SETTLEMENT AGREEMENT AND RELEASE

This SETTLEMENT AGREEMENT AND RELEASE (hereinafter "Agreement") is entered into between the STATE OF CALIFORNIA AIR RESOURCES BOARD (hereinafter "ARB") 1001 I Street, Sacramento, California 95814, and SK Innovation Co., Ltd. (hereinafter "SKI") formerly known as SK Energy Co., Ltd., 26 Jongro Jongro-Gu, Seoul, 110-728, South Korea.

I. RECITALS

(1) The Verification Procedure for In-Use Strategies to Control Emissions from Diesel Engines ("Verification Procedure," California Code of Regulations (CCR), title 13, sections 2700-2711) provides at section 2702 that if the Executive Officer of the ARB grants verification of a diesel emission control strategy (DECS), he or she will issue an Executive Order (EO) to the strategy's applicant identifying the verified emission reduction level and any conditions that must be met for the DECS to function properly. The Verification Procedure itself also places conditions on applicants and diesel emissions control strategies.

(2) The Verification Procedure provides at section 2706 (f) (3) that all filter-based diesel emission control systems must be installed with a backpressure monitor to notify the operator when the high backpressure limit, as specified by the engine manufacturer or included in the verification, is approached. The notification must occur and be clearly visible to the operator while the vehicle or equipment is in use. The applicant must identify the high backpressure limits of the system in its application for verification.

(3) The Executive Orders DE-09-007, DE-09-007-01 and DE-09-007-02 issued by ARB to SKI for the Econix DPF-A Diesel Particulate Filter System explicitly state that:

- No changes are permitted to the device. ARB must be notified, in writing, of any changes to any part of Econix DPF-A. Any changes to the device must be evaluated and approved in writing by ARB. Failure to do so shall invalidate this EO.

- Changes made to the design or operating conditions of Econix DPF-A, as exempted by ARB, which adversely affect the performance of the vehicle's pollution control system, shall invalidate this EO.

(4) CCR, title 13, section 2711 states that no person shall sell, offer to sell, or introduce into commerce an ARB verified DECS unless all of the conditions of the governing EO and this chapter are met.

(5) If a DECS or the application it is used in does not meet the conditions specified in the Verification Procedure or the applicable EO, it is a violation of the Verification Procedure, and the DECS is not verified for that application.

(6) The ARB Enforcement Division staff, with the cooperation of SKI, has alleged certain violations of the Verification Procedure and the applicable EOs with respect to SKI's DECS in California that do not conform to the conditions specified in the Verification Procedure and the applicable EOs. In particular, these alleged violations involve selling the Econix DPF-A Diesel Particulate Filter System with a warning system that was not approved by ARB. Specifically it is alleged that the Peak Pressure of the Exhaust (PPE) values being used were not the same as approved by the ARB.

(7) Health and Safety Code (HSC), sections 39674 (a) and (b) authorize civil penalties for the violation of the programs for the regulation of toxic air contaminants not to exceed one thousand dollars ($1,000) per unit for strict liability violations or not to exceed ten thousand dollars ($10,000) per unit for negligent or intentional violations respectively, for each day in which the violation occurs.

(8) In order to resolve the violations described herein, SKI has taken, or agreed to take, the actions enumerated below under "TERMS AND CONDITIONS." Further, the ARB accepts this Agreement in termination and settlement of this matter.

(9) In consideration of the foregoing, and of the promises and facts set forth herein, the parties desire to settle and resolve all claims, disputes, and obligations relating to the above-listed violations, and voluntarily agree to resolve this matter by means of this Agreement. Specifically, the ARB and SKI agree as follows:

II. TERMS AND CONDITIONS

In consideration of the ARB not filing a legal action against SKI for the violations referred to above, the ARB and SKI agree as follows:

(1) Within fourteen (14) days of the execution of this Agreement by both SKI and the ARB, the sum of seven hundred ninety thousand dollars ($790,000.00) shall be paid on behalf of SKI as follows:

- $592,500.00 to the **Air Pollution Control Fund.**
- $197,500.00 to the **Peralta Colleges Foundation.**
- Checks with the signed settlement agreement shall be sent to:

Mr. Tajinder Gill, Air Resources Engineer
Air Resources Board, Enforcement Division
9480 Telstar Ave., Suite 4
El Monte, CA 91731

(2) If the Attorney General files a civil action to enforce this Agreement, SKI shall pay all reasonable costs of investigating and prosecuting the action, including expert fees, reasonable attorney's fees, and costs if the Attorney General is the prevailing party.

(3) SKI shall not violate any provision of the California Vehicle Code section 27156.

(4) SKI shall not violate Aftermarket parts exemption procedures established in CCR, title13, sections 1900 et seq., 2030-2031, 2047-2048, 2200-2207 and 2220-2225.

(5) SKI shall not violate the Verification Procedure (CCR, title 13, sections 2700-2711) or any EOs issued by ARB.

(6) SKI shall ensure that the terms and conditions specified in the applicable EO are met prior to installing, selling, offering for sale, or advertising any DECS in California. SKI may not swap or redesignate any units or cores.

(7) SKI shall not violate the system labeling requirements set forth in CCR, title 13, section 2706 (j).

(8) SKI shall comply with the DECS warranty requirements set forth in the CCR, title 13, section 2707.

(9) Although the ARB has informed SKI that it may seek a new EO determining that the Econix DPF-A Diesel Particulate Filter System meets the requirements of the Verification Procedure, SKI has determined and agreed that that in lieu of seeking a new EO, it will initiate a nationwide recall plan within 60 days of execution of this Agreement as described in the attached owner notification letter from SKI to Econix DPF Filter owner and report back to ARB within 30 days of completion of the recall campaign.

(10) This Agreement constitutes the entire agreement and understanding between ARB and SKI concerning the subject matter hereof, and supersedes and replaces all prior negotiations and agreements between ARB and SKI concerning the subject matter hereof.

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

(12) 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.

(13) 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.

(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) requires the ARB to provide information on the basis for the penalties it seeks *(see HSC section 39619.7)*. This 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 section 43024.

The per unit or per vehicle penalty in this case is a maximum of $1,000 per unit per day for strict liability violations and $10,000 per unit per day for negligent or intentional violations. The penalty of $790,000 over an unspecified number of days of violation is for 248 non-compliant units. The per unit penalty in this case is $3185.48 which is approximately 33% of their price. This penalty was calculated by considering all factors specified in HSC sections 42403 and 43024, including the fact that this is an innocent, first time violation, SKI has cooperated with the investigation, and has developed a comprehensive compliance and recall plan.

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

The penalty provision being applied in this case is HSC section 39674 because SKI failed to comply with the Air Toxic Control Measure for In-Use Strategies to Control Emissions from Diesel Engines, title 13, CCR, sections 2700-2711, which was adopted under authority of HSC section 39600, et seq.

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 prohibit emissions above a specified level. However, since the hours of operation of the non-compliant units involved

and their individual emission rates are not known, it is not practicable to quantify the excess emissions.

(16) SKI acknowledges that ARB has complied with SB 1402 in prosecuting or settling this case. Specifically, ARB has considered all relevant facts, including those listed at HSC 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 being assessed under a provision of law that prohibits the emission of pollutants at a specified level. However, since the hours of operation of the non-compliant units involved and their individual emission rates are not known, it is not practical for ARB to quantify the excess emissions.

(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 cases negotiation, and the potential costs and risk associated with litigating these particular violations. The penalty reflects violations extending over a number of days considered together with the complete circumstances of this case. Penalties in future cases might be smaller or larger on a per unit basis.

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

(19) Now therefore, in consideration of the payment on behalf of SKI to the Air Pollution Control Fund and the Peralta Colleges Foundation, the ARB hereby releases SKI and its affiliates and their respective principals, directors, officers, agents, predecessors and successors from any and all claims for past violations of the Verification Procedure and the applicable EOs alleged in recital paragraph 6. The undersigned represent that they have the authority to enter into this Agreement.

SIGNATURE PAGE FOLLOWS

California Air Resources Board

By: _____

Name: Richard W. Corey
Title: Executive Officer
Date: 03-03-2014

SK Innovation Co., Ltd.

By: _____

Name: LEE SHOONGHWA
Title: TEAM LEADER
Date: 2014/01/15

Attachment:

Owner notification letter from SKI to Econix DPF Filter owner.

SK INNOVATION CO., LTD.
110 EAST 59TH STREET, 11TH FLOOR
NEW YORK NY 10128

January 3, 2014

IMPORTANT SAFETY RECALL - NHTSA Recall No. 13E-062–Econix DPF Filters

Dear Econix DPF Filter Owner,

This notice is being sent to you in accordance with the requirements of the National Traffic and Motor Vehicle Safety Act and the California Air Resources Board.

What is the reason for this notice?
SK Innovation Co., Ltd. ("SK") has decided that a defect which relates to motor vehicle safety exists in all Econix DPF-A filters which were sold in the United States between 2009 and 2011 ("Econix DPF Filters"). In addition, the California Air Resources Board has determined that your vehicle's Econix DPF Filter has a defect related to emissions control regulations that requires corrective action. Our records indicate that you are the owner or lessee of an affected vehicle.

What is the problem?
The Owner's Manual for the Econix DPF Filters did not make clear that annual replacement of the expendable parts (nozzle and igniter) is required. SK has determined that the lack of maintenance and operation of the Econix DPF Filter may lead to partial filter melting and/or failure of the product. Specifically, the failure to annually replace these parts may lead to their usage far beyond the service capabilities and may result in repetition of inadequate regenerations, which will increase the amount of particulate matter (PM) left in the metal filter. Once un-regenerated PM reaches a critical amount, the next regeneration of the Econix DPF Filter can result in a thermal event, which may damage the metal in the filter and create a risk of partial filter melting, possibly presenting a fire hazard.

Further, the California Air Resources Board has determined the Econix DPF Filters contain an air emissions control component that is inconsistent with the information provided during the verification process. This effectively means that the Air Resources Board's verification of the Econix DPF Filters is no longer valid. Therefore the continued use of the Econix DPF Filters is not compliant with California Air Resources Board requirements.

The Recall And Reimbursement Program.
SK will remedy the defect in the Econix DPF Filters by reimbursing you, up to your original purchase price (including tax and installation), for a replacement DPF Filter. You are encouraged to contact a participating DPF filter dealer (list enclosed) for help in selecting a suitable replacement filter and scheduling the replacement. A list of available replacement filters can be found at: www.arb.ca.gov/diesel/verdev/vt/cvt.htm. If the replacement filter you wish to purchase is not offered by one of the listed dealers, you should contact SK at the number listed below to make alternative arrangements. Once the replacement is completed, you should present proof of your original purchase price to the dealer. Once SK receives this together with proof of purchase and installation of a replacement filter, payment for the removal and replacement of the Econix DPF Filter (not to exceed your original purchase price including tax and installation cost) will be sent to the dealer on your behalf. You will be responsible for any amount owed to the dealer above this amount.

If you do not purchase a replacement filter by June 30, 2014, you must take your vehicle to a listed dealer, who will remove the existing Econix DPF Filter and restore your vehicle to its original engine manufacturer's configuration at no cost to you. Please note that the original engine manufacturer's configuration is not likely to be compliant with California Air Resources Board requirements. These vehicles may be in violation of applicable California laws.

If you have already repaired or replaced your Econix DPF Filter due to damage resulting from a thermal event, you may be eligible to be compensated for the costs incurred by you up to but not exceeding the original purchase price you paid for your Econix DPF Filter. To receive this compensation you should submit to SK at the below address proof of your original purchase price together with proof of the amount you paid for the repairs or replacement filter.

Consequence of not replacing your Econix DPF Filter.
Failure to complete this recall process may result in DMV registration holds for California registered vehicles. After completing this recall replacement procedure, your dealer will give you a Vehicle Emissions Recall – Proof of Compliance certificate. Keep this certificate for your records as proof that the emissions recall procedure was completed.

Who you should contact for help.
If you have any questions about this recall program, you may submit your concerns to the following address:

Econix DPF Filter Recall Program
c/o SK USA, Inc. Attn: Mr.
Barry Day
55 East 59th Street, 11th Floor
New York, NY 10022
Tel: 212-583-2434
Email: barry.day@skusa.com

Lessor Information.
Federal law requires that any vehicle lessor receiving this recall notice must forward a copy of this notice to the lessee within 10 days.

What to do if you feel this notice is in error.
This notice was mailed to you according the most current information that we have available. If you no longer own or lease the vehicle using this Econix DPF Filter or some other information in this notice is incorrect, please complete and return the prepaid Change Card included with this notice (this will help us update our records).

If after having attempted to take advantage of this recall you believe you have not been able to have your Econix DPF Filter replaced without charge and within a reasonable amount of time, you may submit a complaint to the Administrator, National Highway Traffic Safety Administration, 1200 New Jersey Ave., S.E., Washington, D.C., 20590; or call the toll-free Vehicle Safety Hotline at 1-888-327-4236 (TTY: 1-800-424-9153); or go to http://www.safercar.gov

We apologize for any inconvenience this may have caused you. Thank you for your purchase of the Econix DPF Filter and your cooperation.

Sincerely

SK Innovation Co., Ltd.

PARTICIPATING DEALERS - NHTSA Recall No. 13E-062–Econix DPF Filters

A-Z Bus Sales, Inc.
1900 S Riverside Ave
Colton, CA 92324
Phone: (951) 781-1800
Fax: (951) 781-1729
info@a-zemissions.com

Boshart Engineering, Inc.
1175 N. Del Rio Place
Ontario, CA 91764
Phone: 909-466-1602, Ext 101
Fax: 909-466-4123
Email: katrina@boshartengineering.com

Diesel Exhaust & Emissions
11043 Shoemaker Ave
Santa Fe Springs, CA 90670
Phone: (562) 944-0014
Fax: (562) 944-0169
Email: info@dieselexhaust.us

Huss Inc.
77524 El Duna Court, Suite H
Palm Desert, CA 92211
Phone: (888) 360 4877
Fax: (760) 322-6213
Email: info@hussgroup.com

Mondial Automotive Inc.
P.O. Box 560248
114-14 14th Road
College Point, NY 11356
Phone: (718) 539-1488
Fax: (718) 425-9907
Email: chris.s@gomondial.com