Greg: We're fortunate to have California Resources here. Before I announce the speaker, and you all know Mark Smith, so I guess I just did, just be mindful, lunch is up here today. The speaker, Russ Robinson's up here. On the agenda it says some things about downstairs. Ignore all that, everything's up here.

Now, I'll reintroduce California Resources. A lot of you know the story, but it's always great to hear an update. I'm going to hand it over to Mark Smith and let him tell – give the update.

Mark: Thanks, Greg. Appreciate the opportunity to be here and I know I'm standing between you guys and lunch, so I'll work to try to keep it short and sweet. Wonderful venue, by the way. This is – I hope you guys can stay focused here instead of the wonderful view in the back.

As you know, we're a spinoff from Occidental in December of 2014. And it was absolutely the best time for a spin. I say that facetiously, of course. It was the Monday after the Saudis advised that they were no longer going to support the price of crude; commodity prices fell dramatically; and we were capitalized with about $6 billion in debt to support the dividend to OXY. And then of all things, they stripped the receivables and left us with the payables. So we had total debt on the spin well in excess of $6.4 billion.

So in the face of this environment, we worked to bring that down, significant levels of debt. And we refer to it as the gift that just kept on giving. But since then we've been tested. We've demonstrated the resiliency of our asset base; we've made the hard decisions. And so today I'd like to begin by speaking about how we're – by capitalizing on our diverse asset base and having significantly reduced our debt from the spin, we're now well-positioned for value-oriented growth.

I'll begin by addressing our performance during this past quarter. We were running nine rigs. We've produced an average of 123,000 barrels of oil equivalent a day. We invested $139 million, internally funded, importantly, not adding to the debt burden we have been working so hard to chip away at. We invested – or we generated EBITDAX of $250 million and it was up 8% sequentially, quarter over quarter. Importantly, as we look back at full year 2017, our fully burdened 2017 development program at flat 55 Brent pricing generated a VCI of 1.7 times and an IRR of 30%. And so we believe we had strong operational and financial performance during the quarter and we believe we're well-positioned to continue forward with respect to value-oriented growth.

So what it that differentiates CRC's underlying asset base from that of our peers? Well, one of the overall differentiators of our asset base, I like to say it has the characteristics of a major – it's an investment-grade asset base encapsulated in the nimbleness of an independent. And one of the specific differentiators of our asset base is its diversity. We have the benefit of operating in multiple basins, we operate four of the largest fields in the US. They're all multibillion barrel oil fields, all with multibillion barrels of original oil in place. We have multiple drive mechanisms; from a primary perspective; we have conventional; we have secondary, including steamfloods, waterfloods and even unconventional. Our average 2017 production amounted to 129,000 barrels of oil equivalent a day. Oil mix was 64%. Importantly, being in California, we receive Brent-based pricing.

Now another key differentiator of our asset base is its absolute size. Yearend 2017, [SEC] pricing, $54.42 Brent. Our proved reserves registered over 600 [MM]BOE. Organically during the year, we replaced 119% of our reserves. Our 2P reserves registered over a billion barrels of oil equivalent.

Since the spin we've grown our 3P reserve base over 350%. Organic F&D costs the past year, $6.82 a barrel. It's the third year in a row we've had less than $10 a barrel finding and development costs. Our recycle ratio of 2.1 times. My experience is, a company that can generate a recycle ratio approaching 2 is doing a nice job. We've generated recycle ratios in excess of 2 for multiple years. Another specific differentiator of our asset base is its shallow decline rate, 12.5% annually, including downtime. Approved reserve life index also indicative of our long reserve life, 13 years.

So substantially, all of our acreage is held by production, I like to refer to it as the fact that we have a real option with no material time decay. Very, very valuable. Our business model purposely separates us from our peers, where they have – many of our peers have 40% or better first-year decline rates. We have 12.5%. I like to say it is similar to them working to run up a down escalator and one that continues to accelerate. We just don't believe that that's a sustainable long-term business model. So we're purposely different.

Another key differentiator is that we're the largest player and have the leading market position in the fifth largest economy in the world. As a result, we have very strong local demand. We have deep insight into our overall asset base and we have lower operating costs as a result than our peers. We tend to have an underexplored and underexploited asset base. This was an asset that the majors developed over many years and they used it to support their dividend model. As a result, they didn't spend a lot of capital and they didn't tend to go deep. As a result, we think that there's lots of opportunity to apply new technologies, specifically 3D seismic. On the chart in front of you [slide 7], you see our 3D seismic position, it's the largest in the state. So we believe that there's lots of potential deep and we see lots of running room ahead of us.

Another specific differentiator for us is the underlying value of our asset base. At current pricing held flat, our net asset value is over $16 billion. It's much, much greater than our current enterprise value. It gives one a sense for where we're going. Again, lots of room to run.

So these are what we consider to be the key differentiators of our asset base. It's world-class, investment grade, stands out, set apart from our peers. As a result, you can see that given this asset base with our significantly reduced debt levels, we'll now well-positioned for value-oriented growth.

We recently made the very significant acquisition of Chevron's Elk Hills – incremental interest in Elk Hills. So why was it that this acquisition was so important to us? Well, one of the overall reasons the acquisition was so important, that it consolidated our interest. We now have 100% working interest, 100% net revenue interest, and all the surface in one of the largest producing fields in the lower 48. Just to refresh your memory, this field had 11 billion barrels of original oil in place. It's been producing for 100 years and we see another 50, at least, well ahead of us.

Total consideration we paid for Chevron's interest in the field was $460 million plus 2.85 million shares of our common stock. Another reason the acquisition was important to us, had net production of – 2017 net production of 13,000 BOE per day; [estimated] proved reserves 64 million BOE at yearend 2017 SEC pricing, and had 2017 estimated operating cash flow of $100 million at $65 Brent.

Another key benefit of the acquisition is our expected operational improvements. Chevron had roughly 20 to 22% interest across the field in various locations. Key point here is that interest varied by reservoir. As a result, we experienced inefficiencies in the field. There were separate production facilities by reservoir; there were separate gathering lines; there was separate storage and sales points. And we estimate that there will be operational savings that we're already seeing from the acquisition of approximately $5 million annually within the first six months, and additional savings of about $15 million over the next 18 months. Those additional savings will come from further consolidation of operations, streamlining our processes and further improvements in capital efficiencies.

Another key benefit of the additional – of the incremental acquisition was additional cash flow available for reinvestment, widely across our remaining inventory, further accelerating our growth.

So these are the key reasons the Elk Hills acquisition is important to us. Above all, it demonstrates the discipline and effective way in which we run the business. We set this acquisition up last fall with the amendment and the new money rates which extended our maturities; it set the specific framework for our midstream joint venture; and then enabled us to execute on the ARES transaction where we paid down the revolver and then we used the cash optimally to consolidate our position in Elk Hills and further grow our asset base. So you can see with the expanded asset base, our significantly reduced leverage, we're well-positioned for value-oriented growth.

As we look forward, what are the key components of our overall strategy? Well, one of the key aspects of our strategy is to continue to delever opportunistically, strengthen our balance sheet. We've worked in the past to strategically seize market opportunities. We've executed on a debt exchange; we've executed on open market debt purchases; we've executed on debt for equity swaps; and we've executed on a cash tender.

So with all this, we've reduced our debt by roughly $1.8 billion dollars from the spin or roughly 26% from the peak levels just after the spin. So you can see us continue to see – you can expect to see us continue to seize on market opportunities as they present themselves to strengthen our balance sheet as we move forward.

Another key aspect of our strategy is to continue to strengthen our balance sheet through our strategic acquisitions. Pro forma Elk Hills from March 31st, our debt was $4.9 billion. The transaction was clearly credit accretive. We reduced our leverage by over a half turn. It improved both the asset as well as cash flow coverage. Importantly we have no significant maturities before 2021.

We continue to be focused on reducing our absolute levels of debt. We think our absolute levels of debt continue to be too high. Again we'll continue to take advantage of market conditions as they present themselves. As I discussed, we considered we have an investment-grade asset base and our long-term objective is to have a near investment-grade balance sheet.

Another key aspect of our strategy is to discipline the allocation of capital. We've got lots of running room ahead of us, as demonstrated in the slide in front of you. At $65 flat Brent, we have over 750 BOE of projects, all with VCIs greeter than 1.3 and full cycle costs of less than $35 a barrel. That's over $7.5 billion of currently identified investment opportunities. So at a current pace of investment, we've got many years of good work ahead of us.

Consistent with this, you can expect to see us continue to allocate capital appropriately throughout the commodity price cycle. As we move through the downside environment that we were in, we focused on protecting our base. We focused on steamfloods and waterfloods. We focused on work-overs. We used secondary – we also used the secondary measure of capital allocation and that was payout, to make sure that we preserved our liquidity. Now as we move into a mid-cycle pricing environment, our balance sheet is in a better position, our liquidity is in a stronger place. We continue to focus on value-oriented growth opportunities, but we’re focused on even longer-term value. With enhanced liquidity we’ve relaxed the payout criteria that we previously used and we’re focused on identifying, delineating, developing future growth areas. So you’ll see us continue to exercise the optionality and flexibility of our asset base as we move through this phase of the cycle.

Now similarly you can expect to see us allocate capital in a disciplined and dynamic fashion through the remainder of 2018 and into 2019. We’ve currently announced roughly $550 to $600 million of capital investment for the year, including joint venture capital. It will be directed toward oil-weighted projects, conventional waterfloods, steamfloods and it will be focused on our core fields at Elk Hills, Wilmington, Current Front, Huntington Beach and we’ll work to further delineate other opportunities in Buena Vista, Ventura and the Southern San Joaquin Basin. So our capital investment program will be dynamic and we’ll scale it up or down, based on our expected cash flow as we move through the year.

Another aspect of our strategy is the thoughtful use of our relationships, particularly joint ventures. They allow us to accelerate value; they allow us to participate in the growth weights from the various joint venture projects that we enter into. They allow us to derisk inventory, enhancing our asset coverage. Currently we have approximately $550 million of current potential joint venture capital that’s available and committed to us; and we’ve formally – of that, formally, $260 million has been committed and we’ve used approximately $150 million of that currently, in terms of funding.

To frame the impact of a potential joint venture, for every $100 million invested, we expect between 3500 and 4000 barrels of oil equivalent a day in terms of peak production. And we expect growth potential return, reserves of greater than 12 million barrels of oil equivalent. Importantly, at current pricing, we see reversion of these various joint ventures occurring before our significant maturities. I think we think that’s a key aspect that many are not paying appropriate attention to.

Of note, I want to point out that as each of our partners has placed their nose under the tent and reviewed our asset base, they’ve sought larger exposure. Whether that was Benefit Street, whether that was MIRA, whether that was ARES, whether that was Chevron. So this is just another point that underscores the quality of our asset base and the steps that we’re taking to accelerate growth in a disciplined fashion.

I’m sorry, I got behind on the slides, I apologize. I’m sorry, I’m going backwards. There we go. My apologies. Another key aspect of our strategy is we continue to use joint ventures to manage our capital as we did back in 2017. As one recalls, our commodity prices dropped as we moved through the middle of 2017. In order to maintain our activity in the field and maintain our efficiencies, the efficiency gains that we had achieved, we reduced our CRC capital to stay within cash flow. And we did that by moving and reallocating a rig line back into joint ventures.

We're a little bit unusual in that many of our peers will have a working interest position, an operating working interest position of say 80% in one field or one area of the field, while they may have a 20% operating working interest in another, and they have the flexibility to manage their capital investment profile by moving from higher working interest areas to lower working interest areas. We have the benefit of having roughly 100% working interest across our field and as a result, these JVs give us the flexibility that would otherwise be achieved that some of our peers can achieve. So very strategic for us.

We're confident in our strategies. The steps that we're taking to strengthen our balance sheet, grow our asset base and thoughtfully utilize our key relationships. By capitalizing on our broad asset base and with our reduced leverage, again, we believe we're well-positioned here.

So what is our view for CRC as we go forward? As we review our various planning scenarios, some of which you see in front of you, summarized in graphical form [slide 18], and given our robust inventory of opportunities, one of our expectations is to be able to fund our capital investment for more than cash flow. We expect to continue to do that. Another expectation is we see production growth from the range of high single digits. Here roughly 7%. Another expectation is with our focus on oil and increasing oil mix over time, we see our EBITDAX growth in high teens. It's roughly twice the rate of our production growth. So we expect to see margin expansion as we continue to focus on oil leading to EBITDAX growth of roughly twice our production growth rate.

Now another expectation and this flows directly from that last slide is that we see reduced leverage and a strengthening balance sheet organically. As we review our various planning scenarios, we see significant deleveraging from internal cash flow alone, not considering any other opportunities that we might have available to us. At commodity prices less than $75 flat, our planning scenarios show that our leverage begins to drop below our target range of two to three times EBITDAX in the 2019 timeframe. So by simply investing in our existing inventory of projects from internally generated cash flow, using no other options that might be available to us, we see substantial growth and organic strengthening of our balance sheet.

Again, let me emphasize our top priority is centered on value-oriented discipline growth. We remain focused on living within cash flow. We remain focused on opportunistically strengthening our balance sheet and we remain focused on disciplined capital allocation. We continue to look to deliver results which exceed our $1.3 VCI hurdle rate. And by capitalizing on our world-class asset base, having significantly strengthened our balance sheet, we believe we're well-positioned as we move forward for value-oriented growth into a higher commodity-priced environment.

I want to underscore, we'll continue to be disciplined in our capital allocation process. We'll continue to live within our means. We'll work to identify new opportunities and we'll work to evaluate bold initiatives for value-oriented growth.

Thanks for your time and with that I'll open it up for questions. Greg.

Greg: There's a question – if there's a question from the crowd, please raise your hand. I'll start it off. So obviously got a lot done. You've highlighted where you're going on things, which is really helpful. So deleveraging is part of the plan. How do you see it playing out over the next few years, assuming we stay in the commodity price like this?

Mark: Sure. Great question. As I said, from the outset, we've considered that we have an investment-grade, world-class asset base. We had a balance sheet that was set up for a different price environment. And as commodity prices fell, that balance sheet deteriorated to a deep non-investment grade. And our objective is to ultimately get back to a situation where we have a high non-investment grade or near-investment grade balance sheet to complement our investment-grade asset base. We'll continue to monitor market conditions and we'll work opportunistically.

At the end of the day, if you ask me what do you see at two, three, four years out in an ideal world, ideally we'd have a balance sheet that takes the shape of much like what we had at the spin, where it's a senior bank facility, and this environment likely secured, combined with longer-term senior unsecured notes. Much more simplified balance sheet, consistent with a duration consistent with our long-term asset base.

Greg: And in there recognize EBITDA growth is part of your program and what's the amount of debt that makes sense? Is there an actual dollar amount? Are you comfortable with the leverage target?

Mark: Well, we tend to look at the appropriate level of debt in terms of debt to EBITDAX. It's something that management can use to adjust things accordingly, and manage the business accordingly. With that said, we're not comfortable with the absolute levels of debt that we have right now. You've seen us bring it down to roughly $4.9 billion and we'd like it to be lower than that. We don't have a specific absolute target that we've stated publicly in terms of overall debt levels. But we'd like to see the absolute levels come down from where they are. But we continue to manage the business on the basis of roughly two to three times debt to EBITDAX at a mid-cycle pricing. And we think that leads us to a near investment-grade balance sheet and we think that, in turn, leads us to an optimal capital structure in terms of weighted average cost to capital for the firm.

Greg: And just remind us, your mid-cycle pricing today is the $65 Brent or is that…

Mark: We have tended over the years to look at $65, plus or minus $65 Brent to be what we consider to be in the neighborhood of mid-cycle, mid-cycle pricing.

Greg: So now that I've got the obligatory questions out of the way, I'll target some operational questions. So how is the integration process going with the Chevron asset? I know there were some synergies you were expecting to realize. Is there any update there that's relevant?

Mark: We don't have any formal update. We'll update at our next earnings call, but what I will say is that we're pleased with the way in which the integration effort is going. I think we're seeing some of those initiatives take effect sooner than we would have otherwise expected.

Greg: And is there any update, anything notable about the JV with ARES on the midstream side that you're seeing that's _____?

Mark: We continue to be pleased with the performance of all of our joint venture activities and our partners continue to express their pleasure with the way in which the partnerships are performing.

Greg: I know in the current environment, have you been proactive with adding hedges over the last month or two? How have you been approaching that?

Mark: I think we've got some good disclosure with respect to the hedges in our presentation materials and you can go out in our website and look at them if you don't have it in the book in front of you. But I think the fundamental philosophy that you're seeing is to execute on now with the improved liquidity, with improved balance sheet position. You're seeing a slight shift in the way in which we're hedging and so we're tending to put more floors underneath us and have less restrictive hedging structures in terms of the upside. So we're leaving more of the upside exposed and putting more of a floor underneath us in a systematic way as we move through hedging 2019.

Greg: And then additional M&A. Obviously the Elk Hills transaction was very accretive. Are there more transactions like that out there?

Mark: I think we're the consolidator of choice within California and we've demonstrated patience. Witness the Chevron acquisition we made. And we'll continue to monitor those situations and I think it's important to note that we'll – to look at the Chevron acquisition as a template for other ways in which we can use acquisitions strategically, not only to make an accretive acquisition, but also to use it to help us thoughtfully delever. We'll keep our eyes out. We're the consolidator of choice in California.

Greg: As we're in these oil price environment, I know you raised your capex with the announcement of Elk Hills and I think you formalized even again with the first quarter results. You think there's room to increase this year again? I mean I'm not asking you to give us new guidance, but is that something you guys would consider?

Mark: Well, I think it's just – I just think it's important to continue to emphasize our philosophy and that is to invest within cash flow. So as we go through the year, you'll see us monitor our expected cash flow over the coming periods and we'll adjust accordingly. And that's exactly what we did in 2017 when we saw an air pocket in commodity prices midyear, we didn't want to over invest and so we shifted a rig line back in, as I pointed out. We'll continue to be proactive. So if commodity prices were to continue to strengthen, we'll look proactively at increasing our activity levels. But we don't want to get out over the tips of our skis and find ourselves in a situation where we over invest and we hit an air pocket like 2017.

Greg: And then you monetized the midstream in the power plants. Is there anything else that we're not thinking about, that's something that's non-core or something you can recognize value from?

Mark: Well, certainly we're always looking at the portfolio in terms of non-core E&P assets. We've said publicly we don't want to sell anything at fire-sale prices. We've monetized our Elk Hills power plant, our Elk Hills processing facility. But that still leaves very significant midstream infrastructure that could be monetized if we chose to do so. And I think that's a key point to underscore, if we chose to do so.

There are a number of assets, whether those are gathering lines, distribution lines, electrical distribution lines that could be monetized and those types of transactions, those types of structures are not mutually exclusive with each other, nor what we've already done. And we've got the framework within our credit arrangements to allow those types of things, but in this environment we're less motivated to execute on transactions like that then we have been. But we'll continue to use upstream joint ventures strategically to derisk our asset base and accelerate growth like we have in the past.

Greg: Just looking around the room, I'm going to ask one more question if there's none. So I know there's a potential for a lot of production to come back and I think you've said – I think it's like 10,000 barrels day or so. I may have that number wrong, but so correct me. What's the amount of production you think you'll get back from these JVs once they roll off?

Mark: I don't think – we haven't publicly said. We haven't publicly said. What we've done, in our disclosure materials, what we've done is we've worked to disclose the way in which one of those projects typically works. And what we've said is that for every $100 million invested, we believe that roughly 3500 to 4000 barrels a day is experienced at peak. And we have about 12 million barrels of oil equivalent that gets generated in terms of reserves. And then based on one's commodity price forecast then and performance, one can estimate when that reversion might occur if the partners were to get, as we've said, somewhere in the mid-teens, in terms of required returns. So we've tried to provide that information so if people can model it. But we've not stated specifically what those volumes are.

The important thing is as we do our sensitively analysis, we see those reversions coming before the significant maturities we have in our debt stack. And I think that's a key point that folks aren't quite getting.

Greg: I would end it on that. It is something that I'm paying attention to as we get further out. I know it's not a near-term thing, but it will show up one day.

Mark: Yeah.

Greg: Look, thank you very much. I appreciate you making the trip here and for doing such a good job presenting. So a round of applause for Mark.

Mark: Appreciate it.

Greg: And then we have a keynote, Russ Roberts will be up here in a few minutes. So go grab lunch if you haven't. There are box lunches in the back. Hopefully you guys will stay around. Russ is a very dynamic speaker and you should probably all learn something. So hopefully you can stay. Thanks again.

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