

**CALIFORNIA REGIONAL WATER QUALITY CONTROL BOARD
CENTRAL COAST REGION**

**SETTLEMENT AGREEMENT
ADMINISTRATIVE CIVIL LIABILITY COMPLAINT NO. R3-2008-0063**

**In the Matter of
GREKA OIL & GAS, INC.
Santa Barbara County**

The Assistant Executive Officer of the California Regional Water Quality Control Board, Central Coast Region ("Water Board"), and the Enforcement Staff appointed to prosecute Administrative Civil Liability Complaint R3-2008-0063, issued on July 21, 2008 ("Complaint"), as amended on May 3, 2010 ("First Amended Complaint"), and Greka Oil & Gas, Inc. ("Greka") have agreed to settle the allegations in the First Amended Complaint as follows (the "Agreement"):

I. Background

A. On September 5, 2006, Greka, which owns and operates oil production facilities, including wells, pipelines, separation and storage facilities, in Santa Barbara County, submitted three applications pursuant to Water Board Order R3-2005-005, for the beneficial reuse of crude oil, non-hazardous impacted soil generated in its oil fields known as the North Cat Canyon Area, the South Cat Canyon Area, and the Union Sugar Lease. Greka's applications also sought approval to reuse a number of existing soil plies, many of which had been inherited from prior operators ("Existing Soil Piles").

B. A dispute arose regarding the completeness of Greka's reuse applications and thus the Assistant Executive Officer issued on December 20, 2006, Cleanup and Abatement Order R3-2006-0054 ("CAO"), and thereafter the Complaint on July 21, 2008.

C. Since the Complaint was issued, the Enforcement Staff and Greka (the "Parties") have engaged in extensive informal and formal discovery in good faith to identify those material facts which are not in dispute, and, if possible, resolve the alleged violations of the CAO set forth in the Complaint. This effort included multiple meetings, further site investigations, the informal exchange of information, the production of documents, the depositions of the Parties' anticipated witnesses, and the exchange by the Parties' counsel of proposed statements of undisputed facts and lists of issues resolved.

D. As a result of this effort, the Parties reached agreement on almost all facts material regarding the allegations in the Complaint, and the Assistant Executive Officer issued on May 3, 2010, the First Amended Complaint, which dismissed two of the four alleged violations of the CAO set forth in the Complaint and substantially modified the remaining alleged violations.

E. With the consent of Chair Jeffrey Young and the approval of Water Board Advisory Staff member Frances McChensey, the Parties then requested Executive Officer Roger Briggs to facilitate their efforts to settle their remaining differences. In late March and early April 2010, the Parties and the Executive Officer met on multiple occasions to discuss settlement. On April 9, 2010, the Parties reached a settlement of all remaining disputes, the terms of which are set forth below in Section II.

F. On May 3, 2010, the Executive Officer approved Greka's beneficial reuse applications for its North Cat Canyon Area, South Cat Canyon Area, and Union Sugar Lease, and enrolled Greka in the beneficial reuse program under Water Board Order No. R3-2005-005. The reuse of the Existing Soil Piles was also approved.

II. Terms of Settlement

A. This Settlement Is In The Public Interest

The Parties agree that the settlement of this matter is in the public interest. It ensures compliance by Greka with the Water Code and the provisions of Water Board Order No. R3-2005-005. It promotes the beneficial reuse of crude oil, non-hazardous impacted soils, which would otherwise be disposed of in a landfill, and it constructively resolves disputed issues between the Parties without the need for an evidentiary hearing.

B. Civil Liability

1. Greka agrees to pay \$400,000 in civil liabilities, \$200,000 of which will be paid toward the supplemental environmental project ("SEP") described below, \$400,000 in civil liabilities in the event it does not beneficially reuse one half of the Existing Soil Piles as provided for in paragraph II. C.1, below ("First Suspended Liability"), and an additional \$400,000 in civil liabilities if it does not beneficially reuse the remaining one half of the Existing Soil Piles as provided for in paragraph II.C. 2., below ("Second Suspended Liability"), for a total civil liability of \$1,200,000 ("Total Civil Liability").

2. Within 30 days of issuance of the Water Board's order approving the Agreement, Greka shall pay \$200,000 in civil liabilities into the State Water Resources Control Board Cleanup and Abatement Account. Within 30 days of the Water Board's approval of the Agreement, Greka shall pay \$200,000 to the Central Coast Water Board's approved SEP known as the Low Impact Development Services Project funded via an endowment by the Water Board and administered via contract with the UC Davis Center for Water and Land Management.

3. Greka's obligation to pay the First and Second Suspended Liabilities is subject to its compliance with the terms and conditions set forth in Section II.C., below.

C. Reuse of Existing Soil Piles

1. On or before March 31, 2012 (one construction year from May 13, 2010), Greka shall reuse no less than 34,500 cubic yards (approximately one half) of its Existing Soil Piles. On or before May 31, 2012, Greka shall submit to Water Board staff a report verifying compliance with this obligation. Within 30 days thereafter, the Executive Officer shall confirm whether Greka has complied with this obligation. Upon confirmation, Greka's obligation to pay the First Suspended Penalty shall be permanently waived.

2. On or before December 31, 2014 (one construction year from March 31, 2012), Greka shall reuse the remainder (approximately 34,500 cubic yards) of its Existing Soil Piles. On or before February 28, 2015, Greka shall submit to Water Board staff a report verifying compliance with this obligation. Within 30 days thereafter, the Executive Officer shall confirm whether Greka has complied with this obligation. Upon confirmation, Greka's obligation to pay the Second Suspended Penalty shall be permanently waived.

3. If Greka fails to timely reuse or remove the Existing Soil Piles as set forth in paragraph II. C.1., above, Greka shall pay the First Suspended Penalty into the State Water Resources Control Board Cleanup and Abatement Account and transfer the applicable Existing Soil Piles to an authorized waste disposal facility within 30 days of written demand by the Executive Officer. If Greka fails to timely reuse or remove the Existing Soil Piles as set forth in paragraph II. C.2., above, Greka shall pay the Second Suspended Penalty into the State Water Resources Control Board Cleanup and Abatement Account and transfer the applicable Existing Soil Piles to an authorized waste disposal facility within 30 days of written demand by the Executive Officer.

4. Within 30 days of the Water Board's approval of the Agreement, Greka shall re-test the Morganti Tank Battery and Blochman 29 Existing Soil Piles as directed by Water Board staff and in accordance with the testing protocol set forth in Greka's September 22, 2009, Proposed Analytical Suite for New/Future Greka Crude-Impacted Piles ("Sampling Plan"). Within 30 days of Greka's submission of the re-test data to Water Board staff for review, Water Board staff shall confirm whether these two soil piles are eligible for reuse as authorized by Water Board Order R3-2005-005. If Water Board staff confirms that either, or a portion of either, of these two soil piles is not eligible for beneficial reuse, Greka shall within 90 days of notice thereof transport the soil not eligible for reuse to an authorized waste disposal facility.

5. Within 30 days of Water Board staff's approval of Greka's proposed Fullerton Biopile and Related Soil Closure Plan to Water Board staff, which was submitted on September 22, 2009, Greka will begin implementation of that plan.

6. On or about September 22, 2009, Greka submitted its Proposed Sampling Plan for 18 additional soil piles located in its North Cat Canyon Area, the South Cat Canyon Area, and the Union Sugar Lease, which were identified during the Parties' settlement discussions. Within 30 days of the Water Board's approval of the

Agreement, Greka shall sample the additional 18 soil piles pursuant to the Sampling Plan and submit the results to Water Board staff for review. Within 30 days of Greka's submission of this data for review, Water Board staff shall determine whether the 18 additional soil piles are eligible for reuse as authorized by Water Board Order R3-2005-005. If Water Board staff determines that any, or a portion of any, of these soil piles are not eligible for beneficial reuse, Greka shall within 90 days transport the soil not eligible for reuse under to an authorized waste disposal facility.

7. Within 30 days of obtaining all agency approvals and permits and weather permitting, Greka shall commence construction of its Security Waste Pile Management Facility.

III. Miscellaneous

A. The Agreement settles and resolves all allegations in the First Amended Complaint.

B. Within 10 days of the Water Board's approval of the Agreement, the CAO shall be rescinded by the Executive Officer.

C. In settling this matter, Greka does not admit any of the allegations in the First Amended Complaint, or that it has been or is in violation of the CAO, the Water Code, or any other federal, state, or local law or ordinance.

D. The performance dates set forth in paragraphs II.C.1. and 2., above, are based on the assumption that Greka, with the support of Water Board staff, will be able to obtain within 90 days all necessary local agency approvals for the reuse of the Existing Soil Piles. In the event, these approvals take more time than 90 days to obtain, the Parties shall meet and confer and select new performance dates.

E. In the event a dispute arises under paragraphs II.C., or III.D., above, between the Parties, either Party may within 15 days of receipt of written notice of the dispute, request the Executive Officer to resolve that dispute. In connection therewith, the Executive Officer shall set the appropriate procedures for briefing and submission of the dispute for decision. The decision of the Executive Officer on any such dispute shall be final and binding on the Parties, unless one of the Parties files a request within 15 days with the Water Board to review the Executive Officer's decision. The Water Board decision shall be final and binding on the Parties, subject to the review provisions set forth in Water Code section 13323, subdivision (d).

F. The Assistant Executive Officer has the authority to settle this matter in accordance with Water Code section 13323 and Government Code section 11415.60. Susan M. Whalen, Senior Vice-President and General Counsel for Greka, warrants by signing below that she has the legal authority to bind Greka to the terms of the Agreement.

G. Greka has been informed of the rights provided by Water Code section 13323, subdivision (b), and, subject to the Water Board's approval of the Agreement, hereby waives its right to a hearing before the Water Board.

H. The Parties acknowledge that the Agreement and a proposed Water Board order approving the Agreement (collectively the "Settlement Documents") will be noticed for a 10-day public review period, following which the Water Board will consider the Agreement and the proposed order at a public meeting to be held May 13, 2010, in San Luis Obispo, California. In the event the Water Board does not approve the Agreement, the Parties agree to meet and confer concerning any objections raised to the Agreement during the public meeting.

I. Greka understands that payment in accordance with the Agreement is not a substitute for compliance with applicable laws, and that violation of and/or non-compliance with the terms of the Agreement or Water Board Order R3-2005-005 may subject it to enforcement, including administrative civil liability, and that any such enforcement shall be treated as a new matter.

J. The Agreement is severable; thus, should any provision be found invalid the remainder shall remain in full force and effect.

K. The Agreement may be executed in counterparts and by facsimile or electronic signature.

L. The Parties acknowledge that they are each represented by counsel and that the Agreement shall not be construed against the Party preparing it, but shall be construed as if the Parties prepared it jointly. Any uncertainty or ambiguity shall not be interpreted against any one Party.

M. The Agreement shall not be modified by any of the Parties by oral representation made before or after its execution. All modifications to the Agreement must be in writing and signed by all Parties.

N. Each Party to the Agreement shall bear all attorneys' fees and costs arising from the Party's own counsel or staff in connection with the matters set forth herein.

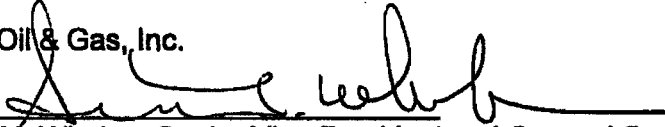
IN WITNESS WHEREOF, the Parties hereto have caused the Agreement to be executed by their respective officers on the dates set forth, and the Agreement is effective as of the most recent date signed.

California Regional Water Quality Control Board
Central Coast Region

By: Michael Thomas
Michael Thomas, Assistant Executive Officer

Date: May 3, 2010

Greka Oil & Gas, Inc.

By: 
Susan M. Whalen, Senior Vice-President and General Counsel

Date: 5/3/10