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PRESENTATION

Todd A. Stevens - *California Resources Corporation - President, CEO & Director*

All right. Well, hey, I really appreciate and I understand the -- this talk is here at the end of the conference and for you all to show up, I really appreciate it. I know sometimes there is a propensity to want to get out sooner rather than later. But we're really excited to be here and talk about our company, California Resources Corporation, get past the legal disclaimers. But I think the one thing to understand first and foremost about our company is it's highly misunderstood, but if you want to oversimplify things a little bit, it's a super majors asset, trapped inside an independent that was given a balance sheet for a much different price environment. So you have a lot of great assets and great people that have been hamstrung, basically, by a different capital -- difficult capital structure. So when you look back, you'll understand that this is real business. This isn't just some leases in a county somewhere with a few pumping units. This is actually infrastructure, this is a power plant. We'll get into the details a little bit about the business, but it goes all the way from Huntington Beach, Orange County to Yuba City in Northern California, and it'll also get through, and we'll talk about every drive mechanism you might see in the world to produce oil, is here in California. Every type of rock you might see is here in California. We'll talk a little bit about that and why it attracted us to be here in the state and why it's so attractive for you as an investor. Our activity set has been going up, primarily because of the early part of the year, the price profile improving, but also because of our joint ventures with our partners. You'll learn that we're inventory-rich compared to a lot of our peers, but we are, you know, obviously, balance sheet-constrained. We've been committed prior to the spinoff in '14 of living within cash flow and we'll continue to be committed to living within cash flow.

Quick outline on the right of the screen here is a little bit -- it outlines something I'll get into later, but shows how, even in today's price environment and slightly higher in the future, we can grow the business organically through our existing joint ventures and our organic cash flow from operations. Why did I do it backwards? So when you think about California, most people don't think about a vibrant petroleum province. It really is centered on Kern County, Bakersfield, if you've been there. Kern County is the second largest oil-producing county in the Lower 48. Most people don't think about it, Kern County itself produces more than the State of Oklahoma, so it's a very vibrant oil province, home to some of the largest oil fields ever discovered in North America. We have a sizable amount of production, about 70% of our production is in the San Joaquin area, but again, as we talked about before, it goes all the way from Northern California gas country in the Sacramento Basin, and that's mostly almost all gas production in the northern part of the state, down to the very southern part of the state in L.A. Basin.

The business in California started in 1876, in the eastern edge of the Ventura Basin, where Pico Canyon #4 was drilled. It has a long, rich history going back into, again, the 1800s, and it was the -- that was the actual first commercial well drilled west of the Rocky Mountains at the time, and that was the predecessor to Standard Oil of California. But the one thing that's misunderstood about California, because it gets lumped into the conventional wisdom of the oil and gas business in North America, is it is really still a conventional business. It's not the shale that you think of everywhere else. It has been, because of the way it's been held for decades and a century, super majors owned it and then super majors in the '60s decided that, hey, since steam flooding technology is pretty cool because you can get 70-plus-percent recovery factors, and then in the '70s, they started chasing opportunities overseas; '80s and '90s came and sometimes, the surface acreage was worth more. Sometimes, they didn't want to operate it anymore because it got encroaching urban development. So they would divest these assets to smaller producers. So slowly, it got away from just a few super majors controlling all the assets. And we'll talk about in a second what happened and how they broke down and how Occidental, now CRC, ended up with the significant position we have in California. But I would think that, again, we talked about all the different drive mechanisms in the state, you're going to have a naturally less decline than you'll see anywhere else, really, when you look at things. So the natural declines here in California for us are plus or minus 10%, and these aren't academic discussions. As we'll show you, we've actually had periods where we had no activity and you saw what actual real declines were when you talked about things.

And this is what happened in the state, and unlike any other basin you'll see in North America, the concentration of the assets is tremendous. So ourselves, Chevron and Aera, and Aera is a joint venture between Shell and Exxon, control 75% of the production in the state and over 90% of the mineral acreage. This goes back to, again, super majors control most of everything in the state. Sentinal Peak on the chart, that's the former PXP assets, and LINN Energy is actually going to be Berry now, and Berry will be smaller, probably around 20,000 a day since LINN has now sold their properties and broken up Berry out of the assets. But if you had taken the top 5, that'd be 85% of the production in the state, to give you an idea how concentrated things are. And again, when you look at it there, we're the only -- LINN is no longer in there, it's Berry, who's owned by creditors. We're the only publicly-traded alternative, to understand how to trade on. But then, when you look at the bottom part of the screen, you'll realize we're the only one really not focusing only on shallow heavy oil.

Shallow heavy oil is something that California is known for, in expertise, and the high recovery factors at Kern River, you'll read Oil & Gas Journal articles about it. But you can also see, because we have this diversity of drive mechanisms and of reservoirs, we also, from this cartoon, the strat column, we produce from 400 different discrete horizons in the state. So you think about some of these areas where you might be in the Permian or elsewhere in Texas, where you might have a Pugh Clause limited to one zone or a few zones. Here, we're -- where we have, most of the time, all the wellbore, 2.3 net million acres in the state, 60% of that held in fee, some of that's fee simple, so it really is an attractive alternative when you start understanding how the economics work. And you can see, again, how we have a lower cost structure overall in competition with our peers in the state.

A little bit to talk about on the right-hand side here is the 3D seismic position in California. I like to talk about it as the land time forgot a little bit, because exploration really stopped in California in 1974, and real exploitation didn't really start until ourselves at Occidental, our predecessor, really focused on that, and also exploration in the 2000s. And we made some significant discoveries in around 2010, 2011, we'll talk about one of those discoveries later today and how we're going to further develop it. But I think it's important to understand the creaming curve hadn't been filled in, in California in 1974 when people stopped exploring. And in a lot of cases, 3D seismic hadn't been shot. Almost all this 3D seismic here is owned by us. The very large blob in the middle is the [Hakalido] shoot, and it's 550 square miles. That was the largest 3D shot west of the Rocky Mountains. And in a state that's tectonically active, and I like to call it the Permian Basin with tectonics because it is, it's a huge amount of stacked pays, we talked about 400 different producing horizons in the state, that has created a bunch of micro and sub-basins and different drive mechanisms because of the millions of years of tectonics and the development that's happened in the state. So not having 3D for all these years really was a disservice to the oil and gas industry in the state to try and understand what's happening in the subsurface and has enabled us to be more successful in developing assets and also exploring for new hydrocarbons.

And it goes back to why the spin in December '14, where you could argue maybe it was the most ill-timed spin from a product price perspective out there. I think that's what Jim Cramer said the day we were spun off. It was the Monday after the Thanksgiving when OPEC decided not to cut production on that Friday. So it was a tough day to be in the New York Stock Exchange when you're getting spun off, but why did we do that? What's happened since then? What's happened is, really, why you do spinoffs. It's focus, focus, focus. We're able to focus our attention on our human and our financial capital, on the things that make value-related decisions and create value for our shareholders, and that's what we've done from day 1. We focused on creating a new culture, making changes, adapting to the regulatory environment, becoming more proactive in that environment and proactive in the engagement on how we deal with the -- working with the communities we live and work in. We've been taking opportunities to take down our debt in different fashions. I mean, going into the spinoff, we knew we had a disproportionate amount of debt, but that's what all spinoffs sort of have. But for ourselves, we thought we were going to use asset monetizations and free cash flow to pay it down, but we took advantage of the opportunities presented to us. I didn't think going into the spinoff, boy, I hope to do some liability management transactions, but hey, that was the opportunity presented to us. We took advantage of it and we've been able to take down debt, a significant amount, and we'll talk about that in a second.

We really focused on life of field plans. In some cases, we spent the time running the whole life of field as opposed to the next few years or the planning horizon you might currently deal with, to make sure we really understood what we're dealing with, not just from a reserve standpoint, but also to understand what our maintenance CapEx was, and what it really took to run the business and our portfolio planning process. We organized the whole company around what we call our Value Creation Index, which is a PVI metric. You have to have a 1.3 to be competitive. We focused on one CRC, not discrete business units. Everyone competes for capital in the same way, in the same fashion, so everyone understands that. It's been very important for us. And we've also, all along the way, kept a new strategy for how we're going to implement and hedge. Our prior predecessor didn't hedge. It was something that was important for us, with our capital structure, to look at hedging, and we continue to do that to this day. And if you look at the book in the appendix, it will have our current hedge position, but we target about 50%, 18 to 24 months out.

And this is when I talked about taking advantage of the opportunities presented to us. If we'd gone back to the original spin and let's say I wanted to monetize our power plant or some of our other infrastructure for $100 million of cash flow and monetize it at 10x for $1 billion, the path we've taken, taking all that's been given to us as we've moved along the way here and been opportunistic, we've effectively monetized $32 million for

$1.6 billion, so over 50x, and we still have those same alternatives available to us to ultimately monetize if need be, to help bring our debt back to an appropriate level at this point in time. You can look at all these different steps, but I will challenge you to say, during the last cycle, and maybe we're entering another one, who knows at this point in time, we're probably the only company that was free cash flow positive, because not only did we live up to our word and say we're going to manage to our cash flow, but we did, through the depths of 2016 and to today.

This is a snapshot of our balance sheet. Yes, it's messy, but it was messy for the reasons on the prior page, and it got complex for that reason and -- but we understand what's going to have to happen long term, which is the absolute amount of debt has to come down. We're attacking that from all angles. There's no one single magic silver bullet. We're going to try to organically grow into it with our joint ventures and our own cash flow. We're going to look at different ways to bring it down, and if this current environment persists, we'll look at liability management transactions, in addition to even purchasing our debt in the open market, which we've done historically also. You will see we don't have any real material maturities until late 2019, there's some nuances there, and if you have a question at the end, we can talk about it more, but I think it kind of gives you a feel and a flavor for what's going on with the company.

So part of what we talked about before, really, the focus, focus, focus, was really focus on these life of field plans, really understanding our assets, what we had, and how we want to execute our plans and how we want to allocate our human and our financial capital going forward. So we've really been doing comprehensive reviews and they continue to this day. Remember, we have over 130 fields and 2.3 net million acres. So for us, we completed really comprehensive reviews of about 40% of all our fields. And to give you a little bit of scale, in the Ventura Basin, again, where I talked about where the oil and gas business started in California, our oil-in-place estimates doubled. I'll say that again, because of the 3D work and everything else, they doubled. So you're talking billions of barrels of oil in place, so you have recovery factors in some cases that are in the low single digits because just no application of modern technology, and this has also, as you've probably heard us talk about in August '15, where we had a significant exploration discovery, where our well produced from a deeper zone, 1,000 barrels a day, unstimulated, not on a pump for over 6 months before we had to put it on pump, not to mention it had up-hole zones above it. So this is an area that's ripe, really, and probably been given up on by the super majors in the '60s before this. But it's really important because everyone understands as we do these life of field plans and the cost component of that and how they can be competitive for capital. So when I go out to the field and talk to folks, they understand if they want to be competitive and have projects where they work, this is what they need to do. It's a simple numerator, denominator. You take care of it and it will ultimately work itself out.

This has been updated. You might've seen this before. We showed this at $55 Brent, we have a few slides we've updated for the current price environment, but I think it's important to understand this is fully loaded. We're not giving you a project one well through this tight choke economics. We're showing you $45 Brent, that this level in excess of PDP of projects, meet our 1.3 VCI hurdle, and this includes field-level G&A allocated also. So this is fully burdened as it gets without corporate level G&A and shows you we have well in excess of 500 million barrels of oil equivalent projects that are actionable, $45 Brent. Now you can kind of get the feeling why we have so many people wanting to talk to us about joint ventures, while we have 2 joint ventures, and we're in active discussions with others. We're inventory-long. We're capital-constrained. We want to live within cash flow ourselves.

The color coding mechanisms are really by drive mechanisms. In some cases, they're easy to figure out. If it says gas, primary gas, that's going to be the Sacramento Basin. Steamfloods are probably going to be in the San Joaquin Basin, but there are a few in the Ventura Basin. But waterfloods could be numerous basins, Ventura, L.A. or San Joaquin. And we really feel like we're in an inflection point. We've actually turned the corner, probably in this last month right before this, and our oil production has trended a little higher with our investment coming into the year and with our partners' investment, but this just gives you a little bit quarter-by-quarter what happened with our capital in the blue on the right-hand scale, and then our production overall. Again, we managed to our cash flow. We managed to what we're doing through the year. And because we have such a high level of operating control, of the 130 fields, we operate all but 1, so we can dial up and dial down. Going into the spin, and thanks -- right before Thanksgiving, we had 27 rigs running in 2014. By the end of the year, we had 6, and then not long after that, we had 0, responding to the price profile and the price curve.

This is an important slide and important to focus on because we talked about joint ventures and how important they are to us because we're long inventory. This is meant to give you -- show you the portfolio effect of how a $100 million investment in the joint ventures will bear out over time with CRC. The top number, the $550 million, is the aggregate amount of both the Benefit Street and the Macquarie joint venture. If you talk about $100 million, it's going to create, through the portfolio effect of the properties we're investing in and we've pre-agreed with them which properties they'll go into, is about 3,500 to 4,000 BOE a day of production. So remember, we have a corporate decline that's much less than what you've typically heard of, so you're going to deal with, even if you have a full decline without any investment, of 10% to 12% or somewhere in that range, depending on the type of product mix you're investing and the type of project selection. So if you go out a few years, assuming some price deck, you can see in a few years how you have a very meaningful position of production and then you could back into cash flow or do any kind of metrics you want to do at that point in time and understand that we think we'll generate somewhere around 12 million barrels or more from every $100 million investment and that kind of production, to give you a feel for it.

The joint venture to date has been investing in the San Joaquin Basin, where about 70% of our production is. We do anticipate that one of the joint ventures will ultimately invest in also the L.A. Basin and some of our properties there, but as of right now, they're mostly in the San Joaquin, and that's the ones we've been contemplating, in the San Joaquin and Ventura currently.

Looking at our net investment, as we talk about it, as the company's discretionary cash flow, we're targeting about $275 million for the year. We will adjust that to the price environment. I know in the last few weeks, everyone has a dire consequences, if that holds true, we'll obviously dial this back a little bit. But as of this point in time, you could probably keep the percentages about the same. Every year, workovers are about 15%, 20%, and that's something important to understand, because that's a really high value proposition for us as a company that we do and typically, you don't hear people talk a lot about, but it's activity begets more activity. So you're going to plan workovers and they're going to occur. You'll have them in your inventory, but usually, they've been in your inventory only months, not years at that point in time. But it's fairly typical, when you look at the percentages, about where the capital is going to be invested year-over-year, and it gives you a feel for the properties and we'll talk a little bit more about generally the San Joaquin as we get going here. But the important thing, as you think about the joint ventures, is that gives us that baseload of capital that enables us to flex this capital, particularly if our debt continues to trade where it's at, to look at doing other things, potentially buying in our debt, or other alternatives with our cash flow ultimately, because it's important to maintaining the business. Which really brings us, where the joint venture, where is the capital program going this year. Most of the dollars are going into the San Joaquin. In the San Joaquin, I think, this term was coined by the Oil & Gas Journal, is a super basin. Again, multiple billion barrel oilfields here, names you've heard of. We are in 4 of them. 70% of our production is here, 25 billion barrels of oil in place in the San Joaquin.

Our flagship property, and we'll talk about in a second, is Elk Hills, but our 2 steamflood, large steamflood properties, Kern Front and Lost Hills, are here also, and I'll talk about in a second, Buena Vista. Elk Hills is really our flagship asset, 40% of our production. If you go back a slide, you can see where Elk Hills is. There's a little star, blue down here, that's our Elk Hills field. That will give you a feel for where you're at on this map, but it's one of these that it's been producing for over 100 years and it actually produces from 5 discrete reservoirs. There's over 90 different type curves just at Elk Hills, but it's also the area where most of our large infrastructure is. When you think about large, we have some smaller gas plants and the like, so we have a 550-megawatt power plant here. We use about 1/3 of that power for ourselves. And what we've done is not only tie in our Elk Hills operations, but our Buena Vista, South Coles Levee, Asphalto, Railroad Gap, with all the neighboring fields, where you can tie in and utilize that cheaper power for our operations.

As I've talked about, when we said academic declines versus real declines, you can see, up until this year, there was 2 years of time, in the bottom right-hand corner, where Elk Hills had no rigs. And during that time frame, we'll talk about in a second, you'll see what happened with operating cost, it goes to show you how important it is to deploy your human capital appropriately so that you can manage costs very well. So this is what I was talking about. So during the time frame, '15 and '16 had no rigs working at Elk Hills. The water-oil ratio climbed, so you're handling more water for every barrel of oil you're getting out of the ground, but OpEx per well and per BOE came down, as you can see during this time frame. And again, this goes back to good management and surveillance. Ultimately, when you're in the business of EOR, IOR, you're bringing oil out of the ground, using water or steam or CO2 or anything like that, surveillance is so important in understanding where the molecule is going, where is the heat going as the reservoir, so when you manage this appropriately, this is the kind of outcomes you get ultimately.

Buena Vista Nose, this is adjacent to the Buena Vista field, it was an exploration discovery in 2012. It's currently producing out of 5 wells and it's about 1,000 barrels a day, but when we discovered it, we were very excited about this, but obviously, shortly thereafter, we spun off, we shut down activity here, because this is extending an exploration discovery. We're very excited about this and we're going to be drilling these wells in the back half of the year. These are wells that could IP in excess of 1,000 barrels a day. I think they have a little bit less from that going forward, but we're excited about the opportunity set here. And you can obviously see recovery factors are very low. And this is right next to our existing infrastructure, and that's something that we have that when you think about the operations in California and the different basins, we have the infrastructure and the know-how, the analogues up and down the state, where that you can actually be involved and tie in existing discoveries or new assets really easily.

A lot of our investment this year is also going to Kettleman North Dome. We've talked about this going back to our original spinoff, and our Analyst Days along the way. Obviously, we didn't -- hadn't invested in it a lot during 2016 because not many things got invested in, but this is something we think is an Elk Hills analog. It's north and west of the San Joaquin Basin from Elk Hills, but when we looked at it, everything about it is exciting and it reminds us exactly what happened there. To give you scale, this was discovered in 1928, since in the 1950s, it's had less than 10 wells drilled in it, so it's something that's been neglected for a long time. So the first thing we did when we acquired it was we shot 3D and we're now reprocessing that 3D and we're executing the plan. We had drilled a horizontal well up there, we'll probably talk about those results in our earnings call in early August, and we've been actively drilling some vertical wells there also. So it's something that we're excited about, numerous things here. You'll hear us more talk about this as the year goes on, but it really is, if you want to spend some more time on it, our Analyst Day, as we spent quite a bit of time talking about the potential in the different zones here. There is -- it does have gas potential, just like Elk Hills with associated gas.

And as we look through our programs, this is something that our Head of Operations, Bob Barnes, likes to talk about, even though we weren't drilling wells for really the last 18 months, 2 years, we were drilling wells on paper and redesigning what we did and challenging best practices. And it really has resulted in, this is talking about our capital program and our drilling and how we've had tremendous efficiencies attained, and for ourselves, about 80% of those are sustainable, 20% of them are deflationary, inflationary, how you want to look at it, but this gives you a feel. And it's things like number of strings of casing, what kind of blowout preventers you might need. You can go through all the different things, with mud, mud weights, but when you're part of a larger company, certain things are dictated as opposed to fit for purpose, and it goes back to, again, the purpose of the spinoff: Focus, focus, focus. You focus on what's right. I'll give you one quick example that was rather unique, it saved us a lot of money. When you drill shallow heavy oil wells, those kind of wells can take a day or so, a day or 2 to drill and complete, and so we actually went and had one of the local operators, Golden State, take one of their workover rigs and convert it to a drilling rig by adding some horsepower, changed the cost by almost 40% of drilling and completing these shallow wells, because you're no longer using a rig that's too much for it effectively going forward.

And on the OpEx side, it's very similar, it's right around 80% we feel sustainable. I talked about workovers. I think this is something really important to understand, because after mechanical integrity, health and environmental safety investment for ourselves each year, this is the first thing, and the first thing is for the reason in the upper right-hand corner, the VCI. Our average VCI in our workover is somewhere between 5 and 6. This one is calculated at 6.2 for last year's program. So what does that mean? It means for every dollar you invest, you're getting $5 or $6 back in real value. And again, of our capital investment program, typically, this is 15% to 20%, huge bang for your buck, huge amount of value creation and it goes back to being able to own the wellbores up and down the wellbore, as opposed to maybe a Pugh Clause to one zone or the like.

And if you look at our -- in total, and I think it's difficult to model us, because we do have so many fields, so many different drive mechanisms, so many different products. You have to think about it, because we manage the business in this way, from a portfolio impact, because gas prices impact our steamfloods. Even though we're net long gas, it still impacts our investment decisions. So when you look at things, and we've shown this in a variety of ways, but I think this is a clever way to show it, how the mix of what we invest in will change over time by drive mechanism, depending on what the product price ratios are between oil and natural gas. And you can see that, obviously, we have an enormous amount of natural gas inventory in the Sacramento Basin. We've talked about it before, if natural gas prices were to meaningfully move higher and oil lower, we can actually have -- be a majority gas producer within 3 to 4 years. Understanding now, we're well a majority of oil producer at this point in time, but it gives you a little bit of portfolio kind of type curves down below that you could use for modeling purpose, which I think are important. Gives you an idea about F&D cost. And this is obviously at $55 Brent, to give you an idea about what goes on here with EURs, recycle ratios and the like on each one of these.

So again, this is a portfolio look at our total portfolio as we -- how we look at things and how we would allocate, based on our VCI metric, so you can get a feel for, as oil and gas prices change over time.

Can't leave you here without talking about this. And really, this is just one way to look at value, but I think CRC, and we've talked to many of you, even in this room about it, where you have a depressed equity valuation really because of just the sheer amount, the absolute amount of debt, in my opinion, and also a misunderstanding, I think, of what California really is. And that's why we're out here talking about it. And you can kind of see, we've lowered the prices on this chart so you can get a feel. People don't appreciate the business aspect of what we have to offer, and even the infrastructure here, our banks, when they put a lien on our infrastructure, they went out and had a third party look at it and it was $5 billion of replacement value. We've put it in here at 2 -- a little over $2 billion, simply because that's what we feel like that part was what would be replicated, what would be needed, but they had some excess value there. Like I said, we sold -- the power plant, we sell 2/3 of the power on the grid. So you can go through these and understand we have surface acreage, we have an enormous amount of unproved resource, and because of the nature of our reserves being so long-lived, shallow decline, we have an enormous amount, it's between 200 million and 300 million barrels, of PUD-like risk that sits in contingent category because it's outside the 5-year window. So -- and that's a lot of those things that we target with our joint venture partners because they understand they're PUD-like risks, but they are things we weren't going to get to until we were outside the 5-year window. But the bottom line of this is I don't want you to belabor this PV chart and this value in excess of enterprise value. It's really that we're an undervalued, underappreciated company, on really, any metric you look at and from -- and that screens poorly from a debt level.

This is also an updated slide. We've been showing this with a different price deck. This one actually starts at $45 this year and goes $55 next year. We had been talking about $65. And you can kind of see how this includes the 2 joint ventures we have currently. And everything else from an organic standpoint, our cash flow is being reinvested. So you can see we have a modest amount of cash flow growth and a modest amount of production growth, but we could still grow in this type of environment. The capital in the lower right-hand corner shows -- also has our joint venture capital built in there and this doesn't include any new joint ventures or anything like that, but it has an appropriate level of cost and inflationary cost built in going forward, which I think is important, because another part is as we've looked to invest in our portfolio, it's been more oil-weighted. So that's why you're going to get a disproportionate growth in cash flow if the prices are going to continue to appreciate on the oil versus natural gas side.

This gives you the same kind of snapshot from organic deleveraging, and talking about executing the plan from a leverage ratio standpoint. And you can get an idea when it starts reverting, clearly, some of the joint ventures start reverting in '19, '20, going forward.

And why would you want to invest in CRC? I think if you can get by the screening on the debt, and I think if you're a debt investor, it's a no-brainer. But I know it's trading at whatever it's trading today and somebody has a psychological opinion about what that number is, that's fine. But you got to remember, we are a proxy for oil, so the bull and bear fight that occurs among investors who think -- they have an opinion on oil, invest in our -- whether it be second liens, equity, whatever it is, we probably have the most volatility you're going to see out there in all of our instruments and probably some of our -- our seconds are probably one of the most liquid debt instruments out there. So there's a lot more going on than you think if you think it's a representation of what people actually think, because there's -- the current trade, I'm told, is you buy the 1.5s and you short the seconds. So we get played out as the battlefield, it's cheaper than buying oil, crude options. So if you want to have exposure to oil and Brent-tied oil in California, it's a misunderstood oil province, it's a prolific oil province. It's something that has really underexploited and underexplored, that we're very excited about. I think we have the right team in place. We have the great assets, and we just have a balance sheet, but we understand the issue. We've been working on it since day 1. We know it's not an overnight fix, but it's been something we've been chipping away at over time. We have a path forward that we think is going to get us there. For you, equity investors, I've said this a million times, I'm not a quitter, and even though I have a lot of debt investors talking their book to me all the time, but for those that know me, know that isn't the case. We're in it for the long haul. We understand what kind of an asset base we have. Our banks have been there with us, giving us 6 amendments, we continue to plow forward and chip away and create real value for our shareholders. I know it's underappreciated at this point in time, but you won't find a better alternative here in North America, with the opportunity set and the inventory that we have at CRC. At this point, I'd be glad to take any questions.

QUESTIONS AND ANSWERS

Unidentified Analyst

What were your thoughts on the Plains transaction, I think that -- the private equity purchase?

Todd A. Stevens - *California Resources Corporation - President, CEO & Director*

The PXP?

Unidentified Analyst

Yes.

Todd A. Stevens - *California Resources Corporation - President, CEO & Director*

The Freeport. I thought they stole it a little bit. I thought it was pretty cheap. But I think we forced them to pay a little bit more for it. We got involved in that very late and it's difficult with the balance sheet. If we had a real balance sheet, I think we could have been real competition. But it's hard, you have to use partners and the like to try to get something and be competitive. But I think they'll do just fine, especially if prices improve. I think the other recent acquisitions and deals in California, the Hill property that Berry bought, I think that's a representative value of a heavy oil steamflood, and the Brea-Olinda property is kind of an urban property, very -- not quite as urban as some of the Sentinel Peak properties, but it's in the same kind of setting. Yes, sir?

Unidentified Analyst

So in the current oil price environment -- in the current oil price environment, everyone's decks are now adjusting to lower price and everyone's economic at the current price. So let's say we do stay, let's say that's true and people follow their plans and they drill and production stays up, and we're in this lower price regime for a while, you're going to have a lot of trouble meeting your objective of deleveraging the balance sheet. Let's say that we do go into that environment, what's your willingness to equitize a substantial portion of the balance sheet to just fix that interest drag that you have, that could theoretically go much -- if it's a better use into your properties.

Todd A. Stevens - *California Resources Corporation - President, CEO & Director*

Yes. So if you look at it, again, you know our market cap is not -- we're highly skewed one way towards the debt structure. So we say equitize, I'm not going to solve my problems by issuing 20% of my outstanding, but I also think it's on me to make sure we get appropriate value and we did a debt for equity swap in early 2016, it was a time period where our debt was trading [20, 30] and our equity moved sevenfold in like a 10-day period and the debt really didn't change. So when we looked at the representative value we were getting, we felt like it was appropriate at that point in time. That didn't represent option value, which is what our equity represents now. I think that if this persists in this environment, the opportunity to do liability management transactions or purchase our debt in is something that jumps to the forefront. I mean, I talk about in meetings, in American football, if you're on offense, you're going to take what the defense gives you. And if they're going to give you liability management transactions, that's what we're going to do. So I think we'll do whatever it takes and we've shown we've managed through the downturn in a much tougher price environment than $45 forever, and our banks have shown willingness to work with us, 6 amendments in a much different price environment. Obviously, $45, you saw we have an ample amount of inventory. It's really getting by, in those maturities, if we get out to '19. We'll clearly stay out in front of those and look to talk with somebody at each one of the banks in advance of that.

Unidentified Analyst

Just following on, talk a little bit about how you rank your projects, from workovers to debt repurchases to steam and waterfloods currently?

Todd A. Stevens - *California Resources Corporation - President, CEO & Director*

Yes, so everything's done on our, what we call our Value Creation Index, or VCI, which is a PVI metric, which is the present value of the cash flows over the investment. So if we -- if you look at that and you rank them, after you do the health, environmental, safety, mechanical integrity spending each year, I think the first things up are almost always the workovers, because those are going to have 5, 6 VCIs, even in the current price environment or lower. The next things, really, that jump out of you, debt repurchases. Those are going to be competitive with some of the drilling projects, and that's why you've seen us purchase some debt over time earlier this year and last year also. So again, we're trying to create real value, and that's kind of the decision-making process we go through every time before we allocate our financial capital or invest our financial capital. Same way with our human capital in the company, trying to allocate people to things that are going to create value for us.

Unidentified Analyst

And then, just -- you've done a couple of drilling joint ventures here, but sort of talk a little bit about the potential for midstream or infrastructure joint ventures?

Todd A. Stevens - *California Resources Corporation - President, CEO & Director*

Yes. I think there's ample opportunity, these are on that -- well, I'll call it infrastructure, since it could be anything from power plants to midstream or processing plants along the way, steam generation. I think there's ample appetite for that, especially in the infrastructure-type investors. So we're working on that. We're in active discussions. We have meetings ongoing, but we're not going to do something, like I've said all along, not going to do a fire sale, but we'll do something that's going to be additive and helpful to our investors. And clearly, when you have a use of proceeds that you could buy, let's say, your debt in at 60 or 65 or something, I mean, that's a pretty attractive opportunity for the company.

Well, thank you, guys. Thanks for coming. I know it's the end of the conference.
