Investor Insight

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Earth Biofuels, Inc.

Balanced Energy Solutions

Stock Symbol: OTCBB: EBOF

Company Overview

Earth Biofuels, Inc. is a vertically integrated energy company and one of the first of its kind in the biofuels industry. As a producer, distributor and marketer of renewable fuels, with a focus on biodiesel, ethanol and liquefied natural gas fuels, Earth Biofuels (EBOF) operates at each level of the supply chain from raw materials to the retail level. It produces pure biodiesel fuel through the utilization of vegetable oils, such as soy and canola oil as raw material.

Earth Biofuels is positioned to capitalize on the growing demand for alternative/renewable fuels in the domestic market. EBOF is increasing awareness through their exclusive use agreement of the brand name "BioWillie" and celebrity directors/advisors Willie Nelson, Morgan Freeman, Rusty Wallace and Julie Roberts.

EBOF is rapidly expanding into the ethanol market.

Our rating : ★★★★

EBOF continues an aggressive expansion of their energy holdings. The road to profitability will require investment into a nationwide infrastructure and distribution channel for many years. The debt and ongoing investments will drive significant increases in Earth Biofuels 2007 losses.

Significant Events

- Acquires 80% of Earth Ethanol of Washington
- Acquires Apollo LNG, Inc.
- Deal with Vertex Energy
- Announces Retail Service Chain to Serve Consumers throughout the U.S.
- Invests in Illinois Biodiesel Facility
- Agrees to acquire Louisiana Ethanol Facility

Expanded Distribution and Production

Focusing on market expansion, Earth Biofuels recently announced additional biodiesel fuel locations in Laredo and Ennis, Texas and a product and marketing agreement with the Choctaw Nation of Oklahoma. The operation in Laredo becomes the 12th retailer to offer BioWillie in TX completing the stretch from the Oklahoma border to Mexico. With 13 Choctaw Travel Plaza locations along the heavily traveled I-75 and Highway 69 corridor in OK, the agreement will increase the availability of biodiesel in the state.

In an effort to offer various renewable fuels, EBOF reached an agreement with Earth Ethanol of Washington to acquire 80% ownership of an ethanol production facility in Washington. The facility, initially built to produce up to 6 million gallons per year, is being expanded to produce up to 36 million gallons per year by 4Q2007. Incremental ethanol production is expected to begin in June 2007.

Our Analysis — Summary

Performance Indicators

- ***Q3 2006 revenue/sales increased 2,524% over 2005 as EBOF begins production well under capacity***
- ***2006 Gross margins of 5.61% is significantly under the industry median of 60.9%***
- ***Net cash provided by convertible debt $54.42M funded investments of $32.85M***

Market / Comps

- ***EBOF's market cap of $78.2M as a multiple of sales (3.6) is at the low end of the industry average range of 3.76-6.3***
- ***EBOF should hold a price/sales ratio of 5.0 with sales growth and improved gross margins***

Forecast—Outlook

- ***With the capacity to produce 50M gallons a year serving a US market of 146B gallons a year their market cap should easily reach 200M in 12 months***

Our CSF Ratings:

Earth Biofuels, Inc. – CSF Rating	
★★★★	**Overall rank** – *our rating of Earth Biofuels success probability in the next 12 months*
★★★★	**Opportunity** – *expanding their product offering, production capabilities and distribution channel will require an investment over the next 2 years yielding high returns in 3-4 years*
★★★	**Product** – *expansion of their energy alternatives (biodiesel to ethanol) and leveraging celebrity support will accelerate their market*
★★★	**Management Team** – *Solid team of high energy business builder's with extensive industry experience*
★★	**Capital Structure** – *EBOF has raise adequate capital for the short term knowing the long road ahead to an infrastructure enabling profitability*
★	**Cash Flow** – *near term needs are adequate;*

"EBOF has invested in consumer awareness, alternative products, distribution and production for growth in late 2007— if sales continue to increase at the present rate, Earth Biofuels will increase their market cap 2x"

Our Assessment of Critical Success Factors:

Our assessment of the critical factor of success for Earth Biofuels is segmented into 5 areas and is based on analysis of information provided in *SEC Filings, Legal Agreements, management interviews, press releases and financial statements.* The information is aggregated into our ranking model and generates a 5 point system (CSF Rating- critical success factors) where 5 indicates a factor has the highest probability of success and 0 means zero contribution to the growth in the fair market value. The continued dependency on non-US suppliers will ensure a continued increase in the price of gasoline.

Downside Risk - If Earth Biofuels is unable to improve gross margins to 60% while being a lower cost alternative the companies' capital structure is at risk. This combined with the investment in infrastructure may limit profitability while putting downward pressure on the stock and future capital raises would be dilutive.

Market and Competition

The domestic biodiesel market has experienced growth over the past 5 years, making biodiesel the fastest growing alternative fuel in the United States. This pace is expected to continue and Earth Biofuels is positioned as a producer, distributor and marketer of renewable fuels to capitalize on this growing demand. Through recent agreements / acquisitions, EBOF remains committed to the development of biodiesel and ethanol production facilities.

In May 2006, Earth Biofuels received an exclusive license of proprietary biodiesel production facility technologies for use in North America.

While fully integrated major oil/ chemical companies have greater access to the resources necessary to successfully enter the emerging market, the company's operating region, the South, is largely untapped, accounting for less than 2 percent of total biodiesel pumps in the U.S.

Financials

For the quarter ending September 30, 2006 Earth Biofuels reported total revenue of $10,302,461, gross profit of $439,625 and an operating loss of $12,705,354.

Total revenue for the 9 months ended September 30, 2006 increased $14 million, or 1317%, to approximately $15.1 million from approximately $1.1 million . The increase in total revenue is primarily the result of increased sales of biodiesel, they sold approximately 7,085,189 gallons of biodiesel. Cost of sales increased $13.3 million, or 1386%, to approximately $14.2 million from approximately $1 million.

EBOF is actively involved in efforts to raise additional funds through private offerings to finance the necessary acquisitions and capital expenditures, and to increase working capital.

Operations

Earth Biofuels continues to seek out various opportunities to expand production and develop its position in the biodiesel, ethanol and natural gas markets by strategically locating production plants in untapped markets. Existing operating facilities are located in Mississippi, Oklahoma and Texas. Operating companies and JV partners include Earth Biofuels Operating (EBO), Earth Biofuels Technology, Earth Ethanol, Earth LNG, Vertex Energy, American Earth Biofuels and Biodiesel Investment Group.

EBOF is concentrated in the South, where EBOF is able to manage its supply chain to meet demand and permits them to gauge regional market conditions for production.

Price a/o 3/23/07: $0.357

Market and Trading Data

Shares Outstanding:	215,037,000
Market Capitalization:	$78.2M
52 week range:	$0.34 - $7.23
Average Volume:	907,8650

Balance Sheet (000's) 9/30/06

Cash:	42
Accounts Receivable:	1,905
Total Assets:	91,066
Paid-in Capital	96,437
Total Liabilities:	20,997

P&L Data (000's) Q1-Q3

Revenues:	15,096
Net (Loss) from Ops:	(28,862)
Interest Expense	9,081
Net Income (loss):	(15,938)
Net Loss per Common Share	(.09)

Company Contact Information

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In addition to this Fact Sheet, refer to public SEC Filings and Financial Statements for full disclosure at www.sec.gov

Financial Analysis –*Highlights*

Earth Biofuels is an early stage company with a diverse product base serving the energy markets of the future, while financial performance is significant, expectations are that in another 12-24 months we will see a trending toward their peers in the alternative energy space.

	Oil & Gas Industry	Alternative Energy Industry	Market	AOOR	EBOF
Profitability	Median	Median	Median		
Gross Profit Margin	61.10%	60.90%	51.50%	-8.83	5.61
Pre-Tax Profit Margin	17.10%	-77.80%	6.50%	-168.1	-78.84
Net Profit Margin	11.50%	-78.20%	5.00%	-205.8	-161.6
Valuation	Industry	Industry	Market		
	Median	Median	Median		
Price/Sales Ratio	3.68 -9.61	3.76-6.3	2.19	0.27	6.1
Price/Book Ratio	2.65	3.73	2.12	0.21	1.29
Financial	Industry	Industry	Market		
	Median	Median	Median		
Current Ratio	1.38	2.67	1.66	1.456	2.256
Total Debt/Equity	0.53	0.39	0.64	0.468	0.202
Per Share Data ($)	Industry	Industry	Market		
	Median	Median	Median		
Revenue Per Share	2.34	0.48	5.44	0.203	0.061
Cash Flow Per Share	0.25	-0.05	0.46	0.009	0.004
Long-Term Debt Per Share	2.04	0.36	2.52	0.178	0.0657
Book Value Per Share	1.33	0.83	4.96	0.26	0.344
Total Assets Per Share	4.2	1.85	10.32		
Growth	Industry	Industry	Market		
	Median	Median	Median		
12-Month Revenue Growth	31.30%	9.20%	11.80%	20,083	

FINANCIAL HIGHLIGHTS	
Most Recent Quarter (mrq):	30-Sep-06
Profitability	
Profit Margin (ttm):	-161.60%
Operating Margin (ttm):	-242.49%
Management Effectiveness	
Return on Assets (ttm):	N/A
Return on Equity (ttm):	N/A
Income Statement	
Revenue (ttm):	15.97M
Revenue Per Share (ttm):	0.061
Qtrly Revenue Growth (yoy):	2524.40%
Gross Profit (ttm):	84.54K
EBITDA (ttm):	-12.59M
Net Income Avl to Common (ttm):	-25.82M
Diluted EPS (ttm):	-0.1
Qtrly Earnings Growth (yoy):	N/A
Balance Sheet	
Total Cash (mrq):	931.66K
Total Cash Per Share (mrq):	0.004
Total Debt (mrq):	14.13M
Total Debt/Equity (mrq):	0.202
Current Ratio (mrq):	2.256
Book Value Per Share (mrq):	0.344

Our analysis: ***All financial indicators place Earth Biofuel's share price in-line with a market cap of $60.04M—$100.61M (based on 3.76-6.3 price/sales multiplier) which is $.279 to $.468 per share. Holding at this level will necessitate continued revenue growth to $50M in order to become profitable.***

VALUATION MEASURES	
Market Cap (intraday):	91.99M
Enterprise Value (14-Mar-07)3:	116.14M
Trailing P/E (ttm, intraday):	N/A
Forward P/E (fye 31-Dec-07) 1:	N/A
PEG Ratio (5 yr expected):	N/A
Price/Sales (ttm):	6.1
Price/Book (mrq):	1.29
Enterprise Value/Revenue (ttm)3:	7.27
Enterprise Value/EBITDA (ttm)3:	-9.226

Business Overview

Earth Biofuels, Inc. (EBOF — www.earthbiofuels.com) is a vertically integrated energy company and one of the first of its kind in the biofuels industry. As a producer, distributor and marketer of renewable fuels, EBOF operates at each level of the supply chain from raw materials to the retail level. Concentrated in the South, EBOF's focus is on pure biodiesel fuel for sale directly to wholesalers to be used as a blend stock, such as B20, a petroleum diesel-based alternative fuel. EBOF utilizes vegetable oils such as soy and canola oil as raw material (feedstock) for the production of biodiesel fuel.

Their primary source of revenue is the sale of biodiesel fuels and related energy production credits. The volume of their sales is largely dependent upon demand and their ability to distribute the product. The selling prices they realize for their biodiesel are largely determined by the market supply and demand for biodiesel, which in turn, is influenced by industry factors over which they have little, if any, control, such as the price of gasoline and other alternative energy sources. They blend and market their biodiesel directly to fuel stations. Their distribution strategy includes supplying B100 for storage and blending terminals, controlling the blending point, and obtaining exclusive agreements with terminal chains throughout the United States. They have entered into agreements with oil companies with the capability to deliver to fleet, agricultural and retail fuelling terminals, and retail service stations, to expand biodiesel consumption in their local areas. They purchase biodiesel both on the spot market and pursuant to fixed supply agreements. The price of their purchases of biodiesel on the open market are affected by supply and demand for biodiesel fuel and the cost of raw materials used by the producers from whom they purchase biodiesel, such as soy oil.

Earth Biofuels is made up of 4 business units:

1. **Earth Ethanol**
2. **Earth Biodiesel**
3. **Earth LNG**
4. **American Earth Fuels**

The 3 main components of Earth Biofuels are biodiesel production, ethanol production and liquefied natural gas production distributed into the wholesale markets, fleets, gas stations and their own truck stops:

- **Earth LNG** .- EBOF is the largest producer of vehicle-grade liquefied natural gas in the western part of the United States and own an 86,000 gallon a day LNG plant in Topock, Arizona. This 86,000 gallons a day equates to about 31 million gallons a year and as part of the Bowerman project they are basically taking methane from the landfill and turning it into LNG.
- **Earth Biodiesel** .-In July 2006, they commenced production of biodiesel fuel from one of their own production facilities in Durant, Oklahoma from which they expect annual production of approximately 20 MMGPY. As they implement their facility construction and expansion strategy, they expect their cost of sales to be impacted by their cost of raw materials used in the production of biodiesel. In Houston Texas they have a 50% interest in a plant which produces 10 million gallon a year that will be increasing to 20 million. In San Antonio, they have a letter of intent to acquire 100% of an 8 million gallon a year facility that they are currently buying all of the biodiesel out of today. The joint venture partner Bunge Corporation in Danville, Illinois is a world leader in agricultural products and Earth will use their feedstock at their where they have a 25 percentage ownership.

- **Earth Ethanol** .- The Ethanol facilities in Moses Lake, Washington can produce 36 million gallon a year and in Jamesville, North Carolina, there is a 55 million gallon a year plant—both of which are not currently online. The Moses Lake, Washington will start production this summer.
- **American Earth Fuels** .- a wholly owned subsidiary whose purpose is to seek out retail locations for their biodiesel and ethanol under the BioWillie name.

Our analysis: ***EBOF's capacity across all 3 products is 10-20X present sales and distribution is limited to 0.015% of the available domestic channel. The US market could easily consume all their biofuels production capacity.***

Biodiesel Industry and the Environmental Protection Act of 2005

US consumption is about 20.5 million barrels of oil a day, which is projected to increase an additional 2 million barrels by 2010. Domestically we're only producing about 5.2 million barrels a day. Global consumption by the world over the last 125 years was 1 trillion barrels of oil and the next trillion will be used in only 30 years. The environmental benefits of Biodiesel are that they will reduce harmful emissions by more than 50%, CO2 emissions are reduced by 78% and it's biodegradable, making it safer for the environment.

The Energy Policy Act of 1992 (EPAct) was passed by Congress to increase compliance with amendments to the Clean Air Act of 1990 and to reduce the nation's dependence on imported petroleum. The EPAct requires over 75% of new vehicle purchases by certain federal state and alternative fuel provider fleets to be alternative fueled vehicles (AFVs). Alternative fuel includes ethanol (85 %), natural gas fuels and B20 (biodiesel fuel containing at least 80 % petroleum diesel fuel and 20 % biodiesel.). On August 8, 2005, President Bush signed the EPAct of 2005, further encouraging energy compliance through incentives, including offering credits for the purchase of hybrid vehicles and a 30% credit to fueling stations for the cost of installing AFV refueling equipment, resulting in increased access to the general public through retail pumps throughout the country.

Energy policy changes promoting biodiesel use and production have created significant B20 use by government and alternative fuel provider fleets. Today, B20 is the most common and fastest growing biodiesel blend in the United States, because the overall emission benefits outweigh conventional diesel as an alternative fuel. While diesel engines are about 30% more efficient than gasoline engines, biodiesel further enhances the advantages of diesel by reducing emissions of hydrocarbons by 20% and carbon monoxide and particulate emissions by 12%. Additionally, biodiesel reduces vehicle sulfur emissions on average by 20%, plus biodiesel is nontoxic and biodegradable.

Pure biodiesel fuel contains no petroleum, is derived from many kinds of seed and vegetable oils (commonly referred to as feedstock) produced in the United States, and can be directly blended with fossil fuel (or petroleum) diesel. When blended with petroleum diesel, the fuel can be readily used in diesel-powered vehicles, with no mechanical alterations to the engines. Equally significant, the use of biodiesel requires no modification to the existing diesel fuel delivery infrastructure. The exhaust from a vehicle that is switched to a biodiesel mixture immediately produces cleaner, healthier emissions. Biodiesel is the only alternative fuel certified by the Environmental Protection Agency that fulfills the requirements of Section 211 (B) of the Clean Air Act.

More than 600 filling stations in the U.S. currently make biodiesel available to the public, and 1,500 petroleum distributors carry it nationwide. Hundreds of U.S. fleets, representing over 25,000 vehicles for commercial, government, military, utility, municipalities and transit use, currently run on biodiesel blends nationwide. Biodiesel blends are also used increasingly in the farming, mining and marine industries, as well as in heating oil and electrical generation applications.

The domestic biodiesel market has experienced exponential growth over the past five years, rising from 2 MMGY in year 2000 to more than 50 MMGY in 2005, making biodiesel the fastest growing alternative fuel in the United States. This pace is expected to continue, according to the National Biodiesel Board, to the point where output (biodiesel production) is estimated to reach 2 billion gallons in 2010. (This is compared with annual petroleum diesel consumption, projected at 76 million gallons.) The result is a market size of roughly $650 million/year. Current demand potential is estimated at 1.7 billion gallons per year which, if met, would account for 5.5% of U.S. vehicle/on-highway consumption.

Strategy

Biodiesel is gaining more widespread public awareness and acceptance. Earth Biofuels is ideally positioned to capitalize on the growing demand for alternative and renewable fuels in the domestic market. The business is currently focused in the southern region of the United States, including Texas, Oklahoma, Tennessee, Mississippi, Arkansas, Louisiana, Georgia, South Carolina, and Florida. The core strategy follows a hub-and-spoke business model, in which production facilities will be strategically located to supply B100 fuel stock for blending at B20 fueling terminals that are located within a 100 mile radius. Production plants may also be strategically located for access to local feedstock supply, to allow for minimized shipping costs.

The Company's ultimate goal is to promote "BioWillie" as the leading brand of biodiesel in the Southern region of the United States and to proceed with expansion nationwide. "BioWillie" is the first biodiesel brand marketed in Texas. Rights to "BioWillie" provide a vehicle to increase brand awareness and distinguish it from other commodity biodiesel fuel blends. EBOF's planned expansion program includes the building or acquiring of additional biodiesel production facilities. The Company's operations are currently concentrated in the South, where EBOF is able to manage its supply chain to meet demand, allowing EBOF to properly gauge regional market conditions before embarking on a nationwide sales campaign.

Earth Biofuels is actively involved in efforts to raise additional funds through private offerings to finance the necessary acquisitions and capital expenditures, and to increase working capital.

Our analysis: ***Earth Biofuel's quarterly growth of 2,524% (year over year) adds credibility to their strategy, but their gross margin of 5.61% are very low versus the industry average of 60.1% for a more mature operation. Our expectation is the demand for these products (biofuels, ethanol, liquefied gas) will only exponentially increase well beyond EBOF's present vision.***

Raw Materials

The primary material necessary for the production of biodiesel fuel is feedstock. Feedstock for biodiesel production include a wide variety of fat, oil, or grease sources. Feedstock are generally categorized as virgin (fats and oils that have not been previously used) or recycled (fats, oils and grease products that have been used for another purpose). Virgin feedstock may come from either plants (e.g., soy, canola, palm, corn, etc.) or animal sources (e.g., hogs, cattle, poultry, or fish).

Soy oil is among the lowest priced of the domestically produced (U.S.) virgin vegetable oils and is produced in the largest volume. The size and nature of the soy oil market makes it a feedstock with the best potential to expand. Soybean demand and prices may be driven by either the meal and/or the oil components. Although it is usually the meal demand that drives production and crushing, oil does drive the market from time to time.

Since access to raw materials is essential to the Company's success, Earth Biofuels plans to enter into long-term co-op agreements with farmers for soy and canola feedstock oils in regions where it operates. If successful in so doing, such agreements would function to manage prices and guarantee that supplies are sufficient to keep up with rising demand.

Production and Distribution

Earth Biofuels will continue to seek out every opportunity to expand its production and develop its position in the biodiesel market by strategically locating production plants in untapped markets, and on sites with ready access to a supply of feedstock and that allow for reduced transportation costs.

Existing biodiesel facilities owned / operated by Earth Biofuels include:

- The primary operating subsidiary, EBO, owns and operates a biodiesel production plant located in Meridian, Mississippi. The subsidiary sells B100 to wholesale distributors, as a blend stock sold as B20, through direct retail sales at its Company-leased service station in Byram, Mississippi and truck stop in Grenada, Mississippi.
- EBO owns a subsidiary, Durant Biofuels, LLC, which houses a 10 MMGY capacity biodiesel production plant on approximately 4 acres of land in an industrial park in Durant, Oklahoma. The facility is strategically located off Interstate 75, approximately 95 miles north of Dallas, Texas, and will have the ability to serve the commercial and retail markets of Dallas/Ft. Worth. In addition, the plant is located in an area that allows for the inbound supply of feedstock by local farmers and the outbound transportation of biodiesel fuel via an on-location railroad spur. Production cost are about \$0.55 to \$0.60 a gallon, presently generating revenues of 57 million and EBITDA of 9.7 million a year. EBOF receives an Oklahoma production credit of 20 cents and federal small producers credit of 10 cents per gallon for the first 15 million gallons. As of today they have 50 customers, looking to increase the production through 2012 from 86,000 to 200,000 gallons a day.
- In Houston, Texas, Earth Biofuels has plans to convert a refinery adjacent to an oil terminal facility into a 14 MMGY capacity biodiesel production plant in 2006. The facility is strategically located in a high demand area that follows compliance with the Clean City program.
- Earth Biofuels plans to build a 10 MMGY capacity biodiesel refinery in Greenville, Mississippi adjacent to a 1 million gallon bulk storage facility. The Company's plans call for the plant to be strategically located on the Mississippi River, which minimizes inbound and outbound transportation costs. The plant's proposed location will also minimize feedstock supply costs through access to local soybean farmers.

The Company's distribution strategy includes supplying B100 for storage and blending terminals, controlling the blending point where petroleum diesel meets 100 % biodiesel, and obtaining exclusive agreements with terminal chains (22 locations as of 2/07) throughout the United States. EBOF has entered into agreements with oil companies with the capability to deliver to fleet, agricultural and retail fueling terminals, and retail service stations, to expand biodiesel consumption in their local areas.

Our analysis: ***The expansion of production facilities capable of producing 10-50 MMGY near farmers, landfills and the markets they serve, provides a competitive advantage over foreign suppliers.***

Competition

Fully integrated major oil/chemical companies have substantially greater access to resources necessary to successfully enter the emerging market of alternative fuels. These companies may be able to pay more for plants, terminals and other biodiesel industry infrastructure, as well as basic feedstock, than the Company's financial or human resources permit. In addition, major oil/chemical companies have the capacity to produce significant quantities of biodiesel.

In terms of retail distribution, the number of pump locations selling biodiesel and biodiesel blends, as of July 2005, exceeded 1,000 nationwide. The heaviest concentration is in the Midwest due to the high concentration of soybean farming and, hence, biodiesel production. The Company's operating region, the South, is largely untapped, accounting for less than 2 % of total biodiesel pumps in the United States.

The dominant alternative fuel, ethanol, which is derived from corn, is many years ahead of biodiesel in terms of industry growth and government support. This makes sense, since 98 % of the cars in the U.S. can run on gasoline-ethanol blends. As clean diesel automobiles become more accepted, though (as a result of their superior efficiency and reliability and the availability of blended biodiesel fuel), the two alternative fuels will compete for market share. EBOF considers biodiesel to be a superior fuel, with the long-term potential to meet or exceed ethanol production and consumption in the U.S.

Research and Development

Effective February 28, 2006, Earth Biofuels signed an agreement to become the exclusive licensor in the United States for the proprietary biodiesel production technology of Biodiesel Brazil, a company owned by the renowned Dr. Miquel J. Dabdoub. A professor from the University of São Paulo in Brazil, Dr. Dabdoub is founder and chairman of Biodiesel Brazil and a world authority on the production of biodiesel. Dr. Dabdoub holds a number of patents and proprietary technologies relating to the production and usage of biodiesel fuel. The technology focuses on production methods, modes of efficiency, and quality control.

Production of B100 biodiesel fuel is a simple process and does not require proprietary techniques or knowledge. Differentiation of the product occurs when the product is blended with diesel fuel at terminals, to produce a quality B20 biodiesel fuel that meets ASTM specifications, as discussed above. EBOF plans to continue researching and implementing technology that focuses on producing and blending the highest quality B20 biodiesel fuel.

Our analysis: ***Apollo market cap is expected to increase based on present values of their assets and projected increases in revenues resulting from investments into additional production/distribution/sales.***

Financial Review

Capital Structure: The company's stock is traded on the OTC Bulletin Board under the symbol "EBOF." Earth Biofuels, Inc., ("Earth") was incorporated in the state of Nevada on July 15, 2002. Effective September 13, 2005, Meadows Springs, Inc. entered into a Securities Purchase Agreement (share exchange) with Apollo Resources International, Inc., a Utah corporation. As part of the agreement, Meadow Springs issued to Apollo 21,000,000 shares of the common stock , in consideration of the contribution by Apollo of 8,000 shares of the issued and outstanding common stock of Earth Biofuels, Inc., a Mississippi corporation, constituting 80% of the outstanding common stock. Apollo currently owns approximately 89% of the issued and outstanding shares of Meadow Springs (now operate under the dba Earth Biofuels, Inc.— same name as the subsidiary). As of 9-30-2006, Apollo owned 129.38M shares of common stock of Earth representing a 59.06% majority ownership.

On October 7, 2005, Earth Biofuels, Inc. changed its name to Earth Biofuels Operating, Inc. Effective November 14, 2005, the domicile of EBOF was moved to Delaware by means of a merger of Earth with and into Earth Biofuels, Inc. Earth Biofuels Operating, Inc.,— Mississippi; Durant Biofuels, LLC—Oklahoma; The Wing Sail Company—Texas; Earth Biofuels Technology Company, LLC—Texas.

Our analysis: ***Earth Biofuel's share price continues to decline over the last 6 months as they incur debt in conjunction with product expansion and production facilities. The recent increase in gasoline prices will have a positive impact on EBOF's stock as their product becomes both competitively priced and foreign dependency motivates US consumers. Earth Biofuels is also investing in fuel blends, Ethanol and Liquefied Natural Gas.***

EARTH BIOFUELS, INC Balance Sheet Form Type: 10QSB/A Period End: Sep 30, 2006		30-Sep-06		31-Dec-05
CURRENT ASSETS				
Cash	$	41,609	$	82,093
Trade Accounts Receivable, Net		1,905,379		253,376
Accounts receivable - tax credits		-		
Marketable securities, net		890,050		-
Inventory		252,638		131,391
Prepaid expenses & other current assets		20,506,719		40,401
Notes receivable		803,550		-
Notes receivable from related parties		2,960,621		-
Total Current Assets		27,360,566		881,642
Property and Equipment, Net		15,090,606		455,419
Investment - related party		100,000		-
Investments		41,531,996		-
Deferred financing fees		2,588,703		-
Other assets		413,106		261,384
Goodwill		3,981,280		3,981,280
TOTAL ASSETS	$	91,066,257	$	5,579,725
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES				
Accounts payable	$	3,946,203	$	763,215
Accrued liabilities		2,834,656		-
Shares payable		-		4,210,248
Payables to related parties		3,037,217		1,442,569
Current portion of convertible promissory notes, net of discount of $6,623,411		2,309,923		-
Other current liabilities		-		110,664
Total Current Liabilities		12,127,999		6,526,696
LONG-TERM LIABILITIES				
Long-term convertible promissory notes, net of discount of $35,797,232		8,869,434		-
Total Long Term Liabilities		8,869,434		-
TOTAL LIABILITIES	$	20,997,433	$	6,526,696
STOCKHOLDERS' EQUITY (DEFICIT)				
Preferred stock;$0.001 par value; 15,000,000 shares authorized; 0 shares issued and outstanding		-		-
Common stock; $0.001 par value; 400,000,000,000 shares authorized; 203,976,749 and 161,591,036 shares issued and outstanding,		203,976		161,591
Additional paid-in capital		96,437,339		9,499,709
Deferred compensation		-		(98,500)
Other comprehensive income		(124,854)		-
Accumulated deficit		(26,447,637)		(10,509,771)
Total Stockholders' Equity (Deficit)		70,068,824		(946,971)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	91,066,257	$	5,579,725

Balance Sheet - for the year ended September 30, 2006

Operations Financials:

The following are certain highlights that occurred during the second quarter:

- Our total revenue during the 3 months ended September 30, 2006 was $10.3 million and related primarily to sales of biodiesel.
- EBOF entered into letters of intent and are currently in discussions relating to four separate joint ventures to purchase, construct, expand and/or retrofit ethanol facilities in Plaquemines Parish, Louisiana, and in Martin County, North Carolina and biodiesel production facilities in Texas and Illinois.
- During the third quarter of 2006, EBOF received net proceeds of $53.6 million from the issuance of senior convertible notes. They used the net proceeds from the sale, in concert with other funds, for the construction or acquisition of additional biodiesel and ethanol facilities, and for other general corporate purposes, including working capital.

Total revenue for the 9 months ended September 30, 2006 increased $14 million, or 1317%, to approximately $15.1 million from $1.1 million. The increase in total revenue is primarily the result of increased sales of biodiesel. During the 9 months ended September 30, 2006, they sold approximately 7,085,189 gallons of biodiesel.

Our analysis: Earth Biofuel's operations have expanded greatly over the last 12 months and will put pressure on the management team to balance growth with limited cash flow. The costs associated with building and operating their new production facilities is projected to improve gross margins through 2007.

EARTH BIOFUELS, INC.				
Income Statement				
Form Type: 10QSB/A	For the Nine Months Ended			
Period End: Sep 30, 2006		30-Sep-06		30-Sep-05
REVENUES	$	15,096,503	$	1,065,087
COST OF SALES		14,249,523		958,822
GROSS PROFIT		846,980		106,265
EXPENSES				
Compensation		19,515,791		-
Other Selling, General and Administrative		9,920,369		683,381
Depreciation and Amortization		273,059		2,167
OPERATING LOSS		(28,862,239)		(579,283)
OTHER INCOME (EXPENSES)				
Interest income		37,807		-
Interest expense, including penalties		(9,081,955)		-
Gain on derivatives		22,404,621		-
Loss on marketable securities		(401,637)		-
Other		(34,463)		3,362
Total Other Income		12,924,373		3,362
NET LOSS (loss)	$	(15,937,866)	$	(575,921)
NET INCOME (LOSS) PER COMMON SHARE				
Basic	$	(0.09)	$	(0.12)
Diluted	$	(0.08)	$	(0.12)
WEIGHTED AVERAGE SHARES				
Basic		183,701,363		4,734,615
Diluted		195,722,678		4,734,615

"Revenue increases over the next 4 quarters should be significant , although not profitable in 2007. Earth Biofuel is on the road to becoming a major alternative energy supplier."

Cost of sales for the 9 months ended September 30, 2006 increased $13.3 million, or 1386%, to approximately $14.2 million from $1 million . Our cost of goods sold is mainly affected by the cost of biodiesel, vegetable oil, and other raw materials.

Compensation the 9 months ended September 30, 2006 was approximately $19.5 million and related primarily to shares issued to consultants for employees and consulting services. Other selling, general and administrative expenses the 9 months ended September 30, 2006 increased $9.9 million from $683,000. These costs consist of $946,000 for travel expenses, $2.7 million of consulting expenses, $3.5 million in professional fees, $892,000 in advertising costs, and $1.2 million for other office operating expenses.

Depreciation and amortization for the 9 months ended September 30, 2006 increased to $273,000 from $2,000. The increase in depreciation and amortization is related primarily to purchases of plant and equipment.

Interest income the 9 months ended September 30, 2006 increased to approximately $33,000 from $0. Interest income related to interest earned on our savings account.

Gain on derivatives the 9 months ended September 30, 2006 increased to approximately $22.4 million from $0. Gain on derivatives related to convertible debt and warrants issued during the year.

Loss on marketable securities for the 9 months ended September 30, 2006 increased to approximately $402,000 from $0. Loss on marketable securities related to mark to market on fuel futures.

Interest expense related to derivatives for the 9 months ended September 30, 2006 increased to $9.1 million from zero $0. Interest expense consisted primarily of the amortization of debt discounts associated with beneficial conversion features and derivative liabilities.

Cash: In addition to funding operations, their principal short-term and long-term liquidity needs have been, and are expected to be, the debt service requirements of their senior convertible notes, the acquisition and construction of new facilities, capital expenditures and general corporate purposes. Plus as their production operations ramp up, they anticipate significant purchases of soy oil, corn and other inputs necessary for biodiesel and ethanol production.

EARTH BIOFULES, INC.		
Cash Flow		
Form Type: 10QSB/A	For the Nine Months Ended	
Period End: Sep 30, 2006	30-Sep-06	30-Sep-05
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (15,937,866)	$ (575,921)
Non-cash Items Included in Net Loss:		
Depreciation	273,059	2,167
Minority Interest	-	(3,362)
Amortization of debt issuance costs	172,626	-
Gain on derivative	(22,404,621)	-
Realized losses on marketable securities	334,710	-
Debt discount amortization	6,499,534	-
Amortization of deferred compensation	98,500	-
Shares issued for employee compensation and other services	16,740,900	-
Changes in assets and liabilities:		
Decrease (increase) in:		
Trade Accounts Receivable	(1,652,003)	(137,891)
Accounts receivable - tax credits	374,381	-
Notes receivable	(3,764,171)	-
Inventory	(121,247)	3,962
Prepaid expenses & other current assets	(2,374,206)	-
Other assets	(151,722)	-
Increase (decrease) in:		
Accounts payable and accrued expenses	1,820,039	108,237
Property, sales and payroll taxes payable	(12,643)	27,194
Related party advances	1,594,447	113,058
Other liabilities	(110,739)	190
Net Cash Used by Operating Activities	(18,620,722)	(462,366)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of marketable securities	(1,349,614)	-
Cash paid for investment in related party	(100,000)	-
Cash paid on investments	(25,845,996)	-
Cash paid for purchases of fixed assets	(5,550,914)	(229,280)
Net Cash Used in Investing Activities	(32,846,524)	(109,981)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock	1,078,595	461,000
Proceeds from issuance of convertible debt	74,900,054	-
Repayments of convertible debt	(21,100,054)	-
Capital contributions	-	260,000
Cash paid for debt issuance cost	(3,451,833)	-
Net Cash Provided by Financing Activities	51,426,762	721,000
NET DECREASE IN CASH	(40,484)	29,354
CASH AT BEGINNING OF PERIOD	82,093	10,903
CASH AT END OF PERIOD	$ 41,609	$ 40,257
CASH PAID FOR:		
Interest	$ 272,332.00	$ -
Income Taxes	$ -	$ -
Non-Cash Activity		
Value of shares issued in connection with conversion of debt	1,500,000	-
Value of shares issued to acquire assets of Southern Biofuels	7,157,333	-

Cash Flow - for the year ended September 30, 2006:

Net cash used in operating activities was approximately $18.6 million for the 9 months ended September 30, 2006, compared to $462,000 for the same period in 2005. The increase in net cash flow used relates to increasing operating costs as they ramp-up their operations, including higher cost of good sold, other selling, general and administrative expenses and interest expense.

"Cash flow is adequate to enable them to meet their planned operating needs for at least the 12 month period—in addition a positive cash impact will come from acquisition revenues related to LNG sales of approximately $25 million."

Our analysis:* *Earth Biofuel's growth has started with a solid production capability—with a new operating group focused on expanding their distribution.

Net cash used in investing activities was $32.8 million the 9 months ended September 30, 2006, compared to $109,000 for the same period in 2005. The increase in net cash used in investing activities relates to purchases of fixed assets in the amount of approximately $5.6 million for their Durant, Oklahoma facility and advances of approximately $25.9 million related to letters of intent they have entered into to own and operate biodiesel and ethanol facilities.

Net cash provided by financing activities was $51.4 million the 9 months ended September 30, 2006, compared to $721,000 for the same period in 2005. Cash flows provided by financing activities during the 9 months ended September 30, 2006 relate primarily to the issuance of senior convertible debts totalling of with net proceeds of $74.9 million, less the repayment of prior debts of $21.1 million, and offset by debt issuance costs of $3.4 million.

Cash and cash equivalents as of December 31, 2005 were insufficient to provide the capital they needed to operate and expand. During May and June of 2006 they issued $17.5 million in bridge notes. These notes were repaid pursuant to a private placement totalling $52.5 million in July 2006. The proceeds of the convertible promissory notes enabled EBOF to continue operating during the first 9 months of 2006

They incurred net losses and negative cash flows from operations of approximately $16 million and $18.6 million, respectively, as of the 9 months ended September 30, 2006. EBOF had $41,609 of cash and cash equivalents at September 30, 2006. Their working capital at September 30, 2006 was $14,840,278.

They have spent, and expect to continue to spend, substantial amounts in connection with implementing their business strategy. Based on their current plans, they believe that after consideration of the net proceeds of the $52.5 million offering and future private sales of their shares, they have sufficient funds to enable them to meet their planned operating needs for at least the 12 month period subsequent to the balance sheet date, September 30, 2006. In addition, they are currently working to secure a $12.5 million Senior Secured Bridge Term Loan.

EBOF is acquiring a liquid natural gas (“LNG”) production company. This company is the largest producer and wholesaler of vehicle-quality liquid natural gas in the United States and is one of only five production facilities in the country that produces clean liquid natural gas. This company offers turnkey fuel solutions, and leases storage, fuel dispensing equipment and fuel loading facilities. The LNG markets include transportation alternative fuel for transit systems, seaports, local delivery fleets and locomotive switch engines. This gas also has industrial and agricultural applications. EBOF currently produces 86,000 gallons per day. Earth expects subsequent to acquisition revenues will increase approximately $25 million per year related to LNG sales.

Financial Review

Capital Structure History:

The consolidated financial statements include the accounts of Earth Biofuels, Inc, Earth Biofuels Operating, Inc., (“EBO”) which is the main operating subsidiary and its wholly owned subsidiaries Durant Biofuels, LLC., and The Wing Sail Company d/b/a Distribution Drive, Inc. All significant inter company transactions and balances have been eliminated in consolidation.

1st Quarter – 2006

On March 1, 2006 they agreed with Dr. Miguel Dabdoub to form a technology company by the name of “Earth Biofuels Technology Company, LLC,” to be owned 50% by EBOF and 50% by Dr. Dabdoub. In exchange for their 50% interest, they paid $225,000 and issued 1,800,000 shares of common stock valued at $4,410,000 to Dr. Dabdoub and Apollo Resources issued 100,000 shares of its common stock to Dr. Dabdoub. Dr. Dabdoub, an expert in the field of biodiesel production facility technologies, has contributed an exclusive license to the technology company to make use of his proprietary technologies, for use in North America. Accordingly, the purpose of the new entity is to utilize Dr. Dabdoub’s proprietary technologies, to design and construct biodiesel production facilities, both for EBOF directly and for third parties.

On March 31, 2006, Earth entered into a merger agreement with Southern Bio Fuels, Inc. and certain other parties affiliated with Southern Bio Fuels. Pursuant to the merger agreement, on April 3, 2006, Southern Bio Fuels merged with and into EBOF, with the EBOF being the surviving corporation. In connection with the merger, EBOF paid $2,200,000 in cash and issued 2,933,333 shares valued at $7,157,000 of its common stock to the sole stockholder of Southern Bio - Fuels. Upon completion of the merger, they acquired the sole asset of Southern Bio Fuels, a biodiesel refinery that was formerly located in Pearl, Mississippi and that has been relocated to the their premises in Durant, Oklahoma. Dean Blackwell, an indirect equity owner of Southern Bio Fuels, is the brother of Bruce Blackwell, a member of EBOF’s Board of Directors. The consideration was determined through arm’s length negotiation of the parties involved, and a portion of the cash consideration was provided by a loan from Apollo Resources International, Inc., the Company’s majority stockholder. In connection with the Southern Bio Fuels merger, on March 2, 2006, EBOF issued to Southern Bio Fuels a note with a principal amount of $850,000 and bearing interest at 7.25% per year. EBOF’s obligations under this note were guaranteed by Dennis G. McLaughlin, III, the Company’s Chief Executive Officer. The note matured on March 13, 2006 and was paid in full at that time. On March 31, 2006, EBOF issued another note to Southern Bio Fuels with a principal amount of $1,100,000 and bearing interest at 7.25% per year. The note matured on June 29, 2006. EBOF’s obligations under these notes were guaranteed by the EBOF’s Chief Executive Officer and Tommy Johnson and Bruce Blackwell, each of which serve on the board of directors. On July 12, 2006, EBOF repaid this note.

2nd Quarter – 2006

A Sublicense Agreement dated April 1, 2006 between Earth Biofuels, Inc. and Biodiesel Venture, L.P. for the use of the “BioWillie” trademark, and Willie Nelson identity in exchange for royalty payments, $0.02 per gallon ($0.01 to Venture and $0.01 to the owner) of Biodiesel Fuel Distributed by Sub licensee or any of its affiliates plus $300,000 annually.

On April 20, 2006, Earth acquired a 25% limited partnership interest in Trucker's Corner, L.P. in exchange for a capital contribution of $1.1 million in cash, 125,000 shares of the Company's common stock and 250,000 shares of Apollo Resources common stock. Willie H. Nelson, who serves on the Company's board of directors, is also a limited partner of Trucker's Corner. As of September 30, 2006 EBOF had made advances totalling $515,738 to the partnership in connection with the remodelling of the flagship station owned by the partnership.

On April 27, 2006, their Board of Directors and a majority of their stockholders acted by unanimous written consent to approve and adopt their 2006 Stock Option and Award Plan. . The maximum number of shares of their common stock which may be issued under the plan may not exceed 5,000,000 shares, subject to certain adjustments.

On April 28, 2006, they entered into a securities purchase agreement, pursuant to which they issued 6,400,000 shares of their common stock to accredited investors (Kamunting Street Master Fund, Ltd. and K Street Emerald Fund, LLC), in consideration for the payment of approximately $3.2 million. They used the proceeds, in concert with other funds, to acquire a 50% equity interest in an entity which will own and operate a planned ethanol plant in New Orleans, Louisiana. The purchase agreement provides for an additional issuance of 6,400,000 shares of their common stock, if they have not timely consummated the acquisition of the equity interest in the planned New Orleans ethanol plant.

On May 4, 2006, they issued a $1.0 million convertible, secured promissory note, bearing interest at 7%, payable within thirty days upon demand by Greenwich Power, L.L.C., and convertible into shares of their common stock at a conversion price of $1.086 per share. They also issued the investor a warrant to purchase 920,810 shares of their common stock, exercisable until May 31, 2001 at the lesser of $2.00 per share or 80% of the average trading price of their common stock for the thirty trading days prior to the exercise of the warrant. They used the net proceeds from the sale in connection with their biodiesel and ethanol plant acquisition strategy and for other general corporate purposes. The note and warrant and a corresponding guarantee given by Apollo Resources, their majority stockholder, were subsequently cancelled by the holder in connection with Apollo Resources' closing on July 21, 2006 of a securities purchase agreement with Greenwich Power.

On May 26, 2006, they issued $5.0 million principal amount of 8% senior convertible promissory notes to an institutional investor (Evolution Master Fund Ltd. SPC/Segregated Portfolio M). The notes carried an 8% coupon, payable quarterly, and were redeemable at par at any time prior to their initial maturity date in August 2006. The notes were not convertible until after August 2006, at which time the maturity date was extendable to November 2006 at the holder's option. The notes were convertible into their common stock at a conversion price equal to the greater of $1.00 per share or 75% of the weighted average price per share of their common stock on a five-day volume weighted average prior to closing. They also issued five-year warrants to purchase 750,000 shares of common stock to the investor and five-year warrants to purchase 18,750 shares of common stock to their placement agent, both at an exercise price of $3.84 per share. The remaining unpaid principal and accrued and unpaid interest on these notes were repaid in full with a portion of the net proceeds from the senior convertible promissory notes they issued in July 2006. The warrants remain outstanding.

On June 2, 2006, they issued a convertible note with a principal amount of $500,000 to Marc Weill. The note bore interest at 8% per year, which was payable on July 28, 2006, August 28, 2006, January 28, 2007 and April 28, 2007. The note had a maturity date of April 28, 2007. The note was convertible into shares of their common stock at a conversion price equal to the lesser of $0.50 per share or 70% of the weighted average price per share of their common stock. They used the net proceeds from the sale in connection with their biodiesel and ethanol plant acquisition strategy and for other general corporate purposes. They granted the note holder certain registration rights with respect to the shares of common stock underlying the convertible notes. On July 13, 2006, the holder of the note exercised its option to convert the notes, and they issued an aggregate of 1,000,000 shares of their common stock to such holder in exchange for the cancellation of the note.

On June 7, 2006, they issued $10 million aggregate principal amount of senior convertible notes to 4 institutional investors (Capital Ventures International, Sandell Asset Management Corp./ Castlerigg Master Investments, Heights Capital Management, Inc./ Capital Ventures International, RG Capital Management, L.P./ Radcliffe SPC, Ltd./ Crossover Segregated Portfolio). The notes carried an 8% coupon, payable quarterly, and were redeemable by us at par at any time prior to their initial maturity date in September 2006. The notes were not convertible until after September 2006, at which time the maturity date was extendable to December 2006 at the holder's option. The notes were convertible into their common stock at a conversion price equal to the greater of $1.00 per share or 70% of the weighted average price per share of their common stock on a five-day volume weighted average prior to closing. They also issued to the investors five-year warrants to purchase an aggregate of 1,500,000 shares of common stock to the investors and five-year warrants to purchase 45,000 shares of common stock to their placement agent, at an exercise price of $2.93 per share. The remaining unpaid principal and accrued and unpaid interest on these notes were repaid in full with a portion of the net proceeds from the senior convertible promissory notes they issued in July 2006. The warrants remain outstanding.

On June 12, 2006, Earth issued 537,500 shares of their common stock to Biodiesel Venture, L.P. and 537,500 shares of their common stock valued at $2,496,000 to Willie H. Nelson in connection with a sublicense agreement entered into on April 1, 2006 Biodiesel Venture, L.P granted EBOF an exclusive sublicense to use the trademark "BioWillie" which is licensed to Biodiesel Venture pursuant to a master license with Mr. Nelson, the owner of the trademark. The sublicense has a two-year term and is renewable for 4 successive 2 year terms (for a total term of 10 years) so long as EBOF is in compliance with the terms of the sublicense. In connection with the sublicense, in June 2006, EBOF issued 537,500 shares of its common stock to each of Biodiesel Venture and Mr. Nelson. During the term of the sublicense, EBOF has agreed to pay to each of Biodiesel Venture and Mr. Nelson annual royalties of $0.01 per gallon of biodiesel fuel branded with the BioWillie trademark that EBOF sells, with a minimum annual royalty of $150,000 payable to each of Biodiesel Venture and Mr. Nelson. Mr. Nelson, who serves on EBOF's board of directors, is a limited partner of Biodiesel Venture and is the sole owner and manager of the general partner of Biodiesel Venture.

On June 13, 2006, Earth issued a LOI in connection with the proposed acquisition of 50% interest in a newly-created limited liability company " Newco " that is currently 100% owned by HPS Development, L.L.C. HPS will contribute to Newco, HPS' ownership of the following: approximately 50 acres (more or less) of ground in or near to Myrtle Grove, Plaquemines Parish, Louisiana, together with the improvements situated thereon, included a closed fuel ethanol distillery built by SPECTRUM in 1988 (located adjacent to the Mississippi River near New Orleans, Louisiana) and the equipment and other assets associated with such ethanol distillery (collectively, the " Plant ") and (2) 10 acre tracts of land adjacent to the plant for the construction and operation of a Bio-diesel plant or additional storage space if such projects are undertaken by Newco.

During the second quarter (ending June 30, 2006) of 2006, Earth received proceeds under various convertible notes with warrants totalling approximately $17.5 million.

3rd Quarter – 2006

On July 10, 2006, Earth entered into a securities purchase agreement, pursuant to which EBOF issued an 8% senior convertible note with a principal amount of $5.0 million to an institutional investor (Castlerigg Master Investments Ltd.). EBOF also issued five-year warrants to purchase an aggregate of 1,500,000 shares of common stock to the investor and five-year warrants to purchase 15,000 shares of common stock to the Company's placement agent, both at an exercise price of $2.50 per share. On July 24, 2006, EBOF used a portion of the net proceeds from its July 24, 2006 offering to repay in full the remaining unpaid principal and accrued and unpaid interest on this note.

On June 12, 2006, their Board of Directors and Apollo Resources International, Inc., their parent company and the holder of a majority of the issued and outstanding shares of their common stock, par value $0.001 per share (207,396,623 shares of their common stock were outstanding) adopted and approved, an amendment to their company's Certificate of Incorporation to increase the number of authorized shares of their company's common stock, from 250,000,000 to 400,000,000 shares. Their Board of Directors believes the current number of their authorized but unissued shares of common stock available is not sufficient to enable us to respond to potential business and financing opportunities and pursue important objectives that may present themselves.

On July 13, 2006, holders of convertible notes issued during January through June of 2006, exercised their conversion option and EBOF issued an aggregate of 3,000,000 shares of common stock in exchange for the conversion of notes with an aggregate principal amount of $1.5 million.

On July 21, 2006, Apollo Resources entered into a securities purchase agreement with Greenwich Power, LLC and Greenwich Power II, LLC, pursuant to which Apollo Resources issued notes exchangeable for shares of their common stock held by Apollo Resources and options to purchase their common stock held by Apollo Resources. In connection with this transaction, Lance Backrow, who is the sole manager of both Greenwich Power entities, purchased a warrant to purchase 4,000,000 shares of their common stock at an exercise price of $0.25 per share. Mr. Backrow paid $100,000 for the issuance of this warrant.

On July 24, 2006, Earth entered into a securities purchase agreement pursuant to which EBOF issued $52.5 million aggregate senior convertible notes that are due in 2011 to Castlerigg Master Investments Ltd.; Evolution Master Fund Ltd; Crossover Segregated Portfolio ; Capital Ventures International; Portside Growth and Opportunity Fund; Cornell Capital Partners, LP ; Cranshire Capital L.P. and Kings Road Investments Ltd. The notes initially carry an 8% coupon, payable quarterly, and are convertible into shares of common stock at $2.90 per share. In 2007, the coupon may decline to 6% upon EBOF achieving certain financial milestones. The notes will begin to amortize in equal, quarterly payments beginning in 2007. In connection with the issuance of the notes, EBOF also issued five-year warrants to purchase 9,051,725 shares of common stock to the investors and five-year warrants to purchase 1,357,759 shares of common stock to the Company's placement agent, at $2.90 per share. At the date of issuance the warrants had a relative fair value of $18,808,359, and EBOF recognized a beneficial conversion feature in the amount of $42,906,599 based on the intrinsic value of the conversion feature. Amortization on the debt discount totalled $678,245 for the quarter ended September 30, 2006. Earth used the net proceeds from this offering to repay in full the remaining unpaid principal and accrued and unpaid interest on their $20.0 million aggregate principal amount of senior convertible promissory notes issued in May, June, and July 2006, and expects to use the remaining proceeds from the offering for its program of building and acquiring interests in biodiesel and ethanol production facilities, and for other general corporate purposes.

Earth will use the debt proceeds, in concert with other funds, for the acquisition of an ethanol production plant, two biodiesel production facilities and for other general corporate purposes, including working capital to support growth and capital expenditures associated with new project development. In connection with the 8% senior convertible notes issued in July, 2006, Earth incurred loan costs in the amount of $3,452,000 which will be amortized over the term of the convertible notes.

On August 11, 2006, EBOF entered into a securities purchase agreement pursuant to which EBOF issued $1.1 million aggregate senior convertible notes that are due in 2011 to 2 institutional investors (Gundyco ITF and Excalibur LTD). The notes initially carry an 8% coupon, payable quarterly, and are convertible into shares of common stock at $2.90 per share. In 2007, the coupon may decline to 6% upon EBOF achieving certain financial milestones. The notes will begin to amortize in equal, quarterly payments beginning in March, 2007. In connection with the issuance of the notes, EBOF also issued five-year warrants to purchase 232,759 shares of common stock to the investors at $2.90 per share.

In September 2006, EBOF sold Eastern Shelf Partners, LLC (a working interest in a series of oil and natural gas interests, pursuant to an acquisition, exploration and development agreement entered into on June 22, 2006 between Eastern Shelf and Apollo Resources, International, Inc., their majority stockholder) back to the parent company, Apollo.

On September 21, 2006 EBOF announced that it invested $5 million for an equity interest in a newly-formed company named Biodiesel Investment Group. This Memphis-based investment group is teaming up with one of the nation's leading agribusiness firms, Bunge North America, Inc., to build Illinois' largest biodiesel production plant in Danville, Illinois. Bunge North America is the North American operating arm of Bunge Limited (NYSE: BG). Strategically located adjacent to Bunge's soy crushing and corn milling plants, the new facility will provide a key link between local agriculture, Bunge's oilseed origination and processing capabilities, and a strong Biodiesel market that the Company believes is currently underserved. The plant is expected to have a production capacity of 45 million gallons per year and to be in production in the first quarter 2008.

EBOF plans to begin acquiring and operating retail service stations through its majority-owned subsidiary, American Earth Fuels Company (AEFC). Newly formed in September, 2006 for the purpose of creating the principal distribution channel for Earth Biofuels and its related companies, AEFC plans to sell biodiesel and ethanol fuel products, as well as traditional petroleum fuel products, to consumers around the nation. Earth Biofuels, the exclusive distributor for BioWillie biodiesel fuel, will distribute BioWillie and ethanol fuel to AEFC's retail stations as required in order to meet the demands of AEFC's customers .

During the quarter ending September 30, 2006, EBOF issued 2,082,867 restricted shares of the Company's common stock to employees for services rendered and 6,430,000 restricted shares of the Company's common stock for consulting services, of which 400,000 EBOF issued to Herb Meyer, a member of the Company's Board of Directors, During the third quarter EBOF issued 1,600,000 in shares with regard to the investment in Vertex discussed below under advances. The value of these shares was $4,320,000 on the date of issuance.

The shares were valued at market, totalling $19,924,408 with $291,873 recognized as share based compensation expense and with $18,512,535 recognized as prepaid expense reflecting shares issued prior to services having been completed, and net of cancellation of shares previously issued for services totalling $1,120,000. For the same period, Earth issued 2,082,867 shares for employee compensation. The shares were valued at market, totalling $6,484,417 of share-based compensation expense.

During the quarter ending September 30, 2006, they issued 3,000,000 shares of their common stock in repayment of a loan including accrued and unpaid interest thereon.

4th Quarter – 2006

On October3, 2006 EBOF announces that it plans to begin acquiring and operating retail service stations through its majority-owned subsidiary, American Earth Fuels Company (AEFC). Newly formed for the purpose of creating the principal distribution channel for Earth Biofuels and its related companies, AEFC plans to sell biodiesel and ethanol fuel products, as well as traditional petroleum fuel products, to consumers around the nation. Earth Biofuels, the exclusive distributor for BioWillie biodiesel fuel, will distribute BioWillie and ethanol fuel to AEFC's retail stations as required in order to meet the demands of AEFC's customers.

Earth Biofuel acquired on November 3, 2006 a 51 percent interest in Vertex Processing, LP from Vertex Energy, LP. Vertex Processing owns a facility strategically located near the Houston Ship Channel which was previously utilized for chemical processing and has since been converted for production of biodiesel fuel. The Houston facility represents Earth Biofuels' first joint-venture biodiesel producing plant, which has a current capacity of 10 million gallons per year (MMgy). Under the direction of Dr. Miguel Dabdoub, the joint venture expects to expand the facility to 20 MMgy over the next several months. An expert in biodiesel process technologies in Brazil, Dr. Dabdoub has been instrumental in that nation's near independence from foreign oil and owns proprietary technologies related to the production and use of biodiesel fuel. Earth

On November 28, 2006 EBOF acquired Apollo LNG, Inc. from its majority shareholder, Apollo Resources International, Inc. (OTCBB:AOOR) in exchange for common stock of that company. Apollo LNG, Inc., now doing business as "Earth LNG," owns a liquefied natural gas (LNG) processing facility in Topock, Arizona that currently produces over 80,000 gallons of transportation-grade LNG per day, and has a capacity of 86,000 gallons of LNG per day. LNG produced by the plant is sold primarily to municipal fleet customers located along the west coast of California. Earth LNG owns 14 of its own cryogenic transportation tanker trucks. The primary customers are municipal fleets such as Omnitrans in the San Bernardino Valley, Orange County buses and garbage trucks, Orange County Transportation (city buses), as well as commercial vehicles such as United Parcel Service in the Los Angeles area, and Waste Management's fleet at various locations up and down the California coast. An independent fairness opinion was rendered prior to the transaction who concluded that the market value of Apollo LNG was approximately $36 million, and that the consideration being paid was fair. Transportation grade LNG is different from most imported LNG in that the former is of superior quality sufficient to be used as a fuel for vehicles, while the latter is typically of lesser quality and is re-gasified to be transported through natural gas pipelines.

Earth Biofuels on December 20th announced a product and marketing agreement with the Choctaw Nation of Oklahoma. With 13 Choctaw Travel Plaza locations along the heavily traveled I-75 and Highway 69 highway corridor in Oklahoma, the agreement will increase the availability of biodiesel in the state. This agreement represents the first Native American-owned business relationship for Earth Biofuels.

On December 20, 2006, Earth Ethanol, a wholly-owned subsidiary of Earth Biofuels, Inc., entered into an Acquisition Agreement with Liquafaction Corporation, a Washington corporation, Newco Liquafaction, Inc., a Washington corporation, and Earth Ethanol of Washington. Under the agreement, EBOF will acquire an 80% ownership of Earth-Washington, which will own an ethanol production facility located in Moses Lake, Washington. The facility, initially built to produce up to 6 million gallons per year, is being expanded to produce up to 36 million gallons per year by the fourth quarter of 2007. The agreement contemplates incremental ethanol production beginning in June of 2007. EBOF will pay approximately 60% in common stock of Earth Biofuels and 40% cash. Initial cash payments totalling approximately $7.13 million will be due over the next four months and all remaining cash and stock payments totalling approximately $43.3 million shall be paid as the plant reaches specified ethanol production milestones. Should the plant reach certain performance criteria in advance of planned production levels, then a bonus of approximately $7.6 million may be paid.

RECENT NEWS - Highlights of press releases and company news

12/21/2006 - Earth Biofuels Acquires 80% Ownership of Earth Ethanol of Washington

12/20/2006 - Earth Biofuels Announces Two new BioWillie Locations in Oklahoma

12/18/2006 - Earth Biofuels Offers BioWillie at Discount Diesel, LC in Laredo, Texas

11/28/2006 - Earth Biofuels Reports Acquisition of Apollo LNG, Inc.

11/03/2006 - Earth Biofuels Completes Deal with Vertex Energy

10/30/2006 - Earth Biofuels Announces New BioWillie Location in Ennis, Texas; BioWillie Texas Availability Grows as One Stop Express Joins the List of Area Locations

10/05/2006 – Pacific Biodiesel Texas, LP to Release Its First Load of ASTM-Certified Biodiesel From Own Local Refinery

10/03/2006 - Earth Biofuels to Develop Retail Service Chain to Serve Consumers throughout the U.S.; Company Will Provide Its Branded Biofuels Blends as Well as Traditional Fuels

9/21/2006 – Earth Biofuels Invests in Illinois Biodiesel Production Facility

9/20/2006 - Earth Biofuels Offers BioWillie at Third Shreveport, LA Location; Louisiana BioWillie Availability Continues to Grow as Smith Oil Co. Fueling Station Joins J&S CITGO and Airport CITGO of Shreveport Station to carry BioWillie

9/06/2006 – Earth Biofuels Brings BioWillie to Louisiana with Two Shreveport Locations; J&S CITGO and Airport CITGO of Shreveport are first Louisiana Stations to Offer BioWillie

9/05/2006 - Earth Biofuels Agrees to Acquire Louisiana Ethanol Facility; Earth Biofuels to own 50 Percent Interest in New Orleans-based Facility

8/28/2006 - Renowned NASCAR Driver Rusty Wallace Joins Earth Biofuels, Inc. as Advisory Board Member and Company Spokesperson

8/09/2006 - Earth Biofuels Now Providing BioWillie Near San Antonio

8/08/2006 – Earth Biofuels Opens First BioWillie Biodiesel Tennessee Location in Cookeville

7/24/2006 - Earth Biofuels, Inc. Announces Private Offering of $52.5 Million of Senior Convertible Notes

7/20/2006 - Earth Biofuels Now Providing BioWillie Biodiesel Along I-45 Corridor in Wilmer, Texas

7/18/2006 - Julia Roberts Joins Earth Biofuels, Inc. as Spokesperson and Advisory Board Member

RECENT NEWS (continued)

6/15/2006 - Former U.S. Central Intelligence Official, Herbert E. Meyer, Appointed to Earth Biofuels, Inc. Board of Directors.

6/09/2006 – Earth Biofuels Signs Letter of Intent to Acquire Majority Stake in North Carolina Ethanol Company

6/08/2006 - Earth Biofuels Closes $10MM Debt Financing

4/04/2006 - Earth Biofuels Opens Biodiesel Blending Facilities at Motiva Terminal in Dallas, Texas; Major Terminal Operator Supports Infrastructure for Biodiesel

4/03/2006 - Earth Biofuels Opens Biodiesel Production Facility in Durant, Oklahoma

3/31/2006 - Earth Biofuels Secures exclusive use of “BIOWILLIE” Brand Name

3/28/2006 - Skinz Wraps Signs Agreement with Earth Biofuels, Inc.

3/28/2006 - Earth Biofuels Opens Second Biodiesel Retail Service Station

2/22/2006 - Earth Biofuels Announces Federal Grant / Loan for rail Spur to Biodiesel Refinery

2/14/2006 - Earth Biofuels Opens First California Pump Location and Introduces Custom Biodiesel Chopper

11/29/2005 - Earth Biofuels Closes on Acquisition of Biodiesel Fuel Distributor

11/14/2005 - Earth Biofuels Changes Ticker Symbol

MANAGEMENT

Mr. Dennis McLaughlin, Chief Executive Officer and Chairman

Dennis McLaughlin, Chairman and CEO of Earth Biofuels, Inc., has served as CEO and Chairman of Apollo Resources International, Inc. (a publicly traded company) since October of 2004. He was CEO of Blue Wireless & Data, Inc. (a publicly traded company) from June 2004 through April 2005, and continues as Chairman from June 2004 to the present. He was CEO and Co-Chairman of Ocean Resources, Inc. (a publicly traded company) from September, 2003 to January 2005.

MANAGEMENT (continued)

Mr. Christopher "Kit" Chambers, Executive Vice President and Secretary

Christopher "Kit" Chambers, Secretary, has served as Secretary and as a Director of Apollo Resources International, Inc. since October of 2004. He served as Chief Operating Officer and Secretary for Ocean Resources, Inc., a US public company engaged in deep-ocean salvage of commodity metals from 2003 to 2005. He is currently Corporate Secretary and a Member of the Board of Directors for Blue Wireless & Data, Inc., a U.S public company engaged in the sales and distribution of wireless-broadband internet service. Prior to these positions he co-founded MAC Partners, LP, a technology merchant bank, in 2002. From 1999 to 2001 he was employed by Aurion Technologies, LLC, as Vice President of Operations, then as Vice President of Sales Engineering. From 1994 to 1998, Mr. Chambers was Vice President for Software Development with Aurora Natural Gas, LP. From 1998 through 2004, he

worked as an independent consultant in the film/video industry in Dallas, Texas. Mr. Chambers received a B.A. degree from the University of Oklahoma in 1989.

Mr. Darren Miles, Chief Financial Officer

Darren Miles, Chief Financial Officer of Earth Biofuels, Inc., brings over 20 years of experience in corporate finance, mergers and acquisitions, and investment banking to the Company. Prior to joining Earth Biofuels, Inc., Mr. Miles consulted for GVC Financial Services, LLC for 3 years. Prior to that, Mr. Miles was a Director in a middle market investment banking firm specialized in recapitalizations, acquisitions, sales, and capital market funds sourcing. Mr. Miles also served as Director for Lewis Hollingsworth LP, a private equity fund where he directed turn-around efforts for portfolio companies while focusing on deal origination, structure, and negotiations. From September 2001 to August 2002, Mr. Miles also served as CEO of Fresh America Corporation (a publicly traded company). Darren holds his B.S. in accounting from Murray State University.

Mr. Peter Horn, Vice President Engineering

Peter Horn has over 30 years experience specialty construction, power plant construction, cogeneration facility construction and international project management.

Bruce Blackwell, Director

Bill Luckett, Director

Herbert E. Meyer, Director

Morgan Freeman, Director

Willie Nelson, Director

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Phil Scott, CFA
Principal

Twenty years of financial, valuation, corporate advisory, merger and acquisition and restructuring experience. In addition to his research and valuation work, he currently serves as the interim CFO for two public companies. Mr. Scott is a Chartered Financial Analyst designee. Mr. Scott has also served as the CFO for SurgiCare, Inc., PSX, Inc. and The Camden Group and has led these companies through successful restructuring and equity sales. Mr. Scott has also served as Vice President of Development for Health Care Partners, Ltd. and Heritage Provider Network, Inc., completing numerous acquisitions. He has an MBA (Summa Cum Laude) from the University of San Diego and a BS Degree in Chemical Engineering from California Institute of Technology.

Disclosure Statement