

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, 2018
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.)

9200 Oakdale Avenue, Suite 900

Los Angeles, California

(Address of principal executive offices)

91311

(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 and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. (See definition 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

Shares of common stock outstanding as of March 31, 2018

45,337,486

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, 2018 and December 31, 2017
(in millions, except share data)

	March 31, 2018	December 31, 2017
CURRENT ASSETS		
Cash and cash equivalents	\$ 494	\$ 20
Trade receivables	244	277
Inventories	56	56
Other current assets, net	155	130
Total current assets	949	483
PROPERTY, PLANT AND EQUIPMENT	21,397	21,260
Accumulated depreciation, depletion and amortization	(15,683)	(15,564)
Total property, plant and equipment, net	5,714	5,696
OTHER ASSETS	36	28
TOTAL ASSETS	<u>\$ 6,699</u>	<u>\$ 6,207</u>
CURRENT LIABILITIES		
Accounts payable	292	257
Accrued liabilities	514	475
Total current liabilities	806	732
LONG-TERM DEBT	4,941	5,306
DEFERRED GAIN AND ISSUANCE COSTS, NET	275	287
OTHER LONG-TERM LIABILITIES	607	602
MEZZANINE EQUITY		
Redeemable noncontrolling interest	724	—
EQUITY		
Preferred stock (20 million shares authorized at \$0.01 par value) no shares outstanding at March 31, 2018 and December 31, 2017	—	—
Common stock (200 million shares authorized at \$0.01 par value) outstanding shares (March 31, 2018 - 45,337,486 and December 31, 2017 - 42,901,946)	—	—
Additional paid-in capital	4,930	4,879
Accumulated deficit	(5,672)	(5,670)
Accumulated other comprehensive loss	(21)	(23)
Total equity attributable to common stock	(763)	(814)
Noncontrolling interests	109	94
Total equity	(654)	(720)
TOTAL LIABILITIES AND EQUITY	<u>\$ 6,699</u>	<u>\$ 6,207</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, 2018 and 2017
(in millions, except share data)

	Three months ended March 31,	
	2018	2017
REVENUES AND OTHER		
Oil and gas sales	\$ 575	\$ 487
Net derivative (losses) gains	(38)	73
Other revenue	72	30
Total revenues and other	609	590
COSTS AND OTHER		
Production costs	212	211
General and administrative expenses	63	63
Depreciation, depletion and amortization	119	140
Taxes other than on income	38	33
Exploration expense	8	6
Other expenses, net	61	22
Total costs and other	501	475
OPERATING INCOME	108	115
NON-OPERATING (LOSS) INCOME		
Interest and debt expense, net	(92)	(84)
Net gains on early extinguishment of debt	—	4
Gains on asset divestitures	—	21
Other non-operating expenses	(7)	(4)
INCOME BEFORE INCOME TAXES	9	52
Income tax benefit	—	—
NET INCOME	9	52
Net (income) loss attributable to noncontrolling interests	(11)	1
NET (LOSS) INCOME ATTRIBUTABLE TO COMMON STOCK	\$ (2)	\$ 53
Net (loss) income attributable to common stock per share		
Basic	\$ (0.05)	\$ 1.23
Diluted	\$ (0.05)	\$ 1.22

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, 2018 and 2017
(in millions)

	Three months ended March 31,	
	2018	2017
Net income	\$ 9	\$ 52
Other comprehensive income items:		
Reclassification to income of realized losses on pension and postretirement ^(a)	2	3
Total other comprehensive income, net of tax	2	3
Comprehensive (income) loss attributable to noncontrolling interests	(11)	1
Comprehensive income attributable to common stock	\$ —	\$ 56

(a) No associated tax for the three months ended March 31, 2018 and 2017. 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, 2018 and 2017
(in millions)

	Three months ended March 31,	
	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES		
Net income	\$ 9	\$ 52
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	119	140
Net derivative (gains) losses	38	(73)
Net payments on settled derivatives	(31)	(1)
Net gains on early extinguishment of debt	—	(4)
Amortization of deferred gain	(19)	(18)
Gains on asset divestitures	—	(21)
Other non-cash charges to income, net	14	15
Dry hole expenses	2	1
Changes in operating assets and liabilities, net	68	42
Net cash provided by operating activities	200	133
CASH FLOW FROM INVESTING ACTIVITIES		
Capital investments	(139)	(50)
Changes in capital investment accruals	5	17
Asset divestitures	—	33
Acquisitions and other	(4)	—
Net cash used in investing activities	(138)	—
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from 2014 Revolving Credit Facility	81	221
Repayments of 2014 Revolving Credit Facility	(444)	(299)
Payments on 2014 Term Loan	—	(41)
Debt repurchases	(2)	(24)
Debt transaction costs	—	(2)
Contribution from noncontrolling interest holders, net	747	49
Distributions paid to noncontrolling interest holders	(18)	—
Issuance of common stock	50	1
Shares canceled for taxes	(2)	—
Net cash provided (used) by financing activities	412	(95)
Increase in cash and cash equivalents	474	38
Cash and cash equivalents—beginning of period	20	12
Cash and cash equivalents—end of period	\$ 494	\$ 50

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, 2018 and 2017
(in millions)

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Equity Attributable to Common Stock	Noncontrolling Interest	Total Equity
Balance, December 31, 2016	\$ —	\$ 4,861	\$ (5,404)	\$ (14)	\$ (557)	\$ —	\$ (557)
Net income (loss)	—	—	53	—	53	(1)	52
Contribution from noncontrolling interest holders, net	—	—	—	—	—	49	49
Other comprehensive income	—	—	—	3	3	—	3
Share-based compensation, net	—	6	—	—	6	—	6
Balance, March 31, 2017	<u>\$ —</u>	<u>\$ 4,867</u>	<u>\$ (5,351)</u>	<u>\$ (11)</u>	<u>\$ (495)</u>	<u>\$ 48</u>	<u>\$ (447)</u>
	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Equity Attributable to Common Stock	Noncontrolling Interest	Total Equity
Balance, December 31, 2017	\$ —	\$ 4,879	\$ (5,670)	\$ (23)	\$ (814)	\$ 94	\$ (720)
Net (loss) income ^(a)	—	—	(2)	—	(2)	(3)	(5)
Contribution from noncontrolling interest holders, net	—	—	—	—	—	33	33
Distributions paid 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>\$ —</u>	<u>\$ 4,930</u>	<u>\$ (5,672)</u>	<u>\$ (21)</u>	<u>\$ (763)</u>	<u>\$ 109</u>	<u>\$ (654)</u>

(a) Excludes \$14 million of consolidated net income attributable to redeemable noncontrolling interest recorded in mezzanine equity.

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

CALIFORNIA RESOURCES CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2018

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 within California. We were incorporated in Delaware as a wholly owned subsidiary of Occidental Petroleum Corporation (Occidental) on April 23, 2014, and remained a wholly owned subsidiary of Occidental until November 30, 2014. On November 30, 2014, Occidental distributed shares of our common stock on a pro-rata basis to Occidental stockholders (the Spin-off). We became an independent, publicly traded company on December 1, 2014. Occidental initially retained approximately 18.5% of our outstanding shares of common stock, which were distributed to Occidental stockholders on March 24, 2016.

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, and all references to "Occidental" refer to Occidental Petroleum Corporation, our former parent, 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, 2018 and December 31, 2017 and the statements of operations, comprehensive income, cash flows and equity for the three months ended March 31, 2018 and 2017. We have eliminated all of our significant intercompany transactions and accounts. We account for our share of oil and gas exploration and production 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 balance sheets, statements of operations 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 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, 2017.

Certain prior year amounts have been reclassified to conform to the 2017 presentation. On the statements of operations, we reclassified interest cost, expected return on assets, amortization of prior service costs and settlements/curtailments from general and administrative expenses to other non-operating expenses, net in accordance with new accounting rules. See *Note 2 Accounting and Disclosure Changes* for more information.

NOTE 2 ACCOUNTING AND DISCLOSURE CHANGES

Recently Issued Accounting and Disclosure Changes

In February 2016, the Financial Accounting Standards Board (FASB) issued rules requiring lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by all leases with terms of more than 12 months and to include qualitative and quantitative disclosures with respect to the amount, timing, and uncertainty of cash flows arising from leases. In January 2018, the FASB also issued an update to the lease standard providing a practical expedient for the transition of land easements under the new rules. These rules will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with earlier application permitted. We are in the process of cataloging our existing lease contracts to determine the impact of these new rules on our consolidated financial statements and related disclosures.

Recently Adopted Accounting and Disclosure Changes

In May 2014, the FASB issued rules on the recognition of revenue, which created Topic 606 (ASC 606), which we adopted on January 1, 2018 using the modified retrospective method. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect prior to adoption. ASC 606 superseded existing revenue recognition requirements under GAAP and requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. We did not have an adjustment to opening retained earnings upon adoption. The new revenue standard required certain sales-related costs to be reported as other expense as opposed to being netted against oil and gas sales or other revenue. See *Note 11 Revenue Recognition* for more information.

In March 2017, the FASB issued rules requiring employers that sponsor defined benefit plans for pensions and postretirement benefits to present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. Only the service cost component will be eligible for capitalization in assets. Employers are required to present the other components of the net periodic benefit cost separately from the line item that includes the service cost and outside of any subtotal of operating income. We adopted these rules in the first quarter of 2018 with no significant impact on our financial statements. The interest cost, expected return on assets, amortization of prior service costs and settlements/curtailments have been reclassified from general and administrative expense to other non-operating expenses. We elected to apply the practical expedient that permits use of the amounts disclosed for the various components of net periodic benefit cost in the pension and postretirement benefit plans footnote as the basis of the retrospective application.

In May 2017, the FASB issued rules to simplify the guidance on the modification of share-based payment awards. The amendments provide clarity on which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting prospectively. We adopted these rules in the first quarter of 2018 with no impact on our financial statements.

Components of accumulated other comprehensive income (AOCI) are recorded net of related taxes determined using prevailing rates when the components are initially recorded. When tax rates change, a difference can arise between tax amounts recorded to AOCI as compared to the expected tax amount. Our accounting policy is to remove such residual tax effects that may remain in AOCI when the related components are ultimately settled. The change in the U.S. federal corporate tax rate in December 2017 created a residual difference. In February 2018, the FASB issued rules that give entities the option to reclassify this residual difference from AOCI to retained earnings. We early adopted this accounting standard in the first quarter of 2018 without reclassifying this difference.

NOTE 3 OTHER INFORMATION

Cash and cash equivalents consists primarily of highly liquid investments with original maturities of three months or less and are stated at cost, which approximates fair value.

Other current assets as of March 31, 2018 and December 31, 2017 consisted of the following:

	March 31, 2018	December 31, 2017
	(in millions)	
Amounts due from joint interest partners	\$ 76	\$ 76
Derivative assets from commodities contracts	44	23
Prepaid expenses	23	19
Assets held for sale	12	12
Other current assets, net	<u>\$ 155</u>	<u>\$ 130</u>

Accrued liabilities as of March 31, 2018 and December 31, 2017 consisted of the following:

	March 31, 2018	December 31, 2017
	(in millions)	
Derivative liabilities from commodities contracts	\$ 170	\$ 154
Accrued taxes other than on income	143	130
Accrued interest	67	23
Accrued employee-related costs	52	86
Other	82	82
Accrued liabilities	<u>\$ 514</u>	<u>\$ 475</u>

Other long-term liabilities included asset retirement obligations of \$407 million and \$403 million at March 31, 2018 and December 31, 2017, respectively.

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, 2018 and 2017. Interest paid, net of capitalized amounts, totaled approximately \$60 million and \$44 million for the three months ended March 31, 2018 and 2017, respectively.

NOTE 4 INVENTORIES

Inventories as of March 31, 2018 and December 31, 2017 consisted of the following:

	March 31, 2018	December 31, 2017
	(in millions)	
Materials and supplies	\$ 54	\$ 53
Finished goods	2	3
Total	<u>\$ 56</u>	<u>\$ 56</u>

NOTE 5 DEBT

As of March 31, 2018 and December 31, 2017, 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, 2018	December 31, 2017			
Credit Agreements					
2014 Revolving Credit Facility	\$ —	\$ 363	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	2,248	2,250	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	193	193	6%	November 15, 2024	Unsecured
Total	\$ 4,941	\$ 5,306			

(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 is outstanding at that time.

(b) Under the terms of the indenture, approximately \$340 million needs to be repaid by June 2021 and another \$70 million each by December 2021 and June 2022.

Deferred Gain and Issuance Costs

As of March 31, 2018, net deferred gain and issuance costs were \$275 million, consisting of \$396 million of deferred gains offset by \$85 million of deferred issuance costs and \$36 million of original issue discount. The December 31, 2017 net deferred gain and issuance costs were \$287 million, consisting of \$415 million of deferred gains offset by \$92 million of deferred issuance costs and \$36 million of original issue discount.

2014 Revolving Credit Facility

In February 2018, we paid \$297 million of the then outstanding balance on our \$1 billion senior revolving loan facility (2014 Revolving Credit Facility) with proceeds from our midstream joint venture with Ares, in accordance with the terms of our credit agreement. See *Note 6 Noncontrolling Interests* for further information on this joint venture.

As of March 31, 2018, we had approximately \$846 million of available borrowing capacity, before taking into account a \$150 million month-end minimum liquidity requirement. The borrowing base under this facility was reaffirmed at \$2.3 billion in May 2018. Our 2014 Revolving Credit Facility also includes a sub-limit of \$400 million for the issuance of letters of credit. As of March 31, 2018 and December 31, 2017, we had letters of credit outstanding of approximately \$154 million and \$148 million, respectively. These letters of credit were issued to support ordinary course marketing, insurance, regulatory and other matters.

Repurchases

In the first quarter of 2018, we repurchased \$2 million in aggregate principal amount of our 8% senior secured second-lien notes due December 15, 2022 (Second Lien Notes) for \$1.6 million in cash, resulting in a \$0.4 million pre-tax gain. During April 2018, we repurchased \$95 million in aggregate principal amount of our Second Lien Notes for \$79 million in cash, resulting in a \$15 million pre-tax gain, net of a \$1 million write-off of deferred 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, 2018 and December 31, 2017, including the fair value of variable-rate debt, was approximately \$4.4 billion and \$4.8 billion, respectively, compared to a carrying value of approximately \$4.9 billion and \$5.3 billion, respectively.

Other

As of March 31, 2018, 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 are guaranteed both fully and unconditionally and jointly and severally by all of our material wholly owned subsidiaries.

For a detailed description of our credit agreements, second lien notes and senior notes, please see our most recent Form 10-K.

NOTE 6 NONCONTROLLING INTERESTS

The following table presents the changes in noncontrolling interests by entity, reported in equity attributable to noncontrolling interest and mezzanine equity on the consolidated balance sheets, for the three months ended March 31, 2018 (in millions):

	Ares JV	BSP JV	Equity Attributable to Noncontrolling Interest	Mezzanine Equity - Redeemable Noncontrolling Interest
			Total	Ares JV
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)

In February 2018, we entered into a midstream JV with ECR Corporate Holdings L.P. (ECR), a portfolio company of Ares Management L.P. (Ares). This JV (Ares JV) holds the Elk Hills power plant, a 550-megawatt natural gas fired power plant, and a 200 million cubic foot per day cryogenic gas processing plant. Through one of our wholly owned subsidiaries, we hold 50% of the Class A common interest and 95.25% of the Class C common interest in the Ares JV. ECR holds 50% of the Class A common interest, 100% of the Class B preferred interest and 4.75% of the Class C common interest. We received \$750 million in proceeds upon entering into the Ares JV, before \$3 million for transaction costs.

The fair value of the Class A common interest and Class B preferred interest held by Ares is reported as noncontrolling interest in mezzanine equity and the fair value of the Class C common interest held by Ares is reported in equity on our balance sheet. We have elected to apply the accretion method to adjust the redeemable noncontrolling interest to its redemption price with the measurement adjustment recorded as a component of equity. The measurement adjustment was not material for the three months ended March 31, 2018.

The Ares JV is required to make monthly distributions to the Class B holders. The Class B preferred interest has a deferred payment feature where a portion of the monthly distributions may be deferred for the first three years to the fourth and fifth year. The deferred amounts accrue an additional return. Distributions to the Class B preferred interest holders are reported as a reduction to mezzanine equity on our balance sheet. The Ares JV is also required to distribute its excess cash flow over its working capital requirements, on a pro-rata basis, to the Class C common interests.

We have the option to redeem ECR's Class A and Class B interests, in whole, but not in part, at any time for \$750 million for the Class B interest and \$60 million for the Class A interest, plus any previously accrued but unpaid preferred distributions and a make-whole payment if the redemption happens prior to five years. We have the option to extend the redemption period for up to an additional two and one-half years, in which case the interests can be redeemed for \$750 million for the Class B interest and \$80 million for the Class A interest, plus any previously accrued but unpaid preferred distributions and a make-whole payment if the redemption happens prior to seven and one-half years. If we do not exercise our option to redeem at the end of the seven and one-half year period, ECR can monetize its Class A and Class B interests either in a market transaction or through a sale or lease of the Ares JV assets.

Our consolidated results reflect the full operations of our Ares JV, with Ares' share of net income being reported as a noncontrolling interest on our statement of operations.

Benefit Street Partners (BSP)

In February 2017, we entered into a joint venture with BSP (BSP JV) where BSP will contribute up to \$250 million, subject to agreement of the parties, in exchange for a preferred interest in the BSP JV. The funds contributed by BSP were used to develop certain of our oil and gas properties. BSP is entitled to preferential distributions and, if BSP receives cash distributions equal to a predetermined threshold, the preferred interest is automatically redeemed in full with no additional payment. BSP funded two \$50 million tranches in March and July 2017, before a \$2 million total issuance fee. In 2017, the \$98 million net proceeds were used to fund capital investments of \$96 million and the remainder was used for hedging activities. The BSP JV holds net profits interests (NPI) in existing and future cash flow from certain of our properties and the proceeds from the NPIs are used by the BSP JV to (1) pay quarterly minimum distributions to BSP, (2) pay for development costs within the project area, upon mutual agreement between members, and (3) make distributions to BSP until the predetermined threshold is achieved.

Our consolidated results reflect the full operations of our BSP JV, with BSP's share of net income being reported as a noncontrolling interest on our statement of operations.

Macquarie Infrastructure and Real Assets Inc. (MIRA)

Our consolidated results only include our working interest share in a joint venture we entered into with Macquarie Infrastructure and Real Assets Inc. (MIRA) in April 2017. Subject to the agreement of the parties, MIRA will invest up to \$300 million to develop certain of our oil and gas properties in exchange for a 90% working interest in the related properties (MIRA JV). MIRA will fund 100% of the development cost of such properties. Our 10% working interest increases to 75% if MIRA receives cash distributions equal to a predetermined threshold return. MIRA initially committed \$160 million, which is intended to be invested over two years. Of the committed amount, MIRA contributed \$58 million for drilling projects in 2017 and is expected to contribute \$75 million in 2018, of which \$22 million was funded in the first quarter of 2018.

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, 2018 and December 31, 2017 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 on our balance sheet would not be material to our consolidated financial position or results of operations.

We, our subsidiaries, or both, have indemnified various parties against specific liabilities those parties might incur in the future in connection with the Spin-off, purchases and other transactions that they have entered into with us. These indemnities include indemnities made to Occidental against certain tax-related liabilities that may be incurred by Occidental relating to the Spin-off and liabilities related to operation of our business while it was still owned by Occidental. As of March 31, 2018, we are not aware of material indemnity claims pending or threatened against the company.

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 while maintaining adequate liquidity and improving our ability to comply with the covenants of our Credit Facilities in case of price deterioration. We will continue to be strategic and opportunistic in implementing our hedging program as market conditions permit. Derivatives are carried at fair value and on a net basis when a legal right of offset exists with the same counterparty.

As of March 31, 2018, we did not have any derivatives designated as hedges. 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 necessarily accounted for as cash-flow or fair-value hedges. As part of our hedging program, we entered into a number of derivative transactions that resulted in the following Brent-based crude oil contracts as of March 31, 2018:

	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	FY 2020
Sold Calls:								
Barrels per day	6,168	6,127	16,086	16,057	6,023	991	961	503
Weighted-average price per barrel	\$ 60.24	\$ 60.24	\$ 58.91	\$ 65.75	\$ 67.01	\$ 60.00	\$ 60.00	\$ 60.00
Purchased Calls:								
Barrels per day	—	—	—	2,000	—	—	—	—
Weighted-average price per barrel	\$ —	\$ —	\$ —	\$ 71.00	\$ —	\$ —	\$ —	\$ —
Purchased Puts:								
Barrels per day	1,168	6,127	1,086	24,057	11,023	991	961	503
Weighted-average price per barrel	\$ 45.83	\$ 61.47	\$ 45.85	\$ 60.00	\$ 60.05	\$ 45.85	\$ 45.85	\$ 43.91
Sold Puts:								
Barrels per day	29,000	24,000	19,000	25,000	5,000	—	—	—
Weighted-average price per barrel	\$ 45.00	\$ 46.04	\$ 45.00	\$ 49.00	\$ 50.00	\$ —	\$ —	\$ —
Swaps:								
Barrels per day	44,350	19,000 ⁽¹⁾	19,000 ⁽¹⁾	7,000 ⁽²⁾	—	—	—	—
Weighted-average price per barrel	\$ 60.00	\$ 60.13	\$ 60.13	\$ 67.71	\$ —	\$ —	\$ —	\$ —

Note: Additional hedges for 2019 were put in place after March 31, 2018 that are not included in the table above.

- (1) Certain of our counterparties have options to increase swap volumes by up to 29,000 barrels per day at a weighted-average Brent price of \$60.50 for the second half of 2018.
- (2) Certain of our counterparties have options to increase swap volumes by up to 5,000 barrels per day at a weighted-average Brent price of \$70.00 for the first quarter of 2019.

As of March 31, 2018, a small portion of the crude oil derivatives in the table above were entered into by the BSP JV, including all of the 2020 hedges. This joint venture also entered into natural gas swaps for insignificant volumes for periods through July 2020.

The outcomes of the derivative positions are as follows:

- Sold calls – we make settlement payments for prices above the indicated weighted-average price per barrel.
- Purchased calls – we receive settlement payments for prices above the indicated weighted-average price per barrel.
- Purchased puts – we receive settlement payments for prices below the indicated weighted-average price per barrel.
- Sold puts – we make settlement payments for prices below the indicated weighted-average price per barrel.

From time to time, we may use combinations of these positions to increase the efficacy of our hedging program.

Fair Value of Derivatives

Our commodity derivatives are measured at fair value using industry-standard models with various inputs, including quoted forward prices, and are all classified as Level 2 in the required fair value hierarchy for the periods presented. The following table presents the fair values (at gross and net) of our outstanding derivatives as of March 31, 2018 and December 31, 2017 (in millions):

		March 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				
Commodity Contracts	Other current assets	\$ 52	\$ (8)	\$ 44
Commodity Contracts	Other assets	7	—	7
Liabilities				
Commodity Contracts	Accrued liabilities	(178)	8	(170)
Commodity Contracts	Other long-term liabilities	(7)	—	(7)
Total derivatives		<u>\$ (126)</u>	<u>\$ —</u>	<u>\$ (126)</u>
		December 31, 2017		
	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				
Commodity Contracts	Other current assets	\$ 39	\$ (16)	\$ 23
Commodity Contracts	Other assets	1	—	1
Liabilities				
Commodity Contracts	Accrued liabilities	(170)	16	(154)
Commodity Contracts	Other long-term liabilities	(3)	—	(3)
Total derivatives		<u>\$ (133)</u>	<u>\$ —</u>	<u>\$ (133)</u>

NOTE 9 EARNINGS PER SHARE

We compute basic and diluted earnings per share (EPS) using the two-class method required for participating securities. Certain restricted and performance stock awards are considered participating securities when such shares have non-forfeitable dividend rights at the same rate as 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 the 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 potentially dilutive securities.

The following table presents the calculation of basic and diluted EPS for the three months ended March 31, 2018 and 2017:

	Three months ended March 31,	
	2018	2017
	(in millions, except per-share amounts)	
Basic EPS calculation		
Net income	\$ 9	\$ 52
Net (income) loss attributable to noncontrolling interest	(11)	1
Net (loss) income attributable to common stock	(2)	53
Less: net income (loss) allocated to participating securities	—	(1)
Net (loss) income available to common stockholders	\$ (2)	\$ 52
Weighted-average common shares outstanding - basic	44.2	42.3
Basic EPS	\$ (0.05)	\$ 1.23
Diluted EPS calculation		
Net income	\$ 9	\$ 52
Net (income) loss attributable to noncontrolling interest	(11)	1
Net (loss) income attributable to common stock	(2)	53
Less: net income (loss) allocated to participating securities	—	(1)
Net (loss) income available to common stockholders	\$ (2)	\$ 52
Weighted-average common shares outstanding - basic	44.2	42.3
Dilutive effect of potentially dilutive securities	—	0.3
Weighted-average common shares outstanding - diluted	44.2	42.6
Diluted EPS	\$ (0.05)	\$ 1.22
Weighted-average anti-dilutive shares	2.5	1.5

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,			
	2018		2017	
	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)	—
Settlement loss	2	—	3	—
Total	\$ 2	\$ 2	\$ 3	\$ 2

During the three months ended March 31, 2018 and 2017, we contributed \$1 million and \$4 million, respectively, to our defined benefit pension plans. We expect to satisfy minimum funding requirements with contributions of \$3 million to our defined benefit pension plans during the remainder of 2018. The 2018 and 2017 settlements were associated with early retirements.

NOTE 11 REVENUE RECOGNITION

We account for revenue in accordance with ASC 606, Revenue from Contracts with Customers, which we adopted on January 1, 2018, using the modified retrospective method, which was applied to all contracts that were not completed as of that date. Prior period results are not adjusted and continue to be reported under the accounting standards in effect for the prior period. The new standard did not affect the timing of our revenue recognition and did not impact net income; accordingly, we did not record an adjustment to the opening balance of retained earnings.

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

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. In certain instances, transportation and processing fees are incurred by us prior to control being transferred to customers. These costs were previously offset against oil and gas sales. Upon adoption of ASC 606, we are recording these costs as a component of other expenses, net.

Our commodity sales contracts are indexed to a market price or an average index price. We recognize revenue in the amount which 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 our Elk Hills power plant is sold to the grid through wholesale power marketing entities and to a utility under a power purchase and sale agreement, which includes a capacity payment. Revenue is recognized when obligations under the terms of a contract with our customer are satisfied; generally, this occurs upon delivery of the electricity. We report electricity sales as other revenue. Revenue is measured as the amount of consideration we expect to receive based on average index pricing with payment due the month following the delivery of our product. Capacity payments are based on a fixed annual amount per kilowatt hour and monthly rates vary based on seasonality, which is consistent with how we earn the capacity payment. 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

Marketing revenues represent our activities associated with storing and transporting our production and other marketing revenue. With respect to our natural gas liquids, we may enter into contracts, typically with durations of one year or less, for refrigerated storage services that assist us in managing the seasonality of our products.

To transport our natural gas, 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 report our marketing activities on a gross basis with purchases and costs reported in other expenses, net and sales recorded in other revenue.

Disaggregation of Revenue

The following table provides disaggregated revenue for the three months ended March 31, 2018 (in millions):

Oil and gas sales:

Oil	\$	466
NGLs		63
Natural gas		46
		575
Other revenue:		
Electricity		24
Marketing		47
Interest income		1
		72
Net derivative losses		(38)
Total revenues and other	\$	609

The impact of the adoption of ASC 606 on our condensed consolidated statement of operations for the three months ended March 31, 2018 was as follows (in millions):

	As Reported ASC 606	Previous U.S. GAAP	Change
REVENUES AND OTHER			
Oil and gas sales	\$ 575	\$ 568	\$ 7
Net derivative losses	(38)	(38)	—
Other revenue	72	37	35
Total revenues and other	609	567	42
COSTS AND OTHER			
Production costs	212	212	—
General and administrative expenses	63	63	—
Depreciation, depletion and amortization	119	119	—
Taxes other than on income	38	38	—
Exploration expense	8	8	—
Other expenses, net	61	19	42
Total costs and other	501	459	42
OPERATING (LOSS) INCOME	108	108	—
NON-OPERATING (LOSS) INCOME			
Interest and debt expense, net	(92)	(92)	—
Other non-operating expenses	(7)	(7)	—
(LOSS) INCOME BEFORE INCOME TAXES	9	9	—
Income tax benefit	—	—	—
NET (LOSS) INCOME	9	9	—
Net (income) loss attributable to noncontrolling interests	(11)	(11)	—
NET (LOSS) INCOME ATTRIBUTABLE TO COMMON STOCK	\$ (2)	\$ (2)	\$ —

The adoption of ASC 606 did not have an impact on our condensed consolidated balance sheets as of March 31, 2018 and December 31, 2017.

NOTE 12 INCOME TAXES

For the three ended March 31, 2018 and 2017, we did not provide any current or deferred tax provision or benefit. The difference between our statutory tax rate and our effective tax rate for the periods is primarily related to an increase in our valuation allowance based on the expectation of a tax loss for the year. Given our recent and anticipated future earnings trends, we have recorded a full valuation allowance against our net deferred tax asset and do not believe any of our valuation allowance as of March 31, 2018 will be released within the next 12 months. The amount of the net deferred tax assets considered realizable could however be adjusted if estimates change.

The Tax Cuts and Jobs Act, signed into law on December 22, 2017, included significant changes to corporate tax provisions such as a reduction in the corporate tax rate, limitations on certain corporate deductions and favorable capital recovery provisions. The California Franchise Tax Board released its summary of Federal Income Tax Changes for 2017 on April 19, 2018, which identifies how these federal changes interact with California law. California law was not conformed to the corporate provisions which were the most significant to our business.

NOTE 13 SUBSEQUENT EVENTS

On April 2, 2018, we acquired an office building in Bakersfield, California for \$48.4 million. We currently have close to 500 employees in nine different locations in Bakersfield across multiple leases. We expect that the new building will create significant value for us by bringing all of our Bakersfield employees together into a single location over the next 12 to 18 months, which will increase the efficiency, effectiveness and collaboration of these employees. We also plan on moving our backbone infrastructure, which is also in several different buildings, including our data center and records department, into the building within a year. For the initial eight months, a former owner of the building will occupy most of the space as a tenant, from which we expect to generate rental income of approximately \$4 million in 2018. In December 2018, this tenant will downsize the space they are leasing, with a corresponding reduction in rent, until December 2022. The building is large enough to house all of our Bakersfield employees and still allow us to lease out space to other tenants after December 2018 to generate additional rental income.

On April 9, 2018, we acquired the remaining working, surface and mineral interests in the Elk Hills field from Chevron U.S.A., Inc. (Chevron) for approximately \$510 million consisting of \$460 million in cash and 2.85 million in unregistered shares of CRC common stock (the Elk Hills transaction). After the transaction, we hold in fee simple a 100% working interest, a 100% net revenue interest and all of the surface land in the Elk Hills field. The effective date of the transaction was April 1, 2018. We also entered into a Registration Rights Agreement pursuant to which we agreed to register for resale the shares issued to Chevron within two business days following the filing of this Form 10-Q for the quarterly period ended March 31, 2018. The Registration Rights Agreement limits Chevron's ability to resell shares as follows: (1) up to 1 million shares in the first 30 days following effectiveness of the registration statement, (2) up to 1 million additional shares (plus the balance of any unsold shares in the first 30-day period) in the 30 days thereafter, and (3) any remaining shares thereafter.

As part of the Elk Hills transaction, Chevron reduced its royalty interest in one of our oil and gas properties by half and extended, by two years to the end of 2020, the time frame to invest the remainder of our capital commitment on that property. As of March 31, 2018, the remaining commitment was approximately \$58 million. Any deficiency in meeting this capital investment obligation would still need to be paid in cash. We expect to fulfill the capital investment requirement within the extended period. In addition, the parties mutually agreed to release each other from pending claims with respect to Elk Hills.

NOTE 14 CONDENSED CONSOLIDATING FINANCIAL INFORMATION

Our Credit Facilities and Second Lien Notes are guaranteed both fully and unconditionally and jointly and severally by our material wholly owned subsidiaries (Guarantor Subsidiaries). Certain of our subsidiaries do not guarantee our Credit Facilities and Second Lien Notes (Non-Guarantor Subsidiaries) either because they hold assets that are less than 1% of our total consolidated assets or because they are not considered a "subsidiary" under the applicable financing agreement. The following condensed consolidating balance sheets at March 31, 2018 and December 31, 2017, condensed consolidating statements of operations and statements of cash flows for the three months ended March 31, 2018 and 2017 reflect the condensed consolidating financial information of our parent company, CRC (Parent), our combined Guarantor Subsidiaries, our combined Non-Guarantor Subsidiaries and the elimination entries necessary to arrive at the information for CRC on a consolidated basis.

The financial information may not necessarily be indicative of results of operations, cash flows or financial position had the Guarantor Subsidiaries operated as independent entities.

Condensed Consolidating Balance Sheets

	Parent	Combined Guarantor Subsidiaries	Combined Non- Guarantor Subsidiaries	Eliminations	Consolidated
As of March 31, 2018	(in millions)				
Total current assets	\$ 491	\$ 414	\$ 51	\$ (7)	\$ 949
Total property, plant and equipment, net	23	5,153	538	—	5,714
Investments in consolidated subsidiaries	5,050	95	—	(5,145)	—
Other assets	—	22	14	—	36
TOTAL ASSETS	\$ 5,564	\$ 5,684	\$ 603	\$ (5,152)	\$ 6,699
Total current liabilities	125	680	8	(7)	806
Long-term debt	4,941	—	—	—	4,941
Deferred gain and issuance costs, net	275	—	—	—	275
Other long-term liabilities	153	448	6	—	607
Amounts due to (from) affiliates	833	(833)	—	—	—
Mezzanine equity	—	—	724	—	724
Total equity	(763)	5,389	(135)	(5,145)	(654)
TOTAL LIABILITIES AND EQUITY	\$ 5,564	\$ 5,684	\$ 603	\$ (5,152)	\$ 6,699
As of December 31, 2017					
Total current assets	\$ 13	\$ 464	\$ 12	\$ (6)	\$ 483
Total property, plant and equipment, net	24	5,580	92	—	5,696
Investments in consolidated subsidiaries	5,105	606	—	(5,711)	—
Other assets	—	27	1	—	28
TOTAL ASSETS	\$ 5,142	\$ 6,677	\$ 105	\$ (5,717)	\$ 6,207
Total current liabilities	122	613	3	(6)	732
Long-term debt	5,306	—	—	—	5,306
Deferred gain and issuance costs, net	287	—	—	—	287
Other long-term liabilities	154	445	3	—	602
Amounts due to (from) affiliates	87	(87)	—	—	—
Total equity	(814)	5,706	99	(5,711)	(720)
TOTAL LIABILITIES AND EQUITY	\$ 5,142	\$ 6,677	\$ 105	\$ (5,717)	\$ 6,207

Condensed Consolidating Statement of Operations

	Parent	Combined Guarantor Subsidiaries	Combined Non- Guarantor Subsidiaries	Eliminations	Consolidated
(in millions)					
For the three months ended March 31, 2018					
Total revenues and other	\$ 1	\$ 585	\$ 65	\$ (42)	\$ 609
Total costs and other	44	460	39	(42)	501
Non-operating loss	(98)	(1)	—	—	(99)
NET (LOSS) INCOME	(141)	124	26	—	9
Net income attributable to noncontrolling interests	—	—	(11)	—	(11)
NET (LOSS) INCOME ATTRIBUTABLE TO COMMON STOCK	<u>\$ (141)</u>	<u>\$ 124</u>	<u>\$ 15</u>	<u>\$ —</u>	<u>\$ (2)</u>

For the three months ended March 31, 2017

Total revenues and other	\$ —	\$ 589	\$ 1	\$ —	\$ 590
Total costs and other	53	420	2	—	475
Non-operating (loss) income	(81)	18	—	—	(63)
NET (LOSS) INCOME	(134)	187	(1)	—	52
Net loss attributable to noncontrolling interest	—	—	1	—	1
NET (LOSS) INCOME ATTRIBUTABLE TO COMMON STOCK	<u>\$ (134)</u>	<u>\$ 187</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 53</u>

Condensed Consolidating Statement of Cash Flows

	Parent	Combined Guarantor Subsidiaries	Combined Non- Guarantor Subsidiaries	Eliminations	Consolidated
(in millions)					
For the three months ended March 31, 2018					
Net cash (used) provided by operating activities	\$ (154)	\$ 327	\$ 27	\$ —	\$ 200
Net cash used in investing activities	(1)	(136)	(1)	—	(138)
Net cash provided (used) by financing activities	633	(199)	(22)	—	412
Increase (decrease) in cash and cash equivalents	478	(8)	4	—	474
Cash and cash equivalents—beginning of period	7	8	5	—	20
Cash and cash equivalents—end of period	<u>\$ 485</u>	<u>\$ —</u>	<u>\$ 9</u>	<u>\$ —</u>	<u>\$ 494</u>
For the three months ended March 31, 2017					
Net cash (used) provided by operating activities	\$ (139)	\$ 274	\$ (2)	\$ —	\$ 133
Net cash (used) provided by investing activities	(1)	1	—	—	—
Net cash provided (used) by financing activities	140	(284)	49	—	(95)
(Decrease) increase in cash and cash equivalents	—	(9)	47	—	38
Cash and cash equivalents—beginning of period	—	12	—	—	12
Cash and cash equivalents—end of period	<u>\$ —</u>	<u>\$ 3</u>	<u>\$ 47</u>	<u>\$ —</u>	<u>\$ 50</u>

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 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, generally as a result of market-related variables such as consumption patterns; inventory levels; global and local economic conditions; the actions of the Organization of the Petroleum Exporting Countries (OPEC) and other producers and governments; actual or threatened disruptions in production, refining and processing; currency exchange rates; worldwide drilling and exploration activities; the effects of conservation, weather, geophysical and technical limitations; technological advances; transportation and storage capacity, bottlenecks and costs in producing areas; alternative energy sources; regional market conditions; and other matters affecting the supply and demand dynamics for our products; as well as the effect of changes in these variables on market perceptions. These and other factors make it impossible to predict realized prices reliably.

Much of the global exploration and production industry has been challenged in the low-commodity price cycle in recent years, putting pressure on the industry's ability to generate positive cash flow and access capital. Global oil prices were higher in the first quarter of 2018 compared to the same period of 2017. Prices for natural gas liquids (NGLs) have improved relative to crude oil prices due to tighter local supplies and higher contract prices across the NGL spectrum. Natural gas prices in the U.S. were lower in the first quarter of 2018 than the comparable period of 2017 due to higher natural gas production.

The following table presents the average daily Brent, WTI and NYMEX prices for the three months ended March 31, 2018 and 2017:

	Three months ended March 31,	
	2018	2017
Brent oil (\$/Bbl)	\$ 67.18	\$ 54.66
WTI oil (\$/Bbl)	\$ 62.87	\$ 51.91
NYMEX gas (\$/MMBtu)	\$ 2.87	\$ 3.26

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 72% of the oil consumed in 2017 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. Additionally, our differentials improved against Brent during 2017, continuing into the early part of 2018, in response to strong demand for California crude oil as well as a decline in California crude oil production.

Prices and differentials for NGLs 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 magnify pricing volatility.

Natural gas prices and differentials are strongly affected by local market fundamentals, as well as availability of transportation capacity from producing areas. Transportation capacity influences prices because California imports about 90% of its natural gas from other states and Canada. As a result, we typically enjoy favorable pricing relative to out-of-state producers since we can deliver our gas for lower transportation costs. Due to our much lower natural gas production compared to our oil production, the changes in natural gas prices have a smaller impact on our operating results.

In addition to selling natural gas, we also use 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, but higher prices still have a net positive effect on our operating results. Conversely, lower natural gas prices generally have a net negative effect on our results, but lower the cost of our steamflood projects and power generation.

Our earnings are also affected by the performance of our 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 Elk Hills and nearby fields and increase reliability. The remaining electricity is sold to the grid and a utility under a power purchase and sales agreement that includes a capacity payment. The price obtained for excess power impacts our earnings but generally by an insignificant amount.

Tariffs of 25% for steel and 10% for aluminum on foreign imports from certain countries were made effective on March 23, 2018. We procure tubular goods and equipment from multiple vendors. We do not expect these tariffs to have a material impact on our costs.

We opportunistically seek strategic hedging transactions to help protect our cash flow, operating margin and capital program from the cyclical nature of commodity prices while maintaining adequate liquidity and improving our ability to comply with our debt covenants in case of price deterioration. 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 necessarily accounted for as cash-flow or fair-value hedges.

We respond to economic conditions by adjusting the amount and allocation of our capital program, aligning the size of our workforce with our level of activity and continuing to identify efficiencies and cost savings. The reductions in our capital program in 2015 and 2016 negatively impacted our 2017 production levels. With our increased capital program in 2017, our oil production flattened. With our 2018 program, even excluding acquisitions, we expect to achieve oil production growth in the second half of the year and exit the year with higher production than the beginning of the year. Volatility in oil prices may materially affect the quantities of oil and gas reserves we can economically produce over the longer term.

Seasonality

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

Joint Ventures

Exploration and Development Joint Ventures

In line with our strategy, we have entered into a number of joint ventures (JVs) which 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 February 2017, we entered into a joint venture with Benefit Street Partners (BSP) where BSP will contribute up to \$250 million, subject to agreement of the parties, in exchange for a preferred interest in the BSP joint venture (BSP JV). The funds contributed by BSP were used to develop certain of our oil and gas properties. BSP is entitled to preferential distributions and, if BSP receives cash distributions equal to a predetermined threshold, the preferred interest is automatically redeemed in full with no additional payment. BSP funded two \$50 million tranches in March and July 2017, before a \$2 million total issuance fee. In 2017, the \$98 million net proceeds were used to fund capital investments of \$96 million and the remainder was used for hedging activities. We expect funding of the third tranche of BSP capital in the second quarter of 2018. The BSP JV holds net profits interests (NPI) in existing and future cash flow from certain of our properties and the proceeds from the NPIs are used by the BSP JV to (1) pay quarterly minimum distributions to BSP, (2) pay for development costs within the project area, upon mutual agreement between members, and (3) make distributions to BSP until the predetermined threshold is achieved. Our consolidated results reflect the full operations of our BSP JV, with BSP's share of net income and net assets being shown separately as a noncontrolling interest in the accompanying consolidated statements of operations and consolidated balance sheets, respectively.

In April 2017, we entered into a JV with Macquarie Infrastructure and Real Assets Inc. (MIRA) under which MIRA will invest up to \$300 million, subject to agreement of the parties, to develop certain of our oil and gas properties in exchange for a 90% working interest in the related properties (MIRA JV). MIRA will fund 100% of the development cost of such properties. Our 10% working interest increases to 75% if MIRA receives cash distributions equal to a predetermined threshold return. MIRA initially committed \$160 million, which is intended to be invested over two years. Of the committed amount, MIRA contributed \$58 million for drilling projects in 2017 and is expected to contribute \$75 million in 2018, of which \$22 million was funded in the first quarter of 2018. Our consolidated results reflect only our working interest share in our MIRA JV.

We have also entered into a number of exploration joint ventures where our partners carry all or substantially all of our exploration costs. These JV partners have committed capital of approximately \$30 million and could provide an additional \$45 million in capital if certain milestones are met.

Midstream Joint Venture

In February 2018, we entered into a midstream JV with ECR Corporate Holdings L.P. (ECR), a portfolio company of Ares Management L.P. (Ares). This JV (Ares JV) holds the Elk Hills power plant, a 550-megawatt natural gas fired power plant, and a 200 million cubic foot per day cryogenic gas processing plant. Through one of our wholly owned subsidiaries, we hold 50% of the Class A common interest and 95.25% of the Class C common interest in the Ares JV. ECR holds 50% of the Class A common interest, 100% of the Class B preferred interest and 4.75% of the Class C common interest. We received \$750 million in proceeds upon entering into the Ares JV, before \$3 million of transaction costs.

The fair value of the Class A common interest and Class B preferred interest held by Ares is reported as noncontrolling interest in mezzanine equity and the fair value of the Class C common interest held by Ares is reported in equity on our balance sheet. We have elected to apply the accretion method to adjust the redeemable noncontrolling interest to its redemption price with the measurement adjustment recorded as a component of equity. The measurement adjustment was not material for the three months ended March 31, 2018.

The Ares JV is required to make monthly distributions to the Class B holders. The Class B preferred interest has a deferred payment feature where a portion of the monthly distributions may be deferred for the first three years to the fourth and fifth year. The deferred amounts accrue an additional return. Distributions to the Class B preferred interest holders are reported as a reduction to mezzanine equity on our balance sheet. The Ares JV is also required to distribute its excess cash flow over its working capital requirements, on a pro-rata basis, to the Class C common interests.

We have the option to redeem ECR's Class A and Class B interests, in whole, but not in part, at any time for \$750 million for the Class B interest and \$60 million for the Class A interest, plus any previously accrued but unpaid preferred distributions and a make-whole payment if the redemption happens prior to five years. We have the option to extend the redemption period for up to an additional two and one-half years, in which case the interests can be redeemed for \$750 million for the Class B interest and \$80 million for the Class A interest, plus any previously accrued but unpaid preferred distributions and a make-whole payment if the redemption happens prior to seven and one-half years. If we do not exercise our option to redeem at the end of the seven and one-half year period, ECR can monetize its Class A and Class B interests either in a market transaction or through a sale or lease of the Ares JV assets.

Our consolidated results reflect the full operations of our Ares JV, with Ares' share of net income being reported as a noncontrolling interest on our statement of operations.

Private Placement

In February 2018 and in connection with the formation of the Ares JV, an Ares-led investor group purchased approximately 2.3 million shares of our common stock in a private placement for an aggregate purchase price of \$50 million.

Acquisitions and Divestitures

On April 2, 2018, we acquired an office building in Bakersfield, California for \$48.4 million. We currently have close to 500 employees in nine different locations in Bakersfield across multiple leases. We expect that the new building will create significant value for us by bringing all of our Bakersfield employees together into a single location over the next 12 to 18 months, which will increase the efficiency, effectiveness and collaboration of these employees. We also plan on moving our backbone infrastructure, which is also in several different buildings, including our data center and records department, into the building within a year. For the initial eight months, a former owner of the building will occupy most of the space as a tenant, from which we expect to generate rental income of approximately \$4 million in 2018. In December 2018, this tenant will downsize the space they are leasing, with a corresponding reduction in rent, until December 2022. The building is large enough to house all of our Bakersfield employees and still allow us to lease out space to other tenants after December 2018 to generate additional rental income.

On April 9, 2018, we acquired the remaining working, surface and mineral interests in the Elk Hills field from Chevron U.S.A., Inc. (Chevron) for approximately \$510 million consisting of \$460 million in cash and 2.85 million in unregistered shares of CRC common stock (the Elk Hills transaction). After the transaction, we hold in fee simple a 100% working interest, a 100% net revenue interest and all of the surface land in the Elk Hills field. The effective date of the transaction was April 1, 2018. We also entered into a Registration Rights Agreement pursuant to which we agreed to register for resale the shares issued to Chevron within two business days following the filing of this Form 10-Q for the quarterly period ended March 31, 2018. The Registration Rights Agreement limits Chevron's ability to resell shares as follows: (1) up to 1 million shares in the first 30 days following effectiveness of the registration statement, (2) up to 1 million additional shares (plus the balance of any unsold shares in the first 30-day period) in the 30 days thereafter, and (3) any remaining shares thereafter.

As part of the Elk Hills transaction, Chevron reduced its royalty interest in one of our oil and gas properties by half and extended, by two years to the end of 2020, the time frame to invest the remainder of our capital commitment on that property. As of March 31, 2018, the remaining commitment was approximately \$58 million. Any deficiency in meeting this capital investment obligation would still need to be paid in cash. We expect to fulfill the capital investment requirement within the extended period. In addition, the parties mutually agreed to release each other from pending claims with respect to Elk Hills.

In February 2017, we divested non-core assets resulting in \$32 million of proceeds and a \$21 million gain.

Operations

We conduct our operations on properties that we hold through fee interests, mineral leases and other contractual arrangements. We believe we are the largest private oil and natural gas mineral acreage holder in California, with interests in approximately 2.3 million net mineral acres, approximately 60% of which we hold in fee and approximately 15% of which is held by production. Our oil and gas leases have primary terms ranging from one to ten years, which are extended through the end of production once it commences. We also own a network of strategically placed infrastructure that is integrated with, and complementary to, our operations, including gas plants, oil and gas gathering systems, power plants and other related assets, which we use to 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. The contracts represented over 15% of our production for the quarter ended March 31, 2018.

In addition, in line with industry practice for reporting PSC-type contracts, we report 100% of operating costs under the PSCs in our 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 PSCs. This difference in reporting full operating costs but only our net share of production inflates our operating costs per barrel, with an equal corresponding increase in revenues, with 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 developing real estate initiatives include exploring opportunities to use our land for renewable energy opportunities such as solar energy projects; agricultural activities such as the production of fruits and nuts; and commercial real estate. We are also exploring carbon dioxide capture and storage projects and reclaimed water opportunities.

Fixed and Variable Costs

Our total production costs consist of variable costs that tend to vary depending on 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. While 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, 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 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, 2018 and 2017:

	Three months ended March 31,	
	2018	2017
Oil (MBbl/d)		
San Joaquin Basin	49	54
Los Angeles Basin	24	27
Ventura Basin	4	5
Sacramento Basin	—	—
Total	77	86
NGLs (MBbl/d)		
San Joaquin Basin	15	15
Los Angeles Basin	—	—
Ventura Basin	1	1
Sacramento Basin	—	—
Total	16	16
Natural gas (MMcf/d)		
San Joaquin Basin	143	141
Los Angeles Basin	1	1
Ventura Basin	7	8
Sacramento Basin	31	31
Total	182	181
Total Production (MBoe/d)^(a)	123	132

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 per day.

(a) Natural gas volumes have been converted to Boe based on the equivalence of energy content between six Mcf of natural gas and one barrel of oil. Barrels of oil equivalence does not necessarily result in price equivalence.

The following table sets forth the average realized prices for our products for the three months ended March 31, 2018 and 2017:

	Three months ended March 31,	
	2018	2017
Oil prices with hedge (\$ per Bbl)	\$ 62.77	\$ 50.24
Oil prices without hedge (\$ per Bbl)	\$ 67.26	\$ 50.40
NGLs prices (\$ per Bbl)	\$ 43.13	\$ 34.33
Natural gas prices (\$ per Mcf) ^(a)	\$ 2.81	\$ 2.90

(a) For the three months ended March 31, 2018, the realized gas price was impacted by the adoption of new accounting rules on revenue recognition by \$0.28 and would have been \$2.53 per Mcf under prior accounting standards.

The following table presents our average price realizations as a percentage of Brent, WTI and NYMEX for the three months ended March 31, 2018 and 2017:

	Three months ended March 31,	
	2018	2017
Oil with hedge as a percentage of Brent	93%	92%
Oil with hedge as a percentage of WTI	100%	97%
Oil without hedge as a percentage of Brent	100%	92%
Oil without hedge as a percentage of WTI	107%	97%
NGLs as a percentage of Brent	64%	63%
NGLs as a percentage of WTI	69%	66%
Natural gas as a percentage of NYMEX ^(a)	98%	89%

(a) For the three months ended March 31, 2018, the gas price realization as a percentage of NYMEX was impacted by the adoption of new accounting rules on revenue recognition and would have been 88% under prior accounting standards.

Balance Sheet Analysis

The changes in our balance sheet from December 31, 2017 to March 31, 2018 are discussed below:

	March 31, 2018 December 31, 2017	
	(in millions)	
Cash and cash equivalents	\$ 494	\$ 20
Trade receivables	\$ 244	\$ 277
Inventories	\$ 56	\$ 56
Other current assets, net	\$ 155	\$ 130
Property, plant and equipment, net	\$ 5,714	\$ 5,696
Other assets	\$ 36	\$ 28
Accounts payable	\$ 292	\$ 257
Accrued liabilities	\$ 514	\$ 475
Long-term debt	\$ 4,941	\$ 5,306
Deferred gain and issuance costs, net	\$ 275	\$ 287
Other long-term liabilities	\$ 607	\$ 602
Mezzanine equity	\$ 724	\$ —
Equity attributable to common stock	\$ (763)	\$ (814)
Equity attributable to noncontrolling interests	\$ 109	\$ 94

Cash and cash equivalents at March 31, 2018 included the remaining proceeds from the issuance of the preferred and common member interests in the Ares JV, after the pay off of \$297 million on the then outstanding balance of our 2014 Revolving Credit Facility. See *Liquidity and Capital Resources* for additional discussion of changes in cash and cash equivalents.

The decrease in trade receivables was largely the result of lower production volumes partially offset by higher prices in the first quarter of 2018 compared to the fourth quarter of 2017. The increase in other current assets, net was primarily due to changes in derivative assets. The increase in property, plant and equipment reflected capital investments for the period, partially offset by depreciation, depletion and amortization (DD&A).

The increase in accounts payable for the quarter ended March 31, 2018 was primarily due to the timing of payments and the gradual ramp up of activity. The increase in accrued liabilities was primarily due to higher property taxes, derivative obligations and obligations related to our joint ventures, as well as higher accrued interest on our Second Lien Notes due to the timing of payments. These increases were partially offset by a decrease in accrued employee-related costs, which reflected employee bonus payments in the first quarter of 2018. The decrease in long-term debt primarily reflected the pay off of the outstanding balance on our 2014 Revolving Credit Facility and repurchases of our Second Lien Notes. The decrease in deferred gain and issuance costs, net, reflected the amortization of deferred gains, partially offset by the amortization of deferred issuance costs.

Mezzanine equity reflected the value of the noncontrolling interest in our Ares JV held by ECR, which has an embedded optional redemption feature. The increase in equity attributable to common stock primarily reflected the issuance of common stock in a private placement. Equity attributable to noncontrolling interest primarily reflected the contribution from Ares, partially offset by distributions to Ares and BSP.

Statement 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,	
	2018	2017
Production costs	\$ 19.08	\$ 17.70
Production costs, excluding effects of PSC contracts ^(a)	\$ 17.47	\$ 16.66
Field general and administrative expenses ^(b)	\$ 0.72	\$ 0.76
Field depreciation, depletion and amortization ^(b)	\$ 9.63	\$ 11.07
Field taxes other than on income ^(b)	\$ 2.70	\$ 2.27

(a) As described in the Operations section, the reporting of our PSC-like 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. The amounts represent the production costs for the company after adjusting for this difference.

(b) Excludes corporate amounts.

Consolidated Results of Operations

The following represents key operating data for consolidated operations for the three months ended March 31, 2018 and 2017:

	Three months ended March 31,	
	2018	2017
	(in millions)	
Oil and gas sales ^(a)	\$ 575	\$ 487
Net derivative (losses) gains	(38)	73
Other revenue ^(a)	72	30
Production costs	(212)	(211)
General and administrative expenses ^(b)	(63)	(63)
Depreciation, depletion and amortization	(119)	(140)
Taxes other than on income	(38)	(33)
Exploration expense	(8)	(6)
Other expenses, net ^(a)	(61)	(22)
Interest and debt expense, net	(92)	(84)
Net gains on early extinguishment of debt	—	4
Gains on asset divestitures	—	21
Other non-operating expenses	(7)	(4)
Income before income taxes	9	52
Income tax benefit	—	—
Net income	9	52
Net (income) loss attributable to noncontrolling interests	(11)	1
Net (loss) income attributable to common stock	\$ (2)	\$ 53
Adjusted net income (loss)	\$ 8	\$ (43)
Adjusted EBITDAX	\$ 250	\$ 200
Effective tax rate	—%	—%

(a) We adopted the new revenue recognition standard on January 1, 2018 which required certain sales-related costs to be reported as expense as opposed to being netted against revenue. The adoption of this standard does not affect net income. Results for reporting periods beginning after January 1, 2018 are presented under the new accounting standard while prior periods are not adjusted and continue to be reported under accounting standards in effect for the prior period. Under prior accounting standards total oil and gas sales would have been \$568 million, other revenue would have been \$37 million and other expenses, net would have been \$19 million. See *Note 11 Revenue Recognition* for more information.

(b) Certain pension benefit costs of \$4 million have been reclassified to other non-operating expenses for the quarter ended March 31, 2017 to conform to the current year presentation in accordance with new accounting rules adopted during the period related to net periodic benefit costs for pensions and postretirement benefits. See *Significant Accounting and Disclosure Changes* for more information.

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 derivatives gains and losses) in nature, timing, amount and frequency. Therefore, management uses a measure called adjusted net income (loss) which excludes those items. This measure is not meant to disassociate 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).

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 Adjusted EBITDAX 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. While Adjusted EBITDAX is a non-GAAP measure, the amounts included in the calculation of Adjusted EBITDAX were computed in accordance with GAAP. A version of this measure 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. Certain items excluded from Adjusted EBITDAX 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. Adjusted EBITDAX should be read in conjunction with the information contained in our financial statements prepared in accordance with GAAP.

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

	Three months ended March 31,	
	2018	2017
	(in millions)	
Net (loss) income attributable to common stock	\$ (2)	\$ 53
Unusual, infrequent and other items:		
Non-cash derivative losses (gains), excluding noncontrolling interest	7	(75)
Early retirement, severance and other costs	2	3
Net gains on early extinguishment of debt	—	(4)
Gains on asset divestitures	—	(21)
Other, net	1	1
Total unusual, infrequent and other items	10	(96)
Adjusted net income (loss)	\$ 8	\$ (43)
Net (loss) income attributable to common stock per diluted share	\$ (0.05)	\$ 1.22
Adjusted net income (loss) per diluted share	\$ 0.18	\$ (1.02)

The following table presents a reconciliation of the GAAP financial measure of net income to the non-GAAP financial measure of Adjusted EBITDAX:

	Three months ended March 31,	
	2018	2017
	(in millions)	
Net income	\$ 9	\$ 52
Interest and debt expense, net	92	84
Depreciation, depletion and amortization	119	140
Exploration expense	8	6
Unusual, infrequent and other items	10	(96)
Other non-cash items	12	14
Adjusted EBITDAX	\$ 250	\$ 200

The following table presents the components of our net derivative (losses) gains:

	Three months ended March 31,	
	2018	2017
	(in millions)	
Non-cash derivative (losses) gains, excluding noncontrolling interest	\$ (7)	\$ 75
Non-cash derivative losses for noncontrolling interest	—	(1)
Net payments on settled derivatives	(31)	(1)
Net derivative (losses) gains	<u>\$ (38)</u>	<u>\$ 73</u>

Three months ended March 31, 2018 vs. 2017

Oil and gas sales increased 18%, or \$88 million, for the three months ended March 31, 2018, compared to the same period of 2017, due to increases of approximately \$130 million and \$13 million from higher oil and NGL realized prices, respectively, partially offset by \$1 million from lower natural gas realized prices and the effects of lower oil and NGL production of \$53 million and \$1 million, respectively. The higher realized oil prices reflected the significant increase in global oil prices and improved differentials. Our total daily production volumes averaged 123 MBoe in the first quarter of 2018, compared with 132 MBoe in the first quarter of 2017, representing a year-over-year decline rate of 7%. The 2018 production was negatively impacted by 3 MBoe per day due to the PSCs governing our Long Beach operations. Excluding this PSC effect, our year-over-year production decline would have been under 5%. Average oil production decreased by 10%, or 9,000 barrels per day, to 77,000 barrels per day in the three months ended March 31, 2018. NGL production was 16,000 barrels per day for each of the three months ended March 31, 2018 and 2017. Natural gas production increased by 1% to 182 MMcf per day.

Net derivative losses were \$38 million for the three months ended March 31, 2018, compared to gains of \$73 million in the comparable period of 2017, representing an overall change of \$111 million. We recorded non-cash derivative losses of \$7 million for the first quarter of 2018, compared to gains of \$74 million in the prior comparative period, and made cash payments of \$31 million and \$1 million for the three months ended March 31, 2018 and 2017, respectively. The non-cash change reflected changes in the commodity price curves based on our derivative positions at the end of each of the respective periods.

The increase in other revenue of \$42 million for the three months ended March 31, 2018, compared to the same period of 2017, was largely the result of \$35 million from the adoption of new accounting rules on the recognition of revenue in the three months ended March 31, 2018 while the prior comparative period was not adjusted. The increase resulting from the accounting change was offset in its entirety by an increase in other expenses, net with no effect on net income.

Production costs were comparable for the three months ended March 31, 2018 and the same period of the prior year on an absolute dollar basis. Production costs per Boe increased 8% to \$19.08 per Boe for the three months ended March 31, 2018, compared to \$17.70 per Boe for the same period of 2017, due to lower production volumes between comparative periods.

Our general and administrative expenses were comparable for the three months ended March 31, 2018 and the same period of 2017. The non-cash portion of general and administrative expenses, primarily comprising equity compensation costs, was approximately \$4 million and \$5 million for the three months ended March 31, 2018 and 2017, respectively.

DD&A expense decreased by \$21 million for the three months ended March 31, 2018, compared to the same period of 2017, due to lower DD&A rates and lower volumes resulting in decreases of \$14 million and \$7 million, respectively.

Taxes other than on income increased 15% for the three months ended March 31, 2018, compared to the same period of 2017, largely due to higher greenhouse gas allowance costs.

The increase in other expenses of \$39 million to \$61 million for the three months ended March 31, 2018, compared to \$22 million in the same period of 2017, was largely the result of impacts from the adoption of new accounting rules on the recognition of revenue and recording of expenses on the statement of operations. Transportation and processing fees that were previously netted against oil and gas sales were reclassified to other expenses in accordance with these new rules.

Interest and debt expense, net, increased to \$92 million for the three months ended March 31, 2018, compared to \$84 million in the same period of 2017, primarily due to higher blended interest rates resulting from our 2017 Credit Agreement entered into in the fourth quarter of 2017.

Net gains on early extinguishment of debt consisted of the gains on open-market repurchases for the three months ended March 31, 2017.

Gains on asset divestitures reflected non-core asset sales during the three months ended March 31, 2017.

Other non-operating expenses for the three months ended March 31, 2018 reflected transaction costs related to our JVs as well as net periodic benefit costs.

Liquidity and Capital Resources

Cash Flow Analysis

	Three months ended March 31,	
	2018	2017
	(in millions)	
Net cash provided by operating activities	\$ 200	\$ 133
Net cash used in investing activities	\$ (138)	\$ —
Net cash provided (used) by financing activities	\$ 412	\$ (95)
Adjusted EBITDAX	\$ 250	\$ 200

Our net cash provided by operating activities is sensitive to many variables, including market changes in commodity prices. Commodity price sensitivity also leads to changes in other variables in our business including our level of workover activity and adjustments to our capital program. Our operating cash flow increased 50%, or \$67 million, to \$200 million for the three months ended March 31, 2018 from \$133 million in the same period of 2017 due to higher realized prices, including the effect of hedges, on lower volumes.

Cash interest increased by \$17 million for the three months ended March 31, 2018 due to higher blended interest rates and the timing of interest payments. Taxes other than on income increased \$5 million from the first quarter of 2017 due to price increases for greenhouse gas allowances. Changes in working capital for the period also contributed to the increase in operating cash flow.

Our net cash used in investing activities of \$138 million for the three months ended March 31, 2018 included approximately \$134 million of capital investments (net of \$5 million in capital-related accruals) and approximately \$3 million of acquisition-related prepayments on the office building purchased in April 2018. Our net cash used in investing activities of zero for the three months ended March 31, 2017 included \$33 million of capital investments (net of \$17 million in capital-related accruals), offset by \$33 million in proceeds from asset divestitures.

Our net cash provided by financing activities of \$412 million for the three months ended March 31, 2018 primarily comprised of \$747 million in net contributions related to our Ares JV and \$50 million from the issuance of common stock, partially offset by \$363 million 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. For the three months ended March 31, 2017, our net cash used by financing activities of \$95 million included approximately \$78 million of net payments on our 2014 Revolving Credit Facility, \$41 million of payments on the 2014 Term Loan and \$26 million of debt repurchases and transaction costs, partially offset by net contributions related to our BSP JV of \$49 million.

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,	
	2018	2017
	(in millions)	
Net cash provided by operating activities	\$ 200	\$ 133
Cash interest	61	44
Exploration expenditures	6	5
Other changes in operating assets and liabilities	(18)	17
Other, net	1	1
Adjusted EBITDAX	\$ 250	\$ 200

The increase in Adjusted EBITDAX for the three months ended March 31, 2018, compared to the same period of 2017, primarily resulted from higher realized prices after hedge settlements.

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 JV funding to supplement our capital program. In February 2018, we entered into the Ares JV where we received \$747 million in net proceeds and raised \$50 million in a private placement of our common stock with an Ares-led investor group. The net proceeds from the Ares JV were used to pay off the then outstanding balance on our 2014 Revolving Credit Facility of \$297 million. During 2017, we closed two key JV transactions. Under these arrangements our JV partners invested \$154 million in our drilling programs, some of which is not included in our consolidated results. In April 2018, we acquired the remaining working, surface and mineral interests in our Elk Hills Unit for \$460 million in cash and 2.85 million shares of CRC common stock. After the transaction, we expect to add operating cash flow of approximately \$100 million per year, at a flat \$65 Brent. We also expect to achieve annualized operational savings of \$5 million in the short term and approximately \$15 million of additional synergies within the following 18 months. We expect the combination of these sources of capital will be adequate to fund our future capital expenditures, debt service and operating needs.

Significant changes in oil and natural gas prices have a material impact on our liquidity. Declining commodity prices negatively affect our operating cash flow but lower natural gas prices have a positive indirect effect on operating expenses. The inverse is also true during periods of rising commodity prices. To mitigate some of the risk inherent in oil prices, we have utilized various derivative instruments to hedge price risk. If commodity prices were to prevail throughout 2018 at about current levels, we would expect to be able to fund our 2018 operations and capital program with our operating cash flows. We maintain flexibility within our capital program that helps us to scale our internally funded capital as necessary to stay within our operating cash flow.

Given our net operating loss carryforwards from prior periods, we do not expect to pay cash taxes for the foreseeable future.

As of March 31, 2018, we have approximately \$846 million of available borrowing capacity under our 2014 Revolving Credit Facility, before taking into account a monthly minimum \$150 million liquidity requirement. Following the Elk Hills transaction and the debt repurchases completed during April 2018, our available borrowing capacity, on a pro forma basis, would be approximately \$800 million. Our ability to borrow funds under our 2014 Revolving Credit Facility is limited by the terms and conditions of that facility and our ability to comply with its covenants. At March 31, 2018, we were in compliance with our debt covenants.

As of March 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
Credit Agreements				
2014 Revolving Credit Facility	\$ —	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	2,248	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	193	6%	November 15, 2024	Unsecured
Total	\$ 4,941			

(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 is outstanding at that time.

(b) Under the terms of the indenture, approximately \$340 million needs to be repaid by June 2021 and another \$70 million each by December 2021 and June 2022.

Credit Agreements

For a detailed description of our credit agreements, second lien notes and senior notes, please see our most recent Form 10-K.

2014 Revolving Credit Facility

As of March 31, 2018, we had approximately \$846 million of available borrowing capacity, before taking into account a \$150 million month-end minimum liquidity requirement. The borrowing base under this facility was reaffirmed at \$2.3 billion in May 2018. 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, 2018 and December 31, 2017, we had letters of credit outstanding of approximately \$154 million and \$148 million, respectively. These letters of credit were issued to support ordinary course marketing, insurance, regulatory and other matters.

Repurchases

In the first quarter of 2018, we repurchased \$2 million in aggregate principal amount of our 8% senior secured second-lien notes due December 15, 2022 (Second Lien Notes) for \$1.6 million in cash, resulting in a \$0.4 million pre-tax gain. During April 2018, we also repurchased \$95 million in aggregate principal amount of our Second Lien Notes for \$79 million in cash, resulting in a \$15 million pre-tax gain, net of a \$1 million write-off of deferred issuance costs.

Other

At March 31, 2018, 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 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, 2018 would result in a \$3 million change in annual interest expense.

Hedging

Our strategy for protecting our cash flow, operating margin and capital program, while maintaining adequate liquidity, also includes our hedging program. We currently have the following Brent-based crude oil contracts, which include activity subsequent to March 31, 2018:

	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	FY 2020
Sold Calls:								
Barrels per day	6,168	6,127	16,086	16,057	6,023	991	961	503
Weighted-average price per barrel	\$ 60.24	\$ 60.24	\$ 58.91	\$ 65.75	\$ 67.01	\$ 60.00	\$ 60.00	\$ 60.00
Purchased Calls:								
Barrels per day	—	—	—	2,000	—	—	—	—
Weighted-average price per barrel	\$ —	\$ —	\$ —	\$ 71.00	\$ —	\$ —	\$ —	\$ —
Purchased Puts:								
Barrels per day	1,168	6,127	1,086	29,057	21,023	10,991	961	503
Weighted-average price per barrel	\$ 45.83	\$ 61.47	\$ 45.85	\$ 60.86	\$ 62.40	\$ 63.27	\$ 45.85	\$ 43.91
Sold Puts:								
Barrels per day	29,000	24,000	19,000	30,000	15,000	10,000	—	—
Weighted-average price per barrel	\$ 45.00	\$ 46.04	\$ 45.00	\$ 49.17	\$ 50.00	\$ 50.00	\$ —	\$ —
Swaps:								
Barrels per day	44,350	19,000 ⁽¹⁾	19,000 ⁽¹⁾	7,000 ⁽²⁾	—	—	—	—
Weighted-average price per barrel	\$ 60.00	\$ 60.13	\$ 60.13	\$ 67.71	\$ —	\$ —	\$ —	\$ —

(1) Certain of our counterparties have options to increase swap volumes by up to 29,000 barrels per day at a weighted-average Brent price of \$60.50 for the second half of 2018.

(2) Certain of our counterparties have options to increase swap volumes by up to 5,000 barrels per day at a weighted-average Brent price of \$70.00 for the first quarter of 2019.

As of March 31, 2018, a small portion of the crude oil derivatives in the table above were entered into by our BSP joint venture entity, including all of the 2020 hedges. This joint venture also entered into natural gas swaps for insignificant volumes for periods through July 2020.

Excluding derivatives entered into by our BSP joint venture entity, our hedge program currently covers a significant portion of our oil production for full year 2018. In the first and second quarters of 2019, we hedged approximately 35,000 and 20,000 barrels per day, respectively. The hedges generally form an effective floor around \$63 Brent so long as Brent trades above \$50 per barrel. A portion of these hedge volumes continues to provide us with upside at prices above \$67. For the third quarter of 2019, we have hedged 10,000 barrels of oil per day, providing an effective oil price floor at \$65 Brent so long as Brent trades above \$50 per barrel. At prices above \$65, we continue to benefit from upside. Our philosophy regarding hedging continues to target up to 50% of our production in order to provide more certainty in cash flows and underpin our capital program.

In May 2018 we entered into derivatives that cap our interest rate exposure with respect to \$1.3 billion of variable rate indebtedness. The interest rate caps 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.

2018 Capital Program

With stronger expected cash flows from commodity price improvements and the recent Elk Hills transaction, along with expected synergies, we increased our planned 2018 capital program to a range from \$550 million to \$600 million, which includes approximately \$100 to \$150 million of capital to be funded by our JV partners. The additional capital projects will commence in the second quarter of 2018 with the majority of the investments occurring in the second half of the year.

We are focusing our 2018 capital on oil projects, which provide higher margins and low decline rates that we believe will generate cash flow to fund increasing capital budgets that will grow production. Our approach to our 2018 drilling program is consistent with our stated strategy to remain financially disciplined and fund projects through either internally generated cash flow or JV capital to maintain our liquidity and further strengthen our balance sheet. We continue to deploy our partners' capital as part of our BSP and MIRA joint ventures and opportunistically pursue additional strategic relationships. We will deploy capital to projects that help continue to stabilize our production, develop our long-term resources and return our production to a growth profile. Our current drilling inventory comprises a diversified portfolio of oil and natural gas locations that are economically viable in a variety of operating and commodity price conditions and includes our core fields: Elk Hills, Wilmington, Kern Front, Huntington Beach and the continued delineation and appraisal of our assets which offer future value driven growth such as the Buena Vista, Ventura and southern San Joaquin areas.

Our 2018 drilling program includes development of conventional and unconventional resources. The depth of our primary conventional wells is expected to range from 2,000 to 15,000 feet. With a significant reduction in our drilling costs since 2014, many of our deep conventional and unconventional wells have become more competitive. We expect to use 60% of our capital on drilling projects, which includes 18% of JV funded capital. We are focusing our conventional program primarily in Wilmington, Huntington Beach, Kern Front, Pleito Ranch, Yowlumne and Mount Poso, which will largely consist of waterfloods and steamfloods along with primary drilling. We intend to drill unconventional wells in Buena Vista.

We also plan to use 16% of our 2018 capital program for capital workovers on existing well bores. Capital workovers are some of the highest Value Creation Index (VCI) 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 21% of our 2018 capital program is intended for development facilities for our newer projects, including pipeline and gathering line interconnections, gas compression, water management systems and associated safety and environmental controls, and about 3% is intended to be used to maintain the mechanical integrity, safety and environmental performance of existing systems and for exploration.

Lawsuits, Claims, Contingencies and Commitments

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, 2018 and December 31, 2017 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 on our balance sheet would not be material to our consolidated financial position or results of operations.

We, our subsidiaries, or both, have indemnified various parties against specific liabilities those parties might incur in the future in connection with the Spin-off, purchases and other transactions that they have entered into with us. These indemnities include indemnities made to Occidental against certain tax-related liabilities that may be incurred by Occidental relating to the Spin-off and liabilities related to operation of our business while it was still owned by Occidental. As of March 31, 2018, we are not aware of material indemnity claims pending or threatened against us.

Significant Accounting and Disclosure Changes

See *Note 2 Accounting and Disclosure Changes* under Part I Item 1 of this report for a discussion of new accounting matters.

Safe Harbor Statement Regarding Outlook and Forward-Looking Information

The information in this document includes 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 specifically include our expectations as to our future financial position, liquidity, cash flows, results of operations and business prospects, budgets, drilling and workover program, maintenance capital requirements, production, costs, operations, reserves, hedging activities, transactions and capital investments and other guidance. Actual results may differ from anticipated results, sometimes materially, and reported results should not be considered an indication of future performance. You can typically identify forward-looking statements by words such as aim, anticipate, believe, budget, continue, could, effort, estimate, expect, forecast, goal, guidance, intend, likely, may, might, objective, outlook, plan, potential, predict, project, seek, should, target, will or would and other similar words that reflect the prospective nature of events or outcomes. For any such forward-looking statement that includes a statement of the assumptions or bases underlying such forward-looking statement, we caution that, while we believe such assumptions or bases to be reasonable and make them in good faith, assumed facts or bases almost always vary from actual results, sometimes materially. Material risks that may affect our results of operations and financial position appear in Part I, Item 1A, *Risk Factors* of the 2017 Form 10-K.

Factors (but not necessarily all the factors) that could cause results to differ include: commodity price fluctuations; the effect of our debt on our financial flexibility; insufficient capital, including as a result of lender restrictions or reductions in our borrowing base, lower-than-expected operating cash flow, unavailability of capital markets or inability to attract investors; equipment, service or labor price inflation or unavailability; inability to replace reserves; inability to timely obtain government permits and approvals; inability to monetize selected assets or enter into favorable joint ventures; restrictions imposed by regulations 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; risks of drilling; unexpected geologic conditions; tax law changes; changes in business strategy; competition with larger, better funded competitors for and costs of oilfield equipment, services, qualified personnel and acquisitions; incorrect estimates of reserves and related future net cash flows; risks related to our disposition, joint venture and acquisition activities; the recoverability of resources; limitations on our ability to enter into efficient hedging transactions; steeper-than-expected production decline rates; lower-than-expected production, reserves or resources from development projects or acquisitions; the effects of litigation; insufficient insurance against and concentration of exposure in California to accidents, mechanical failures, transportation or storage constraints, labor difficulties, cyber attacks or other catastrophic events. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. We undertake no responsibility to publicly release the result of any revision of our forward-looking statements after the date they are made.

All forward-looking statements, expressed or implied, included in this report are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For the three months ended March 31, 2018, there were no material changes in the information required to be 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 2017 Form 10-K, except as discussed below.

Commodity Price Risk

As of March 31, 2018, we had a net derivative liability of \$126 million carried at fair value, as determined from prices provided by external sources that are not actively quoted, which predominantly mature in 2018. See additional hedging information in *Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources*.

Counterparty Credit Risk

Our credit risk relates primarily to trade receivables and derivative financial instruments. Credit exposure for each customer is monitored for outstanding balances and current activity. For derivative instruments entered into as part of our hedging program, we are subject to counterparty credit risk to the extent the counterparty is unable to meet its settlement commitments. We actively manage this credit risk by selecting counterparties that we believe to be financially strong and continuing to monitor their financial health. Concentration of credit risk is regularly reviewed to ensure that counterparty credit risk is adequately diversified.

As of March 31, 2018, the substantial majority of the credit exposures related to our business was with investment-grade counterparties. We believe exposure to credit-related losses related to our business at March 31, 2018 was not material and losses associated with credit risk have been insignificant for all years presented.

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, 2018.

During the first quarter of 2018, we adopted the new accounting standard for revenue recognition, Topic 606, and there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

In November 2017, Chevron initiated a contractual dispute resolution process regarding audit claims alleging that it has been underallocated NGLs by approximately \$200 million and overcharged for power by \$50 million at the Elk Hills field. After extensive review of these claims, we believed that we had in fact overallocated oil, NGLs and natural gas to Chevron. As part of our acquisition of Chevron's interest in the Elk Hills Unit in April 2018, the parties released their claims against each other under the Unit Operating Agreement.

For information regarding legal proceedings, see *Note 7* to the consolidated financial statements 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, 2017.

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, 2017.

Item 5. Other Disclosures

None.

Item 6. Exhibits

- 4.1 [Registration Rights Agreement, dated as of April 9, 2018, by and between California Resources Corporation and Chevron U.S.A. Inc. \(filed as Exhibit 4.01 to the Company's Current Report on Form 8-K filed on April 9, 2018, and incorporation herein by reference\).](#)
- 10.1* [Form of 2018 Nonstatutory Stock Option Award Terms and Conditions.](#)
- 10.2* [Form of 2018 Restricted Stock Unit Award Terms and Conditions.](#)
- 10.3* [Form of 2018 Performance Stock Unit Award Terms and Conditions.](#)
- 10.4 [Second Amended and Restated Limited Liability Company Agreement of Elk Hills Power, LLC, dated as of February 7, 2018, by and among Elk Hills Power, LLC, California Resources Elk Hills, LLC and ECR Corporate Holdings L.P. \(filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 7, 2018, and incorporated herein by reference\).](#)
- 10.5 [Commercial Agreement, dated as of February 7, 2018, by and between Elk Hills Power, LLC and California Resources Elk Hills, LLC \(filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on February 7, 2018, and incorporated herein by reference\).](#)
- 10.6 [Master Services Agreement, dated as of February 7, 2018, by and between Elk Hills Power, LLC and California Resources Elk Hills, LLC. \(filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed on February 7, 2018, and incorporated herein by reference\).](#)
- 10.7 [Form of Stock Purchase Agreement, dated as of February 7, 2018 \(filed as Exhibit 10.4 to the Company's Current Report on Form 8-K filed on February 7, 2018, and incorporated herein by reference\).](#)
- 10.8 [Registration Rights Agreement, dated as of February 7, 2018, by and between California Resources Corporation and the purchasers named therein \(filed as Exhibit 10.5 to the Company's Current Report on Form 8-K filed on February 7, 2018, and incorporated herein by reference\).](#)
- 12* [Computation of Ratios of Earnings to Fixed Charges.](#)
- 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 9, 2018

/s/ Roy Pineci

Roy 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 21, 2018
Shares of Common Stock Subject to This Option:	<< Options Granted >>
Vesting Schedule:	One-third of the Options on February 20, 2019; One-third of the Options on February 20, 2020; One-third of the Options on February 20, 2021 (each being a "Vesting Date")
Purchase Price Per Share:	\$20.17

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 Forfeiture 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

PERFORMANCE STOCK UNIT AWARD TERMS AND CONDITIONS

Grantee:	<<Grantee Name>>
Date of Grant:	February 21, 2018
Performance Stock Units	<<Units Granted>>
Vesting Date:	February 20, 2021
Performance Period:	January 1, 2018 through December 31, 2020

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 specified in Exhibit 1.

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 60% 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 40% 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, or, if earlier, the date on which the Grantee forfeits the right to receive such PS Unit. 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.

EXHIBIT 1

Performance Goal

The **Performance Goal** is based 50% on Cost per BOE (combined Production Costs and General and Administrative Expenses per barrel of oil equivalent (BOE)) and 50% on Value Creation Index (VCI), as described below.

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

$$(\text{Cost per BOE Performance Factor} + \text{VCI Performance Factor}) / 2$$

Cost per BOE Performance Factor

The Cost per BOE Performance Factor shall be determined by the following scale:

Change in CRC Cost per BOE(1) Minus Change in Peer Group Cost per BOE(2)	Cost per BOE Performance Factor (3)
Less than or equal to -10%	200%
0%	100%
10%	50%
Greater than 10%	0%

(1)Change in CRC Cost per BOE is the percentage change in CRC's Average Cost per BOE for the years 2018, 2019 and 2020 compared to CRC's Cost per BOE for the year 2017.

CRC's Average Cost per BOE is the weighted average of CRC's Cost per BOE for the years 2018, 2019 and 2020, weighted by CRC's production for each year.

CRC's Cost per BOE is the sum of the i) Production Costs and ii) General and Administrative Expenses, both measured on a per barrel of oil equivalent (BOE) basis for the applicable period. The Production Costs and General and Administrative Expenses shall be adjusted to reflect all cash-settled equity-based long-term incentive awards being accounted for as equity-settled awards based on the stock price on the award grant date.

(2)Change in Peer Group Cost per BOE is the percentage change in the Peer Group Average Cost per BOE for 2018, 2019 and 2020 compared to the Peer Group Average Cost per BOE for 2017.

Peer Group Average Cost per BOE for 2017 is the average of the Peer Company Cost per BOE for the Peer Group for the year 2017.

Peer Group Average Cost per BOE for 2018, 2019 and 2020 is the average of the Peer Company Cost per BOE for 2018, 2019 and 2020 for the Peer Group.

Peer Company Cost per BOE is, for each Peer Company, the sum of the i) Production Costs and ii) General and Administrative Expenses for the applicable Peer Company, both measured on a per barrel of oil equivalent (BOE) basis for the applicable year. The Production Costs and General and Administrative Expenses shall be calculated using assumptions and methodology approved by the Executive Compensation Subcommittee of the Compensation Committee at the time the Performance Goal was approved.

Peer Company Cost per BOE for 2018, 2019 and 2020 is, for each Peer Company, the weighted-average of the Peer Company Cost per BOE for the years 2018, 2019 and 2020, weighted by the Peer Company’s production for each year.

Peer Group shall consist of: Anadarko Petroleum Corporation, BP p.l.c., Canadian Natural Resources Limited, Cenovus Energy Inc., Chevron Corporation, ConocoPhillips Company, Denbury Resources Inc., Exxon Mobil Corporation, Hess Corporation, Husky Energy Inc., Imperial Oil Limited, Marathon Oil Company, Occidental Petroleum Corporation, Royal Dutch Shell pic, Suncor Energy Inc. (collectively, the “**Peer Group**” and individually, a “**Peer Company**”); provided however, that consistent with Section 162(m), 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 Cost per BOE Performance Factor will be determined with respect to the remaining Peer Group as set forth above.

(3)**Cost per BOE Performance Factor** shall be linearly interpolated between indicated values for results between values indicated in table.

VCI Performance Factor

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

Cumulative Value Creation Index (1)	VCI Performance Factor (2)
1.5 or greater	200%
1.3	100%
1.1	50%
Less than 1.1	0%

(1)**Cumulative Value Creation Index** shall be calculated as the weighted average of the Value Creation Index results for the full calendar years 2018, 2019, and 2020, weighted based on discounted capital invested for the plan year. Value Creation Index is the present value added per discounted dollar of investment, calculated as A divided by B where “A” is the discounted expected future revenue from production of reserves added during the plan year net of production operating expenses and taxes other than income taxes, but before any general and

administrative charges and income taxes, and “B” is the discounted capital invested for the plan year. The future revenue calculations will be based on the five-year Brent strip (including impact of any hedges), with prices held stable after five years. 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.

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

**RESTRICTED STOCK UNIT AWARD
TERMS AND CONDITIONS**

Grantee: <<Grantee Name>>

Date of Grant: February 21, 2018

Restricted Stock Units: <<Units Granted>>

Vesting Date Schedule: One-third of the Restricted Stock Units on February 20, 2019; One-third of the Restricted Stock Units on February 20, 2020; One-third of the Restricted Stock Units on February 20, 2021 (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 60% in the form of shares of Common Stock (equal in number to 60% 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 40% in cash (equal to the product of 40% 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.

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 AND SUBSIDIARIES
COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES

The following table sets forth our historical ratios of earnings to fixed charges for the periods indicated. You should read these ratios of earnings to fixed charges in connection with our consolidated and combined financial statements, including the notes to those statements.

	Three months ended March 31,					
	2018	2017	2016	2015	2014 ^(a)	2013
(in millions, except ratios)						
EARNINGS:						
Income (loss) before income taxes ^{(b)(c)}	\$ 9	\$ (262)	\$ 201	\$ (5,476)	\$ (2,421)	\$ 1,447
Net income attributable to noncontrolling interests	(11)	(4)	—	—	—	—
Fixed charges	113	350	334	339	79	4
Capitalized interest	(1)	(3)	(2)	(9)	(4)	—
Earnings (loss) before fixed charges	\$ 110	\$ 81	\$ 533	\$ (5,146)	\$ (2,346)	\$ 1,451
FIXED CHARGES						
Interest and debt expense, net ^(d)	\$ 111	\$ 343	\$ 328	\$ 326	\$ 72	\$ —
Capitalized interest	1	3	2	9	4	—
Rental expense representative of interest factor	1	4	4	4	3	4
Total fixed charges	\$ 113	\$ 350	\$ 334	\$ 339	\$ 79	\$ 4
RATIO OF EARNINGS TO FIXED CHARGES	n/a	n/a	1.6	n/a	n/a	363
INSUFFICIENT COVERAGE	\$ 3	\$ 269	\$ —	\$ 5,485	\$ 2,425	\$ —

(a) Note: Had we been a stand-alone company for the full year 2014, and had the same level of debt throughout the year as we did on December 31, 2014, of approximately \$6.4 billion, we would have incurred \$314 million of pre-tax interest expense, on a pro-forma basis, for the year ended December 31, 2014, compared to the \$72 million pre-tax interest expense reported on our statement of operations for the year then ended. Therefore, the insufficient coverage on a pro-forma basis would have been approximately \$2,667 million.

(b) The three months ended March 31, 2018 amount includes unusual, infrequent and other items consisting of \$7 million of non-cash derivative losses on outstanding hedges and \$3 million of other unusual and infrequent charges. Excluding these items, our earnings before fixed charges for the three months ended March 31, 2018 would have been approximately \$120 million. Therefore, the ratio of earnings to fixed charges would have been 1.1.

(c) The year ended December 31, 2017 amount includes unusual and infrequent items consisting of \$78 million of non-cash derivative losses on outstanding hedges, \$21 million of gains from asset divestitures, \$4 million of net gains on the early extinguishment of debt and \$26 million of other unusual, out-of-period and infrequent charges. Excluding these items, our earnings before fixed charges for the year ended December 31, 2017 would have been approximately \$160 million. Therefore, the insufficient coverage would have been approximately \$190 million.

The year ended December 31, 2016 amount includes unusual and infrequent items consisting of \$805 million of net gains on the early extinguishment of debt, \$283 million of non-cash derivative losses on outstanding hedges, \$30 million of gains from asset divestitures and \$12 million deferred debt issuance cost write-off and \$7 million, net, of other unusual and infrequent charges. Excluding these items, our loss before fixed charges for the year ended December 31, 2016 would have been approximately \$0. Therefore, the insufficient coverage would have been approximately \$334 million.

The year ended December 31, 2015 amount includes unusual and infrequent items consisting of \$4.9 billion of asset impairments, \$71 million of write-down of certain assets, \$67 million of early retirement and severance costs, \$28 million of debt issuance costs and \$11 million of rig termination and other costs, partially offset by \$52 million of non-cash derivative gains and \$20 million of net gains on the early extinguishment of debt. Excluding these items, our loss before fixed charges for the year ended December 31, 2015 would have been approximately \$189 million. Therefore, the insufficient coverage would have been approximately \$528 million.

The December 31, 2014 amount includes unusual and infrequent items consisting of \$3.4 billion of asset impairments, \$52 million of rig termination and other price-related costs, and \$55 million of Spin-off and transition related costs. Excluding these items, our earnings before fixed charges for the year ended December 31, 2014 would have been approximately \$1.2 billion, and the ratio of earnings to fixed charges would have been 14.7.

(d) Excludes \$19 million of amortization of deferred gains for the three months ended March 31, 2018.

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 9, 2018

/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 9, 2018

/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, 2018, as filed with the Securities and Exchange Commission on May 9, 2018 (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 9, 2018

/s/ Marshall D. Smith

Name: Marshall D. Smith
Title: Senior Executive Vice President and Chief Financial Officer
Date: May 9, 2018

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.