

## Scotia Howard Weil Conference Edited Transcript

Ross: Good morning, everyone. It's my pleasure to introduce our next company, California Resources. Here to present on behalf of the company today is CRC's President and CEO Todd Stevens. Todd?

Todd Stevens: Thanks, Ross. Real pleasure to be back here at Scotia Howard Weil. Thanks for hanging around, I know we're late in the conference. I think it'd definitely be worth your time to sit around and talk a little bit and maybe visit afterwards. I'd like to talk about our company, California Resources Corporation. We're very passionate about our company. When you think about North America, and you think about a major hydrocarbon province that produces conventional oil and gas, EOR, IOR, and is not driven by the shale revolution, you probably don't think it exists, but it does exist and it's in California.

California is, I like to say, the land that time forgot. It's an area that has historically been dominated by the super majors. For a while there, they decided to divest their assets, but California has an enormous value proposition. We recognize that at our prior owner, Occidental, started consolidating assets so we could operate in California. We realized that modern technology hadn't been brought to bear in a lot of cases because people just focused on the shallow steam floods that were available to them. Then we came about with the inception of California Resources Corporation, which will go down, I'm sure, in the energy industry as one of the most ill-timed spin-offs you could have.

We were spun off with the debt and capital structure of \$100 oil environment into an environment where the oil price was turning into the volatile nature that occurred over the last few years. I'll go through a few facts on that. I think what it'll prove to you is the assets we have are really great assets. We just have a capital structure, and we've understood from day one that the capital structure needs to change over time. We need to get a more balanced approach to debt and EBITDA. We'd like to get [our leverage ratio] to two and a half, three times over time. But the value proposition we have and the inventory we have, which we haven't been able to act on in the same fashion that we can under the umbrella of a large company simply because we choose to live within our means.

Again, you look at here, 400 plus producing horizons in California, four major hydrocarbon basins, every type of drive mechanism you might see in the world. From our perspective, we're very disciplined, very focused on value. You won't find someone more focused on value. We weathered the downturn. We've been pressure tested as a company. We went through \$20 oil in early '16 and we see our assets are different. We'll show you today, and I'll talk a little different today, a little bit today about why they're truly different from what you see traditionally around the country. Usually these are the type of assets that are typically trapped inside a super major. We like to think of ourselves as having those assets because it's really a business, not just a bunch of leases or

some producing properties. We have a business that includes the infrastructure associated with those assets, in some cases a fee acreage, 2.3 net million acres, and the surface acreage that goes with that.

We've outlined a few things here, talking about how we're achieving value going forward. It is a multi-pronged approach. It's deleveraging the company long term to get to the metrics I talked about, using joint ventures to help us bring the cashflow and value forward from our joint ventures, which I think is very important because that is why we are inventory rich. Then as we look to go forward as a company, you can see we have an excellent opportunity to ultimately over time de lever organically. That's a little bit from many reasons. One, from the inventory we have, also the low decline rate, and because we're moving from 64% crude oil production mix to our reserve mix which is about 72%. We'll talk a little bit more about that.

I'll talk a little bit about California for those of you who are not familiar with California. It is a world class resource province. Kern County in California is one of the top three oil producing counties in North America. It is a significant oil and gas province. I don't think you'll appreciate it unless you go out and go to Bakersfield or go down to Long Beach where our operations are. It is the sixth largest economy in the world, California. So when you think about it, you have energy production in the state, you're the sixth largest economy [in the world], you're very dependent on energy, and they are in a chronic energy deficit. 90% of their natural gas is imported. Two thirds of their crude is imported. In fact, over a third of their electricity is imported.

So what does that really mean? What that means is pricing mechanisms are different in California. For crude oil it's based on Brent because we are competing against the marginal water borne barrel that's coming in. There's no pipeline tie in to the rest of the country. There was a little experiment in the higher oil prices of the early 2010s with rail but that's still a 10 to \$15 per rail car proposition historically per barrel.

You'll see in this hydrocarbon province in California, we are the dominant player in the state. There's three of us that control most of the production in the state and control most of the fee acreage or most of the leased acreage. In most cases you'll see it's fee. Our 2.3 net million acres, that's 60% fee, held in fee mineral acreage. We have a basic premise as a company. We're going to operate within cashflow and we've done that since the inception and we continue to do that. We had positive free cashflow through the entire downturn. I think we're probably one of the only companies that can say that.

Statistically, I saw a Wall Street run-through talking about cashflow but you never know if those are actually accurate because somebody could have fat fingered some of the numbers in there but it showed us as the only company that was actually free cashflow positive over the last few years. We continue to operate that way. That's because we have such a high level of operating control

as a company. Of the 135 fields we have we operate them all except one. That one field, the operator is an individual who relies on us to do a lot of his subsurface work.

We talked about the three basins. One thing we'll talk about is going forward is as I mentioned modern technology hadn't been brought to bear in California. You can see on the right on slide 5 there's a 3D seismic survey lay down. All that 3D seismic was shot effectively by us or on spec for us. That's something that in some cases you'll see in a second as we get through the basins real quick, what does that really mean? It means that technology really hadn't been brought to bear. I mean a lot of people find it hard to believe but it goes to the nature of the ownership and it goes to the left hand side of slide 5. Those five producers are almost 90% of the production in the state. Aera, for those of you who don't know what Aera Energy is, it's a joint venture between Shell and Exxon. Shell owns slightly more than Exxon so they control most of the positions. So between ourselves, Chevron, and Aera, that is the vast majority of production, over 90% of the acreage in the state that's prospective is effectively controlled by them.

The most intriguing thing you'll see is the bottom left hand corner. While the rest of our competitors really are focused on shallow heavy oil production, we're the only producer that's really producing up and down the strat column, every type of drive mechanism, every type of hydrocarbon product you might see. That is something that we're engaged in actively as a company. It gives you an idea, there's thousands of feet of pay in California. It reminds me a lot, having done a lot of work in the Permian, it really is the Permian Basin with tectonics. That's why you end up with all these micro-basins and complex geology in California and why it really isn't as easy to model as your shale model Excel spreadsheet. You have to actually get into the details and understand geology and geo science and go back in time a little bit to in the Permian in the 1970s and they were starting to develop the Permian along those lines. I think that you'd be much more attuned with what's going on in California today.

I'll walk through the major basins really fast just to give you a feel. San Joaquin Basin, home to many multi-billion barrel oil fields. All of you are familiar with some of the names: Midway Sunset, Kern River. Our flagship property Elk Hills is there. It's approximately 40% of our production. Approximately 70% of our production is in the San Joaquin Basin. The San Joaquin Basin is critical for us. It has a lot of promise for future growth and opportunity. Around Elk Hills and our flagship asset you get a feel for our infrastructure. Our recent joint venture with Ares along the lines of our power plant or processing plant. That's just part of the 20 plus thousand miles of infrastructure and pipelines, power plants that we have up and down the state. That was what was dealt with in our Ares joint venture.

On the bottom left hand corner of the San Joaquin slide you can get an idea about the activity set. People talk about decline rates. Well we actually know

our decline rates, they are not an academic exercise. We spent about 18 months with no activity, no drilling rigs as we weathered the downturn. So you can get a feel for how we did things as company as we go through and managed our business.

LA Basin probably one of the most prolific oil and gas basins in the world but surface development overtook it in the 1970s, 1980s, 1990s so a lot of fields were shut in. To give you a perfect example, like Dominguez Oil Field was shut in by Unocal in the 1990s. It was producing 3,000 barrels a day when it was shut in for surface development at the time. Things like that were a common occurrence in LA. At our LA Basin properties we're in the giant Wilmington Field, one of the top five largest fields ever discovered in North America. This is in a partnership with the State of California and the City of Long Beach. It's a production sharing agreement. We have some slides in the appendix that talk through how that works. I think the thing to understand there is that when prices goes up our net production comes down in Wilmington and vice versa. We're paid in barrels. It's a structured production sharing contract that's better than any of the contracts you might see in foreign contracts. You don't amortize any of the costs or the capital expenditures. It's all brought 100% into that current year. You get to recapture that cost in barrels in that year.

Our other major asset that we're going to step up our activity in this year is Huntington Beach Field. It's something we're excited about. We have an urban rig that's entirely encapsulated. The other little tidbit there with Huntington Beach is we have 92 surface acres right on the beach, [which has potential value] when we eventually abandon the field. It is something during the downturn we actually managed and looked at day by day to monitor where the value proposition was for us and did it make sense to abandon it. But the oil reserves won out at the end of the day.

Ventura Basin, this is the basin from, for those of your familiar with, Magic Mountain if you know where that is all the way to the Ventura and Oxnard. This is where the oil and gas industry started in California. It started with Pico Canyon Number Four which was actually drilled at the far eastern edge of the basin in 1876. This kicked off the boom in California oil and gas production. This is the basin where Unocal started in Santa Paula. This basin has really been the most under explored, under exploited basin out there because it was where the industry started and it was where the industry basically gave up on the earliest. We shot the first 3D seismic there in 2013. We continue to have an active expiration program in this area, mostly of partner's money at this point in time, in the Oakridge trend and other areas. We're very excited about the oil in place opportunities here. You have the South Mountain Field which has oil in place of less than 5%. I'm sorry ... oil recovery factor of less than 5% of original oil in place. So there's a lot of those kind of opportunities. The picture on the bottom of this Ventura Basin slide is our exploration rig drilling and this is at South Mountain at one of the bottom parts of the field.

Sacramento Basin, this is something that I think people forget about in California. Enormous gas optionality, enormous basin, it has the Rio Vista field which has produced multiple TCFs of gas. This is something where we think as a company people talk about how we manage the company and our portfolio for value. If oil prices and gas prices shifted dramatically, we'll assume back to 2006 or something like that where gas was significantly higher, we could shift the company within five years to be a majority natural gas producer from our gas inventory in the Sac Basin and elsewhere in the company. This is a prolific province. We actually have some active exploration wells. One with a public partner in Australia who's funding it. It's called the Tulainyo. It's a Pinedale analog. You can look up that on their press releases or Scott will be glad to talk to you about that. Just to understand here, we're the dominant player here from both an acreage and a production perspective and in the relying infrastructure. Again, California imports slightly more than 90% of the natural gas it needs.

We talked about pricing and natural gas. That's something that's extremely volatile in California. It used to be very predictable. It used to be a slight premium to Henry Hub to represent the transport into the state. Now with the Aliso Canyon gas field going down it actually is extremely volatile. We've seen Citygate prices on cold or hot days go to \$25 an M[cf] or they can go down to less than Henry Hub depending on the weather. So this is something that you can show what actual storage can do for you and what it doesn't do for you if you don't have it.

What has this led us to? I mean why did we do the spin? Focus, focus, focus. As a company, Oxy wanted to focus on the Permian. We were going to focus on California and give the attention that it needed and really focus on the inventory and life of field plans on our 135 fields. This is kind of indicative of what's happened for us. You can look here at the Inventory Growth slide and look at the reserves from a three P standpoint since the spin off. Obviously prices at the spin off where those reserves were run in the mid-90s. You can get a feel for the price effects and how we're well above that even when you take into account price effects and production from a reserves standpoint. Ever since the spin we're have single digit, mid-single digit, or low single digit F&D costs. I think this is indicative of the price environment we're in. We focus on cash margin so it's an all-in perspective and we'll talk a little bit about that later.

Our life of field plans, we haven't been able to spend the time we want to go through 100% of our fields. We've really focused on about 40, probably almost 50% of our fields. We feel really good about that [resource growth]. What does that mean? That means that if you're going to compete for capital with our VCI metric, that's what drives it. You have to have a good life of field plan. If you don't have a good life of field plan you're not going to compete for capital. We might look to joint venture you or might look to sell your assets. That's really what the process is that we're doing. 95% of our reserves have been audited by Rider Scott over the last few years.

What's our overall strategy? We understand job one is debt reduction over time. We'll talk a little bit more about that in a second. We're enhancing our production. We're focusing on margins. We're really focusing on value at the end of the day. So we're not really talking about we're going to increase production just to increase production. We're going to increase production to increase value. That's our drive, and, ultimately, live within cashflow. I know with the spin, even when we had our heavy debt load before prices collapsed people thought we should lever up because of our inventory and increase production even more. It's been our core characteristic as a company to always operate within cashflow like I said. We were free cashflow positive during the downturn. Really it's driven by focus, discipline, value, and VCI which stands for Value Creation Index, which is our name for a PVI metric. Everything focuses on that in 1.3 and living within cashflow, and you can kind of see as a company what we've done.

When we were a spin off company I didn't think about oh let's go join CRC I want to do a whole bunch of liability management transactions. That wasn't my goal and objective. What we've done is we've been very proactive, very strategic about what we do. Given the cards we were dealt I feel we optimized and took advantage of those opportunities to make the company better. Along the way the banks have had unfettered access to what we do. They've given us seven bank amendments. As Mark likes to say, during the really severe parts of the downturn they pick winners and losers and clearly they understood our asset base and understood what we bring to the table. Along the way you can get an idea of what we've done from an activity standpoint and by other deleveraging transactions that we did. When you look at how we've brought down leverage I think it's interesting to note our peak post spin debt on our Net Debt slide. Remember at the end, Oxy took our receivables and left us with the payables so the peak post spin debt was around 6.7 billion dollars.

We sit today with about 4.9 billion in debt plus about \$400 million in cash from our Ares deal so you can see the four and a half here. It wasn't just one magic silver bullet. This is fighting, scrapping, doing whatever you can do to get there. This is what we've done along the way. Again, I point you to the cashflow column. We've brought debt during this time period from late 2014 'til now through cashflow in addition to other transactions.

Slide 14 provides a quick snapshot of the balance sheet currently. The 4.9 billion which is not offset by the 441 million in cash is reflective of the deal with Ares. It gives us an enormous amount of runway, an enormous amount of flexibility, an enormous amount of liquidity. It's very important for us as a company going forward. I think we'll talk a little bit more about this but as far as people worrying about restructuring risks and those kind of things, we've been pressure tested, we've been through this. From our perspective we're stronger than ever. Our optionality is as great as it can be. We're looking to what we're going to use the proceeds from our Ares transaction for.

The key along the way, especially in the downturn and going forward to be honest, is joint ventures. We're inventory rich. I'll show you a slide in a second. But as I said all along we know we're inventory rich. We're capital constrained. We're committed to living within cashflow. We have two big, large joint ventures. We have numerous small ones on the exploration and development side. The two large development joint ventures are Benefit Street Partners and Macquarie. They both work a little bit different. Macquarie is the more traditional one. Benefit Street is a net profits interest. We're very pleased with these but what we'd like to point out is with every hundred million of joint venture investment, we foresee that enabling us to bring forward about 3,500 to 4,000 barrels a day of production. So this is something, when you think about it from a value perspective, we're declining, depending on what your downtime assumption is, 10 to 15% per year, probably closer to 10% or take a midpoint, you can get a feel for a year or two or three out how much EBITDA and production's going to flow to us on the reversion of these joint ventures because it's really driven by price and performance. Price has performed better than we anticipated when we entered into these joint ventures. Performance has been better for both parties also.

This [slide 16] gives you a little indication of how we manage the business with the joint ventures. They don't just bring the cashflow forward but they help us reach steady state and level our activities set for our company. To give you an idea, in mid-2017 we saw a softening in commodity prices so we shifted activity, as you can see here [on our Resilient Resource Base slide], to our joint ventures to manage our cashflow through that part before we had some uncertainty about how we were going to go forward. Then as the fourth quarter kicked in we brought more capital for ourselves back to bear. Really the delta is the difference between how much was going into the joint ventures. If you want to know, down in the bottom right hand corner you can show that internally funded it was about \$275 million so we still weren't even at our maintenance capital level when we look at keeping oil production flat which is around 300-400 million dollars.

Why do I give you a wide range? Because we don't like to talk about one year. When you have a portfolio like ours, one year we could artificially keep reduction flat for a year but it would have adverse effects in our years. We like to say it would take \$300-\$400 million for the next three to five years to keep oil production flat. That's why we feel like we were slightly under investing last year coming into 2018, where you see our program that we're planning to do will be about 300 net to us.

If you look at the 2017 returns you can see we delivered real value. We give an indication of our VCI metric at 55 dollar flat Brent price, and what it was at 55 last year and then 65 forward. The IRRs associated with those, those are discreet IRRs. Don't correlate those to VCI because IRRs can be all over the place [and not linear]. You could have a higher or lower VCI going forward. So we're

very pleased with what our capital program was last year. Again, our net of the \$429 was about \$275 [million].

How do we look at this going forward? This is more conceptual. When you're in a bear market like we've been in, we were in a hunker down mode focused on the base, focused on maintaining our decline and controlling our costs. We're now shifting towards what we view as a mid-cycle market. That means we're spending and investing more on projects that are going to get us longer term growth. That's something like a Kettleman North Dome which we've talked about before. If you come to our Analyst Day in October in New York we'll talk more about it then. That's where you high grade your portfolio and you look a little bit more in exploration, a little bit more on growth. Then you get the bull market obviously, we would all like to be in a true bull market for the commodity.

2018 plans are, I alluded to it, \$425 to \$450 million in capital spending. About 30% of that is our partners' and JV's, so about \$300 net to us. This could flex and change depending on what happens with our joint venture proceeds from Ares We're sitting, as you saw before, on about \$441 million in cash currently. This is going to be primarily focused in the San Joaquin Basin and a little bit in the LA Basin. If you looked historically at the capital plan on a percentage basis, what goes to work over what goes to drilling and get rid of the JV capital, I think those percentages kind of hold true. People sometimes ask what is the true hunker down mode maintenance capital, what we only spend on HES if things really got terrible. That's about \$50 million but really it's \$25 to \$75 million a year, because you have some things that do turnarounds every few years. If you want to model that and assume the hell in a hand basket pricing, that's what you would utilize in that scenario.

I talked about inventory. This is just a slide of our deep inventory of projects. Full disclosure, this is our inventory and it gives you drive mechanism, steam floods, water floods, primary shale, gas. Then on the bottom is the net cumulative resource of BOEs in the full cycle economics, and that includes field level G&A. So we're talking about all you might throw in there, development, facilities, and field level G&A. So you can see at \$35 all-in, everything, LOE, everything, we have over 750 million barrels of projects that are actionable at this point in time. This gives you on the bottom, a cumulative capital curve on how much it'll take you to get there.

Another way to look at it real quick on a locations basis. Actionable, near term actionable, these are ones that are currently in our plan that have VCIs greater than 1.3. You can get a feel for by drive mechanism where it really sits and the portfolio effect associated with these. On the bottom it gives you an idea how we manage the business from an oil and gas price ratio. Again, when you're in the steam flood business, it's a little bit different because if natural gas prices are too high you're not going to invest in steam flood projects because it's an

important component of your cost. This just gives you a feel for how these things and how this criteria works for us.

I talked about the Ares joint venture. They're our partner. I mentioned before, Elk Hills power and Elk Hills processing plant. \$750 million of cash proceeds, \$50 million of equity. Very pleased with our partners there. We paid off our revolver, have maximum liquidity, \$850 million. Looking to utilize the proceeds to put in the ground in some way, whether it be through an acquisition or through our inventory. That was our base case going in, that it would go into inventory and accelerate our own inventory. Or to reduce debt, but our debt would have to trade within certain criteria for us to do so. We have agreements with the banks such that to buy in our debt it has to trade at a 20% discount. This graph [on slide 23] is just an illustrative chart to show how this works and how we look at the decision from a VCI basis to buy back debt. Obviously you understand there's execution risk on all these and it's different. Buying in debt you kind of know what you're locking in if you buy in debt at a certain price to return. Obviously if you're going to buy an acquisition there's less execution risk going forward than drilling and waiting for production to show up.

We've show these charts [on slide 24] different ways at different times but it's not meant to be a business plan. It's meant to give you a snapshot of if we were to take our free cashflow each year and plow it all back into the business. The boundary conditions on the charts are meant to show you \$55 and \$75 Brent. Again remember, we're priced off Brent. The other thing you can look at is that we have a production growth of 7% internally funded by existing cashflow but the resulting cashflow grows even greater than production. Again, that goes back to production mix changing over time. We're heavily oil weighted. It gives you a feel for what the range is on the capital investments going forward. But also, you need to remember there's a few things working for you in addition to just the production mix. It's also that we're investing in lower decline projects. So with those lower decline projects you're going to generate cashflow at a much faster pace.

This margin expansion slide is what I talked about with a margin mix and how it's changing. Our production mix is on the bottom. Our proved reserve mix gives you a feel. Again, pricing, I don't think I've mentioned it enough. We get almost 100% of Brent. Our historical averages have been between 90 and 95%. We see Brent pricing trending to almost 100% of Brent on a differential basis from a portfolio effect for us as a company. Gas is, again, it's a little bit all over the place and very volatile.

This reserves and enterprise value chart is something we show every time and I think it's one of these where we talk about value at the beginning. We're a deep value proposition. We trade like an option on oil. I don't think anyone here that knows our company well would argue and say you don't trade like an option on oil. We do trade like an option on oil. The thing that's interesting is we're a real business. We have real substantial underlying assets, a testament to our banks

seven amendments. I think no matter how you slice this you can get goofy numbers really quick on a dollar per share value. So even if you wanted to take a 20% discount rate or something else, you're still going to come up with enormous equity value. So our challenge as a company and as a management team is to educate people on California. We understand it's a little bit of a backwater of oil and gas business. It's not Houston but we really have to focus and make people appreciate what kind of assets we actually have. We're not in the shale business. You have to spend a little bit of time and go back in time and appreciate the true value associated here.

This deleveraging graph goes back to show you those two slides before. This is under the three different pricing scenarios how our debt EBITDA matrix comes down organically. So you saw how as production and cashflows grow, this is how the debt EBITDA can come down organically. Not saying this is what we can do but this is a case or a scenario we're showing you of how we could execute if we had to. Again, as you saw at the beginning, everything here is a hodgepodge of different opportunities. We've done everything we can with the cards dealt to us. We've taken advantage of every opportunity presented to us, even the downturn. What happened? We had liability management. We took debt out of the business. Now it's starting to shift to the upturn. We've been able to execute joint ventures to accelerate value forward and we continue to work on more. We continue to look to monetize things. We know job one is to bring down debt. I don't think you'll find a very much better value proposition in the oil and gas business. If you want to assume oil prices are going to stay here or go higher, we have significant leverage to oil prices. And we have an unbelievable asset base with the decline rates and the returns and VCI's associated with unbelievable projects just in California. It's not just in West Texas. Thank you very much.