

HERON LAKE BIOENERGY, LLC
MEMBERSHIP UNIT TRANSFER AND TRADING SYSTEM

All transfers of membership units of Heron Lake BioEnergy, LLC must be completed in accordance with the guidelines set forth herein, as it may be amended from time to time by Heron Lake BioEnergy's Board of Governors (the "Board of Governors" or the "Board"). This Transfer and Trading System (the "System") is adopted pursuant to the authority vested in the Board by the Member Control Agreement adopted and agreed to by the members of Heron Lake BioEnergy.

It sets forth certain rights and obligations of the members and the Board, but is not intended to, and does not, impose any requirements upon any third party, including, without limitation, any alternative trading service.

I. General Requirements

- A. No Default.** A person desiring to transfer membership units must be current and not in default of any obligation owed Heron Lake BioEnergy.
- B. IRS Rules.** This System shall be operated so as to prevent Heron Lake BioEnergy from being classified as a publicly traded partnership under Section 7704 of the Internal Revenue Code of 1986 and the corresponding regulations promulgated thereunder (collectively "the Code"). Any interpretation of the provisions of this Trading Service shall be conducted in accordance with this requirement.
- C. Member Control Agreement.** Any transfers of membership units must comply with Heron Lake BioEnergy's Member Control Agreement (the "Member Control Agreement"), in addition to the requirements set forth in this Trading Service.
- D. Minimum Ownership Requirements.** Each member must own at least twenty five hundred (2,500) membership units.
- E. Minimum Transfer Requirement.** All transfers must be completed in whole unit increments.
- F. Board Approval.** At the end of each quarter, the Board of Governors will review all private transfer request forms, contracts for sale and other requisite documents provided by transferors and transferees. The Board has the right to approve or reject any proposed transfers or sales in its discretion; provided, however, that the Board is not authorized to approve any transfer or sale that would result Heron Lake BioEnergy being treated as a publicly traded partnership under the Code or that does not otherwise comply with the provisions of the Member Control Agreement.
- G. Effective Date.** All sales and transfers shall be made effective upon the first day of the quarter following the date the transaction is approved by the Board. Heron Lake

BioEnergy's trading quarters shall begin on January 1, April 1, July 1, and October 1 of each calendar year.

H. Transfer Agent. The Board of Governors may designate a transfer agent (the "Transfer Agent") to keep Heron Lake BioEnergy's records of membership units ownership and to complete the transfer of membership unit certificates and other necessary membership documents. All relevant information required to complete the transfer of membership units on Heron Lake BioEnergy's books and records must be provided to the Transfer Agent. The Transfer Agent shall be responsible for verifying that all information and authorizations necessary under the Member Control Agreement to complete a sale or transfer has been received and that the membership units are eligible for sale or transfer. If no transfer agent is designated by the Board, then Heron Lake BioEnergy shall serve as its own transfer agent and the Board shall carry out or delegate the duties of the Transfer Agent set forth herein.

II. Transfers of Membership Units

A. Permitted Transfers. A person may transfer the person's membership units only if the transfer is a private transfer described under Section B below or if the transfer is completed through the Trading Service described under Section C below.

B. Private Transfers.

1. A private transfer shall mean one of the following:
 - a. A transfer by gift in which the transferee's tax basis in the units transferred is determined by reference to the transferor's tax basis in the units transferred;
 - b. Transfers at death, including transfers from an estate or testamentary trust;
 - c. Transfers between members of a family (as defined by Section 267(c)(4) of the Code, which provides that "family" means only a person's brothers and sisters (whether by whole or half blood), spouse, ancestors and lineal descendants);
 - d. Transfers involving the issuance of units by or on behalf of the Company in exchange for cash, property or services;
 - e. Transfers involving distributions from a retirement plan qualified under Section 401(a) of the Code or an individual retirement account;
 - f. "Block" transfers, meaning the transfer of membership units representing in the aggregate more than 2% of the total issued and outstanding membership units in one or more transactions during any 30 calendar day period by a person and any related persons (within the meaning of Section 267(b) or 707(b)(1) of the Code, which provides generally that "related persons" includes, among others, members of a family, an individual and an entity majority-owned by such individual, two entities that are majority-owned by the same persons, the grantor and fiduciary of

- a trust, the fiduciary and beneficiary of a trust, and the executor and beneficiary of an estate);
- g. Transfers pursuant to a right of redemption or repurchase agreement meeting certain requirements;
 - h. Transfers pursuant to a closed end redemption plan meeting certain requirements;
 - i. Transfers by one or more members of units representing in the aggregate 50% or more of the total units of the Company in one transaction or a series of related transactions; and
 - j. Transfers permitted in the sole discretion of the Company's Board of Governors, provided that the sum of the units transferred (other than pursuant to one of the private transfers above or through the Trading Service described under Section C below) during the Company's taxable year does not exceed 2% of the total units of the Company.
2. All private transfers shall be completed in accordance with the following procedures:
- a. The holder of membership units must complete and submit to the Board of Governors:
 - A completed Private Transfer Application;
 - The membership unit certificate(s) or an affidavit of lost certificate;
 - An executed counterpart signature page to Heron Lake BioEnergy's Member Control Agreement for each transferee that is not already a member;
 - Copies of all relevant documents that will assist the Board of Governors in determining if the transaction qualifies as a private transfer;
 - b. The Board of Governors will determine whether the transfer qualifies as a private transfer;
 - c. If the transfer qualifies as a private transfer and is approved by the Board, the Board will do or direct its Transfer Agent to do the following:
 - Cancel the membership unit certificate(s); and
 - Issue a new membership unit certificate(s); and
 - d. If the transfer does not qualify as a private transfer, the Board of Governors will notify the transferor that the transfer does not qualify and return to the transferor the documents identified in subsection (a) above.

C. Operation of Trading Service.

1. A person intending to transfer membership units, other than in a private transfer, must do so through the Trading Service established by the Board of Governors.

2. Trading will be conducted through a third-party trading service which will be owned, operated, and maintained as an alternative trading service under Regulation ATS by a registered broker-dealer (the "Trading Service Operator"). The Trading Service will be accessible through and by telephone, the internet, email or in person that will permit buyers and sellers to trade membership units of Heron Lake BioEnergy on a periodic basis pursuant to specific rules and procedures mutually agreed upon between Heron Lake BioEnergy and the Trading Service Operator. The specific rules and procedures relating to posting or listing membership units for sale or purchase on the Trading Service, matching offers to buy and sell membership units, timing, payment and delivery shall be set forth under a separate Trading Service Agreement and Operational Manual to be adopted by Heron Lake BioEnergy and the Trading Service Operator.
3. The responsibilities of the Trading Service Operator are set forth solely in the Trading Service Agreement, the Operational Manual and Regulation ATS. The Trading Service Operator is not responsible in any way for enforcing the provisions of this Trading Service. In addition, nothing in the Trading Service Agreement or Operational Manual shall be construed to prevent a subscriber (as that term is defined in SEC Regulation ATS) from trading outside the trading service.
4. Member Control Agreement requirements and IRS restrictions that do not relate to procedures set forth in the Operational Manual shall be governed and enforced by the Board pursuant to the authority vested in the Board by the members in the Member Control Agreement.