



QUAD COUNTY CORN PROCESSORS

6059 159th Street
Galva, IA 51020



FUELING AMERICA ENERGIZING LIVESTOCK

Quad County Management Team

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LOOKING AHEAD by DELAYNE D. JOHNSON

January 2012

On New Year's Eve as a teenager, I recall turning on the radio and listening to the countdown of the Top 100 songs from the prior year. It was always interesting to see which song received the number one status. With today's technology, we know exactly which songs are rated number one faster than ever before. Maybe that is one of the reasons why I have not spent recent New Year's Eve listening to a count-down.

The ethanol industry also has top issues each year. Quad County's staff has been discussing our key projects for 2012, and we will get them implemented for our company's count-down for December of 2012. With 2012 being an election year, there is nothing more important than keeping informed on each candidates' stance on renewable fuels and the Renewable Fuel Standard which directly affects Quad County. Recently, we mailed you a summary of each Republican candidate's stance on critical ethanol issues. Hopefully this has been useful information as you evaluate your candidate for President.

Quad County achieved many great things in 2011 that are worth noting:

Corn oil production was put into service in May

New maintenance shed was constructed to create space for the new corn oil equipment

New Golden Bran® co-product contracts were put in place in September and co-product marketing position was created at QCCP.

Production efficiency changes were implemented in the fourth quarter

Enogen™ corn contracts were made available to area farmers in November in a partnership with Syngenta Seeds for 2012 production.

Formed a partnership with Cherokee Industrial Corporation who is building a railroad spur in Cherokee to trans-load ethanol that should be complete in February 2012

Cellulosic ethanol project received a \$1.45 million dollar grant from Iowa Power Fund and a \$150,000 grant from Iowa Department of Economic Development.

Each of the above-referenced projects has positively affected Quad County Corn Processors' day to day operation and will benefit our corn producers, shareholders and local economy in 2012 and beyond.

As we begin another year, I would like to take this opportunity to thank everyone that makes ethanol production possible in Galva. This list includes, but is not limited to, our employees, shareholders, corn producers, co-product customers and business partners.

Thank you for your continued support, and please do not hesitate to contact me if you have questions. **Best wishes for a safe New Year!**

ANNUAL MEETING

We are planning our annual meeting of shareholders on March 26, 2012 at 7:00 PM in the Performing Arts Center at the Galva-Holstein High School in Holstein.

Please mark your calendar and plan to join us!

Visit us in person, by telephone, via email or online at www.Quad-County.com.

From the Desk of Charlie Voss, Plant Manager

Happy New Year Everyone! Here at Quad, 2012 looks like it will be an exciting year. We hired Phil Johnson in November 2011 to be our Production Supervisor. Phil replaced Joe Williams who accepted our Lab Manager position. I look forward to working with them in their new roles at Quad County.



We also have several projects we're working on to improve production, efficiency, and ultimately the bottom line. We will be upgrading our distillation column internals in April. The upgrade will reduce our natural gas needs and improve our income by 1.5 cents per gallon of ethanol. The upgrade will also give us increased capacity if we add fermentation in the future. At our existing production capacity, the payback will be less than 1 year.

Our current columns have trays with holes in them that allow the vapors to progress up through the columns and down comers which allow the liquid to make its way down the columns. The new beer column internals will consist of trays with directional holes in them that will help keep the trays cleaner and increase the vapor/ liquid contact, which will increase the efficiency. The new rectifier internals will consist of a few trays in the bottom similar to the ones in the beer column, but the top portion of the column will be filled with porous packing. The packing also increases the liquid/vapor contact and decreases the pressure drop across the column allowing for a lower temperature and pressure distillation.

The new internals will allow us to run the distillation system at a lower temperature and pressure it will save natural gas. Also the ethanol coming off the column will be cooler and will in effect increase the capacity of our cooling towers. This will possibly allow us to run the chiller less often in the summer. The other benefit is also twofold. The new internals will produce higher proof ethanol than we are currently able to produce. This will use less energy in the molecular sieves because water takes much more energy to heat than ethanol does. And we will be feeding the mole sieves less water so we will be able to produce drier ethanol much easier than we currently can. The drier ethanol is specified by Brazil and Europe so we will increase the ability to reach more markets.

We are tentatively planning the installation starting the last part of April. The project will take 5-9 days to complete, depending on how difficult it is to remove the current trays. We are excited to implement this project.

From the Desk of Kristi Brotherson, Office Manager



It is a very busy time of year in the accounting department. As I write this article, Bruce Edwards, CPA, and company are arriving for our annual audit. I want to thank my office staff for their extra work this past week to be ready for the audit within 4 days of our year end. We have a great group of accounting staff that work together well. Our goal is to complete the audit quickly so our auditors can get K-1s out to our membership as early as possible. Look for your K-1's to be in your mailbox sometime between February 6th and February 11th.

Quad County Corn Processors' year ended on a very positive note. Our 2011 income is \$1,000,000 better than communicated through our year-end estimation letter. This equates to an additional \$370 of income per share. Ethanol basis was very strong in December with VEETC expiring on 12/31/11. With that being said, ethanol basis is weak for January 2012 shipments because blenders and end-users filled their tanks in December. We expect January to be difficult but we are optimistic for the remainder of 2012.

We are finishing up Enogen™ corn contracting for our 2012 production. Quad County is proud to be offering a premium to the farmers for Enogen™ bushels, which keeps \$400,000 in the community. We still have a few acres left for delivery between October 2012 and March 2013. If you are interested, please contact Delayne or Janet soon.

Just a reminder - if you are interested in buying or selling any shares, please access the Alerus website by going to our home page (www.quad-county.com) and clicking on the Quad County Trading Platform link located on the left hand side.

Lastly, Quad County is advertising for a new position, a Purchasing/Logistics Manager. If you know anyone who might qualify for this position, please let them know so they can apply. We will begin interviewing very soon!

Welcome, Phil!

This is my first article since accepting the position as Production Supervisor at Quad County Corn Processors. I have been spending some time getting familiar with the staff and facility. As part of my initial duties, I am reviewing and updating the Process Safety Management Standard and our SOP's. The goal of my article is to summarize the process for you and to give you insight into our day to day operational considerations for employee safety and plant operation.



Quad County Corn Processors is required to adhere to the Occupational Safety and Health Administration's Process Safety Management Standard (PSM) by exceeding the OSHA threshold of storing 10,000 pounds of anhydrous ammonia.

The process safety management program provides guidance on the control and use of highly hazardous chemicals and was mandated to provide an increased measure of safety for both employees and the surrounding community from an accidental chemical release.

We utilize SOP's not only to stay in compliance with OSHA regulations but to train new employees, improve consistency in the process between Teams, reduce manpower, improve safety and enhance efficiency.

In theory and practice an SOP should be written for every task in the plant. They could be as simple as how to collect a sample of mash for testing solids and pH or as complex as a Clean In Place of the evaporation system which involves several processes including operation and control of multiple pumps, temperatures, pressures, flows, automated valves, manual valves both in the field and through the distributed control system.

To ensure each task is completed in the safest and most efficient manner, we include all personnel in the review process; management, operations, lab and maintenance. To validate that the employee using the SOP understands the task or procedure, he is certified on the SOP through both written and field tests.

At QCCP, our goal is not to meet the OSHA requirements but to exceed them through constant improvements to our operating procedures.



From the Desk of Rex Rimmer, Maintenance and Project Manager

I would like to update you on our progress with the Cherokee Industrial Corporation Rail Road site. We have a trans-load agreement with them on their new site on the south side of Cherokee. The winter weather has been perfect for all the dirt work and track work to this point. We are excited to get the site into operation.

The site has been leveled and the switch gear is in place. If you have driven on Highway 59 you may have seen the pile of dirt and the completion of the unload site. We should have all of the rail in place over the next 3-5 weeks. We also have been piping the transfer system. We anticipate the first gallons should be ready to trans-load late in February.

Having a trans-load site in Cherokee will reduce Quad County Corn Processors truck freight by 145 miles one-way on every load we sell on the CN Rail Road. We produce about 10 loads per day, seven days per week and about 75% of our ethanol has been sold on rail over the last 12 months. The savings each month in the future will be significant. The new facility will be able to unload a trailer in 15 minutes. Shawn Stricklett has accepted the position to oversee the operation in Cherokee.

As we progress into 2012 and beyond, having a local trans-load facility will continue to give Quad County expanded access to domestic and international markets.

We are pleased to be working with Cherokee Industrial Corporation, they are a great organization. I hope to report on our first transfers in our next newsletter.

From the Desk of Rick Heaton, Co-Products Marketer

Following are a few items that we would like to communicate regarding Golden Bran® co-products:

A special thank you to all of our customers who worked with us to defer tons from your spring contract to this fall. January will be the last month for shipment of the deferred tons..

Golden Bran® Contracts. When we contracted co-products last fall, we asked all of our customers to commit to the quantity of product that they were planning to use for the coming year and break down the quantity into tons per quarter starting with the October-December time period. We have just completed this first quarter and many of our customers met or exceeded their commitment. However, we did have a larger than normal number of customers who did not ship the tons committed. At this time it has not been detrimental to Quad County because we have been able to sell product at a higher price in the spot market. However, if the market situation changes there is the possibility that there could be a market loss on contracts if there are tons that are not shipped. For those of you purchasing Golden Bran® co-products, please monitor the contract balance on your scale tickets. If you are not on track to ship the tons committed, please contact me so we can discuss a path forward.

Scheduling. The winter and spring months have always been a time when demand for ethanol co-products has been the highest and available supplies are sometimes very tight. Consequently, the staff at Quad County has to spend more time scheduling daily loads and communicating with customers to insure that we have product here when our customers need it. There are times when call-in orders may not be able to be filled for 2-3 days. If you are not already on a schedule for product, please take a few minutes to call us.

Shutdown. Plans are being made for a shutdown in late April-early May to allow for a major improvement to the distillation equipment. This will allow us to increase ethanol production and do so more efficiently. This work will take anywhere from 6-9 days from start to finish and will require us to work with our customers to provide for alternate co-product needs during this time. We will have enough product to meet our contract obligations for the April-June quarter, but will need to work around the shutdown. One option would be to provide our customers with additional product in the time leading up to the shutdown so that they can have the product on site and avoid any feed interruptions. I'll be in contact with many of you regarding this option in the next few weeks.

Autodraft Discount. Just a reminder that we give all of our customers a 2% discount on all purchases if they are signed up for Automatic Draft. We provide you with invoices at the end of each week so that you have time to review them before your account is drafted on Wednesday of the following week. The discount reduces your cost by \$1.00—\$2.00 per ton and can save you hundreds of dollars per year.

The start of a new year has always been a time to reflect on the past year and use our experiences as a guide to what is ahead for us. For me last year is still a little bit fuzzy as it has taken me 3 months to get acquainted with my new surroundings and responsibilities. Some of you may claim that I have always been a "little bit fuzzy", but that's another story for another day. What I do know is that our Golden Bran® co-product business is on very solid ground and 2012 has the potential to be our best year ever in terms of volume and income. Quad County is one of the few plants in the industry to offer our customers a long-term contract offering them the opportunity to cut their feed costs, but at the same time providing Quad County shareholders with income protection for the coming year.

We appreciate your business!

JOIN OUR TEAM

Quad County is currently accepting applications for a **Purchasing/Logistics Manager.**

Responsibilities include but are not limited to: purchasing corn and natural gas, selling corn oil, and scheduling trucks and rail cars for commodities.

The qualified candidate should have good communication skills and enjoy attention to detail. Having prior experience with purchasing or commodities is preferred but not mandatory. Quad County offers competitive wages, vacation and personal time, health and dental insurance.

Applications are available at www.quad-county.com. Please send resume and application to:

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Attn: Kristi Brotherson

Quad County is an Equal

Opportunity Employer.



From the desk of Travis Brotherson, Plant Engineer and R&D Manager

Our cellulosic project is continuing to develop on several fronts. We have made progress on finer points of the design, cellulosic determination by the EPA, and financing.

Phase 1 of the full-scale testing is complete. We have made several trials fermenting 5000 gallon batches within the plant. We were able to achieve the ethanol production that we have seen in the lab and pilot scales. This work allowed us to tune in the pretreatment equipment and establish chemical usages. We will use this information for an upcoming test that will produce the feed product in large enough quantities for feeding trials.

We had our USDA/DOE pre-application for \$4.25 million approved and we were one of fifty applicants invited to submit a full application. We completed the full application in November and submitted it for consideration. USDA/DOE expects to award 5-8 grants and final announcements for awards are expected in February or March 2012. If we are fortunate enough to receive the award, we would combine it with the already awarded Iowa Power Fund grant of \$1.45 million to construct the full scale operation at Quad County Corn Processors. There are many other details that we would need to complete but the two grants would be a great help financially.

We have also been working with EPA to verify that corn kernel fiber is considered "crop residue" under the definition of the RFS2. This is significant because we would then qualify to produce D3 Renewable Identification Numbers (RINS). The D3 RINS carry a higher value in the market due to the RFS2 requirements that continue to increase in the future as America works to wean itself off foreign oil. The Renewable Fuels Association and the Iowa Corn Promotion Board have been supporting our efforts with this over the past year. We are hopeful that we will receive a positive verification on the cellulosic definition sometime in the first quarter of 2012.

Over the last few months, we have updated our intellectual property to include multiple items that we have learned from our ongoing tests. We anticipate our patent pending will be issued in the next three to twelve months although there is no way to get an exact timeline from the US Patent office.

We have engaged in discussions with an engineering firm to obtain a more refined cost estimate for the construction of the process at Quad County. During these discussions they reviewed our engineering calculations, and are also in agreement with our results. We previously received verification of our process from an enzyme company that has been working with corn kernel cellulose for many years. We are confident that the overall process design is now solidified, and we are working to finalize details concerning small equipment specifications.

Over the last few weeks we have seen the process mature on all fronts. We are proceeding in a methodical and progressive fashion based on certain milestones that need to be finished to move to the next step. It has been exciting to watch and we look forward to developing further details in the coming months.

Enogen™ Corn Contracts

QCCP has recently signed a commercial agreement with Syngenta to use Enogen™ corn in production later this year. Enogen™ corn contains the first genetically modified output trait specifically for the ethanol industry. It is bio-engineered to allow ethanol production to be more efficient, cost effective and better for the environment.

Enogen™ grain expresses the alpha amylase enzyme necessary for dry grind ethanol production directly in the grain's endosperm, eliminating the need to add liquid amylase. In trials, Enogen™ grain has demonstrated benefits for ethanol producers including savings in input costs, reduced energy, water and natural gas consumption, and an increase in dry grain loading creating increased throughput.

During a three-month trial using Enogen™ grain, QCCP noticed a marked improvement in viscosity. QCCP general manager Delayne Johnson believes that the improved viscosity will create reductions in energy costs and increased production. "I'm excited to see the long-term results of using Enogen™ grain," said Johnson.

All Enogen™ grain used at QCCP will be supplied by area growers, who will license Enogen™ technology from Syngenta and sign a production contract with QCCP. Grower contracts will stipulate the number of acres to be grown, grain testing requirements and stewardship needs. Growers will be paid a premium price for their grain.

Hybrids featuring Enogen™ technology provide growers access to Syngenta corn genetics and traits, including preferred insect and herbicide traits. In numerous trials, Enogen™ corn hybrids have performed equal to or better than other high-performing hybrids.

QCCP is currently working together with Syngenta to contract with growers to supply the ethanol plant with Enogen grain in 2012.

Opportunities still exist and interested growers should contact Delayne Johnson at 712-282-4305, ext. 102 for more information.



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