

2016 FIRST QUARTER REPORT



**GREAT
RIVER
ENERGY™**

GREAT RIVER ENERGY

Consolidated Balance Sheets (unaudited) (In Thousands)

	March 31, 2016	March 31, 2015
ASSETS		
UTILITY PLANT:		
Electric plant	\$ 4,577,579	\$ 4,338,241
Coal mine plant	345,542	347,361
Construction work in progress	77,735	165,103
Less accumulated depreciation and amortization	(2,187,558)	(2,050,183)
Utility plant-net	2,813,298	2,800,522
NONUTILITY PLANT AND EQUIPMENT—NET	185,378	172,398
OTHER ASSETS AND INVESTMENTS:		
Restricted investments-deferred compensation	12,231	12,506
Other investments	29,797	29,079
Deferred Charges:		
Financing related	140,894	123,375
Contract settlement	83,543	-
Other	148,515	142,269
Other long-term assets	26,502	33,444
Other long-term receivables	2,744	2,991
Total other assets and investments	444,226	343,664
CURRENT ASSETS:		
Cash and cash equivalents	273,360	317,101
Accounts receivable:		
Members	130,226	128,790
Others	21,532	16,823
Inventories:		
Materials and supplies	73,417	68,079
Fuel	28,210	27,565
Other	18,420	13,862
Prepays and other current assets	21,067	19,979
Derivative Instruments	2,311	5,922
Deferred income tax benefit	25,246	27,246
Total current assets	593,789	625,367
TOTAL ASSETS	\$ 4,036,691	\$ 3,941,951
LIABILITIES AND CAPITAL		
CAPITAL:		
Members:		
Patronage capital	\$ 541,321	\$ 525,598
Memberships	3	3
Additional paid-in capital - subsidiary - MAG	1,195	1,195
Total members' capital	542,519	526,796
Noncontrolling interest:		
Subsidiary - MAG	19,096	20,428
Variable interest entity - NDRC	103,019	83,328
Total capital	664,634	630,552
OTHER NONCURRENT LIABILITIES	107,693	89,529
REGULATORY LIABILITIES	25,572	65,062
LONG-TERM OBLIGATIONS—Less current portion	2,764,117	2,739,147
DEFERRED COMPENSATION	12,231	12,506
DEFERRED INCOME TAXES	30,161	27,246
CURRENT LIABILITIES:		
Current portion of long-term obligations	150,531	142,087
Notes payable to members	35,297	33,545
Accounts payable	74,277	69,966
Property and other taxes	32,934	32,884
Other accrued liabilities and notes payable	43,188	29,495
Accrued interest payable	39,277	35,839
Derivative instruments	56,779	34,093
Total current liabilities	432,283	377,909
TOTAL LIABILITIES AND CAPITAL	\$ 4,036,691	\$ 3,941,951

GREAT RIVER ENERGY

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

Three months ended March 31,
2016 2015

UTILITY OPERATIONS			
UTILITY OPERATING REVENUE:			
Electric revenue	\$	218,152	\$ 219,514
Other operating revenue		20,906	19,179
Total utility operating revenue		239,058	238,693
UTILITY OPERATING EXPENSES:			
Purchased power		36,171	42,362
Fuel		55,211	58,836
Operation and maintenance		81,390	80,204
Depreciation and amortization		36,070	35,399
Property and other taxes		8,453	8,633
Total utility operating expenses		217,295	225,434
UTILITY OPERATING MARGIN		21,763	13,259
OTHER INCOME (EXPENSE):			
Other income-net		1,642	5,483
Interest income		410	320
Interest expense-net of amounts capitalized		(35,476)	(35,403)
Net utility loss		(11,661)	(16,341)
NONUTILITY OPERATIONS:			
Operating revenue		57,699	35,625
Operating expense		60,051	32,737
Operating (loss) income		(2,352)	2,888
(Loss) income from equity method investments		(16)	47
Loss from variable interest entity - NDRC		(3,252)	(2,166)
Net nonutility operations		(5,620)	769
NET LOSS AND COMPREHENSIVE LOSS, INCLUDING NONCONTROLLING INTEREST		(17,281)	(15,572)
NONCONTROLLING INTEREST NET (INCOME) LOSS:			
Subsidiary - MAG		502	(631)
Variable interest entity - NDRC		3,252	2,166
NET LOSS AND COMPREHENSIVE LOSS ATTRIBUTABLE TO GREAT RIVER ENERGY	\$	(13,527)	\$ (14,037)
CAPITAL-BEGINNING OF PERIOD			
Net loss and comprehensive loss		(17,281)	(15,572)
Capital distributed to noncontrolling interest - MAG		-	(2,966)
Variable interest entity - NDRC:			
Capital contributed by noncontrolling interest		12,592	13,434
Capital distributed to noncontrolling interest		(3,078)	(3,592)
Dividends distributed by noncontrolling interest		(198)	(196)
CAPITAL-END OF PERIOD	\$	664,634	\$ 630,552

GREAT RIVER ENERGY

Interim Consolidated Statements of Cash Flows (unaudited)

(In Thousands)

	Three months ended March 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss, including noncontrolling interest	\$ (17,281)	\$ (15,572)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization:		
Charged to operating expenses	36,070	35,399
Charged to fuel expense and other accounts	7,805	6,021
Charged to nonutility operating expenses	2,540	916
Loss (income) from equity method investments	16	(47)
Patronage credits earned from investments	(1,215)	(906)
Deferred charges	(7,297)	2,158
Regulatory liabilities	-	(4,527)
Changes in working capital (excluding cash, investments and borrowings):		
Accounts and long-term receivables	1,408	9,827
Inventory and other assets	(3,785)	(2,492)
Accounts payable, taxes and other accrued expenses	7,849	(24,161)
Accrued interest	(24,001)	(26,807)
Noncurrent liabilities	(4,678)	1,569
Net cash used in operating activities	(2,569)	(18,622)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Utility plant additions	(25,767)	(21,035)
Nonutility plant and equipment additions	(1,344)	(8,417)
Proceeds from sale of property	62	40
Redemption of patronage capital from investments	875	612
Net cash used in investing activities	(26,174)	(28,800)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term obligations	50,000	320,724
Repayments of long-term obligations	(30,296)	(216,108)
Costs of new debt issuance, leases, and interest rate hedging instruments	(18)	(136)
Notes received from members-net	4,754	9,659
Capital distributed to noncontrolling interest - MAG	-	(2,966)
Variable interest entity - NDRC:		
Capital contributed by noncontrolling interest	12,592	13,434
Capital distributed to noncontrolling interest	(3,078)	(3,592)
Dividends paid by noncontrolling interest	(198)	(196)
Net cash provided by financing activities	33,756	120,819
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,013	73,397
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	268,347	243,704
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 273,360	\$ 317,101

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 March 31, 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 \$27.4 million and to increase interest expense and decrease depreciation and amortization by \$1.1M as of March 31, 2015.

Financial Highlights - Financial Condition

Assets

Utility plant – net increased by \$12.8 million to \$2.8 billion as of March 31, 2016, due to additions for CapX2020 and other transmission and utility plant projects; offset by depreciation and retirements for the period. The final CapX2020 phases were placed into service during 2015.

Nonutility plant and equipment – net increased by \$13.0 million to \$185.4 million as of March 31, 2016 due to the completion of the final stages of the DSA biorefinery facility construction in early 2015. The facility commenced commercial operation in May 2015.

Other assets and investments increased by \$100.6 million to \$444.2 million as of March 31, 2016. Deferred charges-financing related increased due to the marked-to-market valuation of certain derivative instruments in a liability position. Deferred charges-contract settlement of \$83.5 million represents the cash payment to terminate the Genoa 3 purchased power obligation. Deferred charges-other increased due to the deferral of refined coal fuel purchase costs. These increases were offset by a decrease in other long term assets due to the reduction of a CapX2020 related deposit.

Current assets decreased by \$31.6 million to \$593.8 million as of March 31, 2016. Cash and cash equivalents decreased by \$43.7 million for the period. This decrease was offset by an increase in accounts receivable-other of \$4.7 million due to increased DSA accounts receivable; an increase in materials and supplies inventory of \$5.3 million in anticipation of a significant telecom project beginning in 2016; and an increase in other inventory, which represents MAG's inventory, of \$4.6 million due to the commercialization of DSA.

Liabilities and Capital

Other noncurrent liabilities increased by \$18.2 million to \$107.7 million as of March 31, 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 \$39.5 million to \$25.6 million as of March 31, 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 increased by \$25.0 million to \$2,764.1 million as of March 31, 2016 due primarily to additional debt proceeds received during the period from April 1, 2015 to March 31, 2016 of \$50.0 million by GRE and \$22.0 million by MAG; offset by the early repayment of the \$33.0 million First Mortgage Note, Series 2010C by GRE during the period and an increase in the 2016 scheduled payments reclassified to current.

Current liabilities increased by \$54.4 million to \$432.3 million as of March 31, 2016. Current portion of long-term obligations increased due to an increase in scheduled debt payments. Accounts payable increased due to the timing of project payables and MAG. Other accrued liabilities and notes payable increased primarily due to increases at MAG of \$12.7 million related to accrued payroll and benefits and unsettled corn contracts. Derivative instruments increased due to an increase in the marked-to-market valuation for the interest rate hedge instruments in a liability position.

Financial Highlights - Results of Operations

Utility operating revenue increased by \$0.4 million or 0.2 percent for the three month period ended March 31, 2016 compared to the same period in 2015. Electric revenue decreased by \$1.4 million due to decreased member demand MW and energy MWh sales of 5.4 percent and 3.6 percent, respectively, over the same period in 2015 and a decrease in MISO market net sales of \$3.5 million, a result of the milder winter temperatures in 2016 compared to 2015. The decrease in units sales was offset by a budgeted rate increase of 1.5% and the impact of a smaller power cost adjustment (PCA) credit in 2016 of \$2.1 million compared to a PCA credit in 2015 of \$8.4 million. Other operating revenue increased by \$1.7 million due to increased Spiritwood Station steam sales to DSA.

Purchased power decreased by \$6.2 million or 14.6 percent for the three month period ended March 31, 2016 due to the average market price for energy purchases decreasing 17.5 percent; offset slightly by increased MWh purchases.

Fuel decreased by \$3.6 million or 6.2 percent for the three month period ended March 31, 2016 due to 8.1 percent less generation or 214,000 MWh compared to 2015, largely the result of baseload generation not operating at full capacity in response to low market prices.

Operation and maintenance increased by \$1.2 million or 1.5 percent for the three month period ended March 31, 2016 due primarily to inflationary increases in operating costs.

Depreciation and amortization increased by \$0.7 million or 1.9 percent for the three month period ended March 31, 2015 due primarily to the depreciation on CapX2020 projects placed in service after the first quarter of 2015 and increased accretion for additional asset retirement obligations recorded at the end of 2015 as a result of the new CCR regulations.

Other income – net decreased \$3.8 million for the three month period ended March 31, 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 March 31, 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.

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