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) **October 17, 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) Acquisition of Membership Units of Front Range Energy, LLC

Membership Interest Purchase Agreement dated as of October 17, 2006 by and among Eagle Energy, LLC, Pacific Ethanol California, Inc. and Pacific Ethanol, Inc.

On October 17, 2006, Pacific Ethanol California, Inc. ("PE California"), a wholly-owned subsidiary of Pacific Ethanol, Inc.(the "Company"), and the Company, entered into a Membership Interest Purchase Agreement (the "Purchase Agreement") dated as of October 17, 2006 with Eagle Energy, LLC ("Eagle Energy"). Under the Purchase Agreement, PE California purchased from Eagle Energy 10,095 Class B Voting Units of Front Range Energy, LLC ("Front Range") and thereby acquired approximately 42% of the outstanding membership interests of Front Range. PE California paid to Eagle Energy $30 million in cash and the Company issued to Eagle Energy 2,081,888 shares of the Company's common stock and a warrant to purchase up to 693,963 shares of the Company's common stock at an exercise price of $14.41 per share. The Purchase Agreement contains customary representations, warranties and covenants by the parties and other customary obligations, including those relating to indemnification and confidentiality.

Warrant to Purchase Common Stock dated October 17, 2006 issued to Eagle Energy, LLC by Pacific Ethanol, Inc.

On October 17, 2006, the Company issued a Warrant to Purchase Common Stock dated October 17, 2006 to Eagle Energy (the "Warrant"). Under the Warrant, Eagle Energy has the right to purchase up to 693,963 share of the Company's common stock at an exercise price of $14.41 per share. The Warrant is exercisable immediately through and including October 17, 2007. The Warrant includes both cash and cashless exercise provisions.

Registration Rights Agreement dated as of October 17, 2006 by and between Pacific Ethanol, Inc. and Eagle Energy, LLC

On October 17, 2006, the Company entered into a Registration Rights Agreement dated as of October 17, 2006 with Eagle Energy (the "Registration Rights Agreement"). The Registration Rights Agreement provides that the Company must register for resale by Eagle Energy the 2,081,888 shares of common stock issued to Eagle Energy and the 693,963 shares of common stock underlying the Warrant.

The registration obligations require, among other things, that the Company file an initial registration statement with the Securities and Exchange Commission ("SEC") no later than October 31, 2006 and cause the registration statement to be declared effective within 120 days of October 17, 2006, or earlier if the registration statement is not reviewed or is no longer subject to review by the SEC. If the Company is unable to meet these obligations, is unable to maintain the effectiveness of the registration in accordance with the requirements of the Registration Rights Agreement or is unable to satisfy certain other obligations under the Registration Rights Agreement, then an event of default will have occurred, and the upon the occurrence of such event and upon every monthly anniversary thereafter until such event is cured, the Company will be required to pay to Eagle Energy, as liquidated damages and not as a penalty, an amount equal to 1% of (i) the sum of the number of shares of common stock held by Eagle Energy and the shares of common stock issuable upon exercise of the Warrant as of the date of default, multiplied by (ii) the closing market price of the Company's common stock on such date; provided, that the maximum aggregate amount of such damages is not to exceed $3 million.

The Registration Rights Agreement contains customary covenants and obligations on the part of the Company and Eagle Energy, including various indemnification provisions in connection with the offering and registration of the shares of common stock issued to Eagle Energy and shares of common stock underlying the Warrant.

Second Amended and Restated Operating Agreement of Front Range Energy, LLC among the members identified therein (as amended by Amendment No. 1 described below)

On October 17, 2006, the Company became a party to a Second Amended and Restated Operating Agreement of Front Range Energy, LLC among the members identified therein (as amended by Amendment No. 1 described below) (the "Operating Agreement"). The Operating Agreement governs the rights and obligations of the members ("Members") of Front Range. The Operating Agreement contains numerous customary provisions relating to rights and obligations of the Members, the authority of the manager (the "Manager") and the manner in which Front Range is to be operated.

The Operating Agreement provides that Members may be subject to additional capital calls upon the approval of 2/3 of the Members requiring them to make additional cash contributions to Front Range. In the event that a Member fails to fulfill its capital call obligations, other Members may contribute pro rata and thereby obtain additional membership units. In the event that other Members do not contribute the entire amount of the capital call, the unpaid amount will constitute an ongoing obligation of the Member that failed to initially contribute. The Operating Agreement provides that each Member, by execution of the Operating Agreement, is deemed to have granted the Company a first and prior lien and security interest in such Member's units as security for the payment of all required contributions by such Member.

Cash distributions by Front Range are to be distributed first to all Members in an amount equal to the estimated federal and state income tax liability attributable to such Member's proportionate share of the net taxable income of Front Range. The Manager's determination of the amount of the minimum mandatory distribution is binding and conclusive on all Members. Cash distributions by Front Range, are to be distributed second to all Members in proportion to the percentage of outstanding units held by each Member but reduced by any amount distributed to that Member to cover its tax liability, as described above. All cash distributions are subject to the determination by the Manager that available cash exists in order to make such distributions after taking into account working capital needs, future expenditures and agreements to which Front Range is a party.

There is to be one Manager of Front Range. Initially, the Manager is Daniel A. Sanders. The Manager is to be appointed by the holders of Class A Units of Front Range. Mr. Sanders holds 100% of all Class A Units and therefore controls who will act as Manager of Front Range. The Manager's compensation for services to Front Range is to be determined by the Members. Mr. Sanders holds a majority of the outstanding membership units and therefore controls the compensation payable to the Manager. The Manager will not be liable to Front Range or any Member for any loss, damage, liability or expense suffered except in the case of fraud, gross negligence or willful or wanton misconduct. No Member is liable for any debt, obligation or liability of Front Range, except as provided in the Operating Agreement. The Operating Agreement provides customary indemnification provisions for the benefit of the Manager and the Members and their affiliates and representatives and agents.

The Manager has broad discretion to operate Front Range and to execute agreements on its behalf. Certain matters require approval from at least 2/3 of the Members, including the sale or disposition of all or substantially all assets or any property other than in the ordinary course of business, the acquisition of property in any fiscal year having a value in excess of $300,000, the entering into a joint venture or partnership agreement, the entering into a merger or other reorganization, the borrowing of funds in any fiscal year in excess of $300,000, the lending of funds in any fiscal year in excess of $300,000 and the commencement of a voluntary case in bankruptcy.

Each Member is entitled to appoint a representative to act as a board member and who is to vote such Member's membership units on matters requiring consent of the Members. The Manager is required to prepare an annual operating plan for the approval of the board members. The board members are entitled to review and comment on the proposed annual operating plan and following the plan's approval by at least 2/3 of the board members, the Manager is to implement the plan and is authorized only to make expenditures and incur only the obligations provided therein.

The Operating Agreement expressly provides that the Manager and Members may engage in other business activities, including those in competition with the business of Front Range. The Operating Agreement includes confidentiality obligations on the part of the Manager and Members. The Operating Agreement also provides that the Manager has no fiduciary duty to Front Range or to any Member, except to act in good faith, a general obligation of fair dealing with respect to property of Front Range and any duty expressly set forth in the Operating Agreement or any other written agreement.

The Operating Agreement provides for restrictions on the Members' transfer of their membership units, with certain customary exceptions, unless approved by at least a majority of the Members. Upon a proposed transfer of membership units by a Member, each other Member and Front Range have options to purchase those units on the same terms as the bona fide offer received by the proposed transferor. The Operating Agreement contains customary procedures for the Members and Front Range to exercise this option. The Operating Agreement also provides for the right of the Members and Front Range to purchase a Member's membership units in the event that they become subject to involuntary transfer or upon death, termination, liquidation or dissolution of the Member. The purchase price for membership units subject to involuntary transfer is the fair market value of the units as agreed by the disposing Member and at least a majority of the other Members, and if they are unable to agree, as determined by a third-party appraiser.

The Operating Agreement contains buy-sell provisions that allow the owners of the Class A Units or the owners of the Class B Units to collectively make a buy-sell offer to the other group. Following such offer, the other group is entitled to accept such offer or decline such offer and force the offering group to purchase its units at the same price and on the same terms and conditions as in the initial offer.

The Operating Agreement contains preemptive rights in favor of the Members requiring Front Range to first offer new membership units pro rata to the existing Members. The Operating Agreement contains customary provisions relating to the exercise by Members of their preemptive rights.

Amendment No. 1, dated as of October 17, 2006, of the Second Amended and Restated Operating Agreement of Front Range Energy, LLC to Add a Substitute Member and for Certain Other Purposes

On October 17, 2006, the Company entered into an Amendment No. 1, dated as of October 17, 2006, of the Second Amended and Restated Operating Agreement of Front Range Energy, LLC to Add a Substitute Member and for Certain Other Purposes (the "Amendment"). The Amendment authorizes and approves the admission of PE California as a member of Front Range and causes PE California to be bound by all of the terms and conditions of the Operating Agreement. The Amendment also includes an amended Section 6.14 to the Operating Agreement that includes certain exclusions in order to facilitate the Company's compliance with its disclosure obligations under applicable securities laws.

Non-Competition Agreements dated as of October 17, 2006 by and among Pacific Ethanol, Inc., Front Range Energy, LLC and each of the members of Eagle Energy, LLC

On October 17, 2006, the Company entered into Non-Competition Agreements dated as of October 17, 2006 with Front Range and each of the members (the "Eagle Members") of Eagle Energy (the "Non-Competition Agreements"). The Non-Competition Agreements provide that the Eagle Members may not compete with the business of Front Range for a period of two years within a fifty mile radius of Front Range's ethanol production facility in Windsor, Colorado. The Non-Competition Agreements also provide non-disclosure and confidentiality obligations on the part of the Eagle Members and provide obligations prohibiting the diversion of business from or inducement of competition with the business of Front Range. In addition, the Non-Competition Agreements prohibit the Eagle Members from hiring, engaging or attempting to hire or engage any person who has been a consultant or employee of Front Range.

(2) Amendment of Amended and Restated Ethanol Purchase and Sale Agreement with Front Range Energy, LLC

Amendment to Amended and Restated Ethanol Purchase and Sale Agreement dated October 17, 2006 between Kinergy Marketing, LLC and Front Range Energy, LLC

On October 17, 2006, Kinergy Marketing, LLC ("Kinergy"), a wholly-owned subsidiary of the Company, entered into an Amendment to Amended and Restated Ethanol Purchase and Sale Agreement dated October 17, 2006 with Front Range. The Amendment amends a certain Amended and Restated Ethanol Purchase and Sale Agreement dated as of August 9, 2006 by and between Kinergy and Front Range (the "Restated Agreement"). The Amendment is described immediately below and is filed herewith as Exhibit 10.7. The Restated Agreement is described below and is filed herewith as Exhibit 10.8.

The Amendment extends the initial term of the Restated Agreement from three years to a term ending May 31, 2013 with automatic renewals for additional one-year periods thereafter unless a party to the Restated Agreement delivers written notice of termination at least 60 days prior to the end of the original or renewal term.

Amended and Restated Ethanol Purchase and Sale Agreement dated as of August 9, 2006 by and between Kinergy Marketing, LLC and Front Range Energy, LLC

On August 9, 2006, Kinergy entered into an Amended and Restated Ethanol Purchase and Sale Agreement dated as of August 9, 2006 with Front Range. The Restated Agreement amended an underlying agreement first signed on August 31, 2005. The Restated Agreement was initially effective for three years with automatic renewals for additional one-year periods thereafter unless a party to the Restated Agreement delivers written notice of termination at least 60 days prior to the end of the original or renewal term. The Amendment described above extended the initial term to May 31, 2013 and includes the same renewal provisions. Under the Restated Agreement, Kinergy is to provide denatured fuel ethanol marketing services for the production facility. Kinergy is to have the exclusive right to market and sell all of the ethanol from the facility, an estimated 40 million gallons per year. Pursuant to the terms of the Restated Agreement, the purchase price of the ethanol may be negotiated from time to time between Kinergy and the owner of the ethanol production facility without regard to the price at which Kinergy will re-sell the ethanol to its customers. Alternately, Kinergy may pay to the owner the gross payments received by Kinergy from third parties for forward sales of ethanol (the "Purchase Price") less certain transaction costs and fees. From the Purchase Price, Kinergy may deduct all reasonable out-of-pocket and documented costs and expenses incurred by or on behalf of Kinergy in connection with the marketing of ethanol pursuant to the Restated Agreement, including truck, rail and terminal costs for the transportation and storage of the facility's ethanol to third parties and reasonable, documented out-of-pocket expenses incurred in connection with the negotiation and documentation of sales agreements between Kinergy and third parties (the "Transaction Costs"). From the Purchase Price, Kinergy may also deduct and retain the product of 1.0% multiplied by the difference between the Purchase Price and the Transaction Costs. In addition, Kinergy is to split the profit from any logistical arbitrage associated with ethanol supplied by the facility.

Item 3.02. Unregistered Sales of Equity Securities.

As described in Item 1.01 above, on October 17, 2006, the Company sold to Eagle Energy an aggregate of 2,081,888 shares of common stock as part consideration for the sale of 10,095 Class B Voting Units of Front Range, which amount represents approximately 42%

of the outstanding membership interests of Front Range. The Company also sold to Eagle Energy a warrant to purchase 693,963 shares of common stock at an exercise price of $14.41 per share as part consideration for the sale of the Class B Voting Units, as described above. The disclosures contained in Item 1.01 of this Report on Form 8-K are incorporated herein by reference.

Exemption from the registration provisions of the Securities Act of 1933 for the transactions described above is claimed under Section 4(2) of the Securities Act of 1933, among others, on the basis that such transactions did not involve any public offering and the purchasers were accredited investors and had access to the kind of information registration would provide. Appropriate investment representations were obtained, and the securities were or will be issued with restricted securities legends.

Item 5.02. Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers.

(a) Not applicable.

(b) Effective as of October 17, 2006, Frank P. Greinke resigned as a member of the Board of Directors of the Company.

(c) Not applicable.

(d) Effective as of October 17, 2006, the Board of Directors of the Company appointed Daniel A. Sanders as a member of the Board of Directors of the Company. Mr. Sanders is the Manager and majority Member of Front Range, which is a party to the agreements of Front Range described in Item 1.01 above. The disclosures in Item 1.01 above are incorporated herein by this reference.

Item 9.01. Financial Statements and Exhibits.

(a) Financial Statements of Businesses Acquired.

None.

(b) Pro Forma Financial Information.

None.

(c) Exhibits.

Number	Description
10.1	Membership Interest Purchase Agreement dated as of October 17, 2006 by and among Eagle Energy, LLC, Pacific Ethanol California, Inc. and Pacific Ethanol, Inc.
10.2	Warrant to Purchase Common Stock dated October 17, 2006 issued to Eagle Energy, LLC by Pacific Ethanol, Inc.
10.3	Registration Rights Agreement dated as of October 17, 2006 by and between Pacific Ethanol, Inc. and Eagle Energy, LLC
10.4	Second Amended and Restated Operating Agreement of Front Range Energy, LLC among the members identified therein (as amended by Amendment No. 1 described below)
10.5	Amendment No. 1, dated as of October 17, 2006, of the Second Amended and Restated Operating Agreement of Front Range Energy, LLC to Add a Substitute Member and for Certain Other Purposes
10.6	Form of Non-Competition Agreement dated as of October 17, 2006 by and among Pacific Ethanol, Inc., Front Range Energy, LLC and each of the members of Eagle Energy, LLC
10.7	Amendment to Amended and Restated Ethanol Purchase and Sale Agreement dated October 17, 2006 between Kinergy Marketing, LLC and Front Range Energy, LLC
10.8	Amended and Restated Ethanol Purchase and Sale Agreement dated as of August 9, 2006 by and between Kinergy Marketing, LLC and Front Range Energy, LLC (*)

(*) Filed as an exhibit to the Registrant's current report on Form 8-K for August 9, 2006 filed with the Securities and Exchange Commission on August 15, 2006.

SIGNATURE

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: October 23, 2006

PACIFIC ETHANOL, INC.

By: /s/ WILLIAM G. LANGLEY

William G. Langley
Chief Financial Officer

EXHIBITS FILED WITH THIS REPORT

Number	Description
10.1	Membership Interest Purchase Agreement dated as of October 17, 2006 by and among Eagle Energy, LLC, Pacific Ethanol California, Inc. and Pacific Ethanol, Inc.
10.2	Warrant to Purchase Common Stock dated October 17, 2006 issued to Eagle Energy, LLC by Pacific Ethanol, Inc.
10.3	Registration Rights Agreement dated as of October 17, 2006 by and between Pacific Ethanol, Inc. and Eagle Energy, LLC
10.4	Second Amended and Restated Operating Agreement of Front Range Energy, LLC among the members identified therein (as amended by Amendment No. 1 described below)
10.5	Amendment No. 1, dated as of October 17, 2006, of the Second Amended and Restated Operating Agreement of Front Range Energy, LLC to Add a Substitute Member and for Certain Other Purposes
10.6	Form of Non-Competition Agreement dated as of October 17, 2006 by and among Pacific Ethanol, Inc., Front Range Energy, LLC and each of the members of Eagle Energy, LLC
10.7	Amendment to Amended and Restated Ethanol Purchase and Sale Agreement dated October 17, 2006 between Kinergy Marketing, LLC and Front Range Energy, LLC

EXHIBIT 10.1

MEMBERSHIP INTEREST PURCHASE AGREEMENT

This Membership Interest Purchase Agreement (together with the exhibits and schedules hereto, this "***Agreement***") is dated as of October 17, 2006 by and among **Eagle Energy, LLC**, a South Dakota limited liability company ("***Seller***"), **Pacific Ethanol California, Inc**., a California corporation ("***Buyer***"), and **Pacific Ethanol, Inc.,** a Delaware corporation ("***Parent***"). Unless otherwise defined in this Agreement, capitalized terms used in this Agreement are defined in *Exhibit A*.

Recitals

Whereas, Seller owns 10,094.595 Class B Voting Units (the "***Membership Interests***") of Front Range Energy, LLC, a Colorado limited liability company (the "***Company***"), which represents approximately 42% of the outstanding membership interests of the Company.

Whereas, the Company is engaged in the business (the "***Business***") of operating an approximate 40 million gallon per year corn ethanol plant, providing management services to operate the corn ethanol plant and such other activities related to the foregoing.

Whereas, the Buyer desires to acquire from Seller, and Seller desires to sell and transfer to Buyer, all of the Membership Interests on the terms and subject to the conditions set forth herein.

Agreement

Therefore, in consideration of the foregoing and the mutual agreements and covenants set forth below, the Parties hereby agree as follows:

ARTICLE 1

Purchase And Sale of Membership Interests

1.1 Acquisition. Subject to the terms and conditions of this Agreement, Buyer agrees to purchase, and Seller agrees to sell, convey, assign, transfer and deliver to Buyer, the Membership Interests, free and clear of all Encumbrances, on the Closing Date.

ARTICLE 2

Purchase Price

2.1 Purchase Price. As consideration for the sale of the Membership Interests to Buyer:

(a) at the Closing, Buyer shall pay to Seller, in cash, a total of $29,750,000 (the "***Cash Consideration***") by wire transfer to the Account;

(b) at the Closing, Buyer shall deposit the sum of $250,000 in an escrow account to be established as of the Closing Date pursuant to an Escrow Agreement among Buyer, Seller and Wells Fargo Bank, N.A., as Escrow Agent, in substantially the form of *Exhibit B* (the "***Escrow Agreement***");

(c) at the Closing, Parent shall issue to Seller a warrant to purchase 693,963 shares of Parent Common Stock at an exercise price of $14.41 per share, substantially in the form attached hereto as *Exhibit C* (the "***Warrant***"); and

(d) at the Closing, Parent shall issue 2,081,888 shares of Parent Common Stock to Seller (the "***Shares***").

2.2 Sales Taxes. Seller shall bear and pay, and shall reimburse Buyer and Buyer's affiliates for, any sales taxes, use taxes, transfer taxes, documentary charges, recording fees or similar taxes, charges, fees or expenses, if any, that become due and payable as a result of the consummation of the Transactions.

2.3 Closing. The closing of the sale of the Membership Interests to Buyer (the "***Closing***") shall take place at the offices of Cooley Godward llp in Broomfield, Colorado at 10:00 a.m. on the date hereof. The date on which the Closing takes place shall be referred to as the "***Closing Date***."

ARTICLE 3

Seller's Representations and Warranties

Seller represents and warrants to and for the benefit of the Indemnified Parties that:

3.1 Organization. Seller is a limited liability company duly organized, validly existing and in good standing under the laws of the State of South Dakota. Seller is in good standing and qualified to do business as a foreign corporation in any state in which it is doing business. Seller has provided to Buyer complete and correct copies of the Charter Documents of Seller as currently in effect. All managers, members and officers of Seller are identified on *Exhibit D*.

3.2 Due Authorization; Enforceability. The execution, delivery and performance of this Agreement and the other Transaction Documents to which Seller is a party has been duly and validly authorized by Seller. Assuming the due authorization, execution and delivery of the same by Buyer, this Agreement and each of the other Transaction Documents to which Seller is a party constitutes the legal, valid and binding obligation of Seller, enforceable against Seller in accordance with their respective terms (except as may be limited by bankruptcy, insolvency, reorganization and other similar laws and equitable principles relating to or limiting creditors' rights generally).

3.3 Non-Contravention; Consents. Seller need not give any notice to, make any filing with, or obtain any authorization, consent, or approval of any government or governmental agency in order to consummate the Transactions. Neither the execution and delivery of this Agreement and the other Transaction Documents, nor the consummation of the Transactions, will directly or indirectly (with or without notice or lapse of time): (i) conflict with or result in a violation or breach of any of the terms, conditions or provisions of the Charter Documents of Seller; (ii) conflict with or violate any statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court to which Seller is subject; (iii) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify or cancel, or require any notice under any agreement, contract, lease, license, instrument or other arrangement to which Seller is a party or by which it is bound; or (iv) result in the imposition or creation of an Encumbrance upon the Membership Interests.

3.4 Ownership of Membership Interests. Seller is the unconditional and sole legal, beneficial, record and equitable owner of the Membership Interests, and Seller has full power and authority to sell and transfer the Membership Interests, free and clear of any restrictions on transfer or any other Encumbrances. Seller has not ever sold, assigned transferred or otherwise disposed of all or any portion of the Membership Interests. Seller's ownership of the Membership Interests has been at all times conducted in accordance with applicable Law. Seller is not a party to any option, warrant, purchase right, or other contract or commitment (other than this Agreement) that could require Seller to sell, transfer, or otherwise dispose of any membership interests, or any voting or economic right therein, of the Company. Seller is not a party to any voting trust, proxy, or other agreement or understanding with respect to the voting of any membership interests of the Company. The Membership Interest Certificates represent all the Membership Interests.

3.5 Distributions. Seller has no current outstanding obligation to return to the Company all or any portion of any distribution previously received from the Company in respect of the Membership Interests.

3.6 No Material Adverse Change. Since June 30, 2006, Seller has not received any notice that could lead it to believe that the Company has suffered a Material Adverse Change.

3.7 Operating Agreement. The Operating Agreement is a valid and binding obligation of Seller, enforceable against Seller in accordance with its terms (except as may be limited by bankruptcy, insolvency, reorganization and other similar laws and equitable principles relating to or limiting creditors' rights generally).

3.8 Securities Representations.

(a) Seller is an "accredited investor" as defined in Rule 501(a) under the Securities Act of 1933, as amended (the "***Securities Act***", and each member of Seller is an accredited investor.

(b) Seller understands that the Shares, the Warrant and the Exercise Shares are "restricted securities" and that the sale of the Shares and the Warrant to Seller has not been registered under the Securities Act.

(c) Seller is acquiring the Shares and the Warrant for its own account for investment only, has no present intention of distributing the Shares or the Warrant and has no arrangement or understanding with any other person regarding the distribution of the Shares or the Warrant (this representation and warranty not limiting Seller's right to sell the Shares pursuant to an effective registration statement under the Act or the Shares or the Warrant otherwise in accordance with an exemption from registration under the Securities Act).

(d) Seller recognizes that the Shares, the Warrant and the Exercise Shares cannot be resold unless they are subsequently registered under the Act or an exemption from such registration is available.

(e) Seller understands and agrees that the Warrant and all certificates evidencing the Shares to be issued to Seller and that the Exercise Shares will bear the following legend:

THESE SECURITIES HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") OR APPLICABLE STATE SECURITIES LAWS. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT OR LAWS OR, IF REASONABLY REQUESTED BY THE COMPANY, AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION OR QUALIFICATION IS NOT REQUIRED.

3.9 Brokers. Seller has not agreed or become obligated to pay, or has taken any action that might result in any person, entity or governmental body claiming to be entitled to receive, any brokerage commission, finder's fee or similar commission or fee in connection with any of the Transactions.

3.10 Disclosure. None of the representations or warranties made by Seller herein or in any other Transaction Document or in any certificate furnished by Seller pursuant to this Agreement or any other Transaction Document, when all such documents are read together in their entirety, contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements contained herein or therein, in light of the circumstances under which they were made, not misleading. There is no fact within the knowledge of Seller that may have an adverse effect on Seller or may have the effect of interfering with any of the Transactions.

ARTICLE 4

Buyer's Representations and Warranties

Buyer represents and warrants to Seller that:

4.1 Organization. Buyer is a corporation duly organized, validly existing and in good standing under the Laws of the State of California.

4.2 Due Authorization; Enforceability. The execution, delivery and performance of this Agreement and the other Transaction Documents to which Buyer is a party has been duly and validly authorized by Buyer. Assuming the due authorization, execution and delivery of the same by Seller, this Agreement and each of the other Transaction Documents to which Buyer is a party constitutes the legal, valid and binding obligation of Buyer, enforceable against Buyer in accordance with their respective terms (except as may be limited by bankruptcy, insolvency, reorganization and other similar laws and equitable principles relating to or limiting creditors' rights generally).

4.3 Brokers. Buyer has not agreed or become obligated to pay, or has taken any action that might result in any person, entity or governmental body claiming to be entitled to receive, any brokerage commission, finder's fee or similar commission or fee in connection with any of the Transactions.

ARTICLE 5

Parent's Representations and Warranties

Parent represents and warrants to Seller that:

5.1 Organization. Parent is a corporation duly organized, validly existing and in good standing under the Laws of the State of Delaware.

5.2 Due Authorization; Enforceability. The execution, delivery and performance of this Agreement and the other Transaction Documents to which Parent is a party has been duly and validly authorized by Parent. Assuming the due authorization, execution and delivery of the same by Seller, this Agreement and each of the other Transaction Documents to which Parent is a party constitutes the legal, valid and binding obligation of Parent, enforceable against Parent in accordance with their respective terms (except as may be limited by bankruptcy, insolvency, reorganization and other similar laws and equitable principles relating to or limiting creditors' rights generally).

5.3 Capitalization. The authorized share capital of Parent, as of the date of this Agreement, consists of (a) 100,000,000 shares of Parent Common Stock and (b) 10,000,000 shares of preferred stock, $0.001 par value per share, of which 7,000,000 shares are designated as Series A Cumulative Redeemable Convertible Preferred Stock, of which 5,250,000 shares are issued and outstanding. According to a certificate from Parent's transfer agent, 31,229,236 shares of Parent Common Stock were issued and outstanding as of July 21, 2006.

5.4 Valid Issuance. The Shares will, when issued in accordance with the provisions of this Agreement, and the Exercise Shares will, when issued in accordance with the provisions of the Warrant, be validly issued, fully paid and nonassessable and will be free of any liens or Encumbrances; *provided, however,* that the Shares and Exercise Shares may be subject to restrictions on transfer under state and/or federal securities laws as set forth herein or as otherwise required by such laws at the time the transfer is proposed.

5.5 Nasdaq. As of the date of this Agreement, the Parent Common Stock is registered pursuant to the Exchange Act and is listed on the Nasdaq Global Market ("***Nasdaq***"). Parent has taken no action designed to, or likely to have the effect of, terminating the registration of the Parent Common Stock under the Exchange Act or delisting or disqualifying such Parent Common Stock from Nasdaq, nor has Parent received any notification that the SEC or Nasdaq is contemplating terminating such registration or admission for quotation.

5.6 Brokers. Parent has not agreed or become obligated to pay, or has taken any action that might result in any person, entity or governmental body claiming to be entitled to receive, any brokerage commission, finder's fee or similar commission or fee in connection with any of the Transactions.

ARTICLE 6

Closing Deliverables

6.1 Deliverables by Seller. At the Closing, Seller shall deliver the following to Buyer:

(a) a certificate from Seller certifying that (i) each of the representations and warranties made by Seller in this Agreement is true and correct as of the date of this Agreement and (ii) each of the covenants and agreement that Seller is required to have complied with or performed pursuant to this Agreement at or prior to the Closing has been duly complied with and performed in all respects;

(b) a certificate, validly executed by the Secretary of Seller, certifying as to (i) the Charter Documents of Seller; (ii) resolutions or instruments of each of the managers and members of Seller authorizing the execution, delivery and performance by Seller of this Agreement and the Transactions; and (iii) an incumbency certificate evidencing the authority and specimen signature of each authorized person of Seller executing this Agreement and any other certificate provided pursuant to this **Section 6.1**. Such certificate shall state that such Charter Documents and resolutions (or other authorizing actions or instruments) have not been amended, modified, revoked or rescinded and are in full force and effect on and as of the Closing Date and that all proceedings required to be taken on the part of Seller in connection with the Transactions have been duly authorized and taken;

(c) a certificate from Seller certifying that attached thereto are (i) true and complete copies of the minutes and other records of all meetings and other proceedings (including any actions taken by written consent or otherwise without a meeting) of the managers or members of Seller since its formation and (ii) true and complete copies of each material contract, agreement or commitment to which Seller is party or by which it is bound as of the date thereof, including all amendments or modifications thereto. Such certificate shall state that there have been no meetings or other proceedings of the managers or members of Seller that are not fully reflected in such minutes or other records;

(d) the Membership Interest Certificates, duly endorsed (or accompanied by duly executed stock powers) with a medallion signature guarantee provided by an eligible guarantor institution;

(e) the assignment and assumption agreement, in the form attached hereto as *Exhibit E* (the "***Assignment and Assumption***"), executed by Seller;

(f) the Escrow Agreement, executed by Seller;

(g) the registration rights agreement, in the form attached hereto as *Exhibit F* (the "***Registration Rights Agreement***"), executed by Seller; and

(h) the non-competition agreement, in the form attached hereto as *Exhibit G* (the "***Non-Competition Agreement***"), executed by Seller and each of the members, managers, directors and management of Seller;

(i) such instruments of assumption and other documents or instruments as Buyer reasonably may request to effect the Transactions;

(j) an opinion of counsel to Seller substantially in the form attached hereto as *Exhibit H*;

(k) a non-foreign affidavit dated as of the Closing Date, in form and substance required under the Treasury Regulations issued pursuant to Code §1445 stating that Seller is not a "Foreign Person" as defined in Code §1445; and

(l) a good standing certificate from the State of South Dakota and from any other State in which Seller is qualified to do business, dated as of a recent date prior to the Closing.

6.2 Closing Deliverables by Buyer. At the Closing, Buyer shall deliver the following to Seller:

(a) a certificate from Buyer certifying that (i) each of the representations and warranties made by Buyer in this Agreement is true and correct as of the date of this Agreement and (ii) each of the covenants and obligations that Buyer is required to have complied with or performed pursuant to this Agreement at or prior to the Closing has been duly complied with and performed in all respects;

(b) the Cash Consideration;

(c) the Escrow Agreement, executed by Buyer and the Escrow Agent;

(d) the Assignment and Assumption, executed by Buyer;

(e) the Registration Rights Agreement, executed by Buyer; and

(f) the Non-Competition Agreement, executed by the Company and Buyer.

6.3 Closing Deliverables by Parent. At the Closing, Parent shall deliver the following to Seller:

(a) a certificate from Parent certifying that (i) each of the representations and warranties made by Parent in this Agreement is true and correct as of the date of this Agreement and (ii) each of the covenants and obligations that Parent is required to have complied with or performed pursuant to this Agreement at or prior to the Closing has been duly complied with and performed in all respects;

(b) the Common Shares;

(c) the Warrant.

ARTICLE 7

Indemnification

7.1 Survival of Representations and Covenants.

(a) The covenants and agreements of each Party shall survive the Closing as of the Transactions for the periods specified in such covenants and agreements, or if no period is specified, until the fourth anniversary of the Closing.

(b) The representations, warranties, covenants and obligations of Seller and the rights and remedies that may be exercised by any Indemnified Party shall not be limited or otherwise affected by or as a result of any information furnished to, or any investigation made by or any knowledge of, any of the Indemnified Parties or any of their Representatives.

(c) The representations and warranties of Seller contained in this Agreement shall remain in full force and effect and shall expire on the six month anniversary of the Closing; *provided, however,* that the foregoing expiration date shall not apply to (i) claims based on fraud, intentional misrepresentation or willful breach which shall survive for the applicable statute of limitations and (ii) claims related to breaches of the representations and warranties contained in **Section 3.1** (Organization), **Section 3.2** (Due Authorization; Enforceability) and **Section 3.4** (Ownership of Membership Interests), which shall survive until the fourth anniversary of the Closing; *provided further, however,* that if Buyer notifies Seller of a claim specifying the factual basis of that claim in reasonable detail to the extent then known by Buyer on or prior to the applicable expiration date, then such representation or warranty shall not so expire, but rather shall remain in full force and effect until such time as such claim has been fully and finally resolved, either by means of a written settlement agreement or by means of a final, non-appealable judgment issued by a court of competent jurisdiction.

(d) The representations and warranties of Buyer contained in this Agreement shall survive until the fourth anniversary of the Closing.

7.2 Indemnification by Seller. Seller shall hold harmless and indemnify each of the Indemnified Parties from and against, and shall compensate and reimburse each of the Indemnified Parties for, any Losses that are directly or indirectly suffered or incurred by any of the Indemnified Parties or to which any of the Indemnified Parties may otherwise become subject at any time (regardless of whether or not such Losses relate to any third-party claim) and that arise directly or indirectly from or as a direct or indirect result of, or are directly or indirectly connected with:

(a) any breach by Seller or of any representation or warranty of Seller contained in this Agreement, any other Transaction Document or in any certificate delivered by pursuant to any provision of this Agreement or any other Transaction Document;

(b) any breach of any covenant or agreement of Seller contained in this Agreement or any other Transaction Document; or

(c) any liability of Seller.

ARTICLE 8

Additional Agreements

8.1 Further Assurances. Each Party agrees to execute and deliver such further documents and instruments and to take such further actions after the Closing as may be necessary or desirable and reasonably requested by the other Party to give effect to the Transactions.

8.2 Expenses; Attorneys' Fees. Each Party shall bear and pay all fees, costs and expenses that have been incurred or that are in the future incurred by, on behalf of, such Party in connection with the negotiation, preparation and review of this Agreement, the other Transaction Documents and all certificates, opinions and other instruments and documents delivered or to be delivered in connection with the Transactions, and the consummation and performance of the Transactions. If a Party shall bring any action, suit, counterclaim, appeal, arbitration, or mediation for any relief against the other Party, declaratory or otherwise, to enforce the terms hereof or to declare rights hereunder (referred to herein as an "***Action***"), the non-prevailing party in such Action shall pay to the prevailing party in such Action a reasonable sum for the prevailing party's attorneys' fees and expenses.

8.3 Confidentiality. Seller shall treat and hold as confidential any information concerning the business and affairs of the Company that is not already generally available to the public (the "***Confidential Information***") and refrain from using any of the Confidential Information except in connection with this Agreement. In the event that Seller is requested or required (by oral question or request for information or documents in any legal proceeding, interrogatory, subpoena, civil investigative demand, or similar process) to disclose any Confidential Information, it shall notify Buyer promptly of the request or requirement so that Buyer may seek an appropriate protective order or waive compliance with the provisions of this **Section 8.3**. If, in the absence of a protective order or the receipt of a waiver hereunder, Seller is, on the advice of counsel, compelled to disclose any Confidential Information to any tribunal or else stand liable for contempt, it may disclose the Confidential Information to the tribunal; provided that it shall use its best efforts to obtain, at the request and expense of Buyer, an order or other assurance that confidential treatment shall be accorded to such portion of the Confidential Information required to be disclosed as Buyer shall designate. Seller acknowledges and agrees that in the event of a breach of any of the provisions of this **Section 8.3**, monetary damages may not constitute a sufficient remedy. Consequently, in the event of any such breach, the Company, Buyer and/or their respective successors or assigns may, in addition to other rights and remedies existing in their favor, apply to any court of law or equity of competent jurisdiction for specific performance and/or injunctive or other relief in order to enforce or prevent any violations of the provisions hereof, in each case without the requirement of posting a bond or proving actual damages.

8.4 Tax Matters.

(a) Allocation of Company Tax Items. Buyer and Seller shall request that the Company allocate all items of Company income, gain, loss and deduction attributable to the Membership Interests for the taxable year of the Closing based on a closing of the Company's books as of the close of business on the Closing Date; provided that Buyer and Seller shall request that any Company tax credits attributable to the Membership Interests for the taxable year of the Closing (including, without limitation, any small ethanol producer credit described in Section 40(b)(4) of the Code) be allocated ratably to each day in the entire 365-day taxable year of the Closing, so that Buyer and Seller both share in a ratable portion of such credits for the entire 365-day taxable year, based on the number of days in such taxable year (i) up to and including the Closing Date, in the case of Seller, and (ii) after the Closing Date, in the case of Buyer. Notwithstanding the foregoing, if it is determined that ratable allocation of tax credits cannot be effectuated in tandem with a closing of the Company's books as of the Closing Date as contemplated in the preceding sentence, then Seller shall pay to Buyer a dollar amount equal to the dollar amount of such credits which would have been allocated to the period after the Closing Date (in accordance with the preceding sentence) had such ratable allocation been effectuated.

(b) Tax Information. Promptly upon request, Seller will provide to Buyer the amount of Seller's taxable loss, if any, recognized with respect to the sale of the Membership Interests.

(c) Distributions Attributable to Pre-Closing Income. Buyer shall request that the Company provide Buyer and Seller (as soon as reasonably practicable after the closing of the books set forth in **Section 8.4(a)**) with a calculation of (i) the net taxable income (net of cumulative losses) of the Company allocated to Seller through the Closing Date in accordance with **Section 8.4(a)** above ("***Pre-Closing Net Income***"), and (ii) the aggregate distributions paid to Seller by the Company through the Closing Date ("***Pre-Closing Distributions***"). In the event that the Pre-Closing Net Income exceeds the Pre-Closing Distributions, Buyer shall direct that the Company pay over to Seller all distributions otherwise payable by the Company to Buyer with respect to the Membership Interests until the amount of such distributions paid to Seller after the Closing Date equals the amount of such excess. Either Buyer or Seller may challenge the calculation of Pre-Closing Net Income or Pre-Closing Distributions by giving notice of such challenge to the Company and to the other within ten (10) business days after the Company's calculation is provided to such party. If Buyer and Seller shall not have reached agreement as to the amount of Pre-Closing Net Income and Pre-Closing Distributions within ten (10) business days of the date of such notice, determination of the amount of Pre-Closing Net Income and Pre-Closing Distributions shall be referred promptly to Ehrhardt Keefe Steiner & Hottman PC (or other auditing firm reasonably acceptable to Buyer and Seller) (the "***Auditor***"), which shall be engaged by Buyer and Seller to make such termination. In connection with such engagement, Buyer and Seller each shall propose an amount of distributions to be paid by the Company to Seller after the Closing Date. The determination of the Auditor shall be binding on Buyer and Seller as to the amount of distributions to be paid by the Company to Buyer after the Closing Date in the absence of manifest error. During the period that any challenge to the calculation of Pre-Closing Net Income or Pre-Closing Distributions is pending, distributions to Buyer by the Company of any amount in dispute shall be withheld by the Company and paid to Buyer or Seller, as appropriate, only upon final determination of the amount of Pre-Closing Net Income or Pre-Closing Distributions. The costs incurred in connection with the determination made by the Auditor shall be paid by the Party who proposed an amount of distributions to be paid by the Company to Buyer after the Closing Date that varied by a greater amount from the amount finally determined by the Auditor than the amount proposed by the other Party or shall be shared equally if the amounts proposed by Buyer and Seller varied by an equal amount.

(d) Capital Account. Except as set forth in **Section 8.7(c)**, Seller shall receive no further distributions from the Company. Buyer shall succeed to the entire Capital Account of Seller attributable to the Membership Interests.

8.5 Disposition of Shares, Warrant and Warrant Shares. Seller agrees not to make any disposition of all or any part of the Shares, the Warrant or the Warrant Shares unless and until:

(a) There is then in effect a registration statement under the Securities Act covering such proposed disposition, such disposition is made in accordance with such registration statement and Seller shall have provided to Buyer reasonable evidence of the manner of disposition and compliance with any applicable prospectus delivery requirements; or

(b) Seller shall have notified Buyer of the proposed disposition and shall have furnished Buyer with a statement of the circumstances surrounding the proposed disposition, and if reasonably requested by Buyer, Seller shall have furnished Buyer with an opinion of counsel, reasonably satisfactory to Buyer, for Seller to the effect that such disposition will not require registration of the Shares, the Warrants or the Exercise Shares under the Securities Act or applicable state securities laws.

ARTICLE 9

Miscellaneous

9.1 Amendment and Waiver. This Agreement may not be amended, modified, altered or supplemented other than by means of a written instrument duly executed and delivered on behalf of Buyer and Seller.

9.2 Notices. All notices, demands and other communications to be given or delivered under or by reason of the provisions of this Agreement shall be in writing and shall be deemed to have been given when personally delivered, when mailed by certified mail, return receipt requested, when sent by facsimile with confirmation of receipt received, or when delivered by overnight courier with executed receipt. Notices, demands and communications to Seller or Buyer shall, unless another address is specified in writing in accordance herewith, be sent to the address indicated below:

Notices to Seller:

Eagle Energy, LLC
c/o David Fick, President
2113 Pebble Beach Lane
Brandon, SD 57005
Tel: 605-201-1087
Fax: 605-582-8850

with a copy to:

Dorsey & Whitney LLP
50 South Sixth Street, Suite 1500
Minneapolis, MN 55402
Attn: Robert G. Hensley
Tel: (612) 340-2655
Fax: (612) 340-7800

Notices to Buyer:

Pacific Ethanol California, Inc.
5711 N. West Avenue
Fresno, CA 93711
Attn: Neil Koehler
Tel: (559) 435-1771
Fax: (559) 435-1478

with copies to:

Pacific Ethanol, Inc.
5711 N. West Avenue
Fresno, CA 93711
Attn: General Counsel
Tel: (559) 435-1771
Fax: (559) 435-1478

and to:

Cooley Godward LLP
380 Interlocken Crescent, Suite 900
Broomfield, CO 80021
Attn: Francis R. Wheeler, Esq.
Tel: (720) 566-4231
Fax: (720) 566-4099

9.3 Assignment. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the Parties and their respective successors and assigns. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assignable by either Party without the prior written consent of the other Party; *provided, however*, that Buyer may assign in whole its right, title and interest under this Agreement to any Affiliate.

9.4 Captions. The captions used in this Agreement are for convenience of reference only and do not constitute a part of this Agreement and shall not be deemed to limit, characterize or in any way affect any provision of this Agreement, and all provisions of this Agreement shall be enforced and construed as if no caption had been used in this Agreement.

9.5 Complete Agreement; Schedules And Exhibits. Each schedule and exhibit delivered pursuant to the terms of this Agreement shall be in writing and shall constitute a part of this Agreement, although schedules need not be attached to each copy of this Agreement. This Agreement, together with such schedules and exhibits, and the documents referred to herein contain the complete agreement between the Parties and supersede any prior understandings, agreements or representations by or between the Parties, written or oral, which may have related to the subject matter hereof in any way.

9.6 Governing Law; Venue.

(a) The laws of the State of Colorado, without regard to conflict of law doctrines, govern all questions concerning the construction, validity and interpretation of this Agreement and the performance of the obligations imposed by this Agreement.

(b) Any legal action or other legal proceeding relating to this Agreement or the enforcement of any provision of this Agreement may be brought or otherwise commenced in any state or federal court located in the County of Denver, Colorado. Each party to this Agreement:

(i) expressly and irrevocably consents and submits to the jurisdiction of each state and federal court located in the County of Denver, Colorado (and each appellate court located in the State of Colorado) in connection with any such legal proceeding;

(ii) agrees that each state and federal court located in the County of Denver, Colorado shall be deemed to be a convenient forum; and

(iii) agrees not to assert (by way of motion, as a defense or otherwise), in any such legal proceeding commenced in any state or federal court located in the County of Denver, Colorado, any claim that such party is not subject personally to the jurisdiction of such court, that such legal proceeding has been brought in an inconvenient forum, that the venue of such proceeding is improper or that this Agreement or the subject matter of this Agreement may not be enforced in or by such court.

9.7 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Documents will be deemed as originals if received by facsimile copy.

9.8 Third Party Beneficiaries. Nothing in this Agreement is intended or will be construed to entitle any person or entity, other than Buyer and Seller or their respective permitted transferees and assigns, to any claim, cause of action, remedy or right of any kind.

9.9 Severability. The validity, legality or enforceability of the remainder of this Agreement will not be affected even if one or more of the provisions of this Agreement will be held to be invalid, illegal or unenforceable in any respect.

[Signatures Follow]

In Witness Whereof, each of the parties has caused this Agreement to be duly executed by duly authorized individuals as of the date hereof.

Buyer

Pacific Ethanol California, Inc.,
a California corporation

By: /s/Neil M. Koehler
Name: Neil M. Koehler
Title: CEO

Seller

Eagle Energy, LLC,
a South Dakota limited liability company

By: /s/David M. Fink
Name: David M. Fink
Title: President

Parent

Pacific Ethanol, Inc.,
a Delaware corporation

By: /s/Neil M. Koehler
Name: Neil M. Koehler
Title: CEO

Exhibit A

Definitions

"***Account***" means account number 4581024865 held by Seller at First Farmers & Merchants National Bank, 303 East Main, Luverne, Minnesota 56156, Attn: Cliff Boom (telephone: 507 283 4463) (ABA# 091216007).

"***Affiliate***" means an individual or entity that directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, a specified individual or entity. For purposes of this definition, "control" shall include, without limitation, the exertion of significant influence over an individual or entity and shall be conclusively presumed as to any fifty percent (50%) or greater equity interest.

"***Assignment and Assumption***" is defined in **Section 7.1**.

"***Business***" is defined in the recitals hereto.

"***Buyer***" is defined in the preamble hereof and shall also include any Affiliate of Buyer that becomes an assignee of the Agreement pursuant to the terms of **Section 9.3**.

"***Charter Documents***" shall mean, as applicable, the specified entity's (i) certificate of incorporation or formation or other charter or organizational documents, and (ii) bylaws or operating agreement, each as from time to time in effect.

"***Closing***" is defined in **Section 2.3**.

"***Closing Date***" is defined in **Section 2.3**.

"***Code***" means the Internal Revenue Code of 1986, as amended.

"***Company***" is defined in the recitals hereto.

"***Confidential Information***" is defined in **Section 8.3**.

"***Encumbrance***" means any lien, pledge, hypothecation, charge, mortgage, security interest, encumbrance, equity, trust, equitable interest, claim, preference, right of possession, lease, tenancy, license, encroachment, covenant, infringement, interference, Order, proxy, option, right of first refusal, preemptive right, community property interest, legend, defect, impediment, exception, reservation, limitation, impairment, imperfection of title, condition or restriction of any nature (including any restriction on the transfer of an asset, any restriction on the receipt of any income derived from an asset, any restriction on the use of any asset and any restriction on the possession, exercise or transfer of any other attribute of ownership of an asset).

"***Escrow Agreement***" is defined in **Section 2.1**.

"***Exercise Shares***" means the shares of Parent Common Stock issuable upon exercise of the Warrant.

"***Indemnified Party***" means (a) Buyer, (b) the Company; (c) Buyer's and the Company's current and future Affiliates; (d) the respective Representatives of the persons referred to in clauses (a), (b) and (c); and the respective successors and assigns of the persons referred to in clauses (a), (b), (c) and (d) above.

"***Loss***" shall include any loss, damage, injury, decline in value, Liability, claim, demand, settlement, judgment, award, fine, penalty, Tax, fee (including any legal fee, expert fee, accounting fee or advisory fee), charge, cost (including court costs and any cost of investigation) or expense of any nature.

"***Material Adverse Change***" means any change or changes that are material and adverse to the Business, properties, prospects, working capital, financial condition or results of operations of the Company.

"***Membership Interests***" is defined in the recitals hereto.

"***Membership Interest Certificates***" means collectively (i) Certificate of Membership of Front Range Energy, LLC #2, representing 4,094.595 Class B Voting Units of the Company and (ii) Certificate of Membership of Front Range Energy, LLC #3, representing 6,000 Class B Voting Units of the Company.

"***Operating Agreement***" means the Second Amended and Restated Operating Agreement of Front Range Energy, LLC, dated as of October 20, 2005.

"***Parent***" is defined in the preamble hereof.

"***Parent Common Stock***" means the common stock, par value $0.001 per share, of Parent.

"***Party***" or "***Parties***" means any of Seller and Buyer.

"***Person***" means any individual, person, limited liability company, partnership, trust, unincorporated organization, corporation, association, joint stock company, business, group, government, government agency or authority or other entity.

"***Registration Rights Agreement***" is defined in **Section 6.1**.

"***Representatives***" shall mean officers, directors, employees, agents, attorneys, accountants, advisors and representatives.

"***SEC***" means the Securities and Exchange Commission.

"***Securities Act***" means the Securities Act of 1933, as amended.

"***Securities Exchange Act***" means the Securities Exchange Act of 1934, as amended.

"***Seller***" is defined in the preamble hereof.

"***Shares***" is defined in **Section 2.1(d)**.

"***Tax***" means any foreign, federal, state, county or local income, sales and use, excise, franchise, real and personal property, transfer, gross receipt, capital stock, production, business and occupation, disability, employment, payroll, severance or withholding tax or charge imposed by any governmental entity, any interest and penalties (civil or criminal) related thereto or to the nonpayment thereof, and any Loss in connection with the determination, settlement or litigation of any Tax liability.

"***Transactions***" shall mean (a) the execution and delivery of the respective Transaction Documents; and (b) all of the transactions contemplated by the respective Transaction Documents, including (i) the sale of the Membership Interests by Seller to Buyer in accordance with this Agreement; (ii) the issuance of the Shares and Warrant to Seller by Parent; and (iii) the performance by Seller and Buyer of their respective obligations under the Transaction Documents and the exercise by Seller and Buyer of their respective rights under the Transaction Documents.

"***Transaction Documents***" shall mean (a) the Agreement; (b) the Escrow Agreement; (c) the Registration Rights Agreement; (c) the Non-Competition Agreement; (d) the Warrant; and (e) the certificates referred to in **Sections 6.1(a)**, **(b)** and **(c)**.

"***Warrant***" is defined in **Section 2.1(c)**.

EXHIBIT 10.2

THIS WARRANT AND THE UNDERLYING SECURITIES HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR APPLICABLE STATE SECURITIES LAWS. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO SUCH SECURITIES UNDER THE ACT OR SUCH LAWS OR, IF REASONABLY REQUESTED BY THE COMPANY, AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION OR QUALIFICATION IS NOT REQUIRED.

PACIFIC ETHANOL, INC.

WARRANT TO PURCHASE COMMON STOCK

October 17, 2006

Void After October 17, 2007

This Certifies That, for value received, **Eagle Energy, LLC**, or registered assigns (the "**Holder**"), is entitled to subscribe for and purchase at the Exercise Price (defined below) from **Pacific Ethanol, Inc.**, a Delaware corporation (the "**Company**"), with its principal office at 5711 N. West Avenue, Fresno, CA 93711, up to 693,963 shares of Common Stock of the Company (the "**Common Stock**").

1. Definitions. As used herein, the following terms shall have the following respective meanings:

(a) "**Exercise Period**" shall mean the period commencing with the date hereof and ending at 5:00 PM, Pacific Daylight Time, on October 17, 2007, unless sooner terminated as provided below.

(b) "**Exercise Price**" shall mean $14.41 per share, subject to adjustment pursuant to Section 5 below.

(c) "**Exercise Shares**" shall mean the shares of the Company's Common Stock issuable upon exercise of this Warrant, subject to adjustment pursuant to the terms herein, including but not limited to adjustment pursuant to Section 5 below.

2. Exercise of Warrant. The rights represented by this Warrant may be exercised in whole or in part at any time during the Exercise Period, by delivery of the following to the Company at its address set forth above (or at such other address as it may designate by notice in writing to the Holder):

(a) An executed Notice of Exercise in the form attached hereto; and

(b) Payment of the Exercise Price in immediately available funds.

The Holder shall not be required to deliver the original Warrant in order to effect an exercise hereunder. Execution and delivery of the Notice of Exercise by the Holder shall have the same effect as cancellation of the original Warrant and issuance of a new Warrant evidencing the right to purchase the number of Exercise Shares remaining to be purchased hereunder.

Upon the exercise of the rights represented by this Warrant, the Company shall promptly (but in no event later than three trading days if a registration statement is in effect covering the resale of the Exercise Shares) issue and deliver, or cause to be issued and delivered, a certificate or certificates for the Exercise Shares so purchased, registered in the name of the Holder or, if the Holder complies with the requirements of Section 10 and so designates in the Notice of Exercise, another name or names.

The person in whose name any certificate or certificates for Exercise Shares are to be issued upon exercise of this Warrant shall be deemed to have become the holder of record of such shares on the date on which the Notice of Exercise and payment of the Exercise Price was made, irrespective of the date of delivery of such certificate or certificates, except that, if the date of such Notice and payment is a date when the stock transfer books of the Company are closed, such person shall be deemed to have become the holder of such shares at the close of business on the next succeeding date on which the stock transfer books are open.

2.1 Net Exercise. Notwithstanding any provisions herein to the contrary, if the fair market value of one share of the Company's Common Stock is greater than the Exercise Price (at the date of calculation as set forth below), in lieu of exercising this Warrant in whole or in part by payment of immediately available funds, the Holder may elect to receive shares equal to the value (as determined below) of this Warrant (or the portion thereof being canceled) by delivery of the properly endorsed Notice of Exercise in which event the Company shall issue to the Holder a number of shares of Common Stock computed using the following formula:

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

Where X = the number of shares of Common Stock to be issued to the Holder

Y = the number of shares of Common Stock purchasable under the Warrant or, if only a portion of the Warrant is being exercised, the portion of the Warrant being canceled (at the date of such calculation)

A = the fair market value of one share of the Company's Common Stock (at the date of such calculation)

B = Exercise Price (as adjusted to the date of such calculation)

For purposes of the above calculation, the fair market value of one share of Common Stock shall be: If the Common Stock is traded on a national securities exchange or admitted to unlisted trading privileges on such an exchange, the fair market value as of a specified day shall be the last reported sale price of Common Stock on such exchange on such date or if no such sale is made on such day, the mean of the closing bid and asked prices for such day on such exchange. If the Common Stock is not so listed or admitted to unlisted trading privileges, the fair market value as of a specified day shall be the mean of the last bid and asked prices reported on such date by the National Quotation Bureau Incorporated. If the Common Stock is not so listed or admitted to unlisted trading privileges and bid and asked prices are not reported, the fair market value as of a specified day shall be determined in good faith by the Board of Directors of the Company.

3. Covenants of the Company.

3.1 Covenants as to Exercise Shares. The Company covenants and agrees that all Exercise Shares that may be issued upon the exercise of the rights represented by this Warrant will, upon issuance, be validly issued and outstanding, fully paid and nonassessable, and free from all taxes, liens and charges with respect to the issuance thereof. The Company further covenants and agrees that the Company will, at all times during the Exercise Period, have authorized and reserved, free from preemptive rights, a sufficient number of shares of its Common Stock to provide for the exercise of the rights represented by this Warrant. Without limiting the liability of the Company for breach of the foregoing covenants, if at any time during the Exercise Period the number of authorized but unissued shares of Common Stock shall not be sufficient to permit exercise of this Warrant, the Company will take such corporate action as may be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purposes.

3.2 Notice of Corporate Events. If the Company (i) declares a dividend or any other distribution of cash, securities or other property in respect of its Common Stock, including without limitation any granting of rights or warrants to subscribe for or purchase any capital stock of the Company or any subsidiary, (ii) authorizes or approves, enters into any agreement contemplating or solicits stockholder approval for any Organic Transaction or (iii) authorizes the voluntary dissolution, liquidation or winding up of the affairs of the Company, then the Company shall deliver to the Holder a notice describing the material terms and conditions of such transaction, at least 10 calendar days prior to the applicable record or effective date on which a person would need to hold Common Stock in order to participate in or vote with respect to such transaction, and the Company will take all steps reasonably necessary in order to insure that the Holder is given the practical opportunity to exercise this Warrant prior to such time so as to participate in or vote with respect to such transaction; provided, however, that the failure to deliver such notice or any defect therein shall not affect the validity of the corporate action required to be described in such notice.

4. Adjustment of Exercise Price; Effect of Organic Changes

4.1 Adjustment of Exercise Price. In the event of changes in the outstanding Common Stock of the Company by reason of stock dividends, splits, recapitalizations, reclassifications, combinations or exchanges of shares, separations, reorganizations, liquidations, or the like, the number and class of shares available under the Warrant in the aggregate and the Exercise Price shall be correspondingly adjusted to give the Holder of the Warrant, on exercise for the same aggregate Exercise Price, the total number, class, and kind of shares as the Holder would have owned had the Warrant been exercised prior to the event and had the Holder continued to hold such shares until after the event requiring adjustment. The form of this Warrant need not be changed because of any adjustment in the number of Exercise Shares subject to this Warrant.

4.2 Reorganization, Reclassification, Consolidation, Merger or Sale. If any recapitalization, reclassification or reorganization of the capital stock of the Company, or any consolidation or merger of the Company with another corporation, or the sale of all or substantially all of its assets or other transaction shall be effected in such a way that holders of the Company's Common Stock shall be entitled to receive stock, securities, or other assets or property (an "**Organic Change**"), then, as a condition of such Organic Change, lawful and adequate provisions shall be made by the Company whereby the Holder hereof shall thereafter have the right to purchase and receive (in lieu of the shares of the Common Stock of the Company immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby, which rights to purchase and receive such shares of Common Stock shall have terminated upon the occurrence of an Organic Change and been replaced by the rights described herein) such shares of stock, securities or other assets or property as may be issued or payable with respect to or in exchange for a number of outstanding shares of such Common Stock equal to the number of shares of such stock immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby. In the event of any Organic Change, appropriate provision shall be made by the Company with respect to the rights and interests of the Holder of this Warrant to the end that the provisions hereof (including, without limitation, provisions for adjustments of the Exercise Price and of the number of shares purchasable and receivable upon the exercise of this Warrant) shall thereafter be applicable, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise hereof. The Company will not effect any such consolidation, merger or sale unless, prior to the consummation thereof, the successor corporation (if other than the Company) resulting from such consolidation or the corporation purchasing such assets shall assume by written instrument reasonably satisfactory in form and substance to the Holder of this Warrant, executed and mailed or delivered to the registered Holder hereof at the last address of such Holder appearing on the books of the Company, the obligation to deliver to such Holder such shares of stock, securities or assets as, in accordance with the foregoing provisions, such Holder may be entitled to purchase.

4.3 Notice of Adjustments. Upon the occurrence of each adjustment pursuant to this Section 4, the Company at its expense will promptly compute such adjustment in accordance with the terms of this Warrant and prepare a certificate setting forth such adjustment, including a statement of the adjusted Exercise Price and adjusted number or type of Warrant Shares or other securities issuable upon exercise of this Warrant (as applicable), describing the transactions giving rise to such adjustments and showing in detail the facts upon which such adjustment is based. Upon written request, the Company will promptly deliver a copy of each such certificate to the Holder.

4.4 No Impairment. The Company will not, by amendment of its governing documents or through any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the Holder against impairment. Without limiting the generality of the foregoing, the Company (i) will not increase the par value of any Warrant Shares above the amount payable therefore on such exercise, (ii) will take all such action as may be reasonably necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable Warrant Shares on the exercise of this Warrant, and (iii) will not close its stockholder books or records in any manner which interferes with the timely exercise of this Warrant.

5. Fractional Shares. No fractional shares shall be issued upon the exercise of this Warrant as a consequence of any adjustment pursuant hereto. All Exercise Shares (including fractions) issuable upon exercise of this Warrant may be aggregated for purposes of determining whether the exercise would result in the issuance of any fractional share. If, after aggregation, the exercise would result in the issuance of a fractional share, the Company shall, in lieu of issuance of any fractional share, pay the Holder otherwise entitled to such fraction a sum in cash equal to the product resulting from multiplying the then current fair market value of an Exercise Share by such fraction.

6. Amendment and Waiver. This Warrant may be amended, and the obligations of the Company and the rights of the Holder under the Warrant may be waived, with the written consent of the Company and the Holder.

7. Limitation on Exercise. Notwithstanding anything to the contrary contained herein, the number of shares of Common Stock that may be acquired by the Holder upon any exercise of this Warrant (or otherwise in respect hereof) shall be limited to the extent necessary to insure that, following such exercise (or other issuance), the total number of shares of Common Stock then beneficially owned by such Holder and its Affiliates and any other Persons whose beneficial ownership of Common Stock would be aggregated with the Holder's for purposes of Section 13(d) of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), does not exceed 4.999% (the "**Maximum Percentage**") of the total number of issued and outstanding shares of Common Stock (including for such purpose the shares of Common Stock issuable upon such exercise). For such purposes, beneficial ownership shall be determined in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder. Each delivery of an Exercise Notice hereunder will constitute a representation by the Holder that it has evaluated the limitation set forth in this paragraph and determined that issuance of the full number of Warrant Shares requested in such Exercise Notice is permitted under this paragraph. The Company's obligation to issue shares of Common Stock in excess of the limitation referred to in this Section shall be suspended (and shall not terminate or expire notwithstanding any contrary provisions hereof) until such time, if any, as such shares of Common Stock may be issued in compliance with such limitation, but in no event later than the end of the Exercise Period. By written notice to the Company, the Holder may waive the provisions of this Section of increase or decrease the Maximum Percentage to any other percentage specified in such notice, but (i) any such waiver or increase will not be effective until the 61st day after such notice is delivered to the Company, and (ii) any such waiver to increase or decrease will apply only to the Holder and not to any other holder of warrants to purchase shares of the Company's Common Stock.

8. No Stockholder Rights. This Warrant in and of itself shall not entitle the Holder to any voting rights or other rights as a stockholder of the Company.

9. Transfer of Warrant. Subject to applicable laws and the restrictions on transfer set forth on the first page of this Warrant and compliance with this Section 9, this Warrant and all rights hereunder may be transferred by the Holder, in person or by duly authorized attorney, upon delivery of this Warrant and the form of assignment attached hereto to a transferee designated by Holder (the "**Transferee**"). It shall be condition of such transfer and the registration of the Transferee as Holder hereunder that the Transferee shall sign an investment letter, which shall include the following representations and undertakings by the Transferee and shall otherwise be in form and substance reasonably satisfactory to the Company:

9.1 Securities Are Not Registered.

(a) The Transferee understands that the Warrant and the Exercise Shares are "restricted securities" and that transfer or sale to the Transferee has not been registered under the Securities Act of 1933, as amended (the "**Act**").

(b) The Transferee is acquiring the Warrant for its own account for investment only, has no present intention of distributing the Warrant or the Exercise Shares and has no arrangement or understanding with any other person regarding the distribution of the Warrant or the Exercise Shares (this representation and warranty not limiting the Transferee's right to sell the Exercise Shares pursuant to an effective registration statement under the Act or otherwise in accordance with an exemption from registration under the Act).

(c) The Transferee recognizes that the Warrant and the Exercise Shares cannot be resold unless they are subsequently registered under the Act or an exemption from such registration is available.

(d) The Transferee is an "accredited investor," as defined in Rule 501(a) under the Act.

9.2 Disposition of Warrant and Exercise Shares.

(a) The Transferee further agrees not to make any disposition of all or any part of the Warrant or Exercise Shares unless and until:

(i) There is then in effect a registration statement under the Act covering such proposed disposition, such disposition is made in accordance with such registration statement and the Transferee shall have provided to the Company reasonable evidence of the manner of disposition and compliance with any applicable prospectus delivery requirements; or

(ii) The Transferee shall have notified the Company of the proposed disposition and shall have furnished the Company with a statement of the circumstances surrounding the proposed disposition, and if reasonably requested by the Company, the Transferee shall have furnished the Company with an opinion of counsel, reasonably satisfactory to the Company, for the Transferee to the effect that such disposition will not require registration of such Warrant or Exercise Shares under the Act or applicable state securities laws.

(b) The Transferee understands and agrees that all certificates evidencing the Exercise Shares may bear the following legend:

> THESE SECURITIES HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") OR APPLICABLE STATE SECURITIES LAWS. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT OR LAWS OR, IF REASONABLY REQUESTED BY THE COMPANY, AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION OR QUALIFICATION IS NOT REQUIRED.

10. Issuance of Exercise Shares in Name Other Than Holder. The Holder may designate that the Exercise Shares be issued in a name or names other than the Holder so long as the Holder shall have transferred the right to receive such Exercise Shares in a manner consistent with the requirements of Section 9.2(a).

11. Lost, Stolen, Mutilated or Destroyed Warrant. If this Warrant is lost, stolen, mutilated or destroyed, the Company may, on such terms as to indemnity or otherwise as it may reasonably impose (which shall, in the case of a mutilated Warrant, include the surrender thereof), issue a new Warrant of like denomination and tenor as the Warrant so lost, stolen, mutilated or destroyed. Any such new Warrant shall constitute an original contractual obligation of the Company, whether or not the allegedly lost, stolen, mutilated or destroyed Warrant shall be at any time enforceable by anyone.

12. Notices, etc. All notices required or permitted hereunder shall be in writing and shall be deemed effectively given: (a) upon personal delivery to the party to be notified, (b) when sent by confirmed facsimile if sent during normal business hours of the recipient, if not, then on the next business day, (c) three (3) business days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one (1) business day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. All communications shall be sent to the Company at the address listed on the first page of this Warrant and to Holder at the address set forth on the signature page hereof, or at such other address as the Company or Holder may designate by ten (10) days advance written notice to the other parties hereto.

13. Acceptance. Receipt of this Warrant by the Holder shall constitute acceptance of and agreement to all of the terms and conditions contained herein.

14. Governing Law. This Warrant and all rights, obligations and liabilities hereunder shall be governed by the laws of the State of California.

In Witness Whereof, the Company has caused this Warrant to be executed by its duly authorized.

Pacific Ethanol, Inc.

By: /s/ Neil M. Koehler
Name: Neil M. Koehler
Title: CEO

Accepted and Agreed:

Eagle Energy, LLC

By: /s/ David M. Flick
Name: David M. Flick
Title: President

Address for Notices:

David Fick, President
Eagle Energy, LLC
2113 Pebble Beach Lane
Brandon, SD 57005

Phone: 605-201-1087
Fax: 605-582-8850

NOTICE OF EXERCISE

TO: Pacific Ethanol, Inc.

(1) ☐ The undersigned (the "**Holder**") hereby elects to purchase _____ shares of Common Stock of Pacific Ethanol, Inc. (the "**Company**") pursuant to the terms of the Warrant dated October __, 2006 (the "**Warrant**"), and tenders herewith payment of the exercise price in full, together with all applicable transfer taxes, if any, due as a consequence of the issuance of shares of Common Stock to a person other than the Holder.

☐ The Holder hereby elects to purchase _____ shares of Common Stock of Pacific Ethanol, Inc. (the "**Company**") pursuant to the terms of the net exercise provisions set forth in Section 2.1 of the Warrant, and shall tender payment of all applicable transfer taxes, if any, due as a consequence of the issuance of the shares of Common Stock to a person other than the Holder.

(2) Please issue a certificate or certificates representing said shares of Common Stock in the name of the undersigned or, subject to compliance by the Holder with Section 10 of the Warrant, in such other name as is specified below:

_____
(Name)

_____
_____
(Address)

(3) The Holder represents that (i) the Holder understands that the issuance of the shares of Common Stock upon exercise of this Warrant has not been registered under the Securities Act of 1933, as amended (the "**Securities Act**"); (ii) the undersigned is an "accredited investor" within the definition set forth in Rule 501(a) of the Securities Act, and (iii) the Holder understands that the Holder must comply with the requirements of Section 9.2 of the Warrant with respect to any transfer of shares of Common Stock issued upon exercise of the Warrant.

_____

(Date) (Signature)

_____
(Print name)

ASSIGNMENT FORM

(To assign the foregoing Warrant, execute this form and supply the required information.
Do not use this form to purchase shares.)

For Value Received, the foregoing Warrant and all rights evidenced thereby are hereby assigned to

Name:_____(Please Print)

Address:_____
(Please Print)

Dated: _____, ____

Holder's
Signature:_____

Holder's
Address:_____

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant, without alteration or enlargement or any change whatever. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant.

EXHIBIT 10.3

REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (this "Agreement") dated as of October 17, 2006 is made by and between PACIFIC ETHANOL, INC., a Delaware corporation (the "Company"), and EAGLE ENERGY, LLC, a South Dakota limited liability company (the "Seller").

This Agreement is being entered into pursuant to the Membership Interests Purchase Agreement, dated as of the date hereof between the Company and the Seller (the "Purchase Agreement").

The Company and the Seller hereby agree as follows:

1. Definitions. Capitalized terms used and not otherwise defined herein shall have the meanings given such terms in the Purchase Agreement. Unless otherwise defined in the Purchase Agreement, capitalized terms used in this Agreement are defined in Exhibit A.

2. Mandatory Registration. On or prior to the Filing Date, the Company shall prepare and file with the Commission a Registration Statement covering all Registrable Securities for an offering pursuant to Rule 415. The Registration Statement shall be on Form S-3 (except if the Company is not then eligible to register for resale the Registrable Securities on Form S-3, in which case such registration shall be on another appropriate form). The Company shall use its commercially reasonable efforts to cause the Registration Statement to be declared effective under the Securities Act as promptly as reasonably possible after the filing thereof and to keep such Registration Statement continuously effective under the Securities Act until such date as is the earlier of: (i) the date when all Registrable Securities covered by such Registration Statement have been sold; and (ii) the date on which all Registrable Securities may be sold during a period of 90 days without any restriction pursuant to Rule 144 as determined by counsel to the Company pursuant to a written opinion letter, addressed to the Company's transfer agent to such effect (the "Effectiveness Period").

3. Registration Procedures. In connection with the Company's registration obligations hereunder, the Company shall:

(a) (i) Prepare and file with the Commission on or prior to the Filing Date, a Registration Statement on Form S-3 (or if the Company is not then eligible to register for resale the Registrable Securities on Form S-3 such registration shall be on another appropriate form) in accordance with the method or methods of distribution thereof as specified by the Holders, and use its commercially reasonable efforts to cause the Registration Statement to become effective as soon as possible and to remain effective as provided herein. The Company shall provide a copy of the Registration Statement, and any amendments or supplements thereto, to the Holder by facsimile, e-mail or other method of communication acceptable to the Holder, at least two Business Days prior to filing the same with the Commission and shall incorporate into the same any revisions or changes therein regarding the Holder as the Holder shall reasonably request. The Company shall promptly notify the Holders via facsimile of the effectiveness of the Registration Statement by the third Business Day after the Company receives notification of the effectiveness from the Commission.

(ii) If: (A) the Registration Statement is not filed on or prior to the Filing Date, (B) the Company fails to file with the Commission a request for acceleration in accordance with Rule 461 promulgated under the Securities Act, within five Business Days of the date that the Company is notified (orally or in writing, whichever is earlier) by the Commission that the Registration Statement will not be "reviewed," or is not subject to further review, (C) the Registration Statement filed is not declared effective by the Commission on or before the Effectiveness Date, (D) the Company fails to have the Registrable Securities listed on an Eligible Market at any time during the Effectiveness Period, (E) except as provided in subsection 3(n) below, after the Registration Statement is first declared effective by the Commission, it ceases for any reason to remain continuously effective as to all Registrable Securities for which it is required to be effective, or the Holders are not permitted to utilize the Prospectus therein to resell such Registrable Securities, for more than 10 Business Days, or (F) in the event the Holder has been notified in the circumstances and in accordance with subsection 3(n) below, after the Registration Statement is first declared effective by the Commission, it ceases for any reason to remain continuously effective as to all Registrable Securities for which it is required to be effective, or the Holders are not permitted to utilize the Prospectus therein to resell such Registrable Securities, for an aggregate of 45 days during any 12-month period (which need not be consecutive days) (any such failure or breach being referred to as an "Event," and for purposes of clause (A), (C) or (D) the date on which such Event occurs, or for purposes of clause (B) or (E), the date on which such five Business Day period is exceeded, or for purposes of clause (F) the date on which such 45 day-period plus is exceeded being referred to as "Event Date"), then on each such Event Date and on each monthly anniversary of each such Event Date (if the applicable Event shall not have been cured by such date) until the applicable Event is cured, the Company shall pay to each Holder an amount in cash, as liquidated damages and not as a penalty, equal to 1.0% of (x) the sum of number of Registrable Securities held by the Holder plus the number of Warrant Shares issuable upon exercise of the Warrants as of the Event Date, multiplied by (y) the closing market price of the Company's Common Stock on the Event Date; provided, however, that the total amount of payments pursuant to this Section 3(a)(ii) shall not exceed, when aggregated with all such payments paid to the Holder and all other Holders, $3,000,000. The foregoing liquidated damages shall be calculated as of each monthly anniversary of each such Event Date if the applicable Event shall not have been cured by such date. If the Company fails to pay any liquidated damages pursuant to this Section in full within seven days after the date payable, the Company will pay interest thereon at a rate of 8% per annum (or such lesser maximum amount that is permitted to be paid by applicable law) to the Holder, accruing daily from the date such liquidated damages are due until such amounts, plus all such interest thereon, are paid in full.

(b) Prepare and file with the Commission such amendments, including post-effective amendments, to the Registration Statement as may be necessary to keep the Registration Statement continuously effective as to the applicable Registrable Securities for the Effectiveness Period and prepare and file with the Commission such additional Registration Statements necessary to register for resale under the Securities Act all of the Registrable Securities; (ii) cause the related Prospectus to be amended or supplemented by any required Prospectus supplement, and as so supplemented or amended to be filed pursuant to Rule 424 (or any similar provisions then in force) promulgated under the Securities Act; (iii) respond as promptly as reasonably possible to any comments received from the Commission, and in any event within 12 Business Days (except to the extent that the Company reasonably requires additional time to respond to accounting comments), with respect to the Registration Statement or any amendment thereto; and (iv) comply in all material respects with the provisions of the Securities Act and the Exchange Act with respect to the disposition of all Registrable Securities covered by the Registration Statement during the applicable period in accordance with the intended methods of disposition by the Holders thereof set forth in the Registration Statement, as amended, or in such Prospectus, as supplemented.

(c) Notify the Holders of Registrable Securities to be sold as promptly as reasonably possible: (i) of any comments of the Commission with respect to, or any request by the Commission or any other federal or state governmental authority for amendments or supplements to, the Registration Statement or Prospectus; (ii) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement covering any or all of the Registrable Securities or the initiation of any Proceedings for that purpose; (iii) of the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Securities for sale in any jurisdiction, or the initiation or threatening of any Proceeding for such purpose; and (iv) of the occurrence of any event that makes any statement made in the Registration Statement or Prospectus or any document incorporated or deemed to be incorporated therein by reference untrue in any material respect or that requires any revisions to the Registration Statement, Prospectus or other documents so that, in the case of the Registration Statement or the Prospectus, as the case may be, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(d) Use its reasonable efforts to avoid the issuance of, or, if issued, obtain the withdrawal of: (i) any order suspending the effectiveness of the Registration Statement; or (ii) any suspension of the qualification (or exemption from qualification) of any of the Registrable Securities for sale in any jurisdiction, at the earliest practicable moment.

(e) Promptly deliver to each Holder, without charge, to the extent requested by such Person, at least one conformed copy of each Registration Statement and each amendment thereto, including financial statements and schedules, all documents incorporated or deemed to be incorporated therein by reference and all exhibits (including those previously furnished or incorporated by reference) after the filing of such documents with the Commission.

(f) On the effective date of the Registration Statement and any post-effective amendment thereto, notify the Holder and promptly, but in any event within two Business Days, deliver to each Holder, without charge, as many copies of the Prospectus or Prospectuses (including each form of prospectus) and each amendment or supplement thereto as such Person may reasonably request; and the Company hereby consents to the use of such Prospectus and each amendment or supplement thereto, during periods in which such Prospectus and each amendment or supplement thereto are effective, by each Holder in connection with the offering and sale of the Registrable Securities covered by such Prospectus and any amendment or supplement thereto.

(g) Prior to any public offering of Registrable Securities, use its reasonable efforts to register or qualify or cooperate with the Holders in connection with the registration or qualification (or exemption from such registration or qualification) of such Registrable Securities for offer and sale under the securities or Blue Sky laws of such jurisdictions within the United States as any Holder requests in writing, to keep each such registration or qualification (or exemption therefrom) effective during the Effectiveness Period and to do any and all other acts or things necessary or advisable to enable the disposition in such jurisdictions of the Registrable Securities covered by a Registration Statement; provided, however, that the Company shall not be required to qualify generally to do business in any jurisdiction where it is not then so qualified or to take any action that would subject it to general service of process in any such jurisdiction where it is not then so subject or subject the Company to any material tax in any such jurisdiction where it is not then so subject.

(h) Cooperate with the Holders to facilitate the timely preparation and delivery of certificates representing Registrable Securities to be sold pursuant to a Registration Statement.

(i) Upon the occurrence of any event contemplated by Section 3(c), as promptly as reasonably possible, prepare a supplement or amendment, including a post-effective amendment, to the Registration Statement or a supplement to the related Prospectus or any document incorporated or deemed to be incorporated therein by reference, and file any other required document so that, as thereafter delivered, neither the Registration Statement nor such Prospectus will contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(j) During the Effectiveness Period, maintain the listing of such Registrable Securities on the Trading Market or another Eligible Market;

(k) If the Registration Statement refers to any Holder by name or otherwise as the holder of any securities of the Company, then such Holder shall have the right to require (if such reference to such Holder by name or otherwise is not required by the Securities Act or any similar federal statute then in force) the deletion of the reference to such Holder in any amendment or supplement to the Registration Statement filed or prepared subsequent to the time that such reference ceases to be required.

Each Holder covenants and agrees that: (i) it will not sell any Registrable Securities pursuant to the Registration Statement until it has received copies of the Prospectus as then amended or supplemented as contemplated in Section 3(f) and written notice from the Company that such Registration Statement and any post-effective amendments thereto have become effective as contemplated by Section 3(f); (ii) it and its officers, directors or Affiliates, if any, will comply with the prospectus delivery and all other requirements of the Securities Act as applicable to them in connection with sales of Registrable Securities pursuant to the Registration Statement; and (iii) it will furnish to the Company information regarding such Holder and the distribution of such Registrable Securities as is required by law to be disclosed in the Registration Statement, and the Company may exclude from such registration the Registrable Securities of any such Holder who fails to furnish such information prior to the earlier of the time the Registration Statement is filed or a reasonable time after receiving such request.

Each Holder agrees by its acquisition of such Registrable Securities that, upon receipt of a notice from the Company of the occurrence of any event of the kind described in Section 3(c)(i), 3(c)(ii), 3(c)(iii), or 3(c)(iv), such Holder will forthwith discontinue disposition of such Registrable Securities under the Registration Statement until such Holder's receipt of the copies of the supplemented Prospectus and/or amended Registration Statement contemplated by Section 3(i), or until it is advised in writing (the "Advice") by the Company that the use of the applicable Prospectus may be resumed, and, in either case, has received copies of any additional or supplemental filings that are incorporated or deemed to be incorporated by reference in such Prospectus or Registration Statement.

(l) Not sell, offer for sale or solicit offers for sale or to buy, and shall use its best efforts to ensure that no Affiliate of the Company shall, sell, offer for sale or to buy or otherwise negotiate in respect of any security (as defined in Section 2 of the Securities Act) that would be integrated with the offer or sale of the Registrable Securities in a manner that would require the registration under the Securities Act of the sale of the Securities to the Holders or that would be integrated with the offer or sale of the Securities for purposes of the rules and regulations of any Trading Market.

(m) Not permit any of its security holders (other than the Holder in such capacity pursuant hereto) to include securities of the Company in the Registration Statement other than the Registrable Securities, and the Company shall not after the date hereof enter into any agreement providing any such right to any of its security holders.

(n) Notwithstanding anything to the contrary in this Section 3, if at any time after the date the Registration Statement is declared effective the Company furnishes to the Holder a certificate signed by the Company's chief executive officer stating that in the good faith judgment of the Company's Board of Directors it would be materially detrimental to the Company and its stockholders for such Registration Statement to remain effective for as long as such Registration Statement otherwise would be required to remain effective, because such action would (i) materially interfere with a significant acquisition, corporate reorganization, or other similar transaction involving the Company; (ii) require premature disclosure of material non-public information that the Company has a bona fide business purpose for preserving as confidential; or (iii) render the Company unable to comply with requirements under the Securities Act or Exchange Act, then the Company shall have the right to suspend effectiveness of a Registration Statement for a period not to exceed 15 consecutive Business Days; provided, however, that the Company may not suspend its obligation under this Section 3(n) for more than 30 Business Days in the aggregate during any 12-month period; and provided, further, that no such postponement or suspension shall be permitted for consecutive 15 Business Day periods arising out of the same set of facts, circumstances or transactions.

4. Registration Expenses. All fees and expenses incident to the performance of or compliance with this Agreement by the Company, except as and to the extent specified in this Section 4, shall be borne by the Company whether or not the Registration Statement is filed or becomes effective and whether or not any Registrable Securities are sold pursuant to the Registration Statement. The fees and expenses referred to in the foregoing sentence shall include, without limitation: (i) all registration and filing fees; (ii) printing expenses (including, without limitation, expenses of printing certificates for Registrable Securities and of printing prospectuses if the printing of prospectuses is requested by the holders of a majority of the Registrable Securities included in the Registration Statement); (iii) messenger, telephone and delivery expenses; (iv) fees and disbursements of counsel for the Company; (v) Securities Act liability insurance, if the Company so desires such insurance; and (vi) fees and expenses of all other Persons retained by the Company in connection with the consummation of the transactions contemplated by this Agreement, including, without limitation, the Company's independent public accountants (including the expenses of any comfort letters or costs associated with the delivery by independent public accountants of a comfort letter or comfort letters). In addition, the Company shall be responsible for all of its internal expenses incurred in connection with the consummation of the transactions contemplated by this Agreement (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), the expense of any annual audit, and the fees and expenses incurred in connection with the listing of the Registrable Securities on any securities exchange as required hereunder. Except as otherwise expressly provided in Section 5 below, any fees or expenses incurred by Holder or its legal counsel or Holder's other advisors or consultants in connection with any review of the Registration Statement or with respect to any other matters related to this Agreement shall be borne solely by Holder.

5. Indemnification.

(a) Indemnification by the Company. The Company shall, notwithstanding any termination of this Agreement, indemnify and hold harmless the Holder, the officers, directors, agents, brokers (including brokers who offer and sell Registrable Securities as principal as a result of a pledge or any failure to perform under a margin call of Common Stock), investment advisors and employees of each of them, each Person who controls the Holder (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) and the officers, directors, agents and employees of each such controlling Person, to the fullest extent permitted by applicable law, from and against any and all losses, claims, damages, liabilities, costs (including, without limitation, costs of preparation and attorneys' fees) and expenses (collectively, "Losses") (as determined by a court of competent jurisdiction in a final judgment not subject to appeal or review), as incurred, arising out of or based upon any untrue or alleged untrue statement of a material fact contained in the Registration Statement, any Prospectus or any form of prospectus or in any amendment or supplement thereto or in any preliminary prospectus, or arising solely out of or based upon any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein (in the case of any Prospectus or form of prospectus or supplement thereto, in the light of the circumstances under which they were made) not misleading, except to the extent, but only to the extent, that such untrue statements or omissions are based upon information regarding the Holder furnished in writing to the Company by the Holder expressly for use therein. The Company shall notify the Holder promptly of the institution, threat or assertion of any Proceeding of which the Company is aware in connection with the transactions contemplated by this Agreement.

(b) Indemnification by Holder. The Holder shall indemnify and hold harmless the Company, the directors, officers, agents and employees, each Person who controls the Company (within the meaning of Section 15 of the Securities Act and Section 20 of the Exchange Act), and the directors, officers, agents or employees of such controlling Persons, to the fullest extent permitted by applicable law, from and against all Losses (as determined by a court of competent jurisdiction in a final judgment not subject to appeal or review), as incurred, arising solely out of or based solely upon any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, any Prospectus, or any form of prospectus or form of prospectus or in any amendment or supplement thereto or in any preliminary prospectus, or arising solely out of or based solely upon any omission of a material fact required to be stated therein or necessary to make the statements therein (in the case of any Prospectus or supplement thereto, in the light of the circumstances under which they were made) not misleading, to the extent, but only to the extent, that such untrue statement or omission or alleged untrue statement or omission is contained in information so furnished by the Holder in writing to the Company expressly for inclusion in the Registration Statement or such Prospectus. In no event shall the liability of any selling Holder hereunder be greater in amount than the dollar amount of the net proceeds received by such Holder upon the sale of the Registrable Securities giving rise to such indemnification obligation.

(c) Conduct of Indemnification Proceedings. If any Proceeding shall be brought or asserted against any Person entitled to indemnity hereunder (an "Indemnified Party"), such Indemnified Party promptly shall notify the Person from whom indemnity is sought (the "Indemnifying Party") in writing, and the Indemnifying Party shall assume the defense thereof, including the employment of counsel reasonably satisfactory to the Indemnified Party and the payment of all fees and expenses incurred in connection with defense thereof; provided, however, that the failure of any Indemnified Party to give such notice shall not relieve the Indemnifying Party of its obligations or liabilities pursuant to this Agreement, except to the extent that such failure shall have proximately and materially adversely prejudiced the Indemnifying Party.

An Indemnified Party shall have the right to employ separate counsel in any such Proceeding and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party or Parties unless: (1) the Indemnifying Party has agreed in writing to pay such fees and expenses; or (2) the Indemnifying Party shall have failed promptly to assume the defense of such Proceeding and to employ counsel reasonably satisfactory to such Indemnified Party in any such Proceeding; or (3) the named parties to any such Proceeding (including any impleaded parties) include both such Indemnified Party and the Indemnifying Party, and such Indemnified Party shall have been advised by counsel that a conflict of interest is likely to exist if the same counsel were to represent such Indemnified Party and the Indemnifying Party (in which case, if such Indemnified Party notifies the Indemnifying Party in writing that it elects to employ separate counsel at the expense of the Indemnifying Party, the Indemnifying Party shall not have the right to assume the defense thereof and such counsel shall be at the expense of the Indemnifying Party). The Indemnifying Party shall not be liable for any settlement of any such Proceeding effected without its written consent, which consent shall not be unreasonably withheld or delayed. No Indemnifying Party shall, without the prior written consent of the Indemnified Party, effect any settlement of any pending Proceeding in respect of which any Indemnified Party is a party, unless such settlement includes an unconditional release of such Indemnified Party from all liability on claims that are the subject matter of such Proceeding.

All fees and expenses of the Indemnified Party (including reasonable fees and expenses to the extent incurred in connection with investigating or preparing to defend such Proceeding in a manner not inconsistent with this Section 5) shall be paid to the Indemnified Party, as incurred, within 10 Business Days of written notice thereof to the Indemnifying Party (regardless of whether it is ultimately determined that an Indemnified Party is not entitled to indemnification hereunder; provided, however, that the Indemnifying Party may require such Indemnified Party to undertake to reimburse all such fees and expenses to the extent it is finally judicially determined that such Indemnified Party is not entitled to indemnification hereunder).

(d) Contribution. If a claim for indemnification under Section 5(a) or Section 5(b) is unavailable to an Indemnified Party (by reason of public policy or otherwise), then each Indemnifying Party, in lieu of indemnifying such Indemnified Party, shall contribute to the amount paid or payable by such Indemnified Party as a result of such Losses, in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party and Indemnified Party in connection with the actions, statements or omissions that resulted in such Losses as well as any other relevant equitable considerations. The relative fault of such Indemnifying Party and Indemnified Party shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission of a material fact, has been taken or made by, or relates to information supplied by, such Indemnifying, Party or Indemnified Party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action, statement or omission. The amount paid or payable by a party as a result of any Losses shall be deemed to include, subject to the limitations set forth in Section 5(c), any reasonable attorneys' or other reasonable fees or expenses incurred by such party in connection with any Proceeding to the extent such party would have been indemnified for such fees or expenses if the indemnification provided for in this Section was available to such party in accordance with its terms.

The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 5(d) were determined by pro rata allocation or by any other method of allocation that does not take into account the equitable considerations referred to in the immediately preceding paragraph. Notwithstanding the provisions of this Section 5(d), no Holder shall be required to contribute, in the aggregate, any amount in excess of the amount of the proceeds actually received by such Holder from the sale of the Registrable Securities subject to the proceeding. No Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation.

The indemnity and contribution agreements contained in this Section are in addition to any liability that the Indemnifying Parties may have to the Indemnified Parties. Notwithstanding the foregoing, the obligations of the Holders herein shall be the several, and not joint, obligation of each Holder as to itself and not as to any other Holder.

6. Miscellaneous.

(a) Remedies. Except as provided in Section 3(a)(ii) with respect to the occurrence of an Event (for which only liquidated damages apply and which is the exclusive remedy upon the occurrence of an Event):

(i) In the event of a breach by the Company or by the Holder, of any of their obligations under this Agreement, the Holder or the Company, as the case may be, in addition to being entitled to exercise all rights granted by law and under this Agreement, including recovery of damages, will be entitled to specific performance of its rights under this Agreement.

(ii) The Company and the Holder agree that monetary damages would not provide adequate compensation for any losses incurred by reason of a breach by it of any of the provisions of this Agreement and hereby further agrees that, in the event of any action for specific performance in respect of such breach, it shall waive the defense that a remedy at law would be adequate.

(iii) The remedies provided herein are cumulative and not exclusive of any remedies provided by law.

(b) No Inconsistent Agreements. Neither the Company nor any of its subsidiaries has, as of the date hereof entered into and currently in effect, nor shall the Company or any of its subsidiaries, on or after the date of this Agreement, enter into any agreement with respect to its securities that is inconsistent with the rights granted to the Holder in this Agreement or otherwise conflicts with the provisions hereof.

(c) Amendments and Waivers. The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, unless the same shall be in writing and signed by the Company and each of the Holders.

(d) Notices. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earlier of: (i) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile telephone number specified for notice prior to 5:00 p.m., California time, on a Business Day; (ii) the Business Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile telephone number specified for notice later than 5:00 p.m., California time, on any date and earlier than 11:59 p.m., California time, on such date; (iii) the Business Day following the date of mailing, if sent by nationally recognized overnight courier service; and (iv) actual receipt by the party to whom such notice is required to be given. The addresses for such communications shall be:

If to the Company:

Pacific Ethanol, Inc.
5711 N. West Avenue
Fresno, California 93711
Attention: General Counsel
Telecopier: (559) 435-1478
Telephone: (559) 435-1771

If to the Holder:

Eagle Energy LLC
2113 Pebble Beach Lane
Brandon, South Dakota 57005
Attn. President
Facsimile:_____
Phone:_____

with a copy to:

Robert Hensley
Dorsey & Whitney LLP
50 South Sixth Street
Minneapolis, MN 55402
Facsimile: 612-340-7800
Phone: 612-340-2655

or to such other address or addresses or facsimile number or numbers as any such party may most recently have designated in writing to the other parties hereto by such notice.

(e) Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their successors and permitted assigns and shall inure to the benefit of the Holder and its successors and permitted assigns. Holder may assign its rights hereunder in the manner and to the Persons as permitted under this Agreement and the Purchase Agreement. The Company may assign its rights and obligations hereunder in connection with a sale of all or substantially all of its assets or in connection with a merger, consolidation or other similar corporate transaction.

(f) Assignment of Registration Rights. The rights of the Holder hereunder, including the right to have the Company register for resale Registrable Securities in accordance with the terms of this Agreement, shall be automatically assignable by the Holder to any Person to whom the Holder transfers all or a portion of the Registrable Securities if: (i) the Holder agrees in writing with the transferee or assignee to assign such rights, and a copy of such agreement is furnished to the Company within a reasonable time after such assignment; (ii) the Company is, within a reasonable time after such transfer or assignment, furnished with written notice of (x) the name and address of such transferee or assignee, and (y) the securities with respect to which such registration rights are being transferred or assigned; (iii) following such transfer or assignment the further disposition of such securities by the transferee or assignees is restricted under the Securities Act and applicable state securities laws; (iv) at or before the time the Company receives the written notice contemplated by clause (ii) of this Section, the transferee or assignee agrees in writing with the Company to be bound by all of the provisions of this Agreement through a joinder agreement or another form of agreement reasonably acceptable to the Company; (v) such transfer shall have been made in accordance with the applicable requirements of the Purchase Agreement and the Warrants; and, upon the Company's request, Holder and any proposed transferee shall provide the Company with such written representations, warranties, assurances and information requested by the Company so as to allow the Company to verify compliance with the Securities Act and qualification under such exemption in connection with such proposed transfer. In addition, each Holder shall have the right to assign its rights hereunder to any other Person with the prior written consent of the Company, which consent shall not be unreasonably withheld. The rights to assignment shall apply to the Holders (and to subsequent) successors and assigns.

(g) Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and, all of which taken together shall constitute one and the same Agreement. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid binding obligation of the party executing (or on whose behalf such signature is executed) the same with the same force and effect as if such facsimile signature were the original thereof.

(h) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California, without regard to principles of conflicts of law thereof.

(i) Severability. If any term, provision, covenant or restriction of this Agreement is held to be invalid, illegal, void or unenforceable in any respect, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

(j) Headings. The headings herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof.

(k) Independent Nature of Holders' Obligations and Rights. The obligations of each Holder hereunder are several and not joint with the obligations of any other Holder hereunder, and no Holder shall be responsible in any way for the performance of the obligations of any other Holder hereunder. Nothing contained herein or in any other agreement or document delivered at any closing, and no action taken by any Holder pursuant hereto or thereto, shall be deemed to constitute the Holders as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Holders are in any way acting in concert with respect to such obligations or the transactions contemplated by this Agreement. Each Holder shall be entitled to protect and enforce its rights, including without limitation the rights arising out of this Agreement, and it shall not be necessary for any other Holder to be joined as an additional party in any proceeding for such purpose.

IN WITNESS WHEREOF, the parties hereto have executed this Registration Rights Agreement effective as of the date indicated above.

COMPANY: PACIFIC ETHANOL, INC.

By: /s/ Neil M. Koehler
Neil M. Koehler, CEO

SELLER: EAGLE ENERGY, LLC

By: /s/ David M. Fink
David M. Fink, President

Address:

2215 E. Redwood Blvd.
Street Address

Brandon, SD 57005
City, State and Zip Code

EXHIBIT A

DEFINITIONS

As used in this Agreement, the following terms shall have the following meanings:

"Advice" shall have meaning set forth in Section 3(k).

"Affiliate" means, with respect to any Person, any other Person that directly or indirectly controls or is controlled by or under common control with such Person. For the purposes of this definition, "control," when used with respect to any Person, means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise; and the terms of "affiliated," "controlling" and "controlled" have meanings correlative to the foregoing.

"Business Day" means any day except Saturday, Sunday and any day which shall be a legal holiday or a day on which banking institutions in the State of California generally are authorized or required by law or other government actions to close.

"Closing Date" means the date of the closing under the Purchase Agreement.

"Closing Shares" means the shares of Common Stock issued to the Seller on the Closing Date pursuant to the Purchase Agreement.

"Commission" means the Securities and Exchange Commission.

"Common Stock" means the Company's common stock, $.001 par value per share.

"Effectiveness Date" means the 120th calendar day following the date of the Purchase Agreement.

"Effectiveness Period" shall have the meaning set forth in Section 2.

"Eligible Market" means the New York Stock Exchange, the American Stock Exchange, the NASDAQ Global Select Market, the NASDAQ Global Market or the NASDAQ Capital Market.

"Event" shall have the meaning set forth in Section 3(a)(ii).

"Event Date" shall have the meaning set forth in Section 3(a)(ii).

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Filing Date" means the tenth Business Day following the Closing Date.

"Holder" or "Holders" means the holder or holders, as the case may be, from time to time, whether direct or beneficially, of Registrable Securities pursuant to this Agreement, including, without limitation, Seller and any of its permitted transferees.

"Indemnified Party" shall have the meaning set forth in Section 5(c).

"Indemnifying Party" shall have the meaning set forth in Section 5(c).

"Losses" shall have the meaning set forth in Section 5(a).

"Person" means an individual or a corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or political subdivision thereof) or other entity of any kind.

"Proceeding" means an action, claim, suit, investigation or proceeding (including, without limitation, an investigation or partial proceeding, such as a deposition), whether commenced or threatened.

"Prospectus" means the final prospectus filed with respect to the Registration Statement (including, without limitation, a prospectus that includes any information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 430A promulgated under the Securities Act), as amended or supplemented by any prospectus supplement, with respect to the terms of the offering of any portion of the Registrable Securities covered by the Registration Statement, and all other amendments and supplements to the Prospectus, including one or more other final prospectuses filed with respect to post-effective amendments, and all material incorporated by reference in such Prospectus.

"Registrable Securities" means: (i) the Closing Shares; (ii) Warrant Shares; and (iii) any securities issued or issuable with respect to such Warrant Shares by way of a stock dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization with respect to any of the securities referenced above.

"Registration Statement" means the registration statements contemplated by Section 2, including the Prospectus, amendments and supplements to such registration statement or Prospectus, including pre- and post-effective amendments, all exhibits thereto, and all material incorporated by reference in such registration statement.

"Rule 144" means Rule 144 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

"Rule 415" means Rule 415 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

"Securities Act" means the Securities Act of 1933, as amended.

"Trading Market" means the NASDAQ Global Market.

"Warrants" means the Warrant to Purchase Common Stock issued to the Seller (including any Warrants subsequently held by any Holder).

"Warrant Shares" means the shares of Common Stock issued or issuable upon exercise of the Warrants.

EXHIBIT 10.4

SECOND AMENDED AND RESTATED
OPERATING AGREEMENT
OF
FRONT RANGE ENERGY, LLC

THIS SECOND AMENDED AND RESTATED OPERATING AGREEMENT (*"**Agreement**"*) which amends and restates the First Amended and Restated Operating Agreement of Front Range Energy, LLC, a Colorado limited liability company (the *"**Company**"*), is hereby amended and restated in its entirety effective as of the 20th day of October, 2005 (the *"**Effective Date**"*), by the undersigned being all the members of the Company.

SECTION 1.
Definitions

SECTION 1.1 Definitions. For purposes of this Agreement, capitalized terms shall have the meaning ascribed to them in Appendix I attached hereto.

SECTION 1.2 References and Construction.

(a) Words of the masculine gender shall be deemed to include the feminine and neuter genders, and vice versa, where applicable. Words of the singular number shall be deemed to include the plural number, and vice versa, where applicable.

(b) Unless otherwise indicated, any reference herein to a "Section", "Exhibit", "Appendix", "Subsection", "Paragraph", or to a subpart of any of them, shall be to the applicable section, exhibit, appendix, subsection or paragraph of or to this Agreement or subpart thereof.

(c) The words "this Agreement", "herein", "hereof", "hereby", "hereunder", and words of similar import refer to this Agreement as a whole and not to any particular subdivision unless expressly so limited.

(d) The word "includes" and its derivatives means "includes, but is not limited to" and corresponding derivative expressions.

(e) Unless the context otherwise requires or unless otherwise provided herein, the terms defined in this Agreement which refer to a particular agreement, instrument, or document also refer to and include all renewals, extension, modifications, amendments, or restatements of such agreement, instrument, or document.

SECTION 2.
Organization

SECTION 2.1 Formation. The Company was formed on July 29, 2004 under and pursuant to the provisions of the Act. Except as otherwise required by the nonwaivable provisions of the Act or the Articles, the rights, duties and obligations of the Members and Managers, and the operation of the Company shall be governed by the provisions of this Agreement.

SECTION 2.2 Name and Principal Office. The Company shall conduct its business under the name of "Front Range Energy, LLC", or such other name or names as the Managers may determine. The Company's principal office shall be located at such place as the Managers may, from time to time, determine.

SECTION 2.3 Term. The Company's existence commenced on July 29, 2004 and shall continue until dissolved as provided herein.

SECTION 2.4 Business Purpose. The Company is organized for profit and it may engage in any and all lawful business for which limited liability companies may be organized under the Act, and engage in any or all activities related or incidental thereto.

SECTION 2.5 Ratification of Prior Acts. All contracts, agreements, letters of intent, and all other actions heretofore undertaken and performed on behalf of the Company by its Managers, officers, or by any Member are hereby ratified, approved and confirmed,

SECTION 3.
Capital Contributions

SECTION 3.1 Initial Units. Until such time as additional classes or series of Units of the Company are created and issued pursuant to Section 10.1 hereof, the Company shall have two classes of Units (Class A Units and Class B Units). Each outstanding Unit shall be entitled to one (1) vote on matters submitted to a vote of all members or submitted to a vote of a particular class of Members.

SECTION 3.2 Initial Capital Contributions. Each of the Initial Members shall make the capital contribution set forth for such Member on **Exhibit A** attached hereto. In consideration of such capital contributions, each such Member shall receive the number and classes of Units indicated on **Exhibit A** attached hereto.

SECTION 3.3 Additional Capital Contributions. The Members recognize that the Company may require additional capital from time to time in order to accomplish the business purpose for which it is formed. The Company may, by written notice, call for additional contributions to the capital of the Company (each, an *"**Additional Capital Contribution**"*) to be made by all Members if a Two-Thirds Interest determines that such an Additional Capital Contribution is appropriate or necessary for the operation of the Company. Within thirty (30) days following the giving of such a notice, each Member shall contribute, in cash, to the capital of the Company a proportion of an Additional Capital Contribution equal to the proportion that the number of Class B Units held by such Member bears to the total issued and outstanding Class B Units (the *"**Required Contribution**"*). Each Member making a Required Contribution under this Section 3.3 or Section 3.4 shall be credited with one (1) Class B Unit (or appropriate portion thereof) for each $1,000 (or portion thereof) of Required Contribution made by that Member.

SECTION 3.4 Failure to Contribute. If any Member fails or refuses for any reason to make in a timely manner any part or all of a Required Contribution, such Member shall be in default hereunder and shall be deemed to be a *"**Defaulting Member**"* to the extent of the unpaid part of the Required Contribution (the *"**Unpaid Required Contribution**"*). For a period often (10) days after the earlier of the expiration of the thirty (30) day period described in Section 3.3 or notice to Daniel A. Sanders from the Defaulting Member that the Defaulting Member shall not make all or any portion of the Additional Capital Contribution, Daniel A. Sanders, as Class A Member, shall have the right — but not the obligation — to make all or such part of the Unpaid Required Contribution as he so determines. In the event or to the extent Daniel A. Sanders does not make all of the Unpaid Required Contribution, for a period of ten (10) days after the earlier of the expiration of the ten (10) day period described in the preceding sentence or Daniel A. Sanders' giving notice to the other Members holding Class B Units of his intention not to make the entire Unpaid Required Contribution, Members holding Class B Units other than the Defaulting Member shall have the right — but not the obligation — to make a proportion of the remaining Unpaid Required Contribution equal to the proportion that the number of Class B Units held by such Member bears to the total issued and outstanding Class B Units (excluding those held by the Defaulting Member). In the event any portion of the Unpaid Required Contribution remains unmade at the end of the ten (10) day period described in the immediately preceding sentence, the following shall apply:

(a) The Unpaid Required Contribution shall constitute an obligation of such Defaulting Member to the Company and shall bear interest from the from the **[sic?]** expiration of the thirty (30) day period described in Section 3.3 at a floating annual rate of interest equal to the lesser of (i) eight percent (8%), or (ii) the maximum rate permitted by law. Interest shall be compounded monthly. The Company may upon the decision of a Majority in Interest (determined by excluding all of the Units of the Defaulting Member), institute suit in any court of competent jurisdiction to enforce such obligation of the Defaulting Member. In addition, the Company shall be entitled to recover in such suit all costs and expenses, including, but not limited to, court costs and reasonable attorneys' fees, thereby incurred by the Company and any damages (except incidental or consequential damages) sustained by the Company as a result of the default by the Defaulting Member.

(b) By executing this Agreement, each Member shall be deemed to have granted to the Company a first and prior lien and security interest upon such Member's Units as security for the payment of all Required Contributions of such Member. This Agreement shall be deemed to be a security agreement with respect to such security interest and collateral and each Member shall promptly execute and deliver to the Company any financing statements or other instruments that the Company, or any other Member, may request for purposes of perfecting or continuing such security interest. Upon the failure of a Member to execute and deliver such financing statements or other instruments, the other Members, and each of them, as attorney-in-fact for such Member, may execute and deliver such financing statements or other instruments for, in the name and on behalf of such Member.

With respect to a Defaulting Member, the Company, acting upon the decisions of a Majority in Interest (determined by excluding all of the Units of the Defaulting Member), shall have all of the rights and remedies of a secured party under the Colorado Uniform Commercial Code, including, without limitation, and in addition to the rights under such law, the right to sell, effective as of the first day of the fiscal quarter in which the default occurs or such subsequent date as the Company may determine, by public or private sale upon five (5) days advance notice to the Defaulting Member, the Defaulting Member's Units or any part thereof, and the Company and the other Members shall be permitted purchasers at any such sale. In addition, the Company shall have the right to retain and set-off against the Unpaid Required Contribution of a Defaulting Member and any accrued interest thereon all amounts becoming otherwise distributable (including all distributions, mandatory or otherwise to which the Defaulting Member would otherwise have been entitled under Section 4.1 hereof) or payable to such Defaulting Member by the Company. Any amount so retained and set-off by the Company shall be deemed to be a constructive cash distribution to the Defaulting Member and a constructive repayment by such Member to the Company. Any repayment, whether constructive or actual, shall be applied first against any unpaid accrued interest on the Defaulting Member's Unpaid Required Contribution and the remainder shall be applied against such Member's Unpaid Required Contribution.

SECTION 3.5 Capital Accounts. A separate capital account ("***Capital Account***") shall be maintained for each Member. Each Member's Capital Account shall be maintained as follows:

(a) To each Member's Capital Account there shall be credited such Member's Capital Contributions, such Member's distributive share of Profits and any items in the nature of income or gain which are specially allocated pursuant to Section 4.4 or Section 4.5, and the amount of any Company liabilities assumed by such Member or which are secured by any asset distributed by the Company to such Member;

(b) To each Member's Capital Account there shall be debited the amount of cash and the Gross Asset Value of any asset distributed to such Member pursuant to any provision of this Agreement, such Member's distributive share of Losses and any items in the nature of expenses or losses which are specially allocated pursuant to Section 4.4 or Section 4.5, and the amount of any liabilities of such Member assumed by the Company or which are secured by any property contributed by such Member to the Company;

(c) In the event all or a portion of an interest in the Company is Transferred in accordance with the provisions of this Agreement, the Transferee shall succeed to the Capital Account of the Transferor to the extent it relates to the Transferred interest; and

(d) In determining the amount of any liability for purposes of clauses (a) and (b) above, there shall be taken into account Code § 752(c) and any other applicable provisions of the Code and Regulations,

This Section and the other provisions of this Agreement relating to the maintenance of Capital Accounts are intended to comply with Regulations § 1.704-1(b), and shall be interpreted and applied in a manner consistent therewith. In the event the Managers shall determine that it is prudent to modify the manner in which the Capital Accounts, or any debits or credits thereto (including, without limitation, debits or credits relating to liabilities which are secured by contributed or distributed property or which are assumed by the Company or the Members), are computed in order to comply with such Regulations, the Managers may make such modification, provided that it is not likely to have a material effect on the amounts distributable to any Member upon the dissolution of the Company. The Managers also shall (1) make any adjustments that are necessary or appropriate to maintain equality between the Capital Accounts of the Members and the amount of Company capital reflected on the Company's balance sheet, as computed for book purposes, in accordance with Regulations § 1.704-1(b)(2)(iv)(g), and (ii) make any appropriate modifications in the event unanticipated events (for example, the acquisition by the Company of oil and gas properties) might otherwise cause this Agreement not to comply with Regulations § 1.704-1(b).

SECTION 3.6 Capital Withdrawal Rights, Interest and Priority. Except as otherwise provided herein, no Member shall be entitled to (i) a return of any part of such Member's Capital Contributions or Capital Account, (ii) be paid any interest on such Member's Capital Contributions or Capital Account, or (iii) priority over any other Member as to the return of such Member's Capital Contributions or Capital Account.

SECTION 3.7 Loans. No Member shall be required to make any loan to the Company. A Member may make a loan to the Company in such amounts, at such times and on such terms and conditions as may be determined by the Manager. A loan by a Member to the Company shall not be considered a contribution to the capital of the Company.

SECTION 3.8 Securities Law Representations and Warranties of Members. Each Member hereby represents and warrants to the Company and acknowledges that: (i) such Member has knowledge and experience in financial and business matters and is capable of evaluating the merits and risks of an investment in the Company and making an informed investment decision with respect thereto; (ii) such Member has reviewed and evaluated all information necessary to assess the merits and risks of his, her or its investment in the Company and has had answered to its satisfaction any and all questions regarding such information; (iii) such Member is able to bear the economic and financial risk of an investment in the Company for an indefinite period of time; (iv) such Member is acquiring Units in the Company for investment only and not with a view to, or for resale in connection with, any distribution to the public or public offering thereof; (v) the Units in the Company have not been registered under the securities laws of any jurisdiction, and can be disposed of only in accordance with applicable securities laws and the provisions of this Agreement; (vi) the execution, delivery and performance of this Agreement have been duly authorized by such Member and do not require such Member to obtain any consent or approval that has not been obtained and do not contravene or result in a default under any provision of any law or regulation applicable to such Member or other governing documents or any agreement or instrument to which such Member is a party or by which such Member is bound, (vii) the determination of such Member to purchase Units in the Company has been made by such Member independent of any other Member and independent of any statements or opinions as to the advisability of such purchase or as to the properties, business, prospects or condition (financial or otherwise) of the Company and its subsidiaries which may have been made or given by any other Member or by any agent or employee of any other Member and (viii) this Agreement is valid, binding and enforceable against such Member in accordance with its terms.

SECTION 4.
Allocations and Distributions

SECTION 4.1 Distributions. The amount, if any, of Available Cash shall be distributed to the Members in the following order of priority:

(a) First, to all Members in an amount equal to the estimated federal and state income tax liability attributable to such Member's proportionate share of the Company's net taxable income. This estimated tax liability, which shall be computed by the accountant who regularly prepares the Company's tax returns, shall be computed on the basis of the highest marginal rate applicable to individuals on capital gains and other taxable income for the Fiscal Year in question. Unless the Company does not have sufficient Available Cash or is otherwise prevented from making any distributions under applicable state law, or determined not to be in the best interest of the Company as determined in good faith by the Manager, the minimum mandatory distribution shall be paid on or before the date on which such tax liability is due. The Manager's determination of the amount of minimum mandatory distribution shall be binding and conclusive on all Members.

(b) Second, to Members holding all Units in proportion to the percentage of outstanding Units held by each Member but reduced by any amount distributed to that Member pursuant to Section 4.1(a). Thus, all Class A Units and Class B Units shall be treated equally with regard to any and all distributions under this Section 4.1(b) and if distributions made under Section 41(a) were treated as if they were made under Section 4.1(b).

SECTION 4.2 Allocations of Profit and Losses. After giving effect to the special allocations set forth in Sections 4.3 and 4.4, Profits or Losses for any Fiscal Year shall be allocated among the Members in proportion to their Units.

SECTION 4.3 Special Allocations. The following special allocations shall be made in the following order:

(a) Minimum Gain Chargeback. Except as otherwise provided in Regulations § 1.704-2(f), notwithstanding any other provision of this Section 4, if there is a net decrease in Company Minimum Gain during any Fiscal Year, each Member shall be specially allocated items of Company income and gain for such Fiscal Year (and, if necessary, subsequent Fiscal Years) in an amount equal to such Member's share of the net decrease in Company Minimum Gain, determined in accordance with Regulations § 1.704-2(g). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Member pursuant thereto. The items to be so allocated shall be determined in accordance with Regulations §§ 1.704-2(f)(6) and 1704-2(j)(2). This Subsection is intended to comply with the minimum gain chargeback requirement in Regulation § 1.704-2(f) and shall be interpreted consistently therewith.

(b) Member Minimum Gain Chargeback. Except as otherwise provided in Regulations § 1.704-2(i)(4), notwithstanding any other provision of this Section 4, if there is a net decrease in Member Nonrecourse Debt Minimum Gain attributable to a Member Nonrecourse Debt during any Fiscal Year, each Member who has a share of the Member Nonrecourse Debt Minimum Gain attributable to such Member Nonrecourse Debt, determined in accordance with Regulation § 1.704-2(i)(5), shall be specially allocated items of Company income and gain for such Fiscal Year (and, if necessary, subsequent Fiscal Years) in an amount equal to such Member's share of the net decrease in Member Nonrecourse Debt Minimum Gain attributable to such Member Nonrecourse Debt, determined in accordance with Regulations § 1.704-2(i)(4). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Member pursuant thereto. The items to be so allocated shall be determined in accordance with Regulations § 1.704-2(i)(4) and 1.704-2(j)(2). This Subsection is intended to comply with the minimum gain chargeback requirement in Regulations § 1.704-2(i)(4) and shall be interpreted consistently therewith.

(c) Qualified Income Offset. In the event any Member unexpectedly receives any adjustments, allocations, or distributions described in Regulations § 1.704-1(b)(2)(ii)(d)(4), Regulations § 1.704-1 (b)(2)(ii)(d)(5) or Regulations § 1.704-1(b)(2)(ii)(d)(6), items of Company income and gain shall be specially allocated to each such Member in an amount and manner sufficient to eliminate, to the extent required by the Regulations, the Adjusted Capital Account Deficit of such Member as quickly as possible, provided that an allocation pursuant to this Section 4.4(c) shall be made only if and to the extent that such Member would have an Adjusted Capital Account Deficit after all other allocations provided for in this Section 4 have been tentatively made as if this Section 4.4(c) were not in the Agreement. This Subsection is intended to comply with the qualified income offset requirement in Regulations § 1.704-1(b)(2)(ii)(d) and shall be interpreted consistently therewith.

(d) Nonrecourse Deductions. Nonrecourse Deductions for any Fiscal Year shall be specialty allocated among the Members in proportion to their Units.

(e) Member Nonrecourse Deductions. Any Member Nonrecourse Deductions for any Fiscal Year shall be specially allocated to the Member who bears the economic risk of loss with respect to the Member Nonrecourse Debt to which such Member Nonrecourse Deductions are attributable in accordance with Regulations § 1704- 2(i)(l).

(f) Code § 754 Adjustment. To the extent an adjustment to the adjusted tax basis of any Company asset pursuant to Code § 734(b) or Code § 743(b) is required, pursuant to Regulations § 1.704-1(b)(2)(iv)(m)(2) or Regulations § 1.704-1 (b)(2)(iv)(m)(4), to be taken into account in determining Capital Accounts as the result of a distribution to a Member in complete liquidation of such Member's interest in the Company, the amount of such adjustment to the Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis) and such gain or loss shall be specially allocated to the Members in accordance with their interests in the Company in the event Regulations § 1.704-1(b)(2)(iv)(m)(2) applies, or to the Member to whom such distribution was made in the event Regulations § 1.704-1 (b)(2)(iv)(m)(4) applies.

SECTION 4.4 Curative Allocations. The allocations set forth in Section 4.3 (the *"**Regulatory Allocations**"*) are intended to comply with certain requirements of the Regulations.

It is the intent of the Members that, to the extent possible, all Regulatory Allocations shall be offset either with other Regulatory Allocations or with special allocations of other items of Company income, gain, loss, and deduction pursuant to this Section 4.4. Therefore, notwithstanding any other provision of this Section 4 (other than the Regulatory Allocations), the Company shall make such offsetting special allocations in whatever manner the Managers determine appropriate so that, after such offsetting allocations are made, each Member's Capital Account balance is, to the extent possible, equal to the Capital Account balance such Member would have had if the Regulatory Allocations were not part of this Agreement and all Company items were allocated pursuant to Sections 4.2. In exercising the discretion under this Section 4.4, the Managers shall take into account future Regulatory Allocations under Sections 4.3(a) and 4.3(b) that, although not yet made, are likely to offset other Regulatory Allocations previously made under Sections 4.3(d) and 4.3(e).

SECTION 4.5 Other Allocation Rules.

(a) For purposes of determining the Profits, Losses, or any other items allocable to any period, Profits, Losses, and any such other items shall be determined on a daily, monthly, or other basis, as determined by the Managers using any permissible method under Code § 706 and the Regulations thereunder.

(b) Solely for purposes of determining a Member's proportionate share of the "excess nonrecourse liabilities" of the Company, within the meaning of Regulations § 1.752-3(a)(3), the Members' interests in Company profits are in proportion to their Units.

(c) To the extent permitted by Regulations § 1.704-2(h)(3), the Members shall endeavor to treat distributions of Available Cash as having been made from the proceeds of a Nonrecourse Liability or a Member Nonrecourse Debt only to the extent that such distributions would cause or increase an Adjusted Capital Account Deficit for any Member.

SECTION 4.6 Tax Allocations: Code § 704(c). In accordance with Code § 704(c) and the Regulations thereunder, income, gain, loss, and deduction with respect to any property contributed to the capital of the Company shall, solely for tax purposes, be allocated among the Members so as to take account of any variation between the adjusted basis of such property to the Company for federal income tax purposes and its initial Gross Asset Value (computed in accordance with Paragraph (r)(i) of **Appendix I**).

In the event the Gross Asset Value of any Company asset is adjusted pursuant to Paragraph (r)(ii) of Appendix I, subsequent allocations of income, gain, loss, and deduction with respect to such asset shall take account of any variation between the adjusted basis of such asset for federal income tax purposes and its Gross Asset Value in the same manner as under Code § 704(c) and the Regulations thereunder.

Any elections or other decisions relating to such allocations shall be made by the Managers in any manner that reasonably reflects the purpose and intention of this Agreement. Allocations pursuant to this Section are solely for purposes of federal, state, and local taxes and shall not affect, or in any way be taken into account in computing, any Member's Capital Account or share of Profits, Losses, other items, or distributions pursuant to any provision of this Agreement.

SECTION 5.
Books and Returns

SECTION 5.1 Books and Records. The Company shall maintain at its principal office, or at such other place as the Managers may designate, full and accurate books and records. A Member shall have the right at such Member's expense to examine and make copies of such books and records at reasonable times. The Company shall use the accrual method for tax and accounting purposes unless otherwise decided by the Managers. As soon as practicable after the end of each Fiscal Year, each Member shall be furnished with an income statement and balance sheet for or as of the end of such Fiscal Year. The Company shall provide monthly financial statements to the Members for the first two Fiscal Years of operation and provide quarterly financial statements to Members beginning with the third Fiscal Year.

SECTION 5.2 Tax Returns and Annual Report. The Company shall prepare and timely file all federal, state and local income tax returns required by applicable law. As soon as practicable after the end of each Fiscal Year, each Member shall be furnished with all necessary tax information for such Fiscal Year. The Company shall prepare and timely file the annual report required by the Act.

SECTION 5.3 Section 754 Election. In the event a distribution of Company assets occurs which satisfies the provisions of Code § 734 or in the event a Transfer of an interest in the Company occurs which satisfies the provisions of Code § 743, the Company shall, if requested to do so by the distributee or Transferee, elect, pursuant to Code § 754, to adjust the basis of the Company's assets to the extent allowed by Code § 734 or Code § 743. Any expenses incurred by the Company in connection with making or maintaining such basis adjustment shall be reimbursed to the Company by the distributee of such assets or the Transferee of such interest who benefits from the making and maintenance of such basis adjustment.

SECTION 5.4 Bank Accounts. The Company's funds shall be deposited in the name of the Company in one or more bank or similar accounts designated by the Managers. Withdrawals there from shall be made by Persons authorized to do so by the Managers.

SECTION 6.
Management

SECTION 6.1 Designation of Managers. In accordance with Section 6.3 below, the Members shall designate one or more Persons to manage the business and affairs of the Company (individually a *"**Manager**"* and collectively the *"**Managers**"*). The Members hereby designate Daniel A. Sanders as the initial manager of the Company. A Manager shall serve until such Manager resigns, ceases to serve because of death or disability, or is removed, with or without cause, by the Members in accordance with Section 6.3. In the event a Manager hereafter ceases to act as a Manager, the Members of the applicable Class of Units shall appoint a new Manager to replace such Manager in accordance with Section 6.3. A Manager need not be a Member of the Company.

SECTION 6.2 Powers, Duties and Compensation of the Managers. Except as otherwise provided herein, the Managers, by the vote of a majority of them, shall have the right and power to manage, direct, control and conduct the business and affairs of, and enter into contracts, incur liabilities, borrow money and give collateral therefor, and buy, sell and lease assets on behalf of the Company, all without joinder of the Members. The Managers shall supervise and direct the business and operations of the Company efficiently and with proper economy. The Managers' duties hereunder shall include: (a) maintaining the Company's books and records, (b) preparing and filing the Company's tax returns and annual report, (c) approving the annual Budget, (d) hiring and firing all personnel necessary to perform and carry out the Company's business or affairs, including paying and withholding all necessary taxes and filing all necessary forms in relation to such employees, and (e) performing such other activities and tasks as are necessary or appropriate for the business or affairs of the Company. A Manager's compensation for services to the Company, if any, shall be determined by the Members.

The Managers may, from time to time, designate such committees and officers of the Company as they may deem advisable, with titles for such officers including but not limited to "chief executive officer", "chairman", "chief operating officer", "chief financial officer", "president", "vice president", "secretary", "treasurer" and "controller". Any committee or officer so designated shall have such authority and perform such duties as the Managers may, from time to time, delegate to such committee or officer. Any Person designated to a committee or office may be removed from such committee or office, with or without cause, by the Managers and/or any other officer of the Company who is delegated such authority by the Managers. A Person may serve on any number of committees and offices, and need not be Members or Managers of the Company. The compensation, if any, of any Person designated to a committee or office shall be determined by the Managers or such officer who is delegated such authority by the Managers. The Managers and Persons designated to a committee or office shall be reimbursed by the Company for all reasonable and necessary expenses incurred in carrying out and discharging their duties hereunder.

SECTION 6.3 Election of Managers. The Company shall have one (1) Manager. A Majority in Interest of the Class A Units shall have the right to appoint the Manager. A Manager may be removed, with or without cause, by the Member(s) responsible for electing such Manager. The Managers shall meet at least quarterly, whether in person, telephone or video conferencing if all of the Managers participating in such meeting can hear one another for the entire discussion of such meeting; provided, however, that special meetings of the Managers may be called by any Manager. The affirmative vote of a majority of the Managers shall be required to approve any action or matter coming before them. In the event a Manager is absent from any meeting or abstains from voting on any matter at a meeting, the Manager(s) who were appointed by the same class of Units as such absent or abstaining Manager (if any) shall have the right to cast all votes for the absent Manager at such meeting or cast the vote for the abstaining Manager on such matter, as the case may be.

SECTION 6.4 Limitation of Powers. Notwithstanding anything herein to the contrary, any Manager and/or Member or officer of the Company shall not take any action for, in the name or on behalf of the Company that requires the consent of a Majority in Interest or some other consent under the provisions of this Agreement unless such action has been approved or authorized by such consent.

SECTION 6.5 Certain Powers of the Manager. Without limiting the generality of Section 6.2 but subject to the limitations of Section 6.6, the Manager shall have power and authority, on behalf of the Company, to:

(a) Acquire property not to exceed a cumulative total in any Fiscal Year of $300,000 from any Person as the Managers may determine (the fact that a Manager or an Equity Owner is directly or indirectly affiliated or connected with any such Person shall not prohibit the Managers from dealing with that Person);

(b) Borrow money not to exceed a cumulative total in any Fiscal Year of $300,000 for the Company from banks, other lending institutions, the Managers, Equity Owners, or Affiliates of the Managers or Equity Owners on such terms as the Managers deem appropriate and, in connection therewith, to Hypothecate Company Property to secure repayment of the borrowed sums;

(c) Purchase liability and other insurance to protect the Company's property and business;

(d) Hold and own any Company real or personal properties in the name of the Company;

(e) Invest any Company funds not to exceed a cumulative total in any Fiscal Year of $300,000 (by way of example but not limitation) in time deposits, short-term governmental obligations, commercial paper, or other investments;

(f) Execute on behalf of the Company all instruments and documents, including checks, drafts, notes and other negotiable instruments; mortgages or deeds of trust; security agreements; financing statements; documents providing for the acquisition, mortgage, or disposition of Company Property; assignments; bills of sale; leases; partnership agreements; operating (or limited liability company) agreements of other limited liability companies; and any other instruments or documents necessary, in the opinion of the Managers, to the conduct of the business of the Company;

(g) Enter into any and all other agreements on behalf of the Company, with any other Person for any purpose and in such forms as the Managers may approve;

(h) Execute and file such other instruments, documents, and certificates which may from time to time be required by the laws of Colorado or any other jurisdiction in which the Company shall determine to do business, or any political subdivision or agency thereof; to effectuate, implement, continue, and defend the valid existence of the Company;

(i) Open bank accounts in the name of the Company and to be the sole signatory thereon unless the Managers determine otherwise;

(j) Do and perform all other acts as may be necessary or appropriate to the conduct of the Company's business.

(k) Employ accountants, legal counsel, managing agents, or other experts to perform services for the Company and to compensate them from Company funds;

(l) Purchase liability and other insurance to protect the Company's property and business;

(m) Hold and own any Company real or personal properties in the name of the Company;

(n) Invest any Company funds in excess of a cumulative total in any Fiscal Year of $300,000 (by way of example but not limitation) in line deposits, short-term governmental obligations, commercial paper, or other investments;

(o) Compromise or settle any claim against or inuring to the benefit of the Company involving an amount in controversy not to exceed a cumulative total in any Fiscal Year of $300,000.

SECTION 6.6 Limitations on Authority (Actions Requiting Board Approval). Notwithstanding any other provision of this Agreement, the Managers shall not cause or commit the Company to do any of the following without the consent of a Two-Thirds Vote:

(a) Sell or otherwise dispose all or substantially all of the Company Property or any Company Property other than in the ordinary course of business;

(b) Acquire property from any Person or Persons in excess of a cumulative total in any Fiscal Year of $300,000;

(c) Enter into a joint venture or partnership with any other business organization**[;]**

(d) Enter into a merger, conversion or participate in any other form of reorganization;

(e) Borrow money in excess of a cumulative total in any Fiscal Year of $300,000 from any Person and to hypothecate property of the Company to secure repayment of the borrowed sums;

(f) Lend money in excess of a cumulative total in any Fiscal Year of $300,000 to, or guaranty or become surety for the obligations of any Person or Persons in excess of a cumulative total in any Fiscal Year of $300,000; or

(g) Sell or otherwise dispose all or substantially all of the Company Property or any Company Property other than in the ordinary course of business; or

(h) Cause the Company to commence a voluntary case as debtor under the United States Bankruptcy Code.

Any unauthorized action taken by such Person(s) may be subsequently ratified by the applicable consent. Notwithstanding anything herein to the contrary, such Person shall not be liable to the Company or its Members for any inadvertent unauthorized action which is not subsequently ratified by the applicable consent if (i) such inadvertent action was undertaken in good faith and in a manner such Person reasonably believed to be in, or not opposed to, the interests of the Company and (ii) did not constitute fraud, gross negligence, or willful or wanton misconduct.

SECTION 6.7 Board Members and Action. Each Member shall have the authority to appoint, remove and replace one *"**Board Member**,"* with each Board Member being designated by reference to the Member appointing him or her. A Member may also appoint, remove and replace an alternate Board Member who may act in the absence of the Member's appointed Board Member (collectively, the Board Members are referred to herein as the *"**Board**"*). The Board may, but shall not be required to, hold any periodic, or other formal meetings. Consent or ratification of the Board may be evidenced by one or more written consents describing the action taken by the Board and signed by Board Members sufficient to approve the consented to transaction. Board Action taken under this Section 6.7 is effective when Board Members sufficient to approve the action have signed the consent, unless the consent specifies a different effective date. The Board Members appointed by Members shall jointly have a vote or consent in actions brought before the Board equal to the percentage of outstanding Units held at the time of the appointment by the Member appointing those Board Members. Thus, for example, based on **Exhibit A**, the Board Members appointed by Daniel A. Sanders would be entitled to a vote equal to 52%. All parties understand that each Board Member is acting in a representative capacity, owes his or her primary duties to the Member appointing him or her, and will not be liable to the Company or any other Member for acting on behalf of the Member appointing him or her. Notwithstanding the foregoing, each of the Members and the Board Members representing them shall have an obligation to act in good faith considering the best interests of the Company in performing their duties as Board Members.

SECTION 6.8 Powers of Members. No Member shall have the right or authority to enter into agreements, execute contracts or other instruments, incur obligations or otherwise bind or act for, in the name or on behalf of the Company in any manner solely by virtue of being a Member. Any Member who takes any action in violation of this Section shall be solely responsible for all losses and expenses incurred by the Company as a result of such unauthorized action and shall indemnify and hold the Company harmless with respect thereto.

SECTION 6.9 Liability of Managers, Members, and Board Members. Except in the case where a Manager is guilty of fraud, gross negligence, or willful or wanton misconduct, a Manager shall not be liable to the Company or any Member for any loss, damage, liability or expense suffered by the Company or any Member on account of any action taken or omitted to be taken by such Manager. No Member shall be liable under any judgment, decree or order of a court, or in any other manner, for a debt, obligation or liability of the Company, except as otherwise provided herein.

SECTION 6.10 Annual Operating Plan. The Manager has prepared and the Board has Approved (a *"**Annual Operating Plan**"*) for the Fiscal Year including the Effective Date. The Manager shall prepare for the Approval of the Board each Fiscal Year (no later than thirty (30) days before the Fiscal Year to which the Animal Operating Plan applies) an Annual Operating Plan for the next Fiscal Year, setting forth at a minimum the estimated receipts (including capital calls) and expenditures (capital, operating and other) of the Company in sufficient detail to provide an estimate of cash flow, capital proceeds, and other financial requirements of the Company for such year. Any such Annual Operating Plan shall also include such other information or other matters thought appropriate by the Manager or reasonably required by the Board. The Board shall review the proposed Annual Operating Plan and shall offer any revisions thereto within 10 days after receipt. After the final Annual Operating Plan has been Approved by Two Thirds Vote of the Board, the Manager shall implement the Annual Operating Plan and shall be authorized to make only the expenditures and incur only the obligations provided for therein. Notwithstanding the foregoing, the Manager may make any expenditure or incur any obligation, whether or not such expenditure or obligation is provided for in an Annual Operating Plan, which is the legal obligation of the Company and not within the reasonable control of the Managers (*e.g.*, real or personal property taxes). If the Board, acting reasonably and in good faith, is not able to agree on an Annual Operating Plan for any year, each line item in the Annual Operating Plan for the prior year shall be increased by the percentage increase in the CPI Index from the first day for which the previous Annual Operating Plan was in effect to the first day for which the new Annual Operating Plan is to be in effect. If the CPI Index is no longer published, published less frequently, or altered in some other manner, then the Manager shall, from time to time, adopt a substitute index or substitute procedure which reasonably reflects and monitors consumer prices, and the resulting plan shall be the Annual Operating Plan for the current year.

SECTION 6.11 Indemnification.

(a) The Company, to the fullest extent permitted by law, shall indemnify and hold harmless each Manager, Member, and all officers, directors, trustees, partners, members, principals, employees, and agents of a Manager and Member (individually, an *"**Indemnitee**"*) from and against any and all losses, claims, demands, costs, damages, liabilities, expenses of any nature (including attorneys' fees and disbursements), judgments, fines, settlements, and other amounts arising from any and all claims, demands, or proceedings in which an Indemnitee may be involved, or threatened to be involved, as a party or otherwise, arising out of or incidental to the business of the Company, including liabilities under the federal and state securities laws, regardless of whether an Indemnitee continues to be a Manager, Member, or an officer, director, trustee, partner, member, principal, employee, or agent of a Manager or Member at the time any such liability or expense is paid or incurred, if (i) the Indemnitee acted in good faith and in a manner he, she or it reasonably believed to be in, or not opposed to, the interests of the Company, and, with respect to any criminal proceeding, had no reason to believe its, his, or her conduct was unlawful, and (ii) the Indemnitee's conduct did not constitute fraud, gross negligence, or willful or wanton misconduct.

(b) The indemnification provided by this Section shall be in addition to any other rights to which each Indemnitee may be entitled under the Act or under any agreement as a matter of law or otherwise, both as to action in the Indemnitee's capacity as a Manager, Member, or as an officer, director, trustee, partner, member, principal, employee, or agent of a Manager or Member, and to action in another capacity, and shall continue as to an Indemnitee who has ceased to serve in such capacity and shall inure to the benefit of the heirs, successors, assigns, administrators, and personal representatives of such Indemnitee.

(c) The Company may purchase and maintain insurance on behalf of any one or more Indemnitees, and other such Persons as the Managers shall determine, against any liability which may be asserted against or expense which may be incurred by such Person in connection with the Company's activities, whether or not the Company would have the power to indemnify such Person against such liability under the provisions of this Agreement.

(d) Any indemnification hereunder shall be satisfied solely out of the property of the Company, and the Managers and Members shall not be subject to personal liability by reason of these indemnification provisions.

(e) An Indemnitee shall not be denied indemnification in whole or in part under this Section because the Indemnitee had an interest in the transaction with respect to which the indemnification applies if the transaction was otherwise permitted by the terms of this Agreement.

(f) The provisions of this Section are for the benefit of the Indemnitees and the heirs, successors, assigns, administrators, and personal representatives of the Indemnitees and shall not be deemed to create any rights for the benefit of any other Persons.

(g) The right to indemnification conferred in this Section shall include the right to be paid or reimbursed by the Company the reasonable expenses (including attorney fees, disbursements and expenses) incurred by a Person entitled to be indemnified who was, is or is threatened to be made a named defendant or respondent in a proceeding in advance of the final disposition of the proceeding and without any determination as to the Person's ultimate entitlement to indemnification; provided, however, that the payment of such expenses incurred by any such Person in advance of the final disposition of a proceeding shall be made only upon delivery to the Company of a written affirmation by such Person of his, her or its good faith belief that such Person has met the standard of conduct necessary for indemnification and a written undertaking, by or on behalf of such Person, to repay all amounts so advanced if it shall ultimately be determined that such indemnified Person is not entitled to be indemnified under this Section or otherwise.

SECTION 6.12 Other Business Ventures. The Managers and Members may engage in or possess an interest in other business ventures of every nature and description, independently or with others, whether or not similar to or in competition with the business of the Company and neither the Company nor the Members shall have any right by virtue of this Agreement in or to such other business ventures or to the income or profits derived therefrom. The Managers shall not be required to devote all of their time nor business efforts to the affairs of the Company, but the Managers shall devote so much of their time and attention to the Company as is reasonably necessary and advisable to manage the business and affairs of the Company to the best advantage of the Company and to perform their duties hereunder.

SECTION 6.13 Conflicts. The Company may enter into or modify various agreements or transactions with one or more of the Managers and/or Members on terms approved by the Managers.

SECTION 6.14 Confidential Information. Without limiting the applicability of any other agreement to which any Member may be subject, a Manager and/or Member shall not, directly or indirectly disclose, either during his, her or its association or employment with the Company or thereafter, any Confidential Information of which such Manager or Member is or becomes aware. A Manager or Member in possession of Confidential Information shall take all appropriate steps to safeguard such information and to protect it against disclosure, misuse, espionage, loss and theft. Notwithstanding the above, a Manager and/or Member may disclose Confidential Information to the extent (i) the disclosure is necessary for the Manager, Member and/or the Company's agents, representatives, and advisors to fulfill their duties to the Company pursuant to this Agreement and/or other written agreements, (ii) the disclosure is required by law or a court order, (iii) to the extent necessary to enforce rights hereunder and (iv) the disclosure is of a general nature regarding general financial information, return on investment and similar information, including without limitation, in connection with communications to direct and indirect beneficial owners of Units and controlling Persons and general marketing efforts.

SECTION 6.15 Other Matters Concerning the Managers.

(a) The Managers and officers shall have no fiduciary duty (including, but not limited to, any duty of loyalty or duty of care) to the Company or to any Member, except (i) a duty to act in good faith, (ii) a general obligation of fair dealing with respect to the Company and its property, (iii) any duty expressly set forth in this Agreement, and (iv) any duty expressly set forth in other written agreements.

(b) The Managers and officers may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report notice, request, consent, order, bond, debenture, or other paper or document believed in good faith by the Manager or officer to be genuine and to have been signed or presented by the proper party or parties.

(c) The Managers and officers may consult with legal counsel, accountants, appraisers, management consultants, investment bankers, and other consultants and advisers selected by the Managers or officers, and any opinion of such Person as to matters which the Managers or officers believe in good faith to be within such Person's professional or expert competence shall be full and complete authorization in respect of any action taken or suffered or omitted by the Managers or officers hereunder in good faith and in accordance with such opinion.

SECTION 7.
Meetings of Members

SECTION 7.1 No Required Meetings. The Members may, but shall not be required to, hold any annual, periodic, or other formal meetings. Consent or ratification of the Members may be evidenced by one or more written consents describing the action taken and signed by Members holding sufficient Units to approve the transaction consented to. Action taken under this Section 7.1 is effective when Members holding the requisite Units have signed the consent, unless the consent specifies a different effective date.

SECTION 7.2 Annual Meeting. An annual meeting of the Members may be held at the time and place determined by the Managers, at which the Members shall transact such business as may be brought before the annual meeting.

SECTION 7.3 Special Meetings. Special meetings of the Members, for any purpose or purposes, may be called upon the written request of the Managers, or any Member or group of Members holding at least twenty percent (20%) of the Units then entitled to vote. Such request shall state the purpose or purposes of the special meeting. Business transacted at any special meeting of the Members shall be limited to the purpose or purposes stated in the notice.

SECTION 7.4 Notice of Meetings. Written or printed notice stating the time and place of any annual or special meeting of the Members and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered to each Member entitled to vote at such meeting not less than three (3) days before the date of such meeting. Attendance of a Member at a meeting shall constitute a waiver of notice of such meeting, except when the Member attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Written waiver by a Member of notice of a meeting, signed by such Member, whether before or after the time for notice to be given, shall be deemed equivalent to notice.

SECTION 7.5 Voting at Meetings. At all meetings of the Members every Member entitled to vote in person, or by proxy appointed by an instrument in writing subscribed by such Member and bearing a date not more than three (3) years prior to said meeting, unless said instrument provides for a longer period, shall be entitled to a vote equal to the number of Units then entitled to vote that registered in such Member's name on the books of the Company. All questions to be decided by the Members shall be decided by a Majority in Interest unless otherwise required by this Agreement.

SECTION 7.6 Members Shall Register Address. It shall be a condition on the right of each Member to receive any notice from the Company that such Member shall have furnished to the Company, from time to time, over such Member's signature, the address to which notices to such Member shall be mailed.

SECTION 7.7 Consent of Members in Lieu of Meeting. Any action required or permitted to be taken at any meeting of the Members may be taken without a meeting, prior notice or a vote, if a written consent, setting forth the action so taken, shall be signed by a Majority in Interest, or if such act requires some other consent, by such other consent.

SECTION 7.8 Telephonic or Video Meeting. Members of the Company may participate in any meeting of the Members by means of conference telephone, video conference or similar communication if all Members participating in such meeting can hear one another for the entire discussion of the matters to be voted upon. Participation in a meeting pursuant to this Section shall constitute presence in person at such meeting.

SECTION 7.9 Designation of Representative. Each Member that is a corporation, partnership, limited liability company, trust or other legal entity shall designate in writing one individual to represent that Member at all meetings of the Members or to sign consents on behalf of that Member. Such individual may be removed or replaced at any time by the Member appointing such Person upon written notice to the Company.

SECTION 8.
Transfer of Units

SECTION 8.1 General Restrictions. No Person shall Transfer all or any part of such Person's Units, except as provided in this Agreement. Any purported Transfer of all or any part of a Unit in violation of the terms of this Agreement shall be null and void and of no effect. In addition, to the extent that any Member has attempted or purported to Transfer all or any portion of that Person's Units in violation of this Agreement that Person shall be deemed to have withdrawn or resigned with respect to all or such portion of the Person's Units within the meaning of the Act.

SECTION 8.2 Permitted Transfers. A Person shall have the right to Transfer, by written instrument, all or part of such Person's Units provided that (a) the Transferee is admitted as a Substitute Member in accordance with Section 8.3, (b) such Transfer would not be in violation of any applicable law, rule or regulation (for example, federal or state securities laws), and (c) in the event of a Transfer of Units, such Transfer has been approved in writing by a Majority in Interest of the Members (determined by excluding all of the Transferor's Units); provided, however, that no such approval shall be required with respect to a Transfer by a Member to (i) one or more members of such Member's Immediate Family, or (ii) a revocable living trust of which such Member is the sole grantor and trustee, and which has no beneficiary during such Member's lifetime other than such Member and/or one or more members of his or her Immediate Family. If an event occurs which would cause Units owned by a trust described in clause (ii) above to be subject to purchase pursuant to Section 8 of this Agreement if it were then owned by the grantor of such trust, then such Units shall be deemed to be owned by the grantor of such trust and shall be subject to purchase to the same extent and on the same terms and conditions that would apply if the grantor actually owned such Units. All Transfers of Units by the trustee of a trust described in clause (ii) above shall be subject to the terms and conditions of this Agreement and shall be deemed to be made by the trust's grantor.

SECTION 8.3 Substitute Members. The Company shall not recognize any Transfer of a Unit in accordance with the terms of this Agreement unless and until the Transferee of such Unit shall become a Substitute Member by:

(a) executing an instrument reasonably satisfactory to the Managers accepting and adopting the terms and provisions of this Agreement; and

(b) paying all reasonable expenses of the Company in connection with the admission of the Transferee as a Substitute Member.

Until such time as the Transferee shall become a Substitute Member in accordance with the foregoing, such Transfer shall be null and void and of no effect.

SECTION 8.4 Transfer of All Rights Associated with Units. Any Transfer of a Unit in accordance with the terms of this Agreement shall require a Transfer by the Transferor to the Transferee of all ownership rights associated with such Unit. Notwithstanding any provision of the Act to the contrary, a Transferor shall not have the right to Transfer some but not all of the ownership rights associated with any Unit (including, without limitation, the right to vote such Unit).

SECTION 8.5 Redemption of Units. The Company may purchase one or more Units from any Person on such terms and conditions mutually acceptable to such Person and a Majority in Interest (determined by excluding all Units held by such Person). Any Units acquired by the Company pursuant to this Section 8.5 or the option granted under Section 8.9 shall be canceled.

SECTION 8.6 Grant of Options to Members. Each Member hereby grants to the other Member(s) who hold Units an irrevocable option to purchase, at the price, in the manner and on the terms and conditions set forth herein, that part of such Member's Units that is actually involved in or affected by the occurrence of any of the following events (the *"**Subject Units**"*):

(a) such Member shall desire to voluntarily Transfer any of such Member's Units, other than in a Transfer permitted by Section 8.2, in which event such Member shall obtain a bona fide written offer from a third party (the *"**Bona Fide Offer**"*) stating an aggregate purchase price payable in the form of cash and/or a promissory note (with the terms and conditions of such promissory note being stated) and conditioned only upon assignment of good title to the Subject Units, free and clear of liens and encumbrances;

(b) any of such Member's Units shall become subject to involuntary Transfer, whether by judicial decree, divorce, sale upon execution or in foreclosure of any lien or charge or by acquisition of an interest therein by a trustee in bankruptcy or similar officer or otherwise, to a Person other than permitted under Section 8.2;

(c) any of such Member's Units are subject to a Transfer to a Person other than permitted under Section 8.2 due to the death, termination, liquidation or dissolution of such Member; or

(d) any time after two (2) years and before the expiration of four (4) years from the Effective Date, the Daniel A. Sanders, as a Member holding Class A Units may elect to purchase the Units owned at any time by ICM, Inc. by giving notice to the person or persons holding those Units at the time of exercise.

For purposes of this Section only that part of a Member's Units that is to be disposed of or affected by any event specified in clauses (a) through (d) shall be deemed to be actually involved in or affected by the occurrence of an event described therein. A Member whose Units are subject to an option granted herein which becomes exercisable is referred to as the "***Disposing Member***."

SECTION 8.7 Notice of Events. Upon the occurrence of an event described in clauses (a), (b), or (c) of Section 8.6, the Disposing Member (or the Disposing Member's legal representative, as the case may be) shall give notice thereof to the Members and the Company, including, if applicable, the portion of the Member's Units to be Transferred, the terms and conditions of any proposed Transfer, the names of the Person or Persons to whom Transfers are proposed to be made, if known, or who have allegedly acquired the Subject Units, a copy of any Bona Fide Offer made by any proposed purchaser, and an affidavit of such Disposing Member stating that such bona fide is subject to no terms or conditions other than those set forth therein. In the event the Disposing Member (or the Disposing Member's legal representative) fails to give such notice, any other Member may give such notice on behalf of the Disposing Member (or the Disposing Members legal representative). All notices given under this Section shall be in writing and signed by the party giving such notice.

SECTION 8.8 Exercise of Option by Member(s). The options under Section 8.6 shall become exercisable upon the occurrence of any event described therein and such option shall remain exercisable until the expiration of the later of (i) sixty (60) days after notice of such event is given under Section 8.7 or 8.6(d) as the case may be, or (ii) fifteen (15) days after delivery of the written notice of the purchase price under Section 8.11(c). Daniel A. Sanders, as holder of the Class A Units shall have the right at any time before the expiration of ten (10) days after receipt of notice to designate all or a lesser number of the Subject Units with respect to an option under Section 8.6 (a), (b), or (c) he desires to purchase. Thereafter, all Members (including Daniel A. Sanders) shall be entitled **[to]** purchase the remaining Units with respect to an option under Section 8.6 (a), (b), or (c) as provided in the next sentence. If there shall be more than one Member who shall desire to purchase part of the Subject Units with respect to an option under Section 8.6 (a), (b), or (c), each of such Member shall be entitled to purchase (i) such proportionate part of the Subject Units available for purchase as the Units then owned by such Member bears to the total Units then owned by all of the Members who desire to purchase part of the Subject Units, or (ii) such part of the Subject Units available for purchase as shall be agreed upon by all of the Members who shall desire to purchase part of the Subject Units. Each Member may exercise such option by giving notice of exercise to the Disposing Member (or the Disposing Member's legal representative) and the Company in the manner required by Section 8.10.

SECTION 8.9 Option Granted to Company. In the event that the Member(s) shall waive or fail to timely exercise their Right to purchase all or any part of the Subject Units under the options granted to them under Section 8.6 (a), (b), or (c), then the Company shall have an irrevocable option to purchase all, but not less than all, of the Subject Units not purchased by the Member(s) at the price, in the manner and on the terms and conditions set forth herein. The option granted to the Company shall become exercisable upon the earlier of (i) the giving of notice by the Member(s) that they are not exercising their option as to all of the Subject Units, or (ii) the expiration of the option of such Member(s); and such option of the Company shall remain exercisable for a period of fifteen (15) days thereafter. The Company may exercise such option by giving notice of exercise to the Disposing Member (or the Disposing Members legal representative) in the manner required by Section 8.10.

SECTION 8.10 Contents of Notices; Expiration of Options. Notices given under Section 8.6(d), 8.8 or Section 8.9 shall be in writing and signed by the party giving such notice and shall set forth (i) such party's intention to purchase or not purchase part of the Subject Units and (ii) the part of the Subject Units to be purchased (a Member may simply state such Member's desire to purchase the maximum part of the Subject Units to which such Member is entitled). If any option is not exercised within the applicable period herein provided, such option shall expire on the last day of such period.

SECTION 8.11 Purchase Price and Terms.

(a) If the event causing an option wanted herein to become exercisable shall be a proposed sale pursuant to a Bona Fide Offer, as described in Section 8.6, the aggregate purchase price for the Subject Units shall be the purchase price set forth in the Bona Fide Offer.

(b) If the event causing an option granted herein to become exercisable shall be other than a proposed sale pursuant to a Bona Fide Offer, as described in Section 8.6 (b), (c), or (d), the aggregate purchase price for the Subject Unit shall be the purchase price determined under Section 8.11(c) below.

(c) The value of the Subject Units shall be their fair market value as determined by the Disposing Member and a Majority in Interest (determined by excluding all of the Units of the Disposing Member). If they are unable to agree upon the fair market value, the fair market value of the Subject Units shall be determined by an appraiser selected by them. If they are unable to agree upon a single appraiser, the fair market value of the Subject Units shall be determined by a panel of three (3) appraisers consisting of one appraiser selected by the Disposing Member, one selected by a Majority in Interest (determined by excluding all of the Units of the Disposing Member), and the third selected by the two appraisers. They shall each select their respective appraiser and notify the other in writing of such selection within fifteen (15) days following delivery of the notice under Section 8.7. If the two appraisers are unable to agree upon a third appraiser, such third appraiser shall be appointed by the Administrative Judge of the Nineteenth Judicial District, District Court, Weld County, Colorado. In the event the three appraisers are unable to agree upon the fair market value of the Subject Units, an average of the appraisals made individually by them shall be computed. The individual appraisal that deviates the most from such average shall be disregarded and an average of the remaining two individual appraisals shall constitute the fair market value of the Subject Units. The appraisers shall take into account minority interest and lack of marketability discounts to the extent they are deemed appropriate. All fees and expense reimbursement payable to the appraisers shall be borne equally between the Disposing Member and the purchaser or purchasers. The appraisers shall give written notice of the fair market value of the Subject Units to the Company and all Members (and, if applicable, the Disposing Member's legal representative) promptly following determination thereof.

(d) The aggregate purchase price shall be allocated proportionately among the purchasers, if more than one. If the event causing an option granted herein to become exercisable shall be a proposed sale pursuant to a Bona Fide Offer, the price and terms specified in such Bona Fide Offer shall be controlling. Otherwise, each purchaser's purchase price shall be paid**[.]** At the closing the purchaser or purchasers shall deliver to the seller or sellers (i) the releases from liability for debts of the Company, as contemplated by subparagraphs (a) and (b) above, and (ii) payment shall be made in the form a promissory note payable in six (6) equal annual installments of principal and interests a floating annual rate of interest equal to the lesser of (i) eight percent (8%), or (ii) the maximum rate permitted by law compounded monthly with the first such payment due at closing. Notwithstanding the foregoing, if the Company is a purchaser, and if the Disposing Member is then indebted to the Company, the Company may set-off all or any portion of such indebtedness against the purchase price payable by the Company, even if such indebtedness is not then due and payable.

SECTION 8.12 Closing. The closing of all of the purchases and sales of the Subject Units shall be held concurrently at the principal office of the Company within fifteen (15) days after the expiration of the options granted herein, or at such other time and place as may be agreed upon by the purchasers and seller. At the closing, each purchaser shall deliver to the Seller, in the manner set forth in Section 8.11, the consideration payable by such purchaser and each purchaser (other than the Company) shall deliver to the Company the executed instrument and payment required under Section 8.3 for such purchaser to be admitted as a Substitute Member with respect to the purchased Units. At the closing, the seller shall deliver to each purchaser an assignment and bill of sale duly Transferring such part of the Subject Units purchased by such purchaser free and clear **[of]** all liens, encumbrances, security interests, charges and claims of others of every kind or character (other than the options granted in this Section 8).

SECTION 8.13 All of Subject Units Need Not Be Purchased. Notwithstanding any other provision herein, a Disposing Member shall be required to sell any part of the Subject Units pursuant to the options granted herein and, in the event less than all of the Subject Units are purchased at the closing by the Company and/or the other Members, shall be entitled to consummate the sale of the unsold Units pursuant to the Bona Fide Offer described above.

SECTION 8.14 Automatic Transfer of Subject Units. If an option granted herein becomes exercisable and is exercised and the Disposing Member fails or refuses to deliver to the purchaser an assignment and bill of sale for that part of the Subject Units purchased by such purchaser, then payment for the Subject Units shall be made by the purchaser to the Company, which shall thereupon, by vote of a Majority in Interest (determined by excluding all of the Units of the Disposing Member) and as attorney-in-fact for the Disposing Member, take all action necessary to effect the Transfer to the purchaser of the Subject Units, including the execution and delivery of an assignment and bill of sale. The Disposing Member shall not thereafter own any interest in such part of the Subject Units or have any rights with respect thereto except to receive from the Company the purchase price therefor once such Transfer is effected. Each Member hereby appoints the Company as its attorney-in-fact for the purposes specified in this Section 8.

SECTION 8.15 Warranties of Disposing Member. Each Member hereby warrants that the Subject Units to be sold by such Member pursuant to the options granted herein shall be free and clear of all liens, encumbrances, security interests, charges and claims of others of every kind or character (other than the options granted in this Section 8). In the event any part of the Subject Units are subject to any lien, encumbrance, security interest, charge or claim, the purchaser of such part of the Subject Units may elect to:

(a) Postpone payment of the purchase price of such part of the Subject Units until such time as the lien, encumbrance, security interest, charge or claim has been discharged;

(b) Deduct from the purchase price of such part of the Subject Units and disburse directly to such lienholder, encumbrance or claimant, if the amount of such claim has been determined, such part of the purchase price as may be adequate to discharge such lien, encumbrance, security interest, charge or claim;

(c) In the event any such lien, encumbrance, security interest, charge or claim is not liquidated, postpone the payment of the purchase price of such part of the Subject Units until final determination of such claim and make payment at that time to the lienholder, encumbrancer or claimant and to the Disposing Member, as their respective interests may appear; or

(d) In the event that any such lien, encumbrance, security interest, charge or claim is in excess of the amount of the purchase price of such part of the Subject Units, then such purchaser may, but shall not be obligated to, disburse (if liquidated, or if not liquidated, when finally determined) the purchase price for such part of the Subject Units to such lienholder, encumbrancer or claimant and thereupon the lien, encumbrance, security interest, charge or claim against such part of the Subject Units shall be fully released and discharged and such part of the Subject Units shall be Transferred to such purchaser free and clear of all liens, encumbrances, security interests, charges and claims.

SECTION 8.16 Non-Exercise of Options Upon Voluntary Transfer. If or to the extent the options granted herein to the Members and the Company with respect to an event described in Section 8.6(a) shall be waived or shall not be exercised before the expiration thereof or shall be exercised as to less than all of the Subject Units, then the Disposing Member shall have the right, for a period of ninety (90) days following the expiration of all of the options, to Transfer all, but not less than all, of the Subject Units, provided that such Transfer shall be upon the same terms and conditions and to the same Persons as specified in the notice given pursuant to Section 8.7 and such Persons are admitted as Substitute Members in accordance with Section 8.3.

SECTION 8.17 Non-Exercise of Options Upon Involuntary Transfer. If the options granted herein to the Members and the Company with respect to an event described in Section 8.6(b) shall be waived or shall not be exercised before the expiration thereof or shall be exercised as to less than all of the Subject Units, then the involuntary Transfer causing such options to become exercisable with respect to the Subject Units shall be recognized by the Company, provided that such Transfer shall be upon the same terms and conditions and to the same Persons as specified in the notice given pursuant to Section 8.7 and such Persons are admitted as Substitute Members in accordance with Section 8.3.

SECTION 8.18 Non-Exercise of Options After Death, Termination, Liquidation or Dissolution. If the options granted herein to the Members and the Company with respect to an event described in Section 8.6(c) shall be waived or shall not be exercised before the expiration thereof or shall be exercised as to less than all of the Subject Units, then the Transfer causing such options to become exercisable with respect to the Subject Units shall be recognized by the Company, provided that such Transfer shall be upon the same terms and conditions and to the same Persons as specified in the notice given pursuant to Section 8.7 and such Persons are admitted as Substitute Members in accordance with Section 8.3.

SECTION 8.19 Subsequent Transfers, The Transfer of all or any part of a Member's Units shall not affect the status of such Units as being subject to this Section 8 and the options granted herein on any subsequent Transfer of such Units (or Change of Ownership, as the ease may be), and such Units shall in all respects remain subject to this Section 8 and the options granted herein upon the occurrence of any event specified in Section 8.6 to any Member or Substitute Member of such Units.

SECTION 8.20 Membership Certificates. The Company may issue to each Member or Transferee one or more certificates evidencing the Units owned by such Person. All certificates issued by the Company shall contain the following statement which shall be conspicuously printed or typed on the front of back of the certificate:

> "THE MEMBERSHIP INTERESTS REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") OR ANY STATE SECURITIES LAWS, IN RELIANCE UPON EXEMPTIONS FROM SUCH REGISTRATION REQUIREMENTS.
>
> THE MEMBERSHIP INTERESTS REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO TRANSFER RESTRICTIONS AND CERTAIN BUYOUT RIGHTS IN ACCORDANCE WITH THE TERMS OF THE COMPANY'S AMENDED AND RESTATED OPERATING AGREEMENT, AS AMENDED FROM TIME TO TIME."

If issued, the Company shall develop procedures for the issuance of new certificates upon (i) the Transfer of Units or (ii) the loss or destruction of previously issued certificates.

SECTION 8.21 Buy-Sell Agreement.

(a) The owners of the Class A Units or the owners of the Class B Units acting collectively as a group (the *"**Offeror**"*) may at any time make a buy-sell offer (the *"**Offer**"*) to the other group, excluding owners or affiliates owning only Non-Units (the *"**Offeree**"*) by notifying the Offeree in writing of the exercise of this right and stating in such notice the price at which the Offeror is willing either to buy all of the Units of the Company owned by the Offeree, or to sell the Offeree all of the Units of the Company owned by the Offeror, with the price per Unit and Non-Unit being the same for both the purchase and the sale. The Offer shall be deemed to include as an additional term and condition a promise by the Offeror to cause the release of the Offeree from all liabilities of the Company for which the Offeree or any asset of the Offeree is liable or subject to attachment as a result of being a guarantor or co-maker of such liabilities or a pledgor or mortgagor of assets securing such liabilities; provided, however, that any Person who will continue to be a Member of the Company after the closing shall not be entitled to such a release. The Offer shall not be revocable once the aforesaid notice has been delivered to the Offeree,

(b) Within thirty (30) days after receipt by the Offeree of the Offeror's written notice of the Offer, the Offeree shall send to the Offeror a written notice stating whether the Offeree elects (i) to purchase from the Offeror all of the Units of the Company owned by the Offeror at the price stated in the Offer and in accordance with the other terms and conditions thereof (including a release of the Offeror from personal liability for debts of the Company), or (ii) to sell to the Offeror all of the Units of the Company owned by the Offeree at the price stated in the Offer and in accordance with the other terms and conditions thereof (including a release of the Offeree from personal liability for debts of the Company).

(c) Any Offer, notice or election which may be given by a group hereunder shall not be effective unless it is signed by all Persons included in such group. If the Offeree shall fail to notify the Offeror whether the Offeree elects to buy or sell within the time period specified in subparagraph (b) above, or if the notice delivered by the Offeree pursuant to such subparagraph is not signed by all of the Persons included in the Offeree group, the Offeree and each Person included in the Offeree group shall be deemed to have elected to sell all of their Units of the Company to the Offeror.

(d) The closing of the sale shall be held at the Company's principal office (or at such other place as the Offeror and the Offeree may in writing agree) no later than fifteen (15) days after the expiration of the notice period specified in clause (b) above. At the closing the purchaser or purchasers shall deliver to the seller or sellers (i) the releases from liability for debts of the Company, as contemplated by subparagraphs (a) and (b) above, and (ii) payment shall be made in the form a promissory note payable in six (6) equal annual installments of principal and interests a floating annual rate of interest equal to the lesser of (i) eight percent (8%), or (ii) the maximum rate permitted by law compounded monthly with the first such payment due at closing, except if the seller is then indebted to the purchaser, such purchaser may set-off the purchase price against and to the extent of such indebtedness, even if such indebtedness is not then due and payable. Further, at the closing each seller shall deliver to the purchaser or purchasers an assignment and bill of sale duly Transferring all of such seller's Units of the Company. Each Member hereby covenants and warrants that any Unit of the Company which is sold by such Member pursuant to this Section will be free and clear of all liens, encumbrances, security interests, charges and claims of others of every kind or character as of the closing.

(e) Notwithstanding the foregoing, no Offer may be made pursuant to this Section (i) within four (4) years from the date of this Agreement, or (ii) after an occurrence of an event causing an option under Section 8.6 to become exercisable with respect to all or part of the Units of the Offeror or Offeree until such time as such option has expired or, if exercised, such Units have been purchased pursuant thereto.

SECTION 8.22 Preemptive Rights

(a) Offer to Sell. If the Company authorizes the issuance or sale of any Units, then the Company shall first offer to sell to each Member a portion of such Units (or such Rights thereto) equal to (i) the number of Units held by such Member divided by (ii) the sum of the number of Units outstanding.

(b) Right to Purchase. In order to accept an offer under Section 8.22(a), each Member of the class of Units so authorized to be issued or sold must, within fifteen (15) days after receipt of written notice from the Company describing in reasonable detail the Units (or Rights) being offered, the purchase price thereof, the payment terms and such Member's percentage allotment, deliver a written notice to the Company accepting such offer.

(c) Sale of Unsubscribed Units. During the Ninety (90) days following the expiration of such fifteen (15) day offering period, the Company shall be entitled to sell any such Units (or any such Rights) so authorized to be issued or sold, which the holders of such Units have not elected to purchase, on terms and conditions no more favorable to the purchasers thereof than those offered to such holders. Any Units or securities offered or sold by the Company after such ninety (90) day period must be re-offered to the holders of the Units (or any such Rights) so authorized to be issued or sold pursuant to the terms of this Section 8.22.

(d) Exclusion from Preemptive Rights. The provisions of this Section 8.22 shall not apply to any issuance of Units (or Rights to acquire any Units) (i) in connection with the acquisition of another business (whether by purchase of stock, purchase of assets, merger or otherwise), (ii) pursuant to any obligation of the Members to purchase additional securities as a result of a capital call by the Company, (iii) in connection with a debt financing, (iv) as a distribution with respect to the outstanding Units, (v) issued in exchange for consideration other than cash such as property or services, (vi) as part of an Additional Capital Contribution pursuant to Sections 3.3 and 3.4, or (vii) pursuant to any agreement in effect on the date of this Agreement.

SECTION 8.23 Acknowledgment and Authorization of a Transfer of Units. The Members understand, and agree that **Exhibit A** attached to this Agreement has been modified, amended and restated to reflect, that all of the Units (as stated in **Exhibit A** of the First Amended and Restated Operating Agreement of Front Range Energy, LLC, dated August 31, 2005) previously held by the Daniel A. Sanders and Launa J. Sanders Revocable Living Trust and all rights, duties and obligations attached thereto have been Transferred to and assumed by Daniel A. Sanders such that the Daniel A. Sanders and Launa J. Sanders Revocable Living Trust is no longer a Member of the Company. The Members and the Daniel A. Sanders and Launa J. Sanders Revocable Living Trust hereby consent to, and waive any rights in respect of, such Transfer.

SECTION 9.
Dissolution

SECTION 9.1 Dissolution. The Company shall be dissolved upon the occurrence of any of the following events:

(a) Upon the Approval of a Two Thirds Vote of the Units; or

(b) The entry of a decree of judicial dissolution under the Act.

SECTION 9.2 Winding Up. The Company shall cease to carry on its business, except insofar as may be necessary for the winding up of its business and affairs, but its separate existence shall continue until it is dissolved in accordance with the laws of Colorado. The Managers (or, in the event there is no Manager, a Person authorized by a Majority in Interest) shall proceed to collect the Company's assets; convey and dispose of such assets as are not to be distributed in kind to the Members; pay, satisfy, or discharge the Company's liabilities and obligations or make adequate provisions for the payment or discharge thereof; and do all other acts required to liquidate its business and affairs.

SECTION 9.3 Resignation or Withdrawal. Each Member agrees not to resign or otherwise voluntarily withdraw from the Company except (i) with the written consent of the Managers, or (ii) in connection with a Transfer of all of his, her or its Units in a manner permitted under Section 8.

SECTION 9.4 Distribution of Assets Upon Dissolution. In settling accounts after dissolution, the assets of the Company shall be applied and distributed in the following order of priority:

(a) First, to the payment of debts and liabilities of the Company, in the order of priority as provided by law, except those liabilities to Members on account of their Capital Contributions; and

(b) The balance, if any, to the Members in accordance with their respective Capital Account balances after giving effect to all contributions, distributions and allocations for all Fiscal Years.

This Section is intended to comply with the Act and Regulations § 1.704-1(b)(2)(ii)(b)(2) and shall be interpreted consistently therewith.

SECTION 9.5 Deficit Capital Accounts. In the event the Company is "liquidated" within the meaning of Regulations § 1.704-1(b)(2)(ii)(g), if any Member's Capital Account has a deficit balance (after giving effect to all contributions, distributions, and allocations for all Fiscal Years, including the Fiscal Year during which such liquidation occurs), such Member shall have no obligation to make any contribution to the capital of the Company with respect to such deficit balance, and such deficit shall not be considered a debt owed the Company or any other Person for any purpose whatsoever.

SECTION 10.
Miscellaneous

SECTION 10.1 Issuance of Additional Units. Subject to Section 8.22 and the terms and conditions stated herein, the Company, by the written consent of a Majority in Interest, may issue additional Units (including new classes or series thereof having rights that are different than the rights of any then-existing class or series) upon such terms and conditions as such consent may specify.

SECTION 10.2 Liquidation Safe Harbor Valuation. This Section 10.2 shall apply after the effective date of any final Regulations or of final guidance by the Internal Revenue Service with respect to the Transfer of Units to a new or existing Member of the Company in connection with the performance of services for the Company or otherwise under which the Company may make an election (a *"**Safe Harbor Election**"*) to treat the liquidation value of Units so Transferred as being the fair market value of those Units for purposes of Section 83 of the Code. From and after the effective date of any final Regulations or of final guidance by the Internal Revenue Service, each Member and each Person (including any Person to whom any Units are Transferred in connection with the performance of services for the Company or otherwise) and each assignee and Transferee of a Member who acquires Units agrees that that (a) the Company is authorized and directed to make the Safe Harbor Election, and (b) each such Person agrees to comply with all requirements of such Regulations or guidance with respect to all Units so Transferred while the Safe Harbor Election remains effective. The Safe Harbor Election may be revoked by the vote of a Majority in Interest of the Members.

SECTION 10.3 Mediation and Arbitration.

(a) To the maximum extent permitted by law, the parties mutually consent to the resolution by arbitration, and not litigation, of all claims, causes of action and disputes which may arise out of or in connection with this Agreement. In the event of any such dispute, the parties agree they shall attempt to resolve such dispute by good faith negotiations prior to the institution of mediation or arbitration proceedings. If the dispute cannot be resolved by such negotiations, then any party, by written notice to the other party, may call for private mediation of the issue before a mediator to be agreed upon by the parties. The parties agree to conclude such private mediation within thirty (30) days of the filing by a party of a request for such mediation. In the event the dispute cannot be resolved by such mediation, either party may, by written notice to the other party, may **[sic?]** commence arbitration proceedings as provided below.

(b) Disputes to be resolved by arbitration shall be submitted to binding arbitration to be held in a neutral location to be mutually agreed upon by and between the parties, by either one or three independent arbitrators in accordance with the Federal Arbitration Act, Title 9 of the U.S. Code, and the Commercial Arbitration Rules of the American Arbitration Association pursuant to the procedure set forth below.

(c) Any aggrieved party may demand such arbitration in writing by notice, which demand shall include the name of the arbitrator appointed by the party demanding arbitration and a statement of the matter in controversy.

(d) If there are two parties to the dispute, then unless the parties have agreed on a single arbitrator within ten (10) days after such demand, the other party shall name its arbitrator, and the two arbitrators so selected shall select a third arbitrator within ten (10) days or, in lieu of an agreement on the third arbitrator by the two arbitrators so appointed, a third arbitrator shall be appointed by the American Arbitration Association. If a second arbitrator is not selected within the time provided, the first arbitrator shall serve as sole arbitrator. If there are more than two parties to the dispute, then an independent single arbitrator shall be appointed by the American Arbitration Association to resolve the dispute.

(e) The arbitrators shall have the power to determine the procedure to be followed, whether discovery is to be allowed and to what extent, and to establish a schedule for resolving the controversy and allocating costs of arbitration among the parties as they shall solely determine in their discretion, including the power to award costs and attorney fees of the prevailing party against the losing party. The arbitrators shall have the power to award punitive or exemplary damages, but only when, in their sole discretion, they determine that a dispute brought or claim pursued by a party was not brought in good faith. The decision of a majority of the arbitrators shall be the decision of the arbitrators. All decisions shall be in writing. The decision of the arbitrators shall be final and binding upon the parties and shall not be appealable. The parties understand and agree that they are waiving all right to have all claims, causes of action or disputes adjudicated by a court or jury.

(f) The parties agree that the provisions of this Section 10.2 shall be a complete defense to any suit, action, or other proceeding instituted in any federal, state, or local court or before any administrative tribunal with respect to any controversy or dispute arising out of this Agreement, that judgment may be rendered in any court of competent jurisdiction on any award made by the arbitrators pursuant to this Agreement, and that the arbitration provisions hereof shall survive the termination of this Agreement for any reason.

SECTION 10.4 Title to Assets. Title to all assets acquired by the Company shall be held in the name of the Company. No Member shall individually have any ownership interest or rights in the assets of the Company, except indirectly by virtue of such Member's ownership of one or more Units. No Member shall have any right to seek or obtain a partition of the assets of the Company, nor shall any Member have the right to any specific assets of the Company upon the liquidation of or any distribution from the Company.

SECTION 10.5 Grant of Power of Attorney. Each Member constitutes and appoints the Managers as the Member's true and lawful attorney-in-fact, and in the Member's name, place and stead, to make, execute, sign, acknowledge, and file:

(a) All documents (including amendments to the Articles) which the attorney-in-fact deems appropriate to reflect any written amendment, change or modification of this Agreement approved in accordance with this Agreement;

(b) Upon the requisite approval, if any, required elsewhere in this Agreement, any and all other certificates or other instruments required to be filed by the Company under the laws of any state or jurisdiction, including, without limitation, any certificate or other instruments necessary in order for the Company to continue to qualify as a limited liability company under the applicable laws;

(c) One or more applications to use an assumed name; and

(d) All documents which may be required to dissolve and terminate the Company and to cancel its Articles upon the requisite approval required elsewhere in this Agreement.

The foregoing power of attorney is irrevocable and is coupled with an interest, and, to the extent permitted by applicable law, shall survive the death or disability of a Member. It also shall survive the Transfer of a Unit, except that if the Transferee is approved for admission as a Substitute Member, this power of attorney shall survive the delivery of the assignment for the sole purpose of enabling the attorney-in-fact to execute, acknowledge and file any documents needed to effectuate the substitution. Each Member shall be bound by any representations made by the attorney-in-fact acting in good faith pursuant to this power of attorney, and each Member hereby waives any and all defenses which may be available to contest, negate or disaffirm the action of the attorney-in-fact taken in good faith under this power of attorney.

SECTION 10.6 Tax Classification. The Members intend that the Company not be a partnership (including, without limitation, a limited partnership or a joint venture) for any purpose other than for federal and state tax purposes, that no Member shall be a partner or joint venturer of any other Member by virtue of this Agreement, and that neither this Agreement nor any other document entered into by the Company or any Member shall be construed to suggest otherwise. The Members intend that the Company shall be treated as a partnership for federal and state income tax purposes, and each Member and the Company shall file all tax returns and shall otherwise take all tax and financial reporting positions in a manner consistent with such treatment.

SECTION 10.7 Tax Controversies. In the event the Company is or becomes required to designate a "tax matters partner" pursuant to Code § 6231, the Company, by the consent of a Majority in Interest, shall designate a Member to act as the tax matters partner for the Company (the "***Tax Matters Partner***"). The Tax Matters Partner is authorized and required to represent the Company (at the Company's expense) in connection with all examinations of the Company's affairs by tax authorities, including resulting administrative and judicial proceedings. The Tax Matters Partner agrees to notify each Manager and Member as to the initiation of any such examination or administrative or judicial proceeding, and to keep each Manager and Member reasonably informed of the status thereof. The Tax Matters Partner shall obtain the consent of a vote of a Majority in Interest prior to entering into any settlement of any such examination. Each Manager and Member agrees to cooperate with the Tax Matters Partner and to do or refrain from doing any or all things reasonably required by the Tax Matters Partner in connection with the conduct of such proceedings.

SECTION 10.8 Headings. Section and other headings contained in this Agreement are for reference purposes only and are not intended to describe, interpret, define, or limit the scope, extent, or intent of this Agreement or any provision herein.

SECTION 10.9 Survival. All rights of contribution and indemnity contained in this Agreement shall survive and remain in full force and effect notwithstanding any dissolution of the Company or this Agreement.

SECTION 10.10 Notices. Except as otherwise provided by this Agreement or by law, any notice required or permitted to be given by this Agreement shall be sufficient if in writing and shall be deemed effective only if transmitted by personal delivery or mailed by certified mail, return receipt requested, postage prepaid, to the address of the Member as it appears on the records of the Company; provided that a waiver in writing signed by any person entitled to notice, whether made before or after the time for notice to be given, is equivalent to the giving of notice. Any such notice shall be deemed to be delivered and received as of the date so delivered, if delivered personally, or as of the second business day following the day sent, if sent by certified mail.

SECTION 10.11 Entire Agreement. This Agreement contains the entire agreement between the Members relative to the operation of the Company, and it shall not be amended, altered, modified or changed except by a written document duly executed by a Majority in Interest at the time of such alteration, modification or change. Notwithstanding the foregoing, the provisions of Section 3, Section 4, Section 6.6, Section 6.7 and Section 8 may not be altered, modified or changed with respect to any Member without the written consent of such Member.

SECTION 10.12 Severability. In the event any provision of this Agreement is held to be illegal, invalid or unenforceable to any extent, the legality, validity and enforceability of the remainder of this Agreement shall not be affected thereby and shall remain in full force and effect and shall be enforced to the greatest extent permitted by law.

SECTION 10.13 Binding Agreement. The provisions of this Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their respective heirs, personal representatives, successors and assigns.

SECTION 10.14 Jointly Negotiated. The parties hereto have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any of the provisions of this Agreement.

SECTION 10.15 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which shall constitute one agreement that is binding upon all of the parties hereto, notwithstanding that all parties are not signatories to the same counterpart.

SECTION 10.16 Governing Law. The laws of the State of Colorado shall govern the validity of this Agreement, the construction of its terms, and the interpretation of the rights and duties of the parties hereto.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed effective as of the Effective Date.

Daniel A. Sanders

/s/ Daniel A. Sanders
Signature

Eagle Energy LLC

By /s/ David M. Flick
Its President

ICM, Inc.

By /s/ Jerry Jones
Its CFO

Daniel A. Sanders and Launa J. Sanders Revocable Living Trust

By /s/ Daniel A. Sanders
Daniel A. Sanders, As Trustee

Appendix I

Definitions

Terms Defined Herein. Unless the context otherwise requires, the following terms shall have the following meanings:

(a) *"**Act**"* means the Colorado Limited Liability Company Act, as amended from time to time (or any corresponding provision of succeeding law).

(b) *"**Additional Capital Contribution**"* has the meaning given it in Section 3.3.

(c) *"**Adjusted Capital Account Deficit**"* means, with respect to any Member, the deficit balance, if any, in such Member's Capital Account as of the end of the relevant Fiscal Year, after giving effect to the following adjustments:

i. Credit to such Capital Account any amounts which such Member is obligated to restore pursuant to any provision of this Agreement or is deemed to be obligated to restore pursuant to the penultimate sentences of Regulations §§ 1.704-2(g)(1) and 1.704-2(0(5); and

ii. Debit to such Capital Account the items described in Regulations §§ 1.704-1(b)(2)(ii)(d)(4), 1.704-1(b)(2)(ii)(d)(5), and 1.704-1(b)(2)(ii)(d)(6).

The foregoing definition of Adjusted Capital Account Deficit is intended to comply with the provisions of Regulations § 1.704-1(b)(2)(ii)(d) and shall be interpreted consistently therewith.

(d) *"**Agreement**"* means this Operating Agreement, as amended from time to time.

(e) *"**Annual Operating Plan**"* means the Annual Operating Plan adopted as provided in Section 6.10.

(f) *"**Articles**"* means the Articles of Organization of the Company or such other document filed in accordance with the Act in order to form the Company under the laws of Colorado, as amended or restated from time to time.

(g) *"**Available Cash**"* means the aggregate amount of cash on hand or in bank, money market or similar accounts of the Company derived from any source which the Managers determine is available for distribution after taking into account any amount required or appropriate to maintain a reasonable amount of working capital and reserves for outstanding obligations and anticipated future expenditures of the Company, and any limitations on distribution imposed by any agreement to which the Company is a party.

(h) *"**Board**"* means a board consisting of the Board Members, as described in Section 6.7.

(i) *"**Board Member**"* has the meaning given it in Section 6.7.

(j) *"**Bona Fide Offer**"* means a bona fide offer as described in Section 8.6(a).

(k) *"**Capital Account**"* means the capital account maintained for each Member in accordance with Section 3.5.

(l) *"**Capital Contributions**"* means, with respect to any Member, the amount of cash and the initial Gross Asset Value of any property (other than cash) contributed to the capital of the Company. The principal amount of a promissory note which is not readily traded on an established securities market and which is contributed to the Company by the maker of the note (or a person related to the maker of the note within the meaning of Regulations § 1.704-1 (b)(2)(ii)(c)) shall not be included in the Capital Account of any Member until the Company makes a taxable disposition of the note or until (and to the extent) principal payments are made on the note, all in accordance with Regulations § 1.704-1(b)(2)(iv)(d)(2).

(m) "**Class A Units**" and *"**Class B Units**"* refer to the classes of Units created pursuant to Section 3.1.

(n) *"**Code**"* means the Internal Revenue Code of 1986, as amended from time to time (or any corresponding provisions of succeeding law).

(o) *"**Company**"* means Front Range Energy, LLC, a Colorado limited liability company.

(p) *"**Company Minimum Gain**"* means "partnership minimum gain" as that term is defined in Regulations §§ 1.704-2(b)(2) and 1.704-2(d).

(q) *"**Confidential Information**"* means the terms of this Operating Agreement, the name of any Member, together with any other information that is not generally known to the public and that is used, developed or obtained by the Company in connection with its business, including but not limited to (i) financial information and projections, (ii) business strategies, (iii) products or services, (iv) fees, costs and pricing structures, (v) designs, (vi) analysis, (vii) drawings, photographs and reports, (viii) computer software, including operating systems, applications and program listings, (ix) flow charts, manuals and documentation, (x) data bases, (xi) accounting and business methods, (xii) inventions, devices, new developments, methods and processes, whether patentable or unpatentable and whether or not reduced to practice, (xiii) customers and clients and customer or client lists, (xiv) copyrightable works, (xv) all technology and trade secrets, and (xvi) all similar and related information in whatever form.

(r) *"**Defaulting Member**"* means a defaulting member as described in Section 3.4.

(s) *"**Depreciation**"* means, for each Fiscal Year, an amount equal to the depreciation, amortization, or other cost recovery deduction allowable with respect to an asset for such Fiscal Year, except that if the Gross Asset Value of an asset differs from its adjusted basis for federal income tax purposes at the beginning of such Fiscal Year, Depreciation shall be an amount which bears the same ratio to such beginning Gross Asset Value as the federal income tax depreciation, amortization, or other cost recovery deductions for such Fiscal Year or other period bears to such beginning adjusted tax basis; provided, however, that if the adjusted basis for federal income tax purposes of an asset at the beginning of such Fiscal Year is zero, Depreciation shall be determined with reference to such beginning Gross Asset Value using any reasonable method selected by the Managers.

(t) *"**Disposing Member**"* means a disposing Member as described in Section 8.6.

(u) *"**Effective Date**"* means the date first set forth and defined as the Effective Date in the first paragraph of this Agreement.

(v) *"**Fiscal Year**"* means on or after the Effective Date (i) the period commencing on the Effective Date, and ending on the next December 31st, (ii) any subsequent twelve (12) month period commencing on January 1st and ending on December 31st, or (iii) any portion of the period described in clause (ii) for which the Company is required to allocate Profits, Losses, and other items of Company income, gain, loss, or deduction pursuant to Section 4.

(w) *"**Gross Asset Value**"* means, with respect to any asset, the asset's adjusted basis for federal income tax purposes, except as follows:

i. The initial Gross Asset Value of any asset contributed by a Member to the Company shall be the gross fair market value of such asset, as determined by the Managers;

ii. The Gross Asset Values of all Company assets shall be adjusted to equal their respective gross fair market values as of the following times: (a) the acquisition of an additional interest in the Company by any new or existing Member in exchange for more than a de minimis Capital Contribution; (b) the distribution by the Company to a Member of more than a de minimis amount of Company assets as consideration for an interest in the Company; and (c) the liquidation of the Company within the meaning of Regulations § 1.704-1 (b)(2)(ii)(g); provided, however, that adjustments pursuant to clauses (a) and (b) above shall be made only if the Managers reasonably determine that such adjustments are necessary or appropriate to reflect the relative economic interests of the Members in the Company;

iii. The Gross Asset Value of any Company asset distributed to any Member shall be adjusted to equal the gross fair market value of such asset on the date of distribution as determined by the Managers; and

iv. The Gross Asset Values of Company assets shall be increased (or decreased) to reflect any adjustments to the adjusted basis of such assets pursuant to Code § 734(b) or Code § 743(b), but only to the extent that such adjustments are taken into account in determining Capital Accounts pursuant to Regulations § 1.704-1(b)(2)(iv)(m) and Paragraph (bb)(vi) of this Appendix and 4.4(f); provided, however, that Gross Asset Values shall not be adjusted pursuant to this clause (iv) to the extent the Managers determine that an adjustment pursuant to clause (ii) above is necessary or appropriate in connection with a transaction that would otherwise result in an adjustment pursuant to this clause (iv).

If the Gross Asset Value of an asset has been determined or adjusted pursuant to clauses (i), (ii) or (iv) above, such Gross Asset Value shall thereafter be adjusted by the Depreciation taken into account with respect to such asset for purposes of computing Profits and Losses.

(x) *"**Immediate Family**"* means, with respect to a Member, such Member's spouse and lineal descendants (excluding adopted descendants).

(y) *"**Indemnitee**"* means a Person entitled to be indemnified by the Company pursuant to Section 6.11.

(z) *"**Majority in Interest**"* means any Member or group of Members holding an aggregate of more than fifty percent (50%) of the applicable Units then entitled to vote. Unless otherwise expressly limited in this Agreement to the vote of a specific class of Unit, Class A Units, and Class B Units shall be entitled to vote for purposes of determining a "Majority in Interest."

(aa) *"**Manager**"* means the Person designated as a manager of the Company in accordance with Section 6.1. "***Managers***" means all such Persons.

(bb) *"**Member**"* means any Person who is a party hereto or who is hereafter admitted as a new Member or Substitute Member of the Company pursuant to the provisions of this Agreement. "***Members***" mean all such Persons.

(cc) *"**Member Nonrecourse Debt**"* means "partner nonrecourse debt" as that term is defined in Regulations § 1.704-2(7b)(4).

(dd) *"**Member Nonrecourse Debt Minimum Gain**"* means an amount, with respect to each Member Nonrecourse Debt, equal to the Company Minimum Gain that would result if such Member Nonrecourse Debt were treated as a Nonrecourse Liability, determined in accordance with Regulations § 1.704-2(i)(3).

(ee) *"**Member Nonrecourse Deductions**"* means "partner nonrecourse deductions" as that term is defined in Regulations §§ 1.704-2(i)(1) and 1.704-2(I)(2) **[1.704-2(i)(2)?]**.

(ff) *"**Nonrecourse Deductions**"* has the meaning set forth in Regulations § 1.704-2(b)(1).

(gg) *"**Nonrecourse Liability**"* has the meaning set forth in Regulations § 1.704-2(b)(3).

(hh) *"**Offer**," "**Offeror**"* and *"**Offeror**"* has the meaning set forth in Section 8.21.

(ii) *"**Person**"* means any individual, corporation, partnership, limited liability company, trust or other legal entity.

(jj) *"**Profits**"* and *"**Losses**"* means, for each Fiscal Year, an amount equal to the Company's taxable income or loss for such Fiscal Year, determined in accordance with Code § 703(a) (for this purpose, all items of income, gain, loss, or deduction required to be stated separately pursuant to Code § 703(a)(1) shall be included in taxable income or loss), with the following adjustments:

i. Any income of the Company that is exempt from federal income tax and not otherwise taken into account in computing Profits or Losses pursuant to this Subsection shall be added to such taxable income or loss;

ii. Any expenditures of the Company described in Code § 705(a)(2)(B) or treated as Code § 705(a)(2)(B) expenditures pursuant to Regulations § 1.704-1(b)(2)(iv)(i), and not otherwise taken into account in computing Profits or Losses pursuant to this Subsection shall be subtracted from such taxable income or loss;

iii. In the event the Gross Asset Value of any Company asset is adjusted pursuant to Paragraph (o)(ii) or (o)(iii) of this Appendix, the amount of such adjustment shall be taken into account as gain or loss from the disposition of such asset for purposes of computing Profits or Losses;

iv. Gain or loss resulting from any disposition of a Company asset with respect to which gain or loss is recognized for federal income tax purposes shall be computed by reference to the Gross Asset Value of the asset disposed of, notwithstanding that the adjusted tax basis of such asset differs from its Gross Asset Value;

v. In lieu of the depreciation, amortization, and other cost recovery deductions taken into account in computing such taxable income or loss, there shall be taken into account Depreciation for such Fiscal Year or other period, computed in accordance with Paragraph (m) of this Appendix;

vi. To the extent an adjustment to the adjusted tax basis of any Company asset pursuant to Code § 734(b) or Code § 743(b) is required pursuant to Regulations § 1.704-1(b)(2)(iv)(m)(4) to be taken into account in determining Capital Accounts as a result of a distribution other than in liquidation of a Member's interest in the Company, the amount of such adjustment shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases the basis of the asset) from the disposition of the asset and shall be taken into account for purposes of computing Profits or Losses; and

vii. Notwithstanding any other provision of this Subsection, any items which are specifically allocated pursuant to Section 4.4 or Section 4.5 shall not be taken into account in computing Profits or Losses.

The amounts of the items of Company income, gain, loss, or deduction available to be specially allocated pursuant to Sections 4.4 and 4.5 shall be determined by applying rules analogous to those set forth in clauses (i) through (vi) above.

(kk) *"**Regulations**"* means the Income Tax Regulations, including Temporary Regulations, promulgated under the Code, as amended from time to time (including corresponding provisions of succeeding Regulations).

(ll) *"**Regulatory Allocations**"* mean the allocations pursuant to Section 4.4.

(mm) *"**Required Contribution**"* means a required contribution as described in Section 3.3.

(nn) *"**Right**"* means a warrant, right, call or option or security exercisable for or convertible into a Unit.

(oo) *"**Safe Harbor Election**"* means the Safe Harbor Election as described in Section 10.2.

(pp) *"**Substitute Member**"* means a Person admitted to the Company as a Member and entitled to all the rights and bound by all the obligations of the Member for which such Person is substituted.

(qq) *"**Subject Units**"* means subject units as described in Section 8.6.

(rr) *"**Tax Matters Partner**"* means the tax matters partner as described in Section 10.7.

(ss) *"**Transfer**", "**Transferred**",* etc. means, with respect to a Unit, to sell, Transfer, assign, give, bequeath, mortgage, alienate, pledge, hypothecate or otherwise encumber or dispose of such Unit. "Transfer", "Transferred", etc. includes with respect to a Unit owned by a Member that is not a natural person, the cumulative transfer (voluntarily, involuntarily or by operation of law, including by merger or other reorganization) of more than 50% of the equity ownership of the Member.

(tt) *"**Two-Thirds Interest**"* means any on or more Board Members appointed by Members holding an aggregate of more than sixty-six and two thirds percent (66 2/3%) of the Units then outstanding. Unless otherwise expressly limited in this Agreement to the vote of a specific class of Unit, Class A Units and Class B Units shall be entitled to vote for purposes of determining a "Two Thirds Interest".

(uu) *"**Unit**"* means a Unit issued by and representing an ownership interest in the Company including a Class A Unit, a Class B Unit, and any other class or series of Units created and issued pursuant to Section 10.1. "Units" mean all such Units.

(vv) *"**Unpaid Required Contribution**"* means an unpaid required contribution as described in Section 3.4.

Exhibit A

As of October 20, 2005.

NOTE: Exhibit A may be amended from time to time to reflect adjustments to Members' Accounts.

Member	Units	Cash Capital Contribution	%
Daniel A. Sanders 6867 Hogan Road Gresham, OR 97080	50.000 Class A Units	$-0-	.1%
Daniel A. Sanders 6867 Hogan Road Gresham, OR 97080	12,880.405 Class B Units	$12,880,405	53.72%
Eagle Energy LLC 2113 Pebble Beach Land Brandon, SD 57005	10,094.595 Class D Units	$10,094,595	42.10%
ICM Inc. 310 N. First Colwich, KS 67030k **[67030]**	1,000.000 Class B Units	$1,000,000	4.17%
TOTAL	**24,025.000 Units**	**$23,975,000**	**100.00%**

EXHIBIT 10.5

AMENDMENT NO. 1, DATED AS OF OCTOBER 17, 2006,
OF THE SECOND AMENDED AND RESTATED OPERATING AGREEMENT
OF
FRONT RANGE ENERGY, LLC
TO ADD A SUBSTITUTE MEMBER AND FOR CERTAIN OTHER PURPOSES

By this amendment, dated as of the 17th day of October, 2006, the undersigned parties amend that certain agreement (the "***Agreement***"), entitled "Second Amended and Restated Operating Agreement of Front Range Energy, LLC," dated as of October 20, 2005, as follows:

Section 1
ADMISSION OF NEW MEMBER

Pacific Ethanol California, Inc., a California corporation ("***Pacific***") is hereby admitted as a member of Front Range Energy, LLC. By signing this Agreement, Pacific shall be bound by all of the terms and conditions of the Agreement as amended by this Amendment.

Section 2
AMENDMENT OF PROVISIONS OF AGREEMENT

The following provisions of the Agreement are amended as follows:

SECTION 6.14 Confidential Information. Without limiting the applicability of any other agreement to which any Member may be subject, a Manager and/or Member shall not, directly or indirectly disclose, either during his, her or its association or employment with the Company or thereafter, any Confidential Information of which such Manager or Member is or becomes aware. A Manager or Member in possession of Confidential Information shall take all appropriate steps to safeguard such information and to protect it against disclosure, misuse, espionage, loss and theft. Notwithstanding the above, a Manager and/or Member may disclose Confidential Information to the extent (i) the disclosure is necessary for the Manager, Member and/or the Company's agents, representatives, and advisors to fulfill their duties to the Company pursuant to this Agreement and/or other written agreements, (ii) the disclosure is required by law or a court order, (iii) to the extent necessary to enforce rights hereunder and (iv) the disclosure is of a general nature regarding general financial information, return on investment and similar information, including without limitation, in connection with communications to direct and indirect beneficial owners of Units and controlling Persons and general marketing efforts. Notwithstanding the foregoing, (a) this Section 6.14 shall not prohibit the disclosure of Confidential Information by a Member or an affiliate of a Member to the extent such disclosure is reasonably determined to be required under applicable securities laws or under the terms of an applicable listing agreement between any Member or an affiliate of a Member and a national stock exchange,

(b) for all agreements entered into prior to the date hereof between the Company and a Member, or an affiliate of a Member which contain individual provisions concerning the disclosure of confidential information, including but not limited to, Confidential Information as defined herein, which conflict with this Section 6.14, such agreements shall be governed by their individual provisions concerning the disclosure of confidential information, and (c) to the extent that the Company and a Member, or an affiliate of a Member enter into agreements prior to the date hereof which do not contain individual provisions concerning the disclosure of Confidential Information, this Section 6.14 shall control the disclosure of Confidential Information with respect to such agreements and each Member shall cause its affiliates to abide by the terms of this Section 6.14. For purposes of this Section 6.14, "affiliate" has the meaning set forth in Rule 12b-2 of the regulations promulgated under the Securities Exchange Act of 1934, as amended.

Section 3
AMENDMENT OF EXHIBITS

The following exhibits of the Agreement are amended as follows:

See attached **Exhibit A** hereto and by this reference incorporated herein.

Section 4
NO OTHER AMENDMENTS

Except as amended by this Amendment, all provisions and exhibits of the Agreement shall remain in full force and effect.

[signature page to follow]

SIGNATURES OF THE PARTIES

/s/ Daniel A. Sanders
Daniel A. Sanders

Eagle Energy, LLC

By: /s/ David M. Fink
Its: David M. Fink - President

ICM Inc.

By: /s/ Jerry Jones
Its: CFO

Pacific Ethanol California, Inc.

By: /s/ Neil M. Koehler
Its: Neil M. Koehler

Exhibit A

As of October 17, 2006

NOTE: Exhibit A may be amended from time to time to reflect adjustments to Members' Accounts.

Member	Units	Cash Capital Contribution	%
Daniel A. Sanders 6867 Hogan Road Gresham, OR 97080	50.000 Class A Units	$-0-	**.1%**
Daniel A. Sanders 6867 Hogan Road Gresham, OR 97080	12,880.405 Class B Units	$12,880,405	**53.72%**
Pacific Ethanol California, Inc. 5711 N. West Avenue Fresno, CA 93711	10,094.595 Class B Units	$10,094,595	**42.10%**
ICM Inc. 310 N. First Colwich, KS 67030k	1,000.000 Class B Units	$1,000,000	**4.17%**
Total	**24,025.000 Units**	**$23,975,000**	**100.00%**

EXHIBIT 10.6

NON-COMPETITION AGREEMENT

This Non-Competition Agreement (this "***Agreement***") is entered into as of the 17th day of October, 2006, by and among (i) Pacific Ethanol, Inc., a Delaware corporation ("***Buyer***"), (ii) Front Range Energy, LLC, a Colorado limited liability company (the "***Company***"), and (iii) _____(the "***Individual***"). Capitalized terms not defined herein shall have the respective meanings ascribed to such terms in the Membership Interest Purchase Agreement, dated as of the date hereof, by and between Eagle Energy, LLC, a South Dakota limited liability company ("***Seller***"), and Buyer (the "***Purchase Agreement***").

Whereas, the Company is currently engaged in the business of the construction, operation and management of corn ethanol plants (the "***Restricted Business***");

Whereas, the Individual has served as a member, manager, director or officer of Seller and, as a result of his position with Seller, is in possession of confidential and proprietary information relating to the Restricted Business;

Whereas, Buyer and Seller are parties to the Purchase Agreement, pursuant to which Buyer will purchase 10,094.595 Class B Voting Units of the Company, representing approximately 42% of the outstanding membership interests of the Company, from Seller;

Whereas, Buyer and the Company desire to preserve and protect the assets of the Company, including, without limitation, its goodwill, staff resources, customers and trade secrets of which Individual has knowledge; and

Whereas, as a condition to its willingness to enter into the Purchase Agreement, Buyer has required that the Individual enter into this Agreement.

Now, Therefore, in consideration of the foregoing and the respective representations, warranties, covenants and agreements set forth in this Agreement, the parties, intending to be legally bound, hereby agree as follows:

1. Certain Covenants.

(a) Noncompetition. The Individual covenants and agrees that during the period commencing as of the date hereof and ending on the two (2) year anniversary of the Closing Date (the "***Covenant Period***"), except with the express prior written consent of the Chief Executive Officer of each of Buyer and the Company, the Individual shall not engage in or carry on, or permit his name to be used in connection with, any business either for himself or as a member, executive, employee, stockholder (other than as the holder of not more than one percent (1%) of the total outstanding stock of a publicly held company), investor, officer, manager or director of a corporation, partnership or other business association or as an agent, associate or consultant of any Person, in competition with the Restricted Business, as conducted by the Company, Buyer or any of their Affiliates, within a fifty (50) mile radius of the Company's ethanol production facility located in Windsor, Colorado. The parties intend that the covenants contained in this **Section 1(a)** shall be deemed to be a series of separate covenants, one for each county in Colorado within such radius and, except for geographic coverage, each such separate covenant shall be identical in terms to the covenant contained in this **Section 1(a)**. For purposes of this Agreement, "***Person***" shall be broadly interpreted to include any individual, corporation (including any non-profit corporation), general or limited partnership, limited liability company, joint venture, estate, trust, association, organization or other entity or governmental body.

(b) Nondisclosure of Information. The Individual acknowledges that all Confidential Information (as defined below) known or obtained by him, whether before or after the date hereof, is the property of the Restricted Business. Therefore, the Individual agrees that he will not, during the Covenant Period, disclose to any Person or use for his own account, or for the benefit of any third party, any Confidential Information, whether in the Individual's memory or embodied in writing or other physical form, without the written consent of the Chief Executive Officer of each of Buyer and the Company. This restriction shall not apply to the extent that such Confidential Information is or becomes generally known to and available for use by the public other than as a result of the Individual's fault or the fault of any other Person bound by a duty of confidentiality to the Company, Buyer or any of their Affiliates or is made available to the Individual by a third party having a right to do so. Furthermore, this restriction shall not apply to the extent specific Confidential Information is required by Law or by the order of any Government Authority to be disclosed; provided that the Individual, prior to making such legally required or compelled disclosure, shall provide such notification as is reasonable in the circumstances to the Chief Executive Officer of each of Buyer and the Company and shall assist Buyer and the Company in obtaining an appropriate protective order.

(c) Materials. The Individual agrees to deliver to Buyer at any time Buyer may request, all documents, memoranda, notes, plans, records, reports and other documentation, models, components, devices or computer software, whether embodied in a disk or in other form (and all copies of all of the foregoing), relating to the Restricted Business and any other Confidential Information that the Individual may then possess or have under his control.

(d) Confidential Information."***Confidential Information***" means the following: (i) any and all trade secrets concerning the Restricted Business, including, without limitation, product specifications, data, know-how, formulae, compositions, processes, designs, sketches, photographs, graphs, drawings, samples, inventions and ideas, past, current and planned research and development, current and planned manufacturing and distribution methods and processes, customer lists, details of contracts with customers, consultants, suppliers or employees, current and anticipated customer requirements, price lists, market studies, business plans, computer software and programs (including object code and source code), computer software and database technologies, systems, structures and architectures; (ii) any and all information concerning the Restricted Business, including, without limitation, historical financial statements, financial projections and budgets, historical and projected sales, capital spending budgets and plans, the names and backgrounds of key personnel, personnel training and techniques and materials, however documented; and (iii) any and all notes, analysis, compilations, studies, summaries and other material prepared by or for the Restricted Business containing or based, in whole or in part, on any information included in the foregoing.

(e) Nonservicing and Nonhiring.

(i) The parties acknowledge and agree that the Individual, through his association with Seller, has acquired a considerable amount of knowledge and goodwill with respect to actual and prospective clients and customers of the Restricted Business, which knowledge and goodwill are extremely valuable to the Company and Buyer and which would be extremely detrimental to the Company and Buyer if used by the Individual in a manner adverse to the interests of the Company or Buyer. The parties acknowledge and agree that, because of the nature of the Restricted Business, it is necessary to afford fair protection to Buyer and the Company, as provided in this **Section 1(e)**.

(ii) As a material inducement to Buyer to enter into the Purchase Agreement, the Individual covenants and agrees that, during the Covenant Period, except if the Individual is acting as an employee, agent, or consultant of the Company or Buyer solely for the benefit of the Company or Buyer in connection with the Restricted Business and in accordance with the Company's or Buyer's business practices and employee policies, as determined from time to time by the Company's or Buyer's Board of Directors or Managers, as applicable, the Individual shall not, directly, indirectly or in concert with any other Person, divert business from or induce competition with the Restricted Business with any Person who (A) is on the date hereof, a client or customer of the Restricted Business, (B) becomes a client or customer of the Restricted Business during the Covenant Period, or (C) prior to or during the Covenant Period was or is being contacted by the Company, Buyer or any of their Affiliates in furtherance of the Restricted Business as a prospective client or customer, whether for or on behalf of the Individual or for any entity in which the Individual shall have a direct or indirect interest (or any subsidiary or Affiliate of any such entity), whether as a proprietor, partner, co-venturer, financier, investor, Individual, representative or otherwise.

(iii) As a material inducement to Buyer to enter into the Purchase Agreement, the Individual further covenants and agrees that, during the Covenant Period, except if the Individual is acting as a consultant, employee or agent of the Company or Buyer solely for the benefit of the Company or Buyer in connection with the Restricted Business and in accordance with the Company's or Buyer's business practices and employee policies, as determined from time to time by the Company's or Buyer's Board of Directors or Managers, as applicable, the Individual shall not, directly or indirectly, hire or engage or attempt to hire or engage any individual who shall have been a consultant or employee of the Company, Buyer or any of their Affiliates at any time during the Covenant Period, or take any other action that is intended to induce any employee or consultant to terminate his or her relationship with Buyer, the Company or any of their Affiliates, whether for or on behalf of the Individual or for any entity in which the Individual shall have a direct or indirect interest (or any subsidiary or Affiliate of any such entity), whether as a proprietor, partner, co-venturer, financier, investor, Individual, representative or otherwise.

(f) Publicity. As a material inducement to Buyer to enter into the Purchase Agreement, the Individual covenants and agrees that, during the Covenant Period, the Individual shall not, for any reason whatsoever, directly or indirectly, individually or in conjunction with any other Person, publish, or otherwise orally communicate under circumstances reasonably likely to become public, any statement that is factually inaccurate and materially detrimental to the Company, Buyer or any of their Affiliates.

(g) Injunctive Relief. The Individual understands and agrees that the Company and Buyer shall suffer irreparable harm in the event that the Individual or any of his or her Affiliates breaches any of the provisions of this **Section 1**, and that monetary damages shall be inadequate to compensate the Company and Buyer for such breach. Accordingly, the Individual agrees that, in the event of a breach by the Individual or any of his or her Affiliates of any of the provisions of this **Section 1**, in addition to, and not in limitation of, any other rights, remedies or damages available to the Company and Buyer at law or in equity, the Company and Buyer shall be entitled to a temporary restraining order, preliminary injunction and permanent injunction in order to prevent or to restrain any such breach by the Individual or by any or all of the Individual's Affiliates, partners, co-venturers, representatives and any and all persons directly or indirectly acting for, on behalf of or with the Individual.

(h) Reasonableness of Restrictions.

(i) THIS AGREEMENT IS ENTERED INTO IN CONNECTION WITH THE PURCHASE AGREEMENT. THE COVENANTS OF THE INDIVIDUAL CONTAINED IN THIS AGREEMENT ARE A MATERIAL PART OF THAT TRANSACTION, AND BUYER WOULD NOT HAVE ENTERED INTO THE PURCHASE AGREEMENT WITHOUT THEM. THE INDIVIDUAL HAS CAREFULLY READ AND CONSIDERED THE PROVISIONS OF THIS SECTION 1 AND, HAVING DONE SO, AGREES THAT THE RESTRICTIONS SET FORTH HEREIN ARE FAIR AND REASONABLE AND ARE REASONABLY REQUIRED FOR THE PROTECTION OF THE INTERESTS OF THE COMPANY AND BUYER AND THEIR RESPECTIVE STOCKHOLDERS, MEMBERS, OFFICERS, DIRECTORS, EMPLOYEES AND EXECUTIVES.

(ii) If, in any judicial proceeding, the court shall refuse to enforce all of the separate covenants contained in this **Section 1** because the time limit is excessive, it is expressly understood and agreed between the parties hereto that for purposes of such proceeding such time limitation shall be deemed reduced to the extent necessary to permit enforcement of such covenants. If, in any judicial proceeding, the court shall refuse to enforce all of the covenants contained in this **Section 1** because the court deems them to be more extensive (whether as to geographic area, scope of business or otherwise) than necessary to protect the business and goodwill of the Company and Buyer, it is expressly understood and agreed between the parties hereto that for purposes of such proceeding the geographic area, scope of business or other aspect shall be deemed reduced to the extent necessary to permit enforcement of such covenants.

(iii) The term of the covenants contained in this **Section 1** shall be tolled for the period commencing on the date any successful action is filed for injunctive relief or damages arising out of a breach of this **Section 1** by the Individual and ending upon the successful enforcement of such injunctive relief.

(iv) The parties acknowledge that the time, scope of business, geographic area and other provisions of this Agreement have been specifically negotiated by sophisticated commercial parties. This Agreement has been reviewed by counsel for Eagle, and the Individual has had the opportunity to consult independently with counsel and to be advised in all respects concerning the reasonableness and propriety of the covenants contained herein, with specific regard to the Restricted Business, and represents that the Agreement is intended to be, and shall be, fully enforceable and effective in accordance with its terms.

2. No Conflicts. The Individual certifies that he has no outstanding agreement or obligation that is in conflict with any of the provisions of this Agreement, or that would preclude the Individual from complying with the provisions hereof, and further certifies that the Individual will not enter into any such conflicting agreement during the term of this Agreement.

3. Governing Law. This Agreement shall be governed by, and construed in accordance with, the Laws of the State of Colorado, without regard to its principles of conflicts-of-law or choice-of-law. Any legal action or proceeding against any party with respect to this Agreement or the transactions consummated hereunder shall be brought exclusively in the state or federal courts located in the County of Denver, State of Colorado, and by execution and delivery of this Agreement the parties hereby irrevocably accept the exclusive jurisdiction of such courts.

4. Notices. All notices and other communications given or made pursuant hereto shall be in writing and shall be deemed to have been duly given or made as of the date delivered, mailed, dispatched or transmitted, and shall be effective upon receipt, if delivered personally, mailed by registered or certified mail (postage prepaid, return receipt requested) or dispatched by reputable overnight delivery service to the parties at the following addresses (or at such other address for a party as shall be specified by notice given pursuant to this **Section 4**) or sent by electronic transmission to the facsimile number specified below (or to such other facsimile number for a party as shall be specified by notice given pursuant to this **Section 4**):

If to Buyer, addressed to it at:

Pacific Ethanol, Inc.
5711 N. West Avenue
Fresno, CA 93711
Attn.: Neil Koehler
Facsimile: (559) 435-1478

With copies to:

Pacific Ethanol, Inc.
5711 N. West Avenue
Fresno, CA 93711
Attn.: General Counsel
Facsimile: (559) 435-1478

Cooley Godward Kronish LLP
380 Interlocken Crescent, Suite 900
Broomfield, Colorado 80021
Attn: Francis Wheeler, Esq.
Facsimile: (720) 566-4099

If to the Company, addressed to it at:

Front Range Energy, LLC
Tel: (970) 674-2910
Facsimile: (970) 674-2914

With a copy to:

If to the Individual, to him or her at the address listed on the signature page attached hereto;

With a copy to:

Dorsey & Whitney LLP
50 South Sixth Street, Suite 1500
Minneapolis, MN 55402
Attn: Robert G. Hensley
Tel: (612) 340-2655
Fax: (612) 340-7800

5. Parties in Interest. This Agreement shall be binding upon and inure solely to the benefit of each party hereto and their respective successors and assigns, and nothing in this Agreement, express or implied, is intended to or shall confer upon any other person any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

6. Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of Law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the extent possible.

7. Modification; No Waiver. No change, modification or waiver hereof shall be valid or binding unless the same is in writing and signed by the party against whom such change, modification or waiver is sought to be enforced; moreover, no valid waiver of any provision of this Agreement at any time shall be deemed a waiver of any other provision of this Agreement at such time or will be deemed a valid waiver of such provision at any other time; provided, further, that nothing in this agreement may be changed, modified, waived or superceded by any agreement which does not specifically make reference to this Agreement (even if such agreement indicates that it supercedes all prior agreements relating to the subject matter hereof).

8. Entire Agreement. This Agreement constitutes the entire agreement of the parties and supersedes all prior agreements and undertakings, both written and oral, between the parties, or any of them, with respect to the subject matter hereof and, except as otherwise expressly provided herein, are not intended to confer upon any other Person any rights or remedies hereunder.

9. Headings. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

10. Assignment. Subject to the terms hereof, Buyer and the Company may expressly assign their rights under this Agreement to (i) any Affiliate at any time or (ii) any Person in connection with a merger, sale or transfer of all or substantially all of the assets of Buyer or the Company to such Person, without the consent of the Individual.

11. Mutual Drafting. Each party hereto has participated in the drafting of this Agreement, which each party acknowledges is the result of extensive negotiations between the parties.

12. Counterparts. This Agreement may be executed in one or more counterparts, and by the different parties hereto in separate counterparts, each of which when executed shall be deemed to be an original but all of which taken together shall constitute one and the same agreement.

13. Expenses. The prevailing party in any controversy hereunder shall be entitled to reasonable attorneys' fees and expenses.

14. Indemnification. The Individual agrees to save and hold Buyer, the Company and their Affiliates harmless from and against all Losses whatsoever (including reasonable attorneys' fees) arising out of the breach by the Individual of his obligations under **Section 1** of this Agreement and the enforcement of such section of this Agreement by Buyer, the Company and any of their Affiliates. The foregoing shall be in addition to, and not in limitation of, any rights Buyer, the Company and any of their Affiliates may have against the Individual arising in connection with this Agreement.

[*Signature Page Follows.*]

IN WITNESS WHEREOF, Buyer, the Company and the Individual have executed this Non-Competition Agreement as of the date first written above.

BUYER:

PACIFIC ETHANOL, INC.

By:_____
Name:_____
Title:_____

THE COMPANY:

FRONT RANGE ENERGY, LLC

By:_____
Name:_____
Title:_____

THE INDIVIDUAL:

Name: _____
Address: _____
Facsimile: _____

EXHIBIT 10.7

October 17, 2006

Front Range Energy, LLC
31375 Great Western Drive
Windsor, CO 80550

Re: Amendment to Amended and Restated Ethanol Purchase and Sale Agreement

Ladies and Gentlemen:

Reference is hereby made to the Amended and Restated Ethanol Purchase and Sale Agreement (the"***Agreement"***), dated as of August 9, 2006, between Front Range Energy, LLC, a Colorado limited liability company (the ***"Company"***), and Kinergy Marketing, LLC, an Oregon limited liability company.

For good and valuable consideration, the receipt of which is hereby acknowledged, the undersigned hereby agrees that Section 4.1 of the Agreement shall be amended and restated in its entirety as follows:

> "Term. This Amended Agreement shall be effective on the date hereof and unless earlier terminated in accordance with its terms, shall continue in effect until May 31, 2013; provided, that the term of this Amended Agreement shall automatically renew and be extended for additional one-year periods thereafter unless a Party elects to terminate this Amended Agreement in a writing delivered to the other Party at least 60 days prior to the end of the original or renewal term."

Except as expressly set forth herein, the Agreement shall remain unchanged and in full force and effect.

This agreement shall be governed by and construed in accordance with the laws of the State of California. This agreement may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute one agreement.

Very truly yours,

KNERGY MARKETING, LLC

By: /s/ Neil M. Koehler
Name: Neil M. Koehler
Title: President

Accepted and agreed to
as of the date first above written:

FRONT RANGE ENERGY, LLC

By: /s/ Daniel A. Sanders
Name. Daniel A. Sanders
Title: Manager