

**REDFIELD ENERGY, LLC**

**REDFIELD ENERGY, LLC**  
**Financial Statements**  
**October 31, 2007**

	<u>Page No.</u>
Independent Auditor's Report	1
Balance Sheet	2 - 3
Statement of Operations	4
Statement of Changes In Members' Equity	5
Statement of Cash Flows	6 - 7
Notes to Financial Statements	8 - 22



CPAs & BUSINESS ADVISORS

## INDEPENDENT AUDITOR'S REPORT

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The Board of Managers  
**Redfield Energy, LLC**  
Redfield, South Dakota

We have audited the accompanying balance sheet of **Redfield Energy, LLC** (a South Dakota Limited Liability Company) as of October 31, 2007, and the related statements of operations, changes in members' equity and cash flows for the period from inception (July 14, 2005) through October 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Redfield Energy, LLC** as of October 31, 2007, and the results of its operations and its cash flows for the period from inception (July 14, 2005) through October 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Eide Bailly".

Sioux Falls, South Dakota  
February 8, 2008

**REDFIELD ENERGY, LLC**  
**Balance Sheet**

	<u>October 31, 2007</u>
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 3,294,031
Receivables	
Fuel ethanol	4,268,725
Distiller's grains	770,941
Incentives and tax refunds	1,666,667
Interest income and other	10,800
Inventory	4,513,529
Margin deposit and derivative financial instruments	3,899,241
Prepaid expenses and other current assets	<u>502,582</u>
 Total current assets	 <u>18,926,516</u>
<b>Property and Equipment</b>	
Land and land improvements	7,909,135
Railroad improvements	2,140,587
Process buildings	2,226,504
Process and grain storage tanks	14,943,197
Process equipment	45,251,116
Administration building	274,175
Office equipment	209,043
Rolling stock	670,424
Construction in progress	<u>91,479</u>
	73,715,660
Less accumulated depreciation	<u>(3,638,600)</u>
 Net property and equipment	 <u>70,077,060</u>
<b>Other Assets</b>	
Financing costs, net of amortization of \$15,858	300,299
Other investment	<u>15,000</u>
 Total other assets	 <u>315,299</u>
 <b>Total Assets</b>	 <u><u>\$ 89,318,875</u></u>

See Notes to Financial Statements.

**REDFIELD ENERGY, LLC**  
**Balance Sheet**

	<u>October 31, 2007</u>
<b>LIABILITIES AND MEMBERS' EQUITY</b>	
<b>Current Liabilities</b>	
Current portion of long-term debt	\$ 2,890,879
Accounts payable	912,667
Corn payable	2,225,338
Accrued interest payable	793,900
Other accrued liabilities	<u>820,155</u>
 Total current liabilities	 <u>7,642,939</u>
<b>Long-term Debt</b>	
Term loan	35,300,000
Long-term revolver	5,000,000
Notes payable – equipment	<u>251,902</u>
Total	40,551,902
Current portion	<u>(2,890,879)</u>
 Total long-term debt, net of current portion	 <u>37,661,023</u>
<b>Commitments and Contingencies (Note H)</b>	
<b>Members' Equity</b>	
Member contributions, net of \$158,190 costs related to capital contributions, 20,435,526 units issued and outstanding	40,037,862
Retained earnings	<u>3,977,051</u>
 Total members' equity	 <u>44,014,913</u>
 <b>Total Liabilities and Members' Equity</b>	 <b>\$ <u>89,318,875</u></b>

See Notes to Financial Statements.

**REDFIELD ENERGY, LLC**  
**Statement of Operations**

	<b>From Inception (July 14, 2005) Through October 31, 2007</b>
<b>Revenues</b>	
Fuel ethanol sales	\$ 46,722,817
Distiller's grains sales	7,320,209
State ethanol producer incentive	416,676
Total revenues	54,459,702
<b>Cost of Revenues</b>	
Corn ground	26,495,485
Freight costs and commissions	7,549,469
Natural gas	5,255,779
Depreciation	3,604,653
Denaturant, chemicals, and ingredients	2,930,598
Other production costs	1,686,231
Total cost of revenues	47,522,215
<b>Gross Profit</b>	<b>6,937,487</b>
<b>General and Administrative Expenses</b>	
Related party management fees	557,023
Other costs	396,481
Administrative labor costs	297,645
Professional fees	273,098
Insurance	265,756
Property taxes	89,472
Depreciation	33,947
Amortization of financing costs	15,858
Total general and administrative expenses	1,929,280
<b>Income from Operations</b>	<b>5,008,207</b>
<b>Other Income (Expense)</b>	
Interest income	684,739
Other income	5,855
Interest expense	(1,721,750)
Total other income (expense)	(1,031,156)
<b>Net Income</b>	<b>\$ 3,977,051</b>
<b>Weighted Average Units Outstanding</b>	<b>15,410,615</b>
<b>Net Income per Unit</b>	<b>\$ 0.258</b>

See Notes to Financial Statements.

**REDFIELD ENERGY, LLC**  
**Statement of Changes in Members' Equity**  
**From Inception (July 14, 2005) Through October 31, 2007**

	Capital Units		Retained Earnings	Total Equity
	Units	Amount		
Initial "at risk" units issued	450,000	\$ 450,000	\$ -	\$ 450,000
Units sold during offering	18,750,000	37,500,000	-	37,500,000
Cost of offering	-	(158,190)	-	(158,190)
5% of units issued to GLE under operating agreement	1,010,526	2,021,052	-	2,021,052
Exercise of manager options	225,000	225,000	-	225,000
Net income	-	-	3,977,051	3,977,051
<b>Balance, October 31, 2007</b>	<b><u>20,435,526</u></b>	<b><u>\$40,037,862</u></b>	<b><u>\$3,977,051</u></b>	<b><u>\$44,014,913</u></b>

See Notes to Financial Statements.

**REDFIELD ENERGY, LLC**  
**Statement of Cash Flows**

	<b>From Inception (July 14, 2005) Through October 31, 2007</b>
<b>Operating Activities</b>	
Net income	\$ 3,977,051
Charges to net income not affecting cash	
Depreciation	3,638,600
Amortization of financing costs	15,858
Net (gains) recognized from financial instruments	(2,129,241)
(Increase) decrease in current assets	
Receivables	(5,217,133)
Inventory	(4,513,529)
Derivative financial instruments	(1,770,000)
Prepaid expenses	(502,582)
Increase (decrease) in current liabilities	
Accounts and corn payable	2,845,442
Accrued liabilities	1,614,055
	(2,041,479)
<b>Net Cash Used in Operating Activities</b>	
<b>Investing Activities</b>	
Purchase of property and equipment	(73,380,544)
Other investment	(15,000)
	(73,395,544)
<b>Net Cash Used in Investing Activities</b>	
<b>Financing Activities</b>	
Proceeds from construction loan and conversion to new term loan	35,300,000
Net borrowings on long-term revolving note	5,000,000
Proceeds from tax increment financing	948,935
Principal payments on notes payable - equipment	(218,534)
Payments for financing costs	(316,157)
Member contributions	38,175,000
Cost related to capital contributions	(158,190)
	78,731,054
<b>Net Cash Provided by Financing Activities</b>	
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	3,294,031
<b>Cash and Cash Equivalents - Beginning of Period</b>	-
<b>Cash and Cash Equivalents - End of Period</b>	\$ 3,294,031

See Notes to Financial Statements.

**REDFIELD ENERGY, LLC**  
**Statement of Cash Flows**

	<b>From Inception (July 14, 2005) Through October 31, 2007</b>
<b>Supplemental Disclosures of Cash Flow Information</b>	
Cash paid for capitalized interest	<u>\$ 988,069</u>
Cash paid for interest expensed	<u>\$ 927,850</u>
<b>Supplemental Schedule of Noncash Investing and Financing Activities</b>	
Accounts payable incurred for property and equipment	<u>\$ 292,563</u>
Notes payable incurred for property and equipment	<u>\$ 470,436</u>
Contractor excise tax and sales tax refund as reduction in property and equipment	<u>\$ 1,500,000</u>
Capitalized costs related to issuance of units to related party	<u>\$ 2,021,052</u>

See Notes to Financial Statements.

**REDFIELD ENERGY, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**Period From Inception (July 14, 2005) Through October 31, 2007**

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**NATURE OF BUSINESS** – Redfield Energy, LLC (a South Dakota limited liability company located two miles north of Redfield, South Dakota) was organized to operate a 50 million gallon per year dry mill ethanol plant for commercial sales throughout the United States. Redfield Energy, LLC (the “Company” or “Redfield Energy”) was organized on July 14, 2005 and was in the development stage until operations began on April 26, 2007. The Company has 657 members who represent two unit classes. Class A equity unit holders are required to deliver corn on an annual fiscal year basis and Class B equity unit holders do not have a corn requirement. Glacial Lakes Energy, LLC (“GLE” or “Glacial Lakes Energy”) in Watertown, SD holds a percentage of ownership in Redfield Energy and provides management services under a management contract. At October 31, 2007, GLE owned a total of 1,660,526 units (400,000 Class A and 1,260,526 Class B) in the Company, or 8.13% of all units issued and outstanding.

The plant has the capacity to process approximately 18 million bushels of corn into ethanol per year. The plant will also produce approximately 160,000 equivalent dry tons of modified wet and dried distiller’s grains, which will be sold to the local and West Coast markets.

**USE OF ESTIMATES** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

**REVENUE RECOGNITION** – Revenue from the sale of ethanol and distiller’s grains is recorded when title transfers to the customer, which occurs when the product is loaded into the railcar or truck. Interest income is recognized as earned. Amounts received under the incentive program from the State of South Dakota are recognized as revenue based on terms of the agreements (based on production or sale of ethanol).

**COST OF REVENUES** – The primary components of cost of revenues from the production of ethanol and related co-product are corn expense, energy expense (natural gas and electricity), raw materials expense (chemicals and denaturant), shipping costs on revenues, and direct labor costs.

Shipping costs incurred by the Company are recorded as a component of cost of revenues. Shipping costs in cost of revenues include inbound freight charges, purchasing and receiving costs, inspection costs, warehousing costs, and internal transfer costs.

**REDFIELD ENERGY, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**Period From Inception (July 14, 2005) Through October 31, 2007**

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**CONCENTRATIONS OF CREDIT RISK** – The Company performs periodic credit evaluations of its customers and generally does not require collateral. The Company's operations may vary with the volatility of the markets for inputs (including corn, natural gas, chemicals and denaturant) and for the finished products (ethanol and distiller's grains). The Company's cash balances are maintained in bank depositories and frequently exceed federally insured limits.

**CASH EQUIVALENTS** – The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

**ACCOUNTS RECEIVABLE** – The Company has engaged the services of two national marketers to sell all of its ethanol and distiller's grains shipped by rail. The marketers handle nearly all sales functions including billing, logistics, and sales pricing. Once product is shipped, the marketer assumes the risk of payment from the consumer and handles all delinquent payment issues.

The Company does market modified wet distiller's grains and dried distiller's sales by truck directly to primarily local consumers and generally bills daily with payments due within 15 days of invoice date. The Company considers accounts older than 120 days to be delinquent and would generally initiate collection procedures. If the collection procedures have not provided collection within one year of the invoice date, the account will be written off as a bad debt.

Accounts receivable are shown net of credits and anticipated uncollectible amounts. The Company reviews historical collection experience and the current status of accounts to compute its allowance for uncollectible accounts. As of October 31, 2007 no allowance for uncollectible accounts had been established.

**INVENTORIES** – All inventories, except for distiller's grains, are stated at the lower of cost (first-in, first-out) or market. Distiller's grains are stated at net realizable value.

**DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES** – The Company enters into short-term cash grain, option and futures contracts as a means of securing corn for the ethanol plant and managing exposure to changes in commodity prices. All of Redfield Energy's derivatives are designated as non-hedge derivatives, and accordingly are recorded at fair value with changes in fair value recognized in net income. Although the contracts are considered economic hedges of specified risks, they are not designated as and accounted for as hedging instruments.

**REDFIELD ENERGY, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**Period From Inception (July 14, 2005) Through October 31, 2007**

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

As part of its trading activity, Redfield Energy uses futures and option contracts offered through regulated commodity exchanges to reduce risk, and is exposed to risk of loss in the market value of inventories. To reduce that risk, Redfield Energy generally takes positions using cash, futures contracts, and options.

Unrealized gains and losses related to derivative contracts related to corn and natural gas purchases are included as a component of cost of revenues and derivative contracts related to ethanol sales are included as a component of revenues in the accompanying financial statements. The fair values of derivative contracts are presented on the accompanying balance sheet as derivative financial instruments.

Redfield Energy has recorded an increase to cost of revenues of \$318,700 (natural gas) and a decrease to the cost of revenues of \$3,835,632 (corn) related to derivative contracts for the period from inception through October 31, 2007. Redfield Energy has recorded a decrease to revenues of \$1,387,691 (fuel ethanol) related to our derivative contracts for the period from inception through October 31, 2007.

At October 31, 2007, the Company had open positions (options) on 2,500,000 bushels of corn for calendar year 2007, 4,500,000 bushels for calendar year 2008 and 3,000,000 bushels for calendar year 2009. For the remainder of 2007 50,000 MMBtu of natural gas are hedged along with 1,680,000 gallons of unleaded gasoline (RBOB-ethanol hedge). Additional open positions for calendar year 2008 include 150,000 MMBtu of natural gas and 3,360,000 gallons of unleaded gasoline.

**FAIR VALUE OF FINANCIAL INSTRUMENTS** – The Company considers the carrying amount of significant classes of financial instruments on the balance sheet, including cash, accounts receivable, inventories, other assets, accounts payable, accrued liabilities, and variable rate long-term debt to be reasonable estimates of fair value either due to their length of maturity or the existence of variable interest rates underlying such financial instruments that approximate prevailing market rates at October 31, 2007.

**PROPERTY AND EQUIPMENT** – Property and equipment is stated at cost. Depreciation for financial purposes is computed using the straight-line method over the estimated useful lives of the assets as follows:

**REDFIELD ENERGY, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**Period From Inception (July 14, 2005) Through October 31, 2007**

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Land improvements	15–20 years
Railroad improvements	10–20 years
Process buildings	20–30 years
Process and grain storage tanks	7–10 years
Process equipment	7–10 years
Administration building	10–20 years
Office equipment	3–7 years
Rolling stock	3 years

Depreciation on the majority of the assets commenced when the Company completed the development stage and began full operations on April 26, 2007. Repairs and maintenance are expensed as incurred; major improvements are capitalized. Long-lived assets are reviewed for impairment whenever events or changes in business circumstances indicate the carrying value of the assets may not be recoverable.

**FINANCING COSTS** – Financing costs are recorded at cost. Amortization of the initial financing costs is computed using the straight-line method over the initial duration of the term loans of ten years and commenced when the Company executed the post-construction loan agreements in May, 2007.

**INCOME TAXES** - The Company is a limited liability company and allocates all profits and losses to members in proportion to the number of units owned, so no income tax expense is recognized at the Company level. The Company uses accelerated depreciation methods for income tax purposes, which may cause taxable income to be different than net income for financial purposes. Other items affecting book/tax income differences include start-up costs, organization costs, and unrealized gains or losses on hedging activities.

**ADVERTISING AND PROMOTION COSTS** – Advertising costs are expensed when incurred. Advertising and promotion costs totaled \$37,481 for the period from inception through October 31, 2007.

**NOTE B: INVENTORIES**

	<u>Oct 31, 2007</u>
Corn	\$ 2,573,796
Ethanol and distiller's grains:	
Finished goods	721,812
In process	703,820
Denaturant, chemicals and ingredients	291,791
Spare parts	222,310
	<u>\$ 4,513,529</u>

**REDFIELD ENERGY, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**Period From Inception (July 14, 2005) Through October 31, 2007**

**NOTE C: REVOLVING LINE OF CREDIT**

The Company has a revolving line of credit with Great Western Bank (the "Bank") available at a maximum of \$3,500,000 and is secured by substantially all Company assets. Interest is charged at the Prime Rate as quoted in the Wall Street Journal plus 0.25% or 8.50% at October 31, 2007. There was no balance outstanding on this line of credit as of October 31, 2007. The company had \$3.5 million available to borrow on the line of credit at October 31, 2007. The Company pays an unused commitment fee of 3/8 of 1% per annum on the unused portion of the revolving line of credit. The revolving line of credit expires on May 4, 2008. The amount available under the revolving line of credit is determined by a borrowing base calculation.

**NOTE D: LONG-TERM DEBT**

	<u>Oct 31, 2007</u>
Notes payable to Bank (see details below):	
Fixed Term Loan	\$35,300,000
Long Term Revolver	<u>5,000,000</u>
Total notes payable to Bank	\$40,300,000
Notes payable for equipment (see details below):	
Rail Car Mover	57,178
Payloaders	<u>194,724</u>
Total long term-debt	\$40,551,902
 Current portion	 <u>(2,890,879)</u>
	<u>\$37,661,023</u>

**Notes Payable to Bank** – In June 2006, the Company entered into a loan agreement ("Original Loan Agreement") with the Bank for the construction and permanent financing of the plant. Under the Original Loan Agreement, the maximum amount available during construction was \$40,300,000. On May 4, 2007, the Company entered into loan agreements ("New Loan Agreements") for a total of \$40,300,000 based on permanent term financing put in place during May 2007.

Substantially all assets and contract rights of the Company are pledged as security under both Loan Agreements. Both Loan Agreements and the related mortgage documents contain reporting requirements and restrictive loan covenants, which require maintenance of various financial ratios, minimum working capital (\$5,000,000) and allow distributions to members of up to 60% of annual net income, after all bank covenants are met based on audited financial statements, without Bank approval. At October 31, 2007 the Company was in compliance with the loan covenants. The Company must maintain

**REDFIELD ENERGY, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**Period From Inception (July 14, 2005) Through October 31, 2007**

**NOTE D: LONG-TERM DEBT (continued)**

an annual capital expenditure limit of \$500,000 for the years going forward after October 31, 2007, or must obtain waivers from the Bank to do so.

The Company is not required to make additional principal payments to the Bank if there is "excess cash flow" from operations on an annual basis.

**Construction Loan** – The original amount borrowed was \$40,300,000 with interest charged at prime plus 0.25%. This loan was converted to a fixed term loan and a long term revolver loan on May 4, 2007.

**Fixed Term Loan** – The original amount of this term loan was \$35,300,000. The amount outstanding on October 31, 2007 was \$35,300,000. The Company was required to make two quarterly payments of interest only with the first of such quarterly payments due August 4, 2007, and the second of such quarterly payments due November 4, 2007. Thereafter, subject to any payment changes resulting from changes in the Index, the Company is required to pay this loan in 114 monthly payments of principal and interest with the first of such payments due December 4, 2007, and all subsequent payments due on the same day of each month after that. Based on the initial interest rate, the first of such payments is \$443,514 and subsequent payments shall be in the same amount unless and until adjusted due to a change in the interest rate. The Company's final payment will be due on May 4, 2017, and will be for all principal and all accrued interest not yet paid.

The interest rate on this note is subject to change from time to time based on changes in an index which is the Five Year Treasury Yield (the "Index"). The Index is the most recent weekly average published in the Federal Reserve Statistical Release. When the note was executed with the Bank the Index was 4.66% per annum. The interest rate to be applied to the unpaid principal balance on this note will be at a rate of 3.25 percentage points over the Index, resulting in an initial rate of 7.91% per annum. The interest rate change will not occur more often than each five years (through May 4, 2012).

**Long Term Revolver** – The original amount of this term loan (revolver) was \$5,000,000. The amount outstanding on October 31, 2007 was \$5,000,000. The Company was required to make quarterly payments of interest only with the first of such quarterly payments due August 4, 2007, and quarterly on the 4<sup>th</sup> day of each new quarter thereafter. In addition to the quarterly interest payments, the amount of this line of credit will be reduced by \$131,579 every quarter, commencing February 4, 2008, and quarterly on the same day thereafter. The entire principal balance, plus any accrued unpaid interest, is to be paid in full on May 4, 2017. The interest rate provisions on this note are