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EDITED TRANSCRIPT

CRC - California Resources Corp Investor Day

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PRESENTATION

Scott Espenshade - *California Resources Corporation - VP, IR*

Good morning, everyone. I'm Scott Espenshade, Vice President of Investor Relations for California Resources Corporation. I'd like to welcome all of you to CRC's 2017 Analyst and Investor Day, whether you're attending here in person at our Central Control Facility on Elk Hills Field or listening to our webcast.

As a reminder, today's presentation contains certain projections and other forward-looking statements within the meanings of the federal security laws. These statements are subject to risks and uncertainties that may cause actual results to differ from those expressed or implied in these statements.

Additional information on factors that could cause results to differ is available on the company's Form 10(k). We would ask that you review it and cautionary statements in today's presentation and also on our website.

You'll be able to access today's slides under our Investor Relations link on the CRC website at www.crc.com.

We are thrilled to be here in Bakersfield to discuss California Resources Corporation and its assets in detail. Let me begin by giving you a sense of what our team will discuss and what I hope you'll take away from today's presentation.

California is probably the least understood world-class oil and gas rich hydrocarbon environment in the United States, mainly due to the lack of other public companies in the area. It is a region with extraordinary potential for growth and as Todd likes to say, it is the place that time forgot.



We're going to give you an overview into the quality and scope of our assets today, our exploration opportunities and our Life of Field process which led to a significant increase in our inventories. And you'll also get a preview of our growth opportunities, the flexibility of our entire infrastructure which provides important synergies to the properties near here and also obviously at Elk Hills.

Many of the levers we can pull and deliver value through all the price cycles will be shown, particularly through our VCI process. And also for today's specific agenda, we will begin with presentations by the following speakers.

Starting with Todd Stevens, president and CEO, will cover our strategy and investment thesis for CRC. Bob Barnes will cover each of the basins we operate and show how we are leveraging our infrastructure to reduce our costs and improve margins.

Shawn Kerns, our EVP of Business Development, will talk our Life of Fields Plans, reserve and growth opportunities. Darren Williams, EVP of Exploration will highlight our exploration portfolio. Francisco Leon, our Vice-President of Portfolio Management and Strategic Planning, will discuss our capital allocation process and his discussion should aid you in the modeling of CRC.

Mark Smith will then close our presentation outlining our CRC's progress against our financial goals and our organic cash flow growth potential of our development program as prices normalize. Of course while holding true to our tenet of living within cash flow.

Today's presentation should last just over three hours and we kindly ask that you please hold questions until the end of today's presentation. At that time, please wait for a microphone to be handed to you to ensure your questions are captured for the webcast.

We have a short 15 minute break scheduled following our first three speakers which should occur around 9:20 Pacific Time or 12:20 Eastern Time.

And now I'd like to welcome Todd Stevens to the podium to tell you more about CRC's strategic focus. Todd?

Todd Stevens - *California Resources Corporation - President, CEO*

Good morning, everyone. We are so pleased to have you here out at the CCF. As you'll see from a tour shortly afterwards that it is truly a world-class facility relating with automation and oilfield. We have visitors from all over the world that come here to see our CCF which is a truly outstanding facility run by great folks as you heard from Bob earlier.

I want to talk a little bit about what's happened at CRC, where we're going with CRC, and why you should be so interested in CRC, I think probably one of the most misunderstood, underappreciated, undervalued equities out there in the energy space, period.

This here gives you an idea of flexibility, of what kind of business we have here. And I like to say business because it's not just a lease and some pumping units in a county somewhere in West Texas. This is actually a business where as you see here around you, we are talking about the infrastructure that's associated with it, power plants, processing plants, surface acreage in some cases, mineral acreage. And it's a kind of unprecedented business in a world-class hydrocarbon province.

Most people don't think of California that way. But if you look at how many billion barrel oilfields are here, we are sitting on one of them right here today. But up and down the state, there's multiple billion barrel oil fields, five or six depending on ultimate recovery when you think about what's been happening here in California.

Here in Kern County, most people don't think of it, but Kern County is the number two oil producing county in the lower 48. It's been eclipsed by a county elsewhere, but if you look at the county that has a north slope it's usually number one.

And when we talk about the business and why we have this chart up here, we really like to talk about our flexibility at different product prices. Having a business that utilizes gas as a key cost component with our steamflood operations and also our power plant is very important to understand how the flexibility that we have as a company going forward and how we manage the business throughout the cycle.

You've seen during the last two years what's happened in the down cycle and how we've been able to manage the business. How we have a world-class decline rate. It's something that I think people don't appreciate, and don't appreciate how the business works out here.

Well, this is not a shale-driven model, but we do have shale-type opportunities. We really are a conventional business and we have every type of drive mechanism you might dream of and every type of hydrocarbon product you might dream of.

So when you look at this, I think you are going to come away hopefully and understand the true breadth and depth of our business and the scope and scale of our business here in California here at our flagship property at Elk Hills.

I've alluded to the fact that we have a proven track record here in California. We've proven that during the down cycle. We've changed things dramatically and how we're focused on value. We're not part of a larger enterprise that has disparate ideas and has different ideas for each business unit here in the state. You'll hear us talk a lot about one CRC and how we operate together as one company in everything we do.

And you'll also see that we're poised for some growth, and organic growth. We think that there is an awesome opportunity here at CRC because of the sheer size of our inventory and the resource base here in California.

And Scott alluded to this briefly, but I think why are we misunderstood? I think there's a few issues there. Number one, there really are no peer companies that you can invest in as an investor. If you look at the state and we'll talk about the competitive landscape here, we're really it when you look at it. So if you're going to do a lot of work on California and you have one company to invest in, sometimes people don't want to do that.

I had an investor in Boston once tell me if I do work in Midland County I can invest in 40 companies. And if I do the same work in California, I can invest in one. So again, it takes a little determination in wanting to understand the story here.

A balance sheet, we do have a little leverage, we were spun off at a time that it was given leverage for a different price environment. But we have proven that we will be opportunistic, we understood that from day one, it's just something that we have to get our hands under, under control here and make it work for us. And we've doing that and we continue to focus on that, but we have the great capital efficient assets and low decline rate that enables us to work through whether it be a down cycle or the up cycle.

And ultimately I think the other thing that sits out there is the California regulatory environment's misunderstood and I think you'll hear from today why it's misunderstood. And generally you'll hear that it's going to take you more time to do things and it's just a matter of planning and that's why it's important as Scott alluded to, you'll hear from Francisco and talk about our planning process and how our inventory and all the alternatives we can do going forward.

What have we done overall with our strategy in the very short term? You'll hear a common theme. When we spun off CRC, one of the basic principles of the company was to live within cash flow.

At that point in time in 2014 everyone said, you're crazy, you'll need to lever up even more and chase growth. I've seen a lot of flawed business models over the years in the E&P industry. And I think really one of them is when you outspend cash flow to generate production growth. You want to generate value and that's our focus here is generating value and living within our means. I think it resonates with everyone.

And you'll also hear us talk about protecting base production. When you have a low decline rate and you can really focus on base production, you create value. So if you have a less decline, you think about how the investment evolves over time, it's something very critical.

And defending our margins and that's not just enhancing cash flows from the standpoint of lowering costs, that's also enhancing the margins from the revenue side also. And the basic principle of how we invest our capital going forward, it's down here at the bottom, our Value Creation Index. It's our own naming mechanism but it's pretty well understood. And it ensures us that we create real value for our shareholders and it's the basic principle on how we allocate capital as a management team, which is one of the most important jobs so we can do it as a management team.



So everything we have is focused on value. And it goes along all these three principles we talk about, living within cash flow, smart growth and really ultimately creating value for our shareholders.

Why CRC, why now? You can win in so many ways. I know I was talking with [Evan] last night, I think you can win here simply from deleveraging. You can win here from the allocation of capital on true value creation opportunities for you as a shareholder.

And on the right hand side here as we've articulated, you can win from just organic growth of the company. It doesn't mean that's going to happen. That's a portfolio planning scenario, but it does show you how living within cash flow and kind of strip prices a few weeks ago, it depends on which strip prices you are using today, obviously it's moving around quite a bit.

You can see how we can organically grow into our balance sheet over time which deals with one of the most important issues we have, which our sheer amount of leverage, because ultimately long-term we'd like to get to two or three times and that's something that's been a principle for us since day one kind of mid-cycle.

But how are we going to get there? I mean we talk about organically but, really, the potential to accelerate that through joint ventures we'll talk a little bit more. You'll hear Shawn talk about Benefit Street. I think that's critical to understand. We're a company that's committed to living within cash flow. We're fairly well levered, but we're resource-rich, inventory-rich.

So historically being a part of a larger company, they weren't interested in other people's money. We're very interested in other people's money and having partners, we don't need to be sole risk and have 100% working interest or 100% NRI in every opportunity.

We feel there's an excellent opportunity to accelerate some of those resources that wouldn't have happened three, four, five, six, seven years from now into the present and help that snowball effect on helping the company grow its EBITDA and cash flow and ultimately into its balance sheet if necessary. But we will be opportunistic along the way and look at ways to delever if those opportunities present themselves, whether they be liability management transactions like we've done the last few years, which seem to have dried up in this point in time.

Or if it looks like we can monetize something that's accretive, whether it be power plants or other infrastructure we'll do that too, but we're not going to hold any fire sales as we said all along, it would have to be something that's truly accretive for our shareholders.

I will give you a little context on California. I mean, this is why we say it's misunderstood. If you go to the history of California and you look at it it's always been tightly controlled, primarily in the beginning by the super-majors. But if you look at here at the top three producers you'll see on a gross operated basis, we're the largest producer in the state.

Chevron, Aera, for those that don't know, Aera is a joint venture between Shell and Exxon. That is over 75% of the production in the state, those three producers. And when you think hydrocarbon provinces in North America, the tightly controlled like that just doesn't happen, if you throw in the last two, that's over 86% of the production in the state.

But if you want to think about the top three producers they're the ones who really control the mineral acreage. If you look at the map on your right, this is our acreage here in the San Joaquin Valley, but the blue outlines and more importantly are three seismic surveys that we either own ourselves or they're proprietary.

This large blob in the middle of this is the [Hockoleo] shoot. That was the largest 3D survey west of the Rocky Mountains. We did that a few years ago at 550 square miles. It was north and east up here a little bit. To get context, Bakersfield is down here.

And then the other part you will hear about is I'd like to say that California, what attracted us to California in the beginning? It's the Permian basin with tectonics, an enormous amount of stacked pays. We have over 400 different reservoirs we produced throughout the state in varying degrees of depth ultimately.



And with tectonics it's really changed what happens in the subsurface and what's why technology, 3D and those kinds of things are so important. You heard Scott talk about how I like to say the land that time forgot. That goes back to the ownership.

When you had the super-majors controlling almost the entire state until the '60s and then they decided after steamflood technology came about they were going to chase PSCs overseas for investment purposes, a lot of these assets didn't get any of the needed capital investment they needed over time or the technology.

The E&P industry in California started in the Ventura Basin in 1876. It had its first 3D survey shot in 2013, to give you kind of understanding of what's really happened in the state overall.

And what happened as they divested their assets over time is they went to smaller producers who generally very happy to get something from a super-major which hadn't been invested in and they were milking it for cash flow in some cases, and not needing to invest in technology because they had a lot of simple things to do.

The other thing I will focus on is the bottom left hand corner, this just gives you an idea about what people are doing production-wise in California and what the depths are associated with it. And that's why if you'll get a [creaming curve] for the state, from an exploration standpoint you'll hear Darren Williams be so excited because there really are 100 plus million oil fields waiting to be discovered here.

There is true wildcatting that could happen in California. As opposed to what else in North America, you're going to find that you're probably going to have to go to some exotic location and need a lot of mercenaries to protect you otherwise. And so, I think it's something very important to understand is there's a lot of opportunity set on the exploration side, sort of unparalleled you'll see in North America or even probably South America in some cases.

We've basically touched on this, going back to the spin, obviously the business in California was managed in five separate business units. Really for us the focus was to bring together one CRC, focus the business on value. I'm ex-military, KISS, keep it simple, stupid. 1.3 VCI, everyone understands that whether they're a pumper in the field or they're sitting in corporate headquarters, they understand how we allocate capital, how we really want to create value for our shareholders and be focused on that and also be focused on being self funding.

What have we done really since the spin in how we look at things? The focus of the business, why do you do a spin, it's focus, focus, focus. Our prior parent wanted to focus on the Permian Basin. We wanted to focus on California. It was really the culture needed to change. We changed the culture. It's really more entrepreneurial. You'll hear people talk about one CRC as opposed to talking about disparate business units who arguably were competing with each other for permits and regulators' attention.

With regulatory engagement, historically we were very reactive. And simply we would say if we weren't going to invest the money we'd just invest it elsewhere. Now we're very proactive and engaged in the communities we live and work in. And with the regulators I think it's very important to understand and they understand the value proposition CRC brings to them.

We're very engaged with our employees and understand how valuable they are to us. We talk about our physical assets and then our employees as the assets we need from a personnel standpoint to make our physical assets be so valuable.

You'll see we've made great progress on the. As most of you we brought down the debt \$1.2 billion for very low cost relative to all the other propositions we could have done along the way. We've been very opportunistic and try to do the things that make the most sense and create the most value for our shareholders.

We've become much more capital efficient, again, going back to focus, focus, focus, you'll hear Bob and a lot of people talk about how operationally people have become very driven to drive out cost out of the system and also to create processes that make this a long-term proposition, not just a short-term deflationary or inflationary thing. It goes to our annual production costs.



Maintenance CAPEX, it was frankly misunderstood when it was a bunch of different business units. But I think as you'll hear from Francisco, as we get into and spend more time on true Life of Field plans, not just a few years of plans and then make some assumptions going forward, true Life of Field plans, you'll see that why we are so confident in our ability to deliver results and value for our shareholders. And I think it's very important you pay attention there.

I know it's a little dimly lit in here. But you'll really want to pay attention to what Francisco has to say and understand our inventory and how we continue to work the Life of Fields and they get better and I will talk about one of those in a second, and with the actionable inventory.

And for us you are not going to see assets like this that have such high level of operating control unless you're in a super-major. And that's why for us we can dial up and dial down levers, react to the macroeconomic environment as we have done over the last few years to be able to be successful and thrive and survive depending on the environment.

For us it's starting to look a little bit better in the price environment and you'll hear us talk about the investments we're going to make this year going forward and how the JV is a multiplier effect. If you want to think about it from a military standpoint our joint ventures are going to be force multipliers that's going to enable us to be even more effective as a company as we invest capital and move forward.

And for you that are going to take the tour tomorrow, this is the Island Grissom. You'll be visiting the Island Grissom. There is a drilling rig out there at Island Grissom. This is one of the Long Beach Thumbs Islands.

Now for those who don't know this is Huntington Beach. I've been asked this before. This is actually a residential neighborhood. This is our operations. We have 90 acres which we own the surface, right on the beach in Huntington Beach and this is PCH.

Remember, Huntington Beach is surf city, and they will let you know that it's surf city. But also you've got to remember the high school which is right over here, Huntington Beach High School, it's still the Oilers. Okay. Huntington Beach is known for the Oilers.

And it's known for being an oil city originally and the operation there is something that we're very proud of. And the operations, all over California, we're known to be the operator of choice in dealing with sensitive environments or just any kind of operations really through up and down the state.

And we're really proud of, obviously the drought is not as big an issue, as you drove in I don't think I've ever seen Elk Hills or the whole area be so green. But the drought is a real issue here and we're very proud of the fact that we delivered over 12,000 acre feet of water to agriculture last year. And we continue to try to make investments and which we have done for over 30 years to deliver water to agriculture, because as you can see driving out here, we coexist with agriculture. It's really the driving economic force here in Kern County, the oil industry and agriculture industry.

And we continue to try to make this better including the fresh water used here at the power plant at Elk Hills which we will be glad to talk about later if necessary.

This is a little bit about what we're so proud about when you get back to focus, focus, focus, and Francisco will drill down more on this, but this is simply to talk about, we doubled inventory at \$55 Brent. That's actionable. It means that it has an above 1.3 VCI and it's actionable for us.

So what does this mean? So this gives you to kind of scale a little bit with the dots but down here these are all opportunities. I don't know exactly which dot it is on here, but the Poloma field which is not very far from here, it's kind of Old River and I-5, not very far down the road, that was a field we're almost ready to give up and abandon under our prior parent. But really when we got in there and did Real Life of Field plans and we did real work with our reservoir development teams we realized there's an enormous amount of opportunity there and that's something that's now from here it's competing for capital above the bar.

And again, that goes back to why do this spinoff, focus, focus, focus, get really good Life-of-Field plans, make sure you truly understand what you know and what you don't know and get to the bottom of all these things to make sure you know what you're going to do with these assets going forward.

And you also see as we talk about the different drive mechanisms, the dot relative size, whether they be steamflood, waterflood, primary, unconventional and natural gas. Remember, unconventional for us is not the term you are always used to. It is some shale but it's also tight gas and some other opportunities. It's not just shale.

And you've got to remember California is not a horizontal drilling state generally, it's vertical or slant drilling, there's not much horizontal drilling done here. And remember Mother Nature has already done a lot of natural fracturing, so that's something to keep in the back of your mind.

I want to just highlight this briefly when you talk about, this is 20 years of oil price. And it gives you an idea, we're sitting obviously here in the middle. We gave you some names for it to talk about it.

But I think the thing to understand, in our business, we're not in the widgets business, we're in a business that naturally declines every day without investment. And if you look at, depending on who you believe, over the last few years there could be upwards of a trillion dollars that hasn't been invested in our business.

And what's getting masked by inventory levels is the underlying lack of investment that's happened in our industry. And that's why we're a firm believer, what is the new normal? I don't think it's today. You have to get to a point where you incentivize investment by the biggest companies in the world. Most people know who those companies are.

The giant NOCs, the ENIs, the Exxons, the Shells, the BPs, the Chevrans, those folks have to be incentivized to invest in long lead time huge projects around the world that are going to add not just a few thousand barrels a day, but hundreds of thousands of barrels a day to the capacity of the world. And until they get comfortable with their investment proposition and the pricing level, that's where the price has to end up at that point in time that makes them feel good about and making those types of investments.

Because right deep water, those kinds of things really aren't being invested in the level they need to be, because our industry is a long lead time industry. I mean you can talk about today's Permian and those things, but that's not the response, that's a capital intensive business where you have to invest and invest again. It's the old [Gom] treadmill. You're going to have to keep investing to keep it going.

It's not where you go overseas in these kinds of projects and talk about investing \$10 billion and then having 200,000 barrels a day flat for the next 20 years. It's a different proposition.

So that's why I think prices eventually, once we get to inventory taken away or however that works itself out they will come back and have to settle at a point that incentivizes that kind of large, long lead time project investment.

How we allocate capital? I mean I think you've seen how we allocate capital below \$40 and below \$50, but this is just to give you a general feel of how we look at things below \$55. And this is, we're talking about Brent and not WTI.

VCI is our number one metric but that doesn't mean that it's the only metric we use. We're really focused on payback and liquidity when it talks about things under \$55, kind of our budget this year. You'll hear us talk about our \$300 million investment budget.

Going forward if you look at how that mix would change and in more of a mid-cycle pricing, you'd see us invest a little bit more on near-term growth or longer term projects. The one this year you'll hear us talk about is Kettleman that we're very excited about which is an analogue to Elk Hills where we sit today.

Above \$80 I think the most excited person at that point in time is probably Darren Williams because we're talking about probably doing some work on the shales. I know one of the things that people got excited about in California was the Monterey Shale years ago and then they got deflated afterwards. I think it's really, the jury is out. I mean, there's maybe have been 25 wells drilled and completed in the lower Monterey.



So how are you going to condemn or say it's wonderful with something that's ubiquitous around California and arguably the source rock for most of the hydrocarbons in California. It just really hasn't been tested. I think that's one of the things if you see a higher price environment or more technology to bear, that you'll have the opportunity to really test and see what happens with the lower Monterey.

Just a quick snapshot, we'll spend more time elsewhere with Francisco and Bob talking about what we're doing next year. This gives you an idea about our \$300 million capital budget we talked about in the earnings call, but also this adds another \$50 million for our first tranche of Benefit Street just to give you a feel for directionally what we're talking.

But the one thing I would point out as important here is in the upper right hand corner. We have an enormous amount of flexibility and we're ready to dial up or dial down depending on the macro-conditions and the level of JV funding. We'll take those steps to remain within cash flow and do the right things to incentivize investment or pull back if necessary going forward through the year.

And this gives you a little bit of geographic breakdown by drive mechanisms and obviously where it's actually going, drilling in the like and as you saw coming into the field.

This is a little bit updated slide that includes Benefit Street. And it gives you an idea about how we can organically grow into our debt load if we had to. Again, it's just one portfolio planning scenario but what we want to do is be able to articulate, we are survivors in the current price environment looking forward using these kind of investment parameters, living within cash flow, but just Benefit Street as a joint venture partner I think you'll understand as we get to the Q and A I'm sure you'll ask about it, but we feel very bullish about the opportunities for more joint ventures whether they be unconventional or conventional exploration or more development type joint ventures.

So we're pretty excited about the opportunity and how it benefits our shareholders over the long term, that helps to accelerate this, and as I said, a force multiplier going forward.

And more importantly here I think you focus on, a lot of people focus on production growth, but keep your eyes on the prize, right? Production growth doesn't matter, it's cash flow that matters. At the end of the day if you ever saw one of my laptop screens there's a bunch of pennies and stuff on it because I want to remind myself it's always about money, okay.

You always have to be making money and creating value for your shareholders because all that interesting technology that might boost production, all those other things that might be really cool, again, at the end of the day it has to make you and your shareholders money. It can't just be something that you experiment with.

And again, you've got to remember we're not a hugely capital intensive business and you'll hear us talk about it. And I think it's important for you to understand, it's full cycle margins, the three cycle ratios, but we get caught up in OPEX and those kinds of things, talk about margins and cash flow, because I think that's what's important. And that's why you see this chart being the way it is, because it's cash flow that matters.

It brings us back to the beginning why do you want to own CRC? Like I said, we're misunderstood, under-appreciated, undervalued. There's unprecedented opportunity here in the energy space going forward.

We have world class business here. If you had to look in the mirror I really think everything except the balance sheet is, in the regulatory environment you could argue about as good as it gets. You can't find assets like this elsewhere. You have to look inside super-majors, maybe one of the large independents. It just isn't there.

We have unparalleled operational flexibility, decline rate, you name it, those kinds of things are outstanding. We've shown how we could operate in the business environment, that was the last two years. We're looking forward to an opportunity where we have more stable environment where we can invest in the business.

And again, we have seen going back to the spin, I know some of you were there at the original Analyst Day. We had the four area chart that talked about no matter where our product price was, we can manage the business. This is another representation down here in the lower middle.

I guess it goes to show you how we would invest in the business. And we still have the enormous optionalities in natural gas. You'll hear other folks talk about it but then Darren is going to talk about an opportunity where we think we have a Pinedale analogue in the Sacramento Basin from an exploration standpoint. But again we have that flexibility to shift the portfolio of the company to natural gas if it was competitive from a value proposition for the company.

So again, real excited that you came out here today. You're going to hear the CRC story. I think it's very important.

I'm going to turn it over right now to Bob Barnes. And it's kind of interesting. You'll hear from [Bob Summers] who runs the [CACF]. Bob Barnes who runs our operations. And if you go to Long Beach tomorrow it's going to be [Bob Gundstrom]. So I think if you want to work in operations in CRC you got to change your name to Bob or be named Bob.

So I will turn it over to Bob at this point in time.

Bob Barnes - California Resources Corporation - EVP, Operations

So today I'd like to talk to you about our diverse portfolio of world-class assets, how we've leveraged our integrated infrastructure. And used it to drive down costs, improve our margins and also it gives us the operational control from the sand face to the sales meter, show you our flattening decline and then our thoughtful ramp-up, margins have improved the activities that we've taken on over the past year.

So CRC, our operations in California, California is truly a world-class basin. If you look at it, we operate in four of the twelve largest fields in the United States. We added to our production this last year, 140,000 barrels a day equivalent, 77% liquids. We had 2.3 million mineral acres for development. That's a huge portfolio. Francisco will be talking about where we're going with that, and Darren.

Our low flattening decline, our decline has been between 12% and 13% this last year. Our portfolio is made up of steamfloods and waterfloods, about 50% of that. And that gives you a good low decline basis. But our real step change has come from the initiative in our production surveillance, the reenergizing of it if you would, and our outstanding reliability. That's the step change that we made in flattening our decline.

The San Joaquin Basin, the USGA tells us that 66 million barrels of the original oil in place in the San Joaquin Basin migrated to the fields there. If you look at this, CRC controls 25 million barrels. That's about 38% of this tremendous asset.

It's a basin that has production from 200 feet to 15,000 feet and beyond. Now it's the home of the thermal industry. It was applied in 1960, today there's huge thermal fields, engineering firms, fabricators, Bakersfield's contractors and people, we export people and equipment around the world to other thermal projects.

Now, currently we have three rigs running and maybe you saw one today drilling one of our shale wells as you came up by. We got 34 workovers. So our portfolio right now, we're back to drilling and we've had a very active workover program and we'll continue to do so.

It's also home to our flagship I will talking about in just a minute. We have Kern Front and Lost Hills for our two thermal operations. And you'll be seeing it later today in the tour. We'll be going out to Kern Front. And then we have some waterfloods that we're going to really highlight today, Mount Poso and Buena Vista.

So in 1998, we took over operation of Elk Hills and it rapidly became our flagship, not only by our stacked portfolios, that's something that CRC looks at in any asset we get, but the shales, we uncorked the shales here at Elk Hills.

Our thoughtful investment into our integrated infrastructure and then the way we could export our learnings, not only to Elk Hills but to our surrounding properties and all the properties we operate throughout the state.

Another thing we invested in is a fit-for-purpose automation program. To Todd's point it's one thing to be automated, it's another thing to make money with it. And that's where we think we're at, we use it to make money.



So Elk Hills has 11 billion barrels, equivalent of original oil in place and it has made over 2.7 billion of production. We have our infrastructure. We have a slide coming up. I will go ahead to it but it's just a huge opportunity for us. It's truly our flagship.

On the lower right, you'll see our production history starting in 1998 when we took over our operation and the red dots are the rigs that we've had running. And you see over the last couple of years it's the first time we haven't had drilling rigs running at Elk Hills and the effect that we were able to stabilize our production.

So this is a spacial representation of our three main structures at Elk Hills and the integrated infrastructures. So if you look at Elk Hills, Elk Hills is about 75 square miles. So about, a little bit bigger than Washington, D.C. or inside the 610 Loop of Houston, it's bigger than that. So if you sit there and draw our infrastructure, this is home to primary, secondary, and tertiary recovery opportunities. We have all three here at Elk Hills.

If you look on the right, it's a strat column and it's kind of color coded back to the map on the left just so can kind of say the, again, the spacial representation. If you look at the blue outline, it's the Etchegoin. Here at Elk Hills it's called the shallow zone. The Stevens sands here in the brown and then the blue. Again, if you can picture, all these are stacked on top of each other. As you came up the hill, if you'll notice, the rest of the basin is flat. Elk Hills is the anomaly to the San Joaquin. We have terrain, we have gas, they don't. So it's truly just a tremendous asset.

Our Shale program is here. If you look at the graph on the right, after we bought Elk Hills, our activity and how we want to go. We have over 11,000 wells in the upper Monterey. Shale wells that we've developed here at Elk Hills. If you look at our recovery factor, our recovery factor shows that we have a lot of room to go yet, and we're actively evaluating EOR opportunities now. Shawn's group, we have a group dedicated to finding the way to further enhance our shale production.

Let's look at these three graphs coming up, talk about our operating cost here for a minute. So the first graph on the left is our water oil ratio and you can see it's been a modest increase over the last three years. Even with that modest increase, Elk Hills is geared up to handle water. We inject about 46% of our production, 46% to 48% of our production into existing waterfloods for pressure maintenance and to flood the oil to the producers.

But we have the capacity for more, and we have future waterfloods on the books, so that's something we'll be exploiting as time goes on. Even with that slight increase, we've been able to drive down our cost on a per oil basis and also on a BOE unit cost. Our infrastructure that we're so proud of, if you look at it, Elk Hills is self-sufficient. Elk Hills and the surrounding properties are dependent on no one else. We can take it from those sand face to the sales meter.

With our infrastructure and our automation, we have control and surveillance every step of the way. How much back pressure is against the well, what's our gathering pressures, how's the plants running? What's our recovery of products? Every bit of this goes. We recover our NGLs, all the liquids, put the residue down the line, sell the NGLs as extra product. This is the largest complex west of the Rockies, it's by far the largest thing in California.

We have about 520 million feet a day capacity to our plants, that's just here at the complex. And then our Elk Hills power, 550 megawatts which we use about 140 megawatts today in our daily operations for Elk Hills and the surrounding properties. We also have an over the fence agreement, so we have a substantial advantage on the cost of our power. We have about 320,000 horsepower of field gathering. We take it all the way from near back into our wells to step it up to 500 pounds, three stages of compression before entering the plants.

We're connected to every major market in California, so we can go multiple places with our gas and our gas is [sought]. One advantage, I'd like to kind of show you where the infrastructure has done a tremendous job for Elk Hills but now we're leveraging it not only for the surrounding properties but when we get a hold of another property, how it saves us from doing additional capital investment and how it also allows us to drive down the costs of these properties, the OPEX on these costs.

Coles Levee, you past it coming in this morning, it's on that very flat piece, there's a giant insulated NGL tank sitting over there and it's right before you start to climb up the hill. So if you look at that, we bought it in 2015. So we had a very inefficient plant that came with it. We were able to lay a line and go and take this production back to Elk Hills. We completed this work in December.



If you look at that today, we drove it down to \$12 hours a barrel, today it's at \$8.80. So it's, again, we continue to drive out margins for this property, our infrastructure allows us to do this. Let me give you a couple more examples on this, I haven't even touched on the waterflood or the Stevens sands opportunities of the workovers and the additional drawing that's there, it's something for Shawn and Darren to carry later in the presentation.

Buena Vista is really a great example of how our Elk Hills infrastructure and this tremendous property integrated and drove out cost. This was operated by both majors and independents, and the people that had it right before we got a hold of it were doing an Etchegoin waterflood and they were doing it on five acre spacing which is just basically a disposal flood, it's a place to put their water.

We took our technical teams, we call them reservoir management teams, to redevelop this field and they've gone and respaced it at 20 acres. So, again, saving us the additional drilling, they've improved production on it. So this formation, again, stacked formations, you're going to hear that a lot throughout the presentation. The shale production down below feeds the water for the Etchegoin. The gas from the shale is gathered up to this 1C compressor here in the picture and that is shipped over to Elk Hills for processing. Then we took the Elk Hills infrastructure, we extended our electric distribution system down into Buena Vista at a \$6.5 million a year savings and just at the currently electric rates and we all know what electric rates do.

So that's one of the things I'll talk to you a lot about the operational synergies here. Shawn will get into more of the potential, or other places we want to take it.

Buena Vista, we're very excited about Buena Vista Nose. This was an exploration success in 2012. On the right you see the (inaudible) model and it shows where we think how the field will be delineated going forward. The other picture on the right shows a pad activity. These are multiple rigs on the pad, you hear that quite a bit with the other operators across the basin.

If you look at this on, not only do we have the delineation of the BV Nose field, this total field is surrounded by exploration opportunities. With this we've gone and we'll begin drilling here this summer. We'll be reactivating the drilling rigs. And our drilling engineering department has eliminated casing strings here, so not only are we going back with all the other cost savings we've had, we've been able to eliminate a whole string of casing, so that's rig time, casing, cement, logging, you know, it's the gift that keeps giving when you can eliminate a casing string.

So our type curve coming through, another thing in our capital efficiency that we're doing is we're on primary drilling right now, we're delineating the field, but at the same time, we know that this is a waterflood candidate. So we're laying out our infrastructure, our well spacing and we're thinking about what we want to do on the waterflood, so we can save that money. There's no sense in doing it twice. And that's one of the things our teams are very focused on.

One of the things that I should have pointed out on the last slide with Buena Vista and the 1C station, that becomes kind of like the last gathering spot before coming into Elk Hills. This production will go over to Buena Vista and to Elk Hills for processing on the gas. The oil will be sold there out of Buena Vista, so it's, again, our infrastructure, we're leveraging it, saving investment and dropping down our OPEX.

You know, Kettleman is a property we're very excited about. It's an analogue -- and you're going to hear more about this from Darren and from Shawn. But in doing this in 1998, we came out to Elk Hills and we went out to the Stevens and we went out to the Etchegoin and we went after all these things and we had the shales. What are we going to do with the shales?

Well the first thing we did is we went and shopped 3D seismic. What did we do at Buena Vista -- I'm sorry at Kettleman, we shot 3D seismic. 1,100 wells later, we're sitting here looking at the learnings that we have from our casing designs, from our mud properties, from our hole stabilization, bit selection. On and on and on we go, how do we produce these wells? Our automation, although this is 75 miles away, we can talk to this building from Kettleman.

So the production surveillance, the operation, everything we have will be coming back here to Elk Hills. So again the -- now, I'm just talking the operational synergies here. I'm going to let them talk about downhole. So it's a tremendous asset and it's something we feel we got a huge head start on from our experience at Elk Hills and the way we developed it.



Now, the LA Basin is a huge, huge field. It's one of the highest concentrations of oil in the world. It's a kitchen. And by the kitchen what we mean is this wasn't where you had to find out where the oil migrated from before you can find out where it ended up. It all stayed there. So if you would, the oil was baked there in the LA Basin.

Now, most of our production is under 5,000 foot there, but there're opportunities even to an intermediate depth 10,000 foot. Our operations there have been mature waterfloods and the teams do an outstanding job on that and we'll be talking about it here in a minute. We have a very big acreage position there, 20,000 mineral acres and it's with the amount of penetrations there that have been throughout the basin, we have good geological control throughout the field.

So the two fields, Todd talked about them earlier, the Wilmington, that's the tour tomorrow and then Huntington Beach, 15 miles down the road along the coast is our two major assets there.

The Wilmington, this waterflood, if you look at it, this one has seven sands, seven stacked pays again. Everything we have, other than maybe some of the thermal properties, even the thermal properties have multiple pays. But it's something we look at in a property before we add it to the portfolio. It's a turbidite. It's easily flooded, with the penetrations we have with the surveillance that we had from our reservoir management teams, you can see the recovery factor down there at the bottom of the slide. We're at about 35%. That's a tremendous testimony to what they've done.

But we still have over 200 million barrels left to recover in this field and we have over 200 projects that meet our 1.3 VCI hurdle. It's the decline on this field is less than 9%. So again, it's just a well-run operation with its tremendous opportunity for us for years to come.

Now, Ventura, this is where it all started in California. This is our first, where the first commercial well was, about 8 billion barrels of oil in place throughout the CRC's acreage holdings. We want to -- one thing I'd like to highlight on the map, on the right, you can see the Oak Ridge trend coming through there and there's 30-something fields stacked out along those trends. These wells have targets, potential, 1,000 barrel a day wells. And it's a very exciting under-explored place to work and we have the lion's share of the operation there. So it almost we have the basin to ourselves.

So that's something that we're excited in, Darren's team's generating additional opportunities for us there. And there's a little cross section there on the bottom and you can kind of just see, again, the stacked pays, the tremendous opportunities that we have in developing these fields.

You know, the Sacramento Basin is another field, again with very, very under-explored. It's an old field, in 1918, this is when they started doing it, but 3D seismic wasn't even really applied until the '90s. And then we've kind of took a stab at delineating it. But we have 85% of the production and not only is it 85% of the production, we have about 85% of the acreage in the Sacramento Basin.

So this in a state, all this gas asset here, we can rapidly add gas whenever we need it because we have gas behind pipe. We have workovers that don't even require a rig. We have your traditional workovers and then shallow drilling opportunities. So in a state that imports between 90% and 95% of its gas consumption, this is a tremendous asset to have, and it's something that we -- as it matches our portfolios, as the margins dictate, we'll be all over.

So our margins, one thing I want to point out about our OPEX, this is -- and our OPEX, we have the things that it takes to run the wells. I mentioned the 320,000 horses of field gathering we have, three stages of compression. That's in our OPEX. Our gas processing to run the plants, that's in our OPEX. Our power cost, they're in the OPEX. So this isn't just, you know, what it costs to pump a well. All of this is inside our OPEX on the numbers we show you.

As you go into '14, '15 and '16, you can kind of see how we've driven it down. A couple of areas I really want to focus is our surface operations, they've done a tremendous job. How all our teams have done it is they challenge everything. We basically went back to the book and started over. Anything we do, we challenge. We've done this.

And one other point I want to make, we have not deferred any major or significant maintenance during this time. In fact, our ATS record has been near records through this whole time, a couple of years were record years, but we did not take any shortcuts. So we did what we needed to do



even in this down market. We were never challenged to do anything that wasn't what needed to be done. So I'll kind of show you some examples of driving down cost.

One of the areas that's really been good for us is the well maintenance. You'd go in there and the first thing you want to do in well maintenance is you want to stop wells from failing. If they don't fail, you don't have to fix them, you don't lose production. It's kind of like the root cause. So you kind of see what we've done over the past three years.

The other thing we focused on is our time on location. So the guys have really done a great job by automating our process in which we get our records, each well, everything we do has an economic limit to it. So we're not going to just bow our neck and say we can fix this well. It's got to clear hurdles. It's got to compete for OPEX if you would like a well has to compete for capital.

These are the things that we really pushed. We've engaged our contractors. Instead of us telling the contractors what to do every step, we've engaged them. We've improved their reliability, their downtime, all that, less time on location. So it truly is time is money, the less time we spend out there is the less money we spend.

One thing else I'd like to point out down here is on the bottom graph, is our ESP run time. So especially there at the Wilmington field. Wilmington has about 1,000 ESPs in place there. Their run time is about 0.13 over these last three years. So that means ESP fails rounded up to about every eight years. This run time is better than Alaska, it's better than Central US, it's better than the Permian. So it truly is a world class operation and great surveillance and they know what they're doing with the electric submersible pump in Long Beach.

You know what, on our wells, this is something we want to show you, although we didn't have a rig running for a large portion of '16 and some of the other things, we never quit drilling. We were drilling wells on paper. We were tearing them apart and putting them back together. And this is a cross-functional team. It's not just the drilling engineers talking about what they can do. This is the drill and equip process. Our reservoir management teams, our planning personnel, everybody was engaged in this process. How do we make it better?

If you look at the graph, along the X-axis is the different type of wells we drill. So, just for convenience, what we've done is kind of put them where they are at. We've been able to optimize the rigs we use. It's something -- it's one thing to have a cheaper rig, but it's another thing to have the tool for the job, and that's something we've done there, our wellbore strengthening, our casing size. I talked about the example at BB Nose, our cement -- foam cementing throughout the thermal operations. These are all things that drive down our cost.

So, if you look over on the right, that's a little bar chart shows how it is. Everybody wants to be focused on your rig cost and it's important to have a competitive and a good rig cost. Nobody wants to pay too much for a rig. But you'd better be paying attention to the other things, too, and that's where we feel very confident with -- our drilling teams have just done an incredible job of driving out cost, we see we've improved from the long reach wells in Long Beach down to the Lost Hills wells that take a matter of hours to drill. And you know you're on top of your game when you can improve a well that just takes hours to drill. So, it's -- I'm very proud of the drilling effort.

This is a slide that shows the capacity of the California market and what CRC does to the market. So, you can see that we have -- there is a little bit of running room there between what our operation is and that needless to say, we're the 800-pound gorilla in the -- especially in the deep market in California. So, we drive the California market.

So, this is a chart that we've gone and these are fully burdened costs. So, this is the cost of the lease. This is all the infrastructure, all the OPEX, all the capital that goes into a project, not just cherry picking a couple of metrics. This is all in.

So, on the right, you'll see the color code represents a different type well, the recovery method that's employed on these wells, steamfloods, waterfloods in gas properties. On the right, you can see it's a full cycle cost, dollars per BOE. So, you can kind of see that up to about 95% of our property is well under \$35 of barrel there. So, you look at the places that are paying a gazillion dollars in acre for -- just to get the acreage to explore. We think we're very, very competitive. Francisco will go into more of this coming up.



One of the things we did last year as the margin started improving is we came in with -- we started up our workover program again. And what we're excited about is these are add pays. These are artificial lift precision, they are production and you can kind of see the economics of these workovers. VCI is 6.2. That's pretty incredible. If you sit there and you look at this, we did 133 jobs. We kind of started midyear and that kind of shows you the ramp-up there, but it's just a tremendous effort on the -- identifying the products to our Life of Field plans to the planning and execution of the operations teams. So, again, great effort, great results and something we're very focused on and remain driven by.

This is our decline. So, if you look at this, the color code is by product, your NGLs, natural gas and the oil. So, if you sit there and the blue dots down at the bottom is the capital investment. So, you can see at the end of -- throughout '16, you've truly got to look into the soul of the reservoir, if you would. This isn't propped up by capital investment. This isn't propped up by additional OPEX. We drove our OPEX down. We drove our -- we didn't have capital invested in this. This is truly what the reservoir can do.

Again, the step change was type of asset, the production surveillance through our production surveillance class, the reenergizing of our teams and then, also, the reliability, keeping the wells running, keeping the infrastructure running. And one thing I forgot to mention back on the infrastructure, on our electric distribution system, ours is bigger than the city of Anaheim, down there at Disneyland, and we have a better reliability. So, it's something that we really take pride in. When you can beat the municipalities, oil field guys like it.

So, I hope we've showed you that we've successfully driven down our cost. We've flattened our decline, again, reliability, surveillance, the portfolio mix that we have. We continue to build inventory through our Life of Field process and that'll be coming up in the presentation and we have a large inventory of drilling and workover opportunities that are ready to be executed.

So, I appreciate it and I'd like to turn it to Shawn Kerns, our EVP of Business Development.

Shawn Kerns - California Resources Corporation - EVP of Business Development

Thanks, Bob, and good morning.

Today, I want to share with you tremendous growth opportunities across our CRC portfolio and go into details describing our Life of Field planning process. As you're aware, CRC has a tremendous asset base with 135 fields across four key basins in California. Within these fields, we have a significant amount of original oil in place of 44 billion barrels at a low recovery factor of 22%.

When you look at our 3P reserves, it takes us to about a 25% recovery factor, but we know that we can go much higher than that and our technical teams are working plans to get us from 25% to 45% recovery. In addition to that, our technical teams are focused on getting the maximum recovery out of the reservoir. We like to look for every last drop of oil using current technology today and emerging technologies going forward. And so, that can even drive us from 45% to 60% recovery. And what this results in is a great inventory of projects that you'll see here that are able to withstand multiple price environments.

So, the chart here shows our five largest CRC fields. These are multibillion barrel fields that really underpin our technical understanding of the reservoirs within California, the broad operating experience that Bob just talked to you about. Todd talked a little bit about 90% of the 3D seismic that we have in California, really, updating our geologic models and petro-physical models gives us a great understanding of virtually every rock type in California going forward. And it's with this understanding and experience in the fields within CRC that we're able to have confidence in redeveloping these other assets within the CRC portfolio.

So, I talked earlier a little bit about the recovery mechanisms and I'll kind of walk you through our recovery value chain here. We have primary reservoirs that are producing basically with the natural reservoir energy from these wells. You can get anywhere from 10% to 20% recovery factor from that. Beyond primary, you can put in waterfloods and double the primary recovery factor or get from 20% to 40% of the original oil in place. And in fact, many times, we have floods approaching 40% recovery already. And then, we have EOR processes such as our steamfloods where we can take the recovery factor up to 70%.



We talked earlier about the tremendous stack pay in California. You can see there on the right of the chart. We have producing formations anywhere from 200 feet down to 15,000 feet and we have 400 stacked pay intervals. And these aren't little stringers that we're counting as intervals. These are the major producing horizons documented by the Department of Oil and Gas. And what's tremendous about California is that you have multiple stacked pays that you can intersect with a single wellbore and oftentimes, we reuse those wells when we do these field redevelopments. And with the reuse of the wells and the shared facilities in these fields, it really gives you ultimately a lower cost of development.

So, we have all these fields and we have these recovery and development plans. We've been busy during the downturn with our technical teams, really doing a deep dive in our fields across the CRC asset base. We've looked at about 40% of these fields. What this consists of is we're updating our geologic models, our petro-physical studies, and you can see we're revising some of our oil in place numbers. And we've even had some of our teams share experience.

So, we have the waterflood team from the San Joaquin basin go down and meet with the Ventura basin team to share waterflood experiences and how those properties can get additional recovery. And we look at the inventory and we catalogue it consistent with how we look our proven reserves methodology.

The chart on the right shows the growth in our volumes, of our 3P volumes, basically about 250% growth since spinoff just in these volumes that we've captured. And when it comes to reserves, we track every barrel. The block that's in grey there is our price affected barrels and about half of those come back in to CRC at a \$55 price environment. So, we take this inventory and we roll it into Francisco's portfolio planning process.

Something that Bob talked about, and we see a lot across CRC, is the big fields get bigger. We have the stacked pay zones. We have these multiple recovery mechanisms. And Elk Hills, for example, paved the way for a lot of our learnings across California. When we first got the property, we came out, relatively undeveloped, not a lot of work had been done, lots of recovery left to go. We shot our 3D seismic which really illuminated the subsurface environment and it showed us where oil was trapped and couldn't get to active wellbores.

We put in waterflood projects, gas projects and even developed a shale technique that we have then exported to other fields across our CRC portfolio. Now, keep in mind, this is a 100-year-old field. And since we've owned it, we've drilled 3,000 wells year-to-date and we're not even close to being done from these fields. In addition to just the recovery within the field, we were able to find some new pools within this old field that we're still working on and developing today. When it comes to analogues, you can look at -- look at other people's analogues, but when you build the analogue yourself, it really gives you an opportunity to translate those learnings faster and more efficient to our other CRC properties.

One area of growth potential that we'd like to highlight is the Buena Vista field, and we call this the sister field to Elk Hills. It's our second largest by oil in place, about 20 square miles of potential. Again, same thing here, you see the stacked pays, the multiple recovery zones. We came out and shot 3D seismic and tied that into our Elk Hills seismic volume. We're able to take our, basically, geologic models and our reservoir understanding from Elk Hills and translate this real quickly to Buena Vista.

It's still early. We have 350 active wellbores year to date, but we have all the recovery mechanisms in place here, waterflood, unconventional shale, and EOR. But we've already doubled production from this field from our development activity.

In addition to the in-field development activities, we see this a lot in California. The Buena Vista Nose is a new pool discovery that came about when we were looking at Buena Vista. And this is a conventional reservoir at 10,000 feet depth. It's basically been hidden since 1939. There was nine wells that penetrated it. Nobody ever really recognized the potential, and it's not until you can take kind of the learnings from Elk Hills and the petro-physical understanding that you can stitch those together and see the potential. Our teams have done the early geologic models and the reservoir studies and we're in the pilot and appraisal phase on this field.

One thing about these things, when we find these fields, it's very exciting for us because we're not talking about just single digit recoveries. We're talking about the full recovery value suite here. We can take these from primary. Bob mentioned we're already doing our development planning on waterflood and then we can take these all the way through to EOR.

Another area that's exciting for us is the Kettleman Field area, again, nearly a 100-year-old field. It's large, 14 miles long, looks a lot like Elk Hills, stacked pays, multiple reservoirs, and when we look at it, it's relatively underdeveloped. We have analogue properties from other fields within CRC that look a lot like this and so, it's really easy for us to translate kind of our learnings back and forth. Here, we're working our process as well. We've shot 200 square mile 3D seismic. We've interpreted that, tied it into our other seismic volumes, built geologic models, completed our reservoir study and our pilot and appraisal program is in place. It's early, but it's pretty exciting.

So, when we look at the growth from Kettleman, we have multiple growth targets. We have seven stacked intervals here. We may even find more as we step out a little bit from the field. One thing that's neat about these stacked pay intervals is that a single well, we're able to appraise these structures quicker. There's one well, you can do a log across all the intervals and we end up building our models in parallel. We see the same thing here in Kettleman that we see in Elk Hills and Buena Vista, stacked pay zones, multiple projects that can be undertaken and primary waterflood, steamflood, and EOR here at Kettleman. Our early results are pretty exciting. It's got some high IPs, 300 to 500 barrel a day range and we know that we've got lots of running room here at Kettleman.

So, we've had a great track record of implementing our growth programs across CRC. As I talked about our process, we do our technical work to look at the maximum technical recovery, develop our Life of Field plan, and get ready to execute. These are examples here of just the different mechanisms that we have, unconventional, conventional, waterflood and steamflood. And this is looking at the time from the start of activity to three years in time and you can see double-digit CAGRs for each one of these types. And in field areas like Kettleman, you can see all of the above types in one field.

So, we have a diverse asset within CRC's portfolio across multiple basins. What we see in these fields and then we've experienced is that these big fields just keep getting bigger and more valuable to us. Our 3P value here is about \$10 billion and we have project types across every basin here, conventional, unconventional, steamfloods, waterfloods, and then even a difference between gas and oil, depending on the price environment.

So, with our Life of Field programs, we have this inventory of technical recovery where we look at what the maximum is that we can get from these reservoirs and we have a continually growing inventory here shown on the left, anywhere from 4,000 to 8,000 wells depending on your price environment. And when we look at these, it's not just the reservoir development that we're focused on. We actually fold in the facilities cost and other cost needed to do this and we high-grade the portfolio to a VCI of 1.0. And then, on the right, you can see the years of economic inventory. So, depending on what rig count you use, you easily have 15 to 20 years of inventory that we then give to Francisco and his portfolio process where he ranks and prioritizes our investment.

So, in addition to CRC's investment in these fields across these basins, we also have other money going to work. We've announced our deal with Benefit Street partners. Basically, this is a \$250 million JV that will be spent over two years. We have the initial \$50 million tranche funded and we're already drilling our first well. Initially, we're going to focus on the San Joaquin basin. We're going to focus in Elk Hills, Kettleman, and Buena Vista. And CRC is the operator of this JV and we also provide all the technical support and project recommendations.

The investor funds 100% of the capital and basically, it's an NPI structure over the \$250 million investment which we share with our investor, that after they reach their target return, it reverts completely to CRC. So, we're excited about these opportunities as Todd mentioned to bring additional funding in. You can see the immense amount of inventory that we have and we're in other discussions with interested investors that like the scale and quality of our assets and are interested in putting money to work.

So, with that, I think we're now taking a 15-minute break, and then I'll turn it back over to Scott.

Scott Espenshade - California Resources Corporation - VP, IR

Thanks. That concludes the first portion of our presentation this morning. We will take a short 15-minute break and we should be back and we'll get started again in 9:30 Pacific Time, 12:30 Eastern Time. Thank you for your attention.

Thanks. Bye.



[Break]

Scott Espenshade - *California Resources Corporation - VP, IR*

Welcome back, everyone. We're going to complete this morning's session with our second half of our presentation. To start it off will be Darren Williams, our EVP of Exploration. We'll have two additional speakers and then we'll have our Q&A session. So, again, I'll remind you at the time for the Q&A, please raise your hand so I can bring the mic around the room so we can record your question for the webcast. Thank you.

Darren Williams - *California Resources Corporation - EVP, Exploration*

Thank you, Scott.

Good morning, everybody. I'm very happy to be able to talk to you today about the exploration opportunities within California. And really I'm going to talk today very real growth opportunities that exist within the CRC assets. I will run through really two elements. We'll talk through the conventional exploration portfolio, which is generally prospects that look just like the fields that you've heard many speakers referred to this morning. And then we'll talk a little bit about the resource play potential that exists within the California shales.

On slide 56, here I just want to really start and frame up for you why there is the exploration potential within California, what could be perceived as a very mature basin, clearly some very old fields, some real legacy assets here.

The reality is that those assets sit in a petroleum system that's truly world-class. And from an explorer standpoint, page one of the explorer's rulebook pretty much says the best place to look for oil is where there's oil. So when you go through California, what you tend to see is this world-class source rocks. We've got, the lower Monterey, the Kreyenhagen and the Moreno which are all source fields that we produce from.

You've heard from Shawn already that we have over 400 reservoirs that exist across the state that are often stacked up on top of each other. And then finally you have the local tectonics that have created these large-scale regional structural trends that really are the focus for hydrocarbons that create a lot of opportunity.

And then on top of that, what you heard from Todd in his opening comments were the under-explored nature of California and that's truly the case. You've heard about many of our assets that have been through a cycle of development, redevelopment, enhanced recoveries and really that's, in a nutshell, the activity and the capital focus that's occurred in California over the life of the industry here. So what that means is you have large areas of the basins that remain undrilled, have not been pursued, and really the focus has been on those large structures.

I'd refer back to what you just saw from Shawn on Kettleman. There you have a field with 4 billion barrels in place that's produced about a billion barrels. But the majority of that has come from one level and even in fields like that, people have not progressed on to the additional developments in those deeper reservoirs or other reservoirs that have been demonstrated productive. And when you have assets like that left behind, you can start to see the context that the underexplored nature of the California basins truly exists.

And then lastly, the key component that layers on top of that is the CRC as a company. In CRC, you've got an exploration team that's truly focused on being creative, identifying new ideas, identifying new opportunities. You have a company that has the industry-leading database. We have data that no other company has or no other company could get even by other methods. So really it allows you to differentiate yourself and build a knowledge base that no one else could do.

But probably what truly differentiates us probably within California and not only that, but maybe as a company across the exploration space is that value component, that value layer that we put on top of it. The benefit I have as an exploration group is that we have outstanding analogues just down the road for us to be able to assess what the expected well performance would be in an exploration prospect. Just like we can high-grade all development projects, we can take the same approach, apply our VCI metric to the additional fields that we may discover through the exploration program.



Again, you heard in Bob's and Shawn's presentation about BV Nose discovery. And we have a whole portfolio of analogues that look just like that field, very close proximity. So really we're able to really put that layer of value on top and design how we prosecute and evaluate our prospects in a meaningful manner.

With that context, what I'll probably layer in for you on slide 57 here is the success that's already been demonstrated through those approaches. And really when you look at that conventional exploration program the way I always describe it to our teams and other people that we talk to is CRC already has a development program that's this long. The idea of the exploration program is not just slide in another approach at the base of that list. Our goal is to display projects at the top end, really high-grade our development portfolio and continually drive an improvement in the overall performance of the corporate production curve.

So really we've been through that. You can see on the chart in the upper right there the contribution that's been in production over the last decade or so from exploration discoveries. And really you've heard about it already this morning, since 2012 we've had numerous discoveries in both BV Nose, Pleito Ranch field, which was on one of Shawn's growth slides, and then the Oak Ridge trend, which Bob referred to as a play trend that had over a thousands barrel of oil equivalent production.

We've made these discoveries. We've been through the appraisal phase and those will start to make a key component of the development portfolio in the near-term view. So we're going to see a change in that curve and we're going to continue to see that high grade in the development portfolio through these projects. And then next to that we have this deep inventory of projects that really allow us to continue to flow through and make additional value-accretive discoveries into the production portfolio.

I'm not going to spend a lot of time going through everything on this slide, but what I would say is what truly differentiates us in terms of California is both our people and our data, both of which are focused on lock-in value and basically exploiting everything that we have to identify new opportunities.

But what you have heard a little bit about today and I'll probably spend a little bit more time on is that leasehold position we have, 2.3 million acres, approximately 60% of it which is held in mineral fee. In case you're unaware, what that means is we own the mineral rights. So there's two real additional value components from that. It means we have a stable leasehold as we own those minerals. We don't have expiries. We can really be deliberate in how we prosecute our evaluation of our leasehold.

And then more importantly, we're not paying royalties to anybody else. All the revenues come back to CRC, so it really allows us to add in a layer of value. But from an exploration sense, it also gives us an immense license to explore.

When you look across this leasehold and you could see the map there on the right along with our seismic data, we have large, contiguous lease positions. What that means from my team's perspective is we can evaluate whole plays, basin-wide plays on a regional basis. And we can high-grade where we think is the best opportunities rather than just where we have leaseholds and where we can drill. So it really allows us to be deliberate and evaluate in the play trend. It allows us to go and seek out where we want to drill first and evaluate a play trend.

And then in the case of a success, it really allows us to capitalize on that success. We're able to go into harvest mode and just continue to drill out the additional portfolio that we've identified within those trends. So that leasehold position really is a competitive advantage that often doesn't stack up next to the source rocks and the reservoir potential, but it's a component of why we've been successful.

When you look at the exploration portfolio, you heard Todd mention it and I'll reiterate it here. There is no one who has a conventional exploration portfolio in the lower 48 like CRC's. There's nobody who's drilling conventional prospects. Within our portfolio we have over 150 prospects identified with a net resource potential in excess of 2 billion barrels. And I would say these are all new field prospects, generally in proven play trends, proven reservoirs and really have that ability for us to understand the value proposition based upon what we've done already.

Because of the known nature of those reservoirs, too, it means we can be efficient in our evaluation. You heard of BV Nose. We've been through the exploration phase. We've done some appraisal. We're now going into the primary development. We'll go into a waterflood. As we explore these



reservoirs, we can be real efficient with our data acquisition, so we know what data is going to be needed to move us down that development cycle. We can really exploit that.

The chart on the right also starts to give you a breakout of that portfolio. And I think as you've seen already, both with the development teams and the exploration teams, we've taken advantage of the lower activity levels to really focus on our play trends. And we've basically doubled the exploration resource potential since the spinoff. That's generally come from new ideas, just basic exploration principles, people having the ability to go through the data that we have and identify new opportunities.

And to a large degree you've heard the phrase, the land that time forgot. The exploration team here could be spending time out in the field. You can see all the reservoirs exposed in the hills around you. They may be doing that, they may be doing regional gravity studies. They may be applying technology from seismic, they may be applying some other more advanced technologies. It's really an integration of old school geology and modern day technology that's really helping us to unlock these prospects.

On top of that, what you see on this slide is really that element of breakout by basin. So just like within our development portfolio, you can see we have a large portfolio in the San Joaquin and Ventura basins which tends to be oily and then layered on top of that we have the Sacramento basin that tends to be gassy. So just like within the development portfolio, depending upon commodity prices, we're really able to switch our activity focus to the commodity of interest.

I got asked probably a couple of times last night, what's the one or two things I'm excited about. And kind of leading from the context that I just presented there in terms of the depth of portfolio, the answer to that really isn't one or two prospects, it's three or four play trends and these are large-scale play trends across basins. And within those play trends we have high-graded prospects. We know how we're going to drill them first, where we're going to evaluate. And this table really starts to give you a feel for what our inventory looks like.

So you've obviously got four columns on this chart on slide 60. We have prospects that are analogous to the Elk Hills and Gunslinger discoveries with structural plays. You've got a portfolio of prospects that are really analogous BV Nose, Buena Vista Nose, Paloma that you've heard today, Pleito. You've got prospects that are in a proprietary or in an area where we have a large-scale proprietary 3D, where we're able to take existing fields and extend out those reservoirs. And then lastly, we have a large-scale regional stacked sand play in the Ventura basin that were really focused on, too.

So these start to give you a feel when you look down the table. What I'd say is probably you can see depth of the inventory. We've kind of grouped it all together. You have probably over 65 individual prospects within this portfolio. Those play trends all have multi-hundred million barrel potential, net resource potential.

And then the third column really gives you that success factor. It gives you an idea of what our risk-proram is. And really we use a metric which was more about flowing hydrocarbons to surface because almost every well we drill California has hydrocarbons in, so geologic success becomes somewhat meaningless in California because it's effectively 100%. So what we truly look at is our ability to have established flowable hydrocarbons to surface. And you can see those play trends, we have about 40% to 80% success rate in those plays.

And then lastly, I think to that value statement, you're going to hear from Francisco after I'm finished here. But the last slide where we label things mechanism, what you see in these play trends are well performance that's equivalent with what labels are deep or primary type curve in the next set of slides. So it's generally high-performing wells, slightly higher cost wells, but really it's those conventional programs that really allow you to generate some value there.

When you actually look to the activity we have planned in the near term, we have this broken out. Firstly, I'll just touch upon what we plan to undertake from a CRC funded perspective and then we're going to talk about some joint venture activity that we do.

And I think what I actually say when you look across this set of activity that we have, it starts to give you a flavor for our portfolio and the variability and kind of some of the themes that you have in our portfolio.



So just on the first project there in the CRC activity, we have a deep well that's planned. It's in an existing field. It's from an existing pad. It's close to infrastructure. It's in a play trend that could be 20 miles long. We've demonstrated its success elsewhere already within this trend, and you're really targeting drilling undrilled section underneath an existing field that has about 6,000 to 8,000 feet of gross interval. This is equivalent to the well that we talked about already that had an individual reservoir interval, so not the gross interval but an individual reservoir interval flow over a thousand BOE a day. So it's a really exciting trend. It's one we're really pursuing with a lot of interest, and one that we can think we can exploit very effectively.

And then you kind of come into the joint venture side of things. And as we've said already, really we're trying to move along the new resource adds through joint ventures. We're going to talk about a couple of them here. But what we tend to see, we see one-offs here when we continue to talk to folks about larger scale programs. But you start to see the true wildcatters are having interest in California. People who want to get into frontier opportunities and things that can have a real impact.

When you look at those opportunities though, we have two listed, firstly the project in San Joaquin, very analogous to the BV Nose project, seismic driven play, offsets existing CRC infrastructure and fields. And we'll see a well there targeting a seismically defined reservoir interval that's productive probably less than one to two miles away.

And then the last opportunity we'll talk about is a gas prospect in the Sacramento Basin. This is really a modern twist on the original California exploration activities. So if you look at this project, this is a surface anticline. It has a 50-square mile footprint that you can see on satellite imagery. You can see it on the geologic maps you can see in the outcrops. It has a large-scale footprint. As I think Todd mentioned, it's really perceived internally as a Pinedale analogue in terms of size, 50 square miles.

From that, you can go out into the field and to the west of that structure you have large-scale extensive turbidite reservoirs extending significant distances, exposed at surface. And then CRC has proprietary 2D data that we're able to take those outcrops, correlate into the structure and really start to develop that prospect and pursue it.

So this is a prospect that has gas seeps at and surface. We already drilled one well and encountered two high-pressured gas sands, but really we're coming back with a third party to try and advance that and really delineate that prospect. So throughout those projects you start to see the variety, near field projects that are in existing legacy fields where we're drilling deeper in the long trend, seismic-based or technology-based prospects and then old school field work and surface anticline projects that really have a large-scale impact.

And then just like we're doing on the development side, we continue to talk to other folks in terms of how we can progress other opportunities from the conventional portfolio. The conventional portfolio is one side of the asset base. The other component is really the opportunity to develop resource plays in California.

As a company, CRC is not unfamiliar with these types of reservoirs as you heard from Bob and Shawn. We already produce from share reservoirs, about a third of our production effectively comes from shale reservoirs in vertical wells.

What you're really looking at here is our ability to develop unconventional horizontal plays in the source rocks. When we look across the basin, you have potential in the lower Monterey, the Kreyenhagen and Moreno. Right now, we're truly focused on the Kreyenhagen and I'll expand upon that in a little bit here. But I think it's probably worth mentioning, I know Todd mentioned lower Monterey is still in the (inaudible). A lot of press over the years is saying that I think multi-billion barrel prospect, multi-billion barrel potential all the way down to single-digit million barrel potential.

So from our perspective, you've heard it from Todd, we still see significant potential in that play as an opportunity. But the reality is that most of lower Monterey is being drilled in conventional fields where the hydrocarbons have migrated to those fields. The lower Monterey as a source rock where it's mature has not really been drilled a lot in a handful of times. So the infancy of that play is fairly immature and really we still see a lot of that potential.



But what I'm going to switch gears on to really is that Kreyenhagen. And really the Kreyenhagen, we've been able to develop up. We've got log data, we've got core data, we've got seismic data and we've been able to demonstrate through zonal completions the presence of productive intervals. So we've really advanced that side of things and we continue to move that forward.

When you look at our asset base, clearly we show about a couple of billion barrels of resource potential as you'd imagine with a scale of opportunity that exists over multi-hundred thousand acre positions. Again, I'll reference that we hold the cores of the plays, we basically have the full dominating controlling position there. And, again, more importantly we own large scale fee positions. We own the mineral rights in these things, so it provides us additional value but also allows us to be deliberate in the stage in our evaluation as we have limited leaseholding requirements from our perspective.

And then generally just as you drove through the value there, where these plays would be prospective, you're generally in rural occasions, commercial agriculture and, again, these areas where there's existing infrastructure very close by.

This last slide really on the shales just gives you that flavor. When you look at what's important in a shale play, we've been able to go through in our activities in the Kettleman North Dome field, drilling vertical wells, exploiting our activities as we develop that field to really acquire data and extend our understanding.

So as we've gone through that, we've been able to confirm that you have reservoir thicknesses in excess of a thousand feet. We have 3D seismic that really shows that the other misnomer that you hear about California where our shale plays being in large-scale complex areas, reality is where this is active, this is relatively benign single-digit dips into the basin.

You have high TOC content. A good TOC would be 2% to 3%. What we see in the Kreyenhagen is actually hundreds of feet of high TOC rocks reaching as much as 8% and really that's reflective of where we started originally in terms of how prolific the source rocks are in California.

And then when you look at the reservoir properties within those intervals, we have low play content, high cores content, we've got good porosities, we've got good presence of fractures, we've got everything you'd look for in terms of the frackabilities of these rocks and the ability to have contribution from intrinsic fractures.

And then finally, probably what's important and truly differentiates some of these plays in terms of productivity, we are able to show that we have overpressured to highly overpressured reservoirs within this play. Based upon the data we have, we have reservoir pressures that range from 0.6 to 0.9 PSI per foot which is really getting up there in terms of play potential.

But really the most important factor and when you look at this map on the right which shows the basic hydrocarbon fairways with some productive well locations on top, what you see in the black dots there is vertical wells that have zonal completions. The table on the right gives you some information from those wells and what you see is production from the lower Kreyenhagen, the middle Kreyenhagen and the upper Kreyenhagen, and those wells, without very much stimulation, flow at rates or 30-day IPs that range from 100 to 300 barrels a day from single zones.

So really something of interest, it's something that we can continue to progress and develop our understanding. But really from an exploration sense, our true value at this point is towards that conventional side of things.

So as I wrap up here and we can lean into Francisco, what I think hopefully you took away from this is we can have a real growth opportunity within the exploration portfolio, the real opportunity to continue to drive new projects into the development portfolio and basically leverage all of our understanding into new assets.

With that, I'll hand it over to Francisco who will give you some very pertinent information on the expected well performance across our various plays. Thank you, guys.

Francisco Leon - California Resource Corporation - VP, Portfolio Management & Strategic Planning

Thanks, Darren.

So you've heard us talk about having 135 fields in 4 basins with hundreds of producing stacked reservoirs. I'm sure some of you are sitting there listening and thinking about how are we going to model CRC, right? There's just a lot of different things going on.

We think the way, from your perspective, to model CRC is by focusing on the drive mechanisms. If you group our assets into steamfloods, waterfloods, primary, shales and gas, you'll find that these groupings share similar characteristics. The shape of the production profile is similar. The cost expectation, the recovery expectation is similar across the board. So if you group these fields, you'll be able to see how we make decisions on capital, how do we allocate the money into the portfolio.

What we're trying to do today, what I'm going to walk through is the drive mechanisms and we're going to give you some modeling inputs. We'll go in a little bit into more detail that we have in the past, so hopefully we'll give you some good information to take back home with you.

We're ultimately trying to find the best project mix. We have a lot to choose from. It's identifying the best projects mix at each point in the cycle. It's not the same if you're at \$50 and if you're at \$100. We ultimately look for cash flow growth, that's our objective, and to make high value decisions, right? So as we'll present here, you listen to our value proposition and hopefully these details help you.

Really want to remind everyone about the life cycle of a wellbore at CRC, we have stacked sands, we have thousands of producing wells, so that means an opportunity to multiply the returns of each wellbore beyond the initial target.

I have an example here and this is just for illustration purposes, but what you have is we have a wellbore that's going to its initial target. And we're expecting it to be 1.3 VCI which is our corporate hurdle rate. And then a few years later, Darren comes back and he says, "Okay, we reprocessed the seismic. We think there's a deepening opportunity within the same wellbore. Let's go down. Produce out of that sand for a while."

Then after a while that same wellbore which we made it past some secondary targets and we feel like it's the right time to produce out of those targets and we take the same wellbore and we go uphole. Maybe there's a good sand in there and we think that this wellbore now it's best suited as an injector so we'll convert that same wellbore into an injector, right? So what you can see is how we're multiplying the returns of that same particular wellbore.

In this example, we're showing a 2.8 VCI on the wellbore. But as you saw on Bob's presentation, last year's program at \$55 Brent it was a six times VCI, right? So we made a lot of money for those investments. So this is what the stack opportunity can do. We have a lot of vertical pay and we like to take advantage of this.

So in a normal year, more mid-cycle \$65, \$70 here, workovers, capital workovers represent about 10% to 15% of our total capital budget. In years like last year where we had a little bit less money to work with, it'll be a higher portion, right? These are some of our highest priority projects. After HES investments to protect and safety and the environment, capital workovers are next on our list. They're just phenomenal returns.

This is a slide for reference. What we have here is basically we grouped the fields and matched them up to their mechanism where we see it being predominant. Of note, there are some fields, you'll see them repeated in different sections. For example, the Buena Vista field, you'll see it as a waterflood. It produces from a sand that's going waterflood there. And if you go down below it also produces from the upper Monterey. So you can have these fields in multiple different mechanisms.

We're also showing the ranges of VCI and I'll get to the VCI and the economics in more detail in the next few slides. But just a reminder, our corporate hurdle rate 1.3 VCI so that means that for every dollar invested we expect to get at least \$1.30 of PV10 back. This really helps us high-grade the inventory.

So what guides, I mean where can I see how you make decisions on capital? If you look at our current operating margins, that's a good way to start thinking about how we're making decisions. What we have here in this slide. We're assuming \$65 Brent and \$3.50 NYMEX and what we're showing



is on the left side on the Y axis on the left side we're showing the realized price for BOE. It's realizations per BOE, they take into account the oil and gas mix of each of the categories or the mechanisms. That's indicated by the secondary axis on the right hand of the page.

So what you can clearly see here is that some of our higher operating cost fields actually are the ones that give us the best margin. Steamfloods, waterfloods, they tend to have heavier oil. Sometimes steamfloods are 14 degrees API. In other parts of the U.S. and the world, these barrels will trade at a big discount. That doesn't happen in California.

So what we're walking you through here is the full margin calculation. We're including OPEX, we're including field level G&A, taxes other than income, royalty burden, transportation and quality differentials. This is it for each of the categories.

And you can see that even though our shales and our gas and that tends to be the case with other places with high gas content, they'll have a lower operating expense burn. Ultimately, if you really start from the top and you look at Brent prices and the realizations, you can see that our oily projects make a lot more sense because they make more money. In particular, the primary wells, they also have low cost and we get 50% margin on every barrel.

On a third company level, if you look at our blend of realization, it's about \$47 taken into account again. We get about 35% of the Brent price at \$65, but it's almost 50% or \$23 per barrel out of each BOE. This is a good indicator of how we're picking projects.

Now, what are the dynamics in California? California is a tremendous oil and gas province as you well have heard and it really acts like an energy island. Demand exceeds supply for most of the commodities, so the state imports 64% of its oil, 90% of its natural gas and 34% of its electricity. This provides really attractive pricing for us in California.

Focusing on this slide on the oil, there's really no interstate pipeline coming in. Rail is not an option and it really takes prices at a much more higher level before we see any barrels from rail. So it creates a captive market and it's a captive market that also happens to be one of the strongest economies in the world. We looked at it and if California were its own country, it would probably rank sixth in the world after U.K. and then before France. So it's a very strong captive market and there's preference for our crude.

Our crude is used as a blending stock where the refiners prefer a lower API, higher, more heavier crude. What's coming in is coming through the ocean, through waterborne barrels and that tends to be lighter crude, about 30 degrees API. So the refiners really like our heavier crude to blend it into the refiners and that's where we get some really, really attractive pricing on the heavier barrels.

On the gas side, we are the largest producer in the state, above 180 million cubic feet per day of gas. But as we talked about, the state imports 90% of its gas needs. So certainly the gas is in the right play. This is not stranded gas that you haven't really placed this and trying to find a market. We actually don't have nearly enough to satisfy the demand.

And most of the gas that comes from pipelines through the Southwest and the Rockies and some through Canada, but that's where having the infrastructure is a really big advantage. We have the ability to process and ship and transport our gas, get it to where it needs to be, get it to our power plant where we get a big benefit by consuming that gas, getting it to our steamfloods.

And we also have rich gas in the San Joaquin basin, so we can generate a lot of NGLs. We actually market about 70% of the NGLs in the state and we export some products to Canada and Mexico, and we send some to the Bay Area as well.

So this all results in attractive pricing for BOEs. What you can see is that our product on a realized basis really tracks the benchmarks really well. We've been able to hold on to most of those realizations. Last year, we had a couple of incidents with the refineries so the differentials took a little bit of a dip. But what we're seeing in 2017 is really strong differentials on the oil side. For example, the heavier crude, it trades at about 12%, 13% over Brent which, again, is very, very attractive and very comparable to the WTI. So as you start your models, think about pricing starting point for our barrels.



So, how much running room do we have? We talked about inventory and Shawn talked about a number of locations. All the work that the teams have done to the Life of Field plan, all the engineering emphasis that we have in the last two years has resulted in about 15,000 producing locations.

Now, this does not include the location that Darren was showing on his earlier slide. These are non-exploration producing locations that we think most of them ready to execute. Now, to be realistic, we can only probably do about 2,300 in the next five years. That's a lot of locations to go through.

So, we high-graded the locations and said, OK, what are the best locations over a 1.3 VCI at 65, and that's indicated in the gray part of the chart. Now, what you'll see is if we focus on the near-term aspect only on the five years, it's really the darker gray that we're likely to pursue or that we're highlighting in the planning scenarios.

You could see a strong preference to the floods, waterfloods, steamfloods in primary wells and a little less on the shale and gas. But this is where the JV money comes in because we ultimately feel we have really strong inventory of 4,800 locations that we can pursue. Being realistic with prices, we can only get to about half of them.

But the JV money helps us accelerate the lighter gray and bring that forward, because those are very attractive locations, too. So this gives you a sense of what we have to pursue. So, what I'll focus on the next few slides is the inventory that's on our near-term growth first and just remind everyone what we have in each mechanism.

So, in the steamfloods, thermal projects, it's a widely-used technique, been used for a long time. They are prevalent in California in particular and very profitable here. They have very low capital intensity. They're very low risk, low decline and you can recover up to 75% of the oil in place in the reservoir, very attractive investments.

And you might be thinking well, OK, but they're high OPEX. OK. They are high OPEX but you have to understand what stage of development we are talking about. We're injecting heat because it reduces the viscosity of the oil and it helps its mobility. So, the OPEX is higher where you're actually starting from a greenfield, a reservoir that actually has not heat underground and you start injecting steam, that's where most of your cost are going to be in LOE side, all those steam costs, right?

So, it's really the gas prices that drives that OPEX. But as the pattern starts to mature and you start filling in all of the producers, you could start actually backing off of that OPEX and the steam that you're injecting in the ground and you start getting to a more optimal level. So, what you see is you see your OPEX curve is starting decline.

And then you get to a point where you reach the maturity of that pattern and you really take the foot off of the pedal in terms of steam injection, and then you let the pattern on decline, very, very slow steady declines, 8 % to 10%. And then at that point you have very low OPEX per BOE.

So, how do we model this, right? So, you'll see this similar slide throughout my presentation, and what we're giving you here is a composite type curve per pattern. This is a greenfield steamflood and what we show in the blue is what we think is representative composite type curve of 300 pattern locations that we have indicated on the right hand of the page.

We're also showing you the recent performance of Kern Front. I feel that you're going to this later today in our biggest steamflood. Please see that on the X axis we're showing you the years of performance, right? A typical pattern takes two to three years to peak and then starts declining very slowly.

What we have here, too, is somewhat modeling inputs. We talked about OPEX, we're showing capital cost of \$2.8 million. Now, the capital cost is per pattern, so that includes three producers and one injector, so four wells within that pattern.

We're also adding \$900,000 of facilities for new steam generation. So, really a fully burdened full cycle cost of a pattern for a new field. We're showing you EORs of 200,000 barrels per pattern, a peak rate of 90 barrels a day. Drilling and completion days of 15 and a very small royalty of 10%. So, if you put this into the model, that should give you a sense of how attractive these economics are.



Now, I mentioned that \$900,000 per pattern are added into each of our assumptions. Now, in reality what happens, at low oil prices, say, below \$50, we actually do not add any new steam generation infrastructure. We can drill areas that already have, a lot of the rock is hot, you've been injecting for a while, we can go back to these places and drill to fill, right?

So, we'll build a producer or an injector of \$400,000 and that's how we'll manage in the downturn. We don't need to add new steam generation. We're giving it to you as a forward way to model some of our greenfield locations but note that we manage the business differently in the steamfloods depending on the price cycle.

So, what you can see to the right, we have a sensitivity of oil prices versus gas prices. Gas is important because it drives some of the cost. And what you'll see on the midpoint of the table, it's at 2 VCI so that means that for this particular pattern, the steamflood, it generates a present value of \$5.6 million. That's two times over the investment of \$2.8 million. So, again, very, very attractive long-term value that comes from these patterns.

Moving on to waterfloods, waterfloods are also widely-used in California since the 1950s to arrest the decline, techniques that are prevalent here in the state. As Shawn indicated, you can get up to 40% of the oil recovered in some of the waterfloods.

We like them; they're also very low capital intensity, have high margins, have declines of about 10%. And the nice thing is a lot of our primary sands can become waterfloods. So, there's a lot of running room that we have in these assets. Now, similar to steamfloods, you have to understand the difference in the stage of development of the waterfloods. The early stage waterfloods where you have a reservoir that you're basically filling it up with water, you're trying to get pressure up.

This is where you have some of your facilities. You need tanks, you need water treatment, you need pipes, and once you put that investment, you inject at a continuous rate and what you have is a type curve that increases for a long time and then it plateaus. It just produces and flows for a long time and then when it gets a level of to maturity then starts declining again very slowly.

Now, also on very mature waterfloods and we have some like in Wilmington that have been in waterflood for 30 years. You have bypass pay opportunity. So, what we do here is we look at those bypass pay opportunities and we drill horizontals.

Horizontals, you have pressure back up in the reservoir, so we go out and drill these wells and they produce at a might higher IP than the waterfloods. So, it's a difference that we wanted to highlight on the waterfloods.

Now, how do we model a waterflood? Well, let's focus first on the early stage waterflood, so what show here, again, is a composite type curve, four years of data, ramp-up period, plateau and then a small decline. We're showing you some of our active early stage waterflood performance in Mount Poso and BuenaVista.

Capital cost of \$1.2 million, that includes a producer and injector and the facilities allocated to this particular pattern. And then, the recovery and similar to the last slide, some of the modeling inputs. As you can see, these are really attractive investments. You make 2.5 times your money at \$65.

We also plotted here a sensitivity on the EOR. We set our target EOR for this particular set of locations, it's about 190,000 BOEs. If you run a sensitivity 15% up and down you can see the range of value that we can generate with these types of waterfloods.

Now, onto the mature redevelopments which I mentioned earlier. Here' we're giving you a type curve which is IP is about 120 barrels a day. We show the performance of other waterfloods that have through our assets. Here though for simplicity's sake in the model where we want to focus on is for these 350 locations, this is where the production sharing contract with the City of Long Beach comes in.

And so, this is where we think the best way to model this is to think about all these locations as [PSE] affected and the reason why you need to think about the production sharing contract is you come up with you cash flows for this particular well and then you net your cash flows down by 49%, which represents the share that CRC keeps out of every barrel, so you take out of 100% of the cash flow, then you calculate 49% of that actually stays with CRC; the rest of it goes to the city.



Now, the cost recovery barrels, you get more barrels through recovery in kind. And so, you can gross up the barrels to 75% or net them down from 100% to 75%. It's very attractive investments on the waterflood. These are all really high return, high NPV, high VCI projects.

Now, they don't give you the instant gratification of the shale wells, right? Well, we have some of those wells, too. The primary wells I think are the all-stars of our portfolio. We've had a lot of repeatable success over 10,000 feet. We're the only player in California that's really going after these horizons.

They are very high IP projects and they offer some of the best returns that we have. They also are sandstones, so really good rock, so they flow naturally without any need for stimulation, and then we put them on artificial lift to continue the production of that wellbore, right?

We also have as Bob indicated some tighter rocks, some tighter sandstones like in BV Nose. And these was we found that by stimulating the wellbore we can get two or three times the IP. So, we do limit the stimulation on those wells to enhance the IP, otherwise these wells we produce them we don't have to stimulate them in any way and they flow naturally for a long time. They have lower declines than the shales. And the nice thing as I mentioned before is these wells can then become waterfloods once we're ready to start injecting water into the reservoir.

So, what we're showing here is a composite type well in blue that we think it's representative of the 150 locations indicated on the box. As you can see we were focusing on essentially four projects on the Deep Horizons, BV Nose, Bardsdale, Wheeler Ridge and Pleito Ranch. These are programs that we'll also pursue this year.

And what we're giving you here is a \$5 million well cost that's to about 10,000 feet of vertical cost. Now, what we're not showing here for the simplicity of the modeling is 450 shallower locations which have scalable costs so we think that those locations are about \$1.5 million, and you can scale down the IP to calculate those locations.

We have a lot of running room in these primary fields that indicated in stars of the map. And we have 2.3 VCI, is kind of our midpoint VCI expectation at \$65 and 430,000 barrels of oil equivalent of EOR. But I know some of you and probably most of you, really when you run economics you're more about IRR.

And IRR and VCI don't correlate very well. The timing of the cash flows really affects the calculation, so you can't get linear or direct correlation. But joust to give you an example in these types of wellbore, at \$55 this 1.8 VCI, it's a 60% IRR, at \$65, it's 140% IRR. So, very attractive, very high IP projects with almost 100% oil. We think these are very competitive and we like them and that's why we fund them in our portfolio.

Now, moving on to the shales. Now, we talked about the shales. They have a lot more gas, so with limited capital, with our scenarios that we're running where we do have a limitation. We don't think of it as unlimited capital. We're realistic with our estimates.

Those projects rank just outside of the planning scenario investments that we have in our near term growth. They're still very good projects. They still have a 1.3 and we had a lot of success in new pools as Shawn and others indicated in the pad at Elk Hills.

So, the upper Monterey has been very productive as you can see by the success, it represents 30% of our current product, that speaks to the success of the shale program before. Well, we are pivoting into this new source rock areas the lower Monterey, the Kreyenhagen, the Moreno Shales, so we're excited about the future contribution of shales.

And also, we think these are good projects also for JV money, because even though on a high graded basis, they just rank outside of what we like to fund ourselves, this could provide really strong economics for our partner to come in and develop.

Now, you can see here and I'm comparing two time periods, but you can see when we found the new pool of shales in Elk Hills in 2001-2003, you can see on the higher type curve what we were getting out of each well. We repeated that success with Gunslinger in 2008. And yet we were able to get type curves that match this.



Now, the shales have matured further. We built as Bob was saying 1,100 wells in the Elk Hills shale, so it's reached a level where we're really doing more in-fills. The productivity of the wellbores is not what it used to be, but the nice thing is the cost has come down. They've come down by about half.

So, these wells still make sense for us to fund them and we continue to high grade it and those projects still work. But we're confident we're going to be back in the near future, we're going to find of these other areas perhaps in Kreyenhagen and Kettleman, perhaps in other areas, we're going to find some of these new pools and these are going to be then really attractive projects for us to invest and probably ranked higher than some of the others.

Our gas in Sacramento Basin, it's a very nice option play. We operate almost 85% of the gas in the Basin. As we talked about before, we import most for the gas so we feel like the gas is in the right place. And it's a very nice natural hedge for us against rising steam cost and electricity cost. It's great to have this asset base that we can turn on when pricing and commodity cycle turns and there's higher price for gas.

In the workovers, these projects and the shales, we still do workovers in these areas. So, again, once you drill the wellbore, the economics are really strong so we don't limit that to earlier projects, we also go into gas and shales to do those workovers.

And also, we've done some discrete JV for some of the new wellbores, right? So, this is another good area for the JVs to come in and put their money to work.

So, we manage the business differently at each point in the commodity cycle. We don't drill new wells if it doesn't make economic sense. We don't have to drill new wells at the low price environment if we don't want to.

On a bear market, low prices, we like to use and take advantage of our prior investments. We look at existing capacity and infrastructure. We go back to existing wellbores and do capital workovers. We drill to fill the waterfloods and the steamfloods. We don't put new steam generation if it doesn't make sense.

We use excess equipment to reduce the cost. In some cases we can preserve some of the really sweet spots, some of the really good areas that we like to drill, we can hold them off for when prices are better. That happens when you're in the mid-cycle, right? In the mid-cycle, it's \$65 to \$70 is when you can come in and you really start setting up, if you're on the upswing, you want to invest to grow and to grow that cash flow.

So, the key there is finding the mix between the long-term cash registers which are the steamfloods and the waterfloods and combine them with the instant impact of the shales and the primary, right? So, it's finding that mix and finding those projects that give you the best combination that ultimately is the key for that mid-cycle point.

We also high grade our inventory above the 1.3 hurdle rate. We try to go even higher because we have more projects that we can fund in the mid-cycle basis. So, we focus on high grade and just don't fund projects just because they produce a high BOE.

We also start delineating key growth areas, right? So, it's really prepping for higher prices. And we're in a cyclical business, so strong prices will come at some point in the near future, and when they come the emphasis there on the bull market is to accelerate production, it's to grow.

This asset base produces a lot of cash and it's investing that wisely. You really focus at that point to make sure your floors on the hurdle rate, you don't put money to work at than a 1.3 VCI. You really start paying attention to your force on the investment side and you build facilities to support the pace of growth. But cash generation is really high. So, we manage the business differently at each point of the cycle.

Now, how does this all come together? What we have here is in the last slide that I'm presenting, we have the portfolio mix of all our projects. So, what we're showing here is on the left side of the page, we have an environment where you have high oil to gas ratio.



So, we move a lot of our capital into primary, waterflood and steamfloods. We'll have capital workovers; they're pretty steady no matter what the environment is. Let's say that gas starts increasing, oil decreases relative to gas, then we can turn our inventory and get to a lot more gas projects. It's important to have that flexibility. Well, we actually like having all these options in the portfolio.

Now, what happens is, to illustrate the different combinations and if you were to blend the projects together and come up with a composite type curve for a well, what we did here is we said, OK, assume \$10 million and then invest across the portfolio mix indicated before right above it. And what you have is this well which is representative to the portfolio which for \$10 million on the left side of the page, you would get about 500 barrels IP; you will get about \$1.4 million BOEs of recovery of that wellbore. It's very oily, about 80%. And on a recycled ratio basis at \$65, it's a 3.5 recycle ratio.

So, that is slow and steady but very profitable combined wellbore. You can also say no, I want to increase our intensity in gas. So, you can shift the portfolio and for that same \$10 million, you can get up to 800 BOEs per day; you get lower recoveries, you get about 1 billion barrels of oil equivalent. You become a lot more gassier. You become gassier into your mix. And your recycle ratio is not as strong. But we have the flexibility to pick the projects to be able to come up with these mixes that ultimately are representative of how we're going to invest our capital going forward. We like this flexibility. We like to be able to manage the business differently at each point in the cycle.

We like not having to drill wells if it doesn't make sense. We like preserving our sweet spots for when the prices recover. So, hopefully, this gives you a sense of the mix of projects that we have, what happens once all of it is put together under a portfolio.

And I'll turn it over to Mark Smith, our CFO, to show you some of our projections and balance sheet work.

Mark Smith - California Resource Corporation - CFO

Thanks, Francisco.

We've covered a lot of ground this morning. So, I just want to take a moment right at the front of my talk and recap what you've heard so far.

Your morning began with Todd addressing our strategy and our world-class asset base, how we've transformed the business. It provided a strong sense for the VCI framework that we use to underpin our investment decisions and he outlined how we're positioned to grow our EBITDAX.

Bob walked you through our asset base, the four bases within which we operate, gave you a sense of the tremendous stacked pay nature we have here in California, and he also spoke to the steps that we've taken to protect our base during the downturn to defend our margins, the benefit we gain from our complementary infrastructure.

Shawn outlined, our Life of Field process, how we move our projects through what we refer to as our value chain, how we continue to grow our actionable inventory. He highlighted our Buena Vista field development opportunities, laid out the potential for Kettleman North Dome and he also discussed the joint venture arrangement that we have to augment the development capital that we're currently putting to work.

Darren gave you a better understanding of our low-risk near-field exploration potential not esc the same risk profile that many of our other counterparts refer to when they talk to and address exploration. He drove home the underdeveloped and underexplored nature of our asset base, how we've used this pretty reduced activity again to expand our deep inventory of opportunities.

And he also provided details around the exploration JVs that we're using to help to accelerate the exploration work and further de-risk this world-class asset base that we have.

And then you just heard Francisco walk you through our portfolio. He provided you with a deeper understanding of the flexibility, the economic characteristics of our key drive mechanisms. I think he did a nice job of giving you a better understanding of how we use VCI to allocate our investment capital across the portfolio, and I think he gave you a very strong framework to help guide your modeling efforts as you go back and start to dust off the model.

So with that operational understanding, I'd like to address things from a financial perspective and work to pull all this together. So, in particular I'll work to lay out the significant progress that we've made on the balance sheet and how we're shifting from defense to offense.

I'll lay out the basis for our belief that we're significantly undervalued, and how even without specific deleveraging transactions we believe we can strengthen our balance sheet organically without dilutive equity transactions. And as Todd indicated at the frontend, to grow EBITDAX in the mid 20% range.

At the time of our spend, our parent capitalized us with a debt level for a completely different price environment than what we find ourselves in today. And I refer to this as the gift that just keeps on giving.

Since then as you heard from Todd, we've been tested of the assets, the business model as well the team and importantly, we've been keenly focused, we focused on strengthening our balance sheet, on retooling the organization, on our capital allocation and notably, we've been focusing on preparing for the eventual turn in the commodity and creating value for our shareholders.

To that end, on this slide, you can see that over the past two years we've taken several actions to position CRC for the downturn; we've been busy. Right out of the box, we cut our rig count from 26 down to 3 within a one-month period. We began a hedging program and drastically reduced our capital budget.

We engaged in proactive discussions with our lenders and successfully obtained six bank amendments. It's important, I think, to point out the strong support that we continue to have from our banks, because it's with this support, these amendments that help pave the way for several opportunistic transactions that ultimately led to us reducing our debt by \$1.5 billion from peak levels.

So, let's take a look at this debt reduction in a little bit more detail. You can see that our focus on value was not just within our operations or our portfolio allocations as you heard from Francisco, importantly, it holds true for our financial decisions as well.

In particular, we focused on alternatives that wouldn't substitute operating leverage on the one hand for balance sheet leverage on the other, and those that wouldn't be dilutive to our shareholders unlike many of our peers. Contrary to the conventional view, we could never have done this if we've focused exclusively on asset sales.

As an example, I think all of us would be pleased to accomplish asset-based transactions or monetizations at 10 times cash flow. If we've had done that to accomplish this \$1.5 billion reduction, we would have permanently affected our income statement to the tune of \$150 million. Instead, we reduced that debt for an ongoing cost or for a temporary cost with the incremental cost of the debt we put in place of just over \$30 million, \$31 million.

And then, importantly, we still have all those other options available to us-- asset sales, monetizations, et cetera. Importantly, I want to point out on this slide that even in this environment we paid down from cash flow debt to the tune of \$119 million. So, we're free cash flow positive during the downturn, it clearly demonstrates our commitment, our focus and as you heard the resiliency of our asset base.

This next slide looks at where we stand after all these transactions. Importantly, there's no meaningful maturities prior to 2019. We've made significant progress and we continue to strengthen our balance sheet, work to strengthen our balance sheet remains a priority for us. We feel we're at an inflection point. And going forward we'll focus on organic as well as opportunistic alternatives to delever.

We believe we have adequate liquidity to execute our plan, particularly when one considers the flexibility that you've heard with this asset base and that we've demonstrated as we've gone through the downturn. This gives one a look at where we stand from a liquidity perspective. Importantly, as you heard from Shawn and as well as Darren, we have joint venture capital that further supplements our development capabilities.

From a hedging perspective, we have a longer-term strategy, hedging roughly 50% of our expected production over an 18 to 24-month timeframe. As many of you know, we began our hedging program from a standing start shortly after the spinoff, not exactly the most opportune time to begin a hedging program.



It was initially designed to protect our downside price risk and preserve our ability to execute our capital program. Currently, we have about 40% of our 2017 consensus production hedged and we'll continue to look to opportunistically layer in hedges as we move forward.

As you've heard from the team, we're excited about the depth of our inventory. During the downturn and our reduced activity levels, we purposely focused on developing our actionable inventory.

You see here from an NAV perspective, our stock trades at a significant discount to our underlying value. Essentially we're trading at PV-10 or less of our proved category at flat current prices. And here you see essentially a sum of the parts type of an analysis. Unlike many of our peers we don't simply own our producing assets, as you heard from Bob we also own and control much of our mid-stream infrastructure. As we like to say, sand face to sales meter.

Our mid-stream assets are integral as you heard from Bob again complementary to our operations. It's important; it allows us to control our costs, maximize our production and value from our upstream operations. As part of our work with the banks, these complementary assets were valued at approximately \$5 billion and we have them represented here conservatively at \$2.5 billion, half that.

Again, the infrastructure supplements our operations, allows us to maximize the value of our upstream. We still have the optionality to monetize these assets, but we'll continue to be very thoughtful about not allowing a potential mid-stream transaction to impact our operational control. And I want to point out that this doesn't include any value for our significant unproved asset base, nor surface and minerals, nor mid-stream infrastructure.

From a trading multiple perspective one can see that we trade well under the average and median multiple on these several different valuation metrics you see in front of you. On the right side of the slide, one can see we trade well under the average in the median multiples under several different valuation metrics.

On the right side one can see we're one of the few companies that has and is expected to generate free cash flow. At the bottom of the slide, one can see our implied stock price if we were to trade at the median level. So, we've made significant progress and we believe we're now positioned for growth and yet you conversation see here that our trading multiples continue to reflect a significant discount to our peers.

So, as we've discussed, CRC has a strong asset base, enormous inventory potential, our flexible business model affords significant optionality which in turn positions us for growth. As you heard from Francisco, we have a sophisticated portfolio planning process where we strategically review, prioritize, focus on the development of our highest value projects that also meet our corporate and strategic objectives.

This slide shows what we believe is a reasonable middle range of production outlook resulting from the various project scenarios that we've evaluated and you've heard us discuss, all funded within cash flow at essentially analyst consensus pricing. So, as we've discussed, we've got lots of projects to select from whether that's waterfloods, steamfloods, primary, unconventional as well as different risk profiles, from development with the Buena Vista field to exploratory in nature at Kettleman.

This planning only assumes cash from production, no reinvestment from asset sales, monetizations, importantly, no capital from additional JVs. And one can see on the top there on the left, high single digit production growth through the planning period. Now, this isn't the highest production growth that can be generated from the asset base, but rather we believe it's representative within the various opportunities that we have before us.

This work underpins our view that we're in an inflection point for growth. We're cautiously optimistic, as you've seen we've put rigs back to work, both workover as well as drilling. Our work shows us that with continued focus on cost and our capital focused on oil projects you heard from Francisco with higher margins, lower decline rates, we can achieve meaningful cash flow growth in excess of 25% in EBITDAX. Again, all through investment within cash flow, not pushing growth for growth's sake and not over the tips of our skis, and importantly, not diluting our shareholders.



So, what does this mean in terms of leverage? So, the ultimate effect here drives our ability to strengthen the balance sheet organically within the current price environment, not relying on asset sales, joint ventures, monetizations, all those options still available to us. We continue to evaluate them as we've discussed.

We have the time to be thoughtful and disciplined here, that's important. As Todd said earlier, no fire sales here. Even with all these options available to us, we're going to focus on those actions that are value-accretive to our shareholders. We'll continue to focus on opportunities that allow us to grow and strengthen our balance sheet in a disciplined and thoughtful manner.

So, let me summarize and try to pull all this together. So, we believe we have significant net asset value, value well in excess of current trading levels. Additionally, our stock trades at valuation multiples level of our peers, indicating we're undervalued not only on an asset value but also from a trading multiple perspective.

And we believe we're now at an inflection point, we're poised for meaningful and thoughtful growth to begin to more fully recognize this value. Importantly, we've been tested. Many questioned our asset base, our balance sheet, our team, and we've demonstrated the resiliency of this world-class asset base that we're blessed with, its stability, its flexibility, its optionality.

And we've worked diligently to strengthen our balance sheet. We've reduced debt by \$1.5 billion from its peak shortly after the spin, with only \$31 million in incremental cost to the income statement. As you heard, it's a much greater reduction with a much lower residual effect on the company than if we'd have followed the conventional wisdom and sold or monetized assets.

We're particularly proud of our team. We've shown discipline, the ability to make the hard decisions, do what we say, make the hard rights, protect the base, defend our margins, generate free cash flow. We've demonstrated our ability to grow our actionable inventory even in the face of the challenging price environment that we've been faced with.

We've highlighted a few projects, play types, you heard from Darren, demonstrating the enormous great potential associated with our asset base. We've also outlined our thoughtful disciplined portfolio management process, the foundation of our investment decisions. Finally, we've demonstrated the substantial progress we've made in strengthening our balance sheet. We've executed proactively and paid down a significant portion of our debt.

We've now shifted from defense to offense. In this environment, we see our way through to high single digit compound production growth while growing EBITDAX over a 25% compound annual growth rate. All this organically, all of this from within cash flow, all while continuing to evaluate our alternatives to thoughtfully strengthen our balance sheet, importantly, with a keen eye on shareholder value.

So, with that, I'll turn it over to Todd and we can open it up for questions.

QUESTIONS AND ANSWERS

Todd Stevens - California Resources Corporation - President, CEO

I'd be happy to take any questions you might have.

Evan, we'll give you the mic.

Evan Calio - Morgan Stanley - Analyst

Great. Thank you, Evan Calio, Morgan Stanley. I guess, my first question is I know you show some growth scenarios or CAPEX scenarios on slide 14 at different commodity prices. Should we assume that excess cash flow is all recycled into growth, into a recovery scenario or is there -- are there other more clear deleveraging targets into a recovery? And my second question will be how do JV or the JV capital work into that math as well.

Todd Stevens - *California Resources Corporation - President, CEO*

No. I think that's a good question and a critical one with JVs because maybe we didn't emphasize it enough, but that's truly, like I said at the beginning, a force multiplier for you. And for us, we outlined a portfolio planning scenario where we could utilize free cash flow to reinvest in the business to organically grow out of it. Does that mean we're going to do that? It's just an option we have. We want to be opportunistic and do what makes the most sense for our shareholders.

So, if it's deleveraging, I think the compounding fact which gets really interesting really quick is the next joint venture and the next joint venture we bring across the finish line and how that impact could displace our \$300 million of investment that we are looking to do this year and can be utilized to, in turn, delever the company by either purchasing our debt or otherwise, some kind of transaction to do that.

So, I think our priority as you heard from Mark and myself is two to three times long-term, so, deleveraging is at the forefront of our thought. We have a path organically we outlined, but there are many ways to get there. If the opportunity arises for, to monetize some of our infrastructure assets at the appropriate value that's accretive to our shareholders, we'll do that, but again, we're not going to do something that's kneejerk reaction to just do something in the short term, the classic Enron deal, the short term gain, long term pain.

Evan Calio - *Morgan Stanley - Analyst*

On the JVs, I mean, they're clearly a unique aspect to the one transaction. There has been a rise of SPACs in the industry of a lot of private equity capital looking to go to work. In the energy, I mean, how do you think about the goals here? I mean, I'm not saying that you're predicting what will happen, but what is the maximum JV capital you'd be looking to spend, what necessarily is optimal as you move forward?

Todd Stevens - *California Resources Corporation - President, CEO*

Yes. I think we structured it and as we restructured the organization, we kept capacity by keeping more of the, I'll say athletes of the company. So, we have capacity to spend in excess of \$1 billion, invest in excess of \$1 billion. So, going forward, we could bring in well in excess of what we have, multiples of what we're talking about investment from our standpoint on the JV side. I think it's what makes us truly unique.

We have a business here that is very long on inventory, high quality commercial and from a geologic standpoint inventory that's unique because from our standpoint, you have all this money chasing deals elsewhere in the country and they're just looking for inventory. But I think eventually, you get noticed as we did from Benefit Street. We're actively talking to other partners. We feel like we have made good progress where we'll have another joint venture by midyear.

So, I'm very encouraged. And I think the force multiplier snowball effect that occurs from the joint ventures, I don't think everyone appreciates that because that's money that comes in and it helps our investments, brings forward resource, brings forward cash flow and value, that when the return hurdle is triggered, there's an enormous amount of value created for the shareholders at CRC, whether that return's depending on where a price will settle out six months or 24 months, whenever that is. It's a real force multiplier that people aren't contemplating at this point in time.

Evan Calio - *Morgan Stanley - Analyst*

Here's one last point of clarification. I know you're budgeting \$50 million on the JV spend this year in 2017. Is that an indication of the pace of JV capital that you can deploy, and what limits that to being at, to 50, not 200 in 2017?

Todd Stevens - *California Resources Corporation - President, CEO*

We're just trying to be conservative on the 50. I would say if you look through the planning scenarios, we've talked about between 100 and 500, I think we could very easily execute \$500 million. So, that's another \$200 million for the rest of the year from a joint venture standpoint. Could we

do more if we brought in more? It depends on the product price and what happens in the back half of the year, but that's probably where we are at our limits for -- from this standpoint sitting here today.

Mr. Dave here in the front -- or never mind, my bad.

Joe Von Meister - *Bennet Management - Analyst*

Joe Von Meister from Bennet Management. Slide 97 showed leverage ratios forecast into the future at various prices. So, at \$55, you really delever quite modestly. We're currently below that level. What kind of levers do you have to pull in a price environment that languishes in the 50 to 55 area?

Todd Stevens - *California Resources Corporation - President, CEO*

You mean levers, what do you -- what...

Joe Von Meister - *Bennet Management - Analyst*

What can you do to lower your cost and deleverage more if prices stay low?

Todd Stevens - *California Resources Corporation - President, CEO*

Well, we just -- we continue to high-grade our portfolio. We really focus on payback as a secondary measure from a liquidity standpoint. We continue to generate free cash flow like we have in the past few years and reinvest.

Liability management transactions might rear their head again depending on how our debt trades and we can be opportunistic on the infrastructure assets. So, there's a lot of ways you can get there. Organically, obviously, this is just one scenario where all the free cash flow's plowed back in. But, again, another joint venture comes into play or more exploration joint ventures come into play. This is something that -- again, that's not baked into here. This is meant to be a conservative view of things.

No. That actually has cost inflation built in. That has, takes our 2016 costs and inflates them, after this year, 5% per year.

We have Dave right here.

Unidentified Audience Member

Thanks again for hosting. Can you talk a little bit about again perhaps different commodity prices, I mean, how you think about your G&A burden, A, what comprises the G&A burden today, what are sort of the big categories and then how you think about that if you find yourself in hunker down mode for longer versus in a more expansionary sharing mode?

Todd Stevens - *California Resources Corporation - President, CEO*

Yes. So, we look at G&A and you've got to remember, we're in a surveillance intensive business. So, when you look at companies that are EOR, IOR, waterfloods, steamfloods, it's surveillance intensive. So, you're going to have a little higher G&A. It's what you need to be effective and make sure you have conformance in the reservoirs and you make sure the steam or water, whatever you're trying to get into the reservoir is going where you want it to go.



We feel like do we cut back to bare bones, myself and just a joystick? No. But, what we did was we really cut back to a point where we kept the athletes in the company, so we can preserve optionality when the prices recovered to the 50s. Activity started again because if we never thought there was going to be any activity or if it was going to be really a long downturn, you would have done things differently. But again, we're a going concern. We're not going to do drastic things that are going to be, long term harm the impact to the company.

So, we do benchmark ourselves against who we consider our peers and who do similar type things than us. No. We're not Ultra where Mark used to work where he talks about cents per MCF operating gas wells. Operating steamfloods or waterfloods is different. You need the people here in the office, in the field that are monitoring that daily and looking at things that are going to add real value for you.

Mark?

Unidentified Audience Member

So, you mentioned another JV potentially by midyear. How would that compare in size to the Benefit Street partner JV?

Todd Stevens - California Resources Corporation - President, CEO

At this point in item, we think it's larger than that joint venture.

Unidentified Audience Member

In the JV pipeline, how many more JVs do you think you have behind that?

Todd Stevens - California Resources Corporation - President, CEO

If I want to give a range of them, I think we could have two to five in the next -- through '18, 2018.

Unidentified Audience Member

And if it were five, I mean, are we talking order of magnitude size similar to Benefit Street partners?

Todd Stevens - California Resources Corporation - President, CEO

Yes. When we said we want to talk about JVs that are meaningful, \$100-plus million, so we're talking about Benefit Street and larger type deals, we've done a numerous amount of JVs as Darren and Shawn alluded to on the smaller scale. So, yes, we're looking to do meaningful ones that help us move the needle on inventory and on resource and value for us. So, we're talking the bigger scale as you said.

Unidentified Audience Member

And so, is the way that we should think about these JVs, after the JV partner makes whatever its hurdle return is, all the production that they've paid for it now comes to the company. So, if we look out past the date of that hurdle time, you'll have a large uptick in production that will come from money spent by someone else.



Todd Stevens - *California Resources Corporation - President, CEO*

More importantly, cash flow, so you have a big slug that will hit you at that point in time. I think if you talk about it in the context, they're not -- all the structures aren't all the same, but I think if you look at the way Shawn outlined Benefit Street, they reach a hurdle rate and then it reverts to CRC. I think that's a fair way to think about it generically. So, you're right. At some point in time, production and cash flow reverts to CRC and it will come in a slug.

Unidentified Audience Member

And so, if you're -- your maintenance capital this year is about \$300 million; the decline rate, I don't know, maybe 12%, something like this. So, if each of these JVs at \$250 million, if we look out to after the hurdle rate's have been reached, should they give you sort of an increment of something order of magnitude of 10% to your current production level?

Todd Stevens - *California Resources Corporation - President, CEO*

It depends how you invest that money, because there's different risks people want to do. Again, when you look at some of the portfolio that we talked about, some of the investment was going into Kettleman North Dome. That's a little higher risk, a little higher reward, but there's also very good analogues. So, a little different than step out two or three locations from a pud that you -- someone is calling a probable.

Mohamed Gulum - *Raymond James - Analyst*

[Mohamed Gulum], Raymond James. So, you guys mentioned I believe it's early in the slide deck that your CAPEX could go up to \$500 million this year. Can you explain what factors you'd consider when looking to raise your CAPEX and how much -- sorry -- of a potential increase would be due to future JVs and how much due to a more attractive commodity price environment?

Todd Stevens - *California Resources Corporation - President, CEO*

I think both those factors. I think that you're talking about looking at the macro environment. You're going to manage your cash flows and then joint ventures could obviously supplement that pretty easily up into that zip code.

Mohamed Gulum - *Raymond James - Analyst*

And one additional question, so, in a lot of areas in the United States, we're seeing E&P companies concerned about service cost inflation. How do you think that will affect you and do you think that being in California, you guys will be less exposed to that?

Todd Stevens - *California Resources Corporation - President, CEO*

I think I hear my peers and I talk with them about what's happening in the Permian and elsewhere. That's definitely not happening out here. People aren't feeling 20%, 30%. Just like California is an island from an energy standpoint and many other things. It's really an island from the oil service sector and you saw the big players who move the needle. And from Bob's slide, you saw we really move the needle.

I don't think -- we'd have people that are going to want to eventually recoup their cost, but we're not seeing some of the cost pressures, even the discussion of cost pressures in a lot of cases. There's a lot of idle iron still. Which I think is a very good point, because it's truly unique when you think about what's going on in North America, elsewhere with the -- the way it's heating up the -- the service sector out here is just a little different. Like a lot of things in our industry, it's just a little different out here.

Welles Fitzpatrick - *Johnson Rice - Analyst*

Good morning, Welles Fitzpatrick, Johnson Rice. Can you talk a little bit about the Sac Basin, anticline JV? Is that targeting three separate targets? And the partner, do they have an option across that entire anticline in a success case?

Todd Stevens - *California Resources Corporation - President, CEO*

I will let Darren talk about that. He is much more intimate in that.

Got that mic working? OK.

Darren Williams - *California Resources Corporation - EVP, Exploration*

Yes. I probably won't go through all the details associated with the deal terms. But the basic principle is that the third party will drill up to three wells across the structure and it's a staged process. So, by drilling the first well, they earn a certain percentage in a certain prospect. I believe it's 10% working interest in about half of the prospect.

They get to drill. They have an option to drill another well and increase their working interest and then they have another option for a third well which basically takes them up to a third working interest in the whole of the structure. So, it's staged for them. It gives them stage gates to understand if the success is what they're looking for and it also means that we minimize the working interest that we've translated into them if they don't commit their program, too. So, it's kind of a win-win for everybody from that standpoint.

Todd Stevens - *California Resources Corporation - President, CEO*

Darren, maybe mention also that this isn't something -- we've already drilled the well here. So...

Darren Williams - *California Resources Corporation - EVP, Exploration*

Yes. And I think we had it on the slide, but this was actually the last opportunity we were drilling right as we started to reduce the rig count. So, we drilled the well into the structure in the first part of 2015, encountered two gas sands. For mechanical reasons, we weren't able to test the well. And so, this is a basic return towards that principle and kind of go back and evaluate that prospect from that standpoint.

So, we've already demonstrated gas sands within the well. There are surface seeps and from a good seismic perspective, it's -- you can follow that four way closure that's observable at site. But that surface is for 50 square miles. So, it's a real sizable prospect from that standpoint.

Welles Fitzpatrick - *Johnson Rice - Analyst*

Thank you. And one more, when we think about these JVs going forward and you guys clearing the hurdle rate and having that production in cash flow revert back to you, is that hurdle rate going to be cleared on an individual well basis, on a project basis, a tranche basis or on the entirety of the investment?

Todd Stevens - *California Resources Corporation - President, CEO*

I think they're all different. So, you could look at it literally right now, you can think about it probably on a tranche basis. But I think every person we're talking to is a little different. Some of them are more just straight farm-outs like we're talking about with Darren. So, it's activity driven. And some of them are more financially oriented.

Welles Fitzpatrick - *Johnson Rice - Analyst*

Thank you.

Todd Stevens - *California Resources Corporation - President, CEO*

Yes, sir.

Sean Sneed - *Oppenheimer - Analyst*

Sean Sneed from Oppenheimer. I guess, first, you spent a lot of time talking about JVs. Can you talk about what the A&D market in California looks like? And specifically, would you guys look at perhaps over-equitizing it in M&A situations, a mechanism to deleverage?

Todd Stevens - *California Resources Corporation - President, CEO*

Yes. So, if you went back to my chart and looked at how tightly controlled everything is in the state, and I'll give you a context, so, I was the growth person for Occidental for over a decade. And we used to do 50 plus or minus deals a year in the Permian and this includes everything from buying mineral interests from somebody at the Petroleum Club to bigger deals. In California, we did three or four like that. So, that gives you an idea about what's going on here.

But we are in a kind of an unprecedented time where there's a lot of assets potentially for sale in restructuring and those type of things. And it's something that we take a look at because we do feel because of our breadth of our portfolio, 135 fields, seeing all these drive mechanisms that we have this opportunity and we have the knowhow to be able to operate pretty much better than anyone else across the state. So, if something was available, we really feel like we'd be the best operator.

We do have a balance sheet. So, we're not -- it's difficult for us to go out and just be a cash buyer. So, we have to be very thoughtful about this, but it doesn't mean there's not a thing out there we don't look at and try to construct something to be flexible to figure out how could we make it work for us in potentially an equity partner or a strategic partner or someone who wanted to work with us. And again, you're well aware, Shawn, of what's going on here with [Barry, Lyn, Warren] and what happened with Freeport Plains assets.

Sean Sneed - *Oppenheimer - Analyst*

OK. And then, maybe just unrelated follow up but on leverage, can you talk about if your downside case happens and you kind of lay down the leverage slide for this year, as you get into '18 I think some of the covenants start to spring back in the first quarter of '18. So, I think it's two and quarter times first lien.

Todd Stevens - *California Resources Corporation - President, CEO*

Yes.

Sean Sneed - *Oppenheimer - Analyst*

If you kind of run your model on it, I guess, at \$50 or \$55 Brent, how comfortable are you with those leverage numbers?



Todd Stevens - *California Resources Corporation - President, CEO*

You're right. It's at the end of the first quarter and I think right now, running it at \$55 or so. It's tight. It's close. So, we have to wait until we get there. But again, going back to what Mark and I talked about earlier, we've had six bank amendments. So, from our standpoint, the banks probably have been under the hood here better than anyone. So, they know about our assets and how resilient they are. And it's not something we want to do. But if we have to, we'll get to the point and we'll work with them again to figure something out. But that's -- we're talking about in the future at this point in time.

Shawn Miles - *Lone Star Value Management - Analyst*

Hi, Shawn Miles with Lone Star Value Management. So, is the sale of the Elk Hills power plant still on the table and how much do you think you could fetch for it and do you have a certain price threshold ballpark in mind?

Todd Stevens - *California Resources Corporation - President, CEO*

Yes. I think Elk Hills would be something that we -- the power plant we would look at monetizing would have to be something that makes sense for our shareholders. But I think the thing there that people don't understand is we're almost the sole customer. So, we could create whatever EBITDA we wanted to contractually.

So, if we wanted to monetize a sliver of EBITDA somehow with contracts, we just don't see the market right now being at a point where it's going to be attractive, but it doesn't mean it doesn't change. I know Shawn has been in active contact with people who've been interested in infrastructure investments in the state. And whether it's the power plant or it's something else of ours, we will actively look at that and if the opportunity presents itself, I think we would love to get in a situation where we flip the switch on being treated like an equity instead of an option from a leverage standpoint. But we're going to be patient and do the right thing.

Shawn Miles - *Lone Star Value Management - Analyst*

So, potentially doing five JVs is really aggressive. And the first JV took longer than expected. Why should we believe that the market is there to do five JVs, and can you talk a little bit about what you're seeing in terms of the appetite of investors to come in and partner with you?

Todd Stevens - *California Resources Corporation - President, CEO*

Mark, you really went to the high end of my range, but that's OK. I just look at -- I think there was obviously a unique circumstance the last two years when you looked at commodity price whipsawing around, Brexit happening. But I think that affected financial institutions, people's ability to raise money.

I feel like we have an understanding of who is out there, who is interested and people have come and gone away and come back again. And also, I think we're in really good shape from a data room standpoint if someone came in and "Hey, look, we want to joint venture with you in these types of drive mechanisms or these basins or these fields", we could act on that in short order. I'm just envisioning from my standpoint, I got a high degree of confidence in one here by midyear, but the rest of them, we have a lot of people circling around.

A lot of people actually have been funded rather recently who have hundreds of millions of dollars of funding who want to invest here. So, there's very few opportunities if you want to stay in California in what you can invest in, and I think people are going to start getting away from the frothier areas of North America and realize the investment opportunity here.

Unidentified Audience Member

I have two questions, one a follow up to the Sac Basin JV How expensive are these wells? For three wells, you would give away one-third of the opportunity set.

Todd Stevens - California Resources Corporation - President, CEO

I'll let Darren walk through because there's some geoscience that goes along with these wells because it's not that typical, just drill and complete.

Darren Williams - California Resources Corporation - EVP, Exploration

Those wells are in the probably \$3 million to \$6 million range per well.

Unidentified Audience Member

So, maybe I'm thinking about for \$18 million, you'd give away one-third of the play sort of. Is that what it comes down to?

Darren Williams - California Resources Corporation - EVP, Exploration

Yes, in one way or another.

Todd Stevens - California Resources Corporation - President, CEO

We have a partner already in the play, too, just so you can understand.

Darren Williams - California Resources Corporation - EVP, Exploration

Yes. We give up a third of our working interest.

Unidentified Audience Member

And then, just to grasp on the growth opportunity on page 73 that you laid out, the 2,300 near-term growth projects, are these projects that meet 1.3 VCI at \$65 oil because the footnote referenced to \$65 oil. I'm just trying to understand what this 2,300 number is.

Todd Stevens - California Resources Corporation - President, CEO

In the exact slide -- Francisco is right behind you, just hand him the mic.

Francisco Leon - California Resource Corporation - VP, Portfolio Management & Strategic Planning

Yes. That's right. In those pie charts, everything is run at \$65. So, the two wedges that are grey, the dark and light, they are over 1.3 VCI. Correct.

Todd Stevens - California Resources Corporation - President, CEO

So, his question is how much would that...

Francisco Leon - *California Resource Corporation - VP, Portfolio Management & Strategic Planning*

In terms of reduction, Shawn has a slide that has the range from \$45 to \$85. You can get a proxy based on that.

Todd Stevens - *California Resources Corporation - President, CEO*

OK, right here.

Unidentified Audience Member

Thanks, (inaudible) Morgan Stanley. I have a question on page 94 and sort of on the back of the Elk Hills question as well. You talked about or someone talked about the banks giving \$5 billion of value for the infrastructure and inventory assets and that you're showing it at \$2.5 billion.

If you were to sell that, I mean, is that not already baked in to the PDP and proved value and that, if you were to sell it, your cost structure would go up or is that already -- is that sort of backed out and taken into account?

Todd Stevens - *California Resources Corporation - President, CEO*

No. Some of that is baked in and that's why -- and there are some Chevron and some other minor amounts of third party volumes like at the processing plant, but we're still the meaningful movement there on the processing plant. And that's why we really put it in at 50% of what the banks considered the value of those assets.

Unidentified Audience Member

So, it's 50% additive in that it's on top of the reserve value, or like the 50% is coming from the third party or is that -- again, if you were to take the 50% out, then, it still would reduce the value of the reserves?

Todd Stevens - *California Resources Corporation - President, CEO*

It would still reduce the value of the reserves, depending on what your costs are. Basically, what we looked at was if -- Francisco, you can correct me if I'm wrong, but the amount that our infrastructure would cost to replicate on a dollar per BOE and then we said if it was above that, we would try to put that in there as a value of equipment, if you picked it up and moved it to somewhere where it could be usable, let's say.

Unidentified Audience Member

Thanks.

Gregg Brody - *Bank of America - Analyst*

Gregg Brody, Bank of America. Just a few questions, you gave a lot of detailed information on the inventory and how to value it, and I think there's some data in here to triangulate around how to value workovers. But is it fair to say -- how should we think about that in terms of the inventory that you have there? I think you said you have 10% to 15% in your CAPEX budgets going forward. Is there...



Todd Stevens - *California Resources Corporation - President, CEO*

Yes. Workover is something -- if you look at it every year, it's sort of 10% to 15% of our capital investments. And then, you have expense workovers and capital workovers, the difference really being capital is adding reserves. So, from our standpoint, any activity out in the oilfield or in the office usually begets more activity and that activity could be drilling that. Most times, it's workovers.

Because you have all these wellbores, particularly when you're not drilling wells, you're going to spend a lot of time figuring out how can I go back and recomplete a zone. How could I go make my existing wellbores more effective and most bang for our buck? And so, that's something I think is underappreciated in a lot of cases by the company, by investors going forward.

Gregg Brody - *Bank of America - Analyst*

So, in here, you show an example what the NPV is and VCI which are much higher. Is that a fair run rate to use in your opinion?

Todd Stevens - *California Resources Corporation - President, CEO*

Yes. I think I would look to Francisco, but every time I've looked at a work over, I think the lowest workover VCI is three or four because again -- because you're not investing that much capital upfront to do much there usually.

Gregg Brody - *Bank of America - Analyst*

And the redevelopments in the waterfloods, that's not workovers? That's...

Todd Stevens - *California Resources Corporation - President, CEO*

That's usually re-drilling a well. Like in Wilmington, you're going to look after -- even though it's super developed, you'd find banked oil against faults. You really examine and do good, hard work that enables you to go back and realize there's bypassed oil somewhere.

Gregg Brody - *Bank of America - Analyst*

And then, the last question, just on the JVs, I know you said you'll spend 200 on the Benefit Street one in the next two years. You have \$50 million in your budget. How does that grow this year? What are the milestones or...

Todd Stevens - *California Resources Corporation - President, CEO*

We are conservative on the \$50 million for this year in what we've showed. I think if you looked at kind of the upper end of what we could do with Benefit Street in this year, obviously, subject to their approval, is probably \$150 million. We could do that.

So, we have that flexibility. We've already started drilling a well with the joint venture. So, I mean, we're getting after it because we understand how important those joint venture dollars are to the company.

Gregg Brody - *Bank of America - Analyst*

And as you aggregate those wells, what's the average time until the interests revert back to you and...

Todd Stevens - *California Resources Corporation - President, CEO*

Depending on product price, but if we're sitting here today, I would say in today's price environments, probably 18, 24 months.

Gregg Brody - *Bank of America - Analyst*

So, I think you said on your earnings call that you expected to see some benefits from the production actually in the year. How does that reconcile with what you just said?

Todd Stevens - *California Resources Corporation - President, CEO*

Yes. So, well, I'm talking about the big benefit, the reversion that Mark was alluding to earlier. I think what we're talking about is you're going to get a modest uptick in production and a modest uptick in cash flow for the year, depending on what prices do. But I think it's when you get the reversion is when you get the big kick, and that's what I'm referring to, the 18, 24 months.

Gregg Brody - *Bank of America - Analyst*

OK. Thanks.

Unidentified Audience Member

So, on your exploration slides, you showed 2 billion barrels of net un-risked resource. And I mean, apparently, we're supposed to use a 50% success rate on that or something. You said 40% to 80%, so I picked 50%. But that's bigger than your current reserves. So, it's huge, but realistically, when are we ever going to see any of this and how should we think about this as how it relates to the company in terms of the next couple of years?

Todd Stevens - *California Resources Corporation - President, CEO*

So, if you look at when we started doing California exploration again, you got to remember, there was no exploration done in California from about 1974 to about 2008. There was really no exploration done. So, when we ramped up activity at that point in time, you saw the slide that showed the production that came from exploration discoveries including the BV Nose which was just the most recent one.

But, obviously, when prices collapsed, the easiest thing to pull back on was exploration. But like Darren alluded to, that gets them back to relooking at the charts and actually going out and looking at the rocks in the field, in surface outcrops and the like. So, from our perspective, we're actually in our \$300 million budget, we're talking about a small amount, I think one or two exploration wells that we're funding ourselves, but we're going to have at least two exploration wells, if not three, funded currently by outside parties.

And then, we're hoping to have meaningful exploration to a venture coming to play that will drill more wells. Again, it's kind of the same kind of joint venture opportunity going forward. But, yes, it's definitely a higher price environment for us, ourselves, but for joint venture dollars, for people who are real wildcatters or people who are interested in conventional resource plays. I think it's something that will help accelerate it, other people's money again.

Evan?



Evan Calio - *Morgan Stanley - Analyst*

Just to follow up on the inflation question, I mean, it's not maybe at this exact moment, but it's a key debate in E&Ps in general. Given the JV -- potential JV infusion of capital, I mean how do you think and as well as the consolidation in the market and majors who are slower to swing to spend? How do you think about managing any kind of inflation here? What are the risks around that with the JVs?

Todd Stevens - *California Resources Corporation - President, CEO*

Obviously, too much at once, you don't want to tax your human capital. You want to understand, look in the mirror and understand your capacity as an organization, but you also want to invest in a way that's not going to tax the local service providers. You don't want to have them suddenly say, "I want to -- I need to bring in stuff from Canada" or "I need to bring in stuff from overseas" then, you're going to start playing move costs and everything else.

But I mean, I would ask Bob. Where's Bob at in the back -- I mean, we have daily talks with the folks and I don't think there really are any service pressures at all even within our enhanced budget for this year.

Bob Barnes - *California Resources Corporation - EVP, Operations*

You know, like Todd talked about before on the -- a lot of the pressure you see from the service companies is on the completion end. It's the stimulation iron that's going in and we just -- we frack less than 15% of our wells. And our [assets] are small jobs. So, that's not a huge player for us.

On the drilling rigs, the rigs are here, we have what we need for that. On the workover rigs, the market is still oversupplied here. I mean, we have people wanting to come to work for us. So, overall, I mean I think we're in pretty good shape on being able to -- the contractors have been able to meet our capacity without dragging in a lot of extra iron.

Todd Stevens - *California Resources Corporation - President, CEO*

At the back.

Unidentified Audience Member

One of your competitive advantages, your knowledge of California, your proprietary geological models and data, as you open these data rooms for JVs and you work with these JV partners, how do you preserve that competitive edge or advantage you have?

Todd Stevens - *California Resources Corporation - President, CEO*

Well hopefully through a confidentiality agreement, but we know how that goes sometimes. I think it's one thing to understand and get your arms and head around the rocks here. So, I think pretty quickly, if you're an engineer or a geologist, you look at it and you think, "Wow, this is impressive. This is really world-class." Then, you have to get your arms around how to operate in the state and how to be effective.

And I think that's something where it's true competitive edge for ourselves is how do you operate successfully in California. We didn't talk a lot about it, but California has one of the most stringent regulatory environments. But I think the very short version of that is it's regulatory intensive, but at the end of the day, how does it impact the company? It impacts the company through more time and better planning. So, as we were talking in dinner last night with Jake, it's a longer Gantt chart.



So, really, you're going to spend more time in planning and you're going to do a really good job on the portfolio valuation so that if somehow the permit doesn't come through here, I have two or three backup plans. So, if I went to Bob right now and I said "I couldn't do this", he would tell me the next five things that I could do. And it's really -- I go back to a military acronym, "Lack of prior planning equals piss poor performance," OK.

If you're not prepared, the battle is won before it's fought. And so, we have to be prepared and be engaged on how we do things as a company and be thoughtful. And I think that's what it is, and that's why I really try to hint and talk about -- to hear from Francisco because playing in how we engage and how that all interrelates with everything we do as a company is so important in how we're effective and how we can be successful here in California.

Yes, sir.

Jason Gillard - *Goldman Sachs - Analyst*

Hi, Jason Gillard, Goldman Sachs. I've got a follow-up to a question that Sean asked earlier and that is on your leverage chart where you show the \$55, \$65, et cetera scenarios, what are you assuming for production growth at \$55?

Todd Stevens - *California Resources Corporation - President, CEO*

I think if you look at the -- it's the chart. It's pretty close to the 8% I think is what it is. Is that right, Francisco?

Francisco Leon - *California Resource Corporation - VP, Portfolio Management & Strategic Planning*

It varies, depending on the price.

Todd Stevens - *California Resources Corporation - President, CEO*

OK. So, it's the model which was \$55 this year, \$60 next year, \$65. That's 8% production growth. So, we're going to be less than that at \$55.

Francisco Leon - *California Resource Corporation - VP, Portfolio Management & Strategic Planning*

Yes. At \$55, it's more of a stay flat case.

Jason Gillard - *Goldman Sachs - Analyst*

So, so \$55 to keep flat roughly?

Francisco Leon - *California Resource Corporation - VP, Portfolio Management & Strategic Planning*

In that assumption. It's not exactly flat, but it's less growth than the \$65 CAGR.

Jason Gillard - *Goldman Sachs - Analyst*

OK. Thanks.



Unidentified Audience Member

I guess kind of following that, back in the Oxy days, you were spending about \$1.6 billion, kind of \$2 billion to grow in single digits. What's the biggest difference between then and now being able to spend, I think, \$600 million, \$900 million?

Todd Stevens - California Resources Corporation - President, CEO

It's the reason why you do a spinoff. I think you want to focus on things. And again, I can't overemphasize at what -- the chart showed five different business units. I mean, if you talk to people who, when that existed, and you got to remember, you had a parent company who had different objectives and they would say, "We need production growth out of you" or "We need cash flow".

How would we have ended up with so much upper Monterey shale production? It was because Elk Hills was told they need to generate a lot of cash flow. Was it the best VCI value proposition? No, but when you look at the greater enterprise, they had commitments in the Middle East and elsewhere they had to meet. So, the cash flow had to come from here and the Permian basin to do certain things.

So, you had objectives that weren't necessarily optimizing how you would allocate capital and some of the other business units would might say "Hey, we need production out of you" and you might go drill along the Sac Basin that's turning a dollar bill into nine dimes, but it got you a lot of production. So, again, when you operate as a part of a larger enterprise, they have different goals and objectives. We have one CRC and we focus on how we do what's best for the company and for our shareholders by focusing on value. Everyone has the same objectives.

And if you looked at how everyone in the company down to the pumper, how they're incentivized from their compensation, it's all the same. Everyone has an incentive for HES metrics, for water conservation. So, it's a little different and if you really got into the details, you'd realize it's unique in our sector, but really how -- that's one of the big things that changed is how we allocate capital, how we engage as one team working together and how we engage ourselves, being proactive with the communities we live and work in and with the regulators in the state.

Because historically, and I'm not exaggerating, it would literally be, "If you don't want to give us the permit for this, too bad. We're going to go invest the money in Oman." There was never an engagement saying "This is how it adds value, how it adds jobs, how it reduces your dependency on imported oil or imported natural gas into the state."

Jason Gillard - Goldman Sachs - Analyst

Thanks.

Todd Stevens - California Resources Corporation - President, CEO

OK. Well, I appreciate it. I think we're going to break now, and Scott is going to tell you, about half of you are going to go on a tour of the CCF. The other half will go over to lunch. And we really appreciate your time today, and please feel free to follow up the rest of the day and the tour guides are Scott or myself, or Mark going forward. Thank you.

Scott Espenshade - California Resources Corporation - VP, IR

Thanks for sitting through the presentation. Hopefully, you took away some of the things we want to highlight as far the depth of the inventory here and our capital allocation process and how we're focused on being able to grow the asset.

For lunch today, we're going to break you in two groups. And so, we could probably just do -- I don't know which is the hungriest, the front half or the back half of the room. Why don't we do the front half of the room will do the tour to the CCF and the other half will have a lunch and set up here in the kitchen next door. Just as well, there's going to be some videos to give you a highlight of some of the things you'll be seeing. We got a

couple of short video clips we'll run on the monitors, so that way, you can sort of preview some of the things that you'll be seeing this afternoon as well.

So, we'll start there. I think we got about eight rows. So, the first four rows can do the CCF and you'll meet Bob Summers in the back of the room and he can take you over there and walk you through and get a real handle of how we've integrated the assets into this facility.

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