SETTLEMENT AGREEMENT AND RELEASE

This SETTLEMENT AGREEMENT AND RELEASE (hereinafter "Agreement") is entered into by and between the STATE OF CALIFORNIA AIR RESOURCES BOARD (hereinafter "ARB"), with its principal office at 1001 I Street, Sacramento, California 95814 and CALIFORNIA ENVIRONMENTAL SOLUTIONS, INC (hereinafter "CES") with its principal place of business at 1125 Ocean Ridge Court, Oceanside, California 92056.

RECITALS

1. California Vehicle Code section 27156(c) provides, in pertinent part that "No person shall install, sell, offer for sale, or advertise any device intended for use with, or as a part of, any required motor vehicle pollution control device or system which alters or modifies the original design or performance of any such motor vehicle pollution control device or system."

2. Vehicle Code section 27156(h) provides, in pertinent part, that this section shall not apply to an alteration, modification, or modifying device found by resolution of the State Air Resources Board to either not reduce the effectiveness of any required motor vehicle pollution control device or result in emissions from any such modified or altered vehicle which are at levels that comply with existing state or federal standards for the model year of the vehicle being modified or converted.

3. In addition, California Code of Regulations, title 13, section 2225(a) provides, in pertinent part that the Executive Officer may seek fines for violations of Vehicle Code Section 27156 or other laws or regulations, as applicable.

4. Health and Safety Code section 43016 states, in pertinent part, "Any person who violates any provision of this part, or any order, rule, or regulation of the state board adopted pursuant to this part, and for which violation there is not provided in this part any other specific civil penalty or fine, shall be subject to a civil penalty not to exceed five hundred dollars ($500) per vehicle, portable fuel container, spout, engine, or other unit subject to regulation under this part, as these terms are defined in this division or state board regulations."

5. CES is a retailer of, inter alia, new aftermarket non-original equipment emission control parts, including, but not limited to, diesel particulate filters.

6. Between September 24, 2014 and August 18, 2015 , CES, offered, and/or sold in California, supplied, distributed, sold, offered for sale, and/or advertised in California ten (10) diesel particulate filters ("subject parts").

7. The subject parts alter or modify the original design or performance of the motor vehicle pollution control device or system.

8. The subject parts are not exempted by ARB pursuant to California Code of Regulations, title 13, section 2222 et seq.

9. The supply, offer, and/or sale in California, supplying, distributing, selling, offering for sale, and/or advertising in California of the subject parts were unlawful and in violation of Vehicle Code section 27156(c) and California Code of Regulations, title 13, section 2222 et seq.

10. CES promptly and fully cooperated with ARB throughout its investigation.

11. CES has no prior enforcement record with ARB.

12. ARB alleges that if the facts described in recital paragraphs 1-9 were proven, civil penalties could be imposed against CES as provided in Health and Safety Code section 43016.

13. CES admits the facts described in recital paragraphs 1-9, but denies any liability arising therefrom.

14. CES is willing to enter into this Agreement solely for the purpose of settlement and resolution of this matter with ARB. ARB accepts this Agreement in termination of this matter. Accordingly, the parties agree to resolve this matter completely by means of this Agreement, without the need for formal litigation.

TERMS AND RELEASE

In consideration of ARB not filing a legal action against CES for the violations alleged above, and in consideration of the other terms set out below, ARB and CES agree as follows:

1. As a condition of this Settlement Agreement, CES shall pay the total sum of five thousand dollars ($5,000.00) as a penalty. This amount shall be payable upon execution of this settlement agreement by cashier's check payable to the **California Air Pollution Control Fund**.

   Please send the signed Settlement Agreement and any future mailings or documents required per the terms of this Settlement Agreement to:

   Tony Zeng/Air Resources Engineer
   Air Resources Board, Enforcement Division
   9480 Telstar Avenue, Suite 4
   El Monte, CA 91731

Please send the signed Settlement Agreement and payment using the attached "Settlement Agreement Payment Transmittal Form" (Attachment

A) to:

California Air Resources Board
Accounting Office
P.O. Box 1436
Sacramento, California 95812-1436

3. CES shall not manufacture for supply, distribution, offer, or sale in California or supply, distribute, offer for sale, sell, or advertise in California any aftermarket part in violation of California Code of Regulations, title 13, section 2222 or Vehicle Code section 27156.

4. This Agreement shall apply to and be binding upon CES and its principals, officers, directors, agents, receivers, trustees, employees, successors and assignees, subsidiary and parent corporations and predecessors and upon ARB and any successor agency that may have responsibility for and jurisdiction over the subject matter of this Agreement.

5. Now, therefore, in consideration of the payment by CES to the California Air Pollution Control Fund in the amount specified above, ARB hereby releases CES and its principals, officers, directors, agents, receivers, trustees, employees, successors and assignees, subsidiary and parent corporations, and predecessors from any and all claims that ARB may have based on the facts and allegations described in recital paragraphs 1-9, above. The undersigned represent that they have the authority to enter this Agreement.

6. This Agreement constitutes the entire agreement and understanding between ARB and CES concerning the claims and settlement in this Agreement, and this Agreement fully supersedes and replaces any and all prior negotiations and agreement of any kind or nature, whether written or oral, between ARB and CES concerning these claims.

7. No agreement to modify, amend, extend, supersede, terminate, or discharge this Agreement, or any portion thereof, shall be valid or enforceable unless it is in writing and signed by all parties to this Agreement.

8. Advice of Counsel. Each Party to this Agreement has reviewed the Agreement independently, has had the opportunity to consult counsel, is fully informed of the terms and effect of this Agreement, and has not relied in any way on any inducement, representation, or advice of any other Party in deciding to enter into this Agreement.

9. This Agreement shall be interpreted and enforced in accordance with the laws of the State of California, without regard to California's choice of law rules.

10. Severability. Each provision of this Agreement is severable, and in the event that

any provision of this Agreement is held to be invalid or unenforceable, the remainder of this Agreement remains in full force and effect to the extent necessary to fulfill the Agreement's purpose and the intent of the parties.

11. Waiver. The failure of any Party to enforce any provision of this Agreement shall not be construed as a waiver of any such provision, nor prevent such Party thereafter from enforcing such provision or any other provision of this Agreement. The rights and remedies granted all Parties herein are cumulative and the election of one right or remedy by a Party shall not constitute a waiver of such Party's right to assert all other legal remedies available under this Agreement or otherwise provided by law.

12. Captions. The captions by which the sections and subsections of this Agreement are identified are for convenience only, and shall have no effect whatsoever upon their interpretation.

13. This Agreement may be executed by facsimile and in multiple counterparts, and the counterparts shall be deemed to be an original, and such counterparts together shall constitute one and the same instrument.

14. This Agreement is deemed to have been drafted equally by the Parties; it will not be interpreted for or against either party on the ground that said party drafted it.

15. SB 1402 Statement

Senate Bill 1402 (Dutton, Chapter 413, statutes of 2010, Health and Safety Code section 39619.7) requires the ARB to provide information on the basis for the penalties it seeks. This required information, which is provided throughout this settlement agreement, is summarized here.

The manner in which the penalty amount was determined, including a per unit or per vehicle penalty.

Penalties must be set at levels sufficient to discourage violations. The penalties in this matter were determined in consideration of all relevant circumstances, including the eight factors specified in Health and Safety Code section 43024.

The per unit penalty in this case is a maximum of $500.00 per unit per strict liability violation. The penalty obtained in this case is $500.00 per unit for 10 units.

The provision of law the penalty is being assessed under and why that provision is most appropriate for that violation.

ARB alleges that the penalty provision being applied in this case, Health and Safety Code section 43016, is appropriate because CES allegedly sold, and/or offered for sale, and/or advertised the subject non-California certified aftermarket parts that were not exempted pursuant to California Code of Regulations, title 13,

section 2222.

Is the penalty being assessed under a provision of law that prohibits the emission of pollution at a specified level, and, if so a quantification of excess emissions, if it is practicable to do so.

The provisions cited above do not prohibit emissions above a specified level. It is not practicable to quantify these emissions, because the information necessary to do so, such as emission rates and time of use, is not available. There are no testing results available that would indicate how much emissions increased as a result of the use of the uncertified aftermarket parts. However, since the aftermarket parts were not certified for sale in California, emissions attributable to them are illegal and excess. The parties had adequate opportunity to conduct such testing, but elected not to do so in the interests of settlement and because of the time and expense involved.

16. CES acknowledges that ARB has complied with SB 1402 in prosecuting and settling this case. Specifically, ARB has considered all relevant facts, including those listed at Health and Safety Code section 43024, has explained the manner in which the penalty amount was calculated (including a per unit or per vehicle penalty, if appropriate), has identified the provision of law under which the penalty is being assessed, and has considered and determined that this penalty is not being assessed under a provision of law that prohibits the emission of pollutants at a specified level.

17. Penalties were determined based on the unique circumstances of this matter, considered together with the need to remove any economic benefit from noncompliance, the goal of deterring future violations and obtaining swift compliance, the consideration of past penalties in similar case negotiation, and the potential costs and risk associated with litigating these particular violations. The penalty reflects violations extending over a certain period of time, considered together with the complete circumstances of this case.

18. The penalty in this case was based in part on confidential business information provided by CES that is not retained by ARB in the ordinary course of business. The penalty in this case was also based on confidential settlement communications between ARB and CES that ARB does not retain in the ordinary course of business either. The penalty also reflects ARB's assessment of the relative strength of its case against CES, the desire to avoid the uncertainty, burden and expense of litigation, obtain swift compliance with the law and remove any unfair advantage that CES may have secured from its alleged actions.

California Air Resources Board

By: _____

Name: Dr. Todd P. Sax
Title: Chief, Enforcement Division
Date: 3/4/16

California Environmental Solutions, INC.

By: _____

Name: ANNIE BEAL
Title: President
Date: 2/9/2016