



**Glacial Lakes
Energy, LLC**



Letter to GLCP Investors

Jim Seurer, Chief Executive Officer

I'm certain you've heard about the most recent round of challenges the ethanol industry is experiencing; mainly negative margins caused by weak ethanol demand, excess ethanol production/supply, tight corn basis values, etc. As much as we'd like to think otherwise, GLE is not immune to any of these conditions. I'd like to take this opportunity to inform you about the factors impacting your investment in GLCP. This letter is not meant to cause panic or uncertainty, but merely to be open about the challenges our team will face in the upcoming year.

If you've accessed our 4th quarter financial statements recently posted on our website, you'll see firsthand what this has done to our financial performance. Our combined operation (Watertown and Mina) suffered a \$21.2 million loss during the months of June, July, and August and an \$11.1 million loss for the fiscal year ended August 31, 2012. On the bright side, we generated \$21 million in positive cash flow (EBITDA) and we reduced our outstanding term debt by more \$30 million over the past twelve months.

We operate in a commodity market environment whose volatile activity has been unparalleled. Please understand that we have not taken on any speculative positions. As already indicated, the primary cause of this poor performance is related to the basic principles of supply and demand. Consider the following factors:

- Last year at this time, ethanol production was at an all-time high as the industry attempted to meet the "false demand" created by the expiring blender's tax credit (VEETC). This created a significant surplus and, consequently, weak prices and we continue to feel the effects of this situation.
- Consumer driving is at the lowest levels in the past five years and higher fuel efficient automobiles are more popular as well. The demand for gasoline continues to trend downward.
- Environmental policies against corn ethanol in states like California require them to buy what they believe to be "cleaner" ethanol made from Brazilian sugarcane. This lowers domestic demand for our production.
- Brazil has lowered their required ethanol blend rate from 25% to 20% and this has made more supply available for export to the US. This has also lowered export opportunities for GLE and the US ethanol industry in general.
- E-15, which has been proven to be safe for all 2001 and newer models, would create a theoretical increase in ethanol demand of 50%, has been implemented too slowly. These vehicles represent around 70-80% of the US auto fleet. NASCAR recently logged three million miles using E-15 without any problems.

I can assure you that we are diligently monitoring the situation and strategizing solutions so that we can weather the upcoming year. What have we done or what do we have planned?

- We continue to evaluate our production rates to determine at what rate we should operate our plants. Thus far, our analysis shows that we are better to operate above full capacity to minimize losses over our fixed costs but that could change as market conditions change. Both of our operation departments have achieved exceptional production levels during these periods.
- We are exploring new revenue enhancement ideas and opportunities including corn oil separation which is now operational at both of our facilities and providing a significant revenue stream especially to our Mina plant. We also continue to review other strategies that could add value to our production process.
- Our employees are focused on our large expense categories and purchasing practices to determine how savings can be realized in our procurement process.
- We have doubled the number of bushels that are eligible for our committed bushel freight incentive. Direct delivery of corn into one of GLE's four delivery sites lowers our costs and preserves supply in our plant areas. I encourage those of you who are producers to take advantage of the double freight rates. Not only will you be fulfilling your annual corn commitment, you will also be adding value to GLE's bottom line.

We have made great strides since the deep losses of late 2008. Your Board and management team will again be tested...perhaps more so than before. As a shareholder, you can be assured that your Board of Directors and your management team will continue to work together to do whatever we can to minimize the negative impact of the current market environment. I remain confident that we can and will find ways to overcome these market aberrations. We remain "bullish" on ethanol and we believe you should too.

Thank you for your patience and support of our mission and please do support your local ethanol cooperative.