

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2019

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 001-36478

California Resources Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

46-5670947

(I.R.S. Employer
Identification No.)

27200 Tourney Road, Suite 315

Santa Clarita, California

(Address of principal executive offices)

91355

(Zip Code)

(888) 848-4754

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. (See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer
Smaller Reporting Company Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes No

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock	CRC	New York Stock Exchange

Shares of common stock outstanding as of March 31, 2019

48,800,217

California Resources Corporation and Subsidiaries

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

CALIFORNIA RESOURCES CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
As of March 31, 2019 and December 31, 2018
(in millions, except share data)

	<u>March 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
CURRENT ASSETS		
Cash	\$ 43	\$ 17
Trade receivables	296	299
Inventories	71	69
Other current assets, net	167	255
Total current assets	<u>577</u>	<u>640</u>
PROPERTY, PLANT AND EQUIPMENT	22,734	22,523
Accumulated depreciation, depletion and amortization	(16,186)	(16,068)
Total property, plant and equipment, net	<u>6,548</u>	<u>6,455</u>
OTHER ASSETS	105	63
TOTAL ASSETS	<u>\$ 7,230</u>	<u>\$ 7,158</u>
CURRENT LIABILITIES		
Current maturities of long-term debt	100	—
Accounts payable	304	390
Accrued liabilities	285	217
Total current liabilities	<u>689</u>	<u>607</u>
LONG-TERM DEBT	5,169	5,251
DEFERRED GAIN AND ISSUANCE COSTS, NET	203	216
OTHER LONG-TERM LIABILITIES	692	575
MEZZANINE EQUITY		
Redeemable noncontrolling interests	766	756
EQUITY		
Preferred stock (20 million shares authorized at \$0.01 par value) no shares outstanding at March 31, 2019 and December 31, 2018	—	—
Common stock (200 million shares authorized at \$0.01 par value) outstanding shares (March 31, 2019 - 48,800,217 and December 31, 2018 - 48,650,420)	—	—
Additional paid-in capital	4,989	4,987
Accumulated deficit	(5,409)	(5,342)
Accumulated other comprehensive loss	(6)	(6)
Total equity attributable to common stock	<u>(426)</u>	<u>(361)</u>
Equity attributable to noncontrolling interests	137	114
Total equity	<u>(289)</u>	<u>(247)</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 7,230</u>	<u>\$ 7,158</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

CALIFORNIA RESOURCES CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
For the three months ended March 31, 2019 and 2018
(in millions, except share data)

	Three months ended March 31,	
	2019	2018
REVENUES AND OTHER		
Oil and gas sales	\$ 601	\$ 575
Net derivative loss from commodity contracts	(89)	(38)
Other revenue	178	72
Total revenues and other	690	609
COSTS AND OTHER		
Production costs	233	212
General and administrative expenses	83	63
Depreciation, depletion and amortization	118	119
Taxes other than on income	41	38
Exploration expense	10	8
Other expenses, net	148	61
Total costs and other	633	501
OPERATING INCOME	57	108
NON-OPERATING (LOSS) INCOME		
Interest and debt expense, net	(100)	(92)
Net gain on early extinguishment of debt	6	—
Other non-operating expenses	(7)	(7)
(LOSS) INCOME BEFORE INCOME TAXES	(44)	9
Income tax	—	—
NET (LOSS) INCOME	(44)	9
NET (INCOME) LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS		
Mezzanine equity	(28)	(14)
Equity	5	3
Net (income) loss attributable to noncontrolling interests	(23)	(11)
NET LOSS ATTRIBUTABLE TO COMMON STOCK	\$ (67)	\$ (2)
Net loss attributable to common stock per share		
Basic	\$ (1.38)	\$ (0.05)
Diluted	\$ (1.38)	\$ (0.05)

The accompanying notes are an integral part of these condensed consolidated financial statements.

CALIFORNIA RESOURCES CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income
For the three months ended March 31, 2019 and 2018
(in millions)

	Three months ended March 31,	
	2019	2018
Net (loss) income	\$ (44)	\$ 9
Net income attributable to noncontrolling interests	(23)	(11)
Other comprehensive income items:		
Reclassification of realized losses on pension and postretirement benefits to income ^(a)	—	2
Comprehensive loss attributable to common stock	\$ (67)	\$ —

(a) No associated tax for the three months ended March 31, 2019 and 2018. See *Note 10 Pension and Postretirement Benefit Plans* for additional information.

The accompanying notes are an integral part of these condensed consolidated financial statements.

CALIFORNIA RESOURCES CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
For the three months ended March 31, 2019 and 2018
(in millions)

	Three months ended March 31,	
	2019	2018
CASH FLOW FROM OPERATING ACTIVITIES		
Net (loss) income	\$ (44)	\$ 9
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation, depletion and amortization	118	119
Net derivative loss from commodity contracts	89	38
Net proceeds (payments) on settled commodity derivatives	14	(31)
Net gain on early extinguishment of debt	(6)	—
Amortization of deferred gain	(18)	(19)
Dry hole expenses	3	2
Other non-cash charges to income, net	26	14
Changes in operating assets and liabilities, net	(24)	68
Net cash provided by operating activities	158	200
CASH FLOW FROM INVESTING ACTIVITIES		
Capital investments	(131)	(139)
Changes in capital investment accruals	(47)	5
Acquisitions	(2)	(3)
Other	(2)	(1)
Net cash used in investing activities	(182)	(138)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from 2014 Revolving Credit Facility	615	81
Repayments of 2014 Revolving Credit Facility	(579)	(444)
Debt repurchases	(14)	(2)
Contributions from noncontrolling interest holders, net	49	747
Distributions paid to noncontrolling interest holders	(20)	(18)
Issuance of common stock	—	50
Shares canceled for taxes	(1)	(2)
Net cash provided by financing activities	50	412
Increase in cash	26	474
Cash—beginning of period	17	20
Cash—end of period	\$ 43	\$ 494

The accompanying notes are an integral part of these condensed consolidated financial statements.

CALIFORNIA RESOURCES CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Equity
For the three months ended March 31, 2019 and 2018
(in millions)

	Additional Paid-in Capital	Accumulated (Deficit) Earnings	Accumulated Other Comprehensive (Loss) Income	Equity Attributable to Common Stock	Equity Attributable to Noncontrolling Interests	Total Equity
Balance, December 31, 2018	\$ 4,987	\$ (5,342)	\$ (6)	\$ (361)	\$ 114	\$ (247)
Net loss	—	(67)	—	(67)	(5)	(72)
Contribution from noncontrolling interest holders, net	—	—	—	—	49	49
Distributions to noncontrolling interest holders	—	—	—	—	(21)	(21)
Issuance of common stock	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	—	—
Share-based compensation, net	2	—	—	2	—	2
Balance, March 31, 2019	<u>\$ 4,989</u>	<u>\$ (5,409)</u>	<u>\$ (6)</u>	<u>\$ (426)</u>	<u>\$ 137</u>	<u>\$ (289)</u>
Balance, December 31, 2017	\$ 4,879	\$ (5,670)	\$ (23)	\$ (814)	\$ 94	\$ (720)
Net loss	—	(2)	—	(2)	(3)	(5)
Contribution from noncontrolling interest holders, net	—	—	—	—	33	33
Distributions to noncontrolling interest holders	—	—	—	—	(15)	(15)
Issuance of common stock	50	—	—	50	—	50
Other comprehensive income	—	—	2	2	—	2
Share-based compensation, net	1	—	—	1	—	1
Balance, March 31, 2018	<u>\$ 4,930</u>	<u>\$ (5,672)</u>	<u>\$ (21)</u>	<u>\$ (763)</u>	<u>\$ 109</u>	<u>\$ (654)</u>

Note: The above table excludes amounts related to redeemable noncontrolling interests recorded in mezzanine equity. See *Note 6 Joint Ventures* for more information.

The accompanying notes are an integral part of these condensed consolidated financial statements.

CALIFORNIA RESOURCES CORPORATION AND SUBSIDIARIES
Notes to the Condensed Consolidated Financial Statements
March 31, 2019

NOTE 1 THE SPIN-OFF AND BASIS OF PRESENTATION

The Separation and Spin-off

We are an independent oil and natural gas exploration and production company operating properties exclusively within California. We were incorporated in Delaware as a wholly owned subsidiary of Occidental Petroleum Corporation (Occidental) on April 23, 2014, and we became an independent, publicly traded company on December 1, 2014.

Except when the context otherwise requires or where otherwise indicated, all references to “CRC,” the “Company,” “we,” “us” and “our” refer to California Resources Corporation and its subsidiaries.

Basis of Presentation

In the opinion of our management, the accompanying financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to fairly present our financial position as of March 31, 2019 and December 31, 2018 and the statements of operations, comprehensive income, cash flows and equity for the three months ended March 31, 2019 and 2018, as applicable. We have eliminated all significant intercompany transactions and accounts. We account for our share of oil and gas exploration and development ventures, in which we have a direct working interest, by reporting our proportionate share of assets, liabilities, revenues, costs and cash flows within the relevant lines on our condensed consolidated balance sheets, statements of operations, equity and cash flows.

We have prepared this report pursuant to the rules and regulations of the United States (U.S.) Securities and Exchange Commission (SEC) applicable to interim financial information, which permit the omission of certain disclosures to the extent they have not changed materially since the latest annual financial statements. We believe our disclosures are adequate to make the information not misleading. This Form 10-Q should be read in conjunction with the consolidated financial statements and the notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2018.

NOTE 2 ACCOUNTING AND DISCLOSURE CHANGES

Recently Adopted Accounting and Disclosure Changes

We adopted the Financial Accounting Standards Board's new lease accounting rules (ASC 842), as of January 1, 2019, using the modified retrospective approach where the new lease standard is not applied to prior comparative periods, which continue to be presented under accounting standards in effect for those prior periods. Under the modified retrospective approach, we recognized right-of-use assets and lease liabilities of approximately \$66 million as of the adoption date. The adoption of the new lease accounting rules did not materially impact our consolidated net earnings and had no impact on cash flows or beginning retained earnings. The new lease standard does not affect our liquidity and has no impact on our debt-covenant calculations under our 2014 Revolving Credit Facility, 2016 Credit Agreement and 2017 Credit Agreement. See *Note 12 Leases* for more information.

NOTE 3 OTHER INFORMATION

Cash at March 31, 2019 and December 31, 2018 included approximately \$26 million and \$2 million, respectively, that is restricted for capital investments and distributions to a joint venture (JV) partner.

Other current assets, net as of March 31, 2019 and December 31, 2018 consisted of the following:

	March 31, 2019	December 31, 2018
	(in millions)	
Derivative assets	\$ 79	\$ 168
Amounts due from joint interest partners	68	68
Prepaid expenses	20	16
Other	—	3
Other current assets, net	<u>\$ 167</u>	<u>\$ 255</u>

Accrued liabilities as of March 31, 2019 and December 31, 2018 consisted of the following:

	March 31, 2019	December 31, 2018
	(in millions)	
Accrued employee-related costs	\$ 69	\$ 109
Accrued interest	56	15
Accrued taxes other than on income	51	38
Asset retirement obligation	32	31
Operating lease liability	27	—
Accrued distribution to JV partner	19	—
Other	31	24
Accrued liabilities	<u>\$ 285</u>	<u>\$ 217</u>

Other long-term liabilities included asset retirement obligations (ARO) of \$490 million and \$402 million at March 31, 2019 and December 31, 2018, respectively. As of March 31, 2019, the timing of our cash flows and additional testing costs associated with our future retirement activities were adjusted as a result of the enactment of new regulations, which resulted in an \$87 million increase in the aggregate amount of our ARO. The Office of Administrative Law approved the Division of Oil, Gas, and Geothermal Resources' idle well management regulations on March 20, 2019, with an effective date of April 1, 2019.

Fair Value of Financial Instruments

The carrying amounts of cash and other on-balance sheet financial instruments, other than debt, approximate fair value.

Supplemental Cash Flow Information

We did not make U.S. federal and state income tax payments during the three months ended March 31, 2019 and 2018. Interest paid, net of capitalized amounts, totaled approximately \$69 million and \$60 million for the three months ended March 31, 2019 and 2018, respectively.

NOTE 4 INVENTORIES

Inventories as of March 31, 2019 and December 31, 2018 consisted of the following:

	March 31, 2019	December 31, 2018
	(in millions)	
Materials and supplies	\$ 68	\$ 65
Finished goods	3	4
Total	<u>\$ 71</u>	<u>\$ 69</u>

NOTE 5 DEBT

As of March 31, 2019 and December 31, 2018, our long-term debt consisted of the following credit agreements, second lien notes and senior notes:

	Outstanding Principal (in millions)		Interest Rate	Maturity	Security
	March 31, 2019	December 31, 2018			
Credit Agreements					
2014 Revolving Credit Facility	\$ 576	\$ 540	LIBOR plus 3.25%-4.00% ABR plus 2.25%-3.00%	June 30, 2021	Shared First-Priority Lien
2017 Credit Agreement	1,300	1,300	LIBOR plus 4.75% ABR plus 3.75%	December 31, 2022 ^(a)	Shared First-Priority Lien
2016 Credit Agreement	1,000	1,000	LIBOR plus 10.375% ABR plus 9.375%	December 31, 2021	First-Priority Lien
Second Lien Notes					
Second Lien Notes	2,049	2,067	8%	December 15, 2022 ^(b)	Second-Priority Lien
Senior Notes					
5% Senior Notes due 2020	100	100	5%	January 15, 2020	Unsecured
5½% Senior Notes due 2021	100	100	5.5%	September 15, 2021	Unsecured
6% Senior Notes due 2024	144	144	6%	November 15, 2024	Unsecured
Total Debt	5,269	5,251			
Less: Current Maturities	(100)	—			
Long-Term Debt	\$ 5,169	\$ 5,251			

Note: For a detailed description of our credit agreements, second lien notes and senior notes, please see our most recent Form 10-K for the year ended December 31, 2018.

(a) The 2017 Credit Agreement is subject to a springing maturity of 91 days prior to the maturity of our 2016 Credit Agreement if more than \$100 million in principal of the 2016 Credit Agreement is outstanding at that time.

(b) The Second Lien Notes require principal repayments of approximately \$324 million in June 2021, \$65 million in December 2021, \$67 million in June 2022 and \$1,593 million in December 2022.

Deferred Gain and Issuance Costs

As of March 31, 2019, net deferred gain and issuance costs were \$203 million, consisting of \$293 million of a deferred gain offset by \$90 million of deferred issuance costs and original issue discounts. The December 31, 2018 net deferred gain and issuance costs were \$216 million, consisting of \$313 million of a deferred gain offset by \$97 million of deferred issuance costs and original issue discounts.

2014 Revolving Credit Facility

As of March 31, 2019, we had approximately \$256 million of available borrowing under our \$1 billion revolving credit facility (2014 Revolving Credit Facility), before a \$150 million month-end minimum liquidity requirement. Effective May 1, 2019, the borrowing base under this facility was reaffirmed at \$2.3 billion. Our 2014 Revolving Credit Facility also includes a sub-limit of \$400 million for the issuance of letters of credit. As of March 31, 2019 and December 31, 2018, we had letters of credit outstanding of approximately \$168 million and \$162 million, respectively. These letters of credit were issued to support ordinary course marketing, insurance, regulatory and other matters.

Note Repurchases

In the first quarter of 2019, we repurchased \$18 million in principal amount of our 8% senior secured second lien notes due December 15, 2022 (Second Lien Notes) for \$14 million in cash resulting in a pre-tax gain of \$6 million, including the effect of unamortized deferred gain and issuance costs.

Fair Value

We estimate the fair value of fixed-rate debt, which is classified as Level 1, based on prices from known market transactions for our instruments. The estimated fair value of our debt at March 31, 2019 and December 31, 2018, including the fair value of the variable-rate portion, was approximately \$4.8 billion and \$4.5 billion, respectively, compared to a carrying value of approximately \$5.3 billion in both periods.

Other

At March 31, 2019, we were in compliance with all financial and other debt covenants.

All obligations under our 2014 Revolving Credit Facility, 2017 Credit Agreement and 2016 Credit Agreement (collectively, Credit Facilities) as well as our Second Lien Notes and Senior Notes are guaranteed both fully and unconditionally and jointly and severally by all of our material wholly owned subsidiaries.

NOTE 6 JOINT VENTURES

Noncontrolling Interests

The following table presents the changes in noncontrolling interests by JV partners (described in greater detail below), reported in equity and mezzanine equity on the condensed consolidated balance sheets, for the three months ended March 31, 2019 and 2018:

	Equity Attributable to Noncontrolling Interest			Mezzanine Equity - Redeemable Noncontrolling Interests
	Ares JV	BSP JV	Total	Ares JV
	(in millions)			
Balance, December 31, 2018	\$ 15	\$ 99	\$ 114	\$ 756
Net (loss) income attributable to noncontrolling interests	(3)	(2)	(5)	28
Contributions from noncontrolling interest holders, net	—	49	49	—
Distributions accrual	—	(19)	(19)	—
Distributions to noncontrolling interest holders	(2)	—	(2)	(18)
Balance, March 31, 2019	<u>\$ 10</u>	<u>\$ 127</u>	<u>\$ 137</u>	<u>\$ 766</u>
Balance, December 31, 2017	\$ —	\$ 94	\$ 94	\$ —
Net income (loss) attributable to noncontrolling interests	1	(4)	(3)	14
Contributions from noncontrolling interest holders, net	33	—	33	714
Distributions to noncontrolling interest holders	(1)	(14)	(15)	(4)
Balance, March 31, 2018	<u>\$ 33</u>	<u>\$ 76</u>	<u>\$ 109</u>	<u>\$ 724</u>

Ares Management L.P. (Ares)

Our condensed consolidated statements of operations reflect the full operations of our midstream JV with ECR Corporate Holdings L.P. (ECR), a portfolio company of Ares Management L.P. (Ares), with ECR's share of net income (loss) reported in net income attributable to noncontrolling interests. ECR's redeemable noncontrolling interests are reported in mezzanine equity due to an embedded optional redemption feature.

Benefit Street Partners (BSP)

Our consolidated results reflect the full operations of our development JV with Benefit Street Partners (BSP), with BSP's preferred interest reported in equity on our condensed consolidated balance sheets and BSP's share of net income (loss) being reported in net income attributable to noncontrolling interests on our condensed consolidated statements of operations. BSP contributed \$49 million in the first quarter of 2019, net of transaction costs.

NOTE 7 LAWSUITS, CLAIMS, COMMITMENTS AND CONTINGENCIES

We, or certain of our subsidiaries, are involved, in the normal course of business, in lawsuits, environmental and other claims and other contingencies that seek, among other things, compensation for alleged personal injury, breach of contract, property damage or other losses, punitive damages, civil penalties, or injunctive or declaratory relief.

We accrue reserves for currently outstanding lawsuits, claims and proceedings when it is probable that a liability has been incurred and the liability can be reasonably estimated. Reserve balances at March 31, 2019 and December 31, 2018 were not material to our balance sheets as of such dates. We also evaluate the amount of reasonably possible losses that we could incur as a result of these matters. We believe that reasonably possible losses that we could incur in excess of reserves accrued would not be material to our consolidated financial position or results of operations.

We remain subject to examination by the IRS for calendar years 2016 and 2017. We remain subject to examination by the state of California for the years ended December 31, 2014 through 2017.

NOTE 8 DERIVATIVES

General

We use a variety of derivative instruments to protect our cash flow, operating margin and capital program from the cyclical nature of commodity prices and interest-rate movements. These derivatives are intended to help us maintain adequate liquidity and improve our ability to comply with the covenants of our Credit Facilities in case of price deterioration.

Commodity Price Risk

We did not have any commodity derivatives designated as hedges as of and during the three months ended March 31, 2019 and 2018. As part of our hedging program, we held the following Brent-based crude oil contracts as of March 31, 2019 :

	Q2 2019	Q3 2019	Q4 2019	Q1 2020
Sold Calls:				
Barrels per day	5,000	—	—	—
Weighted-average price per barrel	\$ 68.45	\$ —	\$ —	\$ —
Purchased Puts:				
Barrels per day	40,000	40,000	35,000	10,000
Weighted-average price per barrel	\$ 69.75	\$ 73.13	\$ 75.71	\$ 75.00
Sold Puts:				
Barrels per day	35,000	40,000	35,000	10,000
Weighted-average price per barrel	\$ 55.71	\$ 57.50	\$ 60.00	\$ 60.00

The BSP JV entered into crude oil derivatives for insignificant volumes through 2021 that are included in our consolidated results but not in the above table. The BSP JV also entered into natural gas swaps for insignificant volumes for periods through May 2021. The hedges entered into by the BSP JV could affect the timing of the redemption of the JV interest.

Interest-Rate Risk

In May 2018, we entered into derivative contracts that limit our interest rate exposure with respect to \$1.3 billion of our variable-rate indebtedness. These interest-rate contracts reset monthly and require the counterparties to pay any excess interest owed on such amount in the event the one-month LIBOR exceeds 2.75% for any monthly period prior to May 4, 2021.

Fair Value of Derivatives

Our derivative contracts are measured at fair value using industry-standard models with various inputs, including quoted forward prices, and are classified as Level 2 in the required fair value hierarchy for the periods presented. We recognize fair value changes on derivative instruments in each reporting period. The changes in fair value result from the relationship between contract prices or interest rates and the associated forward curves.

Commodity Contracts

The following table presents the fair values (at gross and net) of our outstanding commodity derivatives as of March 31, 2019 and December 31, 2018 (in millions):

March 31, 2019			
Balance Sheet Classification	Gross Amounts Recognized at Fair Value	Gross Amounts Offset in the Balance Sheet	Net Fair Value Presented in the Balance Sheet
Assets:			
Other current assets	\$ 99	\$ (20)	\$ 79
Other assets	2	—	2
Liabilities:			
Accrued liabilities	(24)	20	(4)
Other long-term liabilities	(1)	—	(1)
Total derivatives	\$ 76	\$ —	\$ 76

December 31, 2018			
Balance Sheet Classification	Gross Amounts Recognized at Fair Value	Gross Amounts Offset in the Balance Sheet	Net Fair Value Presented in the Balance Sheet
Assets:			
Other current assets	\$ 252	\$ (84)	\$ 168
Other assets	23	(9)	14
Liabilities:			
Accrued liabilities	(87)	84	(3)
Other long-term liabilities	(10)	9	(1)
Total derivatives	\$ 178	\$ —	\$ 178

Interest-Rate Contracts

As of March 31, 2019 and December 31, 2018, we reported the fair value of our interest rate derivatives of \$1 million and \$4 million, respectively, in other assets on our condensed consolidated balance sheets. For the three months ended March 31, 2019, we reported a \$3 million non-cash derivative loss on these contracts in other non-operating expenses on our condensed consolidated statements of operations.

NOTE 9 EARNINGS PER SHARE

We compute basic and diluted earnings per share (EPS) using the two-class method required for participating securities. Certain of our restricted and performance stock awards are considered participating securities because they have non-forfeitable dividend rights at the same rate as our common stock.

Under the two-class method, undistributed earnings allocated to participating securities are subtracted from net income attributable to common stock in determining net income available to common stockholders. In loss periods, no allocation is made to participating securities because participating securities do not share in losses. For basic EPS, the weighted-average number of common shares outstanding excludes outstanding shares related to unvested restricted stock awards. For diluted EPS, the basic shares outstanding are adjusted by adding all potentially dilutive securities.

The following table presents the calculation of basic and diluted EPS for the three months ended March 31, 2019 and 2018 :

	Three months ended March 31,	
	2019	2018
	(in millions, except per-share amounts)	
Net (loss) income	\$ (44)	\$ 9
Net income attributable to noncontrolling interests	(23)	(11)
Net income (loss) attributable to common stock	(67)	(2)
Less: net income allocated to participating securities	—	—
Net loss available to common stockholders	\$ (67)	\$ (2)
Weighted-average common shares outstanding - basic	48.7	44.2
Basic EPS	\$ (1.38)	\$ (0.05)
Net (loss) income	\$ (44)	\$ 9
Net income attributable to noncontrolling interests	(23)	(11)
Net loss attributable to common stock	(67)	(2)
Less: net income allocated to participating securities	—	—
Net loss available to common stockholders	\$ (67)	\$ (2)
Weighted-average common shares outstanding - basic	48.7	44.2
Dilutive effect of potentially dilutive securities	—	—
Weighted-average common shares outstanding - diluted	48.7	44.2
Diluted EPS	\$ (1.38)	\$ (0.05)
Weighted-average anti-dilutive shares ^(a)	2.5	2.5

(a) Anti-dilutive shares represent potential common shares that are excluded from the computation of diluted EPS.

NOTE 10 PENSION AND POSTRETIREMENT BENEFIT PLANS

The following table sets forth the components of the net periodic benefit costs for our defined benefit pension and postretirement benefit plans:

	Three months ended March 31,			
	2019		2018	
	Pension Benefit	Postretirement Benefit	Pension Benefit	Postretirement Benefit
	(in millions)			
Service cost	\$ —	\$ 1	\$ —	\$ 1
Interest cost	1	1	1	1
Expected return on plan assets	(1)	—	(1)	—
Recognized actuarial loss	1	—	—	—
Settlement loss	—	—	2	—
Total	\$ 1	\$ 2	\$ 2	\$ 2

We did not contribute to our defined benefit pension plan in the three months ended March 31, 2019 and contributed \$1 million in the three months ended March 31, 2018. We expect to satisfy minimum funding requirements with contributions of \$3 million to our defined benefit pension plans during the remainder of 2019. The 2018 settlement loss, which was reclassified from accumulated other comprehensive income, was associated with early retirements.

NOTE 11 REVENUE RECOGNITION

We derive substantially all of our revenue from sales of oil, natural gas and natural gas liquids (NGLs), with the remaining revenue generated from sales of electricity and marketing activities related to storage and managing excess pipeline capacity.

The following is a description of our principal activities from which we generate revenue. Revenues are recognized when control of promised goods is transferred to our customers, in an amount that reflects the consideration we expect to receive in exchange for those goods.

Commodity Sales Contracts

We recognize revenue from the sale of our oil, natural gas and NGL production when delivery has occurred and control passes to the customer. Our commodity contracts are short term, typically less than a year. We consider our performance obligations to be satisfied upon transfer of control of the commodity. Transportation and processing fees incurred by us prior to control being transferred to customers are recorded as a component of other expenses, net on our condensed consolidated statements of operations.

Our commodity sales contracts are indexed to a market price or an average index price. We recognize revenue in the amount that we have a right to invoice once we are able to adequately estimate the consideration (i.e., when market prices are known). Our contracts with customers typically require payment within 30 days following invoicing.

Electricity

The electrical output of the Elk Hills power plant that is not used in our operations is sold to the wholesale power market and to a utility under a power purchase and sales agreement, which includes a capacity payment. Revenue is recognized when obligations under the terms of contracts with our customers are satisfied; generally, this occurs upon delivery of the electricity. We report electricity sales as other revenue on our condensed consolidated statements of operations. Revenue is measured as the amount of consideration we expect to receive based on average index pricing with payment due the month following delivery. Capacity payments are based on a fixed annual amount per kilowatt hour and monthly rates vary based on seasonality. Capacity payments are settled monthly. We consider our performance obligations to be satisfied upon delivery of electricity or as the contracted amount of energy is made available to the customer in the case of capacity payments.

Marketing, Trading and Other

Marketing, trading and other revenue primarily includes our activities associated with storing, transporting and marketing our production as well as third-party volumes.

To transport our natural gas as well as third-party volumes, we have entered into firm pipeline commitments. Depending on market conditions, we may have excess capacity, in which case we may enter into natural gas purchase and sale agreements with third parties. We consider our performance obligations to be satisfied upon transfer of control of the commodity. We have not incurred any significant fees or penalties related to excess capacity on these commitments.

We report our marketing and trading activities on a gross basis with purchases and costs reported in other expenses, net and sales recorded in other revenue on our condensed consolidated statements of operations.

Disaggregation of Revenue

The following table provides disaggregated revenue for the three months ended March 31, 2019 and 2018:

	Three months ended March 31,	
	2019	2018
	(in millions)	
Oil and gas sales:		
Oil	\$ 480	\$ 466
NGLs	59	63
Natural gas	62	46
	<u>601</u>	<u>575</u>
Other revenue:		
Electricity	34	24
Marketing, trading and other	144	47
Interest income	—	1
	<u>178</u>	<u>72</u>
Net derivative loss from commodity contracts	(89)	(38)
Total revenues and other	<u>\$ 690</u>	<u>\$ 609</u>

NOTE 12 LEASES

On January 1, 2019, we adopted ASC 842 using the modified retrospective approach that requires us to determine our lease balances as of the date of adoption. Prior periods continue to be reported under accounting standards in effect for those periods. We also elected to carry forward our current accounting treatment for land easements on existing agreements. Mineral leases, including oil and natural gas leases, are not included in the scope of ASC 842.

We have long-term operating leases for commercial office space, drilling rigs, fleet vehicles and certain facilities. In considering whether a contract contains a lease, we first considered whether there was an identifiable asset and then considered how and for what purpose the asset would be used over the contract term.

Our lease liability was determined by measuring the present value of the remaining fixed minimum lease payments as of the date of adoption discounted using our incremental borrowing rate (IBR). In determining our IBR, we considered the average cost of borrowing for publicly traded corporate bond yields, which were adjusted to reflect our credit rating, remaining lease term and frequency of payments.

We elected to combine lease and non-lease components in determining fixed minimum lease payments for our drilling rigs and commercial office space. If applicable, fixed minimum lease payments were reduced by lease incentives for our commercial buildings and increased by mobilization and demobilization fees related to our drilling rigs. Certain of our lease agreements include options to renew, which we exercise at our sole discretion, and we did not include these options in determining our fixed minimum lease payments. Our lease liability does not include options to extend or terminate our leases. Our leases do not include options to purchase the leased property. Lease agreements for our fleet vehicles include residual value guarantees, none of which are recognized in our financial statements until the underlying contingency is resolved.

For all of our asset classes, we elected to keep leases with an initial term of 12 months or less off the balance sheet and have included costs related to these contracts in our short-term lease cost disclosure below. Contracts with terms of one month or less are excluded from our disclosure of short-term lease costs.

For our long-term contracts, variable lease costs were not included in the measurement of our lease balances. Variable lease costs for our drilling rigs included costs to operate, move and repair the rigs. Variable lease costs for certain of our commercial office buildings included utilities and common area maintenance charges. Variable lease costs for our fleet vehicles included other-than-routine maintenance and other various amounts in excess of our fixed minimum rental fee.

Our operating lease costs, including amounts capitalized to property, plant and equipment, for the three months ended March 31, 2019 were as follows:

	Three months ended March 31, 2019	
	(in millions)	
Operating lease cost	\$	12
Short-term lease cost		20
Variable lease cost		5
Total lease cost	\$	<u>37</u>

We sublease certain commercial office space to third parties where we are the primary obligor under the head lease. The lease terms on those subleases never extend past the term of the head lease and the sublease contains no extension options or residual value guarantees. Sublease income is recognized based on the contract terms and included as a reduction of operating lease cost under our head lease. For the quarter ended March 31, 2019, sublease income was not material to our condensed consolidated financial statements.

For the quarter ended March 31, 2019, we paid \$9 million and \$3 million for our operating lease liabilities, which were reported in net cash used in investing activities and net cash provided by operating activities in our condensed consolidated statement of cash flows, respectively.

Our right-of-use assets for operating leases, net of accumulated amortization, were approximately \$54 million at March 31, 2019, which is reported in other assets on our consolidated balance sheet. Supplemental balance sheet information related to our operating leases was as follows:

	March 31, 2019	
	(in millions)	
Operating lease right-of-use assets, net	\$	54
Current liabilities	\$	27
Long-term liabilities		27
Total operating lease liabilities	\$	<u>54</u>
Weighted-average remaining lease term (in years)		2.9
Weighted-average discount rate		11.5%

As part of our company-wide consolidation of office space, we will be vacating certain office space in 2019, some of which we may sublease. Should we enter into a sublease agreement, we will evaluate the carrying value of our right-of-use asset, along with the carrying value of related tenant improvements, for impairment based on future identifiable cash flows. For the period ended March 31, 2019, we recognized an impairment of \$3 million. We do not expect to terminate leases for vacated office space before the expiration of the lease term. Where we have decided to not sublease vacated commercial office space, we will shorten the useful life of the right-of-use assets and related tenant improvements to recover our remaining costs over our expected period of use. Once the leased office space is abandoned, lease costs will be classified as other non-operating expenses, net on our condensed consolidated statements of operations.

Maturities of our operating lease liabilities at March 31, 2019 are as follows:

	March 31, 2019	
	(in millions)	
2019	\$	27
2020		18
2021		7
2022		4
2023		2
Thereafter		6
Less: Interest		(10)
Present value of lease liabilities	\$	<u>54</u>

We have entered into contracts for commercial office space and facilities that are under construction as of March 31, 2019. These leases are not included in our lease population at March 31, 2019 as the lease terms have not commenced because we do not control the assets during construction. We will apply the new lease standard when the asset is placed in service by us, which is expected to be in January and June 2020. Payments for these contracts were included in the table of our future minimum lease payments as of December 31, 2018, which is shown below.

At December 31, 2018, future minimum lease payments for noncancelable operating leases under ASC 840 (excluding oil and natural gas and other mineral leases, utilities, taxes, insurance and common area maintenance expenses) were:

	December 31, 2018	
	(in millions)	
2019	\$	12
2020		8
2021		7
2022		7
2023		6
Thereafter		28
Total	\$	<u>68</u>

Rental expense for operating leases under ASC 840 was \$2.8 million for the three months ended March 31, 2018. Rental income from subleases for the three months ended March 31, 2018 was not significant.

NOTE 13 INCOME TAXES

For the three months ended March 31, 2019 and 2018, we did not provide any current or deferred tax provision or benefit. The difference between our statutory tax rate and our effective tax rate of zero for the periods presented includes changes to maintain our full valuation allowance against our net deferred tax assets given our recent and anticipated future earnings trends. We believe that there is a reasonable possibility that some or all of this allowance could be released in the foreseeable future. However, the amount of the net deferred tax assets considered realizable depends on the level of profitability that we are able to actually achieve.

NOTE 14 ASSET DIVESTITURE

On May 1, 2019, we sold 50% of our working interest and transferred operatorship in certain zones of our Lost Hills field, located in the San Joaquin basin, for total consideration in excess of \$200 million, consisting of approximately \$168 million in cash and a carried 200-well development program to be drilled through 2023 with an estimated minimum value of \$35 million. The proceeds were used to pay down our 2014 Revolving Credit Facility.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

We are an independent oil and natural gas exploration and production company operating properties exclusively within California. We are incorporated in Delaware and became a publicly traded company on December 1, 2014. Except when the context otherwise requires or where otherwise indicated, all references to "CRC," the "company," "we," "us" and "our" refer to California Resources Corporation and its subsidiaries.

Business Environment and Industry Outlook

Our operating results and those of the oil and gas industry as a whole are heavily influenced by commodity prices. Oil and gas prices and differentials may fluctuate significantly as a result of numerous market-related variables. These and other factors make it impossible to predict realized prices reliably.

Global oil prices gradually increased in the first quarter of 2019 from the decline that began late in the fourth quarter of 2018. However, the average Brent crude oil price in the first quarter of 2019 did not return to its previous 2018 highs and was lower compared to the same period of 2018. Prices for natural gas liquids (NGLs) decreased between comparative periods. On average, domestic natural gas prices were higher in the first quarter of 2019 than the comparable period of 2018 largely due to higher winter demand in 2019.

The following table presents the average daily Brent, WTI and NYMEX prices for the three months ended March 31, 2019 and 2018 :

	Three months ended March 31,	
	2019	2018
Brent oil (\$/Bbl)	\$ 63.90	\$ 67.18
WTI oil (\$/Bbl)	\$ 54.90	\$ 62.87
NYMEX gas (\$/MMBtu)	\$ 3.24	\$ 2.87

Note: Bbl refers to a barrel; MMBTU refers to one million British Thermal Units.

We currently sell all of our crude oil into the California refining market, which offers relatively favorable pricing compared to other U.S. regions for similar grades. California is heavily reliant on imported sources of energy, with approximately 73% of the oil consumed in 2018 imported from outside the state. A vast majority of the imported oil arrives via supertanker, mostly from foreign locations. As a result, California refiners have typically purchased crude oil at international waterborne-based prices. We believe that the limited crude transportation infrastructure from other parts of the U.S. into California will continue to contribute to higher realizations than most other U.S. oil markets for comparable grades.

Price realizations for NGLs improved as a percentage of Brent due to higher valued local sales in California. NGL price realizations are related to the supply and demand for the products making up these liquids. Some of them more typically correlate to the price of oil while others are affected by natural gas prices as well as the demand for certain chemical products for which they are used as feedstock. In addition, infrastructure constraints and seasonality can magnify pricing volatility.

Natural gas prices and differentials are strongly affected by local market fundamentals, such as storage capacity and the availability of transportation capacity from producing areas. Transportation capacity influences prices because California imports approximately 90% of its natural gas from other states and Canada. As a result, we typically enjoy favorable pricing relative to out-of-state producers due to lower transportation costs on the delivery of our gas. Changes in natural gas prices have a smaller impact on our operating results than changes in oil prices as only approximately 25% of our total equivalent production is made up of natural gas.

In addition to selling natural gas, we also use natural gas for our steamfloods and power generation. As a result, the positive impact of higher natural gas prices is partially offset by higher operating costs of our steamflood projects and power generation, but higher prices still have a net positive effect on our operating results due to higher revenue. Conversely, lower natural gas prices lower the operating costs but, generally, have a net negative effect on our results.

Our earnings are also affected by the performance of our complementary processing and power-generation assets. We process our wet gas to extract NGLs and other natural gas byproducts. We then deliver dry gas to pipelines and separately sell the NGLs. The efficiency with which we extract liquids from the wet gas stream affects our operating results. Additionally, we use part of the electricity from the Elk Hills power plant to reduce operating costs at our Elk Hills and certain nearby fields and to increase reliability. The remaining electricity is sold to the wholesale power market and a utility under a power purchase and sales agreement expiring in December 2020, which includes a capacity payment. The price obtained for excess power impacts our earnings but generally by an insignificant amount.

We opportunistically seek strategic hedging transactions to help protect our cash flow, operating margin and capital program from both the cyclical nature of commodity prices and interest rate movements while maintaining adequate liquidity and improving our ability to comply with our debt covenants in case of price deterioration. We built our 2019 and 2020 commodity hedge positions to protect our downside risk without significantly limiting our upside potential. We can give no assurances that our hedges will be adequate to accomplish our objectives. Unless otherwise indicated, we use the term "hedge" to describe derivative instruments that are designed to achieve our hedging program goals, even though they are not accounted for as cash-flow or fair-value hedges.

We respond to economic conditions by adjusting the amount and allocation of our capital program while continuing to identify efficiencies and cost savings. Volatility in oil prices may materially affect the quantities of oil and gas reserves we can economically produce over the longer term.

Operations

We conduct our operations on properties that we hold through fee interests, mineral leases and other contractual arrangements. We are the largest private oil and natural gas mineral acreage holder in California, with interests in approximately 2.2 million net mineral acres, approximately 60% of which is held in fee and over 15% is held by production. Our oil and gas leases have primary terms ranging from one to ten years. Once production commences, the leases are extended through the end of their producing life. We also own or control a network of integrated infrastructure that complements our operations including gas plants, oil and gas gathering systems, power plants and other related assets. Our strategically located infrastructure helps us maximize the value generated from our production.

Our share of production and reserves from operations in the Wilmington field is subject to contractual arrangements similar to production-sharing contracts (PSCs) that are in effect through the economic life of the assets. Under such contracts we are obligated to fund all capital and production costs. We record a share of production and reserves to recover a portion of such capital and production costs and an additional share for profit. Our portion of the production represents volumes: (i) to recover our partners' share of capital and production costs that we incur on their behalf, (ii) for our share of contractually defined base production and (iii) for our share of remaining production thereafter. We recover our share of capital and production costs, and generate returns through our defined share of production from (ii) and (iii) above. These contracts do not transfer any right of ownership to us and reserves reported from these arrangements are based on our economic interest as defined in the contracts. Our share of production and reserves from these contracts decreases when product prices rise and increases when prices decline, assuming comparable capital investment and production costs. However, our net economic benefit is greater when product prices are higher. These contracts represented approximately 15% of our production for the quarter ended March 31, 2019 .

In line with industry practice for reporting PSC-type contracts, we report 100% of operating costs under such contracts in our condensed consolidated statements of operations as opposed to reporting only our share of those costs. We report the proceeds from production designed to recover our partners' share of such costs (cost recovery) in our revenues. Our reported production volumes reflect only our share of the total volumes produced, including cost recovery, which is less than the total volumes produced under the PSC-type contracts. This difference in reporting full operating costs but only our net share of production equally inflates our revenue and operating costs and has no effect on our net results.

With our significant land holdings in California, we have undertaken new initiatives to unlock additional value from our real estate. Our real estate development initiatives include exploring renewable energy opportunities on our land such as solar energy projects, agricultural activities (such as the production of fruits and nuts) and other commercial real estate uses. We are also exploring carbon dioxide capture and storage projects and reclaimed water opportunities.

Seasonality

While certain aspects of our operations are affected by seasonal factors, such as energy costs, seasonality has not been a material driver of changes in our quarterly results during the year.

Joint Ventures

We have a number of joint ventures (JVs) that allow us to accelerate the development of our assets while providing us with operational and financial flexibility as well as near-term production benefits.

In our JV with Benefit Street Partners (BSP), BSP has a total commitment of \$250 million, of which an aggregate of \$200 million has been funded with \$50 million funded in the first quarter of 2019.

In our JV with Macquarie Infrastructure and Real Assets Inc. (MIRA), MIRA has a total commitment of \$140 million, of which an aggregate of \$122 million has been funded with \$7 million funded in the first quarter of 2019. We expect the remaining balance of MIRA's commitment to be invested in 2019.

Asset Divestiture

On May 1, 2019, we sold 50% of our working interest and transferred operatorship in certain zones of our Lost Hills field, located in the San Joaquin basin, for total consideration in excess of \$200 million, consisting of approximately \$168 million in cash and a carried 200-well development program to be drilled through 2023 with an estimated minimum value of \$35 million. The proceeds were used to pay down our 2014 Revolving Credit Facility.

Fixed and Variable Costs

Our production costs include variable costs that fluctuate with production levels, and fixed costs that typically do not vary with changes in production levels or well counts, especially in the short term. The substantial majority of our near-term fixed costs become variable over the longer term because we manage them based on the field's stage of life and operating characteristics. For example, portions of labor and material costs, energy, workovers and maintenance expenditures correlate to well count, production and activity levels. Portions of these same costs can be relatively fixed over the near term; however, they are managed down as fields mature in a manner that correlates to production and commodity price levels. A certain amount of costs for facilities, surface support, surveillance and related maintenance can be regarded as fixed in the early phases of a program. However, as the production from a certain area matures, well count increases and daily per well production drops, such support costs can be reduced and consolidated over a larger number of wells, reducing costs per operating well. Further, many of our other costs, such as property taxes and oilfield services, are variable and will respond to activity levels and tend to correlate with commodity prices. Overall, we believe approximately one-third of our operating costs are fixed over the life cycle of our fields. We actively manage our fields to optimize production and minimize costs. When we see growth in a field, we increase capacities and, similarly, when a field nears the end of its economic life, we manage the costs while it remains economically viable to produce.

Production and Prices

The following table sets forth our average production volumes of oil, NGLs and natural gas per day for the three months ended March 31, 2019 and 2018 :

	Three months ended March 31,	
	2019	2018
Oil (MBbl/d)		
San Joaquin Basin	55	49
Los Angeles Basin	25	24
Ventura Basin	4	4
Total	84	77
NGLs (MBbl/d)		
San Joaquin Basin	14	15
Ventura Basin	1	1
Total	15	16
Natural gas (MMcf/d)		
San Joaquin Basin	165	143
Los Angeles Basin	2	1
Ventura Basin	7	7
Sacramento Basin	28	31
Total	202	182
Total Production (MBoe/d)	133	123

Note: MBbl/d refers to thousands of barrels per day; MMcf/d refers to millions of cubic feet per day; MBoe/d refers to thousands of barrels of oil equivalent (Boe) per day. Natural gas volumes have been converted to Boe based on the equivalence of energy content of six thousand cubic feet of natural gas to one barrel of oil. Barrels of oil equivalence does not necessarily result in price equivalence.

The following table sets forth the average realized prices and price realizations as a percentage of average Brent, WTI and NYMEX for our products for the three months ended March 31, 2019 and 2018 :

	Three months ended March 31,			
	2019		2018	
	Price	Realization	Price	Realization
Oil (\$ per Bbl)				
Brent	\$ 63.90		\$ 67.18	
Realized price, without hedge	\$ 63.30	99%	\$ 67.26	100%
Settled hedges	1.98		(4.49)	
Realized price, with hedge	\$ 65.28	102%	\$ 62.77	93%
WTI				
WTI	\$ 54.90		\$ 62.87	
Realized price, without hedge	\$ 63.30	115%	\$ 67.26	107%
Realized price, with hedge	\$ 65.28	119%	\$ 62.77	100%
NGLs (\$ per Bbl)				
Realized price (% of Brent)	\$ 42.52	67%	\$ 43.13	64%
Realized price (% of WTI)	\$ 42.52	77%	\$ 43.13	69%
Natural gas				
NYMEX (\$/MMBTU)	\$ 3.24		\$ 2.87	
Realized price, w/out hedge (\$/Mcf)	\$ 3.43	106%	\$ 2.81	98%
Settled hedges	(0.05)		—	
Realized price, with hedge (\$/Mcf)	\$ 3.38	104%	\$ 2.81	98%

Balance Sheet Analysis

The changes in our balance sheet from December 31, 2018 to March 31, 2019 are discussed below:

	March 31, 2019	December 31, 2018
	(in millions)	
Cash	\$ 43	\$ 17
Trade receivables	\$ 296	\$ 299
Inventories	\$ 71	\$ 69
Other current assets, net	\$ 167	\$ 255
Property, plant and equipment, net	\$ 6,548	\$ 6,455
Other assets	\$ 105	\$ 63
Current maturities of long-term debt	\$ 100	\$ —
Accounts payable	\$ 304	\$ 390
Accrued liabilities	\$ 285	\$ 217
Long-term debt	\$ 5,169	\$ 5,251
Deferred gain and issuance costs, net	\$ 203	\$ 216
Other long-term liabilities	\$ 692	\$ 575
Mezzanine equity	\$ 766	\$ 756
Equity attributable to common stock	\$ (426)	\$ (361)
Equity attributable to noncontrolling interests	\$ 137	\$ 114

Cash at March 31, 2019 and December 31, 2018 included approximately \$26 million and \$2 million, respectively, which is restricted for capital investments and distributions to BSP. See *Liquidity and Capital Resources* for our cash flow analysis.

The decrease in other current assets, net was primarily due to changes in the current portion of our derivative assets.

The increase in property, plant and equipment, net primarily reflected capital investments for the period and changes to our asset retirement obligations (ARO) resulting from idle well regulations enacted in the first quarter of 2019, partially offset by depreciation, depletion and amortization.

Other assets increased primarily due to recording a right-of-use asset for operating leases as a result of adopting new accounting rules on January 1, 2019 which impacts the current period but not the prior period. This increase was partially offset by fair value changes in our long-term derivative assets.

Current maturities of long-term debt reflected \$100 million for our 5% senior notes due in 2020.

The reduction in accounts payable for the quarter ended March 31, 2019 reflected the decrease in activity between periods.

Accrued liabilities reflected higher accrued interest and property tax balances due to the timing of payments, accrued distribution to our JV partner BSP and the current portion of our operating lease liability resulting from the adoption of new lease accounting rules. These increases were partially offset by lower accrued employee-related costs, which primarily reflected employee bonus payments in the first quarter of 2019.

Other long-term liabilities reflected the increases in ARO due to the new idle well regulations and long-term operating lease liabilities due to the adoption of new lease accounting rules. The annual incremental cash expenditures for ARO resulting from the new idle well regulations are not expected to be material.

Equity attributable to common stock decreased primarily as a result of the net loss for the period.

The increase in equity attributable to noncontrolling interests reflected contributions made by the BSP JV, partially offset by distributions payable to and net loss allocated to the Ares and BSP JVs during the period. See *Item 1 – Financial Statements – Note 6 Joint Ventures* for more information.

Statements of Operations Analysis

Results of Oil and Gas Operations

The following represents key operating data for our oil and gas operations, excluding certain corporate items, on a per Boe basis:

	Three months ended March 31,	
	2019	2018
Production costs	\$ 19.46	\$ 19.08
Production costs, excluding effects of PSC-type contracts ^(a)	\$ 18.01	\$ 17.47
Field general and administrative expenses ^(b)	\$ 1.25	\$ 0.72
Field depreciation, depletion and amortization ^(b)	\$ 9.27	\$ 9.90
Field taxes other than on income ^(b)	\$ 2.67	\$ 2.70

(a) As described in the *Operations* section, the reporting of our PSC-type contracts creates a difference between reported production costs, which are for the full field, and reported volumes, which are only our net share, inflating the per barrel production costs. These amounts represent our production costs after adjusting for this difference.

(b) Excludes corporate expenses.

Consolidated Results of Operations

The following represents key operating data for consolidated operations for the three months ended March 31, 2019 and 2018 :

	Three months ended March 31,	
	2019	2018
	(in millions)	
Oil and gas sales	\$ 601	\$ 575
Net derivative loss	(89)	(38)
Other revenue	178	72
Production costs	(233)	(212)
General and administrative expenses	(83)	(63)
Depreciation, depletion and amortization	(118)	(119)
Taxes other than on income	(41)	(38)
Exploration expense	(10)	(8)
Other expenses, net	(148)	(61)
Interest and debt expense, net	(100)	(92)
Net gain on early extinguishment of debt	6	—
Other non-operating expenses	(7)	(7)
(Loss) income before income taxes	(44)	9
Income tax	—	—
Net (loss) income	(44)	9
Net income attributable to noncontrolling interests	(23)	(11)
Net loss attributable to common stock	\$ (67)	\$ (2)
Adjusted net income	\$ 31	\$ 8
Adjusted EBITDAX	\$ 301	\$ 250
Effective tax rate	—%	—%

Three months ended March 31, 2019 vs. 2018

Oil and gas sales increased 5% , or \$26 million , for the three months ended March 31, 2019 compared to the same period of 2018 due to increases of approximately \$41 million and \$6 million from higher oil and natural gas production, respectively, and a \$10 million increase in realized natural gas prices. These increases were partially offset by \$28 million primarily from lower realized oil prices and \$3 million from decreased NGL production.

Our total daily production volumes averaged 133 MBoe in the three months ended March 31, 2019 , compared with 123 MBoe in the comparable period of 2018 , representing a year-over-year increase of 8% . Our first quarter 2019 volumes included volumes from the acquisition of the remaining working, surface and mineral interests in the Elk Hills unit from Chevron U.S.A., Inc. (the Elk Hills transaction), which closed in the second quarter of 2018.

Net derivative loss was \$89 million for the three months ended March 31, 2019 , compared to \$38 million in the same period of 2018 , representing an overall change of \$51 million . In the first quarter of 2019, we had a non-cash derivative loss of \$103 million which was partially offset by proceeds from settlements of \$14 million. In the first quarter of 2018, we recognized a non-cash derivative loss of \$7 million related to the fair value of our derivative contracts and settlement payments of \$31 million. See the table in the Derivative Gains and Losses section below.

The increase in other revenue of \$106 million to \$178 million for the three months ended March 31, 2019 , compared to \$72 million in the same period of 2018 , was largely the result of higher trading activity.

Production costs for the three months ended March 31, 2019 increased \$21 million to \$233 million , compared to \$212 million for the same period of 2018 , resulting in a 10% increase. The increase is attributable to the Elk Hills transaction, cash-settled stock-based compensation, energy costs and other items.

Our G&A expenses increased \$20 million to \$83 million for the three months ended March 31, 2019 compared to the same period of 2018 . Our cash-settled stock-based compensation expense increased approximately \$7 million primarily due to the increase in our stock price in the first quarter of 2019 as noted in the stock-based compensation table below. Additionally, our G&A expenses increased following the Elk Hills transaction by approximately \$3 million since certain costs are no longer collected from our former working interest partner.

The increase in other expenses of \$87 million to \$148 million for the three months ended March 31, 2019 , compared to \$61 million for the same period of 2018 , was largely the result of higher trading activity.

Net income attributable to noncontrolling interests increased by \$12 million for the three months ended March 31, 2019 , compared to the same period of 2018 , largely the result of entering into the Ares JV in February 2018.

Stock-Based Compensation

Our consolidated results of operations for the three months ended March 31, 2019 and 2018 include the effects of long-term stock-based compensation plans under which awards are granted annually to executives, non-executive employees and non-employee directors that are either settled with shares of our common stock or cash. Our equity-settled awards granted to executives include stock options, restricted stock and performance stock units that either cliff vest at the end of a three-year period or vest ratably over a three-year period, some of which are partially settled in cash. Our equity-settled awards granted to non-employee directors are restricted stock units that cliff vest after one year. Our cash-settled awards granted to non-executive employees vest ratably over a three-year period.

Changes in our stock price introduce volatility in our results of operations because we pay partially or fully cash-settled awards based on our stock price as of the vesting date and accounting rules require that we adjust our obligation for unvested awards to the amount that would be paid using our stock price as of the end of each reporting period. Cash-settled awards, including executive awards partially settled in cash, account for approximately 50% of our total outstanding awards. Our stock price increased \$8.67 or 51% from \$17.04 as of December 31, 2018 to \$25.71 as of March 31, 2019. The increase in our stock price resulted in higher cash-settled stock-based compensation expense. Equity-settled awards are not similarly adjusted for changes in our stock price.

Stock-based compensation is included in both G&A expenses and production costs as shown in the table below:

	Three months ended March 31,	
	2019	2018
	(in millions, except per Boe amounts)	
General and administrative expenses		
Cash-settled awards	\$ 10	\$ 3
Equity-settled awards	3	3
Total stock-based compensation in G&A	\$ 13	\$ 6
Total stock-based compensation in G&A per Boe	\$ 1.09	\$ 0.54
Production costs		
Cash-settled awards	\$ 3	\$ 1
Equity-settled awards	1	1
Total stock-based compensation in production costs	\$ 4	\$ 2
Total stock-based compensation in production costs per Boe	\$ 0.33	\$ 0.18
Total company stock-based compensation	\$ 17	\$ 8
Total company stock-based compensation per Boe	\$ 1.42	\$ 0.72

Derivative Gains and Losses

The following table presents the components of our net derivative loss from commodity contracts and our non-cash derivative loss from interest-rate contracts. Our non-cash derivative loss from interest-rate contracts is reported in other non-operating expenses.

	Three months ended March 31,	
	2019	2018
	(in millions)	
Commodity Contracts:		
Non-cash derivative loss, excluding noncontrolling interest	\$ (97)	\$ (7)
Non-cash derivative loss - noncontrolling interest	(6)	—
Net proceeds (payments) on settled commodity derivatives	14	(31)
Net derivative loss from commodity contracts	\$ (89)	\$ (38)
Interest-Rate Contracts:		
Non-cash derivative loss	\$ (3)	\$ —

Non-GAAP Financial Measures

Our results of operations can include the effects of unusual, out-of-period and infrequent transactions and events affecting earnings that vary widely and unpredictably (in particular certain non-cash items such as derivative gains and losses) in nature, timing, amount and frequency. Therefore, management uses a measure called adjusted net income (loss) that excludes those items. This measure is not meant to disassociate these items from management's performance but rather is meant to provide useful information to investors interested in comparing our performance between periods. Reported earnings are considered representative of management's performance over the long term. Adjusted net income (loss) is not considered to be an alternative to net income (loss) reported in accordance with U.S. generally accepted accounting principles (GAAP).

The following table presents a reconciliation of the GAAP financial measure of net (loss) income to the non-GAAP financial measure of adjusted net income and presents the GAAP financial measure of net loss attributable to common stock per diluted share and the non-GAAP financial measure of adjusted net income per diluted share:

	Three months ended March 31,	
	2019	2018
	(in millions, except share data)	
Net (loss) income	\$ (44)	\$ 9
Net income attributable to noncontrolling interests	(23)	(11)
Net loss attributable to common stock	(67)	(2)
Unusual, infrequent and other items:		
Non-cash derivative loss from commodities, excluding noncontrolling interest	97	7
Non-cash derivative loss from interest-rate contracts	3	—
Early retirement costs	—	2
Net gain on early extinguishment of debt	(6)	—
Other, net	4	1
Total unusual, infrequent and other items	98	10
Adjusted net income	<u>\$ 31</u>	<u>\$ 8</u>
Net loss attributable to common stock per diluted share	\$ (1.38)	\$ (0.05)
Adjusted net income per diluted share	\$ 0.63	\$ 0.18

We define adjusted EBITDAX as earnings before interest expense; income taxes; depreciation, depletion and amortization; exploration expense; other unusual, out-of-period and infrequent items; and other non-cash items. We believe this measure provides useful information in assessing our financial condition, results of operations and cash flows and is widely used by the industry, the investment community and our lenders. Although this is a non-GAAP measure, the amounts included in the calculation were computed in accordance with GAAP. Certain items excluded from this non-GAAP measure are significant components in understanding and assessing our financial performance, such as our cost of capital and tax structure, as well as the historic cost of depreciable and depletable assets. This measure should be read in conjunction with the information contained in our financial statements prepared in accordance with GAAP. A version of adjusted EBITDAX is a material component of certain of our financial covenants under our 2014 Revolving Credit Facility and is provided in addition to, and not as an alternative for, income and liquidity measures calculated in accordance with GAAP.

The following table presents a reconciliation of the GAAP financial measure of net (loss) income to the non-GAAP financial measure of adjusted EBITDAX:

	Three months ended March 31,	
	2019	2018
	(in millions)	
Net (loss) income	\$ (44)	\$ 9
Interest and debt expense, net	100	92
Depreciation, depletion and amortization	118	119
Exploration expense	10	8
Unusual, infrequent and other items	98	10
Other non-cash items	19	12
Adjusted EBITDAX	<u>\$ 301</u>	<u>\$ 250</u>

The following table sets forth a reconciliation of the GAAP measure of net cash provided by operating activities to the non-GAAP financial measure of adjusted EBITDAX:

	Three months ended March 31,	
	2019	2018
	(in millions)	
Net cash provided by operating activities	\$ 158	\$ 200
Cash interest	72	61
Exploration expenditures	4	6
Working capital changes	67	(18)
Other, net	—	1
Adjusted EBITDAX	<u>\$ 301</u>	<u>\$ 250</u>

Liquidity and Capital Resources

Cash Flow Analysis

	Three months ended March 31,	
	2019	2018
	(in millions)	
Net cash provided by operating activities	\$ 158	\$ 200
Net cash used in investing activities:		
Capital investments, including accruals	\$ (178)	\$ (134)
Acquisitions, divestitures and other	\$ (4)	\$ (4)
Net cash provided by financing activities	\$ 50	\$ 412

Our net cash provided by operating activities is sensitive to many variables, including changes in commodity prices. Commodity price sensitivity also leads to changes in other variables in our business including adjustments to our capital program. Our operating cash flow decreased 21% , or \$42 million , to \$158 million for the three months ended March 31, 2019 from \$200 million in the same period of 2018 . Changes to working capital in the first quarter of 2019 reduced our operating cash flow by \$24 million compared to an increase of \$68 million in the first quarter of 2018. Before the effect of working capital changes, operating cash flow was higher in the first quarter of 2019, primarily resulting from higher volumes partially offset by lower realized oil prices.

Our net cash used in investing activities of \$182 million for the three months ended March 31, 2019 primarily reflected \$178 million of capital investments (including \$47 million in capital-related accrual changes), of which \$27 million was funded by BSP. For the three months ended March 31, 2018 , our net cash used in investing activities of \$138 million primarily included approximately \$134 million of capital investments (including \$5 million in capital-related accruals).

Our net cash provided by financing activities of \$50 million for the three months ended March 31, 2019 primarily comprised \$49 million in net contributions from BSP and net proceeds from our 2014 Revolving Credit Facility of \$36 million , partially offset by \$20 million of distributions to our Ares JV partner and \$14 million of debt repurchases on our Second Lien Notes. For the three months ended March 31, 2018 , our net cash provided by financing activities of \$412 million primarily comprised \$747 million in net contributions from our Ares JV partner and \$50 million from the issuance of common stock, partially offset by \$363 million of net payments on our 2014 Revolving Credit Facility, \$18 million of distributions paid to our JV partners and \$2 million of debt repurchases on our Second Lien Notes.

Liquidity

Our primary sources of liquidity and capital resources are cash flow from operations and available borrowing capacity under our 2014 Revolving Credit Facility. We also rely on other sources such as JVs to supplement our capital program, fund acquisitions and for other corporate purposes. We expect that the combination of these sources of funds will be adequate for our 2019 capital program, debt service and operating needs.

As of March 31, 2019, our long-term debt consisted of the following credit agreements, second lien notes and senior notes:

	Outstanding Principal (in millions)	Interest Rate	Maturity	Security
Credit Agreements				
2014 Revolving Credit Facility	\$ 576	LIBOR plus 3.25%-4.00% ABR plus 2.25%-3.00%	June 30, 2021	Shared First-Priority Lien
2017 Credit Agreement	1,300	LIBOR plus 4.75% ABR plus 3.75%	December 31, 2022 ^(a)	Shared First-Priority Lien
2016 Credit Agreement	1,000	LIBOR plus 10.375% ABR plus 9.375%	December 31, 2021	First-Priority Lien
Second Lien Notes				
Second Lien Notes	2,049	8%	December 15, 2022 ^(b)	Second-Priority Lien
Senior Notes				
5% Senior Notes due 2020	100	5%	January 15, 2020	Unsecured
5½% Senior Notes due 2021	100	5.5%	September 15, 2021	Unsecured
6% Senior Notes due 2024	144	6%	November 15, 2024	Unsecured
Total	5,269			
Less: Current Maturities	(100)			
Long-Term Debt	<u>\$ 5,169</u>			

Note: For a detailed description of our credit agreements, second lien notes and senior notes, please see our most recent Form 10-K for the year ended December 31, 2018.

- (a) The 2017 Credit Agreement is subject to a springing maturity of 91 days prior to the maturity of our 2016 Credit Agreement if more than \$100 million in principal of the 2016 Credit Agreement is outstanding at that time.
- (b) The Second Lien Notes require principal repayments of approximately \$324 million in June 2021, \$65 million in December 2021, \$67 million in June 2022 and \$1,593 million in December 2022.

2014 Revolving Credit Facility

As of March 31, 2019, we had approximately \$256 million of available borrowing capacity, before a \$150 million month-end minimum liquidity requirement. Effective May 1, 2019, the borrowing base under this facility was reaffirmed at \$2.3 billion. Our \$1 billion senior revolving loan facility (2014 Revolving Credit Facility) also includes a sub-limit of \$400 million for the issuance of letters of credit. As of March 31, 2019 and December 31, 2018, we had letters of credit outstanding of approximately \$168 million and \$162 million, respectively. These letters of credit were issued to support ordinary course marketing, insurance, regulatory and other matters.

Note Repurchases

In the first quarter of 2019, we repurchased \$18 million in principal amount of our 8% senior secured second lien notes due December 15, 2022 (Second Lien Notes) for \$14 million in cash resulting in a pre-tax gain of \$6 million, including the effect of unamortized deferred gain and issuance costs.

Other

At March 31, 2019, we were in compliance with all financial and other debt covenants.

All obligations under our 2014 Revolving Credit Facility, 2017 Credit Agreement and 2016 Credit Agreement (collectively, Credit Facilities) as well as our Second Lien Notes and Senior Notes are guaranteed both fully and unconditionally and jointly and severally by all of our material wholly owned subsidiaries.

A one-eighth percent change in the variable interest rates on the borrowings under our Credit Facilities on March 31, 2019 would result in a \$4 million change in annual interest expense before the impact of hedges.

Derivatives

Significant changes in oil and natural gas prices have a material impact on our liquidity. Declining commodity prices negatively affect our operating cash flow, and the inverse applies during periods of rising commodity prices. To mitigate some of the risk inherent in the downward movement in oil prices, we have utilized various derivative instruments to hedge price risk.

Commodity Contracts

Our strategy for protecting our cash flow, operating margin and capital program, while maintaining adequate liquidity, includes our hedging program. We currently have the following Brent-based crude oil contracts, as of May 2, 2019:

	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
Sold Calls:					
Barrels per day	5,000	—	—	—	—
Weighted-average price per barrel	\$ 68.45	\$ —	\$ —	\$ —	\$ —
Purchased Puts:					
Barrels per day	40,000	40,000	35,000	20,000	10,000
Weighted-average price per barrel	\$ 69.75	\$ 73.13	\$ 75.71	\$ 72.50	\$ 70.00
Sold Puts:					
Barrels per day	35,000	40,000	35,000	20,000	10,000
Weighted-average price per barrel	\$ 55.71	\$ 57.50	\$ 60.00	\$ 57.50	\$ 55.00
Swaps:					
Barrels per day	—	—	—	5,000 ^(a)	5,000 ^(b)
Weighted-average price per barrel	\$ —	\$ —	\$ —	\$ 70.29	\$ 70.05

(a) A counterparty has the option to increase swap volumes by up to 5,000 barrels per day at a weighted-average Brent price of \$70.29 for the first quarter of 2020.

(b) A counterparty has the option to increase swap volumes by up to 5,000 barrels per day at a weighted-average Brent price of \$70.05 for the second quarter of 2020.

The BSP JV entered into crude oil derivatives for insignificant volumes through 2021 that are included in our consolidated results but not in the above table. The BSP JV also entered into natural gas swaps for insignificant volumes for periods through May 2021. The hedges entered into by the BSP JV could affect the timing of the redemption of the JV interest.

Interest-Rate Contracts

In May 2018, we entered into derivative contracts that limit our interest rate exposure with respect to \$1.3 billion of our variable-rate indebtedness. The interest rate contracts reset monthly and require the counterparties to pay any excess interest owed on such amount in the event the one-month LIBOR exceeds 2.75% for any monthly period prior to May 4, 2021.

2019 Capital Program

We entered 2019 with an internally funded capital program of \$300 to \$385 million, which may be adjusted during the course of the year depending on commodity prices. We obtained an additional \$50 million from our BSP JV partner in the first quarter of 2019 and continue discussions to obtain additional investments from new and existing JV partners that could support a 2019 capital program, including JV funding, of approximately \$500 million.

We are focusing our 2019 capital on oil projects. Our capital program will be largely directed to short payout projects, such as primary drilling and capital workovers, and low-risk projects including waterflood and steamflood investments that maintain base production. We will continue to focus on our core fields: Elk Hills and surrounding areas, Wilmington, Kern Front and the delineation and appraisal of other long-term prospects.

We plan to use 60% of our capital program on drilling and development of conventional and unconventional resources. The depth of our conventional wells is expected to range from 2,000 to 15,000 feet. Our conventional program includes approximately 140 wells primarily in Wilmington, Huntington Beach, Kern Front and Mount Poso, which will largely consist of waterfloods and steamfloods along with some primary drilling. We also intend to drill approximately 10 unconventional wells mainly in the Buena Vista area. With continued focus on cost savings and efficiencies, many of our deep conventional and unconventional wells have become more competitive.

We also plan to use approximately 15% of our 2019 capital program for capital workovers on existing well bores. Capital workovers are some of the highest Value Creation Index projects in our portfolio and generally include well deepening, recompletions, changes of lift methods and other activities designed to add incremental productive intervals and reserves.

Further, approximately 15% of our 2019 capital program is intended for facilities development for our newer projects, including pipeline and gathering line interconnections, gas compression and water management systems, and for mechanical integrity, safety and environmental projects. About 10% is intended to be used for exploration and other corporate uses.

Streamlining our business and reducing costs, together with higher realized prices, have enabled us to invest in our assets and grow our production. We will continue to build our inventory of available projects, which will position us to accelerate value by utilizing third-party capital and take advantage of potential future commodity price increases.

Lawsuits, Claims, Commitments and Contingencies

We are involved, in the normal course of business, in lawsuits, environmental and other claims and other contingencies that seek, among other things, compensation for alleged personal injury, breach of contract, property damage or other losses, punitive damages, civil penalties, or injunctive or declaratory relief.

We accrue reserves for currently outstanding lawsuits, claims and proceedings when it is probable that a liability has been incurred and the liability can be reasonably estimated. Reserve balances at March 31, 2019 and December 31, 2018 were not material to our condensed consolidated balance sheets as of such dates. We also evaluate the amount of reasonably possible losses that we could incur as a result of these matters. We believe that reasonably possible losses that we could incur in excess of reserves accrued would not be material to our consolidated financial position or results of operations.

We remain subject to examination by the IRS for calendar years 2016 and 2017. We remain subject to examination by the state of California for the years ended December 31, 2014 through 2017.

Significant Accounting and Disclosure Changes

See *Note 2 Accounting and Disclosure Changes* in the Notes to the Condensed Consolidated Financial Statements included in Part I of this Form 10-Q for a discussion of new accounting matters.

Forward-Looking Statements

The information included herein contains forward-looking statements that involve risks and uncertainties that could materially affect our expected results of operations, liquidity, cash flows and business prospects. Such statements include those regarding our expectations as to our future:

- financial position, liquidity, cash flows and results of operations
- business prospects
- transactions and projects
- operating costs
- Value Creation Index (VCI) metrics, which are based on certain estimates including future production rates, costs and commodity prices
- operations and operational results including production, hedging and capital investment
- budgets and maintenance capital requirements
- reserves
- type curves
- expected synergies from acquisitions and joint ventures

Actual results may differ from anticipated results, sometimes materially, and reported results should not be considered an indication of future performance. While we believe assumptions or bases underlying our expectations are reasonable and make them in good faith, they almost always vary from actual results, sometimes materially. We also believe third-party statements we cite are accurate but have not independently verified them and do not warrant their accuracy or completeness. Factors (but not necessarily all the factors) that could cause results to differ include:

- commodity price changes
- debt limitations on our financial flexibility
- insufficient cash flow to fund planned investments, debt repurchases, distributions to JV partners or changes to our capital plan
- inability to enter desirable transactions including acquisitions, asset sales and joint ventures
- legislative or regulatory changes, including those related to drilling, completion, well stimulation, operation, maintenance or abandonment of wells or facilities, managing energy, water, land, greenhouse gases or other emissions, protection of health, safety and the environment, or transportation, marketing and sale of our products
- joint ventures and acquisitions and our ability to achieve expected synergies
- the recoverability of resources and unexpected geologic conditions
- incorrect estimates of reserves and related future cash flows and the inability to replace reserves
- changes in business strategy
- PSC effects on production and unit production costs
- effect of stock price on costs associated with incentive compensation
- insufficient capital, including as a result of lender restrictions, unavailability of capital markets or inability to attract potential investors
- effects of hedging transactions
- equipment, service or labor price inflation or unavailability
- availability or timing of, or conditions imposed on, permits and approvals
- lower-than-expected production, reserves or resources from development projects, joint ventures or acquisitions, or higher-than-expected decline rates
- disruptions due to accidents, mechanical failures, transportation or storage constraints, natural disasters, labor difficulties, cyber attacks or other catastrophic events
- factors discussed in *Item 1A – Risk Factors* of our Form 10-K for the year ended December 31, 2018.

Words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "goal," "intend," "likely," "may," "might," "plan," "potential," "project," "seek," "should," "target," "will" or "would" and similar words that reflect the prospective nature of events or outcomes typically identify forward-looking statements. Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to correct or update any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by applicable law.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For the three months ended March 31, 2019, there were no material changes to commodity price risk, interest rate risk or counterparty credit risk from the information provided under Item 305 of Regulation S-K included under the caption *Management's Discussion and Analysis of Financial Condition and Results of Operations (Incorporating Item 7A) – Quantitative and Qualitative Disclosures About Market Risk* in the 2018 Form 10-K, except as discussed below.

Commodity Price Risk

As a result of our hedge positions for 2019 production, we protected our downside price risk on approximately 40,000 barrels of oil per day at approximately \$70 Brent per barrel for the second quarter of 2019. For the third and fourth quarters of 2019, we protected our downside price risk on approximately 40,000 and 35,000 barrels of oil per day at approximately \$73 Brent and \$76 Brent per barrel, respectively. The underlying instruments in our 2019 hedge program are puts and put spreads that provide full upside to oil price movements. For the first and second quarters of 2020, we protected our downside risk on approximately 25,000 and 15,000 barrels per day at approximately \$72 Brent and \$70 Brent per barrel, respectively. Our 2019 and 2020 put spreads provide downside price protection until Brent prices range between \$55 and \$60 per barrel, at which point we receive Brent plus approximately \$15 per barrel.

See additional hedging information in *Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources*.

Item 4. Controls and Procedures

Our President and Chief Executive Officer and our Senior Executive Vice President and Chief Financial Officer supervised and participated in our evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, our President and Chief Executive Officer and our Senior Executive Vice President and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2019.

During the first quarter of 2019, we implemented new internal controls to support the adoption of the new accounting standard for leases, ASC 842. There were no changes in our internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

For information regarding legal proceedings, see *Note 7 Lawsuits, Claims and Contingencies* in the Notes to the Condensed Consolidated Financial Statements included in Part I of this Form 10-Q and Part I, Item 3, Legal Proceedings in the Form 10-K for the year ended December 31, 2018 .

Item 1.A. Risk Factors

We are subject to various risks and uncertainties in the course of our business. A discussion of such risks and uncertainties may be found under the heading *Risk Factors* in our Form 10-K for the year ended December 31, 2018 .

Item 5. Other Disclosures

None.

Item 6. Exhibits

- 3.1 [Amended and Restated Certificate of Incorporation of California Resources Corporation \(filed as Exhibit 3.1 to Registrant's Current Report on Form 8-K filed June 3, 2016 and incorporated herein by reference\).](#)
- 3.2 [Amended and Restated Bylaws of California Resources Corporation \(filed as Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed November 10, 2015 and incorporated herein by reference\).](#)
- 10.1* [Form of 2019 Nonstatutory Stock Option Award Terms and Conditions.](#)
- 10.2* [Form of 2019 Restricted Stock Unit Award Terms and Conditions.](#)
- 10.3* [Form of 2019 Performance Stock Unit Award Terms and Conditions.](#)
- 31.1* [Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 31.2* [Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32.1* [Certifications of CEO and CFO Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101.INS* XBRL Instance Document.
- 101.SCH* XBRL Taxonomy Extension Schema Document.
- 101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.LAB* XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document.
- 101.DEF* XBRL Taxonomy Extension Definition Linkbase Document.

* - Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CALIFORNIA RESOURCES CORPORATION

DATE: May 2, 2019

/s/ Roy M. Pineci

Roy M. Pineci

Executive Vice President - Finance

(Principal Accounting Officer)

**CALIFORNIA RESOURCES CORPORATION
LONG-TERM INCENTIVE PLAN**

**NONSTATUTORY STOCK OPTION AWARD
TERMS AND CONDITIONS**

Grantee:	<<Grantee Name>>
Date of Grant:	February 19, 2019
Shares of Common Stock Subject to This Option:	<< Options Granted >>
Vesting Schedule:	One-third of the Options on February 18, 2020; One-third of the Options on February 18, 2021; One-third of the Options on February 18, 2022 (each being a “ Vesting Date ”)
Purchase Price Per Share:	\$23.88

The following Terms and Conditions (these “ **Terms and Conditions** ”) are set forth as of the Date of Grant between CALIFORNIA RESOURCES CORPORATION, a Delaware corporation (“ **CRC** ” and, with its subsidiaries, the “ **Company** ”), and the eligible employee receiving this award (the “ **Grantee** ”).

1. Grant of Option. In accordance with these Terms and Conditions and the California Resources Corporation Long-Term Incentive Plan, as the same may be amended from time to time (the “ **Plan** ”), CRC hereby grants to the Grantee the right and option (“ **Option** ”) to purchase all or any part of the aggregate number of shares of CRC common stock, \$0.01 par value (“ **Common Stock** ”), set forth above. In the event of any conflict between the terms of these Terms and Conditions and the Plan, the Plan shall control. Capitalized terms used but not defined in these Terms and Conditions shall have the meanings attributed to such terms under the Plan, unless the context requires otherwise. This Option shall not be treated as an incentive stock option within the meaning of section 422(b) of the Code.

If the Grantee fails to accept this award prior to <<Accept by Date>>, then, notwithstanding any other provision of this award, the Grantee shall forfeit this Option and all rights under this award and this award will become null and void. For purposes of these Terms and Conditions, acceptance of the award shall occur on the date the Grantee accepts this Nonstatutory Stock Option Award through Fidelity NetBenefits or any replacement on-line system designated by the Company.

2. Purchase Price. The purchase price of Common Stock purchased pursuant to the exercise of this Option shall be the purchase price per share set forth above, which has been determined to be not less than the Fair Market Value of a share of Common Stock at the Date of Grant. For all purposes of these Terms and Conditions, the Fair Market Value of a share of Common Stock shall be determined in accordance with the provisions of the Plan.

3. Vesting and Exercise of Option. Subject to the earlier expiration of this Option as herein provided, this Option may be exercised, by written notice to CRC at its principal executive office addressed to the attention of its corporate secretary (or such other officer, employee or designee of the Company as CRC may designate from time to time), at any time and from time to time after the Date of Grant, but, except as otherwise provided below, this Option shall not be exercisable for more than that portion of the aggregate number of shares of Common Stock offered by this Option determined under the vesting schedule set forth above.

This Option may be exercised only while the Grantee remains an employee of the Company and will terminate and cease to be exercisable upon the Grantee's termination of employment with the Company, except that:

(a) If, prior to the final Vesting Date, the Grantee dies, becomes permanently disabled while in the employ of the Company and terminates employment as a result thereof, retires with the consent of the Company, or the Grantee's employment is terminated by the Company on or after the date a Change in Control occurs and as a result of such event (each of the foregoing, an " **Unscheduled Vesting Event** "), then the unvested portion of this Option shall become vested and exercisable with respect to such unvested shares of Common Stock offered by this Option as of the date of the Unscheduled Vesting Event (and shall remain exercisable for the remaining term of this Option with respect to such shares as well as the shares with respect to which this Option became vested and exercisable prior to the Unscheduled Vesting Event).

(b) If the Grantee terminates employment voluntarily or the Grantee's employment is terminated for cause (as determined by the Company) before the final Vesting Date, then (i) the Grantee shall forfeit the portion of this Option that has not become vested and exercisable prior to the Grantee's termination date and (ii) this Option may be exercised by the Grantee (or the person who acquires this Option by will or the laws of descent and distribution or otherwise by reason of the death of Grantee) at any time during the period ending at the earlier 60 days following such termination or the term of this Option, but only as to the number of shares the Grantee was entitled to purchase hereunder as of the date the Grantee's employment so terminates.

(c) If, prior to the final vesting date, the Grantee terminates employment without cause (as determined by the Company) for the convenience of the Company (a " **Forfeiture Event** "), then the unvested portion of this Option will be reduced on a pro rata basis based upon the number obtained by (i) multiplying the aggregate number of shares of Common Stock offered by this Option by a fraction, the numerator of which is the number of days between and including the Date of Grant and the Forfeiture Event, and the denominator of which is the number of days between and including the Date of Grant and

the final Vesting Date, and (ii) subtracting from the product the number of shares of Common Stock with respect to which this Option became vested and exercisable prior to the Forfeiture Event. This Option shall become vested and exercisable with respect to such pro rata unvested shares of Common Stock offered by this Option as of the date of the Forfeiture Event (and shall remain exercisable for the lesser of the remaining term of this Option or 180 days with respect to such shares as well as the shares with respect to which this Option became vested and exercisable prior to the Forfeiture Event), and this Option shall cease to be exercisable as of such date with respect to any other shares of Common Stock offered under this Option that have not become vested and exercisable on or prior to such date. Any such determination by the Committee is binding on the Grantee.

Notwithstanding anything herein to the contrary, in no event will this Option be exercisable after the expiration of seven years from the Date of Grant. The purchase price of shares as to which this Option is exercised shall be paid in full at the time of exercise (i) in cash, cash equivalent, or by electronic funds transfer, (ii) if permitted by the Committee in its sole discretion, by delivering or constructively tendering to CRC shares of Common Stock having a Fair Market Value equal to the purchase price (provided such shares used for this purpose must have been held by the Grantee for such minimum period of time as may be established from time to time by the Committee), (iii) if the Common Stock is readily tradable on a national securities exchange, through a "cashless exercise" in accordance with a Company established policy or program for the same, or (iv) in any other legal consideration the Committee deems appropriate. No fraction of a share of Common Stock shall be issued by CRC upon exercise of an Option or accepted by CRC in payment of the exercise price thereof; rather, the Grantee shall provide a cash payment for such amount as is necessary to effect the issuance and acceptance of only whole shares of Common Stock. Unless and until a certificate or certificates representing such shares shall have been issued by CRC to the Grantee, the Grantee (or the person permitted to exercise this Option in the event of the Grantee's death) shall not be or have any of the rights or privileges of a stockholder of CRC with respect to shares acquirable upon an exercise of this Option.

4. Taxes and Withholding. Regardless of any action the Company takes with respect to any or all income tax (including U.S. federal, state and local tax and non-U.S. tax), social insurance, payroll tax, payment on account or other tax-related items related to the Grantee's participation in the Plan and legally applicable to the Grantee (" **Tax-Related Items** "), the Grantee acknowledges that the ultimate liability for all Tax-Related Items is and remains the Grantee's responsibility and may exceed the amount actually withheld by the Company. The Grantee further acknowledges that the Company (i) makes no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of this Nonstatutory Stock Option Award, including the grant, vesting or exercise of the Nonstatutory Stock Option Award; and (ii) does not commit to and is under no obligation to structure the terms of the grant or any aspect of the Nonstatutory Stock Option Award to reduce or eliminate the Grantee's liability for Tax-Related Items or achieve any particular tax result. Further, if the Grantee has become subject to tax in more than one jurisdiction between the Date of Grant and the date of any relevant taxable event, the Grantee acknowledges that the Company may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Prior to the relevant taxable event, the Grantee shall pay or make adequate arrangements satisfactory to the Company to satisfy all Tax-Related Items. In this regard, the Grantee authorizes the Company to withhold all applicable Tax-Related Items legally payable by the Grantee, first, from the shares purchased upon exercise of this Nonstatutory Stock Option Award and, if not sufficient, from the Grantee's wages or other cash compensation. The Grantee shall pay to the Company any amount of Tax-Related Items that the Company may be required to withhold as a result of the Grantee's receipt, vesting or exercise of this Nonstatutory Stock Option Award that cannot be satisfied by the means previously described.

5. Compensation Recoupment. Grantee's receipt of this award is expressly conditioned on Grantee's agreement to the terms and provisions of this Section, and Grantee acknowledges that Grantee would not have received this award in the absence of such agreement. By accepting this award, Grantee acknowledges and agrees that:

(a) the compensation (or any portion thereof) payable pursuant to this award and any other award granted to Grantee under the Plan (whether granted before, on or after the Date of Grant) shall be subject to recovery, revocation, recoupment or "clawback" by the Company or any of its Affiliates pursuant to (i) the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "**Act**"), (ii) any rules or regulations promulgated under the Act or by any stock exchange on which the Company's common stock is listed (collectively, the "**Rules**"), or (iii) any compensation recoupment or clawback policies or procedures adopted by CRC or any of its Affiliates, in each case with respect to clauses (i), (ii) and (iii) above as such provisions, rules, regulations, policies and procedures may be adopted and amended from time to time (including with retroactive effect); and

(b) any other compensation or benefit (or any portion thereof) payable to or on behalf of Grantee from the Company or any of its Affiliates (whether payable before, on or after the Date of Grant, but excluding any compensation or benefit payable pursuant to an award granted under the Plan) shall be subject to recovery, revocation, recoupment or clawback by the Company or any of its Affiliates pursuant to the Act, the Rules or any compensation recoupment or clawback policies or procedures adopted by CRC or any of its Affiliates in accordance with the requirements of the Act and the Rules, in each case as the Act, the Rules and such policies and procedures may be adopted and amended from time to time (including with retroactive effect).

In addition, Grantee hereby agrees (on behalf of Grantee and any other individual, entity or other person claiming under or through Grantee) that: (a) compensation payable pursuant to this award and any other compensation or benefit payable to or on behalf of Grantee (whether under the Plan or otherwise) shall be subject to recovery, revocation, recoupment or clawback as provided in the preceding provisions of this Section; and (b) Grantee (or any such individual, entity or other person) shall not seek indemnification or contribution from the Company or any of its Affiliates with respect to any amount so recovered, revoked, recouped or clawed back.

6. Employment Relationship. For purposes of these Terms and Conditions, the Grantee shall be considered to be in the employment of the Company as long as the Grantee remains an employee of any of the Company, an Affiliate, or a corporation or other entity or a parent or subsidiary of such corporation or other entity assuming or substituting a new option for this Option. Without limiting the scope of the preceding sentence, it is expressly provided that the Grantee shall be considered to have terminated employment with the Company at the time of the termination of the "Affiliate" status under the Plan of the entity or other organization that employs the Grantee. Nothing in the adoption of the Plan, nor the award of this Option thereunder pursuant to these Terms and Conditions, shall affect in any way the right of the Grantee or the Company or any such Affiliate or other entity to terminate such employment at any time. Unless otherwise provided in a written employment agreement or by applicable law, the Grantee's employment by the Company or any such Affiliate or other entity shall be on an at-will basis, and the employment relationship may be terminated at any time by either the Grantee or the Company or any such Affiliate or other entity for any reason whatsoever, with or without cause or notice. Any question as to whether and when there has been a termination of the Grantee's employment with the Company or any such Affiliate or other entity, and the cause of such termination, shall be determined by the Committee, and its determination shall be final.

7. Acknowledgements Regarding Section 409A of the Code. The Grantee understands that if the purchase price of the Common Stock under this Option is less than the fair market value of such Common Stock on the date of grant of this Option, then the Grantee may incur adverse tax consequences under section 409A of the Code. The Grantee acknowledges and agrees that (a) he is not relying upon any determination by the Company, any Affiliate, or any of their respective employees, directors, managers, officers, attorneys or agents (collectively, the "**Company Parties**") of the fair market value of the Common Stock on the date of grant of this Option, (b) he is not relying upon any written or oral statement or representation of the Company Parties regarding the tax effects associated with the Grantee's acceptance of these Terms and Conditions and his receipt, holding and exercise of this Option, and (c) in deciding to accept these Terms and Conditions, the Grantee is relying on his own judgment and the judgment of the professionals of his choice with whom he has consulted. The Grantee hereby releases, acquits and forever discharges the Company Parties from all actions, causes of actions, suits, debts, obligations, liabilities, claims, damages, losses, costs and expenses of any nature whatsoever, known or unknown, on account of, arising out of, or in any way related to the tax effects associated with the Grantee's acceptance of these Terms and Conditions and his receipt, holding and exercise of this Option.

8. Notices. Any notices or other communications provided for in these Terms and Conditions shall be sufficient if in writing. In the case of the Grantee, such notices or communications shall be effectively delivered if hand delivered to the Grantee at the Grantee's principal place of employment or if sent by certified mail, return receipt requested, to the Grantee at the last address the Grantee has filed with the Company. In the case of the Company, such notices or communications shall be effectively delivered if sent by certified mail, return receipt requested, to CRC at its principal executive offices.

9. Privacy Rights. By accepting this Award, the Grantee explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of the Grantee's Data (as defined below) by and among, as applicable, the Company and its affiliates for the exclusive purpose of implementing, administering and managing the Grantee's participation in the Plan. The Company holds or may receive from any agent designated by the Company certain personal information about the Grantee, including, but not limited to, the Grantee's name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of this Nonstatutory Stock Option Award or any other entitlement to shares of stock awarded, canceled, exercised, vested, unvested or outstanding in the Grantee's favor, for the purpose of implementing, administering and managing the Plan, including complying with applicable tax and securities laws (" **Data** "). Data may be transferred to any third parties assisting in the implementation, administration and management of the Plan. These recipients may be located in the Grantee's country or elsewhere, and may have different data privacy laws and protections than the Grantee's country. By accepting these Terms and Conditions, the Grantee authorizes the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes described above. The Grantee may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting the administrator in writing. Refusing or withdrawing consent may affect the Grantee's ability to participate in the Plan.

10. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to this Nonstatutory Stock Option Award granted under the Plan or future awards that may be granted under the Plan (if any) by electronic means or to request the Grantee's consent to participate in the Plan by electronic means. The Grantee hereby consents to receive such documents by electronic delivery and, if requested, to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

11. Binding Effect. These Terms and Conditions shall be binding upon and inure to the benefit of any successors to the Company and all persons lawfully claiming under the Grantee.

12. Entire Agreement; Amendment. These Terms and Conditions constitute the entire agreement of the parties with regard to the subject matter hereof, and contains all the covenants, promises, representations, warranties and agreements between the parties with respect to this Option; provided, however, that the terms of these Terms and Conditions shall not modify and shall be subject to the terms and conditions of any employment and/or severance agreement between the Company (or an Affiliate) and the Grantee in effect as of the date a determination is to be made under these Terms and Conditions. Without limiting the scope of the preceding sentence, except as provided therein, all prior understandings and agreements, if any, among the parties hereto relating to the subject matter hereof are hereby null and void and of no further force and effect. The Committee may, in its sole discretion, amend these Terms and Conditions from time to time in any manner that is not inconsistent with the Plan; provided, however, that except as otherwise provided in the Plan or these Terms and Conditions, no amendment will adversely affect the rights of the Grantee under these Terms and Conditions in any material respect without the Grantee's consent. Notwithstanding the foregoing, Attachment B may only be modified or revoked pursuant to the terms set forth in its Paragraph 14, and Attachment B shall survive the termination of Employee's employment relationship with the Company, the termination of the Plan and the termination of the Terms and Conditions.

13. Grantee's Agreement to General Terms of Employment. By accepting this Nonstatutory Stock Option Award, the Grantee agrees, to the extent not contrary to applicable law, to the General Terms of Employment set out on Attachment 1, which is incorporated in these Terms and Conditions by reference

14. Governing Law. The laws of the State of Delaware govern the interpretation, performance, and enforcement of these Terms and Conditions.

Attachment 1
GENERAL TERMS OF EMPLOYMENT

A. Except as otherwise required by law or legal process, the Grantee will not publish or divulge to any person, firm, corporation or institution and will not use to the detriment of CRC, or any of its subsidiaries or other affiliates, or any of their respective officers, directors, employees or stockholders (collectively, “ **CRC Parties** ”), at any time during or after the Grantee’s employment by any of them, any trade secrets or confidential information of any of them (whether generated by them or as a result of any of their business relationships), including such information as described in CRC’s ethics code and other corporate policies, without first obtaining the written permission of an officer of the Company.

B. At the time of leaving employment with the Company, the Grantee will deliver to the Company, and not keep or deliver to anyone else, any and all credit cards, drawings, blueprints, specifications, devices, notes, notebooks, memoranda, reports, studies, correspondence and other documents, and, in general, any and all materials relating to the CRC Parties (whether generated by them or as a result of their business relationships), including any copies (whether in paper or electronic form), that the Grantee has in the Grantee’s possession or control.

C. The Grantee will, during the Grantee’s employment by the Company, comply with the provisions of CRC’s ethics code and other policies.

D. Except as otherwise required by the Grantee’s job or permitted by law, the Grantee will not make statements about any CRC Parties (1) to the press, electronic media, to any part of the investment community, to the public, or to any person connected with, employed by or having a relationship with any of them without permission of an officer of the Company or (2) that are derogatory, defamatory or negative. Nothing herein, however, shall prevent Grantee from making a good faith report or complaint to appropriate governmental authorities. To the fullest extent permitted by law, Grantee will not interfere with or disrupt any of the Company’s operations or otherwise take actions intended directly to harm any of the CRC Parties.

E. All inventions, developments, designs, improvements, discoveries and ideas that the Grantee makes or conceives in the course of employment by the Company, whether or not during regular working hours, relating to any design, article of manufacture, machine, apparatus, process, method, composition of matter, product or any improvement or component thereof, that are manufactured, sold, leased, used or under development by, or pertain to the present or possible future business of the Company shall be a work-for-hire and become and remain the property of CRC, its successors and assigns.

The provisions of this Section do not apply to an invention that qualifies fully under the provisions of Section 2870 of the California Labor Code, which provides in substance that provisions in an employment agreement providing that an employee shall assign or offer to assign rights in an invention to his or her employer do not apply to an invention for which no equipment, supplies, facilities, or trade secret information of the employer was used and which was developed entirely on the employee's own time, except for those inventions that either (a) relate, at the time of conception or reduction to practice of the invention, (1) to the business of the employer or (2) to the employer's actual or demonstrably anticipated research or development, or (b) result from any work performed by the employee for the employer.

F. The Grantee has executed a Mutual Agreement to Arbitrate with the Company.

G. The foregoing General Terms of Employment are not intended to be an exclusive list of the employment terms and conditions that apply to the Grantee. The Company, in its sole discretion, may at any time amend or supplement the foregoing terms. The Grantee's breach of the foregoing General Terms of Employment will entitle the Company to take appropriate disciplinary action, including, without limitation, reduction of the Nonstatutory Stock Option Award granted pursuant to these Terms and Conditions and termination of employment.

**CALIFORNIA RESOURCES CORPORATION
LONG-TERM INCENTIVE PLAN**

**RESTRICTED STOCK UNIT AWARD
TERMS AND CONDITIONS**

Grantee: <<Grantee Name>>

Date of Grant: February 19, 2019

Restricted Stock <<Units Granted>>
Units:

Vesting Date Schedule: One-third of the Restricted Stock Units on February 18, 2020;
One-third of the Restricted Stock Units on February 18, 2021;
One-third of the Restricted Stock Units on February 18, 2022
(each being a “ **Vesting Date** ”)

The following Terms and Conditions (these “ **Terms and Conditions** ”) are set forth as of the Date of Grant between CALIFORNIA RESOURCES CORPORATION, a Delaware corporation (“ **CRC** ” and, with its subsidiaries, the “ **Company** ”), and the eligible employee receiving this award (the “ **Grantee** ”).

1. Grant of Restricted Stock Units. In accordance with these Terms and Conditions and the California Resources Corporation Long-Term Incentive Plan, as the same may be amended from time to time (the “ **Plan** ”), CRC grants to the Grantee as of the Date of Grant, the number of Restricted Stock Units (“ **RS Units** ”) set forth above, subject to adjustment under the Plan and Section 6 of these Terms and Conditions. Subject to the provisions of Section 4, a RS Unit is a bookkeeping entry that represents the right to receive upon vesting, as set forth in Section 3, one share of CRC Common Stock, \$0.01 par value (the “ **Common Stock** ”). RS Units are not Common Stock and have no voting rights or, except as stated in Section 5, dividend rights. “ **Plan Value** ” means the last reported sale price of a share of Common Stock on the New York Stock Exchange Composite Transactions on the applicable scheduled Vesting Date, Forfeiture Event, or vesting date described in Section 3(c), as applicable.

2. Restrictions on Transfer. Neither these Terms and Conditions nor any right to receive Common Stock or cash pursuant to these Terms and Conditions may be transferred or assigned by the Grantee other than (i) to a beneficiary designated on a form approved by the Company (if enforceable under local law), by will or, if the Grantee dies without designating a beneficiary of a valid will, by the laws of descent and distribution, or (ii) pursuant to any applicable domestic relations order (if approved or ratified by the Committee).

3. Vesting and Forfeiture of Restricted Stock Unit Award.

(a) If the Grantee fails to accept this award prior to <<Accept by Date>>, then, notwithstanding any other provision of this award, the Grantee shall forfeit this award and all rights hereunder and this award will become null and void. For purposes of these Terms and Conditions, acceptance of the award shall occur on the date the Grantee accepts this Restricted Stock Unit Award through Fidelity NetBenefits or any on-line system designated by the Company.

(b) The Grantee must remain in the continuous employ of the Company through the applicable Vesting Date to receive payment of this award in the number of RS Units shown for such Vesting Date. The continuous employment of the Grantee will not be deemed to have been interrupted by reason of the transfer of the Grantee's employment among the Company and its affiliates or an approved leave of absence. However, if, prior to any Vesting Date, the Grantee dies, becomes permanently disabled while in the employ of the Company and terminates employment as a result thereof, retires with the consent of the Company, or terminates employment without cause (as determined by the Company) for the convenience of the Company (each of the foregoing, a " **Forfeiture Event** "), then the number of unvested RS Units will be reduced on a pro rata basis to the number obtained by (i) multiplying the total number of RS Units granted by a fraction, the numerator of which is the number of days between the Date of Grant and the Forfeiture Event, and the denominator of which is the number of days between the Date of Grant and the final Vesting Date and (ii) subtracting from the product the number of RS Units, if any, that vested prior to the Forfeiture Event. Such pro rata unvested RS Units shall vest as of the date of the Forfeiture Event and, subject to Section 22 of these Terms and Conditions, become immediately payable, and all other RS Units shall be forfeited as of the date of the Forfeiture Event. If the Grantee terminates employment voluntarily or the Grantee's employment is terminated for cause (as determined by the Company) before the last scheduled Vesting Date, then the Grantee shall forfeit the RS Units that have not vested prior to the Grantee's termination date and the right to receive payment with respect thereto.

(c) If a Change in Control event occurs prior to the last scheduled Vesting Date and the Grantee's employment is terminated by the Company on or after the date of such event and as a result of such event, then all unvested RS Units shall immediately vest and become nonforfeitable as of the date of such termination of employment unless, prior to the occurrence of the Change in Control event, the Committee, as provided in Section 7.1 of the Plan, determines that such event will not accelerate vesting of any of these RS Units. Any such determination by the Committee is binding on the Grantee.

4. Payment of Awards. Payment for vested RS Units, as adjusted pursuant to Sections 3 and 6 of these Terms and Conditions, will be made 50% in the form of shares of Common Stock (equal in number to 50% of the number of RS Units, rounded up to the next whole unit, with respect to which payment is being made on the applicable date) and 50% in cash (equal to the product of 50% of the number of RS Units, rounded down to the previous whole unit, with respect to which payment is being made on the applicable date times the Plan Value on the applicable date, as herein defined). Payment of the cash and issuance of the shares will be made to the Grantee as promptly as practicable after the applicable scheduled Vesting Date, Forfeiture Event, or vesting date described in Section 3(c), as the case may be, and in any event no later than the 15th day of the third month following the end of the first taxable year in which the award is no longer subject to a substantial risk of forfeiture.

5. Crediting and Payment of Dividend Equivalents. With respect to the number of RS Units listed above, the Grantee will be credited on the books and records of CRC with an amount (the “**Dividend Equivalent**”) equal to the amount per share of any cash dividends declared by the Board on the outstanding Common Stock as and when declared during the period beginning on the Date of Grant and ending, with respect to any portion of the RS Units covered by these Terms and Conditions, on the date on which the Grantee’s right to receive such portion becomes nonforfeitable, or, if earlier, the date on which the Grantee forfeits the right to receive such portion. CRC will pay in cash to the Grantee an amount equal to the Dividend Equivalents credited to the Grantee as promptly as may be practicable after the Grantee has been credited with a Dividend Equivalent, and within 70 days of the relevant record date.

6. Adjustments. The number of RS Units covered by these Terms and Conditions may be adjusted as the Committee determines, pursuant to Section 7.2 of the Plan, in order to prevent dilution or expansion of the Grantee’s rights under these Terms and Conditions as a result of events such as stock dividends, stock splits, or other change in the capital structure of CRC, or any merger, consolidation, spin-off, liquidation or other corporate transaction or event having a similar effect. If any such adjustment occurs, the Company will give the Grantee written notice of the adjustment containing an explanation of the nature of the adjustment.

7. Compensation Recoupment. Grantee’s receipt of this award is expressly conditioned on Grantee’s agreement to the terms and provisions of this Section, and Grantee acknowledges that Grantee would not have received this award in the absence of such agreement. By accepting this award, Grantee acknowledges and agrees that:

(a) the compensation (or any portion thereof) payable pursuant to this award and any other award granted to Grantee under the Plan (whether granted before, on or after the Date of Grant) shall be subject to recovery, revocation, recoupment or “clawback” by the Company or any of its Affiliates pursuant to (i) the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “**Act**”), (ii) any rules or regulations promulgated under the Act or by any stock exchange on which the Company’s common stock is listed (collectively, the “**Rules**”), or (iii) any compensation recoupment or clawback policies or procedures adopted by CRC or any of its Affiliates, in each case with respect to clauses (i), (ii) and (iii) above as such provisions, rules, regulations, policies and procedures may be adopted and amended from time to time (including with retroactive effect); and

(b) any other compensation or benefit (or any portion thereof) payable to or on behalf of Grantee from the Company or any of its Affiliates (whether payable before, on or after the Date of Grant, but excluding any compensation or benefit payable pursuant to an award granted under the Plan) shall be subject to recovery, revocation, recoupment or clawback by the Company or any of its Affiliates pursuant to the Act, the Rules or any compensation recoupment or clawback policies or procedures adopted by CRC or any of its Affiliates in accordance with the requirements of the Act and the Rules, in each case as the Act, the Rules and such policies and procedures may be adopted and amended from time to time (including with retroactive effect).

In addition, Grantee hereby agrees (on behalf of Grantee and any other individual, entity or other person claiming under or through Grantee) that: (a) compensation payable pursuant to this award and any other compensation or benefit payable to or on behalf of Grantee (whether under the Plan or otherwise) shall be subject to recovery, revocation, recoupment or clawback as provided in the preceding provisions of this Section; and (b) Grantee (or any such individual, entity or other person) shall not seek indemnification or contribution from the Company or any of its Affiliates with respect to any amount so recovered, revoked, recouped or clawed back.

8. No Employment Contract. Nothing in these Terms and Conditions confers upon the Grantee any right with respect to continued employment by the Company, nor limits in any manner the right of the Company to terminate the employment or adjust the compensation of the Grantee. Unless otherwise agreed in a writing signed by the Grantee and an authorized representative of the Company, the Grantee's employment with the Company is at will and may be terminated at any time by the Grantee or the Company. For purposes of these Terms and Conditions, the Grantee shall be considered to be in the employment of the Company as long as the Grantee remains an employee of any of the Company, an Affiliate, or a corporation or other entity or a parent or subsidiary of such corporation or other entity assuming or substituting a new award for this award. Without limiting the scope of the preceding sentence, it is expressly provided that the Grantee shall be considered to have terminated employment with the Company at the time of the termination of the "Affiliate" status under the Plan of the entity or other organization that employs the Grantee.

9. Taxes and Withholding. Regardless of any action the Company takes with respect to any or all income tax (including U.S. federal, state and local tax and non-U.S. tax), social insurance, payroll tax, payment on account or other tax-related items related to the Grantee's participation in the Plan and legally applicable to the Grantee (" **Tax-Related Items** "), the Grantee acknowledges that the ultimate liability for all Tax-Related Items is and remains the Grantee's responsibility and may exceed the amount actually withheld by the Company. The Grantee further acknowledges that the Company (i) makes no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of this Restricted Stock Unit Award, including the grant or vesting of the Restricted Stock Unit Award and the receipt of Dividend Equivalents; and (ii) does not commit to and is under no obligation to structure the terms of the grant or any aspect of the Restricted Stock Unit Award to reduce or eliminate the Grantee's liability for Tax-Related Items or achieve any particular tax result. Further, if the Grantee has become subject to tax in more than one jurisdiction between the Date of Grant and the date of any relevant taxable event, the Grantee acknowledges that the Company may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Prior to the relevant taxable event, the Grantee shall pay or make adequate arrangements satisfactory to the Company to satisfy all Tax-Related Items. In this regard, the Grantee authorizes the Company to withhold all applicable Tax-Related Items legally payable by the Grantee first from the cash payable pursuant to this Restricted Stock Unit Award (including Dividend Equivalents) and, if not sufficient, second from the Common Stock payable pursuant to this Restricted Stock Unit Award and, if not sufficient, from Grantee's wages or other cash compensation. The Grantee shall pay to the Company any amount of Tax-Related Items that the Company may be required to withhold as a result of the Grantee's receipt of this Restricted Stock Unit Award that cannot be satisfied by the means previously described.

10. Compliance With Law. The Company will make reasonable efforts to comply with all federal, state and non-U.S. laws applicable to awards of this type. However, if it is not feasible for the Company to comply with these laws with respect to the grant or settlement of these awards, then the awards may be cancelled without any compensation or additional benefits provided to the Grantee as a result of the cancellation.

11. Relation to Other Benefits. The benefits received by the Grantee under these Terms and Conditions will not be taken into account in determining any benefits to which the Grantee may be entitled under any profit sharing, retirement or other benefit or compensation plan maintained by the Company, including the amount of any life insurance coverage available to any beneficiary of the Grantee under any life insurance plan covering employees of the Company. Additionally, this Restricted Stock Unit Award is not part of normal or expected compensation or salary for any purposes, including, but not limited to calculation of any severance, resignation, termination, redundancy, end of service payments, bonuses or long-service awards. The grant of this Restricted Stock Unit Award does not create any contractual or other right to receive future grants of Restricted Stock Unit Awards or benefits in lieu of Restricted Stock Unit Awards, even if the Grantee has a history of receiving Restricted Stock Unit Awards or other cash or stock awards.

12. Amendments. The Plan may be modified, amended, suspended or terminated by the Board at any time, as provided in the Plan. Any amendment to the Plan will be deemed to be an amendment to these Terms and Conditions to the extent it is applicable to these Terms and Conditions; however, except to the extent necessary to comply with applicable law, no amendment will adversely affect the rights of the Grantee under these Terms and Conditions in any material respect without the Grantee's consent.

13. Severability. If one or more of the provisions of these Terms and Conditions is invalidated for any reason by any tribunal, the invalidated provisions shall be deemed to be separable from the other provisions of these Terms and Conditions, and the remaining provisions of these Terms and Conditions will continue to be valid and fully enforceable.

14. Entire Agreement; Relation to Plan; Interpretation. Except as specifically provided in this Section, these Terms and Conditions and the Attachments incorporated in these Terms and Conditions constitute the entire agreement between the Company and the Grantee with respect to this Restricted Stock Unit Award. These Terms and Conditions are subject to the terms and conditions of the Plan. In the event of any inconsistent provisions between these Terms and Conditions and the Plan, the provisions of the Plan control. Capitalized terms used in these Terms and Conditions without definitions have the meanings assigned to them in the Plan. References to Sections and Attachments are to Sections of, and Attachments incorporated in, these Terms and Conditions unless otherwise noted.

15. Successors and Assigns. Subject to Sections 2 and 3, the provisions of these Terms and Conditions shall be for the benefit of, and be binding upon, the successors, administrators, heirs, legal representatives and assigns of the Grantee, and the successors and assigns of the Company.

16. Governing Law. The laws of the State of Delaware govern the interpretation, performance, and enforcement of these Terms and Conditions.

17. Privacy Rights. By accepting this Restricted Stock Unit Award, the Grantee explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of the Grantee's Data (as defined below) by and among, as applicable, the Company and its affiliates for the exclusive purpose of implementing, administering and managing the Grantee's participation in the Plan. The Grantee understands that the Company holds, or may receive from any agent designated by the Company, certain personal information about the Grantee, including, but not limited to, the Grantee's name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of this Restricted Stock Unit Award or any other entitlement to cash or shares of stock awarded, canceled, exercised, vested, unvested or outstanding in the Grantee's favor, for the purpose of implementing, administering and managing the Plan, including complying with applicable tax and securities laws (" **Data** "). Data may be transferred to any third parties assisting in the implementation, administration and management of the Plan. These recipients may be located in the Grantee's country or elsewhere, and may have different data privacy laws and protections than the Grantee's country. By accepting these Terms and Conditions, the Grantee authorizes the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes described above. The Grantee may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting the Committee in writing. Refusing or withdrawing consent may affect the Grantee's ability to participate in the Plan.

18. Electronic Delivery and Acceptance. The Company may, in its sole discretion, decide to deliver any documents related to this Restricted Stock Unit Award granted under the Plan or future awards that may be granted under the Plan (if any) by electronic means or to request the Grantee's consent to participate in the Plan by electronic means. The Grantee hereby consents to receive such documents by electronic delivery and, if requested, to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

19. Grantee's Representations and Releases. By accepting this Restricted Stock Unit Award, the Grantee acknowledges that the Grantee has read these Terms and Conditions and understands that (i) the grant of this Restricted Stock Unit Award is made voluntarily by CRC in its discretion with no liability on the part of any of its direct or indirect subsidiaries and that, if the Grantee is not an employee of CRC, the Grantee is not, and will not be considered, an employee of CRC but the Grantee is a third party (employee of a subsidiary) to whom this Restricted Stock Unit Award is granted; (ii) all decisions with respect to future awards, if any, will be at the sole discretion of CRC; (iii) the Grantee's participation in the Plan is voluntary; (iv) this Restricted Stock Unit Award is an extraordinary item that does not constitute a regular and recurring item of base compensation; (v) the future amount of any payment pursuant to this Restricted Stock Unit Award cannot be predicted and CRC does not assume liability in the event this Restricted Stock Unit Award has no value in the future; (vi) subject to the terms of any tax equalization agreement between the Grantee and the entity employing the Grantee, the Grantee will be solely responsible for the payment or nonpayment of taxes imposed or threatened to be imposed by any authority of any jurisdiction; and (vii) CRC is not providing any tax, legal or financial advice with respect to this Restricted Stock Unit Award or the Grantee's participation in the Plan.

In consideration of the grant of this Restricted Stock Unit Award, no claim or entitlement to compensation or damages shall arise from termination of this Restricted Stock Unit Award or diminution in value of this Restricted Stock Unit Award resulting from termination of the Grantee's employment by the Company (for any reason whatsoever) and, to the extent permitted by law, the Grantee irrevocably releases the Company from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a tribunal to have arisen, then, by accepting this Restricted Stock Unit Award, the Grantee shall be deemed irrevocably to have waived his or her entitlement to pursue such claim.

20. Grantee's Agreement to General Terms of Employment. By accepting this Restricted Stock Unit Award, the Grantee agrees, to the extent not contrary to applicable law, to the General Terms of Employment set out on Attachment 1, which is incorporated in these Terms and Conditions by reference.

21. Imposition of Other Requirements. CRC reserves the right to impose other requirements on the Grantee's participation in the Plan and on this Restricted Stock Unit Award, to the extent CRC determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan, and to require the Grantee to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

22. Compliance With Section 409A of the Code. All amounts payable under these Terms and Conditions are intended to comply with the “ **short term deferral** ” exception from Section 409A of the U.S. Internal Revenue Code (“ **Section 409A** ”) specified in Treas. Reg. § 1.409A-1(b)(4) (or any successor provision) and shall be paid within the period necessary to qualify for such exception. Notwithstanding the foregoing, to the extent that it is determined that the Plan or this award is subject to Section 409A, these Terms and Conditions shall be interpreted and administered in such a way as to comply with the applicable provisions of Section 409A to the maximum extent possible. In addition, if this award is subject to Section 409A, then (i) if the Grantee must be treated as a “specified employee” within the meaning of Section 409A, any payment made on account of the Grantee’s separation from service (as defined for purposes of Section 409A) (other than by reason of death) will be made at the time specified above in these Terms and Conditions or, if later, on the date that is six (6) months and one (1) day following the date of the Grantee’s separation from service; (ii) any payment on a Change in Control event will be made only if the Change in Control also qualifies as a change of control event within the meaning of Section 409A; and (iii) any determination by the Committee not to accelerate the award on a Change in Control shall be made only to the extent such determination is consistent with Section 409A. To the extent that the Committee determines that the Plan or this award is subject to Section 409A and fails to comply with the requirements of Section 409A, the Committee reserves the right (without any obligation to do so) to amend or terminate the Plan and/or amend, restructure, terminate or replace this award in order to cause this award either to not be subject to Section 409A or to comply with the applicable provisions of such section.

Attachment 1
GENERAL TERMS OF EMPLOYMENT

A. Except as otherwise required by law or legal process, the Grantee will not publish or divulge to any person, firm, corporation or institution and will not use to the detriment of CRC, or any of its subsidiaries or other affiliates, or any of their respective officers, directors, employees or stockholders (collectively, “ **CRC Parties** ”), at any time during or after the Grantee’s employment by any of them, any trade secrets or confidential information of any of them (whether generated by them or as a result of any of their business relationships), including such information as described in CRC’s ethics code and other corporate policies, without first obtaining the written permission of an officer of the Company.

B. At the time of leaving employment with the Company, the Grantee will deliver to the Company, and not keep or deliver to anyone else, any and all credit cards, drawings, blueprints, specifications, devices, notes, notebooks, memoranda, reports, studies, correspondence and other documents, and, in general, any and all materials relating to the CRC Parties (whether generated by them or as a result of their business relationships), including any copies (whether in paper or electronic form), that the Grantee has in the Grantee’s possession or control.

C. The Grantee will, during the Grantee’s employment by the Company, comply with the provisions of CRC’s ethics code and other corporate policies.

D. Except as otherwise required by the Grantee’s job or permitted by law, the Grantee will not make statements about any CRC Parties (1) to the press, electronic media, to any part of the investment community, to the public, or to any person connected with, employed by or having a relationship with any of them without permission of an officer of the Company or (2) that are derogatory, defamatory or negative. Nothing herein, however, shall prevent Grantee from making a good faith report or complaint to appropriate governmental authorities. To the fullest extent permitted by law, Grantee will not interfere with or disrupt any of the Company’s operations or otherwise take actions intended directly to harm any of the CRC Parties.

E. All inventions, developments, designs, improvements, discoveries and ideas that the Grantee makes or conceives in the course of employment by the Company, whether or not during regular working hours, relating to any design, article of manufacture, machine, apparatus, process, method, composition of matter, product or any improvement or component thereof, that are manufactured, sold, leased, used or under development by, or pertain to the present or possible future business of the Company shall be a work-for-hire and become and remain the property of CRC, its successors and assigns.

The provisions of this Section do not apply to an invention that qualifies fully under the provisions of Section 2870 of the California Labor Code, which provides in substance that provisions in an employment agreement providing that an employee shall assign or offer to assign rights in an invention to his or her employer do not apply to an invention for which no equipment, supplies, facilities, or trade secret information of the employer was used and which was developed entirely on the employee's own time, except for those inventions that either (a) relate, at the time of conception or reduction to practice of the invention, (1) to the business of the employer or (2) to the employer's actual or demonstrably anticipated research or development, or (b) result from any work performed by the employee for the employer.

F. The Grantee has executed a Mutual Agreement to Arbitrate with the Company.

G. The foregoing General Terms of Employment are not intended to be an exclusive list of the employment terms and conditions that apply to the Grantee. The Company, in its sole discretion, may at any time amend or supplement the foregoing terms. The Grantee's breach of the foregoing General Terms of Employment will entitle the Company to take appropriate disciplinary action, including, without limitation, reduction of the Restricted Stock Unit Award granted pursuant to these Terms and Conditions and termination of employment.

**CALIFORNIA RESOURCES CORPORATION
LONG-TERM INCENTIVE PLAN**

**PERFORMANCE STOCK UNIT AWARD
TERMS AND CONDITIONS**

Grantee: <<Grantee Name>>

Date of Grant: February 19, 2019

Performance Stock Units: <<Units Granted>>

Vesting Date: February 18, 2022

Performance Period: January 1, 2019 through December 31, 2021

The following Terms and Conditions (these “ **Terms and Conditions** ”) are set forth as of the Date of Grant between CALIFORNIA RESOURCES CORPORATION, a Delaware corporation (“ **CRC** ” and, with its subsidiaries, the “ **Company** ”), and the eligible employee receiving this award (the “ **Grantee** ”).

1. Grant of Performance Stock Units . In accordance with these Terms and Conditions and the California Resources Corporation Long-Term Incentive Plan, as the same may be amended from time to time (the “ **Plan** ”), CRC grants, subject to Section 8, to the Grantee as of the Date of Grant, up to 200% of the number of Performance Stock Units (“ **PS Units** ”) set forth above, subject to adjustment under the Plan and Section 7 of these Terms and Conditions. Subject to the provisions of Section 5, a PS Unit is a bookkeeping entry that represents the right to receive upon achievement of the Performance Goal, as set forth in Section 4, one share of CRC Common Stock, \$0.01 par value (the “ **Common Stock** ”). PS Units are not Common Stock and have no voting rights or, except as stated in Section 6, dividend rights.

2. Restrictions on Transfer . Neither these Terms and Conditions nor any right to receive Common Stock or cash pursuant to these Terms and Conditions may be transferred or assigned by the Grantee other than (i) to a beneficiary designated on a form approved by the Company (if enforceable under local law), by will or, if the Grantee dies without designating a beneficiary of a valid will, by the laws of descent and distribution, or (ii) pursuant to any applicable domestic relations order (if approved or ratified by the Committee).

3. Performance Goal . The **Performance Goal** is based 50% on Total Shareholder Return (defined as Total Stockholder Return in the Plan) of the Peer Companies listed below, as set forth on Attachment 2 and 50% on Cumulative Value Creation Index, as set forth in Attachment 2. The **Performance Payout Factor** shall be the sum of (a) 50% times the TSR Performance Factor, determined as set forth on Attachment 2, and (b) 50% times the VCI Performance Factor, determined as set forth in Attachment 2. Total Shareholder Return shall be calculated for each Peer Company, assuming reinvestment of all dividends, using the average of its last reported sale price per share of common stock on the New York Stock Exchange - Composite Transactions for the trading days during the 30 calendar day period immediately preceding and excluding the first day of the Performance Period and the average of its last reported sale price per share of common stock on the New York Stock Exchange - Composite Transactions for the trading days during the 30 calendar day period ending with and including the last day of the applicable Performance Period. In addition to CRC, the Peer Companies are: Cabot Oil and Gas Corporation, Callon Petroleum Company, Carrizo Oil & Gas, Inc., Cimarex Energy Co., Denbury Resources, Inc., Diamondback Energy, Inc., EP Energy Corporation, Gulfport Energy Corporation, Laredo Petroleum, Inc., Matador Resources Company, Murphy Oil Corporation, Oasis Petroleum Inc., Parsley Energy, Inc., PDC Energy, Inc., QEP Resources, Inc., Range Resources Corporation, SM Energy Company, Southwestern Energy Company, Whiting Petroleum Corporation, and WPX Energy Inc. (collectively, the "Peer Companies" and individually, a "Peer Company"); provided however, if at any time during the Performance Period, a Peer Company is acquired, then such company will be removed and treated as if it had never been a Peer Company and the achievement of the Performance Goal will be determined with respect to the remaining Peer Companies as set forth on Attachment 2.

4. Vesting and Forfeiture of Performance Stock Unit Award .

(a) If the Grantee fails to accept this award prior to <<Accept by Date>>, then, notwithstanding any other provision of this award, the Grantee shall forfeit this award and all rights under this award and this award will become null and void. For purposes of these Terms and Conditions, acceptance of the award shall occur on the date the Grantee accepts this Performance Stock Unit Award through Fidelity NetBenefits or any replacement on-line system designated by the Company.

(b) The Grantee must remain in the continuous employ of the Company through the Vesting Date to receive payment under this award. The continuous employment of the Grantee will not be deemed to have been interrupted by reason of the transfer of the Grantee's employment among the Company and its affiliates or an approved leave of absence. However, if the Grantee dies or becomes permanently disabled while in the employ of the Company and terminates employment as a result thereof, retires with the consent of the Company, or terminates employment without cause (as determined by the Company in its sole discretion) for the convenience of the Company (each of the foregoing, a "**Forfeiture Event**"), then the number of unvested PS Units will be reduced on a pro rata basis to the number obtained by multiplying the total number of PS Units granted by a fraction, the numerator of which is the number of days between and including the Date of Grant and the Forfeiture Event, and the denominator of which is the number of days between and including the Date of Grant and the Vesting Date. If the Forfeiture Event is death or permanent disability, such pro rata unvested PS Units shall vest as of the date (the "**Unscheduled Vesting Date**") of the Forfeiture Event and, subject to Section 24 of these Terms and Conditions, become immediately payable, and all other PS Units shall be forfeited as of the date of the Forfeiture Event. If the Grantee terminates employment voluntarily or the Grantee's employment is terminated for cause (as determined by the Company in its sole discretion), then the Grantee shall forfeit this award and all remaining rights hereunder and this award will become null and void.

(c) Subject to satisfaction of these Terms and Conditions including Section 4(d), the Grantee shall have the right to receive payment of this award in an amount equal to the product of the PS Units multiplied by the Performance Payout Factor, rounded up to the nearest whole unit, which right shall be based on, and become nonforfeitable upon, the Committee's certification of the attainment of the Performance Goal.

(d) If a Change in Control occurs prior to the Vesting Date and the Grantee's employment is terminated by the Company (or its successor) on or after the date of such event and as a result of such event (a "**CIC Event**"), then the Grantee shall have the right to receive payment of this award in an amount equal to the product of the PS Units multiplied by the Performance Payout Factor (calculated using 100% for the VCI Performance Factor and actual performance through the termination date for the TSR Performance Factor), rounded up to the nearest whole unit, unless, prior to the occurrence of the CIC Event, the Committee, as provided in Section 7.1 of the Plan, decides in its sole discretion that such event will not accelerate vesting of any of these PS Units. Any such decision by the Committee is binding on the Grantee. Any such vesting of PS Units due to a CIC Event shall be in lieu of payment of this award under Section 4(c).

5. Payment of Awards . Payment for vested PS Units that become payable pursuant to Section 4 up to 100% of the number of PS Units set forth above, as adjusted pursuant to Section 7 of these Terms and Conditions, will be made 50% in the form of shares of Common Stock (equal in number to the number of PS Units with respect to which payment is being made in shares on the applicable date) and 50% in cash (equal to the product of the number of PS Units with respect to which payment is being made in cash times the Plan Value). Payment for vested PS Units that become payable pursuant to Section 4 in excess of 100% of the number of PS Units set forth above, as adjusted pursuant to Section 7 of these Terms and Conditions, will be made solely in cash (equal to the product of the number of such PS Units times the Plan Value). Payment will be made to the Grantee as promptly as practicable after the Committee's certification of attainment of the Performance Goal, CIC Event, or Unscheduled Vesting Date, as the case may be, and in any event no later than the 15th day of the third month following the end of the first taxable year in which the award is no longer subject to a substantial risk of forfeiture. As used herein, "**Plan Value**" means the last reported sale price of a share of Common Stock on the New York Stock Exchange Composite Transactions on the date of the Committee's certification of attainment of the Performance Goal, CIC Event, or Unscheduled Vesting Date, as applicable.

6. Crediting and Payment of Dividend Equivalents . With respect to each PS Unit listed above, the Grantee will be credited on the books and records of CRC with an amount (the "**Dividend Equivalent**") per PS Unit equal to the amount per share of any cash dividends declared by the Board on the outstanding Common Stock as and when declared during the period beginning on the Date of Grant and ending, with respect to such PS Unit, on the date on which the Grantee's right to receive such portion becomes nonforfeitable. CRC will pay in cash to the Grantee an amount equal to the Dividend Equivalents credited to the Grantee, adjusted, if applicable, to reflect the same payment percentage that is used to determine the payout of the PS Units following certification of the attainment of the Performance Goal, the CIC Event, or Unscheduled Vesting Date, as the case may be, as promptly as may be practicable following such certification, CIC Event, or Unscheduled Vesting Date but, in any event, no later than the 15th day of the third month following the end of the first taxable year in which the award is no longer subject to substantial risk of forfeiture.

7. Adjustments . The number of PS Units covered by these Terms and Conditions may be adjusted as the Committee determines, pursuant to Section 7.2 of the Plan, in order to prevent dilution or expansion of the Grantee's rights under these Terms and Conditions as a result of events such as stock dividends, stock splits, or other change in the capital structure of CRC, or any merger, consolidation, spin-off, liquidation or other corporate transaction or event having a similar effect. If any such adjustment occurs, the Company will give the Grantee written notice of the adjustment containing an explanation of the nature of the adjustment. In addition, the Committee may adjust the Performance Goal or other features of this award as permitted by Section 5.2.1 of the Plan.

8. Compensation Recoupment. The Grantee's receipt of this award is expressly conditioned on the Grantee's agreement to the terms and provisions of this Section, and the Grantee acknowledges that the Grantee would not have received this award in the absence of such agreement. By accepting this award, the Grantee acknowledges and agrees that:

(a) the compensation (or any portion thereof) payable pursuant to this award and any other award granted to the Grantee under the Plan (whether granted before, on or after the Date of Grant) shall be subject to recovery, revocation, recoupment or “clawback” by the Company or any of its Affiliates pursuant to (i) the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Act”), (ii) any rules or regulations promulgated under the Act or by any stock exchange on which the Common Stock is listed (collectively, the “ Rules ”), or (iii) any compensation recoupment or clawback policies or procedures adopted by the Company or any of its Affiliates, in each case with respect to clauses (i), (ii) and (iii) above as such provisions, rules, regulations, policies and procedures may be adopted and amended from time to time (including with retroactive effect); and

(b) any other compensation or benefit (or any portion thereof) payable to or on behalf of the Grantee from the Company or any of its Affiliates (whether payable before, on or after the Date of Grant, but excluding any compensation or benefit payable pursuant to an award granted under the Plan) shall be subject to recovery, revocation, recoupment or clawback by the Company or any of its Affiliates pursuant to the Act, the Rules or any compensation recoupment or clawback policies or procedures adopted by the Company or any of its Affiliates in accordance with the requirements of the Act and the Rules, in each case as the Act, the Rules and such policies and procedures may be adopted and amended from time to time (including with retroactive effect).

In addition, the Grantee hereby agrees (on behalf of the Grantee and any other individual, entity or other person claiming under or through the Grantee) that: (a) compensation payable pursuant to this award and any other compensation or benefit payable to or on behalf of the Grantee (whether under the Plan or otherwise) shall be subject to recovery, revocation, recoupment or clawback as provided in the preceding provisions of this Section; and (b) the Grantee (or any such individual, entity or other person) shall not seek indemnification or contribution from the Company or any of its Affiliates with respect to any amount so recovered, revoked, recouped or clawed back.

9. No Employment Contract . Nothing in these Terms and Conditions confers upon the Grantee any right with respect to continued employment by the Company, nor limits in any manner the right of the Company to terminate the employment or adjust the compensation of the Grantee. Unless otherwise agreed in a writing signed by the Grantee and an authorized representative of the Company, the Grantee’s employment with the Company is at will and may be terminated at any time by the Grantee or the Company. For purposes of these Terms and Conditions, the Grantee shall be considered to be in the employment of the Company as long as the Grantee remains an employee of any of the Company, an Affiliate, or a corporation or other entity or a parent or subsidiary of such corporation or other entity assuming, or that provides a new award in substitution for, this award. Without limiting the scope of the preceding sentence, it is expressly provided that the Grantee shall be considered to have terminated employment with the Company at the time of the termination of the “Affiliate” status under the Plan of the entity or other organization that employs the Grantee.

10. Taxes and Withholding . Regardless of any action the Company takes with respect to any or all income tax (including U.S. federal, state and local tax and non-U.S. tax), social insurance, payroll tax, payment on account or other tax-related items related to the Grantee's participation in the Plan and legally applicable to the Grantee (" **Tax-Related Items** "), the Grantee acknowledges that the ultimate liability for all Tax-Related Items is and remains the Grantee's responsibility and may exceed the amount actually withheld by the Company. The Grantee further acknowledges that the Company (i) makes no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of this Performance Stock Unit Award, including the grant or vesting of the Performance Stock Unit Award and the receipt of Dividend Equivalents; and (ii) does not commit to and is under no obligation to structure the terms of the grant or any aspect of the Performance Stock Unit Award to reduce or eliminate the Grantee's liability for Tax-Related Items or achieve any particular tax result. Further, if the Grantee has become subject to tax in more than one jurisdiction between the Date of Grant and the date of any relevant taxable event, the Grantee acknowledges that the Company may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Prior to the relevant taxable event, the Grantee shall pay or make adequate arrangements satisfactory to the Company to satisfy all Tax-Related Items. In this regard, the Grantee authorizes the Company to withhold all applicable Tax-Related Items legally payable by the Grantee first from the cash payable pursuant to this Performance Stock Unit Award (including Dividend Equivalents) and, if not sufficient, second from the Common Stock payable pursuant to this Performance Stock Unit Award and, if not sufficient, from Grantee's wages or other cash compensation. The Grantee shall pay to the Company any amount of Tax-Related Items that the Company may be required to withhold as a result of the Grantee's receipt of this Performance Stock Unit Award that cannot be satisfied by the means previously described.

11. Compliance with Law . The Company will make reasonable efforts to comply with all federal, state and non-U.S. laws applicable to awards of this type. However, if it is not feasible for the Company to comply with these laws with respect to the grant or settlement of these awards, then the awards may be cancelled without any compensation or additional benefits provided to the Grantee as a result of the cancellation.

12. Relation to Other Benefits . The benefits received by the Grantee under these Terms and Conditions will not be taken into account in determining any benefits to which the Grantee may be entitled under any profit sharing, retirement or other benefit or compensation plan maintained by the Company, including the amount of any life insurance coverage available to any beneficiary of the Grantee under any life insurance plan covering employees of the Company. Additionally, this Performance Stock Unit Award is not part of normal or expected compensation or salary for any purposes, including, but not limited to calculation of any severance, resignation, termination, redundancy, end of service payments, bonuses or long-service awards. The grant of this Performance Stock Unit Award does not create any contractual or other right to receive future grants of Performance Stock Unit Awards or benefits in lieu of Performance Stock Unit Awards, even if the Grantee has a history of receiving Performance Stock Unit Awards or other cash or stock awards.

13. Amendments . The Plan may be modified, amended, suspended or terminated by the Board at any time, as provided in the Plan. Any amendment to the Plan will be deemed to be an amendment to these Terms and Conditions to the extent it is applicable to these Terms and Conditions; however, except to the extent necessary to comply with applicable law, no amendment will adversely affect the rights of the Grantee under these Terms and Conditions in any material respect without the Grantee's consent.

14. Severability . If one or more of the provisions of these Terms and Conditions is invalidated for any reason by a court of competent jurisdiction, the invalidated provisions shall be deemed to be separable from the other provisions of these Terms and Conditions, and the remaining provisions of these Terms and Conditions will continue to be valid and fully enforceable.

15. Entire Agreement; Relation to Plan; Interpretation . Except as specifically provided in this Section, these Terms and Conditions and the Attachments incorporated in these Terms and Conditions constitute the entire agreement between the Company and the Grantee with respect to this Performance Stock Unit Award; provided, however, that the terms of these Terms and Conditions shall not modify and shall be subject to the terms and conditions of any employment and/or severance agreement between the Company (or an Affiliate) and the Grantee in effect as of the date a determination is to be made under these Terms and Conditions. Without limiting the scope of the preceding sentence, except as provided therein, all prior understandings and agreements, if any, among the parties hereto relating to the subject matter hereof are hereby null and void and of no further force and effect. These Terms and Conditions are subject to the terms and conditions of the Plan. In the event of any inconsistent provisions between these Terms and Conditions and the Plan, the provisions of the Plan control. Capitalized terms used in these Terms and Conditions without definitions have the meanings assigned to them in the Plan. References to Sections and Attachments are to Sections of, and Attachments incorporated in, these Terms and Conditions unless otherwise noted.

16. Successors and Assigns . Subject to Sections 2 and 4, the provisions of these Terms and Conditions shall be for the benefit of, and be binding upon, the successors, administrators, heirs, legal representatives and assigns of the Grantee, and the successors and assigns of the Company.

17. Governing Law . The laws of the State of Delaware govern the interpretation, performance, and enforcement of these Terms and Conditions.

18. Notices . Any notices or other communications provided for in these Terms and Conditions shall be sufficient if in writing. In the case of the Grantee, such notices or communications shall be effectively delivered if hand delivered to the Grantee at the Grantee's principal place of employment or if sent by certified mail, return receipt requested, to the Grantee at the last address the Grantee has filed with the Company. In the case of the Company, such notices or communications shall be effectively delivered if sent by certified mail, return receipt requested, to CRC at its principal executive offices.

19. Privacy Rights . By accepting this Performance Stock Unit Award, the Grantee explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of the Grantee's Data (as defined below) by and among, as applicable, the Company and its affiliates for the exclusive purpose of implementing, administering and managing the Grantee's participation in the Plan. The Grantee understands that the Company holds, or may receive from any agent designated by the Company, certain personal information about the Grantee, including, but not limited to, the Grantee's name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of this Performance Stock Unit Award or any other entitlement to cash or shares of stock awarded, canceled, exercised, vested, unvested or outstanding in the Grantee's favor, for the purpose of implementing, administering and managing the Plan, including complying with applicable tax and securities laws (" **Data** "). Data may be transferred to any third parties assisting in the implementation, administration and management of the Plan. These recipients may be located in the Grantee's country of residence or elsewhere, and may have different data privacy laws and protections than the Grantee's country of residence. By accepting these Terms and Conditions, the Grantee authorizes the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes described above. The Grantee may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting the Committee in writing. Refusing or withdrawing consent may affect the Grantee's ability to participate in the Plan.

20. Electronic Delivery and Acceptance . The Company may, in its sole discretion, decide to deliver any documents related to this Performance Stock Unit Award granted under the Plan or future awards that may be granted under the Plan (if any) by electronic means or to request the Grantee's consent to participate in the Plan by electronic means. The Grantee hereby consents to receive such documents by electronic delivery and, if requested, to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

21. Grantee's Representations and Releases . By accepting this Performance Stock Unit Award, the Grantee acknowledges that the Grantee has read these Terms and Conditions and understands that (i) the grant of this Performance Stock Unit Award is made voluntarily by CRC in its discretion with no liability on the part of any of its direct or indirect subsidiaries and that, if the Grantee is not an employee of CRC, the Grantee is not, and will not be considered, an employee of CRC, but that the Grantee is a third party (i.e. an employee of a subsidiary) to whom this Performance Stock Unit Award is granted; (ii) all decisions with respect to future awards, if any, will be at the sole discretion of CRC; (iii) the Grantee's participation in the Plan is voluntary; (iv) this Performance Stock Unit Award is an extraordinary item that does not constitute a regular and recurring item of base compensation; (v) the future amount of any payment pursuant to this Performance Stock Unit Award cannot be predicted and CRC does not assume liability in the event this Performance Stock Unit Award has no value; (vi) subject to the terms of any tax equalization agreement between the Grantee and the entity employing the Grantee, the Grantee will be solely responsible for the payment or nonpayment of taxes imposed or threatened to be imposed by any authority of any jurisdiction; and (vii) CRC is not providing any tax, legal or financial advice with respect to this Performance Stock Unit Award or the Grantee's participation in the Plan.

In consideration of the grant of this Performance Stock Unit Award, no claim or entitlement to compensation or damages shall arise from termination of this Performance Stock Unit Award or diminution in value of this Performance Stock Unit Award resulting from termination of the Grantee's employment by the Company (for any reason whatsoever) and, to the extent permitted by law, the Grantee irrevocably releases the Company from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, then, by accepting this Performance Stock Unit Award, the Grantee shall be deemed irrevocably to have waived his or her entitlement to pursue such claim.

22. Grantee's Agreement to General Terms of Employment. By accepting this Performance Stock Unit Award, the Grantee agrees, to the extent not contrary to applicable law, to the General Terms of Employment set out on Attachment 1, which is incorporated in these Terms and Conditions by reference.

23. Imposition of Other Requirements . CRC reserves the right to impose other requirements on the Grantee's participation in the Plan and on this Performance Stock Unit Award, to the extent CRC determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan, and to require the Grantee to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

24. Compliance with Section 409A of the Code . All amounts payable under these Terms and Conditions are intended to comply with the “ **short term deferral** ” exception from Section 409A of the U.S. Internal Revenue Code (“ **Section 409A** ”) specified in Treas. Reg. § 1.409A-1(b)(4) (or any successor provision) and shall be paid within the period necessary to qualify for such exception. Notwithstanding the foregoing, to the extent that it is determined that the Plan or this award is subject to Section 409A, these Terms and Conditions shall be interpreted and administered in such a way as to comply with the applicable provisions of Section 409A to the maximum extent possible. In addition, if this award is subject to Section 409A, then (i) if the Grantee must be treated as a “specified employee” within the meaning of Section 409A, any payment made on account of the Grantee’s separation from service (as defined for purposes of Section 409A) (other than by reason of death) will be made at the time specified above in these Terms and Conditions or, if later, on the date that is six (6) months and one (1) day following the date of the Grantee’s separation from service; (ii) any payment on a Change in Control event will be made only if the Change in Control also qualifies as a change of control event within the meaning of Section 409A; and (iii) any determination by the Committee not to accelerate the award on a Change in Control shall be made only to the extent such determination is consistent with Section 409A. To the extent that the Committee determines that the Plan or this award is subject to Section 409A and fails to comply with the requirements of Section 409A, the Committee reserves the right (without any obligation to do so) to amend or terminate the Plan and/or amend, restructure, terminate or replace this award in order to cause this award either to not be subject to Section 409A or to comply with the applicable provisions of such section.

Attachment 1
GENERAL TERMS OF EMPLOYMENT

A. Except as otherwise required by law or legal process, the Grantee will not publish or divulge to any person, firm, corporation or institution and will not use to the detriment of CRC, or any of its subsidiaries or other affiliates, or any of their respective officers, directors, employees or stockholders (collectively, “ **CRC Parties** ”), at any time during or after the Grantee’s employment by any of them, any trade secrets or confidential information of any of them (whether generated by them or as a result of any of their business relationships), including such information as described in CRC’s ethics code and other corporate policies, without first obtaining the written permission of an officer of the Company..

B. At the time of terminating employment with the Company, the Grantee will deliver to the Company, and not keep or deliver to anyone else, any and all credit cards, drawings, blueprints, specifications, devices, notes, notebooks, memoranda, reports, studies, correspondence and other documents, and, in general, any and all materials relating to the CRC Parties (whether generated by them or as a result of their business relationships), including any copies (whether in paper or electronic form), that the Grantee has in the Grantee’s possession or control.

C. The Grantee will, during the Grantee’s employment by the Company, comply with the provisions of CRC’s ethics code and other policies.

D. Except as otherwise required by the Grantee’s job or permitted by law, the Grantee will not make statements about any CRC Parties (1) to the press, electronic media, to any part of the investment community, to the public, or to any person connected with, employed by or having a relationship with any of them without permission of a CRC officer or (2) that are derogatory, defamatory or negative. Nothing herein, however, shall prevent Grantee from making a good faith report or complaint to appropriate governmental authorities. To the fullest extent permitted by law, Grantee will not interfere with or disrupt any of the Company’s operations or otherwise take actions intended directly to harm any of the CRC Parties.

E. All inventions, developments, designs, improvements, discoveries and ideas that the Grantee makes or conceives in the course of employment by the Company, whether or not during regular working hours, relating to any design, article of manufacture, machine, apparatus, process, method, composition of matter, product or any improvement or component thereof, that are manufactured, sold, leased, used or under development by, or pertain to the present or possible future business of the Company shall be works-for-hire and become and remain the property of CRC, its successors and assigns.

The provisions of this Section do not apply to an invention that qualifies fully under the provisions of Section 2870 of the California Labor Code, which provides in substance that provisions in an employment agreement providing that an employee shall assign or offer to assign rights in an invention to his or her employer do not apply to an invention for which no equipment, supplies, facilities, or trade secret information of the employer was used and which was developed entirely on the employee's own time, except for those inventions that either (a) relate, at the time of conception or reduction to practice of the invention, (1) to the business of the employer or (2) to the employer's actual or demonstrably anticipated research or development, or (b) result from any work performed by the employee for the employer.

F. The Grantee has executed a Mutual Agreement to Arbitrate with the Company.

G. The foregoing General Terms of Employment are not intended to be an exclusive list of the employment terms and conditions that apply to the Grantee. The Company, in its sole discretion, may at any time amend or supplement the foregoing terms. The Grantee's breach of the foregoing General Terms of Employment will entitle the Company to take appropriate disciplinary action, including, without limitation, reduction of the Performance Stock Unit Award granted pursuant to these Terms and Conditions and termination of employment.

Attachment 2
PERFORMANCE PAYOUT FACTOR

The **Performance Payout Factor** shall be determined by the following formula:

$$(\text{TSR Performance Factor} + \text{VCI Performance Factor}) / 2$$

TSR Performance Factor

Relative TSR Percentile Rank (1)	TSR Performance Factor (2) (3)
90 th or higher	200%
50 th	100%
25 th	50%
Less than 25 th	0%

- (1) **Relative TSR Percentile Rank** shall be calculated based on the Total Shareholder Return for CRC as compared to the Peer Companies for the applicable Performance Period. Total Shareholder Return shall be calculated for each Peer Company, assuming reinvestment of all dividends, using the average of its last reported sale price per share of common stock on the New York Stock Exchange - Composite Transactions for the trading days during the 30 calendar day period immediately preceding and excluding the first day of the Performance Period and the average of its last reported sale price per share of common stock on the New York Stock Exchange - Composite Transactions for the trading days during the 30 calendar day period ending with and including the last day of the applicable Performance Period.
- (2) **TSR Performance Factor** shall be linearly interpolated between indicated values for Relative TSR Percentile Rank between values indicated in table.
- (3) **TSR Performance Factor** shall not exceed 100%, regardless of the Relative TSR Percentile Rank, if CRC's Total Shareholder Return for the applicable Performance Period is negative.

VCI Performance Factor

The VCI Performance Factor shall be determined according to the following scale:

Cumulative Value Creation Index (1)	VCI Performance Factor (2)
1.6 or greater	200%
1.4	100%
1.2	50%
Less than 1.2	0%

- (1) **Cumulative Value Creation Index** shall be calculated as the weighted average of the Value Creation Index results for calendar years 2019, 2020, and 2021, weighted based on discounted capital invested each year. Value Creation Index is the present value of the future cash flows from new wells drilled and incremental production from capital workovers in each plan year per discounted dollar of investment, calculated as A divided by B where “A” is the discounted expected future cash flows and “B” is the discounted capital invested for the plan year, excluding JV partner funding. The discounted expected future cash flows are calculated by taking our share of future revenues minus production costs and taxes other than on income, but before any general and administrative charges, interest expense and income taxes. The future cash flow calculations will be based on the SEC price for each respective year and exclude hedge settlements). Discounting shall be at 10% (consistent with SEC requirements). Except as otherwise stated, all values shall be determined consistently with SEC regulations.
- (2) **VCI Performance Factor** shall be linearly interpolated between indicated values for Cumulative Value Creation Index results between values indicated in table.

RULE 13a – 14(a) / 15d – 14(a)
CERTIFICATION
PURSUANT TO §302 OF THE SARBANES-OXLEY ACT OF 2002

I, Todd A. Stevens, certify that:

1. I have reviewed this quarterly report on Form 10-Q of California Resources Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 2, 2019

/s/ Todd A. Stevens

Todd A. Stevens
President and Chief Executive Officer
(Principal Executive Officer)

RULE 13a – 14(a) / 15d – 14(a)
CERTIFICATION
PURSUANT TO §302 OF THE SARBANES-OXLEY ACT OF 2002

I, Marshall D. Smith, certify that:

1. I have reviewed this quarterly report on Form 10-Q of California Resources Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 2, 2019

/s/ Marshall D. Smith

Marshall D. Smith
Senior Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION OF CEO AND CFO PURSUANT TO
18 U.S.C. § 1350,
AS ADOPTED PURSUANT TO
§ 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of California Resources Corporation (the "Company") for the fiscal period ended March 31, 2019, as filed with the Securities and Exchange Commission on May 2, 2019 (the "Report"), Todd A. Stevens, as Chief Executive Officer of the Company, and Marshall D. Smith, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of his or her knowledge, respectively:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Todd A. Stevens

Name: Todd A. Stevens
Title: President and Chief Executive Officer
Date: May 2, 2019

/s/ Marshall D. Smith

Name: Marshall D. Smith
Title: Senior Executive Vice President and Chief Financial Officer
Date: May 2, 2019

A signed original of this written statement required by Section 906 has been provided to California Resources Corporation and will be retained by California Resources Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.