

DATE: November 16, 2006

FROM: Dennis G. McLaughlin III
Chairman and CEO
Earth Biofuels, Inc.
Apollo Resources International, Inc.

RE: Article by Seth Jayson, in “The Motley Fool”, dated November 10

I have been made aware of an article posted on a website, “The Motley Fool”. The article, written by Seth Jayson, contains deceptive and inaccurate statements regarding the industry, the companies, and me. The validity of the quality of reporting is questionable and due to the venomous nature of the posting, I am compelled to provide a rebuttal to articulate the mischaracterizations and inaccuracies.

After research of his record, it is apparent that Mr. Jayson has a bias against the renewable fuels industry, Earth Biofuels in particular, and me, specifically. Attached is his bio posted on “The Motley Fool” website which provides information as to his qualifications and personal interests in publishing this article.

While some of the facts contained are accurate, they are taken out of context, are out of date, and are placed in such an order as to deceive the reader. Often, only partial information is provided so as to present the facts in the most inaccurate and negative light. Favorable information favorable to the companies is specifically excluded from the article.

Many distinguished individuals and noteworthy celebrities have joined with management to build companies which have the goal of becoming significant competitors in the emerging renewable fuels market. Together, we continue to work to build companies that have long-term sustainable profitability and achieve our stated goals. Building a company for long-term success takes time, funds and a clear vision. I have personally invested a substantial amount of time and money through the purchase of stock in Earth Biofuels and its parent company, Apollo Resources. I believe in the companies and will continue to work to ensure that they are successful.

REBUTTAL

“Any fool can criticize, condemn, and complain – and most fools do.” – Dale Carnegie

The argument against the biofuels industry has been debated in the media and Mr. Jayson’s opinions, clearly formed prior to his publishing of this article, are apparent. Mr. Jayson is fortunate to have the opportunity to have access to mass transportation and the time and health to commute by bicycle to work. Unfortunately, most people in the United States do not have that luxury and find it necessary, for the productivity of the nation as well as for their own subsistence, to fill their gas tanks more than Mr. Jayson’s “less than half a dozen times a year.” While Mr. Jayson is “no fan of the oil industry”, his lack of support for renewable fuels does not provide any other viable alternative for the majority of American consumers and businesses who desire an energy source that is renewable and reduces toxic emissions.

Claims that biodiesel is not “as environmentally friendly as people would like us to believe” are refuted with facts. According to the National Biodiesel Board, “A 1998 biodiesel lifecycle study, jointly sponsored by the U.S. Department of Energy and the U.S. Department of Agriculture, concluded biodiesel reduces net CO² emissions by 78 percent compared to petroleum diesel.” Further, “biodiesel actually has the highest ‘energy balance’ of any transportation fuel. The DOE/USDA lifecycle analysis shows for every unit of fossil energy it takes to make biodiesel, 3.2 units of energy are gained. This takes into account the planting, harvesting, fuel production and fuel transportation to the end user.”

Simple Supply and Demand

According to a news story released by Archer Daniels Midland Co. (ADM) on November 8, 2006, “ADM continues to forecast U.S. ethanol demand of at least 14 billion gallons, well beyond the 7.5 billion gallons of renewable fuels mandated by the U.S. government by 2012.” Additionally, the article states “at the same time it expects energy from traditional sources to be insufficient to meet global demand.”

The economic facts show renewable fuels are competitive at today’s oil prices. Oil prices are not expected to decline in the foreseeable future given the instability in the world market, China’s increasing demands for energy, and the depletion of reserves. Projecting oil prices based on the current market is short-sighted and does not take into consideration the vulnerability to which the nation continues to subject itself without renewable fuel options.

To put this into perspective, according to the International Energy Agency, America currently consumes 21 million barrels of oil per day. Of the 15 barrels of oil imported each day, 7.4 million barrels of oil per day are imported from countries that are not friendly - even hostile - to the United States. Globally, world oil production peaked in July at 86.13 million barrels per day. Total demand for the 4th quarter of 2007 is projected to reach 87.6 million barrels per day. For the first time in history, the world demand will exceed the world supply. In fact, according to a reference case cited by the Energy Information Administration, the world will be consuming 98.3 million barrels of oil per day by the year 2015. Based on current production levels, the world will have to discover, develop and bring online the aggregate production of Saudi Arabia which now has the capacity to produce approximately 10 million barrels a day to meet projected demand.

Renewable Fuels and the American Farmer

According to the USDA's report, "National Agricultural Statistics Survey" (2002 Census), there are 434,164,946 acres of total available cropland in our country. However, only 302,697,252 acres of total cropland were harvested. Since 1970, over 800,000 American farms have ceased production. Increasing the demand will provide the opportunity to replace this valuable national resource.

Locating biodiesel and ethanol facilities in close proximity to the resources necessary for production presents the opportunity to increase American productivity and rebuild farming communities which were one the basis of American culture, and *can* be again.

With regard to the cost imported foreign oil, one should include the government's investments in military efforts intended to stabilize oil producing regions. Estimates vary, but according to Martin Wolk, Chief Economics Correspondent for MSNBC, "the war in Iraq costs taxpayers at least \$200 million every day." ("Cost of War Could Surpass \$1 Trillion", March 17, 2006).

Earth Biofuels – Unfair Comparisons

Comparing Earth Biofuels to companies like Archer Daniels Midland, Exxon Mobil and Valero does not present an accurate comparison. In some cases, the aforementioned companies have been in business over 100 years. These companies have established, revenue-producing assets created over time.

Earth Biofuels' achievements have exceeded most start-up company performances. While only public for one year, Earth Biofuels has managed to secure significant assets and produce actual revenues including revenues \$10 million for the quarter ending September 30, 2006. The article states that Earth Biofuels is a "billboard traded biofuels start-up" and "a tiny company"; yet the article uses large, mature companies which base revenues on petroleum products as financial comparisons - this is a contradiction.

Earth Biofuels is a medium-sized competitor in the renewable fuels market, uniquely positioned by size to take advantage of the economies of scale of operations while still retaining the flexibility of not being burdened with large company overhead. Claims that "anyone can get into this business" are not accurate. To be a viable competitor as a small, renewable fuels company, one must have the expertise, distribution abilities, and relationships that are central to success.

To be competitive in the industry now requires quality product only available through the use of technology and large production facilities. The scale for profitability, which the article agrees is necessary for success, requires financial and management expertise and, in turn, differentiates many competitors in the market. Large companies have capital costs that prevent profitability for entry into the market. Smaller companies are unable to obtain the capital and technology necessary to build biodiesel plants. Because we are a medium-sized company, Earth Biofuels is uniquely positioned to be a low-cost producer of high-quality biofuels.

It is the small to medium-sized renewable fuel companies that will propel this industry forward. Large companies, like Bunge and Aventine, are pursuing relationships with companies such as ours in order to implement renewable fuel strategies.

While most other companies rely on a few large engineering construction firms to build their facilities – on multi-year waiting lists in most cases – Earth Biofuels’ exclusive partnership with Dr. Miguel Dabdoub of Brazil provides control of proprietary biodiesel production technology. This proprietary process should allow the company to build its own facilities more cost effectively than its competitors. More importantly, the fuel produced by Earth Biofuels’- constructed facilities is designed to meet the highest standards of quality as Earth Biofuels, through the BioWillie brand, works to achieve standardization in this emerging market.

Non-financial Cash Flow Analysis vs. Actual Accounting

The article emphasizes losses of Earth Biofuels, but omits the fact that its cash has been invested in assets and projects that are just now beginning to produce cash flow. “Start-up” companies typically require significant cash flow outlays to purchase the resources necessary to produce revenue. Additionally, the article mischaracterizes the increased expenses without allotting for the investments Earth Biofuels is making to obtain assets like trademarks and services of key people, all of which are central in the future of this emerging industry. We can safely observe that true market leaders did not amass their presence overnight; rather they were thoughtful and deliberate over time. Earth Biofuels has taken this path.

Earth Biofuels revenues are increasing. In fact, our 3rd Quarter 10Q will reflect total revenues for the three months ended September 30, 2006 were \$10.3 million and a total of \$15 million for the nine months ended September 30, 2006 as compared to \$1.1 million for the nine months ended September 30, 2005.

Mr. Jayson’s reference to the cash position of the Earth Biofuels omits a publicly-announced \$52.5 million private placement of convertible senior notes that is being used for the implementation of its business plan.

Figures quoted by the article illustrate an elementary cash flow analysis. Cash flow is not the sole determinate of the value of a stock or a company. This simplistic view is financially inaccurate and intentionally misleading. The assets of Earth Biofuels contribute to the value of the stock and add to the value of the company. Earth Biofuels’ acquired assets are public record and accessible to the author to provide an accurate financial picture of the company.

Simple Financial Transactions are Mischaracterized

The article attempted to mischaracterize the reverse merger vehicles Apollo and Earth Biofuels used to enter the public market. The reverse merger is “a technique smaller companies often use to avoid the time and cost associated with an IPO”, according to Scott Malone in an article released January 6, 2006, on Reuters. Neither Apollo Resources nor Earth Biofuels has any affiliation with the previous operations of Meadow Springs, Inc. and Siam Imports, Inc. These companies were legally public entities that contained no substantial assets, liabilities or ongoing operations at the time they were acquired. The use of reverse mergers as a vehicle to obtain prompt access to the public market has been used by many companies including Blockbuster.

The article continues to characterize Earth Biofuels as a “company with a bafflingly complex structure, owning partial interests in fuel-production ventures as well as plain old gas stations”. These financial structures, such as the revenue merger, are not as complex as the article attempts to suggest. Partial ownership and joint ventures are used in corporate America daily. Earth Biofuels has utilized these strategic partnerships with large and small companies to create sound alliances.

For example, Bunge owns and operates one of the nations largest soy bean crushing facilities in Illinois. Earth Biofuels, along with other financial partners, is in the process of constructing a biodiesel plant adjacent to this facility. The purpose of this transaction has many advantages, most notably a guaranteed source of feed stock directly connected to a biodiesel plant. The strategic financial relationship with Bunge has provided Earth Biofuels, a medium-sized competitor in the biofuels industry, access to this large scale opportunity.

Also, Pacific Biodiesel, a relatively small company in the renewable fuels market, has a unique geographical advantage. Its biodiesel production, combined with Earth Biofuels’ growing distribution network, has formed a partnership for financial success.

Celebrity Board Members

Earth Biofuels has brought together a team whose combined talents will help our company achieve its objectives. The team includes noteworthy businessmen, celebrities, and journalists. Each member adds value to the ongoing business of the company.

Earth Biofuels intends to not only produce and distribute biodiesel and ethanol, but to also sell it directly to consumers. The addition of individuals to the board of directors and the advisory board who have nationwide prominence, we believe, will significantly help reach consumers and educate them about renewable energy; and in so doing, may also increase the demand for renewable energy. Earth Biofuels has carefully selected each Board member to assure a well rounded contribution to the company and, indirectly, the renewable fuels industry.

Morgan Freeman

Earth Biofuels Board Director

Morgan Freeman, Oscar winning actor, has starred in such movies as "Driving Miss Daisy," "The Shawshank Redemption" and "Million Dollar Baby". Morgan Freeman is a committed environmentalist and technology enthusiast.

"I firmly believe that alternative fuel supplies need to be developed to allow the United States to wean itself off of its significant dependence on foreign oil," Freeman said. "Moreover, I feel that our development of alternative sources such as biodiesel fuel will help the environment, farmers, and the economy in general. I look forward to participating in the growth of this company as well as the alternative fuels industry."

Herbert E. Meyer

Earth Biofuels Board Director

Herbert E. Meyer is founder of Real-World Intelligence Inc., a company that designed intelligence systems for corporations throughout the world. He is also President of Storm King Press, a publishing company whose books and DVDs are sold worldwide. In addition, Mr. Meyer is host and producer of The Siege of Western Civilization, a DVD outlining the threats to our security, our economy, and our culture.

During the Reagan Administration, Mr. Meyer served as Special Assistant to the Director of Central Intelligence and Vice Chairman of the CIA's National Intelligence Council. In these positions, he managed production of the U.S. National Intelligence Estimates and other top-secret projections for the President and his national security advisers. Mr. Meyer is widely credited with being the first senior U.S. Government official to forecast the collapse of the Soviet Union -- a forecast for which he later was awarded the U.S. National Intelligence Distinguished Service Medal, the Intelligence Community's highest honor.

Formerly an associate editor of Fortune, he has authored several books including "The War Against Progress", "Real-World Intelligence", and "Hard Thinking". Mr. Meyer and his wife, Jill, are co-authors of "How to Write", which is among the world's most widely used writing handbooks. Mr. Meyer's essays on intelligence and politics have been published in "The Wall Street Journal", "National Review Online", "Policy Review", and "The American Thinker".

"It is with a great sense of purpose that I accept this seat on the Earth Biofuels Board of Directors," stated Mr. Meyer. "I am of the opinion that agriculture-based fuels, such as biodiesel and ethanol, hold tremendous promise for reducing America's dependence on foreign oil, specifically from those regions which are unfriendly and/or hostile to U.S. interests at home and abroad."

Willie Nelson

Earth Biofuels Board Director

Earth Biofuels, Inc. finalized an agreement with Biodiesel Venture, LP for the exclusive distribution of the company's biodiesel product under the "BIOWILLIE" trademarked brand name. The members of Biodiesel Venture, LP include Mr. Willie Nelson, who has provided his namesake in support of increasing public awareness on the biodiesel fuel industry.

Willie Nelson, a member on the board of directors of Earth Biofuels, said, "I'm glad to finish this deal with Earth Biofuels. I think working together is going to be a big step forward for the Biofuels industry and our company."

Earth Biofuels Chairman and CEO, Dennis McLaughlin, stated, "This transaction is a major milestone for the company as we proceed along our plan of developing a vertically integrated biofuels company. We are pleased to have this exclusive distribution arrangement with Willie Nelson."

Julia Roberts

Advisory Board Chairperson

The Advisory Board will provide guidance to senior management on key issues and will serve to broaden biofuels awareness on a national scale. Earth Biofuels and Ms. Roberts will collaborate on a program to encourage the use of clean-burning biodiesel fuel in the more than 500,000 diesel school buses currently in service across the United States.

"It's very important that we expand our use of clean energy and make a long-term commitment to it," Roberts said. "Biodiesel and ethanol are better for the environment and for the air we breathe."

"The use of biodiesel is a positive step toward minimizing pollutive emissions and greenhouse gases," Roberts added. "By focusing on school buses, we can affect the health and wellbeing of the people most susceptible to that pollution -- our children -- today."

Rusty Wallace

Advisory Board Member

"Biofuels are the future and essential in the energy equation and Earth Biofuels is leading the way in developing and distributing biodiesel and ethanol fuel," Wallace said. "As someone who has spent his life racing cars, I understand the importance of cleaner burning fuels that provide improved efficiency, while also helping to reduce the nation's dependence on foreign sources."

Mr. Wallace is a former NASCAR Premier Series champion and 55-time race winner. He ranks as one of the top-five money winners in NASCAR history. His 55 career victories mark the eighth best all-time career total and the seventh best in NASCAR's modern era. His accomplishments have been recognized by both racing and civic officials. Nine active race facilities on the NASCAR schedule have permanently honored Mr. Wallace, and more than a dozen state, city, and county seats of government have declared race day as officially recognized Rusty Wallace Day.

Since retiring, Mr. Wallace remains active in the racing world. As a team owner, he has taken his knowledge and experience to his auto racing team that competes in the NASCAR Busch Series. The team is in its second full season of competition. Additionally, Mr. Wallace has taken his knowledge and his charismatic personality to the broadcasting booth as lead auto racing analyst for ESPN and ABC Sports.



Seth Jayson

bio | archive

Seth Jayson

Bio and Archives

Art historian, photojournalist, and Fool writer Seth Jayson is a curious Iron Range boy who relishes the challenges of living cheaply and investing successfully. He has degrees from Carleton College, New York University, the University of Missouri, and some Internet divinity school that purports to be located in Utah.

He washed up on the shores of Fooldom after stints at newspapers and magazines across the U.S.A. During past lives, his work appeared in places like *The New York Times*, *National Geographic Traveler*, and *Burlington Magazine*, and on his mother's refrigerator door.

As the kind of nerd who never lets ignorance stop him from disassembling expensive machinery, he's interested in computers, software, and every other kind of gee-whiz technology out there. As an investor, he's partial to damaged goods and companies with great margins.

Among his favorite things are bike rides, fresh bread, red wine, stinky cheese, and warm golden retrievers. If he can get all of that in one day, plus poke a little fun at the world's smarty pantses - himself included -- all the better.

Source: *The Motley Fool website: www.fool.com*