ARKALON ENERGY, LLC
Liberal, Kansas

Consolidated Financial Statements

Years Ended December 31, 2012 and 2011
with Independent Auditors' Report

ARKALON ENERGY, LLC
Liberal, Kansas

CONTENTS

KENNEDY AND COE, LLC

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
of Arkalon Energy, LLC:

We have audited the accompanying consolidated financial statements of Arkalon Energy, LLC and subsidiaries (a Kansas limited liability company), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessments of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Arkalon Energy, LLC and subsidiaries as of December 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Consolidating Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The December 31, 2012 consolidating information in schedules 1 and 2 are presented for purposes of additional analysis of the December 31, 2012 consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidated information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Respectfully submitted,

Kennedy and Coe, LLC

Wichita, Kansas
February 27, 2013

ARKALON ENERGY, LLC
Liberal, Kansas

Exhibit A

CONSOLIDATED BALANCE SHEETS

	December 31, 2012	December 31, 2011
ASSETS		
Current Assets		
Cash and cash equivalents	$ 19,054,202	$ 36,509,286
Restricted cash	1,883,920	1,688,606
Accounts receivable, less allowance for doubtful accounts: $54,420 - 2012 and $164,736 - 2011	11,717,197	6,259,005
Inventories	8,859,753	13,632,459
Margin deposits and cash balances	2,954,833	2,507,361
Recievables on commodity contracts	853,063	-
Prepaid expenses	487,560	537,468
Total Current Assets	45,810,528	61,134,185
Property, Plant and Equipment, at cost		
Land and improvements	13,613,085	13,613,085
Machinery and equipment	139,533,187	137,864,258
Buildings and improvements	17,263,252	17,263,252
Office furniture, fixtures and software	233,759	228,980
Construction in progress	241	-
	170,643,524	168,969,575
Deduct accumulated depreciation	54,127,161	43,232,029
Total Property, Plant and Equipment	116,516,363	125,737,546
Other Assets		
Spare parts	1,290,733	1,258,695
Investments	2,289,527	1,166,609
Interest rate cap asset	447	54,028
Loan fees, net of accumulated amortization: $6,380,835 - 2012 and $5,115,003 - 2011	2,478,920	3,744,751
Deposits	7,500,500	1,950,000
Other	132,132	103,511
Total Other Assets	13,692,259	8,277,594
Total Assets	$ 176,019,150	$ 195,149,325
LIABILITIES AND MEMBERS' EQUITY		
Current Liabilities		
Accounts payable	$ 20,664,492	$ 4,022,040
Accrued liabilities	1,206,624	1,228,484
Accrued liability for commodity contracts	-	925,788
Short-term borrowings	97,545	6,500,000
Current maturities of long-term obligations	3,886,273	3,892,335
Total Current Liabilities	25,854,934	16,568,647
Noncurrent Liabilities		
Long-term debt, less current maturities	72,393,363	73,117,886
Total Noncurrent Liabilities	72,393,363	73,117,886
Deferred Revenue	729,287	795,586
Members' Equity	77,041,566	104,667,206
Total Liabilities and Members' Equity	$ 176,019,150	$ 195,149,325

The accompanying notes are an integral part
of these financial statements.

ARKALON ENERGY, LLC
Liberal, Kansas

Exhibit B

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2012	Year Ended December 31, 2011
Sales		
Ethanol	$ 233,401,603	$ 282,253,376
Distillers grains	84,097,423	79,280,570
Carbon dioxide	1,156,243	560,781
Producer incentive payments	3,141,899	4,042,715
Net Sales	321,797,168	366,137,442
Cost of Sales	340,103,036	330,636,076
Gross Profit (Loss) on Sales	(18,305,868)	35,501,366
Operating Expenses		
General and administrative	4,183,549	4,230,457
Operating Income (Loss)	(22,489,417)	31,270,909
Other Income (Expense)		
Interest income	3,973	4,833
Interest expense	(5,508,689)	(7,742,558)
Gain (loss) on interest rate swap and rate cap	104,753	(231,689)
Amortization of loan fees	(1,265,832)	(1,265,832)
Other expense	406,654	135,760
Income (expense) from pass-through entity	1,122,918	(8,001)
Total Other Income (Expense)	(5,136,223)	(9,107,487)
Net Income (Loss)	$ (27,625,640)	$ 22,163,422

The accompanying notes are an integral part of these financial statements.

Exhibit C

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

	Units	Capital Contributed	Retained Earnings (Deficit)	Total
Balance, January 1, 2011	35,410	$ 105,237,082	$ (22,733,298)	$ 82,503,784
Net income for the year ended December 31, 2011 (Exhibit B)	-	-	22,163,422	22,163,422
Balance, December 31, 2011	35,410	105,237,082	(569,876)	104,667,206
Net loss for the year ended December 31, 2012 (Exhibit B)	-	-	(27,625,640)	(27,625,640)
Balance, December 31, 2012	35,410	$ 105,237,082	$ (28,195,516)	$ 77,041,566

The accompanying notes are an integral part
of these financial statements.

ARKALON ENERGY, LLC
Liberal, Kansas

Exhibit D

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2012	2011
Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows From Operating Activities		
Net income (loss) (Exhibit B)	$ (27,625,640)	$ 22,163,422
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation of property, plant, and equipment	10,895,132	10,700,992
Amortization of loan fees and interest rate cap	1,424,165	1,424,165
Equity in (income) loss of Conestoga Energy Partners, LLC	(1,122,918)	8,001
(Gain) loss on interest rate swap and rate cap	(104,753)	231,689
(Increase) decrease in:		
Accounts receivable	(5,458,192)	9,001,786
Inventories	4,772,706	(4,655,546)
Margin deposits and cash balances	(447,472)	28,774
Prepaid expenses	49,908	259,529
Commodity contracts	(1,778,851)	(631,550)
Spare parts	(32,038)	(306,188)
Deposits	(5,550,500)	(750,000)
Other assets	(28,621)	-
Increase (decrease) in:		
Accounts payable	16,843,465	(11,331,555)
Accrued liabilities	(21,860)	(387,530)
Deferred revenue	(66,299)	(66,298)
Total Adjustments	19,373,872	3,526,269
Net Cash Provided by (Used in) Operating Activities	(8,251,768)	25,689,691
Cash Flows From Investing Activities		
(Increase) decrease in restricted cash	(195,314)	4,731,546
Expenditures for property, plant and equipment	(1,874,962)	(2,695,772)
Net Cash Provided by (Used in) Investing Activities	(2,070,276)	2,035,774
Cash Flows From Financing Activities		
Net change in short term borrowings	(6,402,455)	(2,000,000)
Payments on long-term borrowings	(7,230,585)	(17,514,940)
Proceeds from long-term borrowings	6,500,000	-
Net Cash Provided by (Used in) Financing Activities	(7,133,040)	(19,514,940)
Net Increase (Decrease) in Cash and Cash Equivalents	(17,455,084)	8,210,525
Cash and Cash Equivalents, Beginning of Year	36,509,286	28,298,761
Cash and Cash Equivalents, End of Year	$ 19,054,202	$ 36,509,286

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	2012	2011
Cash paid for interest	$ 5,371,070	$ 7,685,222

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES

	2012	2011
Property, plant and equipment additions included in accounts payable	$ -	$ 298,558
Property, plant and equipment additions included in short term borrowings	$ 97,545	$ -

The accompanying notes are an integral part of these financial statements.

1. Summary of Significant Accounting Policies

a. *Nature of Business and Consolidation Policy*: The consolidated financial statements include the accounts of Arkalon Energy, LLC and its wholly owned subsidiary, Montana de Oro, LLC, which owns 100% of Arkalon Ethanol, LLC (collectively, the "Company"). All significant intercompany balances and transactions have been eliminated. Arkalon Energy, LLC (a Kansas limited liability company) located in Liberal, Kansas, was formed June 5, 2006. The principal business of the Company is distillation and production of fuel grade ethanol and distillers grains. Arkalon Ethanol, LLC owns and operates a 110 million gallon nameplate ethanol plant that became operational on December 24, 2007. Arkalon Energy, LLC and Montana de Oro, LLC are holding companies.

b. *Basis of Accounting*: The Company uses the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. This method recognizes revenues as earned and expenses as incurred.

c. *Estimates*: Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses. Actual results could differ from the estimates used.

d. *Revenue Recognition*: Revenue from the production of ethanol and related products is recorded upon transfer of title to the customer. The transfer takes place at the plant site and therefore shipping terms are FOB shipping point for all ethanol sales and carbon dioxide sales. The transfer of title for distiller grains is based on contract terms and revenue is recognized upon delivery. Interest income is recognized as earned. Income from federal and state incentive programs is recognized when received due to uncertainty of available funds and pro-rations used by the sponsoring organization.

e. *Receivables*: Receivables are presented at face value, net of the allowance for doubtful accounts. The allowance for doubtful accounts is established through provisions charged against income and is maintained at a level believed adequate by management to absorb estimated bad debts based on historical experience and current economic conditions.

f. *Inventories*: Inventories are stated at the lower of cost, determined on a last-in, first-out basis, or market value.

g. *Investments in Commodity Contracts, Derivatives Instruments, and Hedging Activities:* FASB Accounting Standards Codification (ASC) 815-10 requires a company to evaluate its contracts to determine whether the contracts are derivatives. Certain contracts that literally meet the definition of a derivative may be exempted from FASB ASC 815-10 as normal purchases or normal sales. Normal purchases and normal sales are contracts that provide for the purchase or sale of something other than a financial instrument or derivative instrument that will be delivered in quantities expected to be used or sold over a reasonable period in the normal course of business. Contracts that meet the requirements of normal purchases and sales are documented as normal and exempted from the accounting and reporting requirements of FASB ASC 815-10. The Company utilizes risk management strategies to minimize the Company's exposure to commodity price risk with certain anticipated commodity purchases (grain and natural gas) and sales (ethanol). As allowed for by FASB ASC 815-10, contracts are not designated as or accounted for as hedging instruments, although the contracts are effective economic hedges of specified risks.

As part of the Company's interest rate risk management strategy, the Company uses derivative instruments to minimize fluctuations that may arise from rising variable interest rate costs associated with existing and anticipated borrowings. To meet these objectives, the Company entered into an interest rate cap agreement to effectively convert a portion of its variable rate debt to fixed rate debt.

h. *Income Taxes*: The Company is organized as a limited liability company under state law and is treated as a partnership for income tax purposes. Under this type of organization, the Company's earnings pass through to the members and are taxed at the member level. Accordingly, no income tax provision has been calculated.

The Company files income tax returns in the U.S. Federal jurisdiction and one U.S. state jurisdiction. The Company is subject to U.S. federal or state income tax examinations by tax authorities for a period of three years after the filing of the tax return.

i. *Cash Equivalents*: For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents includes investment in money market portfolio funds.

j. *Fair Value of Financial Instruments:* The Company believes the carrying value of cash and cash equivalents approximates fair value due to the short-term maturity of these instruments. The Company believes the fair value of the Company's debt approximates carrying value due to the variable interest rate.

k. *Property, Plant and Equipment*: Property, plant and equipment are carried at cost. When property and equipment are sold or otherwise disposed of, the cost and related accumulated depreciation are eliminated from the accounts and any resulting gain or loss is reflected in income.

l. *Depreciation*: Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives generally used in computing depreciation are:

Buildings and land improvements	15 to 40 years
Machinery and equipment	5 to 15 years
Office furniture, fixtures and software	3 to 10 years

Accelerated methods and statutory lives are used for income tax purposes.

Long-lived assets to be held and used are tested for recoverability whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset and long-lived assets to be disposed of by sale are reported at the lower of carrying amount or fair value less cost to sell.

m. *Loan Fees*: Costs incurred to obtain long-term financing are deferred and amortized on the straight-line method over the term of the related debt.

n. *Shipping and Handling*: The Company includes shipping and handling costs with the cost of the item sold or purchased. Therefore, shipping and handling costs are included net sales for ethanol and cost of sales for grain purchases and sales of distillers grain.

o. *Environmental Liabilities*: The Company's operations are subject to federal, state and local environmental laws and regulations. These laws require the Company to investigate and remediate the effects of the release or disposal of materials at its location. Accordingly, the Company has adopted policies, practices and procedures in the areas of pollution control, occupational health, and the production, handling, storage and use of hazardous materials to prevent material environmental or other damage; and to limit the financial liability which could result from such events. Management believes there are no liabilities to record that would be probable and reasonable to estimate at December 31, 2012 and 2011.

p. *Reclassifications:* Certain amounts in the prior year comparative information have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

2. Liquidity

The Company believes that current and future available capital resources, revenues generated from operations, and other existing sources of liquidity, including its credit facilities, will be adequate to meet its anticipated working capital and capital expenditure requirements for the next twelve months. See Note 8 – Long-Term Debt. If, however, the Company’s capital requirements or cash flow vary materially from its current projections, or if other unforeseen circumstances occur, such as a lack of significant improvement or further deterioration of grain crush margins, the Company may require additional financing during that period. The Members' of the Company are willing to infuse more capital, as needed. The Company’s failure to raise capital, if needed, could restrict its growth, hinder its ability to compete and adversely impact its operations.

3. Change in Accounting Principle

Effective January 1, 2011, the Company adopted the last-in, first-out (LIFO) method of valuing inventory. The change decreased the 2011 net income by $1,994,980. The change from the first-in, first-out (FIFO) method was made to minimize the effect of price level changes on inventory valuations and generally matches current costs against current revenues in the statement of operations. The company determined it is impracticable to determine the cumulative effect of applying this change retrospectively. However, the Company has all of the information necessary to apply the LIFO method on a prospective basis beginning in 2011.

4. Incentive Payments

The Company has been approved for the Kansas Qualified Agricultural Ethanol Producer Incentive Fund. Incentive payments are limited to 15,000,000 gallons per production year. The Company has included state incentives of $525,000 and $518,040, respectively, in revenue for the years ended December 31, 2012 and 2011. For the years ended December 31, 2012 and 2011, the

Company qualified for the Federal Advanced Bio-Producer program and received $2,616,899 and $3,524,675, respectively, which is included in revenue.

5. Restricted Cash

The Company maintains a debt service reserve account according to the terms of the credit agreement with its lender (See Note 8).

6. Deposits

The Company has agreed to provide a deposit of $2,500,000 in accordance with its agreement with CMS Electric Cooperative, Inc. (See Note 14). The Company also provided a deposit of $7,500,500 to a related party vendor for grain purchases and settlement of margin calls. The Company may apply this deposit amount toward future grain purchases or margin calls on demand as necessary; however, management intends to hold the amount on deposit with the related party for longer than one year and is presented as a non-current asset in the balance sheet.

7. Inventory

Inventory at December 31, 2012 and 2011 is summarized as follows:

	December 31,	
	2012	2011
Unprocessed grains and chemicals	$ 8,186,750	$ 9,102,684
Work in process	2,803,112	2,755,994
Finished goods	1,961,473	3,768,761
	12,951,335	15,627,439
Less allowance to reduce carrying value of LIFO items	(4,091,582)	(1,994,980)
Total Inventory	$ 8,859,753	$ 13,632,459

8. Long-Term Debt

The Company has a credit agreement with Portigon AG (formerly West LB AG), Merrill Lynch Capital Services, Inc., and Investec Bank Plc to provide financing in the form of term loans. The Company also has a working capital loan with Palmer/American Holding, Inc.

The working capital loan was refinanced on September 27, 2012 through Palmer/American Holding, Inc., the loans in an aggregate principal amount not in excess of $10,000,000 are available through September 30, 2013. Working capital loans repaid or prepaid may be reborrowed and as of December 31, 2012, the Company had borrowed $6,500,000 from the working capital loan. The loan agreement will automatically extend for another year at Palmer/American Holding, Inc. discretion and is accounted for as long term debt. Management believes that the agreement will be extended and there has not been any indication from Palmer/American Holding, Inc. to void the extension. Interest accrues at a variable rate based on the London interbank offering rate (LIBOR) plus 6.0% per annum, which the variable rate was

6.34% as of December 31, 2012. Accrued interest is due quarterly and the principle amount is due at the maturity of the loan.

Outstanding borrowings under term loan agreements totaled $69,769,643 and $76,984,173 at December 31, 2012 and 2011, respectively. Principal payments are due in quarterly installments of $969,070 and all unpaid principal is due June 12, 2015. Mandatory additional principal payments are due quarterly, based on excess cash flow and certain ratios as set forth in the credit agreement; such prepayments are applied to the term loans in inverse order of maturity. Term loans repaid may not be reborrowed. Interest accrues on the term loan at a variable rate based on the London interbank offering rate (LIBOR) plus 6.0% per annum, which the variable rate was 6.32% and 7.08% per annum as of December 31, 2012 and 2011, respectively. On September 17, 2010, the Company paid a fee of $475,000 to enter into an interest rate cap transaction with Investec Bank plc to provide an interest rate, not exceeding 2% in lieu of LIBOR (total rate of 8.5%), on a $60,000,000 notional loan amount through September 17, 2013. The fee is amortized over the three-year life of the agreement (See Note 16). The Company agreed to pay a commitment fee on the daily average unused amount for the term loan commitment and working capital loan commitment at a rate of 0.50% per annum, which totaled $17,063 and $20,302 for the years ended December 31, 2012 and 2011, respectively. The refinance with Palmer/American Holdings, LLC has no working capital commitment fee.

The lenders agreed to issue letters of credit for the Company up to $5,000,000, which reduces the unused working capital loan commitment. This agreement ceased on September 27, 2012 with the refinancing with Palmer/American Holdings, LLC. The Company had a $2,500,000 issued letter of credit that expired on May 31, 2011. The Company pays both a letter of credit participation fee of 8.75% and letter of credit fronting fee of 0.15% on the average daily amount of such letter of credit exposure. For the years ended December 31, 2012 and 2011, the Company paid fees of $0 and $88,031, respectively.

The borrowings under the credit agreement are collateralized by substantially all assets of the Company. The credit agreement contains various restrictive covenants that limit the activities of the Company with respect to purchases of assets, payment of debt, and distributions to its member, unless such transactions are approved in advance by the lenders. In management's opinion, the Company complied with all restrictive covenants or obtained applicable waivers for the years ended December 31, 2012 and 2011.

The Company entered into a note payable for ethanol equipment with WB Services, LLC on 8/15/2012. The note will be paid in six monthly payments of $97,545. At December 31, 2012 the Company had a note payable of $97,545.

The Company entered into a note payable for equipment financing with Caterpillar Financial Services Corporation on August 2, 2010. From the closing date until the maturity date, three years after the closing date, interest will accrue on the outstanding principal amount of the loan at a fixed interest rate of 8.25% per annum. At December 31, 2012 and 2011, the Company has notes payable of $9,993 and $26,048, respectively.

At December 31, 2012 and 2011, the Company has accrued interest payable of $12,248 and $32,962 respectively, included in the balance sheets.

Long-term loans are as follows as of December 31, 2012 and 2011:

	December 31, 2012	December 31, 2011
Term loan	$ 69,769,643	$ 76,984,173
Other notes payable	6,509,993	26,048
	76,279,636	77,010,221
Less current maturities	3,886,273	3,892,335
Total Long-Term Debt	$ 72,393,363	$ 73,117,886

The aggregate maturities of all long-term debt are as follows:

Year Ending December 31,	Amount
2013	$ 3,886,273
2014	10,376,280
2015	62,017,083
2016	-
2017	-
Total	$ 76,279,636

9. Deferred Revenue

The Company has a Carbon Dioxide Purchase and Sale Agreement with Chaparral CO_2, LLC (Chaparral) to exclusively sell all carbon dioxide produced by the Company (See Note 14). Chaparral paid the Company $994,481 for this access right. The amount will be recognized as revenue over the fifteen-year term of the agreement beginning in 2009 and ending in 2024. The Company recognized revenue for access rights of $66,299 and $66,299, for the years ended December 31, 2012 and 2011, respectively.

10. Members' Equity

On April 30, 2011, the members of Arkalon Energy, LLC approved a plan to convert and reissue the single class of units into three classes: Class A (403 units), Class B (2,199 units), and Class C (32,808 units). The board of directors is authorized to create classes of units and establish the designations, powers, preferences, and governance and also other rights, qualifications, limitations, and restrictions applicable to such classes. Voting rights are one vote for each voting unit registered in the name of such member as shown on the membership registration maintained by Arkalon Energy, LLC. No member shall directly or indirectly own or control more than 40% of the issued and outstanding voting membership interest in Arkalon Energy, LLC at any time.

Class A unit holders are eligible to vote in the elections to remove or elect a director, approve the sale of Arkalon's assets, and in all proposed mergers or consolidations. Holders of Class B units are eligible to vote in elections that Class A is allowed to as well as proposed amendments to the Operating Agreement. Holders of Class C units are eligible to vote on all issues that Class A and Class B are eligible to vote on, along with all other member voting matters of the Company.

Distribution of income and losses of Arkalon Energy, LLC is allocated among the unit holders in proportion to each unit holder's respective percentage of units when compared with the total units issued, regardless of whether the units are Class A, Class B, or Class C units.

The directors of Arkalon Energy, LLC direct the business affairs of the Company and are responsible for management. At each annual meeting of the members, directors shall be elected by the members for staggered terms of three years.

The Arkalon Energy, LLC's board of directors may distribute cash to members based on the Company's net cash flow so long as the distributions do not cause the Company to violate any loan agreements. Net cash flow is defined in the Operating Agreement as revenues less cash operating expenses, capital expenditures, and debt service. No unit holder has the right to demand and receive any distribution from the Company other than in cash. No distribution shall be made if, as a result thereof, the Company's liabilities would exceed the gross asset value of its assets.

Transfer, disposition, or encumbrance of capital units is subject to certain restrictions, including approval by the board of directors.

11. Investment

The Company has a 50% interest in Conestoga Energy Partners, LLC (Conestoga), which provides all labor-related services plus all management, administrative, and marketing services for its two members, Bonanza BioEnergy, LLC and Arkalon Energy, LLC as well as Diamond Ethanol, LLC. Bonanza BioEnergy, LLC, a related party that operates an ethanol plant. Diamond Ethanol, LLC is a related party through Conestoga, operates an ethanol plant. As discussed in Note 17, the Company will be distributing their ownership interest into a newly formed holding company during 2013 and will not have any direct investment control over Conestoga. Accordingly the Company will use the equity method to account for its investment in Conestoga. Condensed financial information for Conestoga as of and for the years ended December 31, 2012 and 2011 were based upon audits, whose audits expressed an unmodified opinion in their report dated February 27, 2013 is summarized as follows:

	2012	2011
Current assets	$ 4,364,351	$ 4,012,821
Noncurrent assets	2,155,736	613,458
Current liabilities	(1,596,344)	(2,096,992)
Noncurrent liabilities	(344,689)	(196,069)
Equity	$ 4,579,054	$ 2,333,218
Revenues	$ 22,940,195	$ 10,113,124
Net Income (Loss)	$ 2,245,836	$ (16,002)

12. Related Party Transactions

The Company has an Operation and Maintenance Agreement and a Services Agreement with Conestoga Energy Partners, LLC (Conestoga) to obtain operation and maintenance services for the ethanol facility, as well as all labor-related services and all management, marketing, risk management, finance, accounting, human resources, and other administrative services in connection with the operation of the facility. The combined monthly rate for the services for 2012 was $405,375 and for 2011 was $405,375. The monthly rate is subject to increase annually based on the change in the Consumer Price Index, but in the event of unforeseen increases in costs to Conestoga, may be increased up to ten percent per year. The agreement is for a ten year term expiring in 2017, but may be terminated upon the earlier sale of the Company or Conestoga.

The Company sells to and purchases from Bonanza BioEnergy, LLC, a related party distillers grains, chemicals, and supplies. The pricing methodology for distiller sales is principally based upon a percentage of the Chicago Board of Trade published corn price. During 2012 and 2011, the companies' policy is to set pricing weekly based upon a percentage of the Chicago Board of Trade published price, with the same price charged to each company for loads sold during that weekly contract period. The intercompany sales transactions are regularly cash settled. The total intercompany sales and purchases for the years ended December 31, 2012 and 2011 are disclosed as follows.

The Company sells to and purchases from Diamond Ethanol, LLC distillers grains, chemicals, and supplies. Conestoga Energy Partners, LLC has a minority interest in and performs the operational management for Diamond Ethanol, LLC. The intercompany sales and purchase transactions are regularly cash settled. The total intercompany sales and purchases for the year ended December 31, 2012 are disclosed as follows.

The Company purchases distillers transportation services from Conestoga Logistics, LLC. Conestoga Logistics is owned by Conestoga Energy Partners, LLC. The intercompany purchase transactions are regularly cash settled. The total intercompany purchases for the year ended December 31, 2012 are disclosed as follows.

Related party transactions included on the balance sheets as of December 31, 2012 and 2011 are presented as follows.

	December 31, 2012	December 31, 2011
Accounts Receivable		
Bonanza BioEnergy, LLC	$ 27,648	$ 212,037
Diamond Ethanol, LLC	69,667	-
Conestoga Energy Partners, LLC	47,101	-
Conestoga Logistics, LLC	1,088	-
Other related parties*	-	2,089,625
Other Assets		
Other related parties*	1,200,000	1,200,000
Investment in Conestoga	2,289,528	1,166,609

	December 31, 2012	December 31, 2011
Accounts Payable and Accrued Liabilities		
Bonanza BioEnergy, LLC	80,828	45,351
Conestoga Energy Partners, LLC	424,705	-
Conestoga Logistics, LLC	419,554	694,194
Other related parties*	8,105,381	1,187,889

Related party transactions for the years ended December 31, 2012 and 2011 included on the statements of operations are presented as follows:

	Year Ended December 31, 2012	Year Ended December 31, 2011
Sales – Ethanol (See Note 13)	$ 233,401,603	$ 282,253,376
Sales - Other		
Bonanza BioEnergy, LLC	1,613,474	1,028,971
Diamond Ethanol, LLC	52,186	-
Other related parties*	1,219,089	6,044,370
Cost of Sales		
Bonanza BioEnergy, LLC	1,673,038	$ 3,479,592
Conestoga Energy Partners, LLC	2,473,446	3,498,155
Conestoga Logistics, LLC	6,045,702	-
Other related parties*	66,246,985	65,149,714
General and Administrative		
Conestoga Energy Partners, LLC	1,996,500	1,996,500
Other Income		
Other Income*	9,900	19,800

*Other related party transactions are with members or businesses owned by members of the Company during the years ended December 31, 2012 and 2011.

13. Concentrations

The Company maintains cash balances at two financial institutions. At times, the Company's bank balances may exceed the amount insured by the Federal Deposit Insurance Corporation.

The Company's credit is primarily from two lenders under one joint credit agreement (See Note 8).

The Company currently has a marketing agreement with one customer, who is also a member, Murex N.A., Ltd., to sell all ethanol produced (See Note 14). At December 31, 2012 and 2011 the Company had outstanding net receivables of $4,654,330 and $1,886,812, respectively, with this customer.

Purchases of grain from the top two significant vendors were $65,610,756 and $91,110,031 for the years ended December 31, 2012 and 2011, respectively. Total grain purchases were $285,521,582 and $266,717,729 for the years ended December 31, 2012 and 2011, respectively.

The Company had an agreement with one vendor, Frontier Transportation, Inc., to exclusively provide transportation services for the delivery of wet and dry distillers grains (See Note 14). Purchases from this vendor during 2012 and 2011 totaled $4,797,184 and $10,559,808, respectively. At December 31, 2012 and 2011, the Company had outstanding payables of $0 and $529,155, respectively, with this vendor.

The Company began a new agreement with Conestoga Logistics, LLC, a related party, to exclusively provide their transportation services for the delivery of wet and dry distillers grains. Purchases from this related party during 2012 were $6,045,702 with an outstanding payable of $419,554 to the related party at December 31, 2012.

14. Commitments and Contingencies

The Company has an agreement with CMS Electric Cooperative, Inc. (Cooperative) to obtain electric services for the ethanol facility. The Company agreed to provide a deposit an amount of $2,500,000, which is equivalent to six months of estimated power service. The original letter of credit was replaced by a $750,000 deposit on November 25, 2011, and remained in effect until March 31, 2012, at which time the additional deposit amount was paid to reach a total of $2,500,000. This deposit is included in prepaid expenses on the balance sheet.

The Company and the City of Liberal, Kansas have a water supply contract for the ethanol plant. The initial contract is for ten years, expiring December 2017, and may be renewed for an additional period of ten years. The initial contract gives the Company the right to purchase a maximum quantity of 1,970 acre feet of water annually at $1.00 per 1,000 gallons of water, and the right to discharge pretreated effluent into the city's treatment plant.

The Company has an agreement to sell 100% of the ethanol produced at the ethanol facility to Murex, N.A., Ltd. The term of the initial agreement was for a three-year period and renews automatically unless required notice is given by either party. The agreement was renewed for a two-year term on January 1, 2011. The sales price fluctuates with the market price at time of sale as defined in the agreement. The Company entered into a unit train terminal storage agreement with Murex, N.A., Ltd., and has agreed to lease a certain number of railcars form Murex for a monthly charge of $123,400, for the three year period of the current marketing agreement beginning January, 1, 2011.

The Company has a Large Volume Transportation Service Agreement with Black Hills Corporation (previously Aquila, Inc.) to supply natural gas to the ethanol facility. The primary term is for ten years expiring on December 24, 2017. Following the expiration of the primary term, the agreement may be extended for an additional ten years. The Company agreed to use a minimum of

2,160,000 MMBtu per contract year during the primary term. If the Company fails to meet the minimum requirement, they will be billed for the difference between the required and actual usage at a rate of $.14 MMBtu. The Company will pay $.04 per MMBtu for all volumes in excess of 2,160,000 MMBtu.

The Company has a carbon dioxide purchase and sale agreement with Chaparral CO_2, LLC (Chaparral), where the Company agreed to exclusively sell all carbon dioxide produced at the Liberal, Kansas plant to Chaparral. The initial term of the agreement is for fifteen years from the date of first delivery of carbon dioxide to Chaparral which was in 2009. After the initial term expires in 2024, the agreement automatically renews for consecutive five-year renewal periods, unless required notice is given by Chaparral. The agreed upon price per unit of carbon dioxide is $0.131 per MCF for the term of the agreement.

Frontier Transportation, Inc. (a related party) provided transportation services for the shipment of the wet and dry distiller grains from the ethanol plant under a trucking agreement. The agreement ran through May 17, 2012, and did not renew. For the first two years, the base rate, determined by miles transported, remained constant and increased three percent each year for the final three years. In addition to the base rate, a fuel surcharge would have also applied.

The Company is involved in various claims, both for and against the Company, arising in the normal course of business. Management believes that any financial responsibility that may be incurred in the settlement of such claims and lawsuits would not be material to the Company's financial position.

The Company accrues for estimated losses on non-cancelable purchase and sales commitments. At December 31, 2012 the contracted cost of certain grain purchase commitments exceeded fair value, accordingly there was a loss for these commitments of $803,790. At December 31, 2011 the value of certain grain purchase commitments did not exceed the fair value; accordingly, no losses for these commitments have been accrued.

On December 31, 2012, the Company had outstanding commitments to purchase approximately 10,506,745 bushels of corn, 1,715,946 of which are priced at a weighted average of $7.58 per bushel; the remaining bushels were not priced as of December 31, 2012. Management will secure pricing on the remaining bushels on a per contract basis over the next year. If no price is secured prior to the contract fulfillment date, the contracted bushels will be purchased at the then prevailing market rate.

On December 31, 2012, the Company had outstanding commitments to sell approximately 17,517 tons of dry distiller grains of which are priced at a weighted average of $283.41 per ton.

On December 31, 2012, the Company had outstanding commitments to sell approximately 241,868 tons of wet distiller grains, 129,939 of which are priced at a weighted average of $108.87 per ton; the remaining tons were not priced as of December 31, 2012.

15. Fair Value Measurements

The Company has determined the fair value of certain assets and liabilities through application of *Fair Value Measurements*, FASB ASC 820-10. The fair value hierarchy prioritizes the inputs used in valuation techniques into three levels as follows:

- Level 1 - Observable inputs - unadjusted quoted prices in active markets for identical assets and liabilities;
- Level 2 - Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data; and
- Level 3 - Unobservable inputs - includes amounts derived from valuation models where one or more significant inputs are unobservable.

In accordance with FASB ASC 820-10, the Company has classified its investments in certain money market funds and derivative instruments into these levels depending on the inputs used to determine their fair values. The Company's investments consist of money market funds which are based on quoted prices and are designated as Level 1. The Company's derivative instruments consist of commodity contracts, purchase commitments, interest rate swap, and interest rate cap. The fair values of the commodity contracts and ethanol finished goods inventory are based on quoted prices on the commodity exchanges and are designated as Level 1. The fair value of the interest rate swap and interest rate cap are based on quoted prices on similar assets or liabilities in active markets and discounts to reflect potential credit risk to lenders and are designated as Level 2.

The following tables summarize fair value measurements by level at December 31, 2012 and 2011:

	December 31, 2012		
	Level 1	Level 2	Level 3
Assets			
Investment in money market portfolio funds	$ 19,970,239	$ -	$ -
Inventory finished goods - Ethanol (non-recurring)	1,961,473	-	-
Interest rate cap	-	447	-
Commodity contracts	853,063	-	-
Total Assets	$ 22,784,775	$ 447	$ -
Liabilities			
Grain purchase loss commitments	$ 803,790	$ -	$ -

	December 31, 2011		
	Level 1	Level 2	Level 3
Assets			
Investment in money market portfolio funds	$ 30,407,839	$ -	$ -
Interest rate cap	-	54,028	-
Total Assets	$ 30,407,839	$ 54,028	$ -
Liabilities			
Commodity contacts	$ 925,788	$ -	$ -
Total Liabilities	$ 925,788	$ -	$ -

16. Derivative Financial Instruments

From time to time the Company enters into derivative transactions to hedge its exposures to commodity price fluctuations. The Company does not enter into derivative transactions for trading purposes.

Commodity Contracts

The Company enters into commodity-based derivatives in order to protect cash flows from fluctuations caused by volatility in the commodity prices for periods up to twelve months in order to protect gross margins from potentially adverse effects of market and price volatility on ethanol sales and corn purchase commitments where the prices are set at a future date. In addition, the Company hedges anticipated sales of ethanol to minimize its exposure to the potentially adverse effect of price volatility. To reduce these risks, the Company generally takes positions using cash and futures contracts and options. These derivatives are not designated as effective hedges for accounting purposes. For derivative instruments that are not accounted for as hedges, the change in fair value is recorded through earnings in the period of change. Derivative fair market gains and losses are included in the results of operations and are included in revenue or cost of sales depending on the nature of the hedged position. All commodity contracts do not qualify for hedge accounting.

Interest Rate Swap and Cap Agreements

The Company manages its floating rate debt using interest rate swaps and caps. The Company will enter into fixed rate swaps and caps to alter its exposure to the impact of changing interest rates on its results of operations and future cash outflows for interest. Fixed rate swaps and caps are used to reduce the Company's risk of the possibility of increased interest costs. Interest rate swap and cap contracts are therefore used by the Company to separate interest rate risk management from the debt funding decision. The swap and cap agreements are accounted for as a non-designated derivative, where it is marked to fair value and changes in fair value are recorded as other income or expense.

The following table provides the reconciliation of fair value of the Company's interest rate cap as of December 31, 2012 and 2011:

Interest Rate Cap Summary	December 31, 2012	December 31, 2011
Cost	$ 475,000	$ 475,000
Accumulated amortization	(369,444)	(211,111)
Fair market value adjustment	(105,109)	(209,861)
Total Fair Value of Interest Rate Cap	$ 447	$ 54,028

The following tables provide the fair value of the Company's derivative financial instruments not designated as hedging instruments under FASB ASC 815-10 as of December 31, 2012 and 2011:

2012	Noncurrent Assets	Current Assets	Current Liabilities
Commodity contracts	$ -	$ 853,063	$ -
Grain purchase loss commitments	-	-	803,790
Interest rate cap	447	-	-
Total	$ 447	$ 853,063	$ 803,790

2011	Noncurrent Assets	Current Liabilities
Commodity contracts	$ -	$ 925,788
Interest rate cap	54,028	-
Total	$ 54,028	$ 925,788

The following table provides the net gains (losses) on the Company's derivative financial instruments not designated as hedging instruments that have been included in the statement of operations for the years ended December 31, 2012 and 2011 as follows:

	Year Ended December 31,	
Statement of Operations Location	2012	2011
Commodity contracts		
Net sales	$ (1,261,526)	$ 206,504
Cost of sales	(2,738,328)	(2,264,727)
Interest rate swap and cap		
Other income (expense)	104,753	(231,689)
Total Net (Loss)	$ (3,895,101)	$ (2,289,912)

17. Subsequent Events

The Company has evaluated subsequent events through February 27, 2013, the date which the financial statements were available to be issued.

On February 23, 2013, the members of Arkalon Energy, LLC and Bonanza BioEnergy, LLC voted to approve a change to the ownership structure of the Companies. As a part of the restructure, the members will exchange their respective membership units, in an exchange ratio approved by the members, for a membership unit in Conestoga Energy Holdings, LLC. The companies will also distribute their respective investment in Conestga Energy Partners, LLC to Conestoga Energy Holdings, LLC. Arkalon Energy, LLC, Bonanza BioEnergy, LLC and Conestoga Energy Partners, LLC will be wholly owned subsidiaries of Conestoga Energy Holdings, LLC. The merger of Conestoga Energy Partners, LLC is subject to final approval by the lenders of Arkalon Ethanol, LLC and Bonanza BioEnergy, LLC.

SUPPLEMENTAL INFORMATION

ARKALON ENERGY, LLC
Liberal, Kansas

Schedule 1

CONSOLIDATING BALANCE SHEET
December 31, 2012

	Arkalon Energy, LLC	Montana De Oro, LLC	Arkalon Ethanol, LLC	Eliminating Entries	Consolidated Totals
ASSETS					
Current Assets					
Cash and cash equivalents	$ 68,405	$ 884	$ 18,984,913	$ -	$ 19,054,202
Restricted cash	-	-	1,883,920	-	1,883,920
Accounts receivable, less allowance for doubtful accounts: $54,420	-	-	11,717,197	-	11,717,197
Inventories	-	-	8,859,753	-	8,859,753
Margin deposits and cash balances	-	-	2,954,833	-	2,954,833
Recievables on commodity contracts	-	-	853,063	-	853,063
Prepaid expenses	-	-	487,560	-	487,560
Total Current Assets	68,405	884	45,741,239	-	45,810,528
Property, Plant and Equipment, at cost					
Land and improvements	-	-	13,613,085	-	13,613,085
Machinery and equipment	-	-	139,533,187	-	139,533,187
Buildings and improvements	-	-	17,263,252	-	17,263,252
Office furniture, fixtures and software	-	-	233,759	-	233,759
Construction in progress	-	-	241	-	241
	-	-	170,643,524	-	170,643,524
Deduct accumulated depreciation	-	-	54,127,161	-	54,127,161
Total Property, Plant and Equipment	-	-	116,516,363	-	116,516,363
Other Assets					
Spare parts	-	-	1,290,733	-	1,290,733
Investments	75,744,540	73,454,129	-	(146,909,142)	2,289,527
Interest rate cap asset	-	-	447	-	447
Loan fees, net of accumulated amortization: $6,380,835	-	-	2,478,920	-	2,478,920
Deposits	1,200,000	-	6,300,500	-	7,500,500
Other	28,621	-	103,511	-	132,132
Total Other Assets	76,973,161	73,454,129	10,174,111	(146,909,142)	13,692,259
Total Assets	$ 77,041,566	$ 73,455,013	$ 172,431,713	$ (146,909,142)	$ 176,019,150
LIABILITIES AND MEMBERS' EQUITY					
Current Liabilities					
Accounts payable	$ -	$ -	$ 20,664,492	$ -	$ 20,664,492
Accrued liabilities	-	-	1,206,624	-	1,206,624
Short-term borrowings	-	-	97,545	-	97,545
Current maturities of long-term obligations	-	-	3,886,273	-	3,886,273
Total Current Liabilities	-	-	25,854,934	-	25,854,934
Noncurrent Liabilities					
Long-term debt, less current maturities	-	-	72,393,363	-	72,393,363
Total Noncurrent Liabilities	-	-	72,393,363	-	72,393,363
Deferred Revenue	-	-	729,287	-	729,287
Members' Equity	77,041,566	73,455,013	73,454,129	(146,909,142)	77,041,566
Total Liabilities and Members' Equity	$ 77,041,566	$ 73,455,013	$ 172,431,713	$ (146,909,142)	$ 176,019,150

ARKALON ENERGY, LLC
Liberal, Kansas

Schedule 2

CONSOLIDATING STATEMENT OF OPERATIONS
Year Ended December 31, 2012

	Arkalon Energy, LLC	Montana De Oro, LLC	Arkalon Ethanol, LLC	Eliminating Entries	Consolidated Totals
Sales					
Ethanol	$ -	$ -	$ 233,401,603	$ -	$ 233,401,603
Distillers grains	-	-	84,097,423	-	84,097,423
Carbon dioxide	-	-	1,156,243	-	1,156,243
Producer incentive payments	-	-	3,141,899	-	3,141,899
Net Sales	-	-	321,797,168	-	321,797,168
Cost of Sales	-	-	340,103,036	-	340,103,036
Gross Profit (Loss) on Sales	-	-	(18,305,868)	-	(18,305,868)
Operating Expenses					
General and administrative	55	-	4,183,494	-	4,183,549
Operating Income (Loss)	(55)	-	(22,489,362)	-	(22,489,417)
Other Income (Expense)					
Interest income	4	-	3,969	-	3,973
Interest expense	-	-	(5,508,689)	-	(5,508,689)
Gain (loss) on interest rate swap and rate cap	-	-	104,753	-	104,753
Amortization of loan fees	-	-	(1,265,832)	-	(1,265,832)
Other expense	-	-	406,654	-	406,654
Income (loss) from pass-through entity	(27,625,589)	(28,748,507)	-	57,497,014	1,122,918
Total Other Income (Expense)	(27,625,585)	(28,748,507)	(6,259,145)	57,497,014	(5,136,223)
Net Income (Loss)	$ (27,625,640)	$ (28,748,507)	$ (28,748,507)	$ 57,497,014	$ (27,625,640)