

Glacial Lakes Corn Processors

Consolidated Financial Report
August 31, 2020

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Independent Auditor's Report

Board of Directors
Glacial Lakes Corn Processors

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Glacial Lakes Corn Processors and its subsidiaries, which comprise the consolidated balance sheets as of August 31, 2020 and 2019, the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, 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 Glacial Lakes Corn Processors and its subsidiaries as of August 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Sioux Falls, South Dakota
November 20, 2020

Glacial Lakes Corn Processors

Consolidated Balance Sheets August 31, 2020 and 2019

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 60,389,375	\$ 24,423,249
Short-term investments	-	49,859,616
Accounts receivable, trade	14,914,559	6,304,348
Inventories	23,586,322	21,153,188
Derivative financial instruments	3,584,692	1,821,119
Prepaid expenses	102,786	132,799
Other receivable	1,177,013	2,162,179
Income tax receivable	160,788	230,192
Total current assets	103,915,535	106,086,690
Property and equipment, net	124,931,616	92,791,329
Investments in unconsolidated affiliates	13,910,593	17,019,224
Other assets	1,361,148	1,360,806
Total assets	\$ 244,118,892	\$ 217,258,049
Liabilities and Stockholders' Equity		
Current liabilities:		
Checks issued in excess of bank balance	\$ -	\$ 1,242,638
Current maturities of long-term debt	4,900,000	-
Accounts payable	23,257,957	28,978,192
Accrued expenses	4,874,667	2,482,175
Glacial Lakes Exports distributions payable	3,403,603	2,968,138
Total current liabilities	36,436,227	35,671,143
Long-term debt, less current maturities	43,821,209	-
Deferred income taxes	293,964	1,037,422
Long-term leased railcar damage accrual, less current maturities	8,221,649	5,484,700
Total liabilities	88,773,049	42,193,265
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock, \$1.00 par value; authorized 1,000,000 shares; no shares issued and outstanding	-	-
Common stock, \$0.00056 par value; authorized 500,000,000 shares; 185,636,652 shares issued and outstanding	103,061	103,061
Additional paid-in capital	113,507,620	113,507,620
Certificates of interest	1,262,166	1,262,166
Unallocated capital	40,472,996	60,191,937
Total stockholders' equity	155,345,843	175,064,784
Total liabilities and stockholders' equity	\$ 244,118,892	\$ 217,258,049

See notes to consolidated financial statements.

Glacial Lakes Corn Processors

Consolidated Statements of Operations Years Ended August 31, 2020 and 2019

	2020	2019
Net sales:		
Ethanol sales	\$ 364,435,569	\$ 308,476,468
Distillers grains sales	102,916,548	84,026,026
Corn oil sales	21,013,845	18,347,894
Total revenue	488,365,962	410,850,388
Cost of goods sold	(489,714,252)	(412,579,346)
Gross profit (loss)	(1,348,290)	(1,728,958)
General and administrative expenses	(6,640,354)	(7,127,425)
Other income, net	166,118	245,160
Operating loss	(7,822,526)	(8,611,223)
Nonoperating income (expense):		
Interest expense	(4,803,079)	(100,000)
Interest income	690,192	1,811,067
Equity in losses of unconsolidated affiliates	(3,109,131)	(1,604,710)
	(7,222,018)	106,357
Loss before income tax benefit	(15,044,544)	(8,504,866)
Income tax benefit	(741,702)	(420,675)
Net loss	\$ (14,302,842)	\$ (8,084,191)
Basic and diluted earnings (loss) per common share	\$ (0.077)	\$ (0.044)

See notes to consolidated financial statements.

Glacial Lakes Corn Processors

Consolidated Statements of Stockholders' Equity Years Ended August 31, 2020 and 2019

	Common Stock	Additional Paid-In Capital	Certificates of Interest	Unallocated Capital	Allocated Capital	Total
Balance, August 31, 2018	\$ 103,061	\$ 113,507,620	\$ 1,262,166	\$ 75,726,823	\$ 7,425,466	\$ 198,025,136
Net loss	-	-	-	(8,084,191)	-	(8,084,191)
Patronage earnings allocated to stockholders	-	-	-	(11,138,349)	11,138,349	-
Patronage dividends	-	-	-	7,425,466	(18,563,815)	(11,138,349)
Glacial Lakes Exports distributions	-	-	-	(3,737,812)	-	(3,737,812)
Balance, August 31, 2019	103,061	113,507,620	1,262,166	60,191,937	-	175,064,784
Net loss	-	-	-	(14,302,842)	-	(14,302,842)
Glacial Lakes Exports distributions	-	-	-	(5,416,099)	-	(5,416,099)
Balance, August 31, 2020	\$ 103,061	\$ 113,507,620	\$ 1,262,166	\$ 40,472,996	\$ -	\$ 155,345,843

See notes to consolidated financial statements.

Glacial Lakes Corn Processors

Consolidated Statements of Cash Flows Years Ended August 31, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Net loss	\$ (14,302,842)	\$ (8,084,191)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	17,417,534	14,206,344
Deferred income taxes	(743,458)	(378,222)
Equity in losses of unconsolidated affiliates	3,109,131	1,604,710
Distributions from unconsolidated affiliates	-	200,162
Amortized gain on short-term investments	(140,384)	(541,699)
Loss from sale of property and equipment	9,199	303,529
(Gain) loss on derivative financial instruments	9,310,509	(4,502,197)
Change in operating assets and liabilities:		
Accounts and other receivables	(7,625,045)	3,507,449
Inventories	1,530,905	(3,020,110)
Derivative financial instruments	(11,074,082)	5,423,539
Prepaid expenses	162,653	(38,352)
Income tax receivable	69,404	(202,451)
Other assets	(342)	(1,324)
Accounts payable	(5,781,240)	2,627,587
Accrued expenses, including long-term	2,261,345	321,837
Net cash (used in) provided by operating activities	(5,796,713)	11,426,611
Cash flows from investing activities:		
Purchases of property and equipment	(6,579,136)	(6,481,346)
Proceeds from sale of property and equipment	3,000	295,283
Purchase of short-term investments	-	(49,685,120)
Maturity of short-term investments	50,000,000	69,000,000
Investment in unconsolidated affiliates	(500)	-
Net cash paid in connection with business combination (Note 15)	(44,112,082)	-
Net cash (used in) provided by investing activities	(688,718)	13,128,817
Cash flows from financing activities:		
Increase (decrease) in checks issued in excess of bank balance	(1,242,638)	134,416
Proceeds from long-term debt	51,611,819	-
Payment of debt issuance costs	(486,990)	-
Payments on long-term debt	(2,450,000)	-
Patronage dividends paid	-	(18,563,815)
Glacial Lakes Exports distributions paid	(4,980,634)	(3,040,732)
Net cash (used in) provided by financing activities	42,451,557	(21,470,131)
Net increase in cash and cash equivalents	35,966,126	3,085,297
Cash and cash equivalents:		
Beginning	24,423,249	21,337,952
Ending	<u>\$ 60,389,375</u>	<u>\$ 24,423,249</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	<u>\$ 1,193,656</u>	<u>\$ 100,000</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ 160,000</u>
Supplemental schedule of noncash investing and financing activities:		
Property and equipment acquired with accounts payable	<u>\$ 153,577</u>	<u>\$ 92,572</u>
Glacial Lakes Exports distributions payable	<u>\$ 3,403,603</u>	<u>\$ -</u>

See notes to consolidated financial statements.

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies

Nature of business: Glacial Lakes Corn Processors (GLCP), a cooperative located near Watertown, South Dakota, was organized in May 2001 and operates ethanol plants in South Dakota for commercial sales. Wholly owned subsidiaries of GLCP are Glacial Lakes Energy, LLC (GLE), Aberdeen Energy, LLC (AE), Hub City Energy, LLC (HCE), and Huron Energy, LLC (HE). GLE owns and operates a 100 million gallon per year ethanol plant near Watertown, South Dakota. AE owns and operates a 100 million gallon per year ethanol plant near Aberdeen, South Dakota. HCE owns and operates a 40 million gallon per year ethanol plant near Aberdeen, South Dakota. HE owns and operates a 30 million gallon per year ethanol plant near Huron, South Dakota.

Principles of consolidation: The consolidated financial statements (collectively, the financial statements) include the accounts of GLCP and its wholly owned subsidiaries (collectively, the Cooperative). All significant intercompany accounts and transactions have been eliminated in consolidation.

A summary of the Cooperative's significant accounting policies follows:

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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 the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates. Estimates significant to the financial statements include inventory valuation, accrual for damage to leased railcars, derivative financial instruments, the value of certain assets acquired and liabilities assumed in business combination, the carrying value of property and equipment, and related impairment testing.

Revenue recognition: On September 1, 2019, the Cooperative adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and all subsequent ASUs that modified *FASB Accounting Standards Codification (ASC) Topic 606*. ASC 606 provides a five-step model for recognizing revenues from contracts with customers as follows:

- Identify the contract with a customer.
- Identify the performance obligations in the contract.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contract.
- Recognize revenue when or as performance obligations are satisfied.

The Cooperative has elected to adopt ASC 606 under the modified retrospective method only to those uncompleted contracts as of the date of initial application. The adoption of the new revenue standard did not have a material impact on the Cooperative's financial statements, and the timing and amount of its revenue recognition remained substantially unchanged under this new guidance, however, adoption resulted in expanded disclosures in the financial statements.

The Cooperative assesses the contract term as the period in which the parties to the contract have enforceable rights and obligations.

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

The Cooperative generally sells ethanol and distillers grains pursuant to marketing agreements and corn oil pursuant to contract agreements with third parties. Revenue from the sale of product is recognized at a point in time, upon transfer of control to the customer, which is typically when loaded into transport vehicles for ethanol, distillers grains and corn oil. In some instances, the Cooperative enters into contracts with customers that contain multiple performance obligations to deliver volumes of ethanol or coproducts over a contractual period of less than 12 months.

The Cooperative allocates the transaction price to each performance obligation identified in the contract based on relative stand-alone selling prices and recognizes the related revenue as control of each individual product is transferred to the customer in satisfaction of the corresponding performance obligations. The Cooperative has elected to treat shipping and handling activities related to contracts with customers as a cost of fulfilling the promise to transfer the associated product and not as a separate performance obligation. Shipping costs for ethanol and distillers grains sales paid directly by the Cooperative's marketers and commissions deducted by the marketers are presented on a net basis in product sales on the consolidated statements of operations. Railcar lease costs incurred by the Cooperative in the sale of its products are included in the cost of goods sold.

Payment terms on invoiced amounts are typically three business days for unit trains or seven business days for single railcars and trucks for ethanol and 10 to 15 days for distillers grains and corn oil. As these payment terms are less than one year, the Cooperative has determined that a significant financing component does not exist. The primary purpose of the Cooperative's invoicing term is to provide customers with simplified and predictable ways of purchasing the product and not to receive financing from or provide financing to the customer.

The Cooperative has elected to apply the practical expedient to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less.

The following is a description of principal activities from which the Cooperative generates revenue. Revenues from contracts with customers are recognized when control of the promised goods or services are transferred to customers, in an amount that reflects the consideration expected to be received in exchange for those goods or services.

- Ethanol sales
- Distillers grains sales
- Corn oil sales

All revenue recognized in the consolidated statements of operations is considered to be revenue from contracts with customers.

Taxes collected from customers: The Cooperative collects various taxes from customers for remittance to governmental authorities. These amounts are recorded on a net basis.

Shipping and commission costs: Shipping costs were \$109,430,157 and \$79,471,036 and commission costs were \$3,857,294 and \$2,898,055 for the years ended August 31, 2020 and 2019, respectively.

Concentrations of credit risk: The Cooperative performs periodic credit evaluations of its customers and generally does not require collateral. The Cooperative's results of operations may vary with the volatility of the markets for inputs (including corn, natural gas, chemicals and denaturant) and for the finished products (ethanol, distillers grains and corn oil).

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Cash and cash equivalents: The Cooperative considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Cooperative maintains bank deposit accounts that regularly exceed federally insured limits. The Cooperative analyzes the financial information of the financial institutions on a quarterly basis. The Cooperative has not experienced any losses in such accounts.

Accounts receivable: Trade accounts receivable are carried at original invoice amount less an allowance for doubtful accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and using historical experience applied to an aging of receivables. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recognized when received. As of August 31, 2020 and 2019, there were no allowance for doubtful accounts as all accounts are considered to be collectible.

Inventory: Grain inventory is stated at the lower of cost or net realizable value on the weighted-average cost method. Other inventories are stated at the lower of cost or net realizable value on the first-in, first-out method.

Derivative financial instruments: The Cooperative enters into forward purchase and sales contracts for corn, ethanol and distillers grains, which meet the definition of a derivative under accounting standards but qualify for the normal purchase, normal sale exception to derivative accounting. These contracts provide for the purchase or sale of commodities in quantities that are expected to be used or sold over a reasonable period of time in the normal course of operations. These contracts are not marked to market in the financial statements. In circumstances where management estimates that cash contract values from purchased corn cannot be recovered through the sale of ethanol and related coproducts, a loss is recorded on the contract. Such losses are included in cost of goods sold.

Exchange-traded futures contracts and interest rate swaps are recognized as either assets or liabilities at their fair value in the consolidated balance sheets with the changes in the fair value reported in current-period earnings. Changes in fair value of exchange-traded futures contracts are included in product sales or cost of goods sold on the consolidated statements of operations consistent with the commodity being hedged. Changes in fair value of interest rate swaps are included in interest expense on the consolidated statements of operations.

Property and equipment: Property and equipment is stated at cost. Depreciation is computed by the straight-line method over the following estimated useful lives:

	Years
Land improvements	15-20
Buildings	20-30
Railroad equipment and rolling stock	5-20
Machinery and equipment	7-30
Office equipment	3-7

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Long-lived assets: The Cooperative reviews long-lived assets for impairment when events and circumstances indicate that the assets may not be recoverable. For purposes of this review, long-lived assets are grouped with other assets to the lowest level for which identifiable cash flows are largely independent of other groups of assets and liabilities (asset group). If the sum of undiscounted cash flows estimated to be generated by an asset group are less than the carrying amounts of those assets, an impairment loss is recognized for the excess of the carrying value of the asset group over its fair value. During the year ended August 31, 2020, events and circumstances indicated the asset groups of the Cooperative may be impaired. However, the Cooperative's estimate of undiscounted cash flows indicated that such carrying amounts were expected to be recovered and no impairment was recognized.

Investments in unconsolidated affiliates: The Cooperative has a 10.40% investment interest in Harvestone Group, LLC, which markets the Cooperative's ethanol. The Cooperative also has a 16.35% ownership interest in Granite Falls Energy, LLC and 8.16% ownership interest in Redfield Energy, LLC. These investments are flow-through entities and are being accounted for by the equity method of accounting under which the Cooperative's share of net income is recognized as income in the Cooperative's statements of operations and added to the investment account. Distributions or dividends received from the investments are treated as a reduction of the investment account.

Income taxes: The Cooperative is a nonexempt cooperative association subject to federal income tax on nonpatronage income and patronage income not allocated to members. The Cooperative is permitted to deduct the portion of patronage income allocated to the members in the form of cash dividends and qualified written notice of allocations from taxable income. The Cooperative allocates its patronage income on the tax basis. Deferred income taxes are recorded on the consolidated balance sheets for basis differences related to nonpatronage income from the Cooperative's investments in unconsolidated affiliates. The deferred tax liability represents the future tax return consequences of those differences. The Cooperative uses accelerated depreciation methods for income tax purposes, which causes taxable income to be different than net income for financial reporting purposes. Taxable income is also different than net income on the consolidated statements of operations for differences related to derivative financial instruments, long-term incentive plan, accrued railcar damages, accrued compensation and certain recorded losses. No deferred income taxes are recognized on these differences.

Management has evaluated the Cooperative's tax positions and concluded that the Cooperative has taken no uncertain tax positions that require recognition in the financial statements. The Cooperative recognizes interest and penalties related to unrecognized tax benefits in its provision for income taxes. During the years ended August 31, 2020 and 2019, there were no material amounts recognized for interest or penalties related to unrecognized tax benefits.

The Cooperative files income tax returns in the federal and Minnesota jurisdiction. The Cooperative is no longer subject to federal tax examinations by tax authorities beyond three years for jurisdictions in which it files. The Cooperative has no U.S. federal or state examinations currently in progress.

Earnings (loss) per share: Basic earnings (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share reflects the potential dilution that would occur, using the treasury stock method, if securities or other obligations to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that shared in the Cooperative's earnings, unless such effects are antidilutive.

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Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Domestic international sales corporation: The Cooperative's members own Glacial Lakes Exports Holdings, LLC. Glacial Lakes Exports Holdings, LLC owns 100% of Glacial Lakes Exports, Inc., which is a domestic international sales corporation (DISC) under the Internal Revenue Code. Glacial Lakes Exports, Inc. receives a commission from the Cooperative on certain international sales. These commissions are recognized as distributions to the Cooperative's members in the consolidated statements of stockholders' equity in the year the sales occur.

Advertising costs: Advertising and promotion costs are expensed when incurred and totaled \$120,224 and \$169,845 for the years ended August 31, 2020 and 2019, respectively.

Recent accounting pronouncements: In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Cooperative is currently evaluating the impact of the adoption of the new standard on its financial statements. See Note 9 for potential impact.

Subsequent events: The Cooperative has evaluated subsequent events through November 20, 2020, the date which the financial statements were available to be issued.

The Board of Directors of the Cooperative voted to have its members deliver 124,376,557 (0.67 per share) bushels of corn for the year ending August 31, 2021, on an open delivery system.

Note 2. Short-Term Investments

The following is a summary of the Cooperative's short-term investments (due within one year) as of August 31, 2019:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
August 31, 2019:				
United States and corporate securities	\$ 49,859,616	\$ 45,638	\$ (741)	\$ 49,904,513

Short-term investments are recorded in the consolidated balance sheets at amortized cost. Estimated market value at August 31, 2019, was determined by reference to quotations or market indices for the respective investment securities. The unrealized gains and losses are determined at a point in time and would only be realized upon the sale of the investment securities. If the investment securities are held to their contractual maturities, no gains or losses are realized.

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Notes to Consolidated Financial Statements

Note 3. Inventories

The following table summarizes inventories as of August 31, 2020 and 2019:

	2020	2019
Grain	\$ 7,168,539	\$ 7,521,659
Chemicals and ingredients	1,368,497	854,924
Ethanol and coproducts:		
Finished goods	7,213,469	7,038,551
In process	2,120,007	1,781,016
Spare parts	5,715,810	3,957,038
	<u>\$ 23,586,322</u>	<u>\$ 21,153,188</u>

Inventory is stated net of a valuation adjustment of \$0 and \$684,959 for the years ended August 31, 2020 and 2019, respectively.

Note 4. Derivative Financial Instruments

The Cooperative is exposed to certain risks relating to its ongoing business operations. The primary risks managed by using derivative instruments are commodity price risk and interest rate risk. Short-term exchange-traded contracts are entered into to manage the price risk associated with forecasted purchases of materials used in the Cooperative's manufacturing process.

In December 2019 and January 2020, the Cooperative entered into two floating-to-fixed, interest rate swap agreements to manage interest rate risk associated with its LIBOR-based borrowings and are not designated as cash flow hedges. The differential to be paid or received on all swap agreements and related amount on deposit with (due to) broker are presented net in derivative financial instruments in the consolidated balance sheets. Amounts paid or received in connection with the swap agreements' monthly settlements, as well as changes in fair value, are included in interest expense. The swap agreements expire in December 2029 and have effectively fixed the interest rates at 1.88% and 1.80%. The notional amounts of the interest rate swaps totaled \$49,000,000 at the date of inception and decrease by \$1,225,000 each quarter. The interest rate swaps contain no credit risk-related contingent features.

As of August 31, 2020 and 2019, the Cooperative has entered into the following derivative financial instruments, none of which are designated as hedging instruments:

		2020		2019	
	Notional	Notional Quantity Long (Short)	Fair Value Assets (Liabilities)	Notional Quantity Long (Short)	Fair Value Assets (Liabilities)
Corn contracts	Bushels	2,265,000	\$ 549,163	(6,350,000)	\$ 2,617,588
		(10,000)	(31,013)	(480,000)	(9,800)
Ethanol contracts	Gallons	(40,026,000)	(3,581,550)	-	-
Interest rate swaps	Dollars	46,550,000	(3,259,205)	-	-
Total derivatives			(6,322,605)		2,607,788
Deposit with (due to) broker			9,907,297		(786,669)
Total			<u>\$ 3,584,692</u>		<u>\$ 1,821,119</u>

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Notes to Consolidated Financial Statements

Note 4. Derivative Financial Instruments (Continued)

These contracts and related amount on deposit with (due to) broker are presented net in derivative financial instruments in the consolidated balance sheets.

The following table summarizes the gains (losses) on derivative transactions reflected in the Cooperative's consolidated statements of operations for the years ended August 31, 2020 and 2019, none of which are designated as hedging instruments:

	2020	2019
Gain (loss) recognized in consolidated statements of operations:		
Ethanol sales:		
Ethanol contracts	\$ (13,626,492)	\$ (280,078)
Cost of goods sold:		
Corn contracts	7,818,111	4,782,275
Interest expense:		
Interest rate swap	(3,502,128)	-

Note 5. Property and Equipment

The following table summarizes property and equipment as of August 31, 2020 and 2019:

	2020	2019
Land and land improvements	\$ 30,646,318	\$ 18,879,298
Buildings	32,806,384	30,948,033
Railroad equipment and rolling stock	20,224,737	18,672,836
Machinery and equipment	349,568,783	316,539,632
Office equipment	913,137	764,860
Construction in progress	3,366,483	2,203,724
	437,525,842	388,008,383
Less accumulated depreciation	(312,594,226)	(295,217,054)
	<u>\$ 124,931,616</u>	<u>\$ 92,791,329</u>

Depreciation expense for the years ended August 31, 2020 and 2019, was \$17,371,154 and \$14,206,344, respectively.

Note 6. Revolving Line of Credit and Long-Term Debt

Term revolving line of credit: The Cooperative has a \$25,000,000 term revolving line of credit with Compeer Financial. Revolving line of credit advances borrowed and repaid may be reborrowed at any time prior to the revolving line of credit termination date. Amounts borrowed on the revolving line of credit bear interest at a rate 2.90% above the one-month LIBOR (3.06% at August 31, 2020). There were no outstanding borrowings, and the amount available under the agreement was \$25,000,000 as of August 31, 2020. The revolving line of credit expires on December 19, 2026.

The Cooperative will pay Compeer Financial an unused commitment fee on the average daily unused portion of the term revolving line of credit from the closing date until the maturity date at the rate of 30 basis points on a per-annum basis.

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Notes to Consolidated Financial Statements

Note 6. Revolving Line of Credit and Long-Term Debt (Continued)

Term loan: The Cooperative has a \$49,000,000 term note with Compeer Financial to finance the purchase of certain assets acquired and liabilities assumed as part of the acquisition of Advanced BioEnergy, LLC. The term loan bears interest at a rate 2.80% above the one-month LIBOR (2.96% at August 31, 2020), with equal quarterly payments of principal in the amount of \$1,225,000 plus interest accrued during the period. The Cooperative may convert a portion of the term loan to a fixed rate loan, bearing interest at a rate defined in term loan agreement, if the Cooperative provides a written notice to the lender 30 days prior to the effective date of request and the approval from lender, among other conditions.

Amounts borrowed under the revolving line of credit and term loan are secured by substantially all the assets of the Cooperative.

Letters of credit: The Cooperative can request up to \$2,000,000 in standby letters of credit from Compeer Financial. Outstanding letters of credit plus the outstanding revolving line of credit shall not at any time exceed the term revolving loan commitment. Any letters of credit must expire by December 19, 2026. No letters of credit were issued during the year ended August 31, 2020.

Covenants and requirements of loan agreement: The primary financial covenants and restrictions, all determined in accordance with U.S. GAAP, include the following:

- **Working capital**—The Cooperative must maintain a consolidated working capital of not less than \$40,000,000 measured on a monthly basis. For this purpose, working capital is defined as current assets less current liabilities, excluding current portion of lease liability, plus the available portion on the term revolving line of credit.
- **Debt service coverage ratio**—The Cooperative must maintain a consolidated debt service coverage ratio of not less than 1.40-to-1.00, measured annually at the end of the Cooperative's fiscal year. For this purpose, debt service coverage ratio is defined as net income before depreciation and amortization divided by \$4,900,000.
- **Distributions**—The Cooperative may make distributions to its members as long as working capital, including the available portion of the revolving line of credit, exceeds \$65,000,000 after distribution. If working capital, including the available portion of the revolving line of credit, is less than \$65,000,000 immediately prior to or after distribution, aggregated distributions in any fiscal year shall not exceed 100% of the Cooperative's net income for the immediately preceding year. Distributions made by DISC are recognized as distributions to the Cooperative's member.
- **Capital expenditures**—The Cooperative is limited to annual capital expenditures of \$30,000,000, measured annually at the end of the Cooperative's fiscal year.
- **Indebtedness**—The Cooperative cannot create, incur, assume or suffer to exist any debt in an aggregate principal amount in excess of the \$250,000 without the prior written consent from Compeer Financial, except for permitted indebtedness defined within agreement.

As of August 31, 2020, the Cooperative was in violation of its debt service coverage ratio and indebtedness covenant. The Cooperative subsequently received waivers from Compeer Financial.

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 6. Revolving Line of Credit and Long-Term Debt (Continued)

Paycheck Protection Program (PPP) loans: On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted to, amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic. In April 2020, the Cooperative entered into promissory notes with a bank for borrowings of approximately \$2,611,000 as part of the PPP under the CARES Act, administered by the Small Business Association. The promissory notes bear interest at 1.00%. The Cooperative is required to make the monthly payments beginning in October 2021. The promissory notes mature in April 2022. Under the PPP, the Cooperative may be eligible to apply for loan forgiveness if it meets the required criteria.

Long-term debt: The following table summarizes long-term debt outstanding as of August 31, 2020.

	2020
Term loan	\$ 46,550,000
PPP loans	2,611,819
Term revolving line of credit	-
	<u>49,161,819</u>
Less unamortized debt issuance cost	(440,610)
	<u>48,721,209</u>
Less current maturities	(4,900,000)
	<u><u>\$ 43,821,209</u></u>

There was no debt outstanding as of August 31, 2019.

Maturities of long-term debt as of August 31, 2020, are as follows:

Years ending August 31:	
2021	\$ 4,900,000
2022	7,511,819
2023	4,900,000
2024	4,900,000
2025	4,900,000
Thereafter	22,050,000
	<u><u>\$ 49,161,819</u></u>

Note 7. Stockholders' Equity

The Cooperative is an agricultural association whereby members must meet established membership criteria, 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 shares owned. Patronage dividends are paid on the common stock. According to the articles of incorporation, the Cooperative may issue preferred stock. Preferred stock of the Cooperative would be nonvoting with allowable noncumulative dividends paid on preferred stock not to exceed 8% annually of the par value of the preferred stock.

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 7. Stockholders' Equity (Continued)

In the event of a liquidation or dissolution of the Cooperative, 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, distributions will be to the holders of the common stock and any nonvoting certificates of interest into which the common stock was converted, 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 in preference is the members holding patron equities in the order from oldest to most recent. Fourth distribution is to the existing members on the basis of their past patronage. Final distributions will be to patrons in accordance with their credited interest in capital reserves, and any remaining assets to patrons in proportion to their patronage since the most recent issuance of capital stock in which a Share Revaluation Preference was created. 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 shares with shares issued after May 31, 2006 (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.

A reconciliation of net income (loss) from continuing operations and common stock share amounts used in the calculation of basic and diluted earnings (loss) per share for the years ended August 31 are as follows:

	Net Income (Loss)	Weighted- Average Shares Outstanding	Per Share Amount
2020:			
Basic loss per share	\$ (14,302,842)	185,636,652	\$ (0.077)
2019:			
Basic loss per share	(8,084,191)	185,636,652	(0.044)

Note 8. Fair Value Measurements

Accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Cooperative has the ability to access.

Level 2: Inputs to the valuation methodology are significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 8. Fair Value Measurements (Continued)

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following tables summarize by level, within the fair value hierarchy, the Cooperative's assets (liabilities) measured at fair value on a recurring basis at August 31, 2020 and 2019:

Balance Sheet Location	August 31, 2020			
	Level 1	Level 2	Level 3	Total
Derivative financial instruments, assets	\$ 549,163	\$ -	\$ -	\$ 549,163
Derivative financial instruments, liabilities	(3,612,563)	(3,259,205)	-	(6,871,768)

Balance Sheet Location	August 31, 2019			
	Level 1	Level 2	Level 3	Total
Derivative financial instruments, assets	\$ 2,617,588	\$ -	\$ -	\$ 2,617,588
Derivative financial instruments, liabilities	(9,800)	-	-	(9,800)

The derivative financial instruments consist of commodity contracts and interest rate swaps. Commodity contracts are valued based on quoted market prices and therefore classifies such valuation as Level 1. Interest rate swap are valued based upon externally developed pricing models based upon observable market inputs and therefore classifies such valuations as Level 2.

Note 9. Leases

The Cooperative leases 634 hopper and 862 tanker cars under operating lease agreements. Generally, the Cooperative is required to pay executory costs such as maintenance and insurance.

Rent expense on the rail cars for the years ended August 31, 2020 and 2019, totaled \$7,247,574 and \$5,526,421, respectively, which is net of sublease income of \$53,558 and \$108,718, respectively.

The Cooperative is responsible for repairs and maintenance on the rail cars, as well as damages that are assessed at the end of the lease term. Accruals recorded for estimated damages as of August 31, 2020 and 2019, were \$9,365,649 and \$5,795,800, respectively. The portions of these accruals classified as long-term were \$8,221,649 and \$5,484,700 as of August 31, 2020 and 2019, respectively.

The Cooperative's approximate future minimum lease payments as of August 31, 2020, are as follows:

Years ending August 31:	
2021	\$ 11,977,291
2022	9,565,213
2023	5,984,868
2024	3,229,486
2025	1,158,465
Thereafter	60,900
	<u>\$ 31,976,223</u>

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 10. Related-Party Transactions and Concentrations

Corn marketing and purchases: The Board of Directors of the Cooperative voted to have its members deliver 122,520,190 (0.66 per share) and 92,818,326 (0.50 per share) bushels of corn for each of the years ended August 31, 2020 and 2019, respectively, on an open delivery system. For those bushels not delivered by the members of the Cooperative, GLE obtained those bushels through a corn pool operated by GLE and charged a pool fee of \$0.006 and \$0.008 per bushel for 2020 and 2019, respectively.

For the years ended August 31, 2020 and 2019, the Cooperative purchased corn from its members (including committed bushels described above) as follows:

	Bushels	Dollars
2020:		
Individuals	23,307,754	\$ 74,659,102
Elevators	23,888,190	83,304,669
	<u>47,195,944</u>	<u>\$ 157,963,771</u>
2019:		
Individuals	26,154,777	\$ 89,793,451
Elevators	25,713,990	92,618,276
	<u>51,868,767</u>	<u>\$ 182,411,727</u>

Included in the amounts paid to the members of the Cooperative for the purchase of corn for the years ended August 31, 2020 and 2019, the Cooperative paid \$2,210,895 and \$3,007,978, respectively, as freight allowance on committed bushels and \$60,900 as additional payment to those members who purchased over 50,000 shares of stock at the time the Cooperative was organized (called "Commercial Level Investors") for the years ended August 31, 2020 and 2019.

Distillers grains sales: For the years ended August 31, 2020 and 2019, the Cooperative sold distillers grains to members of the Cooperative as follows:

	Tons	Dollars
2020:		
Dry distillers grains	10,037	\$ 1,337,232
Wet distillers grains	51,969	3,640,061
	<u>62,006</u>	<u>\$ 4,977,293</u>
2019:		
Dry distillers grains	12,974	\$ 1,681,049
Wet distillers grains	66,992	4,486,142
	<u>79,966</u>	<u>\$ 6,167,191</u>

Receivables and payables: As of August 31, 2020 and 2019, amounts receivable from or due to members of the Cooperative were as follows:

	2020	2019
Receivables for distillers grains	\$ 191,438	\$ 322,653
Receivables for net pool fees	602,000	547,080
Payables for corn and freight allowances	8,218,053	10,436,211

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 10. Related-Party Transactions and Concentrations (Continued)

Customer concentrations: During the years ended August 31, 2020 and 2019, the Cooperative had major customers from which the product sales and receivables were as follows:

	Product Sales Years Ended August 31		Accounts Receivable August 31	
	2020	2019	2020	2019
Eco Energy	\$ 298,450,092	\$ 311,344,651	\$ -	\$ 747,439
Cenex Harvest States	56,623,625	51,680,114	1,953,017	2,712,697
Harvestone Commodities, LLC	78,277,586	-	10,699,467	-

Note 11. Employee Benefits

Defined contribution plan: The Cooperative has a safe harbor 401(k) plan for its employees. Eligible employees are able to contribute amounts (subject to IRS limits) and the Cooperative will match 100% of the first 3% of the employees' contributions and 50% of the next 2% of employees' contributions, for a maximum match of 4% of the employees' salary. All employer contributions for eligible employees are vested immediately. During the years ended August 31, 2020 and 2019, the Cooperative contributed \$382,609 and \$344,386, respectively, to the 401(k) plan.

Long-term incentive plan: The Cooperative has a Long-Term Stock Unit Incentive Plan, which provides deferred compensation to certain key employees of the Cooperative. The plan awards Stock Incentive Units (Units), which are assigned a value determined by the Board of Directors. No grants of new Units shall be made under the plan after August 31, 2025, and the plan terminates after all participants have been paid in full. Up to 1,600,000 Units may be awarded under the Plan. The Units vest three years from the date of employment or promotion. The Units also carry a Dividend Equivalent, which is the equivalent amount of patronage and DISC dividends actually paid in cash to the Cooperative's and Glacial Lakes Exports Holdings, LLC's members. Dividend Equivalents are paid on both vested and unvested Units. As of August 31, 2020, the Cooperative has awarded 576,875 Units under the plan and 501,875 of these units were vested. The Cooperative has recorded a liability of \$461,725 and \$583,125 for the value of the Units as of August 31, 2020 and 2019, respectively, which is included in accrued expenses in the consolidated balance sheets.

Note 12. 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 byproducts will substantially comply with the applicable federal and state requirements.

Ethanol marketing: The Cooperative sells substantially all of the ethanol produced pursuant to marketing agreements. The Cooperative had agreements with Eco Energy to sell its production of ethanol to the marketer and paid a per gallon commission. The contracts were terminated effective June 2020. Revenues from the agreements were \$298,450,092 and \$311,344,651 for the years ended August 31, 2020 and 2019, respectively. Accounts receivable from the marketer were \$0 and \$747,439 as of August 31, 2020 and 2019, respectively.

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 12. Commitments and Contingencies (Continued)

In July 2020, the Cooperative entered into ethanol marketing agreements with Harvestone Commodities, LLC and provides that Harvestone Commodities, LLC may market, sell and transport the entire ethanol output of the Cooperative excluding up to 10% of the Cooperative annual production as higher level blends directly to local customers. The Cooperative pays Harvestone Commodities, LLC a marketing fee based upon gallons sold by the marketer. The marketing agreements expire in July, 2025 and shall automatically renew for an additional two years unless either party terminates the agreements in accordance with its terms. Revenues from the agreements were \$78,277,586 for the year ended August 31, 2020. Accounts receivable from the marketer were \$10,699,467 as of August 31, 2020.

Distillers grains marketing: The Cooperative has agreements with a national distillers grains marketer to sell its production of distillers grains from GLE and AE to the marketer and pay a commission based on the tons sold. The agreements are for a rolling one-year period expiring on October 1 of each year and the agreements shall remain in effect until terminated by either party by providing the other party not less than 120 days' written notice of its election to terminate the agreement. The agreements allow the Cooperative to sell distillers grains shipped by truck while the national marketer sells distillers grains shipped by railcars. Revenues from the agreements were \$56,623,625 and \$51,680,114 for the years ended August 31, 2020 and 2019, respectively. Accounts receivable from the marketer were \$1,953,017 and \$2,712,697 as of August 31, 2020 and 2019, respectively.

The Cooperative has an agreement with a national distillers grains marketer to sell its production of distillers grains from its HCE plant to the marketer and pay a commission based on the net selling price. The agreement shall remain in effect until terminated by either party by providing the other party not less than 30 days' written notice of its election to terminate the agreement. Revenues from the agreement were \$8,825,928 for the year ended August 31, 2020. Accounts receivable from the marketer were \$452,228 as of August 31, 2020.

The Cooperative has agreements with a local distillers grains marketer to sell its production of distillers grains from its HCE, HE and AE plants to the marketer and pay a commission based on the net selling price. The agreements expire on August 31, 2022. Revenues from the agreements were \$10,468,822 for the year ended August 31, 2020. Accounts receivable from the marketer were \$363,192 as of August 31, 2020.

Grain procurement agreement: The Cooperative has a grain procurement agreement with a regional ag cooperative where the ag cooperative originates, stores, and delivers all corn needs for the operations of the HE plant. The Cooperative pays a per bushel price equal to handling cost plus the forward fixed-priced contract or daily spot pricing. Corn purchased through the agreement was approximately \$28,730,000 for the year ended August 31, 2020. Accounts payable to the ag cooperative were approximately \$105,000 as of August 31, 2020.

Natural gas supply: The Cooperative currently has natural gas supply agreements in place with two national suppliers for its production requirements. The contracts for GLE and AE expire on October 31, 2021. The contracts for HCE and HE expire on March 31, 2021.

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 12. Commitments and Contingencies (Continued)

Forward purchase and sales contracts: As of August 31, 2020, the Cooperative has entered into forward purchase and sale contracts for the following:

	Quantity	Average Price	Delivery Date
Purchase of corn (in bushels):			
Basis contracts	2,561,000		By 12/31/21
Priced contracts	2,691,000	\$ 3.00	By 3/31/21
Total (primarily from members)	<u>5,252,000</u>		
Sale of ethanol (in gallons):			
Index contracts	23,678,000		By 10/30/20
Priced contracts	2,435,000	\$ 1.26	By 09/30/20
Total	<u>26,113,000</u>		
Sale of dry distillers grains (in tons):			
Index contracts	-		
Priced contracts	99,000	\$ 121.91	By 1/31/21
Total	<u>99,000</u>		
Sale of modified wet distillers grains (in tons):			
Index contracts	-		
Priced contracts	26,000	\$ 55.26	By 12/31/20
Total	<u>26,000</u>		

Note 13. Investments in Unconsolidated Affiliates

The Cooperative's investments in other renewable fuel businesses consist of the following as of August 31, 2020 and 2019, respectively:

	2020	2019
Granite Falls Energy, LLC	\$ 8,620,187	\$ 11,488,586
Redfield Energy, LLC	2,613,911	3,176,000
Harvestone Group, LLC	2,670,395	2,349,038
Other investments	6,100	5,600
	<u>\$ 13,910,593</u>	<u>\$ 17,019,224</u>

Investments in Granite Falls Energy, LLC: The Cooperative owns 5,004 units (16.35%) of Granite Falls Energy, LLC (GFE). GFE operates a 70 million gallon fuel ethanol plant near Granite Falls, Minnesota. GFE has a controlling ownership interest (50.7%) of Heron Lake BioEnergy, LLC (HLBE). HLBE operates a 72.3 million gallon fuel ethanol plant near Heron Lake, Minnesota.

For the years ended August 31, 2020 and 2019, the Cooperative recognized equity in net income (loss) of GFE of \$(2,868,399) and \$(863,113), respectively, and received cash distributions of \$0 and \$200,162, respectively.

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 13. Investments in Unconsolidated Affiliates (Continued)

The Cooperative's equity in the net income (loss) of GFE is based upon estimated earnings (loss) of the affiliate for the 12 months ended July 31 of each year. Summary financial information for GFE as of July 31, 2020 and October 31, 2019 (its fiscal year), is as follows:

Condensed Balance Sheets	July 31, 2020 (Unaudited)	October 31, 2019
Current assets	\$ 20,879,665	\$ 36,163,256
Property and equipment, net	53,376,111	58,269,142
Other assets	31,630,977	11,622,311
Total assets	<u>\$ 105,886,753</u>	<u>\$ 106,054,709</u>
Current liabilities	\$ 13,452,808	\$ 13,354,672
Long-term debt, less current maturities	10,941,541	6,639,488
Long-term liabilities	18,072,261	1,376,000
Members' equity attributed to GFE	52,723,707	65,468,635
Noncontrolling interest	10,696,436	19,215,914
Total liabilities and members' equity	<u>\$ 105,886,753</u>	<u>\$ 106,054,709</u>
	Nine Months Ended July 31, 2020 (Unaudited)	Year Ended October 31, 2019
Condensed Statements of Operations		
Revenues	\$ 120,594,848	\$ 208,777,119
Costs of goods sold	(134,378,555)	(212,560,274)
Gross profit (loss)	(13,783,707)	(3,783,155)
Operating expenses	(5,167,125)	(6,493,422)
Other expense, net	(88,574)	(744,695)
Net loss	(19,039,406)	(11,021,272)
Less noncontrolling interest	6,373,295	2,630,351
Net loss attributed to GFE	<u>\$ (12,666,111)</u>	<u>\$ (8,390,921)</u>

Investment in Redfield Energy, LLC: The Cooperative owns 3,321,052 units (8.16%), of Redfield Energy, LLC (RE). RE operates a 60 million gallon fuel ethanol plant near Redfield, South Dakota.

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 13. Investments in Unconsolidated Affiliates (Continued)

Included in the total units of RE owned by the Cooperative are 1,010,526 units received as part of the consulting and management agreement, representing 5% of the outstanding units after the close of the offering in February 2006. These units receive a pro rata allocation of the ongoing earnings and distributions of RE; however, under the terms of RE's operating agreement, no amount was initially credited to the Cooperative's capital account at RE for these units, effectively reducing the Cooperative's equity in the net assets of RE from what would otherwise be expected. However, these units have a distribution preference of up to \$2,021,052 in any gain recognized by RE upon liquidation as long as other members receive a minimum liquidating distribution of \$1.00 per unit.

For the years ended August 31, 2020 and 2019, the Cooperative recognized equity in net income (loss) of RE of \$(562,089) and \$(590,635), respectively, and received \$0 of cash distributions, respectively.

The Cooperative's equity in the net income (loss) of RE is based upon estimated earnings of the affiliate for the fiscal year ended August 31 of each year. Summary financial information for RE as of and for the years ended August 31, 2020 and 2019, is as follows:

Condensed Balance Sheets	August 31, 2020 (Unaudited)	August 31, 2019
Current assets	\$ 13,638,480	\$ 12,732,027
Property and equipment, net	26,651,941	33,775,971
Other assets, net	5,984,249	5,295,506
Total assets	<u>\$ 46,274,670</u>	<u>\$ 51,803,504</u>
Current liabilities	\$ 5,893,831	\$ 6,633,895
Long-term debt, less current maturities	8,347,625	6,248,038
Members' equity	32,033,214	38,921,571
Total liabilities and members' equity	<u>\$ 46,274,670</u>	<u>\$ 51,803,504</u>
Condensed Statements of Operations	Year Ended August 31, 2020 (Unaudited)	Year Ended August 31, 2019
Revenues	\$ 99,094,843	\$ 104,678,317
Costs of goods sold	(103,405,751)	(109,387,194)
Gross profit (loss)	(4,310,908)	(4,708,877)
Operating expenses	(3,106,059)	(2,866,877)
Other income, net	528,611	343,627
Net loss	<u>\$ (6,888,356)</u>	<u>\$ (7,232,127)</u>

Investments in Harvestone Group, LLC: The Cooperative owns 25 units (10.40%), of Harvestone Group, LLC (Harvestone). Harvestone is a commodity merchant company centered on the marketing and trading of biofuels across North America.

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 13. Investments in Unconsolidated Affiliates (Continued)

For the years ended August 31, 2020 and 2019, the Cooperative recognized equity in net income (loss) of Harvestone of \$321,357 and \$(150,962), respectively.

The Cooperative's equity in the net income (loss) of Harvestone is based upon estimated earnings of the affiliate for the 12 months ended August 31 of each year. Summary financial information for Harvestone as of August 31, 2020 and December 31, 2019 (its fiscal year), is as follows:

Condensed Balance Sheets	August 31, 2020 (Unaudited)	December 31, 2019
Current assets	\$ 119,668,435	\$ 71,957,803
Property and equipment, net	584,237	677,060
Other assets, net	110,549	597,794
Total assets	<u>\$ 120,363,221</u>	<u>\$ 73,232,657</u>
Current liabilities	\$ 94,034,937	\$ 48,867,174
Long-term debt, less current maturities	639,054	-
Members' equity	25,689,230	24,365,483
Total liabilities and members' equity	<u>\$ 120,363,221</u>	<u>\$ 73,232,657</u>

Condensed Statements of Operations	Eight Months Ended August 31, 2020 (Unaudited)	Year Ended December 31, 2019
Revenues	\$ 588,625,189	\$ 672,060,090
Costs of goods sold	(582,765,708)	(666,413,357)
Gross profit	<u>5,859,481</u>	<u>5,646,733</u>
Operating expenses	(1,832,088)	(3,587,304)
Other expense, net	(916,164)	(494,521)
Income tax expense	(1,040,867)	(175,974)
Net income	<u>\$ 2,070,362</u>	<u>\$ 1,388,934</u>

Note 14. Income Taxes

The provision for income taxes charged to operations for the years ended August 31, 2020 and 2019, consists of the following:

	2020	2019
Current expense (benefit)	\$ 1,756	\$ (42,453)
Deferred benefit	(743,458)	(378,222)
Total income tax benefit	<u>\$ (741,702)</u>	<u>\$ (420,675)</u>

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 14. Income Taxes (Continued)

Deferred taxes are composed of basis differences related to nonpatronage earnings from the Cooperative's investments in GFE and RE. Since the Cooperative allocates its patronage earnings on the tax basis of accounting, deferred income taxes have not been recognized on the temporary differences associated with its patronage earnings. The most significant differences between book and tax earnings are depreciation and recognition of gains and losses associated with derivative financial instruments.

Deferred tax liabilities as of August 31, 2020 and 2019, are as follows:

	2020	2019
Deferred tax liability:		
Investment in GFE and RE	\$ (293,964)	\$ (1,037,422)
Net deferred tax liability	<u>\$ (293,964)</u>	<u>\$ (1,037,422)</u>

As of August 31, 2019, the Cooperative has a net patronage loss carryforward and patronage sourced research and development credit for income tax purposes of \$2,625,340 and \$27,096,389 respectively. As of August 31, 2020, the net patronage loss carryforward and research and development credit carryforward for income tax purposes has not been determined. The Cooperative may use the net patronage research and development credit to offset future patronage taxable income. The net patronage research and development credits carry forward for 20 years and will begin to expire after the August 31, 2033, tax year.

Note 15. Business Combination

On December 19, 2019, the Cooperative purchased substantially all assets and assumed certain liabilities of ABE South Dakota, LLC and Advanced BioEnergy, LLC (collectively, ABE). ABE consists of two plants located in Huron, SD and Aberdeen, SD. ABE in total produces approximately 70 million gallons of ethanol per year. ABE produces fuel-grade ethanol, distillers grains and corn oil. The facility has direct access to end-markets via rail and truck, and expands the Cooperative's domestic distribution channels. The purchase expands the Cooperative's footprint in the ethanol industry and within the local markets.

The following table summarizes the purchase price allocation to the estimated fair values of net assets acquired and liabilities assumed:

Total assets acquired:	
Inventory	\$ 3,964,039
Prepaid expenses	132,640
Property and equipment	42,883,499
Total assets	<u>\$ 46,980,178</u>
Total liabilities assumed:	
Accrued expenses	<u>\$ 2,868,096</u>
Cash paid for the Advanced BioEnergy, LLC transaction	<u>\$ 44,112,082</u>

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 15. Business Combination (Continued)

The business combination was accounted for under the acquisition method of accounting. Accordingly, the results of operations from ABE have been included in the Cooperative's consolidated statements of operations since the acquisition date. Under this method of accounting, the assets acquired, liabilities assumed and consideration paid were recorded at their estimated fair value.

Transaction costs for the transaction were charged to expenses as incurred.

Independent Auditor's Report on the Supplementary Information

Board of Directors
Glacial Lakes Corn Processors

We have audited the consolidated financial statements of Glacial Lakes Corn Processors and its subsidiaries as of and for the years ended August 31, 2020 and 2019, and have issued our report thereon, which contains an unmodified opinion on those consolidated financial statements. See Page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis rather than to present the financial position and results of operations of the individual companies and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements, or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

RSM US LLP

Sioux Falls, South Dakota
November 20, 2020

Glacial Lakes Corn Processors

Consolidating Balance Sheet August 31, 2020

	Glacial Lakes Corn Processors	Glacial Lakes Energy, LLC	Aberdeen Energy, LLC	Huron Energy, LLC	Hub City Energy, LLC	Eliminations	Consolidated
Assets							
Current assets:							
Cash and cash equivalents	\$ 228,629	\$ 28,686,144	\$ 22,941,087	\$ 2,933,393	\$ 5,600,122	\$ -	\$ 60,389,375
Accounts receivable, trade	-	6,811,490	5,543,175	1,167,231	1,392,663	-	14,914,559
Inventories	-	11,042,324	8,231,685	1,537,703	2,774,610	-	23,586,322
Derivative financial instruments	-	1,316,750	1,453,034	325,851	489,057	-	3,584,692
Prepaid expenses	-	53,034	24,673	10,603	14,476	-	102,786
Other receivable	-	16,417,021	329,267	94,677	175,703	(15,839,655)	1,177,013
Income tax receivable	160,788	-	-	-	-	-	160,788
Total current assets	389,417	64,326,763	38,522,921	6,069,458	10,446,631	(15,839,655)	103,915,535
Property and equipment, net	-	45,387,232	38,805,020	4,756,220	35,983,144	-	124,931,616
Investments in unconsolidated affiliates	-	13,910,593	-	-	-	-	13,910,593
Investments in consolidated subsidiaries	158,653,993	-	-	-	-	(158,653,993)	-
Other assets	-	819,443	541,705	-	-	-	1,361,148
Total assets	\$ 159,043,410	\$ 124,444,031	\$ 77,869,646	\$ 10,825,678	\$ 46,429,775	\$ (174,493,648)	\$ 244,118,892
Liabilities and Stockholders' Equity							
Current liabilities:							
Current maturities of long-term debt	\$ -	\$ -	\$ -	\$ 673,298	\$ 4,226,702	\$ -	\$ 4,900,000
Accounts payable	-	8,132,795	14,500,829	5,792,425	10,692,687	(15,860,779)	23,257,957
Accrued expenses	-	2,221,305	1,475,203	407,264	770,895	-	4,874,667
Glacial Lakes Exports distributions payable	-	2,313,168	1,069,311	-	21,124	-	3,403,603
Total current liabilities	-	12,667,268	17,045,343	6,872,987	15,711,408	(15,860,779)	36,436,227
Long-term debt, less current maturities	-	1,203,160	735,090	5,945,649	35,937,310	-	43,821,209
Deferred income taxes	293,964	-	-	-	-	-	293,964
Long-term leased railcar damage accrual, less current maturities	-	4,435,000	945,200	638,775	2,202,674	-	8,221,649
Total liabilities	293,964	18,305,428	18,725,633	13,457,411	53,851,392	(15,860,779)	88,773,049
Stockholders' equity	158,749,446	106,138,603	59,144,013	(2,631,733)	(7,421,617)	(158,632,869)	155,345,843
Total liabilities and stockholders' equity	\$ 159,043,410	\$ 124,444,031	\$ 77,869,646	\$ 10,825,678	\$ 46,429,775	\$ (174,493,648)	\$ 244,118,892

Glacial Lakes Corn Processors

Consolidating Balance Sheet

August 31, 2019

	Glacial Lakes Corn Processors	Glacial Lakes Energy, LLC	Aberdeen Energy, LLC	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	\$ 42,575	\$ 13,290,251	\$ 11,090,423	\$ -	\$ 24,423,249
Short-term investments	-	31,907,158	17,952,458	-	49,859,616
Accounts receivable, trade	-	6,110,343	194,005	-	6,304,348
Inventories	-	11,341,724	9,811,464	-	21,153,188
Derivative financial instruments	-	568,970	1,252,149	-	1,821,119
Prepaid expenses	-	96,739	36,060	-	132,799
Other receivable	-	2,068,994	715,190	(622,005)	2,162,179
Income tax receivable	230,192	-	-	-	230,192
Total current assets	272,767	65,384,179	41,051,749	(622,005)	106,086,690
Property and equipment, net	-	49,871,093	42,920,236	-	92,791,329
Investments in unconsolidated affiliates	-	17,019,224	-	-	17,019,224
Investments in consolidated subsidiaries	175,829,439	-	-	(175,829,439)	-
Other assets	-	819,101	541,705	-	1,360,806
Total assets	\$ 176,102,206	\$ 133,093,597	\$ 84,513,690	\$ (176,451,444)	\$ 217,258,049
Liabilities and Stockholders' Equity					
Current liabilities:					
Checks issued in excess of bank balance	\$ -	\$ -	\$ 1,242,638	\$ -	\$ 1,242,638
Accounts payable	-	11,214,717	18,385,480	(622,005)	28,978,192
Accrued expenses	-	1,655,790	826,385	-	2,482,175
Glacial Lakes Exports distributions payable	-	1,484,069	1,484,069	-	2,968,138
Total current liabilities	-	14,354,576	21,938,572	(622,005)	35,671,143
Deferred income taxes	1,037,422	-	-	-	1,037,422
Long-term leased railcar damage accrual, less current maturities	-	4,323,000	1,161,700	-	5,484,700
Total liabilities	1,037,422	18,677,576	23,100,272	(622,005)	42,193,265
Stockholders' equity	175,064,784	114,416,021	61,413,418	(175,829,439)	175,064,784
Total liabilities and stockholders' equity	\$ 176,102,206	\$ 133,093,597	\$ 84,513,690	\$ (176,451,444)	\$ 217,258,049

Glacial Lakes Corn Processors

Consolidating Statement of Operations Year Ended August 31, 2020

	Glacial Lakes Corn Processors	Glacial Lakes Energy, LLC	Aberdeen Energy, LLC	(Date of Inception 12/19/2019) Huron Energy, LLC	(Date of Inception 12/19/2019) Hub City Energy, LLC	Eliminations	Consolidated
Net sales:							
Ethanol sales	\$ -	\$ 144,491,298	\$ 159,049,405	\$ 25,805,403	\$ 35,089,463	\$ -	\$ 364,435,569
Distillers grains sales	-	41,029,670	42,060,026	8,317,989	11,508,863	-	102,916,548
Corn oil sales	-	8,902,800	8,463,269	1,784,431	1,863,345	-	21,013,845
Total revenue	-	194,423,768	209,572,700	35,907,823	48,461,671	-	488,365,962
Cost of goods sold	-	(193,658,346)	(207,752,263)	(37,297,404)	(51,006,239)	-	(489,714,252)
Gross profit (loss)	-	765,422	1,820,437	(1,389,581)	(2,544,568)	-	(1,348,290)
General and administrative expenses	(1,817)	(2,907,817)	(2,344,480)	(672,831)	(713,409)	-	(6,640,354)
Other income, net	7,002	142,673	13,751	858	1,834	-	166,118
Operating income (loss)	5,185	(1,999,722)	(510,292)	(2,061,554)	(3,256,143)	-	(7,822,526)
Nonoperating income (expense):							
Interest expense	-	(76,632)	(22,016)	(574,578)	(4,129,853)	-	(4,803,079)
Interest income	113,419	227,485	338,462	4,299	6,527	-	690,192
Glacial Lakes Exports distributions	-	(3,319,416)	(2,075,559)	-	(21,124)	5,416,099	-
Equity in losses of unconsolidated affiliates	-	(3,109,131)	-	-	-	-	(3,109,131)
Equity in losses of consolidated subsidiaries	(17,175,644)	-	-	-	-	17,175,644	-
	(17,062,225)	(6,277,694)	(1,759,113)	(570,279)	(4,144,450)	22,591,743	(7,222,018)
Loss before income tax benefit	(17,057,040)	(8,277,416)	(2,269,405)	(2,631,833)	(7,400,593)	22,591,743	(15,044,544)
Income tax benefit	(741,702)	-	-	-	-	-	(741,702)
Net loss	\$ (16,315,338)	\$ (8,277,416)	\$ (2,269,405)	\$ (2,631,833)	\$ (7,400,593)	\$ 22,591,743	\$ (14,302,842)

Glacial Lakes Corn Processors

Consolidating Statement of Operations Year Ended August 31, 2019

	Glacial Lakes Corn Processors	Glacial Lakes Energy, LLC	Aberdeen Energy, LLC	Eliminations	Consolidated
Net sales:					
Ethanol sales	\$ -	\$ 150,522,247	\$ 157,954,221	\$ -	\$ 308,476,468
Distillers grains sales	-	41,288,726	42,737,300	-	84,026,026
Corn oil sales	-	9,906,279	8,441,615	-	18,347,894
Total revenue	-	201,717,252	209,133,136	-	410,850,388
Cost of goods sold	-	(200,378,016)	(212,201,330)	-	(412,579,346)
Gross profit (loss)	-	1,339,236	(3,068,194)	-	(1,728,958)
General and administrative expenses	(1,167)	(3,749,623)	(3,376,635)	-	(7,127,425)
Other income, net	4,500	218,421	22,239	-	245,160
Operating income (loss)	3,333	(2,191,966)	(6,422,590)	-	(8,611,223)
Nonoperating income (expense):					
Interest expense	-	(50,000)	(50,000)	-	(100,000)
Interest income	6,783	1,145,260	659,024	-	1,811,067
Glacial Lakes Exports distributions	-	(1,571,133)	(2,166,679)	3,737,812	-
Equity in losses of unconsolidated affiliates	-	(1,604,710)	-	-	(1,604,710)
Equity in losses of consolidated subsidiaries	(12,252,794)	-	-	12,252,794	-
	(12,246,011)	(2,080,583)	(1,557,655)	15,990,606	106,357
Loss before income tax benefit	(12,242,678)	(4,272,549)	(7,980,245)	15,990,606	(8,504,866)
Income tax benefit	(420,675)	-	-	-	(420,675)
Net loss	\$ (11,822,003)	\$ (4,272,549)	\$ (7,980,245)	\$ 15,990,606	\$ (8,084,191)

