Financial Statements
August 31, 2018 and 2017

# Redfield Energy, LLC

**REDFIELD ENERGY, LLC**
**Financial Statements**
**August 31, 2018**

## Independent Auditor's Report

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

**Report on the Financial Statements**
We have audited the accompanying financial statements of Redfield Energy, LLC which comprise of the balance sheets as of August 31, 2018 and 2017, and the related statements of operations, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**
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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**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, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Eide Bailly LLP

Sioux Falls, South Dakota
November 30, 2018

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

| | August 31, 2018 | August 31, 2017 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 8,302,618 | $ 9,019,149 |
| Receivables | | |
| Fuel ethanol | 1,260,381 | 1,710,991 |
| Distillers grains, net | 1,230,099 | 1,001,356 |
| Incentives refunds | 166,667 | 166,667 |
| Other | 172,129 | 333,708 |
| Inventory | 6,207,283 | 5,656,926 |
| Margin deposit and derivative financial instruments | 1,076,347 | 1,093,144 |
| Prepaid expenses and other current assets | 154,313 | 242,173 |
| Total current assets | 18,569,837 | 19,224,114 |
| **Property and Equipment** | | |
| Land and land improvements | 8,495,912 | 8,349,513 |
| Railroad improvements | 2,140,587 | 2,140,587 |
| Process buildings | 3,065,543 | 3,065,543 |
| Process and grain storage tanks | 14,967,030 | 14,967,030 |
| Process equipment | 70,816,113 | 69,761,711 |
| Administration building | 1,199,970 | 1,199,970 |
| Office equipment | 1,132,150 | 1,124,975 |
| Rolling stock | 1,422,438 | 1,422,438 |
| Construction in progress | 611,954 | - |
| | 103,851,697 | 102,031,767 |
| Less accumulated depreciation | (75,873,843) | (71,574,525) |
| Net Property and equipment | 27,977,854 | 30,457,242 |
| **Other Assets** | | |
| Note receivable | - | 2,500,000 |
| Other investments | 5,270,948 | 222,316 |
| Total other assets | 5,270,948 | 2,722,316 |
| **Total Assets** | $ 51,818,639 | $ 52,403,672 |

See Notes to Financial Statements.

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

| | August 31, 2018 | August 31, 2017 |
|---|---|---|
| **LIABILITIES AND MEMBERS' EQUITY** | | |
| **Current Liabilities** | | |
| Current portion of long-term debt | $ 1,586,893 | $ 1,514,597 |
| Accounts payable | 880,376 | 748,129 |
| Corn payable | 396,700 | 497,931 |
| Accrued interest payable | 27,451 | 39,476 |
| Other accrued liabilities | 1,532,940 | 1,606,159 |
| Total current liabilities | 4,424,360 | 4,406,292 |
| Long-term debt, net of current portion | 1,240,582 | 2,827,181 |
| Total liabilities | 5,664,942 | 7,233,473 |
| **Commitments and Contingencies (Note G)** | | |
| **Members' Equity** | | |
| Member contributions: | | |
| Class A & B units, net of $158,190 costs related to capital contributions, 40,871,052 units issued with 40,703,552 outstanding | 39,861,987 | 40,037,862 |
| Class G units, 0 units issued and outstanding | - | 1,000 |
| Retained earnings | 6,291,710 | 5,131,337 |
| Total members' equity | 46,153,697 | 45,170,199 |
| **Total Liabilities and Members' Equity** | $ 51,818,639 | $ 52,403,672 |

See Notes to Financial Statements.

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

| | Fiscal Year Ended August 31, 2018 | Fiscal Year Ended August 31, 2017 |
|---|---|---|
| **Revenues** | | |
| Fuel ethanol sales | $ 81,678,120 | $ 87,939,526 |
| Distillers grains sales | 21,963,876 | 18,405,243 |
| Corn oil sales | 4,945,771 | 5,220,683 |
| State ethanol producer incentive | 873,896 | 751,355 |
| Total revenues | 109,461,663 | 112,316,807 |
| **Cost of Revenues** | | |
| Corn ground | 71,048,139 | 69,464,643 |
| Freight costs and commissions | 6,178,552 | 8,029,441 |
| Natural gas | 4,555,362 | 4,763,094 |
| Depreciation | 4,205,190 | 6,226,087 |
| Denaturant, chemicals, and ingredients | 7,741,346 | 7,450,488 |
| Other production costs | 8,651,070 | 8,625,696 |
| Total cost of revenues | 102,379,659 | 104,559,449 |
| **Gross Profit** | 7,082,004 | 7,757,358 |
| **General and Administrative Expenses** | | |
| Other costs | 524,698 | 604,435 |
| Administrative labor costs | 1,362,461 | 1,319,816 |
| Professional fees | 294,405 | 275,829 |
| Insurance | 260,138 | 257,337 |
| Property taxes | 241,295 | 230,507 |
| Depreciation | 94,129 | 99,888 |
| Industry dues & fees | 244,585 | 238,831 |
| Total general and administrative expenses | 3,021,711 | 3,026,643 |
| **Income from Operations** | 4,060,293 | 4,730,715 |
| **Other Income (Expense)** | | |
| Interest income | 283,072 | 192,601 |
| Other income | 697,548 | 708,923 |
| Interest expense | (202,145) | (272,964) |
| Total other income | 778,475 | 628,560 |
| **Net Income** | $ 4,838,768 | $ 5,359,275 |
| **Weighted Average Units Outstanding** | 40,858,167 | 40,871,052 |
| **Net Income per Unit** | $ 0.118 | $ 0.131 |

See Notes to Financial Statements.

## REDFIELD ENERGY, LLC
## Statements of Changes in Members' Equity
## Fiscal Years Ended August 31, 2018 and 2017

| | Class A and B Units | |
|---|---|---|
| | Units | Amount |
| **Balance, August 31, 2017** | 40,871,052 | $ 40,037,862 |
| **Purchase of Treasury Units** | (167,500) | (175,875) |
| **Balance, August 31, 2018** | 40,703,552 | $ 39,861,987 |

| | Total Class G Units | |
|---|---|---|
| | Units | Amount |
| **Balance, August 31, 2017** | 100 | $ 1,000 |
| **Termination of Gevo Joint Venture** | (100) | (1,000) |
| **Balance, August 31, 2018** | - | $ - |

| | Total Capital Units | |
|---|---|---|
| | Units | Amount |
| **Balance, August 31, 2017** | 40,871,152 | $ 40,038,862 |
| **Purchase of Treasury Units and Termination of Gevo Joint Venture** | (167,600) | (176,875) |
| **Balance, August 31, 2018** | 40,703,552 | $ 39,861,987 |

| | Retained Earnings | Total Equity |
|---|---|---|
| **Balance, August 31, 2016** | $ 3,859,167 | $ 43,898,029 |
| Net Income | 5,359,275 | 5,359,275 |
| Distributions to Members | (4,087,105) | (4,087,105) |
| **Balance, August 31, 2017** | 5,131,337 | 45,170,199 |
| Purchase of Treasury Units and Termination of Gevo Joint Venture | - | (176,875) |
| Net Income | 4,838,768 | 4,838,768 |
| Distributions to Members | (3,678,395) | (3,678,395) |
| **Balance, August 31, 2018** | $ 6,291,710 | $ 46,153,697 |

See Notes to Financial Statements.

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

| | Fiscal Year Ended August 31, 2018 | Fiscal Year Ended August 31, 2017 |
|---|---|---|
| **Operating Activities** | | |
| Net Income | $ 4,838,768 | $ 5,359,275 |
| Changes to net income not affecting cash | | |
| Depreciation | 4,299,319 | 6,325,975 |
| Amortization | - | 34,687 |
| Termination of Gevo Joint Venture | (1,000) | - |
| Net losses (gains) recognized from derivative financial instruments | 16,797 | (127,622) |
| (Increase) decrease in current assets | | |
| Receivables | 383,447 | (451,429) |
| Inventory | (550,357) | (846,854) |
| Prepaid expenses | 87,860 | 105,744 |
| Increase (decrease) in current liabilities | | |
| Accounts and corn payable | 31,015 | (60,738) |
| Accrued liabilities | (85,245) | 324,542 |
| Net Cash Provided By Operating Activities | 9,020,604 | 10,663,580 |
| **Investing Activities** | | |
| Purchase of property and equipment | (1,819,930) | (2,179,947) |
| Investment in Startup company | (2,500,000) | |
| Other investments | (48,632) | (35,096) |
| Advances on note receivable | - | (2,500,000) |
| Net Cash Used for Investing Activities | (4,368,562) | (4,715,043) |
| **Financing Activities** | | |
| Purchase of treasury units | (175,875) | - |
| Principal payments on term loan | (1,514,303) | (1,445,223) |
| Payments for financing costs | - | (10,000) |
| Distributions to members | (3,678,395) | (4,087,105) |
| Net Cash Used for Financing Activities | (5,368,573) | (5,542,328) |
| **Net (Decrease) Increase in Cash and Cash Equivalents** | (716,531) | 406,209 |
| **Cash and Cash Equivalents - Beginning of Period** | 9,019,149 | 8,612,940 |
| **Cash and Cash Equivalents - End of Period** | $ 8,302,618 | $ 9,019,149 |
| **Supplemental Disclosures of Cash Flow Information** | | |
| Cash paid for interest | $ 214,171 | $ 284,484 |

See Notes to Financial Statements.

## 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 gallons per year dry mill ethanol plant for commercial sales throughout the United States. Redfield Energy, LLC (the "Company") was organized on July 14, 2005 and was in the development stage until operations began on April 26, 2007. The Company is comprised of 710 members who represent two unit classes. Class A equity unit holders are required to deliver corn on an annual fiscal year basis. Class B equity unit holders do not have a corn requirement.

The plant has the capacity to process approximately 22 million bushels of corn into ethanol per year. During the fiscal year ended August 31, 2018, the plant produced more than 62 million gallons of ethanol. At normal operating production levels, the plant will also produce approximately 160,000 equivalent dry tons of modified wet and dried distiller grains, which will be sold to the local and out of state 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 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. 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.

## NOTE A: NATURE OF BUSINESS AND 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 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, corn oil, and related distiller grains products. The Company markets all of its ethanol produced through one marketer. All dry distiller sales shipped by rail are marketed by a single entity, and all corn oil sales 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 all of its corn purchases coming from one grain handler. 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 loaded, the marketer assumes the risk of payment from the consumer and handles all delinquent payment issues. In addition, the Company has engaged the services of a national marketer to sell all of its corn oil.

The Company does market modified wet distiller grains and dried distiller grains 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.

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

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, 2018, and 2017 the Company's allowance for uncollectible accounts was $52,952 and $146,277 respectively.

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

**Derivative Financial Instruments and Hedging Activities –** The Company had cash deposits and market value of open positions of $1,076,347 in broker accounts as of August 31, 2018 and $1,093,144 as of August 31, 2017. These deposits are restricted by the broker based upon minimum margin requirements for such accounts. The Company has elected to net the fair value of amounts recognized for multiple similar derivative instruments executed with the same counterparty with the cash deposits.

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.

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.

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

FASB Accounting Standards Codification Topic 815 requires entities to provide transparency in interim and annual financial statements about how and why the entity uses derivative instruments, how the instruments and related hedged items are accounted for, and how the instruments and related hedged items affect the financial position, results of operations, and cash flows of the entity. Detailed disclosures of the Company's involvement in commodities contracts, derivative instruments, and hedging activities are outlined in Note L to the financial statements.

**Investments in Affiliated Entities –** The equity method of accounting is used when the Company has a 20% to 50% interest in other entities. Under the equity method, original investments are recorded at cost and adjusted for the Company's share of undistributed earnings or losses of these entities. Nonmarketable investments in which the Company has less than a 20% interest, and in which it does not have the ability to exercise significant influence over the investee, are initially recorded at cost, and periodically reviewed for impairment.

**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.

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

**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.

**Advertising and Promotion Costs –** Advertising costs are expensed when incurred. Advertising and promotion costs totaled $14,840 and $21,380 for the fiscal years ended August 31, 2018 and 2017, respectively.

## NOTE B: INVENTORIES

| | August 31, 2018 | August 31, 2017 |
|---|---|---|
| Ethanol and distillers grains: | | |
| Finished goods | $ 1,399,738 | $ 1,165,816 |
| In process | 787,836 | 778,271 |
| Denaturant, chemicals and ingredients | 788,108 | 692,444 |
| Spare parts | 3,231,601 | 3,020,395 |
| Total inventory | $ 6,207,283 | $ 5,656,926 |

**Corn Supply Agreement –** Redfield Energy partners with Agtegra for its corn procurement. Redfield Energy members and Agtegra members are able to sell and deliver corn directly to Redfield Energy's plant through a supply agreement. On August 29, 2017, both parties agreed to a new two-year contract from October 1, 2017 to September 30, 2019.

Under the terms of the grain supply agreement, the Company receives semi-annual payments for lease of its grain handling facilities to Agtegra. Redfield Energy is responsible for all costs of repair to said equipment and facility operated by Agtegra. 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, Agtegra will be entitled to additional compensation to offset its lease and other operating expenses.

## NOTE C: LONG-TERM DEBT

**Facility B Term Loan –** On March 31, 2015 the Company entered into a term loan with FCSA. The amount borrowed on this term loan was $7,500,000. The amount outstanding on August 31, 2018 was $2,827,475. The company is required to make quarterly payments including interest of $423,036 on July 1, October 1, January 1, and April 1 until the final payment is made on April 1, 2020. The commitment under the loan is to finance the purchase and installation of the ICM Fiber Separation Technology system. The interest rate to be applied to principal payments on this loan until maturity date is 4.63%.

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

| Twelve Months Ended August 31, | |
|---|---|
| 2019 | $1,586,893 |
| 2020 | 1,240,582 |
| | $2,827,475 |

**Long Term Revolver –** On October 20, 2011, the Company entered into a credit agreement with FCSA. FCSA agreed to make advances to the Company or issue Letters of Credit on behalf of Redfield Energy up to an aggregate amount of $20 million (maximum principal balance) until November 1, 2016. Each quarter the commitment was reduced until January 1, 2014. At that time, the maximum principal balance shall be $10 million. The proceeds of said loan was used by Redfield Energy to (i) refinance existing term debt with Great Western Bank; (ii) provide additional working capital to support operating expenses; (iii) fund capital expenditures; and (iv) issue letters of credit. Interest shall accrue from the date of each advance, from April 1, 2015 until maturity date, at a variable rate per annum equivalent to one-month Libor rate, plus 3.25% (variable rate). The variable rate shall be adjusted each month. This credit agreement is secured by substantially all assets of the Company.

## NOTE C: LONG-TERM DEBT (continued)

The Company is allowed to make annual capital expenditures, from any source of available, up to $5 million in aggregate. The Company is allowed to make distribution of profits to members as long as working capital (current assets minus current liabilities according to GAAP) remains above $10 million and the Company remains in compliance with all other loan covenants on a post-distribution basis. The credit agreement was amended on the 1st day of March 2016. The Primary change was a reduction in the maximum principle balance to $5,000,000 effective April 1, 2016 until the maturity date on April 1, 2021.

The amount available to borrow under this revolver is $4,599,667 at August 31, 2018 as follows:

| | | |
|---|---|---|
| **Maximum Principal Balance** | $ | 5,000,000 |
| **Borrowed Funds at 8/31/18** | | - |
| **Letters of Credit** | | (400,333) |
| **Amounts Available** | $ | 4,599,667 |

The Company was compliant with the Debt Service Coverage Ratio for the year ended August 31, 2018.

## NOTE D: LEASES

**Dry Distillers Hopper Car Leases –** The Company leases 70 hopper cars under two operating lease agreements. The original hopper car lease ran through early 2017. One to three-year extensions of this original lease became effective in February 2017. An additional 7-year lease, on 30 hopper cars, was entered into effective June 1, 2015. The operating lease agreements currently contain a monthly base rental amount of $48,300. Generally, the Company is required to pay executory costs such as maintenance and insurance. During the most recent fiscal year, the Company both sub-leased out and leased in hopper cars. Net lease payments during the fiscal year ended August 31, 2018, were $803,708. Lease payments during the fiscal year ended August 31, 2017, were $855,455.

**Ethanol Rail Car Leases –** At the end of the fiscal year ended August 31, 2018, the Company leased a total of 219 rail cars for the shipment of ethanol under operating agreements with several parties. A majority of the rail cars are leased for periods from one to five years. Commitments on a few cars extend to the year 2025.

## NOTE D: Leases (continued)

Lease payments on the rail cars during the fiscal year ended August 31, 2018 and 2017 were $2,487,329 and $3,269,554, respectively.

Future minimum lease commitments for dry distiller hopper cars and ethanol rail cars are as follows:

| Fiscal Year Ended August 31, | 70 hopper cars | 219 ethanol cars | Total cars |
|---|---|---|---|
| 2019 | 510,000 | 2,358,600 | 2,868,600 |
| 2020 | 371,400 | 2,104,800 | 2,476,200 |
| 2021 | 302,400 | 2,062,800 | 2,365,200 |
| 2022 | 226,800 | 1,463,400 | 1,690,200 |
| 2023 | - | 831,600 | 831,600 |
| 2024 | - | 653,400 | 653,400 |
| remainder through 2025 | - | 297,000 | 297,000 |
| Total | $ 1,410,600 | $ 9,771,600 | $ 11,182,200 |

## NOTE E: RELATED PARTY TRANSACTIONS AND CONCENTRATIONS

**Cash Rent Crop Land Lease with Member of Board of Managers –** For each fiscal year ended August 31, 2018 and 2017, the Company recorded $5,985 of cash rent from cropland leased to a member of the Board of Managers. The Company leases a 57-acre parcel of crop land adjacent to the plant site to the member. The cash rent is $105 per acre beginning in January 2018 for a three-year term.

**Professional Fees –** For the fiscal year ended August 31, 2018 and 2017, the Company recorded $24,127 and $14,400, respectively, of professional fees for services obtained from members. All amounts for these services have been paid as of August 31, 2018.

**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.

## NOTE E: RELATED PARTY TRANSACTIONS AND CONCENTRATIONS (continued)

The commitment to deliver corn will be for a processing year ending each August 31. The Company billed out $23,296 in September 2018 for pool fees related to fiscal year 2018. In September 2017, the Company billed out $24,523 in fees related to fiscal year 2017. For the twelve months ended August 31, 2018 and 2017, the Company purchased corn from all of its corn members (Agtegra) as follows:

| | August 31, 2018 | | August 31, 2017 | |
|---|---|---|---|---|
| | **Bushels** | **Dollars** | **Bushels** | **Dollars** |
| Members that are elevators | 22,007,699 | $ 70,496,118 | 22,045,745 | $ 69,062,185 |

Included in the costs from the members of the Company for the purchase of corn for the periods above, the Company incurred freight allowance costs paid to Class A members on committed bushels. In addition, the Company incurred commercial freight premium 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”).

**Corn Supply Agreement –** Class A Commercial Level Investors that do not deliver their committed bushels receive their commercial freight premium through an offset of the pool fee for non-delivered bushels. Deliveries by Class A members to Agtegra qualify for the freight allowance and commercial freight premium under the corn supply agreement with Agtegra.

| | Fiscal Year Ended August 31, 2018 | Fiscal Year Ended August 31, 2017 |
|---|---|---|
| Freight Allowance | $ 442,056 | $ 450,716 |
| Commercial Freight Premium | $ 116,464 | $ 103,187 |

As of August 31, 2018, the Company owed members $25,679 for freight allowances, $2,934 for fees payable to commercial level investors and $368,088 for corn purchased, for a total corn payable of $396,700. As of August 31, 2017, the Company owed members $115,489 for freight allowances, $14,551 for fees payable to commercial level investors and $367,891 for corn purchased, for a total corn payable of $497,931.

## NOTE E: RELATED PARTY TRANSACTIONS AND CONCENTRATIONS (continued)

**Distillers Grains Sales –** For the periods stated below, the Company sold distillers grains to members of the Company as follows:

| Fiscal Year Ended August 31, 2018 | Tons | Dollars |
|---|---|---|
| Dry Distillers Grain ("DDG") | 27,457 | $ 3,558,006 |
| Modified Wet Distillers Grain ("MWDG") | 36,789 | 2,363,074 |
| Totals | | $ 5,921,080 |

| Fiscal Year Ended August 31, 2017 | Tons | Dollars |
|---|---|---|
| Dry Distillers Grain ("DDG") | 31,076 | $ 2,889,254 |
| Modified Wet Distillers Grain ("MWDG") | 31,949 | 1,687,045 |
| Totals | | $ 4,576,299 |

As of August 31, 2018, and 2017, amounts due from distiller grains sales to members were $249,065 and $348,226 respectively.

## NOTE F: 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:

| | Fiscal Year Ended August 31, 2018 | Fiscal Year Ended August 31, 2017 |
|---|---|---|
| Company Contributions (net of forfeitures) | $ 199,409 | $ 189,975 |
| Administrative Expenses | $ 2,025 | $ 2,040 |

## NOTE G: 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 January 2009, the Company entered into an agreement with a leading independent biofuels marketer. Under the agreement, the Company is required to sell 100% of its production of ethanol to the biofuels marketer and pay a commission based on the net selling price. In August 2018, the Agreement was amended to extend the term another three years to July 31, 2023.

**Distillers Grain Marketing –** In April 2006, the Company entered into an agreement with a national distiller grains marketer for a primary term of one year commencing on start-up of production (April 26, 2007). Under the agreement, the Company is required to sell all of its production of distiller 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 –** Farm Credit Services issued standby letters of credit, on behalf of Redfield Energy, prior to August 31, 2018 in the amount of $400,333 for rail car leases and natural gas delivery.

**Forward Purchase and Forward Sales Contracts –** As of August 31, 2018 and August 31, 2017, the Company has entered into forward "fixed priced futures" and "basis only" contracts to purchase corn from Agtegra as follows:

| | Delivery Year | Bushels | Average Price |
|---|---|---|---|
| Futures Only | 2018 | 339,767 | $ 3.59 |
| | 2017 | 558,705 | $ 3.55 |
| Basis Only | 2018 | 22,000 | $ (0.66) |
| | 2017 | 252,500 | $ (0.77) |

As of August 31, 2018, the Company has also entered into contracts for the sale of approximately 5,700 tons of DDG and approximately 4,100 tons of MWDG to be shipped by truck or rail through September 2018 at fixed prices. The average price contracted, excluding rail shipping costs, is $128 per ton of DDG and $47 per ton of MWDG.

## NOTE G: COMMITMENTS AND CONTINGENCIES (continued)

As of August 31, 2018, the Company has entered into variable-price contracts, with its national ethanol marketer Eco-Energy, for the delivery of ethanol through December 31, 2018. Total gallons committed to be sold on an index price contract were 10,265,928.

As of August 31, 2018, the Company entered into fixed priced corn oil sales on 2,154 tons at an average sales netback price of $0.225 per pound.

As of August 31, 2018, the Company also entered into forward purchases of Ventura priced natural gas of 3,200 MMBtu/day at $2.35 per MMBtu for September 2018 and, 4,000 MMBtu/day at $2.44 per MMBtu for October 2018. Post August 31, 2018 1,000 MMBtu/day at $3.13 per MMBtu for November 2018 to March 2019.

**Minimum Utility Purchases –** In connection with the arrangements for certain utility services for the plant, there are minimum purchase commitments. The minimum annual purchases from the water service provider are $87,984. The minimum annual purchase from the local natural gas distribution delivery service is $145,635. Both the agreement with the water service provide and the natural gas distribution delivery service run through December 2018.

**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, 2018, the outstanding principal balance on the bonds was $136,140 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.

## NOTE H: 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 $873,896 and $751,355 under this program for the fiscal years ended August 31, 2018 and 2017, respectively. At August 31, 2018, amounts due the Company under the State Program totaled $166,667.

The South Dakota 2011 Legislature passed a bill that affected the State Program. This bill took a portion of the incentive monies and placed it in two other programs. It also delayed the payments for the State Program.

The cumulative annual production incentive payments available during program year 2011 (twelve months ending June 30, 2011) was $7,000,000. The change in law reduced the amount available to $4,000,000 for fiscal years 2012 and 2013 and to $4,500,000 for fiscal years 2014 through 2016. In fiscal year 2017 and thereafter the original $7,000,000 was restored.

## NOTE I: JOINT VENTURE WITH GEVO

On June 13, 2011, the membership of the Company approved a joint venture with a subsidiary of advanced biofuel producer Gevo, Inc. The joint venture transaction was completed on June 15, 2011 to retrofit the Company's ethanol plant to produce isobutanol. The retrofit of the Company's 50 million gallon per year ethanol plant was expected to result in production capacity of approximately 38 million gallons per year of isobutanol. On November 5, 2017 the Company and Gevo agreed to terminate the joint venture contract.

## NOTE J: MEMBERS' EQUITY

**Class A and B Units –** 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 board of managers accepted subscriptions for a total of 18,750,000 units or $37,500,000. 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.

The remaining 675,000 units outstanding are comprised of the initial 450,000 units sold as seed capital and options to purchase an additional 225,000 units made available to GLE and the eight members of the Company's Board of Managers.

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, 2018, there were 187 Class A members owning 11,244,310 units and 678 Class B members owning 29,459,242 units.

On November 16, 2017, the Redfield Energy, LLC Board of Managers authorized a cash distribution of $0.03 per unit for Class A and B members of record on December 1, 2017, to be paid on December 1, 2017.

On April 19, 2018, the Redfield Energy, LLC Board of Managers authorized a cash distribution of $0.06 per unit for Class A and B members of record on May 1, 2018. The $2,452,263 distribution was paid on May 1, 2018.

On August 16, 2018, the Redfield Energy, LLC Board of Managers authorized the purchase of 167,500 of Class B units for $1.05 per unit. These units are now held as Treasury Units by the Company.

## NOTE J: MEMBERS' EQUITY (continued)

**Class G Units -** In connection with the joint venture agreement with Gevo, the Company received $1,000 for 100 units of Class G units. These units are non-voting and do not earn a share of the Company's profits and losses. With the mutual termination of the Gevo Joint Venture on November 5, 2017, there are now no G units outstanding.

## 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 distiller grains to customers primarily located in the U.S.

Corn for the production process is supplied to the Company's plant primarily from local agricultural producers. Ethanol sales, historically since the start-up of operations in April 2007, average 79.8% of total revenues and corn costs historically average 68.1% 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. The Company's 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 the Company's risk management program used to protect against the price volatility of these commodities.

## NOTE L: DERIVATIVE FINANCIAL INSTRUMENTS

As discussed in Note A, the Company is exposed to certain risks related to its ongoing business operations. The primary risks that the Company manages by using forward or derivative instruments are price risk on anticipated purchases of corn and natural gas and the sale of ethanol. The Company enters into short-term cash, options and futures contracts as a means of securing corn and natural gas for the ethanol plant and managing exposure to changes in commodity prices. As part of its trading activity, the Company uses futures and option contracts and ethanol swaps offered through regulated commodity exchanges to reduce risk.

**NOTE L: DERIVATIVE FINANCIAL INSTRUMENTS (continued)**

As of August 31, 2018, the Company has entered into ethanol and corn contracts that are considered derivatives under accounting guidance. The Company records derivative financial instruments at fair value in the balance sheet with the exception of those that meet the requirements of and are documented “normal purchase and sales”. These derivatives are not designated as hedges for accounting purposes, thus all of the Company’s derivatives are considered non-hedge derivatives, and accordingly are recorded at fair value with changes in fair value recognized in net income.

The Company uses futures or options contracts to reduce the risk related to changes in market prices of anticipated volumes of corn to be purchased and processed in a future month. The Company’s plant anticipates grinding approximately 22 million bushels of corn per year. As of August 31, 2018, the Company had commitments of 361,767 bushels to purchase corn.

At times the Company also uses the combination of ethanol, corn, and natural gas futures contracts to reduce the effect of the risk of commodity price changes on the gross margin of anticipated volumes of ethanol to be sold in future months. During the fiscal year ended August 31, 2018 all of the Company’s ethanol sales were forward contracted, except for minimal rail and truck spot sales. The Company occasionally enters into derivative contracts at varying notional amounts throughout the year.

Unrealized gains and losses on non-exchange traded forward contracts for ethanol sales, corn purchases and natural gas contracts are deemed “normal purchases or sales” under authoritative accounting guidance and therefore are not marked to market in the Company’s financial statements.

The fair value of the Company’s derivatives in the balance sheet not designated as hedging instruments under accounting guidance are summarized in the following table:

| Asset Derivatives August 31, 2018 | | | Asset Derivatives August 31, 2017 | | |
|---|---|---|---|---|---|
| **Balance Sheet Location** | **Fair Value** | | **Balance Sheet Location** | **Fair Value** | |
| *Futures and option contracts** | | | *Futures and option contracts** | | |
| Current assets | $ | (4,875) | Current assets | $ | (73,125) |

* Excludes the fair value of cash serving as collateral on commodity contracts of $1,081,222 and $1,166,269 at August 31, 2018 and 2017, respectively.

## NOTE L: DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Realized and unrealized gains and losses on derivatives not designated as hedging instruments are recognized in earnings as follows:

| August 31, 2018 | | | August 31, 2017 | | |
|---|---|---|---|---|---|
| **Statement of Operations Location** | | **Gain/(Loss)** | **Statement of Operations Location** | | **Gain/(Loss)** |
| *Futures and option contracts* | | | *Futures and option contracts* | | |
| *Cost of revenues* | $ | (16,797) | *Cost of revenues* | $ | 127,622 |

## NOTE M: FAIR VALUE MEASUREMENTS

Authoritative accounting guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market. A hierarchy is used to determine the fair value of an asset or liability. The fair value hierarchy has three levels of inputs, both observable and unobservable.

The Company uses the lowest possible level of input to determine fair value. Level 1 inputs include quoted market prices in an active market for identical assets or liabilities. Level 2 inputs are market data, other than Level 1, that are observable either directly or indirectly. Level 2 inputs include quoted market prices for similar assets or liabilities, quoted market prices in an inactive market, and other observable information that can be corroborated by market data. Level 3 inputs are unobservable and corroborated by little or no market data.

Except for those assets and liabilities which are required by authoritative accounting guidance to be recorded at fair value in its balance sheets, the Company has elected not to record any other assets or liabilities at fair value. No events occurred during 2018 which would require adjustment to the recognized balances of assets or liabilities which are recorded at fair value on a nonrecurring basis.

## NOTE M: FAIR VALUE MEASUREMENTS (continued)

Disclosure requirements for fair value of financial instruments require disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or nonrecurring basis. The Company considers the carrying amount of significant classes of financial instruments on the balance sheets, 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 August 31, 2018 and 2017. The fair value of fixed rate long-term debt fluctuates in comparison to the carrying amount based on changes in the interest rates and borrowing conditions at a given time. At August 31, 2018 the Company had $2,827,475 of 4.63% per annum fixed-rate long-term debt.

The Company's commodity contracts principally include corn and natural gas futures and option contracts and ethanol contracts net of cash deposits, the fair values for which are obtained from quoted market prices from the Chicago Board of Trade (CBOT) for identical assets or liabilities and are designated as Level 1 within the valuation hierarchy.

## NOTE N: OTHER INVESTMENTS

At August 31, 2017, the Company had a note receivable from Prairie AquaTech, LLC (PAT) for $2,500,000. The note carried interest at the annual rate of 15% and was secured by a blanket lien on PAT's assets. The principle amount was converted into equity of PAT, plus an additional contribution of $2,500,000, in April 2018. Accrued interest on the note was received at closing. The Company had committed to invest $5,000,000 in PAT upon closing of the equity drive. Upon closing, the Company received approximately $700,000 of Series A Units (4.31%) in PAT and approximately $4,300,000 of Preferred Equity Units in Prairie Aqua Tech Manufacturing, LLC (100% owned subsidiary of PAT). The Company also received equity warrants to have rights for purchase of an additional 10.54% ownership in PAT with an exercise price of $.01 per Unit. The Preferred Equity Units call for a 15% annual dividend beginning October 1, 2019. PAT has begun construction of a manufacturing plant in Volga to produce 30,000 tons per year of high protein fish meal made from soybean meal.

## NOTE O: SUBSEQUENT EVENTS

The Company has evaluated subsequent events through November 30, 2018, the date which the financial statements were available to be issued.

On October 19, 2018, the Company reached an agreement with ICM, Inc. to implement ICM's patent-pending, proprietary Thin Stillage Solids Separation System™ (TS4™) at the Company's ethanol plant site. ICM will engineer, design, manufacture and install the TS4™ system. The project is expected to be completed in spring 2019 and cost approximately $8,500,000 inclusive of contractor's excise tax and soil stabilization costs.