



SECURITY AGREEMENT

[Corporate Customer-Fungible Goods; Floating Lien]

_____, a California corporation, or a foreign corporation authorized to conduct business in California (“Debtor”), and Blue Sky Bio-Fuels, hereinafter called “Secured Party”, hereby agree as follows:

WHEREAS, Secured Party is a duly formed California corporation, existing by virtue of and doing business under the laws of the State of California; and

WHEREAS, Secured Party is a duly licensed distributor of bio-diesel, oil and petroleum products, including, but not limited to, gasoline of various grades, diesel, oil and other petroleum products; and

WHEREAS, Debtor is desirous of purchasing bio-diesel, oil and other petroleum products from Secured Party on the terms set forth herein; and

WHEREAS, Debtor desires to obtain credit from Secured Party to purchase the bio-diesel, oil and or various petroleum products, and Secured Party desires to supply said products to Debtor and of extending credit to the Debtor on the terms of set forth herein; and

NOW, THEREFORE, the parties do hereby agree as follows:

I. Purchase and Sale

Secured Party shall sell to Debtor, and Debtor shall purchase from Secured Party, the goods described as follows: bio-diesel, gasoline, diesel fuel, oil, and miscellaneous petroleum products, herein called “goods,” on the following terms and conditions.

II. Purchase Price

The total purchase price of any and all purchases made by Debtor from Secured Party shall be calculated upon fluctuating per unit prices, that is, based upon gallons and or quarts, depending upon the product purchased and the customary trade usage of pricing each said product. By the way of example, and not limitation, bio-diesel, gasoline and or diesel shall be priced at a per gallon price. Secured Party shall deliver goods purchased by the Debtor, to locations designated by Debtor, and upon any such delivery, the number of units of goods so delivered shall be determined by Secured Party and may be confirmed by the Debtor at the time and place of any and all such deliveries. The maximum total amount of credit that shall be extended by Secured Party to Debtor under the terms and provisions of this Security Agreement shall not exceed \$50,000, including interest and or costs added under this Security Agreement. Secured Party may in its sole discretion have the goods delivered to the Debtor by third parties.

III. Payment of Purchase Price

Debtor shall pay to Secured Party the full amount due for any and all goods purchased by debtor, and delivered by Secured Party, within ten (10) days after delivery of said goods.

IV. Interest on Amount Due

All amounts due by Debtor are due within ten (10) days after the delivery date of the good. In the event that payment is not received by Secured Party within the said ten (10) day period, then interest shall accrue on all then due amounts from the date of the delivery of the goods until payment is received by Secured party. Interest shall accrue at the rate of 2% per month, or 24% per annum. The application of interest to any overdue balance shall not result in any waiver of any default under the terms and conditions of this agreement by Debtor failing to pay amounts due to Secured Party within said ten (10) day period. In addition, Secured Party shall be entitled to all reasonable expenses incurred by Secured Party in collecting or attempting to collect sums due hereunder and Secured Party shall be entitled to its reasonable attorney’s fees whether or not legal action is initiated, and its costs and attorney’s fees incurred in enforcing any judgment awarded it.

V. Delivery Locations

Debtor directs Secured Party to deliver all goods purchased by Debtor and Secured Party shall deliver said goods only to the following locations:

Secured Party shall not be required to deliver any goods whatsoever to any location except as set forth hereinabove. Debtor specifically warrants to Secured Party, that Debtor is the owner or lessee of each and all of the hereinabove locations at which Secured Party shall deliver goods and is the owner of the possessory rights of each said location and shall remain as such throughout the term of this agreement. In the event that Debtor’s rights to possession of the herein designated locations is in any way threatened or is terminated or otherwise lost to the Debtor, Debtor shall immediately, upon gaining any such knowledge, notify Secured Party by written notice sent by facsimile to (510) 532-7185, and also by certified mail, return receipt requested, informing Secured Party of the facts surrounding the circumstances of the loss or threatened loss of its possessory rights in the delivered goods. Secured

Party may thereafter in its sole discretion refuse to deliver any additional goods, except on a cash on delivery ("COD") basis.

VI. Time, Date and Circumstances of Delivery

Secured Party shall in its sole discretion determine the time and date of delivery if any and all goods purchased by the Debtor hereunder. Secured Party shall notify the Debtor of the approximate date and time of delivery if any goods delivered hereunder. Secured Party shall use its best efforts to deliver the goods at the time and date specified, but is under no obligation to do so, and any promise of a specific time and date of delivery is merely an approximation, which the Debtor accepts as such. The Secured Party shall not be responsible for any damage or claim by the Debtor on account of a late or delayed delivery of any of the goods. Debtor shall use its best efforts to verify at said time and date of delivery the quantity of goods so delivered by Secured Party, either in person or through a designated agent, and shall cause to be signed, an acknowledgment of said delivery and quantity in the form of a delivery receipt supplied by Secured Party. Debtor warrants and stipulates that any individual so signing any such delivery receipt and who holds himself out as being a designated agent of the Debtor for that purpose, in, in fact, an agent so designated and authorized for that purpose by the Debtor. In addition, Debtor stipulates and agrees to and does accept all deliveries made by Secured Party, or by its third party agents, and evidenced by said delivery receipts; and, that said delivery receipts shall be conclusive evidence of the amount and sales price of goods delivered to and purchased by the Debtor, whether or not any such delivery receipt is signed by the Debtor, and agent of the Debtor, or by any third person at the above -designated locations.

VII. Status of Debtor

Debtor herein warrants to Secured Party that the Debtor is:

1. A duly formed corporation and authorized to do business within the State of California, and
2. That the names, addresses and number of shares held by each shareholder who holds at least ten (10) percent of the outstanding issued common stock of the corporation is as follows:

NAME	ADDRESS	SHARES
------	---------	--------

3. That the Debtor warrants to Secured Party that the Debtor has supplied to the Secured Party a duly certified copy of the corporate resolution authorizing said corporation to enter into this agreement, and that said corporate resolution is attached hereto marked as Exhibit "A", and is incorporated herein as if set forth in full.

4. The Debtor warrants to Secured Party that the Debtor is the owner of a duly issued California resale number and that said number is _____, and that said resale number is duly issued by the California State Board of Equalization.

5. The Debtor warrants to Secured Party that all of the goods purchased by the Debtor from Secured Party are purchased for resale unless otherwise so designated on delivery receipts as described herein, and in which case, appropriate sales taxes, and other applicable taxes, shall be added to the purchase price of all goods sold.

VIII. Continuing Personal Guaranty

Concurrently herewith, the Debtor shall cause to be executed a personal continuing guaranty to be executed by individuals acceptable to Secured Party, wherein said individuals guarantee payment of all amounts due by the Debtor under the terms and conditions of this Security Agreement. In the event that Secured Party is served with any notice of revocation of one or more of said personal guarantees, or notice to reduce a guarantor's maximum obligation, said notice shall be an immediate default by the Debtor under this Security Agreement and all sums then due to Secured Party shall be then all due and payable.

IX. Title and Security Interest

Secured Party retains title to the goods until the Debtor has performed all of its obligations under this agreement, and the purchase price, plus interest, costs and attorney's fees, if any, has been fully paid. Secured Party retains a security interest in the goods, whether or not the goods have been confused in bulk storage containers with fungible goods delivered by others, and in all accessions to, replacement of, and proceeds from the goods, either identifiable or unidentifiable, including but not limited to cash and checks, or deposits from receipts from operation of the Debtor's business, as security for the performance by the Debtor of all of the Debtor's obligations arising under this agreement. The Debtor hereby stipulates and agrees that any and all cash receipts, either held by the debtor at any of the Debtor's business locations, or that have been deposited into any bank account, or held by others for the use and benefit of the debtor, are all proceeds from the sale of the goods delivered by the Secured Party to the Debtor, from and after the time of first delivery of any goods hereunder.

X. Receipt in Good Condition

The Debtor hereby acknowledges that is has received possession of the goods, as evidenced by the herein described delivery receipts, whether or not signed by the Debtor's agents or employees, and that at the time of it's receipt of the possession of the goods said goods were, and each part of them was, in good order and in a safe, resalable and usable, clean condition.

XI. Warranty; Limitation of Liability

The Secured Party warrants that it has good and marketable title to the goods sold hereunder and that it has a right to make the sale and deliver the goods described herein. The Secured Party disclaims any and all other warranties as to said goods, including any warranty, express or implied, of the merchantability or fitness of said goods for a particular purpose. The Debtor hereby waives any and all warranties, either express or implied.

The Debtor warrants to the Secured Party that it is duly licensed to purchase, store, use, sell and dispose of said goods purchased from the Secured Party, and in doing so, has acted, and is acting, and will at all times continue to act in conformity with all existing and future laws, rules and regulations of all agencies of government. The Debtor agrees to and shall indemnify Secured Party and hold it harmless from any and all liability of whatever kind and nature and for whatever reason may result to Secured Party from the purchase and sale of said goods under the terms and conditions of this agreement.

XII. Use of Goods

The Debtor hereby warrants that all the goods are not being purchased primarily for personal, family or household use, but rather, for lawful use in the Debtor's business and said goods will be located at the Debtor's place of business as designated hereinabove under the Paragraph entitled "Status of Debtor", unless and until sold by the Debtor in the normal course of business, or written consent to change of their location is obtained from the Secured Party.

XIII. Risk of Loss

The Debtor assumes all risks of loss of the goods and the Debtor shall not be released from any obligations under this agreement because of any loss, damage, or disrepair suffered by the goods or any part of the goods.

XIV. Right of Entry

The Debtor grants to the Secured Party, and its agents, employees and subcontractors, the irrevocable right to enter onto the Debtor's premises, designated hereinabove, at any time, for purposes of complying with this agreement or of exercising any of the Secured Party's rights in accordance with the terms of this agreement.

XV. Financing Statement

Concurrently herewith, the parties shall execute, on forms approved by the California Secretary of State, such financing statements as the Commercial Code of California may require to be filed to perfect the security interest in the goods retained by the Secured Party under this agreement.

XVI. Default Clause

Should the Debtor fail to pay any amount specified in this agreement when it becomes due, or should the Debtor fail to perform any term or condition of this agreement to be performed by it, then the Debtor shall be in default of this agreement under Article Nine of the Commercial Code of California, and therefore, the Secured Party shall have the right to self help and shall have all the rights and remedies afforded a secured party by the provisions of the Commercial Code of California now in effect or as it may be amended in the future. Secured Party may, in its sole discretion and without waiver of any other right or remedy:

1. Enter the Debtor's premises identified hereinabove, retake possession of said goods, render the goods unusable, and or dispose of the goods in any reasonable manner deemed appropriate by the Secured Party or in the manner provided by the Commercial Code of California, either on or off the Debtor's said premises; and
2. Apply the proceeds received from the sale or other disposition of the goods to, in addition to the items specified in Article Nine of the Commercial Code of California, the payment of reasonable attorney's fees and legal expense incurred by Secured Party as a result of the Debtor's default.

XVII. Waiver

Neither the acceptance of any partial or delinquent payment by the Secured Party, nor the Secured Party's failure to exercise any of its rights or remedies on default of the Debtor shall be a waiver of the default, a modification of this agreement, or of the Debtor's obligations under this agreement, or waiver of any subsequent default by the Debtor.

XVIII. Release of All Claims

The Debtor does hereby voluntarily and knowingly release and discharge the Secured Party, its principals, employees and agents from any and all claims, demands, actions, judgments, and executions which the Debtor has or may have under this agreement, past, present and future, with the express intention of affecting the legal consequences provided for by Section 1541 of the California Civil Code, that is the extinguishment of obligations. The Debtor has read and understands the following language of Section 1542 of the California Civil Code:

A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

The debtor having been so apprised, it nevertheless hereby elects to and does assume all risk for claims heretofore or hereafter arising, known or unknown, arising under this agreement and does hereby knowingly and voluntarily expressly release the Secured Party from all liability for claims arising out of or under this agreement.

XIX. Attorney's Fees

In the event any litigation is commenced under the terms and conditions of this agreement, including but not limited to arbitration, mediation, or other alternative dispute resolution program, the prevailing party shall be entitled to recover its

reasonable attorney's fees.

XX. Arbitration

In the event of a dispute concerning the terms or conditions of this agreement, the dispute shall be submitted to binding arbitration. Each disputing party shall select an arbitrator; the selected arbitrators shall then select another impartial arbitrator. Any decision made by said arbitrators shall be final and binding on the parties. Each party hereto expressly waives any and all rights to appeal, in any action, whether arbitration or otherwise.

XXI. Notices

Except as otherwise expressly provided in this agreement, or by law, all notices or other communications required or permitted by this agreement or by law to be served on, given to, or delivered to the parties hereto, Debtor and Secured Party, by the other party to this agreement, shall be in writing and shall be deemed duly served, given, delivered and received when personally delivered to the party to whom it is directed, or in lieu of such personal delivery, when deposited in the United States Mail, first-class postage prepaid, addressed to the Debtor at

_____, or to the Secured Party at 4200 Park Blvd. #286, Oakland, CA 94602, and received by each party. Either party, Debtor or Secured Party, may change its address for the purpose of this paragraph by giving written notice of such change to the other party in the manner provided in this paragraph.

XXII. Time of Essence

Time is hereby expressly declared to be the essence on this agreement.

XXIII. Binding on Successors and Assigns

This agreement and each of its terms and conditions shall be binding on the successors and assigns of each of the parties hereto. Nothing contained in this paragraph, however, shall be deemed to be a consent to the sale, assignment, or transfer of the goods of the obligations of the parties under this agreement.

XXIV. Sole and Only Agreement

This instrument constitutes the sole and only agreement between the parties respecting the goods and correctly sets forth the rights, duties and obligations of each to the other with respect to the goods of this date. Any prior agreement, promises, negotiations, or representations concerning the goods or payment for the goods not expressly set forth in this agreement are no longer of any force or effect. The laws of the State of California shall govern the interpretation of this agreement.

XXV. Venue

This agreement is entered into and is to be performed, at least in part, within the County of Alameda, California. In the event of an action of law, including arbitration, then the proper venue for such action shall be the County of Alameda, California.

The Debtor stipulates and agrees that the Debtor's authorized representative has read each and every term and condition of this agreement, that each and all fully and accurately sets forth the agreement and intention of the parties hereto, that the debtor has been advised by the Secured Party to consult an attorney regarding this agreement, and that the Debtor has consulted an attorney or has voluntarily waived such consultation and that the Debtor fully understands all of the terms and conditions set forth herein.

Executed on the ___ day of _____, 20___, at Oakland, California

Debtor:

Secured Party:

By its authorized representative

Blue Sky Bio-Fuels

Signature

print name and title

Authorized representative