

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION**

| | | |
|-----------------------------------|---|------------------------------|
| In re | X | |
| | : | Chapter 11 |
| | : | |
| CALIFORNIA RESOURCES CORPORATION, | : | Case No. 20-33568 (DRJ) |
| <i>et al.</i> , ¹ | : | |
| | : | Joint Administration Pending |
| Debtors. | : | |
| | : | |
| | X | |

EMERGENCY RELIEF HAS BEEN REQUESTED. A HEARING WILL BE CONDUCTED ON THIS MATTER ON JULY 17, 2020, AT 1:00 P.M. (CENTRAL TIME) IN COURTROOM 400, 4TH FLOOR, 515 RUSK STREET, HOUSTON, TEXAS 77002. IF YOU OBJECT TO THE RELIEF REQUESTED OR YOU BELIEVE THAT EMERGENCY CONSIDERATION IS NOT WARRANTED, YOU MUST EITHER APPEAR AT THE HEARING OR FILE A WRITTEN RESPONSE PRIOR TO THE HEARING. OTHERWISE, THE COURT MAY TREAT THE PLEADING AS UNOPPOSED AND GRANT THE RELIEF REQUESTED.

RELIEF IS REQUESTED NOT LATER THAN JULY 17, 2020.

PLEASE NOTE THAT ON MARCH 24, 2020, THROUGH THE ENTRY OF GENERAL ORDER 2020-10, THE COURT INVOKED THE PROTOCOL FOR EMERGENCY PUBLIC HEALTH OR SAFETY CONDITIONS.

IT IS ANTICIPATED THAT ALL PERSONS WILL APPEAR TELEPHONICALLY AND ALSO MAY APPEAR VIA VIDEO AT THIS HEARING.

AUDIO COMMUNICATION WILL BE BY USE OF THE COURT'S REGULAR DIAL-IN NUMBER. THE DIAL-IN NUMBER IS +1 (832) 917-1510. YOU WILL BE RESPONSIBLE FOR YOUR OWN LONG-DISTANCE CHARGES. YOU WILL BE ASKED TO KEY IN THE CONFERENCE ROOM NUMBER. JUDGE JONES' CONFERENCE ROOM NUMBER IS 205691.

¹ The Debtors in these chapter 11 cases and the last four digits of their U.S. taxpayer identification numbers are: California Resources Corporation (0947); California Heavy Oil, Inc. (4630); California Resources Coles Levee, L.P. (2995); California Resources Coles Levee, LLC (2087); California Resources Elk Hills, LLC (7310); California Resources Long Beach, Inc. (6046); California Resources Mineral Holdings LLC (4443); California Resources Petroleum Corporation (9218); California Resources Production Corporation (5342); California Resources Production Mineral Holdings, LLC (9071); California Resources Real Estate Ventures, LLC (6931); California Resources Royalty Holdings, LLC (6393); California Resources Tidelands, Inc. (0192); California Resources Wilmington, LLC (0263); CRC Construction Services, LLC (7030); CRC Marketing, Inc. (0941); CRC Services, LLC (6989); Monument Production, Inc. (0782); Oso Verde Farms, LLC (7436); Socal Holding, LLC (3524); Southern San Joaquin Production, Inc. (4423); Thums Long Beach Company (1774); Tidelands Oil Production Company LLC (5764). The Debtors' corporate headquarters is located at 27200 Tourney Road, Suite 200, Santa Clarita, CA 91355.

PARTIES MAY PARTICIPATE IN ELECTRONIC HEARINGS BY USE OF AN INTERNET CONNECTION. THE INTERNET SITE IS WWW.JOIN.ME. PERSONS CONNECTING BY MOBILE DEVICE WILL NEED TO DOWNLOAD THE FREE JOIN.ME APPLICATION. ONCE CONNECTED TO WWW.JOIN.ME, A PARTICIPANT MUST SELECT “JOIN A MEETING”. THE CODE FOR JOINING THIS HEARING BEFORE JUDGE JONES IS “judgejones”. THE NEXT SCREEN WILL HAVE A PLACE FOR THE PARTICIPANT’S NAME IN THE LOWER LEFT CORNER. PLEASE COMPLETE THE NAME AND CLICK “NOTIFY”.

**DEBTORS’ EMERGENCY MOTION FOR ENTRY OF AN ORDER
(I) AUTHORIZING, BUT NOT DIRECTING, THE DEBTORS
TO CONTINUE THEIR SURETY BOND PROGRAM AND PAY
PREPETITION OBLIGATIONS RELATING THERETO, (II)
AUTHORIZING FINANCIAL INSTITUTIONS TO HONOR RELATED
PAYMENT REQUESTS AND (III) GRANTING RELATED RELIEF**

California Resources Corporation and certain of its affiliated debtors and debtors-in-possession (collectively, the “Debtors”) hereby submit this motion (the “Motion”) for entry of an order, substantially in the form attached hereto as Exhibit A (the “Order”), pursuant to sections 105, 362, 363, 1107, 1108 and 1112 of title 11 of the United States Code, 11 U.S.C. §§ 101 *et seq.* (the “Bankruptcy Code”), (a) authorizing, but not directing, the Debtors, in their sole discretion, to continue their Surety Bond Program (as defined below), to pay prepetition obligations relating thereto, and to renew, acquire additional bonding capacity and execute other agreements in connection therewith, (b) authorizing applicable banks and other financial institutions to honor and process related checks and transfers and (c) granting related relief. The facts and circumstances supporting this Motion are set forth in the concurrently filed *Declaration of Todd A. Stevens in Support of Debtors’ Chapter 11 Petitions and First Day Pleadings* (the “Stevens First Day Declaration”) and the *Declaration of Mark Rajcevich in Support of the Debtors’ Chapter 11 Petitions and First Day Pleadings* (the “Rajcevich First Day Declaration”) and together with the Stevens First Day Declaration, the “First Day Declarations”). In further support of the Motion, the Debtors respectfully state as follows:

Background

1. The Debtors are an independent oil and natural gas exploration and production company operating properties exclusively within the state of California. The Debtors also own or control a network of natural gas processing plants, power plants, oil and natural gas gathering systems and other related assets.

2. On the date hereof (the "Petition Date"), each of the Debtors filed with the Court a voluntary petition for relief under the Bankruptcy Code. Each Debtor continues to operate its business and manage its properties as a debtor-in-possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code. Concurrent with the filing of this Motion, the Debtors filed a motion with the Court pursuant to rule 1015 of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules") and rule 1015-1 of the Bankruptcy Local Rules for the Southern District of Texas (the "Bankruptcy Local Rules") seeking joint administration of the Debtors' cases. No creditors' committee, trustee or examiner has been appointed in these chapter 11 cases.

3. Additional factual background relating to the Debtors' businesses and the commencement of these chapter 11 cases is set forth in detail in the First Day Declarations.

Facts Specific to the Relief Requested

I. The Debtors' Surety Bond Program

4. The Debtors' operations are regulated by various local, state and federal governmental and other public agencies and other third parties. In the ordinary course of business, the Debtors are required to provide such local, state and federal governmental or other public agencies and other third parties, assurances that the Debtors will pay or perform their

obligations to those parties (the “Surety Bond Program”).² Those assurances are sometimes provided in the form of a surety bond. To continue their business operations during the reorganization process, the Debtors must be able to provide financial assurance to local, state and federal governmental and other public agencies and other third parties. To do so, the Debtors must maintain their existing Surety Bond Program, including satisfying any obligations thereunder, renewing or acquiring additional bonding capacity in the ordinary course of their businesses, and executing other agreements, as needed, in connection with the Surety Bond Program. Failing to provide, maintain or timely replace their surety bonds will prevent the Debtors from undertaking essential functions related to their operations.

5. When a governmental unit or other public agency requests a bond and the Debtors determine that they have better operational uses for such funds and do not wish to provide the cash and cash equivalents to the governmental unit or other public agency, the Debtors will, instead, post a surety bond. The surety bond carrier issues the bond in exchange for premium and the Debtors’ agreement to indemnify the surety from and against loss as a result of having issued the bond.

6. As of the Petition Date, the Debtors’ Surety Bond Program includes approximately 100 surety bonds with Arch Insurance Company (“Arch”) and Sompo International Insurance (“Sompo” and, together with Arch, the “Surety Bond Carriers”), in the aggregate amount of approximately \$87.4 million.³ The premiums for the surety bonds are

² The Debtors’ Surety Bond program includes, without limitation the surety bonds as well as the indemnity agreements executed by the Debtors and relating to the surety bonds. By this Motion, the Debtors seek to maintain the Surety Bond Program in its entirety.

³ The Debtors’ Surety Bond Program includes surety bonds procured by the Debtors on behalf of certain non-Debtor affiliates, including non-Debtor Elk Hills Power, LLC. With respect to the Elk Hills Power, LLC surety bonds, the Debtors are obligated to procure such surety bonds pursuant to contractual agreements between the Debtors and Elk Hills Power, LLC and Elk Hills Power, LLC is obligated to reimburse the Debtors. Nothing in

generally determined on an annual or bi-annual basis and are paid by the Debtors when the bond is issued or renewed. The Debtors pay approximately \$485,000 annually in premiums on account of the Surety Bond Program. A schedule of surety bonds currently maintained by the Debtors is attached hereto as Exhibit B.⁴ The Debtors believe that all material premiums in connection with the Surety Bond Program that were due and payable on or prior to the Petition Date have been fully paid, but, out of an abundance of caution, the Debtors seek authority to satisfy any unpaid prepetition surety bond premiums.

7. In addition to paying premiums to the Surety Bond Carriers, as part of the Surety Bond Program, the Debtors have also issued letters of credit (the “LCs”) and entered into indemnity agreements (the “Indemnity Agreements”) in favor of the Surety Bond Carriers. If the Surety Bond Carriers sustain a loss on a surety bond, they are entitled to recover the full amount from the Debtors. The Surety Bond Carriers can draw on the LCs in accordance with the terms thereof or seek a recovery from the Debtors pursuant to the terms of the applicable Indemnity Agreement.

8. The Debtors’ Surety Bond Program is managed through their surety bond broker, Rosenberg & Parker (the “Broker”). The Broker assists the Debtors in obtaining comprehensive surety bond coverage for their operations in the most cost-effective manner, negotiating the terms, provisions, and premiums, and providing ongoing support throughout the

this Motion is intended or shall be deemed to constitute an assumption of any agreement with Elk Hills Power, LLC pursuant to section 365 of the Bankruptcy Code, and nothing in this Motion shall impair, prejudice, waive, or otherwise affect the rights of the Debtors relating to Elk Hills Power, LLC.

⁴ The descriptions of the surety bonds set forth in this motion constitute a summary only. The actual terms of the surety bonds and related agreements will govern in the event of any inconsistency with description in this motion. The Debtors request authority to honor obligations and renew all surety bonds, as applicable, regardless of whether the Debtors inadvertently fail to include a particular surety bond in Exhibit B, and any such omitted surety bond is hereby included in the defined term “Surety Bond Program” as used herein and in the order.

applicable bonding periods. The Broker collects fees for services rendered in addition to or as part of the premiums paid on the Surety Bonds (the “Brokerage Fees”). As of the Petition Date, the Debtors do not believe they owe any prepetition amounts on account of the Brokerage Fees. Out of an abundance of caution, the Debtors request authority to pay any prepetition amount due and owing in connection with the Brokerage Fees and continue paying the Brokerage Fees as they come due in the ordinary course of business on a postpetition basis.

Jurisdiction

9. The Court has jurisdiction to consider this matter pursuant to 28 U.S.C. § 1334. Venue is proper pursuant to 28 U.S.C. §§ 1408 and 1409. This matter is a core proceeding pursuant to 28 U.S.C. § 157(b). The Debtors consent, pursuant to Bankruptcy Rule 7008, to the entry of a final order by the Court in connection with this Motion to the extent that it is later determined that the Court, absent consent of the parties, cannot enter final orders or judgments in connection herewith consistent with Article III of the United States Constitution. The statutory predicates for the relief requested herein are sections 105, 362, 363, 364, 1107, and 1108 of the Bankruptcy Code, Bankruptcy Rules 6003 and 6004, Bankruptcy Local Rule 9013-1 and the Procedures for Complex Chapter 11 Cases in the Southern District of Texas (the “Complex Case Procedures”).

Relief Requested

10. By this Motion, the Debtors request entry of the Order, substantially in the form attached hereto as Exhibit A, (a) authorizing, but not directing, the Debtors, in their sole discretion, to continue their Surety Bond Program and to pay prepetition obligations relating thereto, and to renew, acquire additional bonding capacity and execute other agreements in connection therewith, (b) authorizing financial institutions to honor related payment requests and (c) granting related relief.

Basis for Relief

I. The Surety Bond Program is Maintained in the Ordinary Course of the Debtors' Business.

11. Section 363(c)(1) of the Bankruptcy Code provides that a debtor in possession may “enter into transactions . . . in the ordinary course of business, without notice or a hearing, and may use property of the estate in the ordinary course of business without notice or a hearing.” In determining whether a transaction falls within the ordinary course of a Debtors' business, Courts in the Fifth Circuit apply a two-part test containing both a horizontal and vertical inquiry. *See In re Patriot Place, Ltd.*, 486 B.R. 773, 793 (Bankr. W.D. Tex. 2013). The horizontal inquiry considers whether the transaction is common to the debtor's industry, while the vertical inquiry compares the proposed transaction to the debtor's prepetition business practices. *Id.* (“[U]nder the vertical test, courts look at whether the transaction subjects a hypothetical creditor to a different economic risk than existed when the creditor originally extended the credit. Under the horizontal test, in general courts look at whether the transaction was of the sort commonly undertaken by companies in the industry. The primary focus is on the debtor's pre-petition practices and conduct.”); *see also In re Corwin*, Case. No. 13-30984, 2014 WL 1168714, at 41–43 (applying the horizontal and vertical prongs of the test).

12. Here, continuation of the Surety Bond Program is consistent with the Debtors' prepetition practice and common among exploration and production companies. This includes, among other things, maintaining existing surety bonds, renewing surety bonds as they expire, acquiring new surety bonds as needed in the ordinary course of business, posting new or additional collateral or issuing letters of credit, and paying applicable premiums, amounts arising under the Indemnity Agreements and Brokerage Fees. As a result, creditors will not be subjected to unexpected or different economic risks than existed when the creditors originally extended

credit. Accordingly, the Debtors submit that continuation of the Surety Bond Program, including paying all associated amounts, is an ordinary course transaction and should be authorized on a postpetition basis pursuant to section 363(c)(1) of the Bankruptcy Code.

II. Continuance of the Surety Bond Program in Accordance with Prepetition Practice Is Appropriate Under Sections 105(a), 363(b), 1107(a) and 1108 of the Bankruptcy Code.

13. The relief requested is appropriate under sections 105(a), 363(b), 1107(a) and 1108 of the Bankruptcy Code. The Debtors are operating their business as debtors-in-possession under sections 1107(a) and 1108 of the Bankruptcy Code, and they are therefore fiduciaries “holding the bankruptcy estate[s] and operating the business for the benefit of . . . [their] creditors and (if the value justifies) equity owners.” *In re CoServ, L.L.C.*, 273 B.R. 487, 497 (Bankr. N.D. Tex. 2002). Implicit in the duties of a chapter 11 debtor-in-possession is the duty “to protect and preserve the estate, including an operating business’s going-concern value.” *Id.* Consistent with a debtor’s fiduciary duties to preserve the estate, courts have authorized payment of prepetition obligations pursuant to sections 105(a) and 363(b) of the Bankruptcy Code. *See, e.g., Czyzewski v. Jevic Holding Corp.*, 137 S. Ct. 973, 985 (2017) (recognizing that courts have authorized the payment of prepetition obligations in order to enable a successful reorganization). Indeed, courts have recognized that there are instances when a debtor’s fiduciary duty can “only be fulfilled by the preplan satisfaction of a prepetition claim.” *In re CoServ*, 273 B.R. at 497.

14. Section 363(b) of the Bankruptcy Code empowers the Court to allow the debtor, in the exercise of its sound business judgment and after notice and a hearing, to “use, sell, or lease, other than in the ordinary course of business, property of the estate.” *See* 11 U.S.C. § 363(b)(1); *see also Official Comm. of Unsecured Creditors of LTV Aerospace & Defense Co. v. LTV Corp. (In re Chateaugay Corp.)*, 973 F.2d 141, 143, 145 (2d Cir. 1992) (holding that a

court may approve an application under section 363(b) upon a showing of a good business reason for the disposition). For a court to approve the use, sale, or lease of estate property under section 363(b) of the Bankruptcy Code, including the payment of prepetition claims, the debtor must “articulate some business justification, other than mere appeasement of major creditors” *In re Ionosphere Clubs, Inc.*, 98 B.R. 174, 175 (Bankr. S.D.N.Y. 1989) (holding that the debtor’s payment of prepetition claims was necessary to protect its business and to ensure successful reorganization).

15. Additionally, section 105(a) of the Bankruptcy Code authorizes the Court to issue “any order, process, or judgment that is necessary or appropriate to carry out the provisions of [the Bankruptcy Code].” 11 U.S.C. § 105(a). Courts may authorize the payment of prepetition claims that are essential to the continued operation of the business under section 105(a) of the Bankruptcy Code. *See In re CoServ*, 273 B.R. at 497 (finding that sections 105 and 1107 of the Bankruptcy Code provide the authority for a debtor to pay prepetition claims); *see also In re Mirant Corp.*, 296 B.R. 427, 429 (Bankr. N.D. Tex. 2003) (noting that non-payment of prepetition claims may seriously damage a debtor’s business); *In re Equalnet Commc’ns Corp.*, 258 B.R. 368, 369-70 (Bankr. S.D. Tex. 2000) (business transactions critical to the survival of the business of the debtor are exceptions to the general rule of nonpayment of prepetition claims prior to plan confirmation).

16. The relief requested in this Motion represents a sound exercise of the Debtors’ business judgment and is necessary for the preservation of the resources and going-concern values of their estates. The Surety Bond Program is essential to the preservation of the value of the Debtors’ businesses, properties and assets, and their ability to successfully reorganize in these chapter 11 cases. Payment of expenses in connection with the Surety Bond

Program is critical to the Debtors' uninterrupted operations. The Debtors' failure to provide, maintain, or timely replace the surety bonds may, therefore, jeopardize the Debtors' ability to conduct their operations. Moreover, the continuance of the Surety Bond Program should obviate the necessity of implementing a new program and finding a new surety provider, thereby avoiding the substantial disruption to the Debtors' operations and the costs and expenses attendant thereto. Accordingly, the Debtors submit that there is a sound business justification for maintaining coverage under the Surety Bond Program and paying any prepetition amounts owed thereunder.

17. Courts in this district have routinely granted relief similar to the relief requested herein. *See, e.g., In re Whiting Petroleum Corp.*, No. 20-32021 (DRJ) (Bankr. S.D. Tex. Apr. 1, 2020) [Docket No. 51] (authorizing the debtors to continue their surety bond program); *In re Sanchez Energy Corp.*, No. 19-34508 (MI) (Bankr. S.D. Tex. Oct. 23, 2019) [Docket No. 509] (same); *In re iHeartMedia, Inc.*, No. 18-31274 (MI) (Bankr. S.D. Tex., March 15, 2019) [Docket No. 110] (same); *In re Parker Drilling Co.*, No. 18-36958 (MI) (Bankr. S.D. Tex. Jan. 3, 2019) [Docket No. 180] (same).

III. To the Extent the Court Determines that the Surety Bond Program is an Extension of Credit, Relief Is Appropriate Under Section 364 of the Bankruptcy Code.

18. Pursuant to Section 364(c) of the Bankruptcy Code, if a debtor cannot obtain unsecured credit as an administrative expense, a debtor may obtain secured credit (a) with priority over administrative expenses; (b) secured by a lien on unencumbered estate assets; or (c) secured by a junior lien on previously encumbered assets. To satisfy the requirements of section 364(c) of the Bankruptcy Code, a debtor need only demonstrate "by a good faith effort that credit was not available" to the debtor on an unsecured or administrative expense basis.

Bray v. Shenandoah Fed. Savs. & Loan Ass'n (In re Snowshoe Co.), 789 F.2d 1085, 1088 (4th

Cir. 1986). To the extent a surety bond is deemed an extension of credit, however, section 364 of the Bankruptcy Code provides the Debtors ample authority to so renew existing surety bonds and procure new bonds, whether on an unsecured basis or, if necessary, on a secured basis. By this Motion, the Debtors request the authority to do so, to the extent necessary for the continuation of the Debtors' business.

IV. Cause Exists to Authorize Applicable Banks and Financial Institutions to Honor Checks and Electronic Fund Transfers Related to the Surety Bond Program.

19. The Debtors further request that the Court authorize and direct all applicable banks and other financial institutions (the "Banks") to receive, process, honor, and pay any and all checks drawn or electronic funds transfers requested to pay expenses in connection with the Surety Bond Program, whether such checks were presented prior to or after the Petition Date; *provided, however*, that such checks or electronic funds transfers are identified by the Debtors as relating directly to the authorized payment of expenses related to the Surety Bond Program. The Debtors also seek authority to issue new postpetition checks, or effect new electronic funds transfers, on account of such claims to replace any prepetition checks or electronic funds transfer requests that may be dishonored or rejected as a result of the commencement of these chapter 11 cases with respect to prepetition amounts owed in connection with the Surety Bond Program.

Emergency Consideration

20. In order for a debtor to obtain relief to make preplan payments within 21 days of the Petition Date, it must establish that making such payments satisfies the requirements mandated by Bankruptcy Rule 6003 and Bankruptcy Local Rule 9013-1(i) that the relief requested is necessary to avoid "immediate and irreparable harm." If a debtor's prospect of

reorganizing is threatened, or swift diminution in value of the debtor's estate is likely absent the granting of the requested relief, immediate and irreparable harm likely exists.

21. Immediate and irreparable harm would result if the relief requested is not granted. As described above, the termination or expiration of the Surety Bond Program would jeopardize the Debtors' ability to conduct their operations. Any disruption to the Debtors' Surety Bond Program and any material change in the terms thereof would place additional risk on the Debtors and other parties who benefit from the Debtors' Surety Bond Program. These effects would have an adverse impact to the Debtors' businesses, thereby causing immediate and irreparable harm. Failure to receive the requested relief during the first 21 days of these chapter 11 cases would severely disrupt the Debtors' operations at this important juncture. For the reasons discussed, the relief requested is necessary for the Debtors to operate their businesses in the ordinary course and preserve the ongoing value of the Debtors' operations and maximize the value of their estates for the benefit of all stakeholders. Accordingly, the Debtors respectfully submit that they have satisfied Bankruptcy Rule 6003 as it relates to the relief requested herein.

Waiver of Bankruptcy Rules 6004(a) and 6004(h)

22. Given the nature of the relief requested herein, the Debtors respectfully request a waiver of (a) the notice requirements under Bankruptcy Rule 6004(a) and (b) the 14-day stay under Bankruptcy Rule 6004(h). Pursuant to Bankruptcy Rule 6004(h), "[a]n order authorizing the use, sale, or lease of property other than cash collateral is stayed until expiration of 14 days after entry of the order, unless the court orders otherwise." For the reasons described above, the relief requested is essential to prevent potentially irreparable damage to the Debtors' operations, value and ability to reorganize.

Reservation of Rights

23. Nothing in this Motion: (a) is intended or shall be deemed to constitute an assumption of any agreement pursuant to section 365 of the Bankruptcy Code or an admission as to the validity of any claim against the Debtors or their estates; (b) shall impair, prejudice, waive, or otherwise affect the rights of the Debtors or their estates to contest the validity, priority, or amount of any claim against the Debtors or their estates; (c) shall impair, prejudice, waive, or otherwise affect the rights of the Debtors or their estates with respect to any and all claims or causes of action against any third party, creditor or interest holder; (d) shall be construed as a promise or obligation to pay a claim or continue any applicable program postpetition, which decision shall be in the discretion of the Debtors or (e) shall be construed as an admission to the validity of any liens satisfied pursuant to this Motion. Any payment made pursuant to an order of the Court granting the relief requested herein is not intended to be nor should it be construed as an admission as to the validity of any claim or a waiver of the Debtors' rights to subsequently dispute such claim.

Notice

24. No creditors' committee, trustee, or examiner has been appointed in these chapter 11 cases. Notice of this Motion has been provided to: (a) the Office of the United States Trustee for the Southern District of Texas; (b) the Debtors' 30 largest unsecured creditors (on a consolidated basis); (c) those persons who have formally appeared in these chapter 11 cases and requested service pursuant to Bankruptcy Rule 2002; (d) the Securities and Exchange Commission; (e) the Internal Revenue Service; (f) all other applicable government agencies to the extent required by the Bankruptcy Rules or the Bankruptcy Local Rules; (g) counsel to the administrative agent for the Debtors' DIP credit facility; (h) counsel to the ad hoc group of prepetition first lien lenders and second lien noteholders; (i) counsel to the ad hoc group of

prepetition second lien noteholders; (j) counsel to ECR Corporate Holdings L.P.; and (k) the Surety Bond Carriers and the Broker. The Debtors submit that, in light of the nature of the relief requested, no other or further notice need be provided.

No Prior Request

25. No prior motion for the relief requested herein has been made to this or any other Court.

Conclusion

WHEREFORE, for the reasons set forth herein, the Debtors respectfully request that the Court (a) enter the Order, substantially in the form attached hereto as Exhibit A and (b) grant such other and further relief as is just and proper.

Houston, Texas
July 15, 2020

Respectfully Submitted,

/s/ Paul E. Heath
VINSON & ELKINS LLP
Harry A. Perrin (TX 15796800)
Paul E. Heath (TX 09355050)
Matthew W. Moran (TX 24092856)
1001 Fannin Street, Suite 2500
Houston, TX 77002-6760
Telephone: (713) 758-2222
Facsimile: (713) 758-2346
E-mail: hperrin@velaw.com
pheath@velaw.com
mmoran@velaw.com

SULLIVAN & CROMWELL LLP
Andrew G. Dietderich (*pro hac vice* pending)
James L. Bromley (*pro hac vice* pending)
Alexa J. Kranzley (*pro hac vice* pending)
125 Broad Street
New York, NY 10004
Telephone: (212) 558-4000
Facsimile: (212) 558-3588
E-mail: dietdericha@sullcrom.com
bromleyj@sullcrom.com
kranzleya@sullcrom.com

*Proposed Co-Counsel to the Debtors and
Debtors-in-Possession*

*Proposed Co-Counsel to the Debtors and
Debtors-in-Possession*

EXHIBIT A

Proposed Order

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION**

| | | |
|---|---|-------------------------|
| | X | |
| In re | : | Chapter 11 |
| | : | |
| CALIFORNIA RESOURCES CORPORATION, <i>et</i> | : | Case No. 20-33568 (DRJ) |
| <i>al.</i> , ¹ | : | |
| Debtors. | : | Jointly Administered |
| | : | |
| | : | |
| | X | |

**ORDER (I) AUTHORIZING, BUT NOT DIRECTING, THE DEBTORS
TO CONTINUE THEIR SURETY BOND PROGRAM AND PAY
PREPETITION OBLIGATIONS RELATING THERETO,
(II) AUTHORIZING FINANCIAL INSTITUTIONS TO HONOR RELATED
PAYMENT REQUESTS AND (III) GRANTING RELATED RELIEF**

Upon the motion (the “Motion”)² of California Resources Corporation and its affiliated debtors and debtors-in-possession (collectively, the “Debtors”), for entry of an order (this “Order”) (a) authorizing, but not directing, the Debtors, in their sole discretion, to continue their Surety Bond Program and to pay prepetition obligations relating thereto, and to renew, acquire additional bonding capacity and execute other agreements in connection therewith, (b) authorizing financial institutions to honor related payment requests and (c) granting related relief; and this Court having jurisdiction to consider the Motion pursuant to 28 U.S.C. § 1334;

¹ The Debtors in these chapter 11 cases and the last four digits of their U.S. taxpayer identification numbers are: California Resources Corporation (0947); California Heavy Oil, Inc. (4630); California Resources Coles Levee, L.P. (2995); California Resources Coles Levee, LLC (2087); California Resources Elk Hills, LLC (7310); California Resources Long Beach, Inc. (6046); California Resources Mineral Holdings LLC (4443); California Resources Petroleum Corporation (9218); California Resources Production Corporation (5342); California Resources Production Mineral Holdings, LLC (9071); California Resources Real Estate Ventures, LLC (6931); California Resources Royalty Holdings, LLC (6393); California Resources Tidelands, Inc. (0192); California Resources Wilmington, LLC (0263); CRC Construction Services, LLC (7030); CRC Marketing, Inc. (0941); CRC Services, LLC (6989); Monument Production, Inc. (0782); Oso Verde Farms, LLC (7436); Social Holding, LLC (3524); Southern San Joaquin Production, Inc. (4423); Thums Long Beach Company (1774); Tidelands Oil Production Company LLC (5764). The Debtors’ corporate headquarters is located at 27200 Tourney Road, Suite 200, Santa Clarita, CA 91355.

² Capitalized terms not otherwise defined herein are to be given the meanings ascribed to them in the Motion.

and venue of these chapter 11 cases and the Motion in this district being proper pursuant to 28 U.S.C. §§ 1408 and 1409; and this matter being a core proceeding pursuant to 28 U.S.C. § 157(b); and this Court having found that proper and adequate notice of the Motion and the relief requested therein has been provided in accordance with the Bankruptcy Rules, the Bankruptcy Local Rules and the Complex Case Procedures, and that, except as otherwise ordered herein, no other or further notice is necessary; and any objections (if any) to the Motion having been withdrawn, resolved or overruled on the merits; and a hearing having been held to consider the relief requested in the Motion and upon the record of the hearing and all of the proceedings had before this Court; and this Court having found and determined that the relief sought in the Motion is in the best interests of the Debtors, their estates, their creditors and all other parties-in-interest; and that the legal and factual bases set forth in the Motion establish just cause for the relief granted herein; and after due deliberation and sufficient cause appearing therefor;

IT IS HEREBY ORDERED THAT:

1. The Debtors are authorized, but not directed, in their sole discretion, but subject in all respects to the terms of the DIP Order, to continue the Surety Bond Program, and to pay prepetition obligations relating thereto, including any amounts owed in connection with the Indemnity Agreements or on account of Brokerage Fees arising thereunder or in connection therewith.

2. The Debtors are authorized, but not directed, in their sole discretion and in the ordinary course of business, to (a) renew, amend, modify, supplement and extend their existing Surety Bond Program; (b) obtain new surety bonds; (c) maintain existing collateral; (d) post new or additional collateral, or issue letters of credit and (e) execute other agreements in

connection with the Surety Bond Program. The Debtors will notify the U.S. Trustee and any statutory committee appointed in these chapter 11 cases if the Debtors renew, amend, supplement, extend, terminate, replace, increase or decrease existing surety bond coverage or letters of credit, change surety carriers, enter into any new premium financing agreements, or obtain additional surety bonds or obtain additional letters of credit.

3. The failure to specifically describe or include any particular feature of the Surety Bond Program in the Motion or this Order shall not diminish or impair the effectiveness of such feature, it being the intent of this Court that the Surety Bond Program be approved in its entirety. All rights of the Debtors, Surety Bond Carriers and obligees under the Surety Bond Program are reserved including, without limitation, all rights under the Indemnity Agreements, related collateral agreements, any collateral of any Surety Bond Carriers, including without limitation, the LCs, common law of suretyship, contract rights, indemnity and otherwise. Nothing in this Order, or any debtor-in-possession financing order, shall alter, limit, modify or impair those rights, nor constitute a waiver of, expressly or implicitly, the rights, claims and/or defenses of the Debtors, the Broker or the Surety Bond Carriers with respect to any cash, letter of credit, letter of credit rights or other collateral of any Surety Bond Carrier, including, without limitation, any of the LCs, as of the Petition Date or thereafter in which a Surety Bond Carrier holds a valid, perfected, enforceable, non-avoidable interest, (a) which as of the Petition Date is senior to then-existing applicable secured liens or (b) which is in property that is and remains outside the Debtors' estates.

4. The Debtors shall maintain a matrix/schedule of payments for obligations accruing prepetition that are made pursuant to this Order, including the following information: (a) the names of the payee; (b) the nature of the payment; (c) the amount of the payment; (d) the

category or type of payment; (e) the Debtor or Debtors that made the payment; (f) the payment date and (g) the purpose of such payment. The Debtors shall provide a copy of such matrix/schedule to the U.S. Trustee and any statutory committee appointed in these chapter 11 cases every 30 days beginning upon entry of this Order

5. Nothing in this Order shall be deemed to relieve the Debtors of any obligations under any applicable federal, state or local police or regulatory laws or under 28 U.S.C. § 959(b).

6. The Debtors are not authorized by this Order to take any action with respect to a surety bond that would have the effect of transforming a prepetition undersecured or unsecured surety bond obligation to a postpetition or secured obligation. Such relief may be sought by a separate motion.

7. The Debtors are authorized and empowered to execute and deliver such documents, and to take and perform all actions necessary to implement and effectuate the relief granted in this Order.

8. In accordance with this Order (or other order of this Court), each of the financial institutions at which the Debtors maintain their accounts relating to the payment of the obligations described in the Motion are authorized, but not directed, to (a) receive, process, honor and pay all checks presented for payment and to honor all fund transfer requests made by the Debtors related thereto, to the extent that sufficient funds are on deposit in those accounts and (b) accept and rely on all representations made by the Debtors with respect to which checks, drafts, wires or automated clearing house transfers should be honored or dishonored in accordance with this or any other order of this Court, whether such checks, drafts, wires, or

transfers are dated prior to, on or subsequent to the Petition Date, without any duty to inquire otherwise and without any liability for following the Debtors' instructions.

9. Notwithstanding anything to the contrary herein, any payment to be made by the Debtors pursuant to the authority granted herein shall be subject to and in compliance with the DIP Order. To the extent there is any inconsistency between the terms of the DIP Order and any action taken or proposed to be taken hereunder, the terms of the DIP Order shall control.

10. Nothing in the Motion or this Order, nor as a result of any payment made pursuant to this Order, shall be deemed or construed as an admission as to the validity or priority of any claim against the Debtors, an agreement or obligation to pay any claims, a waiver of any claim or causes of action which may exist against any creditor or interest holder, an admission as to the validity of any lien satisfied pursuant to this Order, an approval or assumption of any agreement, contract or lease pursuant to section 365 of the Bankruptcy Code or a waiver of the right of the Debtors, or shall impair or limit the ability of the Debtors, to contest the validity and amount of any payment made pursuant to this Order.

11. The requirements set forth in Bankruptcy Local Rule 9013-1(i) are satisfied.

12. The requirements set forth in Bankruptcy Rule 6003(b) are satisfied.

13. The requirements set forth in Bankruptcy Rule 6004(a) are satisfied.

14. This Order is immediately effective and enforceable, notwithstanding the possible applicability of Bankruptcy Rule 6004(h) or otherwise.

15. This Court shall retain jurisdiction with respect to any matters, claims, rights or disputes arising from or related to the Motion or the implementation of this Order.

Dated: _____, 2020
Houston, Texas

United States Bankruptcy Judge

EXHIBIT B

List of Surety Bonds

| Bond Number | Issuing Carrier | Principle | Obligee | Bond Amount | Term Start | Term End | Premium |
|-------------|------------------------|-------------------------------------|--|-------------|------------|------------|----------|
| SU1143235 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES CORPORATION | COUNTY OF CONTRA COSTA | \$82,000 | 1/24/2020 | 1/24/2021 | \$482 |
| SU1130267 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES ELK HILLS, LLC | CHEVRON U.S.A, INC. | \$5,000,000 | 1/20/2020 | 1/20/2021 | \$29,400 |
| SU1130271 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES ELK HILLS, LLC | CHEVRON U.S.A, INC. | \$5,000,000 | 1/20/2020 | 1/20/2021 | \$29,400 |
| SU1130287 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES ELK HILLS, LLC | UNITED STATES OF AMERICA, DEPARTMENT OF THE INTERIOR, BUREAU OF LAND MANAGEMENT (BLM/CA) | \$447,500 | 1/1/2020 | 1/1/2021 | \$2,631 |
| SU1131399 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES ELK HILLS, LLC | STATE OF CALIFORNIA, DEPARTMENT OF TOXIC SUBSTANCES CONTROL (DTSC) | \$1,991,955 | 3/31/2019 | 3/31/2020 | \$11,045 |
| SU1131400 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES ELK HILLS, LLC | UNITED STATES ENVIRONMENTAL PROTECTION AGENCY (EPA) | \$630,000 | 3/31/2019 | 3/31/2020 | \$3,704 |
| SU1136130 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES ELK HILLS, LLC | STATE OF CALIFORNIA, DEPARTMENT OF CONSERVATION | \$2,000,000 | 10/20/2019 | 10/20/2020 | \$11,760 |

| Bond Number | Issuing Carrier | Principle | Obligee | Bond Amount | Term Start | Term End | Premium |
|-------------|------------------------|--|--|-------------|------------|------------|----------|
| SU1130270 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES LONG BEACH, INC. | CITY OF LOS ANGELES | \$50,000 | 1/14/2020 | 1/14/2021 | \$294 |
| SU1136131 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES LONG BEACH, INC. | STATE OF CALIFORNIA, DEPARTMENT OF CONSERVATION, DIVISION OF OIL AND GAS | \$2,000,000 | 10/20/2019 | 10/20/2020 | \$11,760 |
| SU1131363 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES PETROLEUM CORPORATION | UNITED STATES DEPARTMENT OF THE INTERIOR, BUREAU OF LAND MANAGEMENT | \$150,000 | 2/13/2020 | 2/13/2021 | \$882 |
| SU1131387 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES PETROLEUM CORPORATION | COUNTY OF SOLANO | \$300,000 | 4/12/2019 | 4/12/2020 | \$1,764 |
| SU1131389 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES PETROLEUM CORPORATION | CITY OF RIO VISTA | \$200,000 | 4/12/2019 | 4/12/2020 | \$1,176 |
| SU1131390 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES PETROLEUM CORPORATION | CITY OF RIO VISTA | \$100,000 | 4/12/2019 | 4/12/2020 | \$588 |
| SU1132316 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES PETROLEUM CORPORATION | STATE OF CALIFORNIA | \$2,000 | 9/1/2019 | 9/1/2020 | \$75 |

| Bond Number | Issuing Carrier | Principle | Obligee | Bond Amount | Term Start | Term End | Premium |
|-------------|------------------------|---|-------------------------------|-------------|------------|------------|----------|
| SU1136121 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES PETROLEUM CORPORATION | FONG FAMILY PARTNERSHIP LTD | \$5,000 | 8/28/2019 | 8/28/2020 | \$75 |
| SU1136125 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES PETROLEUM CORPORATION | COUNTY OF GLENN, CALIFORNIA | \$25,000 | 9/1/2019 | 9/1/2020 | \$147 |
| SU1141318 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES PETROLEUM CORPORATION | THE COUNTY OF LOS ANGELES | \$50,000 | 3/21/2020 | 3/21/2021 | \$294 |
| SU1130251 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES PRODUCTION CORPORATION | COUNTY OF SAN JOAQUIN | \$5,000 | 12/28/2019 | 12/28/2020 | \$75 |
| SU1130255 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES PRODUCTION CORPORATION | COLUSA COUNTY OF PUBLIC WORKS | \$145,000 | 12/23/2019 | 12/23/2020 | \$853 |
| SU1130259 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES PRODUCTION CORPORATION | CHEVRON USA, INC. | \$2,500,000 | 12/28/2019 | 12/28/2020 | \$14,700 |
| SU1130260 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES PRODUCTION CORPORATION | COUNTY OF GLENN, CALIFORNIA | \$100,000 | 12/28/2019 | 12/28/2020 | \$588 |

| Bond Number | Issuing Carrier | Principle | Obligee | Bond Amount | Term Start | Term End | Premium |
|-------------|------------------------------|--|---|-------------|------------|-----------|---------|
| SU1131395 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES PRODUCTION CORPORATION | CITY OF ANTIOCH | \$500 | 3/9/2020 | 3/9/2021 | \$75 |
| SU1132233 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES PRODUCTION CORPORATION | UNITED STATES DEPARTMENT OF THE INTERIOR, BUREAU OF LAND MANAGEMENT | \$1,000 | 5/25/2019 | 5/25/2020 | \$75 |
| SU1132235 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES PRODUCTION CORPORATION | UNITED STATES DEPARTMENT OF THE INTERIOR, BUREAU OF LAND MANAGEMENT | \$802,500 | 5/26/2019 | 5/26/2020 | \$4,719 |
| SU1132237 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES PRODUCTION CORPORATION | COUNTY OF KERN, CALIFORNIA | \$10,000 | 5/13/2019 | 5/13/2020 | \$75 |
| SU1132241 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES PRODUCTION CORPORATION | UNITED STATES DEPARTMENT OF THE INTERIOR, BUREAU OF LAND MANAGEMENT | \$1,200,000 | 5/6/2019 | 5/6/2020 | \$7,056 |
| SU1132242 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES PRODUCTION CORPORATION | THE COUNTY OF LOS ANGELES | \$25,000 | 6/27/2019 | 6/27/2020 | \$147 |
| SU1132244 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES PRODUCTION CORPORATION | COUNTY OF KERN, CALIFORNIA | \$50,000 | 6/11/2019 | 6/11/2020 | \$294 |

| Bond Number | Issuing Carrier | Principle | Obligee | Bond Amount | Term Start | Term End | Premium |
|-------------|------------------------|---|---|-------------|------------|------------|---------|
| SU1132253 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES PRODUCTION CORPORATION | COUNTY OF VENTURA | \$200,000 | 5/14/2019 | 5/14/2020 | \$1,176 |
| SU1132274 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES PRODUCTION CORPORATION | UNITED STATES DEPARTMENT OF THE INTERIOR, BUREAU OF LAND MANAGEMENT | \$4,000 | 7/21/2019 | 7/21/2020 | \$75 |
| SU1132305 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES PRODUCTION CORPORATION | UNITED STATES DEPARTMENT OF THE INTERIOR, BUREAU OF LAND MANAGEMENT | \$2,000 | 3/25/2020 | 3/25/2021 | \$75 |
| SU1136127 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES PRODUCTION CORPORATION | STATE OF CALIFORNIA, DEPARTMENT OF CONSERVATION | \$1,000,000 | 10/20/2019 | 10/20/2020 | \$5,880 |
| SU1136140 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES PRODUCTION CORPORATION | CITY OF BREA | \$100,000 | 10/26/2019 | 10/26/2020 | \$588 |
| SU1136143 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES PRODUCTION CORPORATION | COUNTY OF ORANGE | \$25,000 | 10/27/2019 | 10/27/2020 | \$147 |
| SU1136146 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES PRODUCTION CORPORATION | COUNTY OF GLENN, CALIFORNIA | \$25,000 | 10/9/2019 | 10/9/2020 | \$147 |

| Bond Number | Issuing Carrier | Principle | Obligee | Bond Amount | Term Start | Term End | Premium |
|-------------|------------------------|---|---|--------------|------------|------------|-----------|
| SU1141319 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES PRODUCTION CORPORATION | CITY OF SIMI VALLEY | \$50,000 | 8/31/2019 | 8/31/2020 | \$294 |
| SU1143255 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES PRODUCTION CORPORATION | CITY OF ANTIOCH | \$3,000 | 2/17/2020 | 2/17/2021 | \$75 |
| SU1143256 | ARCH INSURANCE COMPANY | CALIFORNIA RESOURCES PRODUCTION CORPORATION | CITY OF ANTIOCH | \$3,000 | 2/17/2020 | 2/17/2021 | \$75 |
| SU1132270 | ARCH INSURANCE COMPANY | CRC CONSTRUCTION SERVICES LLC | STATE OF CALIFORNIA | \$100,000 | 6/19/2019 | 6/19/2020 | \$588 |
| SU1132236 | ARCH INSURANCE COMPANY | LOMITA GASOLINE COMPANY, INC. | CITY OF LONG BEACH | \$50,000 | 5/1/2019 | 5/1/2020 | \$294 |
| SU1136162 | ARCH INSURANCE COMPANY | LOMITA GASOLINE COMPANY, INC. | CITY OF LONG BEACH | \$122,452 | 11/8/2019 | 11/8/2020 | \$720 |
| SU1130261 | ARCH INSURANCE COMPANY | SOCAL HOLDING, LLC | CITY OF HUNTINGTON BEACH | \$100,000 | 12/21/2019 | 12/21/2020 | \$588 |
| SU1130269 | ARCH INSURANCE COMPANY | SOCAL HOLDING, LLC | COUNTY OF LOS ANGELES | \$10,000 | 1/1/2020 | 1/1/2021 | \$75 |
| SU1130281 | ARCH INSURANCE COMPANY | SOCAL HOLDING, LLC | STATE OF CALIFORNIA, STATE LANDS COMMISSION | \$30,000,000 | 1/16/2020 | 1/16/2021 | \$176,400 |

| Bond Number | Issuing Carrier | Principle | Obligee | Bond Amount | Term Start | Term End | Premium |
|-------------|------------------------|--------------------------------------|---|-------------|------------|-----------|----------|
| SU1130280 | ARCH INSURANCE COMPANY | THUMS LONG BEACH COMPANY | CITY OF LONG BEACH | \$50,000 | 1/6/2020 | 1/6/2021 | \$294 |
| SU1131354 | ARCH INSURANCE COMPANY | THUMS LONG BEACH COMPANY | STATE OF CALIFORNIA, DEPARTMENT OF CONSERVATION | \$1,000,000 | 1/1/2020 | 1/1/2021 | \$5,880 |
| SU1132317 | ARCH INSURANCE COMPANY | THUMS LONG BEACH COMPANY | CITY OF LONG BEACH | \$1,500 | 8/1/2019 | 8/1/2020 | \$75 |
| SU1136122 | ARCH INSURANCE COMPANY | THUMS LONG BEACH COMPANY | CITY OF LONG BEACH | \$5,000 | 9/9/2019 | 9/9/2020 | \$75 |
| SU1138947 | ARCH INSURANCE COMPANY | THUMS LONG BEACH COMPANY | STATE OF CALIFORNIA | \$12,500 | 4/19/2019 | 4/19/2020 | \$75 |
| SU1141327 | ARCH INSURANCE COMPANY | THUMS LONG BEACH COMPANY | STATE OF CALIFORNIA | \$15,000 | 6/26/2019 | 6/26/2020 | \$88 |
| SU1132243 | ARCH INSURANCE COMPANY | TIDELANDS OIL PRODUCTION COMPANY LLC | STATE OF CALIFORNIA, DEPARTMENT OF CONSERVATION | \$2,000,000 | 6/1/2019 | 6/1/2020 | \$11,760 |
| SU1138946 | ARCH INSURANCE COMPANY | TIDELANDS OIL PRODUCTION COMPANY LLC | STATE OF CALIFORNIA | \$12,500 | 4/19/2019 | 4/19/2020 | \$75 |
| SU1141309 | ARCH INSURANCE COMPANY | TIDELANDS OIL PRODUCTION COMPANY LLC | STATE OF CALIFORNIA | \$15,000 | 5/19/2019 | 5/19/2020 | \$75 |

| Bond Number | Issuing Carrier | Principle | Obligee | Bond Amount | Term Start | Term End | Premium |
|---------------|-------------------------------|--|--|-------------|------------|------------|---------|
| EACX020000004 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES CORPORATION | SOUTHERN CALIFORNIA EDISON COMPANY | \$396,570 | 12/9/2019 | 12/9/2020 | \$1,935 |
| EACX020000007 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES ELK HILLS, LLC | PACIFIC GAS AND ELECTRIC COMPANY | \$351,670 | 12/22/2019 | 12/22/2020 | \$1,716 |
| EACX169000018 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES ELK HILLS, LLC | STATE OF CALIFORNIA, DEPARTMENT OF CONSERVATION, DIVISION OF OIL AND GAS | \$2,000,000 | 12/8/2019 | 12/8/2020 | \$9,760 |
| EACX169000009 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES LONG BEACH, INC. | STATE OF CALIFORNIA, STATE LANDS COMMISSION | \$50,000 | 11/28/2019 | 11/28/2020 | \$244 |
| EACX169000019 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES LONG BEACH, INC. | STATE OF CALIFORNIA, DEPARTMENT OF CONSERVATION, DIVISION OF OIL AND GAS | \$2,000,000 | 12/8/2019 | 12/8/2020 | \$9,760 |
| EACX169000020 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PETROLEUM CORPORATION | STATE OF CALIFORNIA, STATE LANDS COMMISSION | \$20,000 | 12/11/2019 | 12/11/2020 | \$98 |
| EACX169000038 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PETROLEUM CORPORATION | COUNTY OF VENTURA | \$10,000 | 12/19/2019 | 12/19/2020 | \$75 |

| Bond Number | Issuing Carrier | Principle | Obligee | Bond Amount | Term Start | Term End | Premium |
|---------------|-------------------------------|---|---------------------------------------|-------------|------------|------------|----------|
| EACX169000048 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PETROLEUM CORPORATION | CITY OF SANTA PAULA | \$100,000 | 2/24/2020 | 2/24/2021 | \$488 |
| EACX020000005 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | PACIFIC GAS AND ELECTRIC COMPANY | \$5,195,824 | 12/22/2019 | 12/22/2020 | \$25,356 |
| EACX020000008 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | COUNTY OF KERN, CALIFORNIA | \$10,000 | 11/21/2019 | 11/21/2020 | \$75 |
| EACX020000009 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | CITY OF AVENAL | \$20,000 | 10/6/2019 | 10/6/2020 | \$98 |
| EACX169000002 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | COUNTY OF COLUSA, PLANNING COMMISSION | \$12,000 | 10/17/2019 | 10/17/2020 | \$75 |
| EACX169000003 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | COUNTY OF COLUSA, PLANNING COMMISSION | \$12,000 | 10/17/2019 | 10/17/2020 | \$75 |
| EACX169000004 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | COUNTY OF COLUSA, PLANNING COMMISSION | \$12,000 | 10/17/2019 | 10/17/2020 | \$75 |

| Bond Number | Issuing Carrier | Principle | Obligee | Bond Amount | Term Start | Term End | Premium |
|---------------|-------------------------------|---|---|-------------|------------|------------|----------|
| EACX169000005 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | COLUSA COUNTY OF PUBLIC WORKS | \$25,000 | 10/17/2019 | 10/17/2020 | \$122 |
| EACX169000006 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | STATE OF CALIFORNIA, STATE LANDS COMMISSION | \$7,000,000 | 10/18/2019 | 10/18/2020 | \$34,160 |
| EACX169000007 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | STATE OF CALIFORNIA, STATE LANDS COMMISSION | \$20,000 | 11/28/2019 | 11/28/2020 | \$98 |
| EACX169000008 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | STATE OF CALIFORNIA, STATE LANDS COMMISSION | \$5,000 | 11/28/2019 | 11/28/2020 | \$75 |
| EACX169000010 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | STATE OF CALIFORNIA, STATE LANDS COMMISSION | \$20,000 | 11/28/2019 | 11/28/2020 | \$98 |
| EACX169000011 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | STATE OF CALIFORNIA, STATE LANDS COMMISSION | \$23,928 | 11/28/2019 | 11/28/2020 | \$117 |
| EACX169000012 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | STATE OF CALIFORNIA, STATE LANDS COMMISSION | \$610,000 | 11/28/2019 | 11/28/2020 | \$2,977 |

| Bond Number | Issuing Carrier | Principle | Obligee | Bond Amount | Term Start | Term End | Premium |
|---------------|-------------------------------|---|--|-------------|------------|------------|----------|
| EACX169000013 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | STATE OF CALIFORNIA, STATE LANDS COMMISSION | \$50,000 | 11/28/2019 | 11/28/2020 | \$244 |
| EACX169000014 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | STATE OF CALIFORNIA, STATE LANDS COMMISSION | \$10,272 | 11/28/2019 | 11/28/2020 | \$75 |
| EACX169000015 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | STATE OF CALIFORNIA, STATE LANDS COMMISSION | \$50,000 | 11/28/2019 | 11/28/2020 | \$244 |
| EACX169000016 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | STATE OF CALIFORNIA, DEPARTMENT OF CONSERVATION, DIVISION OF OIL AND GAS | \$2,000,000 | 12/8/2019 | 12/8/2020 | \$9,760 |
| EACX169000021 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | STATE OF CALIFORNIA, STATE LANDS COMMISSION | \$4,201,728 | 12/11/2019 | 12/11/2020 | \$20,504 |
| EACX169000022 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | COUNTY OF KERN, CALIFORNIA | \$10,000 | 12/13/2019 | 12/13/2020 | \$75 |
| EACX169000023 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | COUNTY OF KERN, CALIFORNIA | \$10,000 | 12/13/2019 | 12/13/2020 | \$75 |

| Bond Number | Issuing Carrier | Principle | Obligee | Bond Amount | Term Start | Term End | Premium |
|---------------|-------------------------------|---|---|-------------|------------|------------|---------|
| EACX169000024 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | COUNTY OF KERN, CALIFORNIA | \$50,000 | 12/13/2019 | 12/13/2020 | \$244 |
| EACX169000025 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | COUNTY OF KERN, CALIFORNIA | \$10,000 | 12/13/2019 | 12/13/2020 | \$75 |
| EACX169000026 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | COUNTY OF KERN, CALIFORNIA | \$25,000 | 12/13/2019 | 12/13/2020 | \$122 |
| EACX169000027 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | COUNTY OF KERN, CALIFORNIA | \$25,000 | 12/13/2019 | 12/13/2020 | \$122 |
| EACX169000030 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | STATE OF CALIFORNIA, STATE LANDS COMMISSION | \$20,000 | 12/19/2019 | 12/19/2020 | \$98 |
| EACX169000031 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | STATE OF CALIFORNIA, STATE LANDS COMMISSION | \$20,000 | 12/19/2019 | 12/19/2020 | \$98 |
| EACX169000032 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | STATE OF CALIFORNIA, STATE LANDS COMMISSION | \$20,000 | 12/19/2019 | 12/19/2020 | \$98 |

| Bond Number | Issuing Carrier | Principle | Obligee | Bond Amount | Term Start | Term End | Premium |
|---------------|-------------------------------|---|---|-------------|------------|------------|---------|
| EACX169000033 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | STATE OF CALIFORNIA, STATE LANDS COMMISSION | \$20,000 | 12/19/2019 | 12/19/2020 | \$98 |
| EACX169000034 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | COUNTY OF SAN JOAQUIN | \$20,000 | 12/19/2019 | 12/19/2020 | \$98 |
| EACX169000035 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | COUNTY OF SAN JOAQUIN | \$10,000 | 12/19/2019 | 12/19/2020 | \$75 |
| EACX169000036 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | COUNTY OF SANTA BARBARA | \$14,300 | 12/19/2019 | 12/19/2020 | \$75 |
| EACX169000037 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | COUNTY OF VENTURA | \$20,000 | 1/9/2020 | 1/9/2021 | \$98 |
| EACX169000039 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | COUNTY OF YOLO | \$10,000 | 12/19/2019 | 12/19/2020 | \$75 |
| EACX169000040 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | CITY OF AVENAL | \$10,000 | 1/17/2020 | 1/17/2021 | \$75 |

| Bond Number | Issuing Carrier | Principle | Obligee | Bond Amount | Term Start | Term End | Premium |
|---------------|-------------------------------|---|--|-------------|------------|------------|----------|
| EACX169000045 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | COUNTY OF KERN, CALIFORNIA | \$50,000 | 10/12/2019 | 10/12/2020 | \$244 |
| EACX169000047 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES PRODUCTION CORPORATION | VENTURA COUNTY WATERSHED PROTECTION DISTRICT, STATE OF CALIFORNIA | \$30,000 | 7/11/2019 | 7/11/2020 | \$146 |
| EACX020000006 | SOMPO INTERNATIONAL INSURANCE | CALIFORNIA RESOURCES TIDELANDS INC. | CITY OF LOS ANGELES | \$520,000 | 1/18/2020 | 1/18/2021 | \$2,538 |
| EACX169000001 | SOMPO INTERNATIONAL INSURANCE | ELK HILLS POWER LLC | PACIFIC GAS AND ELECTRIC COMPANY | \$2,493,960 | 10/12/2019 | 10/12/2020 | \$12,171 |
| EACX169000017 | SOMPO INTERNATIONAL INSURANCE | THUMS LONG BEACH COMPANY | STATE OF CALIFORNIA, DEPARTMENT OF CONSERVATION, DIVISION OF OIL AND GAS | \$2,000,000 | 1/3/2020 | 1/3/2021 | \$9,760 |

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION**

| | | |
|---|---|-------------------------|
| | X | |
| In re | : | Chapter 11 |
| | : | |
| CALIFORNIA RESOURCES CORPORATION, <i>et</i> | : | Case No. 20-33568 (DRJ) |
| <i>al.</i> , ¹ | : | |
| Debtors. | : | Jointly Administered |
| | : | |
| | X | |

**ORDER (I) AUTHORIZING, BUT NOT DIRECTING, THE DEBTORS
TO CONTINUE THEIR SURETY BOND PROGRAM AND PAY
PREPETITION OBLIGATIONS RELATING THERETO,
(II) AUTHORIZING FINANCIAL INSTITUTIONS TO HONOR RELATED
PAYMENT REQUESTS AND (III) GRANTING RELATED RELIEF**

Upon the motion (the “Motion”)² of California Resources Corporation and its affiliated debtors and debtors-in-possession (collectively, the “Debtors”), for entry of an order (this “Order”) (a) authorizing, but not directing, the Debtors, in their sole discretion, to continue their Surety Bond Program and to pay prepetition obligations relating thereto, and to renew, acquire additional bonding capacity and execute other agreements in connection therewith, (b) authorizing financial institutions to honor related payment requests and (c) granting related relief; and this Court having jurisdiction to consider the Motion pursuant to 28 U.S.C. § 1334;

¹ The Debtors in these chapter 11 cases and the last four digits of their U.S. taxpayer identification numbers are: California Resources Corporation (0947); California Heavy Oil, Inc. (4630); California Resources Coles Levee, L.P. (2995); California Resources Coles Levee, LLC (2087); California Resources Elk Hills, LLC (7310); California Resources Long Beach, Inc. (6046); California Resources Mineral Holdings LLC (4443); California Resources Petroleum Corporation (9218); California Resources Production Corporation (5342); California Resources Production Mineral Holdings, LLC (9071); California Resources Real Estate Ventures, LLC (6931); California Resources Royalty Holdings, LLC (6393); California Resources Tidelands, Inc. (0192); California Resources Wilmington, LLC (0263); CRC Construction Services, LLC (7030); CRC Marketing, Inc. (0941); CRC Services, LLC (6989); Monument Production, Inc. (0782); Oso Verde Farms, LLC (7436); Social Holding, LLC (3524); Southern San Joaquin Production, Inc. (4423); Thums Long Beach Company (1774); Tidelands Oil Production Company LLC (5764). The Debtors’ corporate headquarters is located at 27200 Tourney Road, Suite 200, Santa Clarita, CA 91355.

² Capitalized terms not otherwise defined herein are to be given the meanings ascribed to them in the Motion.

and venue of these chapter 11 cases and the Motion in this district being proper pursuant to 28 U.S.C. §§ 1408 and 1409; and this matter being a core proceeding pursuant to 28 U.S.C. § 157(b); and this Court having found that proper and adequate notice of the Motion and the relief requested therein has been provided in accordance with the Bankruptcy Rules, the Bankruptcy Local Rules and the Complex Case Procedures, and that, except as otherwise ordered herein, no other or further notice is necessary; and any objections (if any) to the Motion having been withdrawn, resolved or overruled on the merits; and a hearing having been held to consider the relief requested in the Motion and upon the record of the hearing and all of the proceedings had before this Court; and this Court having found and determined that the relief sought in the Motion is in the best interests of the Debtors, their estates, their creditors and all other parties-in-interest; and that the legal and factual bases set forth in the Motion establish just cause for the relief granted herein; and after due deliberation and sufficient cause appearing therefor;

IT IS HEREBY ORDERED THAT:

1. The Debtors are authorized, but not directed, in their sole discretion, but subject in all respects to the terms of the DIP Order, to continue the Surety Bond Program, and to pay prepetition obligations relating thereto, including any amounts owed in connection with the Indemnity Agreements or on account of Brokerage Fees arising thereunder or in connection therewith.
2. The Debtors are authorized, but not directed, in their sole discretion and in the ordinary course of business, to (a) renew, amend, modify, supplement and extend their existing Surety Bond Program; (b) obtain new surety bonds; (c) maintain existing collateral; (d) post new or additional collateral, or issue letters of credit and (e) execute other agreements in

connection with the Surety Bond Program. The Debtors will notify the U.S. Trustee and any statutory committee appointed in these chapter 11 cases if the Debtors renew, amend, supplement, extend, terminate, replace, increase or decrease existing surety bond coverage or letters of credit, change surety carriers, enter into any new premium financing agreements, or obtain additional surety bonds or obtain additional letters of credit.

3. The failure to specifically describe or include any particular feature of the Surety Bond Program in the Motion or this Order shall not diminish or impair the effectiveness of such feature, it being the intent of this Court that the Surety Bond Program be approved in its entirety. All rights of the Debtors, Surety Bond Carriers and obligees under the Surety Bond Program are reserved including, without limitation, all rights under the Indemnity Agreements, related collateral agreements, any collateral of any Surety Bond Carriers, including without limitation, the LCs, common law of suretyship, contract rights, indemnity and otherwise. Nothing in this Order, or any debtor-in-possession financing order, shall alter, limit, modify or impair those rights, nor constitute a waiver of, expressly or implicitly, the rights, claims and/or defenses of the Debtors, the Broker or the Surety Bond Carriers with respect to any cash, letter of credit, letter of credit rights or other collateral of any Surety Bond Carrier, including, without limitation, any of the LCs, as of the Petition Date or thereafter in which a Surety Bond Carrier holds a valid, perfected, enforceable, non-avoidable interest, (a) which as of the Petition Date is senior to then-existing applicable secured liens or (b) which is in property that is and remains outside the Debtors' estates.

4. The Debtors shall maintain a matrix/schedule of payments for obligations accruing prepetition that are made pursuant to this Order, including the following information: (a) the names of the payee; (b) the nature of the payment; (c) the amount of the payment; (d) the

category or type of payment; (e) the Debtor or Debtors that made the payment; (f) the payment date and (g) the purpose of such payment. The Debtors shall provide a copy of such matrix/schedule to the U.S. Trustee and any statutory committee appointed in these chapter 11 cases every 30 days beginning upon entry of this Order

5. Nothing in this Order shall be deemed to relieve the Debtors of any obligations under any applicable federal, state or local police or regulatory laws or under 28 U.S.C. § 959(b).

6. The Debtors are not authorized by this Order to take any action with respect to a surety bond that would have the effect of transforming a prepetition undersecured or unsecured surety bond obligation to a postpetition or secured obligation. Such relief may be sought by a separate motion.

7. The Debtors are authorized and empowered to execute and deliver such documents, and to take and perform all actions necessary to implement and effectuate the relief granted in this Order.

8. In accordance with this Order (or other order of this Court), each of the financial institutions at which the Debtors maintain their accounts relating to the payment of the obligations described in the Motion are authorized, but not directed, to (a) receive, process, honor and pay all checks presented for payment and to honor all fund transfer requests made by the Debtors related thereto, to the extent that sufficient funds are on deposit in those accounts and (b) accept and rely on all representations made by the Debtors with respect to which checks, drafts, wires or automated clearing house transfers should be honored or dishonored in accordance with this or any other order of this Court, whether such checks, drafts, wires, or

transfers are dated prior to, on or subsequent to the Petition Date, without any duty to inquire otherwise and without any liability for following the Debtors' instructions.

9. Notwithstanding anything to the contrary herein, any payment to be made by the Debtors pursuant to the authority granted herein shall be subject to and in compliance with the DIP Order. To the extent there is any inconsistency between the terms of the DIP Order and any action taken or proposed to be taken hereunder, the terms of the DIP Order shall control.

10. Nothing in the Motion or this Order, nor as a result of any payment made pursuant to this Order, shall be deemed or construed as an admission as to the validity or priority of any claim against the Debtors, an agreement or obligation to pay any claims, a waiver of any claim or causes of action which may exist against any creditor or interest holder, an admission as to the validity of any lien satisfied pursuant to this Order, an approval or assumption of any agreement, contract or lease pursuant to section 365 of the Bankruptcy Code or a waiver of the right of the Debtors, or shall impair or limit the ability of the Debtors, to contest the validity and amount of any payment made pursuant to this Order.

11. The requirements set forth in Bankruptcy Local Rule 9013-1(i) are satisfied.

12. The requirements set forth in Bankruptcy Rule 6003(b) are satisfied.

13. The requirements set forth in Bankruptcy Rule 6004(a) are satisfied.

14. This Order is immediately effective and enforceable, notwithstanding the possible applicability of Bankruptcy Rule 6004(h) or otherwise.

15. This Court shall retain jurisdiction with respect to any matters, claims, rights or disputes arising from or related to the Motion or the implementation of this Order.

Dated: _____, 2020
Houston, Texas

United States Bankruptcy Judge