

**GLACIAL LAKES CORN PROCESSORS**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended August 31, 2006, 2005 and 2004**

**CHRISTIANSON & ASSOCIATES, PLLP**  
**Certified Public Accountants and Consultants**  
**Willmar, Minnesota**



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# Christianson & Associates, PLLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

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John O.  
Christianson  
CPA

To the Board of Directors  
Glacial Lakes Corn Processors  
Watertown, South Dakota

Marti F.  
Nieland  
CPA

Joel G.  
Gratz  
CPA

We have audited the accompanying consolidated balance sheets of **Glacial Lakes Corn Processors** (South Dakota cooperative) as of August 31, 2006 and 2005 and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended 2006, 2005, and 2004. These financial statements are the responsibility of the cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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Bradley P.  
Pederson  
CPA

Donovan M.  
Pahl  
CPA

Pamela K.M.  
Mansfield  
CPA

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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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.

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In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **Glacial Lakes Corn Processors** as of August 31, 2006 and 2005 and the results of its operations and its cash flows for the years ended 2006, 2005, and 2004 in conformity with accounting principles generally accepted in the United States of America.

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*Christianson & Associates, PLLP*

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October 5, 2006  
(Except for Notes D, H, K, M and N, as to  
which the date is December 30, 2006)

**GLACIAL LAKES CORN PROCESSORS**  
**CONSOLIDATED BALANCE SHEETS**  
**August 31, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 5,000,824	\$ 2,505,348
Receivables:		
Trade, net of allowance	6,822,517	4,816,593
Government programs	88,795	181,017
Other	914,096	257,996
Inventories	4,385,608	5,062,342
Hedge accounts	2,181,786	-
Prepaid expenses	<u>83,597</u>	<u>94,641</u>
<b>TOTAL CURRENT ASSETS</b>	<b>19,477,223</b>	<b>12,917,937</b>
<b>PROPERTY AND EQUIPMENT:</b>		
Land and land improvements	1,738,990	1,708,350
Railroad equipment	848,874	848,874
Buildings	2,581,439	2,335,487
Process and grain storage tanks	12,166,678	12,166,678
Process equipment	37,764,042	35,074,123
Construction in process	2,096,558	166,363
Office equipment	<u>379,387</u>	<u>301,619</u>
	57,575,968	52,601,494
Accumulated depreciation	<u>(20,102,339)</u>	<u>(14,786,447)</u>
<b>PROPERTY AND EQUIPMENT, net</b>	<b>37,473,629</b>	<b>37,815,047</b>
<b>OTHER ASSETS:</b>		
Goodwill invested in Glacial Lakes Energy, LLC	3,827,204	3,827,204
Other investments	14,882,010	6,634,578
Other assets	556,285	-
Financing costs, net of amortization of \$345,173 and \$253,981, respectively	<u>139,336</u>	<u>230,528</u>
<b>TOTAL OTHER ASSETS</b>	<b><u>19,404,835</u></b>	<b><u>10,692,310</u></b>
<b>TOTAL ASSETS</b>	<b><u>\$76,355,687</u></b>	<b><u>\$61,425,294</u></b>

See Notes to Financial Statements.

**GLACIAL LAKES CORN PROCESSORS**  
**CONSOLIDATED BALANCE SHEETS**  
August 31, 2006 and 2005

	2006	2005
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 1,097,348	\$ 693,168
Corn payable	995,411	2,330,073
Accrued expenses	2,152,317	846,064
Hedge accounts	-	154,157
Revolving line of credit	-	-
Current maturities of long-term debt	3,681,519	3,689,088
<b>TOTAL CURRENT LIABILITIES</b>	7,926,595	7,712,550
<b>LONG-TERM DEBT, net of current maturities:</b>		
Notes payable to Bank	16,067,315	24,555,179
Capital lease	3,881	8,802
Total	16,071,196	24,563,981
Current maturities	(3,681,519)	(3,689,088)
<b>TOTAL LONG-TERM DEBT, net of current maturities</b>	12,389,677	20,874,893
<b>DEFERRED TAXES</b>	1,900,000	-
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock, \$0.00056 par value for 2006 and 2005, respectively, 500,000,000 shares authorized, 139,402,152 and 139,289,652 shares issued and outstanding in 2006 and 2005, respectively	77,445	77,383
Preferred stock, \$1.00 par value, 1,000,000 shares authorized with none issued	-	-
Additional paid-in capital	16,099,857	15,594,119
Accumulated other comprehensive gain (loss)	58,625	(2,731,540)
Capital reserve	37,903,488	19,897,889
	54,139,415	32,837,851
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$76,355,687</b>	<b>\$61,425,294</b>

See Notes to Financial Statements.

**GLACIAL LAKES CORN PROCESSORS**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**Years Ended August 31, 2006, 2005 and 2004**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>SALES</b>	\$103,014,657	\$78,051,987	\$74,913,182
<b>COST OF SALES</b>	<u>64,350,218</u>	<u>66,829,681</u>	<u>61,413,429</u>
<b>GROSS PROFIT</b>	38,664,439	11,222,306	13,499,753
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>	4,220,823	1,810,546	1,618,954
<b>INTEREST EXPENSE</b>	<u>1,500,434</u>	<u>1,943,078</u>	<u>1,200,189</u>
<b>INCOME FROM OPERATIONS</b>	32,943,182	7,468,682	10,680,610
<b>OTHER INCOME (EXPENSE):</b>			
CCC bio-energy program	9,738	204,068	850,483
State ethanol producer program	691,875	702,613	666,667
Interest income	309,089	20,297	34,910
Management fee income	1,664,046	207,097	10,000
Investment income (loss)	7,636,003	(112,454)	-
Gain (loss) on impairment of property and equipment	100	(3,332)	(75,510)
Other income	<u>48,266</u>	<u>9,236</u>	<u>23,846</u>
<b>TOTAL OTHER INCOME (EXPENSE)</b>	<u>10,359,117</u>	<u>1,027,525</u>	<u>1,510,396</u>
<b>INCOME BEFORE MINORITY INTEREST AND INCOME TAXES</b>	43,302,299	8,496,207	12,191,006
<b>MINORITY INTEREST IN SUBSIDIARY EARNINGS</b>	-	-	(2,417,449)
<b>INCOME TAXES</b>	<u>(1,900,000)</u>	<u>-</u>	<u>-</u>
<b>NET INCOME</b>	<u>\$ 41,402,299</u>	<u>\$ 8,496,207</u>	<u>\$ 9,773,557</u>
<b>WEIGHTED AVG. SHARES OUTSTANDING</b> (Post the 2006 stock split)	<u>139,320,166</u>	<u>139,289,652</u>	<u>139,289,652</u>
<b>NET INCOME PER SHARE</b>	<u>\$ 0.297</u>	<u>\$ 0.061</u>	<u>\$ 0.070</u>

See Notes to Financial Statements.

**GLACIAL LAKES CORN PROCESSORS**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**Years Ended August 31, 2006, 2005 and 2004**

	<u>COMMON STOCK</u>	<u>ADDITIONAL PAID-IN CAPITAL</u>	<u>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)</u>	<u>CAPITAL RESERVE</u>	<u>TOTAL</u>
<b>BALANCE – August 31, 2003</b>	\$ 77,383	\$15,591,119	\$ (440,017)	\$ 8,669,990	\$23,898,475
Memberships sold	-	3,000	-	-	3,000
Comprehensive income:					
Net income	-	-	-	9,773,557	9,773,557
Reclassification adjustment for losses included in net income	-	-	440,017	-	440,017
Unrealized loss on hedging activities, net of premiums paid	-	-	(4,075,627)	-	(4,075,627)
Total comprehensive income					6,137,947
Patronage earnings allocated				(7,107,644)	(7,107,644)
Patronage earnings allocated and unpaid				<u>1,613,441</u>	<u>1,613,441</u>
<b>BALANCE – August 31, 2004</b>	77,383	15,594,119	(4,075,627)	12,949,344	24,545,219
Comprehensive income:					
Net income	-	-	-	8,496,207	8,496,207
Reclassification adjustment for losses included in net income	-	-	4,075,627	-	4,075,627
Unrealized loss on hedging activities, net of premiums paid	-	-	(2,731,540)	-	(2,731,540)
Total comprehensive income					9,840,294
Patronage earnings allocated				(3,244,710)	(3,244,710)
Patronage earnings allocated and unpaid				<u>1,697,048</u>	<u>1,697,048</u>
<b>BALANCE – August 31, 2005</b>	77,383	15,594,119	(2,731,540)	19,897,889	32,837,851
Comprehensive income:					
Net income	-	-	-	41,402,299	41,402,299
Reclassification adjustment for losses included in net income	-	-	2,731,540	-	2,731,540
Unrealized gain on hedging activities, net of premiums paid	-	-	58,625	-	58,625
Total comprehensive income					44,192,464
Unrestricted Stock Award		280,800			280,800
Stock Issued	62	224,938			225,000
Patronage earnings allocated				(20,086,208)	(20,086,208)
Patronage earnings paid				(4,050,912)	(4,050,912)
Patronage earnings allocated and unpaid				<u>740,420</u>	<u>740,420</u>
<b>BALANCE – August 31, 2006</b>	<u>\$ 77,445</u>	<u>\$16,099,857</u>	<u>\$ 58,625</u>	<u>\$37,903,488</u>	<u>\$54,139,415</u>

See Notes to Financial Statements.



**GLACIAL LAKES CORN PROCESSORS**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years Ended August 31, 2006, 2005 and 2004**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>OPERATING ACTIVITIES:</b>			
Net income	\$41,402,299	\$ 8,496,207	\$ 9,773,557
Charges to net income not affecting cash:			
Depreciation and amortization	5,407,084	5,246,636	4,984,248
Deferred income taxes	1,900,000	-	-
(Gain) loss on impairment of property and equipment	(100)	3,332	75,510
(Gain) loss on investment	(5,614,951)	112,454	-
Net (income) expense recognized from hedging activities	3,384,222	10,511,983	(406,711)
Minority interest in subsidiary earnings	-	-	2,417,449
Stock award issued for compensation	280,800	-	-
Stock received for services	(2,021,052)	-	-
(Increase) decrease in current assets:			
Accounts receivable	(2,569,802)	(1,233,021)	(894,398)
Inventories	676,734	(1,373,255)	(1,061,243)
Hedge accounts	(2,930,000)	(8,114,013)	(2,980,000)
Prepaid expenses	11,044	42,375	(23,616)
Increase (decrease) in current liabilities:			
Accounts and corn payable	(1,251,849)	623,388	(106,178)
Accrued expenses	<u>1,306,253</u>	<u>49,338</u>	<u>218,994</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>39,980,682</b>	<b>14,365,424</b>	<b>11,997,612</b>
<b>INVESTING ACTIVITIES:</b>			
Purchase of property and equipment	(4,653,007)	(755,351)	(2,804,467)
Investment in Granite Falls Energy, LLC	-	-	(6,500,000)
Investment in Redfield Energy, LLC	(829,704)	(225,000)	-
Investment distributions received	2,086,240	-	-
Other investments	(1,867,965)	(22,032)	-
Other assets	<u>(331,285)</u>	<u>-</u>	<u>-</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(5,595,721)</b>	<b>(1,002,383)</b>	<b>(9,304,467)</b>
<b>FINANCING ACTIVITIES:</b>			
Net (payments) borrowings on revolving line of credit	-	-	-
Net (payments) borrowings on long-term revolving note	-	(5,000,000)	5,000,000
Proceeds from new term loans	-	-	12,486,450
Regular principal payments on term loans	(3,687,864)	(3,272,821)	(3,061,701)
Additional principal payments on term loans	(4,800,000)	(1,672,000)	(4,150,000)
Principal payments on other long-term debt	(4,921)	(4,647)	(156,728)
Payment of financing costs	-	(2,244)	(50,000)
Repurchase of minority interest member shares	-	-	(13,513,500)
Distributions to minority interest	-	-	(2,164,824)
Patronage earnings allocated and paid	(23,396,700)	(1,547,662)	(5,494,203)
Membership fees received	-	-	3,000
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(31,889,485)</b>	<b>(11,499,374)</b>	<b>(11,101,506)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>2,495,476</b>	<b>1,863,667</b>	<b>(8,408,361)</b>
<b>CASH AND CASH EQUIVALENTS – beginning of year</b>	<b><u>2,505,348</u></b>	<b><u>641,681</u></b>	<b><u>9,050,042</u></b>
<b>CASH AND CASH EQUIVALENTS – end of year</b>	<b><u>\$ 5,000,824</u></b>	<b><u>\$ 2,505,348</u></b>	<b><u>\$ 641,681</u></b>

See Notes to Financial Statements.

**GLACIAL LAKES CORN PROCESSORS**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years Ended August 31, 2006, 2005 and 2004**  
(continued)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>			
Cash paid for interest, including capitalized interest	<u>\$ 1,586,791</u>	<u>\$ 1,867,167</u>	<u>\$ 1,210,034</u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH OPERATING ACTIVITY</b>			
Net change in other comprehensive loss	<u>\$ 2,790,165</u>	<u>\$ (1,344,087)</u>	<u>\$ 3,465,061</u>
<b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>			
Sales tax receivable reclassified to property and equipment	<u>\$ -</u>	<u>\$ 373,931</u>	<u>\$ -</u>
Accounts payable incurred for property and equipment	<u>\$ 321,367</u>	<u>\$ -</u>	<u>\$ 123,598</u>
Stock exchanged for other assets	<u>\$ 225,000</u>	<u>\$ -</u>	<u>\$ -</u>
Stock received for services	<u>\$ 2,021,052</u>	<u>\$ -</u>	<u>\$ -</u>

**GLACIAL LAKES CORN PROCESSORS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended August 31, 2006, 2005 and 2004**

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

**NATURE OF BUSINESS** – Glacial Lakes Corn Processors (a South Dakota cooperative located in Watertown, South Dakota) was organized to operate a 40,000,000 gallon ethanol plant for commercial sales throughout the United States. Glacial Lakes Corn Processors (the “Cooperative”) was formed on May 24, 2001 and was in the development stage until operations began on September 1, 2002.

**PRINCIPLES OF CONSOLIDATION** – The consolidated financial statements include accounts of the Cooperative and its’ wholly-owned subsidiary, Glacial Lakes Energy, LLC (“GLE”). The Cooperative owned 72.07% of GLE from its formation until May 31, 2004, at which time GLE repurchased the minority interest share of 27.93% (see Note J). From June 1, 2004, the Cooperative effectively has 100% ownership of GLE. All significant inter company transactions and balances have been eliminated in consolidation.

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

**REVENUE RECOGNITION** – Revenue from the sale of ethanol and distiller’s grain 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 incentive programs from the United States Department of Agriculture and the state of South Dakota are recognized as revenue based on terms of the agreements (based on production or sale of ethanol).

**CONCENTRATIONS OF CREDIT RISK** – The Cooperative performs periodic credit evaluations of its customers and generally does not require collateral. The Cooperative’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 Cooperative’s cash balances are maintained in bank depositories and periodically exceed federally insured limits.

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

**GLACIAL LAKES CORN PROCESSORS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended August 31, 2006, 2005 and 2004**

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

**FAIR VALUE** – The carrying amounts for receivables, payables and accrued expenses approximate fair value. Management believes the fair value of its long-term debt exceeds the carrying value. However, the Cooperative does not consider it practicable to estimate the fair value of its long-term debt due to the unique nature of the obligations.

**ACCOUNTS RECEIVABLE** – The Cooperative has engaged the services of two national marketers to sell all of its ethanol and distiller's grain 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 (see Note H).

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

Accounts receivable are shown net of credits and anticipated uncollectible amounts. The Cooperative reviews historical collection experience and the current status of accounts to compute its allowance for uncollectible accounts. As of August 31, 2006 and 2005, the allowance for uncollectible accounts was \$28,462 and \$28,919, respectively. A provision for bad debts of \$30,000 was recorded for the year ended August 31, 2004 and is shown as a reduction of distiller's grain revenue.

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

**HEDGE ACCOUNTS** – The Cooperative hedges a portion of its future corn purchases and future ethanol sales to the extent considered necessary for minimizing risk from market price fluctuations. The hedging accounts are designated and qualify as cash flow hedges and are reported at fair value as determined by the broker. The unrealized gain or loss on the effective portion is initially included as a component of other comprehensive income and is subsequently reclassified into earnings through cost of sales when the gain or loss is realized. The Cooperative has categorized the cash flows related to the hedging activities in the same category as the item being hedged. The Cooperative expects all hedging positions outstanding as of August 31, 2006 to be realized within the next fiscal year.

**GLACIAL LAKES CORN PROCESSORS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended August 31, 2006, 2005 and 2004**

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

**HEDGE ACCOUNTS (continued)** - For the year ended August 31, 2006, the Cooperative recognized a reduction of ethanol sales of \$819,496 and an increase in corn costs of \$2,564,726, for a combined decrease in net income of \$3,384,222 from hedging activities. For the year ended August 31, 2005, the Cooperative recognized a reduction of ethanol sales of \$2,420,151 and an increase in corn costs of \$8,091,832, for a combined decrease in net income of \$10,511,983 from hedging activities. For the year ended August 31, 2004, the Cooperative recognized a reduction of ethanol sales of \$917,519 and a reduction of corn costs of \$1,324,230, for a combined increase in net income of \$406,711 from hedging activities.

**PROPERTY AND EQUIPMENT** – Property and equipment is stated at lower of cost or fair value. 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 equipment	10–20 years
Buildings	20–30 years
Process and grain storage tanks	7–10 years
Process equipment	7–10 years
Office equipment	3–7 years

Depreciation on the majority of the assets commenced when the Cooperative completed the development stage and began operations on September 1, 2002. 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 five years and commenced when the Cooperative completed the development stage and began operations on September 1, 2002. Amortization of costs for new financings is computed using the straight-line method over the duration of the new term loans.

**OTHER ASSETS** – Other assets includes expenditures incurred to raise additional Cooperative equity financing. The Cooperative defers these costs until the financing occurs. At such time that the new issuance of new equity occurs, these costs will be netted against the proceeds raised. If the financing does not occur, they will be expensed.

**GLACIAL LAKES CORN PROCESSORS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended August 31, 2006, 2005 and 2004**

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

**INCOME TAXES** - The Cooperative is a non tax-exempt cooperative association and is subject to federal income tax on patronage and non-patronage income not allocated to members. The Cooperative is permitted a deduction from taxable income for the portion of patronage net income allocated to the members in the form of cash dividends and written notices of allocation of qualified patronage dividends. Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of deferred taxes related primarily to differences between the basis of investments not considered patronage earnings. The deferred tax liability represents the future tax return consequences of those differences, which will be taxable when the liabilities are settled. The Cooperative uses accelerated depreciation methods for income tax purposes, which may cause taxable income to be different than net income for financial purposes.

**NEW ACCOUNTING STANDARDS** – Management has reviewed recently issued, but not yet effective, accounting pronouncements from the Financial Accounting Standards Board and does not expect the implementation of these pronouncements to have a significant effect on the Cooperative's financial statements.

**ADVERTISING COSTS** – Advertising costs are expensed when incurred. Advertising costs totaled \$20,000, \$21,311 and \$16,221 for the years ended August 31, 2006, 2005 and 2004, respectively.

**SHIPPING AND COMMISSION COSTS** – The Cooperative nets all shipping and commission costs incurred for the sale of ethanol and distiller's grains against the respective sales revenue accounts. The Cooperative incurred \$9,389,174, \$8,102,121 and \$7,767,174 of shipping costs in the years ended August 31, 2006, 2005 and 2004, respectively, and \$815,419, \$613,717 and \$756,261 of commissions in the years ended August 31, 2006, 2005 and 2004, respectively.

**NOTE B: INVENTORIES**

	<u>2006</u>	<u>2005</u>
Corn	\$ 2,567,323	\$ 3,530,083
Ethanol and distiller's grains:		
Finished goods	442,095	383,702
In process	455,484	394,815
Chemicals and ingredients	332,878	299,535
Spare parts	587,828	454,207
	<u>\$ 4,385,608</u>	<u>\$ 5,062,342</u>

**GLACIAL LAKES CORN PROCESSORS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended August 31, 2006, 2005 and 2004**

**NOTE C: REVOLVING LINE OF CREDIT**

The Cooperative has a revolving line of credit with a national bank (the "Bank") available at a maximum of \$3,500,000 and is secured by substantially all Cooperative assets. Interest is charged at one-month London Inter-Bank Offering Rate ("LIBOR") plus 2.75% or 8.08% and 6.36% at August 31, 2006 and 2005, respectively (see Note D for incentive pricing). There was no balance outstanding on this line of credit as of August 31, 2006 and 2005. Effective on September 20, 2004, the Cooperative pays an unused commitment fee of 3/8 of 1% per annum on the unused portion of the revolving line of credit. The revolving line of credit expires on March 30, 2007. The amount available under the revolving line of credit is determined by a borrowing base calculation and would be reduced by any standby letters of credit. The amount available during a portion of the year ended August 31, 2004 was reduced by a standby letter of credit of \$311,766 (see Note H).

**NOTE D: LONG-TERM DEBT**

	<u>2006</u>	<u>2005</u>
Notes payable to Bank (see details below):		
Term Loan #2	\$ 7,780,192	\$ 9,264,454
Term Loan #3	-	-
Term Loan #4	-	-
Term Loan #5	6,856,026	7,520,762
Term Loan #6	-	-
Term Loan #7	<u>1,431,097</u>	<u>7,769,963</u>
Total	16,067,315	24,555,179
Capital lease with monthly payments of \$442 with 5.79% inherent interest maturing July 25, 2007 secured by equipment.	<u>3,881</u>	<u>8,802</u>
	16,071,196	24,563,981
Current maturities	<u>(3,681,519)</u>	<u>(3,689,088)</u>
	<u>\$12,389,677</u>	<u>\$20,874,893</u>

**Notes Payable to Bank** – In July 2001, the Cooperative 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 was \$32,600,000. On September 20, 2004, the Cooperative entered a loan agreement ("New Loan Agreement") based on the new borrowings put in place in July 2004.

**GLACIAL LAKES CORN PROCESSORS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended August 31, 2006, 2005 and 2004**

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

**Notes Payable to Bank (continued)**

Substantially all assets and contract rights of the Cooperative are pledged as security under both Loan Agreements. Both Loan Agreements and the related mortgage documents contain reporting requirements and restrictive loan covenants, which require maintenance of various financial ratios, minimum working capital (increased to \$3,500,000 under the New Loan Agreement) and allow distributions to members of up to 70% of annual net income without Bank approval. The Cooperative exceeded the annual capital expenditure limit of \$500,000 for the years ended August 31, 2006 and 2005. The Cooperative has obtained waivers from the Bank on these matters.

In addition to regular principal and interest payments (as described below), the Cooperative is required to make an additional principal payment to the Bank of 15% of its "excess cash flow" on an annual basis. For the year ended August 31, 2006, the required "excess cash flow" payment was \$5,998,000 and \$3,300,000 of this required payment was made on June 20, 2006 and \$982,000 was paid September 20, 2006. The remaining \$1,716,000 "excess cash flow" payment was deferred based on the terms of the commitment letter received from the Bank (see Note K). For the year ended August 31, 2005, the required "excess cash flow" payment of \$1,424,252 was made on December 20, 2005.

**Term Loan #2** – The outstanding balance on Term Loan #2 on April 8, 2003 was \$15,975,400 (half of the balance on Term Loan #1). Interest is charged at a variable rate based on three-month LIBOR plus 3.00% or 8.41% and 6.43% at August 31, 2006 and 2005, respectively. Under the Original Loan Agreement, quarterly principal (based on ten-year amortization) and interest payments were due until maturity on December 20, 2007. Under the New Loan Agreement, Term Loan #2 matures on September 20, 2009.

On April 8, 2003, the Cooperative entered into an interest-rate swap agreement ("Swap #1") with the Bank in order to change the interest on Term Note #2 from a variable rate to a fixed rate. Under Swap #1, the Cooperative pays the Bank quarterly the difference between interest charged at a fixed rate of 6.30% and the variable interest paid on Term Loan #2. The "principal" balance under Swap #1 matches the principal balance on Term Loan #2. Swap #1 matures on December 20, 2007.

**Term Loan #3** – Under the Original Loan Agreement, Term Loan #3 matures on December 20, 2007. Under the New Loan Agreement on September 20, 2004, Term Loan #3 and Term Loan #6 were combined into Term Loan #7 (see details below).



**GLACIAL LAKES CORN PROCESSORS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended August 31, 2006, 2005 and 2004**

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

**Notes Payable to Bank (continued)**

**Term Loan #4** – Interest is charged at a variable rate based on one-month LIBOR plus 2.75% or 8.08% and 6.36% at August 31, 2006 and 2005, respectively. Under the Original Loan Agreement, Term Loan #4 was to mature on December 20, 2007. Under the New Loan Agreement, Term Loan #4 matures on September 20, 2009.

Term Loan #4 has a revolving feature that allows the Cooperative to re-borrow any amounts paid during the term of the loan. The Cooperative pays an unused commitment fee of 3/8 of 1% per annum on the unused portion of the loan amount. The balance outstanding as of August 31, 2006 and 2005 under Term Loan #4 was \$0.

**Term Loan #5** – Interest is charged at a variable rate based on three-month LIBOR plus 3.00% or 8.41% and 6.43% at August 31, 2006 and 2005, respectively. Under the amendment to the Original Loan Agreement and the New Loan Agreement, quarterly principal (based on fifteen-year amortization) and interest payments are due until maturity on September 20, 2009. The first quarterly payment on Term Loan #5 was due December 20, 2004.

On July 27, 2004, the Cooperative entered into an interest-rate swap agreement (“Swap #2”) with the Bank in order to change the interest on Term Note #5 from a variable rate to a fixed rate. Under Swap #2, the Cooperative pays the Bank quarterly the difference between interest charged at a fixed rate of 7.46% and the variable interest paid on Term Loan #5. The “principal” balance under Swap #2 matches the principal balance on Term Loan #5. Swap # 2 matures on September 20, 2009.

**Term Loan #6** – Under the New Loan Agreement, the outstanding balance on Term Loan #3 and Term Loan #6 were combined into Term Loan #7.

**Term Loan #7** – Interest is charged at a variable rate based on three-month LIBOR plus 2.75% or 8.16% and 6.18% at August 31, 2006 and 2005 respectively.

Under the New Loan Agreement, quarterly principal and interest payments of \$496,615 starting on December 20, 2004 are due under Term Loan #7 and Term Loan #4, which are to allocated as follows: first to accrued interest on Term Loan #4, second to accrued interest on Term Loan #7, third to principal on Term Loan #7 (until fully paid), and fourth to principal on Term Loan #4. The loan matures September 20, 2009.

**GLACIAL LAKES CORN PROCESSORS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended August 31, 2006, 2005 and 2004**

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

**Notes Payable to Bank (continued)**

**Incentive pricing** - Under both Loan Agreements, the interest rate on several of the notes can be reduced based on achieving certain defined debt-to-equity ratio levels. Once the required ratios are met, the change occurs at the start of the next "interest period" for the applicable note. Based on the debt-to-equity ratio reported by August 31, 2003, the interest rate on the revolving line of credit and Term Loan #4 was reduced by 0.50% (the spread over one-month LIBOR was reduced from 3.25% to 2.75%) and the interest rate on Term Loan #3 was reduced by 0.50% (the spread over three-month LIBOR was reduced from 3.25% to 2.75%) on September 20, 2003. Based on the debt-to-equity ratio reported by August 31, 2004, the interest rate on the revolving line of credit, Term Loan #3, Term Loan #4 and Term Loan #6 was reduced by 0.50% (the spread over one-month or three-month LIBOR reduced from 3.25% to 2.75%). Based on the debt-to-equity ratio reported by September 20, 2004, the spread over one-month or three-month LIBOR on the revolving line of credit, Term Loan #3, Term Loan #4 and Term Loan #6 returned to 3.25%. Based on the debt-to-equity ratio reported by March 20, 2005, the spread over one-month or three-month LIBOR on the revolving line of credit, Term Loan #4 and Term Loan #7 was reduced to 2.75%.

Long-term debt maturities (excluding "excess cash flow payments") are estimated as follows:

<u>Years ending August 31,</u>	
2007	\$ 3,681,519
2008	1,498,502
2009	1,572,123
2010	9,319,052
	<u>\$ 16,071,196</u>

**NOTE E: LEASES**

The Cooperative leases equipment under a long-term capital lease agreement valued at \$23,193 on the balance sheet under plant equipment. The Cooperative also leases 75 hopper cars (initial 60 cars started in October 2002 and 15 cars added in April 2004) and a copier under operating lease agreements. Generally, the Cooperative is required to pay executory costs such as maintenance and insurance.

**GLACIAL LAKES CORN PROCESSORS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended August 31, 2006, 2005 and 2004**

**NOTE E: LEASES (continued)**

Base and contingent rent expense on the hopper cars (based on the dates the cars were put into service) for the years ended August 31, 2006, 2005 and 2004 totaled \$399,560, \$411,582 and \$343,085, respectively. During the year ended August 31, 2006 and 2005, the Cooperative sub-leased certain of the hopper cars to other ethanol plants on a short-term basis and recorded \$455 and \$50,263, respectively, as a reduction of rent expense. The Cooperative recorded mileage credits for the years ended August 31, 2006, 2005 and 2004 of \$2,474, \$106,344 and \$290,096, respectively, from various railroads based on the loaded miles the hopper cars traveled during the fiscal year.

Minimum lease payments in future years are as follows:

Years Ending August 31,

	<u>Operating</u>	<u>Capital</u>
2007	\$ 401,148	\$ 3,975
2008	123,951	-
2009	55,975	-
Total minimum lease payments	<u>581,074</u>	<u>3,975</u>
Less interest	-	(94)
Present value of minimum lease payments	<u>\$ 581,074</u>	<u>\$ 3,881</u>

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

**Corn Marketing and Purchases**

GLE has a corn marketing agreement with the Cooperative. The Cooperative decided to have its members deliver 18,678,965 bushels of corn (0.10 bushel per post-split share) for the fiscal year from September 1, 2006 to August 31, 2007 on an open delivery system. The commitment considers a 9-for-1 stock split in July 2006 on 15,476,628 shares as well as shares issued in August 2006 relating to the GLCP offering of which the shares were still in escrow at August 31, 2006. For those bushels not delivered by the members of the Cooperative, GLE will obtain those bushels through a corn pool operated by GLE and will charge a pool fee of \$0.01 per bushel. GLE's corn supply could be purchased from other suppliers without any significant effects on operations.

**GLACIAL LAKES CORN PROCESSORS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended August 31, 2006, 2005 and 2004**

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

**Corn Marketing and Purchases (continued)**

The Cooperative decided to have its members deliver 15,476,628 bushels of corn (0.11 bushels per post-split share) for the fiscal year from September 1, 2005 to August 31, 2006 on an open delivery system. For this period, 6,638,022 bushels (42.9% of total commitment) were delivered by the Cooperative's members. The remaining 8,838,606 bushels were obtained through a corn pool operated by GLE. GLE estimated pool fees to be \$92,000, which is shown as a receivable as of August 31, 2006.

The Cooperative decided to have its members deliver 10,833,640 bushels of corn (0.078 bushels per post-split share) for the fiscal year from September 1, 2004 to August 31, 2005 on an open delivery system. For this period, 5,501,690 bushels (50.8% of total commitment) were delivered by the Cooperative's members. The remaining 5,331,950 bushels were obtained through a corn pool operated by GLE. GLE billed members of the Cooperative a pool fee of \$0.02 per bushel or \$106,639, which is shown as a receivable as of August 31, 2005.

The Cooperative decided to have its members deliver 10,833,640 bushels of corn (0.078 bushels per post-split share) for the fiscal year from September 1, 2003 to August 31, 2004 on an open delivery system. For this period, 6,415,595 bushels (59.2% of total commitment) were delivered by the Cooperative's members. The remaining 4,418,045 bushels were obtained through a corn pool operated by GLE. GLE billed members of the Cooperative a pool fee of \$0.02 per bushel or \$88,361, which is shown as a receivable as of August 31, 2004.

For the years ended August 31, 2006, 2005 and 2004, the Cooperative purchased corn from its members (including committed bushels described above) as follows:

	<u>Bushels</u>	<u>Dollars</u>
<b>2006:</b>		
Individuals	7,497,563	\$14,190,374
Elevators	<u>5,291,143</u>	<u>9,797,383</u>
Totals	<u>12,788,706</u>	<u>\$23,987,758</u>
<b>2005:</b>		
Individuals	7,270,240	\$14,516,939
Elevators	<u>4,031,770</u>	<u>7,568,660</u>
Totals	<u>11,302,010</u>	<u>\$22,085,599</u>

**GLACIAL LAKES CORN PROCESSORS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended August 31, 2006, 2005 and 2004**

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

**Corn Marketing and Purchases (continued)**

	<u>Bushels</u>	<u>Dollars</u>
<b>2004:</b>		
Individuals	8,767,973	\$22,545,280
Elevators	<u>3,143,764</u>	<u>8,354,838</u>
Totals	<u>11,911,737</u>	<u>\$30,900,118</u>

Included in the dollars paid to the members of the Cooperative for the purchase of corn for the year ended August 31, 2006, 2005 and 2004, the Cooperative paid \$341,022, \$337,940 and \$357,530, respectively, as freight allowance on committed bushels and \$62,248, \$85,312 and \$91,560, respectively, as additional price to those members who purchased over 50,000 shares at the time the Cooperative was organized (called "Commercial Level Investors").

**Distiller's Grain Sales**

For the years ended August 31, 2006, 2005 and 2004, the Cooperative sold distiller's grains to members of the Cooperative as follows:

	<u>Tons</u>	<u>Dollars</u>
<b>2006:</b>		
Dry distiller's grain ("DDG")	6,058	\$ 431,231
Wet distiller's grain ("WDG")	19,588	<u>545,040</u>
Totals		<u>\$ 976,271</u>
<b>2005:</b>		
DDG	7,022	\$ 530,340
WDG	16,645	<u>578,354</u>
Totals		<u>\$1,108,694</u>
<b>2004:</b>		
DDG	5,607	\$ 605,838
WDG	18,968	<u>684,422</u>
Totals		<u>\$1,290,260</u>

**GLACIAL LAKES CORN PROCESSORS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended August 31, 2006, 2005 and 2004**

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

**Distiller's Grain Sales (continued)**

For those members of the Cooperative, the Cooperative offered a 2% discount on the distiller's grains that would be produced from the bushels of corn committed to the Cooperative. For the years ended August 31, 2006, 2005 and 2004, the Cooperative calculated the following discounts:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Equivalent tons of DDG	9,665	9,063	7,710
Discount amount	\$11,000	\$13,023	\$13,850

The discount amounts are shown as a payable as of the end of the respective year.

**Receivables and Payables**

As of August 31, 2006 and 2005, amounts receivable from or due to members of the Cooperative were as follows:

	<u>2006</u>	<u>2005</u>
Receivables for distiller's grains	\$190,122	\$47,382
Receivables for net pool fees	\$92,000	\$106,639
Payables for corn and freight allowances	\$726,342	\$1,091,754
Fees payables to Commercial Level Investors	\$25,000	\$30,046
Payables for discount on distiller's grain	\$11,000	\$13,023

**NOTE G: DEFINED CONTRIBUTION PLAN**

The Cooperative has established a 401(k) plan for its employees. As amended in 2006, under the 401(k) plan, eligible employees are able to contribute amounts (subject to IRS limits) and the Cooperative will match 50% of the employee's contribution, up to a maximum of 3% of the contribution. Prior to amending the plan, the match was limited to a maximum of 2%. The amounts contributed by the Cooperative are subject to a 5-year vesting schedule. Forfeitures of unvested amounts return to the Cooperative. During the years ended August 31, 2006, 2005 and 2004, the Cooperative contributed (net of forfeitures) \$36,230, \$15,802 and \$21,278, respectively, to the 401(k) plan and incurred \$1,290, \$1,139 and \$1,170, respectively, of administrative expenses.

**GLACIAL LAKES CORN PROCESSORS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended August 31, 2006, 2005 and 2004**

**NOTE H: COMMITMENTS AND CONTINGENCIES**

**Environmental**

Substantially all of the Cooperative's facilities are 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 March 2002, the Cooperative entered into an agreement with a national ethanol marketer that commenced on the first day of ethanol sales (which was September 11, 2002) and will continue for a primary term of two years and thereafter, year to year, unless terminated by either party with at least six months prior written notice. In August 2004, the Cooperative entered into a new agreement with the national ethanol marketer, which became effective on September 1, 2004. The primary term of the new agreement was for two years and thereafter, year to year, unless terminated by either party with at least one year prior written notice. On September 1, 2006, the agreement was automatically extended for a one year period to September 1, 2007.

Under the agreement, the Cooperative is to sell all of its production of ethanol to the national marketer and will pay a commission based on the net selling price. Upon contract termination, the Cooperative 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 marketing Cooperative for the sole purpose of transporting ethanol for the Cooperative. The lease amount will not exceed \$450 per railcar per month. At August 31, 2006 and 2005, 100 railcars were applicable to this agreement.

**Distiller's Grain Marketing**

In February 2002, the Cooperative entered into an agreement with a national distiller's grain marketer for a primary term of one year commencing on September 1, 2002. Under the agreement, the Cooperative is to sell all of its production of distiller's grain to the national marketer and pay a commission based on the net selling price.

**GLACIAL LAKES CORN PROCESSORS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended August 31, 2006, 2005 and 2004**

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

**Distiller's Grain Marketing (continued)**

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 120 days written notice of its election to terminate the agreement. The agreement was amended on May 29, 2003 to allow the Cooperative to sell distiller's grain shipped by truck while the national marketer will continue to sell distiller's grain shipped by rail cars.

**Standby Letter of Credit:**

The Cooperative issued a standby letter of credit in 2002 in the amount of \$311,766 to secure railcar lease payments. The standby letter of credit expired on October 13, 2003 upon completion of one year of railcar lease payments.

**Forward Purchase and Forward Sales Contracts:**

As of August 31, 2006, the Cooperative has entered into forward contracts to purchase 6,417,772 bushels of corn at an average contract price of \$2.14 per bushel primarily for delivery by December 31, 2006. Included in these amounts are 2,079,470 bushels from members of the Cooperative for their committed bushels for the year ending August 31, 2007.

As of August 31, 2006, the Cooperative has entered into contracts to purchase 342,000 gallons of denaturant through December 2006 at fixed prices and 456,000 gallons of denaturant through December 2006 indexed on the NYMEX RBOB contract. In addition, the Cooperative has entered into contracts to purchase 470,000 mmBTU of natural gas through March 2007 at fixed prices and 300,000 mmBTU of natural gas optioned through March 2007.

As of August 31, 2006, the Cooperative has entered into contracts (through the national marketer) for the sale of approximately 5,200 tons of DDG to be shipped by railcar through September 2007 at fixed prices. The Cooperative has also entered into contracts for the sale of approximately 27,887 tons of DDG and approximately 110,342 tons of WDG to be shipped by truck through September 2007 at fixed prices.

Under the agreement with the national ethanol marketer, the Cooperative is one of 14 plants in a pool arrangement for the sale of ethanol. Under the pool arrangement, the national ethanol marketer has entered into fixed-price and variable-price contracts for the delivery of ethanol through December 2007.



**GLACIAL LAKES CORN PROCESSORS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended August 31, 2006, 2005 and 2004**

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

**Internal Revenue Service Examination:**

On June 27, 2006, Glacial Lakes Energy, LLC ("GLE") received notice that its Federal income tax return for the tax year ended August 31, 2003 had been selected for examination. Glacial Lakes Energy, LLC and the Internal Revenue Service ("IRS") have entered into a Memorandum of Understanding ("MOU") for a Limited Issue Focused Examination for which the IRS has determined the scope. In addition, GLE has consented to extend the limitation period for the tax year under examination to March 31, 2008. As of the report date, the audit has not been completed.

**Dispute with Granite Falls Energy, LLC Over the Operating and Management Agreement**

As further described in Note K, the Cooperative entered into the Operating and Management Agreement with Granite Falls Energy, LLC ("Granite Falls") relating to the management of the plant.

On October 10, 2006, the Board of Governors of Granite Falls adopted a resolution alleging material breaches of the Operating and Management Agreement by the Cooperative and took actions to take over the management of the Granite Falls facility.

As a result of the actions by Granite Falls, the Cooperative resigned its management positions under the Operating and Management Agreement on December 22, 2006. In resigning its management positions, the Cooperative stated in writing that (a) the resignations did not and shall not constitute a waiver or relinquishment by the Cooperative of any rights or claims it may have against Granite Falls, and (b) the Cooperative also reserved all rights to thereafter seek damages or other appropriate relief by civil action for breach of contract and other claims it may have against Granite Falls or the five controlling governors.

In written correspondence to each other, both parties to the dispute are alleging breach of contract: the Cooperative for wrongful termination and interference with the right to manage; and Granite Falls for improper or inadequate management. The Cooperative has also alleged claims for breaches of fiduciary duties and unfairly prejudicial conduct by the five controlling governors of Granite Falls.

**GLACIAL LAKES CORN PROCESSORS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended August 31, 2006, 2005 and 2004**

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

**Dispute with Granite Falls Energy, LLC Over the Operating and Management Agreement (continued)**

The parties have made efforts to negotiate an agreement regarding the termination of the Operating and Management Agreement, the financial effects of which cannot be currently determined. As of the report date, no legal action has been commenced by either party and no agreement regarding termination of the Operating and Management Agreement has been reached. Management of the Cooperative states that any claim or counterclaim against the Cooperative related to this dispute will be defended vigorously.

**Letter of Intent for Merger with Redfield Energy, LLC**

In November 2006, the Cooperative and Redfield Energy, LLC ("Redfield") signed a Letter of Intent regarding the merger of the two entities. In the Letter of Intent, the Cooperative offered to exchange 3.0 shares of the Cooperative for each unit of Redfield that the Cooperative did not own (see Note K). The Letter of Intent is valid until its expiration on January 31, 2007.

**NOTE I: GOVERNMENT PROGRAMS**

The Cooperative has enrolled in the Bioenergy Program, operated by the Commodity Credit Corporation ("CCC"), a division of the United States Department of Agriculture. In accordance with the terms of this arrangement, the Cooperative receives payments based on quarterly increases in the production of undenatured ethanol compared to the same period in the prior year. The maximum amount that can be received in a program year was \$7,500,000 through September 2002 and \$5,000,000 for subsequent years. 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 Bioenergy Program. The program year for the Bioenergy Program was from October 1 to September 30. In June 2006, the CCC sent notice that the Bioenergy Program would be terminated at the end of the current program year and the Cooperative received the last payment in September 2006.

**GLACIAL LAKES CORN PROCESSORS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended August 31, 2006, 2005 and 2004**

**NOTE I: GOVERNMENT PROGRAMS (continued)**

Amounts recognized under the CCC Bioenergy Program were as follows:

<u>Bioenergy Program Year</u>	<u>Cooperative's Year Ended August 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Oct. 1, 2002 to Sept. 30, 2003	\$ -	\$ -	\$ -
Oct. 1, 2003 to Sept. 30, 2004	-	147,674	850,483
Oct. 1, 2004 to Sept. 30, 2005	(4,906)	56,394	-
Oct. 1, 2005 to Sept. 30, 2006	<u>14,644</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 9,738</u>	<u>\$204,068</u>	<u>\$ 850,483</u>

At August 31, 2006 and 2005, amounts due to the Cooperative under the CCC Bioenergy Program totaled \$5,461 and \$14,350, respectively.

The Cooperative also 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 Cooperative 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.

Amounts recognized under the State Program were as follows:

<u>State Program Year</u>	<u>Cooperative's Year Ended August 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
July 1, 2003 to June 30, 2004	\$ -	\$ -	\$ 416,667
July 1, 2004 to June 30, 2005	-	452,613	250,000
July 1, 2005 to June 30, 2006	525,208	250,000	-
July 1, 2006 to June 30, 2007	<u>166,667</u>	<u>-</u>	<u>-</u>
Total	<u>\$691,875</u>	<u>\$702,613</u>	<u>\$ 666,667</u>

At August 31, 2006 and 2005, amounts due the Cooperative under the State Program totaled \$83,333 and \$166,667, respectively.

**GLACIAL LAKES CORN PROCESSORS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended August 31, 2006, 2005 and 2004**

**NOTE J: GOODWILL INVESTED IN GLE**

On July 27, 2004, GLE entered into an agreement with Glacial Lakes Capital, LLC (the minority interest in GLE) to repurchase all of its 3,000,000 shares of GLE. Under the agreement, which was effective as of May 31, 2004, GLE repurchased the shares for \$13,513,500. The minority interest did not receive a distribution for the period from September 1, 2003 to May 31, 2004. This transaction was financed through additional borrowings from the Bank (see Note D).

For GLE's financial reporting purposes, this transaction is being treated as a retirement of shares as there is no provision for treasury stock under South Dakota law for limited liability companies. The amount of the repurchase in excess of the initial purchase price received from the minority interest is treated as a reduction of retained earnings. For the Cooperative's financial reporting purposes, this excess is reflected through the consolidation process as goodwill invested in GLE.

An annual impairment assessment is required with any related reduction in the value of goodwill being charged to operations in the period of impairment. There was no impairment of goodwill recorded during 2004, 2005 or 2006. This consolidation goodwill is not subject to amortization and will only be adjusted if a permanent impairment of the investment in GLE occurs.

**NOTE K: OTHER INVESTMENTS**

The Cooperative had the following investments in other renewable fuel businesses and other development projects at August 31, 2006 and 2005, respectively:

	<u>2006</u>	<u>2005</u>
Granite Falls Energy, LLC	\$9,908,140	\$6,387,546
Redfield Energy, LLC	3,083,873	225,000
Aberdeen Energy, LLC	1,083,518	-
Missouri Valley Renewable Energy, LLC	731,243	-
Madison Energy, LLC	70,990	-
Other	4,246	22,032
	<u>\$14,882,010</u>	<u>\$6,634,578</u>

**GLACIAL LAKES CORN PROCESSORS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended August 31, 2006, 2005 and 2004**

**NOTE K: OTHER INVESTMENTS (continued)**

**Investment in Granite Falls Energy, LLC**

In July 2004, the Cooperative signed a subscription agreement to purchase 6,500 units for \$6,500,000 in Granite Falls Community Ethanol Plant, LLC, which changed its legal name in May 2005 to Granite Falls Energy, LLC ("Granite Falls"). Granite Falls raised equity funds for the construction of a 50,000,000 gallon fuel ethanol plant near Granite Falls, Minnesota. The units were purchased on August 31, 2004. The 6,500 units owned by the Cooperative represents 20.86% of the outstanding units as of August 31, 2006 and 2005.

Related to its investment in Granite Falls, the Cooperative entered into two agreements with Granite Falls related to the construction and operations of the plant. Under the Consulting Agreement, the Cooperative managed the construction of the plant for Granite Falls and was paid \$10,000 per month for this service. Under the Operating and Management Agreement, the Cooperative manages the day-to-day operations of the plant for Granite Falls and is paid (1) a monthly fee of \$35,000 and (2) an annual incentive fee of 3% of net income of Granite Falls excluding income from government programs. For the month of August 2004, the Cooperative recognized \$10,000 of income under the Consulting Agreement. For the year ended August 31, 2005, the Cooperative recognized \$110,000 under the Consulting Agreement and \$27,097 under the Operating and Management Agreement.

For the year ended August 31, 2006, the Cooperative recognized \$427,500 in monthly fees and \$824,046 of incentive fees under the Operating and Management Agreement. At August 31, 2006 and 2005, amounts due to the Cooperative under the Operative and Management Agreement were \$859,046 and \$37,097, respectively.

The Operating and Management Agreement started on August 11, 2005, based on mutual agreement. The Operating and Management Agreement will continue for a primary term of five years and thereafter automatically renew on a yearly basis, unless terminated by either party with at least 180 days prior written notice.

See Note H regarding the dispute with Granite Falls over the Operating and Management Agreement.

**GLACIAL LAKES CORN PROCESSORS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended August 31, 2006, 2005 and 2004**

**NOTE K: OTHER INVESTMENTS (continued)**

**Investment in Granite Falls Energy, LLC (continued)**

Summary financial information for Granite Falls Energy, LLC:

***Balance Sheet***

	July 31, 2006 <u>Unaudited</u>	Oct. 31 2005 <u>Audited</u>
Current Assets	\$11,936,366	\$ 1,025,548
Property & Equipment (net)	54,352,111	52,861,088
Other Assets (net)	<u>489,022</u>	<u>487,574</u>
<b>Total Assets</b>	<b><u>\$66,777,499</u></b>	<b><u>\$54,374,210</u></b>
Current Liabilities	\$5,354,800	\$ 9,274,697
Long term debt, net of current maturities of \$3,193,317 and \$1,735,143	20,867,677	17,287,043
Members Equity	<u>40,555,022</u>	<u>27,812,470</u>
<b>Total Liabilities and Members' Equity</b>	<b><u>\$66,777,499</u></b>	<b><u>\$54,374,210</u></b>

***Consolidated Statement of Operations***

	Nine Months Ended July 31, 2006 <u>Unaudited</u>	Ten Months Fiscal Year Ended October 31, 2005 <u>Audited</u>
Revenues	\$64,287,336	\$ 0
Cost of Goods Sold	<u>(38,423,862)</u>	<u>(251,235)</u>
Gross Profit (loss)	25,863,474	(251,235)
Operating Expenses	(2,151,635)	(492,353)
Interest Expense (net)	(1,686,651)	100,133
Change in value of hedging instruments	-	(570,644)
Government Programs	<u>669,394</u>	<u>0</u>
<b>Net Income</b>	<b><u>\$22,694,582</u></b>	<b><u>\$(1,214,099)</u></b>
<b>Weighted Average Units Outstanding</b>	31,156	31,143
<b>Net Income (Loss) Per Unit</b>	\$728.42	\$(38.98)

**GLACIAL LAKES CORN PROCESSORS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended August 31, 2006, 2005 and 2004**

**NOTE K: OTHER INVESTMENTS (continued)**

**Investment in Granite Falls Energy, LLC (continued)**

Also in connection with the investment in Granite Falls, the Operating and Member Control Agreement for Granite Falls was amended to allow the Cooperative to designate 2 of the 7 on the Board of Governors for Granite Falls. The new Governors were installed in October 2004, upon the closing of the equity offering by Granite Falls.

As of August 31, 2006 and 2005, the Cooperative accounts for its investment in Granite Falls using the equity method of accounting which reflects the Cooperative's share of the invested company's earnings and distributions. For the year ended August 31, 2005, the Cooperative recognized a loss of \$112,454 as its share of the operating loss incurred by Granite Falls during the development stage. Granite Falls commenced the start-up of operations in mid-November 2005. For the year ended August 31, 2006, the Cooperative recognized income of \$5,606,834 as its share of the operating income of Granite Falls and received a cash distribution of \$2,086,240 in July 2006.

**Investment in Redfield Energy, LLC**

In August 2005, the Cooperative signed a subscription agreement to purchase 225,000 Class B units for \$225,000 in Redfield Energy, LLC ("Redfield"). Redfield raised equity funds in September 2005 for the construction of a 50,000,000 gallon fuel ethanol plant near Redfield, South Dakota. The units were purchased in August 2005 and represent 50% of the outstanding units of Redfield as of August 31, 2005.

Related to its investment in Redfield, the Cooperative entered into a Consulting and Management agreement with Redfield related to the construction and operations of the plant. Under the agreement (effective July 1, 2005), the Cooperative manages the construction of the plant, will manage the day-to-day operations of the plant for Redfield and will be paid (1) a monthly fee of \$35,000 and (2) an annual incentive fee of 3% of net income of Redfield. For the year ended August 31, 2006 and 2005, the Cooperative recognized \$420,000 and \$70,000, respectively, under the Consulting and Management Agreement. At August 31, 2006 and 2005, amounts due to the Cooperative under the agreement were \$35,000 and \$70,000, respectively.

Also as part of the Consulting and Management agreement, the Cooperative received units in Redfield representing 5% of the outstanding equity after the close of the offering. Redfield completed its offering in September 2005, raising \$37,500,000 in addition to the \$450,000 of seed stock money originally raised.

**GLACIAL LAKES CORN PROCESSORS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended August 31, 2006, 2005 and 2004**

**NOTE K: OTHER INVESTMENTS (continued)**

**Investment in Redfield Energy, LLC (continued)**

The Cooperative signed a Subscription Agreement to purchase 400,000 Class A units for \$800,000 in the offering. In February 2006 upon completion of the terms to break the escrow account from the offering, Redfield issued 1,010,526 new units to the Cooperative. The Cooperative recognized the receipt of the new units as development income in the amount of \$2,021,052 at \$2.00 per unit and increased its investment in Redfield by the same amount.

Also in connection with the investment in Redfield, the Operating Agreement for Redfield designates the Cooperative as the managing member of Redfield and allows the Cooperative to appoint 1 of the 7 on the Board of Managers for Redfield as long as the Cooperative is the managing member. The new Manager was installed in August 2005.

The Cooperative also had a five-year option to purchase 25,000 units in Redfield at an exercise price of \$1.00 per unit, with the option vesting at "financial closing" (as defined). The Cooperative exercised the option to purchase 25,000 units in Redfield for \$25,000 in July 2006. As of August 31, 2006, the Cooperative has an effective 8.13% ownership of Redfield Energy, LLC.

As of August 31, 2005, the Cooperative recorded its investment in Redfield at cost. As of August 31, 2006, the Cooperative accounts for its investment in Redfield using the equity method of accounting which reflects the Cooperative's share of the invested company's earnings and distributions. For the year ended August 31, 2006, the Cooperative recognized income of \$8,116 as its share of the operating income incurred by Redfield during the development stage. Redfield is expected to commence the start-up of operations in mid-March 2007.

**Expansion of Glacial Lakes Energy, LLC**

In the spring of 2006, the Cooperative announced its intention to expand the production capacity at the plant in Watertown, South Dakota from 50 million gallons per year to 100 million gallons per year.

In December 2006, the Cooperative signed contracts with NewMech, Inc. ("NewMech") and ICM, Inc. ("ICM") for the construction of the expansion of the Watertown plant. The Cooperative has sub-contracted some of the work during 2006 based on the discussions with ICM. At August 31, 2006, the Cooperative had incurred \$1,870,478 of costs related to the expansion that is included in Construction in Progress.



**GLACIAL LAKES CORN PROCESSORS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended August 31, 2006, 2005 and 2004**

**NOTE K: OTHER INVESTMENTS (continued)**

**Expansion of Glacial Lakes Energy, LLC (continued)**

The current cost of the expansion is approximately \$86,800,000, with \$85,945,000 in property and \$858,000 in working capital. The project is expected to be funded with \$65,000,000 of new debt financing from the Bank and \$21,800,000 of proceeds from the Cooperative's equity offering in August 2006 (see Note N). Based on the current schedule from NewMech and ICM, they will arrive on site in February 2007 and the expanded plant is expected to start-up production in December 2007.

In December 2006, the Cooperative signed a Commitment Letter with the Bank for up to \$65,000,000 of new debt and a refinancing of up to \$15,000,000 of the existing debt of GLE. During the construction period, monthly interest on the new and refinanced debt will be charged at a variable rate of one-month LIBOR plus 3.00% and will be funded by the construction loan. At the end of the construction of the expansion, the amounts borrowed would convert to five-year term loans with quarterly principal and interest payments (based on 10-year amortization). Additional quarterly principal payments will be required equal to 25% of the "Excess Cash Flow" (as defined), subject to a "Target Balance Amount".

For the term loans, 60% of the amounts borrowed would be at a variable interest rate of three-month LIBOR plus 3.00% with 40% of the amounts borrowed would be at a fixed interest rate (using an interest rate swap) of 2.80% over the "applicable funding source". The Cooperative will be required to establish a "Debt Service Reserve Account" with the Bank that will be funded by the Cooperative during the first year of operations of the expanded plant. Also under the Commitment Letter, the Cooperative's revolving line of credit would be increased from \$3,500,000 to \$10,000,000 with interest charged at a variable rate of one-month LIBOR plus 3.00%. At closing, the Cooperative would pay a commitment fee of \$680,000 to the Bank. The Cooperative expects to close on the new debt by April 2007.

**Aberdeen Energy, LLC**

In the spring of 2006, the Cooperative announced its intention to build a 100 million gallon per year plant in the Aberdeen, South Dakota area. In March 2006, the Cooperative formed a wholly-owned subsidiary (Aberdeen Energy, LLC, a South Dakota limited liability company) for this purpose. In August 2006, the Cooperative purchased approximately 287 acres of land near Mina, South Dakota for a cost of \$1,020,000 for the proposed plant. In August 2006, the Cooperative signed a Design-Build Contract with Fagen, Inc. ("Fagen") for the construction of a 100 million gallon per year plant.

**GLACIAL LAKES CORN PROCESSORS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended August 31, 2006, 2005 and 2004**

**NOTE K: OTHER INVESTMENTS (continued)**

**Aberdeen Energy, LLC (continued)**

Under the Design-Build Contract, the Cooperative will pay Fagen a fee of \$113,416,576, adjusted for changes in the Construction Cost Index ("CCI") between the base month (January 2006) and the month Fagen receives the "Notice to Proceed" from the Cooperative. Also under the Design-Build Contract, Fagen will earn an "early completion bonus" of \$20,000 per day if the plant is substantially complete earlier than 485 days (16 months) after the "Notice to Proceed" is given to Fagen.

The current estimate of the cost of the project is approximately \$161,800,000, with \$151,170,000 in property and \$10,630,000 in working capital. The project is expected to be funded with \$71,800,000 of the proceeds from the Cooperative's equity offering in August 2006 (see Note N) and with \$90,000,000 of new debt financing from the Bank. Based on the current schedule from Fagen, they will arrive on site in late January 2007 and the plant is expected to begin production in April 2008.

In December 2006, the Cooperative signed a Commitment Letter with the Bank for up to \$90,000,000 of new debt for the Mina plant. During the construction period, monthly interest on the new and refinanced debt will be charged at a variable rate of one-month LIBOR plus 3.00% and will be funded by the construction loan. At the end of the construction of the expansion, the amounts borrowed would convert to five-year term loans with quarterly principal and interest payments (based on 10-year amortization). Additional quarterly principal payments will be required equal to 25% of the "Excess Cash Flow" (as defined), subject to a "Target Balance Amount". For the term loans, 60% of the amounts borrowed would at a variable interest rate of three-month LIBOR plus 3.00% with 40% of the amounts borrowed would be at a fixed interest rate (using an interest rate swap) of 2.80% over the "applicable funding source". The Cooperative will be required to establish a "Debt Service Reserve Account" with the Bank that will be funded by the Cooperative during the first year of operations of the new plant. Also under the Commitment Letter, a new revolving line of credit would be established for \$10,000,000 with interest charged at a variable rate of one-month LIBOR plus 3.00% plus a facility to issue stand-by letters of credit of up to \$10,000,000. At closing, the Cooperative would pay a commitment fee of \$765,000 to the Bank. The Cooperative expects to close on the new debt by April 2007.

**GLACIAL LAKES CORN PROCESSORS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended August 31, 2006, 2005 and 2004**

**NOTE K: OTHER INVESTMENTS (continued)**

**Missouri Valley Renewable Energy, LLC**

In the summer of 2006, the Cooperative announced its intention to build a 50 million gallon per year plant in the Vermillion, South Dakota area. In August 2006, the Cooperative merged with Missouri Valley Renewable Energy, LLC ("MVRE") who was developing a plant in the Vermillion, South Dakota area. After the merger, MVRE became a wholly-owned subsidiary of the Cooperative. Effective September 1, 2006, the Cooperative exchanged 325,000 of newly issued shares in exchange for the 325,000 outstanding units of MVRE. The \$650,000 purchase price will be allocated between (a) \$320,000 in cash, (b) land options and development costs of \$50,000 and (c) goodwill of \$280,000.

In September 2006, the Cooperative purchased approximately 342 acres of land near Meckling, South Dakota for a cost of \$1,290,000 for the proposed plant by exercising an option MVRE had entered into. On September 15, 2006, the Cooperative entered into an agreement with an individual who previously owned the land acquired for the proposed plant that granted him an option to purchase up to 160,000 shares of the Cooperative's stock for \$2.00 per share. The stock option is scheduled to expire on March 15, 2007.

In September 2006, the Cooperative signed a contract with NewMech for the construction of a 60 million gallon per year plant. Under the original contract, the Cooperative would pay NewMech a fee based on its costs plus 13%. The Cooperative and NewMech are in negotiations to change the current cost-plus contract to a firm-price Design-Build contract, which is expected to be completed by the end of March 2007.

The current estimate of the cost of the project is approximately \$116,750,000, with \$111,250,000 in property and \$5,500,000 in working capital. The project is expected to be funded with a portion of the proceeds from the Cooperative's equity offering scheduled to occur in the spring of 2007 and with debt financing expected from the Bank. As of December 2006, no financing commitment letter has been received from the Bank. Based on the current schedule from NewMech, they will arrive on site in July 2007 with the plant expecting to begin production in September 2008.

**Madison Energy, LLC**

In the summer of 2006, the Cooperative announced its intention to build a 50 million gallon per year plant in the Madison, Minnesota area. In July 2006, the Cooperative formed a wholly-owned subsidiary (Madison Energy, LLC, a Minnesota limited liability company) for this purpose.

**GLACIAL LAKES CORN PROCESSORS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended August 31, 2006, 2005 and 2004**

**NOTE K: OTHER INVESTMENTS (continued)**

**Madison Energy, LLC (continued)**

In September 2006, the Cooperative purchased approximately 92 acres of land near Madison, Minnesota for a cost of \$753,000 for the proposed plant. The Cooperative has had discussions with several contractors to build the plant, but no formal agreements have been signed.

In November 2006, the Cooperative entered into a Purchase Agreement with a regional cooperative to purchase the Stateline Elevator in Madison, Minnesota. On December 13, 2006, the Cooperative closed on the purchase of the elevator, related grain-handling equipment, rail siding and rolling stock for \$4,200,000. The value of grain on hand and open grain contracts on the closing date of \$4,222,000 was paid on January 8, 2007.

The current estimate of the cost of the project is approximately \$110,000,000, with \$104,600,000 in property and \$5,400,000 in working capital in addition to the amounts for the Stateline Elevator shown above. The financing plan for the project will be determined after the selection of the contractor, which is expected to occur by May 2007. Based on the current schedule, the Cooperative expects the contractor will arrive on site in early 2008 with the plant expecting to begin production in the fall of 2009.

**NOTE L: INCOME TAXES**

The Cooperative has determined that earnings from the ownership of units in Granite Falls Energy, LLC and Redfield Energy, LLC are non-patronage and will be retained by the Cooperative. As such, the Cooperative recorded income tax expense and a deferred tax liability of \$1,900,000 due to the difference in the book basis and tax basis of the investment as of August 31, 2006. It is the intent of the Cooperative to keep these investments for longer than a year and has classified the deferred tax liability as non-current.

The provision for income taxes charged to income for the years ended August 31, 2006, 2005, and 2004 consists of the following.

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Current expense	\$ -	\$ -	\$ -
Deferred tax	1,900,000	-	-
	<u>\$ 1,900,000</u>	<u>\$ -</u>	<u>\$ -</u>

**GLACIAL LAKES CORN PROCESSORS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended August 31, 2006, 2005 and 2004**

**NOTE M: 2007 EMPLOYEE STOCK INCENTIVE PLAN**

On November 21, 2006, the Cooperative approved the 2007 Employee Stock Incentive Plan ("Stock Plan") to attract and retain employees, directors and service providers of the Cooperative by aligning financial interests of these individuals with the other members of the Cooperative.

The aggregate number of shares that may be issued under the Stock Plan is 3,500,000. The awards under the Stock Plan (defined as "Stock Incentives") could be in the form of stock options, restricted stock awards, restricted stock units, stock appreciation rights, performance stock, performance units or other awards as determined by Board of the Cooperative. Under the Stock Plan, (a) no more than 3,500,000 shares may be used for stock options, (b) no more than 500,000 shares may be used for Stock Incentives for directors and (c) no more than 1,750,000 shares may be used for Stock Incentives other than stock options or stock appreciation rights.

As part of the consideration for entering into employment agreements, the Cooperative granted Stock Incentives (in the form of restricted stock units) to Thomas E. Branhan, Chief Executive Officer, and other senior management as follows:

	<u>CEO</u>	<u>Others</u>	<u>Total</u>
December 28, 2006	200,000	160,000	360,000
September 1, 2007	200,000	160,000	360,000
September 1, 2008	200,000	160,000	360,000
September 1, 2009	200,000	160,000	360,000
September 1, 2010	<u>200,000</u>	<u>160,000</u>	<u>360,000</u>
Total	<u>1,000,000</u>	<u>800,000</u>	<u>1,800,000</u>

The stock will be issued to the CEO on the dates listed upon continued employment with the Cooperative and the achievement of the Cooperative attaining certain production and performance levels as defined in his employment agreement. The stock will be issued to other senior management on the dates listed upon continued employment with the Cooperative. As of each vesting date, the Board of Directors will determine the fair market value of the stock to be issued and will pay a cash bonus to the CEO and other senior management equal to 20% of the fair market value of the stock issued. With the issuance of the stock, the Cooperative will be required to withhold applicable payroll taxes and elective withholdings. If additional cash is needed to pay the required tax withholding on the value of the shares, pursuant to the terms of the Plan, the CEO and the other senior management can authorize the Cooperative to withhold shares (in increments of 2,500 shares) to be issued at the then fair market value of the shares to cover such tax withholding. To the extent that any portion of an increment of 2,500 share withheld exceeds the amount required for tax withholding, the Cooperative will pay cash equal to the fair market value of the excess shares.

**GLACIAL LAKES CORN PROCESSORS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended August 31, 2006, 2005 and 2004**

**NOTE M: 2007 EMPLOYEE STOCK INCENTIVE PLAN (continued)**

For the shares that were issued on December 28, 2006, the fair market value of the shares was determined by the Board to be \$2.00 per share. The total compensation expense (shares and cash bonus) to be recognized by the Cooperative during the fiscal year ending August 31, 2007 is \$864,000. After the required payroll withholdings, the CEO and other senior management received 307,500 shares and net cash of \$8,211 for the shares in each increment that exceeded the amount of the required withholding.

**NOTE N: STOCKHOLDERS' EQUITY**

**General**

The Cooperative is an agricultural association whereby members must meet established membership criteria including being an agricultural producer, hold a minimum of 2,500 shares of common stock, pay the required membership fee and enter into a uniform delivery and marketing agreement.

The common stock of the Cooperative is the membership stock of the Cooperative and entitles each member to one vote in the affairs of the Cooperative regardless of the number of common stock shares owned. No ordinary dividends can be paid on the common stock. The preferred stock of the Cooperative is non-voting with allowable dividends paid on preferred stock not to exceed 8% annually of the par value of the preferred stock. Dividends on the preferred stock are not cumulative.

**Patronage Allocations**

Net income of the Cooperative shall be distributed annually to the members on the basis of patronage in such acceptable forms as approved by the Board of Directors. During 2006, 2005 and 2004, the Board of Directors authorized patronage allocations of earnings in the amount of \$4,609,577, \$3,244,710 and \$7,107,644 to its members, respectively. In 2006, 2005 and 2004, the Cooperative paid \$3,869,157, \$1,547,662 and \$5,494,203, respectively, of these allocations in cash with the remaining portions being included in the allocated capital reserve. In July 2006, the Board of Directors authorized the payment of \$15,476,631 which will be part of the patronage allocation for the fiscal year ending August 31, 2006.

Payments of these allocated capital reserves are at the discretion of the Board of Directors and will remain in the reserve until payment is made. In April 2006, the Cooperative paid \$4,050,912 for all allocated capital reserve for all fiscal years through August 31, 2005.

**GLACIAL LAKES CORN PROCESSORS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended August 31, 2006, 2005 and 2004**

**NOTE N: STOCKHOLDERS' EQUITY (continued)**

**Liquidation or Dissolution**

In the event of a liquidation or dissolution of the Cooperative any net assets remaining after the liabilities of the Cooperative are settled will be distributed first to the holders of preferred stock up to an amount equal to the consideration given, second to the holders of the common stock up to an amount equal to the consideration given, plus, in the case of holders of certain shares of common stock, a Share Revaluation Preference, third to the members holding patron equities in the order from oldest to most recent and finally to the existing members on the basis of their past patronage. The purpose of the Share Revaluation Preference is to equalize the liquidating distribution entitlements associated with outstanding shares with those associated with newly issued shares, notwithstanding that they were issued at different times and at different prices. This will equalize the entitlements of the pre-2006 share with the newly issued shares. However, the tax treatment on liquidation will be considerably different because the Share Revaluation Preference on the pre-2006 shares will be taxed as patronage dividends to the holders of those shares, to the extent the Cooperative recognizes gain on sale of assets and such gain constitutes patronage sourced gain, and assuming that the Cooperative remains taxable as a cooperative. The newly issued shares, on the other hand, will have their tax basis to offset against their distribution.

**Stock Splits**

In October 2004, the Board of Directors of the Cooperative declared a 2-for-1 stock split effective for shareholders of record at that date. On July 19, 2006, the Board of Directors of the Cooperative declared a 9-for-1 stock split effective for shareholders of record at that date. All per share amounts from previous years have been restated to reflect the two stock splits.

**Agreements for the Issuance of Stock**

In May 2006, the Cooperative entered into an agreement with an investment banking firm to assist the Cooperative evaluate our company for purposes of considering a stock split (see above) and in connection with our stock offering (see below). Under the agreement, the Cooperative was to pay \$250,000 in 12 monthly installments and issued 112,500 shares to the financial consulting company valued at \$2.00 per share.

**GLACIAL LAKES CORN PROCESSORS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended August 31, 2006, 2005 and 2004**

**NOTE N: STOCKHOLDERS' EQUITY (continued)**

**Agreements for the Issuance of Stock (continued)**

In June 2006, the Cooperative authorized unrestricted stock awards to each of the directors to purchase 50,000 shares (for a total of 550,000 shares at a purchase price of \$0.50 per share). The difference between the fair value of \$2.00 per share and the purchase price of \$0.50 per share (for a total of \$825,000) is treated as compensation expense to the directors from the Cooperative. The shares were issued to the directors on December 29, 2006.

**Employment Agreements**

In June 2006, the Cooperative entered into a five-year employment contract with Thomas E. Branhan, Chief Executive Officer. Under the terms of his contract, the Cooperative agreed to pay a base salary and a bonus (based on the profitability of the Cooperative) and to award Mr. Branhan up to 1,000,000 shares of common stock under the terms of the Cooperative's 2007 Employee Stock Incentive Plan, based upon his continued employment and upon achievement of certain goals (see Note M). In addition to the shares to be awarded under the Stock Incentive Plan, in consideration of his past services, the Cooperative awarded Mr. Branhan 90,000 (post split) shares of common stock (valued at \$2.00 per share or \$180,000) issuable September 1, 2006 and subject to tax withholding, along with a cash bonus equal to 20% of the value of the shares (\$36,000). The value of the shares was treated as compensation expense for the year ended August 31, 2006. After applying the \$36,000 bonus, Mr. Branhan elected to have 10,000 shares withheld and to pay an additional \$1,132 in cash to cover the additional tax withholding; as a result, the Cooperative issued to Mr. Branhan a net of 80,000 shares on December 28, 2006.

Also in June 2006, the Cooperative granted an unrestricted stock award to Mr. Branhan of 180,000 shares (20,000 shares pre split) in the form of shares the Cooperative had acquired in the open market during the fall of 2005. The difference between the value of the shares granted (\$360,000, based on \$2.00 per share post split) and the amount paid for the shares in 2005 by the Cooperative (\$79,200) is shown as an increase in additional paid-in capital.

In October 2006, the Cooperative entered into five-year employment contracts with other senior management of the Cooperative. As part of these contracts, in addition to base salaries and bonuses (based on the profitability of the Cooperative), the Cooperative agreed to award other senior management shares of common stock under the Cooperative's 2007 Employee Stock Incentive Plan based upon their continued employment (see Note M).



**GLACIAL LAKES CORN PROCESSORS**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended August 31, 2006, 2005 and 2004**

**NOTE N: STOCKHOLDERS' EQUITY (continued)**

**August 2006 Stock Offering**

In August 2006, the Cooperative conducted an offering of new shares to be issued to finance a portion of the cost of constructing the proposed expansion of the plant in Watertown and several proposed plants under development. The offering was at \$2.00 per share for a minimum of 32,500,000 shares or \$65,000,000 and a maximum of 47,500,000 shares or \$95,000,000.

The Cooperative started accepting subscriptions on August 22, 2006 and did not accept any subscriptions after August 28, 2006. On August 29, 2006, the Board of Directors accepted subscriptions on a total of 47,157,500 shares or \$94,315,000.

Funds received from the offering were held in escrow until the four conditions were met to allow the funds to be released from escrow. On December 29, 2006, the Cooperative determined that it had met the four conditions to allow the funds to be released. This included the determination that with the proceeds of the offering and the financing commitments received from the Bank, the Cooperative had the resources to proceed with the construction of the Aberdeen Energy plant near Mina, SD and the expansion of the Glacial Lakes Energy plant in Watertown, SD. The balance of the escrow account on December 29, 2006 (including membership fees and accumulated interest) was approximately \$96,030,000.