



The

DISPATCH

STEVE'S REMARKS Comments from our GM

The first quarter of our 2019 fiscal year presented challenges for the company. Margins were under pressure to be blunt and at points in time were almost brutal as the financials posted in Gary's report will attest. It's a known fact that production capacity has grown over the past 4 years either through plant expansion or de-bottle necking and has relied on foreign demand to maintain a supply/demand equilibrium. The industry was looking at the 15 billion RFS requirement and export demand that clearly showed a path that allowed production in the 16.5-billion-gallon range which allowed the ability for us to maintain profitability and not flood the market with excess production. The small refinery waivers granted in 2018 took away about 1.6 billion gallons of the 15.0 billion gallons of demand written into the RFS and even though export demand set new records, stocks grew to burdensome levels, hence the situation we have today. The industry reacted by reducing production which has helped stabilize the industry. Everyone is operating below cost of production and most likely will be until we get into summer driving season. I do look for some relief during this summer, but I do not want to create unwarranted optimism. Our ability to generate a profit is going to be under pressure in 2019. I can assure you the company is currently looking at options to diversify the

company's revenue stream and make us less dependent upon the ethanol portion.

I wanted to update you on our incident that occurred in mid-November when an explosion occurred that did destroy our steam production unit and the Regenerative thermal oxidizer in our original plant built in 2003. Some if not all of you are wondering exactly how this occurred. I will attempt to outline the incident and the time table. I may be off a minute or 2 in the timing, but I think my explanation will give you a good overview.

11:19 pm. A cooling tower pump motor in our distillation tower went to ground. i.e. Complete motor failure. This shut down cooling in distillation. The motor failure tripped power distribution point 4 which shut down power in side 1 energy center. The steam unit and the RTO are now both down. Side 2 of our plant continued to run. With the distillation cooling tower down, we did not have "cooling in distillation for either sides distillation system". The distillation systems for both sides pressure up without cooling which pushed alcohol vapors off distillation into the side 1 ductwork and side 2 but remember side 2 is operating. If the steam generating unit had been operating on side 1 the vapor would have been

combusted. If the cooling tower had been operating the distillation system would not have pressurized and vapor would not have flooded the ductwork. In this case the system pressurized, and the combustion unit was down.

11:41pm. The explosion occurred

We are fortunate no one was hurt. People were in and out of that area during those 20 minutes doing what they are trained to do. The lord was looking out for us, I am convinced. We have equipment ordered to repair the plant and have it back to normal by July 1, 2019. We are operating at about 150-153-million-gallon annual production rate today. Prior to the incident, we were producing close to 164 million gallons on an annual basis. Everyone has done an excellent job getting us where we are today. Stay warm!!!



Steve Roe
General Manager

Winter has arrived across the Midwest



Jake Wetter
Grain Merchandiser

Seems like the more than the ground is frozen this winter. Corn prices have been stuck between \$3.40 - 3.60 cash the last 3 months. Without a major catalyst, we are probably stuck in the same range for a couple more months. Market movers to be on the look out for are weather in South America, Chinese trade relations & weather during the US growing season. Any upward movement in prices and one will need to sell aggressively into the rally of both old & new crop corn & soybeans. The world is well

supplied of both corn & soybeans, so don't expect any major run away markets. One way to take advantage of these sideways to higher markets is through Accumulator Contracts. The accumulator contract allows the producer to have bushels priced weekly above the current market, at no up front premium cost, if certain conditions are met. Generally, you can price about 20 c/bu above the current market. Call today for up to the minute pricing details. Marketing one's crop can be one of the most frustrating things about farming. Little Sioux Corn Processors is here to help. We are able to offer you FC Stone's Merchants Plus pricing program. This contract lets the professional marketing team at FC Stone market your bushels for you. The farmer commits a certain number of bushels to the Merchants Plus program and lets the FC Stone Traders price their grain. This is perfect for the farmer that doesn't watch

the market every day or wants someone else to make the marketing decisions for their farm. Merchants Plus is a pricing program that allows growers to share in the performance of professional marketing strategies. This program allows the grower access to the tools the pros use and receive daily web updates with cutting edge charts and analysis. These strategies take the emotion, hassle & margin requirements out of a hedging program for the grower. Cost of the program is only 8 c/bu and that is subtracted from the final price at payment. The Merchants Plus pricing for corn has been very successful the last few years. The last two years they have been beating other market advisors' selling prices!!! The Merchants Plus price has been 30-50 c/bu better than just selling cash corn at the time of delivery. Call today as growers must be signed up by February 25th to participate in the program.

Drops of Liquid Gold



Chris Williams
Plant Manager

Deep in germ layer of a kernel of corn, lies a fuel and food source we call Distillers Corn Oil. It reduces our dependence on foreign oil, reduces our carbon footprint, and is utilized as an energy source in livestock rations.

The Extraction of Distillers Corn Oil is not a new concept to Little Sioux Corn Processors. In fact, removing distillers corn oil from thin-stillage streams has been happening here since October 2005 when a vertical disk stack unit was put into production. This disk stack spins the syrup stream and separates the free distillers corn oil from the condensed thin stillage. i.e. syrup. Distillers Corn Oil production was new to the industry in 2005 and typical extractions were low, at about 0.2 lbs per bushel of corn, which is significantly less than today's extraction levels.

In July of 2008, a horizontal ICM Tricanter decanter was installed as a second unit for distillers corn oil production. The need for the additional machine came

from the plant expansion to a 92 million gallon per year production rate. The Tricanter makes it easier to adjust the flow on the fly without requiring an entire oil unit shutdown to change gravity disks and plates. The corn oil yield nearly doubled to 0.40 lbs corn oil per bushel of corn.

During 2011, demulsifying extraction aids were added to improve the separation and extraction of the oil. Protease enzymes were added to break up protein in the corn into smaller peptides and amino acids that can be used as a nitrogen source for the yeast. The chemical reaction also benefits distiller corn oil recovery and added to our corn oil production gain. The use of cellulase enzymes also freed up oil that was bound to the fiber portion of the corn kernel. Throughout the past 13 years as chemistry and equipment improvements were adopted, the distillers corn oil extraction process has more than quadrupled the 2005 yield.

Distiller corn oil revenue has proven to be important in the ethanol industry. When ethanol and distillers' grains margins are pushed tighter, distiller corn oil has maintained its value and helped lessen the pressure of low prices. Distillers corn oil value has been shifted from a by-product of ethanol to a co-product of ethanol production as it proved its worth to the

feed and biodiesel markets. In fiscal year 2018, LSCP produced 48,421,000 pounds of distillers corn oil and contributed over 12 million dollars to the company's bottom line.

In December 2018, Little Sioux Corn Processors added its third oil separator to the process. The additional separator gave us the following process enhancements.

1. Downtime is eliminated during any cleaning or maintenance cycle. Today 2 machines are always operating and separating oil.
2. The additional machine allows us to reclaim oil that our high disc separator was missing because of the older machine's capacity. We had outgrown the disc stacks' capability to separate all the oil available.

The third machine has improved corn oil yield by over a tenth of a pound of corn oil per bushel of corn, taking us beyond a 0.9 lbs per bushel pre-install to over 1.0 lbs per bushel today.

Little Sioux Corn Processors managers, employees, and board members continue to seek ways to improve the production facilities performance, diversify the markets and add to the bottom line for investors. Distillers corn oil extraction has been one of those success stories.

EPA's RFS "Reset" Rule: An Opportunity for Reallocation?

The Environmental Protection Agency's illegal actions on the Renewable Fuel Standard (RFS) over the past several years have caused real demand destruction and lost opportunities for the U.S. ethanol industry. Believe it or not, more than 4 billion gallons of RFS ethanol blending obligations have been erased since 2014 on a cumulative basis. The cause? EPA's misuse of its "general waiver" authority and former Administrator Scott Pruitt's fire sale on small refinery exemptions. In other words, these refinery waivers and bailouts mean the Congressionally-mandated 15-billion-gallon conventional renewable fuel (corn ethanol)

requirement that was set to begin in 2015 has never been enforced by EPA.

The Renewable Fuels Association (RFA) and other industry groups have taken EPA to court in an attempt to reclaim these lost volumes. The ethanol industry was victorious in its first lawsuit challenging EPA's illegal use of a "general waiver" to reduce the 2014-2016 RFS standards (EPA had lowered the volumes based on the ridiculous claim that the E10 "blend wall" would prevent the marketplace from consuming 15 billion gallons). In 2017, the courts directed EPA to reallocate 500 million gallons of RFS blending requirements that it had inappropriately waived

from the 2016 RFS requirement. Yet, unbelievably, EPA still has not followed the court order to restore that volume. Other lawsuits, which remain pending, seek to restore the 2.25 billion gallons lost as a result of the 48 small refinery waivers issued by Pruitt for 2016 and 2017 RFS compliance.

So, will we ever see the lost RFS blending volumes returned to the ethanol industry? While the industry hopes the court cases will force EPA to reallocate all of the RFS volume it inappropriately took away, RFA is also pursuing reallocation of the volume through EPA's upcoming rule to "reset" the 2020-2022 RFS standards. The law passed by Congress

in 2007 states that EPA must ensure that, "on average," the Congressionally-mandated RFS volumes are satisfied. Obviously, after all the waivers and exemptions, the actual required volumes for 2014-2017 were well below the levels specified by Congress. Thus, to ensure the intent of the law is met and RFS volumes "on average" are consistent with what Congress mandated, EPA could and should use the reset rule to add back the missing volumes on top of the original 15-billion-gallon requirements for 2020-2022. In this way, the reset rule could provide a path toward 16 billion gallons or more of required conventional biofuel blending by 2022.

FINANCIAL STATEMENT *Review*

By Gary Grotjohn



Gary Grotjohn
Controller

LSCP, LLC **Statement of Operations** **For Periods Ended December 31, 2018 and 2017**

	Quarter Ended December 31, 2018 (Unaudited)	Quarter Ended December 31, 2017 (Unaudited)
Revenues	\$48,398,000	\$61,681,000
Cost of Goods Sold	\$51,747,000	\$59,689,000
Gross Margin	(\$3,349,000)	\$1,992,000
Operating Expenses	\$1,217,000	\$1,206,000
Income from Operations	(\$4,566,000)	\$786,000
Other Income (Expenses)	\$111,000	\$47,000
Net Income	(\$4,455,000)	\$833,000

Revenues for the quarter decreased from last year. Lower ethanol sales volumes and lower ethanol sales prices contributed to this reduction. Cost of Goods Sold for the quarter were lower than last year. These decreases resulted from decreased production due to the explosion. Gross Margins were lower than last year due to lower production levels, lower ethanol prices, and higher corn prices paid.

LSCP, LLC **Balance Sheet** **For Periods Ended December 31, 2018 and 2017**

	Fiscal Year Ended December 31, 2018 (Unaudited)	Fiscal Year Ended December 31, 2017 (Unaudited)
Total Current Assets	\$39,185,000	\$29,894,000
Net Property and Equipment	\$94,952,000	\$92,506,000
Other Assets	\$4,291,000	\$4,396,000
Total Assets	\$138,428,000	\$126,796,000
Total Current Liabilities	\$23,640,000	\$17,282,000
Owner's Equity	\$114,788,000	\$109,514,000
Total Liabilities and Equity	\$138,428,000	\$126,796,000

The increase in Total Current Assets and Total Current Liabilities is partially a result of a \$6,000,000 payment. Increase in Net Property and Equipment resulted from increased capital expenditures less normal depreciation. Increase in Owner's Equity is a result of yearly earnings less distributions to owners.

LSCP, LLC **Owner's Data** **For Periods Ended December 31, 2018 and 2017**

	Quarter Ended December 31, 2018 (Unaudited)	Quarter Ended December 31, 2017 (Unaudited)
Outstanding Ownership Units	\$271,065	\$271,065
Original Cost of Units (\$1000/15)	\$66.67	\$66.67
Distribution to Owners	\$1,923,729	\$9,075,533
Per Unit	\$7.10	\$33.48
% of Original Unit Cost	11%	50%
Period Earnings	(\$4,455,000)	\$833,000
Per Unit	(16.44)	3.07
% of Original Unit Cost	-25%	5%
Ethanol Gallons Produced-Denatured	\$32,385,566	\$40,814,742
Per Unit (Annualized)	477.90	602.29

Most Recent Unit Sales

Class A: May 2018 - 50 Units @ \$676 Class B: March 2018 - 100 Units @ \$650 Class C: April 2018 - 120 Units @ \$650

Plant Efficiencies

	Jan 18 - Mar 18	Apr 18 - Jun 18	Jul 18 - Sep 18	Oct 18 - Dec 18	Calendar 2018
Ethanol/Corn Yield (gallons per bushel)	2.995	2.973	2.978	2.989	2.984
Corn Oil/Corn Yield (lbs per bushel)	0.854	0.961	0.931	1.043	0.942
Gallons Produced	41,163,673	39,548,260	38,288,249	32,385,566	151,385,748

UAI independent report reveals EPAs inaccurate testing data

Science is on ethanol's side and there's new proof that the EPA relies on inaccurate testing data when creating regulations that suppress increasing ethanol blends. The Urban Air Initiative (UAI) announced the completion of an independent, third party study that reviewed, assessed and compared close to 100 different peer reviewed vehicle emission studies. UAI believes this study will help influence future fuel policy.

The independent study found that the EPA's current reliance on match blended test fuels to regulate ethanol does not represent what is actually coming out of consumer tailpipes. And to the detriment of ethanol, this match blending method does not accurately show how much ethanol reduces tailpipe emissions. In fact, the consultants found that the laboratory often adds more toxic aromatics to the fuel as it adds ethanol for testing. This is not reflective of what happens at the refinery, where consumer gasoline is produced.

Toxic aromatics like benzene or toluene are the most dangerous compounds in gasoline and the largest contributor to emissions. Ethanol already reduces aromatics, for instance E10 alone replaces eight billion gallons of aromatics annually. That number will grow with E15 and other mid-level blends.

For years UAI has tried to raise awareness about the inaccuracies with test fuels and vehicle emissions data. It's in the weeds, but these things matters because the EPA uses the data to create regulations that limit how much ethanol can be used. What's exciting about this independent study is that consultants with expertise in emissions, refining, vehicle modeling and fuels came to the same conclusions.

"The reality, as shown in this analysis, is that measured and modeled effects of ethanol blending on emissions have varied widely between studies, to the point that it is difficult to reach any summary conclusions on ethanol's emissions effects. It's time to take another look at ethanol's emissions because what we find may be surprising," said consultant Tammy Klein with Future Fuel Strategies who conducted the study.

UAI believes this third party analysis can be used as a tool to create a fuel blending guide moving forward. A first step will be when the study is presented at the Coordinating Research Council Real World Emissions workshop in March. From UAI's perspective, an updated testing process would help erase unnecessary regulations, give consumers access to lower carbon and less toxic fuels, improve our country's air quality and most importantly improve our public health.



Little Sioux Corn Processors
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ANNUAL MEETING

MARK YOUR CALENDAR

Thursday, March 28th

1:30 pm

NOTE NEW TIME

Western Iowa Tech Campus
200 Victory Drive
Cherokee, IA 51012

