GREAT RIVER ENERGY.

2018 SECOND QUARTER REPORT

GREAT RIVER ENERGY

Consolidated Balance Sheets (unaudited)
(In Thousands)

	June 30, 2018	June 30, 2017
ASSETS		
UTILITY PLANT:		
Electric plant	$ 4,594,970	$ 4,484,180
Coal mine plant	326,988	338,265
Construction work in progress	127,790	109,188
Less accumulated depreciation and amortization	(2,300,655)	(2,161,315)
Utility plant-net	2,749,093	2,770,318
NONUTILITY PLANT AND EQUIPMENT-Net	172,195	179,942
OTHER ASSETS AND INVESTMENTS:		
Restricted investments - deferred compensation	13,404	13,506
Other investments	31,458	30,603
Deferred charges:		
Financing related	106,569	119,245
Contract settlement	85,406	83,542
Plant retirement	60,231	67,531
Other	141,017	166,898
Other long-term assets	35,296	28,661
Total other assets and investments	473,381	509,986
CURRENT ASSETS:		
Cash and cash equivalents	281,568	282,246
Restricted cash	1,851	3,942
Accounts receivable:		
Members	157,729	150,475
Others	31,780	21,641
Inventories:		
Materials and supplies	63,513	63,842
Fuel	19,476	28,023
Other	15,551	17,556
Prepaids and other current assets	28,537	21,095
Derivative instruments	5,818	2,044
Total current assets	605,823	590,864
TOTAL ASSETS	$ 4,000,492	$ 4,051,110
CAPITAL AND LIABILITIES		
CAPITAL:		
Members:		
Patronage capital	$ 638,811	$ 601,456
Memberships	3	3
Additional paid-in capital - subsidiary	1,195	1,195
Total members' capital	640,009	602,654
Noncontrolling interest:		
Noncontrolling interest - subsidiary	24,808	21,769
Noncontrolling interest - variable interest entity	145,315	119,276
Total capital	810,132	743,699
OTHER NONCURRENT LIABILITIES	143,904	104,604
REGULATORY LIABILITIES	54,594	37,584
LONG-TERM OBLIGATIONS-Less current portion	2,576,203	2,754,322
DEFERRED COMPENSATION	13,404	13,506
DEFERRED INCOME TAXES	4,008	5,726
CURRENT LIABILITIES:		
Current portion of long-term obligations	159,564	150,341
Notes payable to members	32,423	23,464
Accounts payable	54,413	58,305
Property and other taxes	20,860	20,092
Other accrued liabilities and notes payable	52,539	65,503
Accrued interest payable	60,048	50,800
Derivative instruments	18,400	23,164
Total current liabilities	398,247	391,669
TOTAL CAPITAL AND LIABILITIES	$ 4,000,492	$ 4,051,110

GREAT RIVER ENERGY

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

	Three months ended June 30,		Six months ended June 30,	
	2018	**2017**	**2018**	**2017**
UTILITY OPERATIONS				
UTILITY OPERATING REVENUE:				
Electric revenue	$ 230,879	$ 215,969	$ 462,550	$ 448,705
Other operating revenue	26,422	23,566	48,425	45,767
Total utility operating revenue	257,301	239,535	510,975	494,472
UTILITY OPERATING EXPENSES:				
Purchased power	38,128	50,844	86,217	98,381
Fuel	52,364	38,293	104,884	92,710
Operation and maintenance	74,572	72,208	153,154	142,770
Depreciation and amortization	40,023	38,810	79,816	76,339
Property and other taxes	7,744	7,526	15,525	15,309
Total utility operating expenses	212,831	207,681	439,596	425,509
UTILITY OPERATING MARGIN	44,470	31,854	71,379	68,963
OTHER INCOME (EXPENSE):				
Other income - net	888	406	2,465	2,039
Interest income	1,443	496	2,517	952
Interest expense-net of amounts capitalized	(33,785)	(33,152)	(67,661)	(66,530)
Other expense - net	(31,454)	(32,250)	(62,679)	(63,539)
NET UTILITY MARGIN (LOSS)	13,016	(396)	8,700	5,424
NONUTILITY OPERATIONS:				
Operating revenue	68,790	62,322	131,456	125,652
Operating expense	64,423	62,408	128,156	121,944
Operating income (loss)	4,367	(86)	3,300	3,708
Income (loss) from equity method investments	104	3	117	(96)
Loss from variable interest entity - NDRC	(3,466)	(6,908)	(5,356)	(10,185)
Net nonutility operations	1,005	(6,991)	(1,939)	(6,573)
NET MARGIN (LOSS) AND COMPREHENSIVE INCOME (LOSS), INCLUDING NONCONTROLLING INTEREST	14,021	(7,387)	6,761	(1,149)
NONCONTROLLING INTEREST:				
Subsidiary - MAG	(947)	14	(722)	(810)
Variable interest entity - NDRC	3,466	6,908	5,356	10,185
Total noncontrolling interest	2,519	6,922	4,634	9,375
NET MARGIN (LOSS) AND COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO GREAT RIVER ENERGY	**$ 16,540**	**$ (465)**	**$ 11,395**	**$ 8,226**
CAPITAL - BEGINNING OF PERIOD	$ 789,360	$ 742,488	$ 783,967	$ 729,033
Net income (loss) and comprehensive income (loss)	14,021	(7,387)	6,761	(1,149)
Variable interest entity - NDRC:				
Capital contributed by noncontrolling interest	13,242	11,010	26,133	23,737
Capital distributed to noncontrolling interest	(6,241)	(2,210)	(6,241)	(7,520)
Dividends paid by noncontrolling interest	(250)	(202)	(488)	(402)
CAPITAL - END OF PERIOD	$ 810,132	$ 743,699	$ 810,132	$ 743,699

GREAT RIVER ENERGY

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

	Six months ended June 30, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margin (loss), including noncontrolling interest	$ 6,761	$ (1,149)
Adjustments to reconcile net margin (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization:		
Included in depreciation and amortization	79,816	76,339
Included in fuel and interest	14,533	13,832
Included in operation and maintenance	6,691	5,049
Included in nonutility operating expenses	5,784	4,133
(Income) loss from equity method investments	(117)	96
Patronage credits earned from investments	(1,401)	(1,326)
Deferred charges	-	(36,886)
Changes in working capital (excluding cash, investments and borrowings):		
Accounts and long-term receivables	(18,891)	6,204
Inventory and other assets	(15,005)	(19,886)
Accounts payable, taxes and other accrued expenses	(31,148)	(41,247)
Accrued interest	(1,418)	(9,891)
Noncurrent liabilities	1,599	2,017
Net cash provided by (used in) operating activities	47,204	(2,715)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Utility plant additions	(54,986)	(66,582)
Nonutility plant and equipment additions	(716)	(4,009)
Proceeds from the sale of property	111	277
Redemption of patronage capital investments	939	972
Net cash used in investing activities	(54,652)	(69,342)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term obligations	5,000	325,000
Repayments of long-term obligations	(59,409)	(256,698)
Costs of new debt issuance, leases, and interest rate hedging instruments	-	(1,071)
Notes received from (paid to) members-net	360	(3,723)
Variable interest entity - NDRC:		
Capital contributed by noncontrolling interest	26,133	23,737
Capital distributed to noncontrolling interest	(6,241)	(7,520)
Dividends distributed by noncontrolling interest	(488)	(402)
Net cash (used in) provided by financing activities	(34,645)	79,323
NET (DECREASE) INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	**(42,093)**	**7,266**
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH-BEGINNING OF PERIOD	**325,512**	**278,921**
CASH, CASH EQUIVALENTS AND RESTRICTED CASH - END OF PERIOD	**$ 283,419**	**$ 286,188**

Notes 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.

GRE adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers,* in 2018. The adoption of this ASU did not have a material effect on GRE's consolidated financial statements. GRE adopted ASU 2016-18, *Statements of Cash Flows,* in 2018. MAG's restricted cash is included as part of cash, cash equivalents, and restricted cash when reconciling the statement of cash flows.The cash flow for 2017 has been restated to include restricted cash. GRE has also restated the balance sheet and separately presented MAG's restricted cash. It was previously presented as an other current asset in 2017.

Financial Highlights - Financial Condition

Assets

Utility plant – net decreased $21.2 million to $2,749.1 million as of June 30, 2018, due to net depreciation and accretion outpacing new plant additions and construction work in progress.

Nonutility plant and equipment – net decreased $7.7 million to $172.2 million as of June 30, 2018 due to depreciation of Midwest AgEnergy Group, LLC (MAG) plant assets.

Other assets and investments decreased $36.6 million to $473.4 million as of June 30, 2018. Deferred charges-financing related decreased $12.7 million due to amortization and a decrease in the regulatory asset for the marked to market of interest rate swaps in a liability position as interest rates have increased since last year. Deferred charges-plant retirement decreased $7.3 million due to the amortization of Stanton Station plant retirement costs. Deferred charges- other decreased $25.9 million due to outage amortization and Falkirk defined benefit plan.

Current assets increased $15.0 million to $605.8 million as of June 30, 2018. Accounts receivable-members increased $7.3 million due increased energy sales, partially offset by the impact of a power cost adjustment (PCA) credit in 2018 compared to a PCA charge for the same period in 2017. Accounts receivable-other increased $10.1 million due to increased utility other operating revenue and nonutility revenue. Prepaids and other current assets increased $7.4 million due to payments made for an upcoming major turbine outage at Pleasant Valley Station. These increases were partially offset by a decrease in inventories of $10.9 million primarily due to increased generation at Coal Creek Station (CCS) in 2018 compared to 2017.

Liabilities and Capital

Other noncurrent liabilities increased $39.3 million to $143.9 million as of June 30, 2018. This is primarily due to an increase in the estimated asset retirement obligation (ARO) costs for CCS's ash disposal sites as a result of the coal combustion residuals (CCR) regulations, a new obligation due to an expanded ash disposal site at CCS, and accretion of existing ARO obligations.

Regulatory liabilities increased $17.0 million to $54.6 million as of June 30, 2018 due primarily to the deferral of member electric revenue of $17.9 million in December 2017.

Long-term obligations – less current portion decreased $178.1 million to $2,576.2 million as of June 30, 2018 due to scheduled principal payments and the decrease in the amount outstanding on the syndicated credit facility; partially offset by new debt proceeds received during the second half of 2017.

Current liabilities increased $6.6 million to $398.2 million as of June 30, 2018. Accrued interest payable increased $9.2 million while the current portion of long-term obligations also increased $9.2 million. This was due to the timing of interest and principal payments. Notes payable to members increased $9.0 million due to increased member investments. These increases were partially offset by a $13.0 million decrease in other accrued liabilities and notes payable driven by MAG accrued expenses and a $4.8 million decrease in derivative instruments due to the impact of higher interest rates.

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Financial Highlights - Results of Operations

Utility operating revenue increased $16.5 million or 3.3 percent for the six month period ended June 30, 2018 compared to the same period in 2017. Member demand and energy sales increased 10.1 percent and 5.2 percent, respectively, in 2018 compared to 2017. This increase is partially offset by the impact of the PCA credit of $8.6 million in 2018 compared to the PCA charge of $11.0 million in 2017. Nonmember electric revenue is up in 2018 compared with 2017 due to higher demand and energy sales under bilateral agreements, as well as a 7.2 percent increase in MISO market MWh sales.

Purchased power decreased $12.2 million or 12.4 percent for the six month period ended June 30, 2018 due to a decrease in output from wind and hydro contracts, as well as fewer short term market purchases compared to 2017.

Fuel increased $12.2 million or 13.1 percent for the six month period ended June 30, 2018 due to increased production at the baseload and peaking plants compared to 2017.

Operation and maintenance increased $10.4 million or 7.3 percent for the six month period ended June 30, 2018. Transmission operation and maintenance expense increased $7.0 million compared to 2017. This is due to increased transmission related to others expense in 2018 as a result of increased member sales, as well as the impact of a return on equity settlement refund of $6.2 million received in 2017 from other transmission owners as a result of the FERC ruling lowering the return on equity rate from 12.38 percent to 10.32 percent.

Depreciation and amortization increased $3.5 million or 4.6 percent for the six month period ended June 30, 2018 due to CCS plant additions being depreciated through 2028 and the amortization of deferred Stanton Station retirement costs through 2028.

Interest expense – net of capitalized amounts increased $1.1 million or 1.7 percent due to the new debt proceeds received during the second half of 2017, partially offset by reduced borrowings on the syndicated credit facility.

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, 2018 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 2017 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 695,000 homes, businesses, and farms.

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