

McGladrey & Pullen

Certified Public Accountants

Glacial Lakes Corn Processors

Consolidated Financial Report

08.31.2007

Contents

| | |
|---|--------|
| <hr/> | |
| Independent Auditor's Reports on the Financial Statements | 1-2 |
| <hr/> | |
| Financial Statements | |
| Consolidated balance sheets | 3 |
| Consolidated statements of operations | 4 |
| Consolidated statements of stockholders' equity | 5 |
| Consolidated statements of cash flows | 6 |
| Notes to consolidated financial statements | 7 – 31 |
| <hr/> | |
| Independent Auditor's Report on the Supplementary Information | 32 |
| <hr/> | |
| Supplementary Information | |
| Consolidating balance sheet | 33 |
| Consolidating statement of operations | 34 |
| <hr/> | |

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

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

We have audited the accompanying consolidated balance sheet of Glacial Lakes Corn Processors and Subsidiaries (the Cooperative) as of August 31, 2007, and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2007 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Glacial Lakes Corn Processors and subsidiaries as of August 31, 2007, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16 to the consolidated financial statements, the 2006 and 2005 financial statements have been restated to correct the accounting for derivatives, stock awards and the consolidation of 100% owned affiliates.

McGladrey & Pullen, LLP

Sioux Falls, South Dakota
March 5, 2008



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheet of **Glacial Lakes Corn Processors** (South Dakota cooperative) as of August 31, 2006 and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended 2006 and 2005. 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.

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.

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 the results of its operations and its cash flows for the years ended 2006 and 2005 in conformity with accounting principles generally accepted in the United States of America.

The consolidated balance sheets as of August 31, 2006 and the related consolidated statements of operations, stockholders' equity and cash flows for the years 2006 and 2005 have been restated as discussed in Note 16.

Christianson + Associates, PLLP

CHRISTIANSON AND ASSOCIATES, PLLP
Certified Public Accountants and Consultants

October 5, 2006
(Except for Note 9, as to
which the date is December 30, 2006)
(Except For Notes 1, 5, 11, 14, 15 and 16, as to
which the date is February 28, 2008)

JOHN O. CHRISTIANSON, CPA
PRINCIPAL PARTNER

BRADLEY P. PEDERSON, CPA
PARTNER

MARTI F. NIELAND, CPA
PARTNER

JOEL G. GRATZ, CPA
PARTNER

P. 320-235-5937
F. 320-235-5962
T. 888-852-5937

302 5TH STREET SW
WILLMAR, MN 56201
WWW.CHRISTIANSONCPA.COM

KNOWLEDGE. EXPERIENCE. VISION.

Glacial Lakes Corn Processors

Consolidated Balance Sheets August 31, 2007 and 2006

| Assets (Note 5) | 2007 | 2006 Restated |
|---|-----------------------|--------------------------|
| Current Assets | | |
| Cash and cash equivalents | \$ 12,131,056 | \$ 5,000,824 |
| Receivables (Notes 2, 7 and 11) | 9,133,787 | 7,825,408 |
| Inventories (Note 3) | 6,047,699 | 4,385,608 |
| Derivative financial instruments | 4,521,193 | 2,181,786 |
| Prepaid expenses | 185,474 | 83,597 |
| Total current assets | 32,019,209 | 19,477,223 |
| Investments (Note 11) | 17,866,019 | 12,996,259 |
| Interest rate swap (Note 5) | - | 307,988 |
| Debt issuance cost, net of amortization of \$484,508 in 2007 and \$345,173 in 2006 | 1,946,404 | 139,336 |
| Other assets | 64,114 | 556,287 |
| Goodwill (Note 10) | 3,827,202 | 3,827,202 |
| Property and equipment, net (Note 4) | 187,635,589 | 39,359,380 |
| Total assets | \$ 243,358,537 | \$ 76,663,675 |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities | | |
| Current maturities of long-term debt (Note 5) | \$ 39,425 | \$ 3,681,519 |
| Operating line of credit (Note 5) | - | - |
| Accounts payable (Note 7) | 2,755,211 | 2,092,759 |
| Construction payable (Note 9) | 25,851,085 | - |
| Accrued expenses | 1,825,979 | 1,147,317 |
| Total current liabilities | 30,471,700 | 6,921,595 |
| Long-Term Liabilities | | |
| Long term debt, less current maturities (Note 5) | 36,019,917 | 12,389,677 |
| Interest rate swap (Note 5) | 897,404 | - |
| Deferred income taxes (Note 13) | 2,902,500 | 1,900,000 |
| Total liabilities | 70,291,521 | 21,211,272 |
| Commitments and Contingencies (Notes 6, 7 and 9) | | |
| Stockholders' Equity (Note 14 and 15) | | |
| Preferred stock, \$1.00 par value; authorized 1,000,000 shares; issued none | - | - |
| Common stock, \$.00056 par value; authorized 500,000,000 shares; 187,814,652 and 139,402,152 shares issued and outstanding in 2007 and 2006 | 104,341 | 77,445 |
| Additional paid-in capital | 113,720,549 | 17,104,856 |
| Unallocated capital reserve | 28,514,935 | 23,038,897 |
| Allocated capital reserve | 30,727,191 | 15,231,205 |
| Total liabilities and stockholders' equity | \$ 243,358,537 | \$ 76,663,675 |

See Notes to Consolidated Financial Statements.

Glacial Lakes Corn Processors

Consolidated Statements of Operations
Years Ended August 31, 2007, 2006, and 2005

| | 2007 | 2006 Restated | 2005 Restated |
|--|----------------------|----------------------|---------------------|
| Product sales (Notes 7 and 9) | \$ 110,226,557 | \$ 104,710,012 | \$ 77,081,473 |
| Service revenue (Note 11) | 863,843 | 3,685,098 | 207,098 |
| Government incentives | 835,531 | 701,613 | 906,680 |
| Total revenue | 111,925,931 | 109,096,723 | 78,195,251 |
| Cost of sales (Note 7) | 78,175,853 | 63,255,409 | 64,501,822 |
| Gross profit | 33,750,078 | 45,841,314 | 13,693,429 |
| General and administrative expenses | 7,098,886 | 4,220,823 | 1,823,804 |
| Gain (loss) on impairment of assets (Notes 9 and 12) | (853,548) | 100 | (3,332) |
| Operating income | 25,797,644 | 41,620,591 | 11,866,293 |
| Other income (expense): | | | |
| Interest expense | (1,161,194) | (1,243,582) | (1,891,942) |
| Interest income | 2,837,671 | 309,089 | 20,297 |
| Equity in net income (loss) of affiliates (Note 11) | 5,425,256 | 5,614,951 | (112,454) |
| Loss on impairment of goodwill (Note 12) | (1,085,000) | - | - |
| Other, net | 104,170 | 48,266 | 9,236 |
| Income before income taxes | 31,918,547 | 46,349,315 | 9,891,430 |
| Income tax expense (Note 13) | 1,766,400 | 1,900,000 | - |
| Net income | \$ 30,152,147 | \$ 44,449,315 | \$ 9,891,430 |
| Distribution of net income: | | | |
| Allocated capital reserve | \$ 24,676,109 | \$ 31,619,591 | \$ 4,594,295 |
| Unallocated capital reserve | 5,476,038 | 12,829,724 | 5,297,135 |
| Net income | \$ 30,152,147 | \$ 44,449,315 | \$ 9,891,430 |
| Earnings per common share (Note 15): | | | |
| Basic | \$ 0.175 | \$ 0.319 | \$ 0.071 |
| Diluted | 0.175 | 0.319 | 0.071 |

See Notes to Consolidated Financial Statements.

Glacial Lakes Corn Processors

**Consolidated Statements of Stockholders' Equity
Years Ended August 31, 2007, 2006, and 2005**

| | Common Stock | Additional Paid-In Capital | Accumulated Other Comprehensive (Loss) | Unallocated Capital Reserve | Allocated Capital Reserve | Total |
|---|-------------------|----------------------------------|---|-----------------------------------|---------------------------------|-----------------------|
| Balance, August 31, 2004, as previously reported | \$ 77,383 | \$ 15,594,118 | \$ (4,075,627) | \$ 4,912,038 | \$ 8,037,308 | \$ 24,545,220 |
| Adjustments applicable to prior years resulting from restatements (Note 16) | - | - | 4,075,627 | - | (4,075,627) | - |
| Balance, August 31, 2004 (restated) | 77,383 | 15,594,118 | - | 4,912,038 | 3,961,681 | 24,545,220 |
| Net income | - | - | - | 9,891,430 | - | 9,891,430 |
| Patronage earnings allocated to stockholders | - | - | - | (4,594,295) | 4,594,295 | - |
| Patronage distributions | - | - | - | - | (1,547,662) | (1,547,662) |
| Balance, August 31, 2005 (restated) | 77,383 | 15,594,118 | - | 10,209,173 | 7,008,314 | 32,888,988 |
| Net income | - | - | - | 44,449,315 | - | 44,449,315 |
| Stock-based compensation, including | | | | | | |
| 180,000 shares issued (Note 15) | 100 | 1,364,900 | - | - | - | 1,365,000 |
| Repurchase of stock, 180,000 shares (Note 15) | (100) | (79,100) | - | - | - | (79,200) |
| Stock issued, 112,500 shares (Note 15) | 62 | 224,938 | - | - | - | 225,000 |
| Patronage earnings allocated to stockholders | - | - | - | (31,619,591) | 31,619,591 | - |
| Patronage distributions | - | - | - | - | (23,396,700) | (23,396,700) |
| Balance, August 31, 2006 (restated) | 77,445 | 17,104,856 | - | 23,038,897 | 15,231,205 | 55,452,403 |
| Net income | - | - | - | 30,152,147 | - | 30,152,147 |
| Stock-based compensation, including | | | | | | |
| 937,500 shares issued (Notes 14 and 15) | 520 | 1,744,480 | - | - | - | 1,745,000 |
| Stock issued, 47,150,000 shares (Note 15) | 26,195 | 94,275,805 | - | - | - | 94,302,000 |
| Membership fees assessed in connection with stock issuance | - | 725,000 | - | - | - | 725,000 |
| Cost of raising capital | - | (779,411) | - | - | - | (779,411) |
| Stock issued for merger with MVE, 325,000 shares (Note 12) | 181 | 649,819 | - | - | - | 650,000 |
| Patronage earnings allocated to stockholders | - | - | - | (24,676,109) | 24,676,109 | - |
| Patronage distributions | - | - | - | - | (9,180,123) | (9,180,123) |
| Balance, August 31, 2007 | \$ 104,341 | \$ 113,720,549 | \$ - | \$ 28,514,935 | \$ 30,727,191 | \$ 173,067,016 |

See Notes to Consolidated Financial Statements.

Glacial Lakes Corn Processors

Consolidated Statements of Cash Flows
Years Ended August 31, 2007, 2006, and 2005

| | 2007 | 2006 Restated | 2005 Restated |
|---|----------------------|---------------------|---------------------|
| Cash Flows From Operating Activities | | | |
| Net income | \$ 30,152,147 | \$ 44,449,315 | \$ 9,891,430 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation, amortization and accretion | 5,915,969 | 5,407,084 | 5,246,636 |
| Deferred income taxes | 1,002,500 | 1,900,000 | - |
| (Gain) loss on impairment of assets | 853,548 | (100) | 3,332 |
| Undistributed (earnings) loss of affiliates | (4,775,256) | (3,528,711) | 112,454 |
| Loss on impairment of goodwill | 1,085,000 | - | - |
| Stock-based compensation expense | 1,745,000 | 1,365,000 | - |
| Stock received for services | - | (2,021,052) | - |
| Changes in current assets and liabilities: | | | |
| Accounts receivable | (1,308,379) | (2,569,802) | (1,233,021) |
| Inventories | 2,559,909 | 676,734 | (1,373,255) |
| Derivative financial instruments | (1,134,015) | (2,335,942) | 1,053,882 |
| Prepaid expenses | (101,877) | 11,044 | 42,375 |
| Accounts payable | 983,819 | (1,251,849) | 623,388 |
| Accrued expenses | 678,662 | 222,053 | 49,338 |
| Other assets | (64,114) | (31,850) | (51,135) |
| Net cash provided by operating activities | 37,592,913 | 42,291,924 | 14,365,424 |
| Cash Flows From Investing Activities | | | |
| Purchases of property and equipment | (125,911,872) | (4,653,007) | (755,351) |
| Acquisitions, net (Note 12) | (8,117,554) | - | - |
| Investment in Granite Falls Energy, LLC | (98,750) | - | - |
| Investment in Redfield Energy, LLC | - | (829,704) | (225,000) |
| Other investments | - | (1,867,965) | (22,032) |
| Net cash used in investing activities | (134,128,176) | (7,350,676) | (1,002,383) |
| Cash Flows From Financing Activities | | | |
| Net payments on long-term revolving note | - | - | (5,000,000) |
| Proceeds from long-term debt | 21,073,244 | - | - |
| Payments on long-term debt | (1,085,098) | (8,492,785) | (4,949,468) |
| Debt issuance cost paid | (1,946,404) | - | (2,244) |
| Member contributions | 94,302,000 | - | - |
| Membership fees assessed in connection with stock issuance | 725,000 | - | - |
| Offering costs paid | (223,124) | (556,287) | - |
| Patronage dividends paid | (9,180,123) | (23,396,700) | (1,547,662) |
| Net cash provided by (used in) financing activities | 103,665,495 | (32,445,772) | (11,499,374) |
| Net increase in cash and cash equivalents | 7,130,232 | 2,495,476 | 1,863,667 |
| Cash and Cash Equivalents | | | |
| Beginning | 5,000,824 | 2,505,348 | 641,681 |
| Ending | \$ 12,131,056 | \$ 5,000,824 | \$ 2,505,348 |
| Supplemental disclosures of cash flow information | | | |
| Cash paid for interest, including capitalized interest | \$ 1,307,428 | \$ 1,586,791 | \$ 1,867,167 |
| Cash paid for income taxes | 1,072,300 | - | - |
| Supplemental schedule of noncash investing operating activities | | | |
| Sales tax receivable reclassified to property and equipment | - | - | 373,931 |
| Accounts payable incurred for property and equipment | 25,851,085 | 321,367 | - |
| Stock exchanged for other assets | - | 225,000 | - |

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 (a South Dakota cooperative located in Watertown, South Dakota) was organized to operate a 40 million 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 the accounts of the Cooperative and its wholly-owned affiliates, Glacial Lakes Energy, LLC ("GLE"), a 40 million gallon per year operating ethanol plant, expanded to 100 million gallons per year in December 2007, Aberdeen Energy, LLC ("AE"), a 100 million gallon per year ethanol plant under construction, and Missouri Valley Energy, LLC ("MVE"), a 60 million gallon per year ethanol plant under construction with construction currently suspended. In addition, Madison Energy, LLC ("ME"), a grain elevator and potential ethanol plant site, is a wholly owned affiliate of 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 10). From June 1, 2004, the Cooperative 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates significant to the financial statements include stock-based compensation, accrual for damage to leased railcars, the allowance for doubtful accounts, derivative financial instruments, deferred income taxes, potential claims for arbitration and impairment costs.

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. Revenues are recorded net of outbound freight, which is paid by the marketer, and commissions. Amounts received under incentive programs from the United States Department of Agriculture and the state of South Dakota are recognized in accordance with the terms of the agreements.

Expense classification: Cost of goods sold primarily includes costs for raw material, plant management and hourly compensation costs and general facility overhead charges.

General and administrative expenses consists primarily of salaries and expenses for management and accounting employees as well as fees paid to outside service providers such as legal, audit and consulting firms.

Shipping and commission costs: Shipping costs for the sale of ethanol and distiller's grains are generally paid by the Cooperative's marketer. Such shipping costs and commissions to the marketer are presented on a net basis against the respective sales revenue accounts. Shipping costs were \$10,771,498, \$9,389,174 and \$8,102,121, and commissions were \$811,570, \$815,419 and \$613,717 for the years ended August 31, 2007, 2006 and 2005, respectively.

Advertising costs: Advertising costs are expensed when incurred. Advertising costs totaled \$73,768, \$55,422 and \$21,311 for the years ended August 31, 2007, 2006 and 2005, respectively.

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

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

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).

Cash equivalents: For purposes of reporting cash flows, the Cooperative considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

The Cooperative's cash balances are maintained in bank depositories and periodically exceed federally insured limits.

Receivables: Receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of outstanding amounts on a monthly basis. When deemed necessary, management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts along with a general reserve. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

Inventories: All inventories, except for distiller's grains and ME's grain inventory, are stated at the lower of cost or market on the first-in, first-out method. Distiller's grains are stated at net realizable value, which approximates historical cost. ME's grain inventory is stated at market value.

Derivative financial instruments: The Cooperative enters into forward cash purchase contracts and forward sales contracts for corn, natural gas, denaturant, ethanol and distiller grains, which meet the definition of a derivative under Statement of Financial Accounting Standard No. 133, but qualify for the normal purchases or normal sales exception to fair value accounting. These contracts provide for the purchase or sale of these commodities that will be delivered in quantities expected to be used or sold over a reasonable period in the normal course of business. These contracts are not marked to market in these financial statements, except for those entered into by ME which are stated at fair value.

The Cooperative has other derivatives, such as exchange-traded futures contracts used as hedging instruments, which are recognized on the consolidated balance sheet at their fair value. Changes in the fair value of these derivatives are reported in current period earnings in the same category as the item being hedged. Changes in the fair value of these corn contracts are included in cost of goods sold in the consolidated statement of operations. Changes in the fair value of exchange traded futures contracts in unleaded gasoline are included in product sales in the consolidated statements of operations.

Fair value of the Cooperative's interest rate swap agreements are recognized as either an asset or liability in the consolidated balance sheets, with changes in fair value reported in interest expense in the consolidated statements of operations.

Investment in affiliates: The Cooperative accounts for its investments in Granite Falls Energy, LLC and Redfield Energy, LLC using the equity method of accounting under which the Cooperative's respective share of the equity in the net income (loss) of the affiliates is recognized as income (loss) in the Cooperative's statement of operations and the net income (loss), less any distributions received, is added to (subtracted from) the investment accounts.

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

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

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

| | |
|--------------------------------------|-------------|
| Land improvements | 15-20 years |
| Buildings | 20-30 years |
| Railroad equipment and rolling stock | 5-20 years |
| Machinery and equipment | 7-10 years |
| Office equipment | 3-7 years |

Construction in progress will be depreciated once construction is completed and the assets are placed in service. 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.

Debt issuance costs: Debt issuance costs are amortized over the term of the related debt instrument by a method which approximates the interest method. Amortization of debt issuance costs was \$139,336, \$91,191 and \$91,191 during 2007, 2006 and 2005, respectively. Future amortization of debt issuance costs, based on debt outstanding as of August 31, 2007, is expected to be as follows: 2008 \$199,618; 2009 \$368,167; 2010 \$368,167; 2011 \$368,167; 2012 \$368,167; and \$274,118 thereafter.

Goodwill: Goodwill represents the excess of the purchase price of an acquired entity over the amounts assigned to tangible and identified intangible assets acquired and liabilities assumed. Goodwill is reviewed for impairment annually or more frequently if certain impairment conditions arise. Goodwill that is impaired is written down to fair value.

Other assets: In 2006 other assets included expenditures incurred to raise additional Cooperative equity financing. The Cooperative deferred these costs until the financing occurred. They have been deducted from additional paid-in capital in 2007.

Income taxes: The Cooperative is a non-exempt cooperative association and is subject to federal income tax on non-patronage income and 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 qualified written notice of allocations. The Cooperative allocates its patronage earnings on the tax basis, therefore deferred taxes are only recognized on the basis differences related to non-patronage earnings from the Cooperative's investments in 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 for hedging activities, stock-based compensation and other items. No deferred taxes are recognized on these differences.

Earnings per common share: Basic earnings per common share (EPS) is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS 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.

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

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

Stock-based compensation: In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123R). This statement requires that the costs of all employee share-based payments be measured at fair value on the award's grant date and be recognized in the financial statements over the requisite service period. SFAS No. 123R supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees" (APB No. 25), and its related interpretations.

On September 1, 2006, the Cooperative adopted SFAS No. 123R, using the prospective transition method. Under the prospective transition method the Cooperative recognizes compensation expense for all share-based awards granted subsequent to the adoption of SFAS No. 123R. Compensation expense is recognized on a straight-line basis over the service period of the award.

Fair value: The carrying amounts for cash and cash equivalents, receivables, payables, and accrued expenses approximate fair value. Fair values for derivative financial instruments and interest rate swaps are determined based on quoted market prices and such instruments are recorded at fair value on the accompanying consolidated balance sheets. 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.

Recent accounting pronouncements: In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*. FASB Statement No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. Specifically, it sets forth a definition of fair value, and establishes a hierarchy prioritizing the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs. The provisions of FASB Statement No. 157 are generally required to be applied on a prospective basis, except to certain financial instruments accounted for under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, for which the provisions of FASB Statement No. 157 should be applied retrospectively. The Cooperative will adopt FASB Statement No. 157 for the year ending August 31, 2009 and is evaluating the effect, if any, on its financial position or results of operations.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115*, which provides all entities, including not-for-profit organizations, with an option to report selected financial assets and liabilities at fair value. The Cooperative will adopt FASB Statement No. 159 for the year ending August 31, 2009 and is evaluating the effect, if any, on its financial position or results of operations.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement 109*, or FIN 48, which clarifies the accounting for uncertainty in tax positions. This interpretation has been deferred to annual periods beginning after December 15, 2007. This interpretation provides that the Cooperative can recognize the tax effects from an uncertain tax position in its financial statements only if the position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective for the year ending August 31, 2009, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening net assets. The Cooperative is currently evaluating the impact of adopting FIN 48 on its financial statements.

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

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

Recent accounting pronouncements (continued): In December 2007, the FASB issued Statement No. 141 (revised 2007), *Business Combinations*, which significantly changes the financial accounting and reporting of business combination transactions. The Cooperative will adopt FASB Statement No. 141R for the year ending August 31, 2010.

In December 2007, the FASB issued Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51*, which establishes accounting and reporting standards for noncontrolling interests and separate disclosure of net income (loss) attributable to the parent and to the noncontrolling interests. FASB 160 will be effective for the Cooperative for the year ending August 31, 2010.

Note 2. Receivables

| | 2007 | 2006 |
|--------------------------------------|---------------------|---------------------|
| Trade | \$ 3,735,326 | \$ 6,850,979 |
| Government programs | 166,667 | 88,795 |
| Broker | 3,624,069 | - |
| Income taxes | 308,400 | - |
| Other | 1,327,720 | 914,096 |
| | <u>9,162,182</u> | <u>7,853,870</u> |
| Less allowance for doubtful accounts | 28,395 | 28,462 |
| | <u>\$ 9,133,787</u> | <u>\$ 7,825,408</u> |

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 3. Inventories

| | 2007 | | 2006 |
|---------------------------------|---------------------|-----------|------------------|
| Corn | \$ 3,995,739 | \$ | 2,567,323 |
| Ethanol and distiller's grains: | | | |
| Finished goods | 475,697 | | 442,095 |
| In process | 648,157 | | 455,484 |
| Chemicals and ingredients | 355,704 | | 332,878 |
| Spare parts | 572,402 | | 587,828 |
| | <u>\$ 6,047,699</u> | <u>\$</u> | <u>4,385,608</u> |

Note 4. Property and Equipment

| | 2007 | | 2006 Restated |
|--------------------------------------|-----------------------|-----------|-------------------|
| Land and land improvements | \$ 2,602,165 | \$ | 1,738,990 |
| Buildings | 2,643,449 | | 2,581,439 |
| Railroad equipment and rolling stock | 1,633,316 | | 848,874 |
| Machinery and equipment | 52,928,207 | | 49,930,720 |
| Office equipment | 540,673 | | 379,387 |
| Construction in progress | 153,162,505 | | 3,982,309 |
| | <u>213,510,315</u> | | <u>59,461,719</u> |
| Less accumulated depreciation | 25,874,726 | | 20,102,339 |
| | <u>\$ 187,635,589</u> | <u>\$</u> | <u>39,359,380</u> |

For the years ended August 31, 2007, 2006 and 2005, the Company capitalized interest of \$1,323,223, \$0 and \$0 related to construction in progress.

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 5. Long-Term Debt

| | 2007 | 2006 |
|--|----------------------|----------------------|
| Construction loan (a) (b) (c) | \$ 35,957,494 | \$ - |
| Term loans paid off in 2007 (b) | - | 16,067,315 |
| Equipment loan, due in monthly installments of \$3,285 with a maturity date of March 2010, collateralized by related equipment | 101,848 | - |
| Capital lease paid off in 2007 | - | 3,881 |
| | <u>36,059,342</u> | <u>16,071,196</u> |
| Less: current maturities | 39,425 | 3,681,519 |
| | <u>\$ 36,019,917</u> | <u>\$ 12,389,677</u> |

- (a) The Cooperative entered into a construction loan agreement with a bank in July 2007. The proceeds from the loan were first used to payoff the outstanding term loans of \$15,000,000 with the same bank. The remaining proceeds are to be used to fund the expansion of the GLE Plant and to construct the AE Plant. The construction loan amounts available for GLE and AE are \$80,000,000 and \$90,000,000, respectively, with \$35,957,494 and \$0, respectively, outstanding as of August 31, 2007. The GLE construction loan terminates on September 20, 2008 and the AE construction loan terminates on January 20, 2009. In addition, both entities have a \$10,000,000 operating loan under this agreement with no amounts outstanding as of August 31, 2007, and a termination date of July 18, 2008. The construction loans bear an interest rate at 3% above the 1 month LIBOR (8.32% at August 31, 2007). The loans are secured by substantially all of the assets of the Cooperative, GLE and AE, except for interests in MVE. Upon successful completion of the projects, the construction component will convert to variable rate term loans with five year maturities. The variable rate loans will consist of a swap component and a variable loan component. For GLE, the swap component will be \$32,000,000 and the variable component will be \$48,000,000 and for AE, the swap component will be \$36,000,000 and the variable component will be \$54,000,000. The swap loan components will bear an interest rate of 2.8% above the 3 month LIBOR. See (b) below for details on interest rate swap agreements. The variable loan components will bear an interest rate of 3% above the 3 month LIBOR (incentive pricing rate reductions are available if certain financial ratios are met).

As of August 31, 2007, AE has letters of credit totaling \$1,250,000 outstanding. GLE has no letters of credit outstanding.

Long-term debt maturities are as follows: 2008 \$39,425; 2009 \$35,996,919; and 2010 \$22,998. The construction loan is expected to convert to a variable rate term loan with a five year maturity, in fiscal year 2009 upon completion of the projects.

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 5. Long-Term Debt (continued)

- (b) The Cooperative entered into two separate interest rate swap agreements with a bank on August 16, 2007, with effective dates of March 20, 2008 and June 20, 2008, respectively, and expiring on March 20, 2013 and June 20, 2013, respectively, with original notional amounts of \$32,000,000 and \$36,000,000, respectively. The agreements were entered into in connection with construction loans to reduce the interest rate volatility of the variable rate loans. Under the swap agreements, the Cooperative pays interest at fixed rates equal to 7.95% and 7.985%, respectively, and receives interest at a variable rate based on 2.8% above the 3 month LIBOR (8.421% as of August 31, 2007). The swap agreements require payments be made or received quarterly. A swap agreement related to the term loans as of August 31, 2006 was terminated when the loans were paid off in July 2007. The fair value of the swap agreements was recorded as a liability of \$897,404 as of August 31, 2007 and as an asset of \$307,988 as of August 31, 2006. The Cooperative recorded a decrease of \$1,205,392 in fair value of the swap agreement which is included in interest expense in the consolidated statements of operations and partially capitalized (see Note 4).
- (c) The loan agreements contain a number of covenants restricting excess cash, cash distributions, and other restrictions such as the maintenance of certain financial ratios including historical fixed charge coverage ratio, tangible net worth, and total debt-to-tangible net worth ratio. The term loans will require additional quarterly principal payments by GLE and/or AE based on 25% of their excess cash flows, as defined by the agreement.

Note 6. Leases

The Cooperative leases 75 hopper cars and a copier under operating lease agreements. Generally, the Cooperative is required to pay executory costs such as maintenance and insurance.

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, 2007, 2006 and 2005 totaled \$398,485, \$399,560 and \$411,582, respectively. During the year ended August 31, 2007, 2006 and 2005 the Cooperative sub-leased certain of the hopper cars to other ethanol plants on a short-term basis and recorded \$100,704, \$455 and \$50,263, respectively, as a reduction of rent expense.

The Cooperative is responsible for repairs and maintenance on the distiller's grains 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, 2007 and 2006 were \$54,487 and \$46,987, respectively.

Minimum lease payments in the future years are as follows:

| Years ending August 31 | |
|------------------------|---------------------|
| 2008 | \$ 409,260 |
| 2009 | 411,300 |
| 2010 | 331,275 |
| 2011 | 324,000 |
| 2012 | 324,000 |
| Thereafter | 54,000 |
| | <u>\$ 1,853,835</u> |

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 7. Related Party Transactions and Concentrations

Corn marketing and purchases: GLE has a corn marketing agreement with the Cooperative. The Board of Directors of the Cooperative voted to have its members deliver 37,562,930 and 18,678,965 bushels of corn (0.20 and 0.10 bushels per share) for the years ended August 31, 2008 and 2007, respectively, on an open delivery system. For those bushels not delivered by the members of the Cooperative, GLE obtains those bushels through a corn pool operated by GLE and charges a pool fee of \$0.01 per bushel.

For the years ended August 31, 2007, 2006 and 2005 the Cooperative purchased corn from its members (including committed bushels described above) as follows:

| | Bushels | Dollars |
|-------------|------------|---------------|
| 2007 | | |
| Individuals | 6,375,142 | \$ 16,002,974 |
| Elevators | 5,633,190 | 17,482,599 |
| Totals | 12,008,332 | \$ 33,485,573 |
| 2006 | | |
| Individuals | 7,497,563 | \$ 14,190,374 |
| Elevators | 5,291,143 | 9,797,383 |
| Totals | 12,788,706 | \$ 23,987,757 |
| 2005 | | |
| Individuals | 7,270,240 | \$ 14,514,939 |
| Elevators | 4,031,770 | 7,568,660 |
| Totals | 11,302,010 | \$ 22,083,599 |

Included in the amounts paid to the members of the Cooperative for the purchase of corn for the years ended August 31, 2007, 2006 and 2005, the Cooperative paid \$317,495, \$341,022 and \$337,940, respectively, as freight allowance on committed bushels and \$66,380, \$62,248 and \$85,312, respectively, as additional price to those members who purchased over 50,000 shares at the time the Cooperative was organized (called "Commercial Level Investors").

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 7. Related Party Transactions and Concentrations (continued)

Distiller's grain sales: For the years ended August 31, 2007, 2006 and 2005, the Cooperative sold distiller's grain to members of the Cooperative as follows:

| | Tons | | Dollars |
|-------------------------------|--------|----|-----------|
| 2007 | | | |
| Dry distiller's grain ("DDG") | 13,919 | \$ | 1,171,466 |
| Wet distiller's grain ("WDG") | 74,385 | | 2,255,987 |
| Totals | 88,304 | \$ | 3,427,453 |
| 2006 | | | |
| Dry distiller's grain ("DDG") | 6,058 | \$ | 431,231 |
| Wet distiller's grain ("WDG") | 19,588 | | 545,040 |
| Totals | 25,646 | \$ | 976,271 |
| 2005 | | | |
| Dry distiller's grain ("DDG") | 7,022 | \$ | 530,340 |
| Wet distiller's grain ("WDG") | 16,645 | | 578,354 |
| Totals | 23,667 | \$ | 1,108,694 |

The Cooperative offered a 2% discount for members on the distiller's grains that would be produced from the bushels of corn committed to the Cooperative. For the years ended August 31, 2007, 2006 and 2005, the Cooperative calculated the following discounts:

| | 2007 | | 2006 | | 2005 |
|------------------------|-----------|----|--------|----|--------|
| Equivalent tons of DDG | 11,458 | | 9,965 | | 9,063 |
| Discount amount | \$ 17,906 | \$ | 11,000 | \$ | 13,023 |

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

Receivables and payables: As of August 31, 2007 and 2006, amounts receivable from or due to members of the Cooperative were as follows:

| | 2007 | | 2006 |
|---|------------|----|---------|
| Receivables for distiller's grains | \$ 281,291 | \$ | 190,122 |
| Receivables for net pool fees | 144,900 | | 92,000 |
| Payables for corn and freight allowances | 1,162,666 | | 726,342 |
| Fees payables to Commercial Level Investors | 21,716 | | 25,000 |
| Payable for discount on distiller's grain | 17,906 | | 11,000 |

Major customer: For the years ended August 31, 2007, 2006 and 2005, the Cooperative recorded product sales of \$97,533,153, \$93,498,049 and \$68,015,902, respectively, for sales to an ethanol marketer which represents over 10% of total revenues for the years then ended. The related receivables as of August 31, 2007 and 2006 were \$2,863,758 and \$6,062,130, respectively.

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 8. Defined Contribution Plan

The Cooperative has established a 401(k) plan for its employees. As amended in 2006, 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 are returned to the Cooperative. During the years ended August 31, 2007, 2006 and 2005, the Cooperative contributed (net of forfeitures) \$61,726, \$36,230 and \$15,802 respectively, to the 401(k) plan.

Note 9. 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: The Cooperative has an agreement with a national ethanol marketer to sell the marketer all of its production of ethanol and will pay a commission based on the net selling price. The contract can be terminated with a one year notice. 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 marketer for the sole purpose of transporting ethanol for the Cooperative. The lease amount will not exceed \$450 per railcar per month. At August 31, 2007 and 2006, 100 railcars were applicable to this agreement.

Distiller's grain marketing: The Cooperative has an agreement with a national distiller's grain marketer to sell all of its production of distiller's grain to the marketer and pay a commission based on the net selling price. 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 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 railcars.

Forward purchase and sales contracts: As of August 31, 2007, the Cooperative has entered into forward contracts to purchase 3,495,334 bushels of corn at an average contract price of \$3.47 per bushel primarily for delivery by December 31, 2007. Included in these amounts are 1,404,910 bushels from members of the Cooperative for their committed bushels for the year ending August 31, 2008.

As of August 31, 2007, the Cooperative has entered into forward contracts to purchase 306,000 gallons of denaturant for delivery through December 2007 with prices indexed to the NYMEX unleaded gasoline RBOB price and 126,000 gallons for September 2007 delivery at fixed prices. In addition, the Cooperative has entered into contracts to purchase 140,000 mmBTU of natural gas through October 2007 at fixed prices and 410,000 mmBTU of natural gas optioned through March 2008.

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 9. Commitments and Contingencies (continued)

Forward purchase and sales contracts (continued): As of August 31, 2007, the Cooperative has also entered into contracts for the sale of approximately 17,223 tons of DDG and approximately 72,307 tons of WDG to be shipped by truck through August 2008 at fixed prices.

Under the agreement with the national ethanol marketer, the Cooperative is a member 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 2008. As of August 31, 2007, the Cooperative has entered into commitments with another third party for the sale of 5,040,000 gallons of ethanol at an average gross price of \$2.05.

Internal Revenue Service examination: The Cooperative's and GLE's Federal income tax returns for the years ended August 31, 2003 and 2004 have been selected for examination by the Internal Revenue Service ("IRS"). The IRS has proposed adjustments related to two issues. One issue relates to the appropriate term in which to depreciate ethanol production equipment. The proposed adjustments for this issue disallow approximately \$2,400,000 and \$1,400,000 of depreciation deductions for 2004 and 2003, respectively. The other issue relates to whether a portion of the Cooperative's taxable income should be reclassified as non-patronage income. If the IRS is successful in these claims, the Cooperative would owe tax on those amounts, as well as interest and penalties. In addition, subsequent year's tax returns would most likely be impacted as well, and the Cooperative would potentially be required to recognize a deferred tax liability on a portion of its temporary differences between book and tax basis of property and equipment. Management is vigorously defending its positions on these two issues. The examinations have not been completed, and it is not possible to estimate a range of potential loss related to the IRS claims, if any.

Dispute with Granite Falls Energy, LLC over the Operating and Management Agreement: As further described in Note 11, the Cooperative entered into an Operating and Management Agreement ("GFE 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 GFE Management Agreement by the Cooperative and took over the management of the Granite Falls facility. The Cooperative objected to the actions of Granite Falls and, among other things, notified Granite Falls that there were no material breaches of the GFE Management Agreement by the Cooperative and that the actions of Granite Falls constituted a wrongful termination and breach of the GFE Management Agreement. As a result of the actions by Granite Falls, the Cooperative resigned its management positions under the GFE Management Agreement on December 22, 2006.

In May 2007, the Cooperative commenced an arbitration proceeding against Granite Falls, as any disputes or claims under GFE Management Agreement are to be settled by arbitration. In its demand for arbitration, the Cooperative alleged that Granite Falls had breached the terms and conditions of the GFE Management Agreement in various ways, including (a) its failure to pay the Cooperative amounts that had accrued and were owing to the Cooperative for the period prior to the time of termination of the GFE Management Agreement, (b) by failing to abide by the contractually imposed procedures for terminating the GFE Management Agreement, and (c) by wrongfully terminating the GFE Management Agreement in the absence of a material breach of the GFE Management Agreement by the Cooperative. The Cooperative is seeking damages in excess of \$5,300,000.

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 9. Commitments and Contingencies (continued)

Dispute with Granite Falls Energy, LLC over the Operating and Management Agreement (continued): In December 2007, Granite Falls responded to the demand for arbitration by denying the allegations. In turn, Granite Falls filed a counterclaim against the Cooperative. In its counterclaim, Granite Falls alleges that because of what it claims to be breaches of the GFE Management Agreement by the Cooperative, (a) certain penalties were imposed by the Minnesota Pollution Control Agency ("MPCA") upon Granite Falls in the amount of \$300,000, (b) that Granite Falls as part of the MPCA enforcement action had to ramp down production, thereby allegedly losing profits, and (c) that as a result of certain permitted procedures, Granite Falls suffered an economic loss due to lost capacity. The counterclaim of Granite Falls is seeking damages in the amount of \$11,325,000

The Cooperative has replied to the counterclaim, denying the allegations made by Granite Falls and asserted numerous affirmative defenses to the counterclaim, including defenses under the terms of the GFE Management Agreement. The matter is now proceeding into pre-arbitration discovery.

Management of the Cooperative intends to vigorously pursue the affirmative claims in its demand for arbitration and to defend against the counterclaim. The financial effects of any potential voluntary settlement of these actions or of an imposed settlement by the arbitration action cannot currently be determined.

Expansion of Glacial Lakes Energy, LLC: 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 from 40 million gallons per year to 100 million gallons per year. At August 31, 2007 and 2006, the Cooperative had incurred approximately \$61,850,000 and \$1,800,000, respectively, of costs related to the expansion that is included in construction in progress.

The current estimated 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 (see Note 5) and \$21,800,000 of the proceeds from the Cooperative's equity offering in August 2006 (see Note 15). The expanded plant started production in December 2007.

Construction of 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, and signed a Design-Build Contract with Fagen, Inc. ("Fagen") for the construction of the plant.

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 received the "Notice to Proceed" (April 2007) from the Cooperative. Also under the Design-Build Contract, Fagen earns an "early completion bonus" of \$20,000 per day if the plant is substantially complete earlier than 485 days (16 months) after the April 2007 "Notice to Proceed" was given to Fagen. At August 31, 2007 and 2006, the Cooperative had incurred approximately \$82,000,000 and \$1,000,000 of costs related to the construction that is included in construction in progress.

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 \$90,000,000 of new debt financing (see Note 5) and \$71,800,000 of the proceeds from the Cooperative's equity offering in August 2006 (see Note 15). Based on the current schedule from Fagen, the plant is expected to begin production in May 2008.

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 9. Commitments and Contingencies (continued)

Construction of Missouri Valley 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 Energy, LLC ("MVE") who was developing a plant in the Vermillion, South Dakota area. After the merger, MVE became a subsidiary of the Cooperative.

While it's the intent of the Cooperative to obtain equity and debt funds to complete the project, the project was suspended in October 2007 due to economic factors in the industry. There are various contracted arrangements related to this project as follows:

In September 2006, MVE 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 MVE had entered into. In connection with the purchase, the Cooperative granted an option to purchase up to 160,000 shares of the Cooperative's stock for \$2.00 per share. The individual exercised his right to acquire 20,000 shares prior to the option's March 15, 2007 expiration date.

In September 2006, MVE 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%. In January 2008, the construction contract was terminated, with MVE receiving all of the engineering and drawing work performed to date in exchange for a payment of costs incurred by NewMech which totaled \$1,774,100.

In October 2006, MVE signed an engineering contract and an equipment purchase contract with Praj Industries related to the design of the 60 million gallon per year plant for \$2,250,000 and specific equipment for the plant design for \$9,450,000. MVE made a down payment of \$417,600 on the engineering contract and \$3,780,000 on the equipment purchase contract. These contracts have not been terminated and will be in effect if funds are obtained to continue the project.

In November 2006, MVE signed an electrical supply contract with Clay Rural Electric Cooperative to supply electricity to the proposed plant. Under the contract MVE agreed to pay a base charge of \$15,700 per month for 10 years (starting in April 2009) plus the cost of electricity used. Payments under the contract are guaranteed by GLE. This contract has not been terminated and will be in effect if funds are obtained to continue the project.

In January 2007, MVE signed a contract with Loiseau Construction for excavation and site work for the proposed plant for \$2,470,772. In January 2008, the contract was terminated in exchange for payment of work performed by Loiseau which totaled \$1,581,366.

At August 31, 2007, MVE had incurred a total of approximately \$10,200,000 of costs related to the project that is included in construction in progress. These costs included the purchase of land, the down payments on the contracts, and excavation and site work. The Cooperative has performed an asset impairment test as of August 31, 2007 related to the MVE project and determined that \$853,548 of costs incurred related to the development of MVE were deemed to be impaired as of that date, resulting in net capitalized amounts of approximately \$9,300,000.

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 9. Commitments and Contingencies (continued)

Construction of 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 acquired a wholly-owned subsidiary (Madison Energy, LLC, a Minnesota limited liability company) for this purpose (see Note 12).

In September 2006, the Cooperative purchased approximately 90 acres of land near Madison, Minnesota for a cost of \$753,000 for the proposed plant. At August 31, 2007, the Cooperative had incurred approximately \$165,000 of costs related to the construction that is included in construction in progress. The Cooperative has had discussions with several contractors to build the plant, but no formal agreements have been signed.

Note 10. Goodwill

Goodwill recognized as of August 31, 2007 and 2006 represents the cost of acquiring a minority interest in GLE in excess of the fair value of tangible and identifiable intangible assets at the time of acquisition. For GLE's standalone financial reporting purposes (not presented herein), this transaction is recognized as a retirement of shares as there is no provision for treasury stock under South Dakota law for limited liability companies.

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 this GLE related goodwill during 2007 or 2006. Goodwill is not subject to amortization and will only be adjusted if a permanent impairment of the investment in GLE occurs.

During the year ended August 31, 2007, goodwill of \$1,085,000 was added and subsequently recognized as impaired for the acquisition of ME (see Note 12). The impairment was the result of depressed economic conditions within the ethanol industry and management's decision to suspend the related ethanol project. The fair value of the reporting unit used to determine the impairment was determined based upon a discounted cash flow analysis.

Note 11. Investments

The Cooperative had the following investments in other renewable fuel businesses at August 31, 2007 and 2006, respectively:

| | 2007 | 2006 Restated |
|---------------------------|----------------------|----------------------|
| Granite Falls Energy, LLC | \$ 14,464,078 | \$ 9,908,140 |
| Redfield Energy, LLC | 3,401,941 | 3,083,873 |
| Other | - | 4,246 |
| | <u>\$ 17,866,019</u> | <u>\$ 12,996,259</u> |

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 11. Investments (continued)

Investment in Granite Falls Energy, LLC: The Cooperative owns 6,525 units (20.94%) of Granite Falls. Granite Falls operates a 50,000,000 gallon fuel ethanol plant near Granite Falls, Minnesota.

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 managed the day-to-day operations of the plant for Granite Falls and was 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 year ended August 31, 2007 the Cooperative recognized \$75,000 in monthly fees and \$237,380 of incentive fees under the Operating and Management Agreement. At August 31, 2007 and 2006, amounts due to the Cooperative under Operative and Management Agreement were \$1,053,925 and \$859,046, respectively. See Note 9 regarding the dispute with Granite Falls over the Operating and Management Agreement.

As of August 31, 2007 and 2006, the Cooperative's recorded investment in Granite Falls exceeded its ownership interest percentage in the equity of the affiliate by \$399,929 and \$489,708, respectively. The excess arose from the purchase of units in the affiliate at amounts greater than the book value of the affiliate, primarily related to accumulated deficits of the affiliate prior to beginning production. The excess is being amortized over a 10 year period.

For the years ended August 31, 2007, 2006, and 2005, the Cooperative recognized equity in net income (loss) of the affiliate of \$5,107,188, \$5,606,835 and \$(112,454), and received cash distributions of \$650,000, \$2,086,240 and \$0, respectively. In December 2007, the Cooperative received a cash distribution of \$1,305,000.

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 11. Investments (continued)

Investment in Granite Falls Energy, LLC (continued):

The Cooperative's equity in the net income of Granite Falls Energy, LLC is based upon estimated earnings of the affiliate as of August 31 of each year. Summary financial information for Granite Falls Energy, LLC as of October 31, 2007 and 2006 (its fiscal year end) and for the years ended October 31, 2007, 2006 and 2005, is as follows:

Condensed Balance Sheets

| | October 31, 2007 | October 31, 2006 |
|---|----------------------|----------------------|
| Current assets | \$ 15,901,679 | \$ 25,028,447 |
| Property and equipment, net | 54,677,788 | 55,393,293 |
| Other assets, net | 38,493 | 434,185 |
| Total assets | \$ 70,617,960 | \$ 80,855,925 |
| Current liabilities | \$ 10,908,043 | \$ 8,239,080 |
| Long-term debt | 518,868 | 20,010,737 |
| Members equity | 59,191,049 | 52,606,108 |
| Total liabilities and members equity | \$ 70,617,960 | \$ 80,855,925 |

Condensed Statements of Operations

| | Year Ended | | |
|------------------------------------|----------------------|----------------------|-----------------------|
| | October 31, 2007 | October 31, 2006 | October 31, 2005 |
| Revenues | \$ 94,776,725 | \$ 93,549,478 | \$ - |
| Cost of goods sold | (75,772,701) | (54,539,754) | (251,235) |
| Gross profit (loss) | 19,004,024 | 39,009,724 | (251,235) |
| Operating expenses | (2,807,130) | (2,894,018) | (492,353) |
| Other income (loss), net | 465,463 | 203,918 | (452,807) |
| Interest expense | (730,616) | (2,258,023) | (17,704) |
| Government programs | - | 684,067 | - |
| Net income (loss) | \$ 15,931,741 | \$ 34,745,668 | \$ (1,214,099) |
| Weighted average units outstanding | 31,156 | 31,156 | 31,143 |
| Net income (loss) per unit | \$ 511 | \$ 1,115 | \$ (39) |

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 11. Investments (continued)

Investment in Redfield Energy, LLC: The Cooperative owns 1,660,526 units (8.13%) of Redfield Energy, LLC ("Redfield"). Redfield operates a 50,000,000 gallon fuel ethanol plant near Redfield, South Dakota.

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 managed the construction of the plant, and manages the day-to-day operations of the plant for Redfield and is 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, 2007, 2006 and 2005, the Cooperative recognized \$551,463, \$420,000 and \$70,000, respectively, under the Consulting and Management Agreement. At August 31, 2007 and 2006, amounts due to the Cooperative under the agreement were \$135,463 and \$35,000, respectively.

Included in the total units of Redfield 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 Redfield, however, under the terms of Redfield's operating agreement, no amount was initially credited to the Cooperative's capital account at Redfield for these units, effectively reducing the Cooperative's equity in the net assets of Redfield from what would otherwise be expected. However, these units have a distribution preference of up to \$2,021,052 in any gain recognized by Redfield upon liquidation as long as other members received a minimum liquidating distribution of \$2.00 per unit. 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.

The Operating Agreement for Redfield designates the Cooperative as the managing member of Redfield and allows the Cooperative to appoint 1 of the 7 Board of Managers for Redfield as long as the Cooperative is the managing member.

As of August 31, 2007 and 2006, the Cooperative's recorded investment in Redfield Energy, LLC ("Redfield") was less than its estimated underlying equity in the net assets of the affiliate by \$177,892 and \$184,026, respectively. The difference arose from the receipt of the 1,010,526 units described above, and by the purchase of units in the affiliate at amounts lower than the book value of the affiliate, including seed units purchased in August 2005 and an option exercised in July 2006. The difference is being amortized into earnings over a 10 year period.

For the years ended August 31, 2007, 2006 and 2005 the Cooperative recognized equity in net income of Redfield of \$318,068, \$8,116, and \$0, respectively. Redfield commenced operations in April 2007. A cash distribution of \$166,053 was received in February 2008.

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 12. Acquisitions

Effective September 1, 2006, the Cooperative issued 325,000 shares of common stock valued at \$2 per share in exchange for 100% of the outstanding shares of MVE, for an aggregate purchase price of \$650,000. The value of the stock was based upon recent transactions with third parties. This transaction provided the Cooperative with a potential site for a future ethanol facility.

The following table summarizes the fair value of the assets at the date of acquisition. Based on the Cooperative's annual review of impairment it was determined that intangible assets were subsequently impaired as of August 31, 2007, as a result of depressed economic conditions within the ethanol industry and management's decision to suspend the related ethanol project.

| | | |
|-----------------------|----|----------------|
| Cash | \$ | 304,446 |
| Land options | | 50,350 |
| Intangible assets | | 295,204 |
| Total assets acquired | \$ | <u>650,000</u> |

Effective December 13, 2006, GLE acquired the assets of ME from Cenex Harvest States for a purchase price of \$8,422,000. ME's grain elevator is located in Madison, MN. This transaction provides GLE with an additional corn procurement and storage facility with rail trackage to load out unit trains in addition to being a potential site for a future ethanol facility. The results of ME's operations have been included in the consolidated financial statements since that date.

The following table summarizes the fair value of assets at the date of acquisition. Property and equipment consisted primarily of the elevator facility, machinery and equipment and is being depreciated over the estimated useful lives of those assets. Based on the Cooperative's annual review of impairment, it was determined that goodwill was subsequently impaired as of August 31, 2007 (see Note 10).

| | | |
|-------------------------|----|------------------|
| Inventory and contracts | \$ | 4,222,000 |
| Property and equipment | | 3,115,000 |
| Goodwill | | 1,085,000 |
| Total assets acquired | \$ | <u>8,422,000</u> |

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 13. Income Taxes

The provision for income taxes charged to income for the years ended August 31, 2007, 2006 and 2005 consists of the following:

| | 2007 | 2006 | 2005 |
|-----------------|---------------------|---------------------|-------------|
| Current expense | \$ 763,900 | \$ - | \$ - |
| Deferred tax | 1,002,500 | 1,900,000 | - |
| | <u>\$ 1,766,400</u> | <u>\$ 1,900,000</u> | <u>\$ -</u> |

Deferred taxes are comprised of basis differences related to non-patronage earnings from the Cooperative's investments in Granite Falls and Redfield. Since the Cooperative allocates its patronage earnings on the tax basis of accounting, deferred income taxes have not been recognized on temporary differences associated with its patronage earnings. As of August 31, 2007, the Cooperative's reported net assets associated with its patronage earnings exceed their tax bases by approximately \$22,000,000.

See Note 9 related to a pending IRS examination.

Note 14. Stock-Based Compensation

Stock incentive plan: On November 21, 2006, the Cooperative's Board 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 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") can 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 a total of 360,000 shares of stock and 1,842,500 restricted stock units to senior and mid-level management during the year ended August 31, 2007. Each stock unit entitles the holder to one share of stock issuable when the stock unit vests. The restricted stock units generally vest over five years as long as the employees are employed by the Cooperative, with the vesting date being September 1 of each year. The stock units issued to the CEO are based 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 fair value of the stock and restricted stock units at the date of grant was estimated based upon recent stock transactions between unrelated entities.

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 14. Stock-Based Compensation (continued)

Stock incentive plan (continued): As of each vesting date, the Board of Directors will determine the fair value of the stock to be issued under the awards and will pay an additional cash bonus equal to 20% of the fair value of the stock issued. Upon 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, the participants can authorize the Cooperative to withhold shares (in increments of 500 shares) to be issued at the then fair value of the shares to cover such tax withholding. To the extent that any portion of an increment of 500 shares withheld exceeds the amount required for tax withholding, the Cooperative will pay cash equal to the fair value of the excess shares. The Cooperative generally uses newly issued shares to satisfy share awards.

The Company applied an average annual forfeiture rate of 10% when calculating the number of shares expected to vest, based upon comparable information for similar businesses, for the awards to participants other than the CEO. The CEO's awards are expected to vest with no forfeitures.

The total stock-based compensation expense recognized by the Cooperative under the Stock Plan during the fiscal year ending August 31, 2007 is \$1,470,000. Cash bonuses related to the Stock Plan of \$344,921 were also recognized during the year ended August 31, 2007. After the required payroll withholdings, participants received 307,500 shares and net cash of \$8,211 for the shares in each increment that exceeded the amount of the required withholding.

Stock unit activity, other than performance units, for the year ended August 31, 2007 is as follows:

| | Number of Stock Units | Weighted Average Exercise Price Per Share | Weighted Average Remaining Contractual Term (In Years) | Aggregate Intrinsic Value |
|--|-----------------------------|---|--|---------------------------------|
| Outstanding on August 31, 2006 | - | \$ - | | |
| Granted | 1,042,500 | - | | |
| Exercised | - | - | | |
| Forfeited | - | - | | |
| Outstanding on August 31, 2007 | 1,042,500 | \$ - | 3.49 | \$ 1,887,775 |
| Vested or expected to vest at August 31, 2007 | 822,500 | \$ - | 3.49 | \$ 1,494,325 |

The weighted-average grant-date fair value of units granted during the year ended August 31, 2007 was \$1.84 per unit. As of August 31, 2007, there was \$1,677,117 of unrecognized compensation expense related to these nonvested stock units. This amount is expected to be recognized as compensation expense over a weighted average period of 3.49 years.

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 14. Employee Stock Incentive Plan (continued)

Performance share unit plan: A summary of the activity under the Performance Plan as of August 31, 2007, and changes during the year then ended is presented below:

| Performance Units | Number of Stock Units | Weighted Average Exercise Price Per Share | Remaining Contractual Term | Aggregate Intrinsic Value |
|--|-----------------------------|---|----------------------------------|---------------------------------|
| Outstanding at August 31, 2006 | - | \$ - | | |
| Granted | 800,000 | - | | |
| Exercised | - | - | | |
| Forfeited | - | - | | |
| Outstanding at August 31, 2007 | 800,000 | \$ - | 4.0 | \$ 1,600,000 |
| Vested or expected to vest at August 31, 2007 | 800,000 | \$ - | 4.0 | \$ 1,600,000 |

The weighted-average grant-date fair value of performance units issued during the year ended August 31, 2007 was \$2.00 per unit. Management estimates that it is probable that all performance conditions will be met. As of August 31, 2007, there was \$839,481 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Performance Plan. That cost is expected to be recognized over a period of 4 years.

Note 15. Stockholders' Equity

General: 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. 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.

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 15. Stockholders' Equity (continued)

Liquidation or dissolution: 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 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, fourth to patrons in accordance with their credited interest in capital reserves, and any remaining assets in proportion 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 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 split: 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 share and per share amounts from previous years have been restated to reflect the stock split.

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

| | Net Income | Weighted Average Shares Outstanding | Per Share Amount |
|---------------------------------|---------------|---|---------------------|
| 2005: | | | |
| Basic EPS | \$ 9,891,430 | 139,289,652 | \$ 0.071 |
| Effects of dilutive securities: | | | |
| Exercise of stock units | - | - | - |
| Diluted EPS | \$ 9,891,430 | 139,289,652 | \$ 0.071 |
| 2006: | | | |
| Basic EPS | \$ 44,449,315 | 139,320,166 | \$ 0.319 |
| Effects of dilutive securities: | | | |
| Exercise of stock units | - | - | - |
| Diluted EPS | \$ 44,449,315 | 139,320,166 | \$ 0.319 |
| 2007: | | | |
| Basic EPS | \$ 30,152,147 | 171,993,947 | \$ 0.175 |
| Effects of dilutive securities: | | | |
| Exercise of stock units | - | 299,177 | - |
| Diluted EPS | \$ 30,152,147 | 172,293,124 | \$ 0.175 |

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 15. Stockholders' Equity (continued)

Agreements for the Issuance of Stock: In May 2006, the Cooperative entered into an agreement with an investment banking firm to assist the Cooperative in evaluating the company for purposes of considering a stock split (see above) and in connection with the stock offering (see below). Under the agreement, the Cooperative paid \$250,000 and issued 112,500 shares, valued at \$2.00 per share (a total of \$225,000), to the financial consulting company. The shares were issued on May 24, 2006.

In June 2006, the Cooperative granted 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 \$0.50 per share purchase price (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 Agreement: In June 2006, the Cooperative entered into a five-year employment contract with Thomas E. Branhan, Chief Executive Officer. In addition to the shares and stock units awarded under the Stock Incentive Plan (see Note 14), in consideration of his past services the Cooperative granted Mr. Branhan 90,000 shares of common stock (valued at \$2.00 per share or \$180,000), along with a cash bonus equal to 20% of the value of the shares (\$36,000). The value of the shares was recognized as compensation expense for the year ended August 31, 2006. After applying the \$36,000 cash bonus Mr. Branhan elected to have 10,000 shares withheld and to pay an additional \$1,132 in cash to cover 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 (valued at \$2.00 per share or \$360,000) in the form of shares the Cooperative had acquired in the open market during the fall of 2005. The value of the shares was recognized as compensation expense and the shares were issued during the year ended August 31, 2006.

Stock Offering: In August 2006, the Cooperative conducted an offering of new common shares issued to finance a portion of the cost of constructing the expansion of the plant in Watertown and several plants under development. The offering was at \$2.00 per share for a minimum of 32,500,000 shares and a maximum of 47,500,000 shares. In December 29, 2006, the Cooperative issued 47,130,000 shares for \$94,262,000 in connection with the offering, which includes a forfeited deposit of \$2,000. See Note 9 for additional shares of 20,000 issued under a stock option in connection with land purchased by MVE.

Glacial Lakes Corn Processors

Notes to Consolidated Financial Statements

Note 16. Restatement

The Cooperative restated its 2006 and 2005 consolidated financial statements to correct the accounting for derivatives, stock awards and the consolidation of 100% owned affiliates, which were not being accounted for in accordance with generally accepted accounting principles. The restatements had the following effect on the consolidated balance sheet as of August 31, 2006: decreased investments and increased property and equipment by \$1,885,751, increased interest rate swap by \$307,988, decreased accrued expenses by \$1,005,000 and increased equity by \$1,312,988. The restatements had the following effect on the consolidated statement of operations for the year ended August 31, 2006: increased revenue by \$1,277,210, decreased cost of sales by \$1,512,954, decreased interest expense by \$256,852, increased net income by \$3,047,016 and increased basic earnings per common share by \$.022 per share. The restatements had the following effect on the consolidated statement of operations for the year ended August 31, 2005: decreased revenue by \$970,514, decreased cost of sales by \$2,327,859, increased general and administrative expenses by \$13,258, decreased interest expense by \$51,136, increased net income by \$1,395,223 and increased basic earnings per common share by .010 per share.

Certain 2006 and 2005 amounts have also been reclassified for comparative purposes, to be consistent with the 2007 presentation, with no effect on net income or total stockholders' equity.

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report on the Supplementary Information

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

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position and results of operations of the individual companies. The consolidating information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

McGladrey & Pullen, LLP

Sioux Falls, South Dakota
March 5, 2008

Glacial Lakes Corn Processors

Consolidating Balance Sheets
August 31, 2007

| | Glacial Lakes Corn Processors | | Glacial Lakes Energy, LLC | | Aberdeen Energy, LLC | | Missouri Valley Energy, LLC | | Madison Energy, LLC | | Total | | Eliminations | | Total | |
|---|-------------------------------|-------------|---------------------------|-------------|----------------------|------------|-----------------------------|-----------|---------------------|-----------|-------|-------------|--------------|---------------|-------|-------------|
| | | | | | | | | | | | | | | | | |
| Current Assets | | | | | | | | | | | | | | | | |
| Cash and cash equivalents | \$ | 203,215 | \$ | 6,991,467 | \$ | 3,838,019 | \$ | 30,368 | \$ | 1,067,987 | \$ | 12,131,056 | \$ | - | | 12,131,056 |
| Receivables | | 308,400 | | 8,528,127 | | (295,000) | | - | | 3,226,824 | | 11,768,351 | | (2,634,564) | | 9,133,787 |
| Inventories | | - | | 5,073,814 | | - | | - | | 973,885 | | 6,047,699 | | - | | 6,047,699 |
| Derivative financial instruments | | - | | 3,720,982 | | 242,140 | | - | | 558,071 | | 4,521,193 | | - | | 4,521,193 |
| Prepaid expenses | | - | | 158,787 | | 9,411 | | - | | 17,276 | | 185,474 | | - | | 185,474 |
| Total current assets | | 511,615 | | 24,473,177 | | 3,794,570 | | 30,368 | | 5,844,043 | | 34,653,773 | | (2,634,564) | | 32,019,209 |
| Investments | | 175,114,900 | | 27,397,369 | | - | | - | | 100,350 | | 202,612,619 | | (184,746,600) | | 17,866,019 |
| Debt issuance cost, net of amortization | | - | | 1,006,944 | | 933,312 | | 6,148 | | - | | 1,946,404 | | - | | 1,946,404 |
| Other assets | | - | | 64,114 | | - | | - | | - | | 64,114 | | - | | 64,114 |
| Goodwill | | - | | - | | - | | - | | - | | - | | 3,827,202 | | 3,827,202 |
| Property and equipment, net | | - | | 92,273,096 | | 81,730,473 | | 9,311,513 | | 3,977,506 | | 187,292,588 | | 343,001 | | 187,635,589 |
| Total assets | \$ | 175,626,515 | \$ | 145,214,700 | \$ | 86,458,355 | \$ | 9,348,029 | \$ | 9,921,899 | \$ | 426,569,498 | \$ | (183,210,961) | \$ | 243,368,537 |
| Liabilities and Stockholders' Equity | | | | | | | | | | | | | | | | |
| Current Liabilities | | | | | | | | | | | | | | | | |
| Current maturities of long-term debt | \$ | - | \$ | 39,425 | \$ | - | \$ | - | \$ | - | \$ | 39,425 | \$ | - | \$ | 39,425 |
| Accounts payable | | - | | 15,567,119 | | 14,439,980 | | 546,858 | | 50,903 | | 30,604,860 | | (1,998,564) | | 28,606,296 |
| Accrued expenses | | - | | 1,498,794 | | 83,735 | | 640,154 | | 239,296 | | 2,461,979 | | (636,000) | | 1,825,979 |
| Total current liabilities | | - | | 17,105,338 | | 14,523,715 | | 1,187,012 | | 290,199 | | 33,106,264 | | (2,634,564) | | 30,471,700 |
| Long-Term Liabilities | | | | | | | | | | | | | | | | |
| Long term debt, less current maturities | | - | | 36,019,917 | | - | | - | | 5,779,241 | | 41,799,158 | | (5,779,241) | | 36,019,917 |
| Interest rate swap | | - | | 410,807 | | 486,597 | | - | | - | | 897,404 | | - | | 897,404 |
| Deferred income taxes | | 2,902,500 | | - | | - | | - | | - | | 2,902,500 | | - | | 2,902,500 |
| Total liabilities | | 2,902,500 | | 53,536,062 | | 15,010,312 | | 1,187,012 | | 6,069,440 | | 78,705,326 | | (8,413,805) | | 70,291,521 |
| Stockholders' Equity | | 172,724,015 | | 91,678,638 | | 71,448,043 | | 8,161,017 | | 3,852,459 | | 347,864,172 | | (174,797,156) | | 173,067,016 |
| Total liabilities and stockholders' equity | \$ | 175,626,515 | \$ | 145,214,700 | \$ | 86,458,355 | \$ | 9,348,029 | \$ | 9,921,899 | \$ | 426,569,498 | \$ | (183,210,961) | \$ | 243,368,537 |

Glacial Lakes Corn Processors

Consolidating Statement of Operations
Year Ended August 31, 2007

| | Glacial Lakes Corn Processors | Glacial Lakes Energy, LLC | Aberdeen Energy, LLC | Missouri Valley Energy, LLC | Madison Energy, LLC | Total | Eliminations | Total |
|-------------------------------------|----------------------------------|------------------------------|-------------------------|--------------------------------|------------------------|----------------|-----------------|----------------|
| Product sales | \$ - | \$ 110,226,557 | \$ - | \$ - | \$ 15,959,552 | \$ 126,186,109 | \$ (15,959,552) | \$ 110,226,557 |
| Service revenue | - | 863,843 | - | - | - | 863,843 | - | 863,843 |
| Government incentives | - | 835,531 | - | - | - | 835,531 | - | 835,531 |
| Total revenue | - | 111,925,931 | - | - | 15,959,552 | 127,885,483 | (15,959,552) | 111,925,931 |
| Cost of sales | - | 78,630,945 | 59,012 | 616 | 15,444,832 | 94,135,405 | (15,959,552) | 78,175,853 |
| Gross profit | - | 33,294,986 | (59,012) | (616) | 514,720 | 33,750,078 | - | 33,750,078 |
| General and administrative expenses | 2,903 | 4,950,034 | 1,109,542 | 659,869 | 376,538 | 7,098,886 | - | 7,098,886 |
| Loss on impairment of assets | - | - | - | (853,548) | - | (853,548) | - | (853,548) |
| Operating income | (2,903) | 28,344,952 | (1,168,554) | (1,514,033) | 138,182 | 25,797,644 | - | 25,797,644 |
| Other income (expense): | | | | | | | | |
| Interest expense | - | (1,504,195) | - | - | - | (1,504,195) | 343,001 | (1,161,194) |
| Interest income | 1,684,404 | 326,660 | 811,644 | 173 | 14,790 | 2,837,671 | - | 2,837,671 |
| Equity in net income of affiliates | 29,845,845 | 4,502,615 | - | - | 1,600 | 34,350,060 | (28,924,804) | 5,425,256 |
| Loss on impairment of goodwill | - | - | - | - | (1,085,000) | (1,085,000) | - | (1,085,000) |
| Other, net | 48,200 | 44,983 | 1,600 | - | 9,387 | 104,170 | - | 104,170 |
| Income before income taxes | 31,575,546 | 31,715,015 | (355,310) | (1,513,860) | (921,041) | 60,500,350 | (28,581,803) | 31,918,547 |
| Income tax expense | 1,766,400 | - | - | - | - | 1,766,400 | - | 1,766,400 |
| Net income (loss) | \$ 29,809,146 | \$ 31,715,015 | \$ (355,310) | \$ (1,513,860) | \$ (921,041) | \$ 58,733,950 | \$ (28,581,803) | \$ 30,152,147 |