Fiscal Year 2010 Annual Report

March 31, 2011

SLC-6250539-9

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 distiller's 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 7, 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 8,
- as part of the tax increment financing agreement as described in Note 9.

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. As of December 31, 2010 and 2009, 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
Plant equipment	10-20 years
Office equipment	5-7 years
Vehicles	5-7 years

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.

Due to continued net losses and violations of its credit agreements, the Company performed an impairment analysis over long-lived assets as of December 31, 2010. 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 as of December 31, 2010; 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 $276,919 and $242,535 for the years ended December 31, 2010 and 2009, respectively, is included in interest expense. Future amortization of debt issuance costs is expected to be as follows: 2011 $239,330, 2012 $213,018, 2013 $189,731, 2014 $155,215, 2015 $123,491, and thereafter $144,275.

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 $1,219,000 and $700,000 for the years ended December 31, 2010 and 2009, respectively. Revenue is recorded net of these fees and commissions. In certain situations, shipping costs were incurred by the Company and in other situations they were paid by the marketers. Shipping costs incurred in the sale of ethanol and paid by the Company are recorded gross and are included in Costs of Goods Sold in the Statement of Operations. Shipping costs paid for by the Company's marketers are netted in revenues.

Net Income (Loss) per Common Unit

Basic net income (loss) per common unit is computed by dividing net income (loss) applicable to common units 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) applicable 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, 2010 the Company's reported basis in its net assets exceeds their tax basis by $20,603,932. Accordingly, a net deferred tax liability of $7,417,416 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. Generally, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2007.

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.

2. MARKET UNCERTAINTIES, LIQUIDITY AND MANAGEMENT'S PLANS

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, 2010, the Company was in default of its Credit Agreement and its Tax Increment Financing, as further discussed in Notes 8 and 9. For this reason, the Company has reclassified amounts owing under these loans as current liabilities. Such treatment of the Company's long term debt will continue, as required by GAAP, until such defaults are cured. The Company also performed an impairment analysis for its long-lived assets as of December 31, 2010, see Note 1.

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 has continued discussions with its lenders to resolve defaults under the Credit Agreement and Tax Increment Financing, which may include entering into a tolling agreement and obtaining additional capital. A final resolution to the defaults and amortization of the loans will require approval of the lenders and may include requirements for additional capital. The Company has also engaged a firm to undertake a more systematic approach to potential capital sources.

The Company continues to work with its lenders and others to identify the means by which it can improve its capital position. Improved capitalization would better enable the Company to hedge and better manage its market risk in the commodity markets, among other things. Improving its capitalization will likely involve restructuring its debt so that both the debt level and the associated covenants are more compatible with current market conditions, and may also involve the Company issuing equity in one or more private placements on terms which the Company cannot predict at this time.

Exclusive of the reclassification of the majority of the Company's long term debt to current liabilities, the Company would have had negative working capital of $4,644,148 including only Current Maturities of Long Term Debt that represent normal amortization of principal, as of December 31, 2010. As reported in the Balance Sheet, including the reclassification of long term debt to current liabilities, working capital was a negative $43,224,052 as of December 31, 2010.

Accrued liabilities include accrued board compensation of $929,750 and $742,500 as of December 31, 2010 and 2009, respectively, and accounts payable include amounts due to the Company's grain procurement agent totaling approximately $869,000 and $808,000 as of December 31, 2010 and 2009, respectively, 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, and in addition, modify the Credit Agreement covenants or refinance the construction loan, there is substantial doubt as to whether the Company can continue to operate as a going concern.

3. INVENTORY

Inventory consisted of the following as of December 31, 2010 and 2009:

	2010	2009
Finished Goods	$ 3,478,089	$ 842,143
Work in Process	912,104	567,410

Raw Materials	877,137	1,561,766
Total	$ 5,267,330	$ 2,971,319

4. DERIVATIVE FINANCIAL INSTRUMENTS

The Company seeks to hedge a portion of its future corn and natural gas purchases to the extent considered necessary for minimizing risk from market price fluctuations. However, as of December 31, 2010, the Company had no open derivative positions for corn to hedge its forward corn commitments and no open derivative positions for natural gas. Derivative financial instruments are recorded at fair value.

The following table provides details regarding the approximate losses from the Company's derivative financial instruments in the statement of operations for the year ended December 31, 2010, none of which are designated as hedging instruments:

Derivatives not Designated as Hedging Instruments	Location of Loss Recognized in Income	Amount of Loss Recognized in Income
Commodity contracts	Cost of goods sold	$ (335,630)

The following table provides details regarding the Company's derivative financial instruments as of 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 for the year ended December 31, 2009, 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. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31, 2010 and 2009:

	2010	2009
Land and improvements	$ 4,408,272	$ 4,408,272
Buildings	9,121,024	9,102,173
Plant equipment	73,216,667	73,204,195
Office equipment	200,575	200,575
Vehicles	560,383	468,617
	87,506,623	87,383,832
Less accumulated depreciation	(12,346,599)	(6,233,212)
Net property and equipment	$ 75,160,322	$ 81,150,620

Depreciation expense for the years ended December 31, 2010 and 2009 was $6,113,387 and $6,099,280, respectively.

6. MEMBERS' EQUITY

In 2009, the Company issued preferred membership units ("Preferred Units") at $10,000 per Preferred Unit. 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 upon declaration by the Board of Directors, subject to (a) any existing debt-related restrictions the Company may have, and (b) after estimated tax distributions; (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. 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, 2010, there were 185.5 Preferred Units, of which 101.5 units were issued to Directors of the Company. The accumulated undeclared Preferred Return as of December 31, 2010 was $318,899, and the total liquidation preference of the Preferred Units as of December 31, 2010 was $2,173,402. 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.

A reconciliation of net loss applicable to common units used in the calculation of net loss per common unit for the years ended December 31, 2010 and 2009 is as follows:

	2010	2009
Net loss	$ (2,086,586)	$ (9,235,248)
Preferred Return on Preferred Units	(185,459)	(133,440)
Net loss applicable to Common Units	$ (2,272,045)	$ (9,368,688)
Weighted average Common Units Outstanding - Basic and Diluted	5,233	5,233
Net loss per Common Unit - Basic and Diluted	$ (434.18)	$ (1,790.31)

Quarterly earnings per Common Units (unaudited) are as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year ended December 31, 2010				
Net income (loss)	$ 1,726,967	$ (3,218,505)	$ (2,124,657)	$ 1,529,609
Preferred Return on Preferred Units	(45,737)	(46,235)	(46,744)	(46,743)
Net income (loss) applicable to Common Units	$ 1,681,230	$ (3,264,740)	$(2,171,401)	$ 1,482,866
Weighted average Common Units Outstanding - Basic and Diluted	5,233	5,233	5,233	5,233
Net loss per Common Unit - Basic and Diluted	$ 321.27	$ (623.88)	$ (414.94)	$ 283.37
Year ended December 31, 2009				
Net income (loss)	$ (3,843,772)	$ (4,422,892)	$ (3,019,538)	2,050,954
Preferred Return on Preferred Units	(6,929)	(33,055)	(46,725)	(46,731)
Net income (loss) applicable to Common Units	$ (3,850,701)	$ (4,455,947)	$ (3,066,263)	$ 2,004,223
Weighted average Common Units Outstanding - Basic and Diluted	5,233	5,233	5,233	5,233
Net loss per Common Unit - Basic and Diluted	$ (735.85)	$ (851.51)	$ (585.95)	$ 383.00

7. LINE OF CREDIT

In March 2006, the Company entered into a line of credit agreement, in favor of its natural gas transporter (see Note 11) to reserve pipeline space. The natural gas transporter may draw up to $150,000 until maturity in May 2011. Interest is payable upon the lender's demand or in May 2011 at a rate of 3.35%. 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 natural gas transporter may draw up to $923,828. Interest is payable upon the lender's demand at a rate of 3.75%. These agreements are secured by restricted short term investments totaling $1,163,581 and $1,153,708 as of December 31, 2010 and 2009, respectively. As of December 31, 2010 and 2009, there were no borrowings outstanding on the lines of credit.

8. LONG-TERM DEBT

		December 31, 2010		December 31, 2009
Construction loan under Credit Agreement	$	38,026,321	$	42,500,000
Members' notes payable		18,750		18,750
Tax increment financing note (Note 9)		6,579,000		6,579,000
		44,624,071		49,097,750
Less current maturities		(6,025,417)		(3,205,471)
Less debt previously classified as long term		(38,579,904)		(45,873,529)
	$	18,750	$	18,750

The maturities of long term debt as of December 31, 2010, are as follows:

2011	$ 44,605,321
2012	18,750
Total long-term debt	$ 44,624,071

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 was 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% as of December 31, 2010. 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, which has not yet occurred as of December 31, 2010. As of December 31, 2010 and 2009, the Company had $38,026,321 and $42,500,000 outstanding on the construction loan, respectively.

Under the current terms of the Credit Agreement, the Company is required to make level monthly principal and interest payments of approximately $447,368 through February 1, 2018.

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, 2010, the Company was in violation of the working capital and current ratio covenants (working capital was $(4,644,148) and the ratio was 1.20:0.71, both, exclusive of the debt reclassification), tangible net worth ($40,399,328) and the fixed charge coverage ratio (0.79:1.00). 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.

On August 6¸ 2010, the Company executed a Sixth Supplement and Forbearance Agreement to the Master Credit Agreement (the "Sixth Supplement"), under which the Company agreed that Lender could apply the $3,945,087 it held as collateral under the Credit Agreement to the Company's current obligations under the Credit Agreement, including monthly payments, penalties and interest. In exchange for the foregoing among other terms, Lender agreed to refrain from exercising its rights under the Credit Agreement until the earlier of October 1, 2010 or the date of any default under the Sixth Supplement. The TIF Lender (defined in Note 9) filed a suit

alleging a breach of the TIF Loan, which suit constituted a breach under the Sixth Amendment, but the Lender has not taken any actions directly related to the suit.

The Company and the Lender remain in discussions to revise the Credit Agreement covenants and resolve outstanding defaults under the Credit Agreement. In light of continuing poor margins in the ethanol industry, the Lender has indicated the Company should focus on mitigation of risk and obtaining additional capital.

Effective February 1, 2011, the Company entered into a Seventh Supplement and Forbearance Agreement with the Lender (the "Seventh Supplement"), under which the Lender agreed to forbearance from exercising its enforcement rights under the Loan Agreements until the earliest to occur of June 30, 2011 and the occurrence of an "event of default" under the Seventh Supplement. In addition, the Company agreed that the Lender may apply the proceeds of a letter of credit issued in connection with the Fifth Supplement and Forbearance Agreement dated September 30, 2009 against any amounts due under the Loan Agreement, at the Lender's sole discretion. In addition, the Company has agreed to deliver a comprehensive strategic financial plan, or update any plan previously delivered, to the Lender by March 31, 2011. Furthermore, the Company has also committed to raise additional capital prior to expiration of the forbearance period provided in the Seventh Supplement, and the Company is obligated to provide certain financial statements, books, records and budgets to lender on a periodic basis as set forth in the Seventh Supplement.

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, 2010, continue to bear interest at 5% per annum with principal and interest due on April 8, 2012.

9. 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 were 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. As of December 31, 2010 and 2009, the Capitalized Interest Fund was approximately $6,500 and $52,500, respectively, and is included in restricted cash on the balance sheet.

Payments on the Note are due in semi-annual increments which commenced at $139,000 on June 1, 2009 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, 2010 and 2009, the Company had $6,579,000 outstanding on the TIF Loan.

On July 6, 2009, the TIF Lender notified the Company that the Debt Service Reserve Fund was deficient, constituting a default under the TIF Loan. The Company and the TIF Lender entered into a Forbearance Agreement dated December 31, 2009 (the "TIF Forbearance"). The Company and the TIF Lender failed to extend the TIF Forbearance or reach other arrangements containing similar forbearance obligations by May 15, 2010, and the Company received a Notice of Default dated June 30, 2010 from the TIF Lender indicating that the Company was in default under the TIF Note due to nonpayment of $464,768 owing on June 1, 2010, and that the Debt Service Reserve Fund remained deficient by an amount of $588,553. Because of these defaults, the TIF Lender reserved the right to (i) charge the Company an interest rate of 4% over the interest rate the Lender would otherwise be able to charge the Company, (ii) charge the Company a late charge of 5% for payments which are more than 10 days overdue, (iii) accelerate the entire

amount of principal outstanding under the TIF Loan (which was $6,579,000 as of June 30, 2010) and (iv) exercise any other rights available to it under TIF Forbearance or at law. Due to these defaults, the TIF Loan is classified as a current liability.

On August 12, 2010, the TIF Lender filed a lawsuit against the Company in the District Court of Douglas County, Nebraska alleging that the Company failed to make certain payments due under the TIF Note and failed to maintain the required debt service reserve fund. In addition, the lawsuit stated that the TIF Lender accelerated the maturity of the TIF Note. The TIF Lender sought in the lawsuit repayment of $7,039,126 due as of August 9, 2010, plus such additional amounts as become due and owing under the TIF Note, with interest accruing after August 9, 2010 at the rate of 9.5% until the judgment is paid. It is uncertain when or how the court will rule on the several pending motions. Discovery is ongoing and no trial date has been set.

Under the terms of the Contract, a portion of the real estate taxes paid by the Company would be used to make principal and interest payments on the TIF Note. However, the Company is not in compliance with the Contract due to nonpayment of real estate taxes. The Company has accrued the full amounts of 2009 and 2010 real estate taxes due as of December 31, 2010 in accrued expenses on the balance sheet.

10. 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 as of December 31, 2009:

	Level 1	Level 2	Level 3	Total
Derivative financial instruments	$ 5,325	$ -	$ -	$ 5,325

There were no assets or liabilities measured at fair value on a recurring or nonrecurring basis as of December 31, 2010.

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.

11. COMMITMENTS AND CONTINGENCIES

Construction Contract

The Company entered into an Engineering, Procurement and Construction Services Fixed Price Contract dated August 9, 2006 (the "Delta-T Contract") with Delta-T Corporation ("Delta-T"). Following a dispute, the parties amended the Delta-T Contract on September 1, 2009, which provided that, among other things: (i) Delta-T relinquished letter of credit proceeds of $3,995,000 held by Lender, and (ii) a $5,000,000 promissory note in Delta-T's favor was extinguished. The extinguishment of the $5,000,000 promissory note and other contract liabilities were recorded as reductions to property and equipment. The relinquishment of the $3,995,000 letter of credit proceeds, less $228,431 for costs expected to be incurred, was recognized as gain in other income during the fourth quarter of 2009.

On March 19, 2010, the Company, Delta-T, Delta-T's parent, Bateman Litwin NV ("Bateman") and Bateman Engineering Inc. ("Bateman Engineering") entered into a Settlement Agreement and Mutual Release (the "Settlement Agreement"), under which, among other things, Delta-T and Bateman authorized the Company to draw $3,000,000 from a letter of credit. The receipt of the $3,000,000 was recognized as a gain in other income in the first quarter of 2010, and held as restricted cash by the Company. Under the Sixth Supplement, withdrawals of $2,220,818, $660,454, $6,694 and $20,500 were made from the restricted cash on July 29, 2010, September 1, 2010, October 31, 2010 and December 8, 2010, respectively, to satisfy amounts due the Lender under the Credit Agreement, leaving $1,036,673 including interest in restricted cash as of December 31, 2010.

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 $120,434 for such services, which will be adjusted annually. The unrelated party also supplies process chemicals, which the Company is currently paying for at a fixed rate per denatured gallon of ethanol produced. The existing contract allows for potential future payments in an incentive program intended to be based on operational improvements and company profitability. The agreement will terminate on December 31, 2014 unless terminated by either party giving 180 days prior written notice. The Company incurred approximately $1,477,000 and $1,188,000 for these services for the years ended December 31, 2010 and 2009, respectively.

Utility Contracts

The Company has entered into a consulting service contract for management of the various facets of the demand for natural gas for use in plant operations. The three services of natural gas procurement required to operate the plant are transport, distribution and supply. The physical supply of natural gas to operate the plant is purchased from various companies based on bids established by the Company's Risk Management Committee with the advice of the management services company. The gas is transported by Kinder Morgan pursuant to various contracts with the Company, and delivered to the local gas company, Source Gas, which distributes the gas to the plant.

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. No notice was issued by either party and the term of the agreement was automatically extended for one year through July 2011.

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. In August 2010, the Company gave notice of non-renewal to the marketer, and the Company sold the last ethanol to this marketer in December, 2010.

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 137 rail cars under this agreement. There are 29 cars under leases

that expire before the end of 2011 and carry an average monthly rental cost of $433. The remaining 108 cars have expiration dates between May 31, 2017 and August 31, 2020, with average monthly rental cost of $653.

Revenues from sales to this marketer were approximately $72,438,000 and $59,906,000 for the years ended December 31, 2010 and 2009, respectively. Accounts receivable from this marketer were $567,066 and $674,671 as of December 31, 2010 and 2009, respectively.

As of December 31, 2010 the Company has forward contracted sales of ethanol with a separate party for 1,160,000 gallons of ethanol to be priced later with a basis of minus $0.09, for delivery in January 2011. The Company has since sold ethanol on the spot market through an arrangement with Tenaska BioFuels, LLC ("Tenaska"), which arrangement is terminable by either party at will. Under this arrangement, the Company pays Tenaska $0.02 per gallon of ethanol sold.

Distiller's Grains

In January 2007, the Company entered into a marketing agreement with an unrelated party to purchase all of the Company's wet distiller's grains with soluble ("WDGS"). The marketer paid the Company the selling price, less a marketing fee equal to $1.50 per ton of WDGS sold at $50 a ton or less or 3.0% of the price of WDGS sold over $50 a ton. The agreement was terminated on February 29, 2011. Revenue from this marketer was approximately $11,644,000 and $7,500,000 for the years ended December 31, 2010 and 2009, respectively. Accounts receivable from this marketer were $712,614 and $332,092 as of December 31, 2010 and 2009, respectively. The Company has since sold its distiller's grains directly to its purchasers without third party assistance.

Grain Procurement

In the years 2009 and 2010, the Company utilized the services of an unrelated party on an at-will basis to supply its corn. The agent was paid a service fee of $0.04 per bushel of grain delivered, and the Company also executes some contracts directly with producers (which include directors) for some of its corn. The Company has engaged Tenaska on an at-will basis to assist it with grain procurement, under which the Company's corn cost is netted against its receivable for ethanol sold through Tenaska.

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 $13,499,000 and $8,261,000 for the years ended December 31, 2010 and 2009, respectively. As of December 31, 2010, the Company had commitments on forward purchase contracts to purchase 2,100,000 bushels of corn at an average price of $5.47 per bushel totaling $11,487,000 for delivery between January 2011 and July 2011.

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.

12. 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 $33,928 and $37,062 in operating expenses for the cost of providing benefits under the Plan for the years ended December 31, 2010 and 2009, respectively.

13. SUBSEQUENT EVENTS

During February 2011, a fire occurred in the Company's dryer within the plant. The fire resulted in extensive damage to the dryer. There is no reason to believe that the Company will incur material liability or that insurers will not cover all material losses, in each case connected with such fire. The fire has not resulted in any disruption to the daily operations of the plant.

Effective February 1, 2011, the Company entered into a Seventh Supplement, under which the Lender agreed to forbearance from exercising its enforcement rights under the Loan Agreements until the earliest to occur of June 30, 2011 or the occurrence of an "event of default" under the Seventh Supplement. In addition, the Company agreed that the Lender may apply the proceeds of a letter of credit issued in connection with the Fifth Supplement and Forbearance Agreement dated September 30, 2009 against any amounts due under the Loan Agreement, at the Lender's sole discretion. In addition, the Company has agreed to deliver a comprehensive strategic financial plan, or update any plan previously delivered, to the Lender by March 31, 2011. Furthermore, the Company has also committed to raise additional capital prior to expiration of the forbearance period provided in the Seventh Supplement, and the Company is obligated to provide certain financial statements, books, records and budgets to lender on a periodic basis as set forth in the Seventh Supplement.

On March 31, 2011, the Company entered into a Master Netting and Setoff Agreement with Tenaska (the "Master Netting Agreement") to facilitate payments between the Company and Tenaska and more efficiently use the Company's working capital. Pursuant to the Master Netting Agreement, the parties net out the payments due from one to the other on a weekly basis. The Master Netting Agreement is terminable by either party at will.