

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported) JANUARY 26, 2006

PACIFIC ETHANOL, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

000-21467

41-2170618

(State or other jurisdiction
of incorporation)

(Commission File Number)

(IRS Employer
Identification No.)

5711 N. WEST AVENUE, FRESNO, CALIFORNIA

93711

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (559) 435-1771

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to
simultaneously satisfy the filing obligation of the registrant under any of the
following provisions (SEE General Instruction A.2. below):

Written communications pursuant to Rule 425 under the Securities Act
(17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17
CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the
Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the
Exchange Act (17 CFR 240.13e-4(c))

ITEM 1.01. ENTRY INTO A MATERIAL DEFINITIVE AGREEMENT.

(1) DEBT COMMITMENT LETTERS DATED JANUARY 26, 2006 BETWEEN THE COMPANY AND
HUDSON UNITED BANK AND COMERICA BANK

On January 26, 2006, Pacific Ethanol, Inc. (the "Company") and its
indirect wholly-owned subsidiary, Pacific Ethanol Madera, LLC ("PEI Madera"),
executed two debt commitment letters (the "Commitment Letters"), one with Hudson
United Bank ("Hudson") and one with Comerica Bank ("Comerica"), for the
commitment of debt financing from Hudson and Comerica (collectively, "Lender")
in the aggregate amount of up to \$34.0 million (the "Debt Financing").

The Debt Financing is to provide part of the financing necessary for
the completion of the Company's ethanol production facility in Madera County,
California (the "Project"). The Project cost is not to exceed approximately
\$65.0 million (the "Project Cost"). The Project will be owned by PEI Madera, a
special purpose limited liability company structured as a bankruptcy-remote
entity.

Subject to the terms and conditions of the Commitment Letters, Hudson has committed to fund up to \$22.1 million and Comerica has committed to fund up to \$11.9 million of the Debt Financing. The Debt Financing will be subject to acceptable documentation, including those related to representations, warranties, covenants, default provisions, etc., which are to be in form and substance satisfactory to Lender, PEI Madera, the Company and their respective legal counsel. The closing of the Debt Financing is subject to numerous other conditions as discussed more fully below and in the Commitment Letters. The terms of the Debt Financing may differ materially from the terms described herein and set forth in the Commitment Letters.

The Company has contributed assets to PEI Madera having a value of approximately \$10.0 million (the "Contributed Assets"). The Company is responsible for arranging cash equity (the "Contributed Amount") in an amount that, when combined with the Contributed Assets would be equal to no less than the difference between the Debt Financing amount of \$34.0 million and the total Project Cost. The Contributed Amount is expected to be approximately \$22.0 million. In the event that the Contributed Assets and the Contributed Amount are insufficient to cover the difference between the Project Cost and the Debt Financing, the Company will be required to provide additional proceeds to cover such difference.

The construction start date for the Project occurred in May 2005 and a final notice to proceed is to be issued by PEI Madera to W.M. Lyles Co., the contractor for the Project (the "Contractor"), upon the closing of the Construction Loan (as described below). Substantial completion of the Project is to occur within 425 days of the final notice to proceed. The final completion date of the Project is defined under the Commitment Letters as the date that the Project (a) has successfully been constructed and completed; (b) has passed all performance and acceptance tests reasonably acceptable to Lender and its engineer; and (c) Lender's engineer has provided an acceptable completion certificate (the "Final Completion Date"). The Final Completion Date is to occur within 545 days from the notice to proceed.

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CONSTRUCTION LOAN AND TERM LOAN

The Debt Financing will initially be in the form of a construction loan (the "Construction Loan") and will mature on or before the Final Completion Date, after which the Debt Financing will be converted to a term loan (the "Term Loan") that will mature on the seventh anniversary of the closing of the Term Loan. In the event that such conversion does not occur and PEI Madera elects to repay the Construction Loan, then PEI Madera is to pay a termination fee equal to 5.00% of the amount of the Construction Loan. The closing of the Term Loan is expected to be the Final Completion Date. The Construction Loan interest rate will float at a rate equal to the 30-day London Inter Bank Offered Rate ("LIBOR") plus 4.00%. PEI Madera will be required to pay the Construction Loan interest monthly during the term of the Construction Loan. The Term Loan interest rate will float at a rate equal to the 90-day LIBOR rate plus 3.75%. PEI Madera will be required to purchase interest rate protection in the form of a LIBOR rate cap of no more than 5.00% from a provider on terms and conditions reasonably acceptable to Lender, and in an amount covering no less than 70% of the principal outstanding on any loan payment date commencing on the closing date through the fifth anniversary of the Term Loan. Loan repayments on the Term Loan are to be due quarterly in arrears for a total of twenty-eight (28) payments beginning on the closing of the Term Loan and ending on its maturity date. The loan amortization for the Project will be established on the closing of the Term Loan based upon the operating cash projected to be available to PEI Madera from the Project as determined by closing pro forma projections. The Debt Financing will be the only indebtedness permitted on the Project. The Debt Financing will be senior to all obligations of the Project and PEI Madera other than direct Project operating expenses and expenses incurred in the ordinary course of business. All direct and out-of-pocket expenses of the Company or its direct and indirect subsidiaries will be reimbursed only after the repayment of the Debt Financing obligations.

The Term Loan amount is to be the lesser of (a) \$34.0 million; (b) 52.25% of the Project Cost at the time of closing of the Term Loan; and (c) an amount equal to the present value of up to 43.67% (based upon a 2.29 to 1.00 debt service coverage ratio) of the operating cash distributable to and received

by PEI Madera supported by the closing pro forma projections, from the closing of the Term Loan through the seventh anniversary of such closing, discounted at 9.50%. The Term Loan amount in the Commitment Letters is presently assumed to be \$34.0 million based upon current pro forma assumptions.

The conditions precedent to the closing of the Construction Loan will include customary conditions precedent to construction loans as well as other conditions described herein, and, among other things, that no material adverse change in the condition or operation, financial or otherwise, of PEI Madera, the Company or the Project has occurred. In addition, PEI Madera currently has a loan outstanding from Lyles Diversified, Inc. ("LDI") in the approximate amount of \$3.6 million, and as a condition precedent to the closing of the Construction Loan, PEI Madera is to repay the loan from LDI. Also, the Contractor will be required to submit a construction performance and completion bond from a bonding company acceptable to Lender prior to the closing of the Construction Loan that covers both Phase I and Phase II construction of the Project.

The conditions precedent to the closing of the Term Loan will include all of the conditions precedent to the closing of the Construction Loan and customary conditions precedent to term loans as well as other conditions described herein, and, among other things, that (a) no material adverse change

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in the condition or operation, financial or otherwise, of PEI Madera, the Company or the Project has occurred; (b) there exists no default or event that upon notice or the passage of time would result in default under the Construction Loan agreements; and (c) delivery of Lender's engineer's completion certificate satisfactory to the Lender that states that the Project and related grain facility (i) are complete, (ii) have passed all acceptance tests, (iii) are available for commercial operation, (iv) the Project is capable of achieving the operational production levels at the operating cost as projected in the closing pro forma projections, and (v) all permits required to operate the Project and the related grain facility are in full force and effect.

CONSTRUCTION DRAW ACCOUNT

Following the closing, 100% of the Contributed Amount is to be funded into a construction draw account ("CDA"). Lender will have no obligation to provide any portion of the Debt Financing until the Contributed Amount has been provided in full and deposited into the CDA and fully drawn upon as certified by Lender's engineer. Once the Contributed Amount is fully drawn upon, Lender is to, from time to time, fund the CDA with Debt Financing proceeds in an amount equal to PEI Madera's draw request, subject to the draw schedule. As an additional condition to any funding by Lender of the CDA, an appraiser is to provide an independent appraisal of the grain facility related to the Project, the Phase I construction work completed to date and the Project as a whole, all as acceptable to Lender.

PEI Madera is to submit a Project construction and draw schedule that is reasonably acceptable to Lender and its engineer. Lender's engineer will submit reports 90, 180 and 270 days subsequent to the closing of the Construction Loan certifying that the Project is currently on or ahead of the draw schedule and that there is no event or anticipated event that would cause the Project not to be completed by the Final Completion Date prior to any subsequent draws by PEI Madera and future fundings by Lender from and to the CDA. PEI Madera must also submit a monthly construction progress report to Lender. If Lender's engineer reports that the Project is behind by at least 30 days, then PEI Madera will have 60 days to bring the Project's construction schedule back in line with the draw schedule. PEI Madera's failure to do so will constitute a default under the Debt Financing agreements. In addition, failure to achieve final completion prior to the Final Completion Date will constitute a default under the Debt Financing agreements.

USE OF PROCEEDS

The Debt Financing is to be used to finance a portion of qualified project construction expenses, as approved by PEI Madera and Lender's engineer ("QPCEs"), not funded by the Contributed Amount. Beginning on the closing of the Construction Loan, and continuing for all future draws, PEI Madera will be

permitted to withdraw monthly up to 100% of the QPCEs, including amounts necessary to pay interest, but only up to the amount held in the CDA, provided that no event of default has occurred and is continuing, and the withdrawal does not exceed the amount referenced in the draw schedule. On each draw subsequent to Lender's funding of amounts into the CDA, the Lender will withdraw from the CDA the accrued interest on the Debt Financing.

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DEBT SERVICE RESERVE ACCOUNT

Upon the closing of the Term Loan, PEI Madera is to fund a debt service reserve account ("DSRA") in an amount equal to the scheduled debt service payments that are projected to be due over the succeeding 6 months. On the first anniversary of the closing of the Term Loan, PEI Madera is to increase the funds in the DSRA to a total amount equal to the scheduled debt service payments projected to be due over the succeeding 12 months. Once funded, PEI Madera is to maintain funds in the DSRA in an amount equal to the required balance, such that subsequent to the closing of the Term Loan, if there is at any time a shortfall between the amount contained in the DSRA and the required balance, as provided above, then the amount of such shortfall is to be funded from 100% of operating cash after the payment of scheduled debt service payments. PEI Madera will be prohibited from making any distributions or any payment until the DSRA is fully funded up to the amount of the required balance. Calculations of any shortfall are to be made quarterly based on the scheduled debt service payments projected to be due over the succeeding 12 months. PEI Madera will only be required to fund the DSRA shortfall amounts in the first month after each quarterly calculation of the DSRA shortfall amount. At such time as the balance of the DSRA equals or exceeds the outstanding balance on the Term Loan, including any accrued interest, Lender is to apply such funds to repay the outstanding balance on the Term Loan and refund any balance to PEI Madera.

DEBT SERVICE COVERAGE RATIO

The minimum debt service coverage ratio is to be no less than 1.25 to 1.00. The debt service coverage ratio is defined as the preceding 12 months of operating cash securing the Term Loan (measured only after the Project has operated for at least 12 months) divided by the projected debt service payments for the succeeding 12 months. In the event that the debt service coverage ratio falls below the stated minimum, then all excess funds in the project revenue account (as described below) after the debt service payments on the Term Loan and the payment of operating expenses are to be deposited into the DSRA until such time as the DSRA has reached the required balance plus any additional required balance. The additional required balance on any payment date that the minimum coverage ratio is less than 1.50 to 1.00 is to be calculated as follows: (a) an adjusted pro forma forecast, reasonably acceptable to Lender, would be created utilizing the methodology employed in the closing pro forma projections, which reflects the events that gave rise to the lower than anticipated net operating cash flow; and (b) an adjusted loan amortization would be calculated utilizing the cash flows forecasted in the adjusted pro forma forecast over the remaining life of the Term Loan assuming the original amortization period. The adjusted loan would then be discounted at the interest rate on the Term Loan and added together with the outstanding loan balance to produce the adjusted loan balance. The additional required balance is to be the excess of the outstanding Term Loan balance over the adjusted loan balance. At the option of PEI Madera, all amounts constituting the additional required balance may be used to prepay the Term Loan without penalty. All excess funds in the DSRA over any required balance, including any additional required balance, are to be released immediately to PEI Madera. The additional required balance would be released immediately once both the current and two year forecasted minimum coverage ratios are equal to or greater than 1.50 to 1.00, provided that no material event of default has occurred and is continuing under the Term Loan.

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PROJECT REVENUE ACCOUNT

All revenue from the Project is to be placed in a project revenue account, which is to be an interest bearing lock-box account controlled by

Lender (the "PRA"). Lender is to designate an escrow agent as trustee for the PRA. PEI Madera is to assign all cash available to PEI Madera from the Project to the PRA. Withdrawals can be made from the PRA only for qualified operating and maintenance expenses, principal and interest for debt service, fees and qualified expenses of Lender (if any), amounts necessary to fund reserves to required levels, mandatory prepayments, payment of any QPCEs, and distributions to PEI Madera and the Company. PEI Madera may withdraw excess funds from the PRA after the payments above have been satisfied.

PRIORITY OF PAYMENTS

The trustee of the PRA will be required to utilize all operating cash towards the payment of all obligations of PEI Madera in the following order of priority: (a) on a monthly basis, on approved and qualified operating and maintenance expenses with respect to the Project, property taxes, assessments and other expenses approved by the Lender; and (b) on a quarterly basis, all interest, fees, and expenses due the Lender, all scheduled principal payments due under the Term Loan, any amount necessary to fund the DSRA to its required balances or adjusted required balance, mandatory prepayments due under the Term Loan, supplemental amortization payments (SAPs) due under the Term Loan, supplemental principal payments (SPPs) due under the Term Loan, and distributions to PEI Madera and the Company.

During the term of the Debt Financing, PEI Madera will be required to maintain, or cause to be maintained, insurance for the Project for coverages and in amounts similar to that insurance maintained by other owners of similar projects, and satisfactory to the Lender's insurance consultant. At a minimum, the insurance coverage is to include Project liability insurance for all risks in an amount totaling not less than \$5.0 million and property insurance to cover all risks in an amount not less than the full replacement cost of the Project with customary business interruption protection.

MANDATORY PREPAYMENTS

PEI Madera will be required to prepay the entire principal amount of the Term Loan in the event that the Project is totally destroyed or sold or in the event that any material Project document is amended or terminated without Lender's consent. In addition, if any material Project asset is sold resulting in a cash payment to PEI Madera, then all proceeds from such payment will be applied to the repayment of the Debt Financing. After the closing of the Construction Loan, PEI Madera will be required to make the following mandatory prepayments: (a) in the event that the debt service coverage ratio for any fiscal year falls below the stated minimum as scheduled for such fiscal year, then in addition to the scheduled loan amortization, PEI Madera is to make a mandatory supplemental amortization payment (the "SAP") on the Term Loan without prepayment penalty. Such SAP would be equal to 100% of "SAP Free Cash Flow"; SAP Free Cash Flow is defined as distributable cash, less (i) all debt service, including all commitment fees, interest rate protection fees and any other fees payable to Lender, and (ii) DSRA contributions, if any; the SAP would be applied

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proportionately against the scheduled loan amortization of the Project in inverse order of maturity; and (b) PEI Madera is to be required to make a supplemental principal payment (the "SPP") on each loan payment date. Each SPP will be equal to 25% (the "Sweep Percentage") of operating cash less (i) debt service, plus (ii) any required deposits to the DSRA. The Sweep Percentage will be determined on the closing of the Term Loan based upon the closing pro forma projections which will incorporate the results of a performance test. The Sweep Percentage will not exceed 25%. Such SPPs will be applied to the principal balance of the Term Loan in inverse order of maturity in order to reduce the maturity date of the Term Loan to no more than five (5) years from the closing date of the Term Loan. In the event that the Volumetric Ethanol Excise Tax Credit is either repealed or is not extended beyond 2010 by January 1, 2008, then the Sweep Percentage will immediately increase to 75%. PEI Madera will not be required to pay a prepayment penalty for the mandatory prepayments except if PEI Madera, without Lender's consent, amends or terminates a material Project document and/or sells a material Project asset.

OPTIONAL PREPAYMENT AND PREPAYMENT PENALTY

No prepayment is to be allowed under the Debt Financing. However, after the closing of the Term Loan, PEI Madera is to have the right to prepay the Term Loan in its entirety with the payment of a prepayment penalty, as follows: (a) a 3.00% penalty is to apply if paid between the first and second anniversary of the closing of the Term Loan; (b) a 2.00% penalty is to apply if paid between the second and third anniversary of the closing of the Term Loan; (c) a 1.00% penalty is to apply if paid between the third and fourth anniversary of the closing of the Term Loan; and (d) no penalty is to apply thereafter.

LENDER'S SECURITY INTEREST

The Debt Financing is to be secured by: (a) a perfected first priority security interest in all of the assets of PEI Madera, including inventories and all right title and interest in all tangible and intangible assets of the Project; (b) a perfected first priority security interest in the Project's grain facility, including all of PEI Madera's and the Company's and its affiliates' right title and interest in all tangible and intangible assets of the Project's grain facility; (c) a pledge of 100% of the ownership interest in PEI Madera; (d) a pledge of the PEI Madera's ownership interest in the Project; (e) an assignment of all revenues produced by the Project and PEI Madera; (f) the pledge and assignment of the material Project documents, to the extent assignable; (g) all contractual cash flows associated with such agreements; and (h) any other collateral security as Lender may reasonably request. In addition, the Construction Loan is to be secured by the completion bond to be provided by the Contractor.

DEBT FINANCING FEES

PEI Madera and the Company will be jointly and severally liable for payment of the following fees, among others: (a) a construction loan fee equal to 1.00% of the Construction Loan amount payable upon the closing of the Construction Loan; (b) a term loan conversion fee equal to 1.00% of the Term Loan amount payable upon the closing of the Term Loan; and (c) an agency fee equal to \$33,000 per annum payable to Hudson commencing on the first anniversary of the closing of the Construction Loan. In addition, PEI Madera and/or the Company will be required to pay for Lender's transaction costs, including, without limitation, fees, legal fees, Lender's engineer and consultant fees, and the reasonable out-of-pocket expenses of Lender, regardless of whether a closing of the Construction Loan occurs, except as a result of a breach by the Lender.

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In the event that PEI Madera and/or the Company decide not to close the Construction Loan with Lender, then PEI Madera and/or the Company will pay to Lender a break-up fee equal to \$150,000. The break-up fee will not be payable if the Debt Financing fails to close after Lender and the Company have negotiated in good faith and used their best efforts to close the transaction pursuant to the terms of the Commitment Letters.

(2) FIRST AMENDMENT TO 2004 STOCK OPTION PLAN

As of January 31, 2006, the board of directors of the Company approved a First Amendment to the Company's 2004 Stock Option Plan ("2004 Plan"). The amendment added to the 2004 Plan a net exercise provision. Subject to the discretion of the plan administrator to accept payment in cash only, the net exercise provision would permit an option recipient to exchange the right to purchase all or part of the maximum shares underlying the option for that number of shares equal in value to the amount by which the fair market value of a share of Company common stock exceeds the purchase price, multiplied by the number of shares to be purchased at that purchase price.

The amendment also updates the 2004 Plan to reflect that stockholder approval of the 2004 Plan has been obtained, and revises the 2004 Plan to conform the governing law provision to the provision contained in the forms of option agreements previously approved by the board of directors.

In conjunction with the amendment, the board of directors resolved that for purposes of Rule 16b-3(d)(1) under the Securities Exchange Act of 1934, as amended, Section 16 reporting persons are authorized to use the net exercise provision with regard to options granted to those persons under the 2004 Plan prior to the approval of the amendment.

A copy of the amendment is attached as an exhibit to this Form 8-K and incorporated herein by reference.

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS.

(a) Financial Statements of Businesses Acquired.

None.

(b) Pro Forma Financial Information.

None.

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(c) Exhibits.

Number Description

10.1 Debt Commitment Letter dated January 26, 2006 between Pacific Ethanol Madera, LLC, the Company and Hudson United Bank

10.2 Debt Commitment Letter dated January 26, 2006 between Pacific Ethanol Madera, LLC and Comerica Bank

10.3 First Amendment to Pacific Ethanol, Inc. 2004 Stock Option Plan

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: February 1, 2006

PACIFIC ETHANOL, INC.

By: /S/ WILLIAM G. LANGLEY

William G. Langley,
Chief Financial Officer

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EXHIBITS FILED WITH THIS REPORT

Number Description

10.1 Debt Commitment Letter dated January 26, 2006 between Pacific Ethanol Madera, LLC, the Company and Hudson United Bank

10.2 Debt Commitment Letter dated January 26, 2006 between Pacific Ethanol Madera, LLC and Comerica Bank

10.3 First Amendment to Pacific Ethanol, Inc. 2004 Stock Option Plan

HUDSON UNITED CAPITAL
A Division of Hudson United Bank

Post Road East
Westport, Cr 06880
(243) 291-6664
FAX (203) 291-6652
www.hudsonunitedcapital.com

January 23, 2006

Mr. Ryan Turner
Chief Operating Officer
Pacific Ethanol, Inc
5711 N. West Avenue
Fresno, CA 93711

Dear Ryan:

Hudson United Bank ("United") has received approval from its senior management, and is pleased to issue this Formal Commitment (the "Commitment") to provide to Pacific Ethanol Madera LLC, Inc ("PEM" or "Borrower") its portion of senior loan facilities (the "Facilities") for the construction and term financing of the Madera Ethanol Project. United's Commitment to provide this loan facility is conditioned upon the terms and conditions set forth in the Summary of Indicative Terms and Conditions dated November 28, 2005 attached hereto (the "Proposal") with the following modifications;

1. The "Project Cost" defined on page 4 of the Proposal is changed to read "not to exceed \$65,069,113".
2. Borrower defined on pages 6, 12, and 20 of the Proposal is changed to read as follows: "Pacific Ethanol Madera LLC ("PEM")".
3. The "Construction Loan Amount" defined on page 12 of the Proposal is changed in its entirety to read as follows:

"Not to exceed \$34,000,000, which amount can be supported by the Closing Pro forma, or such lesser amount as determined by the provisions of Senior Term Loan Amount defined herein (the "Senior Construction Loan Amount")". United proposes to underwrite up to \$22,100,000 of the Senior Construction Loan Amount and arrange the balance of the financing on a best efforts basis".
4. The section covering the "Senior Term Loan Amount" defined on page 20 of the Proposal is changed in its entirety to read as follows:

"The Senior Term Loan Amount will be the lesser of \$34,000,000, (b) 52.25% of Project Cost at Senior Term Loan Conversion as herein defined, and (c) an amount equal the present value. of up to 43.67% (based upon a 2.29X senior debt service coverage ratio) of the Operating Casks distributable to and received by the

Borrower supported by the Closing Pro Forma (which will include the results from the Senior Lender's Engineer's Report and due diligence review by Senior Lender), from the Conversion Date as defined below through the seventh (7th) anniversary of the Conversion Date discounted at 9.5% (the "Senior Term Loan Amount'). For the purposes of this proposal, the Senior Loan Amount is assumed to be \$34,000,000 based upon current pro forma assumptions. United proposes to underwrite up to \$22,100,000 of the Senior Term Loan Amount and

arrange the balance of the financing on a best efforts basis.

5. The Sweep Percentage pursuant to the Supplemental Principal Payments provisions as contained on page 25 of the Proposal is changed from 40% to 25%.
6. All revenues derived by PAP through its use of the Grain Facility will be placed in the Senior Lender controlled interest bearing Lock-Box (the "Project Revenue Account" or "PRA"). The withdrawal of any funds contributed by PAP from the PRA shall be in accordance with the Priority of Payments provisions (item 7) contained on page 28 of the Proposal.
7. All applicable Material Project Documents will be modified to reflect the revised project pro forma dated January 10, 2006 and reviewed by Harris.
8. As an additional condition to any funding by the Senior Construction Lender of the Construction Draw Account with Senior Construction Loan proceeds, an "Appraiser" shall provide an "Independent Appraisal" of (1) the Grain Facility, (2) Phase I work completed to date and (3) the Project, all as acceptable to Senior Construction Lender.
9. Contractor's performance guarantee and performance bond shall cover both the Phase I and Phase II construction and completion so that any condition of the Phase I construction that would cause a failure of the Project to successfully meet the conditions of substantial completion and final completion shall be covered by delay and performance liquidated damages.
10. Exhibit I of the Proposal, Sources and Uses of Funds is hereby changed to read as follows:

Sources of Fund

Senior Debt - HUB:	\$ 22,100,000	(33.96%)
Senior Debt - Comerica:	11,900,000	(18.29%)
Sponsor Equity:	22,000,000	(33.81%)
Contributed Assets:	9,069,113	(13.94%)

Total Sources:	\$ 65,069,113	(100.00%)

Uses of Funds

Construction Costs

Plant Construction	\$ 45,467,887	
Site, Rail, Silos, and Engineer:	9,069,113	
Capitalized Fees and Interest	2,345,904	

Sub Total Construction:	\$ 56,882,904	
Corn Inventory:	1,318,324	
Ethanol and WDG Inventory:	265,705	
Enzymes, Chemicals:	136,000	
Spare Parts	350,000	
Operating Expenses:	395,338	
Other Working Capital:	182,458	
Contingency and Cash:	2,708,837	
6 mos. DSRA Deposit:	3,005,993	
Interest Income:	(176,446)	

Total Project Cost:	\$ 65,069,113	

11. Exhibit II is hereby modified in its entirety to read as follows:

Loan Amortization Schedule (\$000s)

(This Amortization Schedule assumes a \$34,000,000 loan amount which is subject to change. Loan Amortization will be established on the Conversion Date based upon the Operating Cash projected to be available to the Borrower from the Project as determined by the Closing Pro forma.)

Payment #	Beginning Balance	Principal Payment	Ending Balance
1	\$34,000,000	\$772,630	\$33,227,370
2	\$33,227,370	\$790,980	\$32,436,390
3	\$32,436,390	\$809,766	\$31,626,624
4	\$31,626,624	\$828,998	\$30,797,626
5	\$30,797,626	\$885,207	\$29,912,419
6	\$29,912,419	\$906,231	\$29,006,189
7	\$29,006,189	\$927,753	\$28,078,435
8	\$28,078,435	\$949,788	\$27,128,647
9	\$27,128,647	\$1,008,929	\$26,119,718
10	\$26,119,718	\$1,032,891	\$25,086,827
11	\$25,086,827	\$1,057,423	\$24,029,404
12	\$24,029,404	\$1,082,536	\$22,946,867
13	\$22,946,867	\$1,144,888	\$21,801,979
14	\$21,801,979	\$1,172,079	\$20,629,900
15	\$20,629,900	\$1,199,916	\$19,429,984
16	\$19,429,984	\$1,228,414	\$18,201,570
17	\$18,201,570	\$1,294,280	\$16,907,290
18	\$16,907,290	\$1,325,019	\$15,582,270
19	\$15,582,270	\$1,356,489	\$14,225,782
20	\$14,225,782	\$1,388,705	\$12,837,076
21	\$12,837,076	\$1,458,421	\$11,378,656
22	\$11,378,656	\$1,493,058	\$9,885,597
23	\$9,885,597	\$1,528,519	\$8,357,079
24	\$8,357,079	\$1,564,821	\$6,792,258
25	\$6,792,258	\$1,638,754	\$5,153,504
26	\$5,153,504	\$1,677,674	\$3,475,829
27	\$3,475,829	\$1,717,519	\$1,758,310
28	\$1,758,310	\$1,758,310	\$0
	Total:	\$34,000,000	

The closing of documentation and funding of the loan facilities contemplated by this Commitment is subject to (i) the negotiation, execution and delivery of documentation satisfactory in form and substance to United and its counsel and (ii) no material adverse change in the financial condition of the Borrower or the Project (as defined in the Proposal) having occurred since the date of this letter.

To indicate your acceptance of this Commitment, please have an authorized officer sign in the spaces provided below and return this letter by the close of business on or before January 30, 2006 in order to (i) confirm your acceptance of the terms and conditions of this Commitment, (ii) confirm your desire for United to begin, the documentation of the Facilities and (iii) agree to work exclusively with United to complete documentation of the Facilities contemplated by this Commitment.

We look forward to working with you to complete the Facilities.

Sincerely,
Hudson United Bank

/s/ James E. Wells

James E. Wells
Vice President

Agreed and accepted by:

PACIFIC ETHANOL, INC.

By: /s/ William Langley

Name: William Langley
Title: CFO
Date: 1/26/06

PACIFIC ETHANOL MADERA, LLC.

By: /s/ William Langley

Name: William Langley
Title: Treasurer
Date: 1/26/06

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SUMMARY OF INDICATIVE TERMS AND CONDITIONS
FOR THE HUDSON UNITED CAPITAL COMPREHENSIVE
CREDIT FACILITY FOR THE CONSTRUCTION AND TERM FINANCING OF
THE MADERA ETHANOL PROJECT (the "Financing")
November 28, 2005

I. TRANSACTION OVERVIEW

Pacific Ethanol, Inc., presently a Delaware corporation ("PEI") was founded in January 2003 as a California corporation, and was established to become a California-based producer and marketer of renewable fuels. In June 2003 it purchased a grain facility and site upon which PEI through its wholly owned subsidiary, Pacific Ethanol California, a California corporation ("PEC") intends to first construct the Madera Ethanol Project. The Madera Ethanol Project will be the first of up to five ethanol production facilities PEI will construct to bring existing ethanol technology to California to address the State's expanding market need for ethanol.

Company

Background: In March 2005, Pacific Ethanol, Inc., a Delaware corporation ("PEI") completed a Share Exchange Transaction with the shareholders of PEC, and the holders of the membership interests of each of Kinergy Marketing, LLC, ("Kinergy") and Reenergy, LLC, ("Reenergy"). Upon completion of the Share Exchange Transaction, PEI acquired all of the issued and outstanding shares of capital stock of PEC and all of the outstanding membership interests of each of Kinergy and Reenergy. Immediately prior to the consummation of the Share Exchange Transaction, PEI's predecessor, Accessity Corp., a New York corporation ("Accessity"), reincorporated in the State of Delaware under the name Pacific Ethanol, Inc. PEI has three principal wholly-owned subsidiaries: PEC, Kinergy, and Reenergy.

II. THE FINANCING

PEI and PEC, through a wholly owned subsidiary, Pacific Ethanol Madera LLC ("PEM") has begun construction of an ethanol production plant at its Madera site, located in the heart of California's Central Valley. A limited notice to proceed with construction in the amount of \$15,000,000 was issued in May, 2005

for the completion of "Phase I of Project construction.

PEI is seeking up to \$44,000,000 of senior loan facilities for the construction and term financing of the Project (the "Senior Loan Facilities"). The Senior Loan Facilities will consist of a "Senior Construction Loan" and a "Senior Term Loan" as described herein, and in no event will the Senior Loan Facilities as defined herein exceed 60% of Project Cost as defined herein.

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III. PROJECT DESCRIPTION

PROJECT: The Project will be a dry mill ethanol production facility with a design capacity to produce the following on an annual basis:

- (i) Up to 35,000,000 gallons of denatured fuel grade ethanol per year, and
- (ii) 290,000 tons per year of wet distiller's grain ("WDGS"), which will be sold as a feed supplement.

For its intended production, the Project will consume approximately 12.5 million bushels of corn per year (i.e. a yield of 2.68 gallons of ethanol and 47.1 pounds of WDGS per bushel). At a steady state, the Project is expected to produce more than 40,000,000 gallons of denatured ethanol per year as designed.

PROJECT COST: Assumed to be approximately \$74,000,000 (See Exhibit I, Sources and Uses).

PROJECT SITE: The Project will be located on a 137-acre site owned by PEM (the "Project Site").

GRAIN PROCESSING FACILITY:

A state-of the art grain processing and storage facility (the "Grain Facility") is located on the Project Site, including two rail loops serviced directly by the adjacent Burlington Northern Santa Fe Railroad ("BNSF"). The Grain Facility has eight silos with a capacity to store 1.750MM bushels of corn, which provides up to a 52 day corn inventory for the Project.

The Grain Facility is owned by PEM, and will operated by PAP (the "Grain Operator") pursuant to a "Corn Procurement and Processing Agreement" and "Shared Facilities Agreement" (the Grain Agreements"), all reasonably acceptable to United. Under the Grain Agreements, PAP will provide at least 25-days of corn storage capacity (25,000 tons) and processing services for the Project. PAP will agree as a first priority of its operation of the Grain Facility to meet 100% of the requirements of the Project pursuant to the Grain Agreements.

PAP will assign and pledge its leasehold interest in the Grain Handling Agreement to the Senior Lender as collateral.

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LDI LOAN: Presently, Lyles Diversified Inc. ("LDI") holds a mortgage on the Grain Facility pursuant to a loan with PEI as the borrower

(the "LDI Loan"). The LDI Loan matures in 2008. As a condition precedent to the financing contemplated herein, PEM will retire the LDI Loan and acquire the Grain Facility. PEM and PEI will pledge all rights, title and interest in the Grain Facility as collateral to the Senior Lender as defined herein.

MARGIN

PROTECTION: The Project will employ long-term hedging and price management strategies which are customary and usual for the ethanol industry for 1) the procurement of feed stocks, energy and fuel necessary for the Projects operations and 2) the sale of ethanol, WDGS and/or DDGS as the case may be, produced by the Project. Such hedging and price management strategies will be employed to minimize any reductions in (i) the Project's operating margin, and (ii) its ability to repay the loan facilities contemplated by this Proposal (the "Margin Strategies").

ETHANOL SALES: PEM will market its ethanol through Kinery according to the terms and conditions of the Ethanol Marketing Agreement (the "EMA"). PEI expects that ethanol will be sold to both major and independent oil customers on a combination of fixed, indexed, and spot market arrangements that are usual and customary within the ethanol industry.

WDGS SALES: WDGS will be marketed by Western Milling pursuant to a Distillers Grain Marketing Agreement (the "WMGA"), and sold locally at market prices.

CORN PROCUREMENT: Corn required for the Project operations will be procured by PAP from local and Midwestern corn producers. To secure corn at favorable prices, the Project will utilize Margin Strategies usual and customary for the ethanol industry, including among other things cash (spot) contracts, forward purchase contracts, price later arrangements, basis contracts, and joint venture contracts.

NATURAL GAS: The natural gas required for process heating needs of the Project will be obtained through competitive bids from reasonably acceptable gas providers under reasonably acceptable long-term hedging and price management strategies reasonably acceptable to Senior Lender. Borrower will employ

hedging strategies to protect against volatility in natural gas prices. Pacific Gas and Electric Company will provide electricity and gas transmission service to the Project.

MAKEUP WATER: The Project Site has two deep-water wells on the property able to supply nearly twice the annual requirements of the Project. A third well is being drilled for additional capacity.

In addition, PEM may be able to procure water from the Madera Irrigation District (MID). Having the site in the water district would allow PEM to buy water from MID if water quality degradation issues arise from drawing down the water table on the property.

IV. PARTICIPANTS AND DEFINITIONS

OWNER: The Project will be owned by PEM a special purpose limited liability company ("Owner") structured as a bankruptcy remote entity on or prior to closing. PEM is wholly owned by Pacific Ethanol Finance Co. LLC ("PEF"). PEF is wholly owned by

another of PEI's subsidiaries, Pacific Ethanol Holding Co. LLC (PEHCO"). See Exhibit III for complete ownership structure.

SPONSOR: PEI.

BORROWER: PEF (the "Borrower").

SENIOR LENDER: Hudson United Capital ("United" and/or "Senior Lender"), a division of Hudson United Bank, a New Jersey banking corporation ("HUB").

AGENT: United ("Agent").

ESCROW AGENT: Wealth Management Services, a division of HUB (the "Trustee" and/or "Escrow Agent").

INSURANCE
CONSULTANT: Bollinger Insurance ("BI") or another insurance consultant selected by United.

ARRANGED AMOUNTS: Based upon the Project Cost assumed herein, Sponsor has contributed assets as part of the initial construction worth approximately \$10,000,000 (the "Contributed Assets"). Sponsor will arrange cash equity (the "Contributed Capital") in an amount that, when combined with the Contributed Assets would be equal to no less than the difference between the

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Senior Construction Loan Amount the total Project Cost determined at Senior Term Loan Conversion as these terms are defined herein (the "Contributed Amount"). It is anticipated that the Contributed Amount will be approximately that amount contained in Exhibit I.

In the event that the Contributed Amount is insufficient to cover any shortfall between Project Cost and the Senior Loan Facilities as defined herein. (the "Shortfall Amount"), then Sponsor shall be required to provide additional proceeds to cover such Shortfall Amount.

CONTRACTOR: W.M. Lyles Co., a wholly owned subsidiary of LDI, has been selected as the design-builder of the Project (the "Contractor").

PROCESS ENGINEER: Delta-T Corporation will be the technology provider, design and process engineer for the Project ("DTC" and/or the "Design Engineer") pursuant to a Technology License and Transfer Agreement between DTC and PEI. DTC will also enter into a Design Services Agreement with Contractor.

EPC CONTRACT: Borrower and Contractor have entered into a fixed price, lump sum turnkey design, engineering, procurement, and construction contract which will be reasonably acceptable to United and Senior Lender's Engineer defined herein (the "EPC Contract"). The EPC Contract contains such performance tests, liquidated damages and completion and performance guarantees that are standard in the industry, which will be acceptable to United and its engineer. Contractor will guarantee the timely completion of the Project including, among other things,

- (i) substantial completion,
- (ii) performance testing,
- (iii) the successful achievement of performance guarantee criteria, and.
- (iv) final completion.

Pursuant to the terms and conditions of the EPC Contract, Contractor will construct and complete the Project for a lump sum fixed cost of \$48.75MM and modified by a change order to \$48.89MM (the "EPC Contract Cost"). Contractor will "wrap" both its and DTC's obligations/guarantees under the EPC Contract and Design Service Agreement through the successful achievement of performance guarantee criteria in a

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manner acceptable to United and its engineer. Delay and liquidated damages for Contractor's failure to meet the substantial completion and performance guarantee criteria shall be acceptable to United and its engineer.

PHASE II

CONSTRUCTION: A notice to proceed for Phase II of construction will be issued . upon (i) the completion of Phase I construction, (ii) the full release of any mechanic's liens that may exist for Phase I as certified by the independent engineer, and (iii) financial closing, ((i) and (ii) being the "Phase I Completion").

PERFORMANCE AND
COMPLETION BOND:

Contractor will be required to submit a Construction Performance and Completion Bond from a bonding company acceptable to Senior Lender (the "Completion Bond") prior to the Senior Construction Loan Closing Date.

CONSTRUCTION
MANAGER:

Sponsor will employ a "Construction Manager" in house acceptable to United. The Construction Manager will be experienced in the construction of ethanol facilities similar to that of the Project, and will oversee the performance of the Contractor.

OPERATOR:

PEC will perform operations and maintenance pursuant to an operations and maintenance agreement (the "O&M Agreement"). Process Engineer and Contractor will train PEC personnel as part of the scope of the EPC Contract. O&M Agreement and Owner's operations and maintenance plan (the "O&M Plan") and cost will be reasonably acceptable to United and Senior Lender's Engineer. Sponsor will provide oversight for operations and maintenance.

SENIOR LENDER'S
ENGINEER:

The Harris Group. Senior Lender's Engineer will prepare an "Engineer's Report" (after United has issued its Commitment to provide the Financing) addressing certain technical issues concerning the Project which will include, among other things, the following;

- a. existing environmental damage/liability (if any),
- b. the projected availability of the Project,
- c. a satisfactory review of the EPC Contract and EPC Contractor's and Process Engineer's ability to perform,

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- d. the adequacy of the O&M Plan and staffing to provide Project availability as assumed in the Closing Pro forma,
- e. a review of the cost and expenses for performing the operation and maintenance services for the Project pursuant to the O&M Plan and confirmation that there exist third party operators capable of performing such services at comparable cost,
- f. a review of the acceptance, completion and performance test criteria,
- g. Borrower's and Contractor's ability to perform under all the Material Project Documents as herein defined,
- h. Borrower's and Project's ability to comply with the requirements of all leases, easements, permits, etc.,
- i. an opinion that the construction, completion, operation and revenues (based upon the price assumptions contained in the Closing Pro Forma) of the Project are reasonably obtainable within the cost and timeframe anticipated,
- j. the ability of the Project as designed and constructed (a) to produce the quantities of ethanol and WDGS from (b) the quantities of corn, natural gas, water, electricity, and other feed stocks at the cost of production, as all are assumed in the Closing Pro forma,
- k. the capability of the Grain Facility and Grain Operator to service the requirements of the Project as intended,
- l. the capability of the deep water wells to provide sufficient quantities of make-up water,
- m. Phase I Completion has been achieved, and
- n. any other technical/environmental issues which may arise pursuant to the proposed. Financing.

The results of the Engineer's Report will be incorporated into a 10-year projection of the net operating revenue produced by the Project (the "Closing Pro forma"). The Closing Pro Forma will be used by United to establish the actual Senior Loan Amount and Loan Amortization. Sponsor may request that United engage Senior Lender's Engineer prior to United's delivery of its Formal Commitment, provided Sponsor will be responsible for paying all costs of Senior Lender's Engineer associated with work performed in connection with its review of the Project in the event that United is unable to deliver its formal commitment. Sponsor will have rights to the Senior Lender's Engineer's work product.

COMPLETION
CERTIFICATE:

Upon completion of the Project's construction, Senior Lender's Engineer shall provide a certificate (the "Completion Certificate") satisfactory to the Senior Lender that states that the Project (including Phase I) and Grain Facility

- (i) are complete,
- (ii) have passed all performance and acceptance tests,
- (iii) are available for commercial operation as intended,
- (iv) the Project is capable of achieving the operation revenue as projected in the Closing Pro forma, and
- (v) all permits required to operate the Project and the Grain Facility are in full force and effect.

CONSULTANTS'
REPORTS:

United shall require certain "Consultant Reports" from qualified "Consultants" satisfactory to United covering the following:

1. The historical and projected availability and price of the Project's corn, natural gas, and electrical requirements.
2. The historical and projected price for ethanol and WDGS.
3. A review of the agreements and/or arrangements for the purchase and supply of corn, natural gas and electricity utilized by the Project.
4. A review of the agreements and/or arrangements for the sale of ethanol, WDGS, and carbon dioxide.
5. A review and satisfactory opinion concerning the Margin Strategies and the ability of these Strategies to reasonably protect the Project's operating margin.

MATERIAL PROJECT
DOCUMENTS:

"Material Project Documents" include the following:

- A. "Pre-construction Material Project Documents" will include, among other things,
 1. the EPC Contract,
 2. the Technology License and Transfer Agreement between DTC and PEI,
 3. the Design Services Agreement between DTC and Contractor.
 4. The Completion Bond,
 5. the O&M Agreement and O&M Plan,
6. water, natural gas and electrical supply and interconnection arrangements (including PG&E obligations to serve the Project),
7. The Grain Agreements and all corn procurement, storage and processing agreements
8. the WMGA,
9. the EMA,
10. all related operating and environmental permits, easements, Site Lease(s) and other agreements materially related and necessary for the construction, completion, use of, and access to the Project Site and for the operation of the Project in the manner projected in the Closing Pro Forma (as hereinafter defined) and,
- B. "Operating Material Project Documents" will include, among other things,
 1. all Pre-Construction Material Project Documents,
 2. all transportation arrangements,
 3. all equipment manufacturers warranties and/or guarantees,
 4. all off take agreements and arrangements,
 5. Carbon dioxide sales agreements (if applicable), and
 6. any other agreements and/or arrangements as reasonably required.

MATERIAL ADVERSE
CHANGE:

Any material adverse effect upon (i) the business, operations, properties, assets or condition (financial or otherwise) of Sponsor and Borrower, (ii) the business, operations, properties, assets or condition (financial or otherwise) of the Contractor, (iii) the business, operations, properties, assets or condition (financial or otherwise) of the Grain Operator as they relate to the Project, (iv) the ability of the Borrower to perform its material obligations under the Senior Loan Facility Documents (as hereinafter defined) and the Material Project Documents, (v) the ability of the Senior Lender to enforce its material security rights under the Senior Loan Documents and, (vi) the ability of the Project to produce the quality and quantity of ethanol, WDGS as originally intended(collectively, "Material Adverse Change").

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OPERATING COSTS: The qualified operating and maintenance expenses of the Project as approved by Senior Lender and Senior Lender's Engineer (the "Operating Costs").

OPERATING CASH: All revenues produced by the Project less Operating Costs (the "Operating Cash").

INVENTORIES: All feedstock delivered to the Project including (1) corn, enzymes, Project consumables, denaturant plus all prepaid items (together the "Feedstock Inventory") (2) all products produced by the Project which reside in inventory at the plant including ethanol, wet and dry distillers grains and any other product which may be produced by the plant from time to time ("Product Inventory") (3) all accounts receivable owed to the Borrower ("Accounts Receivable"), (1, 2, and 3 above collectively the "Inventories").

IV. THE SENIOR CONSTRUCTION LOAN:

BORROWER: PEF.

SENIOR
CONSTRUCTION
LENDER:

United (the "Senior Construction Lender").

CONSTRUCTION
LOAN AMOUNT:

Not to exceed \$44,000,000, which amount can be supported by the Closing Pro forma, or such lesser amount as determined by the provisions of Senior Term Loan Amount defined herein (the "Senior Construction Loan Amount"). United proposes to underwrite up to [\$30,000,000] of the Senior Construction Loan Amount and arrange the balance of the financing on a best efforts basis.

CONSTRUCTION
START DATE:

PEM started initial construction in May, 2005. A final notice to proceed ("NTP") is to be issued to Contractor upon closing of the construction and term financing, which is expected on or before January 31, 2006. Substantial Completion of the Project is scheduled to occur within 425 days from the NTP.

FINAL COMPLETION
DATE:

The date that the Project:

1. has successfully been constructed and completed,

2. has passed all performance and acceptance tests reasonably acceptable to United and Senior Lender's Engineer, and

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3. the Senior Lender's Engineer has provided an acceptable Completion Certificate.

Such date is to occur within 545 days from the NTP (the "Final Completion Date").

DATE CERTAIN: The Final Completion Date.

SENIOR
CONSTRUCTION LOAN

CLOSING DATE: The date when all of the Conditions Precedent to the Senior Construction Loan Closing are satisfied, such date expected to be on or before January 31, 2006 (the "Senior Construction Loan Closing Date").

SENIOR CONSTRUCTION
LOAN MATURITY

DATE: The Senior Construction Loan shall mature on or before the Date Certain.

SENIOR CONSTRUCTION

LOAN PRICING: The Senior Construction Loan interest rate will float for the Senior Construction Loan term at a rate equal to the 30 day LIBOR rate plus 400 basis points. The Construction Borrower will be required to pay Senior Construction Loan interest monthly during the Senior Construction Loan term.

LETTERS OF
CREDIT:

Providers of the Contributed Amount will be required to provide Senior Lender with

- (i) acceptable commitments for providing the Contributed Capital in the Contributed Amount and,
- (ii) if all required amounts of Contributed Capital are not funded prior to Senior Construction Loan Amounts, irrevocable Letters. of Credit (or such other security reasonably acceptable to Senior Lender) with Senior Lender as sole beneficiary in an amount equal to the Subordinated Amounts from a U.S. Bank with offices in New York, New Jersey or Connecticut with a S&P rating of "A" or better (the "LOCs").

LOC DRAWS: The LOC can be drawn in full on the earliest to occur of:

1. The Conversion Date (as herein defined);
2. A Default having occurred and the cure period expired with respect to the Senior Construction Loan Agreement, and;

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3. The Date Certain.

DRAW ACCOUNT
FUNDING:

PEI and providers of the Subordinated Amounts will provide reasonably acceptable commitments for providing the Subordinated Amounts at closing of the Senior Construction Loan contemplated herein. Subsequently, 100% of the Contributed Capital will be fully funded into a Construction Draw Account (the "CDA"). Senior Lender shall have no obligation to provide any portion of the Senior Construction Loan until the Contributed Capital has been provided in full and deposited into the CDA and fully drawn as certified by Senior Lender's Engineer.

The face value of the LOCs will be reduced by the amounts funded into the CDA on each Draw Date. Failure to place such funds in the CDA will allow the Senior Lender to draw such amounts from the LOCs.

CONSTRUCTION

PROGRESS REPORT: Borrower will submit a Project construction and Draw Schedule that is reasonably acceptable to Senior Lender and Senior Lender's Engineer (the "Approved Project Construction and Draw Schedule and/or "Draw Schedule"). Senior Lender's Engineer will be required to submit a "Construction Progress Report" 90 days, 180 days and 270 days subsequent to the Senior Construction Loan Closing Date, certifying that the Project is currently on or ahead of Draw Schedule and that there is no event(s) or anticipated event(s) that would cause the Project not to be completed on the Final Completion Date as defined in the Draw Schedule prior to any subsequent draws by Construction Borrower and future fundings by Senior Construction Lender from and to the CDA. Borrower must also submit a monthly construction progress report to Senior Lender. If Senior Lender's Engineer reports that the Project is behind schedule by at least 30 days then Construction Borrower will have 60 days to bring the Project's construction schedule back in line with the Draw Schedule. Construction Borrower's failure to do so will constitute default under the Senior Construction Loan.

In addition, failure to achieve the Final Completion prior to the Date Certain will constitute default under the Senior Construction Loan.

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PERMITTED USE OF
SENIOR CONSTRUCTION

LOAN PROCEEDS: The Senior Construction Loan will be used to finance a portion of Qualified Project Construction Expenses as approved by the Borrower and Senior Lender's Engineer ("QPCEs") not covered by the Subordinated Amounts.

On the Senior Construction Loan Closing Date, the Subordinated Amounts will be funded (the "Initial Funding") into the CDA pursuant to a yet to be determined Approved Project Construction and Draw Schedule (the "Draw Schedule") acceptable to United and Senior Lender's Engineer.

Beginning on the Senior Construction Loan Closing Date, and including all future draws which will be scheduled according to the Draw Schedule, Borrower will be allowed to withdraw monthly, up to 100% of the QPCEs (the "Draws"), including amounts necessary to pay Subordinated Construction Loan interest but only up to the amount held in the CDA, provided that (1) no event of default has occurred and is continuing

and (2) the withdrawal doesn't exceed the amount referenced in the Draw Schedule.

Subsequent to the Initial Funding, Senior Lender's Engineer must certify at the end of each 90 day period that the Project is on schedule and that all previous Draws were made in accordance with the Draw Schedule prior to the Senior Lender funding additional amounts into the CDA.

Once the Subordinated Amounts have been fully drawn as described herein, then Senior Construction Lender will fund the CDA with Senior Construction Loan proceeds proportional for that Draw request. On each Draw subsequent to Senior Lender's funding of amounts into the CDA, the Senior Lender will withdraw from the CDA the accrued Senior Construction Loan Interest ("CLI"). The CLI is defined as the interest accrued on the Senior Construction Loan Amount funded into the CDA minus interest earned on the portion of the Senior Construction Loan Amount held in the CDA that has not been disbursed.

As a condition precedent to Senior Construction Lender providing any funds contemplated herein, the Subordinated Amounts shall have been provided. Failure to provide any portion of the Subordinated Amounts as required shall

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constitute Default under the terms and conditions of the Senior Construction Loan agreement contemplated herein.

COMPLETION BOND: Contractor will be required to submit the Completion Bond from a bonding company acceptable to Senior Lender prior to the Senior Construction Loan Closing Date.

SENIOR CONSTRUCTION
LOAN COLLATERAL

SECURITY: The Senior Construction Loan would be secured by the following:

1. A perfected first priority security lien on all of the assets of PEF and PEM, including Inventories and all right title and interest in all tangible and intangible assets of the Project.
2. A perfected first priority security lien on the Grain Facility, including all of PEM's (and other PEI's related affiliates') right title and interest in all tangible and intangible assets of the Grain Facility.
3. A pledge of 100% of PEHCO's ownership interest in PEF;
4. A pledge of 100% of PEF's ownership interest in PEM (the "Owners' Pledge");
5. A pledge of the PEM's ownership interests in the Project (the "Borrowers Pledge");
6. An assignment of all revenues produced by the Project and Borrower;
7. The pledge and assignment of the Material Project Documents to the extent assignable;
8. The Completion Bond;
9. All contractual cash flows associated with these agreements, and;
10. Any other collateral security as Senior Lender shall reasonably request.

CONSTRUCTION

LOAN REPAYMENT: Borrower shall repay the Senior Construction Loan through the

proceeds of the Senior Term Loan Conversion as defined herein. In the event that Senior Term Loan Conversion does not occur and the Borrower elects to repay the Construction Loan, then the Borrower shall be subject to a Termination Fee equal to 5% of the Senior Construction Loan Amount.

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IV. CONDITIONS PRECEDENT TO SENIOR CONSTRUCTION LOAN CLOSING

The Conditions Precedent to Senior Construction Loan Closing which must be satisfied prior to closing the Financing, among other things, will include:

- a. Final credit approval and issuance of a formal commitment by Senior Lender;
- b. No material adverse change in the condition or operation, financial or otherwise, of the Borrower/Sponsor or the Project since the date of acceptance of this Proposal;
- c. Demonstration to United's satisfaction that (i) Borrower's and Project's operations comply, in all respects deemed material by United, with all applicable environmental, health and safety statutes and regulations, (ii) the operations of Borrower and Project are not subject to any federal or state investigation evaluating whether remedial action, involving any expenditure deemed material by United, is needed to respond to any release of any toxic or hazardous waste, and (iii) Borrower or Project have no contingent liabilities deemed material by United in connection with the release of any toxic or hazardous waste. United will require a "Phase 1 Environmental Audit" or other acceptable environmental due diligence associated with the Project site, by an environmental auditor satisfactory to United, which will provide evidence that the Borrower is in compliance with the provisions of (ii) and (iii) above;
- d. The Senior Lenders' Engineer shall have reviewed and favorably reported on the relevant technical aspects of the Project, including, without limitation, historical and projected Project availability and useful life for similar Projects, projected operation and maintenance costs, maintenance plan and schedule, terms of Project documents, permits, expected availability, net capacity degradation (if any), the Project's ability to produce quantities of ethanol and WDGS as intended in the Closing Pro forma, and the Project ability to comply with permit conditions;

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- e. Delivery of a Closing Pro forma on the Project

operating cash flow for a period extending out 12 years from the Loan Closing Date or 133% of the Senior Loan Term as determined by the Closing Pro forma (which shall incorporate the results from the Engineer's Report) demonstrating annual net operating cash flow which is available for Senior Debt Service. The assumptions contained in the Closing Pro forma must be approved by Senior Lender and Senior Lender's Engineer and will incorporate the terms and conditions imposed by the Project documents;

- f. United shall be satisfied with the form and substance of the insurance available to United which is intended to protect United's collateral and interests in this Financing;
- g. Senior Lender shall have implemented legal mechanisms including structuring the Project Borrower with bankruptcy remote provisions, acceptable to United, which will include, among other provisions, the appointment of an "Independent Member" and the requirement that the Independent Member's vote is needed for certain actions by the Borrower including but not limited to the filing of voluntary bankruptcy, selling some or all of the Project assets and other similar actions;
- h. Delivery of the executed EPC Contract between Contractor and Borrower in form and substance acceptable to Senior Lender;
- i. Delivery of the Completion Bond;
- j. Delivery of the executed Management Agreement between Borrower and Operator in form and substance satisfactorily acceptable to Senior Lender;
- k. The LDI Loan has been repaid;
- l. Borrower has executed all Material Project Documents in connection with the Financing;

- m. All Material Project Documents are in full force and effect and that no event of default has occurred and is continuing and that the Borrower has all required documents and permits to allow the Project to operate in a manner which will neither violate said permits nor violate manufactures normal operating parameters and be able to achieve the net operating revenue as projected in the Closing Pro forma;
- n. The Project has all permits and other regulatory approvals necessary for the plant to begin construction and to operate at projected levels upon construction completion. Borrower must demonstrate, and Senior Lender's Engineer must opine, that any permits which are not possible to obtain prior to completion of construction can be obtained as a matter of administrative application;
- o. Senior Lender has received an opinion of legal counsel in form and substance acceptable to Senior

Lender that, among other things, states that all Material Project Documents are in full force and effect and that the Senior Lender has a valid first security interest in all of the Project assets;

- p. Senior Lender has received Contractor's Completion Bond in form and substance acceptable to Senior Lender;
- q. The Draw Account shall have been funded to the Contributed Amount;
- r. If applicable, Senior Lender shall have received the LOC(s) in form and substance acceptable to Senior Lender;
- s. Senior Lender shall have received the Consultant's Reports, and Consultants shall have opined favorably on the Project's corn and feedstock arrangements, arrangements for the sale of ethanol, WDGS and carbon dioxide, and the purchase and supply of natural gas, electricity, and other materials in a manner satisfactory to United;
- t. The LIBOR Protection (as defined herein) is in place;

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- u. Phase I Completion has occurred, and;
- v. Any such other conditions as Senior Lender and its legal counsel shall reasonably request after completing their due diligence review of the Project and related Documents.

V. THE SENIOR TERM LOAN

BORROWER: PEF.

LENDER: United.

SENIOR TERM
LOAN AMOUNT:

The Senior Term Loan Amount will be the lesser of (a) \$44,000,000, (b) 60.0% of Project Cost at Senior Term Loan Conversion as herein defined, and (c) an amount equal the present value of up to 50.00% (based upon a 2.00X senior debt service coverage ratio) of the Operating Cash distributable to and received by the Borrower supported by the Closing Pro Forma (which will include the results from the Senior Lender's Engineer's Report and due diligence review by Senior Lender), from the Conversion Date as defined below through the seventh (7th) anniversary of the Conversion Date discounted at 8.5% (the "Senior Term Loan Amount").

For the purposes of this proposal, the Senior Loan Amount is assumed to be \$44,000,000 based upon current pro forma assumptions. United proposes to underwrite up to [\$30,000,000] of the Senior Term Loan Amount and arrange the balance of the financing on a best efforts basis.

SENIOR TERM
LOAN CONVERSION
DATE:

Funding of the Senior Term Loan (the "Conversion") will occur on the Conversion Date. The Conversion Date will occur on the date when all the Conditions Precedent to Senior Term Loan Conversion have been achieved, and which date is expected to

be on or before the Final Completion Date, but in no event later than the Date Certain (the "Conversion Date" or "Senior Term Loan Funding Date").

SHORTFALL LETTER
OF CREDIT:

In the event that it is determined by the Closing Pro forma that a Shortfall Amount is anticipated upon Senior Term Loan Funding Date, then the Sponsor will either provide such

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Shortfall Amount in addition to the Subordinated Amounts, or be required to provide United with an irrevocable letter of credit (or such other security reasonably acceptable to United) with United as sole beneficiary in an amount equal to the projected Shortfall Amount (the "SLOC"). Such SLOC will be issued from a U.S. Bank with offices in New York, New Jersey or Connecticut with a S&P rating of "A" or better, and/or such other security/assurances ("Investors' Assurances") as reasonably acceptable to United.

SLOC DRAWS: The SLOC can be drawn in full on the earliest occurrence of

1. The Conversion Date,
2. A Default having occurred and the cure period expired with respect to the Senior Construction Loan Agreement, and
3. The Date Certain.

CONTRIBUTIONS AT
CONVERSION: On the Conversion Date, and prior to funding of the Senior Loan Amount, Sponsors and other third party investors (if any) shall have provided the Contributed Amount and if applicable, the Shortfall Amount.

LOAN MATURITY
DATE: The Senior Loan shall mature on the seventh (7th) anniversary of the Conversion Date.

TERM LOAN
CLOSING DATE: The Term Loan Closing Date will occur on the Conversion Date, which date is expected to be the Final Completion Date.

SENIOR TERM
LOAN PRICING: The Interest Rate on the Senior Term Loan will float during the Loan Term at a rate equal to the 90-day LIBOR rate ("LIBOR Rate" or the "Loan Index") in effect from time to time plus 375 basis points (the "Applicable Margin").

INTEREST RATE
PROTECTION: Borrower would be required to purchase interest rate protection in the form of a LIBOR Rate cap of no more than 5.00% (the "LIBOR Cap Rate") from a provider on terms and conditions reasonably acceptable to United, and in an amount of no less than 70% of the principal outstanding on any loan payment date commencing on the Senior Construction Loan Closing Date through the fifth anniversary of the Term Loan Conversion Date (the "LIBOR Protection").

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LOAN PAYMENTS: Loan Payments would be due in quarterly in arrears for a total of twenty-eight (28) payments beginning on the Term Loan Closing Date and ending on the Term Loan Maturity Date (the "Loan Payments").

LOAN AMORTIZATION: The Loan Amortization for the Project will be established on the Conversion Date based upon the Operating Cash (as defined herein) projected to be available to the Borrower from the Project as determined by the Closing Pro forma ("Senior Debt Service"). On the Senior Term Loan Maturity Date the Borrower will be required to repay all principal plus accrued interest outstanding on the Senior Term Loan (see Exhibit 11). Scheduled Senior Term Loan payments of principal and interest (the "Senior Debt Service") will be paid out of Operating Cash.

SENIOR OBLIGATION: The Senior Construction and Term Loans will be the only permitted debt of the Project. The Loans will be senior to all obligations of the Project (other than direct Project operating expenses and expenses incurred as in the ordinary course of business) and Borrower. All direct and out-of-pocket expenses of PEI and/or Owner related to work performed as Managing Member/Owner of the Project will be reimbursed to PEI and/or Owner only after the payment of the Senior Debt Obligations.

SENIOR TERM LOAN COLLATERAL SECURITY: The Senior Term Loan would be secured by the following:

1. A perfected first security interest lien against all of the assets of PEF and PEM, including all of PEF's and PEM's right title and interest in Inventories and all tangible and intangible assets of the Project including all installed equipment, control, and monitoring systems.
2. A perfected first security lien on the Grain Facility, including all of PEM's (and any other PEI's related affiliates') right title and interest in all tangible and intangible assets of the Grain Facility.
3. A pledge of 100% of PEHCO's ownership interest in PEF (the "Owners' Pledge")
4. A pledge of 100% of PEF's ownership interests in PEM;
5. A pledge of the PEM's ownership interests in the Project;
6. The assignment of all revenues produced by the Project;

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7. The assignment of the Material Project Documents, and all contractual cash flows associated with these agreements, and;
8. Any other collateral security as Senior Lender shall reasonably request.

DEBT SERVICE RESERVE: On the Senior Term Loan Funding Date, Borrower shall fund a Debt Service Reserve Account ("DSRA") in an amount equal to the scheduled Senior Debt Service which would be due over the subsequent 6 months (the "First Required Balance"). On the

first anniversary of the Senior Term Loan Funding Date, Borrower shall increase the funds in the DSRA to a total amount equal to the scheduled Senior Debt Service which would be due over the subsequent 12 months (the "Second Required Balance" and collectively, the "Required Balances").

Once funded, the Borrower shall maintain funds in the DSRA in an amount equal to the Required Balances as follows.

Subsequent to the Loan Closing Date, should there exist at any time a shortfall between the amount contained in the DSRA and the Required Balances, then the amount of the shortfall (the "DSRA Shortfall Amount") would be funded from 100% of Operating Cash after the payment of scheduled Senior Debt Service. Borrower shall be restricted from making any distributions or any payment until the DSRA is fully funded to the Required Balances. Calculations of the DSRA Shortfall Amount would be made quarterly based upon the subsequent 12 months worth of scheduled Senior Debt Service. The Borrower would only be required to fund the DSRA Shortfall Amounts beginning the first month after each quarterly calculation of the DSRA Shortfall Amount (the "Calculation Date").

The Borrower may invest the funds in the DSRA only in Permitted Investments as defined herein.

At such time when the Required Balances in the DSRA equals or exceeds the outstanding Loan balance plus accrued interest, the Senior Lender shall first apply such funds to retire the remaining outstanding debt and refund any excess funds in the DSRA to the Borrower; provided however, no penalty shall apply to such retirement.

MINIMUM COVERAGE

RATIO:

The Minimum Coverage Ratio (the "MCR") would be no less than 1.25 to 1. The definition of the Debt Service Coverage Ratio ("DSCR") for the Loan shall be as follows:

The preceding 12 months of Operating Cash securing the Loan (only measured after the project has operated for at least 12 months) divided by Debt Service for the next 12 months.

In the event the DSCR should fall below the MCR, all excess funds in the Project Revenue Account (as herein defined) after Senior Debt Service and the payment of operating expenses shall be deposited in the DSRA until such time as the DSRA has reached the Required Balances plus any Additional Required Balance (the "ARB").

The ARB on any payment date that the MCR is less than 1.50 to 1 shall be calculated as follows:

- (1) An Adjusted Pro. Forma Forecast, reasonably acceptable to Senior Lender, would be created utilizing the methodology employed in the Closing Pro Forma, which reflects the event or events that gave rise to the lower than anticipated net operating cash flow; and
- (2) An Adjusted Loan Amortization would be calculated

utilizing the cash flows forecasted in the Adjusted Pro forma Forecast over the remaining life of the outstanding Senior Term Loan assuming the original amortization period (the "Adjusted Loan").

The Adjusted Loan would then be discounted at the Interest Rate in effect at the time and added together with the outstanding loan balance to produce the "Adjusted Loan Balance." The ARB shall be the excess of the outstanding Senior Term Loan balance over the Adjusted Loan Balance. At Borrower's option, all amounts constituting the ARB may be used to prepay the Senior Term Loan without penalty.

All excess funds in the DSRA over the Required Balance plus the ARB would be released immediately to the Borrower. The ARB would be released immediately once both the current and two-year forecasted MCRs are equal to or greater than 1.50 to

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1, provided no material event of default has occurred and is continuing under the Senior Term Loan.

MANDATORY
PREPAYMENTS:

Borrower will be required to prepay the entire principal amount of the Senior Loan in the event that the Projects are totally destroyed or sold. In addition if any Material Project Document is amended or terminated without Senior Lender's consent, or if any material Project asset is sold resulting in a cash payment to the Borrower, then all proceeds from such payment will be applied to the repayment of the loan as described above.

After the Loan Closing Date, Borrower will make the following "Mandatory Prepayments":

A. Supplemental Amortization Payments

In the event that the DSCR for any fiscal year falls below the MCR as scheduled for such fiscal year, then in addition to the scheduled Loan Amortization, the Borrower would make a mandatory Supplemental Amortization Payment (the "SAP") on the Senior Loans without penalty. Such SAP would be equal to 100% of "SAP Free Cash Flow". SAP Free Cash Flow is defined as Distributable Cash less (i) all Debt Service, including all commitment fees, interest rate protection fees and any other fees payable to lenders and (ii) DSRA contributions, if any. The SAP would be applied proportionately against the scheduled Loan Amortization of the Project in inverse order of maturity.

B. Supplemental Principal Payments

In addition, Borrower shall be required to make a supplemental principal payment (the "SPP") on each Loan Payment date. Each SPP will be equal to 40% (the "Sweep Percentage") of Operating Cash less

- (i) Senior Debt Service plus
- (ii) any required deposits to the DSRA as defined herein.

The Sweep Percentage will be determined on the Conversion Date based upon the Closing Pro Forma which will incorporate the results of the performance test. The Sweep Percentage will not exceed 40%.

Such SPPs will be applied to the principal balance of the Senior Term Loan in inverse order of maturity in order to reduce the Loan Maturity Date to no more than five (5) years from the Conversion Date.

In the event that the Volumetric Ethanol Excise Tax Credit ("VEETC") is either repealed or is not extended beyond 2010 by January 1, 2008, then the Sweep Percentage will immediately increase to 75%.

Borrower will not be required to pay a prepayment penalty for Mandatory Prepayments except if Borrower, without Senior Lender's consent, (i) amends or terminates a Material Project Document and/or (ii) sells a material Project asset.

VI. CONDITIONS PRECEDENT TO SENIOR TERM LOAN CLOSING

Conditions Precedent to Senior Term Loan Closing which must be satisfied prior to the Conversion Date will include, among other things, the following:

- (a) All of the Conditions Precedent to Senior Construction Loan Closing remain satisfied;
- (b) No material adverse change in the condition or operation, financial or otherwise, of the Borrower or the Project;
- (c) There exists no default or event that upon notice or the passage of time would result in default under the Senior Construction Loan Agreement;
- (d) There exists no default or event that upon notice or the passage of time would result in default under the Senior Term Loan agreement;
- (e) The Amounts and Shortfall Amount (if applicable) have been provided;
- (f) All Material Project Documents are in place and in effect;
- (g) The LIBOR Protection is in place;
- (h) Delivery of the Engineer's Completion Certificate satisfactory to the Senior Lender that states that the Project and Grain Facility):
 - (i) are complete,
 - (ii) have passed all acceptance tests,
 - (iii) are available for commercial operation,

- (iv) the Project is capable of achieving the operational production levels at the Operating Cost as projected in the Closing Pro forma, and
- (v) all permits required to operate the Project and Grain Facility are in full force and effect.
- (i) Any such other conditions as Senior Lender and its legal counsel shall reasonably request after completing their due diligence review of the Project and related Documents.

VII. OTHER TERMS AND CONDITIONS

OPTIONAL PREPAYMENT AND
PREPAYMENT PENALTY:

No prepayment shall be allowed under the Senior Loan Facilities. However, after the Conversion Date, the Borrower shall have the right to prepay only the Senior Term Loan Amount in whole with the payment of a "Prepayment Penalty" as follows:

Date of Optional Prepayment Conversion Date Anniversary	Penalty as a % of from amount prepaid
Between the First and Second	3%
Between Second and Third	2%
Between Third and Fourth	1%
Thereafter	0%

OTHER INDEBTEDNESS:

The Borrower would covenant to the Senior Lender not to incur any other indebtedness than is described herein, vote and/or consent to the Project incurring any indebtedness without the prior written consent of the Senior Lender, not to be unreasonably withheld.

LOCK-BOX AGREEMENT:

All revenue from the Project will be placed in a Senior Lender controlled interest bearing Lock-Box (the "Project Revenue Account" or "PRA"). Senior Lender would designate Escrow Agent as a trustee for the PRA (the "Trustee"). The Borrower shall assign all cash available to the Borrower from the Project to the PRA. Withdrawals can be made from the PRA only for the following:

1. Qualified operating and maintenance expenses,
2. Principal and Interest for the Senior Debt Service,
3. Fees and qualified expenses of Senior Lender (if any),
4. Amounts necessary to fund reserves to required levels,
5. Mandatory Prepayments,

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6. Payment of any qualified budgeted expense of the Borrower,
7. Distributions to Borrower/Sponsor.

Borrower may withdraw excess funds from the PRA after the payments above have been satisfied. All interest earnings on funds held in the PRA will be applied to the payment of Project obligations. The withdraw of excess funds from the PRA and the application of interest earnings on funds held in the PRA will be in accordance with the Priority of Payments as outlined below.

PRIORITY OF PAYMENTS:

The Trustee, as "Paying Agent" under the Lock Box arrangement, will be required to utilize all Operating Cash towards the payment of all Borrower obligations in the following order of priority:

Monthly

1. Approved and qualified O&M expenses respecting the Project, property taxes, assessments and other expenses approved by the Senior Lender.

Quarterly

1. All interest, fees, and expenses due the Senior Lender.
2. All scheduled principal payments due under the Senior Term Loan.
3. Any amount necessary to fund the DSRA to its Required Balances or Adjusted Required Balance.
4. Mandatory Prepayments due under the Senior Term Loan.
5. Supplemental Amortization Payments (SAPs) due under the Senior Term Loan.
6. Supplemental Principal Payments due under the Senior Term Loan.
7. Distributions to Borrower/Sponsor.

PERMITTED INVESTMENTS:

The Borrower may invest funds held in the PRA in the following Permitted Investments:

- (i) Direct obligations of the United States of America, or any agency thereof, or obligations guaranteed as to principal and interest by the United States or any agency thereof,
- (ii) Certificates of deposit or Bankers acceptances issued, or time deposits held, or investment contracts guaranteed, by the Agent or any bank or any other commercial bank or trust company organized under the laws of a country which is a member of the OECD, or a political subdivision of any such country, and in each case having outstanding unsecured indebtedness that is rated A or better by Standard & Poor's Corporation and A or better by Moody's Investors Service, Inc.,
- (iii) Commercial paper rated (on the date of acquisition thereof) A-1 and P-1 or better by Standard & Poor's Corporation and Moody's Investors Service Inc., respectively.

With respect to the PRA Agreement, Permitted Investments shall mature no later than 90 days from its acquisition.

INSURANCE:

During the term of the Financing, the Borrower will be required to maintain, or cause to be maintained, insurance for the Project for coverages and in amounts similar to that insurance maintained by other owners of similar projects, and satisfactory to the Insurance Consultant. At a minimum, the insurance coverage shall include:

1. Project liability insurance for all risks in

2. an amount totaling not less than \$5,000,000. Property insurance to cover all risks in an amount not less than the full replacement cost of the Project with customarily related business interruption protection.

The Senior Lender shall be named as Loss Payee for the Property and shall be named as Additional Insured for the Liability Insurance.

FEES:

The Borrower and Sponsor will be jointly and severally responsible for the payment of the following Fees:

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1. "SENIOR CONSTRUCTION LOAN, FEE" equal to 1.0% of the Senior Construction Loan Amount payable upon the Senior Construction Loan Closing Date.
2. "SENIOR TERM LOAN CONVERSION FEE" equal to 1.0% of the Senior Term Loan Amount payable upon the Conversion Date.
3. An "AGENCY FEE" equal to \$33,000 per annum payable to United commencing on the first anniversary of the Senior Construction Loan Closing Date.
4. A "WORK FEE" payable to United in an amount of \$30,000. The Work Fee has been paid as of April 20, 2005 to compensate United for its efforts pertaining to its previous due diligence and the preparation of its proposal' at that time, and will be retained by United regardless of whether financial closing occurs. The Work Fee will be credited towards the payment of the Senior Construction Loan Fee on the Senior Construction Loan Closing Date.
5. An "ESCROW AGENT'S SET-UP FEE" equal to \$5,000 payable to Escrow Agent upon Senior Construction Loan Closing.
6. An "ANNUAL ESCROW AGENT'S FEE" of \$4,500 per annum payable on each anniversary of the Senior Construction Loan Closing Date.
7. An "INDEPENDENT MEMBER'S FEE" of \$3,000 per annum.
8. An "INSURANCE CONSULTANT'S FEE" of \$5,000.

BREAK-UP FEE:

Should Sponsor and/or Borrower accept United's Formal Commitment to provide the Financing contemplated herein, and the Sponsor and/or Borrower decide not to close the transaction with United, then Sponsor and/or Borrower will pay to United a "Break-up Fee" equal to \$150,000 plus Transaction Costs. The Borrower and Sponsor will be jointly and severally responsible for the payment of the Break-up Fee. The Breakup Fee will not be payable if the Financing fails to close after Senior Lenders and Sponsors have negotiated in good faith and used their best efforts to close the transaction pursuant to the terms of the Formal Commitment.

TRANSACTION COSTS:

Transaction Costs will be for the account of the Borrower/Sponsor and will include, without limitation, Fees, legal fees, Senior Lenders' Engineer and consultant fees, and

the reasonable out-of-pocket expenses of Senior Lender. Once a formal commitment is issued by United and accepted by Borrower, Transaction Costs will be paid by the Borrower/Sponsor regardless of whether financial closing occurs, except for a breach by Senior Lender. The Sponsor and the Borrower shall be jointly and severally liable for the payment of any Transaction Costs. Senior Lender will use its best efforts to solicit and obtain fixed price quotes for engineering, consulting and legal services.

DOCUMENTATION:

The Financing will be subject to acceptable documentation, including those related to representations, warranties, covenants (including covenants for Borrower not to incur additional indebtedness or vote for incurring additional indebtedness for the Project without the consent of the Senior Lender), default provisions, etc., which shall be in form and substance satisfactory to Senior Lender, Borrower, Sponsor and their legal counsels.

ANNUAL BUDGETS:

The Borrower will be required to submit a copy of the annual Operating Budget for the Project to the Senior Lender prior to November 30 (or thirty days prior to such other date mutually agreeable based upon the Project's fiscal year end if other than December 31), for each subsequent calendar year operating period which contains a forecast of the operating profit for the next 3 years. The Borrower will be required to provide quarterly un-audited balance sheets and income statements on the Borrower within 45 days of the close of the quarterly period. The Senior Lender shall review the Operating Budget and un-audited quarterly balance sheets and income statements in a timely manner.

In addition the Borrower will be required to provide Senior Lender with audited annual financial statements for the Borrower within 120 days of the close of each fiscal year which annual statements shall contain management representations in form and substance reasonably satisfactory to Senior Lender.

CONSENTS:

The Senior Lender will require the right to consent to certain actions by Borrower, which are usual and customary in borrowings of this type. The actions requiring consents shall be, among other things, any action that could adversely and materially affect the timing and/or receipt of the Operating Cash.

Borrower must make any and all requests for consents by Senior Lender in writing and all replies by Senior Lender will also be in writing and in a timely manner.

SYNDICATION:

United shall have the right to syndicate these Loan Facilities to other parties, provided that any party

is a bank or institutional investor with knowledge and experience in project finance and who does not have an existing relationship to the Project including any equity investor and that party is reasonably acceptable to the Borrower. Majority Lender's consent is sufficient for required consents.

TERM SHEET EXPIRATION: Unless previously accepted by the Sponsor/Borrower, the offer to provide the Financing outlined in this Proposal will expire December 1, 2005.

EXCLUSIVITY EXPIRATION: Sponsor and Borrower agree to work exclusively with United so long as United provides its Formal Commitment no later than December 20, 2005, or such other later date as Sponsor, Borrower and United mutually agree.

EXHIBIT I
Estimated Sources and Uses of Funds

I. SOURCES OF FUNDS	
Senior Loan Facility	\$ 44,000,000 (59.86%)
Cash Equity	19,126,799 (26.02%)
Non-cash Equity (Contributed Assets)	10,370,460 (14.12%)

Total Sources	\$ 73,497,259 (100.00%)
	=====
II. USES OF FUNDS	
	A. CONSTRUCTION COSTS
Ethanol Plant Construction	\$ 45,589,540
Site, Rail, Silos, Engineer (non cash)	10,370,260
Capitalized Fees	
Lender's Fees	880,000
Interest Rate Cap	535,000
Agent, Consultant, etc	17,500
Capitalized Interest	1,581,534

Sub Total Construction	\$58,973,834
B. INVENTORY	
Corn	\$ 1,455,131
Ethanol and DWG	384,883
Spare Parts	350,000
Chemicals, Yeast, Denaturant	136,000

Sub Total Inventory	\$ 2,326,013
C. OTHER COSTS	
Other Working Capital	\$ 1,683,582
Debt Service Reserve Account	3,280,000
Operating Expenses	569,875
Interest Income	(106,079)
LDI Repayment	3,600,000
Cash	1,000,000
Contingency	2,170,034

Sub Total Other Costs	\$12,732,412

TOTAL PROJECT COSTS	\$73,497,259

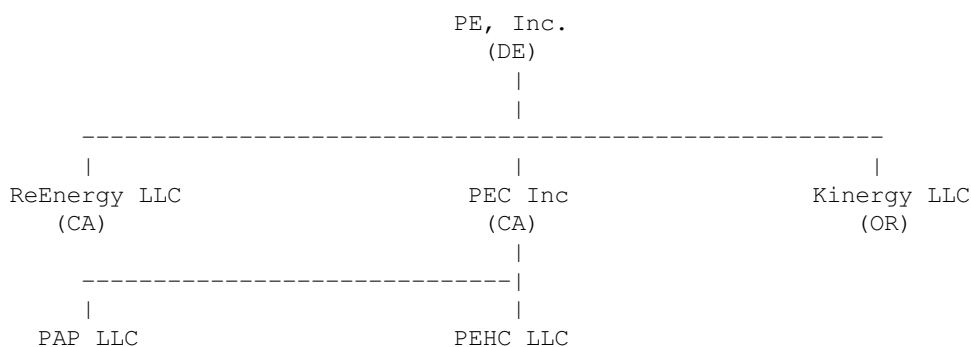
EXHIBIT II
Amortization Schedule

(This Amortization Schedule assumes a \$44,000,000 loan amount which is subject to change. Loan Amortization will be established on the Conversion Date based upon the Operating Cash projected to be available to the Borrower from the Project as determined by the Closing Pro forma.)

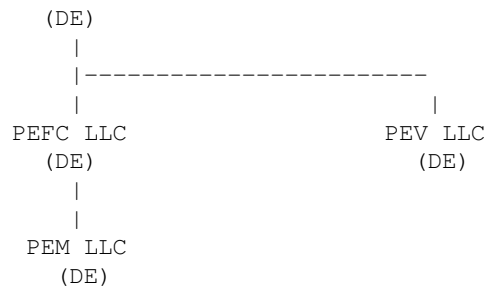
Payment #	Beginning Balance	Principal Payment	Ending Balance
1	\$44,000,000	\$644,018	\$43,355,982
2	\$43,355,982	\$657,704	\$42,698,278
3	\$42,698,278	\$671,680	\$42,026,598
4	\$42,026,598	\$685,953	\$41,340,645
5	\$41,340,645	\$853,740	\$40,486,904
6	\$40,486,904	\$1,027,958	\$39,458,946
7	\$39,458,946	\$1,049,802	\$38,409,145
8	\$38,409,145	\$1,072,110	\$37,337,034
9	\$37,337,034	\$1,094,892	\$36,242,142
10	\$36,242,142	\$1,301,791	\$34,940,351
11	\$34,940,351	\$1,329,454	\$33,610,898
12	\$33,610,898	\$1,357,704	\$32,253,193
13	\$32,253,193	\$1,386,556	\$30,866,638
14	\$30,866,638	\$1,580,627	\$29,286,011
15	\$29,286,011	\$1,614,215	\$27,671,795
16	\$27,671,795	\$1,648,517	\$26,023,278
17	\$26,023,278	\$1,683,548	\$24,339,729
18	\$24,339,729	\$1,860,236	\$22,479,493
19	\$22,479,493	\$1,899,766	\$20,579,726
20	\$20,579,726	\$1,940,136	\$18,639,590
21	\$18,639,590	\$1,981,364	\$16,658,225
22	\$16,658,225	\$2,157,156	\$14,501,069
23	\$14,501,069	\$2,202,996	\$12,298,074
24	\$12,298,074	\$2,249,809	\$10,048,265
25	\$10,048,265	\$2,297,618	\$7,750,647
26	\$7,750,647	\$2,495,318	\$5,255,329
27	\$5,255,329	\$2,548,343	\$2,706,986
28	\$2,706,986	\$2,706,986	\$0
Total:		\$44,000,000	

EXHIBIT III
OWNERSHIP STRUCTURE

Pacific Ethanol, Inc.
Organizational Structure
November 4, 2005



(CA)



Note: All subsidiaries are wholly-owned

Note: PEI does not have any interest in any company other than those listed here

-
- PEI = Pacific Ethanol, Inc.
 - PAP = Pacific Ag Products
 - PEC = Pacific Ethanol California
 - PEHC = Pacific Ethanol Holding Co.
 - PEFC = Pacific Ethanol Finance Co.
 - PEV = Pacific Ethanol Visalia
 - PEM = Pacific Ethanol Madera

Comerica Bank

MC 4330
5200 N. Palm Ave., Suite 320
Fresno, CA 93704

January 26, 2006

Mr. Ryan Turner
Chief Operating Officer
Pacific Ethanol, Inc.
5711 N. West Avenue
Fresno, CA 93711

Dear Ryan:

This letter sets forth the commitment from Comerica Bank ("Bank") to provide Pacific Ethanol Madera LLC ("Borrower") with the following credit facility.

Comerica Bank has received approval from its senior management, and is pleased to issue this Formal Commitment (the "Commitment") to provide to Borrower its portion of the senior loan facility for the construction and term financing of the Madera Ethanol Project, not to exceed \$11,900M, or as determined by other loan amount restrictions as detailed in Hudson United Bank's proposal and/or commitment letter, attached hereto. Bank's commitment to provide this loan facility is conditioned upon the terms and conditions set forth in the Hudson United Bank Summary of Indicative Terms and Conditions dated November 28, 2005, attached hereto, along with the modifications as detailed in the Hudson United Bank Commitment Letter dated as of January 23, 2006, attached hereto.

The closing documentation and funding of the loan facilities contemplated by this Commitment is subject to (i) the negotiation, execution and delivery of documentation satisfactory in form and substance to Bank and its counsel and (ii) no material adverse change in the financial condition of the Borrower or the Project (as defined in the Proposal) having occurred since the date of this letter.

If the proposed terms set forth above are acceptable to you, please so indicate by signing and returning the original of this letter to us by no later than January 30, 2006. If not returned by that date, this commitment shall expire and be of no force and effect.

It is intended that all legal rights and obligations of Bank and Borrower would be exclusively set forth in the definitive signed loan documents.

On behalf of Comerica Bank, we want to thank you for the opportunity to present this commitment to you. We look forward to establishing a long and mutually rewarding relationship with Pacific Ethanol Madera LLC. Please do not hesitate to contact me if you have any questions or comments.

Sincerely,

/s/ Robert Harlan

Robert Harlan
Vice President

ACCEPTED ON THIS 26th DAY OF January, 2006.

Pacific Ethanol Madera LLC ("Borrower")

BY: /s/ William G. Langley

TITLE: Treasurer

FIRST AMENDMENT TO 2004 STOCK OPTION PLAN

AS ADOPTED BY THE PACIFIC ETHANOL, INC. BOARD OF DIRECTORS
AS OF JANUARY 31, 2006

1. The Pacific Ethanol, Inc. 2004 Stock Option Plan ("2004 Plan") is

amended to add the following Section 11.7:

11.7 NET EXERCISE. At the time of the Option exercise, and subject to the discretion of the Committee to accept payment in cash only, the Optionee may determine whether the total purchase price of the shares to be purchased shall be paid solely in cash or by net exercise, or by a combination thereof. If the Optionee elects to pay the total purchase price in whole or in part by net exercise, the number of shares to be issued to the Optionee shall be computed using the following formula:

$$X = Y \times \frac{(A-B)}{A}$$

A

where: X = the number of shares of Stock to be issued to the Optionee;
Y = the number of shares of Stock as to which the Option is being exercised under this net exercise provision;
A = the Fair Market Value of a share of Stock on the date of exercise, determined by the Committee in the same manner used for determining Fair Market Value at the time of grant for purposes of Section 8; and
B = the purchase price of a share of Stock pursuant to Section 3.

Any fractional share amount shall be settled in cash equal to such fraction multiplied by the Fair Market Value of a share of Stock.

2. Section 16.1 of the 2004 Plan is amended and restated to read in its

entirety as follows:

16.1 EFFECTIVE DATE. Subject to stockholder approval, the Plan was adopted by the Board as of October 25, 2004. Stockholder approval of the Plan was obtained February 28, 2005. The Board approved a First Amendment to the Plan as of January 31, 2006.

3. Section 18 of the 2004 Plan is amended and restated to read in its

entirety as follows:

18. GOVERNING LAW. The corporate laws of the State of Delaware shall govern all issues concerning the relative rights of the Company and Optionees under Options. All other questions and obligations under Options shall be construed and enforced in accordance with the internal laws of the State of California, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of California or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of California. The Company and Optionees consent, in any dispute, action, litigation or other proceeding concerning the Option (including arbitration) to the jurisdiction of the courts of the State of California, with the County of Orange being the sole venue for the bringing of the action or proceeding.

4. The remainder of the 2004 Plan remains in full force and effect.
