust received \$0.6 million for 2017 and \$0.4 million for 2016 from the 7.5% Overriding Royalty attributable to 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, was \$1.7 million as of December 31, 2017 compared to \$2.1 million as of December 31, 2016.

*PCEC Operating & Services Fees* PCEC charged the Trust \$1.1 million for the operating and services fee for each of the years ended December 31, 2018, 2017 and 2016.



*Trust Administrative Expenses* The Trustee paid general and administrative expenses of \$1.5 million for the year ended December 31, 2018 compared to \$0.9 million for the year ended December 31, 2017. This increase was caused primarily by the increase in professional fees associated with compliance with Section 404 of the Sarbanes-Oxley Act and by the timing of payments of these general and administrative expenses. The Trustee paid general and administrative expenses of \$0.9 million for the year ended December 31, 2017 compared to \$0.7 million for the year ended December 31, 2016. This increase was caused primarily by the timing of payments of general and administrative expenses.

*Distributable Income* The total cash received by the Trust from PCEC for the year ended December 31, 2018 was \$14.0 million compared to \$6.4 million for the year ended December 31, 2017. Distributable income was \$12.6 million and \$4.4 million, respectively, for 2018 and 2017. The total cash received by the Trust from PCEC for the year ended December 31, 2017 was \$6.4 million compared to \$0.8 million for the year ended December 31, 2016. Distributable income was \$4.4 million and \$0.2 million, respectively, for 2017 and 2016.

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**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. As of December 31, 2018, the Trust had cash reserves of \$0 for future Trust expenses. Commencing with the distribution to unitholders payable in the first month of 2019, the Trustee intends to withhold the greater of \$10,000 or 3.5% of the funds otherwise available for distribution each month to gradually build a cash reserve of approximately \$350,000. Accordingly, in February 2019, the Trustee withheld approximately \$17,000 from the funds otherwise available for distribution. The Trustee may increase or decrease the targeted amount at any time, and may increase or decrease the rate at which it is withholding funds to build the cash reserve at any time, without advance notice to the unitholders. Cash held in reserve will be invested as required by the Trust Agreement. Any cash reserved in excess of the amount necessary to pay or provide for the payment of future known, anticipated or contingent expenses or liabilities eventually will be distributed to unitholders, together with interest earned on the funds.

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 from March 2016 to March 2017, and from May to June 2018, as described below, the Trust unitholders will not receive distributions until the borrowed funds, including interest thereon, are repaid.

The Trust calculates net profits and royalties from the Underlying Properties separately for each of the Developed Properties and the Remaining Properties. 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 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.

As Trust administrative expenses exceeded available cash in the months of February and March 2016, PCEC agreed to loan funds to the Trust necessary to pay such expenses without requiring the Trust to draw under the letter of credit. On February 25, 2016, the Trustee entered into a promissory note with PCEC (as amended, the 2016 Promissory Note), which was repaid on March 15, 2017. On May 10, 2018, the Trustee entered into a promissory note with PCEC (the 2018 Promissory Note and together with the 2016 Promissory Note, the Promissory Notes), which was repaid on June 12, 2018. During 2016, 2017 and 2018, the Trust borrowed and repaid net amounts under the Promissory Notes as set forth below:

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<b>Date of Borrowing or Repayment</b>		<b>Amount Borrowed or (Repaid)</b>
February 25, 2016	\$	232,000
April 14, 2016	\$	349,726
May 18, 2016	\$	90,707
June 10, 2016	\$	74,357
July 13, 2016	\$	128,966
August 15, 2016	\$	86,296
September 15, 2016	\$	75,411
October 15, 2016	\$	60,370
November 15, 2016	\$	76,574
December 15, 2016	\$	(41,957)
January 15, 2017	\$	(60,907)
February 15, 2017	\$	(411,562)
March 15, 2017	\$	(659,925)
May 10, 2018	\$	80,535
June 12, 2018	\$	(80,535)

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As of December 31, 2018 and 2017, there were no amounts outstanding under either Promissory Note. The terms of each Promissory Note are described in Note 7 to the Notes to Financial Statements. As of December 31, 2016, a total of \$1.1 million was outstanding under the 2016 Promissory Note, reflecting net borrowings and repayments in the principal and interest amounts, as permitted thereunder, since the initial execution of 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 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. If the Trust draws on the letter of credit or PCEC loans funds to the Trust, no further distributions will be made to Trust unitholders (except in respect of any previously determined monthly cash distribution amount) until such amounts drawn or borrowed, including interest thereon, are repaid. Any loan made by PCEC will be on an unsecured basis, and the terms of such loan will be substantially the same as those which would be obtained in an arm's-length transaction between PCEC and an unaffiliated third party. During 2018, there were no draws on the letter of credit.

### **Distributions Paid and Declared After Year End**

On January 22, 2019, the distribution of \$0.01376 per Trust Unit, which was declared on December 27, 2018, was paid to Trust unitholders owning Trust Units as of January 7, 2019.

Subsequent to December 31, 2018, the Trust declared the following distributions:

<b>Declaration Date</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Distribution per Unit</b>	
January 30, 2019	February 11, 2019	February 26, 2019	\$	0.01245
February 28, 2019	March 11, 2019	March 25, 2019	\$	0.01989

### **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.

### **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.

**Critical Accounting Policies and Estimates**

The Trust uses the modified cash basis of accounting to report Trust receipts of the Conveyed Interests and payments of expenses incurred. The Net Profits Interests represent the right to receive revenues (oil and natural gas sales), less direct operating expenses (lease operating expenses and production and property taxes) and development expenses of the Underlying Properties plus certain offsets. The Royalty Interest represents the right to receive revenues (oil and natural gas sales), less production and operating taxes and post-production costs. Cash distributions of the Trust are made based on the amount of cash received by the Trust pursuant to terms of the Conveyance creating the Conveyed Interests.

The financial statements of the Trust, as prepared on a modified cash basis, reflect the Trust's assets, liabilities, Trust corpus, earnings and distributions as follows:

- Income from the Conveyed Interests is recorded when distributions are received by the Trust;
  
- Distributions to Trust unitholders are recorded when paid by the Trust;
  
- Trust general and administrative expenses (which include the Trustee's fees as well as accounting, engineering, legal, and other professional fees) are recorded when paid;
  
- PCEC's operating and services fee is recorded when paid; and

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- Cash reserves for Trust expenses may be established by the Trustee for certain expenditures that would not be recorded as contingent liabilities under US GAAP.

The initial carrying value of the Net Profits Interests was PCEC's historical net book value of the interests on May 8, 2012, the date of transfer to the Trust, except for the commodity derivatives which were reflected at their fair value as of May 8, 2012.

Amortization of the investment in the Conveyed Interests is calculated on a unit-of-production basis and is charged directly to Trust corpus. Such amortization does not affect cash earnings of the Trust.

Investment in the Conveyed Interests is periodically assessed to determine whether its aggregate value has been impaired below its total capitalized cost based on the Underlying Properties. If an impairment loss is indicated by the carrying amount of the assets exceeding the sum of the undiscounted expected future net cash flows, then an impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its estimated fair value. Fair value is generally determined from estimated discounted cash flows.

While these statements differ from financial statements prepared in accordance with US GAAP, the modified cash basis of reporting revenues, expenses, and distributions is considered to be the most meaningful because monthly distributions to the Trust unitholders are based on net cash receipts. This comprehensive basis of accounting other than US GAAP corresponds to the accounting permitted for royalty trusts by the SEC as specified by Staff Accounting Bulletin Topic 12:E, Financial Statements of Royalty Trusts.

The preparation of financial statements requires the Trust to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Item 7A. 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's ability to make loans to the Trust. Further, in the event of the bankruptcy of PCEC, if a court held 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.

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In addition, Phillips 66 accounted for 88% of PCEC's net sales in 2018. Phillips 66's purchase of production from the Orcutt and West Pico properties therefore presents a credit risk to PCEC and consequently the Trust.

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**Item 8. Financial Statements and Supplementary Data.**

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**Report of Independent Registered Public Accounting Firm**

To the Unitholders of Pacific Coast Oil Trust and to

The Bank of New York Mellon Trust Company, N.A., Trustee

**Opinions on the Financial Statements and Internal Control over Financial Reporting**

We have audited the accompanying statements of assets, liabilities and trust corpus of Pacific Coast Oil Trust as of December 31, 2018 and 2017, and the related statements of distributable income and of changes in trust corpus for each of the three years in the period ended December 31, 2018, including the related notes (collectively referred to as the financial statements). We also have audited the Trust's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and trust corpus of the Trust as of December 31, 2018 and 2017, and its distributable income and its changes in trust corpus for each of the three years in the period ended December 31, 2018 in conformity with the modified cash basis of accounting described in Note 2. Also in our opinion, the Trust maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

**Basis for Opinions**

The Trust's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Trustee's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Trust's financial statements and on the Trust's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Trust in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material

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weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### **Basis of Accounting**

As described in Note 2, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

### **Definition and Limitations of Internal Control over Financial Reporting**

A trust's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles (which, in the Trust's case is the modified cash basis). A trust's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the trust; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the trust are being made only in accordance with authorizations of management and the trustee; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the trust's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Los Angeles, California

March 8, 2019

We have served as the Trust's auditor since 2012.

Table of Contents**PACIFIC COAST OIL TRUST****Statements of Assets, Liabilities and Trust Corpus**

Thousands of dollars	December 31,	
	2018	2017
<b>ASSETS</b>		
Cash and cash equivalents	\$	\$ 88
Investment in conveyed interests, net of amortization (Note 2)	204,626	217,191
Total assets	\$ 204,626	\$ 217,279
<b>LIABILITIES AND TRUST CORPUS</b>		
Trust corpus (38,583,158 Trust units issued and outstanding)	\$ 204,626	\$ 217,279
Total Liabilities and Trust Corpus	\$ 204,626	\$ 217,279

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

Table of Contents**PACIFIC COAST OIL TRUST****Statements of Distributable Income**

Thousands of dollars, except unit amounts	Year Ended December 31,		
	2018	2017	2016
Income from conveyed interests	\$ 15,121	\$ 7,492	\$ 845
PCEC operating and services fee	(1,081)	(1,062)	(1,053)
General and administrative expenses	(1,515)	(861)	(690)
Cash receipt from borrowing	81	10	1,178
Repayments on borrowing	(81)	(1,142)	(46)
Promissory note interest expenses		(10)	(35)
Interest income	6		
Cash reserves used (withheld) for Trust expenses	88	(72)	30
Distributable income	\$ 12,619	\$ 4,355	\$ 229
Distributable income per unit (38,583,158 units)	\$ 0.32708	\$ 0.11287	\$ 0.00593

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

Table of Contents**PACIFIC COAST OIL TRUST****Statements of Changes in Trust Corpus**

<b>Thousands of dollars</b>	<b>Year Ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Trust corpus, beginning of period	\$ 217,279	\$ 226,544	\$ 229,090
Cash reserves withheld (used) for Trust expenses	(88)	72	(29)
Borrowing used for Trust expenses	(81)	(10)	(1,178)
Repayments on borrowing	81	1,142	46
Distributable income	12,619	4,355	229
Distributions to unitholders	(12,619)	(4,355)	(229)
Amortization of conveyed interests	(12,565)	(10,469)	(1,385)
Trust corpus, end of period	\$ 204,626	\$ 217,279	\$ 226,544

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

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**PACIFIC COAST OIL TRUST**

**NOTES TO FINANCIAL STATEMENTS**

**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 Annual Report to the Trust Agreement are to the Amended and Restated Trust Agreement.

The Trust was created to acquire and hold net profits interests (the Net Profits Interests) and an overriding royalty interest (the Royalty Interest), and collectively with the Net Profits Interests, the Conveyed Interests in certain oil and natural gas properties located in California 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 in 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 Royalty Interest Proceeds for the Developed Properties and Remaining Properties monthly. For any monthly period during which costs for the Remaining Properties exceed gross proceeds, the Trust is entitled to receive the Royalty Interest Proceeds, and the Trust continues 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 (an NPI Payout). Due to significant planned capital 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. The Trust is entitled to receive Royalty Interest Proceeds in any monthly period following an NPI Payout if costs for the Remaining Properties exceed gross proceeds.

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The Trustee can authorize the Trust to borrow money to pay Trust administrative or incidental expenses that exceed cash held by the Trust. The Trustee may authorize the Trust to borrow from the Trustee or an affiliate as a lender provided the terms of the loan are fair to the Trust unitholders and similar to the terms it would grant to a similarly situated commercial customer with whom it did not have a fiduciary relationship. The Trustee may also deposit funds awaiting distribution in an account with itself, if the interest paid to the Trust at least equals amounts paid by the Trustee on similar deposits, and make other short-term investments with the funds distributed to the Trust. Any funds provided under the letter of credit or loaned 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. If the Trust draws on the letter of credit or PCEC loans funds to the Trust, no further distributions will be made to Trust unitholders (except in respect of any previously determined monthly cash distribution amount) until such amounts drawn or borrowed, including interest thereon, are repaid.

### *Conveyance of Net Profits Interest and Overriding Royalty Interest and Public Offerings*

On May 8, 2012, the Trust and PCEC entered into a Conveyance of Net Profits Interests and Overriding Royalty Interest (as amended on June 15, 2012, the Conveyance ), pursuant to which PCEC conveyed to the Trust the Conveyed Interests.

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Concurrent with the Conveyance, PCEC sold 18,500,000 Trust Units to the public in an initial public offering ( IPO ). The proceeds (net of underwriting discounts of approximately \$23 million) received by PCEC (before expenses) from the sale of 18,500,000 Trust Units were approximately \$346.9 million. The Trust received no proceeds from the sale of the Trust Units. The IPO is described in the final Prospectus filed with the Securities and Exchange Commission ( SEC ) pursuant to Rule 424(b)(1) on May 4, 2012 (the Prospectus ). Upon completion of the IPO, there were 38,583,158 Trust Units issued and outstanding, of which PCEC owned 20,083,158 Trust Units, or 52% of the issued and outstanding Trust Units.

The Trust and PCEC are parties to a Registration Rights Agreement (the Registration Rights Agreement ) pursuant to which PCEC, its affiliates and any transferee of PCEC 's Trust Units are entitled to demand that the Trust use its reasonable best efforts to effect the registration of such holders ' Trust Units under the Securities Act of 1933, as amended (the Securities Act ). The holders are entitled to demand a maximum of five such registrations. PCEC will bear all costs and expenses incidental to any registration statement, excluding certain internal expenses of the Trust, which will be borne by the Trust. Any underwriting discounts and commissions will be borne by the seller of the Trust Units. On June 17, 2013, pursuant to the Registration Rights Agreement, the Trust filed a registration statement on Form S-3 registering the offering by PCEC of 20,083,158 Trust Units. The registration statement was declared effective on September 12, 2013.

On September 19, 2013, the Trust, PCEC and other persons or entities (the Other Selling Unitholders ) sold 13,500,000 Trust Units at a price of \$17.10 per Trust Unit (\$16.416 per Trust Unit, net of underwriting discounts and commissions). On September 23, 2013, PCEC distributed 11,216,661 Trust Units to the Other Selling Unitholders. Immediately following the distribution, the Other Selling Unitholders sold 8,500,000 Trust Units, and PCEC sold an additional 5,000,000 Trust Units, for a total sale of 13,500,000 Trust Units. PCEC retained 3,866,497 Trust Units, or 10% of the issued and outstanding Trust Units. The Trust received no proceeds from the sales of these Trust Units.

On June 9, 2014, PCEC distributed 3,866,497 Trust Units, or the remaining 10% of the issued and outstanding Trust Units it owned, to PCEC 's management and owners. Certain holders of the Trust Units affiliated with PCEC sold an aggregate of 2,654,436 Trust Units pursuant to an underwritten secondary public offering at a price of \$13.00 per Trust Unit (\$12.70 per Trust Unit, net of underwriting discounts and commissions). None of the Trust, PCEC or PCEC 's management sold any Trust Units in the secondary offering or received any proceeds from the offering. The Trust Units were sold pursuant to a prospectus supplement and an accompanying prospectus as part of an effective shelf registration statement filed by the Trust with the SEC.

### **Note 2. Trust Significant Accounting Policies**

#### ***Basis of Accounting***

The Trust uses the modified cash basis of accounting to report Trust receipts of the Conveyed Interests and payments of expenses incurred. The Net Profits Interests represent the right to receive revenues (oil and natural gas sales), less direct operating expenses (lease operating expenses and production and property taxes) and development expenses of the Underlying Properties plus certain offsets. The Royalty Interest represents the right to receive revenues (oil and natural gas sales), less production and operating taxes and post-production costs. Cash distributions of the Trust are made based on the amount of cash received by the Trust pursuant to terms of the Conveyance creating the Conveyed Interests.

The financial statements of the Trust, as prepared on a modified cash basis, reflect the Trust 's assets, liabilities, Trust corpus, earnings and distributions as follows:



- Income from the Conveyed Interests is recorded when distributions are received by the Trust;
- Distributions to Trust unitholders are recorded when paid by the Trust;
- Trust general and administrative expenses (which include the Trustee's fees as well as accounting, engineering, legal, and other professional fees) are recorded when paid;
- PCEC's operating and services fee is recorded when paid; and
- Cash reserves for Trust expenses may be established by the Trustee for certain expenditures that would not be recorded as contingent liabilities under US GAAP.

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The Conveyance of the Conveyed Interests to the Trust was accounted for as a transfer of properties under common control and recorded at PCEC's historical net book value of the Conveyed Interests on May 8, 2012, the date of transfer to the Trust, except for the commodity derivatives which were reflected at their fair value as of May 8, 2012.

Amortization of the investment in the Conveyed Interests is calculated on a unit-of-production basis and is charged directly to the Trust corpus. The production and net reserves used in the amortization calculation are determined using the economic interest method, where the sum of the net profits payments are divided by the effective price per barrel of oil equivalent resulting in the volume of production and reserves used in the calculation. During the years ended December 31, 2018 and 2017, amortization expense was \$12.6 million and \$10.5 million, respectively. Such amortization does not affect distributable income of the Trust. Accumulated amortization as of December 31, 2018 and 2017 was \$79.9 million and \$67.3 million, respectively.

Investment in the Conveyed Interests is periodically assessed to determine whether its aggregate value has been impaired below its total capitalized cost based on the Underlying Properties. If an impairment loss is indicated by the carrying amount of the assets exceeding the sum of the undiscounted expected future net cash flows, then an impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its estimated fair value. Fair value is generally determined from estimated discounted cash flows. There was no impairment as of December 31, 2018 or December 31, 2017.

While these statements differ from financial statements prepared in accordance with US GAAP, the modified cash basis of reporting revenues, expenses, and distributions is considered to be the most meaningful because monthly distributions to the Trust unitholders are based on net cash receipts. This comprehensive basis of accounting other than US GAAP corresponds to the accounting permitted for royalty trusts by the SEC as specified by Staff Accounting Bulletin Topic 12:E, Financial Statements of Royalty Trusts.

### *Use of Estimates*

The preparation of financial statements requires the Trust to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Note 3. Income Taxes**

#### *Federal Income Taxes*

Tax counsel to the Trust advised the Trust at the time of formation that for U.S. federal income tax purposes, the Trust will be treated as a grantor trust and therefore is not subject to tax at the Trust level. Trust unitholders are treated as owning a direct interest in the assets of the Trust, and each Trust unitholder is taxed directly on his pro rata share of the income and gain attributable to the assets of the Trust and entitled to claim his pro rata share of the deductions and expenses attributable to the assets of the Trust. The income of the Trust is deemed to have been received or accrued by each unitholder at the time such income is received or accrued by the Trust rather than when distributed by the Trust.

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The deductions of the Trust consist primarily of administrative expenses. In addition, each unitholder is entitled to depletion deductions because the Net Profits Interest constitutes economic interests in oil and natural gas properties for federal income tax purposes. Each unitholder is entitled to amortize the cost of the Trust Units through cost depletion over the life of the Net Profits Interest or, if greater, through percentage depletion. Unlike cost depletion, percentage depletion is not limited to a unitholder's depletable tax basis in the Trust Units. Rather, a unitholder is entitled to percentage depletion as long as the applicable Underlying Properties generate gross income.

Some Trust Units are held by a middleman, as such term is broadly defined in U.S. Treasury Regulations (and includes custodians, nominees, certain joint owners, and brokers holding an interest for a custodian in street name). Therefore, the Trustee considers the Trust to be a non-mortgage widely held fixed investment trust ( WHFIT ) for U.S. federal income tax purposes. The Bank of New York Mellon Trust Company, N.A., 601 Travis Street, 16th Floor, Houston, Texas 77002, telephone number (512) 236-6545, is the representative of the Trust that will provide tax information in accordance with applicable U.S. Treasury Regulations governing the information reporting requirements of the Trust as a WHFIT. Notwithstanding the foregoing, the middlemen holding units on behalf of unitholders, and not the Trustee of the Trust, are solely responsible for complying with the information reporting requirements under the U.S. Treasury Regulations with respect to such units, including the issuance of IRS Forms 1099 and certain written tax statements. Unitholders whose units are held by middlemen should consult with such middlemen regarding the information that will be reported to them by the middlemen with respect to the Trust Units.

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The tax consequences to a unitholder of ownership of Trust Units will depend in part on the unitholder's tax circumstances. Unitholders should consult their tax advisors about the federal tax consequences relating to owning the Trust Units.

***State Taxes***

The Trust's revenues are from sources in the state of California. Because it distributes all of its net income to unitholders, the Trust should not be taxed at the Trust level. California presently taxes income of nonresidents from real property located within the state. California taxes nonresidents on royalty income from the royalties located in that state and also imposes a corporate income tax which may apply to unitholders organized as corporations.

Each unitholder should consult his or her own tax advisor regarding state tax requirements applicable to such person's ownership of Trust Units.

**Note 4. Net Profits Interests and Overriding Royalty Interest**

***Net Profits Interests***

The amounts paid to the Trust for each Net Profits Interest are based on, among other things, the definitions of gross profits and net profits contained in the Conveyance and described below. Under the Conveyance, net profits are computed monthly. Each calendar month, 80% of the net profits from the sale of oil and natural gas production from the Developed Properties is paid to the Trust generally on or before the eighth business day after the last business day of the following month. For any month in which costs for the Remaining Properties exceed gross proceeds, the Trust is entitled to receive the Royalty Interest Proceeds. The Trust continues to receive such proceeds until the first day of the month following an NPI Payout. In calendar months following an NPI Payout, the Trust is entitled to receive Royalty Interest Proceeds if costs for the Remaining Properties exceed gross proceeds.

*Gross profits* means the aggregate amount received by PCEC that is attributable to sales of oil and natural gas production from the applicable Underlying Properties from and after April 1, 2012 (after deducting the appropriate share of all royalties and any overriding royalties, production payments and other similar charges and other than certain excluded proceeds (including, with respect to the Remaining Properties, the Royalty Interest, to the extent paid), as described in the Conveyance), including all proceeds and consideration received (i) for advance payments, (ii) under take-or-pay and similar provisions of production sales contracts (when credited against the price for delivery of production) and (iii) under balancing arrangements. Gross profits do not include consideration for the transfer or sale of any Underlying Property by PCEC or any subsequent owner to any new owner, unless the Net Profits Interest in such Underlying Property is released (as is permitted under certain circumstances). Gross profits also do not include any amount for oil or natural gas lost in production or marketing or used by the owner of the Underlying Properties in drilling, production and plant operations.

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*Net profits* means gross profits less the following costs, expenses and, where applicable, losses, liabilities and damages all as actually incurred by PCEC from and after April 1, 2012 and attributable to production from the Underlying Properties from and after April 1, 2012 (as such items are reduced by any offset amounts, as described in the Conveyance):

- all costs for (i) drilling, development, production and abandonment operations, (ii) all direct labor and other services necessary for drilling, operating, producing and maintaining the Underlying Properties and workovers of any wells located on the Underlying Properties, (iii) treatment, dehydration, compression, separation and transportation, (iv) all materials purchased for use on, or in connection with, any of the Underlying Properties and (v) any other operations with respect to the exploration, development or operation of hydrocarbons from the Underlying Properties;
- all losses, costs, expenses, liabilities and damages with respect to the operation or maintenance of the Underlying Properties for (i) defending, prosecuting, handling, investigating or settling litigation, administrative proceedings, claims, damages, judgments, fines, penalties and other liabilities, (ii) the payment of certain judgments, penalties and other liabilities, (iii) the payment or restitution of any proceeds of hydrocarbons from the Underlying Properties, (iv) complying with applicable local, state and federal statutes, ordinances, rules and regulations, (v) tax or royalty audits and (vi) any other loss, cost, expense, liability or damage with respect to the Underlying Properties not paid or reimbursed under insurance;
- all taxes, charges and assessments (excluding federal and state income, transfer, mortgage, inheritance, estate, franchise and like taxes) with respect to the ownership of, or production of hydrocarbons from, the Underlying Properties;

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- all insurance premiums attributable to the ownership or operation of the Underlying Properties for insurance actually carried with respect to the Underlying Properties, or any equipment located on any of the Underlying Properties, or incident to the operation or maintenance of the Underlying Properties;
- all amounts and other consideration for (i) rent and the use of or damage to the surface, (ii) delay rentals, shut-in well payments and similar payments and (iii) fees for renewal, extension, modification, amendment, replacement or supplementation of the leases included in the Underlying Properties;
- all amounts charged by the relevant operator as overhead, administrative or indirect charges specified in the applicable operating agreements or other arrangements covering the Underlying Properties or PCEC's operations with respect thereto;
- to the extent that PCEC is the operator of certain of the Underlying Properties and there is no operating agreement covering such portion of the Underlying Properties, those overhead, administrative or indirect charges that are allocated by PCEC to such portion of the Underlying Properties;
- if, as a result of the occurrence of the bankruptcy or insolvency or similar occurrence of any purchaser of hydrocarbons produced from the Underlying Properties, any amounts previously credited to the determination of the net profits are reclaimed from PCEC, then the amounts reclaimed;
- all costs and expenses for recording the conveyance and, at the applicable times, terminations and/or releases thereof;
- all administrative hedge costs (in respect of commodity derivative contracts existing prior to the date of the conveyance, as further described in the Conveyance);
- all commodity derivative settlement costs (in respect of commodity derivative contracts existing prior to the date of the conveyance, as further described in the Conveyance);
- amounts previously included in gross profits but subsequently paid as a refund, interest or penalty; and

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- at the option of PCEC (or any subsequent owner of the Underlying Properties), amounts reserved for approved development expenditure projects, including well drilling, recompletion and workover costs, which amounts will at no time exceed \$2.0 million in the aggregate, and will be subject to the limitations described below (provided that such costs shall not be debited from gross profits when actually incurred).
- all costs accrued for future plugging and abandonment of any well or facility (provided that such amounts shall not be included as deductions in subsequent periods)

Costs deducted in the net profits determination are reduced by certain offset amounts. The offset amounts are further described in the Conveyance, and include, among other things, certain net proceeds attributable to the treatment or processing of hydrocarbons produced from the Underlying Properties, all of the payments received by PCEC from commodity derivative contract counterparties upon settlement of commodity derivative contracts and certain other non-production revenues, including salvage value for equipment related to plugged and abandoned wells. If the offset amounts exceed the costs during a monthly period, the ability to use such excess amounts to offset costs will be deferred and utilized as offsets in the next monthly period to the extent such amounts, plus accrued interest thereon, together with other offsets to costs, for the applicable month, are less than the costs arising in such month.

The Trust is not liable to the owners of the Underlying Properties, PCEC, or any other operator for any operating, capital or other costs or liabilities attributable to the Underlying Properties. If the net profits relating to the Developed Properties for any computation period is a negative amount, the Trust will receive no payment for the Developed Properties for that period, and any such negative amount will be deducted from gross profits for the Developed Properties in the following computation period for purposes of determining the net profits relating to the Developed Properties for that following computation period. If the net profits relating to the Remaining Properties for any computation period is a negative amount, the Trust is entitled to receive the Royalty Interest Proceeds.

Gross profits and net profits are calculated on a cash basis, except that certain costs, primarily ad valorem taxes and expenditures of a material amount, may be determined on an accrual basis.

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***Overriding Royalty Interest***

For any monthly period during which costs for the Remaining Properties exceed gross proceeds, the Trust is entitled to receive an amount equal to 7.5% of the proceeds attributable to the sale of all production from the Remaining Properties located on PCEC's Orcutt properties, including but not limited to PCEC's interest in such production (free of any production or development costs but bearing its proportionate share of production and property taxes and post-production costs).

Proceeds from the sale of oil, natural gas liquids and natural gas production from the Remaining Properties located on PCEC's Orcutt properties in any calendar month means the amount calculated based on actual sales volumes from such properties, in each case after deducting the Trust's proportionate share of:

- any taxes levied on the severance or production of the oil, natural gas liquids and natural gas produced from such properties and any property taxes attributable to the oil, natural gas liquids and natural gas produced from the such properties; and
- post-production costs, which will generally consist of costs incurred to gather, store, compress, transport, process, treat, dehydrate and market the oil, natural gas liquids and natural gas produced, as applicable (excluding costs for marketing services provided by PCEC).

Proceeds payable to the Trust from the sale of oil, natural gas liquids and natural gas production attributable to the Remaining Properties located on PCEC's Orcutt properties in any calendar month are not subject to any deductions for any expenses attributable to exploration, drilling, development, operating, maintenance or any other costs incident to the production of oil, natural gas liquids and natural gas attributable to such properties, including any costs to drill, complete or plug and abandon a well. Additionally, costs associated with any completion activities will be borne by PCEC or any third-party operator of the well.

**Note 5. Distributions to Unitholders**

Each month, the Trustee determines the amount of funds available for distribution to the Trust unitholders, based on information provided by PCEC. 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) that month, 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. The following tables illustrate information regarding the Trust's distributions paid during the years ended December 31, 2018 and 2017:

***Year Ended December 31, 2018***



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<b>Declaration Date</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Distribution per Unit</b>
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	\$ 0.00000
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
September 26, 2018	October 8, 2018	October 22, 2018	\$ 0.02834
October 25, 2018	November 5, 2018	November 19, 2018	\$ 0.01693
November 30, 2018	December 10, 2018	December 24, 2018	\$ 0.04097

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#### *Year Ended December 31, 2017*

<b>Declaration Date</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Distribution per Unit</b>
December 22, 2016	January 15, 2017	N/A	\$ 0.00000
January 31, 2017	February 15, 2017	N/A	\$ 0.00000
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
September 28, 2017	October 9, 2017	October 19, 2017	\$ 0.00117
October 31, 2017	November 10, 2017	November 27, 2017	\$ 0.01264
November 30, 2017	December 11, 2017	December 26, 2017	\$ 0.01614

#### *Year Ended December 31, 2016*

<b>Declaration Date</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Distribution per Unit</b>
December 23, 2015	January 6, 2016	January 13, 2016	\$ 0.00593
January 25, 2016	February 5, 2016	N/A	\$ 0.00000
February 25, 2016	March 7, 2016	N/A	\$ 0.00000
March 24, 2016	April 5, 2016	N/A	\$ 0.00000
April 25, 2016	May 5, 2016	N/A	\$ 0.00000
May 24, 2016	June 3, 2016	N/A	\$ 0.00000
June 27, 2016	July 7, 2016	N/A	\$ 0.00000
July 25, 2016	August 5, 2016	N/A	\$ 0.00000
August 25, 2016	September 7, 2016	N/A	\$ 0.00000
September 28, 2016	October 11, 2016	N/A	\$ 0.00000
October 28, 2016	November 15, 2016	N/A	\$ 0.00000
November 22, 2016	December 14, 2016	N/A	\$ 0.00000

The Trust's distributions paid during the years ended December 31, 2018, 2017 and 2016 were \$12.6 million, \$4.4 million and \$0.2 million, respectively.

#### **Note 6. 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 both 2018 and 2017, the Trust paid \$200,000 to the Trustee and \$2,000 to the Delaware Trustee.

*PCEC Operating and Services Agreement and 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. The monthly PCEC operating and services fee, which is adjusted annually based on changes to the Consumer Price Index, is \$90,837 for the twelve-month period that commenced on April 1, 2018. 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. PCEC charged the Trust \$1.1 million in each of the years ended December 31, 2018 and December 31, 2017 for the operating and services fee.

#### **Note 7. 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 December 31, 2018. Interest expense on the outstanding borrowings was recorded as it was paid to PCEC. For the year ended December 31, 2018, the Trust incurred a total of \$394 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 years ended December 31, 2018 and 2017, the Trust incurred interest totaling \$0 and \$10,141, respectively, 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

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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 December 31, 2018, the letter of credit remains unused.

**Note 8. 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. PCEC and its insurers paid the settlement 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 *cypres* 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, DOGGR discussed with PCEC the modification of existing well permits for approximately 25 water injection wells located at the Orcutt Conventional, which could require certain changes to operating procedures or well modifications. Initially, in September 2015, PCEC proposed, and implemented, a schedule to modify one of the affected wells each quarter until all had been modified. In January 2019, PCEC proposed, and has since implemented, a schedule to reduce the number of modifications of affected awells from one per quarter to two per year until all have been modified. However, it is possible that the water injection wells may require repairs at a rate of more than two per year in which case PCEC will be required to make such repairs. PCEC has completed 12 modifications to date and plans to complete two more in 2019. 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. As of the date of this Annual Report, PCEC has not filed any additional permit applications for drilling in the Diatomite Zone at Orcutt and currently is unable to estimate when it

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will submit such permits to Santa Barbara County. If PCEC submits any permit applications 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. 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 9. Subsequent Events**

On January 22, 2019, the distribution of \$0.01376 per Trust Unit, which was declared on December 27, 2018, was paid to Trust unitholders owning Trust Units as of January 7, 2019.

Subsequent to December 31, 2018, the Trust declared the following distributions:

<b>Declaration Date</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Distribution per Unit</b>
January 30, 2019	February 11, 2019	February 26, 2019	\$ 0.01245
February 28, 2019	March 11, 2019	March 25, 2019	\$ 0.01989

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## SUPPLEMENTAL INFORMATION

## A. OIL AND NATURAL GAS DISCLOSURES (UNAUDITED)

*Capitalized Costs Related to Oil and Natural Gas Producing Activities*

The Trust's capitalized costs consisted of the following (in thousands):

	December 31,	
	2018	2017
Investment in Conveyed Interests		
Proved	\$ 284,493	\$ 284,493
Total investment in Conveyed Interests	284,493	284,493
Less accumulated amortization	79,867	67,302
Net investment in Conveyed Interests	\$ 204,626	\$ 217,191

*Oil and Natural Gas Reserve Quantities*

Estimates of proved reserves attributable to the Trust were based on reports prepared by the Trust's independent petroleum engineers, Netherland, Sewell & Associates, Inc. (NSAI), including the report of NSAI dated February 6, 2019 filed as an exhibit, and included as Appendix A, to this Annual Report. Estimates were prepared in accordance with guidelines prescribed by the SEC and the FASB, which require that reserve estimates be prepared under existing economic and operating conditions with no provision for price and cost escalations except by contractual arrangements.

Proved reserve quantity estimates are subject to numerous uncertainties inherent in the estimation of proved reserves and in the projection of future rates of production and the timing of development expenditures. The accuracy of such estimates is a function of the quality of available data and of engineering and geological interpretation and judgment. Results of subsequent drilling, testing, and production may cause either upward or downward revisions of previous estimates. Further, the volumes considered to be commercially recoverable fluctuate with changes in prices and operating costs. The process of estimating quantities of oil and natural gas reserves is very complex, requiring significant subjective decisions in the evaluation of all available geological, engineering and economic data for each reserve. Consequently, material revisions to existing reserve estimates may occur from time to time.

As of December 31, 2018, all of the Underlying Properties' oil and natural gas reserves are attributable to properties within the United States. Proved reserves attributable to the Trust and related standardized measure valuations are prepared on an accrual basis, which is the basis on which PCEC and the Underlying Properties maintain their production records and is different from the basis on which the Trust production records are computed.

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Unweighted average first-day-of-the-month crude oil and natural gas prices used to determine the total estimated proved reserves as of December 31, 2018 were Brent spot crude oil price of \$71.54 per Bbl and Henry Hub natural gas prices of \$3.10 per MMBtu. Unweighted average first-day-of-the-month crude oil and natural gas prices used in 2017 were \$54.42 per Bbl for WTI spot crude oil price and Henry Hub natural gas prices of \$2.98 per MMBtu.

The following is a summary of the changes in quantities of proved oil and natural gas reserves attributable to the Trust for the years ended December 31, 2018, 2017 and 2016:

	Total (MBoe)	Oil (in MBbls)	Natural Gas (in MMcf)
<b>Net proved reserves</b>			
<b>December 31, 2015</b>	<b>4,735</b>	<b>4,697</b>	<b>229</b>
Revision of previous estimates	(2,738)	(2,732)	(40)
Conveyed interest volumes	752	735	106
<b>December 31, 2016</b>	<b>2,749</b>	<b>2,700</b>	<b>295</b>
Revision of previous estimates	1,090	1,074	89
Conveyed interest volumes	(713)	(699)	(80)
<b>December 31, 2017</b>	<b>3,126</b>	<b>3,075</b>	<b>304</b>
Revision of previous estimates	1,240	1,222	108
Conveyed interest volumes	(641)	(632)	(49)
<b>December 31, 2018</b>	<b>3,725</b>	<b>3,665</b>	<b>363</b>



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	Total (MBoe)	Oil (in MBbls)	Natural Gas (in MMcf)
<b>Proved developed reserves</b>			
December 31, 2016	2,749	2,700	295
December 31, 2017	2,813	2,762	304
December 31, 2018	3,338	3,278	363
<b>Proved undeveloped reserves</b>			
December 31, 2016			
December 31, 2017	313	313	
December 31, 2018	387	387	

### *Revisions of Previous Estimates*

In 2018 the Trust had a positive revision of 1,240 MBoe, primarily related to the increase in oil prices as well as the addition of the proved undeveloped reserves. In 2017 the Trust had a positive revision of 1,090 MBoe, primarily related to the increase in oil prices as well as the addition of the proved undeveloped reserves. In 2016, the Trust had negative revisions of 2,738 MBoe, primarily related to a decrease in oil prices and reduction of proved undeveloped reserves to zero due to the rejection of the OHREP drilling proposal by the Santa Barbara County Board of Supervisors.

### *Proved Undeveloped Reserves*

Proved undeveloped reserves increased to 387 MBoe at the end of 2018 compared to 313 MBoe at the end of 2017 primarily due to the incorporation of 21 Orcutt Diatomite redrill projects in the 2018 reserve estimates. Six of the original 17 redrill projects were executed in 2018 shifting these projects to proved developed reserves, and an additional 21 locations have been identified.

### *Standardized Measure of Discounted Future Net Cash Flows*

The standardized measure of discounted future net cash flows relating to proved oil and natural gas reserves is computed by applying commodity prices used in determining proved reserves (with consideration of price changes only to the extent provided by contractual arrangements) to the estimated future production of proved reserves less estimated future expenditures (based on year-end costs) to be incurred in developing and producing the proved reserves, discounted using a rate of 10% per year to reflect the estimated timing of the future cash flows. Future cash inflows are computed by applying the average prices during the 12-month period prior to fiscal year-end, determined as an unweighted arithmetic average of the first-day-of-the-month benchmark price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions. Future production and development costs are computed by estimating the expenditures to be incurred in developing and producing the proved oil and natural gas reserves at year end, based on year-end costs and assuming continuation of existing economic conditions. Since the Trust is not subject to federal income taxes, future income taxes have been excluded.

The standardized measure of discounted future net cash flows relating to proved oil and natural gas reserves attributable to the Trust is as follows as of December 31, 2018:

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Thousands of dollars	For the Year Ended December 31,		
	2018	2017	2016
Future cash inflows	\$ 249,901	\$ 152,441	\$ 101,798
Future production expense	(5,579)	(4,003)	(3,411)
Future net cash flows	244,322	148,438	98,387
Discounted at 10% per year	(108,606)	(63,743)	(47,339)
Standardized measure of discounted future net cash flows	\$ 135,716	\$ 84,695	\$ 51,048

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The changes in standardized measure of discounted future net cash flows relating to proved oil and natural gas reserves attributable to the Trust for the years ended December 31, 2018, 2017 and 2016 are as follows:

Thousands of dollars	Year Ending December 31,		
	2018	2017	2016
Beginning balance	\$ 84,695	\$ 51,048	\$ 109,189
Net change in sales and transfer prices, net of production expense	86,811	46,731	(37,467)
Accretion of discount	8,469	5,105	10,919
Revision of previous estimates and other	(29,138)	(10,697)	(30,748)
Income from conveyed interests	(15,121)	(7,492)	(845)
Standardized measure	\$ 135,716	\$ 84,695	\$ 51,048

### B. QUARTERLY SCHEDULE OF DISTRIBUTABLE INCOME (UNAUDITED)

Thousands of dollars except per unit amounts	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>2018:</b>				
Income from conveyed interests	\$ 3,972	\$ 2,191	\$ 4,907	\$ 4,051
PCEC operating and service fee	\$ (267)	\$ (269)	\$ (272)	\$ (273)
Distributable income	\$ 3,240	\$ 1,582	\$ 4,470	\$ 3,327
Distributable income per unit	\$ 0.08398	\$ 0.04101	\$ 0.11585	\$ 0.08623
<b>2017:</b>				
Income from conveyed interests	\$ 1,941	\$ 1,934	\$ 1,999	\$ 1,618
PCEC operating and service fee	\$ (264)	\$ (264)	\$ (267)	\$ (267)
Distributable income	\$ 188	\$ 1,480.00	\$ 1,531.00	\$ 1,156.00
Distributable income per unit	\$ 0.00487	\$ 0.03832	\$ 0.03973	\$ 0.02995

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**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.**

*Evaluation of Disclosure Controls and Procedures.*

The Trustee conducted an evaluation of the Trust's disclosure controls and procedures (as defined in Rules 13a-15 and 15d-15 under the Exchange Act). Based on this evaluation, Sarah Newell, as Trust Officer, has concluded that the disclosure controls and procedures of the Trust are effective as of December 31, 2018 to provide reasonable assurance that the information required to be disclosed by the Trust in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and such information is accumulated and communicated, as appropriate to allow timely decisions regarding required disclosure.

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 of the Net Profits Interest, 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 interest 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 December 31, 2018, there was no change in the Trust's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Trust's internal control over financial reporting. 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.

*Trustee's Report on Internal Control over Financial Reporting and Report of Independent Registered Public Accounting Firm* The information required to be furnished pursuant to this item is set forth below and in the Report of Independent Registered Public Accounting Firm in Item 8 of this annual report.

The Trustee is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Exchange Act. Internal control over financial reporting is a process designed to provide

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reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with generally accepted accounting principles (which, in the Trust's case is the modified cash basis). The Trustee conducted an evaluation of the effectiveness of the Trust's internal control over financial reporting based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the Trustee's evaluation under the framework in *Internal Control - Integrated Framework (2013)*, the Trustee concluded that the Trust's internal control over financial reporting was effective as of December 31, 2018.

The effectiveness of the Trust's internal control over financial reporting as of December 31 2018 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

### **Item 9B. Other Information.**

None.

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**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance.**

The Trust has no directors or executive officers. The Trustee is a corporate trustee that may be removed by the affirmative vote of the holders of not less than a majority of the outstanding Trust Units at a meeting at which a quorum is present.

**Section 16(a) Beneficial Ownership Reporting Compliance**

The Trust has no directors or officers. Accordingly, only holders of more than 10% of the Trust's units are required to file with the SEC initial reports of ownership of units and reports of changes in such ownership pursuant to Section 16 under the Exchange Act. Based solely on a review of these reports and any such reports furnished to the Trustee, the Trustee is not aware of any person having failed to file on a timely basis the reports required by Section 16(a) of the Exchange Act during the most recent fiscal year.

**Audit Committee and Nominating Committee.**

Because the Trust does not have a board of directors, it does not have an audit committee, an audit committee financial expert or a nominating committee.

**Code of Ethics**

The Trust does not have a principal executive officer, principal financial officer, principal accounting officer or controller and has therefore not adopted a code of ethics applicable to such persons.

**Item 11. Executive Compensation.**

The Trust does not have any executive officers, directors or employees. The Trust does not have a board of directors, and it does not have a compensation committee. Pursuant to the Trust Agreement, the Trust pays an annual administrative fee of \$200,000 to the Trustee.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Unitholder Matters.**

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(a) Security Ownership of Certain Beneficial Owners.

Based on filings with the SEC and information from PCEC, the Trustee is not aware of any holders of 5% or more of the Units as of March 5, 2019 except as follows:

Name	Units	Percentage
Evergreen Capital Management LLC 10500 NE 8th, Suite 950 Bellevue, WA 98004	3,924,458(1)	10.17%

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(1) Based on the Schedule 13G/A filed with the SEC on November 9, 2018 by Evergreen Capital Management LLC.

(b) Security Ownership of Management.

Not applicable.

(c) Changes in Control.

The registrant knows of no arrangement, including any pledge by any person of securities of the registrant or any of its parents, the operation of which may at a subsequent date result in a change of control of the registrant.

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**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

*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 both 2018 and 2017, the Trust paid \$200,000 to the Trustee and \$2,000 to the Delaware Trustee.

*PCEC Operating and Services Agreement and 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. The monthly PCEC operating and services fee, which is adjusted annually based on changes to the Consumer Price Index, is \$90,837 for the twelve-month period that commenced on April 1, 2018. 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 each of 2018 and 2017, the Trust paid PCEC approximately \$1.1 million, respectively, pursuant to the Operating and Services Agreement.

**Director Independence**

The Trust does not have a board of directors.

**Item 14. Principal Accounting Fees and Services.**

The Trust does not have an audit committee. Any pre-approval and approval of all services performed by the principal auditor or any other professional service firms and related fees are granted by the Trustee. PricewaterhouseCoopers LLP has served as the Trust's independent registered public accounting firm since May 8, 2012.

The following table presents the aggregate fees billed to the Trust for the years ended December 31, 2018 and 2017 by PricewaterhouseCoopers LLP:

	2018	2017
Audit fees (1)	\$ 537,837	\$ 167,907
Audit-related fees		
Tax fees		
All other fees		



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Total fees	\$	537,837	\$	167,907
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(1) Fees for audit services consisted of the audit of the Trust's financial statements.

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**PART IV**

**Item 15. Exhibits, Financial Statement Schedules.**

*(a)(1) Financial Statements*

The following financial statements are set forth under Financial Statements and Supplementary Data in Item 8 of this Annual Report on the pages indicated:

	<b>Page</b>
<u>Report of Independent Registered Public Accounting Firm</u>	52
<u>Statement of Assets, Liabilities and Trust Corpus</u>	53
<u>Statement of Distributable Income</u>	54
<u>Statement of Changes in Trust Corpus</u>	55
<u>Notes to Financial Statements</u>	56
<u>Supplemental Information (unaudited)</u>	65

*(a)(2) Schedules*

Schedules have been omitted because they are not required, not applicable or the information required has been included elsewhere herein.

*(a)(3) Exhibits*

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#### INDEX TO EXHIBITS

Exhibit Number	Description
3.1*	<u>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))</u>
3.2*	<u>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))</u>
3.3*	<u>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))</u>
10.1*	<u>Conveyance of Net Profits Interests and Overriding Royalty Interest, dated as of June 15, 2012, by and between Pacific Coast Energy Company LP and Pacific Coast Oil Trust (Incorporated herein by reference to Exhibit 10.1 to the Trust's Current Report on Form 8-K filed on June 19, 2012 (File No. 1-35532))</u>
10.2*	<u>Registration Rights Agreement, dated as of May 8, 2012, by and between Pacific Coast Energy Company LP and Pacific Coast Oil Trust (Incorporated herein by reference to Exhibit 10.2 to the Trust's Current Report on Form 8-K filed on May 8, 2012 (File No. 1-35532))</u>
10.3*	<u>Operating and Services Agreement, dated as of May 8, 2012, by and between Pacific Coast Energy Company LP and Pacific Coast Oil Trust (Incorporated by reference to Exhibit 10.3 to the Trust's Current Report on Form 8-K filed on May 8, 2012 (File No. 1-35532))</u>
23.1	<u>Consent of Netherland, Sewell &amp; Associates, Inc.</u>
23.2	<u>Consent of PricewaterhouseCoopers LLP.</u>
31.1	<u>Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1	<u>Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
99.1	<u>Report of Netherland Sewell &amp; Associates, Inc. (included as Appendix A to the Form 10-K)</u>

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

#### Item 16. Form 10-K Summary.

None.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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

Date: March 8, 2019

By: /s/ SARAH NEWELL  
Sarah Newell  
*Vice President*

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 such function exists pursuant to the terms of the Trust Agreement under which it serves.

February 6, 2019

Mr. Randall H. Breitenbach  
Pacific Coast Energy Company LP  
1555 Orcutt Hill Road  
Orcutt, California 93455

Ms. Sarah Newell  
The Bank of New York Mellon Trust Company, N.A.  
as Trustee of Pacific Coast Oil Trust  
Global Corporate Trust  
601 Travis Street, Suite 1600  
Houston, Texas 77002

Ladies and Gentlemen:

In accordance with your request, we have estimated the proved reserves and future revenue, as of December 31, 2018, to the Pacific Coast Oil Trust (PCOT) net profits and overriding royalty interest in certain oil and gas properties, referred to herein as the Underlying Properties, located in California. The Underlying Properties include the Orcutt properties located onshore in the Santa Maria Basin and the East Coyote, Sawtelle, and West Pico properties located onshore in the Los Angeles Basin. We completed our evaluation on or about the date of this letter. It is our understanding that the proved reserves estimated in this report constitute all of the proved reserves owned by PCOT. Our report dated February 5, 2019, sets forth our estimates of proved reserves and future revenue to the Pacific Coast Energy Company LP (PCEC) interest in the Underlying Properties. The estimates in this report have been prepared in accordance with the definitions and regulations of the U.S. Securities and Exchange Commission (SEC) and, with the exception of the exclusion of future income taxes, conform to the FASB Accounting Standards Codification Topic 932, Extractive Activities - Oil and Gas. Definitions are presented immediately following this letter. This report has been prepared for PCOT's use in filing with the SEC; in our opinion the assumptions, data, methods, and procedures used in the preparation of this report are appropriate for such purpose.

The Underlying Properties are categorized as Developed Properties or Remaining Properties based on their reserves category as of December 31, 2011. The net profits interests entitle PCOT to receive 80 percent of PCEC's share of the net profits from the sale of oil and natural gas production from Developed Properties and either 25 percent of PCEC's share of the net profits from the sale of oil and natural gas production from Remaining Properties or a 7.5 percent overriding royalty interest in the Remaining Properties located in Orcutt Field for periods when net profits are not available.

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We estimate the net reserves and future net revenue to the PCOT interest in the Underlying Properties, as of December 31, 2018, to be:

Property Group/Category	Net Reserves		Future Net Revenue(1) (M\$)	
	Oil (MBBL)	Gas (MMCF)	Total	Present Worth at 10%
Developed Properties				
Proved Developed Producing	3,207.7	362.7	214,375.2	119,618.4
Proved Developed Non-Producing	22.2	0.0	1,248.4	1,405.9
Total Proved Developed	3,229.8	362.7	215,623.6	121,024.2

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Property Group/Category	Net Reserves		Future Net Revenue <sup>(1)</sup> (M\$)	
	Oil (MBBL)	Gas (MMCF)	Total	Present Worth at 10%
<b>Remaining Properties</b>				
Proved Developed Producing	28.2	0.0	3,150.4	5,698.3
Proved Developed Non-Producing	19.8	0.0	1,233.0	1,020.2
Proved Undeveloped	387.0	0.0	24,315.5	7,973.5
<b>Total Proved</b>	<b>435.0</b>	<b>0.0</b>	<b>28,698.9</b>	<b>14,692.0</b>
<b>All Properties</b>				
Proved Developed Producing	3,235.9	362.7	217,525.6	125,316.7
Proved Developed Non-Producing	41.9	0.0	2,481.5	2,426.1
Proved Undeveloped	387.0	0.0	24,315.5	7,973.5
<b>Total Proved</b>	<b>3,664.8</b>	<b>362.7</b>	<b>244,322.6</b>	<b>135,716.2</b>

Totals may not add because of rounding.

(1) Future net revenue includes PCEC's deductions for costs which are applied on the date of expenditure.

The oil volumes shown include crude oil only. Oil volumes are expressed in thousands of barrels (MBBL); a barrel is equivalent to 42 United States gallons. Gas volumes are expressed in millions of cubic feet (MMCF) at standard temperature and pressure bases.

Reserves categorization conveys the relative degree of certainty; reserves subcategorization is based on development and production status. As requested, probable and possible reserves that exist for these properties have not been included. The estimates of reserves and future revenue included herein have not been adjusted for risk. This report does not include any value that could be attributed to interests in undeveloped acreage beyond those tracts for which undeveloped reserves have been estimated.

The net reserves to the PCOT net profits interest are determined monthly using the economic interest method. By reserves category, the sum of the net profits payment and PCOT's share of the production taxes and ad valorem taxes is divided by the effective price per barrel of oil equivalent. The resulting net equivalent reserves are then allocated between oil and gas in the same proportion as the Underlying Properties.

Gross revenue is PCOT's share of the gross (100 percent) revenue from the properties prior to any deductions. Future net revenue is after deductions for PCOT's share of production taxes and ad valorem taxes but before consideration of any income taxes. The future net revenue has been discounted at an annual rate of 10 percent to determine its present worth, which is shown

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to indicate the effect of time on the value of money. Future net revenue presented in this report, whether discounted or undiscounted, should not be construed as being the fair market value of the properties.

Prices used in this report are based on the 12-month unweighted arithmetic average of the first-day-of-the-month price for each month in the period January through December 2018. For oil volumes, the average Europe Brent spot price of \$71.54 per barrel is adjusted for quality, transportation fees, and market differentials. For gas volumes, the average Henry Hub spot price of \$3.100 per MMBTU is adjusted for energy content, transportation fees, and market differentials. All prices are held constant throughout the lives of the properties. The average adjusted product prices weighted by production over the remaining lives of the properties are \$67.92 per barrel of oil and \$2.705 per MCF of gas.

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Because PCOT owns no working interest in these properties, no operating costs or capital costs would be incurred. However, estimated operating costs and capital costs have been used to confirm economic producibility and determine economic limits for the properties. Operating costs used in this report are based on operating expense records of PCEC, the operator of the properties. Operating costs and capital costs are not escalated for inflation. PCOT would not incur any costs due to abandonment, nor would it realize any salvage value for the lease and well equipment.

For the purposes of this report, we did not perform any field inspection of the properties, nor did we examine the mechanical operation or condition of the wells and facilities. Since PCOT owns a net profits and overriding royalty interest rather than a working interest in these properties, it would not incur any costs due to possible environmental liability.

We have made no investigation of potential volume and value imbalances resulting from overdelivery or underdelivery to the PCOT interest. Therefore, our estimates of reserves and future revenue do not include adjustments for the settlement of any such imbalances; our projections are based on PCOT receiving its net profits and overriding royalty interest share of estimated future gross production. Additionally, we have made no specific investigation of any firm transportation contracts that may be in place for these properties; our estimates of future revenue include the effects of such contracts only to the extent that the associated fees are accounted for in the historical field- and lease-level accounting statements.

The reserves shown in this report are estimates only and should not be construed as exact quantities. Proved reserves are those quantities of oil and gas which, by analysis of engineering and geoscience data, can be estimated with reasonable certainty to be economically producible; probable and possible reserves are those additional reserves which are sequentially less certain to be recovered than proved reserves. Estimates of reserves may increase or decrease as a result of market conditions, future operations, changes in regulations, or actual reservoir performance. In addition to the primary economic assumptions discussed herein, our estimates are based on certain assumptions including, but not limited to, that the properties will be developed consistent with current development plans as provided to us by PCEC, that the properties will be operated in a prudent manner, that no governmental regulations or controls will be put in place that would impact the ability of the interest owner to recover the reserves, and that our projections of future production will prove consistent with actual performance. If the reserves are recovered, the revenues therefrom and the costs related thereto could be more or less than the estimated amounts. Because of governmental policies and uncertainties of supply and demand, the sales rates, prices received for the reserves, and costs incurred by the working interest owners in recovering such reserves may vary from assumptions made while preparing this report.

For the purposes of this report, we used technical and economic data including, but not limited to, well logs, geologic maps, well test data, production data, historical price and cost information, and property ownership interests. The reserves in this report have been estimated using deterministic methods; these estimates have been prepared in accordance with the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the Society of Petroleum Engineers (SPE Standards). We used standard engineering and geoscience methods, or a combination of methods, including performance analysis, volumetric analysis, and analogy, that we considered to be appropriate and necessary to categorize and estimate reserves in accordance with SEC definitions and regulations. As in all aspects of oil and gas evaluation, there are uncertainties inherent in the interpretation of engineering and geoscience data; therefore, our conclusions necessarily represent only informed professional judgment.

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The data used in our estimates were obtained from PCOT, PCEC, public data sources, and the nonconfidential files of Netherland, Sewell & Associates, Inc. (NSAI) and were accepted as accurate. Supporting work data are on file in our office. We have not examined the titles to the properties or independently confirmed the actual degree or

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type of interest owned. The technical persons primarily responsible for preparing the estimates presented herein meet the requirements regarding qualifications, independence, objectivity, and confidentiality set forth in the SPE Standards. C. Ashley Smith, a Licensed Professional Engineer in the State of Texas, has been practicing consulting petroleum engineering at NSAI since 2006 and has over 5 years of prior industry experience. Shane M. Howell, a Licensed Professional Geoscientist in the State of Texas, has been practicing consulting petroleum geoscience at NSAI since 2005 and has over 7 years of prior industry experience. We are independent petroleum engineers, geologists, geophysicists, and petrophysicists; we do not own an interest in these properties nor are we employed on a contingent basis.

Sincerely,

**NETHERLAND, SEWELL & ASSOCIATES, INC.**  
Texas Registered Engineering Firm F-2699

By: /s/ C.H. (Scott) Rees III  
C.H. (Scott) Rees III, P.E.  
Chairman and Chief Executive Officer

By: /s/ C. Ashley Smith  
C. Ashley Smith, P.E. 100560  
Vice President

By: /s/ Shane M. Howell  
Shane M. Howell, P.G. 11276  
Vice President

Date Signed: February 6, 2019

Date Signed: February 6, 2019

CAS:MSS

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## DEFINITIONS OF OIL AND GAS RESERVES

Adapted from U.S. Securities and Exchange Commission Regulation S-X Section 210.4-10(a)

The following definitions are set forth in U.S. Securities and Exchange Commission (SEC) Regulation S-X Section 210.4-10(a). Also included is supplemental information from (1) the 2018 Petroleum Resources Management System approved by the Society of Petroleum Engineers, (2) the FASB Accounting Standards Codification Topic 932, Extractive Activities - Oil and Gas, and (3) the SEC's Compliance and Disclosure Interpretations.

(1) *Acquisition of properties.* Costs incurred to purchase, lease or otherwise acquire a property, including costs of lease bonuses and options to purchase or lease properties, the portion of costs applicable to minerals when land including mineral rights is purchased in fee, brokers' fees, recording fees, legal costs, and other costs incurred in acquiring properties.

(2) *Analogous reservoir.* Analogous reservoirs, as used in resources assessments, have similar rock and fluid properties, reservoir conditions (depth, temperature, and pressure) and drive mechanisms, but are typically at a more advanced stage of development than the reservoir of interest and thus may provide concepts to assist in the interpretation of more limited data and estimation of recovery. When used to support proved reserves, an analogous reservoir refers to a reservoir that shares the following characteristics with the reservoir of interest:

- (i) Same geological formation (but not necessarily in pressure communication with the reservoir of interest);
- (ii) Same environment of deposition;
- (iii) Similar geological structure; and
- (iv) Same drive mechanism.

*Instruction to paragraph (a)(2):* Reservoir properties must, in the aggregate, be no more favorable in the analog than in the reservoir of interest.

(3) *Bitumen.* Bitumen, sometimes referred to as natural bitumen, is petroleum in a solid or semi-solid state in natural deposits with a viscosity greater than 10,000 centipoise measured at original temperature in the deposit and atmospheric pressure, on a gas free basis. In its natural state it usually contains sulfur, metals, and other non-hydrocarbons.

(4) *Condensate.* Condensate is a mixture of hydrocarbons that exists in the gaseous phase at original reservoir temperature and pressure, but that, when produced, is in the liquid phase at surface pressure and temperature.

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(5) *Deterministic estimate.* The method of estimating reserves or resources is called deterministic when a single value for each parameter (from the geoscience, engineering, or economic data) in the reserves calculation is used in the reserves estimation procedure.

(6) *Developed oil and gas reserves.* Developed oil and gas reserves are reserves of any category 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 if the extraction is by means not involving a well.

*Supplemental definitions from the 2018 Petroleum Resources Management System:*

*Developed Producing Reserves* Expected quantities to be recovered from completion intervals that are open and producing at the effective date of the estimate. Improved recovery Reserves are considered producing only after the improved recovery project is in operation.

*Developed Non-Producing Reserves* Shut-in and behind-pipe Reserves. Shut-in Reserves are expected to be recovered from (1) completion intervals that are open at the time of the estimate but which have not yet started producing, (2) wells which were shut-in for market conditions or pipeline connections, or (3) wells not capable of production for mechanical reasons. Behind-pipe Reserves are expected to be recovered from zones in existing wells that will require additional completion work or future re-completion before start of production with minor cost to access these reserves. In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well.

(7) *Development costs.* Costs incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas. More specifically, development costs, including depreciation and applicable operating costs of support equipment and facilities and other costs of development activities, are costs incurred to:

(i) Gain access to and prepare well locations for drilling, including surveying well locations for the purpose of determining specific development drilling sites, clearing ground, draining, road building, and relocating public roads, gas lines, and power lines, to the extent necessary in developing the proved reserves.

(ii) Drill and equip development wells, development-type stratigraphic test wells, and service wells, including the costs of platforms and of well equipment such as casing, tubing, pumping equipment, and the wellhead assembly.

## DEFINITIONS OF OIL AND GAS RESERVES

Adapted from U.S. Securities and Exchange Commission Regulation S-X Section 210.4-10(a)

(iii) Acquire, construct, and install production facilities such as lease flow lines, separators, treaters, heaters, manifolds, measuring devices, and production storage tanks, natural gas cycling and processing plants, and central utility and waste disposal systems.

(iv) Provide improved recovery systems.

(8) *Development project.* A development project is the means by which petroleum resources are brought to the status of economically producible. As examples, the development of a single reservoir or field, an incremental development in a producing field, or the integrated development of a group of several fields and associated facilities with a common ownership may constitute a development project.

(9) *Development well.* A well drilled within the proved area of an oil or gas reservoir to the depth of a stratigraphic horizon known to be productive.

(10) *Economically producible.* The term economically producible, as it relates to a resource, means a resource which generates revenue that exceeds, or is reasonably expected to exceed, the costs of the operation. The value of the products that generate revenue shall be determined at the terminal point of oil and gas producing activities as defined in paragraph (a)(16) of this section.

(11) *Estimated ultimate recovery (EUR).* Estimated ultimate recovery is the sum of reserves remaining as of a given date and cumulative production as of that date.

(12) *Exploration costs.* Costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects of containing oil and gas reserves, including costs of drilling exploratory wells and exploratory-type stratigraphic test wells. Exploration costs may be incurred both before acquiring the related property (sometimes referred to in part as prospecting costs) and after acquiring the property. Principal types of exploration costs, which include depreciation and applicable operating costs of support equipment and facilities and other costs of exploration activities, are:

- (i) Costs of topographical, geographical and geophysical studies, rights of access to properties to conduct those studies, and salaries and other expenses of geologists, geophysical crews, and others conducting those studies. Collectively, these are sometimes referred to as geological and geophysical or G&G costs.
- (ii) Costs of carrying and retaining undeveloped properties, such as delay rentals, ad valorem taxes on properties, legal costs for title defense, and the maintenance of land and lease records.
- (iii) Dry hole contributions and bottom hole contributions.
- (iv) Costs of drilling and equipping exploratory wells.
- (v) Costs of drilling exploratory-type stratigraphic test wells.

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(13) *Exploratory well.* An exploratory well is a well drilled to find a new field or to find a new reservoir in a field previously found to be productive of oil or gas in another reservoir. Generally, an exploratory well is any well that is not a development well, an extension well, a service well, or a stratigraphic test well as those items are defined in this section.

(14) *Extension well.* An extension well is a well drilled to extend the limits of a known reservoir.

(15) *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. There may be two or more reservoirs in a field which are separated vertically by intervening impervious strata, or laterally by local geologic barriers, or by both. Reservoirs that are associated by being in overlapping or adjacent fields may be treated as a single or common operational field. The geological terms structural feature and stratigraphic condition are intended to identify localized geological features as opposed to the broader terms of basins, trends, provinces, plays, areas-of-interest, etc.

(16) *Oil and gas producing activities.*

(i) Oil and gas producing activities include:

(A) The search for crude oil, including condensate and natural gas liquids, or natural gas ( oil and gas ) in their natural states and original locations;

(B) The acquisition of property rights or properties for the purpose of further exploration or for the purpose of removing the oil or gas from such properties;

(C) The construction, drilling, and production activities necessary to retrieve oil and gas from their natural reservoirs, including the acquisition, construction, installation, and maintenance of field gathering and storage systems, such as:

(1) Lifting the oil and gas to the surface; and

(2) Gathering, treating, and field processing (as in the case of processing gas to extract liquid hydrocarbons); and

## DEFINITIONS OF OIL AND GAS RESERVES

Adapted from U.S. Securities and Exchange Commission Regulation S-X Section 210.4-10(a)

(D) Extraction of saleable hydrocarbons, in the solid, liquid, or gaseous state, from oil sands, shale, coalbeds, or other nonrenewable natural resources which are intended to be upgraded into synthetic oil or gas, and activities undertaken with a view to such extraction.

*Instruction 1 to paragraph (a)(16)(i):* The oil and gas production function shall be regarded as ending at a terminal point, which is the outlet valve on the lease or field storage tank. If unusual physical or operational circumstances exist, it may be appropriate to regard the terminal point for the production function as:

- a. The first point at which oil, gas, or gas liquids, natural or synthetic, are delivered to a main pipeline, a common carrier, a refinery, or a marine terminal; and
- b. In the case of natural resources that are intended to be upgraded into synthetic oil or gas, if those natural resources are delivered to a purchaser prior to upgrading, the first point at which the natural resources are delivered to a main pipeline, a common carrier, a refinery, a marine terminal, or a facility which upgrades such natural resources into synthetic oil or gas.

*Instruction 2 to paragraph (a)(16)(i):* For purposes of this paragraph (a)(16), the term *saleable hydrocarbons* means hydrocarbons that are saleable in the state in which the hydrocarbons are delivered.

(ii) Oil and gas producing activities do not include:

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|-----|--|
| (A) | Transporting, refining, or marketing oil and gas;  |
| (B) | Processing of produced oil, gas, or natural resources that can be upgraded into synthetic oil or gas by a registrant that does not have the legal right to produce or a revenue interest in such production; |
| (C) | Activities relating to the production of natural resources other than oil, gas, or natural resources from which synthetic oil and gas can be extracted; or   |
| (D) | Production of geothermal steam.  |

(17) *Possible reserves.* Possible reserves are those additional reserves that are less certain to be recovered than probable reserves.

- (i) When deterministic methods are used, the total quantities ultimately recovered from a project have a low probability of exceeding proved plus probable plus possible reserves. When probabilistic methods are used, there should be at least a 10% probability that the total quantities ultimately recovered will equal or exceed the proved plus probable plus possible reserves estimates.
- (ii) Possible reserves may be assigned to areas of a reservoir adjacent to probable reserves where data control and interpretations of available data are progressively less certain. Frequently, this will be in areas where geoscience and engineering data are unable to define clearly the area and vertical limits of commercial production from the reservoir by a defined project.
- (iii) Possible reserves also include incremental quantities associated with a greater percentage recovery of the hydrocarbons in place than the recovery quantities assumed for probable reserves.
- (iv) The proved plus probable and proved plus probable plus possible reserves estimates must be based on reasonable alternative technical and commercial interpretations within the reservoir or subject project that are clearly documented, including comparisons to results in successful similar projects.



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- (v) Possible reserves may be assigned where geoscience and engineering data identify directly adjacent portions of a reservoir within the same accumulation that may be separated from proved areas by faults with displacement less than formation thickness or other geological discontinuities and that have not been penetrated by a wellbore, and the registrant believes that such adjacent portions are in communication with the known (proved) reservoir. Possible reserves may be assigned to areas that are structurally higher or lower than the proved area if these areas are in communication with the proved reservoir.
- (vi) Pursuant to paragraph (a)(22)(iii) of this section, where direct observation has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves should be assigned in the structurally higher portions of the reservoir above the HKO only if the higher contact can be established with reasonable certainty through reliable technology. Portions of the reservoir that do not meet this reasonable certainty criterion may be assigned as probable and possible oil or gas based on reservoir fluid properties and pressure gradient interpretations.

(18) *Probable reserves.* Probable reserves are those additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are as likely as not to be recovered.

- (i) When deterministic methods are used, it is as likely as not that actual remaining quantities recovered will exceed the sum of estimated proved plus probable reserves. When probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the proved plus probable reserves estimates.

## DEFINITIONS OF OIL AND GAS RESERVES

Adapted from U.S. Securities and Exchange Commission Regulation S-X Section 210.4-10(a)

(ii) Probable reserves may be assigned to areas of a reservoir adjacent to proved reserves where data control or interpretations of available data are less certain, even if the interpreted reservoir continuity of structure or productivity does not meet the reasonable certainty criterion. Probable reserves may be assigned to areas that are structurally higher than the proved area if these areas are in communication with the proved reservoir.

(iii) Probable reserves estimates also include potential incremental quantities associated with a greater percentage recovery of the hydrocarbons in place than assumed for proved reserves.

(iv) See also guidelines in paragraphs (a)(17)(iv) and (a)(17)(vi) of this section.

(19) *Probabilistic estimate.* The method of estimation of reserves or resources is called probabilistic when the full range of values that could reasonably occur for each unknown parameter (from the geoscience and engineering data) is used to generate a full range of possible outcomes and their associated probabilities of occurrence.

(20) *Production costs.*

(i) Costs incurred to operate and maintain wells and related equipment and facilities, including depreciation and applicable operating costs of support equipment and facilities and other costs of operating and maintaining those wells and related equipment and facilities. They become part of the cost of oil and gas produced. Examples of production costs (sometimes called lifting costs) are:

(A) Costs of labor to operate the wells and related equipment and facilities.

(B) Repairs and maintenance.

(C) Materials, supplies, and fuel consumed and supplies utilized in operating the wells and related equipment and facilities.

(D) Property taxes and insurance applicable to proved properties and wells and related equipment and facilities.

(E) Severance taxes.

(ii) Some support equipment or facilities may serve two or more oil and gas producing activities and may also serve transportation, refining, and marketing activities. To the extent that the support equipment and facilities are used in oil and gas producing activities, their depreciation and applicable operating costs become exploration, development or production costs, as appropriate. Depreciation, depletion, and amortization of capitalized acquisition, exploration, and development costs are not production costs but also become part of the cost of oil and gas produced along with production (lifting) costs identified above.

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(21) *Proved area*. The part of a property to which proved reserves have been specifically attributed.

(22) *Proved oil and gas reserves*. Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. 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.

(i) The area of the reservoir considered as proved includes:

(A) The area identified by drilling and limited by fluid contacts, if any, and

(B) Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.

(ii) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons (LKH) as seen in a well penetration unless geoscience, engineering, or performance data and reliable technology establishes a lower contact with reasonable certainty.

(iii) Where direct observation from well penetrations has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering, or performance data and reliable technology establish the higher contact with reasonable certainty.

(iv) Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when:

(A) Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and

## DEFINITIONS OF OIL AND GAS RESERVES

Adapted from U.S. Securities and Exchange Commission Regulation S-X Section 210.4-10(a)

(B) The project has been approved for development by all necessary parties and entities, including governmental entities.

(v) Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

(23) *Proved properties.* Properties with proved reserves.

(24) *Reasonable certainty.* If deterministic methods are used, reasonable certainty means a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate. A high degree of confidence exists if the quantity is much more likely to be achieved than not, and, as changes due to increased availability of geoscience (geological, geophysical, and geochemical), engineering, and economic data are made to estimated ultimate recovery (EUR) with time, reasonably certain EUR is much more likely to increase or remain constant than to decrease.

(25) *Reliable technology.* Reliable technology is a grouping of one or more technologies (including computational methods) that has been field tested and has been demonstrated to provide reasonably certain results with consistency and repeatability in the formation being evaluated or in an analogous formation.

(26) *Reserves.* Reserves are estimated remaining quantities of oil and gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production, installed means of delivering oil and gas or related substances to market, and all permits and financing required to implement the project.

*Note to paragraph (a)(26):* Reserves should not be assigned to adjacent reservoirs isolated by major, potentially sealing, faults until those reservoirs are penetrated and evaluated as economically producible. Reserves should not be assigned to areas that are clearly separated from a known accumulation by a non-productive reservoir (i.e., absence of reservoir, structurally low reservoir, or negative test results). Such areas may contain prospective resources (i.e., potentially recoverable resources from undiscovered accumulations).

Excerpted from the FASB Accounting Standards Codification Topic 932, Extractive Activities Oil and Gas:
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932-235-50-30 A standardized measure of discounted future net cash flows relating to an entity's interests in both of the following shall be disclosed as of the end of the year:

- a. Proved oil and gas reserves (see paragraphs 932-235-50-3 through 50-11B)
- b. Oil and gas subject to purchase under long-term supply, purchase, or similar agreements and contracts in which the entity participates in the operation of the properties on which the oil or gas is located or otherwise serves as the producer of those reserves (see paragraph 932-235-50-7).

The standardized measure of discounted future net cash flows relating to those two types of interests in reserves may be combined for reporting purposes.

932-235-50-31 All of the following information shall be disclosed in the aggregate and for each geographic area for which reserve quantities are disclosed in accordance with paragraphs 932-235-50-3 through 50-11B:

- a. Future cash inflows. These shall be computed by applying prices used in estimating the entity's proved oil and gas reserves to the year-end quantities of those reserves. Future price changes shall be considered only to the extent provided by contractual arrangements in existence at year-end.
- b. Future development and production costs. These costs shall be computed by estimating the expenditures to be incurred in developing and producing the proved oil and gas reserves at the end of the year, based on year-end costs and assuming continuation of existing economic conditions. If estimated development expenditures are significant, they shall be presented separately from estimated production costs.
- c. Future income tax expenses. These expenses shall be computed by applying the appropriate year-end statutory tax rates, with consideration of future tax rates already legislated, to the future pretax net cash flows relating to the entity's proved oil and gas reserves, less the tax basis of the properties involved. The future income tax expenses shall give effect to tax deductions and tax credits and allowances relating to the entity's proved oil and gas reserves.
- d. Future net cash flows. These amounts are the result of subtracting future development and production costs and future income tax expenses from future cash inflows.

**DEFINITIONS OF OIL AND GAS RESERVES**

Adapted from U.S. Securities and Exchange Commission Regulation S-X Section 210.4-10(a)

<p><i>e. Discount. This amount shall be derived from using a discount rate of 10 percent a year to reflect the timing of the future net cash flows relating to proved oil and gas reserves.</i></p>
<p><i>f. Standardized measure of discounted future net cash flows. This amount is the future net cash flows less the computed discount.</i></p>

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

(28) *Resources.* Resources are quantities of oil and gas estimated to exist in naturally occurring accumulations. A portion of the resources may be estimated to be recoverable, and another portion may be considered to be unrecoverable. Resources include both discovered and undiscovered accumulations.

(29) *Service well.* A well drilled or completed for the purpose of supporting production in an existing field. Specific purposes of service wells include gas injection, water injection, steam injection, air injection, salt-water disposal, water supply for injection, observation, or injection for in-situ combustion.

(30) *Stratigraphic test well.* A stratigraphic test well is a drilling effort, geologically directed, to obtain information pertaining to a specific geologic condition. Such wells customarily are drilled without the intent of being completed for hydrocarbon production. The classification also includes tests identified as core tests and all types of expendable holes related to hydrocarbon exploration. Stratigraphic tests are classified as exploratory type if not drilled in a known area or development type if drilled in a known area.

(31) *Undeveloped oil and gas reserves.* Undeveloped oil and gas reserves are reserves of any category 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.

(i) Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.

(ii) Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances, justify a longer time.

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*From the SEC's Compliance and Disclosure Interpretations (October 26, 2009):*

*Although several types of projects such as constructing offshore platforms and development in urban areas, remote locations or environmentally sensitive locations by their nature customarily take a longer time to develop and therefore often do justify longer time periods, this determination must always take into consideration all of the facts and circumstances. No particular type of project per se justifies a longer time period, and any extension beyond five years should be the exception, and not the rule.*

*Factors that a company should consider in determining whether or not circumstances justify recognizing reserves even though development may extend past five years include, but are not limited to, the following:*

- The company's level of ongoing significant development activities in the area to be developed (for example, drilling only the minimum number of wells necessary to maintain the lease generally would not constitute significant development activities);*
- The company's historical record at completing development of comparable long-term projects;*
- The amount of time in which the company has maintained the leases, or booked the reserves, without significant development activities;*
- The extent to which the company has followed a previously adopted development plan (for example, if a company has changed its development plan several times without taking significant steps to implement any of those plans, recognizing proved undeveloped reserves typically would not be appropriate); and*
- The extent to which delays in development are caused by external factors related to the physical operating environment (for example, restrictions on development on Federal lands, but not obtaining government permits), rather than by internal factors (for example, shifting resources to develop properties with higher priority).*

(iii) Under no circumstances shall estimates for undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir, as defined in paragraph (a)(2) of this section, or by other evidence using reliable technology establishing reasonable certainty.

(32) *Unproved properties.* Properties with no proved reserves.