California Resources Corp(Analyst & Investor Day)

October 03, 2018

Corporate Speakers:

- Scott Espenshade; California Resources Corporation; SVP of IR and Land
- Todd Stevens; California Resources Corporation; President, CEO & Director
- Charlie Weiss; California Resources Corporation; EVP of Public Affairs
- Francisco Leon; California Resources Corporation; EVP of Corporate Development & Strategic Planning
- Darren Williams; California Resources Corporation; EVP, Operations & Geoscience
- Shawn Kerns; California Resources Corporation; EVP of Operations & Engineering
- Mark Smith; California Resources Corporation; Senior EVP & CFO

Participants:

- Pavel Molchanov; Raymond James & Associates, Inc.; Energy Analyst
- Brian Singer; Goldman Sachs Group Inc.; MD & Senior Analyst
- Kalei Akamine; BofA Merrill Lynch; Analyst
- Roger Read; Wells Fargo Securities, LLC; MD & Senior Analyst
- Josh Silverstein; Wolfe Research, LLC; Director and Senior Analyst
- Joseph Von Meister; Bennett Management Corporation; Analyst
- Paul Sankey; Mizuho Americas; Analyst
- Amer Tiwana; Cowen and Company, LLC; MD and Analyst

PRESENTATION

Scott Espenshade^ Good morning. I'm Scott Espenshade, Senior Vice President of Investor Relations and Land. Welcome to California Resources Corporation's 2018 Analyst and Investor Day.

Today's presentation has a theme of value-driven, which you will see permeates the whole of CRC and starts with our VCI metric, which will be thoroughly explained.

Also many of you were aware of our last two analyst and site tours that we did in California to view our assets. We thought it was appropriate to come back to New York today, really, to show you the scale and scope of our operations.

But we weren't able to bring California to you, so we're back in New York, and we want to show videos today that we're hopeful will bring our operations to life for you.

Today's presentations should take approximately three hours. Our agenda begins with Todd Stevens, President and Chief Executive Officer of CRC, providing a strategic overview.

Charlie Weiss, Executive Vice President, Public Affairs, will cover operating in California. Francisco Leon, EVP, Corporate Development and Strategic Planning, will show that conventional does drive, deliver strong returns. Then we'll take some Q&A on the first sections followed by a short break of approximately 15 minutes before we return.

Upon our return, Shawn Kerns, EVP of Operations and Engineering, will cover our core areas and driving operational excellence, followed by Darren Williams, EVP of Operations and Geoscience, who will cover value-driven exploration and development. Mark Smith, Senior Executive Vice President and Chief Financial Officer, will then discuss how we will continue to strengthen our balance sheet.

I'd like to highlight that today's slides in our Investor Relations section on our website, www.crc.com. and our webcast will provide additional insight into our operations, some preliminary third quarter results and highlights of today's meetings, plus our mid-year audited reserve disclosure, all of which was issued in a press release this morning.

Today's presentation contains certain projections and other forward-looking statements within the meanings of federal security laws.

Please take these statements as they are intended, and review our website and SEC disclosures detailing the risks and uncertainties. A replay and transcript will be made available on our website following our presentation.

As a reminder, we have allotted ample time for Q&A in the middle and at the end of the presentation and would ask the participants limit their question to a primary and a follow-up question to give ample time for this large audience.

Now I'd like to introduce Todd Stevens. He's President and CEO of CRC. As many of you know, Todd is a military academy and a USC graduate, a big sports fan, and he's worked 20 years at Oxy. He assembled their Permian position as well as CRC's California assets. Before Todd begins, here is an overview video of California Resources.

(Video Playing)

Todd Stevens^ Good morning, everyone. So glad you can take some time out today, visit with us and talk about our company. Very excited to be here. This is about four years ago actually where it all started. And I see some of you were here at that point in time when we were here at our Analyst Day on October of 2014 and before the spin occurred.

I know some of you are just becoming reacquainted with CRC. So don't worry if you've missed the $40 run-up, there still the next $40 run-up, so don't worry about that, and I'm not kidding.

So, as you'll see, we have a great value proposition here to talk about. And in particularly, when you think about it, last time Brent was where it is today was over four years ago prior to our spin.

And it gives us the same kind of opportunity set to reset the expectations of the Company, the strategic goals of the Company, because we've been through four years of arguably one of the toughest commodity cycles in our business, since 1986, if not worse than 1986. But we didn't have the same type of downside, I think, for the industry overall. There wasn't the consolidation that occurred historically.

One thing, I think, you'll hear today when you talk about California, I think it's so important to understand, it's a major oil and gas province. Approximately 1/2 of 1% of the world's oil is produced in California.

You heard the video talk about the scope and scale of our operations there, and we're the dominant preeminent player in the state. This is the fifth largest economy in the world. We are a value-driven, very disciplined company as you've seen us act during the down cycle, and we're going to continue to do that.

And what I think you'll hear today also is we're going to talk about conventional and why conventional is different from shale. And I want to give you this analog. So think about shale and you're trying to nourish your body. Shale is going to be an expensive energy drink; it's going to be fast, it's going to be effective, it's going to be fleeting, okay?

Conventional is milk. It's going to sustain you in the short term, but it's also going to sustain you for the long haul. And it's not going to be fleeting and have to drink another one a few hours later just to keep you going.

So I think we're going to talk about that and you're going to get a lot more information from our folks, both operationally and from our portfolio management to understand as a company why conventional makes a lot of sense.

And we're going to talk about how value drives everything we do. When we were, as a company, were spun-off. The biggest thing we did was focus on our VCI metric and how we allocate capital and how we allocate human capital.

So I think what's so important to understand is we're going to talk about how that permeates throughout the entire organization. And you're going to hear it from everyone today, from the way we do operations to the way we think about integrating infrastructure and the way we use technology. Everything is about value.

And we have an unparalleled opportunity set. Most of you know this and are aware of this who've been investors in CRC. We have enormous inventory, but we've been committed from Day One to living within cash flow.

Four years ago when I was up here, we're talking about living within cash flow, and I had people tell me, you should lever up more because you have so much inventory. We were committed then, we're committed now. It's not just a fashionable statement that we've done.

During the downturn, and some of you've noted, we've actually been free cash flow positive during the downturn. And it's something we take great pride in and it's how we manage the business, going forward.

While doing that, we understand the importance – it was important four years ago, and it's still important today, is the strength in the balance sheet. We knew at the spin we were going to have to do things to help strengthen the balance sheet and monetize arguably assets in some fashion to do so.

But the downturn provided different opportunities for us to create value, and we did that. And now, we're back and we preserved and protected the value during the downturn to get to this point where we can now look to do the things we want to do to improve our balance sheet.

And, it's been an all-of-the-above strategy for us and it will continue to be an all-of-the-above strategy. So what does that mean? Mark is going to go into more detail, but it really means truly all of the above. Nothing sacrosanct. We'll do whatever it takes to strengthen our balance sheet for the long term.

And where does it start? It starts with us all in our VCI value-creation index metric, which is a PVI, DPI, discounted profitability index measure. I think it's so important to understand, as a company, this is a basis of how we allocate all of our financial capital. And really, the culture of CRC is built around this.

And we call ourselves one CRC because everyone competes using this metric to get capital in the company. You have to have a 1.3 VCI to be considered.

And that's what so important is to make that first hurdle. Then other considerations come into effect at that point in time. Might be during the downturn, you might be concerned more about liquidity and quick payback, or nowadays, you might be more willing to frontload investments to make that happen for yourself.

So I think when you think about value here, it's very smart, value-driven growth for us. Growth for us is a byproduct of value-driven investments. We're pursuing value, and you're going to end up with growth by pursuing value at the end of the day.

And I think that's important to understand for us. We're not pursuing growth for growth's sake. And how do we do that as a company? I think it's important to understand, it starts at the beginning with how, as a management team, we allocate our human capital.

And when you allocate your human capital accordingly, they're going to create the kind of life of field plans and I'll put your assets and try to create those plans to get put into our portfolio management analysis, so that we can come away looking at this and then looking at it from the standpoint what's the best way to allocate that financial capital of the corporation?

So when you look at this, and you get into it, then you start taking into account what kind of operational analogs do we have up and down the state? Again, we have over 130 fields up and down the State of California.

What kind of technology can we bring to bear from other parts of the state and from other parts of the country? And how does that ultimately create value? And how does that move the portfolio to do what we need to do to create the most value for our shareholders?

And all the while in the end, as you see, we're going to look to strengthen the balance sheet. And how does that help us strengthen the balance sheet? And today, you'll hear us talk about we're going to dedicate 10% to 15% of our discretionary cash flow to strengthening the balance sheet long term, and that can take many different avenues.

As you know, we've been an all-of-the-above approach company all along. And I think the important thing to understand is we will use those funds to do whatever we think creates the most value on a fringe for us with the balance sheet.

California – most of you aren't aware or could be aware, if you're already an investor, is a very prolific oil and gas province. Just our company, we're the preeminent producer in the state, which has over 50 billion barrels of oil-in-place and about a 20% recovery factory currently.

Enormous analogs over 130-plus fields, a high level of operating control. I think this is important to understand. How could you manage within cash flow during the downturn or even as prices move around?

It's very flexible business model for us. Because of that high level of operating control, you have the assets of a super major buried in an independent. So this independent arguably has the balance sheet that was given to it for a different product price environment.

And we understand that. We have investment-grade assets that are basically burdened by a balance sheet for $100 oil. But as you'll see, when you have low decline, low capital-intensity assets, it's something that enables you to withstand those kind of downturns.

The thing to understand today, and you're going to hear a lot more from Darren and Shawn on this, is we do have a playbook. I gave you a little, on the left here, a diagram of a football play showing you have very many options. At CRC, we don't just have one option.

Because of our portfolio of assets and the way we manage the business and how we focus on value, I think it's so important to understand. Again, it starts, like we talked about earlier, with how we manage our life of field plans and how we incorporate that into our portfolio.

And then we look at how can we bring our operating expertise. Remember, we see every type of drive mechanism you might see in the world we have in California. We produce every type of hydrocarbon. This is something that's rather unique in one basin, and it goes back to the history of California.

It is effectively the Permian Basin with tectonics layered in, and that's how you end up with all the micro basins and all the different drive mechanisms. So what does this do? It gives us an opportunity to really create value through operational excellence and bring best practices from not just inside the state, but outside the state.

And again, the backdrop is to be disciplined, live within cash flow and do what's best for our shareholders that creates value for the long term. And this is repeatable.

Again, you'll hear Darren talk about exploration, but that's something, I think, no one gives us credit for. We have really, really excellent opportunities in the exploration front, but that was the first thing to shut down during the downturn, because it was the easiest thing to turn off.

So he went out and we have done a lot of small joint ventures and created activity. And now, we're starting, for the first time this year, it was the first time we drilled a 100% CRC exploration well was this year.

So this is something we're very excited about and creates value, but what does that mean? If he's successful on exploration, it gets fed into the portfolio model, and this is an evergreen process. It's almost updated daily.

When you get new information, people can compete for capital, compete for rigs and compete for projects. And I think it's important to understand, we're always adapting, always maneuvering as a company to be better at what we do. And that really means literally if someone says, like we had earlier in 2017, Mount Poso's project, they worked on it and it was better.

We shifted a rig from elsewhere. They were more competitive, and people understand this is how we compete. But at the end of the day, it's all about maximizing value. And value means you have to have cash flow.

This is meant to give you a backdrop, this slide, but the important thing to understand here is the history of the assets in California. Basically, the California was the domain of the super majors historically. And you can see a lot of names on there, which aren't around anymore when you go back to 1980.

But as you can see, it's clearly consolidated into three major hands over time with Aera being the joint venture between Exxon and Shell and Chevron on CRC. And those three, really, as you know, combined to be over 75% of the current production and over 90% of the mineral acreage in the state.

And that consolidation has happened for numerous reasons. You can look at simply people consolidating from an M&A standpoint, people deciding that surface acreage is more valuable, people focusing their investment elsewhere and selling out.

But our predecessor company and, now, CRC, we saw the opportunity set here just like we did in the Permian to consolidate great reservoirs that have enormous stacked pays and build a preeminent position in the state.

As you can see in the upper left-hand corner, we are the dominant producer, top five producer. It's about 85% of the production. But the one thing that differentiates us is in the bottom left graph.

Most people are shallow-heavy oil producers in California. We are all of the above. Again, we have every drive mechanism, we have a lot of the deeper production, a lot of the different types of hydrocarbons that are produced. The heavy oil production is only a small subset of what we do.

But I think the most intriguing thing, as you look at the little strat column cartoon here, there are over 400 discrete producing horizons that we produce from in the state. And that's a unique proposition as you think about one wellbore.

Obviously, not one wellbore is going to contact 400 different producing horizons, but Francisco will go into why economically and from a value perspective why it's so important for a company and how it creates a lot of value for you, particularly in workovers and behind hole completions.

The other part is on the far right-hand side is our acreage position in the San Joaquin Basin. It's about 70% of our reserves and production are in San Joaquin Basin. One of the most prolific oil and gas basins in the US.

But the one thing to think about here is the technology that's been brought to bear. When everyone, in the bottom left-hand corner, as you can see, is focused on shallow heavy oil, technology wasn't ever really brought to California.

I know it's hard to believe. Just to Ventura Basin, and where you heard in the video, was where the oil and gas industry started in California. It didn't have a 3D seismic survey shot until 2013 when we did it.

So when look at the 3D seismic surveys in the blue outline on the right, you could see the one large one, that's 550 square miles. You do these types of things in provinces where there was never 3D seismic survey shot.

I think it's important to understand. And it really goes back to what was going on there. It's the focus on the shallow heavy oil production that was giving you 60%, 70% recovery. And it was easy for most folks to be involved in when you have surface and mineral fees working there in the state.

When you look at our portfolio up and down the state, and we're going to get into more detail with Darren and Shawn on this, but the thing to think about is we have an incredible oil and gas portfolio over 130 fields, goes from Yuba City in the North down to Huntington Beach in the South.

But again, I'd focus on the San Joaquin Basin. And San Joaquin is 70%, plus or minus, of our production and our reserves, but every basin does something for us.

The Sacramento Basin, enormous gas optionality. Four years ago, when I was here, I was talking about if oil prices and gas prices shifted like they did in prior time periods in the 2008 - 2009 time frame, we could make ourselves a majority gas company within five years.

San Joaquin Basin, you see almost every type of drive mechanism and almost every type of opportunity set for yourself. Ventura Basin where it started, we see growth and exploration.

I think it's important to understand, expiration is not for us, two step-outs from a PUD location. This is actually real wildcatting and real value-creation opportunities.

L.A. Basin, some of the most steady, low-declined, high-margin assets you'll see around in Huntington Beach and the Wilmington Field. One thing I will say that I think it's lost on folks is the 2.3 net million acres that we have in the state, mineral acres, 60% of that is held in fee.

Our Elk Hills Field, which is up 45% and our flagship operation is 100% fee. It's fee simple. But overall, if you take our portfolio of assets, producing assets, our average royalty is only 5%.

Contrast that with the Permian Basin where you might be talking about 20%, 25% royalties and the underlying economics there. Or you could look at the monetization opportunity if you wanted to monetize 5% of that on some of the assets. So I'm just giving you food for thought in there. I think it's important to understand.

But a lot of you who have been around a while go, well, why do you do a spin-off? These are great assets. And I think the real reason, if you come back to it, is on this slide. It's about focus, focus, focus. Our predecessor company might have focused on the Permian. And we want to focus on California.

And you can kind of get a feel here, the spin in 2014, oil prices were like $94, $95 Brent. And they're down to about 20%, 25% today from that level. And our reserves have dropped 5%, all the while we've had very limited capital investment during the time.

But the other part is our unproven reserves. Our life of field plans have grown over 400%, and that's because we do focus on the assets and build a comprehensive life of field plans that feed into our portfolio that compete for capital, that create value for the long term.

And since the spin, our F&D cost has been less than $5 of BOE. And as you'll see in our inventory, it's exciting because we can look out for well over a billion barrels of actionable projects, here in a second, and get a feel for how that looks over time.

And this is it right here. So you've seen this chart before if you've been involved in CRC where we ran at $65 Brent. This is $75 Brent. And this is a fully burdened field level G&A facility. And we're trying to be full disclosure here and show you that these projects are fully actionable and have 1.3 VCI.

And when you break it down in the color from a drive mechanism standpoint, but if you did the ruler math in here, you'd get a feel that you have well over a billion barrels of projects that have about an F&D cost of about $10.

Again, these are actionable 1.3 VCI at $75 Brent and $3 NYMEX, and that includes all the facilities, all the infrastructure costs, field level G&A. We're not just giving you field or well economics like you might see elsewhere. And I think that's important to understand.

And this also screams at you why the company where JV is so important for us. JVs were so important because we're an inventory-rich company. And we were shackled with a balance sheet for $100 oil at the spin.

And we have a commitment to live within cash flow then. We still have that same commitment. And for us, this tells you why. When you say, Okay, I'm not going to get to a project maybe for 6, 7 years. Maybe I need to joint venture those projects.

The economics of that are too strong for you to want to monetize it in the downturn, and that's another opportunity as we just discussed. We could now be in an environment where we could look to monetize some of the things that we were not going to get to and bring the value forward for our shareholders.

And we do have some of our partners in here today. I did see our BSP friends here, our partners and joint venture partners on this inventory, so I think that's important to understand for us, which is it is an important thing because it doesn't just help bring value forward for the shareholders, it helps us manage the business.

It helps us manage the business from a cash flow perspective. It helps us manage the business from a derisking inventory perspective, going forward. And it is critical for the success of CRC when you're very inventory-rich.

Talk briefly about our Elk Hills acquisition, probably the best acquisition I could envision for CRC. It was an outstanding opportunity for us to create value for our shareholders, but it couldn't have been done without our Ares transaction.

When you look at this in concert with Ares transaction, then it will make sense to you. Because as a company that was shackled with a balance sheet for $100 oil, it wasn't easy to go out and say, Oh, let's go raise a whole bunch of cash for this transaction.

But this is how we were able to work and ultimately execute this transaction with Chevron. And I think the important thing to understand here is this has a legacy, and Shawn is going to go into more detail here.

But the history here was rather destroying an ownership, rather than destroying a joint operating agreement, it enables us to have enormous synergies. We've initially thought we'll get $5 million within six months of annualized synergies and $20 million over the following 18 months.

We've achieved $15 million in four months. Shawn is going to talk more about this, but I think the important part is he really thinks, at the end of the day, we will have acquired Chevron's interest for no incremental cost at the end of the day.

We're not going to commit to that today, but I think that in the back of our mind, that's what we're striving for as a company is to achieve that with no incremental cost.

And again, this is something in our flagship asset, we own 100% fee simple, we own the surface, we own the minerals, the infrastructure. This is a great thing for CRC and a great asset for you as shareholders.

Talk a little bit about strengthening the balance sheet. Mark is going to go into a lot more detail here. But I think the thing to understand is, again, we're an all of the above. Nothing is beneath us to do that will create value for our shareholders.

Period. And the thing to focus on the bottom left-hand corner of this is we had a relatively simple capital structure at the spin around four years ago. We had some unsecured bonds, we had a revolving credit facility.

And we went into the downturn and we knowingly complicated the balance sheet. We knowingly did so to create value for our shareholders on the margin. And that was something that, now, and I think people are missing this, the opportunity is, again, simplify the balance sheet.

It doesn't mean it's going to happen overnight, but the opportunity to start chipping away at those parts of the balance sheet, particularly the 1 1/2 liens from 2016 that we used for liability management purposes that were LIBOR plus 10 3/8.

There's a real opportunity there for us to create some value when we start simplifying, look at some make-wholes and the call provisions going into this year and next.

So don't discount that and don't think about that, but Mark is going to spend some more time, but the real opportunity is for us to take a chunk out of fixed charges and to create some value for the corporation.

Just want to give you an idea of how we look at the cycle and how we look to invest. Again, we're very dynamic. We're going to allocate capital in a manner that makes the most sense for our shareholders and creates the most value.

Clearly, in a low price scenario, we're going to focus on projects that create value, but also projects that have the quickest payback and projects that are going to help us with liquidity.

Now we're in a mid-cycle and, maybe you'll argue, a higher-priced scenario. We're going to focus on maximizing value and do more exploration and focusing on help us strengthen our balance sheet. And what does that mean? To give you an idea, like 2018, it's very front-end loaded from a facility standpoint and more back-end loaded from a drilling standpoint.

We would not have done that way during the downturn. We probably would've staged the facilities and the drilling in concert with each other to get more bang for the buck and manage the short-term liquidity better.

But that wasn't, obviously, the best way from a value perspective. Now we're going to shift our investment focus from that way, so that we would maximize absolute net present value creation opportunities for our shareholders.

And how do we look at commodity environment and a macro environment? This is a histogram last 15 years of Brent oil price. I think we're squarely in mid-price scenario, maybe arguably a little bit higher.

I think the important thing to understand here is I feel there's more upside than downside here because of geopolitical risk, underinvestment the last few years. But again, we're not taking that for granted. We've gone out and hedged.

And again, we still strive to hedge 18, 24 months out about 50% of our oil production. It's not in your books. But if you go on the website, it will be in the appendix of these slides on the website. We'll have our updated hedging positions from earlier this week that stretches now into 2020.

During the downturn, we did hedges that really enabled us to get puts during 2016, but paid for by calls sold in 2017, 2018. In February 2016, I thought, please God let me pay out against those calls, and here it's come to due at this point in time.

But the shift in strategy has been, 2019, we're really focusing now on puts buying floors and put spreads, so you'll see going on into the first quarter of 2020, we have some pretty solid floors locked in for our investment going forward.

So if we take a quick ride back from about four years ago in this room, we, obviously, were spun into a difficult price environment and given a difficult balance sheet. We did whatever we could to protect and preserve value and try to create more value on the fringe using the tools and the cards that were dealt to us over time.

We immediately cut activity. We managed within cash flow. We came into 2017 and, obviously, the Brent price during midyear, about July last year had kind of a little false start when we thought it was picking up.

But that was the great flexibility of our joint ventures. Our activity last year, when the cash flow needed to be managed downward because the price wasn't what we expected, we were able to shift some of the activity into our joint ventures and manage our cash flow accordingly.

And now, we feel we're squarely in an area where we're going to be focused on value-driven growth. And really, again, the growth is a byproduct of the pursuit of value for us.

And looking in 2019, I think the important thing here to understand is just kind of the breakdowns. Shawn and Darren are going to talk about the core and growth/appraisal programs. But we expect to live within cash flow. We expect to deliver double-digit EBITDAX growth.

And this is a fully burdened VCI here at $75 Brent, but it also includes all of our facilities investment, all of our mechanical integrity investment and also our G&A for the corporation, so all of our overhead. And so it might be a little bit different from other things you've seen, but it is kind of all-in.

The biggest part of the pie that's moved here, and Darren will smile, but I know he's British, so he might not smile. His exploration, it's grown from being a very tiny to nothing to now 5% of our overall capital program for next year.

And before you want to ask me what that number is, you've got to give me all those other assumptions that go with your question, about macroeconomics and the geopolitical issues that might happen in the world.

Something that's very important that, I think, people don't focus on is how we've changed the culture at CRC. And I think it's important to understand because we were five separate business units, part of a larger enterprise, serving the greater master and the needs of that master.

And so for us, we understood, coming into the spin, how important it was to make those changes and make those things happen. And for us, it was really critical to start making changes, but we didn't know how important it was and how the sense of urgency started occurring.

We had a plan in place to make this happen, but the downturn accelerated that. To give you a feel, in the downturn when we were here four years ago, we had around 2,100 employees, about 8,000 contractors. Today, we have about 1,462 employees and about 3,000 contractors. We are running 20 rigs then. We're running 10 rigs now.

We feel we're leaner, meaner, stronger, to quote that, which does not kill us makes us stronger applies to us. And we feel like we're better positioned. During the downturn, we managed the business very tightfisted to watch our costs and make sure we understood our liquidity and cash flow.

Now we've adapted our organization to be more entrepreneurial and push down decision making on the value propositions and value-creation opportunities to the lowest levels of the organization to empower them to do so, because it's critical to be quick and responsive and be entrepreneurial. I think we've had some great response to this, and we're very excited about it, all the while living within cash flow as a company.

So hopefully, you'll hear today, as you go through everyone, you're going to hear how we're a disciplined, value-driven company with an eye of strengthening the balance sheet over the long term.

And what you'll hear from Francisco is he's going to talk about our portfolio, talk about our great inventory. Shawn and Darren are going to talk about how we use the CRC playbook to create value in the operations, and Mark is going to talk about strengthening the balance sheet.

Charlie is going to come up now and talk. And he's going to talk about the compelling needs and unique opportunities and high standards in California and doing business in California.

And the thing you don't know about Charlie is, Charlie is a Princeton chemical engineer who went to law school at Michigan and was a partner at Latham & Watkins, wanted to arguably work less. But I've never met anybody in my life, including my time in the Army, who works harder than Charlie.

And he went to Occidental. And to give you an idea, when we're doing the spin, Steve Chazen didn’t give Charlie an opportunity to be with CRC, he just moved him to Houston and said, That's where your job is.

So I knew how valuable Charlie could have been to CRC, so I've started behind the scenes, trying to chip away and get him to come to CRC before the spin. And there was a fateful day where I made a job offer to Charlie. He accepted and he said, How are we going to handle this with Steve?

So I called Steve Chazen. And, I worked with Steve 20 years and we had a pretty good relationship. And I told him Charlie is going to come work for CRC and he's going to leave Oxy.

And he hung up on me. He never hung up on me. And I was like, well, okay. And then about five minutes later, I get a call from Charlie and Charlie said, I just got a call from Steve and he told me I was fired. And Charlie said, I don't understand.

This morning, I had two jobs. And now, I have no job. But we're very pleased and happy to have Charlie. No one understands the California energy regulatory environment better than Charlie Weiss. And without further adieu, Mr. Charlie Weiss. Thank you.

Charlie Weiss^ Thank you, Todd, I can vouch for that story. I had some explaining to do to my wife. I am pleased to speak with you today about operating in California, which, as Todd noted, is a state with compelling needs, unique opportunities and high standards.

Public affairs at CRC unite health, safety and environmental protection with government affairs, communications and stakeholder outreach to advance our business by empowering our workforce, building alliances and serving our community.

Californians have a voracious appetite for all forms of petroleum, as both their preeminent energy source and a critical feedstock in products essential to modern society. California's car culture is legendary, and Californians consume more gasoline than Russia, which has almost four times more people. And truck, ship and air transportation use almost as much oil as passenger cars do in California.

California's demand for oil and gas isn't just a lifestyle choice. California's petroleum-based infrastructure powers the world's fifth largest economy and, most importantly, fuels the daily delivery of food and water that sustain California's urban population.

California Resources Corporation supports policies that promote and increase in-state production of all forms of energy, whether oil, natural gas or the multiple types of renewables, since a diverse balance promotes affordability, reliability and resilience for working families already burdened by California's high cost of living.

California is blessed with abundant oil and gas resources, yet the state is an energy island with no interstate oil pipelines. California refineries buy every drop of oil we produce and still have a chronic dependence on imports. The energy imports today supply about 72% of California's oil demand, 90% of its natural gas and even 32% of its electricity.

And California leaders recognize that, unlike imported energy, local oil and gas production promotes California's progressive objectives. It increases access to affordable energy that meets this most stringent safety, labor, human rights and environmental standards.

And local oil and gas production also supports thousands of high-paying careers for Californians from all educational backgrounds and provides a path to the middle class.

The affordability, reliability and efficiency of natural gas have enabled California to beat its emissions targets and facilitated the expansion of costlier and intermittent renewable energy.

Natural gas is versatile with only 31% used for electricity generation in California and 69% used for direct cooking, heating and industrial applications. CRC's local gas production is critical to utilities since limited third-party storage and daily swings in renewables add volatility to a market that depends heavily on 1,000-mile interstate gas pipelines.

On the legislative front, California is mandating further increases in renewable electricity used by retail customers. Recently enacted Senate Bill 100 has 2 main features, a mandatory increase in renewable share of retail electricity by 2030 from 50% under current law to 60% or roughly double their 2017 share, and an aspirational goal to supply all retail electricity from renewables by 2045.

Recognizing that imposing artificial constraints on available energy would pose serious technological, socioeconomic and environmental risk for all Californians, SB 100 directs state agencies to investigate whether this goal is even feasible and, if so, how dramatically it would impact affordability and reliability.

In any event, SB 100 does not apply to self generation of electricity, such as at Elk Hills, or to the cooking, heating and industrial uses that account for over 2/3 of California's natural gas demand.

California leaders know that CRC is an economic engine for both the public and private sectors. Our capital investments and operations support over 1,200 vendors, who's businesses employ tens of thousands of Californians. Since our formation, CRC has generated over $1.4 billion in state, local and payroll taxes and California State Lands Commission revenues.

Through our unique production sharing agreements in Long Beach, the city and state have received over $4.7 billion from oil production over the past 15 years, funding key public services.

CRC partners with labor, business and community groups to educate and inform elected officials, policymakers and the public about our essential role in powering California. We champion a diverse mix of traditional and renewable energy production to ensure affordability, reliability and resilience.

CRC is California's largest operator. And with our diverse portfolio of prolific assets, integrated infrastructure and a highly qualified local workforce, CRC is ideally positioned to make California more self-reliant and secure today and for decades to come.

We have a demonstrated track record of safety and environmental stewardship, a deep understanding of California and a proactive regulatory strategy to develop our robust portfolio.

The growth in our permit inventory shown in the graph on Slide 30 reflects close collaboration between our expert regulatory team and state and local agencies. Today, we have nearly 1,100 rig days fully permitted across our 10-rig lines, providing flexibility to optimize well work, rig moves and construction and demonstrating the success of our strategy.

I thought you'd like to hear more about our proactive HSC and regulatory program from our employees and from one of America's leading local oil and gas regulators, Lorelei Oviatt. Ms. Oviatt is the Director of Kern County's Planning and Natural Resources Department.

And she administers an innovative oil and gas ordinance that provides for decades of responsible future development in the second-leading oil and gas producing county in the Lower 48.

(Video Playing)

Charlie Weiss^ The video shows how we applied CRC's core values of character, responsibility and commitment, both within our operations and in helping communities enhance their regulatory oversight.

Planning Director Oviatt referenced CRC's contribution to Kern County's comprehensive land use update in which a CRC biologist led the industry's technical committee, providing data for the environmental impact report.

Institutional Shareholder Services also recognized CRC this year with its highest environmental rating and second-highest social rating, reflecting our reporting on HSC performance and stakeholder engagement.

Our recent Red Cross and Kern County awards are high-profile examples of CRC's service as an active community partner. CRC is the leading operator on state lands. We design and maintain our facilities with our neighbors, communities and the environment in mind.

Demonstrating our focus on safety and quality, CRC has the first statewide project labor agreement in the oil and gas industry with the building and construction trades, and they're highly trained members build and maintain our facilities.

Our key operations have also been recognized by the National Safety Council and certified by the Wildlife Habitat Council. CRC's water strategy on Slide 34 demonstrates how we help solve pressing California issues, like its susceptibility to drought. Produced water is our primary byproduct.

And a dedicated CRC team pursues recycling and treatment options with state and local agencies. Since our formation, CRC has proudly served as a net water supplier to agricultural under state permits with stringent quality standards.

In 2017, we delivered a record 4.9 billion gallons of reclaimed water to agriculture, triple our 2013 volume. For every gallon of fresh water we purchase, we supply almost three gallons of reclaimed water. California leaders recognize this extra water supply only exists because of local oil and gas production.

In closing, I'd like to reinforce that CRC is unique among California operators. Our 4 value-driven 2030 sustainability goals on water recycling, renewables, methane and carbon align directly with state goals.

As you'll hear from Shawn Kerns, the water and carbon goals build upon planned EOR projects that drive significant shareholder value and the methane and renewables goals help lower GHG cost and increase efficiency. We've identified projects in our planning scenarios to achieve these goals by 2030 with positive VCIs.

Through our active community and regulatory engagement, we've positioned CRC to thrive and grow. We've demonstrated to California's leaders and our stakeholders that CRC will develop safe, responsible projects needed to sustain affordable, reliable energy for California by Californians.

It's now my privilege to introduce Francisco Leon, Executive Vice President of Corporate Development and Strategic Planning. Born in Mexico, Francisco has a bi-national business degree in international business and an MBA from the UT at Austin.

He started his energy career 17 years ago as an analyst with Petrie Parkman Investment Banking Group. And he joined CRC from Oxy where he was the Director of Corporate Development and M&A. And he managed and negotiated about $6 billion in transactions in North and South America and the Middle East.

Today, Francisco leads CRC's capital allocation process to maximize value creation from our portfolio. And he was instrumental in negotiating and closing our recent Elk Hills transaction with Chevron. Francisco?

Francisco Leon^ Thank you, Charlie. Good morning. Today, I'm going to talk about our strategic capital allocation approach that focuses primarily on our conventional assets that drive the business to generate great returns and value to the shareholders.

Todd likes to point out that our assets are ones -- are similar to ones of a major with the flexibility of an independent. And what that means is that we have a diverse and balanced portfolio of assets that can be flexed to respond to market conditions and always ensure that we select the right projects so that we're generating value through the commodity cycle.

As mentioned before, we have a disciplined approach that's focused on VCI that guides our investment decisions and helps us maximize the net present value of the enterprise. That's our primary objective. For every dollar that we invest, we expect a return of at least $1.30 back. And we couple our VCI approach with a targeted and value-driven capital allocation.

We think combined, this is the framework that sets us apart from the rest of our peer group. As Todd mentioned, we manage the business to be self-funding.

We have the right type of assets at very low decline, low-risk development that really help us make sure that we stay within our means and live within cash flow. We think that we compare very favorably as compared to companies our size that have a shale-only business model.

Now I'll make a quick parentheses here. Todd mentioned how shale companies are like energy drinks. Well, we have our own share of energy drinks. We produce today about 40,000 BOEs per day from shales. They're a great feature to have in our portfolio, we just like milk a little bit better.

We spun off in 2014, and we like to think about if we were starting a business from the ground up, if you had to put together an asset that was value driven and could ensure success and maximize the value for the shareholders, what would be the key elements, the key building blocks that you needed to have in order to ensure success?

As you can see on the table to the right, what we would want to have is primarily a good, strong, healthy and growing market, one that has a big appetite for your product and is willing to pay a big premium for it.

You also want to have a good network of pipelines that can get your product to market. You don't want to have constraints in your pipeline process that ultimately adds a big discount to every barrel.

We also want to have a large scalable resource that gives you a lot of control and that has the strongest form of ownership. By that, I mean that you want to be able to own all depths, all rights.

You want to be able to own some surface and minerals, preferably in the form of fee simple, and you want to have lots of running room in your key assets.

You really don't want to be paying 25% of the value of your project in the form of royalty or have to be dictated -- your drill schedule be dictated by lease expirations like some do in other places. A final key component that we would want to have in any startup company would be to have a portfolio of great assets.

Great assets that give you options and give you an ability to always high grade in your portfolio to make sure you're delivering the highest value to your investors. CRC delivers on all these fronts. We have a highly competitive position in a premier market. Our portfolio of assets deliver the true bang for the buck.

I'm going to go over a few slides here and go in a little more detail about the advantages that CRC has compared to the rest of the peer group. On Slide 38, you can see on the chart the remaining recoverable resources as estimated by the USGS.

As you can see, California is second to the Permian in terms of oil remaining. The key difference is that in the Permian, you have hundreds of operators all fighting to get to the same resource. In California, you essentially have three major players that holds about 90% of the acreage.

The USGS estimates that there's about 10 billion BOEs of remaining resources in California, and we think we're in great position to capture this. We have our stacked pays throughout the state.

We have operating expertise up and down the state as well, and we have integrated infrastructure that really brings and highlights the value of those plays. So we think we have the right resource.

We're in the right province to be investing. Now turning your attention to activity and capital intensity. As you can see that in the chart on the top left, production in California has been relatively stable over the last decade.

What's more notable is that we've been able to do this as a state with only a fraction of the rig utilization that happens in other basins. The chart to the right shows that in the Permian, they have over 480 active rigs while in California, we only have 15.

That's what leads them to have service cost inflation and issues trying to get to the right crews where we have a dedicated service group that wants to protect the market and help us -- arrest our very low state decline of close to 7%. We also don't exhibit the ups and downs in the rig count than other places do. A lot of people like to.

And also with the base decline being lower, you don't experience what a lot of people referred to as the treadmill effect or the feeling of running up a down escalator. So we have the right low decline assets, we're also in the right capital intensity environment.

One of the key advantages that should be very readily evident to everyone that looks at our financials is that we are Brent-based. We enjoy Brent-based pricing.

There are really no pipelines moving oil to the West Coast, so all the oil consumed in the state of California has to be organic, native produced or imported. And most of the imports come from waterborne sources like Saudi and Ecuador, so that gives us a really nice price uplift.

So all of our barrels, every single one of them, no matter the gravity, trades above WTI on a realized basis. And we'll go into margins in a little bit, but we really like to have a starting point that's a lot closer to Brent. The reason that we enjoy this very favorable pricing is that California refineries are built and set up to handle California-grade crude.

As you can see on the chart on Page 41, California has the highest degree of complexity in all of the refining system in the US. That means that the refineries can crack the heavy end of the barrel and produce a lighter yield.

That means that they not only can produce higher-end and better products, but they also remove a lot of the sulfur. That really sets us up really well for the IMO 2020 requirements. Another very nice feature is that California is in PADD 5. And the refiners here enjoy some of the highest growth rates of any other regions.

This has to do a lot with California's economic growth and the expected estimated additional miles are going to be driven in the state. So those were the fundamentals. We really like California and we really like the backdrop. We have lot of what we need to be successful.

Now let's turn our attention to the A&D market. If you look at the allocation of value of recent transactions and, as you can see on the pie charts, California's value in terms of deals is really concentrated around PDPs.

That really helps minimize the execution risk, and that's in stark contrast with our Permian producers where they put a lot of value on undeveloped and prospective acreage. So that has to work in order for the transaction to be successful.

Furthermore, in California, we have very low sort of declines, which are in contrast again to what the Permian is seeing especially in the new unconventional basins.

We also have a very long track record, in some cases, decades of production, in some of our conventional wells, which really give you a really good understanding of the terminal declines. I don't think we can yet say that in the Permian what the terminal declines will be for some of the shales.

On the table to the right, you can see some of the multiples that have been recently played in the Permian, and that's compared to what our transaction looked like as we took out

Chevron out of Elk Hills. In the shale model, it seems like in order to get more running room, you have to pay up.

You have to be able to pay a higher premium for every barrel that you're replacing. So on a full cycle basis, once you take into account the acquisition costs, which sometimes are not included in the economics, we feel that California yields a better value proposition than the Permian.

We have demonstrated, since spin-off, that we can manage our business to live within cash flow. And also the capital intensity of the business model, the shale model is well understood.

This graph from a recent Evercore report, shows that shale companies have generated negative cumulative cash flow to the tune of $85 billion since 2012. This is in their endless pursuit of growth at all costs.

We feel that in a cyclical business, when you have a portfolio that has the diversity and the quality assets that basing your decisions around value is what helps you navigate around the cycle and not have to drill your way through it.

An important part of our process, we're isolated from the rest of the US in some ways from an energy standpoint that we like to look at research from other companies to validate our views.

Wood Mackenzie is a firm that does a lot of good comprehensive research at the field level, and they put out some recent reports that compared the West Coast, which is really California, to a lot of the other main producing regions in the Lower 48. They compare remaining present value versus the capital investment requirements to unlock that value.

What you can see on the graph on Page 44, which, by the way, our numbers are very similar. And we agree with their takeaway, is that for every $1 that you invest in California assets, you're able to get 2.5 times or more of value.

This is what we think is a really true California advantage. We think the scale is a little bit off because they are not recognizing some of the inventory, which we'll get into and some of the value that we have in some of our other projects, but the takeaway is very similar.

You compare this to all the other Lower 48 producing areas where you really see $1 in and $1 out. Don't see a lot of value creation to it, it's more of a just the recycling of money. This is where we feel that California really delivers the biggest bang for the buck.

Now let's turn our attention to how we capture that value and take a deeper look at the CRC portfolio and how we allocate our capital. Todd showed this slide. It shows the actionable inventory at $75 Brent.

And to really understand our position, I'd like to talk a little bit about what's in these numbers, what's not in the numbers and the timing that affects our decisions to invest.

What's included in the top chart is about 6,600 locations. They are PUDs, some probables, some contingents. They're a high-graded view of our inventory. It's oily, it's conventional and it's the focus of our investments today. But just as importantly, what's not in the chart, it's about 15,000 locations that really going to be a key part of the future of the company.

Some examples around these incremental locations are the very low risk and successful program that Darren is running with exploration, and he'll talk about that in a few minutes.

And also, what's not in there is our CO2 flood potential at Elk Hills and some of our other fields which Shawn talked about. These are 2 examples of things that we're working on that can unlock significant value and grow our NPV. They will grow the pie.

Also, as Charlie mentioned, California will continue to have a big appetite for natural gas in the coming decades, and we have our CRC shales and our dry gas in Sacramento to pursue that option. We consider this level of optionality a key differentiator for us in California. It's also been validated by our joint venture partners and their investments.

With our dominant operating position, our infrastructure and deliberate approach, we'll be able to bring these future projects into the mix and enfold them into our development program. We'll talk about our playbook, our ability to high grade and improve of assets, and you'll see some of these locations start to become actionable in the very near term. So to summarize this slide, in recent years, we had been certainly short on cash, but we're very long on investment opportunities. We're now deploying the right amount of capital to drive momentum forward and really create value.

Another of the competitive advantages that we see at CRC is our ability to generate high margins across mechanism types. As you can see on Slide 46 and if you focus towards the middle of the graph, where we have conventional assets, they're typically 80% to 85% oil.

Once you account for the gas, so the chart's on a BOE basis, and mix oil with the gas, and you assume prices at $75 Brent and $3 per Mcf, you get a net revenue per BOE of $67.

That's about 97% off of Brent, again, including the gas and also taking into account the very low royalty profile that Todd talked about and our very low differentials. You reduce by operating costs and taxes other than income, and you get a cash margin of about 80% for every barrel that we produce.

Very similarly on the waterflood and the steamfloods, they do have higher operating costs, but they're 100% oil and they generate cash margins of about 55% to 60% in today's pricing environment. Conventional margins are very strong for us.

Now we also have shales and dry gas, which, in their own way, generate good margins, but they do start at a lower revenue point because they have a lot more gas than our conventional projects. If you blend everything together and look at CRC's profile, our realized revenue per BOE is $57 per BOE and generate over 60% of the cash margins.

Perhaps my favorite aspect of what CRC brings to the table in terms of value is the multiple opportunities that we have to generate value through the life cycle of a wellbore.

This is a very unique feature of conventional assets, especially ones that has a lot of stacked reservoirs. The reusability of a wellbore generates phenomenal investment returns. I'm going to walk through two quick examples to show you what we mean.

The first one, which is in Slide 47, is a very shallow, conventional field in our San Joaquin Basin. This field, to be able to drill a new well costs about $350,000. We target the Vedder formation, which is looking for bypassed oil of an old steamflood that another company did.

The initial IP is about 40 barrels of oil per day, and we produce from that formation for approximately two years and then we plug the well and then we move up hole. We then recomplete the well for about $100,000, and time it to align to a water injector that's going to be pumping water into the reservoir nearby.

So this waterflood takes about 9 to 12 months to get some response. We then do a workover to optimize lift and maximize the drawdown for less than $25,000. This single wellbore, through its life, will recover about 27% of the oil-in-place.

The key takeaway here is that for less than $500,000, altogether, we're able to make our money back and generate an extra $1.5 million of NPV. Translated into VCI terms, that's 4.5 times. Lower investment and higher returns, we'll take that all day long.

Another example. This is close to our Elk Hills Field. This is a well that would cost around $3 million, and we'd put it immediately on jet pump. This is a nice well that produces an IP of about 450 BOEs per day.

We produce from this wellbore for some time and then do a workover for about $500,000. We upgrade the lift then we go from jet pump to ESP, which increases again the drawdown of the reservoir.

We time the workover to align with water injection nearby. And this waterflood takes about 3 to 4 months to see some response. Once we're done, this wellbore will recover about 25% of the oil and gas in place.

So with about $4 million, we're able to generate present value for the company to the tune of $20 million at today's pricing from that same wellbore. That's close to a 5 times VCI.

So conventional, shallow and stacked reservoirs continue to outperform in our portfolio and really enhances our returns going forward.

So you can see why we focus on primarily vertical wells, why we want to stay shallow, the returns there are pretty formidable. But when we're drilling very shallow wells and you don't have an impressive IP, it's difficult to know how you're doing unless you compare yourself in a more normalized way versus other producers.

We again went to Wood Mac, and we started mining the data. And what we did is we compared the recovery efficiency bases by taking the EOR, dividing that by the measured depth of a wellbore to really capture the full length of what others are drilling. What we found out, if you look at the bottom of the page, is that our recovery per foot is very favorable.

Above 90% of our wells are verticals and -- but we do have some horizontals. And what you can see, if you isolate the bubbles on the CRC section of the graph, is that as we increase reservoir contact, we're having good early success doing horizontals.

It's difficult to move all our capital to the shales and to horizontals when you're strong -- where your returns continue to be a strong everywhere else. So we're going to be very deliberate. We're importing new techniques. We're importing completion designs, new technologies into our -- into California.

We're going to be very deliberate in terms of bringing that forward and now looking in the right amount of capital. We're always looking with an eye towards value. Effective capital allocation is a key focus for CRC as well. It's how we provide that we're delivering value to our shareholders today and over the long term.

Just to give you a sense how we think of our assets, we basically think about it in 3 ways, our core areas, which are the Elk Hills Field, Buena Vista, Long Beach, Kern Front and Mount Poso. Combined, these fields have produced about 75% of our BOEs today and generate over 85% of our cash flow.

We only have about 45% of our 3P resources here. When prices are a little bit stronger, we focus on the near-term growth assets. They -- they're going to be in the southern San Joaquin Valley, Huntington Beach and the Ventura Basin.

You're also going to hear about some near-field exploration, which is very low risk. We really don't think about it as exploration, which is having lots of success.

We do have the options when oil prices rise even from today's prices or where gas prices rise in relation to oil, where we have a lot more gassy components, and that's what we call our future growth. It has Kettleman, it has Sacramento, it has other shales.

And these are the type of assets that all of them produce today. But in the top part of the graph, the future growth, a lot of our upside there is on the contingent resources, which Shawn go into a lot -- will go into a lot more detail.

Now stepping further into the capital allocation, what you see is in the core areas. We have a lot of low-risk PUD development, and these are the fields that really have some of our strongest margins. So in the downturn, which is what we did the last few years, we try to defend and protect everyone of these barrels.

Most of the capital will go to these areas. In the downturn, we put about 90% of the money here. We bring big data and we bring technology to optimize and reduce costs. And we bring joint venture partners to supplement any capital as needed. And again, that's what we did in the downturn.

When prices are moving to midcycle, closer to where we are today, we not only focus on the core areas, but we go after the near-term growth areas that I described on my prior slide.

These are younger fields with a lot of expansion opportunities. In some cases, we haven't even tested the oil water contacts on these fields, so we still don't have the right size or what the size of the tank is going to be. And we bring drilling and completion technologies to make our efficiencies better, and we bring strategic partners in our JVs to help us derisk the projects.

Today, our capital allocation is roughly 60% to core, 40% of the near-term growth. As I indicated previously, when gas prices rise and we have stronger oil prices, we also bring the future growth areas into the discussion for capital.

There's a lot of appraisal and delineation that has to happen on some of these fields or we just need to be able to have -- enjoy higher gas prices for them to compete with the rest of the portfolio. This is our capital allocation strategy all underpinned under self-funding.

Now as an industry, we're conditioned to talk about single well return or type curves. And that certainly makes sense if we're talking to private equity or you're essentially taking ownership at the wellbore level or your returns are tied to it.

Outside of the structure, we think that the investor really should care more about how the portfolio does as a whole. A single well type of discussions only capture a portion of our portfolio and yield an incomplete picture of the economics at play.

In the price environment like today, when oil is 25 times or more to one to gas, we invest in oilier projects. What you can see on the left side of the page is that for every $10 million, our portfolio delivers about 500 BOEs of production per day with an EUR close to 1.5 million BOEs.

Our wedge would be around 80% oil, which is very similar to what we're doing in 2018. This generates very low development cost, as Todd indicated, less than $5 per BOE since our spin-off. And that yields an implied recycle ratio of about 4 times, which is very healthy.

Now we have the flexibility in our inventory to shift the capital over to the gassier areas and allow us to still be able to extract a lot of value from it. We really like having that flexibility. When do -- we do compare very favorably to the rest of the U.S. when you look at it from a return perspective.

We, again, went back to Wood Mac for our comparison with other basins. And we looked at our 2017 program, including new wells and workovers, and we compared that to actuals from other basins.

What we see in the lower part of the chart is on an IRR basis, we're right there. We're in line with everyone else. But we don't like using IRR.

We think it focuses too much on timing on the cash flows. It's very short-term oriented and only does short-cycle type of analysis. We invest for the long-term benefit of the shareholders, and we want to grow cash flow and the enterprise NAV.

So that's what we feel that VCI or, as Todd indicated, DPI or PVI, however you want to call it, is the right measure to see that the business is growing NPV and adding value. You can see that at the top part of the graph that if you normalize everyone's numbers on a VCI basis, we have top tier returns.

Now further, stepping into our performance, since we started ramping up in 2017, you can see that we've delivered really exceptional returns to our shareholders.

We drilled about 280 producers over the last 18 months, including our second quarter activity. We had really high success rates in the core and the growth areas. Approximately 90% of all of our wells deliver above the company threshold of 1.3 VCI.

The combined portfolio was about 2.1, and that's different than what Todd was showing earlier as Todd showed a 1.7 VCI expected for 2019, and that's because these numbers are not fully burdened – they only take the drilling and completion costs of the projects.

As you can see on the first chart to the left, we have conventional returns, which are primary, waterflood and steamfloods. They all provide a fantastic return, over 2 times each. We do invest in the shales, and they still compete for capital in a select basis and they also deliver on a combined basis over 1.3, which is our corporate target.

We also look at the capital efficiency expressed as the dollar per flowing barrel. We don't focus on 24-hour IPs. We think they overstate the impact of the shales, and they underestimate the value of the steamfloods.

What we did is we took a 30-day allocated rate, and we divided that by the capital. And what you can see is it's less than $30,000 per flowing barrel from an efficiency standpoint. So not only are we -- came to the right resource at the right time, but we're also providing the best value.

In conclusion, we're value driven. We think we have the portfolio of assets that competes very favorably to the shale model and delivers very attractive VCI-based return to our shareholders.

Our portfolio management approach to capital allocation is tailored to the asset base and the cyclical nature of the environment and provides options and flexibilities, which we really like.

This translates to high NPV growth and great near-term performance. We have lots of running room and a deep inventory to pursue as we increase our capital and continue focusing on value.

That's it for my presentation. We have our first of two scheduled Q&A sessions. Todd will come up here to monitor. After the Q&A, we'll have a short, short break.

QUESTIONS AND ANSWERS

Todd Stevens^ So yes, what we want to do is give you an opportunity to ask questions while they're fresh in your mind on the topics we covered. Obviously, all you people focus on the balance sheet. You might want to wait for Mark to talk and ask us later.

Unidentified Participant^ So the Permian went through this period where it transitioned from vertical wells to horizontal wells and the returns went through the roof. I'm just wondering what the opportunity is for California to do the exact same thing?

Todd Stevens^ So I think you hit the nail on the head here. There is an excellent opportunity here. But remember, our reservoir is a little bit different in some cases. But there is an application because historically, you're really talking about vertical and slant drilled wells and now, this migration to horizontal, and Shawn will talk a little bit about this.

And I think it's important to understand the opportunity set for the higher investment but also the higher VCI and higher returns. So you're right, as it migrates and transitions to what has happened elsewhere, it's going to be an excellent opportunity.

Unidentified Participant^ I think one of you had mentioned the opportunity for CO2 floods. Can you talk about the availability of CO2 and the costs? And if you're doing anything in that area already?

Todd Stevens^ Yes. So at Elk Hills, we have a power plant there, and we're looking at anthropogenic capture. And the CO2 pilot is something we've done for a long time.

We know it works, it work’s in the Main Body B. Shawn is going to talk more about this, but the short answer is it's an enormous target. It's 100 million to 150 million barrels of recoverable. The issue has always been the source and quality and cost. I think with some of the recent federal tax legislation on CO2 capture, it's going to be very helpful.

But, I'll leave that under a little bit for Shawn to talk about. And if after his presentation, please feel free to follow up again. We're very excited about it. I think it's enormous value for the Company. And given what's happening in the tax code, I think it's going to be very beneficial for us.

Pavel Molchanov^ One of the charts shows your drilling permit backlog up almost 50% versus six months ago. So obviously, you have not had much problem getting permits.

But as you remember, it wasn't always like that in the state. So 30 days out from the midterms, with presumably Governor Newsom taking office soon afterwards, is there anything on the regulatory front that could change adversely or perhaps beneficially, after November 6?

Todd Stevens^ Obviously, we're pretty confident it's going to be Governor Newsom. I think if you look at what's happening in the state currently, I think he has a substantive lead. I don't feel like there'll be any substantive change [in the way] things have done business.

You've got to remember, he's Lieutenant Governor for eight years now. And the important jobs of a Lieutenant Governor are UC Region, in charge of the Cal State University system and he sits on the State Lands Commission.

Our assets were the single biggest contributor of revenues to the State Lands Commission, so he's very aware of what we do and what we don't do. And, I think he understands the importance of native production in the state. And I mean, Charlie, I don't think there's any reason we think there's going to be any change in the regulatory environment.

Obviously, things can happen out of the blue, but we feel like things have stabilized. They encourage investment, and they understand the importance of native production in the state rather than five or six years ago when we had a little bit of a hiccup, which arguably could be happening in Colorado now.

And, we've engaged and been more proactive. And so from my perspective, I view it as almost a seamless transition. I think he's going to be very much like Governor Brown, pragmatic and understand the importance of native energy in the state.

Brian Singer^ You talked about CapEx ranges at various oil price scenarios. Can you add a little bit more color? I think you said we were above mid-cycle now. Can you talk about what that high price scenario would be and what you'd spend the upper end of that (inaudible)?

Todd Stevens^ Let's assume we have some kind of super cycle or even materially higher from here, I think we'd differentially look to pay down debt and continue on our current investment profile.

We're going to show you what we current kind of plan for next year, what we kind of think and it provides double-digit EBITDAX growth. And with that, like I said, I think we would increase that 10% to 15% and look to do things that will strengthen the balance sheet, unless it's just really super cycle.

But it will depend on that going forward, how we allocate capital. We have the projects to do so. We have the permit inventory. But if we have that kind of price spike, I think we'll look to do things to fix our balance sheet quicker.

Kalei Akamine^ Kalei Akamine, Bank of America. Just looking at your oil deck, it looks like $75 is your mid-cycle view. Your actionable inventory works at $50 and lower. During the downturn, around 2014, I think you said that you wouldn't sell assets at any fire sale price. Oil price has obviously improved. What's your view on selling preserves or cash flow at this point?

Todd Stevens^ We look at monetizations, I think it's fair game. I think the only thing we would say is off the table will be Elk Hills. If you want to buy Elk Hills, I think you have to buy the Company.

Other than that, we preserved the value of our assets during the downturn not to conduct fire sales, not to sell to the bottom feeders and to do things, to create real value here and have that opportunity. That's why we did all those hard things to get to here for our shareholders so that we could do those things. And, whether it's monetizing royalty, whether it's monetizing or selling some assets and some other fashion.

Unidentified Participant^ The low-high profile about how you're spending your CapEx, I recognize you gave an EBITDAX growth estimate with it, but do you have a production profile that mirrors what you're...

Todd Stevens^ Mark will show this, but we're talking about 7 plus or minus percent production growth. But again, for us, it's about value. So it's about cash flow growth. So, again, like I said before, I felt like growth is a byproduct of the pursuit of value. So...

Unidentified Analyst^ So it's 7% in the mid case, sort of plus or minus?

Todd Stevens^ I think that's right, in the mid case. Mark's going to show it, but I think I'm getting ahead of myself here a little bit.

Unidentified Participant^ [David Solberry], with Citibank. Obviously, a lot of commodity price upside remaining for you guys to the extent that we can continue to see a commodity price rally.

I just wonder, how you guys think about the possibility of raising incremental equity here, as things may go higher. On the other hand, you still have a lot of leverage in the system. And do you want to take advantage of the market cap that you've gained given the run-up in commodity prices to date?

Todd Stevens^ I think when we think about equity, we were very stingy during the downturn. We issued it very discreetly in times we felt like we're getting fair value, or it helps facilitate an acquisition and it create a lot of value for us or a transaction that created a lot of value for us.

So I think if you think about it from the context of issuing equity, for us, it has to be part of fixing the balance sheet and getting to the point where there's no overhang. So what does that really mean? I would argue now that we traded a discount because our sheer amount of debt.

And we understand that we've chipped away at that and we continue to chip away at that. And we made it through the downturn with all of our assets intact so that we can start looking to do things that we were contemplating when we were being spun off.

So I would have to be convinced that it was fixing the balance sheet to where we wanted it to be, the 2.5, 3 times kind of mid-cycle pricing and that our equity will trade up on the transaction.

Even though arguably, you're issuing shares, but because you're issuing your shares, you're derisking the enterprise and causing the equity to trade up to be more representative of the underlying value.

And that is the scenario I envision that we would utilize equity, if we got to the point where the capital markets had made sense and our underlying value was there, we saw that our equity would trade up because of the derisking of the enterprise.

Unidentified Participant^ Are there any other acquisitions in California? Obviously, following on the Elk Hills buy, is there any other thing you're looking at in terms of being a consolidator?

Todd Stevens^ I think it's a rather unique time, because California, everything is fairly well consolidated. But to give you an idea, when I was at Occidental, we would do 40, 50 transactions a year, or we might do three or four in California, 40 or 50 in the Permian. And so the nature of assets there now is kind of interesting.

The Sentinel Peak former PXP assets are in private equity hands. Who knows how they're going to ultimately exit that. Berry is still owned majority by shareholders that might want to monetize.

So there's significant assets potentially out there. And you never know what Aera which is Exxon and Shell and Chevron does over time. They make decisions at a much higher level from their vast portfolios, what they want to do.

And we're always looking to add on incremental value adds, whether it be buying somebody's royalty out of a certain field or something like that. So there are transactions to be had there but material transactions, I think something could happen with Berry.

Even though it's publicly traded, I really think there's still large shareholders there -- I see one of them at the back -- who could determine to do something with it because they still have a controlling position. And like I said, the private equity at Sentinel Peak. And, those are the two of the Top 5 producers in the state.

Roger Read^ Roger Read, Wells Fargo. Spending on exploration, you've got a great inventory, no question about that. Prices here are pretty good for you. How do you work exploration spending into the value creation format or portfolio here? Why spend anything on exploration? Wouldn't it be better spent on improving recovery factors within the existing fields?

Todd Stevens^ Darren will talk about this, but he has to compete like everyone else on a VCI metric and value add. He's one of the most commercial geoscientists I've ever met, and he understands that. But I think the other part is using other people's money.

When you have the mineral acreage position and the control of most of the plays and you own all the analogs for everything, you can utilize that to leverage and to outsize the economics with a partner. To give you an idea, coming into this year, we had – is it six wells, Darren, that were being drilled by others?

Darren Williams^ Seven.

Todd Stevens^ Seven wells being drilled by others, exploration wells, that we were participating in. In some cases, it will be entirely carried; in some cases, very small positions.

And that's really the way you compete on a VCI basis, is you leverage your mineral position into that. And then like I said earlier, we had our first 100% well drilled this year, and that had to compete with all the other projects in our portfolio. Again, it's One CRC. Everything competes on the same basis. You have to have a 1.3 VCI to compete.

Scott Espenshade^ I can see your questions are starting to get into our afternoon's presentation, so let's cut our Q&A there. We're going to have ample time at the end of the presentation. Let's take a short 15-minute break. For those of you on the webcast, we should be back at 10:15 Eastern time. We'll restart the presentation promptly at that time. Thank you.

PRESENTATION

Scott Espenshade^ Welcome back. Again, I'm Scott Espenshade. I'd like to welcome everyone back. If you please move back to your seats. We'd like to start the second half.

I know there are people who are eager, by the nature of the questions from the first half, to hear more about the operations and, again, the strengthening of our balance sheet. So we'll cover that in this half of the presentation.

Again, we'll have a longer Q&A session that you'll be able to really talk about the whole CRC and all the opportunities that we're pursuing and, obviously, what we're looking to do with the balance sheet.

Next up is Shawn Kerns. He's going to talk about our core areas in driving operational excellence. Shawn has been with Oxy/CRC for about 25 years. He's had roles across the organization. He was manager of Elk Hills at one time. He's gone international with Oxy, and he was in Qatar.

So he knows the operations extremely well, and he's going to focus on our core areas. He's a native of Oklahoma originally, a graduate from OU and has been in California for quite some time. I'd like to introduce Shawn Kerns.

Shawn Kerns^ Thank you, Scott. Thanks. Appreciate it. Good morning, everybody. As Scott mentioned, I've had the opportunity to work the California properties a couple times. It's something that our previous company would do with Oxy.

We would train people on the California assets and then send them overseas internationally. They get to work on the large fields there. And I'm really happy to be back here today, talking about these world-class assets that we have here in California. It's something really special.

So I'll start off today. I'm going to talk about some of our more core areas. In a minute, Darren is going to get up and talk about our growth properties. As you know with CRC, we're leader in the four key basins.

We have an extensive asset base where we produce across 135 fields in California, or that's about half of the fields in the state. And what we do with these properties is we're really driving them through a recovery value chain.

What does that mean? It's taking fields, moving them from primary; secondary, waterflooding; tertiary, EUR, trying to get every drop of oil we can out of this. Our operations team has decades of experience operating these fields. Many of these people have even built the position that we have here today.

What I'm going to talk to you today and I hope you take away from the presentation is our core properties in the San Joaquin Basin and the Los Angeles Basin are giving a lot of leveraging operational experience, where we understand these rocks, we know how to apply these to the adjacent fields.

We've got a very comprehensive midstream infrastructure that we can deploy for low cost advantage to help bring on new reserves and new assets.

Now California has a lot of big fields. Five of the Top 10 fields in the US are in California. One of those of fields is Elk Hills. Now Elk Hills is a massive field in the state of California, $10 billion barrels in place, pretty low recovery factor. It's an impressive asset, and really for us, it's an anchor asset for CRC.

This was really our proving ground in California. When we acquired this asset, we started developing it and it gave us some insight in how to develop other properties in California and gave us a roadmap of which properties we may want to own around the state.

This is a massive field with large infrastructure. The gas plant and the power plant is the largest gas processing complex west of the Rockies.

Now Elk Hills has produced for 100 years and it's likely to produce for 100 more. That's the kind of scale of the asset that we're talking about. What's interesting about this is that we have as many reserves today at Elk Hills as we had when we had the spin.

So I know some of you may have seen that asset when you've come out for other analyst day or site tours, but we wanted to show you a video so you could get a feel for this asset. Just to put it in context for you, the scale of this, it's the size of Washington, D.C. Or for those of you familiar in Houston, it's about the size of the 610 Loop. So I'll kick this off to the video.

(Video Playing)

Shawn Kerns^ That's a great representation of Elk Hills. And as Scott mentioned, I was fortunate enough to run this asset in the past. And I've got to tell you, we would have never dreamed we'd be talking about the things we were doing today at Elk Hills when we had a joint interest partner.

You heard in the video there, John was talking about the synergies. Let me put that in context for you. This is an old field, massive infrastructure, big fields with different equity zone interests.

A majority of the infrastructure was built out in the '70s and the '80s. These are large gas plants. We had 300,000-horsepower compression. We got tens of thousands of miles of pipe, 110 tank settings, multiple equity zones.

So when John talks about the synergies and what he's working on, it's really the team reimagining what they're going to do with Elk Hills after 100 years.

How they're going to connect the infrastructure up differently to drive that lower cost going forward. And when you saw Todd had his slide earlier, where he talked about 25 million of synergies, I think we're going to be well past that.

So beyond Elk Hills, I'll call your attention to Slide 61. Another exciting area for us is the Southern San Joaquin Valley. This map here on this slide shows 1,000 square miles of acreage.

There's 12 fields here, 900 million barrels of 3P reserves. Now when we talk about large sandboxes and playing here in California, 900 million barrels of 3P reserves is what we're talking about.

What's exciting about this area is we're going to core up with Elk Hills. We've got some development program that Darren is going to talk about in a little bit, but what we're going to be able to do is delineate and expand our development to these offset fields and bring production and gas back to Elk Hills to process it in our efficient plants.

We're also going to be able to take power from our Elk Hills power plant and drive it out to these other fields. What this means to us, it's really about capital efficiency and driving lower cost development going forward.

One of the fields that we've already started doing this is the Buena Vista field. It's just south of Elk Hills and north of the Midway-Sunset, which is the largest field in the state. Now Elk Hills really showed us a lot about California and the types of reservoirs we wanted to own.

So Buena Vista, just to give you an insight into our methodology, it's a field we wanted to own for a long time. It took us a while to do several transactions to consolidate our interests here but finally, in 2009, we bought the whole field, and then we were off to the races and running.

What's unique about this is it has the same reservoirs at Buena Vista as we've been successful with at Elk Hills, and so it's very easy for us to translate our development learnings to this field.

In addition, by leveraging our Elk Hills infrastructure, we can connect our gas processing from Buena Vista back to Elk Hills, run it through our gas plant, get more liquids from that product. We're also able to take power from our Elk Hills power and drive lower cost energy here at Buena Vista.

And we'll continue doing this, building out to those other properties. So I want to talk about another field. It's the third largest field in the US. It's in our Los Angeles Basin. It's the Wilmington Field. So we'll kick off the video.

(Video Playing)

Shawn Kerns^ That's a great representation of our Wilmington Field. And what's so impressive about that is we have such a small footprint to access these vast resources here.

This is a large field in its own right. We have decades of operational experience, working in partnership with the city and the State of California. We've observed low base decline. This is a water-flooded asset, has 8% base decline.

And this is not modeling type curves or trying to estimate what the recovery are. We have the opportunity to see in our fields the complete life cycle of wells, so we know how they're going to perform and we know what they're going to recover.

Now you heard Bob talk about in the video, big fields get bigger, and this is certainly true for the Wilmington asset. We have more reserves here at the Wilmington field than we had at the spinoff despite a low capital environment.

Similar in our playbook, again, just down the street from the Wilmington, we have the Huntington Beach Field. Same reservoir, same rock mechanisms that we have produced from at Wilmington, we find it at Huntington Beach.

So this was a property that we really wanted to own, and we acquired this in 2013. What was unique about this is that it came with 94 acres of surface real estate in L.A..

The picture doesn't quite do it justice there, but that surface acreage is really valuable. You can put about the size of Disneyland within that 94 acres. So this is an analog in Wilmington. So we understand how to develop these rocks and we're moving it forward.

We started off with our development shortly after acquisition, took a break due to the low capital downturn, and we're back investing in our 2018 program. We're off to a great start. Capital costs are down 30%, our IPs are up 50% and we're just getting started in this great field.

Now we talked a lot about our new well development and our field development. How do we think about our old wells? So in CRC, we have 12,000 wellbores with stacked pay around the state in 135 different fields.

You saw in Francisco's slide earlier kind of the economics of the life cycle of a well. This is a project for us that's really exciting because this is low risk and high value.

A lot of times, we're just adding pay behind pipe or upgrading artificial lift to capture additional waterflood response. We typically spend about 15% of our budget on this type of workovers. They're very low risk and very predictable.

Another area that we're excited about, so thinking about CRC, 12,000 wells, 135 fields or about half the fields of the state and 100 years of production, it's a really data-rich environment for us.

So we've got a team dedicated to doing data analytics and working with our technical teams to try to extract more information from this. I'm going to talk today about a couple of the tools that we've built in our surface and subsurface operations.

One of these tools is our proprietary add-pay tool. This is an automated tool that combs through the data, looking at thousands of data points and is identifying workover candidates.

So we're integrating this machine learning with our technical teams and prioritizing better workover candidates, being able to identify them faster. This is typically a very manpower-intensive process, but it's yielding good results.

The other tool that we have is a downtime prediction tool. Now with CRC, we have 7,000 wells on artificial lift. They've been fully automated for decades. This is one of the best data sets in the industry here.

So what we have is we have the machine learning, going through this, looking at the efficiencies of our wells and predicting when they may have a downtime event.

It enables our technical team to go out and take preventative measures or look at opportunities to proactively get out and repair the well faster than we ordinarily would. This helps us increase our uptime and reduce our operating expense.

So we talked about our resources base. Our proven reserves, they continue to grow in the core fields. We've demonstrated our ability to manage our reserves during the downtime. And as Todd showed, with our life-of-field plan, we've grown our unproven reserve base.

Something we haven't talked about a lot that I want to touch on here today is our contingent resources. So these are price-affected reserves, and these are additional reserves that could be recoverable but are typically in the early stage.

So in Slide 71 here, this pie chart breaks down our 2 billion barrels of contingent resources. Some of these are no risk. The blue wedge, the 175 million barrels, doesn't require anything. As the price goes up, those go straight into the producing category.

The red pie there, the 1 billion, that's stuff that our technical teams are working on. It's polymer flood, nanotechnology, alternative gas injection methods. And then as we talked about earlier, the orange pie there, the 650 million barrels, are reserves that are recoverable by CO_2.

So we own and operate a lot of large waterfloods, and so we've been thinking about CO_2 for a long time. We've done lots of core work, lab studies, multiple field pilots, and it's an exciting process for us to move forward.

As we talked about, we're beginning a project at Elk Hills utilizing six million a day of excess gas from our plants. We've got permits approved and we'll be injecting in the fourth quarter of 2018.

Now this is a large multiyear project. We've got a dedicated team that's evaluating different sources of CO_2 and different carbon capture technologies as well as looking at the commerciality of the different tax credit incentives.

So a lot to come here. This is a very exciting area for us but a way that we're focusing on not only the proven and the unproven but advancing some of these contingent resources to the producing category.

Now we never lose sight of value. We're always looking at ways to improve our business. Our drilling and completion costs have come down 30% since the spin, and these are due to real structural changes. This is our teams taking a look at how they drill wells. We're reducing casing strings.

We're trying different drilling methods. And I think this will even come down even further as we get to a more normalized investment. So instead of drilling one- and two-offs, when we get into a program mode, we've observed over time we can continue to reduce that cost even further.

So our teams are focused on driving margin and cash flow. The operation areas are laser focused on safely and efficiently driving down the operating costs. We operate an integrated business here.

We've got large, comprehensive midstream infrastructure. We're running steam floods and waterfloods. But if you go out to the field, our field operators are talking about value. They're talking about margin expansion. They're talking about driving cash flow.

And this is going to be sustainable going forward. So as we take into account some of these other synergies from Elk Hills and the other areas where we're working around the organization, plus this effort across California, it's going to yield a lot of great results.

So in conclusion, the takeaway here, we're coring up some of our large resources in place. These are world-class fields that we've demonstrated our ability to develop and understand. We know this California rock.

We own the fields where we can apply that technology and learn in different places. We're driving these operational efficiencies throughout our asset base and capturing reserves through the value chain.

So we have about every different recovery type in California, whether it's primary, waterflood, steam flood. We've seen it work somewhere. We know how it works to new fields. And so we're utilizing this experience from the analog fields to really drive value creation and value for our shareholders.

So I'd like next to invite up Darren Williams. He's got 25 years' experience, our EVP of Operations and Geoscience. As well, he's traveled around the world to lots of garden spots: West Africa, Gulf of Mexico.

And before joining us, he was with Marathon working the SCOOP and STACK. So we said Hey, look, another Okie. We're excited. Obviously, he's not an Okie. But it is true what Todd said -- it's been a pleasure to work with Darren. He's one of the most commercial geoscientists that we've met.

Darren Williams^ Thank you, Shawn. As I say, I think I picked up this accent I have from Oklahoma, but we'll see if it sticks with me. Good morning. I appreciate everybody taking the time with us today and hopefully, through my discussion, you'll get a better feel for the robust exploration and development portfolio we have within CRC that will deliver the value driven growth that we've been talking about.

So for my presentation, there should be a few key takeaways that you'll take with you. Firstly, you've heard from Todd already about our playbook that we utilize and how we operate every day.

You'll see that we're leveraging that along with the operational excellence that Shawn just discussed to really capture the full value of our growth projects too. I'll also show how our deep inventory of development projects not only expands our existing core areas but can also develop new core areas for us.

I'll talk about our conventional exploration program, which has continued to deliver meaningful value for us as well as the significant option value that we have that's provided by resource play potential in California.

And finally, I'll talk about how we're utilizing technology to unlock resources that others have missed, improve returns and basically improve our success in how we operate every day. Ultimately, we have a fantastic set of growth projects across our portfolio that we'll basically allocate approximately 25% of our capital as we move into 2019.

California truly is an underexplored and underdeveloped hydrocarbon province. As Shawn just mentioned, I've been fortunate to work across the globe in many different arenas. But when you look at California from a hydrocarbon perspective, it truly is differentiated.

You have some absolutely prolific source rocks. That's what truly differentiates California. You have hundreds to thousands of feet of high-quality, high TOC source rocks that have thrown off amazing amounts of hydrocarbons.

Combined with those source rocks, we have exceptional amounts of stacked pay. Instead of having a horizontal well that goes 5,000 feet, I'll show you here, we have stacked reservoirs that are 10,000 feet on top of each other.

And then, combined with that, we have large-scale regional tectonics that have worked to generate some giant fields that Shawn just described to you.

At the recent lower activity levels, we actually strategically deployed our technical talent to focus on the life-of-field plans and regional prospecting, like Todd discussed earlier. Through those comprehensive studies, you can see on the chart here that we've generated an impressive 250% increase in our unproven reserves and 150% increase in our unrisked prospective resources.

By integrating these analyses with the vast asset base that we have, the rigorous portfolio management process that Francisco described that's focused on value and VCI, along with the operational expertise and infrastructure that we have in place, we find ourselves today fully loaded with a robust set of growth projects that we've high-graded through our portfolio management process.

From a CRC perspective, though, do we have that track record of delivering growth? And the answer is yes. Across all teams, we have a strong culture of operational excellence. The teams have got laser focus on value and a continuous drive for improvement. For our teams, the job is never done, and we're continuously striving for improvements that are underpinned by an ingrained focus on value.

These charts show recent examples of the CRC team in action, and they come together to deliver value-driven growth and demonstrate operational excellence that's the best-in-class within California.

Now these are some impressive results, but it's critical to remember that when we say we own the analog or we operate the analog, these results are what differentiate us.

By applying the expertise and lessons learned that we generate through our prior projects, we'll basically hit the ground running on any new growth project and able to extract the most value from the get go.

As you heard from Shawn, Buena Vista is the sister field of Elk Hills, but Buena Vista is also a great example of the CRC team in action. In 2012, Buena Vista Nose, or BV Nose as we tend to refer to it, was an exploration discovery that had been missed by 9 previous operators over a 50-year period. CRC came to this field. We brought our playbook in action.

We shot a new 3D. We integrated that 3D with our regional understanding of the plays and the geology of this field, and we identified a large stratigraphic trap on the flanks of this giant field. We applied modern drilling and completion techniques and delivered some outstanding initial well results that truly unlocked the potential of the previously overlooked reservoirs.

Finally, as we transition this field into development, our teams do what they do so well. They've improved returns by reducing well costs by 50%.

They've improved margins by tying into Elk Hills and leveraging the synergies that John referred to in a video earlier. They've improved recoveries by implementing the waterflood and the horizontal drilling within this field. From discovery to development, BV Nose is a simple example that encapsulates the CRC team in action.

But I think from my perspective, the biggest takeaway I'd want you to have today is not that BV Nose is a tremendous result. It's that we have this playbook ready to go to action on all of our analog opportunities that we have in our portfolio today.

So what do some of those opportunities look like? Well, first, I'd like to talk about the South Valley area, which is in the Southern San Joaquin Basin. As Shawn noted, this is a core operations area for us. And on Slide 61, you'll see the proximity of the fields on this table to our Elk Hills and Buena Vista fields.

As examples of the typical projects we have in this area, I'll just refer to a couple of fields. Firstly, there's Yowlumne. Yowlumne is an outstanding field. It has hundreds of feet of stacked reservoirs.

It has vertical wells that have cumed almost three million barrels by themselves. When we look at that field, we have proprietary 3D. We've worked our analysis and we've really integrated a reservoir characterization.

In Yowlumne, we see the opportunity to double the well count, both through infill drilling, but also by executing step-out wells that target known reservoirs.

Another example would be Paloma. Paloma is a field that has approximately 1 billion barrels of oil equivalent in place but has only been drilled with primary development. It's never been subject to any kind of secondary recovery.

These are the same reservoirs that we've been very successful with in Elk Hills as well as other fields, and we have a known recipe that really helps us to improve the recoveries from fields just like this.

Essentially, we're expanding our core operation in these areas in a high-graded, phased and deliberate fashion. We're integrating the portfolio management process that Francisco alluded to, to be able to execute these projects and generate the most value for CRC.

As we look at this area, what we're looking to do is replicate what we've already done at Buena Vista and leverage our Elk Hills infrastructure and operational expertise throughout the whole of this South Valley area.

In addition to our development opportunities, we also have a large inventory of high-value exploration prospects in close proximity. I'm glad we had the question there about why do exploration, and this slide here will really show you why we do exploration within CRC.

Our teams aren't looking to drill cool ideas. They're not looking to just kind of a "test them" kind of a concept. The CRC exploration team has a very clear strategy and approach that they're looking to deliver on. We're looking to generate immediate, actionable inventory that feeds the existing development opportunities.

The Pleito Ranch in the center of this map is a great example. We operate the Pleito Ranch Field, which is in the solid green on this map. You'll also see we operate the fields just around it in terms of Yowlumne, Rio Viejo and Landslide.

In 2014, we drilled the Scorpion exploration well. We stepped out approximately two miles from the existing Pleito Ranch development. Over the course of the last summer, this year, we drilled the Piranha exploration well, shown in the dots between Scorpion and Pleito Ranch.

And in addition to that, we also drilled an appraisal to the well to the initial Scorpion discovery. All of these wells were successful. What that did for us was essentially double our development area of our existing Pleito Ranch Field, a high-value growth project that we already had under our development schemes.

But we're not just done there, when you look at this actual map, what you'll see is 6 red stars. This is a 15 to 20-mile long play trend. It's on 100% fee acreage. There's no royalties paid on this.

We have 100% working interest and 100% net revenue. And we're actually implementing what we like to refer to as our discover-and-expand approach. We'll basically step out from our fields, make a discovery and just continue to deliver -- delineate these 15 to 20-mile long trends.

This really is the type of opportunity that we have in California. With all of the 2.3 million acres and 135 fields, the discoveries like we have here really kind of showcase the opportunity we have to expand and create new core areas.

Moving to the Northern part of the San Joaquin Basin. The Kettleman North Dome is another great example of a California oil field: 20 square miles, surface anticline, 4,000 feet of stacked pay and approximately four billion barrels in place with a low recovery factor.

Prior to the spin, we acquired this asset from Chevron, and we've been investing capital into it over the recent period. As part of the recent Chevron transaction at Elk Hills, where we actually extended the commercial terms that required us to complete a capital commitment on Kettleman by two years.

And so our teams are going through a deliberate and measured appraisal of this field. The teams have been delineating this field by workovers as well as new drilling opportunities. There have been lots of learnings, but I think the one thing I would highlight to you is the Kreyenhagen reservoir.

The Kreyenhagen reservoir is an unconventional shale reservoir. The goal here of our appraisal program is to basically prove up the opportunity for a stacked, horizontal field development in a reservoir that's estimated to have approximately 500 million barrels of oil in place with a recovery factor to date that's less than 1%.

Through our activity, the teams have been able to demonstrate the productive potential of multiple stacked zones within the Kreyenhagen itself.

We've undertaken those workovers, we've done those drilling activities and we've delineated with zonal well tests the productivity of individual portions of that reservoir. Individual wells within that reservoir have produced over 300 barrels of oil a day from vertical wells.

This is just the Kreyenhagen, now. Ultimately, when we look up and down this field, we see the same potential for stacked, laterals and other reservoirs, too. Ultimately, the size of the prize here could be large, and through our diligent field appraisal and the application of modern technology, we're striving to unlock this field to generate what could be decades of inventory for CRC.

That gives you a flavor of San Joaquin Basin. We're going to look at Ventura next, so I just want to play a video now, which really gives you a feel for the Ventura operations.

(Video Playing)

Darren Williams^ That's such a great video, which hopefully gave you a flavor for another star of operations we have in our portfolio, which is in the Ventura Basin, which as Todd mentioned in the video, was the birthplace of the oil and gas industry.

The reason the oil industry started in California, in the Ventura Basin is because there's so many hydrocarbons in that basin, they actually seep out at surface. So people just targeted those seeps to drill and found oil. In fact, our exploration team there still uses seeps as a good way to actually qualify their prospects when they're working the field.

Ultimately, though, the stacked pay, the consolidated land position that CRC has built up and our basin-wide operations, again, we're the #1 operator in this basin, provide us with some compelling investment opportunities. The team has been through a life-of-field process here as well as some regional prospecting and have generated a very robust inventory of opportunities for us.

When you want to see the kind of opportunities that we have here, the South Mountain oil field is a great way to kind of get a handle on that. In the Ventura Basin, South Mountain is our flagship asset.

It's essentially the core program that we have here, and it's the Elk Hills of this basin. The diagram on the right shows you the great interplay that we have between our exploration and development opportunities.

When you look at this diagram on the right, you'll see that we have over 10,000 feet or two miles, approximately, of stacked pay between the shallow Sespe and the deeper Pico reservoirs.

In the shallow Sespe alone, we have over 350 infill drilling locations identified, providing us with decades of oil focus driven locations, all within the footprint of our existing infrastructure.

And then secondly, we have these deeper Pico reservoirs, where once again, we have multiple development opportunities, but probably most exciting would be the exploration potential. In 2018, we drilled a deep exploration well in this field too that encountered multiple oil-bearing reservoirs.

With further appraisal, we're looking at this discovery having the potential to unlock 30 to 50 development wells directly underneath our existing infrastructure.

So once again, when we're actually looking to delineate and grow new areas, this is another good example. This time, instead of going along strike, we're going deeper underneath the existing fields and proving up new resources within our existing infrastructure.

When we look across the Ventura Basin, just like the earlier display, this is a 15 to 20-mile long trend, where the geologic setup continues throughout our own operated fields. And you kind of see the opportunity to repeat and expand that out.

Lastly, from a development standpoint is the Sacramento Basin. Within the vast basin, once again, we're the largest operator and we produce over 85% of the daily production within the basin.

Through our diligent life-of-field plan in here, we've generated a large portfolio of development locations within our Rio Vista, Grimes and Willows fields, which are among the largest fields within this basin.

Sac Basin has also seen a couple of recent impact exploration wells that have targeted multi-TCF potential. Through our large footprint and legacy operations, CRC is a dominant player throughout this basin, and we're well poised to benefit from any success that occurs in those programs.

With that robust development opportunities, our dominant infrastructure and our portfolio of exploration projects, the Sac Basin provides us with great optionality should we see gas prices change. And as Todd alluded to, it provides us with the ability to change our investments over a relatively short period.

So that kind of -- we talked there about the development opportunities. Now let's just look at some of the conventional exploration projects that we had.

From my perspective, we truly have an unparalleled portfolio of exploration prospects, which really provide us the feedstock to grow our core areas or develop new ones. I'm extremely proud of this asset base and the work the team has done over the last few years to build and high-grade this portfolio.

When you look across this, our peers, there's no other companies in the Lower 48 who could present to you a portfolio of over 150 near-field exploration prospects that are improving reservoirs and are world-class hydrocarbon basins where the operator has the offsetting fields often within a stone's throw away that you can directly tie into. And on top of that, we're applying technologies plus the learnings that we've had from our offset operations to unlock reservoirs and improve returns across these opportunities.

Generally, within our conventional exploration program, we're doing one of two things, and I've shown it already to you. We're either drilling deeper within existing fields so that we're proving up new reservoirs underneath our existing infrastructure, or we're expanding existing field areas, such as the Pleito Ranch opportunity that I talked earlier.

In addition, we're applying technology, the map on the right there, shows us using the seismic around field that we've developed with horizontal wells. And looking to seismic attributes, you can see the area to the north has the same attributes that remains untested. So our conventional exploration programs continue to deliver industry-leading success.

We have the opportunity for significant repeatability and running room through our deep inventory of analog prospects. From an investment standpoint, we're using both CRC capital as well as joint venture capital to execute these programs.

This slide really shows you the value that's being generated through the activity. When you look at these results, which kind of summarize what we've done since the middle of 2017, what I'd ask you is this, who else is showing you an exploration program that's drilled nine wells and has had seven of them funded by others, often on a promoted basis, I should add.

Who else is showing a $17 million net investment that's generated an MPV of over $200 million? And who else is discussing commercial exploration success in excess of 50%? I'd say, no one. Just to put some benchmarking around that, Wood Mac did a great study that kind of manages exploration performance.

For contrast on a global basis, the commercial success rates for exploration industry as a whole, in 2016 was 8%; and in 2017, was 5%. You can kind of see why we say we've got industry-leading success rates and are generating real value when you compare that to what we're doing at the CRC.

The best part is, though, as you've seen already, we have a strong portfolio of analog prospects that we can continue to develop this opportunity set and have a repeatable success across the portfolio.

In addition to our conventional exploration assets, though, we also continue to see major upside or option value provided by resource play opportunities within California. The opportunities for resource plays in California have garnered a lot of press or noise over the last decade or so. USGS made grand proclamations at one point in time.

However, the reality is there's less than a dozen wells that have truly tested unconventional resource play potential in California. The majority of those wells were actually drilled outside the maturity window. So they truly didn't really test what the opportunity set is there.

From a CRC perspective, we see the opportunity in the Lower Monterey, Kreyenhagen and Morena reservoirs. Each of these by themselves are world-class source rocks. Shawn alluded to it. Prior to joining CRC, I worked for Marathon and probably spent nearly a part of this decade in Oklahoma City.

And started up there what became the SCOOP and STACK play. As we went through that expansion and build out that play, what we looked for there is the same things that we see in our Kreyenhagen reservoirs as well as the other shale reservoirs within California.

We see a regionally extensive source rock with mappable oil, gas and condensate fairways, as shown by the map on the right. We see well observed overpressure, which gives you that reservoir energy and the ability to produce those hydrocarbons at higher rates.

We see a thick reservoir. For reference, there's a type log in the center of this display that shows the Kreyenhagen to be approximately 800 feet thick.

What I do to compare that for you is this is double the thickness of the core of the Woodford play and is actually about the equivalent of the Barnett and the Woodford combined from the Alpine High. And then the best part is, we've already demonstrated it’s productive.

We have vertical wells that have produced 300 barrels a day from individual zones. And you can see those individual zones highlighted by the green bars on that type log. So we've shown the potential for multiple stack zones within the shale reservoir that can be productive.

In addition to shale plays, though, we also see the potential for the hybrid play types, more akin to what you have in the Permian today. Again, in this area, we see the potential for multiple stack ventures. This log is showing you about a 5,000-foot gross interval with multiple stack targets.

We view this as really an emerging or developing play concept within ourselves internally. And most companies really wouldn't show you this, but from a CRC perspective, we have such a large position with our 2.3 million acres that we already own these plays and we have no problem being able to show what we're looking at.

So what I'd leave you with respect to resource play is this. CRC has been and continues to be dominated by conventional drilling activity, effectively with the Permian from 20 years ago.

You've heard lots of noise about shale plays or resource plays within California, but the reality is, most of these plays have yet to be tested and only CRC has the data or knowledge that truly describes these reservoirs.

Ultimately, we see significant upside and option value provided by resource play targets in California. And from our technical and operating position as well as our land position, we're well served to be able to unlock this potential.

So in summary for me, what you'll see is that CRC is fully loaded with a deep inventories of projects that will deliver the value driven growth we're looking for.

We talked about technology and how we're utilizing that to unlock resources and improve reserves. We have a large inventory of development opportunities that cannot only expand our existing core areas but develop new ones.

And finally, we have an industry-leading exploration program that's generating real value today as well as provides option value in unconventional resources. All told, when you look across CRC, we have a robust inventory of growth opportunities that can deliver growth for years to come.

So thank you for listening to me. Now with that, I get to introduce another Oklahoma individual. Someone who probably needs no introduction for most of you, Senior Executive Vice President and CFO, Mark Smith.

He came to us through a petroleum engineering background. I believe he went to the dark side and became an investment banker before coming back to the industry.

And now as we like to think, we've yet to have it validated, but we do believe Mark may be the world record holder for bank amendments, with that under his belt most recently. So with that, Mark Smith.

Mark Smith^ I appreciate that kind introduction. And I just got one question for you. Develop that wonderful accent in Oklahoma, really? It's nice to see so many familiar faces this morning.

Thanks for choosing the time to spend with us. You've heard a lot of good topics this morning. I just want to point out a few things that I know I heard, sitting off the side. You've heard the concepts that we've been tested, we've demonstrated resiliency, the potential of our asset base. We've made the hard decisions.

Some of you even said, we're punching above our weight class. By capitalizing on our diverse world-class asset base and having significantly reduce our debt, we strongly believe that we're now well positioned for value-oriented growth.

As Todd alluded in his earlier comments, when we spun, we had a near investment-grade balance sheet. As we move through the cycle, we worked diligently to do the right things. We didn't sell assets at fire sale prices.

Rather, we executed on a series of transactions with much more favorable economics and long-term benefits. In the process, we introduced complexity into our capital structure.

As a result, we've experienced the burden, the true burden of a deep, noninvestment-grade balance sheet. Now we all know we're back towards mid-cycle pricing. And with that, we're motivated to have a near investment-grade balance sheet to complement our investment-grade asset base that you've heard so much about this morning.

And we continue to be focused on strengthening our balance sheet. You've heard us say, we're not comfortable, well, it's just the raw quantum of debt that we have outstanding. We're committed.

We're committed to continuing to allocate our capital in a disciplined fashion, to reduce our leverage, to simplify our balance sheet, to increase our financial flexibility and to be opportunistic.

You've heard that we're committed to dedicating 10% to 15% of our discretionary cash flow to strengthening our balance sheet. So this morning, I'd like to round out our discussion by talking about these factors and how we're working to position ourselves to capitalize on our current momentum.

So let's start by addressing our current view of our third quarter performance. It's outlined on Slide 94. We're currently running 10 rigs. We're producing approximately 136,000 barrels of oil equivalent a day.

And we're still in the process of finalizing our numbers that may adjust somewhat as a result of PSC effects. We're producing about 62% oil. We've expect to invest roughly $200 million during the quarter in aggregate, $180 million of that internally funded.

Importantly, our core adjusted EBITDAX recall as before the effective hedges we estimate to be in excess of $350 million, up sequentially approximately 3%. So we're excited about the outlook for the remainder of 2018 and how we're well positioned for full year 2019.

So just what is our financial strategy as we move forward? Well, one of the key aspects of our financial strategy has been to continue to delever opportunistically, to strengthen our balance sheet. If you look back at the steps that we've taken as we move to the downturn, we worked to strategically seize market opportunities. We executed on a debt exchange.

We executed on open market debt purchases. We executed debt per equity swaps, and we executed at cash tender. In total, we've reduced our outstanding principal amount by $1.7 billion or 26% from our post-spin peak.

When we spun, the conventional wisdom was that you guys are over-levered. You got too much debt. You need to sell assets. You need to use proceeds to pay down debt.

We looked at it. We looked at that seriously together with the other alternatives that I discussed. And what we saw was there were longer-term benefits if we choose the nonconventional path.

If we would've chosen to sell assets, we've all been proud to monetize assets at 10 times cash flow. So to have $1.7 billion of principal reduction, we would've given up $170 million of cash on an ongoing basis.

Instead, what we did was a series of transactions that resulted in incremental interest cost of about $43 million. Big difference -- $43 million versus $170 million. That's the way you can expect us to act going forward.

We'll look at all options and I want to choose those that you've heard this morning are the most economic for us. And we tend to use the absolute VCI metric, but we're still not comfortable with the absolute levels of debt that we have, and you're going to see us continue to chip away at it.

Another key aspect of our financial strategy, to strengthen our balance sheet through strategic acquisitions. A great example of this is Elk Hills. Pro forma, Elk Hills acquisition, our debt stood at $4.9 billion.

It's a credit accretive transaction. It reduced our leverage by over 0.5 turn and improved both our assets as well as our cash flow coverage. As Todd said, recall that our Ares joint venture transaction facilitated the Chevron transaction.

We used $120 million of the proceeds from the Ares transaction to repurchase roughly $150 million of phase of our second lien notes and our 2024 notes. Importantly, when you look at this slide, we don't have any significant maturities before 2021.

Also importantly, recently, our second lien notes were just upgraded by S&P to a single B minus. So we're still focused on reducing absolute levels of debt, chipping away and again, we'll continue to take advantage of market conditions as they present themselves.

Another key aspect of our financial strategy is our hedging program. Our longer-term objective, as you've heard, is to hedge approximately 50% of our oil production out to 18 to 24 months.

As Todd said, we weren't allowed to hedge before we spun. So we began our hedging program as we entered the trough, deep dive. It's difficult. We financed ourselves with calls to support floors we put in place and also use a series of time spreads. Now we see most of those rolling off as we move into 2019 and we're transitioning our book.

If you look at it, we're transitioning our book largely to floors. And of note, and Todd indicated this in his earlier comments, we updated our hedge portfolio in our website. We just executed another series of hedges on the back of this price strength.

And we added largely to the back half of 2019 and into 2020. We've got floors at about $75 a barrel on approaching 50% of our production in the back half of 2019.

I want to point out additionally, in the recent Fed action, we hedged some of our interest rate exposure. Did that earlier this year. We have a LIBOR cap in place at 2.75%. It's a three-year obligation, three-year transaction. Notional amount of $1.3 billion.

And we'll continue to be opportunistic with our hedging program, and we'll work to underpin our cash flow and support of capital program as we move to 2019 and beyond.

Another key aspect that you've heard about in terms of our financial strategy is the thoughtful use of relationships, particularly joint ventures. Why is this important to us?

Well, they allow us to accelerate value. They allow us to participate in the growth wedge from other folks' capital. They allow us to de-risk our inventory. Importantly, they allow us to manage our capital.

We have approximately $600 million of current potential development exploration capital earmarked for us. $260 million of that has been formally committed, $154 million has been funded.

Now I just want to remind everyone that for every $100 million invested in our development programs, one can generally expect gross peak production in the range of 3,500 to 4,000 barrels of oil equivalent a day with gross potential reserves generally in excess of 12 million BOE.

And if you can see from this slide, importantly, that current pricing we see, reversion occurring before any significant maturities that we have.

I also want to point out that as each of our partners has placed their nose under the tent as it relates to involvement in joint ventures with us, they saw a larger exposure to our investment-grade asset base, whether that was BSP, whether that was MIRA, whether that was Ares.

So we consider we have an investment-grade asset base, very proud of it. And our long-term objective is to have a near investment-grade balance sheet to augment that asset base.

Now I spoke about the resiliency of our asset base. You've heard that from Darren. You've heard it from Shawn. You've heard it from Francisco. What does our reserve base look like today?

So we've taken a recent look at it. This isn't just a midyear roll forward that you see so many of our peers execute on, rather this is a full review of our reserve base that's been signed off by Ryder Scott.

1P reserves, 731 million BOE, up 18% from year-end 2017. We see this increasing further as we continue to do our work as we move into year-end in preparation for our year-end reserve report. Importantly, when you look at this reserve report, it shows a funded development cost of less than $8 of BOE.

Now how does this reserve base translate into value for the firm? In terms of NAV at $75 held flat, we see an asset value greater than $20 billion. Look closely. Look at that dotted line and look at where it cuts across with respect to the PDP component.

Our enterprise value is roughly equivalent to only PDP value. Overall, our NAV is much, much greater than our current enterprise value. So it gives us, one, a sense for where we're going, further indicates as we have lots of room to run.

Now you've seen this slide before. It goes to the inventory, but I want to use it to underscore that our reserve base translates into a deep inventory of actionable projects that we can pull on but through our portfolio allocation process that you heard earlier and use that to drive value as we go forward.

At $75 flat, we have over 1 billion -- up 1 billion BOE of projects, all the VCIs greater than 1.3 times. F&D, less than $10 of BOE. Over $10 billion are currently identified investment opportunities.

So we had many years of work ahead of us. And given this asset base, it will significantly reduce debt, and we believe that we're well positioned for value-oriented growth.

But how will we allocate capital in this inventory 2018? We talked about it as earlier in the year. We want to address it again today. We expect to invest between $650 million to

$700 million, including our joint venture capital. $400 million of that will be funded from our internal capital, internal development capital.

It will be directed toward oil-related projects, largely conventional waterfloods and steamfloods, focus on our core fields that you've heard about, Elk Hills, Wilmington, Kern Front, Huntington Beach. And we'll work to further delineate Buena Vista, Ventura and southern San Joaquin as you heard from both Shawn as well as Darren.

Our capital plan will be dynamic. We'll scale it based upon expected cash flow. It won't be set in stone at the end of this year or the first of next year like so many of our peers. We'll work to flex as we go through the year based on our expected cash flow and how that may change over time.

So what's our view of CRC as we go forward? Many of you have seen this type of slide from us before. We review our various planning scenarios on an ongoing basis. That's what you see here.

As we've stated, one of our expectations is to dedicate 10% to 15% of our discretionary cash flow to strengthen our balance sheet. The remaining roughly 90% of discretionary cash flow would be put back in the ground under the opportunities that I've just outlined.

With this, our expectation is oil production growth of approximately 7%. You see that on the slide in front of you. Another expectation is that with that focus on oil and our increasing margins, our EBITDAX growth will register in the low to mid-teens, roughly twice the rate of our oil production growth.

So, expect margin expansion as we continue to focus on oil, leading to recent EBITDAX growth of approximately twice the rate of oil production growth.

Now another expectation is reduced leverage. So if you invest like that, you see that kind of growth in EBITDAX. And what does that result in? You see that on this slide. As we review our various planning scenarios, we see significant deleveraging simply from reinvestment back in our existing projects with a portion of that peeled off.

And in this exercise, we assume roughly 10% was used to repurchase bonds in the open marketplace. It doesn't consider other alternatives that we might have available to us, like I demonstrated earlier that we've executed and you've seen that we executed on, otherwise, it's pretty straightforward.

If you look at the blue bar there at $75 case, you see that as we move through 2019, we're in our target debt-to-EBITDAX range that we talked about in roughly just over 3 times. The question is, well, why $75? Is that reasonable?

We're currently well above that. Today, crude is trading right around $85. Forward curve doesn't approach $70 until 2022. And coincidentally, that's about the time or after some of our significant maturities.

So if you want to look at this another way, tested another way, go back to what I said earlier about our adjusted core EBITDAX, $350 million.

It's before the effect of hedges. Recall, I said that hedges roll off and it's largely floors in 2019. Annualize that $350 million, get roughly $1.4 billion of EBITDAX. Compare that back to our existing debt level, you're roughly 3.5 times.

So I'm just giving you some perspective that you can look at the various ways and you can triangulate in on the current price environment, the Company being in a position where we're approaching what we've considered for some time to be our target leverage. But we're not comfortable there.

We want to continue to chip away at our absolute levels of debt. So by being disciplined with investing in existing projects and modestly chipping away our absolute levels of debt, we see reasonable growth. We see further derisking of the company. We see strengthening of the balance sheet.

In summary, by capitalizing on our diverse asset base and having significantly reduced our debt, we're now well positioned for value-oriented growth. You're going to expect to see us continue to focus on identifying and evaluating always, we can work to continue to add value broadly across the organization. Thanks, and with that, I'll turn it over to Todd.

Todd Stevens^ Thanks, Mark. Hopefully, you'll think of this morning as time well spent. We sure appreciate you being here and spending some time learning about our company.

For us, we want to remind you that we understand, just like it was four years ago on this room, debt is still an important issue for us. I sat in that room with the one chapter, our last one, and everyone said, Hey, how are you going to bring down the debt level?

We understand that. That's important. And then to Mark's point, we chose better value alternative every chance we could to do that.

Now we understand where we sit today in the value proposition to bring down the absolute debt amount and how that could accrete to our equity and ultimately unlock the equity value that's being hindered by the absolute level of debt. We understand that. But it is an all-the-above approach. We don't want to overstate that enough.

As you see here from this little chart, it looks like an atom of some kind. But to be serious, we have taken every path. And we will do the path that makes the most sense, depending on the fixed income markets, the equity markets.

Whatever makes the most sense. Monetizing assets, monetizing royalty, royalties, one-sizing, infrastructure, we've done that already as you've seen to help facilitate a great acquisition for us that created a lot of shareholder value.

Again, we're not too proud of any asset that we won't look to do things that will make sense for our shareholders. And we understand the absolute debt levels coming down, and part of that is growing the EBITDA. We understand that. And it's something that we want to make sure you get when we get. That's something at the forefront of our mind.

So, as your takeaway today, I think the most important thing to understand is there are so many ways to win with CRC. You're not going to find an oil and gas province like California. It's rather unique in so many ways. It's just the absolute amount of all production in the state relative to the world. It's underdeveloped and under explored.

We have a dominant position from both mineral acreage, from production, a knowhow, diverse drive mechanism, diverse basins. It's the fifth largest economy in the world and it has a chronic energy shortage.

72% of the oil is imported. That's why we have Brent pricing. 90% of the natural gas is imported. 1/3 of the electricity is imported. So you get a feel for it why it's so important to have native production and pay those taxes.

And again, hopefully, you've learned through the day how important conventional is and the economics and value proposition of conventional is so important for us and how that permeates through the CRC playbook, as Shawn and Darren talked about our operations.

And we do have unparalleled inventory as a company. I think you've seen that, we've shown that a few times. And you can understand the value proposition and how the team -- you won't find anyone more focused on value, with the backdrop ultimately at the end of the day of the balance sheet.

And we understand that we have great world-class assets with an investment-grade type of assets that ultimately will have an investment-grade type of balance sheet. We strive to get there but we understand it's not an overnight process.

And we thank you for being here and if there's one thing you can remember is drink your milk. So with that, we'll take some questions.

QUESTIONS AND ANSWERS

Unidentified Participant^ So you just mentioned a recurring theme of tremendous inventory opportunity and that came up in a bunch of the slides as well. And inventory count is materially higher than the PUD count. If you look at current production against improving reserves, you have over 20 years of inventory.

And if you look at it against the prospective reserves, it's well over 100 years. So, against that backdrop and given the balance sheet, why not do more JVs to really accelerate and bring that cash flow forward? And why spend capital on exploration to grow inventory when you talked about how much you already have?

Todd Stevens^ Well, it's all about value. And I think you hit the nail on the head with JVs. We're in constant discussions with new parties of varying size. We're close to executing some more exploration JVs. I'll say they're smaller scale. From the large development scale, our existing partners are very happy. We could look to do more with them and we had those discussions. But we've also looked at new partners.

And so I think it's something that definitely at the end of day we're going to do what's best from a value perspective. And it might be monetizing them. It might be selling them to somebody. But for us, we're having those discussions right now and really in this environment, you have to tweak the terms.

They have to be a little bit better for us, because it has to compete against your internal capital and how you want to do those things and how do want to bring that value forward. So it's not as quite as simple as you have this large portfolio and trying to optimize it. But we are having those discussions and we view that as something that's happening right now.

Unidentified Participant^ And then, you mentioned IMO 2020 at a recent conference, and I think alluded to it today as well. Can you talk about the sulfur contents of your barrel? And how you just more broadly think we're positioned for IMO?

Todd Stevens^ I think we're well positioned. Overall portfolio of the Company has about 1% sulfur. Is that on track? Yes. And I think the API's a little better. Our Elk Hills crude are arguably the feedstock that blends all the other feedstocks in California. And it has lower sulfur and higher API.

We think we're well positioned. Pad 5, as Francisco showed, has extremely complex refineries. As I was told by somebody who knows a little bit about refining this weekend -- he used to run one of the largest refineries in the world -- most of the crude that's coming out of the Permian and the shales is refined into distillates and gasoline and doesn't really make money for refiners.

They want crudes that are a little bit heavier that they can turn into chemicals, lubes, asphalt and those types of things. And that's why you see a lot of those being exported into China and India, because it becomes a part about the economics of refining.

And so I think we're uniquely well positioned, given that the refining complexes in the Bay Area and the L.A. area had been built to run California and ANS effectively.

Kalei Akamine^ Repurchasing the debt has obvious value accretion benefits and the recent bank amendment that you've done gives you the flexibility to chase that opportunity down. Why is it such a small part of the cash flow wedge at 10% to 15%? Why this range? Does it change under the new oil prices?

Todd Stevens^ Yes, I think we want to lay those terms out for us going forward. We talked about being balance sheet strengthening not just necessarily buying back debt, because sometimes the best value proposition might be doing something else with that cash flow.

And it could be putting it back in the ground. It could be that, Shawn says, Hey, I have these great workovers that have six-month payback and it has a 6 VCI. I think you're going to jump on that, too.

So from our perspective, when we say balance sheet strengthening, it’s going to be the best value proposition. And I think it could be, if our seconds this morning, I know we're trading up in the 96 range. It might be them, they're fairly liquid. But some of the other debt is more difficult.

But don't discount all the options we have. I think as prices climb, we're not growing for growth's sake, as I said before. It's more we're going to grow for value’s sake. And, I think differentially as you get higher prices, more of our investments going to go to balance sheet strengthening.

Kalei Akamine^ And can you put some clarity around the debt repurchasing? Is the goal to chip away for the next couple of years and then refinance into a more simpler structure? At the same time though, as some maturities are coming due?

Todd Stevens^ I'll use Mark's words that he uses in our management meeting, the most egregious portion of the capital structure is the 1.5 liens that are LIBOR plus 10 3/8. And when did they come due?

When did the make wholes occur? When can we call them? And, to give you an idea, the 1.25 from 2017 was LIBOR plus 4.75. They were much better environment than that at this point in time from the fixed income market.

So when you start looking at capturing the fixed charge aspect of that, I think there's a really great value proposition as we go all through the year and the make wholes come due. And then the second liens.

But you’ve got to remember, the second liens have no covenants, they're 8% debt. We have to look at that going forward, depending on what the opportunity set is in the fixed income market.

So I don't think we'll come with one fell swoop, I think we'll chip away. But I do think you'll see us act on the 1.5 liens in a timely manner. I can't say it's going to be this year.

But I think if you went back and looked at the chart I have in my briefcase talking about as the make wholes roll off and calls appear, there's a logical place there where you could do something that would create value for our shareholders.

Josh Silverstein^ Josh Silverstein from Wolfe. Just to understand the 10% to 15% discretionary cash flow, does that mean you trying to target zero cash at the end of the year on the balance sheet because you're using the rest of that for debt reduction? I just want to know how we should be thinking about that.

Todd Stevens^ I think the way you should think about it is, with these round numbers, let's say there's $1 billion of discretionary cash flow. Let's assume $100 million to $150 million we're going to be utilizing for balance sheet strengthening.

And if it happens to be that we have a zero balance because of that, it could be, but it could be investing in the business; it could be buying something. It could be doing some creative transaction other than that or investing in the business.

So I don't think we're going to look to maintain a zero balance just to have a zero balance. But I think it's more that we're looking to differentially start chipping away the debt, bring it down to an acceptable level, understanding we're in a cyclical business and we don't want to be in the same situation we were in the last part of the last cycle.

Josh Silverstein^ So 90% of your spending will go towards generating 7% production growth at $75 range?

Todd Stevens^ Yes. $75, I think that's right. Eighty-five, 90% will be towards investing in the business, given some modest growth rate but great cash flow growth rate. And from that perspective, we will invest the balance differentially if it was a higher price deck into balance sheet strengthening further.

Josh Silverstein^ And then the downside, $65 case, doesn’t show any production growth or EBITDA growth here. Do you generate positive free cash flow in that environment? Or do you just sustain the business at that level?

Todd Stevens^ I think in every environment, we generate positive free cash flow. Again, what Mark showed you is that more of an academic exercise where you're saying, I'm going to hold this stuff static and this is what's going to happen at this price deck.

As you know, as the management team, we've never just done what the model says. We've been able to engage and do creative things along the way to create value on the fringe and in some cases substantive value.

Unidentified Participant^ One more point of clarification on the discretionary cash flow. Are you equating that to EBITDA? Or is that less a certain amount of CapEx, maintenance CapEx?

Todd Stevens^ It's traditional discretionary cash flow. It's going to be very close to EBITDAX.

Mark Smith^ EBITDAX less interest.

Todd Stevens^ Less interest expense.

Pavel Molchanov^ So as you guys delever, how are you going to approach hedging? You've been highly hedged but in the context of your current balance sheet, is it safe to say that you'll deemphasize that increasingly going forward?

Todd Stevens^ Well, we hope to one day be in a situation where we don't have to worry as much about hedging, but I think, as far as our business being cyclical, commodity business and having a balance sheet structure, you to have to hedge a certain amount. Again, you're paying for a time and volatility so that's why we talk about 18, 24 months out.

In a backward-dated market, it's more difficult to hedge and capture that time and volatility. So for us, I think, for the foreseeable future, we'll be hedging in the same way we are.

At one point in time, we have a strong balance sheet and we could have a different discussion on how we return capital to shareholders and all those things. But that's out in the future a little ways.

Mark Smith^ I just want to add to what Todd said. He did (inaudible) differentiate itself from a lot of our peers. As you heard us talk this morning, what you saw was a lot of activity [just driven by] (inaudible) in contrast. And as a result it gives us the flexibility of [flat sort of] capital structure (inaudible) of our peers now. And so that (inaudible).

Todd Stevens^ Perfect.

Joseph Von Meister^ Do you guys have a view on how the change in the bunker fuel rules will impact oil prices going into 2020 when they go into effect?

Todd Stevens^ We have a view and we believe, based on our crude, it's going to be positive. But again, that's not what we do. So we don't know how the refiners will actually act. We've been trying to do the best work we can on that but we do feel like it will be a net positive for us if it comes to pass the way that they're talking about it at this point in time.

Unidentified Participant^ What's the average VCI of the 2018 capital plan? And in a mid-cycle pricing environment, what would be your target for 2019?

Todd Stevens^ 2018 -- do we ever say what it was? I want to make sure.

Mark Smith^ (Inaudible)

Todd Stevens^ So we think it would be around 1.7 fully loaded. That means all facilities, overhead, everything included. And you saw what we showed on just a drilling program with the 2.1.

And then we think that '19, we'll have a reasonable -- at $75 obviously would be a 1.7 plus. I would think that at 65, if you thought 65 was the bottom end of the range, you're going to probably have around 1.6, 1.5 range from that perspective.

Paul Sankey^ Paul Sankey of Mizuho. One of the great advantages of your stock is the 100% essentially Brent oil price linkage that you have for your realizations. Can you talk about the risks to that, in so far as there are such a big US differentials?

I, guess California, as you mentioned, a major importer of oil. You'd assume that you'd retain the linkage. But, if you could just give us your thoughts on any risks that there might be to a deterioration of that relationship?

Todd Stevens^ We are tied to Brent entirely because of the 72% imported, about 10% is from Alaska and then the balance is waterborne -- Saudi, Iraqi, Colombia, Ecuador-type crude that's coming into the states. I guess, the best way to look at that is when the price spiked a decade ago, to well over $100 a barrel, they started trying to rail crude to California.

Greg Armstrong is retiring, but I used to talk to Greg Armstrong a lot and Plains All-American about this. And he said, that’s sort of a $12 to $15 per barrel value proposition to rail in crude.

So you see that on the margin occasionally but it's gone to almost zero. And so I think no one's going to build a pipeline, so it's really waterborne or rail is what you're talking about.

And I think the value proposition if you said you had to pay $12 to get it, it would have to be a pretty wide differentials. And then you have to be able to build a rail terminal somewhere. There's very few in California and very few people that want you to build them, too.

So I think the differential and the tying to Brent is fairly safe. Our peers in the state haven't been investing the same level. They didn't, knowingly managing their decline. So, I think from our perspective, I feel pretty solid about our tying to Brent and even solidifying even more actually with the IMO regulations.

Paul Sankey^ The offset is obviously hedging. Are you saying that you'd be adding more hedges now that oil is above some of your scenarios?

Todd Stevens^ We have been, through the balance of '19, and we have added it in the first quarter of '20. All floors effectively, mostly ran 75 and in some cases, 80.

Paul Sankey^ And is there a maximum you'll go to, to retain leverage to the upside?

Todd Stevens^ We targeted about 50%, and historically, that's what we've gotten to. So I think 50% is a good target then we maintain leverage more than that.

Unidentified Participant^ I was wondering if you could talk about the value of any non-E&P assets in the portfolio? And specifically, do you have any surface rights value to any of your acreage in the L.A. Basin?

Todd Stevens^ We do. Surface acreage in the L.A. Basin -- probably the most valuable surface that we had, you heard Shawn talked about the Huntington Beach Field and the 94 surface acres there, and you saw the picture. It literally is on the beach. That is some of the most valuable real estate we have.

We have lots of other surface but not as valuable as that. That's, arguably, depending on what you believe, is worth hundreds of millions of dollars. And we're looking at creative ways now to even partially develop it.

And there's no developer that wants 94 acres. As he told you, it's the size of Disneyland. It's pretty large, but there could be some case here where we partially try to monetize some of the acreage and manage the field from the remaining acreage.

So it is something we understand, and I think it's probably not representative in our shares, but it's probably well in excess of $300 million of value -- that acreage, literally on the beach in Huntington Beach.

Unidentified Participant^ Anything else in the portfolio we might be missing?

Todd Stevens^ From the surface acreage, we do have some minor things here and there. But they're not substantive like that. They're millions of dollars not hundreds of millions of dollars. Other assets, infrastructure, royalty.

Again, I hinted at it and talked about it, but our low royalty rate that's something, if we were to even get double our average royalty rate to 10%, I think it's an enormous value proposition and can bring down the debt overnight if we did something like that.

Unidentified Participant^ I think you guys tried to make a lot of comparisons to shale. And I think you had a slide that recurred a couple of times throughout the presentation, that looks at your inventory.

How do you think about the payback period within those projects that you're highlighting there in inventory? I know you give your VCI metric, but I think you outlined that shale has pretty quick paybacks. How do you guys think about payback period on yours?

Todd Stevens^ Yes, that's something depending on the opportunity set there. We had to use some shale examples because for some reason that's only the thing that some people understand. So we wanted to relate it to something they might understand.

But I think our shortest payback is literally weeks, months on workovers. And, particularly in this price environment. But, I think your average payback is 18 - 24 months on our capital projects and that includes all the facility spending.

As prices climb, clearly, the payback and the performance will change and that will come shorter and shorter. But I think at this point in time, if you looked at the portfolio, that's kind of what you're looking at.

Amer Tiwana^ Amer Tiwana from Cowen. You talked about the potential debt for equity as a value creation exercise, because it would derisk the balance sheet and potentially make the equity more valuable.

Can you talk a little bit about how you think about it in terms of whether it's the equity price or the oil price? Or at what point do you think you could potentially do such a thing?

Todd Stevens^ So I guess we were super stingy with equity during the downturn. We did two, as Mark pointed out in the slides, debt for equity exchanges.

At that time, the trough at 2019 where we effectively issued equity at $45 plus or minus a share, and the price deck at that time started with a three handle. So we felt pretty good about the value proposition there. The other two times we issued equity were part of our Chevron transaction, and the other one was with Ares.

And so I think for us, again, when we evaluate where the value proposition is and how we trade -- and as you saw from the slides Mark showed up here on overall how we trade as a proportion of our overall value -- you have to get to a point where you're representative of that value.

And also, again, we don't want to create overhangs. I don't want to be a serial issuer if we got to that point. If we need to get to that point, I don't know if we need to get to that point, depending on where the prices go from here.

But if we got to a point where we said, we could have the balance sheet where we wanted it for the long term and effectively derisk the enterprise and cause the equity to trade up even more because of issuing that equity.

And, I don't even know if necessarily it would be in a swap, but however, it might structure itself, if we did something, we'd like to say you captured the extreme volatility and are tied to Brent. But I think that's how we think about it.

Again, we're not going to do something because you can do it. We're going to do it because it's the best value proposition for our shareholders and it's in the best interest of our shareholders. And again, we've been stingy to get to this point and not do silly things. So don't expect us to do silly things at this point, either.

Unidentified Participant^ When you referred to about $1 billion of discretionary cash flow, do you take into consideration JV payments? Other financial JV was Benefit Street Partners and then Ares JV?

Todd Stevens^ I just made that number up. So just don't get too fixed…

Unidentified Participant^ No. I understand it's approximate.

Todd Stevens^ Yes, that would be exclusive of those.

Unidentified Participant^ Is there guidance for JV partners with, let's say, for Benefit Street Partners because that's where the production has aggregated and then the payments are sent out, right? So at $75 Brent, is there an estimate for the dividends for that JV?

Todd Stevens^ Oh, for the reversions? Is that what you're...

Unidentified Participant^ Yes, well...

Todd Stevens^ Mark showed a little slide on this, but if you think about it's always on the last dollar invested. So if we don't invest any more money with Benefit Street, we think it's going to be 9 to 12 months out. The reversion occurs at $75 Brent.

But it's also not just price, it's performance related, too. So I think that's important to understand when that reversion occur -- but the reversion of Benefit Street will show up only as cash flow, not as production because of the way it's accounted for. The reversion with Macquarie will show up as actual production and cash flow, because it's a more traditional joint venture.

Unidentified Participant^ Can you talk about your spending needs for facilities that you've transitioned more into a growth mode? And how much of your growth over that five-year horizon is going to come from facilities that are already existing?

Todd Stevens^ I think our facilities has traditionally been somewhere between plus or minus 15% of our overall investment program. So I don't think there's any reason to think it's going to go down or up materially from there, so it's always going to be around there.

If you step back an even step further and said, what are your demands from mechanical integrity standpoint each year, it's about $25 million to $75 million in any year. That's what we tell people. It's around $50 million. And that's what we went down to in 2016 when we went back to cutting everything back.

But I think it's a fair representation if you use the pie chart we put out for 2019 to say we're going to be within those limits. And again, we feel pretty good about it going forward. And I think exploration will still be a small portion of that, but a growing portion given our joint venture partners there.

Okay, well, thanks so much for coming again. We're going to have lunch right here in the back. So adjourn, and we'll see you. And again, thanks for spending your time with us this morning.