SETTLEMENT AGREEMENT AND RELEASE

This SETTLEMENT AGREEMENT AND RELEASE (hereinafter "Agreement") is entered into between the STATE OF CALIFORNIA AIR RESOURCES BOARD (hereinafter "ARB") with its principal office at 1001 I Street, Sacramento, California 95814, and PAUL OIL Company, Inc. (hereinafter "PAUL OIL") with its principal place of business at 524 N. Sierra Avenue, Oakdale, CA 95361.

RECITALS

(1) California Code of Regulations, title 13, Section 2261(b)(1)(B) provides in pertinent part as follows: "The remaining CaRFG Phase 3 standards and compliance requirements contained in this subarticle shall apply to all sales, supplies, or offers of California gasoline occurring on or after December 31, 2003."

(2) California Code of Regulations, title 13, section 2265(a)(2)(B) requires the producer or importer of fuel to make specific notifications to ARB's Executive Officer "...before the start of physical transfer of the gasoline from the production or import facility, and in no case less than 12 hours before the producer or importer either completes physical transfer or commingles the final blend."

(3) California Code of Regulations, title 13, section 2265(a)(4) provides in pertinent part, "The executive officer may enter into a written protocol with any individual producer or importer for the purposes of specifying how the requirements in section (a)(2) shall be applied to the producer's or importer's particular operations, as long as the executive officer reasonably determines that application of the regulatory requirements under the protocol is not less stringent or enforceable than application of the express terms of section (a)(2)."

(4) Health and Safety Code section 43027(c) states, "Any person who violates any provision of this part, or any rule, regulation, permit, variance, or order of the state board, pertaining to fuel requirements and standards, exclusive of the documentation requirements specified in subdivision (d), is strictly liable for a civil penalty of not more than thirty-five thousand dollars ($35,000)."

(5) Health and Safety Code section 43030(a) states, "For the penalties prescribed in Sections 43027...each day during any portion of which a violation occurs is a separate offense. "

(6) Health and Safety Code section 43031(b) states, "In determining the amount assessed, the court, the Attorney General, or the state board, in reaching any settlement, shall take into consideration all relevant circumstances, including, but

not limited to, all of the following: (1) The extent of harm to public health, safety, and welfare caused by the violation. (2) The nature and persistence of the violation, including the magnitude of the excess emissions. (3) The compliance history of the defendant, including the frequency of past violations. (4) The preventive efforts taken by the defendant, including the record of maintenance and any program to ensure compliance. (5) The innovative nature and the magnitude of the effort required to comply, and the accuracy, reproducibility, and repeatability of the available test methods. (6) The efforts to attain, or provide for, compliance. (7) The cooperation of the defendant during the course of the investigation and any action taken by the defendant, including the nature, extent, and time of response of any action taken to mitigate the violation. (8) For a person who owns a single retail service station, the size of the business."

(7) Pursuant to California Code of Regulations, title 13, section 2265(a)(4), ARB and PAUL OIL executed a protocol on June 7, 2008. The protocol entitled "Using a Cargo Tank Truck or Railcar as an Import Facility" (Protocol) requires PAUL OIL to send a first and a final notification for every shipment of California motor fuel that PAUL OIL imports into California. The first notification must be reported at least five days before Paul Oil reasonably expects the cargo tank truck or railcar to arrive at the location where the motor fuel will be transferred from the cargo tank truck or railcar. The final notification must be reported before the start of physical transfer of California motor fuel from the cargo tank truck or railcar and in no case less than 12 hours before Paul Oil either completes physical transfer or commingles the California motor fuel in the cargo tank truck or railcar. When the predictive model notification is reported, the fuel is deemed to be certified and in compliance and can be be put into commerce.

(8) On March 9, 2012, ARB staff obtained import delivery and notification records from the Truck Rail Handling Facility in Fremont, California which included information of imports by PAUL OIL.

(9) Based on ARB enforcement staff's audit, on four occasions, PAUL OIL sold, offered for sale, supplied, offered for supply, fuel, and/or transported California motor fuel, without following the notification and reporting procedures as required by the Protocol ("subject fuel"). Pursuant to the terms of the Protocol, any violation of the terms of the Protocol constitutes a violation of the gasoline regulations (Cal. Code Regs., tit. 13, § 2250 *et seq.*).

(10) ARB alleges that the sale, supply, offer for supply, and/or transportation of the subject fuel were unlawful and in violation of California Code of Regulations, title 13, section 2265(a)(2)(B) and the Protocol.

(11) PAUL OIL alleges that they are a low-volume distributor and have demonstrated financial hardship.

(12) PAUL OIL has not had any previous enforcement action taken by ARB.

(13) PAUL OIL fully cooperated with ARB throughout its investigation.

(14) PAUL OIL has agreed to institute a compliance plan to prevent this type of violation from occurring again.

(15) ARB alleges that if the facts described in recital paragraphs 1 – 10, were proven, civil penalties could be imposed against PAUL OIL as provided in Health and Safety Code sections 43027 and 43030.

(16) PAUL OIL admits the facts described in recital paragraphs 1 – 10, but denies any liability arising therefrom.

(17) PAUL OIL is entering into this Agreement solely for the purpose of settlement and resolution of this matter with ARB. Further, 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 PAUL OIL for the violations alleged above, and in consideration of the other terms set out below, ARB and PAUL OIL agree as follows:

(1) As a condition of this Settlement Agreement, PAUL OIL shall pay the sum of sixteen thousand dollars ($16,000) as a penalty. This amount shall be payable in four payments of four thousand dollars ($4,000) each. The payments must be submitted by August 1, 2014; November 1, 2014; February 1, 2015 and May 1, 2015. Each payment shall be accompanied by the attached Payment Transmittal Form. Payments shall be made by certified check payable to the **California Air Pollution Control Fund** and addressed to:

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

(2) Effect of Untimely Payment. If a payment installment is not made within 5 days of the date specified above, the entire remaining balance, plus an additional late fee of $15,000 as liquidated damages, shall become immediately due and payable without notice or demand. PAUL OIL agrees to pay any fees or charges, including administrative late fees, charges, and assessments. The charges for late payment and nonpayment are liquidated damages intended to be a reasonable advance estimate of ARB's costs resulting from late payments or

non-payments by PAUL OIL, which costs will not be readily ascertainable, and will be difficult to predict or calculate, at the time that such administrative late fee(s) and related charges are set because it would be difficult to know in advance: (a) whether PAUL OIL will pay on a timely basis, (b) if PAUL OIL does pay late, when it will actually pay, if ever, and (c) what costs ARB will incur because of PAUL OIL's late payment or non-payment. PAUL OIL agrees that this additional late fee is a genuine pre-estimate of the loss, excluding the costs in Release paragraph (3), likely to be suffered as a result of any breach of contract.

(3) If the Attorney General files a civil action to enforce this settlement agreement, PAUL OIL shall pay all costs of investigating and prosecuting the action, including expert fees, reasonable attorney's fees, and costs.

(4) It is agreed that the penalty described in terms and release paragraph (1) is punitive in nature, rather than compensatory. Furthermore, the penalty is intended to deter and punish PAUL OIL for violations of state environmental statutes, and this penalty is payable to and for the benefit of ARB, a governmental unit. Therefore, it is agreed that this penalty imposed on PAUL OIL by ARB arising from the facts alleged in recital paragraphs 1–10 are not dischargeable under 11 U.S.C § 523 (a)(7), which provides an exception from discharge for any debt to the extent such debt is for a fine, penalty or forfeiture payable to and for benefit of governmental unit, and is not compensation for actual pecuniary loss, other than certain types of tax penalties.

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

(6) Now therefore, in consideration of the payment by PAUL OIL to the California Air Pollution Control Fund in the amount specified above, ARB hereby releases PAUL OIL and its principals, officers, directors, agents, receivers, trustees, employees, successors and assignees, and subsidiary and parent corporations from any and all claims that ARB may have based on the allegations described in recital paragraphs 1-10. The undersigned represent that they have the authority to enter this Agreement.

(7) This Agreement constitutes the entire agreement and understanding between ARB and PAUL OIL 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 PAUL OIL concerning these claims.

(8) 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.

(9) 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.

(10) 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.

(11) 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.

(12) 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.

(13) 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.

(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) This Agreement may be signed in counterparts, and its validity shall not be challenged on that basis. True and correct copies of signed counterparts shall be deemed effective as originals for all purposes.

(16) **SB 1402 Statement**

Senate Bill 1402 (Dutton, Chapter 413, statutes of 2010, Health and Safety Code section 39619.7) requires 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 43031.

The per unit penalty in this case is a maximum of $35,000 per day per strict liability violation. The penalty obtained in this case is $16,000 total for the four reporting violations. The penalty was reduced in consideration of several factors including PAUL OIL's full cooperation, compliance history with no previous violations, and the financial hardship imposed on PAUL OIL.

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 provisions being applied in this case, Health and Safety Code sections 43027 and 43030, are appropriate because PAUL OIL allegedly sold, offered for sale, supplied, offered for supply, and/or transported California motor fuel fuel into commerce in California in violation of the "Using a Cargo Tank or Railcar as an Import Facility" protocol between PAUL OIL Company, Inc. and the California Air Resources Board (CARB) signed on June 17, 2008.

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. However, if we obtain sufficient information, we may be able to calculate the amount of illegal emissions your violation caused.

(17) PAUL OIL 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 43031, 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 provision of law that prohibits the emission of pollutants at a specified level.

(18) 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 cases, and the potential costs and risk associated with litigating these particular violations. The penalty was reduced in this matter based on several facts including: PAUL OIL 's efforts to cooperate with the investigation, and no record of prior violations with ARB. Penalties in future similar cases may be smaller or larger on a per day basis.

(19) The penalty in this case was based in part on confidential business information provided by PAUL OIL 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 PAUL OIL 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 PAUL OIL, the desire to avoid the uncertainty, burden and expense of litigation, obtain swift compliance with the law and remove any unfair advantage that PAUL OIL may have secured from its alleged actions.

CALIFORNIA AIR RESOURCES BOARD

By _____

Name: Ellen M. Peter

Title: Chief Counsel

Date: 7/30/2014

PAUL OIL Inc.

By _____

Name: Mark Paul

Title: President

Date: July 7, 2014