

Bi-ENERGY ALERT

September, 2014

From the CEO's Desk

By Steve Christensen, CEO/General Manager



I know....I know....I'm sure I sound like a broken record already, but we have a very narrow focus here at Heron Lake BioEnergy. Concentrate on improving the balance sheet and paying down debt. Our interest rate following our refinancing with CoBank is less than half what it was when we started and the amount we owe to the bank has been reduced considerably.

We are in a good financial position.

Over the last year, we have also spent a lot of time, energy and resources on plant maintenance and upkeep. We want to be sure that the asset you have invested in is in the best shape possible. Following this fall's shutdown, we plan to have an aggressive preventative maintenance plan in place to keep it in the best shape possible.

As we look forward, we have a couple of challenges facing us. One is ongoing and one is on the horizon. Our ongoing challenge has been with increasing our annual permitted amount of production to 72.5 million. Currently, we are running at our permitted level of 60 million and not even breaking a sweat. The MPCA permitting process is ongoing to raise the limit. It is a very long and detailed process that we don't anticipate will be finished until sometime in 2015. The second challenge we are facing on the horizon is oversupply. We are once again beginning to see inventory building and downward pressure on margins.

It is important that going into this time period we have a strong balance sheet and a plant that is in the best shape possible; both of which your Board of Directors and management have achieved.

Thanks, Steve

Pump Prices Drop. Could Drop Further With More E15

ACE Senior VP Ron Lamberty notes that more E15 in the fuel mix provides advantages for both consumers and gas station owners.

Lamberty encourages retailers to take note of the growing number of vehicles that can use E15. "E15 use is covered under warranty for most cars and light trucks sold in the U.S. for the 2013, 2014, and 2015 model years, and some automakers approve it for 2012 vehicles. That's 30 million vehicles or more, and that number will grow every year. EPA has approved E15 for use in all cars and light trucks from model years 2001 and newer, which is getting close to 200 million vehicles."

"This is exactly why Big Oil fights so hard and spends so much time and money to convince EPA and elected officials that the 10% "blend wall" is real, and why they have contract restrictions that prevent branded stations from offering E15. It's not the 5% market share that could be taken by E15 that worries Big Oil - it's what competition for that 5% does to the prices they can charge for the rest of the gallon. More ethanol means lower prices." said Lamberty.

Source: Ethanol.org

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Financial Forum



By Stacie Schuler, CFO

Happy Harvest from the Finance and Administration Staff!

We have filed the 3rd quarter Form 10-Q for the fiscal quarter ended July 31, 2014. The reports can be viewed by following the "SEC Filings" link that is located on the left side of our website (www.heronlakebioenergy.com). We have had a very good year as you will see on the financial reports. The net income for the nine months ended July 31, 2014 is \$18.9M, and the long term debt is now below \$10M! Please take some time to read through the report. Give us a call if you need assistance in obtaining the report.

For those of you who are interested in the unit trading activity, or wish to buy or sell units, please follow the "Trading Capital Units" link on our website. By following the link to the FNC Ag Stock website, you will see units listed for sale, recent sales and offers to buy.

SPECIAL NOTE TO NON-MINNESOTA RESIDENTS:

AWC forms will be mailed to our non-Minnesota resident investors by the end of October. We ask that you have these returned to us as soon as possible once you receive them, but no later than December 26th. For those of you that do not send back your signed AWC forms, we will be filing our return and paying to the State of Minnesota on your behalf at the maximum state tax rate. Please give us a call if you have any questions regarding the AWC forms.

As always, we ask that you please notify us if you have had any change of address this past year. We want to be sure that all information is addressed correctly so it reaches you timely.

Stacie Schuler, CFO

**This newsletter contains forward-looking statements that involve future events, our future performance and our expected future operations and actions. In some cases you can identify forward-looking statements by the use of words such as "may," "should," "anticipate," "believe," "expect," "will," "plan," "future," "intend," "could," "estimate," "predict," "hope," "potential," "continue," or the negative of these terms or other similar expressions. These forward-looking statements are only our predictions and involve numerous assumptions, risks and uncertainties. Our actual results or actions may differ materially from these forward-looking statements for many reasons, including the reasons described in our filings with the Securities and Exchange Commission. Please access our reports at www.sec.gov for more information.*

We are not under any duty to update the forward-looking statements contained in this newsletter. We cannot guarantee future results, levels of activity, performance or achievements. We caution you not to put undue reliance on any forward looking statements, which speak only as of the date of this newsletter. We qualify all of our forward-looking statements by these cautionary statements.

Heron Lake BioEnergy, LLC resumed unit trading on January 1, 2014. FNC AgStock, LLC serves as the Qualified Matching Service. Information regarding the trading service is posted on our website.

Commodity Central



By Eric Baukol, Risk Manager

Greetings HLBE investors!

My kids are back in school, the fields are starting to turn, I've been to a couple of high school football games, and have seen some sugar beets being picked, so fall is clearly upon us.

Please remember to be careful out there as the roads now have additional traffic via school busses, kids standing at bus stops, and will soon have harvest traffic going full speed ahead.

On September 11th, we got a look at the September WASDE report, which showed an expected yield of 171.7 bushels per acre for an expected production of 14.395 billion bushels of corn. With a 2013/14 carry in of 1.18 billion bushels and an estimated use of 13.6 billion bushels, the USDA expects a carry out for the 2014/15 crop year of 2 billion bushels. The corn market has been trending lower since the fall of 2012, and based on these reported numbers there is enough corn around to limit higher moves. That being said, the corn market is large, developed, and international and I would expect that the corn market will be able to buy demand in an efficient manner at lower flat price levels.

On the ethanol side it is a bit different. Ethanol remains the cheapest octane in the world, but how efficient will the market be when it is time to buy demand? There really are two ways that we can increase demand for ethanol; higher level blends in domestic gasoline (E15, E85, blender pumps), or through exports. Higher level blends obviously benefit everyone reading this as they are cheaper than standard E10 and have proven to be great fuels, but there remain some regulatory hurdles at the federal level and at individual state levels that have made widespread availability of E15 difficult thus far. The export market has been critical in the last couple of years to sustain a positive market for ethanol, while the industry has out-produced our domestic needs. In the absence of higher level blends, it appears that we will continue to produce more ethanol than we can utilize domestically, as plants that have been off line for an extended period of time are now producing ethanol again. This will likely test the world's appetite for ethanol as well as test our domestic logistics as we look ahead to 2015.

Have a safe and prosperous fall,

Eric Baukol

According to the Minnesota Department of Agriculture, the state is the third largest producer of DDG in the country with 2.95 million metric tons produced in 2011. In fact DDG comprised 30% of total animal feed in Minnesota that year.

Source: mnbiofuels.org

From The Board



By Paul Enstad, Chairman of the Board of Governors

Hello to all HLBE owners!

The summer season seemed to go by quickly this year. Perhaps it was because it was a cooler summer than some have been as last summer was exceptionally warm. As I write this article, there is quite a chill in the air already. Since our last newsletter, we have been busy at Heron Lake BioEnergy. Revenues and profit margins have been very strong. We have been busy gearing up for the long term viability of the refinery, by paying down debt and getting the plant into good working order. Your ethanol plant operates very efficiently with exceptional yields. As we talked about at the annual meeting in March, our plans were to reduce our debt load. We have done that and it is possible that this plant will be debt free in the not too distant future.

These are exciting times for the industry and for Heron Lake BioEnergy. We should all be happy to be part of it. Your Board of Governors has chosen to take matters in stride and reduce the debt load to protect your investment. Share values have increased dramatically. I would like to say thanks to all who provided the funds to keep the plant operational during the tough times not long ago. Your persistence has paid off along with a good strategy to keep the plant in good hands. The decision to allow Granite Falls Energy to invest as a majority owner was a great part of this process.

We have a good steady corn supply and corn costs have come down substantially from just a year ago. The nation also had an exceptionally good driving demand season. The companies that blend the ethanol into our nation's gasoline are also making good margins and this bodes well for ethanol producers.

Our risk management strategy is working quite well. Our conservative approach has always won out in the long run and it is time proven. When profit margins can be realized, we are fairly quick to take advantage of them. Your management team has done its job and the employees have great experience and focus for your company. The teamwork and morale are very good. It has been a turnaround year for Heron Lake BioEnergy!

Our plant was built in a good location. We have not experienced the huge rail logistical bottlenecks that we have heard about. The only hold up right now is getting our permit in place to produce more gallons. We are currently producing to full capacity and our current permit will not allow us to produce any more gallons. Our fiscal year is winding down and it has been a good one. The third quarter results are filed and you can view them on the SEC website. You can link to it on the Heron Lake BioEnergy website and I encourage you to do so. We all know that this is a cyclical business. We have had a fantastic year and as I stated, we should be positioned very well for when margins tighten.

Paul Enstad, Chairman, Heron Lake BioEnergy

The Plant Prospective



By Brodie McKeown, Plant Manager

Hello again! Where has the summer gone? I am surely not the only one asking that question. The summer months have kept us very busy at HLBE. Grounds keeping,

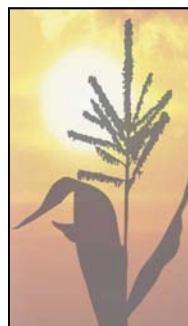
along with a few concrete and containment upgrade projects, were ongoing. Our fermentation and beer mash/coolers were changed out over the course of the summer. We cleaned, replaced gaskets and added plates to some units which will improve efficiency.

One of the main focuses was on the planning and execution of our September Maintenance outage. Two major projects drove the time line. The first and largest was to install two VFD's (Variable Frequency Drives) to the 1500 H.P. and 900 H.P. boiler fans. These fans were originally run wide open to create enough air pressure to fluidize a sand bed to combust the coal. After our conversion to natural gas, we needed to dampen the fans mechanically to reduce that air pressure and create less draft. The VFD's will now slow the motors down allowing them to draw less energy. This project will provide HLBE with significant electrical savings going forward. The second project was the installation of a new slurry blender. We had to remove a portion of the process roof and use a crane to remove the old blender and install the new one. At almost 12,000 pounds, it was quite the sight to see the new blender being set in place of the old unit that was getting worn out. We opened and inspected most all of our vessels and conveyors, repairing or replacing components as necessary. A big thanks and congratulations goes out to the crew here at the plant. They put in long hours planning and working the shutdown and startup of the facility. We accomplished this on the estimated timeline and most important of all, SAFELY!!!

Plant operations have run very smoothly for the last six months. Four of the six have been record production, March set the record and when May was finished up we had set a new production mark. As always, we continue to focus on efficiency and investigate new technologies to see if there is a fit here at HLBE. Once again, I would like to take the time to thank and acknowledge all the staff here at HLBE. Without their attention to detail and focus on safety, this plant would not run as well as it does!

I wish all of you an enjoyable fall and a safe harvest for everyone in the fields.

Brodie McKeown, Plant Manager



Corn Receiving Hours

Monday - Friday
7:30 a.m. – 4:00 p.m.

By-Product Loading

Monday - Friday
7:30 a.m. – 4:00 p.m.



“Integrating
Energy & Environment”

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E-mail: info@heronlakebioenergy.com

OFFICE HOURS
8:00 a.m. to 5:00 p.m.

We're on the web:
www.heronlakebioenergy.com

**HLBE is accepting
nominations for two
positions on the
Board of Directors.**

**Please click on
Nomination Questionnaire
on the left side of the
HLBE website and fill out
the *Governor Nominees
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