Gregg: But, we’re lucky to close out our presentations by companies with California Resources. We have Mark Smith, the CFO, here. I will let him tell the California Resources story.

Mark: Thanks, Gregg. Appreciate the opportunity to be here. I don’t know about you guys, but I really like the socks. Don’t you?

Gregg: Yeah. I thank my wife for that.

Mark: Nice choice. Nice choice, Gregg. Over the course of the conference, I'm sure you guys have had the opportunity to see lots of presentations from many of our peers. A number of those have very significant differences in their asset base. And today, I want to focus on just exactly how we’re different, how our asset base, how we as a company differ from many of those that you’ve seen here at the conference today.

So, what is it that sets us apart? Well, one of the key factors that sets us apart is our flexible, very long life, diverse asset base with multiple stacked pay opportunities, different drive mechanisms. As a result, it’s been proven to perform well across a wide variety of pricing environments. Another factor that sets us apart from our peers is the fact that we’re not focused on growth for growth’s sake. Rather, we’re focused on processes consistently targeting value. We’ve focused on value since the spin and before it was fashionable.

Another factor that sets us apart is our management team. We're pressure-tested. We’re quick to adapt. We’re driven by operational excellence. And another factor that sets us apart is our continued focus on strengthening our balance sheet. I know this is a key point that many of you are focused on. We’re keen on simplifying our balance sheet. We’re focused on reducing our absolute levels of debt. In summary, by capitalizing on our diverse and differentiated asset base together with leveraging our dynamic and disciplined capital allocation process, we believe we’re very well-positioned to execute our strategy of delivering long-term value.

So, for those of you who aren’t familiar with CRC, we operate exclusively in California. It’s a state with very compelling energy demands. It’s the world’s fifth largest economy. It has a tremendous thirst for energy and petroleum products -- specifically, oil and – it consumes, the state consumes more gasoline than countries with four times the population of the state.

Oil and natural gas produced in the state adheres necessarily to the world’s most stringent regulatory, environmental, and safety standards and responsible policy measures and thoughtful leaders throughout the state know this. They recognize the value of native production’s role in supporting California’s leading economy.

And, as we signaled going into the last few weeks, we found ourselves with a situation where Assembly Bill 345 is dead for this session. It's important to recognize that we've been successfully operating in this regulatory environment for decades and I would encourage you to keep that in mind as we look at and consider – or as you consider regulatory risks going forward.

So, what were some of key first quarter performance highlights for us? Well, one of the key highlights, we began the quarter with ten rigs as a result of what we saw in terms of commodity prices. We subsequently reduced that to six. Another key highlight is the fact that we produced over 133,000 barrels of oil equivalent a day and it was up 8% over the prior year period. It was approximately 63% oil. And that oil mix exhibits the result of our capital allocation process, which prioritizes higher value oil weighted projects.

Another key highlight is the fact that we invested $138 million, internally funded. The remaining $34 million was externally funded through our joint venture activity.

Another key highlight was the fact that our adjusted EBITDAX for the quarter registered $301 million. It's up 20% year-over-year, another 140% growth rate since the beginning of 2016. Margin registered a healthy 38%. And I want to point out that these improvements were with a realized oil price just over $65 a barrel after the effect of hedges. So, not too far off from where we are today.

Another key highlight, we generated nearly $1.2 billion adjusted EBITDAX over the last 12 months. So, as you can see, we're pleased with our performance, the response of our assets, and how we're positioned.

So, in the opening I talked about our asset base. What is it that truly differentiates it? I want to drill down on that just a bit. I like to say that we have the characteristics of a major encapsulated in an independent. Consistent with this, one of the key factors that differentiates our asset base is this broad diversity.

We operate in multiple basins, four of the largest fields in the US, all multi-billion barrels in terms of original oil in place. We operate with multiple drive mechanisms, whether that's conventional primary, waterflood, steamflood, even some unconventional. It's important to note that we've proven that our high level of operating control allows us to take advantage of this diverse asset base and to respond quickly to market changes.

We're not simply a single basin shale play that has one place to go with our capital. We can dynamically allocate it and you've seen that. We've demonstrated that as we've moved through multiple cycles since our spin.

Another key aspect that differentiates our asset base is its raw size, the sheer volume of oil in place. California is characterized by world class oil fields, 50 billion barrels of original oil in place estimated across the state. There are nine fields in the state, each having over a billion barrels of original oil in place.

Even though these fields have produced over many decades, they generally still have relatively low recovery factors and we estimate that there is over 10 billion barrels of original oil remaining in terms of recoverable resources across the state. So, a common theme you're going to hear from me this afternoon is that there's lots of work left ahead of us.

Now, another key factor that differentiates CRC is the quality of our reserve base. Proved reserves year-end 2018, 712 million BOE. That approaches the levels that we had at our spin despite prices being roughly 25% lower at year-end and our year-end reserve levels were up 15% year-over-year from 2017.

Our reserve base, as I said in the lead-in, is characterized by its very long life nature. We have nearly a 15 year reserve-to-production ratio. And I want to encourage you to think about that as it relates to our overall debt levels. My personal view is that the shale plays have conditioned us to think about appropriate levels of debt in a slightly different context given their very steep initial declines. We have a more classic, very long life reserve base, very low decline rate. And when you compare that to what I'll show you in a little bit in terms of overall debt to EBITDAX levels of just over four times now against a 15 year reserve life, it's certainly not as bad as trying to put that same level of debt against something with a four or five year reserve life.

Our 2P reserve register well over a billion BoE, importantly are all in F&D costs $8.76 per BoE in 2018. Organic three year finding and development costs averaged a low $7.57 per BoE. Our all-in reserve replacement ratio last year is 296%, 127% from the drill bit alone. As a result, our organic recycle ratio registered 1.9 times in 2018. Our four year average is 2.6 times.

Again, there's been a lack of focus on these kinds of metrics in my view as a result of focus on shale plays over the last several years. And my experience is that if one can find the underlying attributes of the asset base where one can begin to approach a recycle ratio of two times, you've got to take a deeper dive. Here, we've been generating an average four year recycle ratio of 2.6 times.

Another factor that differentiates CRC is the deep regional insight that we have. We're the largest player in California, 2.2 million net acres in terms of our land position. Sixty percent of that is held in fee. Most of our position is either held in fee or held by production, so we don't have to make decisions, un-economic decisions to try to hold acreage; key point.

That provides us with flexibility, optionality, and it's an under-explored, under-exploited asset base. There's lots of deep potential . We have the largest 3D seismic position in the state. So, again, common theme, lots of running room.

Now another factor that differentiates CRC is the favorable market that we work within. As I said before, California is the fifth largest economy in the world. It's in a chronic energy deficit. We like to say it's an energy island. You don't have pipelines, oil pipelines, extending over the Rockies. As a result, the marginal barrel is waterborne and we receive Brent-based pricing, very healthy realizations.

In the first quarter, we received 99% of Brent. That fact reflects the strong demand we see for California crude and it's typically used to optimize the refinery yields at the California-based refineries.

On the natural gas front, we have the ability to leverage our portfolio, our capacity, our infrastructure in order to rapidly supply additional needed gas to the market. That can be seen in our other revenue and expense line items. In the first quarter, our net margin was approximately $20 million from these activities.

Another factor that differentiates CRC is our raw NAV at $65 Brent held flat. Our NAV is in excess of $16 billion, so our current enterprise value is roughly equivalent to our proved developed value, just PD value only. No value to our unproven, no value to our significant complementary infrastructure, no value to our land position.

Unlike many of our peers, we have a very significant complementary infrastructure position. I'll talk about that in a minute. But you see that we've cut that valuation down by half. It sits on top of that valuation stack that you see there. So, by capitalizing on our diverse and differentiated asset base, together with our disciplined capital allocation approach, we feel very, very good about how we're positioned in order to execute our long-term value-oriented strategy.

What is our operating strategy? Well, one of the key tenants of our strategy is to thoughtfully develop our large and growing inventory of actionable projects. It's important to underscore that our reserve base translates into a deep inventory of actionable projects. You see that in front of you. At $65 Brent-based pricing, we have over 850 million BOE of projects, all that meet our internal hurdle of 1.3 VCI. And with – at those levels our finding and development costs are less than $10 per BOE.

So, that's roughly $10 billion of currently identified investment opportunities. So, again, common theme, we have many years of work ahead of us here.

So, another key tenant of our operating strategy is our disciplined capital allocation. You've heard me refer to that in my remarks. And it's based on value. So, one example of our disciplined approach is to proactively adjust our activity levels and our mix as we go through the – as we've gone through the cycle.

As prices fell, we had the flexibility to quickly and meaningfully pull back rigs, just as you saw in the first quarter. We did that in order to stay within cash flow, to defend our margins, and to preserve value. As prices have increased at other points in the cycle, we've worked to increase our activity levels proactively and we've kept a keen eye on liquidity. Today, we're focusing on protecting our base, positioning ourselves for value-driven growth over the longer-term. And I want to emphasize that we continue to look at dedicating 10% to 15% of our discretionary cash flow to strengthening our balance sheet as we move forward.

Another key aspect of our operating strategy is leveraging our knowledge, as well as our infrastructure associated with our primary operating areas. One example of this is our Elk Hills field. You'll recall it's the previous Naval Petroleum Reserve, estimated 10 billion barrels of original oil in place. We've operated – it's been producing since the early 1900s and we've operated here for over 20 years. Recall, we acquired our interest from the US government. And consistent with my previous comments, it has very significant interval complementary processing facilities, as well as a power plant.

So, we're working to use our significant knowledge and infrastructure in adjacent fields, such as Buena Vista and Coles Levee, to drive improved performance out of those fields. A key example of leveraging our knowledge base is the acquisition of the Chevron position in Elk Hills that we executed on last year. Recall we acquired the remaining non-operated interest from Chevron. It varied from 20% to 22%. It varied by depth. It also included 10,000 surface fee acres. We now own 100% working interest, 100% net revenue interest, and all the surface in one of the largest oil fields in the lower 48.

So, the acquisition allowed us to consolidate operations because of the broken up ownership interest, segregated ownership interest by depth, to streamline our processes, to drive synergies, to improve capital efficiencies. And additionally, the acquisition has provided us with additional cash flow for reinvestment in the project inventory we looked at just a minute ago, as well as to further accelerate growth.

We've had operational savings to date as a result of the transaction approaching $34 million annually. That's well ahead of our expectations and, of note, those numbers don't include an additional $20 million in capital avoidance that we've saved by deploying infrastructure elsewhere. So, we're well ahead of our initial target of $20 million annually and, again, there's more to come.

Another example where we're leveraging our knowledge is in the Southern San Joaquin Basin, just south of Elk Hills. It's characterized by a series of very large fields here, low recovery factors, hundreds of feet of stacked reservoirs, many of the same reservoirs we're familiar with from Elk Hills, Buena Vista, and we believe they hold significant potential. We're reworking those fields on the basis of what we know from our analogous operations up north and we're using existing wellbores. We're using our proprietary 3D seismic data, integrated reservoir characterization, and as a result of those activities we're identifying additional opportunities and we're working to high grade those based on disciplined capital allocation process that we employ and we believe they hold strong workover, primary drilling, waterflood, even EOR potential. And we're having good success with this effort and we very much like what we see.

Another example where we're leveraging our knowledge and our infrastructure this time from an infrastructure perspective, again the Southern San Joaquin Basin. So, simply put, we're using Elk Hills and the existing infrastructure up there that has additional capacity as an infrastructure hub. We're tying in the South Valley into Elk Hills Power, taking advantage of additional capacity with the power generating facility and we're bringing South Valley production back up to Elk Hills to gain the benefit of our processing infrastructure there, again driving capital efficiency and lowering our operating costs.

Another key aspect of our strategy is the thoughtful use of relationships, particularly joint ventures. They allow us to accelerate our value and participate in the growth wedge, to de-risk our inventory. And we have roughly $600 million of current potential development and exploration capital that's been committed. Approximately $300 million of this has been funded in terms of development capital through the first quarter. Recall, we've stated that for every $100 million invested, we expect our gross peak production to range of 3,500 to 4,000 barrels of oil equivalent a day. Gross reserve potential associated with that investment just over 12 million BOE.

Of note, I want to point out that each of the partners has taken a peek under the tent and they've looked at our assets in more detail. They've wanted more exposure to the asset base, whether that was Benefit Street Partners, whether that was MIRA, whether that was Ares. They've wanted additional exposure to our asset base, just validating many of the points that we're making today.

Additionally, we've had strong success with our exploration program and our exploration joint ventures. We've attracted significant interest with our strong results around that. So, a key aspect of our strategy is the strategic use of our joint ventures and as we've talked about on our last earnings call, we continue in discussions with multiple parties on both development, as well as exploration joint ventures.

Now, an example of how we've strategically used joint ventures to manage our capital position can be seen in our actions in 2017. As we moved through the year, we saw a drop in terms of oil prices. As a result, we worked to mitigate the effects and maintain activity in the field, maintain cost efficiencies we developed in the field, and we allocated a rig line to the joint venture. And you see that in the slide here.

As a result, we reduced CRC capital to stay within cash flow. And then as we moved into the fourth quarter and commodity prices began to improve, we shifted that rig back to CRC's account and we did this again in the fourth quarter of this last year as we moved into the first quarter of this year. So, those joint ventures provide us with significant flexibility in order to stay within cash flow and not add to the existing debt burden we have.

Another example of our disciplined capital allocation is the framework we use throughout the commodity price cycle. In a downside environment, we tend to work to protect the base. We tend to focus on steamfloods, waterfloods, relatively less capital intensive, strong VCIs, largely oil. As a result, our margins are better. And then we tend to use a secondary measure of payout. We don't simply look at VCI. We keep a keen eye on liquidity through payout measures.

In a mid-cycle environment, we invest in value-oriented growth projects and we tend to focus on longer-term value. And with enhanced liquidity in a higher price environment or mid-cycle price environment, we tend to extend the payout, secondary payout criteria that we use.

So, what's our outlook as we move forward? How do we see ourselves in terms of capital allocation as we move through 2019? Well, you can expect that we'll continue to invest within our forecast cash flow. Specifically we've announced our 2019 internal funded capital budget, $300 to $385 million. And we intend to supplement that with an additional $100 to $150 million that's expected to be funded by our joint venture partners. That supports a total program of approximately $500 million and it amounts to nearly a 35% reduction in our capital program compared to last year, again demonstrating our responsiveness and our discipline.

Another expectation is our capital investment program will be dynamic. We'll scale it up or scale it down to align to our outlook for expected cash flow as we move through the year. Another expectation is that our investments will be directed to oil weighted projects, largely conventional, waterflood, steamflood, as I described before. And they'll be in the core fields of Buena Vista, Elk Hills, Wilmington, Kern Front, Huntington Beach in order to further develop, delineate, appraise those specific areas. As a reminder and to frame this, we've stated in the past that we believe $300 to $400 million of drilling and completion capital can hold our oil production roughly flat.

Now, as we've said, we continue to use an all-of-the-above approach in order to reduce our leverage and that includes monetizations. On that note, we recently sold a 50% working interest and transferred operatorship in portions of our Lost Hills for consideration in excess of $200 million. $168 million of that was in cash. We used that to pay down our revolver and additionally we were carried on a200 well development program worth at least $35 million, which allows us to continue to benefit from accelerated development in the field. So, we continue to strategically repurchase bonds at a discount on the open market with proceeds from transactions such as that. As you recall, non-borrowing base assets, which Lost Hills constitutes a portion of, builds a basket which we can use to strategically de-lever in the open market at a discount.

So, what's our financial strategy going forward and how will we continue to strengthen our balance sheet? Well, when we spun, we were nearly investment grade. As we moved through the cycle, we did the right things. We didn't sell assets at fire sale prices. Rather, we worked to execute on a series of transactions that we felt like had much more favorable economics, long-term benefits. In the process, we introduced complexity into the balance sheet.

As a result, we've experienced the burden of a deep, non-investment grade balance sheet. And in the current environment, we're keenly focused on working to develop a near investment grade balance sheet to complement our investment grade asset base that I've described this afternoon.

As a result, one of the key aspects of our financial strategy accomplishes just this. We continue focusing on strengthening the balance sheet. As in the past, we'll continue to be opportunistic. We said we'll execute an all-of-the-above approach. You see that in front of you, Slide 22. We're committed to continuing to allocate our capital in a disciplined fashion, to stay within cash flow, to reduce our leverage, to simplify our balance sheet, to preserve our flexibility, increase our financial flexibility, and to be opportunistic. And as we've said in the past, we continue to be dedicated to utilizing 10% to 15% of our discretionary cash flow to strengthen our balance sheet.

Generally, there are a number of approaches or areas of focus we can take as we look to continuing our deleveraging path, whether that's by principle reduction, whether that's by maturity, whether that's by fixed charges. In this light, we've accomplished significant principle reduction. We're not done. In addition to this, we tend to also focus on alternatives that will improve our fixed charge coverage levels. And there are a number of options we continue to monitor and evaluate, whether that's asset monetization as we've done in the past, whether that's use of additional JVs as we've demonstrated, whether that's the sale of non-core assets which we've demonstrated, or whether that's the sale of a royalty or mineral interest or whether that's refinancing our existing debt levels. So, we're keenly focused on improving and strengthening our balance sheet.

In summary, we have a number of factors that set us apart. One factor that sets us apart we've talked about is our diverse portfolio with its long reserve life, its demonstrated optionality allowing us to perform well across broad fluctuations in the commodity price environment. Another factor that sets us apart is our disciplined capital allocation process and we're consistently focused on value, focused on value before it was fashionable. Another key factor that sets us apart is our management team. We're pressure tested, we're quick to adapt, and we're focused on operational excellence. And finally, another factor that sets us apart is our continued focus on strengthening and simplifying our balance sheet and reducing our absolute levels of debt.

So, by capitalizing on our diverse and differentiated asset base together with leveraging our dynamic and disciplined capital allocation process, we believe we're very well-positioned to execute our strategy, deliver long-term value. You can rest assured we'll continue to focus on being opportunistic and working to creatively identify and evaluate meaningful and bold ways that we can drive value as we move forward through these cycles.

Thank you very much for your time this afternoon. I'd be happy to answer any questions, Gregg.

Gregg: If you have a question, please raise your hand. I'll pass you the mic. I'll start it off though, as I'm looking out in the crowd. So, you mentioned the options for reducing debt. Selling royalties or middle interest is something you haven't done yet, but seems like something you're thinking about. What does that look like as you think about it today? Is it – where is that interest coming from? Is there a certain size you're targeting?

Mark: I don't think we've – it's not that I don't think. We haven't guided to anything on that front, Gregg. I think what's important to remember here is that across our asset base we have an average net revenue interest of 94% or 95% and with the addition of the Chevron position in Elk Hills, we have 100% net revenue interest in one of the largest fields in the US. And so, that compares to many of our peers, which in the Permian may have a 20% or more royalty burden on their property set.

So, that creates an interesting opportunity for us to think of carving off a small portion of a royalty interest and monetizing that. Those tend to have relatively good valuation metrics associated with them and potentially provides an opportunity for us to do some interesting accretive types of deleveraging work. So, we continue to evaluate that as part of what we refer to as an all-of-the-above strategy in the context of – and weigh that in the context of other options we have available to us.

Gregg: Are there any examples of monetizations of royalties or middle interest in California recently that we can look at?

Mark: I can't recall in California recently. But there are good comps around the country for that kind of thing.

Gregg: And then, as I look around, I think maybe one question I think we'd probably just love to hear your thoughts on. So, Todd gave his view of legislation in California being enacted to increase offsets to locations where you can drill and a number of other things. And then it seems like the bill died. But it says it's a two year process. Can you just tell us where that stands and give us your sense of when we should expect to see that come back into being?

Mark: Well, I think it's important to understand that the California regulatory environment is something that CRC and its predecessors, our team, has worked in successfully for decades. While some are concerned about it, it creates a very nice strategic moat around the state for those that really know and understand how to work within that regulatory environment.

We believe that, as we've talked about, California is an energy island. There's significant, very meaningful jobs that are created as a result of the industry's activity in the state. There's significant revenues generated for the benefit of the state and local governments. Our Long Beach operations, for example, have generated close to $5 billion over the last 15 years for state and local government alone.

The legislators, the folks at the top, know and understand the value that the industry bring to the state and the value that affordable, reliable energy brings to the overall economy. And you see the results of that as this bill went through the process and then it died in committee. So, we think it's unlikely to come forward in anything close to the existing state. But this, what's important to recognize is that this is an environment that we've worked in successfully for decades and we consider this to be one of those things that we've dealt with just like in the past.

Gregg: That's great. We're out of time, but I will ask one last one out of you, just because you're here and I can ask it. And I don't see any questions from the crowd. So, when you sold the Lost Hills asset or monetized 50% of it, it wasn't part of your borrowing base properties. It was considered non-borrowing base property.

Mark: That's correct.

Gregg: Is that a function of that you've anticipated selling that for years or is there some flexibility to move assets around out of the borrowing base group?

Mark: We've purposely – I think it's important to recognize that we've purposely worked very, very closely with the banks over the years and we value that relationship with our banks. As a result, when you tear apart the senior credit agreement, what you'll see is that we have the ability to put borrowing base properties in and that's essentially the reserve report we've put to the banks. So, we can reserve non-borrowing base properties by them not being included in the reserve base.

So, non-borrowing base properties constitute certainly all of our infrastructure assets, but together with some select oil and gas properties. And so, we will look at our portfolio and we'll evaluate those things that don't make our capital allocation cutoff, but still could be attractive to others and we'll give consideration to those and we'll discuss that with the banks. We'll pull them out of the borrowing base. We'll not put them in the report.

We tend to be very – we tend to be thoughtful about the way in which we do that. We're not putting assets in, pulling them out, putting them in, pulling them out of the borrowing base. We try to be consistent.

I wouldn't characterize that we've thought about selling Lost Hills for years. But it's certainly been something that has not made the cut for us in terms of capital allocation. We didn't see it making the cut for some period of time given the robust nature of other projects we had to work on.

So, it afforded us the opportunity to exclude it from the borrowing base and then with that sale we can use those proceeds strategically to de-lever. We don't have to apply those. Borrowing – sale of borrowing base proceeds would be used to pay down bank debt. We can use these in a different way.

Gregg: Perfect. Well, I've taken more time than I should have. I just want to thank you.

Mark: Sure.

Gregg: And that's fantastic. Thank you, Mark. Let's have a round of applause.

Mark: Sure.

[Applause]

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