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<<Pavel Molchanov, Analyst, Raymond James>>

All right. Appreciate you guys coming to the presentation for California Resources. I know, in the afternoon there's always a desire to wind down the day. So definitely appreciate everybody here. Mark Smith, the CFO of the company will walk through the slides. And then – because this is the last session of today, we'll do breakout/Q&A session right here in this room instead of downstairs. Just to save everybody time. Mark, go ahead.

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

Sure. Thanks, Pavel, appreciate the opportunity to be here. Thanks for the kind introduction. A great conference again this year. As always, appreciate the opportunity to share the CRC story. We've been tested, we've demonstrated the resiliency of our asset base. We've made the hard decisions. I've said in the past that some have even said that we're punching above our weight class. Importantly, we continue to be focused. We're focused on capturing the underlying value of our portfolio. We're focused on disciplined capital allocation. We're focused on driving operational excellence and we're focused on continuing to strengthen our balance sheet.

We experienced some severe volatility in the fourth quarter. You've heard that as we move through the day-to-day, we certainly experienced it. We expect the overall environment will continue to be volatile in that light. What sets us apart is a flexible and diverse asset base, it can perform well across a variety of commodity price environments, a management team that's pressure-tested and quick to adapt and the strategy that's driven by value. By capitalizing on a diverse and differentiated asset base, together with leveraging our dynamic and disciplined capital allocation approach, we believe we're well positioned to execute our strategy and deliver long-term value.

So what was our performance in the fourth quarter? Well, we averaged 10 rigs in the quarter, which we've subsequently cut to seven full-time rigs in the first quarter. We produced an average 136,000 barrels of oil equivalent a day, that's up 8% over our prior year period. Because we produced approximately 63% oil, which exhibits the results of our capital allocation program, which prioritizes higher value, oil-weighted projects.

Adjusted EBITDAX for the fourth quarter was $314 million, it was up 36% year-over-year, margin improved to 41%. It's important to point out that these improvements were with a realized oil price of just under $60 per barrel Brent, and that's after the effects of hedges. By contrast, our Core Adjusted EBITDAX for the quarter registered $352 million, that was nearly $1.4 billion on an annualized basis and that's before the effect of hedges.

We consider this as representative as a cash generating capability to the company, particularly as the profile of our hedge portfolio changes as we move into 2019. I'll talk a little bit more about that in detail in a bit. During the quarter, we invested $174 million, that was all internally funded. The remaining $23 million of capital was funded by our partners and dedicated JV projects, joint venture projects. We're pleased with our performance and the response of our assets.

So what is it that differentiates CRC's asset base? I've said in the past, we continue to say that we tend to have the characteristics of a major encapsulated within an independent, truly a world-class investment grade asset. Consistent with this,. one of the key factors that differentiates CRC's assets base is its diversity. We operate across multiple basins and for the largest, excuse me, one of the largest fields in the U.S., all multibillion barrels in terms of original oil in place. All characterized by multiple drive mechanisms, whether that's conventional primary, waterflood, steamflood, even some unconventional.

Now it's important to note that, we even have significant natural gas optionality represented in the Sacramento Basin, we continue to monitor the natural gas outlook and we can shift our activity accordingly. We've said in the past that we have the flexibility if warranted to shift a majority of our production to natural gas within roughly five years. Our high level of operating control allows us to take advantage of our diverse assets and respond quickly to market changes, as you've seen in the past from us.

Another key factor that differentiates CRC and our asset base is simply its raw size. The sheer volume of oil in place. California is characterized by world-class oil fields, it's estimated that 50 billion barrels of original oil in place existed here, nine fields each holding over 1 billion barrels of original oil in place. So even though these fields have reduced over many decades, they still generally have low recovery factors. We estimate or it is estimated rather that there's over 10 billion barrels of oil equivalent still remaining in terms of recoverable resources in the state. So there's lots of work left.

Another key factor that differentiates CRC is the quality of our reserve base. Year end our proved reserves were 720 – excuse me, 712 million barrels of oil equivalent up 15% from year end 2017. That reserve levels approaching that we saw at our spin, despite prices being roughly 25% lower. Our reserves are characterized by very long life nature, we have a 14 year reserve to production ratio, very shallow decline rate. We have 2P reserves, well over 1 billion barrels of oil equivalent.

Importantly our all in F&D costs register to $8.76 per BOE in 2018, and our organic finding and development costs is averaged $7.57 over the past three years. Our all in reserve replacement ratio was 296% last year, 127% from our drill bit alone. Our organic recycle ratio registered at 1.9x in 2018 with our four year average of 2.6x. My experience is finding a company with that kind of a recycle ratio that has the kind of assets and business model that can support that kind of recycle ratio over multiple years, anything approaching 2x very, very difficult. So we're pleased with the underlying assets in our business model.

Another factor that differentiates CRC is our deep regional insight that we have. We're the largest player in California, we have 2.2 million net acres, 60% of that is held in fee. Most of the positions either held in fee or held by production, which provides us with the flexibility and optionality. We don't have to drill to save leases like many of our peers. It's an underexplored and underexploited region. We have lots of potential deep, we have the largest 3D seismic position in the state, which gives us proprietary insight. And again, common theme, you'll hear lots of running room.

Another factor that differentiates CRC is our favorable market. California is the fifth largest economy in the world. It's characterized by continual energy deficit. We like to say that California is like an energy island. As a result, the marginal barrel is waterborne. Accordingly, we receive Brent based pricing, healthy realizations. This last quarter we received 97% of Brent. It reflects the ongoing strong demand for California crude and the refiners use our crude to optimize their California refinery yields.

On the natural gas front, we have the ability to leverage our portfolio, our capacity, our infrastructure, we don't simply own upstream assets, we own the integrated infrastructure. We'll talk about that in a bit. And using that we can rapidly supply additional needed natural gas to the market, which can be seen in our other revenue and expense line items. In the fourth quarter, we generated a net margin from these activities of $20 million in the quarter alone.

Another factor that generates, or excuse me, that differentiates CRC is our net asset value. Looking at the chart in front of you, you see our net asset value at $75 Brent held flat is in excess of $20 billion, at $65 flat Brent, our NAV is in excess of $16 billion. I want to point out our current enterprise value is roughly equivalent to our proved develop value. Just proved developed value. No value to the unproven, no value to the significant complementary infrastructure that we have, no value to our land position. So overall our net asset value is much, much greater than our current enterprise value. Gives one a sense for where we're going. And again, common theme, lots of room to run. By capitalizing on our diverse and differentiated asset base together with leveraging our dynamic and disciplined capital allocation approach, we believe we're well positioned to execute our strategy and deliver value long-term.

So what is CRC's operating strategy? One of the key tenants of our operating strategy is to thoughtfully develop our large and growing inventory of actionable projects. It's important to underscore our reserve base translates into a deep inventory of projects, which we can act on. At $65 flat Brent pricing, we have over 850 million BOE of projects, all with VCI's in excess of 1.3 and finding and development costs of less than $10 per BOE. And when we say VCI's it's our moniker of Value Creation Index, and it's essentially what we've known over time as PVI or present value to investment ratio.

So we have roughly $10 billion worth of currently identified investment opportunities in excess of that 1.3 cut off. So we have many years of work ahead of us. Another key tenant of our operating strategy is our disciplined capital allocation. One example of how we proactively adjusted our capital activity and our mix of opportunities. As prices fell, we had the flexibility to quickly and meaningfully pull back our rigs. We work to stay within cash flow and preserve value as we moved through the 2017, 2018 timeframe and prices increase, we increased our activity levels, importantly with a keen eye on liquidity. Today we're focused on protecting our base and positioning ourselves for value driven growth over the long-term, while dedicating 10% to 15% of our discretionary cash flow to strengthening our balance sheet.

Another example is the framework we used for our capital allocation through the commodity price cycle. In the downside environment that I described a minute ago, we work to protect our base. We focused on steamfloods and waterfloods. We use secondary measures of payout in order to focus on liquidity. As we move through the mid-cycle price environment, we work to invest in value-oriented growth related projects and we tend to focus on longer-term value. And then with enhanced liquidity, we tend to extend our required payout criteria.

Another key aspect of our operating strategy is leveraging our knowledge as well as our infrastructure associated with our primary operating areas. One example of this is Elk Hills, you may recall that Elk Hills is the prior Strategic Petroleum Reserve, estimated 10 billion barrels of original oil in place, it's been producing since the early 1900's. We've operated here for over 20 years. We acquired the interest – our interest from the U.S. government. It has significant interval and complementary processing facilities, power plant. We're using the significant knowledge and infrastructure here at Elk Hills at our adjacent fields Buena Vista and Coles Levee.

A key example of leveraging our knowledge base is our acquisition of Chevron's interests in Elk Hills. Earlier this year we acquired their remaining non-operated interest of roughly 20% to 22%. And recall that their interest was depth segregated. There were different intervals that they held different ownership interests in. And as a result, there were inefficiencies in the field as it related to gathering and measuring the production from those varying intervals. The acquisition also included 10,000 surface fee acres. We now own 100% working interest, 100% net revenue interest and all the surface im one of the largest oil fields in the lower 48. Not many independents can say that.

So the acquisition allows us to consolidate operations, to streamline processes, to drive synergies and to improve capital efficiencies. Additionally, the acquisition delivers additional cash flow for reinvestment in that project inventory that we just looked at a few minutes ago and allows us to further accelerate growth. Operational savings to date, since our acquisition have amounted to about $34 million annually, well ahead of our initial target of $20 million annually. And of note, these numbers don't include the additional $20 million in capital avoidance costs related to being more efficient in terms of the tankage, the processing facilities, et cetera, that we can use elsewhere around our field operations.

Another example, where we're leveraging our knowledge is represented by the Southern San Joaquin Basin. It's just south of Elk Hills, it's characterized by a series of very large fields here with very low recovery factors. Again, there's hundreds of feet of stacked pay here and many of the same reservoirs that were familiar with from Elk Hills and Buena Vista. We consider they hold significant potential. And we're reworking this area and these fields based on what we know from our analogous operations up north, and we're using our existing wellbore data, our proprietary 3D that I spoke about where we're using our integrated reservoir characterization models all in order to identify additional opportunities, high grade them based on our disciplined capital allocation process. We think there's – we think these opportunities or we think these areas rather hold significant workover, primary drilling, waterflood, even EOR potential. We're having good success here and we like what we see.

Another example of where we're leveraging our knowledge and infrastructure, this time infrastructure. Again, the Southern San Joaquin Basin. Simply put, we're using Elk Hills as the existing core area and using the infrastructure there as an infrastructure hub. We're tying the South Valley into Elk Hills Power, taking advantage of additional capacity and we're bringing South Valley production back up to Elk Hills to gain access and the benefit of our processing infrastructure. Again, working to drive capital efficiency and lower our operating costs.

Another key aspect of our operating strategy is to derisk our asset base through our conventional exploration program. As prices began to improve in 2017, we reinitiated our exploration program and we worked to manage the capital as well as our risk profile through multiple smaller joint ventures that you've heard us speak to. Since reinitiation, we've invested approximately $20 million of CRC's capital in these exploration projects and we've experienced in excess of 50% commercial success rate, which has generated roughly $170 million in risk adjusted PV10.

It further illustrates the potential of our asset base and I just comment, if you go back to our Analyst Day and you listen to Darren Williams, who runs our exploration activities—Darren benchmarked our exploration success based on Wood Mackenzie's work and they consider our exploration activities to be best-in-class, top ranked. So very strong performance as measured by third-parties.

Another key aspect of our strategy is the thoughtful use of a relationships, particularly joint ventures, not only on the exploratory front that I spoke about, but also on the developmental front. They allow us to accelerate value, bring that inventory that we talked about earlier forward. Allows us to participate in the growth wedge, allows us to de-risk our inventory. We have approximately $600 million of current potential development and exploratory capital available to us, $260 million that's been funded in terms of development capital through the fourth quarter.

Recall that we've spoken about it for every $100 million that we invest in one of the development projects, gross peak production is estimated in the range of 3,500 to 4,000 barrels of oil equivalent a day, gross potential reserves, approximately 12 million BOE. And of note, I want to point out that has each of our partners has, in my words, placed their nose under the tent or looked under the hood, they've worked to review our asset base. They've sought larger exposure of our asset base, whether that's Benefit Street Partners, whether that's MIRA, whether that's Ares. They've all wanted additional exposure to our inventory. So we've continued to attract significant interest in our exploration portfolio with our strong results as I cited before. We're also in active discussions you've heard with multiple parties on both development as well as exploratory joint ventures.

This slide gives us a good example of how we've used joint ventures strategically to manage our capital, as we've moved through commodity price cycles. You recall back in 2017 commodity prices drop mid-year. We worked diligently to maintain our activity levels in the field and what you saw was that we actually allocated the rig line or multiple rigs back into a JV. You'll recall that they're less sensitive to pricing because of the reversionary nature of the JVs tends to protect their expected returns. So it enabled us to reduce our capital to stay within cash flow. As commodity prices improved, as we went through the back portion of 2017, we then shifted that rig line back to CRC's account. So by capitalizing on our diverse and a differentiated asset base, together with leveraging our dynamic and disciplined capital allocation approach, we're well positioned to execute our strategy, deliver long term value.

Let's shift to our financial strategy. What is our financial strategy and how do we continue to work to strengthen our balance sheet? When we spun, we had a near investment grade balance sheet. As we moved 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, long term benefits to us. In the process, we introduced complexity and knowingly introduced complexity into our capital structure. As a result, we've experienced burden of a deep non-investment grade balance sheet. In the current pricing environment, we continue to be motivated to have a near investment grade balance sheet to complement our investment grade asset base. As a result, one of the key aspects of our financial strategy accomplishes just this and where can we continue to focus on strengthening the balance sheet. As we have in the past, we'll be opportunistic to execute what we refer to as an all of the above strategy.

We're committed to continue to allocate our capital in a disciplined manner to reduce our leverage, to simplify our balance sheet, to increase our financial flexibility, to be opportunistic. We're committed to dedicating 10% to 15% of our discretionary cash flow to, in fact, strengthen our balance sheet. Another key aspect of our financial strategy is to simplify as well as strengthen our balance sheet. We look to increase our financial flexibility. We have no significant maturities before 2021. We're still focused on reducing absolute levels of debt. We repurchased $232 million in face value in fiscal year 2018, while capturing $33 million in discount. As you recall, we received an eighth amendment from our senior banks to allow us to restore a portion of a basket that has expired and it allows us to repurchase $300 million in second lien notes and senior notes at any discount.

And 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 previously noted, we've changed the underlying instruments in our hedge program to puts and puts spreads. As a result, almost half our 2019 crude oil production is now protected at an average Brent price of approximately $71 a barrel. This compares to median floor prices, we've done our work of approximately, $55 WTI for our proxy peer group. It allows for full upside participation for the significant majority of our 2019 production. And I would encourage you to refer to our Earnings Release and website for more details on our hedging position.

So what is the outlook for CRC? How do we see ourselves in terms of capital allocation, as we move through 2019? One expectation is that we’ll work to continue to invest within our cash flow, expected cash flow. Specifically, we've announced our 2019 internally funded capital budget of $300 million to $385 million. We intend to supplement this with an additional $100 million to $150 million from expected to be funded by our joint venture partners. That supports a total program of approximately $500 million, and it amounts to 30% – nearly 35% reduction in light of the current being a little more conservative in current pricing environment that we're in, about a 35% reduction in our capital compared to last quarter, again, demonstrating our responsiveness and our capital discipline.

So another expectation is our capital investment program will be dynamic. We'll scale it either up or down based upon our outlook for expected cash flows as we move through the year. Another expectation is that our investments will be directed to oil-weighted projects, largely conventional, waterfloods, steamfloods in our core fields of Buena Vista, Elk Hills, Wilmington, Kern Front, Huntington Beach all to further develop and delineate and appraise these areas. As a reminder, we've stated in the past, we believe that $300 million to $400 million of drilling and completion capital can hold our oil production roughly flat.

In summary, we believe that by being disciplined with investment and existing projects and modestly chipping away at our absolute levels of debt. We will continue to be – we will work to continue our disciplined execution on our highest value projects. We'll see further de-risking of the company and we'll see strengthening of the balance sheet. So by capitalizing on our diverse and differentiated asset base together with leveraging our dynamic and disciplined capital allocation approach, we're well positioned to execute our strategy, to deliver long term value, and we'll continue to focus on identifying and evaluating all the ways in which we can drive value as we move forward.