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<<Mark Lear, Analyst, Jefferies LLC>>

So, I'm Mark Lear, Head of E&P franchise at Jefferies and thanks for all – you all for attending. But, pleasure to wrap up today here with California Resources, a little bit of a departure from the conversations we've been having around Permian, Eagle Ford and some of the unconventional resources. But still one of – what's been one of the best performers year-to-date, California conventional oil producer. And with that, it's a pleasure to have Mark Smith, EVP and CFO of the business. So, thank you very much.

<<Mark Smith, Senior Executive Vice President and Chief Financial Officer>>

Thanks, Mark. Appreciate the opportunity to be here. Always a great to be the last individual between the audience and the drink. Again, thanks for having us. We've been tested. We've demonstrated resiliency of our asset base. We've made the hard decisions, as Mark alluded to that paid off this year. Some have even said that we're punching well above our weight class. We continue to be focused. We're focused on capturing the value of our portfolio. We're focused on disciplined capital allocation and we're focused on driving operational excellence and we're focused on continuing to strengthen our balance sheet. By capitalizing on our diverse asset base and having significantly reduced our debt. We believe that we're now well positioned to continue to execute on our value driven strategy and deliver sustainable growth.

So what was our performance during the third quarter? While we were running 10 rigs, we produced an average of 136,000 barrels a day up 6% over the prior year period. We're producing 62% oil. Our EBITDAX for the third quarter registered $308 million was up 65% year-over-year. Our EBITDAX margin improved to 38%. Importantly, our core adjusted EBITDAX for the quarter was $400 million that was up sequentially 18%.

For the nine months, we generated $1 billion of core adjusted EBITDAX. And we feel that that measure is important, because it's before the effect of our hedges, we consider it's representative the cash generating capability of the company, particularly as a profile of our hedge portfolio changes as we move into 2019. I'll talk about that more in a bit.

During the quarter, we invested $158 million. It was funded from internal cash flow. The remaining $38 million of capital was funded by our partners, some of who was in the room with us today. And we value those relationships, again, talk about those a bit later. And those funds are $38 million was dedicated toward JV projects. We're pleased with our performance and we look forward to how we're positioned for full year 2019.

So just what is it that differentiates CRCs asset base? So Mark alluded to it a little different than a lot of the folks who've been presenting earlier today. I like to say we have the characteristics of a major encapsulated in an independent. Truly, a world class investment grade asset base. Consistent with this, one of the key facets that differentiates CRCs asset base is diversity. As you see in front of you, we operate in multiple basins. We operate four of the largest fields in the U.S., all multi-billion barrels in terms of original oil in place. Multiple drive mechanisms, whether that's conventional primary or whether that's waterfloods, steamflood, even some unconventional.

It's important to note, we have a significant natural gas optionality. It's represented as you can see in the slide in front of you up north in the Sacramento Basin. We continue to monitor the natural gas outlet. And we've commented on the fact that we have the flexibility if warranted to shift the majority of our production to natural gas over roughly a five year timeframe.

Another key factor that differentiates of our asset base, its size, the share volume of oil in place. We have world class fields, as we talked about 50 billion barrels of original oil in place these fields. Nine fields each have over 1 billion barrels of original oil in place. Characterized, as you can see in the slide in front of you by low recovery factors. So we have lots of work ahead of us. Common theme, you'll hear that as we move through the talk together.

Another key factor that differentiates CRC is the quality of our reserve base. Our proved reserves at July 1 were 713 million Boe. That's not simply a mid-year update or roll forward, there was a full reserve report and it was signed off by Ryder Scott. It was up 18% over year-end 2017. This reserve level, I want to point out is very close, approaching that of our spin, despite prices being roughly 25% lower and having production runoff since.

Our reserves are characterized by very long lived nature, 15 year R/P ratio, shallow decline rate. Notice here that our 2P reserves are in excess of 1 billion barrels of oil equivalent. Importantly, our finding and development costs registered to $6.82 in 2017. That's the third year that they were less than $10 a Boe. Our organic recycle ratio registered to 2.1 times in 2017, three year average 2.8 times.

Now my experience finding an E&P company that can demonstrate an – excuse me, demonstrate a full cycle ratio approaching two times for an extended period of time is rare. Another factor that differentiates CRC is the deep regional insight we have. We're the largest player in California, 2.3 million net acres, 60% of that is held in fee. Most of our position is either held in fee or HBP, held by production,

So we don't have the pressures that many of our peers do in terms of drilling and try to save leases. We can make truly economic decisions. Provides us with flexibility, optionality. Our asset base is – I like to say is underexplored or underexploited. You can see from the slide that most of the activity in California has been less than 5,000 feet. So there's lots of potential deep. We have the largest 3D seismic position in the state and it gives us proprietary insight and lots of running room, again, common theme.

Another factor that differentiates CRC is our favorable market. Many don't realize that California is the fifth largest economy in the world. It operates in a continual energy deficit. Need more energy than is produced within the state. We like to say it's an energy island. There's very little in terms of pipeline infrastructure into the state. So it's the domestic – little domestic production that occurs in the state. Most of the oil comes waterborne into the various parts within California. And so the marginal barrel into California is a Brent barrel. And so we get our pricing is based on Brent. Very healthy realizations, third quarter, for example, 97% of Brent.

It reflects the ongoing strong demand for California crude. Importantly – it's important to recognize at California crudes are used to optimize, it's important in the overall crude slate for the California refineries used to optimize their slates. On the natural gas front, I talked about that earlier. We also have the – not only the ability to lever our portfolio, but also to take advantage of our capacity, our infrastructure that we have in place and allows us to rapidly supply additional needed natural gas to the markets. We saw that in the summer, for example. And in a very relatively short period of time, you see that showing up in our third quarter financials, we were able to supply the markets in a way our margins were $25 million in the third quarter from that activity alone.

Another factor that differentiates CRC is our net asset value. You can see from this slide that at $75 held flat, our net asset value in excess of $20 billion. If one discounts at $65 held flat, our net asset value is $16 billion. So our current enterprise value is equivalent to less than our PDP value. Let me say that again, less than our PDP value. No value to unproven, no value to the significant complimentary infrastructure that's in place, no value to our land position. So overall, our NAV is much, much greater than our current enterprise value.

It gives one a sense for where we're going, we're valued today, but where we're going. So again, the common theme, lots of room to run, lots of room ahead of us. By capitalizing on our diverse asset base and having significantly reduced our debt, we're well positioned to continue executing on our value, on this strategy and delivering sustainable growth.

One of the – so what is CRCs operating strategy? How's it compare? How should we think about it? Well, one of the key tenants of our operating strategy is to thoughtfully develop our large inventory of actionable projects, as a reserve base that I spoke about just a few minutes ago, thank you. I went backwards instead of forwards, I apologize.

Thank you. Our reserve base that I cited just a minute ago, translates, excuse me, into a deep inventory of actionable projects. At 75 Brent in the slide in front of you, you see that over – we have over 1 billion Boe of projects all with VCIs in excess of 1.3 times with finding and development costs less than that $10 barrel number that I cited earlier. There's over 10 billion of current identified investment opportunities, so again, many years of work ahead of us.

Another key tenant of our operating strategy is disciplined capital allocation and one simply has to look back to our spin and the actions we've taken sensitive to be able to demonstrate that. One example is how we proactively adjusted our activity levels in our mix as we've gone through this cycle.

As prices fell, as you see in the slide in front of you going back in the latter portion of 2014, we had the flexibility quickly and meaningfully pull back our rigs in order to work to stay within and work within our cash flow. I like to cite the fact that when we respond on December 1 of 2014, we were running 27 rigs by the time we exited the month, we were down to six. By the time we got into January – end of January, we were down to three. I felt like we would have the ability to be free cash flow positive by perhaps June of 2015. We were actually free cash flow positive within just over three months.

So it gives a sense for the strong flexibility in our asset base and our ability to flex and our dedication to stay within cash flow. We've been focusing on staying within cash flow before it was fashionable. As prices increased as we went through the 2017 timeframe we worked to increase our activity levels and we maintained a keen eye on liquidity. We began to transition to offense. Today we're focused on value driven activity, sustainable production growth, while dedicating 10% to 15% of our discretionary cash flow to continuing to strengthen our balance sheet.

Another example is the framework that we use for a capital allocation through our commodity price cycle. Now this slide works to show the way in which we approach a downside environment. That 2014, early 2015, 2016 timeframe that I addressed. There we work to protect the base. We focused on steamfloods and waterfloods emphasized workovers very, very high value projects in terms of opportunities. We used a secondary measure for capital allocation looking to pay-out in order to preserve liquidity. As we moved into a mid-cycle price environment, we've tended to invest in value oriented growth projects. We focused on longer term value with improved liquidity, we've worked to relax to a small degree the payout criteria that we used in the lower – in the earlier part of the cycle.

Another key aspect of our operating strategy is leveraging – excuse me, is leveraging our knowledge, as well as our infrastructure associated with our primary operating areas. One great example of this is Elk Hills. Recall that Elk Hills was a previous strategic petroleum reserve, 10 billion barrels of original oil in place here, producing from the early 1,900. We've operated here for over 20 years. We acquired the interest – our interest from the U.S. government, it has a very integral, complimentary, infrastructure associated with the processing facilities power plant by using the significant knowledge that we've gained from operating within Elk Hills by using that infrastructure, we've been able to enhance adjacent fields such as Buena Vista and Coles Levee.

Another key example where we've levered our knowledge is the recent acquisition of Chevron's interest in Elk Hills, require that – excuse me, recall that Chevron had varying interests based on depth in Elk Hills, anywhere from 20%, 22% varied by depth, create some real complexity in terms of gathering systems, metering, sales points, et cetera. We now own 100% working interest, 100% net revenue interest, and we picked up all the surface and other 10,000 surface fee acres and one of the largest oil fields in the lower 48.

So the acquisition allows us to consolidate the operations that I spoke to, to streamline our processes to improve capital efficiencies. Additionally, the acquisition delivers additional cash flow for reinvestment in the project inventory that we spoke about earlier, and to further accelerate that growth. Operational savings to date are $34 million and that compares to and is well ahead of our initial target of $20 million annually and have no – those numbers don't include an additional $15 million in capital avoidance cost we have, such as being able to use tank batteries that are in place and reposition them elsewhere in our portfolio.

So another example where we're leveraging our knowledge is at Southern San Joaquin basin south of Elk Hills is characterized by a series of very large fields with very low recovery factors. There's hundreds of feet of stacked pay here. Many of these same reservoirs we're familiar with from Elk Hills and Buena Vista.

They hold a significant potential. We're reworking the area and these fields based on what we know from analogous operations in other parts of the basin. We're using existing well bores. We're using our proprietary 3D seismic that I spoke to, we're using integrated reservoir characterization, all working to identify additional opportunities, we're high grading them based on the capital allocation process that I spoke to. And we think that they hold significant work over, as well as primary drilling waterflood even EOR potential, and we're having good success here.

Another example where we're leveraging our knowledge and infrastructure this time from an infrastructure perspective, again, the Southern San Joaquin basin, simply put we're using Elk Hills and existing core area as an infrastructure hub. I spoke about the significant complimentary and interval infrastructure we have associated with Elk Hills. We're tying in South Valley to Elk Hills power to take advantage of additional capacity we have out of the power plant that Elk Hills. And additionally, we're bringing the South Valley production back up north to Elk Hills to gain the benefit of our processing infrastructure there. Again, we're driving capital efficiency and we're working to lower operating costs broadly.

Another key aspect of our operating strategy is to derisk our asset base. As prices began to improve in 2017, we've reinitiated our exploration program, which we'd put on hold. We've worked to manage our capital here as well as our risk profile through multiple small joint ventures. Since reinitiation, we've invested roughly $17 million to our own account. We've experienced in excess of 50% commercial success rate, which is extremely good for any exploration program. With that $17 million that we've invested, we've generated over $200 million of risked PV-10 to our account and further illustrates the potential of our asset base and the underlying strong performance that we have there on the exploration potential.

Another key aspect of our strategy is the thoughtful use of our relationships. And Keith with BSP is here with us today, allows us to accelerate value of they allow us to participate in the growth wedge. They allow us to further derisk our inventory. We have roughly $600 million in capital is currently committed to potential development and exploration activities. $240 million of that has been funded through the third quarter in terms of development capital.

And I just want to remind everyone that for every $100 million invested in a development program that we consider that we see gross peak production in a range of 3,500 to 4,000 barrels of oil equivalent a day, and gross potential reserves associated with that investments in the neighborhood of $12 million barrels of oil equivalent. But importantly, recent pricing, we see reversion associated with these joint ventures that we've entered into today occurring before any of the significant maturities we have. I think that's one of the things that folks don't give adequate credence to.

And I also want to point out that as each of our partners, each of our significant partners, in my words, getting their nose under the tent and looked at our underlying assets base, whether that's BSP or whether that's Ares or whether that's even Chevron. They've wanted more exposure to our asset base, recall Chevron took equity, Ares chose to take equity as well. I should point out not just Keith is here, but we've also got Ares representatives as well. So thank you guys for taking the time to be here with us.

So by – we've used these, I just wanted to give an example of how we've used these joint ventures strategically. If you recall back during 2017, as an industry, we encountered a bit of an air pocket when it came to oil prices. And so as a result, we shifted some capital back into the joint ventures. Joint ventures aren't typically as sensitive to commodity prices. We do recall they have an internal rate of return based, protective feature. So they are less sensitive to pricing.

As a result, we shifted a rig line in mid-2017 back into JV and when those commodity prices strengthened, we picked up another rig. So allowed us to work to stay within expected cash flows with commodity price fluctuations. Very, very strategic for both us, as well as our partners.

So by capitalizing on our diverse asset base, having significantly reduced our debt, we think we're in a very, very nice position with respect to executing on our value oriented strategy and delivering sustainable growth. How do we see our financial strategy as we move forward? How will we continue to strengthen our balance sheet? So when we spun, we had a near investment grade a balance sheet. As we move through the cycle as we looked at earlier, we work diligently to do the right things and we didn't sell assets at fire sale prices, rather that was the conventional wisdom. Rather we felt like that, there were some other things we could do.

So we execute on a series of transactions, with much more favorable economics, long-term benefits for us in the process. We introduce complexity into our capital structure. As a result, we've experienced the burden of a deep non-investment grade balance sheet.

Now, we're back toward a mid-cycle pricing environment. We're motivated to improve ourselves with respect to our balance sheet and work to develop a near investment grade balance sheet in order to compliment our investment grade asset base.

As a result, one of the key aspects of our financial strategy accomplishes just this. We continue to focus on strengthening our balance sheet. As we have in the past, we'll be opportunistic. As we said, we'll use a – what we refer to as an all the above strategy. Nothing's off the table. We'll look at lots of different opportunities and we'll take advantage of those that present themselves opportunistically. 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, as I said, to be opportunistic. And as I said earlier, we're committed to dedicating 10% to 15% of our discretionary cash flow to strengthening our balance sheet.

Another key aspect of our financial strategy as I said is to simplify our balance sheet, increase our financial flexibility. It's important to note that we have no significant maturities before 2021. We're still focused on reducing our absolute levels of debt. Recall that we recently received our eighth amendment, which allows us to repurchase roughly $300 million of our second lien notes and senior notes at any discount. Again, we'll continue to take advantage of market conditions as they present themselves.

Another key aspect of our financial strategy relates to our hedging program. As we've previously noted, we've changed the underlying instruments in our hedge programs to puts and put spreads, almost half of our 2019 crude oil production is protected at an average Brent price of $71 per barrel and allows for full upside participation for the significant majority of our 2019 production.

And again, it's important to note that that hedge program is largely put in place to underpin the capital program that we're thinking about putting in place as it relates to 2019 and then also helps to support us with respect to our senior bank facility and our covenants. So what's the outlook for CRC? How do we see ourselves in terms of capital allocation as we move toward 2019?

Well, none of our plans will be finalized until the first board meeting of 2019, but one can expect that will continue to invest within our forecast cash flow. And other expectations is that our capital program will be dynamic. We'll scale it up or down, based upon our outlook for cash flow. Another expectation is that our investments will be dedicated to oil weighted projects, largely conventional waterfloods, steamfloods, it'll be focused on our core fields, Buena Vista, Elk Hills, Wilmington, Kern Front, Huntington Beach. And then we'll work to further delineate and appraise areas like I spoke about in the southern San Joaquin basin or valley rather Ventura, as well as our Kettleman area.

So what's our outlook and how does that relate to a production and cash flow? Well, as I stated, expect us to fund our capital investment from roughly 90% of the discretionary cash flow. We continue to look at various planning scenarios across a wide range of commodity prices. As an example, if we look at a scenario consistent with our average third quarter pricing, we see oil production growth in a range of roughly 7%. Another expectation is that with our focus on oil and increasing margins, EBITDAX growth can be expected in the range of the low to mid-teens at roughly twice the rate of our oil production growth, and again, that's due to margin expansion. Expect that margin expansion to continue as we focus on oil leading to recent EBITDAX growth of roughly twice on our production growth.

So then how does that translate to our leverage? What is our leverage look like? And what's our leverage outlook? A key expectation is it will continue to reduce our leverage, continue to strengthen our balance sheet as we review our various planning scenarios. We see significant deleveraging from investment within internal cash flow in combination with continued chipping away at our debt and free cash flow. Note these scenarios don't include other alternatives that are available to us with reasonable price assumptions. We begin to see ourselves dropping below target debt ranges in 2019 of roughly 3.5 times as we move through the latter portion of the year. To test this, one only has to look at our core adjusted EBITDAX I cited earlier, $400 million for the third quarter annualized that one's at roughly $1.5 billion. Compare that to outstanding debt levels one realizes that's just over 3.5 times at third quarter average prices.

So in summary, we believe we're being disciplined with investment in our existing projects and modestly chipping away at our absolute levels of debt. We believe with that discipline, we can see reasonable growth. We can see further de-risking of the company. We can see strengthening of our balance sheet by capitalizing on our diverse asset base, by having significantly reduced our debt. We truly believe we're well positioned to continue to execute on our value driven strategy and delivering sustainable growth. You can have confidence that we'll continue to focus on identifying and evaluating always to drive value for our shareholders.

With that, I'd be happy to open it up for any questions, Mark?

Q&A

<Q>: [Question Inaudible]

<A – Mark Smith>: So if I could sum it up for the folks on the webcast, the question is essentially, how do we see our capital program shaping up for 2019? Even though our budget is not going to be set until the first part of – until February of 2019.

So I think the best way to think about it is that will – we've clearly demonstrated the ability to flex our asset base. We've talked about the way in which we strategically use our joint ventures given commodity price fluctuations, if we were to find ourselves in a period of time – an extended period of time where we had reduced commodity pricing, we want to stay within cash flow is reasonable expectations. The thing is that we would ramp up some of our activity in some of our joint ventures. If you – if one really wanted to – if you really wanted to take a look at how we would manage ourselves in a $60 plus environment, all you have to do is look at the third quarter – fourth quarter of 2017. That's exactly the environment that we were in.

And I think that's reasonable, we've got a track record of how we manage our business. So I think, if we were to reduce commodity price environment, you'd see more use of JVs. If we're in a higher price environments, you'd see us working to flex accordingly. And we want to work to live within cash flow. It's important to us to be able to continue to chip away at our absolute levels with that, not just deliver through production growth.

<Q>: [Question Inaudible]

<A – Mark Smith>: Well, I'll give you the ability to ask one with a follow up. How's that?

<Q>: [Question Inaudible]

<A – Mark Smith>: I'm sorry, say that again for me.

<Q>: [Question Inaudible]

<A – Mark Smith>: In the San Joaquin, you're asking me about the quality of our crude and the realizations we have.

<Q>: [Question Inaudible]

<A – Mark Smith>: No, we're looking at Brent index. So the question was how our realizations comparing to Brent and do we factor into a transportation to that. No, the number that I gave third quarter average price of 97% of Brent is the Brent index. That's what we've received. We look at the Brent index. Because – and that's because – recall that's because of the waterborne crude into California, the marginal barrel of crude into California is priced off of Brent. And you can go back and look at the slide. We can go back and look at the slide and you can see historically there's a very, very strong correlation to Brent with our pricing.

<Q>: [Question Inaudible]

<A – Mark Smith>: Yes, absolutely. Yeah, tankers.

<Q>: [Question Inaudible]

<A – Mark Smith>: No, I think when you look at us, let me go back, to make sure we're really clear. When you look at us, we've – Slide 10, what we're showing there is a relationship between our realizations, what we're paid on an average basis for our crude across our portfolio back against a Brent index. So we have some crudes will actually sell in access of Brent. Some are heavy and sell for lower than Brent. And on average will sell relatively close to Brent.

<Q>: [Question Inaudible]

<A – Mark Smith>: Do we – we will hedge opportunistically and we've got roughly 50% or so of our position hedged over the course of 2019, as I said that about $71 a barrel and that's tied to Brent index.

<Q>: [Question Inaudible]

<A – Mark Smith>: Well, if you look – prove that – notice the slides sites proved reserves, right. And you see proved reserves 768 in 2014, proved reserve 731 in the first half of 2018. And we're trying to – to make sure we account for production run off and then we're showing unproved reserves there as well.

<Q>: [Question Inaudible]

<A – Mark Smith>: We're carrying it forward. Yeah, right.

<<Mark Lear, Analyst, Jefferies LLC>>

Thank you very much.

<<Mark Smith, Senior Executive Vice President and Chief Financial Officer>>

You Bet. Thank you. Appreciate it.