GREAT RIVER ENERGY®

2018 FIRST QUARTER REPORT

GREAT RIVER ENERGY

Consolidated Balance Sheets (unaudited)
(In Thousands)

	March 31, 2018	March 31, 2017
ASSETS		
UTILITY PLANT:		
Electric plant	$ 4,575,620	$ 4,454,224
Coal mine plant	331,821	338,411
Plant to be retired - net of accumulated depreciation	-	52,158
Construction work in progress	113,742	113,652
Less accumulated depreciation and amortization	(2,266,181)	(2,132,659)
Utility plant-net	2,755,002	2,825,786
NONUTILITY PLANT AND EQUIPMENT--NET	174,213	178,967
OTHER ASSETS AND INVESTMENTS:		
Restricted investments-deferred compensation	13,882	13,199
Other investments	31,389	30,603
Deferred Charges:		
Financing related	110,209	117,860
Contract settlement	85,406	83,543
Plant Retirement	61,669	6,913
Other	144,522	156,460
Other long-term assets	32,815	28,444
Total other assets and investments	479,892	437,022
CURRENT ASSETS:		
Cash and cash equivalents	284,757	252,803
Restricted cash	1,846	3,941
Accounts receivable:		
Members	135,012	138,314
Others	18,478	23,327
Inventories:		
Materials and supplies	62,130	66,624
Fuel	18,282	19,585
Other	21,741	20,935
Prepaids and other current assets	42,182	26,553
Derivative Instruments	2,450	6,814
Total current assets	586,878	558,896
TOTAL ASSETS	$ 3,995,985	$ 4,000,671
LIABILITIES AND CAPITAL		
CAPITAL:		
Members:		
Patronage capital	$ 622,270	$ 601,921
Memberships	3	3
Additional paid-in capital - subsidiary	1,195	1,195
Total members' capital	623,468	603,119
Noncontrolling interest:		
Noncontrolling interest - subsidiary	23,861	21,783
Noncontrolling interest - variable interest entity	142,031	117,586
Total capital	789,360	742,488
OTHER NONCURRENT LIABILITIES	141,664	101,794
REGULATORY LIABILITIES	53,736	41,239
LONG-TERM OBLIGATIONS-Less current portion	2,611,385	2,682,723
DEFERRED COMPENSATION	13,882	13,199
DEFERRED INCOME TAXES	4,008	5,726
CURRENT LIABILITIES:		
Current portion of long-term obligations	159,886	149,533
Notes payable to members	32,940	31,229
Accounts payable	42,987	70,648
Property and other taxes	33,443	32,590
Other accrued liabilities and notes payable	49,068	53,955
Accrued interest payable	42,173	37,712
Derivative instruments	21,453	37,835
Total current liabilities	381,950	413,502
TOTAL LIABILITIES AND CAPITAL	$ 3,995,985	$ 4,000,671

GREAT RIVER ENERGY

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

	Three months ended March 31, 2018	2017
UTILITY OPERATIONS		
UTILITY OPERATING REVENUE:		
Electric revenue	$ 231,671	$ 232,735
Other operating revenue	22,003	22,201
Total utility operating revenue	253,674	254,936
UTILITY OPERATING EXPENSES:		
Purchased power	48,089	47,536
Fuel	52,519	54,418
Operation and maintenance	78,583	70,562
Depreciation and amortization	39,793	37,530
Property and other taxes	7,781	7,782
Total utility operating expenses	226,765	217,828
UTILITY OPERATING MARGIN	26,909	37,108
OTHER INCOME (EXPENSE):		
Other income-net	1,576	1,635
Interest income	1,074	455
Interest expense-net of amounts capitalized	(33,875)	(33,378)
Other expense - net	(31,225)	(31,288)
Net utility (loss) margin	(4,316)	5,820
NONUTILITY OPERATIONS:		
Operating revenue	62,666	63,330
Operating expense	63,733	59,536
Operating (loss) income	(1,067)	3,794
Income (loss) from equity method investments	13	(99)
Loss from variable interest entity - NDRC	(1,891)	(3,277)
Net nonutility operations	(2,945)	418
NET (LOSS) MARGIN AND COMPREHENSIVE (LOSS) INCOME, INCLUDING NONCONTROLLING INTEREST	(7,261)	6,238
NONCONTROLLING INTEREST NET LOSS (INCOME):		
Subsidiary - MAG	225	(824)
Variable interest entity - NDRC	1,891	3,277
NET (LOSS) MARGIN AND COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO GREAT RIVER ENERGY	**$ (5,145)**	**$ 8,691**
CAPITAL-BEGINNING OF PERIOD	$ 783,967	$ 729,033
Net (loss) margin and comprehensive (loss) income	(7,261)	6,238
Variable interest entity - NDRC:		
Capital contributed by noncontrolling interest	12,892	12,727
Capital distributed to noncontrolling interest	-	(5,310)
Dividends distributed by noncontrolling interest	(238)	(200)
CAPITAL-END OF PERIOD	$ 789,360	$ 742,488

GREAT RIVER ENERGY

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

	Three months ended March 31, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) margin, including noncontrolling interest	$ (7,261)	$ 6,238
Adjustments to reconcile net margin (loss) to		
net cash used in operating activities:		
Depreciation and amortization:		
Included in depreciation and amortization	39,793	37,530
Included in fuel and interest	7,349	6,779
Included in operation and maintenance	3,346	1,805
Included in nonutility operating expenses	2,992	1,364
(Income) Loss from equity method investments	(13)	99
Patronage credits earned from investments	(1,299)	(1,286)
Deferred charges	-	(5,717)
Changes in working capital (excluding cash,		
investments and borrowings):		
Accounts and long-term receivables	17,207	14,234
Inventory and other assets	(26,940)	(12,459)
Accounts payable, taxes and other		
accrued expenses	(33,499)	(24,127)
Accrued interest	(19,293)	(22,979)
Noncurrent liabilities	107	318
Net cash (used in) provided by operating activities	(17,511)	1,799
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(18,006)	(31,696)
Nonutility property additions	(135)	(529)
Proceeds from sale of plant	48	32
Redemption of patronage capital investments	906	932
Net cash used in investing activities	(17,187)	(31,261)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term obligations	5,000	90,000
Repayments of long-term obligations	(22,742)	(93,974)
Notes received from members-net	877	4,042
Variable interest entity - NDRC:		
Capital contributed by noncontrolling interest	12,892	12,727
Capital distributed to noncontrolling interest	-	(5,310)
Dividends paid by noncontrolling interest	(238)	(200)
Net cash (used in) provided by financing activities	(4,211)	7,285
NET DECREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	**(38,909)**	**(22,177)**
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - BEGINNING OF PERIOD	**325,512**	**278,921**
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - END OF PERIOD	**$ 286,603**	**$ 256,744**

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 $70.8 million to $2.8 billion as of March 31, 2018, due primarily to the Stanton Station plant retirement in May of 2017, as well as depreciation and accretion for the period.

Nonutility plant and equipment – net decreased $4.8 million to $174.2 million as of March 31, 2018 due to depreciation on MAG plant assets.

Other assets and investments increased $42.9 million to $480.0 million as of March 31, 2018. Deferred charges-financing related decreased $7.7 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 increased $54.8 million due to the deferral of Stanton Station plant retirement costs. Deferred charges- other decreased due to amortization and the Falkirk defined benefit plan.

Current assets increased $28.0 million to $586.9 million as of March 31, 2018. Cash and cash equivalents increased $32.0 million due to the 2017 bond issuance. Prepaids and other current assets increased $15.6 million due to payments made for an upcoming major turbine outage at Pleasant Valley Station. These increases were partially offset by a decrease in materials and supplies inventory of $4.5 million due to Stanton retirement and intentional inventory reductions at other locations. Fuel inventory decreased $1.3 million due to increased generation at Coal Creek Station (CCS) in March 2018 compared to 2017. Accounts receivable-members decreased $3.3 million due to the impact of a power cost adjustment (PCA) credit in 2018 compared to a PCA charge for the same period in 2017; partially offset by increased energy sales in 2018 compared to 2017.

Liabilities and Capital
Other noncurrent liabilities increased $39.9 million to $141.7 million as of March 31, 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 $12.5 million to $53.7 million as of March 31, 2018 due to the deferral of member electric revenue of $17.9 million in December 2017, partially offset by a decrease in the regulatory liability associated with the marked to market of interest rate swaps in an asset position.

Long-term obligations – less current portion decreased $71.3 million to $2.6 billion as of March 31, 2018 due to scheduled principal payments and the decrease in the amount outstanding on the syndicated credit facility; partially offset by the new debt proceeds received during the second half of 2017.

Current liabilities decreased $31.6 million to $382.0 million as of March 31, 2018. Accounts payable decreased $27.7 million due to timing and a decrease in payables related to the HVDC refurbishment project. Derivative instruments decreased $16.4 million due to the impact of higher interest rates on the marked to market of interest rate swaps and the settlement of interest rate swaps related to the 2017 debt issuance. These decreases were partially offset by an increase in the current portion of long-term obligations and an increase in accrued interest payable related to the timing of interest payments for the 2017 debt issuance.

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Financial Highlights - Results of Operations

Utility operating revenue decreased $1.3 million or 0.5 percent for the three month period ended March 31, 2018 compared to the same period in 2017. Although member energy sales increased 3.8 percent in 2018 compared to 2017, this increase is more than offset by the impact of a year-to-date PCA credit of $2.1 million in 2018 compared to a PCA charge of $5.3 million in 2017. Nonmember electric revenue is flat in 2018 compared with 2017. This is the result of a 30.8 percent increase in market prices being offset by a 21.1 percent decrease in MISO market MWh sales.

Purchased power increased $0.6 million or 1.2 percent for the three month period ended March 31, 2018 due to an increase in the average market price for energy purchases of 17.7 percent, partially offset by decreased MWh purchases.

Fuel decreased $1.9 million or 3.5 percent for the three month period ended March 31, 2018 due to lower production costs per MWh at the baseload plants.

Operation and maintenance increased $8.0 million or 11.4 percent for the three month period ended March 31, 2018. Transmission operation and maintenance expense increased $7.9 million compared to 2017. This is due to increased transmission related to others expense in 2018 as a result of increased member sales and due to 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 $2.3 million or 6.0 percent for the three month period ended March 31, 2018 due to CCS plant additions being depreciated through 2028 and the amortization of deferred Stanton retirement costs through 2028.

Interest expense – net of capitalized amounts increased $0.5 million or 1.5 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. The decrease in earnings for the period is due to recording unrealized losses on forward contracts in 2018 compared to unrealized gains in 2017. The results from operations, excluding unrealized gains or losses, is positive for 2018 and increased compared to 2017.

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The interim financial statements as of March 31, 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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