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# FINAL TRANSCRIPT

Q4 2018 Par Pacific Holdings Inc Earnings Call

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**Suneel Mandava** *Par Pacific Holdings, Inc. - SVP of Finance*

**William Monteleone** *Par Pacific Holdings, Inc. - Chief Financial Officer*

**William C. Pate** *Par Pacific Holdings, Inc. - President Chief Executive Officer*

## CONFERENCE CALL PARTICIPANTS

**Andrew Evan Shapiro** *Lawndale Capital Management - Founder, Chairman, President, Portfolio Manager, and Managing Member*

**Matthew Robert Lovseth Blair** *Tudor, Pickering, Holt & Co. Securities, Inc., Research Division - MD of Refining and Chemicals Research*

**Michael Joseph Harrison** *Seaport Global Securities LLC, Research Division - MD & Senior Chemicals Analyst*

**Timothy A. Rezvan** *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

## PRESENTATION

### Operator

Greetings, and welcome to the Par Pacific Holdings Fourth Quarter Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Suneel Mandava, Senior Vice President of Finance for Par Pacific Holdings. Thank you, Mr. Mandava. You may begin.

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### **Suneel Mandava** *Par Pacific Holdings, Inc. - SVP of Finance*

Thank you, operator. Good morning, everyone, and welcome to Par Pacific Holdings Fourth Quarter 2018 Earnings Conference Call. Joining me today are William Pate, President and Chief Executive Officer; Will Monteleone, Chief Financial Officer; and Joseph Israel, President and Chief Executive Officer of Par Petroleum.

Before we begin, please note that some of our comments today may include forward-looking statements as that term is defined under federal securities laws. Such statements include, but are not limited to those concerning plans, expectations, estimates and our outlook for the company. Any forward-looking statements are subject to change and are not guarantees of future performance or events.

They are subject to risks and uncertainties and actual results may differ materially from what is indicated in these forward-looking statements. Because of this, investors should not place undue reliance on forward-looking statements, and we disclaim any intention or obligation to update or revise any forward-looking statement.

I refer you to the latest Forms 10-K and 10-Q of Par Pacific Holdings filed with the SEC for a more

detailed discussion of the major risk factors affecting our businesses. Further information regarding these as well as supplemental financial and operating information, including reconciliations of certain non-GAAP financial measures to most comfortable GAAP figures, can be found in our press release and our investor presentation on our website, [www.parpacific.com](http://www.parpacific.com), or in our filings with the SEC.

I'll now turn the call over to our President and Chief Executive Officer, Bill Pate.

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**William C. Pate *Par Pacific Holdings, Inc. - President and Chief Executive Officer***

Thanks, Suneel, and good morning to all of our conference call participants. We're pleased to report strong financial results for 2018, a year which is marked by several strategic milestones. For the quarter, adjusted EBITDA was \$41 million and adjusted net income was \$0.44 per share, with significant contributions from all of our business units. Adjusted EBITDA was up nearly 22% over the fourth quarter of 2017.

For the year, we reported adjusted EBITDA of \$132.1 million and adjusted net income of \$1.06 per share. Fourth quarter results were strong on many levels. Our Hawaii refinery generated more profitability in the fourth quarter than the rest of the year due to strong distillate and fuel oil cracks as well as record on-island sales. Our retail unit reported record quarterly operating income, driven in part by the decline in crude oil prices.

Same-store sales were down about 1.8%, an improvement on prior quarters. With the decline in crude oil prices, we expect to reverse this negative trend in 2019. Despite a 2-week October turnaround, our Wyoming refinery's fourth quarter performance would have been a record seasonal amount due to widening regional crude oil differentials, but for an approximately \$14 million unfavorable FIFO impact.

Adjusted for this unfavorable impact, Wyoming would have reported approximately \$67 million in 2018 adjusted EBITDA, \$17 million above the mid-cycle estimate of \$50 million that we provided in 2016 at the time of the acquisition. Laramie wrapped up a year of significant growth with adjusted EBITDAX increasing more than 80% and production and crude developed producing reserves each increasing more than 40%.

2018 has been a year of remarkable growth for Par Pacific. With the 3 acquisitions announced during the year, we dramatically changed our profile. We've solidified our Hawaii business, expanded our mainland refining exposure and built a larger retail presence. In aggregate, our refining capacity has nearly doubled from 112,000 barrels per day to 208,000 barrels per day. Our operated fuel retail locations have increased from 91 to 124, and our logistics profile now include significant crude and product movements in 4 states.

We're also in the midst of an expansion at our Tacoma location to enhance our renewable fuel logistics capability. We expect to complete this project during the third quarter. Specifically, this approximately \$21 million project, \$5 million of which was funded by the previous owner, will allow us to bring in ethanol and other renewable fuels by rail and provide us with the flexibility to load on ocean-going

vessels.

We're very excited about this project because, beyond the commercial opportunities, it is consistent with the renewable fuel goals in the Pacific Northwest and positions us to capture related government incentives on the West Coast. Our company began our downstream strategy at the end of 2012 with the purchase of a small asset-light marketing company. Over the past 6 years, through a series of acquisitions, we now have a robust, integrated network with leading market shares in attractive PADD IV and PADD V markets.

We have challenging cracks and continue to have a difficult waterborne crude market in the first quarter of 2019, but there is much to anticipate over the course of the year. While we're very early in our efforts to achieve the synergies from the recent acquisitions, we see many areas where our combined commercial activities will be enhanced by the larger network. We also look forward to the startup of our distillate hydrotreater in Hawaii, and we believe the impact of IMO 2020 will benefit our distillate-oriented Refining segment.

At this time, I'd like to turn the call over to Joseph to provide more details on our operations.

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**Joseph Israel *Par Pacific Holdings, Inc. - President and Chief Executive Officer of Par Petroleum, LLC***

Thank you, Bill. I'd like to start by congratulating our teams in Hawaii, Wyoming and Houston on the solid execution in 2018. The consistent focus on safety, environmental compliance, operations reliability and commercial flexibility led to a strong 2018 performance across the board.

I'd like also to take this opportunity to welcome the newest members of the Par family in Tacoma, Washington and the recently acquired plant in Kapolei, Hawaii. Par is a much stronger and more diverse company following these 2 acquisitions.

Now with regards to the fourth quarter. For our refinery in Hawaii, market conditions were favorable. Elevated global crude oil differentials and weak gasoline environment were more than offset by strong distillate and fuel oil crack spreads. Fourth quarter Singapore 4-1-2-1 Index was \$8.23 per barrel compared to \$6.82 per barrel in the fourth quarter of 2017.

Consistent with our guidance, the last portion of Hurricane Lane impact is reflected in our fourth quarter results with approximately \$5 million of unfavorable impact or \$0.70 per barrel. Our realized adjusted gross margin in Hawaii was \$7.03 per barrel in the quarter, reflecting a relatively strong capture, driven in part by the contractual price lag in Hawaii, in a falling price environment, as flat Brent dropped approximately \$30 per barrel in the quarter.

We closed the IES acquisition on December 19 and combined throughput for the quarter in Hawaii was 78,000 barrels per day. Production costs were \$3.47 per barrel. We sold a total of 88,000 barrels per day, including record high 81,000 barrels per day of on-island sales in the fourth quarter. Overall, our on-island sales in 2018 averaged 75,000 barrels per day, reflecting 18% year-on-year growth. In 2019, we

are expecting over 100,000 barrels per day of on-island sales.

In the first quarter of 2019, we are planning to run 110,000 to 115,000 barrels per day in Hawaii. Our planned combined yield in Hawaii include 65% to 70% of distillate and low sulfur fuel oil and only 22% of gasoline. We're excited about this yield profile considering global outlook for distillate crack spreads and IMO. Due to our new configuration and sales profile, we are modifying our market index to Singapore 4-1-2-1 Crack Spread on Brent basis. So far in the first quarter, the index has averaged approximately \$6.25 per barrel. We are planning turnaround works in the recently acquired assets during the third quarter, with an estimated outlay of \$5 million to \$8 million.

In Wyoming, seasonal weak gasoline with continued favorable distillate environment gave us a \$23.97 per barrel 3-2-1 Index in the quarter compared to \$23.79 per barrel index in the fourth quarter of 2017. In the fourth quarter, our refinery throughput averaged 15,000 barrels per day, slightly under our guidance, mostly driven by seasonal demand for gasoline.

We successfully executed our planned 2 weeks turnaround, which included catalyst replacement in our diesel and naphtha hydrotreaters as well as other upgrades and repairs. Turnaround impact was consistent with our guidance, approximately \$3.5 million of missed opportunities and \$1.5 million in production cost. Our realized adjusted gross margin in the quarter was \$10.95 per barrel. The relatively weak capture was driven by FIFO and turnaround activities.

Capture support came from 99% operational availability and favorable crude differentials. Production costs were \$8.47 per barrel, including unfavorable turnaround impact of \$1.14 per barrel. So far in the first quarter, our Wyoming 3-2-1 Index has averaged approximately \$11.70 per barrel. Planned maintenance and extreme weather conditions in the past several weeks are already reflected in Midwest and Rocky Mountains refiners' lower utilization rates as well as lower inventories and improved crack spreads.

We continue to access and benefit from discounted pipeline and local production in the Powder River Basin. Our first quarter target throughput in Wyoming is approximately 16,000 barrels per day with a 10-day reformer regeneration planned in March. Estimated cost associated with the maintenance works is approximately \$500,000 and estimated missed opportunities at gross margin level are approximately \$1 million.

In Washington, operations and integration efforts in our 42,000 barrels per day refinery in Tacoma, Washington are going well with minimum surprises. Western Canadian select and Bakken crude oil discount to WTI traded with high volatility in the past couple of months, but have recently stabilized around \$17 and \$2 per barrel discount respectively on a 12-month strip basis.

On our website, we started to publish the new Pacific Northwest 5-2-2-1 Index on ANS basis as well as WCS and Bakken pricing information. Our target throughput for the first quarter in Washington is 38,000 to 40,000 barrels per day. No turnarounds are scheduled for 2019 in our Washington refinery.

And now, I'll turn the call over to Will to review consolidated results and Laramie highlights.

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**William Monteleone *Par Pacific Holdings, Inc. - Chief Financial Officer***

Thank you, Joseph. Focusing on accounting items first. The largest item was the FIFO impact of approximately \$14 million for the fourth quarter and \$10 million for 2018 within our Wyoming refining results. There are a couple of other items worth calling out in our GAAP results.

First, we had approximately \$7 million of acquisition and integration expenses for the fourth quarter and \$10 million for 2018. As Bill referenced, we've had a busy year growing our footprint and incurred significant expense acquiring, achieving regulatory approval and financing 3 transactions this year. We expect these costs to be markedly lower during 2019.

Second, we expensed \$4 million of debt commitment fees during the quarter associated with the financing of the U.S. Oil acquisition. Cash from operations totaled \$39 million during the quarter, including funds from working capital of \$17 million. For the full year, cash from operations totaled \$91 million, including funds consumed in working capital of \$11 million.

Moving to the consolidated financing position, net debt-to-capitalization was 40% and total liquidity was \$139 million compared to 41% and \$185 million at the end of the third quarter. Fourth quarter GAAP interest expense totaled \$10.4 million and DD&A totaled \$13.6 million. Following completion of the U.S. Oil & Refining acquisition, our liquidity position remains adequate at approximately \$144 million as of February 27.

Our net debt-to-capitalization stands at 54%, and we expect to move towards our targeted levels of 30% to 35% with a combination of debt paydowns and growth in our book equity base through earnings contributions. Annual interest expense and DD&A, based upon preliminary purchase price accounting, are expected to be \$70 million to \$75 million and \$85 million to \$90 million, respectively.

Capital expenditures totaled \$18 million during the fourth quarter and \$48 million for 2018, below the lower end of our previously communicated range of \$50 million to \$55 million. Turning to plans for 2019, we expect total capital expenditures and turnaround outlays to be between \$100 million and \$110 million. At the midpoint of the range, this will be made up of \$40 million of regulatory and maintenance capital, \$20 million in turnaround outlays and \$45 million of growth capital.

A few comments on each of these items. Our expectation for the pro forma business is that base maintenance and regulatory CapEx will run between \$35 million to \$40 million per year. Two, the turnaround outlays are prefunding planned activity for 2020 and dollar-for-dollar reduce the total outlay in 2020. We would expect the remaining portion of turnaround expenditures in 2020 to be between \$65 million and \$70 million.

Three, the majority of the growth capital expenditures for the year is associated with the completion of

the distillate hydrotreater project by the third quarter of 2019 in Hawaii, the completion of the pipeline tie-in project between the Par Hawaii tank farm and the IES tank farm, and 3, the startup of the Washington renewable fuels logistics project.

Moving to Laramie. During the fourth quarter, Laramie generated approximately \$29 million of adjusted EBITDAX and net income was \$8.1 million, excluding the impact of \$2.6 million in unrealized gain on derivatives. Notably, Laramie adjusted EBITDAX exceeded accrued capital expenditures during the quarter by approximately \$3 million, the second straight quarter of adjusted EBITDAX exceeding accrued CapEx.

Laramie's LTM adjusted EBITDAX now stands at \$101 million with further growth projected during 2019 based on current prices and activity levels. Laramie's 2018 performance was strong based upon nearly every financial and operating metric. December exit production was 239 million cubic feet a day equivalent, exceeding previously provided ranges and representing year-over-year growth of 53%.

Laramie's crude developed producing, PV10, grew approximately 56% from \$374 million at year-end 2017 to \$584 million at year-end 2018. All of this was accomplished while delevering from 3.1x to 2.1x debt-to-adjusted EBITDA. Laramie's 2019 plans are the same as previously communicated.

Based on current market conditions, Laramie plans to continue running the 1-rig program with the total capital expenditure plan for the year between \$75 million and \$85 million. We expect adjusted EBITDAX to range between \$105 million and \$120 million. For calendar 2019, hedges are in place for approximately 73% and 10% of existing projected production of natural gas and natural gas liquids, respectively.

This concludes our prepared remarks. Operator, I'll turn it back to you for Q&A.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from the line of Matthew Blair with Tudor, Pickering, Holt & Company.

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### **Matthew Robert Lovseth Blair Tudor, Pickering, Holt & Co. Securities, Inc., Research Division - MD of Refining and Chemicals Research**

Will, you mentioned that the pro forma net debt to cap is around 54%. We saw the shelf that you filed earlier in February. Could you just talk a little bit more on the strategy for the balance sheet? And just how comfortable you are with the current debt levels.

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### **William Monteleone Par Pacific Holdings, Inc. - Chief Financial Officer**

Sure. I think, Matt, at this juncture, you got the update on our liquidity position. I think we feel



comfortable that's adequate. And at this point in time, we have no plans to issue additional equity and feel comfortable with our leverage profile given our cash flow outlook and our fixed charges.

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**Matthew Robert Lovseth Blair Tudor, Pickering, Holt & Co. Securities, Inc., Research Division - MD of Refining and Chemicals Research**

Great. And then it looks like the local union in Hawaii rejected your contract offer yesterday. Could you talk about how likely is a strike? And what kind of backup plans, if you need, do you have in place?

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**Joseph Israel Par Pacific Holdings, Inc. - President and Chief Executive Officer of Par Petroleum, LLC**

We are continuing to negotiate in good faith with the Local USW bargaining unit in Hawaii and are confident that both parties will be able to reach an agreement on a new contract. In the meantime, we maintain contingency plans to address any labor shortages, and we are committed to honoring our supply agreements and serving our customers.

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**Operator**

Our next question comes from the line of Mike Harrison with Seaport Global Securities. Our next question comes from the line of Tim Rezvan with Oppenheimer & Company.

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**Timothy A. Rezvan Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst**

I'll start with -- on Laramie, and I guess, this is for Will. We're seeing guidance for continued production and EBITDA growth in 2019 and a really big bump in PDP reserves. As you're aware, I think, a lot of your long-term investors have questioned kind of the strategic fit. How does that rise in PDP kind of make you sort of rethink how that asset fits overall longer term?

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**William Monteleone Par Pacific Holdings, Inc. - Chief Financial Officer**

I think the shift in the growth in the PDP value corresponds with our messaging that we're seeing the asset shift towards free cash flow generation. And again we expect that free cash flow generation to continue and to grow in 2019. So I think it changes the way we view the ongoing value of that asset, and it also changes the potential buyer universe.

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**Timothy A. Rezvan Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst**

Okay. In theory that could be harvested as incremental free cash flow, I guess?

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**William Monteleone Par Pacific Holdings, Inc. - Chief Financial Officer**

Correct.

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**Timothy A. Rezvan Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst**

Okay. That's helpful. And then I'm just trying to understand. Slide 8 of your deck -- I know it's not new. You mentioned in Tacoma, Washington about an anticipated debottlenecking project. Does this relate to the renewable fuels initiative? Or could you kind of explain what that is? And how that could flow through on the CapEx?



**William C. Pate *Par Pacific Holdings, Inc. - President and Chief Executive Officer***

Yes. That's actually not related to the renewable fuel project. That's a debottleneck project that we would do at our next turnaround in 2020, and it would allow us to bring in more Canadian crude at that time.

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**Timothy A. Rezvan *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst***

Okay. Do you have kind of order of magnitude on how that could change the feedstock slate?

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**William C. Pate *Par Pacific Holdings, Inc. - President and Chief Executive Officer***

It's not going to change it materially. It just helps us to bump it up the Canadian crude into a couple thousand barrels a day, and it just enhances our flexibility to toggle back and forth, depending on differentials.

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**William Monteleone *Par Pacific Holdings, Inc. - Chief Financial Officer***

And Tim, we haven't formally approved that project. And we're going to have -- we're pointing to that as something we're scoping and evaluating.

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**Timothy A. Rezvan *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst***

Okay. And then, I guess, back on the free cash flow topic. It looks like -- I know 2020 was anticipated as a year of sort of heavier CapEx, given 3 planned turnarounds. Based on the updated CapEx outlook for 2019, should we assume that's going to look a little smoother? Like you essentially pulling some of that CapEx obligations forward into 2019. Is that fair to say?

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**William Monteleone *Par Pacific Holdings, Inc. - Chief Financial Officer***

That's correct. I think the comments I made in my prepared remarks, the remaining turnaround CapEx we would expect for the 2020 time period would be in the \$65 million to \$70 million range.

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**Operator**

Our next question comes from the line of Mike Harrison with Seaport Global Securities.

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**Michael Joseph Harrison *Seaport Global Securities LLC, Research Division - MD & Senior Chemicals Analyst***

I was wondering with the closure of some of the IES units, it looks like on-island production in Hawaii is going to more closely match on-island demand for refined products going forward. Can you talk about some of the benefits of that tightening up? And how quickly you might realize some of those benefits?

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**Joseph Israel *Par Pacific Holdings, Inc. - President and Chief Executive Officer of Par Petroleum, LLC***

Yes. Really excited with this new profile we have in Hawaii. We increased almost 20% year-on-year on-island sales in 2018 and now to start the year basically assuming some other contract. Most of the incremental sales -- on-island sales would be jet fuel and utility fuels, more specifically LSFO, naphtha, high sulfur diesel. And this will take us over 100,000 barrels per day. From a gasoline standpoint, we don't have any additional capability to process gasoline. So the island will have to remain short

approximately 10,000 barrels per day and bring it with imports. Pretty much balanced on fuel oil, and we're also short on jet fuel, approximately 5,000 to 10,000 barrels per day, which our DHT startup early in the third quarter of this year will be a good step to the right direction. Anything to add?

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**William Monteleone *Par Pacific Holdings, Inc. - Chief Financial Officer***

I think, Mike, the only thing I'd add is consistent with what we've historically expressed is our way to optimize profits in Hawaii, which is maximize on island sales, minimize imports and minimize exports and serve the local market.

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**Michael Joseph Harrison *Seaport Global Securities LLC, Research Division - MD & Senior Chemicals Analyst***

All right. That's helpful. And then a question on the Wyoming business. With the FIFO accounting being a drag there in Q4, can you talk about how that might impact you in Q1? Should we see some of those lower costs start to flow through on a FIFO basis and be a positive in Q1?

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**William Monteleone *Par Pacific Holdings, Inc. - Chief Financial Officer***

So with respect to FIFO accounting in a rising price environment, there is typically a benefit. In a falling price environment, there is a drag. The magnitude of the change is important to consider. Obviously, the magnitude of the drop in the fourth quarter was quite substantial on a calendar month average to calendar month average basis, probably north of \$23 a barrel. And I think in Q1, we're looking at maybe \$8 so far. So again, I think, there is a FIFO benefit and a rising price environment, but the magnitude at this juncture is less than what we experienced in the fourth quarter.

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**Operator**

Our next question comes from the line of Andrew Shapiro with Lawndale Capital Management.

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**Andrew Evan Shapiro *Lawndale Capital Management - Founder, Chairman, President, Portfolio Manager, and Managing Member***

Initially, your thoughts shared on the Tacoma acquisition conference call regarding the purchase financing was to include new equity above and beyond that which the seller was guaranteed to receive. However, instead of issuing more equity, the company took on what appears to be additional debt. What's the duration of that extra financing? And is it eventual paydown intended to be via a longer-term debt refinancing or go-forward cash flow or some form of equity raise?

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**William Monteleone *Par Pacific Holdings, Inc. - Chief Financial Officer***

Sure. So I think, the incremental financing you're referencing was the \$45 million term loan we entered into with Bank of Hawaii. And again, I think, we've entered into a nonbinding term sheet with them where we would expect to exercise a sale-leaseback transaction for our fee-owned property, underlying our Hawaii retail properties. And so, again, I think, we expect to move forward with that, and we referenced that in our press release and 8-K. So that's our intended plan with respect to that \$45 million term loan that was issued by the Bank of Hawaii. And then I think there is also -- as you can tell by our fourth quarter results, we had improved cash from operations. And then the net purchase price for

Tacoma was \$327 million, and so the total requirements was ultimately lower.

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**Andrew Evan Shapiro *Lawndale Capital Management - Founder, Chairman, President, Portfolio Manager, and Managing Member***

Awesome. That's great. And one other just follow-up question for us on these quarterly calls is to give us an upcoming non-deal road show and investor presentation kind of schedule that you have on your calendars for now.

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**Suneel Mandava *Par Pacific Holdings, Inc. - SVP of Finance***

Thanks for the question. We've announced already that we'll be participating in the Bank of America Merrill Lynch 2019 Refining Conference. That will be tomorrow. And then we anticipate participating in the Scotia Howard Weil Energy Conference later in March. And then also the TPH Hotter 'N Hell Conference here in Houston in mid-May. We'll be doing a number of investor outreach efforts this year and look forward to expanding our reach.

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**Operator**

Our next question comes from the line of Matthew Blair with Tudor, Pickering, Holt & Company.

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**Matthew Robert Lovseth Blair *Tudor, Pickering, Holt & Co. Securities, Inc., Research Division - MD of Refining and Chemicals Research***

I was just curious on the Tacoma, Washington refinery. I think you provided kind of run rate crude slate guidance of 2/3 Bakken, 1/3 heavy Canadian. Just given the volatility in differentials that you're seeing, is that a good number to assume for Q1 '19? Or have you had to scale back like say any of your crude by rail activities this quarter?

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**William C. Pate *Par Pacific Holdings, Inc. - President and Chief Executive Officer***

That's a good number. Yes.

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**Matthew Robert Lovseth Blair *Tudor, Pickering, Holt & Co. Securities, Inc., Research Division - MD of Refining and Chemicals Research***

Okay. Sounds good. And then I was hoping you could talk just about the waterborne sour crude market. We noticed that you switched over to what looks like a higher share of ANS in the quarter. Obviously, things are pretty tight all around, but could you just share any insights on what you're seeing with these coastal sour crude differentials?

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**Joseph Israel *Par Pacific Holdings, Inc. - President and Chief Executive Officer of Par Petroleum, LLC***

Basically everything outside of the North American crude production is very expensive for waterborne refineries here in the States and global refineries around the world, and the Mid Pacific just happened to be one of them. So we continue to see the supply concerns reflected in elevated crude differentials. Fortunately, so far, it has been supported by strong products, and left margins for the refineries continue to be a big gap between WTI type of crude and Bakken type of crude.

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**Operator**

Our next question comes from the line of Tim Rezvan with Oppenheimer & Company.

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**Timothy A. Rezvan *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst***

Just wanted to ask related to Slide 14. You gave this outlook and I guess you're seeing kind of strip data for 2019. I was curious if you have any personal views on kind of how anything you're seeing right now as we look beyond winter on how these spreads kind of could change? Or what your views are of where the strips are at today?

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**Joseph Israel *Par Pacific Holdings, Inc. - President and Chief Executive Officer of Par Petroleum, LLC***

I'll start and maybe I'll let Will or Bill comment. Volatility is definitely a big part of the game. It has been for many years, and it will continue to stay like this. I think what's important is the outlook. The outlook is still very clear. Production will continue to outpace logistics capacity, and this is why we remain very bullish on those differentials longer term, even with the volatility. The strip is \$17, \$18 per barrel for WCS or Cold Lake for the next 12 months, and it is close to flat on the Bakken side. And these differentials will allow us to be profitable, consistent with our deal assumptions. Will, anything else?

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**William Monteleone *Par Pacific Holdings, Inc. - Chief Financial Officer***

I think just over the medium term, as you think about Canadian heavy crude, again, I think our view is that the incremental barrel is going to need to utilize rail. And ultimately, you're going to need to see a \$15 to \$20 per barrel spread between Hardisty and the U.S. Gulf Coast. And I think it's important to note that, today, given the issues that are happening in Venezuela and the heavy-light spreads on the Gulf Coast that you ultimately are seeing Canadian heavy price at substantial premiums to WTI. And so that issue is impacting, I think, the Canadian spreads for the time being. Again I think there is much to anticipate there with respect to how IMO changes the value of the Canadian barrel and then the longer-term results out of Venezuela. And then I think out of the Bakken, again, I think we see most of the existing pipes running at very elevated utilizations, and that ultimately rail will be required for a time until the incremental pipes are built to clear barrels to the East Coast of the Gulf Coast. So again, I think, we're going to need to see probably to the East Coast \$12 to \$14 barrel spreads between the Bakken and the East Coast in \$10 to \$12 to the Gulf. So again, I think, that's what drives our views that you ought to be moving back towards more what we would consider mid-cycle differentials.

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**Joseph Israel *Par Pacific Holdings, Inc. - President and Chief Executive Officer of Par Petroleum, LLC***

I will also touch a short-term headwind has been the weather condition. The snow, the ice is really slowing down rail activity coming from Canada, and this tight supply is not helping short term.

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**Operator**

There are no further questions at this time. I would like to turn the call back over to management for any closing remarks.

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**William C. Pate *Par Pacific Holdings, Inc. - President and Chief Executive Officer***

Thank you, operator, and thanks for joining us this morning. We're beginning 2019 with a much larger

business. We look forward to the contribution from our recent acquisitions. We look forward to the market changes that we think will be brought about by IMO 2020. And we look forward to the contribution from our growth capital projects, which will be coming online in the second half of the year. Our culture is built around being a leader in the markets where we operate. We're confident that this strategy will create significant long-term value for our shareholders. Have a good day.

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### Operator

Thank you. This concludes today's teleconference. Thank you for your participation. You may disconnect your lines at this time, and have a wonderful day.

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