NEDAK ETHANOL, LLC

Notes to Financial Statements

December 31, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

NEDAK Ethanol, LLC, a Nebraska limited liability company (the "Company") operates a 44 million gallon per year ethanol plant in Atkinson, Nebraska. The Company produces and sells fuel ethanol and distillers grains, a co-product of the fuel ethanol production process. Sales of ethanol and distiller's grains began in January 2009.

Accounting Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles ("GAAP"). 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: the allowance for doubtful accounts, useful lives of property and equipment, the valuation of inventory and inventory purchase commitments and long-lived asset impairments including the assumptions used to estimate future cash flows, the ability to raise capital, and the ability to comply with certain provisions within the Company's credit agreements. Actual results may differ from estimated amounts, and such differences may be material to the Company's financial statements. The Company periodically reviews estimates and assumptions, and the effects of revisions are reflected in the period in which the revisions are made.

Cash and Cash Equivalents

The Company considers all unrestricted, highly liquid debt instruments with maturity of three months or less at the time of purchase to be cash equivalents. The Company maintains its accounts primarily at one financial institution. At times throughout the year, the Company's cash and cash equivalents balances exceed amounts insured by the Federal Deposit Insurance Corporation. The Company does not believe it is exposed to any significant credit risk on its cash and cash equivalent balances.

Investments

Restricted short term investments consist of certificates of deposit recorded at the lower of cost or market. These deposits are with the same bank as cash balances are held with. As noted in Note 6, these instruments are restricted as part of letter of credit agreements the Company has entered into.

Restricted Cash

The Company is required to maintain cash balances for two purposes:

- as part of the construction loan / operating line financing as described in Note 7,
- as part of the tax increment financing agreement as described in Note 8.

Accounts Receivable

Credit terms are extended to customers in the normal course of business. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral.

Accounts receivable are recorded at their estimated net realizable value. Accounts are considered past due if payment is not made on a timely basis in accordance with the Company's credit terms. Accounts considered uncollectible are written off. The Company's estimate of the allowance for doubtful accounts is based on historical experience, its evaluation of the current status of receivables, and unusual circumstances, if any. At December 31, 2009 and 2008, the Company was of the belief that an allowance was not considered necessary. It is possible this estimate could change in the future.

Inventory

Inventory is stated at the lower of cost or market on a weighted average cost basis. Market is based on current replacement values not to exceed net realizable values and it is not less than net realizable values reduced by allowances for normal profit margin. Inventory

consists of raw materials, work in process, and finished goods. Corn is the primary raw material. Finished goods consist of ethanol and distiller's grains produced.

Derivative Financial Instruments

The Company is exposed to the impact of market fluctuations associated with commodity prices. It uses derivative financial instruments as part of the overall strategy to manage market risk, as allowed by sufficient working capital and liquidity. The Company, when able, uses cash, futures and option contracts to hedge changes to the commodity prices of corn, ethanol, natural gas and gasoline. The Company will not enter into these derivative financial instruments for trading or speculative purposes, nor does it plan to designate these contracts as cash flow or fair value hedges for accounting.

Derivatives are recognized in the balance sheet at their fair value. The fair value of futures and options is determined by exchange traded market prices. Gains and losses from derivatives that do not qualify as accounting hedges, or are undesignated, must be recognized immediately in earnings and are recorded in cost of goods sold.

Contracts are evaluated 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 commodities that will be delivered in quantities expected to be used or sold over a reasonable period in the normal course of business. Contracts that meet the requirements of normal purchases or sales are documented as normal and exempted from accounting as derivatives and, therefore, are not marked to market in the Company's financial statements. Losses are recognized on such contracts when the contract price is not expected to be realized.

Property and Equipment

Property and equipment is stated at cost. Maintenance and repairs are expensed as incurred; major improvements are capitalized. Depreciation is computed using the straight-line method over the following estimated useful lives:

Land improvements	20 years
Buildings	15-39 years
Office equipment	5-7 years
Plant equipment	10-20 years
Vehicles	5-7 years

Depreciation expense for the years ended December 31, 2009 and 2008 was $6,099,280 and $123,228, respectively.

Long-Lived Assets

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Company first compares future undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, impairment would be recognized to the extent that the carrying value exceeds its fair value. Fair value would be determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

In 2008, the Company completed construction of its ethanol production facilities with nameplate capacity of 44 million gallons per year and a remote rail load-out facility. In accordance with the Company's policy for evaluating impairment of long-lived assets described above, management has estimated that the projected future undiscounted cash flows from operations of these facilities exceed their carrying value at December 31, 2009; therefore, no impairment loss was recognized. In determining the projected future undiscounted cash flows, the Company has made significant assumptions concerning the future viability of the ethanol industry, the future price of corn in relation to the future price of ethanol and the overall demand for ethanol in relation to production and supply capacity.

Debt Issuance Costs

Debt issuance costs are amortized over the term of the related debt by use of the effective interest method. Amortization expense related to debt issuance costs of $242,535 for the year ended December 31, 2009 is included in interest expense. Amortization expense of $133,932 for the year ended December 31, 2008 was included in capitalized interest. Future amortization of debt issuance costs is expected to be as follows: 2010 $246,016, 2011 $225,673, 2012 $203,612, 2013 $183,996, 2014 $155,115, thereafter $327,567.

Revenue Recognition

The Company generally sells ethanol and distiller's grains pursuant to marketing agreements. Revenues from these products are recorded when the customer has taken title and 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 Company's shipping point.

In accordance with the Company's agreements for the marketing and sale of ethanol and distiller's grains, marketing fees and commissions due to the marketers are deducted from the gross sales price as earned. Marketing fees and commissions were approximately $700,000 and $0 for the years ended December 31, 2009 and 2008, respectively. Revenue is recorded net of these fees and commissions. Shipping costs incurred in the sale of ethanol are included in Costs of Goods Sold in the Statement of Operations.

Net Income (Loss) per Common Unit

Basic net income (loss) per common unit is computed by dividing net income (loss) by the weighted average number of members' common units outstanding during the period. Diluted net income per common unit is computed by dividing net income (loss) available to common units by the weighted average number of members' common units and, if dilutive, members' common unit equivalents outstanding during the period. There were no member common unit equivalents outstanding during the periods presented and the entire amount of loss was allocated to common units. Accordingly, for all periods presented the Company's basic and diluted net income per common unit are the same.

Income Taxes

The Company is treated as a partnership for federal and state income tax purposes and generally does not incur income taxes. Instead, income or losses are included in the income tax returns of the Company's members. Accordingly, no provision or liability for federal or state income taxes has been included in these financial statements. As of December 31, 2009, the Company's reported basis in its net assets exceeds their tax basis by approximately $10,868,400. Accordingly, a net deferred tax liability of approximately $3,804,000 would be recognized by a debit to income tax expense, if the partnership were a taxable entity.

The Company files income tax returns in the U.S. federal jurisdiction and the state of Nebraska. Management continually evaluates the Company's tax positions and has concluded that the Company has taken no uncertain tax positions that require adjustment to the financial statements. The Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2006.

Segment Reporting

Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker or decision making group in deciding how to allocate resources and in assessing performance. The Company has determined that it has one reportable business segment, the manufacture and marketing of fuel-grade ethanol and the co-products of the ethanol production process. The Company's chief operating decision maker reviews financial information of the Company as a whole for purposes of assessing financial performance and making operating decisions. Accordingly, the Company considers itself to be operating in a single industry segment.

Subsequent Events

For purposes of these financial statements and all disclosures, subsequent events were evaluated by Management through the date that the Company's annual report in which these financial statements are included in was filed.

2. LIQUIDITY AND MARKET UNCERTAINTIES

The Company has certain risks and uncertainties that it experiences during volatile market conditions such as what the ethanol industry experienced during 2008 and which continued through 2009 and into 2010. These volatilities can have a severe impact on operations.

The Company's operating and financial performance is largely driven by the prices at which it sells ethanol and the net cost of corn. The price of ethanol is influenced by factors such as supply and demand, the weather, government policies and programs, 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 Company's largest cost of production is corn. The Company's cost of corn is generally impacted by factors such as supply and demand, the weather, government policies and programs, and risk management techniques used to protect against the price volatility. The Company is subject to significant risk that its operating margins may be reduced or eliminated due to the relative movements in the market prices of its products and major manufacturing inputs. As a result, market fluctuations in the price of or demand for these commodities can have a significant adverse effect on the Company's operations and profitability. Due to the current conditions of these commodity markets, the Company may continue to produce negative margins.

As of December 31, 2009, the Company was in default of its Credit Agreement, as further discussed in Note 7. For this reason, the Company has reclassified amounts owing under this loan as current liabilities. Such treatment of the Company's long term debt will continue, as required by GAAP, until such defaults are cured.

Because of these events and market conditions, there is an increased level of uncertainty with respect to the Company's ability to obtain sufficient cash flows from operations or debt or equity financing sufficient to cover the liquidity needed for ongoing operations. The Company's efforts to secure working capital include:

- The Company and Lender have received approval from the United Stated Department of Agriculture ("USDA") of a pre-application for a Business and Industries Guaranteed Loan (the "B&I Loan"), and are in the process of preparing full applications for two such loans. The first application in the amount of $5,000,000 for additional working capital was submitted to the USDA on February 16, 2010. The second application will be for refinancing a yet undetermined portion of the $42,500,000 construction loan with Lender.
- The Company applied for a USDA Value Added Producers Grant for Working Capital of $300,000 on November 30, 2009. It is expected to learn the results of award assessments in the second quarter of 2010.
- The Company may, depending on market and other conditions, pursue a private offering of equity.

Exclusive of the reclassification of the majority of the Company's long term debt to current liabilities in 2009, the Company would have had negative working capital of approximately $1,281,000 including only Current Maturities of Long Term Debt that represent normal amortization of principal, as of December 31, 2009. As reported in the Balance Sheet, including the reclassification of long term debt to current liabilities, working capital was approximately a negative $47,155,000.

Accrued liabilities include accrued board compensation of $742,500 and $428,250 as of December 31, 2009 and 2008, respectively, and accounts payable include amounts due to the Company's grain procurement agent totaling approximately $815,000 as of December 31, 2009, which have had favorable payment terms. If these favorable payment terms cease, more cash may be required.

These financial statements have been prepared assuming the Company will continue as a going concern. Until the Company is able to obtain additional working capital from the above options, for which no assurance can be given, or from operations, in addition to modifying the Credit Agreement covenants or refinancing the construction loan, there is substantial doubt as to whether the Company can continue to operate as a going concern.

3. INVENTORY

Inventory consists of the following:

	December 31, 2009	December 31, 2008
Raw Materials	$ 1,561,766	$ 994,283
Work in Process	567,410	309,238
Finished goods	842,143	40,497
Total	$ 2,971,319	$ 1,344,018

4. DERIVATIVE FINANCIAL INSTRUMENTS

The Company hedges a portion of its future corn purchases to the extent considered necessary for minimizing risk from market price fluctuations. Derivative financial instruments recorded on the balance sheet represent the current fair value of the instruments.

As of December 31, 2009, the Company had open positions for 620,000 bushels of corn on the Chicago Board of Trade to hedge its forward corn commitments. Management expects all open positions outstanding as of December 31, 2009 to be realized within the next fiscal year.

The following table provides details regarding the Company's derivative financial instruments at December 31, 2009, none of which are designated as hedging instruments:

Instrument	Balance Sheet Location	Assets	Liabilities
Commodity contracts	Derivative financial instruments	$ 5,325	$ -

The following table provides details regarding the approximate gains from the Company's derivative financial instruments in the statement of operations, none of which are designated as hedging instruments:

Derivatives not Designated as Hedging Instruments	Location of Gain Recognized in Income	Amount of Gain Recognized in Income
Commodity contracts	Cost of goods sold	$ 4,703

5. MEMBERS' EQUITY

In March 2009, the Company commenced a private offering for the issuance of up to 1,200 preferred membership units ("Preferred Units") at $10,000 per Preferred Unit, for a maximum of $12 million. The Preferred Units entitle the holders thereof to:

i. receive a preferred cumulative distribution of 10% ("Preferred Return") before holders of common membership units receive distributions subject to:
   a. any existing debt-related restrictions the Company may have,
   b. after estimated tax distributions, and
   c. upon declaration by the Board of Directors,

ii. then share in their proportionate share any remaining amounts available for distribution,

iii. first receive a distribution of the purchase price of the Preferred Units, plus any Preferred Return, upon a liquidation event, and

iv. the right to vote as a class for purposes of determining whether a liquidation event has occurred.

v. Following the third anniversary of the issuance of the Preferred Units, the Company may redeem Preferred Units for the original purchase price plus any accrued but unpaid distributions.

As of December 31, 2009, the Company had issued 185.4 Preferred Units, for a total of $1,854,428, of which 101.4 units were issued to Directors of the Company. The accumulated undeclared Preferred Return as of December 31, 2009 was $133,440, and the total liquidation preference of the Preferred Units as of December 31, 2009 was $1,987,868. There is no activity respecting the offering at this time, and no plans for a restart date.

Losses are generally allocated to all units based upon their respective percentage of units held, except that losses are not allocated to Preferred Units if the Preferred Return has not been achieved. For purposes of computing the net loss per common unit, no losses were allocated to the Preferred Units since the Preferred Return has not been achieved.

6. LINE OF CREDIT

In March 2006, the Company entered into a line of credit agreement, in favor of its natural gas transporter (see Note 10) to reserve pipeline space. The Company may draw up to $150,000 until maturity in May 2010. Interest is payable upon the lender's demand or in May 2010 at a rate of 5.1%. In August 2007, the Company entered into a line of credit agreement, in favor of its natural gas transporter for the service of transporting gas. The Company may draw up to $923,828 until maturity in August 2010. Interest is payable upon the lender's demand at a rate of 6.79%. These agreements are secured by restricted short term investments totaling

$1,153,708 and $1,128,070 as of December 31, 2009 and 2008, respectively. As of December 31, 2009, there were no borrowings outstanding on the lines of credit.

7. LONG-TERM DEBT

	December 31, 2009	December 31, 2008
Note payable – construction contract	$ -	$ 3,246,785
Construction loan under Credit Agreement	42,500,000	40,800,000
Members' notes payable	18,750	15,000
Tax increment financing note (Note 8)	6,579,000	6,864,000
	49,097,750	50,925,785
Less current maturities	(3,205,471)	(2,425,002)
Less debt previously classified as long term	(45,873,529)	-
	$ 18,750	$ 48,500,783

The maturities of long term debt at December 31, 2009, are as follows:

2010	$ 49,079,000
2011	-
2012	18,750
2013	-
2014	-
After 2014	-
Total long-term debt	$ 49,097,750

If the Company is able to amend the Credit Agreement without acceleration of the loans, for which no assurance can be given, the original estimated maturities of the long term debt at December 31, 2009, would be as follows:

2010	$ 3,205,471
2011	4,904,967
2012	5,238,028
2013	5,553,939
2014	5,911,020
After 2014	24,284,325
Total long-term debt	$ 49,097,750

Notes Payable-Construction Contract

As reported in previous periods, the Company had executed a $5,000,000 promissory note with Delta-T as an incentive to continue construction of the plant past April 2008. The balance of this note was $3,246,785 as of December 31, 2008. In September 2009, the Company's contract with Delta-T was amended, as discussed in Note 10, to extinguish this debt.

Construction Loan under Credit Agreement

In February 2007, the Company entered into a senior credit facility ("Credit Agreement") with AgCountry Farm Credit Services, FLCA ("Lender") for a multiple advance construction loan totaling $42,500,000. The Company is required to make interest payments during the construction phase at the thirty-day LIBOR plus 3.4%, but not less than 6.0%. The interest rate was 6.0% at December 31, 2009. The performance test of the plant was completed in June 2009, but three significant equipment deficiencies prevented final acceptance at that time. The Credit Agreement provides that the construction loan is to be converted at final acceptance to a permanent ten year term loan of $32,500,000 and a $10,000,000 revolving term loan. As of December 31, 2009 and 2008, the Company had $42,500,000 and $40,800,000 outstanding on the construction loan, respectively. The Company is in negotiations with Lender to convert the loan to long term financing as discussed above.

The Credit Agreement requires the Company to maintain certain financial covenants, including minimum working capital of $6,000,000, minimum current ratio of 1.20:1.00, minimum tangible net worth of $41,000,000, minimum owners' equity ratio of 50%, and a minimum fixed charge coverage ratio of 1.25:1.00, and also includes restrictions on distributions and capital expenditures. As of December 31, 2009 the Company is in violation of the working capital, current ratio, tangible net worth and fixed charge coverage

ratio requirements. The Credit Agreement contains certain prepayment fees in the first four years of the scheduled payments, and the loan is secured by substantially all the Company's assets.

Under the current terms of the Credit Agreement, the Company is required to make level monthly principal and interest payments of approximately $568,000 beginning April 1, 2010 and ending on February 1, 2018. If a guaranteed USDA Business & Industries loan is granted, the amount and terms of conversion of the construction loan to a Term Loan and a Revolving Term Loan for working capital may change.

Under the terms of the Credit Agreement, the Company is required to pay interest on the principal advances monthly at the 30 day LIBOR plus 3.4%, which totaled 6.0% at December 31, 2009. The Company must pay a commitment fee of 0.25% on the unused portion of the revolving promissory note upon conversion to the revolving term loan. In addition, the Company was required to establish and fully fund a $2,400,000 Debt Service Reserve Account on or prior to the loan conversion date, no later than August 1, 2009. At such time, the commitment amount would have been reduced to an amount not to exceed $7,600,000 and the Debt Service Reserve Fund would no longer be required to be funded. This requirement was not met. The Company and Lender are discussing amendments to the terms of the Credit Agreement which may modify the foregoing provisions.

The Company executed a Fourth Supplement and Forbearance Agreement to Master Credit Agreement on March 27, 2009 (the "Fourth Supplement"). In connection with the Fourth Supplement, the Lender required the Company to obtain $1,000,000 of equity or subordinate debt capital by April 30, 2009, which was guaranteed by the Company's board of directors in addition to the Preferred Units purchased by the Directors discussed in Note 5. The Lender extended this April 30, 2009 date to June 30, 2009 by which time the Company only received $844,428. The payment terms of the additional loan fee of $250,000 from the third amendment to the Credit Agreement were modified to provide that the fee will be paid in five $50,000 quarterly installments beginning on or before January 1, 2010. In addition, the Company undertook to achieve and maintain indefinitely 100% name plate production on or before May 1, 2009. The Fourth Supplement also provided that the interest on the unpaid principal amount of the construction and term loans accrues at a variable interest rate equal to LIBOR plus 5.40%, but not less than 6.00%. In addition to the Fourth Supplement, the Lender delayed required compliance by the Company of certain financial covenants in the Credit Agreement until after September 30, 2009 as well as delayed the requirement to make excess cash flow payments until December 31, 2009. On July 24, 2009, the Lender again declared the Loans in default, due to delinquent payment of fees and interest, deficiency in the raising of equity or subordinated debt, and failure to achieve nameplate production by May 1, 2009.

On September 30, 2009, the Company executed a Fifth Supplement and Forbearance Agreement to the Master Credit Agreement ("Fifth Supplement") with the Lender, which (i) extended the dates to pay loan and restructure fees to begin on January 1, 2010 with $50,000 per month through January 1, 2011 and an additional payment of $100,000 payable on or before June 30, 2010, (ii) extended the first principal payment until April 1, 2010, (iii) provided for the release of $2,000,000 of restricted cash for the purchase of corn, and (iv) requires the Company to fund a loan reserve fund under the Credit Agreement in the amount of $2,000,000 if the Company receives the Business and Industry Loan Guarantee for $5,000,000 of working capital.

The Company and the Lender are in discussion to revise the Credit Agreement covenants and resolve all outstanding defaults under the Credit Agreement. No assurance can be provided that such Credit Agreement defaults will be successfully resolved.

As discussed in Note 10, on September 1, 2009, the Company reached a settlement with Delta-T which provided for cash payment to the Company from a Delta-T letter of credit of $3,995,000. Under the Fifth Supplement, $3,050,000 was released directly to the Company's corn marketer to prepay for delivery of corn. The remaining $945,000 remains on deposit with the Lender pending agreement on terms and conversion of the construction loan to operating debt or other agreement to release these funds to the Company. This deposit is included in restricted cash on the balance sheet.

As stated above, the Company and Lender have received approval from the USDA of a pre-application for a Business and Industries Guaranteed Loan. Applications are being prepared for two separate loans. The first application is in the amount of $5,000,000 which would provide additional working capital. The second application will be for refinancing a yet undecided portion of the $42,500,000 construction loan. As part of these arrangements, the remaining portion of the construction loan under the original Credit Agreement would be converted to long term debt.

Note Payable to Members

In May 2004, each of the initial 15 members loaned the Company $1,000. The unsecured loans bore interest at 5% per annum with principal and interest due on April 8, 2009. On April 8, 2009, the notes were amended and restated to add accrued interest in the amount of $3,750 to the principal. The unsecured notes, which are classified as long-term debt as of December 31, 2009, continue to bear interest at 5% per annum with principal and interest due on April 8, 2012.

8. TAX INCREMENT FINANCING

In September 2007, the City of Atkinson, Nebraska, ("Issuer") issued a tax increment financing Note (the "TIF Note"), the net proceeds of which in the amount of $4,939,925 were paid to the Company through a loan (the "TIF Loan") to reimburse the Company for certain infrastructure improvements relating to the plant. Repayment of the Loan is secured by the Company's pledge to the lender of the TIF Note ("TIF Lender") and other obligations relating to the TIF Note. The original amount of the TIF Note was $6,864,000 and bears interest of 9.5%.

In connection with the issuance of the Note, the Issuer and the Company entered into a Redevelopment Contract ("Contract"). Under the Contract, the Note proceeds are to be used for Project costs, for the establishment of special funds held by the Note trustee for interest and principal payments and reserves (the "Capitalized Interest Fund" and the "Debt Service Reserve Fund"), and for debt issuance costs. The Company may not convey, assign, or transfer the project prior to the expiration of a 15 year period without the prior written consent of the Issuer. As of December 31, 2009 and 2008, the Capitalized Interest Fund was approximately $52,500 and $599,000, respectively, and is included in restricted cash on the balance sheet.

The Note is due in semi-annual increments which commence at $139,000 and increase to $444,000, with a final maturity in December 2021. Interest on the Note is payable semi-annually on September 1 and December 1. The interest rate resets on September 1, 2012 and September 1, 2017 to a rate equal to the 5-year U.S. Treasury Constant Maturity index plus 4.75% for the applicable five-year period and the remainder of the term of the TIF Loan, respectively. The Company has the option to redeem or purchase the Note in whole or in part. As of December 31, 2009 and December 31, 2008, the Company had $6,579,000 and $6,864,000 outstanding on TIF Loan, respectively.

On July 6, 2009, the Lender notified the Company that the Debt Service Reserve Fund was deficient, constituting a default under the TIF Loan. The primary reason for this default was the extended delays and losses associated with startup of the Company's ethanol plant. In order to enable resolution of the Company's default, the Company and the TIF Lender entered into a Forbearance Agreement dated December 31, 2009 (the "Agreement").

Under the Agreement, the Company agreed to authorize a transfer from the Debt Service Reserve Fund to satisfy the Company's principal payment due to TIF Lender on December 31, 2009. With the authorization of payment to TIF Lender from the Debt Service Reserve Fund, the Company became current on all required payments to TIF Lender, but has violated covenants in the TIF Loan requiring immediate replenishment of the Debt Service Reserve Fund. Moreover, the Company agreed to and is attempting to seek the consent of AgCountry Farm Credit Services, FCA ("Lender") to (i) grant a security interest and Deed of Trust in favor of the TIF Lender upon the Company receiving, or being denied, the B&I Loan, (ii) grant a security interest in all reserve funds established under the TIF Loan and (iii) amend to the TIF Loan documents to (a) reduce the TIF Loan's interest rate from 9.5% to 6.0% for three years, and upon expiration of the three years, the interest rate will be reverted to 9.5%, (b) reduce the Debt Service Reserve Fund to an amount equal to 12 months of principal payments, (c) make the Debt Service Reserve Fund funding contingent on the Company's previous year's profitability and (d) require the financial covenants and ratios in the TIF Loan documents to be consistent with the financial covenants and ratios to be agreed upon with Lender.

Under the Agreement, the TIF Lender shall refrain from exercising any of its rights or remedies under the TIF Loan, including acting on Company's failure to maintain a sufficient amount in its Debt Service Reserve Fund or meet TIF Loan covenants, for a period beginning on December 31, 2009 and ending on the earlier of (a) March 31, 2010 or (b) 30 days following the approval of the proposed B&I Guaranty.

Due to the default mentioned above, the TIF Loan is classified in current liabilities.

9. FAIR VALUE MEASUREMENTS

Accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in

active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

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

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

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

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

The following table summarizes by level, within the fair value hierarchy, the Company's assets (liabilities) that are measured at fair value on a recurring basis at December 31, 2009:

	Level 1	Level 2	Level 3	Total
Commodity contracts	$ 5,325	$ -	$ -	$ 5,325

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the items are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). As of December 31, 2009, no assets were recorded with any adjustments to fair value measurements.

The carrying values of cash and cash equivalents, restricted cash, restricted short-term investments, accounts receivable, the commodity broker receivable, derivative financial instruments and accounts payable are recorded at or approximate fair value. Management determined it is not practicable to estimate the fair value of the notes payable and long-term debt since these agreements contain unique terms, conditions, and restrictions, which were negotiated at arm's length, and there was no readily determinable similar instrument on which to base an estimate of fair value.

10. COMMITMENTS AND CONTINGENCIES

Construction Contract

The Company entered into an Engineering, Procurement and Construction Services Fixed Price Contract dated August 9, 2006 with Delta-T, which has been amended with several supplements, amendments and change orders (collectively, the "Delta-T Contract"). The Delta-T Contract provided, among other things: (i) guarantee of Delta-T's performance by Delta-T's parent, Bateman Litwin NV, (ii) the provision by Delta-T of letters of credit in the amounts of $4,000,000 and $5,500,000 for the benefit of Lender and the Company, respectively, and (iii) a promissory note in the amount of $5,000,000 made by the Company in favor of Delta-T. Disputes between the parties respecting the letters of credit and other matters resulted in the filing by Delta-T of an action in the District Court of Douglas County, Nebraska, in which the court temporarily restrained the Company and Lender from making a draw on one of the letters of credit. The parties amended the Delta-T Contract on September 1, 2009 (the "Amendment"). The Amendment resolved asserted claims by both parties and provided the following, among other things: (i) Delta-T will repair certain plant emissions equipment, (ii) Delta-T will extend the $5,500,000 letter of credit to September 30, 2010 with conditions added to draw on such letter of credit, (iii) Delta-T is relieved of previously agreed upon punch list responsibility with certain exceptions, (iv) Delta-T relinquished all rights to the $3,995,000 of proceeds held by Lender from the September 2009 draw against the $4,000,000 letter of credit, (v) the $5,000,000 promissory note in Delta-T's favor was extinguished, (vi) Delta-T agreed to dismiss its legal action and dissolve the temporary restraining order, and (vii) except as provided above, no further payments or transfer of funds shall be made to or from Delta-T and the Company. The extinguishment of the $5,000,000 promissory note and other contract liabilities were recorded as reductions to property and equipment. The receipt of the $3,995,000 cash, less $228,433 for costs expected to be incurred, was recognized as a gain in other income.

On March 19, 2010, the Company, Delta-T, Bateman and Bateman Engineering Inc. ("Bateman Engineering") entered into a

Settlement Agreement and Mutual Release (the "Settlement Agreement"), under which, among other things, (i) Delta-T and Bateman authorized the Company to draw $3,000,000 from a letter of credit, and (ii) the Company released Delta-T and Bateman from all warranties and other claims under the Delta-T Contract. The Settlement Agreement resolved all outstanding disputes among the Company, Bateman and Delta-T relating to the Delta-T Contract and construction of the Company's ethanol plant.

Plant Management Agreement

In July 2007, the Company entered into an agreement with an unrelated party for the operation and management of the Company's plant. The Company pays a fixed monthly payment of approximately $114,000 for such services, which will be adjusted annually. The Company is currently paying for process chemicals at a fixed rate per denatured gallon of ethanol produced. The Company also has future obligations for an incentive program that is in effect for the first five years of operation following the Delta-T settlement discussed above. The agreement will terminate on December 31, 2014 unless terminated by either party giving 180 days prior written notice. The Company incurred approximately $1,188,000 and $1,238,500 for these services for the years ended December 31, 2009 and 2008, respectively.

Utility Contracts

In March 2006, the Company entered into an agreement with a natural gas provider for the procurement, and management of natural gas transportation and supply. The Company pays for the natural gas based on actual consumption along with a monthly management fee of $0.07 per MMBtu delivered. The agreement was automatically renewed for an additional two-year term in February 2008. As of March 31, 2010 this contract has been allowed to expire and the Company has entered into a consulting agreement with a management services company who is negotiating for gas supply on the Company's behalf and making recommendations as to methods and sources of gas procurement on a week by week basis.

In May 2006, the Company entered into an agreement, secured by the Company's line of credit discussed in Note 6, with a natural gas transporter for the transportation of natural gas. The Company pays the maximum transportation rate unless otherwise agreed for the maximum daily transportation quantity of 2450 MMBtu per day. The agreement is for a ten year period beginning September 2007 and may be extended for another primary term if agreed to by both parties.

In September 2007, the Company entered into an agreement, secured by the Company's line of credit discussed in Note 6, with a natural gas transporter to expand the pipeline capacity. The Company pays the maximum transportation rate unless otherwise agreed for the maximum daily transportation quantity of 1,000 MMBtu per day. The agreement is for a ten year period beginning September 2007 and may be extended for another primary term if agreed to by both parties.

Transportation Agreement

In July 2007, the Company entered into an agreement with a fuel carrier for the transportation of ethanol from the plant to the load out facility. The Company pays a base fee per gallon unloaded plus a surcharge if above the diesel fuel base. The agreement has a three year term which commenced July 2007 and will automatically renew for additional one-year terms unless terminated by either party by written notice no less than 180 days prior to the ending date of the initial three-year term or of any renewal term.

Marketing Agreements

Ethanol

In November 2006, the Company entered into a marketing agreement with an unrelated party for the sale of its ethanol. The Company pays the marketer a fixed rate fee of $0.01 per net gallon of denatured ethanol for the services provided. The agreement will continue until December 2010. The agreement will automatically renew for an additional one year unless the Company gives four months' written notice.

The marketer leases rail cars to the Company with varying terms under this agreement, which leases may survive the actual marketing agreement by many years. The Company has lease agreements for 167 rail cars under this agreement. There are 70 cars under leases that expire before the end of 2011 and carry an average monthly rental cost of $387. The remaining leases are for 97 cars and have expiration dates between March 31, 2017 and August 31, 2020, with average monthly rental cost of $668.

Revenues from sales to this marketer were approximately $59,906,000 and $0 for the years ended December 31, 2009 and 2008, respectively. Accounts receivable from this marketer were $674,671 as of December 31, 2009.

As of December 31, 2009 the Company has forward contracted sales of ethanol for 4,786,000 gallons of ethanol with an average price of $1.83 per gallon.

Distiller's Grains

In January 2007, the Company entered into a marketing agreement with an unrelated party to purchase all of the Company's modified wet distillers grains ("MWDG"). The marketer is to operate in good faith to obtain a market competitive price. The marketer pays the Company the selling price, less a marketing fee equal to $1.50 per ton of MWDG sold at $50 a ton or less or 3.0% of the price of MWDG sold over $50 a ton. The agreement will continue until March of 2011 and renew for an additional two years thereafter unless either party has given four months written notice. Revenue from this marketer was approximately $7,500,000 and $0 for the years ended December 31, 2009 and 2008, respectively. Accounts receivable from this marketer were $332,092 as of December 31, 2009.

Grain Procurement

In December 2006, the Company entered into an agreement with an unrelated party to supply corn required for its production of ethanol. As of January 2009, the parties no longer operate under this agreement. However, the agent continues to provide services to the Company on an at-will basis for nearly all contracts with local producers for the delivery of corn to the Company. The agent is paid a service fee of $0.04 per bushel of grain delivered, and the Company also executes some contracts directly with producers for some of its corn. In the ordinary course of business, the Company will enter into forward purchase contracts for its corn purchases. Management considers these forward contracts to be normal purchases since the corn will be delivered in quantities expected to be used by the Company over a reasonable period in the normal course of business. Purchases directly from the agent totaled approximately $8,261,000 and $2,215,000 for the years ended December 31, 2009 and 2008, respectively.

As of December 31, 2009, the Company had commitments on forward purchase contracts to purchase 2,183,000 bushels of corn at an average price of $3.78 per bushel totaling $8,255,000 for delivery between January 2009 and December 2010. Also, we have commitments on unpriced forward purchase contracts for 740,000 bushels.

Environmental Liabilities

The Company's operations are subject to environmental laws and regulations adopted by various governmental entities in the jurisdiction in which it operates. These laws require the Company to investigate and remediate the effects of the release or disposal of materials at its location. Accordingly, the Company has adopted policies, practices, and procedures in the areas of pollution control, occupational health, and the production, handling, storage, and use of hazardous materials to prevent material environmental or other damage, and to limit the financial liability which could result from such events. Environmental liabilities are recorded when the liability is probable and the costs can be reasonably estimated.

The Company has received Notices of Violation ("NOV") from the Nebraska Department of Environmental Quality ("NDEQ") arising from failures of emission equipment designed and installed by the Company's design builder, Delta-T Corporation ("Delta-T"). That equipment includes the plant's regenerative thermal oxidizer ("RTO") used to control emissions from the dryer and the CO2 Scrubber used to control emissions from the ethanol process.

The RTO had not performed according to the design specified in the Engineering, Procurement and Construction Services Fixed Price Contract dated August 9, 2006 with Delta-T (the "Delta-T Contract"), and the Company continues to assess methods to resolve the problem.

The CO2 Scrubber failed in original compliance testing, and equipment modifications and process adjustments were made, including chemical injection, to remediate the issue. During the startup operations of the plant beginning in January and continuing through the date of the original compliance testing, Delta-T had operated the plant without these modifications and as a result, the Company received an NOV in January 2010 which asserted that due to the failure of the CO2 Scrubber, the Company's operation of the plant violates the operating permit issued by the NDEQ.

Accordingly, while the Company believes it has resolved all of the operational shortfalls cited in the NOVs, it is possible the NDEQ or the Nebraska Office of the Attorney General could assess fines against the Company as a result of having operated the plant with the equipment before it was operating in compliance. As a result of subsequent negotiations and problem solving in cooperation with the NDEQ, the Company believes that the chance that any material penalties being assessed is remote.

11. EMPLOYEE BENEFIT PLAN

The Company has a 401(k) plan ("Plan") for all eligible employees, as defined by the Plan. The Company provides a matching contribution equal to 100%of the first 5% of each participant's eligible compensation deferred. The Company recorded $37,062 and $8,794 in operating expenses for the cost of providing benefits under the Plan for the years ended December 31, 2009 and 2008, respectively.