

## **HERON LAKE BIOENERGY, LLC**

### **GOVERNANCE GUIDELINES**

The following Governance Guidelines have been adopted by the Board of Governors (the “Board”) of Heron Lake BioEnergy, LLC (the “Company”) to assist the Board in the exercise of its responsibilities. These Governance Guidelines are not intended to change or interpret any federal or state law or regulation, including the laws of the State of Minnesota, or the Articles of Organization or Member Control Agreement of the Company.

### **MISSION AND RESPONSIBILITIES OF THE BOARD**

#### *Mission Statement*

The Board’s primary objective is to maximize long-term member value and to assure the vitality of the Company for its owners, employees, customers and the other individuals and organizations who depend on the Company.

#### *Responsibility of the Board*

The business and affairs of the Company shall be managed by or under the direction of the Board. In furtherance of its mission, the Board delegates certain authority to management. Management is responsible for managing the Company, not the Board. The Board also advises management with respect to strategic plans and expects and requires that the Company’s management and employees operate in a legal and ethically responsible manner.

Each governor is expected to spend the time and effort necessary to properly fulfill his or her responsibilities, including regularly attending meetings of the Board and committees on which he or she sits, with the understanding that on occasion a governor may be unable to attend a meeting. A governor who is unable to attend a meeting is expected to notify the Chairman of the Board or the Chairman of the appropriate committee in advance of such meeting.

### **BOARD COMPOSITION, INDEPENDENCE AND VOTING FOR GOVERNORS**

#### **1. Size of the Board**

Pursuant to the Company’s Member Control Agreement, the number of governors serving the Company immediately following the annual meeting of the members held in 2011 shall be nine (9) governors.

#### **2. Mix of Inside and Non-Employee Governors**

The Board believes that as a matter of policy there should be a majority of independent, non-employee governors on the Company’s Board.

**3. What Constitutes Independence for Non-Employee Governors**

The Company incorporates the definition of independence as provided in Rule 5605(a)(2) of the listing standards of the Nasdaq Stock Market, as amended from time to time, provided that audit committee members shall not be subject to the additional independence requirements for audit committee members under Rule 5605(c)(2)(A)(ii), although the Board or the Nomination and Governance Committee may consider such additional independence requirements when considering Board independence and Board membership generally.

**4. Board Membership Criteria**

The Nomination and Governance Committee is responsible for reviewing with the Board on an annual basis the appropriate skills and characteristics required of Board members, taking into account the needs of the Company and the Board of Governors. Prospective nominees shall be evaluated against the following standards and qualifications:

- Background, including demonstrated high personal and professional ethics and integrity; and the ability to exercise good business judgment and enhance the Board's ability to manage and direct the affairs and business of the Company;
- Commitment, including the willingness to devote adequate time to the work of the Board and its committees, and the ability to represent the interests of all members and not a particular interest group;
- Board skills needs, in the context of the existing makeup of the Board, and the candidate's qualification as independent and qualification to serve on Board committees;
- Diversity, in terms of knowledge, experience, skills, expertise, and other demographics which contribute to the Board's diversity; and business experience, which should reflect a broad experience at the policy-making level in business, government and/or education.

The Governance Committee also considers other relevant factors as it deems appropriate.

**5. Selection of New Governor Candidates**

The Governance Committee is responsible for selecting candidates for membership to the Board.

**6. Extending the Invitation to a New Potential Governor to Join the Board**

An invitation to join the Board should be extended by the Chair of the Governance Committee.

7. Term Limits

The Board does not believe it should establish term limits. The Governance Committee shall consider the issue of continuing governor tenure in connection with each governor nomination and take appropriate steps to ensure that the Board maintains an openness to new ideas and a willingness to critically re-examine the status quo.

8. Change in a Governor's Principal Employment

A governor whose affiliation or position of principal employment changes substantially after election to the Board will volunteer to resign from the Board, and the Governance Committee shall determine whether the governor's continued service is appropriate under the circumstances.

9. Retirement of Governors

A governor will resign from the Board effective the date of the member meeting following said governor's 72nd birthday, unless the Governance Committee and the Board specifically waive this requirement.

10. Limit on Number of Governorships

The Company has a guideline that non-employee governors should serve on no more than four Boards of other publicly owned companies (no more than two Boards of other publicly owned companies for any officer of the Company), provided such service does not adversely affect the governor's ability to perform his or her duties to the Company. On a case-by-case basis, the Board of Governors may approve, in its discretion, service by a non-employee governor on more than four Boards of other publicly owned companies.

11. Loans

Personal loans to governors and executive officers are not permitted.

## **COMMITTEES**

12. Number of Committees

The Board has the following standing committees: Audit, Compensation, Nomination and Governance, Finance and Planning, and Marketing and Risk Management. The Board has the flexibility to form a new committee or disband a current committee. It is the preference of the Board that a majority of the members of the Audit, Compensation and Governance Committees be independent under the definition of independence adopted under paragraph 3 above.

**13. Assignment and Rotation of Committee Members**

The Board, upon recommendation of the Governance Committee, designates the members of the committees taking into account the desires of individual Board members. The Chair of each committee shall be elected by majority vote of the committee's members.

It is the sense of the Board that consideration should be given to rotating committee members periodically, but the Board does not feel that such a rotation should be mandated as a policy since there may be reasons at a given point in time to maintain an individual governor's committee membership for a longer period or to shorten the period.

**14. Frequency and Length of Committee Meetings**

The Chair of each committee, in consultation with its members and invited management or other guests, determines the frequency and length of the meetings of the committee.

**15. Committee Agenda**

The Chair of each committee, in consultation with the appropriate members of the Board, management and staff, will develop the committee's agenda.

**BOARD OPERATIONS AND PERFORMANCE**

**16. Selection of Agenda for Board Members**

The Chair of the Board will establish the agenda for each Board meeting.

Each Board member is free to suggest the inclusion of items on the agenda. Each Board member is free to raise at any Board meeting subjects that are not on the agenda for that meeting.

**17. Board Materials Distributed in Advance**

Information and data that are important to the Board's understanding of the business should be distributed in writing to the Board before the Board meets. Management will make every attempt to see that this material is as complete and concise as possible.

**18. Presentations**

As a general rule, presentations on specific subjects should be sent to Board members in advance so that Board meeting time may be conserved and discussion time focused on questions that the Board has about the material.

**19. Regular Attendance of Non-Governors at Board Meetings**

The members of the Board and/or the CEO may invite senior officers to attend Board meetings.

20. Board Interaction with Institutional Investors, the Press, Customers, Etc.

The Board believes that management speaks for the Company. Individual Board members may, from time-to-time, meet or otherwise communicate with various constituencies that are involved with the Company, but only at the request of management.

21. Board Interaction with Interested Parties

The Board will establish a means for the members, employees, and other interested persons to communicate with the Board of Governors, any committee of the Board and any individual governor, including a means by which concerns about accounting, internal controls over financial reporting, and auditing matters, may be submitted on a confidential and anonymous basis. The Board will also establish a process for reviewing and addressing communications from such parties.

22. Executive Sessions of Non-employee governors

The non-employee governors will meet at least twice a year in executive session in conjunction with regularly scheduled Board meeting.

23. Board Access to Senior Management, Auditors and Counsel

Board members shall have complete access to the Company's management, auditors and outside counsel.

It is assumed that Board members will use judgment to be sure that this contact is not distracting to the business operation of the Company and that such contact, if in writing, be copied to the Chair of the Board.

Furthermore, the Board encourages management to bring managers into Board meetings as needed to: (a) provide additional insight into the items being discussed because of personal involvement in these areas, and/or (b) represent managers with future potential that senior management believes should be given exposure to the Board.

The Board has authority to retain outside counsel of its choice with respect to any issue relating to its activities.

24. Board Compensation Review

Changes in Board compensation, if any, should come at the suggestion of the Compensation Committee, but with full discussion and action by the Board.

25. Assessing the Board's Performance

The Governance Committee is responsible for reporting annually to the Board an assessment of the Board's performance. If the Governance Committee so desires, it may be assisted by an outside consultant in making its assessment of the Board's performance.

The Board assessment will be discussed with the full Board. This should be done following the end of each fiscal year. This assessment should be of the Board's contribution as a whole and specifically review areas in which the Board and/or the management believes a greater contribution could be made.

## **LEADERSHIP DEVELOPMENT**

26. Selection of the Chief Executive Officer

The Board shall be responsible for identifying potential candidates for, and selecting, the Company's CEO. In doing so, the Board shall consider, among other things, a candidate's experience, understanding of the Company's business environment, leadership qualities, skills, integrity, reputation in the business community, and willingness to devote the necessary time and effort to make the Company successful.

27. Formal Evaluation of the Chief Executive Officer

The Governance Committee shall have the responsibility of establishing a CEO evaluation process, which shall be implemented by the Compensation Committee.

The full Board (non-employee governors) will review the CEO at least annually. Such review will be subsequent to the recommendations from the Compensation Committee with respect to long and short term compensation goals and performance of the CEO. The results of the review process will be communicated to the CEO by the Chairs of the Governance and Compensation Committees or as otherwise determined by the Board.

The evaluation should be based on objective criteria including performance of the business, accomplishment of long-term strategic objectives, development of management and development of management succession.

28. Strategic and Succession Planning and Management Development

The Board shall review and discuss on an annual basis the Company's annual and longer-term strategic plans, succession planning and management development.

29. Orientation and Continuing Education of Board Members

The Company will conduct an orientation program for new governors following the meeting at which the new governor is elected. The orientation will include presentations by senior management with respect to the Company's principal businesses, strategic plans, financial reporting and its auditing processes. The Board encourages its members to annually attend corporate governance and governor education programs.

30. Code of Conduct

The Company has adopted a Code of Ethics that applies to all employees and governors.