



SIUXLAND ETHANOL LLC UPDATE

Take Count - Analyze – Push On

An Overview from Nick Bowdish
President & CEO



The opportunity to make a profit in the ethanol industry this past quarter was pretty slim. Nonetheless, many good things happened at Siouxland Ethanol during the quarter:

1. Safe Track Record, 544 days and counting since the last lost time accident
2. Record Production Volume
3. Ethanol yield above 3 gallons per bushel
4. Record dry land corn yields locally
5. Single day corn receipts surpassed 300,000 bushels

Ethanol industry profitability will remain muted until midlevel ethanol blends or international trade open a new door in ethanol demand. Midlevel ethanol blend economics are not very attractive right now as a result of EPA granting small refinery waiver exemptions. In addition to that, the United States has record stockpiles of gasoline and correspondingly low gas prices. The importance of international trade with China and other countries is paramount for the financial health of the US etha-

nol industry and agricultural sector.

The ethanol industry produced 16.05 billion gallons of fuel ethanol in 2018. I estimate total ethanol demand was 16.03 billion gallons, derived from 14.6 billion gallons inside the United States and 1.43 billion net gallons outside our country. We exported 1.7 billion gallons of ethanol but turned around and imported 270 million gallons, mostly from Brazil into California based on its favorable treatment under the Low Carbon Fuels Standard. Of the 1.7 billion gallons shipped outside the United States, Brazil took nearly 500 million gallons and Canada purchased about 400 million gallons. China bought 50 million gallons very early in the year before the trade war escalated and the Chinese raised the import tariff to 70% on US ethanol.

The ethanol industry has the capacity to produce 16.9 billion gallons of fuel ethanol per year right now. 850 million gallons of that capacity was not utilized in 2018 due to unfavorable economics – that is the equivalent of 300 million bushels of corn. Almost 1.5 billion gallons of ethanol production capacity was not utilized during the first two weeks of January 2019 for the same reason, unfavorable economics. The industry does not need 16.9 billion gallons of demand to return to reasonable margins. I expect a 400 million gallon increase from 16.03 to 16.43 billion gallons in annual demand would light up the earnings for all ethanol producers.

As I already stated, China bought 50 million gallons of ethanol from the US in 2018. Their largest historical volume purchased was 180 million gallons in 2016. If politics were set aside, their appetite for US ethanol would be enormous. China's gasoline demand is about 44 billion gallons per year and growing. China set a goal of blending ten percent ethanol into their gasoline by the year 2020. They blend about 3 percent ethanol today.

China produced 1.1 billion gallons of ethanol in 2017 and had about 1 billion gallons of new capacity under construction, so their estimated production capacity is about 2 billion gallons today. China needs to be importing 2.4 billion gallons from the rest of the world to meet their blending goals and politics/tariffs are the only reason why the US is not shipping substantial volumes of ethanol to them today. The magnitude of this opportunity is why trade with China is paramount for our industry and all of agriculture.

While engaged at the macro level, Siouxland Ethanol will continue to focus on what it can control: Cost Structure. Carbon Intensity. Co-Product Diversification. Each one of these categories receives a significant amount of my time and attention. The company is developing plans that I anticipate will have a positive impact on our future.

Siouxland Ethanol has unlocked much potential in recent years, yet the industry is young enough for new value propositions to evolve. That is what makes this an exciting company and time!

ANNUAL MEETING

Thursday, March 28, 2019 | 5:30p.m.

Doors open at 5:30 pm | Dinner served at 6:00 pm | Program commences at 7:00 pm.

Venue: Delta Hotels by Marriott Ballroom, 385 E 4th Street, South Sioux City, NE

Guest speaker: Nebraska Governor Pete Ricketts (invited)

Company Update: Nick Bowdish, President and CEO of Siouxland Ethanol

Please RSVP to amy.williams@siouxlandethanol.com by March 1, 2019



Patience is a Virtue

Pam Miller *Board Chair and Director of Industry and Investor Relations*



As I write this column, it's necessary to remember that patience is a virtue. I reread my column from last fall's newsletter and remembered

the excitement we felt that the waiver for E15 was to be forthcoming. At this time, we continue to wait for EPA to complete their work and issue a proposed rule which has been promised to come out in February. After that, a 45 day comment period will begin; after which the rule will be modified, if necessary, and then issued as final. If this timeline holds true, it is indeed possible to have this work completed and the waiver in place prior to the beginning of the summer driving season on June 1.

The good news is that we know EPA has already done the background work on this. Our trade associations have given them several different legal

rationales to use in the rule. According to a top EPA official, the draft for the E15 waiver was complete this summer. This is not a new issue and the EPA is completely familiar with the need and the science to back this up.

The government shutdown has not helped but then again, the work has probably been completed already. EPA's acting administrator, Andrew Wheeler, said publicly that there should be no delay in issuing the waiver by the end of May. Bill Wehrum, director of EPA's assistant administrator for Air and Radiation, was quoted on Jan. 25 as saying, "I still think we can get the rule done in time and what I mean by that is get the rule in place by start of the summertime".

Many people are confused about the need for a waiver for E15. In places where E15 hasn't been offered, people are in the dark. Here in the Midwest, the E15 pumps haven't changed except for the labeling which was required by the EPA during the summer months that said E15 was to be used from June 1 through September 15 in Flex Fuel Vehicles only. When the E15 waiver

is final, that label will no longer be required.

The big issue with needing the E15 waiver has been on the retailer side of the equation. As we all know, it is hard to find E15. Not many convenience stores carry E15. The store manager doesn't want to mess with having to change labels and the store owner has been frightened off by the negative/false news about E15. It's also been hard to obtain E15 from the terminals which are controlled by the oil companies.

Big Oil has upped their ante in this game and has doubled down on their efforts to spread false information about E15. Fortunately, all of the ethanol trade organizations have been focused on this issue with the same message. The public relations and marketing of E15 in the Washington, DC and East Coast areas is well underway by RFA.

We are all working with retailers to tell them the advantages of offering E15 (and higher blends). The States of Iowa and Nebraska are looking at legislation to increase funding for blender pumps to help the retailers in our states offer the ethanol blend that we all want and deserve.

Keep pushing for E15 and for clean air!

Help Push for Cleaner Fuels

Ask for More Ethanol Blends

In 2018, Ethanol replaced **8 billion gallons** of cancer causing toxics in gasoline.

That means fewer emissions and cleaner air!

www.FixOurFuel.com



FINANCIAL REPORT

SUMMARY OF OPERATION NOTES

- Total revenues higher compared to same period 2017 due to increased plant outputs combined with higher prices received on distillers grain
- Gross profit down due to a 17% decrease in crush margins over the same quarter 2017, driven primarily by recent low ethanol netbacks.

BALANCE SHEET NOTES

- Working capital and members' equity down mainly the result of the \$3,000/unit (totaling \$10.9MM) distribution declared and paid in late October 2018.

KEY METRICS NOTES

- Natural gas usage decreased 3.5% over same quarter 2017
- Production rates nearly 8% higher over same quarter 2017

UNIT TRADING NEWS

- 12 units traded this quarter, averaging \$26,333/unit

TAX INFORMATION Siouxland Ethanol estimates a net taxable income around \$5,800/unit for full year unit holders. We also estimate allocating a federal Research and Development tax credit around \$500/unit. Tax information forms K-1 should be completed and mailed around mid-February 2019.

Please be sure to keep Siouxland Ethanol updated on your contact information. This helps ensure you receive your distribution check, tax & other pertinent information timely. Thank you!

UNAUDITED

SUMMARY OF OPERATIONS

	3 Months Ended 12/31/2018	3 Months Ended 12/31/2017
Total Revenues	\$36,708,648	\$34,450,531
Gross Profit	\$1,486,516	\$3,434,072
Net Income	\$ 959,137	\$2,986,902
Net Income/Unit	\$264	\$821

UNAUDITED

BALANCE SHEETS

	As of 12/31/2018	As of 9/30/2018
Current Assets	\$44,240,124	\$45,102,160
Total Assets	\$95,997,796	\$95,960,464
Current Liabilities	\$16,367,056	\$6,266,432
Long-Term Liabilities	\$1,658,057	\$1,688,249
Members' Equity	\$77,972,683	\$88,005,783
Book Value/Unit	\$21,433	\$24,191

KEY METRICS

	Quarter Ended 12/31/2018	Quarter Ended 12/31/2017
Ethanol Yield (Gal/bu)	3.03	3.06
Natural Gas (BTUs/gal)	20,361	21,106
Electricity (KW/gal)	.52	.54
Corn Oil (Lbs/bu)	.97	.98
Ethanol Production (Gals/day)	262,510	243,599
Annualized Production (Gals/year)	92,666,011	85,990,584

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ACE IS ABOUT PEOPLE.

The American Coalition for Ethanol is powered by people from all walks of life who work shoulder-to-shoulder to develop new markets and mobilize grassroots support for expanding ethanol use.



Join the movement for just \$50 a year!
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 Membership includes subscription to Ethanol Today magazine

Benchmarking puts Siouxland Ethanol in #1 Spot

The most recent benchmarking report (as of 9/30/18) completed by Christianson and Associates ranks Siouxland Ethanol as #1 for Net Income on a sales per gallon basis and #2 for Net Income on a production per gallon basis. This is comparing Siouxland Ethanol to 57 other plants that participate in the quarterly benchmarking. Why is Siouxland Ethanol at the top of the leader board in terms of earnings per gallon? We attribute it to the following:

- A strong ethanol netback driven by a low carbon index score that allows us to sell into the California market at a very favorable price
- A reasonable corn basis in

this part of the Midwest

- A good cost structure that rewards the company for expanding the plant to achieve economies of scale
 - Strong people. Our employees are second to none and are the reason for these results!
- While the current market conditions are not as strong, we are confident that these factors listed above will continue to return good results for Siouxland Ethanol.





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Our Mission

To be an efficient producer of ethanol and its co-products with a low carbon footprint, and to promote the "clean octane" value of ethanol which will ensure long-term profitability for the industry and the investors in Siouxland Ethanol.

We would be happy to distribute the newsletter and other vital information to you by email if you wish. Please send a note to amy.williams@siouxlandethanol.com with your email address.



Got Corn?
To sell corn or buy
DG products, call Kasey or Jana
402-632-6206

FAKE NEWS

In our effort to identify FAKE NEWS and give you accurate information, let's talk about using higher blends of ethanol.

I heard that you should always use the same fuel in your car? Fake News!

You can use E15 or higher in your car when it's available. When you can't find a station with E15 or higher, you can use E10. Your car's engine will run fine. What does happen when you use a consistent fuel like E15 or higher is your car's engine will adjust to the level of oxygen in the fuel and maximize its performance (i.e., mileage). It's advised to use three tanks of the same fuel/ethanol blend before you compare mileage results.

Always use an additive to avoid gas lines freezing in the winter if you live in cold weather. Fake News!

The fact is ethanol acts as a gas line antifreeze, helping reduce wintertime issues. You don't need to buy over-the-



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counter additives such as de-icers to prevent water, which collects in your fuel system, from freezing in your gas line. The higher the blend of ethanol, the better job your fuel will do in your vehicle during these winter months.

Aromatics work just as well as ethanol as an oxygenate in gasoline. Fake News!

Aromatics, which is a fancy word for nasty chemicals including benzene, xylene and toluene, are known to cause cancer. No level of aromatics is good for our health. Oil companies started using aromatics to get oxygen in their fuel af-

ter they were forced to quit using MTBE and before that, lead. Higher blends of ethanol reduce the amount of aromatics. Ethanol is a pure compound that is 35 percent oxygen. It burns more cleanly and completely than gasoline with aromatics.

But what about octane? Don't I need an ethanol-free fuel for better performance? Fake News!

Ethanol has a superior octane rating of 113-114, much higher than aromatics. This means better performance for your vehicle than fuel that contains higher levels of aromatics.