McGladrey & Pullen
Certified Public Accountants

Glacial Lakes Corn Processors

Consolidated Financial Report
08.31.2008

Contents

Independent Auditor's Report

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

We have audited the accompanying consolidated balance sheets of Glacial Lakes Corn Processors and Subsidiaries (collectively, the Cooperative) as of August 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. 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. The financial statements of Glacial Lakes Corn Processors and Subsidiaries for the year ended August 31, 2006, were audited by other auditors whose report, dated October 5, 2006, except for certain footnotes as to which the date is December 30, 2006 and February 28, 2008, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 audits provide a reasonable basis for our opinion.

In our opinion, the 2008 and 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, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Cooperative will continue as a going concern. As discussed in Note 17 to the consolidated financial statements, the Cooperative has suffered significant losses on futures and options contracts subsequent to August 31, 2008, is experiencing negative gross margins and is in violation of certain debt covenants. This raises substantial doubt about the Cooperative's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 17. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

McGladrey & Pullen, LLP

Sioux Falls, South Dakota
December 23, 2008

Glacial Lakes Corn Processors

Consolidated Balance Sheets
August 31, 2008 and 2007

Assets (Note 6)	2008	2007
Current Assets		
Cash and cash equivalents	$ 26,391,634	$ 12,131,056
Restricted cash (Note 6)	8,065,521	-
Receivables (Notes 2, 8, 10 and 12)	30,319,905	9,133,787
Inventories (Note 3)	17,076,446	6,047,699
Derivative financial instruments	20,556,281	4,521,193
Prepaid expenses	1,414,352	185,474
Total current assets	103,824,139	32,019,209
Investments in unconsolidated affiliates (Note 12)	15,810,409	17,866,019
Debt issuance costs, net of amortization of $461,283 and $484,508 as of August 31, 2008 and 2007, respectively (Note 5)	1,667,719	1,946,404
Other assets	15,000	64,114
Goodwill (Note 11)	-	3,827,202
Property and equipment, net (Note 4)	250,763,625	187,635,589
Total assets	$ 372,080,892	$ 243,358,537

Liabilities and Stockholders' Equity	2008	2007
Current Liabilities		
Current maturities of long-term debt (Note 6)	$ 158,715,230	$ 39,425
Revolving line of credit (Note 6)	9,900,000	-
Accounts payable (Note 8)	14,956,872	2,755,211
Construction payable (Note 10)	7,558,568	25,851,085
Checks in excess of bank balance	869,501	-
Accrued loss on forward purchase contracts	5,709,011	-
Accrued expenses	3,954,198	1,825,979
Total current liabilities	201,663,380	30,471,700
Long-Term Liabilities		
Long-term debt, less current maturities (Note 6)	210,926	36,019,917
Interest rate swaps (Note 6)	4,925,816	897,404
Deferred income taxes (Note 14)	2,009,500	2,902,500
Total liabilities	208,809,622	70,291,521
Commitments and Contingencies (Notes 6, 7, 8, 10, 17 and 18)		
Stockholders' Equity (Notes 15 and 16)		
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; 188,119,652 and 187,814,652 shares issued and outstanding as of August 31, 2008 and 2007, respectively	104,513	104,341
Additional paid-in capital	114,070,793	113,720,549
Unallocated capital reserve	26,141,776	28,514,935
Allocated capital reserve	22,954,188	30,727,191
	163,271,270	173,067,016
Total liabilities and stockholders' equity	$ 372,080,892	$ 243,358,537

See Notes to Consolidated Financial Statements.

Glacial Lakes Corn Processors

Consolidated Statements of Operations
Years Ended August 31, 2008, 2007, and 2006

	2008	2007	2006
Product sales (Notes 8 and 10)	$ 256,019,230	$ 110,226,557	$ 104,710,012
Service revenue (Notes 10 and 12)	1,367,574	863,843	3,685,098
Government incentive revenue	666,667	835,531	701,613
Total revenue	258,053,471	111,925,931	109,096,723
Cost of goods sold (Note 8)	234,250,857	78,175,853	63,255,409
Gross profit	23,802,614	33,750,078	45,841,314
General and administrative expenses	(7,717,289)	(7,098,886)	(4,220,823)
Gain (loss) on impairment of assets (Notes 10 and 18)	(8,037,972)	(853,548)	100
Operating income	8,047,353	25,797,644	41,620,591
Other income (expense):			
Interest expense (Note 6)	(6,919,684)	(1,161,194)	(1,243,582)
Interest income	474,380	2,837,671	309,089
Equity in earnings (loss) of unconsolidated affiliates (Note 12)	(581,776)	5,425,256	5,614,951
Loss on impairment of goodwill (Note 11)	(3,827,209)	(1,085,000)	-
Other income, net	88,377	104,170	48,266
Income (loss) before income taxes	(2,718,559)	31,918,547	46,349,315
Income tax (expense) benefit (Note14)	345,400	(1,766,400)	(1,900,000)
Net income (loss)	$ (2,373,159)	$ 30,152,147	$ 44,449,315
Distribution of net income (loss):			
Allocated capital reserve	$ -	$ 24,676,109	$ 31,619,591
Unallocated capital reserve	(2,373,159)	5,476,038	12,829,724
Net income (loss)	$ (2,373,159)	$ 30,152,147	$ 44,449,315
Earnings (loss) per common share (Note 16):			
Basic	$ (0.013)	$ 0.175	$ 0.319
Diluted	(0.013)	0.175	0.319

See Notes to Consolidated Financial Statements.

Glacial Lakes Corn Processors

Consolidated Statements of Stockholders' Equity
Years Ended August 31, 2008, 2007, and 2006

	Common Stock	Additional Paid-In Capital	Unallocated Capital Reserve	Allocated Capital Reserve	Total
Balance, August 31, 2005	$ 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 16)	100	1,364,900	-	-	1,365,000
Repurchase of stock, 180,000 shares (Note 16)	(100)	(79,100)	-	-	(79,200)
Stock issued, 112,500 shares (Note 16)	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	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 15 and 16)	520	1,744,480	-	-	1,745,000
Stock issued, 47,150,000 shares (Note 16)	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 13)	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
Net loss	-	-	(2,373,159)	-	(2,373,159)
Stock-based compensation, including 412,500 shares issued (Notes 15 and 16)	233	514,711	-	-	514,944
Stock repurchased under stock plan for tax withholding, 107,500 shares	(61)	(164,467)	-	-	(164,528)
Patronage distributions	-	-	-	(7,773,003)	(7,773,003)
Balance, August 31, 2008	$ 104,513	$ 114,070,793	$ 26,141,776	$ 22,954,188	$ 163,271,270

See Notes to Consolidated Financial Statements.

Glacial Lakes Corn Processors

Consolidated Statements of Cash Flows
Years Ended August 31, 2008, 2007, and 2006

	2008	2007	2006
Cash Flows From Operating Activities			
Net income (loss)	$ (2,373,159)	$ 30,152,147	$ 44,449,315
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation, amortization and accretion	15,348,024	5,915,969	5,407,084
Deferred income taxes	(893,000)	1,002,500	1,900,000
(Gain) loss on impairment of assets	8,037,972	853,548	(100)
Loss on forward purchase contracts	5,709,011	-	-
Equity in undistributed (earnings) loss of unconsolidated affiliates	2,057,118	(4,775,256)	(3,528,711)
Loss on impairment of goodwill	3,827,202	1,085,000	-
Stock-based compensation	514,944	1,745,000	1,365,000
Stock received for services	-	-	(2,021,052)
Changes in assets and liabilities:			
Receivables	(21,186,118)	(1,308,379)	(2,569,802)
Inventories	(11,028,747)	2,559,909	676,734
Derivative financial instruments	(12,006,676)	(1,134,015)	(2,335,942)
Prepaid expenses	(1,228,878)	(101,877)	11,044
Other assets	49,114	(64,114)	(31,850)
Accounts payable	12,201,661	983,819	(1,251,849)
Accrued expenses	1,963,691	678,662	222,053
Net cash provided by operating activities	992,159	37,592,913	42,291,924
Cash Flows From Investing Activities			
Purchases of property and equipment	(104,345,266)	(125,911,872)	(4,653,007)
Increase in restricted cash	(8,065,521)	-	-
Acquisitions, net (Note 13)	-	(8,117,554)	-
Investment in unconsolidated affiliates	(1,508)	(98,750)	(829,704)
Other investments	-	-	(1,867,965)
Net cash used in investing activities	(112,412,295)	(134,128,176)	(7,350,676)
Cash Flows From Financing Activities			
Proceeds from revolving lines of credit	51,661,606	-	-
Payments on revolving lines of credit	(41,761,606)	-	-
Proceeds from long-term debt	124,704,333	21,073,244	-
Payments on long-term debt	(1,837,519)	(1,085,098)	(8,492,785)
Debt issuance cost paid	(182,598)	(1,946,404)	-
Checks in excess of bank balance	869,501	-	-
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	(7,773,003)	(9,180,123)	(23,396,700)
Net cash provided by (used in) financing activities	125,680,714	103,665,495	(32,445,772)
Net increase in cash and cash equivalents	14,260,578	7,130,232	2,495,476
Cash and Cash Equivalents			
Beginning	12,131,056	5,000,824	2,505,348
Ending	$ 26,391,634	$ 12,131,056	$ 5,000,824
Supplemental disclosures of cash flow information			
Cash paid for interest, excluding capitalized interest	$ 5,886,768	$ 1,307,428	$ 1,586,791
Cash paid for capitalized interest	5,029,748	1,323,223	-
Cash paid for income taxes	726,351	1,072,300	-
Supplemental schedule of noncash investing operating activities			
Accounts payable incurred for property and equipment	7,558,568	25,851,085	321,367
Stock exchanged for other assets	-	-	225,000
Stock repurchased for tax withholding	164,528	-	-

See 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 to build and operate ethanol plants in South Dakota for commercial sales throughout the United States of America. Wholly-owned subsidiaries of GLCP are Glacial Lakes Energy, LLC (GLE), Aberdeen Energy, LLC (AE), Missouri Valley Energy, LLC (MVE) and Madison Energy, LLC (ME). GLE owns and operates a 105 million gallon per year ethanol plant near Watertown, South Dakota and provides management services to unconsolidated affiliates. AE owns and operates a 110 million gallon per year ethanol plant near Aberdeen, South Dakota and ME owns and operates a grain elevator near Madison, Minnesota.

Principles of consolidation: The financial statements include the accounts of GLCP and its wholly-owned subsidiaries (collectively, the Cooperative). All significant inter-company accounts and transactions 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 revenue and expense 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, and impairment losses.

Revenue recognition: Revenue from product sales is recorded when the product is loaded and title transfers to the customer. Product sales are recorded net of outbound freight, which is paid by the marketer, and commissions. Service revenue is recognized as earned. Government incentive revenue is recognized in accordance with the terms of the agreements.

Expense classification: Cost of goods sold primarily includes raw materials, payroll for plant employees and general plant overhead charges. General and administrative expenses consist primarily of payroll for management and accounting employees and fees paid to service providers for legal, accounting and consulting services.

Shipping and commission costs: Shipping costs for product sales are generally paid by the Cooperative's marketer. Shipping and commissions costs paid to the marketer are presented on a net basis in product sales on the consolidated statements of operations. Shipping costs were $30,860,644, $10,771,498 and $9,389,174, and commission costs were $1,532,769, $811,570 and $815,419 for the years ended August 31, 2008, 2007 and 2006, respectively.

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 and cash equivalents: The Cooperative considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. The Cooperative maintains its cash and cash equivalents in bank deposit accounts which frequently exceed federally insured limits. The Cooperative has not experienced any losses in such accounts. The Cooperative believes it is not exposed to any significant credit risk on cash and cash equivalents.

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

Restricted cash: Restricted cash is held in a deposit account at one bank, which exceeds federally insured limits. Restricted cash represents loan proceeds not used for construction costs.

Receivables: Receivables are carried at original invoice amount less an allowance made 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.

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 purchase and sales contracts for corn, natural gas, denaturant and distiller's grain, which meet the definition of a derivative under the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standard (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities,* but qualify for the normal purchase / normal sale exception to fair value 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 cannot be recovered through the sale of ethanol, a loss is recorded on the contract. Such losses are included in cost of goods sold and accrued loss on forward purchase contracts.

Forward contracts entered into by ME and exchange-traded futures contracts are marked to market as derivative financial instruments on the consolidated balance sheets. Changes in fair value are included in product sales or cost of goods sold on the consolidated statements of operations with the commodity being hedged.

Interest rate swap agreements: 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.

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

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 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 is depreciated when construction is complete and the property and equipment is placed into service. Repairs and maintenance costs are expensed as incurred and significant improvements are capitalized.

Long-lived assets: The Cooperative reviews long-lived assets used in operations for impairment when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets.

Debt issuance costs: Debt issuance costs are amortized over the term of the related debt instrument by a method that approximates the effective interest method.

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.

Income taxes: The Cooperative is a non-exempt cooperative association subject to federal income tax on non-patronage 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 non-patronage 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, interest rate swaps, stock-based compensation and certain recorded losses. No deferred income taxes are recognized on these differences.

Earnings (loss) per common share (EPS): Basic EPS is computed by dividing net income (loss) available to common stockholders 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.

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

Stock-based compensation: In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123R). SFAS No. 123R 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 Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25) and its related interpretations.

In September 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, accounts payable, checks in excess of bank balance, accrued losses and accrued expenses approximate fair value. Fair values for derivative financial instruments are determined based on quoted market prices. Fair values of interest rate swap agreements are obtained from the counterparty, who computes the values based upon nominal and current interest rates. Derivative financial instruments and interest rate swap agreements 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 revolving lines of credit or 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,* which has been modified by subsequent FASB Staff Position Statements. 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 effective date of this pronouncement for financial assets and liabilities is for fiscal years beginning after November 15, 2007 and for nonfinancial assets and liabilities is for fiscal years beginning after November 15, 2008, and is applied on a prospective basis. 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 and 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. FASB has issued a proposed Staff Position Statement which will delay the effective date one more year. The Cooperative is currently evaluating the impact of adopting FIN 48 on its 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 and is evaluating the effect, if any, on its financial position or results in operations.

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 Statement No. 160 will be effective for the Cooperative for the year ending August 31, 2010 and is evaluating the effect, if any, on its financial position or results in operations.

In March 2008, the FASB issued statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133,* which requires expanded qualitative disclosures about objectives and strategies for using derivatives, qualitative disclosures about fair value amounts of and gains and losses on derivative instruments, and credit-risk related contingent features in derivative instruments. This statement is effective for financial statements issued for reporting periods beginning after November 15, 2008. The Cooperative will adopt FASB Statement No. 161 for the year ending August 31, 2010 and is evaluating the effect, if any, on its financial position or results in operations

Note 2. Receivables

The following table summarizes receivables as of August 31, 2008 and 2007:

	2008	2007
Trade	$ 23,299,260	$ 3,735,326
Government programs	166,667	166,667
Broker	2,454,415	3,624,069
Income taxes	487,151	308,400
Sales tax refund	2,347,505	-
Other	1,597,619	1,327,720
	30,352,617	9,162,182
Less allowance for doubtful accounts	32,712	28,395
	$ 30,319,905	$ 9,133,787

Note 3. Inventories

The following table summarizes inventories as of August 31, 2008 and 2007:

	2008	2007
Grain	$ 6,182,221	$ 3,995,739
Ethanol and distiller's grains:		
Finished goods	3,912,350	475,697
In process	4,497,816	648,157
Chemicals and ingredients	1,528,286	355,704
Spare parts	955,773	572,402
	$ 17,076,446	$ 6,047,699

Inventories were reduced by approximately $1,000,000 as of August 31, 2008 to adjust for market values which were less than cost. This adjustment was recognized in cost of goods sold.

Note 4. Property and Equipment

The following table summarizes property and equipment as of August 31, 2008 and 2007:

	2008	2007
Land and land improvements	$ 8,935,015	$ 2,602,165
Buildings	29,870,247	2,643,449
Railroad equipment and rolling stock	11,587,391	1,633,316
Machinery and equipment	240,109,207	52,928,207
Office equipment	622,375	540,673
Construction in progress	400,857	153,162,505
	291,525,092	213,510,315
Less accumulated depreciation	40,761,467	25,874,726
	$ 250,763,625	$ 187,635,589

Depreciation expense for the years ended August 31, 2008, 2007 and 2006 was $14,886,741, $5,772,387 and $5,315,892, respectively.

Note 5. Debt Issuance Costs

Debt issuance costs: Amortization of debt issuance costs was $461,283, $139,336 and $91,191 during the years ended August 31, 2008, 2007 and 2006, respectively. Future amortization of debt issuance costs is as follows:

Years ending August 31,		
2009	$	425,799
2010		425,799
2011		425,799
2012		390,322
	$	1,667,719

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

The following table summarizes the revolving lines of credit as of August 31, 2008 and 2007:

	2008	2007
GLE	$ -	$ -
AE	9,900,000	-
Total	$ 9,900,000	$ -

Under the loan agreement with a group of lenders administered by First National Bank of Omaha (the Bank), GLE and AE each have a $10,000,000 revolving line of credit. Each revolving line of credit matures on July 17, 2009. The revolving lines of credit bear an interest rate at 3.00% above the 1-month LIBOR (5.56% at August 31, 2008 and 8.32% at August 31, 2007). Amounts available under the revolving lines of credit are subject to a borrowing base, which is calculated as a percentage of eligible receivables, certain inventory categories and hedging account balances.

On October 3, 2008, the lenders suspended any availability under the revolving lines of credit based on being informed of the level of losses from hedging activities in September and October (see Note 17) and that the amount outstanding on the revolving lines of credit on that date ($7,120,000 for AE) exceeded its borrowing base. With receipt of amounts from shareholders under the prepaid unit retain provision of the Cooperative’s bylaws (see Note 18) and the release of excess construction loan funds for GLE, management expects sufficient funds to be available to reduce the outstanding balance on the AE revolving line of credit to be in compliance with its borrowing base, however it is likely that the Cooperative will continue to be in violation of a required fixed charge coverage ratio of at least 1.25 to 1.00 on a trailing 12 month basis.

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

The following table summarizes long-term debt as of August 31, 2008 and 2007:

	2008	2007
GLE:		
Variable note (see details below)	$ 46,823,385	$ -
Swap note (see details below)	31,484,509	-
Construction loan (see details below)	-	35,957,494
Equipment loan, due in monthly installments of $3,285 with a maturity date of March 2010, collateralized by related equipment	62,423	101,848
Total GLE	78,370,317	36,059,342
AE:		
Construction loan (see details below)	80,213,725	-
Equipment loan, due in monthly installments of $9,750 including interest at 4.25%, with a maturity date of April 2011, collateralized by related equipment	294,469	-
Equipment loan, due in monthly installments of $23,323 with a maturity date of October 2008, collateralized by related equipment	47,645	-
Total AE	80,555,839	-
	158,926,156	36,059,342
Less current maturities	158,715,230	39,425
	$ 210,926	$ 36,019,917

<u>Loan agreement and amendments</u>: The Cooperative, GLE and AE entered into a loan agreement with a group of lenders administered by the Bank on July 19, 2007. The proceeds from the GLE construction loan were used to payoff the outstanding term loans of $15,000,000 with the same group of lenders. The remaining proceeds were used to fund the expansion of the GLE plant and to construct the AE plant. The construction loan amounts (convertible into term loans) available for GLE and AE are $80,000,000 and $90,000,000, respectively. The GLE construction loan was converted to term loans in March 2008 and the AE construction loan terminates on January 20, 2009 and is convertible into term loans as described in the following paragraph. The construction loans bear an interest rate of 3.00% above the 1-month LIBOR (5.56% at August 31, 2008 and 8.32% at August 31, 2007). Under the loan agreement, there are incentive pricing rate reductions available if certain financial ratios are met. Amounts borrowed under the new loan agreement are secured by substantially all of the assets of the Cooperative, GLE and AE (except for the interest in MVE). The Cooperative paid a fee at closing of $1,445,000 (0.85% on the total commitment).

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

Loan agreement and amendments (continued):Upon successful completion of the projects, the construction loans are to be converted into variable-rate term loans with a five-year maturity (March 20, 2013 for GLE and June 20, 2013 for AE). The term loans will consist of a swap note and a variable note. For GLE at conversion in March 2008, the variable note had a balance of $48,000,000 and the swap note had a balance of $32,000,000. For AE at conversion, the variable note will have a maximum balance of $54,000,000 and the swap note will have a balance of $36,000,000. Under the variable notes, fixed quarterly payments of $1,791,816 and $2,015,792 are due for GLE and AE, respectively, with amounts allocated to accrued interest first and then to principal reduction. Under the swap notes, variable quarterly principal payments (based on ten-year amortization) plus accrued interest are due.

The variable notes will bear an interest rate of 3.00% above the 3-month LIBOR (5.79% at August 31, 2008) and the swap notes will bear an interest rate of 2.80% above the 3-month LIBOR (5.59% at August 31, 2008).

In connection with the conversion of the GLE construction loan to term loans in March 2008, GLE borrowed up to the full $80,000,000 available and deposited the excess amounts into an escrow account held by the Bank. The amount remaining in the GLE construction escrow account at August 31, 2008 was approximately $8,000,000 and is shown as restricted cash in the consolidated balance sheet.

Under the loan agreements, the Bank agreed to provide a facility for standby letters of credit. As of August 31, 2008, AE has outstanding standby letters of credit of $2,000,000 and GLE has no standby letters of credit outstanding.

On December 3, 2008, the Cooperative, GLE and AE signed an Amendment to loan agreement with the group of lenders. The major provisions of the amendment are as follows: (a) the Cooperative stated that it will approve a prepaid unit retain capital call of no less than $0.06 per share to raise no less than $11,300,000 on a best efforts basis from its shareholders (see Note 18), (b) to consent to any changes needed in the current ethanol marketing agreement to effect an increase in the net price received from the sale of ethanol, (c) the Cooperative agreed to raise additional capital on a best efforts basis in addition to the prepaid unit retain capital call, (d) the Cooperative agreed to retain a professional financial consultant and advisor acceptable to the Bank, (e) the Cooperative agreed not to establish any new hedging positions until a new risk management policy is adopted and approved in writing by the Bank, (f) the Cooperative agreed to provide a report to the Bank by an independent party on hedging activities during calendar year 2008, (g) advances on the revolving lines of credit and draw requests under the AE construction loan will only be made in strict compliance with the amended loan agreements, (h) to consent to executing the subordinated note payable of $3,370,008 with FCStone (any default of the subordinated note shall be a default of this loan agreement see Note 18), (i) to consent to the sale of the ME elevator (see Note 18) and the sale of 2,000 units of GFE ownership (see Note 18), (j) to allow the Cooperative to use $1,000,000 from the sale of the ME elevator and to use $2,000,000 from the sale of GFE units as working capital (k) to consent to the release of $5,000,000 from the GLE construction escrow account to be used as working capital to match amounts raised by the Cooperative's prepaid unit retain capital call, and (l) to transfer the remaining $3,000,000 balance of the GLE construction escrow account to a debt service reserve account controlled by the Bank. In consideration for the amendment, the Cooperative will pay an administration fee to the group of lenders of $212,500 (0.00125 of the total commitment) and the interest rate on the revolving line of credit and the term loans will increase by 0.25%.

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

Interest rate swap agreements: The Cooperative has entered into various interest rate swap agreements with the Bank. The swap agreements were entered into to reduce the volatility of interest rates under the variable notes and the swap notes. In conjunction with the swap notes under the loan agreement, the Cooperative entered into two swap agreements on August 16, 2007 with the following terms:

	GLE	AE
Effective date	June 20, 2008	June 20, 2008
Expiration date	March 20, 2013	June 20, 2013
Original notional amount	$ 32,000,000	$ 36,000,000
Notional amount at August 31, 2008	$ 31,484,509	$ 36,000,000
Fixed rate paid by Cooperative	7.950%	7.985%
Variable rate received by Cooperative	2.80% above 3-month LIBOR	

On June 23, 2008, the Cooperative entered into six additional swap agreements with the Bank related to variable notes with the following terms:

	GLE	AE
Effective date	June 20, 2008	June 20, 2008
Expiration date	June 20, 2011	June 20, 2011
	June 21, 2012	June 21, 2012
	March 20, 2013	June 22, 2013
Combined original notional amount	$ 20,000,000	$ 25,000,000
Notional amount at August 31, 2008	$ 20,000,000	$ 25,000,000
Average fixed rate paid by Cooperative	7.5641%	7.5673%
Variable rate received by Cooperative	3.00% above 3-month LIBOR	

The notional amounts on these swap agreements reduce on a quarterly basis in proportion to the scheduled principal reduction under the notes for the respective time periods. The swap agreements require settlement payments to be made or received quarterly.

The fair value of the swap agreements was recorded as a liability of $4,925,816 as of August 31, 2008 and $897,404 as of August 31, 2007. In 2008, the Cooperative recorded the decrease of $4,028,412 in the fair value of the swap agreements in interest expense in the consolidated statement of operations. In 2007, the Cooperative recorded the decrease of $1,205,392 in the fair value of the swap agreements in interest expense in the consolidated statement of operations and as part of the interest capitalized.

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

Covenants and requirements of loan agreement: The loan agreement (as amended) and related documents contain (i) a number of covenants restricting excess cash and cash distributions to shareholders, (ii) other requirements such as sufficient property and liability insurance coverage, minimum working capital levels, and minimum tangible net worth and (iii) maintenance of certain financial ratios including a historical fixed charges coverage ratio and a total debt-to-tangible net worth ratio. The loan agreement will require additional principal payments under the variable notes be made quarterly by GLE and/or AE based on 25% of their “excess cash flow”, as defined in the loan agreement.

The loan agreement requires GLE and AE each to fund a debt service reserve account to be a source of cash for payment of principal and interest in case either entity is not able to make its scheduled quarterly payments. The amounts that will need to be funded into the debt service reserve accounts are estimated at $3,000,000 for GLE and $3,300,000 for AE. Under the amendment to the loan agreement signed on December 3, 2008, approximately $3,000,000 of the cash received from full funding the construction loan prior to the conversion into the term loans will be used to fund the debt service reserve account of GLE.

Under the loan agreement, GLE and AE are allowed to make minimum tax distributions (up to 40% of financial-basis income) to GLCP so that they can be passed on to shareholders to pay income taxes on patronage income allocated to them. In order to pay additional distributions to shareholders, GLE and AE are required to (a) fully fund the respective debt service reserve accounts, (b) pay down the term loans to the targeted balance (based on seven-year loan amortization) and (c) show compliance will all financial covenants after the proposed distribution.

In connection with the amendment of the loan agreement signed on December 3, 2008, the Cooperative, GLE and AE stated that GLE and AE are not expected to be in compliance with the following covenants as of November 30, 2008 or February 28, 2009: minimum tangible net worth (GLE and AE), the historical fixed charges coverage ratio (GLE and AE) and minimum working capital (AE). Even with receipt of amounts from shareholders under the prepaid unit retain capital call (see Note 18) and the release of excess construction loan funds for GLE, the Cooperative will need to raise additional equity (from existing shareholders or from new shareholders) to contribute into GLE and AE in order to be in compliance with the loan agreement

Future principal payments: Construction and term loans under the loan agreement are presented as current liabilities, due to debt covenant violations subsequent to August 31, 2008. Maturities of long-term debt as of August 31, 2008 are estimated as follows:

Years ending August 31,	GLE	AE	Total
2009	$ 78,347,319	$ 80,367,911	$ 158,715,230
2010	22,998	111,159	134,157
2011	-	76,769	76,769
Total	$ 78,370,317	$ 80,555,839	$ 158,926,156

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

The AE construction loan is expected to convert to a variable note and a swap note with a five-year maturity upon the termination of the construction loan on January 20, 2009.

Note 7. Leases

The Cooperative leases 375 hopper cars 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, 2008, 2007 and 2006 totaled $796,706, $398,485 and $399,560, respectively. During the year ended August 31, 2008, 2007 and 2006 the Cooperative sub-leased certain of the hopper cars to other ethanol plants on a short-term basis and recorded $46,940, $100,704 and $455, 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, 2008 and 2007 were $70,987 and $54,487, respectively.

Minimum lease payments in the future years are as follows:

Years ending August 31,		
2009	$	1,952,100
2010		1,579,575
2011		1,261,800
2012		935,100
2013		324,000
	$	6,052,575

Note 8. 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 72,426,066 and 37,562,930 bushels of corn (0.385 and 0.20 bushels per share, respectively) for the years ended August 31, 2009 and 2008, 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, 2008, 2007 and 2006 the Cooperative purchased corn from its members (including committed bushels described above) as follows:

	Bushels	Dollars
2008		
Individuals	9,965,868	$ 45,196,964
Elevators	17,094,915	82,224,255
Totals	27,060,783	$ 127,421,219
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

Included in the amounts paid to the members of the Cooperative for the purchase of corn for the years ended August 31, 2008, 2007 and 2006, the Cooperative paid $459,970, $317,495 and $341,022, respectively, as freight allowance on committed bushels and $59,152, $66,380 and $62,248, respectively, as additional price to those members who purchased over 50,000 shares of stock at the time the Cooperative was organized (called "Commercial Level Investors").

Note 8. Related Party Transactions and Concentrations (continued)

Distiller's grain sales: For the years ended August 31, 2008, 2007 and 2006, the Cooperative sold distiller's grain to members of the Cooperative as follows:

	Tons		Dollars
2008			
Dry distiller's grain ("DDG")	86,448	$	8,682,822
Wet distiller's grain ("WDG")	154,216		6,954,727
Totals	240,664	$	15,637,549
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

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, 2008, 2007 and 2006, the Cooperative calculated the following discounts:

		2008		2007		2006
Equivalent tons of DDG		15,397		11,458		9,965
Discount amount	$	31,023	$	17,906	$	11,000

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

Receivables and payables: As of August 31, 2008 and 2007, amounts receivable from or due to members of the Cooperative were as follows:

		2008		2007
Receivables for distiller's grains	$	590,763	$	281,291
Receivables for net pool fees		295,135		144,900
Payables for corn and freight allowances		4,015,213		1,162,666
Fees payables to Commercial Level Investors		37,081		21,716
Payable for discount on distiller's grain		31,023		17,906

Major customer: For the years ended August 31, 2008, 2007 and 2006, the Cooperative recorded product sales of $211,860,286, $97,533,153 and $93,498,049, 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, 2008 and 2007 were $18,341,799 and $2,863,758, respectively.

Note 9. Defined Contribution Plan

The Cooperative has established a 401(k) plan for its employees. 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. 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, 2008, 2007 and 2006, the Cooperative contributed (net of forfeitures) $93,876, $61,726 and $36,230, respectively, to the 401(k) plan.

Note 10. 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: Cooperative has an agreement with a national marketer ("Aventine") to sell to 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 at the anniversary date of August 31, 2008 for GLE and with a two year notice at the anniversary of June 30, 2008 for AE. 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 from the Cooperative. The lease amount will not exceed $630 per railcar per month. At August 31, 2008, 700 railcars were applicable to this agreement.

In May 2008, the Cooperative notified Aventine of the Cooperative's intent to terminate the marketing agreement. Negotiations are ongoing for early termination. As part of the marketing contract settlement, the Cooperative may be required to assume leases of 700 railcars currently leased by the marketing partner. The Cooperative may incur other costs to terminate the agreement early.

Under such a termination, the minimum lease payments in the future years are anticipated to be as follows:

Years ending August 31,	
2009	$ 5,177,664
2010	4,901,394
2011	4,564,974
2012	4,196,874
2013	3,888,618
Thereafter	8,339,980
	$ 31,069,504

Distiller's grain marketing: The Cooperative has an agreement with a national distiller's grain marketer to sell 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 allows the Cooperative to sell distiller's grain shipped by truck while the national marketer sells distiller's grain shipped by railcars.

Note 10. Commitments and Contingencies (continued)

Forward purchase and sales contracts: As of August 31, 2008, the Cooperative has entered into forward contracts to purchase 10,631,022 bushels of corn at an average contract price of $5.41 per bushel primarily for delivery by January 31, 2009. Included in these amounts are 7,376,239 bushels from members of the Cooperative for their committed bushels for the year ending August 31, 2009.

As of August 31, 2008, the Cooperative reflected an accrued loss on these future commitments of $5,709,011, which is reflected through costs of goods sold. Subsequent to August 31, 2008, corn and ethanol prices have continued to decline, which will likely cause additional losses to be recognized on these contracts.

As of August 31, 2008, the Cooperative has entered into forward contracts to purchase 1,282,000 gallons of denaturant for delivery through December 2008 with prices indexed to the Conway monthly average and 472,000 gallons for delivery through December 2008 with price indexed to the Mt Belvieu monthly average. In addition, the Cooperative has entered into contracts to purchase 570,000 mmBTU of natural gas through March 2009 at fixed prices and 1,950,000 mmBTU of natural gas optioned through March 2009.

Under the agreement with the national 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 primarily through December 2008. As of August 31, 2008, the Cooperative has entered into commitments with another third party for the sale of 44,334,000 gallons of ethanol at an average gross price of $2.03.

As of August 31, 2008, the Cooperative has also entered into contracts for the sale of approximately 7,091 tons of DDG and approximately 8,475 tons of WDG primarily through May 2009 at fixed prices.

Internal Revenue Service examination: The Cooperative's and GLE's Federal income tax returns for the years ended August 31, 2003 and 2004 were selected for examination by the Internal Revenue Service ("IRS"). The IRS had proposed adjustments related to two issues. One issue related to the appropriate term in which to depreciate ethanol production equipment. The other issue related to whether a portion of the Cooperative's taxable income should be reclassified as non-patronage income. The IRS later suspended all efforts to adjust the term in which to depreciate ethanol production equipment pending further guidance, and no such guidance has yet been issued. The IRS then withdrew its proposed adjustments on both issues and issued "no adjustment" letters to both the Cooperative and GLE for the years ended August 31, 2003 and 2004. In April, 2008, the IRS began an examination of the Cooperative's Federal income tax returns for the years ended August 31, 2005 and 2006. GLE's tax information for those years was included in the Cooperative's income tax return, so it is not examined separately. The Cooperative responded to IRS information requests in May 2008, and has heard nothing further from the IRS. Accordingly, it is not known whether the IRS will assert any adjustments to the Cooperative's taxable income for the years ended August 31, 2005 and 2006, and it is not possible to estimate a range of potential assessments, if any.

Note 10. Commitments and Contingencies (continued)

Dispute with Granite Falls Energy, LLC over the operating and management agreement: As further described in Note 12, 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. In August 2008, the dispute over the termination of the GFE Management Agreement was settled. The settlement does not affect the ownership interest of the Cooperative. As part of the settlement, the Cooperative received $1,825,000 of which $1,054,000 had been accrued as of August 31, 2007 and $771,000 is recorded for the year ended August 31, 2008 as service revenues. In addition, the Cooperative shall receive a sum equal to 2% of the net income of Granite Falls for each of Granite Fall's fiscal years 2008 and 2009, and a sum equal to 1.5% for fiscal year 2010. As of August 31, 2008, no amount was due under this agreement.

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 105 million gallons per year. At August 31, 2008 and 2007, the Cooperative had incurred approximately $82,260,000 and $61,850,000, respectively, of costs related to the expansion. The expansion began production in December 2007.

Construction of Aberdeen Energy, LLC: In 2006, the Cooperative announced its intention to build a 110 million gallon per year plant in the Aberdeen, South Dakota area. In August 2006, the Cooperative purchased land near Mina, South Dakota for the proposed plant, and signed a design-build contract with Fagen, Inc. ("Fagen") for the construction of the plant. At August 31, 2008 and 2007, the Cooperative had incurred approximately $146,870,000 and $82,000,000 of costs related to the construction, respectively. The project was funded with $90,000,000 of new debt financing (see Note 6) and $71,800,000 of the proceeds from the Cooperative's equity offering in August 2006 (see Note 16). The plant began production in June 2008.

Note 10. Commitments and Contingencies (continued)

Construction of Missouri Valley Energy, LLC: In 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.

The project was suspended in October 2007 due to economic factors in the industry. At August 31, 2008, MVE had incurred a total of approximately $9,700,000 of costs related to the project. At August 31, 2008, MVE had a receivable from the contactor of $1,155,440 which was received in December 2008. The Cooperative 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. In August 2008, due to economic factors in the industry, the Cooperative discontinued plans to construct an ethanol plant on the MVE site. As such, the Cooperative has written the land and improvements down to the appraised value of $1,392,000. The charge to income in 2008 amounted to $7,432,651. The Cooperative intends to sell the land in 2009.

Note 11. Goodwill

Goodwill recognized as of August 31, 2007 represented the cost of acquiring a minority interest in GLE in excess of the fair value of tangible and identifiable intangible assts 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.

As of August 31, 2008, the Cooperative completed its annual goodwill impairment analysis and recognized an impairment loss of the entire $3,827,202 balance. 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 13). The impairments are the result of depressed economic conditions within the ethanol industry and management's decision to terminate the related ethanol project at ME. The fair value of the reporting units used to determine the impairments were determined based upon discounted cash flow analyses.

Note 12. Investments in Unconsolidated Affiliates

The Cooperative had the following investments in other renewable fuel businesses at August 31, 2008 and 2007, respectively:

	2008	2007
Granite Falls Energy, LLC	$ 12,199,239	$ 14,464,078
Redfield Energy, LLC	3,609,668	3,401,941
Other	1,502	-
	$ 15,810,409	$ 17,866,019

Note 12. Investments in Unconsolidated Affiliates (continued)

Investment in Granite Falls Energy, LLC: The Cooperative owns 6,525 units (20.94%) of Granite Falls (see Note 18). 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, 2008, the Cooperative recognized no monthly fees, but recognized approximately $771,000 under the settlement of a dispute over termination of the agreement (see Note 10). For the year ended August 31, 2007 the Cooperative recognized $75,000 in monthly fees and $237,380 of incentive fees under the agreement.

As of August 31, 2008 and 2007, the Cooperative's recorded investment in Granite Falls exceeded its ownership interest percentage in the equity of the affiliate by $350,958 and $399,929, 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, 2008, 2007, and 2006, the Cooperative recognized equity in net income (loss) of the affiliate of $(959,839), $5,107,188 and $5,606,835, and received cash distributions of $1,305,000, $650,000 and $2,086,240, respectively. Subsequent to August 31, 2008, additional losses have been recognized by Granite Falls as a result of unfavorable commodity prices in the ethanol industry.

Note 12. Investments in Unconsolidated Affiliates (continued)

Investment in Granite Falls Energy, LLC (continued): The Cooperative's equity in the net income (loss) 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 July 31, 2008 and October 31, 2007 (its fiscal year end) and for the nine months ended July 31, 2008 and years ended October 31, 2007 and 2006, is as follows:

Condensed Balance Sheets

	July 31, 2008 (unaudited)	October 31, 2007
Current assets	$ 17,859,432	$ 15,901,679
Property and equipment, net	50,277,901	54,677,788
Other assets, net	36,393	38,493
Total assets	$ 68,173,726	$ 70,617,960
Current liabilities	$ 11,644,101	$ 10,908,043
Long-term debt	460,134	518,868
Members equity	56,069,491	59,191,049
Total liabilities and members equity	$ 68,173,726	$ 70,617,960

Condensed Statements of Operations

	Nine Months Ended (unaudited) July 31, 2008	Year Ended October 31, 2007	Year Ended October 31, 2006
Revenues	$ 72,781,686	$ 94,776,725	$ 93,549,478
Cost of goods sold	(73,573,560)	(75,772,701)	(54,539,754)
Gross profit (loss)	(791,874)	19,004,024	39,009,724
Operating expenses	(2,417,300)	(2,807,130)	(2,894,018)
Other income, net	142,966	465,463	203,918
Interest expense	(55,350)	(730,616)	(2,258,023)
Government programs	-	-	684,067
Net income (loss)	$ (3,121,558)	$ 15,931,741	$ 34,745,668
Weighted average units outstanding	31,156	31,156	31,156
Net income (loss) per unit	$ (100)	$ 511	$ 1,115

Note 12. Investments in Unconsolidated Affiliates (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, 2008, 2007 and 2006, the Cooperative recognized $583,627, $551,463 and $420,000, respectively, under the agreement. At August 31, 2008 and 2007, amounts due to the Cooperative under the agreement were $135,817 and $156,174, 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 receive a minimum liquidating distribution of $2.00 per unit. The Cooperative recognized the receipt of the new units as service revenue 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, 2008 and 2007, the Cooperative's recorded investment in Redfield was less than its estimated underlying equity in the net assets of the affiliate by $159,489 and $177,892, 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, 2008, 2007 and 2006 the Cooperative recognized equity in net income of Redfield of $378,066, $318,068 and $8,116 and received cash distributions of $170,339, $0 and $0, respectively. Redfield commenced operations in April 2007. Subsequent to August 31, 2008, losses have been recognized by Redfield as a result of unfavorable commodity prices in the ethanol industry.

Note 13. 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 (see Note 10).

Cash	$	304,446
Land options		50,350
Intangible assets		295,204
Total assets acquired	$	650,000

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 11).

Inventory and contracts	$	4,222,000
Property and equipment		3,115,000
Goodwill		1,085,000
Total assets acquired	$	8,422,000

Note 14. Income Taxes

The provision for income taxes (benefits) charged to income for the years ended August 31, 2008, 2007 and 2006 consists of the following:

	2008	2007	2006
Current expense	$ 547,600	$ 763,900	$ -
Deferred tax	(893,000)	1,002,500	1,900,000
	$ (345,400)	$ 1,766,400	$ 1,900,000

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. During the year ended August 31, 2008, the Cooperative incurred a patronage loss for tax purposes of approximately $38,000,000. The most significant differences between book and tax loss are depreciation and recognition of derivative financial instruments.

See Note 10 related to pending IRS examination.

Note 15. 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. No new grants were issued for the year ended August 31, 2008. 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 a former CEO were 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.

Note 15. 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 Cooperative applied an annual estimated forfeiture rate of 8% when calculating the number of shares expected to vest, based upon the Cooperative's historical experience, for the awards to participants other than the former CEO. The Cooperative applied a 50% cumulative forfeiture rate for the awards to the former CEO based upon the actual experience of the Cooperative.

The total stock-based compensation expense recognized by the Cooperative under the Stock Plan during the fiscal years ending August 31, 2008 and 2007 is $514,944 and $1,470,000, respectively. Cash bonuses related to the Stock Plan of $64,560 and $344,921 were also recognized during the years ended August 31, 2008 and 2007, respectively.

Stock unit activity, other than performance units, for the year ended August 31, 2008 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, 2007	1,042,500	$ -		
Granted	-	-		
Exercised	(212,500)	-		
Forfeited	(165,000)	-		
Outstanding on August 31, 2008	665,000	$ -	2.63	$ 399,000
Vested or expected to vest at August 31, 2008	564,000	$ -	2.63	$ 338,400

The weighted-average grant-date fair value of units granted during the year ended August 31, 2007 was $1.84 per unit. The total intrinsic value of options exercised during the year ended August 31, 2008 was $320,875. As of August 31, 2008, there was $659,000 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 2.63 years.

Note 15. Employee Stock Incentive Plan (continued)

Performance share unit plan: A summary of the activity under the performance plan as of August 31, 2008, 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, 2007	800,000	$ -		
Granted	-	-		
Exercised	(200,000)	-		
Forfeited	-	-		
Outstanding at August 31, 2008	600,000	$ -	3.0	$ 360,000
Vested or expected to vest at August 31, 2008	200,000	$ -	3.0	$ 120,000

The weighted-average grant-date fair value of performance units issued during the year ended August 31, 2007 was $2.00 per unit. The total intrinsic value of options exercised during the year ended August 31, 2008 was $302,000. Management estimates that it is probable that performance conditions will be met for 200,000 of the 600,000 outstanding performance units. As of August 31, 2008, there was no unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the performance plan.

Note 16. 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.

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.

Note 16. Stockholders' Equity (continued)

Earnings (loss) per share: A reconciliation of net income (loss) 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 (Loss)	Weighted Average Shares Outstanding	Per Share Amount
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
2008:			
Basic EPS	$ (2,373,159)	188,055,420	$ (0.013)
Effects of dilutive securities:			
Exercise of stock units	-	-	-
Diluted EPS	$ (2,373,159)	188,055,420	$ (0.013)

Stock options for 1,290,000 shares for 2008 were not included in the calculation of diluted EPS because their effects would be antidilutive.

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.

Note 16. Stockholders' Equity (continued)

Employment agreement: In June 2006, the Cooperative entered into a five-year employment contract with the former chief executive officer. In addition to the shares and stock units awarded under the Stock Plan (see Note 15), in consideration of his past services the Cooperative granted 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 an election was made 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 a net of 80,000 shares on December 28, 2006. See paragraph in Note 17 referencing litigation.

Also in June 2006, the Cooperative granted an unrestricted stock award 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. Additional shares of 20,000 were issued under a stock option in connection with land purchased by MVE.

Note 17. Management's Consideration of Going Concern Matters

As a result of a downturn in the commodities markets and resulting negative gross margins, the Cooperative has incurred and anticipates significant losses subsequent to August 31, 2008.

In October 2008, the Cooperative liquidated all of its commodities futures and options positions. At the end of September and into early October the commodity markets had considerable decreases in the values of futures and options related to corn and ethanol. Risk management positions in place suffered considerable losses and required operating cash to fund the losses and as a result management decided to liquidate all positions in place. Mangement is estimating losses on futures and option contracts of approximately $45,000,000 subsequent to August 31, 2008.

As of November 30, 2008, the Cooperative failed to meet certain debt covenant requirements described in Note 6. As a result, the bank and group of lenders may demand payment of the entire amount outstanding under the revolving lines of credit and the respective term loans. If the bank demands payment of the outstanding loans, the Cooperative may not be able to obtain alternative financing to repay the outstanding loans, and the bank would have the right to seize and sell property pledged as collateral. To address this situation, management plans to take the following steps:

- Authorize an $11,300,000 prepaid unit retain capital call from existing shareholders (see Note 18)
- Make changes to the Cooperative's marketing arrangements to increase the net price received from the sale of ethanol, through the use of the same or an alternative marketer (see Note 10)
- Solicit additional capital from existing shareholders
- Retain a professional financial consultant and advisor
- Convert an unfilled margin call of $3,370,008 to subordinated debt (see Note 18)
- Sell the Madison Energy, LLC elevator facility and adjoining land (see Note 18)
- Sell the Missouri Valley Energy, LLC site (see Note 10)
- Sell 2,000 units of GFE for $2,000,000 (see Note 18)
- Obtain bank approval for the above actions and for the utilization of the restricted cash of $8,000,000 (see Note 6)
- To operate the plants at a reduced level, or to shut down plants, if positive margins cannot be achieved

Despite these planned actions, it is likely that the Cooperative will continue to be in violation of at least one financial covenant (a fixed charge coverage ratio of at least 1.25 to 1.00 on a trailing 12 month basis). Although the bank and group of lenders have not declared an event of default, they could do so under the terms of the loan agreement. As of December 3, 2008, the Cooperative did not qualify for advances under the revolving lines of credit, due to failing to meet the conditions of the loan agreement. The accompanying August 31, 2008 financial statements have been prepared assuming the Cooperative will continue as a going concern, realizing assets and liquidating liabilities in the ordinary course of business. Any requirement to realize assets in other than the ordinary course of business in order to provide liquidity could result in losses not reflected in these financial statements. See Notes 6, 10 and 18 for actions already taken by management.

Note 18. Subsequent Events

Madison Energy, LLC: In October 2008, the Cooperative entered into an option agreement with Cargill to sell the Madison Energy, LLC elevator facility. This option was exercised and the Cooperative entered into an asset sale agreement with Cargill, also in October 2008. Substantially all assets of the Madison Energy elevator facility, including the real property (pertaining to the elevator site), equipment, inventory and contracts are covered under the agreement. Terms of the agreement are for a sale price of $4,500,000, plus inventory, adjusted for the value of contracts. The Cooperative anticipates a gain of approximately $1,800,000 to be reflected in 2009.

The Cooperative has determined to discontinue plans to construct an ethanol plant in the Madison, Minnesota area. In conjunction with this, the Cooperative has performed an appraisal of the site land and has written down the land and improvements to the appraised value of $380,000. The charge to income in 2008 amounted to $605,321. The Cooperative has contracted with an auctioneer to sell the land in January 2009.

Litigation: In October 2008, the Cooperative was served a summons and complaint by the Cooperative's former chief executive officer. The complaint alleges breach of his employment agreement and seeks unspecified damages, including but not limited to the terms of the employment agreement. The Cooperative has a $5,000,000 employment practices liability insurance policy which the Cooperative believes provides coverage for the claims; however, determination as to whether there is insurance coverage is still pending. The complaint has been submitted to the Cooperative's insurance carrier and the Cooperative intends to defend against the claims and assert its defenses vigorously.

Ethanol marketing agreement: Based upon concerns about the financial conditions of its marketing partner, (Aventine Renewable Energy), in a letter dated November 21, 2008 the Cooperative issued a demand of Aventine for adequate assurance of payment for product sold. The Cooperative demanded payment for product sold on or before the date of product shipment. On December 8, 2008, Aventine responded that the Cooperative's concerns were unwarranted and that the Cooperative should consider Aventine's response as its own demand for adequate assurance of performance under the agreement by the Cooperative.

Prepaid unit retain capital call: In October 2008, the Cooperative approved and authorized an additional capital investment equal to $0.06 per share of common stock to be paid by shareholders of record as of October 22, 2008. This additional investment represents a direct capital investment from a retain on a per unit basis on the delivery requirement bushels from GLCP members. The additional capital investment requirement was approved and authorized pursuant to Bylaw X of the bylaws of Glacial Lakes Corn Processors.

As of December 5, 2008, the Cooperative has received and deposited approximately $10,200,000 of the expected $11,300,000 total capital call. While payment was due immediately, payments not received within 60 days of October 22, 2008 may result in membership termination, conversion of shares to a non-voting certificate of interest and an offset of amounts owed.

Note 18. Subsequent Events (continued)

Subsequent debt: As a result of events specified in Note 17, the Cooperative has an unfilled margin call totaling $3,370,008. In December 2008, the Cooperative entered into a subordinated note agreement with its broker for the amount of the unfilled margin call. The note is subordinate to the indebtedness owed by the Cooperative pursuant to the loan agreement dated July 19, 2007 (See Note 6). The note bears interest at an annual rate of 8.00% with interest payments scheduled monthly subject to terms of the subordination agreement. Any principal payments require the consent of First National Bank of Omaha and the related group of lenders. The full principal and accrued interest on the note is due and payable December 2, 2009.

Investment in Granite Falls Energy, LLC: In December 2008, the Cooperative entered into an agreement with Fagen, Inc. to sell 2,000 of the 6,525 membership units owned of Granite Falls. As consideration for the sale, the Cooperative received $1,000 per unit for an aggregated price of $2,000,000. The Cooperative has the right to complete a sale of its entire membership interest, including the units sold to Fagen, Inc., to a third party within 7 months and return the amount received under this agreement to Fagen, Inc. as well as to pay Fagen, Inc. any amount received in excess of $1,000 per unit. Based upon the carrying amount of the investment in Granite Falls as of August 31, 2008, a loss of approximately $1,739,000 was subsequently recognized on the sale.

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
December 23, 2008

Glacial Lakes Corn Processors

Consolidating Balance Sheet
August 31, 2008

	Glacial Lakes Corn Processors	Glacial Lakes Energy, LLC	Aberdeen Energy, LLC	Missouri Valley Energy, LLC	Madison Energy, LLC	Total	Eliminations	Consolidated
Current Assets								
Cash and cash equivalents	$ 562,583	$ 19,031,649	$ 4,279,746	$ 33,911	$ 2,483,745	$ 26,391,634	$ -	$ 26,391,634
Restricted cash	-	8,065,521	-	-	-	8,065,521	-	8,065,521
Receivables	487,151	17,094,606	17,179,808	1,155,434	(3,865,682)	32,051,317	(1,731,412)	30,319,905
Inventories	-	6,820,458	8,519,064	-	1,736,924	17,076,446	-	17,076,446
Derivative financial instruments	-	2,954,930	9,331,155	-	8,270,196	20,556,281	-	20,556,281
Prepaid expenses	-	302,615	1,057,239	-	54,498	1,414,352	-	1,414,352
Total current assets	1,049,734	54,269,779	40,367,012	1,189,345	8,679,681	105,555,551	(1,731,412)	103,824,139
Investments	164,396,474	26,832,014	-	-	95,350	191,323,838	(175,513,429)	15,810,409
Debt issuance costs, net	-	803,183	864,536	-	-	1,667,719	-	1,667,719
Other assets	-	15,000	-	-	-	15,000	-	15,000
Property and equipment, net	-	101,395,883	144,825,895	1,392,000	3,149,847	250,763,625	-	250,763,625
Total assets	$ 165,446,208	$ 183,315,859	$ 186,057,443	$ 2,581,345	$ 11,924,878	$ 549,325,733	$ (177,244,841)	$ 372,080,892
Liabilities and Stockholders' Equity								
Current Liabilities								
Current maturities of long-term debt	$ -	$ 78,347,319	$ 80,367,911	$ -	$ -	$ 158,715,230	$ -	$ 158,715,230
Notes payable	-	-	9,900,000	-	8,561,858	18,461,858	(8,561,858)	9,900,000
Accounts payable	909	7,720,062	6,470,870	454,006	612,262	15,258,109	(301,237)	14,956,872
Construction payable	-	-	7,558,568	-	-	7,558,568	-	7,558,568
Checks in excess of bank balance	-	582,521	286,980	-	-	869,501	-	869,501
Accrued loss on forward purchase contracts	-	3,711,963	1,997,048	-	-	5,709,011	-	5,709,011
Accrued expenses	164,529	2,080,893	2,212,506	730,777	195,668	5,384,373	(1,430,175)	3,954,198
Total current liabilities	165,438	92,442,758	108,793,883	1,184,783	9,369,788	211,956,650	(10,293,270)	201,663,380
Long-Term Liabilities								
Long-term debt, less current maturities	-	22,998	187,928	-	-	210,926	-	210,926
Interest rate swap	-	2,225,597	2,700,219	-	-	4,925,816	-	4,925,816
Deferred income taxes	2,009,500	-	-	-	-	2,009,500	-	2,009,500
Total liabilities	2,174,938	94,691,353	111,682,030	1,184,783	9,369,788	219,102,892	(10,293,270)	208,809,622
Stockholders' Equity	163,271,270	88,624,506	74,375,413	1,396,562	2,555,090	330,222,841	(166,951,571)	163,271,270
Total liabilities and stockholders' equity	$ 165,446,208	$ 183,315,859	$ 186,057,443	$ 2,581,345	$ 11,924,878	$ 549,325,733	$ (177,244,841)	$ 372,080,892

Glacial Lakes Corn Processors

Consolidating Statement of Operations
Year Ended August 31, 2008

	Glacial Lakes Corn Processors	Glacial Lakes Energy, LLC	Aberdeen Energy, LLC	Missouri Valley Energy, LLC	Madison Energy, LLC	Total	Eliminations	Consolidated
Product sales	$ -	$ 205,439,509	$ 44,121,004	$ -	$ 28,805,115	$ 278,365,628	$ (22,346,398)	$ 256,019,230
Service revenue	-	1,367,574	-	-	-	1,367,574	-	1,367,574
Government incentive revenue	-	666,667	-	-	-	666,667	-	666,667
Total revenue	-	207,473,750	44,121,004	-	28,805,115	280,399,869	(22,346,398)	258,053,471
Cost of goods sold	-	188,956,743	38,434,890	-	29,205,622	256,597,255	(22,346,398)	234,250,857
Gross profit (loss)	-	18,517,007	5,686,114	-	(400,507)	23,802,614	-	23,802,614
General and administrative expenses	(340)	(5,123,329)	(2,117,102)	(106,959)	(369,559)	(7,717,289)	-	(7,717,289)
Gain (loss) on impairment of assets	-	-	-	(7,432,651)	(605,321)	(8,037,972)	-	(8,037,972)
Operating income (loss)	(340)	13,393,678	3,569,012	(7,539,610)	(1,375,387)	8,047,353	-	8,047,353
Other income (expense):								
Interest expense	-	(6,145,196)	(774,488)	-	-	(6,919,684)	-	(6,919,684)
Interest income	12,114	408,731	19,573	-	33,962	474,380	-	474,380
Equity in earnings (loss) of unconsolidated affiliates	-	(581,776)	-	-	-	(581,776)	-	(581,776)
Equity in earnings (loss) of consolidated subsidiaries	1,051,126	(1,319,537)	-	-	-	(268,411)	268,411	-
Loss on impairment of goodwill	(3,827,209)	-	-	-	-	(3,827,209)	-	(3,827,209)
Other income	45,750	-	2,738	18,001	21,888	88,377	-	88,377
Income (loss) before income taxes	(2,718,559)	5,755,900	2,816,835	(7,521,609)	(1,319,537)	(2,986,970)	268,411	(2,718,559)
Income tax benefit	345,400	-	-	-	-	345,400	-	345,400
Net income (loss)	$ (2,373,159)	$ 5,755,900	$ 2,816,835	$ (7,521,609)	$ (1,319,537)	$ (2,641,570)	$ 268,411	$ (2,373,159)