2016 **SECOND QUARTER REPORT**

GREAT RIVER ENERGY™

GREAT RIVER ENERGY

Consolidated Balance Sheets (unaudited)
(In Thousands)

	June 30, 2016	June 30, 2015
ASSETS		
UTILITY PLANT:		
Electric plant	$ 4,582,237	$ 4,470,272
Coal mine plant	344,216	349,268
Construction work in progress	98,102	58,684
Less accumulated depreciation and amortization	(2,211,483)	(2,082,600)
Utility plant-net	2,813,072	2,795,624
NONUTILITY PLANT AND EQUIPMENT--NET	183,685	184,381
OTHER ASSETS AND INVESTMENTS:		
Restricted investments-deferred compensation	12,451	12,486
Other investments	29,805	29,140
Deferred charges:		
Financing related	153,520	110,099
Contract settlement	83,542	84,701
Other	159,009	141,030
Other long-term assets	25,763	29,165
Other long-term receivables	2,802	2,800
Total other assets and investments	466,892	409,421
CURRENT ASSETS:		
Cash and cash equivalents	312,637	327,285
Accounts receivable:		
Members	145,104	136,143
Others	23,683	18,407
Inventories:		
Materials and supplies	67,701	67,952
Fuel	34,199	28,246
Other	18,702	19,583
Prepaids and other current assets	28,863	23,286
Derivative instruments	7,896	6,785
Deferred income tax benefit	25,246	28,406
Total current assets	664,031	656,093
TOTAL ASSETS	$ 4,127,680	$ 4,045,519
LIABILITIES AND CAPITAL		
CAPITAL:		
Members:		
Patronage capital	$ 541,565	$ 507,714
Memberships	3	3
Additional paid-in capital - subsidiary - MAG	1,195	1,195
Total members' capital	542,763	508,912
Noncontrolling interest:		
Subsidiary - MAG	19,054	20,309
Variable interest entity - NDRC	105,202	90,134
Total capital	667,019	619,355
OTHER NONCURRENT LIABILITIES	105,813	89,928
REGULATORY LIABILITIES	28,270	63,397
LONG-TERM OBLIGATIONS-Less current portion	2,852,133	2,861,104
DEFERRED COMPENSATION	12,451	12,486
DEFERRED INCOME TAXES	30,161	27,246
CURRENT LIABILITIES:		
Current portion of long-term obligations	149,509	142,035
Notes payable to members	28,273	31,207
Accounts payable	64,568	56,547
Property and other taxes	20,218	20,893
Other accrued liabilities and notes payable	32,056	32,459
Accrued interest payable	63,262	67,842
Derivative instruments	73,947	21,020
Total current liabilities	431,833	372,003
TOTAL LIABILITIES AND CAPITAL	$ 4,127,680	$ 4,045,519

GREAT RIVER ENERGY

Interim Consolidated Statements of Operations, Comprehensive Income and Changes in Capital (unaudited)
(In Thousands)

	Three months ended June 30, 2016	2015	Six months ended June 30, 2016	2015
UTILITY OPERATIONS:				
UTILITY OPERATING REVENUE:				
Electric revenue	$ 210,106	$ 203,358	$ 428,258	$ 422,872
Other operating revenue	23,740	21,634	44,646	40,813
Total utility operating revenue	233,846	224,992	472,904	463,685
UTILITY OPERATING EXPENSES:				
Purchased power	37,945	36,142	74,116	78,504
Fuel	42,616	54,332	97,827	113,168
Operation and maintenance	73,784	77,122	155,174	157,326
Depreciation and amortization	36,054	34,682	72,124	70,081
Property and other taxes	8,299	8,531	16,752	17,164
Total utility operating expenses	198,698	210,809	415,993	436,243
UTILITY OPERATING MARGIN	35,148	14,183	56,911	27,442
OTHER INCOME (EXPENSE):				
Other income (expense) - net	278	4,890	1,920	10,373
Interest income	413	346	823	666
Interest expense-net of amounts capitalized	(35,403)	(36,906)	(70,879)	(72,309)
Net utility income (loss)	436	(17,487)	(11,225)	(33,828)
NONUTILITY OPERATIONS:				
Operating revenue	63,057	36,688	120,756	72,313
Operating expense	63,273	37,260	123,324	69,997
Operating (loss) income	(216)	(572)	(2,568)	2,316
(Loss) income from equity method investments	(19)	56	(35)	103
Loss from variable interest entity - NDRC	(5,576)	(2,848)	(8,828)	(5,014)
Net nonutility operations	(5,811)	(3,364)	(11,431)	(2,595)
NET LOSS AND COMPREHENSIVE LOSS, INCLUDING NONCONTROLLING INTEREST	(5,375)	(20,851)	(22,656)	(36,423)
NONCONTROLLING INTEREST:				
Subsidiary - MAG	42	119	544	(512)
Variable interest entity - NDRC	5,576	2,848	8,828	5,014
NET MARGIN (LOSS) AND COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO GREAT RIVER ENERGY	**$ 243**	**$ (17,884)**	**$ (13,284)**	**$ (31,921)**
CAPITAL-BEGINNING OF PERIOD	$ 664,634	$ 630,552	$ 672,599	$ 639,444
Net loss and comprehensive loss	(5,375)	(20,851)	(22,656)	(36,423)
Capital distributed to noncontrolling interest - MAG - net	-	-	-	(2,966)
Variable interest entity - NDRC:				
Capital contributed by noncontrolling interest	11,365	12,388	23,957	25,822
Capital distributed to noncontrolling interest	(3,409)	(2,538)	(6,487)	(6,130)
Dividends paid by noncontrolling interest	(196)	(196)	(394)	(392)
CAPITAL-END OF PERIOD	$ 667,019	$ 619,355	$ 667,019	$ 619,355

GREAT RIVER ENERGY

Interim Consolidated Statements of Cash Flows (unaudited)
(In Thousands)

	Six months ended June 30, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss, including noncontrolling interest	$ (22,656)	$ (36,423)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization:		
Included in depreciation and amortization	72,124	70,081
Included in fuel and other expense accounts	13,788	12,394
Included in nonutility operating expenses	5,082	1,830
Loss (income) from equity method investments	35	(103)
Patronage credits earned from investments	(1,244)	(997)
Deferred charges	(18,130)	(80,376)
Regulatory liabilities	-	(9,053)
Changes in working capital (excluding cash, investments and borrowings):		
Accounts and long-term receivables	(15,565)	1,248
Inventory and other assets	(14,783)	(10,525)
Accounts payable, taxes and other accrued expenses	(20,743)	(33,963)
Accrued interest	(16)	5,196
Noncurrent liabilities	(1,075)	215
Net cash used in operating activities	(3,183)	(80,476)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(71,061)	(60,929)
Nonutility property additions	(2,193)	(21,656)
Proceeds from the sale of plant	79	53
Redemption of patronage capital investments	896	642
Net cash used in investing activities	(72,279)	(81,890)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term obligations	240,000	473,007
Repayments of long-term obligations	(134,005)	(250,418)
Costs of new debt issuance, leases, and interest rate hedging instruments	(1,049)	(297)
Notes (paid to) received from members-net	(2,270)	7,321
Capital distributed to noncontrolling interest - subsidiary - MAG	-	(2,966)
Variable interest entity - NDRC:		
Capital contributed by noncontrolling interest	23,957	25,822
Capital distributed to noncontrolling interest	(6,487)	(6,130)
Dividends distributed by noncontrolling interest	(394)	(392)
Net cash provided by financing activities	119,752	245,947
NET INCREASE IN CASH AND CASH EQUIVALENTS	**44,290**	**83,581**
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	**268,347**	**243,704**
CASH AND CASH EQUIVALENTS - END OF PERIOD	**$ 312,637**	**$ 327,285**

Note to consolidated financial statements - As required by Accounting Standards Codification 810-10, GRE is consolidating the financial statements of the Falkirk Mining Company (Falkirk), a variable interest entity; North Dakota Refined Coal, LLC (NDRC), a variable interest entity; and Midwest AgEnergy Group, LLC (MAG), a subsidiary of GRE. MAG includes its subsidiaries Dakota Spirit AgEnergy Finance, LLC (DSAF), Dakota Spirit AgEnergy, LLC (DSA), and Blue Flint Ethanol LLC (Blue Flint). GRE is a 78.43 percent owner in MAG. All transactions between the companies have been eliminated in consolidation, except for the steam sales between GRE and MAG on the consolidated statements of operations.

The June 30, 2015 consolidated financial statements have been reclassified to reflect the adoption of Accounting Standards Update No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, which is effective for GRE in 2016. GRE now presents debt issuance costs as a reduction of long-term obligations rather than as deferred charges and the amortization of debt issuance costs as a component of interest expense. The impact of this reclassification is to decrease both total assets and total liabilities and capital by $26.8 million and to increase interest expense and decrease depreciation and amortization by $2.2M as of June 30, 2015.

Financial Highlights - Financial Condition

Assets

Utility plant – net increased by $17.4 million to $2,813.1 million as of June 30, 2016, due to additions for the HVDC converter station upgrade, a major telecom upgrade project, and general electric plant and transmission additions; offset by depreciation and retirements for the period.

Other assets and investments increased by $57.5 million to $466.9 million as of June 30, 2016. Deferred charges-financing related increased due to the marked-to-market valuation of certain derivative instruments in a liability position. Deferred charges-other increased due to the deferral of refined coal fuel purchase costs and scheduled major outage maintenance costs. These increases were offset by a decrease in other long-term assets due to the reduction of a CapX2020 related deposit.

Current assets increased by $7.9 million to $664.0 million as of June 30, 2016. Accounts receivable-members increased $9.0 million due to higher demand and energy sales in May and June of 2016 compared to 2015. Accounts receivable-other increased $5.3 million due primarily to increased billings for services performed for others and increased fly ash sales. Fuels inventory increased $6.0 million due to increased stockpiles at CCS and Falkirk because of the scheduled outage and due to the cost of severed coal increasing as fewer tons are being mined. Prepaids and other current assets increased $5.6 million due to an increase in MAG's restricted cash for a debt related escrow account and margin deposits related to its futures contracts. These increases were offset by a decrease in cash and cash equivalents of $14.6 million for the period.

Liabilities and Capital

Other noncurrent liabilities increased by $15.9 million to $105.8 million as of June 30, 2016 due primarily to an increase in the estimated asset retirement obligations associated with the final capping, reclamation, and monitoring of the ash disposal sites as a result of the new coal combustion residuals (CCR) regulations.

Regulatory liabilities decreased by $35.1 million to $28.3 million as of June 30, 2016 due to the income recognition in 2015 of deferred revenue and a portion of the gain from the interest hedge settlement.

Long-term obligations – less current portion decreased by $9.0 million to $2,852.1 million as of June 30, 2016 due to scheduled debt repayments during the period, partially offset by an increase in the outstanding balance on the syndicated credit facility of $145.0 million and an increase in debt outstanding at MAG of $5.0 million.

Current liabilities increased by $59.8 million to $431.8 million as of June 30, 2016. Current portion of long-term obligations increased $7.5 million due to an increase in scheduled debt payments. Accounts payable increased $8.0 million due to the timing of project payables and MAG. Derivative instruments increased $52.9 million due to an increase in the marked-to-market valuation for the interest rate hedge instruments in a liability position. These increases were offset by a decrease in accrued interest payable of $4.6 million due to the repayment of principle, due to lower interest rates on new debt issuances, and due to the timing of the first interest payment in 2015 for the 2015 debt issuance.

Financial Highlights - Results of Operations

Utility operating revenue increased by $9.2 million or 2.0 percent for the six month period ended June 30, 2016 compared to the same period in 2015. Electric revenue increased by $5.4 million or 1.3 percent. Member demand MW and energy MWh sales were 0.6 percent and 1.0 percent, respectively, lower than the same period in 2015; however the decrease in units sales was offset by a budgeted rate increase of 1.5 percent for 2016. Member sales also increased due to the impact of a smaller power cost adjustment (PCA) credit in 2016 of $4.7 million compared to a PCA credit in 2015 of $9.4 million through June 30. Nonmember sales decreased $6.4 million due to fewer MWh sales, a result of operating plants using economic dispatch in response to low market prices and the scheduled outage at CCS. Other operating revenue increased by $3.8 million due to increased refused derived fuel revenue at the Elk River Processing Plant and Spiritwood Station steam sales to DSA.

Purchased power decreased by $4.4 million or 5.6 percent for the six month period ended June 30, 2016. Although MWh purchases increased 11.4 percent due to the scheduled outage, the average market price for energy purchases decreased 14.2 percent. Additionally, two bi-lateral wheeling contracts ended in 2015.

Fuel decreased by $15.3 million or 13.6 percent for the six month period ended June 30, 2016 due to 14.9 percent less generation or 760,000 MWh compared to 2015, due to the scheduled outage and baseload generation not operating at full capacity in response to low market prices.

Operation and maintenance decreased by $2.2 million or 1.4 percent for the six month period ended June 30, 2016 due to increased cost containment measures at the generation facilities.

Depreciation and amortization increased by $2.0 million or 2.9 percent for the six month period ended June 30, 2016 due primarily to the depreciation on CapX2020 projects placed in service during 2015 and increased accretion for the additional asset retirement obligations.

Other income – net decreased $8.5 million for the six month period ended June 30, 2016 due to the recognition in 2015 of a portion of the interest rate hedge settlement gain that was deferred as a regulatory liability in 2013.

Nonutility operating revenue and expense represents the operations of MAG and its subsidiaries.

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The interim financial statements as of June 30, 2016 are unaudited. In the opinion of Management, all adjustments (which are normal recurring adjustments) have been made for a fair and accurate presentation of the financial reports. The interim financial statements should be read in conjunction with the Notes to Consolidated Financial Statements included in the 2015 Annual Report.

Great River Energy of Maple Grove, Minnesota, is the second largest electric utility in the state, based on generating capacity, and the fourth largest generation and transmission (G&T) cooperative in the U.S. in terms of assets. We provide wholesale power to 28 distribution cooperatives in Minnesota. Those member cooperatives distribute electricity to approximately 660,000 homes, businesses, and farms.