

UNITED WISCONSIN GRAIN PRODUCERS LLC

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# Condensed Financial Statements

**FRIESLAND, WISCONSIN**  
**3/31/2013**

UNITED WISCONSIN GRAIN PRODUCERS LLC

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***Condensed Financial Statements***

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**UNITED WISCONSIN GRAIN PRODUCERS, LLC**

Condensed Balance Sheets

<b>ASSETS</b>	<b>March 31, 2013 (unaudited)</b>	<b>December 31, 2012</b>
<b>Current Assets</b>		
Cash	\$ 15,447,713	\$ 25,802,042
Restricted cash - commodity margin account	1,423,517	217,906
Commodity derivative instruments	119,359	1,021,525
Accounts receivable, net of allowance for doubtful accounts of \$20,000	5,583,886	5,461,975
Prepaid expenses and other current assets	318,285	342,746
Inventory	8,241,999	4,526,047
Total current assets	31,134,758	37,372,241
<b>Property, Plant, and Equipment, net</b>	28,037,519	29,788,069
<b>Total Assets</b>	\$ 59,172,278	\$ 67,160,310
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>Current Liabilities</b>		
Commodity derivative instruments	\$ -	\$ 270,600
Accounts payable	1,241,952	3,269,675
Accrued liabilities	641,659	416,038
Total current liabilities	1,883,611	3,956,313
<b>Members' Equity</b> , 28,346 multiple class units authorized, issued, and outstanding	57,288,667	63,203,997
<b>Total Liabilities and Members' Equity</b>	\$ 59,172,278	\$ 67,160,310

Notes to the Condensed Financial Statements are an integral part of this Statement.

**UNITED WISCONSIN GRAIN PRODUCERS, LLC**

Condensed Statements of Operations  
(Unaudited)

	<b>Quarter Ended March 31, 2013</b>	<b>Quarter Ended March 31, 2012</b>
<b>Revenues</b>	\$ 39,571,581	\$ 40,223,961
<b>Cost of Goods Sold</b>	<u>37,761,351</u>	<u>37,105,435</u>
<b>Gross Margin</b>	1,810,229	3,118,526
<b>Operating Expenses</b>	<u>664,046</u>	<u>970,088</u>
<b>Operating Income</b>	1,146,183	2,148,438
<b>Other Income, Net</b>	<u>24,987</u>	<u>45,930</u>
<b>Net Income</b>	<u>\$ 1,171,170</u>	<u>\$ 2,194,368</u>
<b>Weighted Average Units Outstanding - Basic and Diluted (Class A, B, C)</b>	<u>28,346</u>	<u>28,346</u>
<b>Net Income Per Unit - Basic and Diluted (Class A, B, C)</b>	<u>\$ 41.32</u>	<u>\$ 77.41</u>
<b>Distributions Per Unit (Class A, B, C)</b>	<u>\$ 250.00</u>	<u>\$ 614.00</u>

Notes to the Condensed Financial Statements are an integral part of this Statement.

**UNITED WISCONSIN GRAIN PRODUCERS, LLC**

Condensed Statements of Cash Flows  
(Unaudited)

	Quarter Ended March 31, 2013	Quarter Ended March 31, 2012
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 1,171,170	\$ 2,194,368
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,775,935	1,783,202
Change in fair value of commodity derivative instruments	1,705,360	(768,679)
Changes in operating assets and liabilities:		
Restricted cash - commodity margin account	(1,205,611)	199,086
Commodity derivative instruments	(1,073,794)	499,700
Accounts receivable	(121,911)	996,665
Inventory	(3,715,952)	(1,680,657)
Prepaid expenses and other current assets	24,461	19,925
Accounts payable	(1,918,746)	(2,163,221)
Accrued liabilities	116,644	210,992
Net cash (used in) provided by operating activities	(3,242,444)	1,291,381
<b>Cash Flows from Investing Activities</b>		
Capital expenditures	-	(196,491)
Payments for construction in process	(25,385)	-
Net cash used in investing activities	(25,385)	(196,491)
<b>Cash Flows from Financing Activities</b>		
Payment of member distribution	(7,086,500)	(17,404,444)
Net cash used in financing activities	(7,086,500)	(17,404,444)
<b>Net Decrease in Cash</b>	(10,354,329)	(16,309,554)
<b>Cash – Beginning of Period</b>	25,802,042	30,057,234
<b>Cash – End of Period</b>	\$ 15,447,713	\$ 13,747,680
<b>Supplemental Cash Flow Information</b>		
<b>Cash paid for:</b>		
Interest	\$ 7,500	\$ 12,505

Notes to the Condensed Financial Statements are an integral part of this Statement.

## UNITED WISCONSIN GRAIN PRODUCERS, LLC

Notes to Condensed Financial Statements (Unaudited)

March 31, 2013

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying condensed balance sheet as of December 31, 2012 is derived from audited financial statements. The unaudited interim condensed financial statements of United Wisconsin Grain Producers, LLC (the "Company") reflect all adjustments consisting only of normal recurring adjustments that are, in the opinion of management, necessary for a fair presentation of their financial position and results of operations and cash flows. The results for the three month period ended March 31, 2013 are not necessarily indicative of the results that may be expected for a full fiscal year. Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") are condensed or omitted, although the Company believes that the disclosures made are adequate to make the information not misleading. These condensed financial statements should be read in conjunction with the Company's audited financial statements and notes thereto included in its annual report for the year ended December 31, 2012.

#### Nature of Business

United Wisconsin Grain Producers LLC, (the "Company") is a Wisconsin limited liability company currently operating a 60 million gallon per year ethanol plant located near the town of Friesland in the township of Randolph, Wisconsin. The Company is currently producing fuel-grade ethanol, distillers grains, and crude corn oil and sells these products both domestically and internationally.

#### Accounting Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. The Company uses estimates and assumptions in accounting for the following significant matters, among others: allowances for doubtful accounts, useful lives of property, plant, and equipment, the assumptions used in the impairment analysis of long-lived assets, the valuation of commodity derivatives, inventory costing, the valuation of inventory purchase commitments, and legal contingencies. Actual results may differ from previously estimated amounts, and such differences may be material to our financial statements. The Company periodically reviews estimates and assumptions, and the effects of revisions are reflected in the period in which the revision is made.

#### Revenue Recognition

Revenues from the production of ethanol and the related products are recorded when the customer has taken title and has assumed the risks and rewards of ownership, prices are fixed or determinable and collectability is reasonably assured. Title is generally assumed by the buyer at the end of the Company's shipping point. Shipping costs incurred by the Company in the sale of ethanol and ethanol related products (distillers grains and crude corn oil) are included in cost of goods sold. The Company believes there are no ethanol sales during any given month which should be considered contingent and recorded as deferred revenue. Interest income is recognized as earned.

#### Derivative Instruments

From time to time the Company enters into derivative transactions to hedge its exposures to commodity price fluctuations. The Company is required to record these derivatives in the balance sheet at fair value.

In order for a derivative to qualify as a hedge, specific criteria must be met and appropriate documentation maintained. Gains and losses from derivatives that do not qualify as hedges, or are undesignated, must be recognized immediately in earnings. If the derivative does qualify as a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will be either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. Changes in the fair value of undesignated derivatives are recorded in revenue or cost of goods sold based on the commodity being hedged.

Additionally, the Company is required to evaluate its contracts to determine whether the contracts are derivatives. Certain contracts that literally meet the definition of a derivative may be exempted as "normal purchases or normal sales." Normal purchases and normal sales are contracts that provide for the purchase or sale of something other than a financial instrument or derivative instrument that will be delivered in quantities expected to be used or sold over a reasonable period in the normal course of business. Certain corn and distillers grains contracts that meet the requirements of normal purchases or sales are documented as normal and exempted from the accounting and reporting requirements and therefore, are not marked to market in the financial statements.

## UNITED WISCONSIN GRAIN PRODUCERS, LLC

Notes to Condensed Financial Statements (Unaudited)

March 31, 2013

### Fair Value of Financial Instruments

The Company's accounting for fair value measurements of assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring or nonrecurring basis adhere to the Financial Accounting Standards Board (FASB) fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 inputs are unobservable inputs for the asset or liability

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The carrying value of cash, restricted cash, accounts receivable, accounts payable, accrued liabilities, and other working capital items approximate fair value at March 31, 2013 and December 31, 2012 due to the short maturity nature of these instruments.

### Subsequent Events

The Company has evaluated subsequent events through April 16, 2013 the date the financial statements were available to be issued.

## 2. RISKS AND UNCERTAINTIES

The Company has certain risks and uncertainties that it experiences during volatile market conditions. These volatilities can have a severe impact on operations. The Company's revenues are derived from the sale and distribution of ethanol and distillers grains to customers primarily located in the United States. Corn for the production process is supplied to our plant primarily from local agricultural producers and from purchases on the open market. Ethanol sales average approximately 77% of total revenues and corn costs average approximately 83% of cost of goods sold.

The Company's operating and financial performance is largely driven by the prices at which it sells ethanol and the net expense of corn. The price of ethanol is influenced by factors such as supply and demand, the weather, government policies and programs, and unleaded gasoline prices and the petroleum markets as a whole. Excess ethanol supply in the market, in particular, puts downward pressure on the price of ethanol. The cost of corn is generally impacted by factors such as supply and demand, the weather, government policies and programs, and the Company's risk management program used to protect against the price volatility of these commodities.

## 3. INVENTORY

Inventory consists of the following:

	<b><u>March 31, 2013</u></b> <b><u>(Unaudited)</u></b>	<b><u>December 31, 2012*</u></b>
Raw materials	\$ 4,565,833	\$ 1,402,814
Spare parts	764,009	755,639
Work in process	748,790	694,198
Finished goods	2,163,367	1,673,396
Total	\$ 8,241,999	\$ 4,526,047

\*Derived from audited financial statements.

**UNITED WISCONSIN GRAIN PRODUCERS, LLC**

Notes to Condensed Financial Statements (Unaudited)

March 31, 2013

**4. DERIVATIVE INSTRUMENTS**

The Company from time-to-time enters into ethanol and corn derivative instruments, which are required to be recorded as either assets or liabilities at fair value in the balance sheet. Derivatives qualify for treatment as hedges when there is a high correlation between the change in fair value of the derivative instrument and the related change in value of the underlying hedged item and when the Company formally documents, designates, and assesses the effectiveness of transactions that receive hedge accounting initially and on an ongoing basis. The Company must designate the hedging instruments based upon the exposure being hedged as a fair value hedge or a cash flow hedge. While the Company does not typically designate the derivative instruments that it enters into as hedging instruments because of the administrative costs associated with the related accounting, the Company believes that the derivative instruments represent an economic hedge. The Company does not enter into financial instruments for trading or speculative purposes.

In order to reduce the risk caused by market fluctuations, the Company occasionally hedges its anticipated corn purchases and ethanol sales by entering into options and futures contracts. These contracts are used with the intention to fix the purchase price of anticipated requirements of corn in the Company's ethanol production activities and the related sales price of ethanol. The fair value of these contracts is based on quoted prices in active exchange-traded or over-the-counter markets. Although the Company believes its commodity derivative positions are economic hedges, none have been formally designated as a hedge for accounting purposes and derivative positions are recorded on the balance sheet at their fair market value, with changes in fair value recognized in current period earnings or losses. Gains and losses from ethanol related derivative instruments, including unrealized changes in the fair value of these positions, are included in the results of operations and are classified as a component of revenue. Gains and losses from corn derivative instruments, including unrealized changes in the fair value of these positions, are included in the results of operations and are classified as a component of costs of goods sold. The Company records withdrawals and payments against the trade equity of derivative instruments as a reduction or increase in the value of the derivative instruments.

As of March 31, 2013, the total notional amount of the Company's outstanding ethanol derivative instruments was approximately 11.0 million gallons that were entered into to hedge forecasted ethanol sales through December 2013. As of March 31 2013, the total notional amount of the Company's outstanding corn derivative instruments was approximately 295,000 bushels that were entered into to hedge forecasted corn purchases through December 2013. As of December 31, 2012, the total notional amount of the Company's outstanding ethanol derivative instruments was approximately 7.5 million gallons that were entered into to hedge forecasted ethanol sales through December 2013. As of December 31, 2012, the total notional amount of the Company's outstanding corn derivative instruments was approximately 540,000 bushels that were entered into to hedge forecasted corn purchases through December 31, 2013. There may be offsetting positions that are not shown on a net basis that could lower the notional amount of positions outstanding as disclosed above.

The following tables provide details regarding the Company's derivative instruments at March 31, 2013, none of which are designated as hedging instruments:

	<b>Balance Sheet Location</b>	<b>Assets</b>	<b>Liabilities</b>
Corn Contracts	Derivative Instruments	\$ 91,700	\$ -
Ethanol Contracts	Derivative Instruments	27,659	-
Totals		\$ 119,359	\$ -

In addition, as of March 31, 2013, the Company maintained approximately \$1,400,000 of restricted cash related to margin requirements for the Company's commodity derivative instrument positions.

The following tables provide details regarding the Company's derivative instruments at December 31, 2012, none of which are designated as hedging instruments:

	<b>Balance Sheet Location</b>	<b>Assets</b>	<b>Liabilities</b>
Corn Contracts	Derivative Instruments	\$ 1,021,525	\$ -
Ethanol Contracts	Derivative Instruments	-	(270,600)
Totals		\$ 1,021,525	\$ (270,600)

**UNITED WISCONSIN GRAIN PRODUCERS, LLC**

Notes to Condensed Financial Statements (Unaudited)

March 31, 2013

The following tables provide details regarding the gains and (losses) from Company's commodity derivative instruments in statements of operations, none of which are designated as hedging instruments:

	<b>Statement of Operations Location</b>	<b>Three Months Ended March 31, 2013</b>	<b>Three Months Ended March 31, 2012</b>
Ethanol Contracts	Revenue	\$ (1,874,058)	\$ 366,654
Corn Contracts	Cost of goods sold	168,698	402,025
Total Gain (Loss), net		\$ (1,705,360)	\$ 768,679

**5. FAIR VALUE MEASUREMENTS**

The Company obtains fair value measurements from an independent pricing service for ethanol and corn contracts. The fair value measurements consider observable data that may include dealer quotes and live trading levels from the Chicago Board of Trade ("CBOT") and New York Mercantile Exchange markets.

The following table provides information on those derivative instruments measured at fair value on a recurring basis at March 31, 2013:

	<b>Carrying Amount in Balance Sheet March 31, 2013</b>	<b>Fair Value March 31, 2013</b>	<b>Fair Value Measurement Using</b>		
			<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<u>Financial Assets:</u> Commodity Derivative Instruments - Corn	\$ 91,700	\$ 91,700	\$ 91,700		
<u>Financial Assets:</u> Commodity Derivative Instruments - Ethanol	\$ 27,659	\$ 27,659	\$ 27,659		

The following table provides information on those commodity derivative instruments measured at fair value on a recurring basis at December 31, 2012:

	<b>Carrying Amount in Balance Sheet December 31, 2012</b>	<b>Fair Value December 31, 2012</b>	<b>Fair Value Measurement Using</b>		
			<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<u>Financial Assets:</u> Commodity Derivative Instruments - Corn	\$ 1,021,525	\$ 1,021,525	\$ 1,021,525		
<u>Financial Liabilities:</u> Commodity Derivative Instruments - Ethanol	\$ (270,600)	\$ (270,600)	\$ (270,600)		

## UNITED WISCONSIN GRAIN PRODUCERS, LLC

Notes to Condensed Financial Statements (Unaudited)

March 31, 2013

### 6. BANK FINANCING

#### Revolving Line of Credit

The Company renewed its Revolving and Term Credit Agreement with a bank effective April 1, 2013 for a revolving line of credit with a maximum availability of \$10,000,000. The interest rate on amounts the Company borrows under the line of credit is a variable rate equal to .5% over the highest US prime Rate as published in the Wall Street Journal "Money Table" which was 3.75% at March 31, 2013. The interest rate on the previous agreement which expired 3/31/2013 was a variable rate equal to 1% over, which was 4.25% at December 31, 2012. The interest rate adjusts as and when the index rate changes. Interest is due monthly on this revolving credit facility. No prepayment fees exist on the revolving credit facility; however, the Company is required to pay a commitment fee equal to .25% per year of the average daily unused portion of the line of credit. The maturity date of the line of credit is April 1, 2015. At March 31, 2013 and December 31, 2012, the Company had no borrowings on the revolving line of credit.

Borrowing under our revolving line of credit is secured by substantially all of the assets of the Company. The revolving credit facility is subject to restrictive covenants including, but not limited to, requiring minimum financial ratios and limitations on capital expenditures, investments and distributions. As of the three month period ended March 31, 2013 and year ended December 31, 2012, the Company was in compliance with these covenants.

### 7. MEMBERS' EQUITY

#### Reclassification

The Company currently has three classes of membership units. There are 17,174 Class A units issued and outstanding, 7,071 Class B units issued and outstanding and 4,101 Class C units issued and outstanding. The voting rights of Class A units do not have any voting restrictions. The voting rights of Class B units are restricted to the election of directors and dissolution of the Company. The voting rights of Class C members are restricted to voting only on dissolution. Income, losses and distributions are allocated to all members based upon their respective percentage units held regardless of the unit classification. The total units issued and outstanding were 28,346 at both March 31, 2013 and December 31, 2012. The Company is authorized to issue an aggregate of 28,346 units subject to certain transfer restrictions as specified in the operating agreement and pursuant to applicable tax and securities laws.

#### Membership Distributions

In January 2013, the Board of Directors declared a cash distribution of \$250 per membership unit for all classes for a total distribution of \$7,086,500 to its unit holders of record on January 17, 2013. The distribution was paid to members on January 30, 2013.

### 8. COMMITMENTS AND CONTINGENCIES

#### Ethanol Contracts

At March 31, 2013, the Company had forward futures contracts (swaps) to sell 11.0 million gallons of ethanol for various delivery periods from April 2013 through December 2013. The prices on these contracts range from \$1.95 to \$2.54 per gallon.

At March 31, 2013, the Company had forward ethanol sales contracts totaling 13.6 million gallons for various delivery periods from April 2013 to June 2013. The prices on these contracts have a basis level established by the Oil Price Information Service ("OPIS") Chicago ethanol market between -\$0.02 and -\$0.06.

#### Distillers Grains Contracts

At March 31, 2013, the Company had forward dry distillers grains sales contracts totaling 17,390 tons for various delivery periods from April 2013 to December 2013 with a price range of \$191 to \$284 per ton. At March 31, 2013 the Company had forward modified wet distillers grains sales contracts totaling 9,000 ton for various delivery periods from April 2013 to May 2013 with a price range of \$129 to \$135 per ton.

**UNITED WISCONSIN GRAIN PRODUCERS, LLC**

Notes to Condensed Financial Statements (Unaudited)

March 31, 2013

Corn Oil Contracts

At March 31, 2013 the Company had forward crude corn oil sales contracts totaling 1.5 million pounds for various delivery periods for April 2013 through May 2013 with an average price of \$0.40 per pound.

Corn and Denaturant Contracts

At March 31, 2013, the Company had forward corn purchase contracts with grain producers and dealers totaling 8.7 million bushels for various delivery periods from April 2013 to December 2014. The prices on these contracts range from \$5.00 to \$8.40 per bushel or have a basis level established by the CBOT futures between \$0.48 and \$-0.25

At March 31, 2013, the Company had forward contracts to purchase approximately 90,000 gallons of denaturant during the month of April 2013 at an average price of approximately \$2.53 per gallon.

**9. LEGAL PROCEEDINGS**

From time to time in the ordinary course of business, the Company may be named as a defendant in legal proceedings related to various issues, including without limitation, workers' compensation claims, tort claims, or contractual disputes.

Patent Infringement

A Complaint for Patent Infringement was filed against the Company and certain other parties on May 3, 2010 by GS CleanTech Corporation. The suit will be heard at Federal Court in Indianapolis, Indiana. The complaint seeks an award of damages representing a portion of the revenue the Company generated while allegedly infringing on its patent related to a method of corn oil production. The Company has acquired opinions from its legal counsel attesting to their beliefs that none of the claims of the patent are valid. The Company has continued to produce corn oil at the plant and management expects that the matter will be resolved prior to the end of the 2013 calendar year. The Company is unable to determine at this time if the suit will have a material adverse effect on the Company.