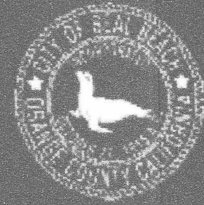


City of Seal Beach



CITY HALL, 211 BLOOMH STREET
SEAL BEACH, CALIFORNIA 90740
(562) 431-2327 • www.sealbeachca.gov

September 26, 2018

via email

Mr. Marshall Smith
Senior Executive Vice President and CFO
California Resources Corporation
27200 Tourney Road, Suite 315
Santa Clarita, 91355

Dear Mr. Smith:

The City of Seal Beach ("City") recently learned that Oxy Long Beach Inc. ("OLBI") began redeveloping offshore State Oil & Gas Lease PRC 186.1 ("PRC 186") in June 2005 by drilling wells from Island Chafee located in the adjacent Long Beach Unit (Exhibit A - Wells). Because the wells drilled into PRC 186 are bottomed within the City's municipal boundaries, OLBI was required, but failed, to obtain a City business license prior to commencing operations (Exhibit B - Timeline). Documents reveal OLBI was a highly knowledgeable oil and gas production company, was aware it was drilling into the City's jurisdiction, and was instructed by the California State Lands Commission to "obtain all necessary permits and approvals from state and local agencies before commencing operations."

The Municipal Code of Seal Beach states, "Every person conducting, managing, carrying on, or engaged in the business or activity of producing crude oil, gas, petroleum, or other hydrocarbon substances or products from any well or wells where such well, or any portion of such well passes through or is bottomed under any real property in the city and where portions of such well are located in one or more other jurisdictions and where such well head is not located in the city, shall pay... a business license tax" (§5.55.015). In the event a company is found to be producing oil or gas without a business license, the Municipal Code requires the City to determine the business license amount owed (§5.10.065). Finally, the Municipal Code requires companies pay penalties on all unpaid amounts (§5.10.085 and §5.55.030).

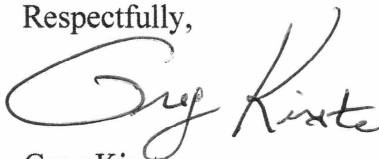
Pursuant to California Constitution (Article XI), California Government Code (§37100), Seal Beach Municipal Code, OLBI / Unit Operator Facilities Agreement, and California Code of Civil Procedures (§338), the City has determined OLBI's successor company, California Resources Long Beach, Inc. ("CRLBI"), shall owe the City:

- a) For PRC 186 oil production that occurred between June 1, 2005 and February 28, 2018: \$8,122,915.75 (Exhibit C - Estimated Amounts), plus
- b) For PRC 186 oil production occurring between March 1, 2018 and the date CRLBI obtains a City business license: \$0.7269 per barrel, plus
- c) For PRC 186 production occurring after CRLBI obtains a City business license: All amounts required by the City's Municipal Code.

Additionally, CRLBI shall owe the City \$1,218,437.36 for reimbursement of actual costs (excluding possible future legal costs) the City will incur to discover, investigate, and finalize this matter (§5.10.150).

The City has authorized Municipal Petroleum Analysts, as the City's agent, to represent the City's interests and to work with CRLBI and its parent corporation, California Resources Corporation, to finalize the above estimated amounts and promptly resolve this matter, with all amounts, terms and conditions subject to the City's final approval. I would appreciate an opportunity to meet with you or your designee at the earliest possible date to discuss and answer any questions. I can be contacted at (949) 463-6108.

Respectfully,



Greg Kirste
Authorized Agent for the City of Seal Beach

CC: Victoria Beatley, Director of Finance / City Treasurer
Michael Preston, Executive Vice President, General Counsel & Secretary

EXHIBIT A

PRC 186.1 Wells

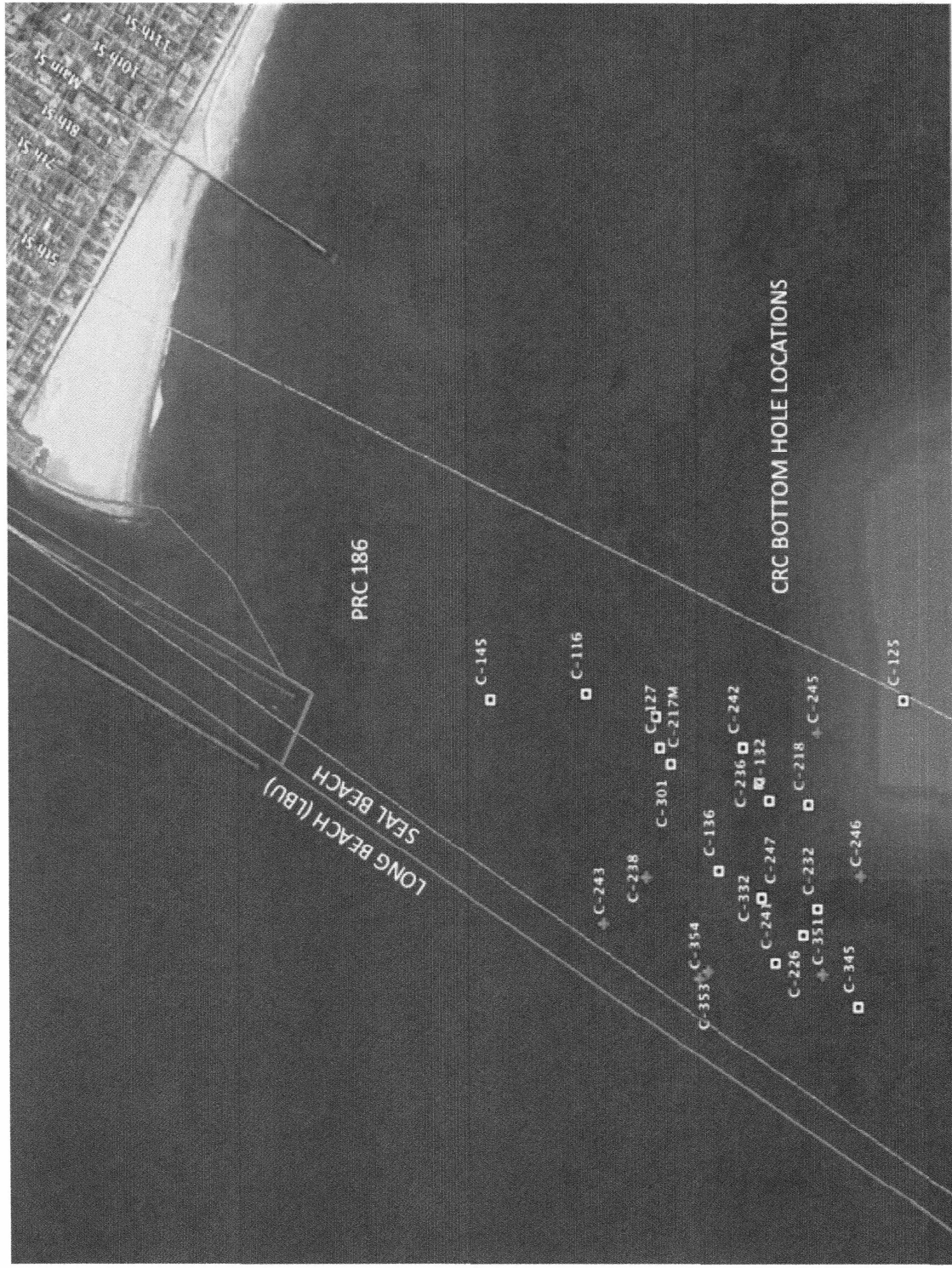
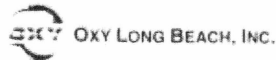


EXHIBIT B Timeline of Events

REDEVELOPMENT OF ABANDONED STATE PRC 186 BY OXY LONG BEACH, INC. TIMELINE

9/10/2001	OLBI Acquires ChevronTexaco's 50% Interest in PRC 186
5/21/2002	OLBI Acquires ExxonMobil's 50% Interest in PRC 186 (see Komin letter)
12/16/2002	State Lands Commission Assigns PRC 186 Lease to OLBI
12/9/2004	State Lands Commission Approves OLBI's PRC 186 Development Plan
2/8/2005	OLBI & Long Beach Execute Pass Through Fee Agreement #29102
4/14/2005	OLBI & Unit Operator Execute Facilities Agreement #29103
4/26/2005	OLBI & Others Execute Dry Gas Agreement
6/23/2005	First OLBI Producing Well Completed in PRC 186 (C-332)
1/30/2009	Parties Execute First Amendment to Facilities Agreement
11/12/2010	Parties Execute Second Amendment to Facilities Agreement
3/1/2011	OLBI & Others Execute Natural Gas Delivery Agreement #32227
8/1/2014	All Parties Execute Assignment Consent Agreement (2014 Oxy Spinoff)

PRC 186



P.O. Box 2900
111 W. OCEAN BOULEVARD, 8TH FLOOR
LONG BEACH, CALIFORNIA 90801-2900
TELEPHONE (562) 624-3400
FACSIMILE (562) 624-3299

November 14, 2002

Mr. Paul Mount II, P.E.
Chief, Mineral Resources Management Division
California State Lands Commission
200 Oceangate, 12th Floor
Long Beach, California 90802-4331

Dear Mr. Mount:

Subject: State Lease PRC 186

Oxy Long Beach, Inc. ("OLBI") requests that the State Lands Commission ("SLC") consent to the assignment of State Lands Lease PRC 186 ("PRC 186") from ExxonMobil and Texaco to OLBI. OLBI acquired the interests earlier this year.

OLBI has obtained relevant documents relating to PRC 186 from ExxonMobil. OLBI is in the process of fully reviewing the information. Once the review is completed, OLBI will submit a Plan of Development to the SLC by the second quarter of 2003.

OLBI's preliminary view of development of PRC 186 would be to take a phased approach. First, the Ranger zone potential would be validated by drilling two or three production wells from Island Chaffee. It is anticipated that the first well would be drilled in late 2003. The existing Long Beach Unit lease line water injectors would provide sufficient waterflood support. If this phase were successful, the second phase would include the full development of seven producer wells and three to four down dip injectors placed at the base of the swept volume. Additionally, an evaluation would be done to determine if horizontal wells could be used to reduce well count. No new surface infrastructure will be required for development of PRC 186 since the Long Beach Unit facilities have adequate capacity to process the oil. The reservoir evaluations will be completed by the middle of 2003. Please see the attachment for more details.

Finally, an agreement would have to be reached with the City of Long Beach and the State prior to using any Long Beach Unit facilities for development of PRC 186. We expect a final agreement to be reached by the first quarter of 2003, at which time the full benefit to the State of California can be quantified.

Very truly yours,

Frank E. Komin
President

BAZ:mkm

Attachment

EXHIBIT C

Amounts Due City (est)

Seal Beach Fiscal Year	No. Wells	Oil Prod. (bbbls)	Gas Prod. (Mcf)	Base Tax (55.55.015)	Permit Fee (5.55.015)	Per Barrel Tax (5.55.015)	Penalty On Fees (5.55.030)	Penalty On Taxes (5.10.085)	Total Due City
2004-05	1	3,545	827	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2005-06	4	283,614	38,750	\$150.00	\$60.00	\$118,727.73	\$15.00	\$118,877.73	\$237,830.47
2006-07	8	521,255	120,464	\$900.00	\$210.00	\$293,852.78	\$52.50	\$294,752.78	\$589,768.06
2007-08	10	541,542	128,039	\$1,200.00	\$270.00	\$312,777.40	\$67.50	\$313,977.40	\$628,292.30
2008-09	15	500,359	112,845	\$1,500.00	\$300.00	\$547,540.88	\$75.00	\$549,040.88	\$1,098,466.76
2009-10	16	594,762	140,570	\$2,250.00	\$450.00	\$308,887.39	\$112.50	\$311,137.39	\$622,837.28
2010-11	19	580,151	156,077	\$2,550.00	\$510.00	\$346,874.33	\$127.50	\$349,424.33	\$699,486.17
2011-12	22	590,276	157,664	\$2,700.00	\$600.00	\$477,237.62	\$150.00	\$479,937.62	\$960,625.24
2012-13	21	524,847	154,459	\$3,300.00	\$690.00	\$389,977.62	\$172.50	\$393,277.62	\$787,417.73
2013-14	23	445,978	138,441	\$3,150.00	\$660.00	\$389,343.69	\$165.00	\$392,493.69	\$785,812.38
2014-15	25	426,004	133,895	\$3,450.00	\$690.00	\$365,048.94	\$172.50	\$368,498.94	\$737,860.38
2015-16	25	381,129	120,642	\$3,750.00	\$750.00	\$205,281.71	\$187.50	\$209,031.71	\$419,000.92
2016-17	23	336,726	112,572	\$3,750.00	\$720.00	\$156,262.14	\$180.00	\$160,012.14	\$320,924.29
2017-18	23	206,807	69,178	\$3,450.00	\$690.00	\$113,420.63	\$172.50	\$116,870.63	\$234,603.77
TOTAL		5,936,995	1,584,423	\$32,100.00	\$6,600.00	\$4,025,232.88	\$1,650.00	\$4,057,332.88	\$8,122,915.75
								REIMBURSEMENTS (5.10.150)	\$1,218,437.36
								TOTAL AMOUNT DUE	\$9,341,353.11

• City's fiscal year is July 1st. For FY 2017-18, amounts are for 8 months, July 1, 2017 to Feb 28, 2018