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Par Pacific Holdings, Inc., U.S. Oil & Refining Co. - M&A Call

EVENT DATE/TIME: NOVEMBER 27, 2018 / 2:00PM GMT

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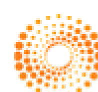

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PRESENTATION

Operator

Greetings, and welcome to the Par Pacific Holdings Investor 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.

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

Thank you, operator. Good morning, everyone, and welcome to Par Pacific Holdings Investor 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 speak only to expectations as of today's date 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 many 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 business. Further information regarding these as well as supplemental financial and operating information, including reconciliation of certain non-GAAP financial measures to the most comparable GAAP figures, may be found in our investor presentation on our website at www.parpacific.com or in our filings with the SEC. There's an investor's presentation available on our website, and you may refer to this for the call.

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

William C. Pate ***Par Pacific Holdings, Inc. - President, CEO & Director***

Thank you, Suneel. I'm very pleased to report that, this morning, we announced the $358 million acquisition of U.S. Oil & Refining Co. to significantly boost our mainland refining and logistics presence. U.S. Oil owns a 42,000-barrel per day refinery in Tacoma, Washington, along with a pipeline-connected rail terminal capable of handling unit trains from Canadian and Rockies crude oil basins, a marine terminal that can accommodate an Aframax-size crude tanker, a proprietary jet fuel pipeline connecting operations to McChord Air Force Base and significant storage for moving products and crude oil into the Pacific. This transaction fits squarely within our growth strategy by adding scale in the Pacific Northwest, one of the markets we are targeting, and diversification to our overall business. It is expected to be immediately accretive to adjusted earnings per share and free cash flow per share.

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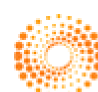

As you all know, diffs for Canadian and Northern Rockies crude are at record levels and the Tacoma refinery is a big beneficiary of this pricing environment. As a result, we expect a significant increase in profitability from Tacoma next year, and the resulting cash flows will be fully sheltered from federal income taxes by our net operating loss carryforward.

Before I review the prepared investor slides with you, I'd like to recap our growth activity to date. As you know, we acquired our Hawaii refining and retail businesses in 2013 and 2015. And then, we established a mainland footprint in 2016 and 2018 through the acquisitions of our Wyoming Refining and Pacific Northwest retail businesses. Each of these transactions was consistent with our objective to establish a leading competitive position in isolated downstream markets. More recently, we announced approximately $130 million investment in our Hawaii business to position it for profitability throughout the market cycle and benefit from emerging market opportunities. The U.S. Oil transaction fills in the white space between our Hawaii and Rockies presence, and importantly, it balances our Pacific and mainland market exposure. U.S. Oil's multimodal logistics assets are also strategically located in the Pacific Northwest, and they will serve to interconnect our Hawaii and Rockies operations and cost effectively give them access to additional crude and product markets to create a competitive integrated system.

Turning to Slide 2. We're purchasing U.S. Oil's refining and logistics business for $358 million plus net working capital. These businesses generated LTM adjusted EBITDA of $86 million as of September 30, 2018, an estimated $20 million to $25 million of which relates to the valuable logistics assets. We also anticipate about $7.5 million to $12.5 million in annual synergies that are not reflected in these results. And as I mentioned earlier, current diffs as well as the 2019 outlook are significantly better than the realized diffs for the last 12 months. The transaction is subject to customary closing conditions, and we anticipate closing in the beginning of next year.

In my prepared remarks, during our third quarter earnings call, I discussed how our Wyoming business was benefiting from particularly favorable inland crude differentials, while our Hawaii business experienced the opposite market forces in a tight Brent crude supply environment. This transaction is expected to increase our combined feedstock exposure in 2019 to the discounted WTI-linked Rockies and Western Canadian crudes from 13% to 32%, and U.S. Oil's logistics assets also give us the flexibility to opportunistically supply our Hawaii operations with inland crude. Joseph and Will will cover these topics in greater detail.

Funding for the transaction is expected to come from a $225 million secured term loan and $150 million of common equity. We have secured committed debt and equity financings from Goldman Sachs and U.S. Oil's financial sponsor, respectively, to increase certainty of closing in January 2019.

I will now turn the call over to Joseph, who will cover the assets in greater detail.

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

Thank you, Bill. Turning to Slide 3. A competitive advantage of the U.S. Oil refinery is its crude slate flexibility and proximity to Bakken and Cold Lake Western Canadian heavy crude. Because of this access, over 95% of the refineries' crude slate currently consists of favorably priced Bakken and Western Canadian sourced crude that gives the Tacoma refinery a potential manufacturing cost advantage. U.S. Oil's product slate is tilted towards distillate and gasoline and is balanced to match local market demand. The VGO that is produced is transported to West Coast refineries, and we expect demand for this product to remain strong as we enter an IMO 2020 environment. In addition, asphalt demand is expected to remain stable, driven by Husky's Wisconsin refinery remaining offline until 2020 and continued regional economic growth and infrastructure catch-up.

Finally, the plant currently produces gasoline that meets Tier 3 sulfur requirements and so additional capital investment will not be required in order to bring the refinery into compliance.

Turning to Slide 4. U.S. Oil's extensive integrated logistics assets have been substantially upgraded and provide significant flexibility and connectivity to crude sources and product markets. Of particular note, the marine terminal facility includes two docks and 15 acres of waterfront and provides blue water access, enabling the import and export of Canadian and Alaskan crude.

The recently upgraded rail terminal includes the unit train facility that can accommodate 107 unloading spots and is served by Burlington

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Northern and Union Pacific railroad companies. Combined with contracted capacity on the Trans Mountain Pipeline, which stretches from Alberta to the West Coast of British Colombia, the facility has advantaged access to currently discounted Canadian and Bakken crude.

Product is distributed through a combination of barges to serve West Coast markets, a truck rack facility for many of the light products and a dedicated pipeline to supply a significant portion of the refinery's jet production to McChord Air Force Base. The Marine terminal will be particularly strategic in the current Brent to WTI spread environment by enabling us to sell into Brent-linked product markets globally, while sourcing feedstock at a discount to WTI.

Lastly, the refinery is supported by 2.9 million barrels of crude and product storage capacity that also provides flexibility to optimize production.

I will now turn the call over to Will, who will cover certain market and financial items.

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

Thank you, Joseph. Turning to Slide 5, expanding on the theme of advantaged access to crude sources. Let me provide some context around what is contributing to current discounted crude differentials to WTI by focusing your attention to these production and pipeline capacity charts. Simply put, crude production in Western Canada and the Bakken exceeds both local demand and take away pipeline capacity causing crude differentials to widen. The 4 major Canadian crude export pipelines shown on the map, Trans Mountain, Keystone, Enbridge, Enbridge Mainline and Express are deeply in proration. Daily production is in the 4.6 million barrel per day range, while local demand and pipeline operational capacity is estimated to be in the 4.1 million barrel per day range. No significant pipeline capacity is expected to come online until 2020.

A similar dynamic exists in the Bakken, where rig counts and daily production have rebounded sharply since the beginning of 2017. Total daily oil production increased from just under 1 million barrels per day at the beginning of 2017 to greater than 1.3 million barrels per day in October 2018. This now slightly eclipses estimated local demand and pipeline capacity and pipeline prorations are in effect. Exacerbating these differentials has been a tight railcar market, where shifting regulations make it challenging for the industry to meet increasing demand. U.S. Oil is well positioned to capture the logistics spread, given its railcar fleet.

Turning to Slide 6. The graph on the right side of the page quantifies this logistics spread. The Clearbrook and WCS to WTI differentials have averaged approximately minus $0.30 and minus $22, respectively, over the last 12 months ended September 30, 2018. This provides significant cost advantages to refiners like U.S. Oil with contracted pipeline capacity and owned rail and truck logistics assets. In addition, as Joseph referenced, given the waterborne location and marine access, U.S. Oil is well positioned to capitalize upon the WTI/Brent spread.

During the LTM period, WTI versus Brent averaged just north of $6 per barrel. For reference, the current forwards for WCS versus WTI for calendar 2019 is minus $27 per barrel, and spot Bakken differentials at Clearbrook are approximately minus $15 a barrel and WTI Brent is at roughly $9 per barrel. Every $1 per barrel change in WCS differentials and Bakken differentials impacts U.S. Oil annual adjusted EBITDA by approximately $5 million and $9 million, respectively.

Next, the graphs along the top of Slide 7 highlight the increased scale, diversification and financial benefits to Par Pacific. The acquisition increases our refining capacity by 42,000 barrels per day and increases our systemwide mix of WTI-linked crude feedstock from 13% to 32%.

From a financial perspective, U.S. Oil generated $86 million of adjusted EBITDA in the 12 months ended September 30, 2018. Embedded inside of that $86 million number is approximately $8 million in hedge losses the prior owner incurred on WCS versus WTI hedges. In addition, we estimate there is between $7.5 million to $12.5 million of synergies we can capture over the next 1.5 years. The transaction is highly accretive to adjusted earnings per share, improving from $1.03 to $1.28. With projected wide differentials in Canada and the Bakken driving profitability, we expect strong cash flow in 2019 from U.S. Oil refining activities. This cash flow will all flow to the bottom line given our $1.6 billion net operating loss carryforward.

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The chart on the bottom of Slide 7 highlights the composition of our combined segment adjusted EBITDA and demonstrates that the contribution of the U.S. Oil adjusted EBITDA significantly increases our mainland refining exposure, relative to Hawaii, ahead of our Hawaii expansion and growth projects coming online.

In addition, stable logistics earnings will also represent a greater portion of total segment level adjusted EBITDA. We think both of these benefits are important as we look to achieve balance and diversification across the Pacific and mainland markets.

Turning to Slide 8. As Bill noted, we intend to fund this transaction by raising $225 million on a secured term loan, financing that has been fully underwritten by Goldman Sachs, and by issuing $150 million of equity, which has been fully committed to by U.S. Oil's financial sponsor. We may raise a portion of the equity through a public offering as an alternative depending upon market conditions. We intend to finance working capital through an intermediation or underneath an expanded asset based loan.

Given the strong adjusted EBITDA contribution from the acquisition, net secured leverage increases modestly from 1.7x to 2.0x. However, we expect substantial free cash flow generation, post closing, and the term loan structure provides us flexibility to prepay debt opportunistically. In addition, our balance sheet remains strong with expected pro forma liquidity of $230 million, which includes the expected outflow of $30 million for the IES transaction. Similarly, as we begin to enjoy the full earnings contribution from this transaction and our recently completed Pacific Northwest retail acquisition, we expect, over time, for our net debt to total capitalization ratio to approach the 30% to 35% range we are targeting.

I will turn the call back to Bill to make his concluding remarks.

William C. Pate ***Par Pacific Holdings, Inc. - President, CEO & Director***

Thanks, Will. Turning to Page 9, what has me most excited about this transaction is that it enables our disparate business units to work together as 1 integrated downstream system. As noted in the graphic, including the investments we're making in Hawaii, our refining capacity is going to grow to exceed 200,000 barrels per day, while maintaining the crude selection flexibility necessary to adapt to market conditions. Combined, our businesses will have a more balanced crude and product market exposure. As you can see, the combined logistics assets will also greatly enhance our commercial flexibility across our assets, enabling, for instance, our Hawaii business to cost effectively source inland crude as well as improve the logistics costs of transporting ethanol to Hawaii. Similarly, refined products and intermediates from each of our refineries can be balanced across this central logistics location.

Also, over time, our PNW retail operations could be supplied by the U.S. Oil refinery via truck or from our Wyoming refinery. These improvements all enhance the expected profitability and cash flow. And again, given our NOLs, we expect all of this cash flow to be shielded from federal income taxes for the next several years. I'm highly confident that these advantages and synergies will transform Par Pacific into a more profitable competitor in the marketplace now and in the years ahead.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Matthew Blair with Tudor, Pickering and Holt.

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

The crude by rail component seems pretty critical here. Could you just expand a little bit more on your access and availability of the railcars. Talking to some other crude-by-railers, it sounds like the railcars are in short supply. Will, I think you mentioned that it sounds like you are fully stocked here. So what would be the total crude by rail capacity based on your current railcars? And do they conform to the 117J standard?

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

We already have the railcars. We secured, now, a position to supply the 35% range of Cold Lake from Canada as well as the Bakken. We are not worrying, at this point, about the availability or on-spec railcar. Anything else?

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

Yes, I think, Matthew, between the commitments that are in place in the existing railcar fleet, we feel confident that we're well positioned to supply the refinery like it's been supplied historically even in the face of changing regulations to the 117J as you referenced.

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

Sounds good. And then, Bill, you kind of touch on this, but Par has always had a very integrated approach to managing its assets. How important do you think it would be, over the long term, to add retail to complement the Tacoma refinery?

William C. Pate ***Par Pacific Holdings, Inc. - President, CEO & Director***

Well, as I mentioned, our Spokane operations actually could be served by truck from the Tacoma refinery. My view on vertical integration, in general, is the more isolated the market, the more important it is to be integrated. So you take Hawaii. I think controlling the retail outlet there is very important because, to the extent you don't control that barrel and you have to ship it off-island, it's quite expensive. In a large, deep market, integration, I don't think, it's as important. I mean, to take an extreme, on the East Coast, I don't see a true value in integration, and I think it's best to leave operations for refining versus retail to the best operator. The Rocky Mountain and Pacific Northwest markets are probably somewhere in between. In some markets, it's pretty important to have retail. It really depends on the balance in the market, whether the market's over or under stored. So I don't say -- I wouldn't say that it's critical that we have retail operations in Seattle, probably more important thing is to develop good relationships with operators in the area.

Operator

Our next question is from Mike Harrison with Seaport Global Securities.

Jacob P. Schowalter ***Seaport Global Securities LLC, Research Division - Associate Analyst***

This is Jacob on for Mike. Congrats on the deal. So my first question, I guess, maybe if we could get -- go into a little more detail on how the deal originated. And sort of with $86 million in sort of last 12-month EBITDA and your expectations for it to significantly increase, given the current market outlook, sort of it seems like you got a very, very attractive deal for the asset. So maybe why the seller thought that this was sort of the good time to sell and kind of go into that kind of stuff?

William C. Pate ***Par Pacific Holdings, Inc. - President, CEO & Director***

Sure. So the deal came, we've been in discussions with the seller since late spring, early summer. The seller is a private equity firm, and I think that private equity firms who own refineries are sensitive to the cycle. Their business, like all refineries, has its ups and downs, and I think they know that they don't want to be -- they want to be careful about timing any cycle, and they'd held it for 2 or 3 years and made some substantial improvements to it. The crude-by-rail investment they made really changed the complex, and we viewed it much more attractively in that light. So our conversations with them proceeded, and we started early on in conversations with them really about them maintaining an ownership interest, which we concluded. They have agreed to commit to provide equity financing. As we noted in our press release, we can, alternatively, pursue an equity offering for a portion of that, but they are committing to and we've committed to them that they will be able to purchase a significant interest of our stock even if we do a public equity offering. So they will be an owner, and I think this is more a matter of obtaining liquidity than a full monetization.

Jacob P. Schowalter ***Seaport Global Securities LLC, Research Division - Associate Analyst***

Okay. And then sort of going off that a bit, in terms of the cycle, if we sort of look at the refinery, last 12 months of around $60 million-ish EBITDA, but sort of on a more normalized differential, more normalized market like mid-cycle, what kind of EBITDA do you guys think is more like a normalized rate?

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

Yes. I think, Jacob, it's a good question for this asset. And again, I think, when you look at the current backdrop, given the differentials that we're seeing out of Canada and out of the Bakken as you have local pipeline constraints, those over time, especially out of the Bakken, are likely to be alleviated with pipeline capacity. However, there's probably a window where there's some benefit there. And then I think the wildcard that the industry is trying to price in, and we're in that boat, is how does IMO 2020 impact this business. And again, I think we believe it's favorable. And so, again, I would say, absent a real improvement from IMO 2020, we would characterize the mid-cycle EBITDA probably more in the $75 million range, and so I think that's how we think about this. I think, obviously, the market outlook over the next several years is probably more favorable than mid-cycle.

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

Let me just add that the LTM is based on a $22 per barrel discount for WCS and flat for Bakken on a WTI basis. So whatever your call is about the outlook, you can get to your own forecast.

Operator

Our next question is from Lee Cooperman with Omega Advisors.

Leon G. Cooperman ***Omega Advisors, Inc. - President, CEO & Chairman***

I'll add my congratulations to everyone else's. Just 1 question. Could you reveal the terms of the price that the equity purchaser agreed to pay for his stock and what the debt terms are for the Goldman loan?

William C. Pate ***Par Pacific Holdings, Inc. - President, CEO & Director***

The Goldman loan, I'll let Will handle that. The equity purchase price the -- is -- for the initial equity was set at a, what was the price, $15.70?

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

5% discount for the 10-day VWAP.

William C. Pate ***Par Pacific Holdings, Inc. - President, CEO & Director***

So 5% discount for the 10-day volume weighted average price link or $15.70.

Leon G. Cooperman ***Omega Advisors, Inc. - President, CEO & Chairman***

Given the likely positive response to the stock to the deal, how much of that equity could you replace? And do you get the benefit? Or do they get the benefit?

William C. Pate ***Par Pacific Holdings, Inc. - President, CEO & Director***

So they've agreed to purchase what we refer to as Tranche A, which is a little less than 5% for $35 million, and we don't have any right to not sell that shares to them. As I mentioned, alternatively, we could pursue an equity offering and then the remaining $115 million will be sold to the public instead of a sale to the seller.

Leon G. Cooperman ***Omega Advisors, Inc. - President, CEO & Chairman***

Who gets to benefit the higher price, you or they?

William C. Pate ***Par Pacific Holdings, Inc. - President, CEO & Director***

The company.

Leon G. Cooperman ***Omega Advisors, Inc. - President, CEO & Chairman***

The company, good. Congratulations once again.

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

And then, Lee, on the term loan, the part I had referenced is with respect to the -- where our senior secured notes trade, and ultimately the term loan is going to be issued on a parri-passu basis.

Operator

Our next question is from Andrew Shapiro with Lawndale Capital Management.

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

I'm trying to better understand -- I'm trying to better understand, I guess, the EBITDA sensitivities to these diffs that you show on the graph on Page 6. And to understand, as a follow-up, is like, what contributed to such a quick collapse in these diffs. And since it was such a quick collapse, what can or will cause the bounce back to standard discounts?

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

Sure, Andrew, it's Will. I think the dynamic in any basin is really driven around the marginal barrel that needs to clear the market. And so if you take the Bakken, for example, as production there has ramped up and has exceeded pipeline capacity, and you've also had outages that have occurred in some of the PADD 2 refineries. You've seen a period of time here where incremental barrels need to move out of that market either on railcar or -- given my comments on railcar constraints, it needs to seek an alternative, whether that's truck or otherwise. So that will drive the differential, and then ultimately the differential will respond as supply and demand rebalance. So again, I think you can see from the outlook on the slides with respect to expectations for Canadian production, increases relative to incremental pipeline capacity being added and the projected increases in production. It's our expectation that rail is going to be needed to clear barrels out of this market for an extended period of time. And the Bakken is, given the strong production growth, is also in a position where I think rail will be needed.

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

And of those outage -- yes, it helps quite a bit. And those outages you're referring to, can you give me somewhat, we'll call it one-off, but added together, are there any particular ones of note that -- and the estimate of when those outages will have reversed themselves?

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

I think it's primarily outages in around the Chicago refining complex, and again, I think that's what's driving the significant decline that you see on Bakken. Again, it's not our expectation that those levels hold. However, I still think my comments are valid with respect to production exceeding the local takeaway.

Operator

Our next question is from Gregg Brody with Bank of America Merrill Lynch.

Gregg William Brody ***BofA Merrill Lynch, Research Division - MD***

Could you just remind us of what the turnaround schedule looks like for these assets? And when do you expect to have it -- have this -- what the capital spending with that, you're expecting, will be?

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

Yes, we are expecting a major turnaround in 4Q 2020.

Gregg William Brody ***BofA Merrill Lynch, Research Division - MD***

And how much do you think that will be?

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

Roughly $35 million.

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Gregg William Brody ***BofA Merrill Lynch, Research Division - MD***

And you mentioned some of the terms of the term loan. So if you could just clarify, so you're issuing out of the same as the -- where the current secured bonds are. And could you talk about whether the existing bonds will benefit from the assets that you're acquiring? Will they be guarantor -- maybe you could give us a little more details around that?

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

Sure. Yes, the expected transaction structure here is that Par Petroleum, which is the issuer under the bonds, is going to be acquiring the stock of U.S. Oil. So yes, the bonds would benefit from the additional collateral.

Gregg William Brody ***BofA Merrill Lynch, Research Division - MD***

Right. And you're -- the deal closes 1Q '19. Is your expectation you'll fund it around that time? Or is there a possibility you bring it to market before then?

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

Yes, I don't think we have a clear timeline, but obviously we're going to want to have cash in hand prior to closing.

Gregg William Brody ***BofA Merrill Lynch, Research Division - MD***

Got it. And just the -- I know you gave some details on those product yields, but is there -- are you going to presumably provide a crack for us to look at as your reference crack? Is there a good one, today, we could just look at leading to your proxy?

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

Yes. I mean, I think the pacific Northwest markets, you can see these price markers and the relative yields. And for the clean products on the distillate and the gasoline side, you can probably just look at the Pacific Northwest marker that is out there. And then the intermediates and asphalt, I think, are something that we'll be working with you on over time on capture rates around that and the relative weightings.

Operator

(Operator Instructions) We now have a follow-up question from Matthew Blair.

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

Bill, I think you made a comment talking about how this deal would allow for increased access to inland crude at your Hawaii refinery. Could you expand on that? And I guess, would that have to be WCS in Hawaii due to Jones Act constraints?

William C. Pate ***Par Pacific Holdings, Inc. - President, CEO & Director***

Well, I wouldn't want to overplay that, first of all, because, in terms of WCS, we would -- it could be any crude, I mean it's just a function of pricing. And if the diffs were wide enough, we have the capability now, with the marine terminal, to move product on a Jones Act ship to Hawaii -- or move crude on a Jones Act ship to Hawaii. The diffs would have to be wide, in the level they are today, to really justify it and sustain. Probably the biggest issue really would be getting -- obtaining Jones Act clearance.

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

I think it's more of an opportunistic comment, Matt, and so again, I think it just gives us additional flexibility. And again, we did reference that there is firm capacity held here on Trans Mountain, and there are barrels that can be sourced out of Vancouver.

William C. Pate ***Par Pacific Holdings, Inc. - President, CEO & Director***

And those barrels could go non-Jones Act. That's the easier move.

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

Right, right. That was actually going to be my follow-up. How much space do you have, now, on Trans Mountain? And what is the max capacity of the crude-by-rail terminal in Tacoma?

William C. Pate ***Par Pacific Holdings, Inc. - President, CEO & Director***

We -- for competitive reasons, we prefer not to get into specifics on the Trans Mountain. What was your other question?

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

The demand-by-rail capacity?

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

Approximately 60,000 barrels per day.

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

Okay. And then finally, could you talk about how you feel this plant is positioned for IMO? There's a fairly significant other category, which I think is mostly VGO. But could you talk about the fuel oil yield and just the overall positioning into 2020 here?

William C. Pate ***Par Pacific Holdings, Inc. - President, CEO & Director***

Yes, do you want to go through the VGO, Joseph?

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

Yes. So you have to look at the clean product first, and you have distillate yield between 35% and 40%. Historically, this is definitely good from an IMO standpoint. And then the VGO will be used more and more for marine fuel blending, and this is the approximately 20% -- 15% to 20% yield that we mentioned. I think the IMO positive impact yield is really from the crude side as we anticipate a heavy differential and sour differential to improve, and this will be actually captured in the WCS or looks like a type of Cold Lake.

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

With the offset being, Matthew, the asphalt market will probably respond accordingly. So again, I think that's our assessment with respect to how the bottom of the barrel here is positioned in an IMO world.

Operator

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

William C. Pate ***Par Pacific Holdings, Inc. - President, CEO & Director***

Thank you, operator. This is an exciting time for our company. We're all very excited to be on the path that we're moving down and look forward to speaking with all of you. Have a good day.

Operator

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

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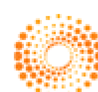

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