Minnesota Drivers are the winners in the U.S. Environmental Protection Agency (U.S. EPA) determination to uphold the Renewable Fuel Standard. Under the U.S. EPA decision, Minnesota Drivers will continue to benefit from renewable ethanol as it displaces petroleum and holds down the price of gasoline.

According to Tim Rudnicki, Executive Director for the Minnesota Bio-Fuels Association, “The Minnesota Bio-Fuels Association is a supporter of the U.S. EPA decision. The 21st century ethanol industry in Minnesota is part of an efficient renewable energy system. Our Minnesota producers use renewable ingredients and the latest process technology to provide consumers with homegrown energy that held down the price of gasoline by up to $1.69 per gallon. Ethanol also reduces air pollution and helps modern engines run efficiently. Our State and National renewable energy policy should not be based on short-term market conditions and the U.S. EPA’s decision reflects this position.”

Based on a recent report from the Minnesota Department of Agriculture, the Minnesota ethanol industry supports approximately 12,600 jobs and pumps more than $5 billion into Minnesota’s economy.

The Minnesota Bio-Fuels Association (MBA) represents the renewable fuels industry within the State of Minnesota. MBA works to advance and promote the industry through support of educational, charitable, policy making and scientific activities. In addition to the thousands of jobs supported by the Minnesota renewable biofuels industry, the renewable fuels industry displaces petroleum imported into Minnesota, keeps billions of energy dollars in Minnesota and gives consumers cleaner fuel and greater, affordable fuel choice at the pump.

Nominations for Board of Directors for 2013

The nomination committee would like all shareholders to start sending in your recommendations for potential board candidates as soon as possible. The nominating committee will be taking recommendations until December 7, 2012. Please contact one of your nominating committee members (listed below) or Denise Bakken @ 320-843-1229 with your recommendations. Thank you for assisting us with this process developing a list of great candidates for our Board of Directors.

Directors up for election this year are:

District 1: Jan Lundebrek
District 2: Dale Tolifson
District 3: Roger Longhenry

The nomination committee consists of the following directors:

District #1:
- Dave Thompson 320-239-2983
davethom@hcinet.net
- Gene Fynboh 320-834-4661
gkfynboh@gctel.net

District #2:
- Kent Evenson 320-843-2435
kdevenson@hotmail.com
- Dave Nagler 320-567-2310
dj nagler@hotmail.com

District #3:
- Dan Benson 320-875-2036
dbenson@westtechwb.com
- Chuck DeGrote 320-894-7356
cdegrote@hcinet.net
Minnesota Pollution Control Agency (MPCA) and Enforcement
- Recent Frustration

A number of years ago a colleague of mine shared a tool he occasionally uses called the “two good things” rule. Basically the rule is this; when someone seeks him out and it is apparent that they have a concern, he tells them that before listening to it he wants them to list two good things related to their issue. Hopefully, the exercise is helpful for both and perhaps provides assurance that the sky is not falling.

With that in mind, here are a couple of good things about the MPCA:
- The Agency has existed since 1967. With their guidance, educational efforts, and partnering with the residents of Minnesota (both citizens and industry), our air, water and land are cleaner now than they were over four decades ago. That is a big deal and something to be proud of.
- It is rare to meet anyone at the Agency that is not passionate about their job. That is, they care about the work they do and are committed to it. Employees can be knowledgeable about their job but without passion it is simply what they do for eight hours a day.

At various times CVEC, the Minnesota ethanol industry, and possibly much of the general business community in Minnesota have expressed frustration over the seeming lack of common sense exhibited by MPCA in their regulation and enforcement of industry.

Examples from CVEC’s past include:
- A fine for recording each load of wood received but not consolidating the data into 24 hour blocks.
- Insistence by MPCA personnel that a bag house was operating outside of normal parameters given that the pressure gauge read “0.2” rather than “0”. The bag house in question was attached to the gasifier, which was not operating.
- And of course, the fine we received for unintentionally combusting treated and painted wood in the gasifier. Based on our calculation of ash content, we determined this likely amounted to a single 8 foot long 2 x 4.

All of the above instances occurred in 2009. The total fine was $120,000 with the majority due to the adulterated wood combustion.

Fast forward to 2012. Recently the MPCA announced that they assessed a fine to another entity for burning unapproved wood (OSB and plywood). According to the press release the amount of material amounted to 22,428 tons. The fine was $14,000.

I have called MPCA to discuss this but, as of this writing, I have not connected with the appropriate staff. Left to speculate, it appears that CVEC was grossly over charged. Based on our calculation of ash content, we determined this likely amounted to a single 2 x 4.

It’s about context. A single 2 x 4 and $120,000? 22,428 tons of product and $14,000? We will continue to investigate this issue.

FY 2012
While the audit is not yet complete, I expect that the Combined net income of CVEC/CVEC will be just over $6.9 million. Our balance sheet reflects solid working capital and zero debt. While it is tempting to wax eloquent and reflect on our performance in relation to the industry, the fact of the matter is that you expect your Company to thrive and not simply survive. That is my expectation as well. With that in mind, we have work to do and are pushing forward on a number of endeavors. More about that in a moment.

The board of directors will consider the ability of the Company to generate a cash distribution at their regular board meeting on November 30th.

FY 2013
As discussed at the Member update meeting in September, our net income budget projection for 2013 is $4.2 million and reflects the difficult margin environment before us. However, past investments made in additional revenue generating enterprises are expected to provide a cushion.

Throughout 2013 we will continue to hear of ethanol plants that have slowed down or ceased production. Our belief at CVEC is that we need to be able to operate within, or above, the efficiency band as those plants that make-up the needed ethanol supply regardless of the Renewable Fuel Standard requirements.

Notable capital expenditures for this coming year include upgrades in the form of beer degasification and the addition of corn receiving and storage facilities. Corn facilities are important for numerous reasons including:
- More bushels are being delivered by non-members, we need to have direct access to our customers.
- We need to be able to buy corn when sellers want to sell and receive when customers want to deliver.
- It is imperative that we are able to control the quality and type of corn that is delivered.
- It is important that we provide delivery alternatives that allow us to be the first stop for bushels from our members.

Annual Meeting
The CVAC meeting is set for Thursday January 24, 2013 at McKinney’s in Benson. While plans are not totally complete, the meeting will be in the early afternoon to allow for travel to and from for those from out of town. We heard from a number of you that last year’s evening meeting was difficult to make it to so we have tried to adjust accordingly.

Renewable Fuel Standard (RFS)
Thank you for your support of the RFS! The industry scored a significant victory with the recent ruling by EPA that rejected the waiver requests submitted by a number of states. We know this will not be the last we hear about attempts to repeal or alter the RFS but are gratified nonetheless at this outcome.

In terms of ethanol industry fines as a percent of total fines, Minnesota was 31%, Iowa was 4% and Illinois was 2% (but that was including 2007 as no ethanol fines were apparent during 2008-2011 in IL).
Stephan Liljenquist - EHS Manager

I have lived in Cottonwood, MN for the past 15 years. I worked at ADM Marshall for 7 years as a refinery operator as well as the Hazmat Coordinator for the plant. I am retired from the Cottonwood fire department after 10 years and the Chemical Assessment Team based in Marshall after 5 years. I went back to school and obtained my certificate in Occupational Safety and Health from South Central College in Mankato. I then started in the safety field for Wanzek construction for 6 years at the ADM Marshall plant. I am a OSHA Construction safety trainer and am working on my General Industry trainer requirements. I have three wonderful kids ages 7, 9 and 12 and a wonderful wife who I married 19 years ago and a dog Dori, we call her Dori bell the dog from hell due to the fact she eats wire and the doorbell has been eaten a few times. My door is always open and I am available to answer any questions you might have.

In this scenario it is extremely important that our cost of production is as competitive as possible. This year we are very fortunate to have a high quality and abundant corn crop, compared to the rest of the country. This should give us a significant advantage compared to many other ethanol plants in other regions of the country. Over the long term we must continually strive to lower our cost of production and improve our efficiencies. We also need to continue to make investments in plants that are in the upper 25% of performance in terms of cost structures and efficiencies in order to increase our overall profitability.

In the past few years we have made significant investments to reduce our natural gas usage and extracted corn oil to increase revenues. Moving forward, we plan to construct a corn storage and receiving facility to reduce our corn costs and own a facility that is more shareholder and corn seller friendly.

The ethanol industry is rapidly changing with consolidation of plants and increasing ownership by oil refining companies. With these changes, we must continually look for new opportunities to remain relevant and successful in the future.

CHIEPEWA VALLEY AGRAFUELS
SHARES FOR SALE

<table>
<thead>
<tr>
<th>Lot #</th>
<th>SHARES</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>437</td>
<td>10,000(pool)</td>
<td>$2.00</td>
</tr>
<tr>
<td>452</td>
<td>1200 (pool)</td>
<td>$2.25</td>
</tr>
<tr>
<td>453</td>
<td>7920 (pool)</td>
<td>$2.35</td>
</tr>
</tbody>
</table>

CHIEPEWA VALLEY AGRAFUELS
SHARES SOLD

<table>
<thead>
<tr>
<th>SHARES</th>
<th>SOLD</th>
<th>DATE SOLD</th>
</tr>
</thead>
<tbody>
<tr>
<td>9,900</td>
<td>$2.45</td>
<td>3/12</td>
</tr>
<tr>
<td>6,000</td>
<td>$2.60</td>
<td>3/12</td>
</tr>
<tr>
<td>10,000</td>
<td>$2.60</td>
<td>4/12</td>
</tr>
<tr>
<td>12,281</td>
<td>$2.50</td>
<td>4/12</td>
</tr>
<tr>
<td>4,950</td>
<td>$2.60</td>
<td>5/12</td>
</tr>
<tr>
<td>5,000</td>
<td>$2.50</td>
<td>5/12</td>
</tr>
<tr>
<td>5,760</td>
<td>$1.74</td>
<td>8/12</td>
</tr>
<tr>
<td>11,520</td>
<td>$1.60</td>
<td>11/12</td>
</tr>
</tbody>
</table>

New Employee:

Stephan Liljenquist - EHS Manager

I have lived in Cottonwood, MN for the past 15 years. I worked at ADM Marshall for 7 years as a refinery operator as well as the Hazmat Coordinator for the plant. I am retired from the Cottonwood fire department after 10 years and the Chemical Assessment Team based in Marshall after 5 years. I went back to school and obtained my certificate in Occupational Safety and Health from South Central College in Mankato. I then started in the safety field for Wanzek construction for 6 years at the ADM Marshall plant. I am a OSHA Construction safety trainer and am working on my General Industry trainer requirements. I have three wonderful kids ages 7, 9 and 12 and a wonderful wife who I married 19 years ago and a dog Dori, we call her Dori bell the dog from hell due to the fact she eats wire and the doorbell has been eaten a few times. My door is always open and I am available to answer any questions you might have.

Shareholder News:

1ST TRIMESTER PRICE ANNOUNCED. The price for the first trimester of FY2013 will be $6.25 per bushel plus freight and equalization.

DELIVERY NOTICES START WITH THE LETTER “I” FOR 1ST TRIMESTER. Delivery notices will begin with the letter “I” for the period beginning October 1, 2012. CVEC will be calling in 35% of corn deliveries for the 1st trimester. Open delivery will continue in place with a maximum signup of 50,000 bushels weekly. Any shareholders who own 50,000 bushels or more will continue to have two weeks in which to deliver your corn.

3RD TRIMESTER PRICE ADJUSTMENT FOR FY2012 was $1.00/bushel. The payment was sent out October 3, 2012. If you have not received your payment, please contact the CVEC office.

TAX PLANNING LETTER to be sent the week of November 19th.
The end of the 2012 calendar quickly approaches and it almost seems as if we are in a time warp. Everything is a year later, but what has really changed? Corn carryout is tight, bean carryout tight, wheat carryout stable, but with current crop issues (dryness). We keep waiting for USDA reports to supply information that will be conclusive and set market direction only to find out that there are just as many questions created as answered. The 2011-12 marketing year was interesting and volatile, prepare for more of the same.

We were very blessed to get the kind of crops that we did in this area of the country, others were not so fortunate. For about two years now we have been prepared to grow our way, thru big acres and big bushels, out of the corn and bean tightness that we have been in. Early on it looked like we could. Prices still remain high due to supply tightness, and a need to try to ration demand. In fact, prices are even higher and supplies even tighter than a year ago. Maybe the 2013-14 crop will be the one to take care of things, we’ll grow even more corn and beans on even more acres than last year. Big acres are certainly possible and very probable with prices where they are, as long as we have some protection thru crop insurance and other risk managing tools. It’s still awfully dry in many parts of the country, too dry in this market watchers opinion to start talking about 160 bushel plus national average yields for corn.

The same type of market dynamics should put us into very similar patterns as last year in regards to marketing and risk management. Moving forward Acres for 2012 will be confirmed, production for 2012 will be confirmed, 2013 acreage will be estimated, yield estimated, weather estimated. I think we’ve been here before. Volatility will be over the top even worse than last year, and as those 2013 estimates get more real with confirmed data or an advancing calendar it’s anyone’s guess what direction the price will be moving. Also, we need to consider that we have rationed demand over the last 2 years. Some of that demand base will take time to recover so markets may eventually need to over correct to incent demand back into the market if the big-acres-big-crop arrives. We’re a ways from that scenario today but be aware we can take these prices down way lower than is probably reasonable.

CVEC will be hosting a Marketing meeting at McKinney’s on the 28th of November from 9:00 am till about 11:30 am. There are invites going out and ads in some of the papers so please take that opportunity to come get some meaningful information on forward outlook. We’ll have some good information and also have some marketing tools and strategies to look at and discuss. As always, Please call, email, or text any questions you have. As you know we have developed a new tool to help with the delivery process for shareholder delivered corn- Alternative Delivery Agreement. We continue to encourage participation and we will spend some time on this at the marketing meeting as well. Please also remember for all those extra corn bushels that were grown in our area, CVEC has a strong market for them and several market options to consider. Visit the CVEC website- www.cvec.com for pricing and market information or give me a call directly to discuss.