



Dear Member,

The Board of Directors and management team are reporting the following 2011 Second Quarter financial results for Arkalon Ethanol, LLC and Bonanza BioEnergy, LLC:

**Arkalon Ethanol, LLC**

- **2Q Net Income** **\$4.536M**
- **2Q EBITDA** **\$9.675M**
- **2Q Ethanol Price (Net)** **\$2.64 per gallon**

**Bonanza BioEnergy, LLC**

- **2Q Net Income** **\$3.680M**
- **2Q EBITDA** **\$5.426M**
- **2Q Ethanol Price (Net)** **\$2.68per gallon**

PLANT PREFORMANCE:

Operations for both plants were steady throughout the quarter with very few interruptions. 2Q Ethanol production ran as follows:

**Arkalon Ethanol:** **28.22 million gallons**  
**Bonanza BioEnergy:** **14.82 million gallons**

We invite you to review the balance of our 2Q financials for both plants, including our CFO's 2Q update as well.

2<sup>nd</sup> QUARTER HIGHLIGHTS

I am happy to report that both Arkalon Ethanol and Bonanza BioEnergy posted stellar performances in 2Q. The primary drivers behind the continued success were:

- Our Operations team did a great job in making the plants run very efficiently allowing us to produce more ethanol while using less corn, sorghum and other input ingredients. This efficiency goes right to our bottom line. We continue to track our goal of being one of most efficient ethanol producers in the market.
- Ethanol prices relative to corn/sorghum prices expanded allowing us to realize a positive margin. It's also important to note that in the second quarter, we continued to sell our ethanol at both plants at good premiums relative to our historical markets and our revenue per gallon from wet distiller's sales grew over 1.5 times the historical averages (due to higher grain costs).
- We were excited to pay our first member distributions from Bonanza. Although we are still restricted from making distributions from Arkalon, you will note that we paid down an additional \$.05 per gallon in senior debt as well as continued to meet benchmarks to reduce our interest costs. Every cent in debt we reduce at Arkalon not only increases the book value of the company but also brings us one step closer to being able to make distributions to our members.
- In April 2011, we completed a capital project at Arkalon that allowed us to produce ethanol that could be exported. In working with our ethanol marketing partner, Murex, we began an export program in April. The benefit resulted in an average increase in revenues of \$.09 per gallon for Arkalon (referred to above).



## INDUSTRY UPDATES

- As we've discussed in prior communications, we believe as most of the industry experts report that the blending credit as we know will go away. Most of the experts believe that this will only impact ethanol prices by a few cents per gallon. We feel good about our position relative to the market in general primarily due to three key strategic areas:
  - Our ability to produce ethanol at a specification to export.
  - Our ability to produce a low carbon ethanol.
  - Our ability to produce ethanol efficiently as well offset higher grain prices with WDG.
- We are still waiting to see what will happen with sorghum as far as being classified as an input for Advanced Biofuels. As you can imagine, we are pushing hard to make this happen as we believe it's the right thing to do as well as providing a great benefit to our plants.
- We have been anticipating that the current estimates of the crop sizes will decrease and that as a result grain costs will again rise and reduce our margins while the supply and demand correct in the market. In anticipation, we have been positioning to make sure that we have adequate grain supplies for the upcoming year. We are also working hard to insure that we minimize the price risks that these volatile markets bring with them

## 3<sup>rd</sup> QUARTER HIGHLIGHTS

We think 3Q 2011 will be a very interesting time for our industry and company.

- For July and part of August, we believe we will continue to see crush margins at the current levels (ranging from +\$.30 to +\$.45). However, as previously mentioned, we believe that the ultimate crop size is decreasing which will cause a rise in volatility and result in upward pressure on the price we pay for our feed stock. If this mirrors what happened in January, then we can expect a compression in the crush margins.
- The good news is that we started positioning ourselves to protect against volatile negative movements in June and July. This proactive approach has already started to pay dividends
- Also keep in mind that in rising corn commodity prices, we have a natural hedge built in with our WDG program.

Please check in periodically on the web site for additional news and updates as they become available. Our next investor update call is tentatively scheduled for Sept 8<sup>th</sup>. Katie Ormiston will be posting participation details out on the web site. We hope everyone is having a great summer.

With highest regards,

Tom Willis

This correspondence contains forward-looking statements involving future events, future business and other conditions, future performance, and expected operations. These statements are based on management's belief and expectations and on information currently available to management. Forward-looking statements involve numerous assumptions, risks, and uncertainties. Actual results or actual business or other conditions may differ materially from those contemplated by any forward-looking statements. Arkalon Energy, LLC, and Bonanza BioEnergy, LLC, cannot and do not guarantee any future results or performance or what future business conditions will be like. You should not put undue reliance on forward-looking statements, which speak only as of the date of this correspondence.