

# **REDFIELD ENERGY, LLC**

**REDFIELD ENERGY, LLC**  
**Financial Statements**  
**August 31, 2009**

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of **Redfield Energy, LLC** (a South Dakota Limited Liability Company) as of August 31, 2009 and 2008, and the related statements of operations, changes in members' equity and cash flows for the twelve months ended August 31, 2009 and the ten months ended August 31, 2008. 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 audits.

We conducted our audits 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 audits provide 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 August 31, 2009 and 2008, and the results of its operations and its cash flows for the twelve months ended August 31, 2009 and the ten months ended August 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

*Eide Bailly LLP*

Sioux Falls, South Dakota  
December 23, 2009

**REDFIELD ENERGY, LLC**  
**Balance Sheets**

	<u>August 31,</u> <u>2009</u>	<u>August 31,</u> <u>2008</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 3,541,130	\$ 2,810,421
Receivables		
Fuel ethanol	1,356,981	4,397,960
Distillers grains	884,609	1,069,672
Incentives refunds	166,667	166,667
Other	33,709	450,000
Inventory	5,450,106	5,316,702
Margin deposit and derivative financial instruments	-	8,170,307
Prepaid expenses and other current assets	397,852	140,645
	<u>11,831,054</u>	<u>22,522,374</u>
<b>Property and Equipment</b>		
Land and land improvements	8,108,233	7,909,135
Railroad improvements	2,140,587	2,140,587
Process buildings	2,226,504	2,226,504
Process and grain storage tanks	14,943,197	14,943,197
Process equipment	45,546,262	45,482,735
Administration building	274,175	274,175
Office equipment	481,008	481,008
Rolling stock	699,824	670,424
Construction in progress	60,479	16,952
	<u>74,480,269</u>	<u>74,144,717</u>
Less accumulated depreciation	<u>(16,650,546)</u>	<u>(9,515,244)</u>
	<u>57,829,723</u>	<u>64,629,473</u>
<b>Other Assets</b>		
Financing costs, net of amortization of \$74,730 & \$42,707	244,682	276,705
Other investments	15,000	15,000
	<u>259,682</u>	<u>291,705</u>
<b>Total Assets</b>	<u><u>\$ 69,920,459</u></u>	<u><u>\$ 87,443,552</u></u>

See Notes to Financial Statements.

**REDFIELD ENERGY, LLC**  
**Balance Sheets**

	<u>August 31,</u> <u>2009</u>	<u>August 31,</u> <u>2008</u>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>Current Liabilities</b>		
Current portion of long-term debt	\$ 2,990,481	\$ 2,824,843
Accounts payable	819,835	405,827
Corn payable	630,062	1,711,571
Accrued losses on inventory purchases commitments	282,000	4,420,000
Accrued interest payable	188,488	208,581
Other accrued liabilities	682,949	825,420
	<u>5,593,815</u>	<u>10,396,242</u>
<b>Long-term Debt</b>		
Term loan	30,637,332	33,381,813
Notes payable – equipment	47,003	127,578
Total	<u>30,684,335</u>	<u>33,509,391</u>
Current portion	<u>(2,990,481)</u>	<u>(2,824,843)</u>
	<u>27,693,854</u>	<u>30,684,548</u>
<b>Commitments and Contingencies (Note H)</b>		
<b>Members' Equity</b>		
Member contributions:		
Class A and B units, net of \$158,190 costs related to capital contributions, 20,435,526 units issued and outstanding	40,037,862	40,037,862
Class C preferred units, net of \$40,295 costs related to capital contributions, 1,552,000 units issued and outstanding	3,063,705	-
55,000,000 units are authorized for all classes or series		
Retained earnings (deficit)	<u>(6,468,777)</u>	<u>6,324,900</u>
	<u>36,632,790</u>	<u>46,362,762</u>
<b>Total Liabilities and Members' Equity</b>	<u>\$ 69,920,459</u>	<u>\$ 87,443,552</u>

See Notes to Financial Statements.

**REDFIELD ENERGY, LLC**  
**Statements of Operations**

	<b>Twelve Months Ended August 31, 2009</b>	<b>Ten Months Ended August 31, 2008</b>
<b>Revenues</b>		
Fuel ethanol sales	\$ 85,943,011	\$ 98,360,477
Distillers grains sales	19,042,536	14,096,545
State ethanol producer incentive	651,446	465,085
	<hr/>	<hr/>
Total revenues	105,636,993	112,922,107
	<hr/>	<hr/>
<b>Cost of Revenues</b>		
Corn ground	74,244,114	63,704,836
Freight costs and commissions	14,120,808	13,045,794
Natural gas	6,878,737	10,856,970
Depreciation	7,041,496	5,809,942
Denaturant, chemicals, and ingredients	5,054,286	4,748,424
Losses on inventory purchases commitments	282,000	4,420,000
Other production costs	6,126,532	2,065,402
	<hr/>	<hr/>
Total cost of revenues	113,747,973	104,651,368
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<b>Gross Profit (Loss)</b>	<b>(8,110,980)</b>	<b>8,270,739</b>
	<hr/>	<hr/>
<b>General and Administrative Expenses</b>		
Related party management fees	535,519	497,717
Other costs	563,834	283,740
Administrative labor costs	320,415	183,680
Professional fees	157,006	74,241
Insurance	260,280	296,941
Property taxes	205,391	141,451
Depreciation	93,806	66,702
Amortization of financing costs	32,023	26,849
	<hr/>	<hr/>
Total general and administrative expenses	2,168,274	1,571,321
	<hr/>	<hr/>
<b>Income (Loss) from Operations</b>	<b>(10,279,254)</b>	<b>6,699,418</b>
	<hr/>	<hr/>
<b>Other Income (Expense)</b>		
Interest income	64,853	102,254
Other income	14,960	26,726
Interest expense	(2,594,236)	(2,436,996)
	<hr/>	<hr/>
Total other income (expense)	(2,514,423)	(2,308,016)
	<hr/>	<hr/>
<b>Net Income (Loss)</b>	<b>\$ (12,793,677)</b>	<b>\$ 4,391,402</b>
	<hr/>	<hr/>
<b>Weighted Average Units Outstanding</b>	<b>20,435,526</b>	<b>20,435,526</b>
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<b>Net Income (Loss) per Unit</b>	<b>\$ (0.626)</b>	<b>\$ 0.215</b>
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See Notes to Financial Statements.

**REDFIELD ENERGY, LLC**  
**Statements of Changes in Members' Equity**  
**Fiscal Year Ended August 31, 2009 and 2008**

	<u>Class A and B Units</u>		<u>Class C Capital Units</u>	
	<u>Units</u>	<u>Amount</u>	<u>Units</u>	<u>Amount</u>
<b>Balance, October 31, 2007</b>	20,435,526	\$ 40,037,862	-	\$ -
Units sold during offering	-	-	-	-
Cost of offering	-	-	-	-
<b>Balance, August 31, 2008</b>	20,435,526	\$ 40,037,862	-	\$ -
Units sold during offering	-	-	1,552,000	3,104,000
Cost of offering	-	-	-	(40,295)
<b>Balance, August 31, 2009</b>	<u>20,435,526</u>	<u>\$ 40,037,862</u>	<u>1,552,000</u>	<u>\$ 3,063,705</u>

  

	<u>Total Capital Units</u>		<u>Retained Earnings</u>	<u>Total Equity</u>
	<u>Units</u>	<u>Amount</u>	<u>(Deficit)</u>	
<b>Balance, October 31, 2007</b>	20,435,526	\$ 40,037,862	\$ 3,977,051	\$ 44,014,913
Units sold during offering	-	-	-	-
Cost of offering	-	-	-	-
Net income (loss)	-	-	4,391,402	4,391,402
Distribution to Class A & B members	-	-	(2,043,553)	(2,043,553)
<b>Balance, August 31, 2008</b>	20,435,526	\$ 40,037,862	\$ 6,324,900	\$ 46,362,762
Units sold during offering	1,552,000	3,104,000	-	3,104,000
Cost of offering	-	(40,295)	-	(40,295)
Net income (loss)	-	-	(12,793,677)	(12,793,677)
<b>Balance, August 31, 2009</b>	<u>21,987,526</u>	<u>\$ 43,101,567</u>	<u>\$ (6,468,777)</u>	<u>\$ 36,632,790</u>

See Notes to Financial Statements.

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

	<b>Twelve Months Ended August 31, 2009</b>	<b>Ten Months Ended August 31, 2008</b>
<b>Operating Activities</b>		
Net income (loss)	\$ (12,793,677)	\$ 4,391,402
Charges to net income (loss) not affecting cash		
Depreciation	7,135,302	5,876,644
Amortization of financing costs	32,023	26,849
Losses on inventory purchases commitments	(4,138,000)	4,420,000
Net (gains) losses recognized from derivative financial instruments	8,738,573	(9,727,066)
(Increase) decrease in current assets		
Receivables	3,642,333	(867,166)
Inventory	(133,404)	(803,173)
Derivative financial instruments	(568,266)	5,456,000
Prepaid expenses	(257,207)	361,937
Increase (decrease) in current liabilities		
Accounts and corn payable	(667,501)	(728,064)
Accrued liabilities	(162,564)	(580,054)
	<u>827,612</u>	<u>7,827,309</u>
<b>Investing Activities</b>		
Purchase of property and equipment	(365,143)	(975,247)
Proceeds from contractor excise and sales tax refund	29,591	1,753,647
	<u>(335,552)</u>	<u>778,400</u>
<b>Financing Activities</b>		
Net (payment) borrowings on long-term revolving note	-	(5,000,000)
Principal payments on term loan	(2,744,481)	(1,918,187)
Principal payments on notes payable - equipment	(80,575)	(124,324)
Payments for financing costs	-	(3,255)
Distributions to members	-	(2,043,553)
Member contributions	3,104,000	-
Cost related to capital contributions	(40,295)	-
	<u>238,649</u>	<u>(9,089,319)</u>
Net Cash Provided by (Used in) Financing Activities		
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	730,709	(483,610)
<b>Cash and Cash Equivalents - Beginning of Period</b>	<u>2,810,421</u>	<u>3,294,031</u>
<b>Cash and Cash Equivalents - End of Period</b>	<u>\$ 3,541,130</u>	<u>\$ 2,810,421</u>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash paid for interest	<u>\$ 2,614,329</u>	<u>\$ 3,022,315</u>

See Notes to Financial Statements.

**REDFIELD ENERGY, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**Fiscal Year Ended August 31, 2009 and 2008**

**NOTE A: NATURE OF BUSINESS AND 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 is comprised of 850 members who represent three unit classes. Class A equity unit holders are required to deliver corn on an annual fiscal year basis. Class B and Class C equity unit holders do not have a corn requirement. Glacial Lakes Energy, LLC (“GLE” or “Glacial Lakes Energy”) in Watertown, SD holds the largest percentage of ownership in Redfield Energy and provided management services under a management contract through August 31, 2009. At August 31, 2009, 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 Class A and Class B units issued and outstanding. They own no Class C preferred units.

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 distillers 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 agreement (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), depreciation, raw materials expense (chemicals and denaturant), shipping costs on revenues, and direct labor costs.

**REDFIELD ENERGY, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**Fiscal Year Ended August 31, 2009 and 2008**

**NOTE A: NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES**  
**(continued)**

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.

**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.

**CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS** – The Company's operations consist primarily of the production of fuel ethanol and related distillers grains products. The Company currently markets all of its ethanol produced through one marketer. All dry distillers sales shipped by rail are marketed by a single entity. A loss of one or both of these marketers could cause a delay in production and a possible loss of sales and receivables, which would affect operating results adversely. Because of these concentrations the Company is exposed to risk of loss greater than it would have had it mitigated its risk through diversification.

The Company also relies on a substantial amount of its corn purchases coming from elevators. In addition, corn procured by the Company is relied upon to come from a small geographic area around Redfield, South Dakota. If there is a loss of area crop production due to weather conditions this could cause higher priced corn purchases.

**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 distillers 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 distillers grains and dried distillers 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

**REDFIELD ENERGY, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**Fiscal Year Ended August 31, 2009 and 2008**

**NOTE A: NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES**  
**(continued)**

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 August 31, 2009 no allowance for uncollectible accounts had been established.

The Company recorded a \$450,000 receivable from its natural gas supplier as of August 31, 2008, as the result of a reported metering error in favor of Redfield Energy. The receivable was collected from the supplier in October, 2008.

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

The Company had entered into forward corn purchase contracts and multi-year corn purchase agreements during 2008 under which it is required to take delivery at the contract price. Some of these contract prices were above current market prices for corn. Given the ethanol price at the time, upon taking delivery under these contracts, the Company would incur a loss. Accordingly, the Company recorded a loss on these purchase commitments aggregating to \$4,420,000 for the ten months ended August 31, 2008. The loss was recorded in “losses on inventory purchases commitments” on the statement of operations. The amount of the loss was determined by applying a methodology similar to that used in the impairment evaluation with respect to inventory. Given the uncertainty of future ethanol prices, this loss may or may not be recovered, and further losses on the outstanding purchase commitments could be recorded in future periods. For the twelve months ended August 31, 2009, the Company recorded \$282,000 in “losses on inventory purchases commitments”.

**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**  
**Fiscal Year Ended August 31, 2009 and 2008**

**NOTE A: NATURE OF BUSINESS AND 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 are 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.

During the twelve month fiscal year ending August 31, 2009, Redfield Energy recorded an increase of cost of revenues of \$769,920 (natural gas) and an increase to the cost of revenues of \$7,968,653 (corn) related to its derivative contracts.

During the ten month fiscal year ending August 31, 2008, Redfield Energy recorded a decrease to cost of revenues of \$333,641 (natural gas), a decrease to the cost of revenues of \$9,443,934 (corn) and a decrease to revenues of \$50,509 (fuel ethanol) related to its derivative contracts.

At August 31, 2009, the Company had no open positions (options) on corn, ethanol, or natural gas.

On October 6, 2008, Redfield Energy liquidated nearly all of its options positions on corn as a result of a severe decline in corn futures. The Company has not entered into any open positions (options) with a broker since. See Note K.

As required by the banking group, the Company has developed an updated Risk Management Policy.

**FISCAL REPORTING PERIOD** – The Company has a fiscal year ending on August 31. During the fiscal year the year ended August 31, 2008 was changed from October 31 to August 31.

**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

**REDFIELD ENERGY, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**Fiscal Year Ended August 31, 2009 and 2008**

**NOTE A: NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES**  
**(continued)**

due to their length of maturity or the existence of variable interest rates underlying such financial instruments that approximate prevailing market rates at August 31, 2009.

**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:

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 Class A and Class B 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.

In July, 2006, Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, (FIN 48) was issued. Subsequent to its original issuance, the effective date of its implementation for nonpublic enterprises has been deferred, and is currently deferred for

**REDFIELD ENERGY, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**Fiscal Year Ended August 31, 2009 and 2008**

**NOTE A: NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES**  
**(continued)**

nonpublic entities until years beginning after December 15, 2008. The Company has elected to defer implementation of FIN 48, as allowable.

The Company undergoes an annual analysis of its various tax positions, assessing the likelihood of those positions being upheld upon examination with relevant tax authorities, as defined by FIN 48.

**ADVERTISING AND PROMOTION COSTS** – Advertising costs are expensed when incurred. Advertising and promotion costs totaled \$15,317 and \$26,693 for the fiscal years ended August 31, 2009 and 2008, respectively.

**NOTE B: INVENTORIES**

	<u>August 31, 2009</u>	<u>August 31, 2008</u>
Corn	\$ 2,576,097	\$ 1,179,390
Ethanol and distillers grains:		
Finished goods	1,001,212	1,923,565
In process	651,338	1,173,492
Denaturant, chemicals and ingredients	327,288	496,582
Spare parts	894,171	543,673
Total inventory	<u>\$ 5,450,106</u>	<u>\$ 5,316,702</u>

**NOTE C: REVOLVING LINE OF CREDIT**

On November 19, 2008, Great Western Bank notified Redfield Energy that the Bank would not permit the Company to draw on the revolving line of credit until further notice. The Bank advised that it had concluded that defaults have occurred, subsequent to August 31, 2008, in the Redfield Energy, LLC Business Loan Agreement, the Term Loan and the Lines of Credit. The Bank gave forbearance on accelerating the principal balance outstanding on the Term Loan while the Company raised additional capital.

Great Western Bank (the "Bank") restored the revolving line of credit on June 1, 2009, for a maximum available amount of \$1,552,000 and is secured by substantially all Company assets. This was based on a ratio of 50 cents per every dollar of additional capital raised, which, as of the termination date of the offering, was \$3,104,000. Interest is charged at the Prime Rate as quoted in the Wall Street Journal plus 0.25%, with a minimum rate provision. There was no balance outstanding on this line of credit as of

**REDFIELD ENERGY, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**Fiscal Year Ended August 31, 2009 and 2008**

**NOTE C: REVOLVING LINE OF CREDIT (continued)**

August 31, 2009. The amount available under the revolving line of credit is determined by a borrowing base calculation. The terms and conditions of this note, as amended, are subject to the Bank's and its loan participant's approval as of November 5, 2009, and at least annually thereafter.

**NOTE D: LONG-TERM DEBT**

	<u>August 31, 2009</u>	<u>August 31, 2008</u>
Notes payable to Bank (see details below):		
Fixed Term Loan	\$ 30,637,332	\$ 33,381,813
Notes payable for equipment	47,003	127,578
Total Long Term Debt	<u>\$ 30,684,335</u>	<u>\$ 33,509,391</u>
Current Portion	(2,990,481)	(2,824,843)
Total Long Term Debt, net of current portion	<u><u>\$ 27,693,854</u></u>	<u><u>\$ 30,684,548</u></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. At August 31, 2009 the Company was in compliance with the loan covenants. The Company must maintain 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.

With the amendment to the business loan agreement on June 1, 2009, the Company is now required to maintain with the lender an account which shall be referred to as the Debt Service Reserve Account.

**Debt Service Reserve Account** – The DSRA shall be funded, starting September 1, 2009, as follows: all Excess Cash Flow shall be determined on a quarterly basis with the first of such quarterly periods starting June 1, 2009; 50% of the Excess Cash Flow from the preceding quarter, shall be deposited in the DSRA; the maximum amount Borrower

**REDFIELD ENERGY, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**Fiscal Year Ended August 31, 2009 and 2008**

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

shall be required to deposit and maintain in the DSRA is an amount equal to six-months' payments of scheduled principal and interest payments owing by Borrower to Lender on all outstanding promissory notes from Borrower to Lender whether such promissory notes now exist or are made and delivered after the date hereof. In the event the DSRA balance at any time after September 1, 2009, is less than the maximum amount just described, the Excess Cash Flow shall be applied until the DSRA balance is equal to the maximum amount. The DSRA was funded for \$868,324 in September, 2009, for the excess cash flow in the quarter ended August 31, 2009. This is restricted cash. The DSRA was fully funded by the Company in December, 2009 in the amount of \$2,661,087.

**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 August 31, 2009 was \$30,637,332. 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. For the twelve months ended August 31, 2009, a total of \$2,744,481 principal was paid on the loan. For the ten months ended August 31, 2008, principal payments totaled \$1,918,187.

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).

**REDFIELD ENERGY, LLC**  
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**NOTE D: LONG-TERM DEBT (continued)**

**Long Term Revolver** – The original amount of this term loan (revolver) was \$5,000,000. As noted in Note C, on November 19, 2008, Great Western Bank notified Redfield Energy that the Bank will not permit the Company to draw on the long term revolver until further notice. The Bank advised that it has concluded that defaults have occurred, subsequent to August 31, 2008, in the Redfield Energy, LLC Business Loan Agreement, the Term Loan and the Lines of Credit. The long term revolver has been terminated as the result of the May, 2009 loan agreement amendment.

**Note Payable for Payloaders** – The amount financed was \$241,726 for 2 Komatsu Payloaders. The first of 36 monthly principal only payments began in April 2007. Final payment is due in March 2010. This note was at no interest cost.

**Minimum principal payments on long-term debt are estimated as follows:**

<u>Twelve Months Ended August 31,</u>	
2010	\$ 2,990,481
2011	3,249,003
2012	3,482,771
2013	3,777,751
2014	4,092,109
remainder through 2017	<u>13,092,220</u>
Total long-term debt	<u>\$30,684,335</u>

**NOTE E: LEASES**

**Dry Distillers Hopper Car Leases**

The Company leases 73 (75 original lease) hopper cars under an operating lease agreement for a minimum rental period of 120 months. Generally, the Company is required to pay executory costs such as maintenance and insurance. Lease payments during the fiscal year ended August 31, 2009, were \$639,480. Lease payments on the hopper cars during the 10 months ended August 31, 2008, were \$528,520. The operating lease agreement states that the monthly base rental amount is \$53,290, with an annual commitment of \$639,400 (adjusted downward by \$1,460 to reflect 2 cars out of service due to a derailment). The Company has not sub-leased any of the hopper cars to date. The Company earned \$0 in mileage credits in the fiscal year ended August 31, 2009. The Company earned \$6,095 in mileage credits for the ten months ended August 31, 2008.

**REDFIELD ENERGY, LLC**  
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**NOTE E: LEASES (continued)**

Future minimum lease commitments (73 hopper cars) are as follows:

<u>Twelve Months Ended August 31,</u>	
2010	\$ 639,480
2011	639,480
2012	639,480
2013	639,480
2014	639,480
remainder through 2017	<u>1,467,592</u>
Total	\$ 4,664,992

**Ethanol Rail Car Leases**

At the end of the fiscal year ended August 31, 2009, the Company leased a total of 191 rail cars for the shipment of ethanol under operating agreements with several parties. The lease agreements were entered into as a result of the termination of the Aventine ethanol marketing agreement in January 2009. A majority of the rail cars are leased for periods from 2 to 3 years. Commitments on a few cars extend to the year 2018. Lease payments on the rail cars during the fiscal year ended August 31, 2009, were \$379,056.

Future minimum lease commitments are as follows:

<u>Twelve Months Ended August 31,</u>	
2010	\$ 738,033
2011	610,948
2012	355,215
2013	87,367
2014	65,310
remainder through 2018	<u>152,930</u>
Total	\$ 2,009,803

**NOTE F: RELATED PARTY TRANSACTIONS AND CONCENTRATIONS**

**Management Agreement with Glacial Lakes Energy**

The Company entered into a Consulting and Management agreement with Glacial Lakes Energy related to the construction and operations of the plant. Under the agreement (effective July 1, 2005), GLE manages the construction of the plant, will manage the day-to-day operations of the plant for the Company and will be paid (1) a monthly fee of \$35,000 and (2) an annual incentive fee of 3% of net income of Redfield Energy. The initial term of the Consulting and Management agreement is five years. The monthly fee

**REDFIELD ENERGY, LLC**  
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**NOTE F: RELATED PARTY TRANSACTIONS AND CONCENTRATIONS (continued)**

was adjusted to \$38,800 (effective July 1, 2009) and \$39,375 (effective July 1, 2008) as the agreement permitted an inflation adjustment after the first three years and annually thereafter.

For the twelve months ended August 31, 2009, the Company incurred \$471,350 in fees under the Consulting and Management Agreement. All of the fees were expensed. At August 31, 2009, amounts owed to GLE by the Company under the agreement were \$38,800 (one monthly fee).

For the ten months ended August 31, 2008, the Company incurred \$497,717 in fees under the Consulting and Management Agreement. All of the fees were expensed. At August 31, 2008, amounts owed by the Company under the agreement were \$175,192 (one monthly fee and the annual incentive fee).

During the month of August 2009, the Company and GLE mutually agreed to terminate the remaining term of the Consulting and Management Agreement. The agreement was cancelled as of August 31, 2009 with no financial consideration given to either party. With the cancellation, Redfield Energy assumed responsibility for all of the duties encompassed in the agreement.

In addition to the services outlined in the Management Agreement with GLE, the Company agreed to pay for a portion of distillers grains management services provided by GLE. For the twelve months ended August 31, 2009, the Company incurred \$17,500 in costs under these services. For the ten months ended August 31, 2008, the Company incurred \$25,000 in costs under these services. No balance was due at August 31, 2008. The services related to distillers grains management were terminated by the Board of Managers effective April 30, 2009.

**Cash Rent Crop Land Lease with Member of Board of Managers**

The Company entered into two one-year leases with a member of the board of managers to lease a 57 acre parcel of extra crop land adjacent to the plant site. The cash rent is \$70 per acre per year. The last one-year lease terminated on December 31, 2008. A new two-year lease was entered into with the same Board of Managers member on January 31, 2009. The terms were identical to the initial lease, except cash rent was increased to \$85 per acre per year. For the ten months ended August 31, 2008, the Company recorded \$3,325 of rental income. The Company recorded \$4,560 of rental income in fiscal year 2009. The cash rent due on the 2009 lease was received in April, 2009.

**REDFIELD ENERGY, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE F: RELATED PARTY TRANSACTIONS AND CONCENTRATIONS (continued)**

**Professional Fees**

For the fiscal year ended August 31, 2009, the Company recorded \$42,929 of professional fees for services obtained from members. For the ten months ended August 31, 2008, the Company incurred \$12,951 of such fees from members. All amounts for these services have been paid as of August 31, 2009.

**Corn Marketing and Purchases**

Redfield Energy has a uniform marketing and delivery agreement with all Class A members. Under the terms of this agreement, the member agrees to commit and deliver to the Company one bushel of corn during each processing year for each Class A unit of Redfield Energy owned by the member. For those bushels not delivered by the members of the Company, Redfield Energy will obtain those bushels through a corn pool operated by the Company and will charge a pool fee of \$0.03 per bushel.

For its first year of operations, the Company decided to have its members deliver their commitment of corn bushels through November 16, 2007. Thereafter, the commitment to deliver corn will be for a processing year ending each August 31<sup>st</sup>. The Company billed out \$36,622 for pool fees in December, 2007. As of August 31, 2008, no amounts were due from members for pool fees. The Company billed out \$30,785 in September 2008 for pool fees related to fiscal year 2008. In September 2009, the Company billed out \$33,709 in fees related to fiscal year 2009.

For the twelve months ended August 31, 2009 and the ten months ended August 31, 2008, the Company purchased corn from its members (including committed bushels described above) as follows:

	<b>Twelve Months Ended August 31, 2009</b>		<b>Ten Months Ended August 31, 2008</b>	
	<b>Bushels</b>	<b>Dollars</b>	<b>Bushels</b>	<b>Dollars</b>
Board of Managers	781,825	\$ 3,426,122	940,451	\$ 3,764,350
Members that are elevators	11,613,833	42,772,483	7,685,045	40,004,654
Other members	4,339,436	19,186,420	3,645,517	17,170,766
Totals	<u>16,735,094</u>	<u>\$ 65,385,025</u>	<u>12,271,013</u>	<u>\$ 60,939,770</u>

Included in the costs from the members of the Company for the purchase of corn for the periods above, the Company incurred freight allowance and commercial freight premium

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**NOTE F: RELATED PARTY TRANSACTIONS AND CONCENTRATIONS (continued)**

costs on committed bushels to those members who purchased 50,000 units or more at the time the Company was organized (called "Class A Commercial Level Investors").

	<u>Twelve Months Ended August 31, 2009</u>	<u>Ten Months Ended August 31, 2008</u>
Freight Allowance	\$ 414,202	\$ 273,467
Commercial Freight Premium	\$ 101,603	\$ 118,097

As of August 31, 2009, the Company owed members for \$258,040 for corn and freight allowances and \$1,802 for fees payable to commercial level investors.

**Distillers Grains Sales**

For the periods stated below, the Company sold distillers grains to members of the Company as follows:

<b>Twelve Months Ended August 31, 2009</b>	<u>Tons</u>	<u>Dollars</u>
Dry Distillers Grain ("DDG")	5,713	\$ 680,382
Modified Wet Distillers Grain ("MWDG")	28,224	1,827,996
Totals		<u>\$ 2,508,378</u>
<b>Ten Months Ended August 31, 2008</b>		
Dry Distillers Grain ("DDG")	4,821	\$ 469,723
Modified Wet Distillers Grain ("MWDG")	23,143	1,120,252
Totals		<u>\$ 1,589,975</u>

As of August 31, 2009, amounts due from distillers grains sales to members were \$90,209.

**Fuel Ethanol Sales**

For the periods stated below, the Company recorded sales of fuel ethanol to a member of the Company who operates a convenience store in Redfield. No amounts were owed to the Company at August 31, 2009.

	<u>Gallons</u>	<u>Dollars</u>
Twelve Months Ended August 31, 2009	43,948	\$ 79,189
Ten Months Ended August 31, 2008	73,761	\$ 156,652

**REDFIELD ENERGY, LLC**  
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**NOTE G: DEFINED CONTRIBUTION PLAN**

The Company has established a 401(k) plan for its employees. Under the 401(k) plan, eligible employees are able to contribute amounts (subject to IRS limits) and the Company will match 100% of the employee's contribution, up to a maximum of 6% of the contribution. The amounts contributed by the Company will vest on a two-year vesting schedule. Forfeitures of unvested amounts return to the Company. During the periods stated below, the Company incurred the following expenses:

	<b>Twelve Months Ended August 31, 2009</b>	<b>Ten Months Ended August 31, 2008</b>
Company Contributions (net of forfeitures)	\$ 83,219	\$ 23,336
Administrative Expenses	\$ 1,814	\$ 1,697

**NOTE H: COMMITMENTS AND CONTINGENCIES**

**Environmental**

The Company's facility is subject to federal, state, and local regulations relating to the discharge of materials into the environment. Compliance with these provisions has not had, nor does management expect to have, any material effect upon operations.

Management believes that the current practices and procedures for the control and disposition of such wastes will comply with the applicable federal and state requirements.

**Ethanol Marketing**

In November 2006, the Company entered into an agreement with a national ethanol marketer that commenced on the first day of ethanol sales (which was May 8, 2007) and will continue for a primary term of two years and thereafter, year to year, unless terminated by either party with at least one year prior written notice.

Under the agreement, the Company is to sell all of its production of ethanol (except local sales) to the national marketer and will pay a commission based on the net selling price. Upon contract termination, the Company agrees to fulfill any existing contracts for ethanol, and will assume the lease and all costs associated with the lease of any railcars leased by the ethanol marketer for the sole purpose of transporting ethanol for the Company.

**REDFIELD ENERGY, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE H: COMMITMENTS AND CONTINGENCIES (continued)**

In May, 2008, the Company notified its current ethanol marketer of the Company's intent to terminate the marketing agreement. In January, 2009, both parties to the marketing agreement agreed to an early termination. As part of the termination, the Company assumed leases on railcars previously leased by the former ethanol marketing partner and expensed \$87,500 in termination fees. Connected with this early termination, the Company entered into a marketing agreement with another national ethanol marketer. All sales (both railcar and local truck) go through the new marketer. The initial term of this agreement was for a one-year period. In October, 2009, the Company agreed to another two-year agreement.

**Distillers Grain Marketing**

In April 2006, the Company entered into an agreement with a national distillers grains marketer for a primary term of one year commencing on start-up of production (April 26, 2007). Under the agreement, the Company is to sell all of its production of distillers grains shipped by rail cars to the national marketer and pay a commission based on the net selling price. Thereafter, this agreement shall remain in effect until terminated by either party at its unqualified option by providing the other party hereto not less than 90 days written notice of its election to terminate the agreement.

**Standby Letters of Credit**

Great Western Bank issued standby letters of credit, on behalf of Redfield Energy, prior to August 31, 2009 in the amount of \$1,160,333 for rail car leases, natural gas delivery, and surety bonds.

**Forward Purchase and Forward Sales Contracts**

As of August 31, 2009, the Company has entered into forward "fixed priced" and "hedge to arrive" contracts to purchase 507,212 bushels of corn at an average contract price of \$4.03 per bushel.

<u>Delivery Year</u>	<u>Bushels</u>	<u>Average Price</u>
2009	454,712	\$3.92
2010	52,500	\$4.94

**REDFIELD ENERGY, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE H: COMMITMENTS AND CONTINGENCIES (continued)**

The Company had entered into forward corn purchase contracts and multi-year corn purchase agreements under which it is required to take delivery at the contract price. Some of these contract prices are above current market prices for corn. Given the current ethanol prices, upon taking delivery under these contracts, the Company would incur a loss. Accordingly, the Company recorded a loss on these purchase commitments aggregating to \$282,000 for the twelve months ended August 31, 2009, and \$4,420,000 for the ten months ended August 31, 2008. The losses were recorded in "losses on inventory purchases commitments" on the statement of operations. The amount of the losses was determined by applying a methodology similar to that used in the impairment evaluation with respect to inventory. Given the uncertainty of future ethanol prices, these losses may or may not be recovered, and further losses on the outstanding purchase commitments could be recorded in future periods.

As of August 31, 2009, the Company has also entered into contracts for the sale of approximately 3,564 tons of DDG and approximately 10,368 tons of MWDG to be shipped by truck through March 2010 at fixed prices. The average price contracted, before shipping costs, is \$95.78 per ton of DDG and \$52.64 per ton of MWDG.

As of August 31, 2009, the Company has entered into fixed-price and variable-price contracts, with their national ethanol marketer Eco-Energy, for the delivery of ethanol through December 2009. Total gallons sold for the next four months were 8.9 million, or 52% of estimated production. Fixed-price contracts totaled 2,657,000 gallons at an average per gallon sales price of \$1.404 (net of freight costs).

The company had forward priced 144,250 MMBtu of natural gas for the months of September and October 2009, at an average cost of \$3.26, as of August 31, 2009. This represented approximately two-thirds of the requirements for these two months.

**Contractor's Excise and Sales Tax Refund**

The state of South Dakota offers a program for the refund of certain state taxes for new or expanded agricultural processing facilities. Most of the Company's plant qualifies as an "agricultural processing facility". The Company was able to receive a refund of (a) all of the contractors' excise taxes paid on the entire plant, and (b) the sales and use tax paid on that part of the plant that the state of South Dakota deems to be the "agricultural processing facility". Based on the amounts paid to the various contractors, the Company made an initial estimate of the total refund at \$1,500,000 as of October 31, 2007. The

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**NOTE H: COMMITMENTS AND CONTINGENCIES (continued)**

Company subsequently submitted the necessary documentation to the state and received a total of \$1,753,647. Redfield Energy received an additional \$29,591 from the State of South Dakota in November, 2008 as a result of the state's final review and audit of the information received from the Company.

**Minimum Utility Purchases**

In connection with the arrangements for certain utility services for the plant, there are minimum purchase commitments. These were necessary for the utility company to commit to building the needed infrastructure.

**Tax increment Financing Bonds of Spink County**

In September 2006, Spink County issued \$1,450,000 of Tax Increment Financing ("TIF") Bonds for the purpose of providing funds to Spink County to improve the main road into the Company's plant and provide an economic contribution to the Company. The TIF Bonds will be repaid by Spink County from the regular real estate taxes that will be paid by the Company. The TIF Bonds are scheduled to mature in December 2023.

From the proceeds of the TIF Bonds, the Company received \$948,935 that was applied to land development and infrastructure costs incurred by the Company. The Company recorded this receipt as a reduction of property and equipment.

As part of the documentation related to the TIF Bonds, the Company signed a Guaranty with Great Western Bank (who purchased the TIF Bonds). The guarantee was for an amount not to exceed \$1,450,000 plus accrued interest. As of August 31, 2009, the outstanding principal balance on the bonds was \$1,334,813 at a fixed interest rate of 8.0%. Management is not aware of any impending circumstances that might cause the guarantee to be enforced by the bank and as such believes the fair value of the guarantee to be nominal.

The Company agreed to pay an additional amount to Spink County if the assessed taxes did not provide Spink County with the funds to make the scheduled principal and interest payments to Great Western Bank. In January 2008, Spink County notified the Company that it will need to pay an additional \$42,032 to Spink County in addition to assessed taxes for calendar year 2007, payable in 2008. The additional amount is needed as the tax assessment on the property (as of November 2006 and prior to the completion of construction) was at 60% of full value. The taxes assessed for calendar year 2008, and

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**NOTE H: COMMITMENTS AND CONTINGENCIES (continued)**

payable in 2009, was sufficient for Spink County to make the required principal and interest payments.

**NOTE I: GOVERNMENT PROGRAMS**

The Company participates in the Ethanol Production Incentive Payment Program operated by the state of South Dakota ("State Program"). In accordance with the terms of this agreement, the Company receives payments based on ethanol sold. The maximum amount that can be received in a program year is \$1,000,000 and payments are subject to pro rata reduction if the aggregate payments to eligible producers in a program year exceed the maximum annual funding of the State Program. The program year for the State Program is from July 1 to June 30. The Company recognized \$651,446 and \$465,085 under this program for the fiscal years ended August 31, 2009 and 2008 (ten month period), respectively. At August 31, 2009, amounts due the Company under the State Program totaled \$166,667.

**NOTE J: MEMBERS' EQUITY**

In August 2005, Glacial Lakes Energy and the eight members of the Company's board of managers subscribed for an aggregate of 450,000 Class B units at a purchase price of \$1.00 per unit. This represented "at risk" seed capital in the Company.

In September 2005, the Company conducted an offering of units to residents of South Dakota to be issued to finance a portion of the cost of constructing a proposed ethanol plant in Redfield, South Dakota. The offering was at \$2.00 per unit for a minimum of 16,275,000 units or \$32,550,000 and a maximum of 18,750,000 units or \$37,500,000. Redfield Energy completed its offering in September 2005, and the board of managers accepted subscriptions on a total of 18,750,000 shares or \$37,500,000. Funds received from the offering were held in escrow until the six conditions were met to allow the funds to be released from escrow. The units were issued during February, 2006.

In connection with the Operating Agreement the Company granted to GLE 1,010,526 Class B units in Redfield Energy representing 5% of the outstanding equity after the close of the offering. Redfield Energy completed its offering in September 2005, raising \$37,500,000 in addition to the \$450,000 of seed capital money originally raised. The Company recognized the issuance of these units as construction management related fees in the amount of \$2,021,052 at \$2.00 per unit and increased its property and equipment by the same amount.

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**NOTE J: MEMBERS' EQUITY (Continued)**

Also in connection with the investment by GLE in Redfield Energy, the Operating Agreement designates GLE as the managing member of Redfield Energy and allows GLE to appoint 1 of the 9 on the board of managers for the Company as long as GLE is the managing member. The new Manager was installed in August 2005.

The Company also issued a five-year option to purchase an aggregate 225,000 units in Redfield Energy at an exercise price of \$1.00 per unit, with the option vesting at "financial closing" (as defined), to GLE and the eight board of managers of the Company. All of these options were exercised in 2006.

Each Class A unit and Class B unit represents a pro rata ownership interest in the Company's assets, profits, losses and distributions. The rights of the holders of the Class A and the Class B units are equal, except that the holders of Class A units have a corn delivery obligation and will receive a freight allowance. Additionally, those investors that purchased at least 50,000 Class A units were designated Commercial Level Investors and are entitled to a \$0.03 per bushel premium on each bushel of corn required to be delivered. Each holder of Class A units and Class B units is entitled to one vote per unit, voting as a combined class on the election of the Company's board of managers and voting as separate classes on other matters that come before a vote of the members.

As of August 31, 2009, there were 198 Class A members owning 10,178,750 units and 482 Class B members owning 10,256,776 units.

On January 31, 2008, the Redfield Energy, LLC Board of Managers authorized a cash distribution of \$0.10 per capital unit (total of \$2,043,553) for members of record on October 31, 2007. The distribution was paid at the annual meeting of members on February 13, 2008. Bank loan covenants require the completion of the annual financial audit and limit the payment of distributions to 60% of profits without obtaining the approval of the bank.

During the first quarter of 2009, the Company conducted an offering of preferred units to members as the result of the Bank Group wanting Redfield Energy to raise a minimum of \$3 million in new equity capital. The offering was at \$2.00 per unit for a minimum of 1,500,000 units or \$3,000,000 and a maximum of 2,500,000 units or \$5,000,000. The company raised the minimum level in early April, and broke escrow on \$3,104,000 (1,552,000 units) of equity raised on June 1, 2009. The preferred units carry a dividend rate of 10 percent, and are cumulative. As of August 31, 2009, \$77,600 of dividends was in arrears.

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**NOTE K: UNCERTAINTIES**

The Company has certain risks and uncertainties that it experiences during volatile market conditions. These volatilities can have a severe impact on operations. The Company's revenues are derived from the sale and distribution of ethanol and distillers grains to customers primarily located in the U.S. Corn for the production process is supplied to our plant primarily from local agricultural producers.

Ethanol sales, historically since the start-up of operations in April 2007, average 85% of total revenues and corn costs historically average 60 to 65% of cost of revenues.

The Company's operating and financial performance is largely driven by the prices at which we sell ethanol and the net expense of corn. The price of ethanol is influenced by factors such as prices of supply and demand, weather, government policies and programs, and unleaded gasoline and the petroleum markets. Excess ethanol supply in the market, in particular, puts downward pressure on the price of ethanol. Our largest cost of production is corn. The cost of corn is generally impacted by factors such as supply and demand, weather, government policies and programs, and our risk management program used to protect against the price volatility of these commodities.

Our operating results were negatively impacted by the sharp increase in corn prices during the summer of 2008, followed by a substantial decrease in corn prices in the fall of 2008. Net income was negatively impacted by the extreme volatility in corn prices. At the same time ethanol prices in general moved with corn prices, and other commodities, but the margins were extremely tight during this volatile time period.

During the ten month fiscal year ending August 31, 2008 Redfield Energy recorded a decrease to the cost of revenues of over \$9.4 million dollars related to its hedge option positions on corn. This was as the result of increasing corn futures experienced during the period and favorable hedge positions in place. As mentioned earlier, the market prices for corn begin to decline in late summer and fall of 2008. Subsequent to August 31, 2008, Redfield Energy liquidated all of its options positions on corn. At the end of September and into early October the corn markets had considerable decreases in values of futures and options. As a result, risk management positions in place suffered considerable losses in market value. Redfield Energy decided to liquidate positions in place to control losses and preserve working capital. As a result of these liquidations, the cost of revenues increased nearly \$8.0 million (corn) during the three months ending November 30, 2008.

During the period of rising corn prices prior to August 31, 2008, the Company had entered into forward corn purchase contracts and multi-year corn purchase agreements

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**NOTE K: UNCERTAINTIES (continued)**

under which it is required to take delivery at the contract price. Some of those contract prices were above current market prices for corn at the end of the last two fiscal years. Given the current ethanol price, upon taking delivery under these contracts, the Company would incur a loss. Accordingly, the Company recorded a loss on these purchase commitments aggregating to \$282,000 for the twelve months ended August 31, 2009 and \$4,420,000 for the ten months ended August 31, 2008. These losses were recorded in "losses on inventory purchases commitments" on the statement of operations. The amount of the losses was determined by applying a methodology similar to that used in the impairment evaluation with respect to inventory. Given the uncertainty of future ethanol prices, this loss may or may not be recovered, and further losses on the outstanding purchase commitments could be recorded in future periods.

The Company contracted with a risk management group in December 2008 to assist in the development of revisions to its current risk management policies. Risk assessments were reviewed and a revised policy was developed. As a result of the change in ethanol marketers in January 2009, the Company is now able to forward sell ethanol at fixed prices, and match up an equivalent amount of fixed-price corn to lock in a margin. During the summer of 2009 crush margins began to improve for the ethanol industry. Each month since May 2009 the Company has been able to generate profits and cash flow.

Our results of operations for the last half 2008 and into early 2009 were affected by volatility in corn prices, a surplus of ethanol, low ethanol prices, and volatility in the commodity markets. The market price of corn dropped to a low of \$2.94 per bushel in early December 2008 as quoted on the CBOT for December 2008 futures from a peak of \$7.88 per bushel in late June 2008.

As mentioned earlier in Notes C and D, on November 19, 2008, Great Western Bank notified Redfield Energy that the Bank will not permit the Company to draw on the revolving line of credit or long term revolver until further notice. The Bank advised that it has concluded that defaults have occurred, subsequent to August 31, 2008, in the Redfield Energy, LLC Business Loan Agreement, the Term Loan and the Lines of Credit.

The Bank indicated willingness to forebear on accelerating the principal balance outstanding on the Term Loan if the Company committed to certain terms and conditions. The Company agreed to these terms and conditions in a Forbearance Agreement with the Bank, and the Bank has agreed to forebear for a period of 60 days from their November 19, 2008, notice to Redfield Energy. This forbearance period was

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**NOTE K: UNCERTAINTIES (continued)**

extended to early April 2009 to allow the Company time to raise, at minimum, an additional \$3 million in new capital. The minimum equity was raised, and the Company broke escrow on the funds on June 1, 2009, for a total of \$3,104,000.

**NOTE L: SUBSEQUENT EVENTS**

**Corn Supply Agreement**

Redfield Energy announced in the fall of 2009 that it will be partnering with Wheat Growers for its corn procurement. Redfield Energy members and Wheat Grower members will be able to sell and deliver corn directly to Redfield Energy's plant through a supply agreement that was effective in October, to be put in place in time for the fall's new crop activity. Under the terms of the agreement, Wheat Growers will handle all corn contracting and spot purchasing of corn for the Redfield plant. Wheat Growers is leasing the corn handling facilities from the Company and will supply the personnel to operate those facilities. Redfield Energy will then purchase corn from Wheat Growers as it is needed, just before the corn is processed. This matches up well with the risk management practices of an ethanol plant. Producers can sell corn to Wheat Growers at the Redfield Energy plant, and receive settlements and patronage from Wheat Growers as they do at any Wheat Growers elevator. Grain programs such as deferred pricing and deferred payment will be options available as at other Wheat Growers elevators. Redfield Energy will continue to reimburse Class A members freight allowances for the member's commitment of bushels, if the corn is delivered directly to the plant.

Under the terms of the 3-year grain supply agreement, the Company will receive semi-annual payments for lease of its grain handling facilities to Wheat Growers. The Company will pay for the sampler and bulk-weigher to be constructed. Redfield Energy will be responsible for all costs of repair to said equipment and facility operated by Wheat Growers. The agreement sets forth a minimum base of 15 million bushels of corn to be supplied and paid for each year during the term of the agreement. If the Company's usage is below the minimum, Wheat Growers will be entitled to additional compensation to offset its lease and other operating expenses. The term of the agreement will be from October 1, 2009, to September 30, 2012. Thereafter the agreement would continue on a year to year basis upon the same terms and conditions unless either party notifies the other in writing on or before July 1 of any year that this agreement shall terminate on the following September 30.

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**NOTE L: SUBSEQUENT EVENTS (continued)**

**Ethanol Marketing Agreement**

In October 2009, Redfield Energy and Eco-Energy agreed to extend the initial one year term of their agreement for another two years, beginning January 17, 2010.

**New Chief Executive Officer**

Coinciding with the Mutual Termination Agreement relating to the Consulting and Management Agreement between the Company and Glacial Lakes Energy, the Company's Board of Managers selected Tom Hitchcock as its new CEO on September 3, 2009. Mr. Hitchcock had previously served as the Company's Controller since May 17, 2007.

The Company has evaluated subsequent events through December 23, 2009, the date which the financial statements were available to be issued.