Speaker 1: California Resources Corporation.

Speaker 2: We're real pleased to be back here at Howard Weil and talk a little bit about CRC and get through these slides. Really we want to talk about how we're managing through the cycle. Some of the things are very obvious for our current investors and talk a little bit about what we're doing on the balance sheet. But, really I want to start and talk about what CRC is, for the people who are unfamiliar with our business. Most people don't think of California as a world-class oil and gas province, but in fact it is with 5 of the 12 largest fields discovered in North America are in California and these are elephant, billion barrel fields. We have a position in 4 of them, and a dominant position in 2 of them. We ended 2015 with about 644 million barrels of proven reserves.

We're in all major basins in California, starting up north in the Sacramento Basin which is a natural gas, dry gas basin, all the way down to Southern California in the LA Basin, but the preponderance of our assets are in the San Joaquin Basin where it was just centered around Kern County and Bakersfield. Just to give you scale, because most people don't think about this, Kern County is the number one oil-producing County in the lower 48. People don't think about California as a major oil and gas province, but in fact it is a tremendous oil and gas resource, an untapped resource and it really has to do with the legacy of the ownership in California and, being controlled by super majors for years and then ultimately being abandoned serially for some time. Simply, the surface value was worth a lot more than perceived development or they focused on steam floods with the high recovery factors that go along with that or pursued international PSCs by the super majors which left less focus on all the assets they control in California.

The one issue which we'll talk about is the capital structure that was given to us with the spin-off from our prior parent. That's something that is obviously at the forefront of our mind, but we have no near-term maturities. We have a credit amendment that gives us the runway to get through 2016 and we'll talk a little bit more about that. We've ratcheted our capital spending down quite a bit. Most people were stunned when we brought it down from 2014 to 2015 with an 80% reduction. We've taken that capital down another 87% from year-over-year and, and this is really to maintain mechanical integrity, environmental and safety standards and about 20 million of it is actually being spent on a turnaround on our Elk Hills Power Plant, so that is spending that won't recur.

Really, the environment that we're in, the macro environment's telling us, "don't produce more," and we've decided that that's the prudent thing to do because we've been the company that, you know, before it was fashionable we said we were going to live within our means and our cash flow. We mean it and we've brought that to bear at this point in time. We have an enormous inventory, we'll talk about that. Our inventory has even grown during the past year as we've redeployed our people to focus on the base production. We have a very low decline rate, and we'll talk more about that in a second, but it's a lot lower than you heard of and it, simply it has a lot to do with conventional assets.

When you have conventional assets, we have the assets typically seen in most super majors, such that a workover rig does just as much good as a drilling rig at the end of the day. The one thing you don't think about in California is multiple stack basins. But we do in fact have multiple stacked reservoirs. So, in each well bore there's numerous opportunities and again this is, for the people that aren't more familiar, this is like the Permian Basin but imagine tectonics. And, tectonics over time have changed California into these different basins and the numerous drive mechanisms, so if you have a drive mechanism somewhere in the world- California probably has that drive mechanism and has everything from dry gas to heavy oil.

Let's take a look at what we've done since we were spun off- we were spun off the Monday after Thanksgiving. That Friday of Thanksgiving, most people remember, OPEC decided not to do anything with the crude oil production and it caused a very tough ride for all of us, including being spun off on that December 1st. But, immediately we took proactive, decisive decisions and we're really engaged in the business to manage it within cash flow and do the things that value invest for our shareholders. First thing is we went from, in early November, we had 27 rigs. By year-end we had 4 rigs and we took the decisions decisively and quickly to make sure we cut back to what we said we were going to do.

We took our capital budget down to 400 million. This was an 80% cut. We proactively reached out to our banks and created amendments to give us runway through the year. Later in the year when the opportunity presented itself, we did a debt exchange that took away $563 million of principle from our debt balance. But, this is something still on the forefront of our mind, and as we got into 2016 and we had a springing lien that came into play from our bank agreement and we did an RBL; we also got an amendment that got us the runway and the liquidity to make it through 2016 and through the cycle.

And you'll see that we're positioned to do very well in the downturn, and if last year was any indication when you thought about prices running up in the, kind of the false start there in the spring. People understand we have an enormous amount of operating leverage to crude oil. Again, I said it before, we have always been committed to living with cash flow. That also means we're looking for partners on development and exploration to ventures and we're in active discussions with some folks. We've actually executed some small ones on particular assets. It's something we mean to do. I really firmly believe the business of continually outspending your cash flow is not a fundamentally sustainable business for our going concern.

It's something that someone, if they want to fundamentally sell the company at the end might be a business, but we are committed to living within our cash flow and living within our means and I think it resonates well with not only investors but also with our employees. And, as a new management team, some of us have been around a long time. Some of you know Mark from Ultra and the like, but we're establishing our track record as a management team. We do what we say we're going to do and I think you can see with the track record we established so far, we've done it with less capital and we've executed at the high end of our production range and we continue to do these things quarter over quarter.

I talked briefly about this but we do have sufficient liquidity and the runway to make it through 2016 with the current bank amendment in place. This gives us a lot of runway to evaluate all the available opportunities to deleverage the company. Our balance sheet was given to us in a much higher oil price environment- $100 oil price environment. It's something as we look at doing going forward, we're evaluating kind of everything and anything, and it brings me to what we're going to talk about right now. When you look at our balance sheet you can see we have some bank debt, which comprises a term loan and an RBL. And, then we have some second lien notes which were a result of our exchange, and then we have some unsecured notes.

When you think about things at our company, deleveraging is a priority. We'll talk about that, but when I say that anything and everything is truly on the table - it has been on the table, but from our standpoint it had to take a little break until we got to the credit amendment put in place here late February. So, once we got the credit amendment in place, again we're reevaluating our opportunities. What I'll say is, things have changed from the perspective, from maybe 6 to 9 months ago is where we really were focused on asset monetizations and utilization of those proceeds to help delever. I think at this point in time, because of the discount and our debt in the marketplace, I think there's a real focus on what's the best value proposition for our shareholders.

Is it trying to do something to capture that debt discount? Or, is it something more akin to an asset monetization? Or, tomorrow Oxy is going to finally be distributing the last remaining shares they have in us. Is this formally end of the spin-off? Is there some form of equitization that could occur in conjunction with anything else that we've been talking about going forward? As you see in the bottom right-hand corner here, we have no near-term debt maturities. I think that's an important aspect. We have amortization of the term loan of $25 million a quarter but there's no bullet payments or anything like that that we have to deal with really till 2019.

This just gives you an idea, since the peak of the spin-off from Occidental we took into account, not only did they give us the debt, they stripped away all of our receivables. So, when we finally worked those through the systems, we had a maximum amount of debt, including all the working capital and from that point in time we've actually reduced our total debt. In really a tough cycle as you can see, with the product price on the curve there, we brought it down 9% from that point in time, which is sort of mid-year until now. We've done that through really trying to pull all the levers available to us and that's one thing, when you think about CRC, there's not just one thing. We're not a lease with a few wells, we're actually a booming business that has midstream infrastructure, power plants, steam generation, pipelines and the like.

And, that brings us to our deleveraging options. Obviously our RBL is against our oil and gas assets but we have a very large upstream business that is underpinned by 2.3 net million mineral acres in California, and an average of 60% of that is held in fee.

And, some of that’s fee simple. So, we have outstanding economics on a lot of our underlying acreage when we think about it. So, we look at everything here and you think about the upstream side, a lot of it's around what I'll consider a win-win development and exploration joint ventures where other outside parties are interested bringing capital to bear.

I'm confident that we're going to be able to get one large development and probably one large exploration joint venture across the finish line sometime this year. We've already gotten a few very small ones in particular fields and areas done with different parties, but we're really looking to do one of scale at this point in time. On the midstream side again, we've done numerous looks at every available opportunity, from an IPO of our own midstream assets to individual monetizations and different types of assets. We continue to look at this, but we also want to balance that out with what's best ultimately for our shareholders now given all the options available to us on the liability management side, and maybe doing something in conjunction with that in the capital markets.

One of our strong focuses internally is we talk about protecting the base and defending our margins. And, really we have an enormous resource base in California, enormous amount of oil in place. Again, most people don't think about it that way but really as a company we focused on this year getting spun out of Occidental and moving into our own reserve process which is an audit by Ryder Scott, going away from a reserve process audit which was done at Occidental and as you can see, given the turbulent times we're in the cycle. We did an outstanding job actually replacing reserves when you take out the price impacts for the year, again, F&D very low. This is just indicative of how we're focusing the business on value-based investing using our VCI metric.

We'll talk a bit about that later but really the, the business is focused on creating value with the DPI metric. We call it internally VCI, which is called Value Creation Index and that's how we really focus everyone from the operators in the field to the management team on ultimately creating value for the business. Our resource base is fairly resilient. I talked about the decline rates. Our natural decline with no down time, if we invest no capital like we are this year, it's about 10%. It's actually shallowing over time because of the kind of investments we're doing in steamfloods and waterfloods, but if you take into account down time, it could be up to 15%. So, really this year we're going to be in that range, and we've already told you we think it's probably towards the higher end of that range, simply because at this point in time we're not going to bring wells that fail for mechanical or other reasons back on if the economics don't make sense in this current environment.

The one thing you, we'll talk about and we'll hit more on this later, is we have an enormous amount of inventory of conventional prospects and conventional development opportunities, and this could be waterfloods, steamfloods, or typical conventional opportunities. This is something that is very low technical risk. I think we've said it before - every well we've ever drilled in California has encountered hydrocarbons. It doesn't mean its commercial but they've encountered hydrocarbons.

We have these long production lives. We can live and make it through the cycle and that's key as we look through this year.

The other thing we focus on internally is defending our margins. And, that really starts at the top line and what we've done, coming out of Occidental, which was a company that wasn't focused on hedging and does not hedge. We started engaging in a different manner in hedging and that really had to do with, because of the balance sheet we had to hedge. And, we've been opportunistic. When you're at the bottom of the cycle or you're in the cycle, it's very difficult to hedge out over time because what you're paying for when you buy an option is time and volatility and obviously we're trying to layer them in and get maximum effect for ourselves.

But, you can see how we've been able to layer it into our portfolio and you, and for those of you who have seen our latest hedges before this know that we've layered on a few more again we increment and these aren't big, 10,000 a day type hedges. We're incrementing them in and because we're Brent-based, sometimes these hedges take place in other markets around the world as we look going forward. Also, we thought about defending our margins. It's not just the top line through hedging or differentials, it's really focusing on costs. From a G&A standpoint, also from an LOE standpoint, innovating and the kind of cost reductions that could be utilized throughout the cycle.

About 20% of our LOE is tied to energy costs, energy being mainly natural gas. And, natural gas being utilized by us internally for steam generation or for electricity generation or fundamentally electricity, and the electricity we're using in California most of the time is being generated by natural gas. So, that's about 20% of our LOE. But, when you look at the sustainable cost reductions we've had in the LOE, we've brought it down to almost $15.00 BOE. And, then production taxes in California are ad valorem taxes, so they fluctuate and they're lagging a little bit. So, right now those are $2.00 to $3.00 depending on the County and the tax assessor in that County.

And, then our G&A, after you take into account the severance and everything else out it and you adjust it, it's around $4.00 a barrel, which for having over 130 fields and being oil focused and heavy on the surveillance, waterflood and steamflood, I think it's one of the better ones from that standpoint. But, we do have room to grow that and drive it down even further as a business and it's something we continue to focus on going forward. But, what's really important I think is, you think about CRC is, we have an outstanding asset base. We have all the right employees and the management team in place to take advantage of this.

It's really with a capital structure that's challenged and we've talked about how we're trying to deleverage and work on that, but really we're trying to keep the business and the employees focused on preparing for a change in the cycle. Right now, $30, $40.00 Brent WTI, that does not incentivize anyone really to go out and drill new projects or put forward new projects. So, at this point in time, we know it's a matter of time. It's just when, not if, the product prices have to rise to incent new drilling and ultimately handle the demand of the world and the supply goes away. So, this just gives you an idea when you look at our VCI threshold, this is drill-ready prospects and inventory at different prices that have a VCI at 1.3 and 1.0.

And, they continue, this is a living, breathing document that continually gets upgraded as we work the projects and work the people. Because the people now, when you don't have a drilling rig to feed, you're really focusing on protecting the base and building inventory. Our inventory over the last year has actually gone up over 3,500 locations. And, you can see this little breakdown here, between the 4 major Basins. Clearly, San Joaquin has the most basins, prospects and locations, but it's also one of the more prolific basins in the United States. And, this just gives you a little bit of scale, we're personally and as a company, pretty excited about the Ventura Basin.

The Los Angeles Basin, more mature, more difficult to step outside of your existing fields so when you think about long term there it's really optimization and not really looking to establish new fields or the like. But, really pretty excited about the long-term prospects of the San Joaquin, the Ventura, and even the Sacramento Basin which hasn't had many wells drilled below the current horizons that are there from a dry gas perspective. I hinted at this earlier but you want to think about it in the context. The fields we sit on have about 40 billion barrels of oil in place at a 22% recovery factor. So, if we just talk about steamfloods, steamfloods are typically going to have 70% plus or minus recovery factor.

A typical conventional field, 10 to 15%, and maybe double that with waterflood. So you could think about this, and this is how we think about it internally, is you have a value chain here or a work product that works its way from resource to ultimately becoming inventory that's actionable on and that's what we're doing with every field we have and every piece of acreage we have, we're developing life of field plans that we're going to implement on as we go forward with our resource here in California. One thing that people talk about in California, not so much right now but I think in a better environment, it is one of the strictest regulatory environments in the US, if not the world, in doing business.

It's something we take pride in. We provide energy for California by Californians. It's something that, you know, we take seriously. The energy deficit that California has and that's something people don't realize. 63% of the crude in California is actually imported. About 10% of that's from Alaska, and the rest of that's coming from Iraq, Saudi, Ecuador, these kind of places. So that's why you get Brent pricing. So if you step back you say, the marginal barrel coming into the state is a water-borne barrel on Brent. But this just gives you a little bit of flavor about some of the environments we operate in. You notice we didn't put any Bakersfield because Bakersfield is kind of like Oklahoma with mountains.

But if you look at upper left-hand corner, that's Island Grissom, part of the THUMS operation in the Wilmington Field. You can see the proximity to the Harbor there in Long Beach, and our only offshore platform is in Huntington Beach in the bottom right-hand corner. That's about a mile offshore and a view from the space is on the bottom left-hand corner. That's actually the Huntington Beach field. It's a 90-acre strip there on the beach that we operate on that we actually own the surface and it's, as you can see, directly adjacent to a bunch of houses in Huntington Beach which most people call Surf City in California. And you can see we operate in these type of environments and we have a good reputation.

It's something that's very important to us going forward and it's something that you can't take lightly, particularly in California. And, a lot of you have learned, whether you're in Colorado or elsewhere, what happens here typically ends up in other parts of the country. As you really think about CRC, you have to really think about the amount of resource we're sitting on and the opportunity set to really bring technology to bear and really study these fields that were given up a long time ago. Some of these fields have been abandoned by the majors or even smaller companies in the 60s, the 70s, and the 80s at the latest and they really haven't had modern technology, modern logs run on some of these fields.

In some cases, 3D seismic for the very first time. This is truly a world-class resource, with the amount of diverse assets and drive mechanisms you can't imagine anywhere else really, unless you looked at the super majors and were able to zoom in on their assets. The amount of leverage we can pull from an operating standpoint and the operating control we have as operator in California, effectively we operate every field but one. And, we have an extremely high net working interest, net revenue interest, almost 90% across all our fields. This is something that is very critical to success. We're not going to get dragged along by anyone.

I don't think you'll find anyone has better operating leverage. We're committed to living within our cash flows. I've been quizzed many times, "Hey," you know, "When prices go up really, come on. You're kidding right?" No. Really, we will live within cash flows, we'll bring in partners, we'll do the right things, we'll run our business prudently over time. And again, the regulatory environment in California is difficult but it's more about planning and timing as opposed to insurmountable. It's one of those things that you just have to know what you're dealing with and work with. They have to understand what you're doing and be forthright about it. And with that, I thank you and I look forward to any questions in the breakout room. All right. Thanks.