

GREEN PLAINS RENEWABLE ENERGY, INC.
Form 10-Q
June 29, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the Quarterly Period Ended **May 31, 2006**

Commission File Number 333-121321

GREEN PLAINS RENEWABLE ENERGY, INC.
(Exact name of registrant as specified in its charter)

Iowa
(State or other jurisdiction of
incorporation or organization)

84-1652107
(IRS Employer Identification No.)

7945 W. Sahara Ave., Suite 107, Las Vegas, Nevada 89117
(Address of principal executive offices)

(702) 363.9307
(Issuer's telephone number, including area code)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition or "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<u>Class</u>	<u>Outstanding as of June 27, 2006</u>
Common Stock, \$.001 par value	4,401,492 Shares

Condensed Balance Sheets as of May 31, 2006 (Unaudited) and November 30, 2005 3 Consolidated, Condensed Statements of Operations for the three months ended May 31, 2006 (Unaudited) and May 31, 2005 (Unaudited), six months ended May 31, 2006 (Unaudited) and May 31, 2005 (Unaudited) and the period from Inception on June 29, 2004 through May 31, 2006 (Unaudited) 4 Consolidated, Condensed Statements of Cash Flows for the six months ended May 31, 2006 (Unaudited) and May 31, 2006 (Unaudited) and the period from Inception on June 29, 2004 through May 31, 2006 (Unaudited) 5 Notes to Consolidated, Condensed Financial Statements (Unaudited) 6 Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations 12 Item 3: Quantitative and Qualitative Disclosures About Market Risk 20 Item 4: Controls and Procedures 21 **PART II - OTHER INFORMATION** Item 1: Legal Proceedings 21 Item 1A: Risk Factors 21 Item 2: Unregistered Sales of Equity Securities and Use of Proceeds 21 Item 3: Defaults Upon Senior Securities 22 Item 4: Submission of Matters to a Vote of Security Holders 22 Item 5: Other Information 23 Item 6: Exhibits 23 Signatures 24 2

PART I -- FINANCIAL INFORMATION Item 1. Financial Statements. GREEN PLAINS RENEWABLE ENERGY, INC. (A DEVELOPMENT STAGE COMPANY) CONSOLIDATED, CONDENSED BALANCE SHEETS ASSETS May 31, November 30, 2006 2005 ----- (Unaudited) Current Assets Cash and cash equivalents \$ 25,596,781 \$ 5,794,936 Securities - 28,064,700 Interest receivable 73,957 - Prepaid expenses 143,426 - ----- Total current assets 25,814,164 33,859,636 Property and Equipment - net 11,449,889 786,846 Other Assets 4,322,369 3,000 ----- Total assets \$ 41,586,422 \$ 34,649,482
===== LIABILITIES AND STOCKHOLDERS' EQUITY Current Liabilities Accounts payable and accrued expenses \$ 3,107,885 \$ 170,701 Current maturities of long term debt 40,000 - ----- Total current liabilities 3,147,885 170,701 Long-term debt less current maturities 360,000 - Commitments and Contingencies Stockholders' Equity Common stock; \$.001 par value, 25,000,000 shares authorized, 4,396,242 and 4,215,990 shares issued and outstanding, respectively 4,396 4,216 Additional paid-in capital 38,400,024 34,922,314 Accumulated deficit (325,883) (447,749) ----- Total stockholders' equity 38,078,537 34,478,781 ----- Total liabilities and stockholders' equity \$ 41,586,422 \$ 34,649,482 \$ 34,649,482 ===== See accompanying notes to consolidated, condensed financial statements. 3

GREEN PLAINS RENEWABLE ENERGY, INC. (A DEVELOPMENT STAGE COMPANY) CONSOLIDATED, CONDENSED STATEMENTS OF OPERATIONS (Unaudited) For the Period From Inception On June 29, For the Three Months Ended For the Six Months Ended 2004 May 31, May 31, Through ----- May 31, 2006 2005 2006 2005 2006 -----
----- Revenues \$ - \$ - \$ - \$ - \$ - Operating expenses 455,089 231,766 578,900 342,480 1,358,867 ----- Loss from operations (455,089) (231,766) (578,900) (342,480) (1,358,867) Other income Interest income 565,126 242 700,765 1,466 1,032,984 -----
----- Income (loss) before provision for income taxes 110,037 (231,524) 121,866 (341,014) (325,883) Provision for income taxes - - - - - ----- Net income (loss) \$ 110,037 \$ (231,524) \$ 121,866 \$ (341,014) \$ (325,883) =====
===== Net income (loss) per common share Basic \$ 0.03 \$ (0.30) \$ 0.03 \$ (0.45) =====
===== Diluted \$ 0.02 \$ (0.30) \$ 0.03 \$ (0.45) =====
===== Weighted average common shares outstanding - Basic 4,340,528 765,000 4,284,126 765,000 =====
===== Diluted 4,517,629 765,000 4,374,143 765,000 =====
===== See accompanying notes to consolidated, condensed financial statements. 4

GREEN PLAINS RENEWABLE ENERGY, INC. (A DEVELOPMENT STAGE COMPANY) CONSOLIDATED, CONDENSED STATEMENTS OF CASH FLOWS (Unaudited) For the Period From Inception On June 29, 2004 For the Six Months Ended Through May 31, May 31, 2006 2005 2006 -----
----- Cash flows from operating activities: Net income (loss) \$ 121,865 \$ (341,014) \$ (325,884) Adjustments to reconcile net income (loss) to net cash used by operating activities: Stock based

compensation 143,250 - 230,750 Depreciation 4,606 546 6,299 Changes in operating assets and liabilities: Interest receivable (73,956) - 73,956 Prepaid expenses (143,426) 1,500 (143,426) Accounts payable and accrued expenses (90,149) 11,006 52,802 ----- Net cash used by operating activities (37,810) (327,962) (253,415) ----- Cash flows from investing activities: Purchase of property and equipment (6,818,816) (8,869) (7,579,605) Purchase of securities - - (28,064,700) Payment of recoverable rail line costs (3,500,000) (3,500,000) Payments related to land option agreements (17,500) - (20,500) Cash acquired in acquisition of subsidiary 210,291 - 210,291 Sale of securities 28,064,700 - 28,064,700 ----- Net cash provided (used) by investing activities 17,938,675 (8,869) (10,889,814) ----- Cash flows from financing activities: Proceeds from the issuance of long-term debt 400,000 - 400,000 Proceeds from issuance of stock 1,856,130 - 36,695,160 Payment of loan fees and equity in creditors (355,150) - (355,150) ----- Net cash provided by financing activities 1,900,980 - 36,740,010 ----- Net change in cash and equivalents 19,801,845 (336,831) 25,596,781 Cash and equivalents at beginning of period 5,794,936 626,093 - Cash and equivalents at end of period \$ 25,596,781 \$ 289,262 \$ 25,596,781

===== Supplemental disclosures of cash flow: Cash paid for income taxes \$ - \$ - \$ - =====
 ===== Cash paid for interest \$ - \$ - \$ - =====
 ===== Non-Cash Investing and Financing Activities: Common stock issued for acquisition of subsidiary: Deposits related to option agreement \$ 11,100 \$ - \$ 11,100 Site development costs 778,609 - 778,609 =====
 ===== Total non-cash consideration for acquisition \$ 789,709 \$ - \$ 789,709
 ===== Common stock issued for purchase of Superior plant land \$ 478,510 \$ - \$ 478,510 =====
 ===== See accompanying notes to consolidated, condensed financial statements. 5

GREEN PLAINS RENEWABLE ENERGY, INC. (A DEVELOPMENT STAGE COMPANY) NOTES TO CONSOLIDATED, CONDENSED FINANCIAL STATEMENTS (UNAUDITED) 1. DESCRIPTION OF BUSINESS

Green Plains Renewable Energy, Inc. (hereinafter referred to as the "Company") is a development stage company incorporated on June 29, 2004 under the laws of the state of Iowa. Green Plains Renewable Energy, Inc. was organized to construct and operate a 50 million gallon, dry mill, fuel grade ethanol plant in Shenandoah, Iowa (the "Plant"). The Company also intends to build other dry mill, fuel grade ethanol plants within the State of Iowa and/or other States within the U.S., and may also expand to other regions outside of the U.S. in the future. The accompanying unaudited consolidated, condensed financial statements have been prepared in accordance with Securities and Exchange Commission requirements for interim financial statements. Therefore, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The financial statements should be read in conjunction with the consolidated financial statements included in our Form 10-K (the "Annual Report") as filed with the Securities and Exchange Commission and notes thereto and the risk factors contained therein for the fiscal year ended November 30, 2005. The interim financial statements present the consolidated, condensed balance sheet, statements of operations and cash flows of Green Plains Renewable Energy, Inc. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The interim financial information is unaudited. In the opinion of management, all adjustments necessary to present fairly the financial position of the Company as of May 31, 2006, and the results of operations and cash flows presented herein, have been included in the financial statements. Interim results are not necessarily indicative of results of operations for the full year. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. **2. SUMMARY OF SIGNIFICANT POLICIES** *Principles of consolidation* - The accompanying financial statements include the accounts of the Company and its wholly owned subsidiary, Superior Ethanol, LLC, which was acquired by the Company on February 22, 2006. *Use of estimates* - The

preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. *Cash and cash equivalents* - For the purposes of reporting cash and cash flows, we consider short-term investments with original maturities of three months or less at acquisition to be cash equivalents. Cash and cash equivalents as of May 31, 2006 included amounts in short term government funds which are not federally insured and balances in operating accounts in excess of federally insured limits. The Company has not experienced any losses in such accounts. 6

Property and equipment - Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided principally on the straight-line method over the estimated useful lives of the assets which is currently 3-7 years. Land improvements and construction in progress will be depreciated upon the commencement of operations at the property, which is expected to occur in the late Spring of 2007. The money withheld on work performed for land improvements and construction in progress is included in these accounts and offset by a current liability for accrued retainage. The cost of repairs and maintenance is charged to expense as incurred. Expenditures for property betterments and renewals are capitalized. Upon sale or other disposition of a depreciable asset, cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in operating income or loss. The Company periodically evaluates whether events and circumstances have occurred that may warrant revision of the estimated useful life of fixed assets or whether the remaining balance of fixed assets should be evaluated for possible impairment. The Company uses an estimate of the related undiscounted cash flows over the remaining life of the fixed assets in measuring their recoverability. *Site development costs* - Site development costs incurred by the Company for professional fees for planning, zoning, permits, designs and other services are expensed prior to the project reaching economic feasibility consistent with past practice. Economic feasibility is determined by the progress of funding the project. When the project is funded these costs are then capitalized as the cost of the project. *Recoverable rail line costs* - The Company was required by the railroad to pay the cost to renovate the spur rail line running from Red Oak, Iowa to Shenandoah, Iowa and then to its plant. The Company's shipping contract with the railroad provides that the railroad will rebate to the Company the cost of renovating the spur line on a per rail car load basis. Should the Company place sufficient cars on the rail line it will be reimbursed \$50 to \$150 per rail car up to a maximum of \$3,500,000. This rebate will be recorded as a reduction of the cost of the rail line until the full amount has been recovered. The agreement also provides that if the rail line is sold by the railroad, the Company will be repaid the unrecovered portion of the rail line costs. *Debt issuance costs* - Loan fees are debt issuance costs stated at cost. Debt issuance costs will be amortized as interest expense over the life of the term loan. *Stock based compensation* - The Company applies SFAS No. 123 Accounting for Stock-Based Compensation for all compensation related to stock, options or warrants. SFAS 123 requires the recognition of compensation cost using a fair value based method whereby compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. The Company uses the Black-Scholes pricing model to calculate the fair value of options and warrants issued to both employees and non-employees. Stock issued for compensation is valued using the market price of the stock on the date of the related agreement. The Company granted no warrants or options for compensation for the period ended May 31, 2006. *Earnings per common share ("EPS")* - Basic EPS is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that would occur, using the treasury stock method, if securities or other obligations to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that shared in the Company's earnings. 7

For the three months and six month periods ending May 31, 2006 the warrants issued to shareholders in the IPO were the only security having a dilutive effect. There were 3,445,992 warrants issued in the IPO for one quarter of one share representing 861,498 shares exercisable at \$30. The shares began trading on March 15, 2006 and there were 3,198,584 warrants representing 799,646 shares available for exercise at May 31, 2006. For the three months and six months periods ending May 31, 2006 the dilutive effect of the warrants using the treasury stock method was 177,101 and 90,017, respectively. *Fair value of financial instruments* - The following methods and assumptions were used by

the Company in estimating the fair value of its financial instruments: *Cash and cash equivalents* - The carrying value of cash and cash equivalents was their fair values due to the relatively short maturity of these instruments. *Long-term debt* - The carrying value of fixed rate long-term debt was \$400,000 at May 31, 2006. It is not practicable to estimate the fair value of fixed rate long-term debt at December 31, 2004 since these agreements contain unique terms, conditions and restrictions, and there is no readily determinable similar instrument on which to base an estimate of fair value. **3. PROPERTY AND EQUIPMENT - NET** A summary of property and equipment is as follows. May 31, November 30, 2006 2005 ----- Land and improvements \$ 3,671,806 \$ 684,461 Construction in progress 8,151,736 92,500 Computer equipment and software 17,117 7,408 Office furniture and equipment 26,485 2,477 Vehicles 28,464 - ----- \$ 11,895,608 \$ 786,846
 =====
 Accruals for construction-in-progress (CIP) and retainage related to CIP are considered non-cash investing activities, therefore they are not included as purchases of property and equipment in the Statements of Cash Flows. 8

4. OTHER ASSETS A summary of other assets are as follows. May 31, November 30, 2006 2005 ----- Recoverable rail line costs \$ 3,500,000 \$ - Site development costs from acquisition 445,619 - Debt issuance costs 353,150 - Land option agreements 21,600 3,000 Equity in creditors 2,000 - ----- \$ 4,322,369 \$ 3,000 =====

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES A summary of accounts payable and accrued expenses are as follows May 31, November 30, 2006 2005 ----- Construction-in-progress \$ 2,237,826 \$ 50,875 Retainage 817,257 - Other 52,802 119,826 ----- \$ 3,107,885 \$ 170,701

===== Accruals for construction-in-progress (CIP) and retainage related to CIP are considered non-cash investing activities, therefore they are not included as purchases of property and equipment in the Statements of Cash Flows. **6. STOCKHOLDERS' EQUITY** In July 2004, the Company issued 400,000 and 150,000 shares of common stock to the founders of the Company for cash and services, respectively. The shares were issued in consideration of cash and services totaling \$100,000 and \$37,500, respectively. In August, October and November 2004, the Company issued 73,000 shares of common stock to directors for cash totaling \$182,500. In August, September, October and November 2004, the Company issued 142,000 shares of common stock to various non-related individuals and entities for cash totaling \$355,000. In November 2005, the Company issued 3,445,990 shares of common stock to various non-related individuals and entities for cash totaling \$34,459,900. 9

In November 2005, the Company issued 5,000 shares of common stock to a director for services valued at \$50,000 or \$10 per share. In January 2006, the Company issued 5,000 shares of common stock to an engineering firm for services valued at \$50,000 or \$10 per share. In February 2006, the Company issued 100,000 shares to a director in exchange for 100% ownership in Superior Ethanol, LLC. Superior Ethanol, LLC had cash of approximately \$210,000 in its accounts, holds options on real estate, property tax abatements and other assets in an area where the Company intends to build an additional ethanol plant in Iowa. In May 2006, the company issued 10,900 shares to a director in exchange for land. The shares were valued at market of \$43.90 per share. The land purchase was 68 acres of land near Superior Iowa in Dickinson County where the Company intends to build a 50 Million Gallon, Fuel Grade Ethanol Plant. In May 2006, the company issued 2,500 shares valued at \$93,250 to the Shenandoah Chamber and Industry Association as a gift to enhance the Community of Shenandoah, Iowa. Purchasers of the Company's IPO that closed in November of 2005 bought 3,445,990 shares of the Company's common stock at \$10 per share. Each share purchased in that offering was accompanied by a warrant. Four warrants are needed to purchase one share of common stock at \$30. Said warrants expire on December 31, 2007. Because the Company's common stock has been trading above the \$30 strike price in the recent past, some of the Company's shareholders have exercised their warrants. As of May 31, 2006, shareholders had exercised 247,408 warrants for which 61,852 shares of the Company's common shares were issued at \$30 per share, plus transfer fees, for total proceeds of \$1,856,130. As of May 31, 2006 there were 3,198,582 warrants still outstanding that could be exercised for a total of 799,646 shares of common stock. If all warrants still outstanding were to be exercised, the Company would realize an additional \$23,989,365 of paid-in capital, plus transfer fees. **7. COMMITMENTS AND CONTINGENCIES** In October 2005, the Company entered into an agreement with Fagen Engineering for design services for the Phase I and II Pre Engineering work to be done at the Plant site by the

Company, prior to turning the site over to Fagen, Inc. for the construction of the Plant itself. The Company agreed to pay Fagen Engineering a lump sum fee for said engineering. However, said amount is included as part of the total cost of the Plant itself, as outlined in the Design Build Contract we have entered into with Fagen, Inc. ("Fagen"), which is anticipated to be \$55,881,454. Therefore, the cost of the pre-engineering will be deducted from the total cost of Plant once we pay for the pre-engineering work. All payments are due upon receipt, and the Company is to be billed as work is completed. In October 2005, the Company entered into an agreement with a company for air permitting and a storm water runoff plan for \$11,000. The Company later hired the same consulting company to perform additional work in connection with other permits and notices needed for construction at the Shenandoah site, as well as for additional work at the Superior site for additional nominal amounts. All payments are due upon receipt, and the Company is to be billed as work is completed. As of May 31, 2006, the Company had paid \$24,438 of the total amount to be billed. We continue to use this firm to do work related to our plant development activities. The Company entered into a construction agreement dated January 13, 2006, with Fagen Inc., under which Fagen, Inc. will provide all work and services in connection with the engineering, design, procurement, construction startup, performances tests, training for the operation and maintenance of its Plant and provide all material, equipment, tools and labor necessary to complete the Plant. As consideration for the services to be performed, Fagen, Inc. will be paid \$55,881,454, subject to adjustments. The Company is required to pay an initial payment of \$5,000,000, less retainage, at the time of the notice to 10

proceed. The Company paid \$4.5 million to Fagen, Inc. during the quarter ended May 31, 2006, when Fagen mobilized and commenced construction of the Plant in Shenandoah. At May 31, 2006, the Company owed Fagen \$1,610,518 (retainage had been deducted in this amount) for progress billings. The Company is required to make payments to Fagen, Inc. based upon monthly applications for payment. At May 31, 2006, accrued retainage for Fagen, Inc. is \$678,946. On February 6, 2006, we entered into a Master Loan Agreement, Construction and Term Loan Supplement, Construction and Revolving Term Loan Supplement, Security Agreement and Real Estate Mortgage with Farm Credit Services of America, FLCA whereby the lenders will loan up to \$47,000,000. The loan proceeds are to partially finance construction of the Plant and to provide funding for working capital purposes. The Plant is to be in production by no later than May 1, 2007 and construction costs are not to exceed an aggregate of \$71,000,000, net of refundable sales taxes. The loan is comprised of a \$30,000,000 amortizing term loan and a \$17,000,000 revolving term facility. The interest rate on the both loans will be LIBOR plus 335 Basis Points. Once operations at the Plant commence, the rate of interest can then be adjusted downward if certain performance provisions are achieved under the terms of the loan agreement. The amortizing term loan is available for advances until July 1, 2007. Principal payments are to commence with \$1,200,000 due November 20, 2007, and each quarter thereafter with a final maturity on November 20, 2013 at the latest. In addition, for fiscal years ending in 2007 and thereafter, we are also required to make a special payment equal to 65% of the available (if any) free cash flow from operations, not to exceed \$2,000,000 per year, and provided, however, that if such payments would result in a covenant default under the Loan Agreements, the amount of the payments shall be reduced to an amount which would not result in a covenant default. The free cash flow payments are discontinued when the aggregate total received from such payments exceeds \$8,000,000. The revolving term loan is available for advances throughout the life of the commitment. This loan requires semi-annual \$2,400,000 payments or step-downs of the commitment to commence on the first day of the month beginning approximately six months after repayment of the term loan, by May 1, 2014 at the latest with a final maturity no later than November 1, 2017. In April of 2005, we were awarded a \$300,000 zero interest loan, and a \$100,000 forgivable loan (grant) by the State of Iowa. We signed that agreement in August of 2005. However, we could not receive the funds until the other funding for the Plant had been secured (equity and debt financing). On March 8, 2006, the \$400,000 was received into the accounts of the Company. We have agreed to pay the \$300,000 loan back in installments of \$5,000 per month over a 60 month period. The first payment on the \$300,000 loan is due on October 1, 2006. In February of 2006, we entered into an agreement with Mathiowetz Construction to do the grading and dirt work at the site in Shenandoah, Iowa to prepare the site for Fagen so construction on the Plant could commence. The original contract was for approximately \$1.75 million. There was a change order for an additional sum of \$164,447. We have been billed and paid \$1,619,031 (retainage has been deducted in this amount) through May 31, 2006. The accrued retainage associated with this contract at this date is \$85,211. In April of 2006, we entered into

an agreement with Peterson Contractors, Inc. to install the geopiers to support certain buildings to be constructed at the Plant. The contract is for \$1,062,000 and as of May 31, 2006 the company had paid \$409,342 (retainage has been deducted in this amount). At May 31, 2006, the company owed \$599, 558 (plus retainage) for work performed in accordance with the contract. The total accrued retainage at May 31, 2006 was \$53,100. **8. BUSINESS**

COMBINATION On February 22, 2006, the Company acquired Superior Ethanol, LLC (Superior) pursuant to a Share Exchange Agreement. The Company issued 100,000 shares of common stock based on a per share price of \$10 in exchange for the shares of Superior. Superior had cash, options for 159 acres of land in Dickinson County, Iowa and the management of Superior had spent considerable time and resources to acquire the options and develop the project of building an ethanol plant on the land held by the options as well as other properties. Therefore, the following summary is the purchase price allocation of the Superior Ethanol, LLC exchange transaction. 11

Assets Value ----- Cash \$ 210,291 Options on land
 11,100 Site development costs 778,609 ----- \$ 1,000,000 ===== The company has
 allocated the site development cost to the land based on acres. The company has purchased 68 acres of land and
 allocated \$332,990 of the site development costs to this land as a cost to acquire this property. The remaining
 \$445,619 is recorded as an Other Asset and the Company does not believe it is impaired at this time. **Item 2.**

Management's Discussion and Analysis of Financial Condition and Results of Operation The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of our condensed results of operations and financial condition. The discussion contains forward-looking statements that involve risks and uncertainties. Actual events or results may differ materially from those indicated in such forward-looking statements. The discussion should be read in conjunction with the financial statements and accompanying notes included herewith, our Amended Annual Report for the year ended November 30, 2005, that was previously filed with the SEC, the financial statements included therewith and notes thereto and the risk factors contained therein. **Overview** We are a start-up company in the development stage (FASB #7 - Accounting and Reporting by Development Stage Enterprises) which was formed for the purpose of building a plant to produce ethanol and animal feed products in Shenandoah, Iowa (the "Plant"). We do not expect to operate at a profit before our first ethanol Plant is completely constructed and operational. We have incurred an accumulated loss of \$325,883 from inception (June 29, 2004) through May 31, 2006. We believe we will incur significant losses from this time forward until we complete the construction of our Plant in Shenandoah and commence operations at that location. We have acquired land in Dickinson County, Iowa and have options to acquire more property in that area where we intend to build our second plant near Superior. We also have options to purchase land in Atlantic, Iowa, as well as another area in Iowa, where we are considering constructing two additional ethanol plants. We anticipate that our second and third plants will both be 50 million gallon plants. However, we may decided to build a 100 million gallon plant in Superior if our efforts to build at one of the other spots we have options on in Iowa do not come to fruition or if the sites do not prove to be feasible for various reasons after our due diligence is completed. We also recently acquired an option to purchase land in Wadena, MN, where we are investigating the feasibility of building an ethanol plant. However, there is no assurance that we will be successful in our efforts to complete the building or commence operations of the ethanol Plant in Shenandoah or at any of these other sites. Even if we successfully meet all of these objectives and begin operations of an ethanol Plant(s), there is no assurance that we will be able to operate profitably. We raised gross proceeds of \$34,459,900 in our initial public offering that closed in November 2005. We expect that the Shenandoah project will cost approximately \$82.6 million. We raised approximately \$637,500 in seed capital prior to commencing our public offering. We entered into loan arrangements whereby Farm Credit Services of America, FLCA and other participating lenders have agreed to loan us up to \$47,000,000 to use for construction costs and working capital. We also have secured \$400,000 of funding from the Iowa 12

Department of Economic Development including \$300,000 as a zero interest loan and \$100,000 as a grant based on certain requirements and covenants. Therefore, we have the necessary funding to commence construction of the Shenandoah Plant. However, to build at the other sites, we will need to raise additional capital. We intend to raise the needed equity through public or private offerings of our securities and/or by borrowing additional funds. There can be no assurance given that we will be able to acquire the funding necessary for these additional projects at reasonable

terms or at all. Representatives from Fagen Inc., our contractor in Shenandoah, have informed the Company that the 50 million gallon per year Plant that we intend to build in Shenandoah will consume on an annual basis approximately 18 million bushels of locally grown corn and annually produce approximately 50 million gallons of fuel-grade, denatured ethanol, and approximately 160,000 tons of DDGS on a dry basis. We have hired RPMG of Belle Plaine, MN, an independent broker, to sell the ethanol produced at the Shenandoah plant and have contracted with Commodity Specialists of Minneapolis, MN to sell the DDGS produced at the Shenandoah plant. We believe there are over 200 hundred thousand cattle in feed lots within a 50 mile radius of the Plant in Shenandoah. We believe we can sell a portion of our distillers grains in a wet form because of this, which we anticipate will save us a significant amount of money because we will not need to dry the grain before selling it. Additionally, in discussions with representatives from Fagen, Inc. we have been informed that the Plant in Shenandoah will produce approximately 148 thousand tons of carbon dioxide that may be recovered on an annual basis. While we intend to have discussions with companies regarding construction of a facility to capture raw carbon dioxide prior to completion of the Plant, we presently have no agreement with any third party to capture or market the raw carbon dioxide, and the market may be too saturated in Iowa to recover the carbon dioxide profitably. We therefore may choose to vent off the CO₂ and may have no market for it of any kind. The Plant in Shenandoah lies adjacent to a spur line of the BNSF Railway Company (BNSF). However, the spur (the "SPUR") on which the Plant will be located was closed last year and is currently being upgraded by BNSF to meet HAZMAT (Hazardous Materials) standards. On January 26, 2006, we entered into an Allowance Contract (the "Allowance Agreement") with BNSF which included our agreement with BNSF to renovate and maintain approximately 20 miles of track on the SPUR. Upon signing the Allowance Agreement, we paid \$3.5 million to BNSF for the SPUR renovation. The renovation work is currently being done by BNSF. BNSF has informed the Company that they expect to have the renovation completed by approximately the middle of September of this year, in time for the fall harvest. Once the renovation is completed, BNSF will own, operate and maintain the SPUR, as long as GPRE meets certain annual volume thresholds (cars placed on the rail) as outlined in the Allowance Agreement. We are entitled to receive refund payments from BNSF to reimburse us for this expense, but only to the extent that our usage of the line meets the annual volume thresholds. There can be no assurance that our usage will meet the annual volume thresholds or that we will be reimbursed for all or any part of the renovation costs. If BNSF were to ever sell the line to a third party (short-line), we would be entitled to repayment by BNSF. In the future, if there is any additional, major, renovation needed to be done to the SPUR, it is GPRE's responsibility to pay for any such additional, major, renovation. The Allowance Agreement is for a term expiring on September 14, 2015. We entered into an agreement with RPMG of Belle Plaine, MN in February 2006 to sell our ethanol production from the Shenandoah plant. We have also entered into an agreement with Commodity Specialists of Minneapolis, MN to sell our animal feed products from the Shenandoah plant. Although we may decide to use the same marketers at our other proposed plants, we have not yet entered into any such agreements with anyone concerning the Superior and Atlantic sites. We will be hiring staff for the direct operation of the Plants, and currently expect to employ approximately 35 people at each plant. We do not intend to hire a sales staff to market our products. It is anticipated that the third-party marketing agents we have hired will coordinate the sales of our products as well as coordinate all shipping at the Shenandoah plant and that the same type of arrangement will exist at our other proposed plants when and if they are built. The following table describes our proposed use of proceeds, based upon our current cash reserves and loan arrangements. The total proceeds is estimated to be \$82,587,384. We anticipate that the cost of the Shenandoah project will be approximately \$82.6, which includes \$7.5 million in working capital. However, 13

the actual use of funds is based upon contingencies, such as the estimated cost of the Plant's construction, the regulatory permits required and inventory costs, which are driven by the market, and an early completion bonus that we may have to pay to Fagen if they complete the construction of the Plant ahead of schedule. Therefore, the following figures are intended to be estimates only and the actual use of funds may vary significantly from the descriptions given below depending on the contingencies described above. However, we anticipate that any variation in our use of proceeds will occur in the level of proceeds attributable to a particular use (as set forth below) rather than a change from one of the uses set forth below to a use not identified in this report. **Projected Sources and Uses of Funds** Estimated Sources of Funds: Share Proceeds (less fees plus interest) \$ 34,549,884 Zero Interest Loan and Grant from State of Iowa 400,000 Seed Capital 637,500 Term and Revolving Debt Financing 47,000,000

----- Total Estimated Sources of Funds \$ 82,587,384 ===== Estimated Uses of Funds:
 Plant Construction and Estimated Misc. Costs \$ 59,926,300 Estimated Site Costs 4,295,000 Estimated Railroad Costs
 5,600,000 Estimated Fire Protection/Water Supply Costs 2,216,000 Estimated Rolling Stock Costs 240,000 Estimated
 Financing Costs and Capitalized Interest 1,402,500 Estimated Pre-Production Period Costs 710,000 Estimated
 Inventory & Working Capital Costs 8,197,584 ----- Total Estimated Use of Funds \$ 82,587,384

===== The City of Shenandoah awarded us a 15 year property tax abatement that we would be able to receive if the City annexed the Plant site into its boundaries. We asked for voluntary annexation into the City limits and were annexed into the City on February 15, 2006. It is anticipated that it will result in significant long-term savings. **Plan for the Next 24 Months of Operations** We expect to spend the next 24 months in the design-development and construction of the Plant at Shenandoah, and thereafter commence production of ethanol and distillers grains at the Plant. We expect to have sufficient cash on hand to cover all costs associated with construction of the project, including but not limited to, utilities, construction, equipment acquisition and site development. In addition, we expect to have enough cash to cover our costs through this period, including staffing, office costs, audit, legal, compliance and staff training. We estimate that we will need approximately \$82,587,384 to complete the project, which includes \$7.5 million in working capital. At present, we believe we have sufficient funds to complete the Shenandoah project and hope to be complete the project under budget. However, if Fagen completes that Plant early, we will have to pay Fagen an early completion bonus. If this were to happen, we could expend the extra cash by paying the early completion bonus. We also anticipate spending considerable time in our efforts to build additional ethanol plants, near Superior, Iowa and another near Atlantic, Iowa or at another location where we have acquired options to purchase land. The tables in the Overview section above describing the estimated sources of funds and various costs associated with the project in Shenandoah also describe operations at that site for the next 24 months. These tables are only estimates and actual expenses could be higher or lower due to a variety of factors described in the section of our Annual Report entitled "Risk Factors". 14

Other Proposed Ethanol Plants On February 22, 2006, we acquired all of the outstanding ownership interest in Superior Ethanol, LLC. Superior has options to acquire at least 159 acres of property in Dickinson County, Iowa, has completed a feasibility study relating to the construction of an ethanol plant on this site, the site is zoned as "heavy industrial," the site has been awarded a property tax abatement from Dickinson County, Iowa, and Superior Ethanol had approximately \$210,000 in cash at closing. We are using those funds to pay for the development work being done in preparation for building plants in Superior and Atlantic. As of May 31, 2006, we had spent approximately \$76,000 of those funds leaving the accounts of Superior Ethanol with an approximate balance of \$134,000. In consideration for the acquisition of Superior as a wholly owned subsidiary of the Company, we issued 100,000 shares of our restricted common stock to Brian Peterson, a director of the Company. Prior to the acquisition, substantially all of Superior was owned by Mr. Peterson. The stock was issued prior to the commencement of trading on the NASDAQ Capital Market. Operational plans continue to progress on the Superior ethanol plant project with the builder, the rail engineers, and the utility consultants. We intend to build a 50 million gallon ethanol plant at this site. The location of the plant at the site has been determined, an application for an air permit was filed with the Iowa Department of Natural Resources (IDNR) on April 19, 2006 and the application was approved on June 13, 2006. It is anticipated that Agra Industries ("Agra") of Merrill, Wisconsin will be the design builder of the plant. We are presently negotiating a final Design-Build contract with Agra, but we have not yet entered into any binding arrangements with Agra, with the exception of a letter of intent that states that Agra is bound to build for us before Agra can build for anyone else in the coming months, provided that we have sites ready to build. It is anticipated that Delta T will be the technology provider in Superior. We are not using Fagen at these other sites because Fagen is presently booked until the end of 2007. If we are able to secure the necessary approvals, enter into binding arrangements with our builder and obtain the necessary funding, of which there can be no assurance, it is anticipated that construction could commence within the next few months, with a completion date in the fall of 2007. It is anticipated that this project will require approximately \$90 to \$94 million to fund a 50 million gallon plant. To date, we have not secured any bank or other funding for this project and there can be no assurance that we will obtain the necessary funding or approvals. The projected cost for this plant is higher than the plant being built in Shenandoah due to sharp increases in the costs of raw materials such as steel and cement. We are also considering adding a bio-mass burner at the plant in Superior that

will be capable of burning distillers grains to run the plant. However, if we decide to do so, the plant will also be able to operate on natural gas if need be. We believe that burning distillers grains to operate the plant could result in significant savings to the Company. We are also seeking funding to build a third 50 million gallon dry mill, fuel grade ethanol plant. We have options to purchase land in Atlantic, Iowa, Sloan, Iowa, Anita, Iowa and Wadena, Minnesota for the additional plant. Our objective is to build our third plant in Atlantic, Iowa if we can obtain the necessary county approvals. The Cass County Board of Supervisors has asked us to perform a traffic study, a rail study, and a water study to determine the impact an ethanol plant located at our proposed site will have in these areas and how a plant would impact the local residents. We have conducted these studies and anticipate presenting the findings to the Cass County Board in the near future. If we are not able to obtain the necessary approvals in the immediate future, then we plan to build our third plant in Sloan, Iowa, Anita, Iowa, Wadena, Minnesota or such other location as we may select. It is anticipated that Agra will be the design builder of our third plant. Agra has signed a letter of intent that states that Agra is bound to build for us before Agra can build for anyone else in the coming months, provided that we have sites ready to build. It is anticipated that Delta T will be the technology provider in for our third plant. It is anticipated that, like the Superior plant, this project will require approximately \$90 to 94 million to fund a 50 million gallon plant. To date, we have not secured any bank or other funding for this project and there can be no assurance that we will obtain the necessary funding or approvals. 15

Operating Expenses We currently have operating expenses, such as salaries for our President, General Manager, our accountant, and other office staff. We will have additional operating expenses for other staff as they are hired. Along with such operating expenses, we anticipate that we will have significant expenses related to financing and interest. We have allocated funds in our capital structure for these expenses. However, there can be no assurance that the funds allocated are sufficient to cover the expenses. We may need additional funding to cover these costs if sufficient funds are not retained up-front or if costs are higher than expected.

Results of Operations For the three and six months ended May 31, 2006, we realized net income of \$110,037 and \$121,866, respectively, compared to a losses of \$231,524 and \$341,014 during the comparable periods from the prior year. Our net income for the three and six months ended May 31, 2006 resulted from \$565,126 and \$700,765, respectively, in interest income earned on the funds raised in our public offering and money received from warrants that have been exercised by our shareholders, less \$455,089 and \$578,900, respectively, in operating expenses. During the three and six months ended May 31, 2005, our interest income was \$242 and \$1,466, respectively, and our operating expenses were \$231,766 and \$342,280, respectively. Our increased operating expenses for the three and six month periods ended May 31, 2006, related primarily to an increase in our general and administrative costs, increased consulting costs, costs associated with various permits needed to build the our new plants, and various costs associated with the commencement of construction at the Shenandoah site. We expect to hire additional employees as construction proceeds on the Plant as we will need a fully trained staff to operate the Plant. We anticipate having to do the same with our other plants. In 2006, our operating expenses were offset by interest earned on the funds we have invested until they are used in the construction of our Plant. We earned \$700,765 of interest income in the six month period ended May 31, 2006, compared to \$1,466 for the comparable period in 2005. This interest income will decrease as we pay for the construction of the Plant. We have not had any operating revenues through May 31, 2006 and do not expect to have any revenues through the remainder of 2006. We have also begun to expend capital on the Superior site as well as the Atlantic site. The engineering work has begun on the Superior site and the soil borings have been completed as of the writing of this document. We also recently drilled a test well at the Atlantic site and anticipate drilling another test well at an additional site in Iowa where we have obtained an option to purchase land. We have also incurred and paid consulting costs with and to PlanScope Partners of Minnesota who the Company has engaged to help us develop the other sites at which we intend to build additional Plants. We are using the funds from Superior Ethanol and additional funds receipted into the accounts of the Company from the exercise of warrants to pay for these additional costs.

Liquidity and Capital Resources At May 31, 2006 we had \$25,596,781 in cash and equivalents. We anticipate that our working capital requirements for the next twenty-four months will be as described above. We believe that we have secured sufficient funding to complete construction and begin operating our Shenandoah ethanol plant. We believe that we will need to secure approximately \$90 to \$94 million in new funding to build the proposed ethanol plant in Superior, Iowa, and that we would need to secure approximately the same amount in additional funding to build the

proposed ethanol plant in Atlantic, Iowa, or at one of the other locations where we have obtained options to purchase land and where we intend to build additional plants. We recently filed a registration statement on Form S-3 with the Securities and Exchange Commission and it is our intention to raise additional capital to build these other two Plants with the proceeds from that offering(s). However, at the writing of this document, we have no funding arrangements in place for the additional two ethanol projects and there can be no assurance that we will obtain funding for these projects or that funding will be available on advantageous terms. 16

In furtherance of our business plan, on February 6, 2006, we entered into a Master Loan Agreement, Construction and Term Loan Supplement, Construction and Revolving Term Loan Supplement, Security Agreement and Real Estate Mortgage with Farm Credit Services of America, FLCA (individually and collectively, the "Loan Agreements"). A participating interest under the Loan Documents was transferred to CoBank, ACB. Under the Loan Agreements, the lenders will loan up to \$47,000,000. The loan proceeds are to partially finance construction of the Plant and to provide funding for working capital purposes. The Plant is to be in production by no later than May 1, 2007 and construction costs are not to exceed an aggregate of \$71,000,000, net of refundable sales taxes. *Loan Commitments and Repayment Terms* The loan is comprised of a \$30,000,000 amortizing term loan and a \$17,000,000 revolving term facility. o Term Loan - This loan is available for advances until July 1, 2007. Principal payments are to commence with \$1,200,000 due November 20, 2007, and each quarter thereafter with a final maturity on November 20, 2013 at the latest. In addition, for fiscal years ending in 2007 and thereafter, we are also required to make a special payment equal to 65% of the available (if any) free cash flow from operations, not to exceed \$2,000,000 per year, and provided, however, that if such payments would result in a covenant default under the Loan Agreements, the amount of the payments shall be reduced to an amount which would not result in a covenant default. The free cash flow payments are discontinued when the aggregate total received from such payments exceeds \$8,000,000. o Revolving Term - This loan is available for advances throughout the life of the commitment. This loan requires semi-annual \$2,400,000 payments on/step-downs of the commitment to commence on the first day of the month beginning approximately six months after repayment of the term loan, by May 1, 2014 at the latest with a final maturity no later than November 1, 2017. *Availability of Advances, Interest Rates and Fees* Advances are subject to satisfaction of specified lending conditions. Advances correlate to budget and construction timeline projections, with verification of progress by a third-party engineer. The loans will bear interest at the rate of LIBOR plus 3.35%. We paid a loan origination fee in the amount of \$352,500, \$650 of expenses, \$2,000 for equity in creditors Farm Credit and CoBank). There is an annual administration fee in the amount of \$25,000, beginning November 1, 2007, and an unused commitment fee equal to 1/2% of the unused revolving term. Appraisal, inspecting engineer, and title company insurance and disbursing fees are also at the Company's expense. *Security* As security for the loan, the lenders received a first-position lien on all personal property and real estate owned by us, including an assignment of all contracts and rights pertinent to construction and on-going operation of the Plant. *Representations, Warranties and Covenants* The Loan Agreements contain representations, warranties, conditions precedent, affirmative covenants (including financial covenants) and negative covenants. One of these covenants requires that dividends or other distributions to stockholders be limited to 40% of the profit net of income taxes for each fiscal year and may be paid only where we are expected to remain in compliance with all loan covenants, terms and conditions. Furthermore, with respect to the fiscal years ending in 2008 and thereafter, an additional distribution may be made to stockholders in excess of the 40% limit for such fiscal year if we have made the required free cash flow payment for/based on such fiscal year, and will thereafter remain in compliance with all loan covenants, terms and conditions on a pro forma basis net of said potential additional payment. There can be no assurance that we can remain in compliance with all loan covenants. 17

Contractual Obligations Our contractual obligations as of May 31, 2006 were as follows: Contractual Obligations Payments Due by Period Less Than 1 Total Year 1-3 Years 3-5 Years Thereafter Long-Term Debt Obligations (1) \$ 300,000 \$ 40,000 \$ 120,000 \$ 120,000 \$ 20,000 Capital Lease Obligations Operating Lease Obligations \$ 84,082 \$ 29,676 \$ 54,406 Purchase Obligations (2) \$52,329,548 \$52,329,548 Other Long-Term Liabilities Total \$52,713,630 \$52,399,224 \$ 174,406 \$ 120,000 \$ 20,000 ----- (1) The \$100,000 from Iowa Department of Economic development is recorded as a non-refundable grant. (2) Includes the agreements with Mathiowetz Construction (\$295,436) to do the grading and dirt work, Peterson Contracting, Inc. (\$652,658) for geopiers, and Fagen, Inc.

(\$51,381,454) for construction at the site in Shenandoah, Iowa. **Critical Accounting Policies** *Property and equipment* - Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided principally on the straight-line method over the estimated useful lives of the assets which is currently 3-7 years. Land improvements and construction in progress will be depreciated upon the commencement of operations at the property, which is expected to occur in the late Spring of 2007. The money withheld on work performed for land improvements and construction in progress is included in these accounts and offset by a current liability for accrued retainage. The cost of repairs and maintenance is charged to expense as incurred. Expenditures for property betterments and renewals are capitalized. Upon sale or other disposition of a depreciable asset, cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in operating income or loss. The Company periodically evaluates whether events and circumstances have occurred that may warrant revision of the estimated useful life of fixed assets or whether the remaining balance of fixed assets should be evaluated for possible impairment. The Company uses an estimate of the related undiscounted cash flows over the remaining life of the fixed assets in measuring their recoverability. *Recoverable rail line costs* - The Company was required by the railroad to pay the cost to renovate the spur rail line running from Red Oak, Iowa to Shenandoah, Iowa and then to its plant. The Company's shipping contract with the railroad provides that the railroad will rebate to the Company the cost of renovating the spur line on a per rail car load basis. Should the Company place sufficient cars on the rail line it will be reimbursed \$50 to \$150 per rail car up to a maximum of \$3,500,000. This rebate will be recorded as a reduction of the cost of the rail line until the full amount has been recovered. The agreement also provides that if the rail line is sold by the railroad, the Company will be repaid the unrecovered portion of the rail line costs. *Stock based compensation* - The Company applies SFAS No. 123 Accounting for Stock-Based Compensation for all compensation related to stock, options or warrants. SFAS 123 requires the recognition of compensation cost using a fair value based method whereby compensation costs is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. The Company uses the Black-Scholes pricing model to calculate the fair value of options and warrants issued to both employees and non-employees. Stock issued for compensation is valued using the market price of the stock on the date of the related agreement. 18

The Company granted no warrants or options for compensation for the period ended May 31, 2006. **Off-Balance Sheet Arrangements** We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, results of operations or liquidity. **Recent Accounting Pronouncements** The Company has not adopted any new accounting policies that would have a material impact on the Company's financial condition, changes in financial conditions or results of operations. **Grant and Government Programs** In April of 2005 we were awarded a \$300,000 zero interest loan and a \$100,000 forgivable loan (grant) from the State of Iowa's Department of Economic Development. These funds became available to us once we closed on our financing, and were receipted into the accounts of the Company in March of 2006. This loan and grant have covenants based on creating jobs that we believe we will fulfill over the term of the agreements. We believe that we are eligible for and anticipate applying for other state and federal grant, loan and forgivable loan programs. Most grants that may be awarded to us are considered paid-in capital for tax purposes and are not taxable income. Although we may apply under several programs simultaneously and may be awarded grants or other benefits from more than one program, it must be noted that some combinations of programs are mutually exclusive. Under some state and federal programs, awards are not made to applicants in cases where construction on the project has started prior to the award date. There is no guarantee that applications will result in awards of grants or loans. With the exception of the \$300,000 zero interest loan and the \$100,000 forgivable loan (grant) described above, we are not depending on the award of any such grants as part of our funding of the Project. However, we may be eligible to receive such grants. If we do, the amount of money we will have to borrow may be reduced by that amount. There can be no assurance that we will receive any funding under any federal or state funding initiative. **Forward-Looking Statements** Throughout this report, we make "forward-looking statements." Forward-looking statements include the words "may," "will," "estimate," "continue," "believe," "expect" or "anticipate" and other similar words. These forward-looking statements generally relate to our plans and objectives for future operations and are based upon management's reasonable estimates of future results or trends. Although we believe that our plans and objectives reflected in or suggested by such forward-looking statements are reasonable, we may not achieve such plans or objectives. Actual results may

differ from projected results due, but not limited, to unforeseen developments, including developments relating to the following: o The availability and adequacy of our cash flow to meet our requirements, including payment of loans; o Economic, competitive, demographic, business and other conditions in our local and regional markets; o Changes or developments in laws, regulations or taxes in the ethanol, agricultural or energy industries; o Actions taken or omitted to be taken by third parties including our suppliers and competitors, as well as legislative, regulatory, judicial and other governmental authorities; o Competition in the ethanol industry; 19

o The loss of any license or permit; o The loss of our plant due to casualty, weather, mechanical failure or any extended or extraordinary maintenance or inspection that may be required; o Changes in our business strategy, capital improvements or development plans; o The availability of additional capital to support capital improvements and development; and, o Other factors discussed under "Risk Factors" in our annual report on Form 10-K. You should read this report completely and with the understanding that actual future results may be materially different from what we expect. The forward looking statements specified in this report have been compiled as of the date of this report and should be evaluated with consideration of any changes occurring after the date of this report. We will not update forward-looking statements even though our situation may change in the future and we assume no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise. **Item 3.**

Quantitative and Qualitative Disclosures About Market Risk We are a start-up company in development stage, which was formed for the purpose of building a Plant to produce ethanol and animal feed products in southwestern Iowa, and anticipate locating other sites and building other plants in other parts of Iowa or other states within the corn-belt. We also intend to aggressively pursue that acquisition of existing ethanol plants that are already in operation. However, we are not presently conducting operations as an ethanol producer and are not presently subject to market risks. If and when we begin Plant operations, we will be exposed to the impact of market fluctuations associated with commodity prices and interest rates as discussed below. We do not expect to have exposure to foreign currency risk as all of its business is expected to be conducted in U.S. dollars. **Commodity Price Risk** We expect to produce ethanol and its co-product, distiller's dried grains with solubles (DDGS), from corn, and our business will be sensitive to changes in the price of corn. The price of corn is subject to fluctuations due to unpredictable factors such as weather, total corn planted and harvested acreage, changes in national and global supply and demand, and government programs and policies. We also expect to use natural gas in the ethanol and DDGS production process, and our business will be sensitive to changes in the price of natural gas. The price of natural gas is influenced by such weather factors as extreme heat or cold in the summer and winter, in addition to the threat of hurricanes in the spring, summer and fall. Other natural gas price factors include the U.S. domestic onshore and offshore rig count and the amount of U.S. natural gas in underground storage during both the injection and withdrawal seasons. We anticipate that we will attempt to reduce the market risk associated with fluctuations in the price of corn and natural gas by employing a variety of risk management strategies. Strategies include the use of derivative financial instruments such as futures and options initiated on the Chicago Board of Trade and/or the New York Mercantile Exchange, as well as the daily cash management of our total corn and natural gas ownership relative to monthly demand for each commodity, which may incorporate the use of forward cash contracts or basis contracts. We may hedge corn with derivative instruments including futures and options contracts offered through the Chicago Board of Trade. Forward cash corn and basis contracts may also be utilized to minimize future price risk. Similarly, natural gas is hedged with futures and options contracts offered through the New York Mercantile Exchange. Basis contracts may also be utilized to minimize future price risk. 20

Gains and losses on futures and options contracts used as economic hedges of corn inventory, as well as on forward cash corn and basis contracts, are recognized as a component of cost of revenues for financial reporting on a monthly basis using month-end settlement prices for corn futures on the Chicago Board of Trade. Corn inventories are marked to fair value using market based prices so that gains or losses on the derivative contracts, as well as forward cash corn and basis contracts are offset by gains or losses on inventories during the same accounting period. Gains and losses on futures and options contracts used as economic hedges of natural gas, as well as basis contracts, are recognized as a component of cost of revenues for financial reporting on a monthly basis using month-end settlement prices for natural gas futures on the New York Mercantile Exchange. The natural gas inventories hedged with these derivatives

or basis contracts are valued at the spot price of natural gas, plus or minus the gain or loss on the futures or options positions relative to the month-end settlement price on the New York Mercantile Exchange. While our hedging activities may have a material effect on future operating results or liquidity in a specific quarter of its fiscal year, particularly prior to harvest, management does not believe that such activities will have a material, long-term effect on future operating results or liquidity. **Item 4. Controls and Procedures** The Company has evaluated, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of the Company's disclosure controls and procedures as of May 31, 2006, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective. There have been no significant changes in internal controls or in other factors that could significantly effect internal controls subsequent to the date of our most recent evaluation. **PART II -- OTHER INFORMATION** **Item 1. Legal Proceedings** Not applicable **Item 1A. Risk Factors** There have been no material changes from the risk factors previously disclosed in our annual report on Form 10-K for the year ended November 30, 2005. **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds** **Use of Proceeds** The Securities and Exchange Commission declared our registration statement on Form S-1 (SEC Registration No. 333-121321) effective on March 9, 2005. We commenced our initial public offering shortly thereafter. Our initial public offering was for the sale of up to 3,800,000 shares of our common stock at \$10 per share. Each share purchased included a warrant to purchase 1/4 of an additional share of common stock from the Company at a purchase price of \$30 per share. The offering ranged from a minimum aggregate offering amount of \$29,667,000 to a maximum aggregate offering amount of \$38,000,000. Our registered offering and escrow agreement required that we raise the \$29,667,000 in proceeds by November 29, 2005 and secure a letter of commitment for debt financing by November 29, 2005, both of which were accomplished in a timely manner. 21

On November 15, 2005, we closed the offering prior to the sale of the maximum number of registered shares. The net proceeds to the Company from our offering were approximately \$34,532,408. This is the amount of money raised in the offering, (\$34,459,900), less \$11,619 that was paid to the escrow agent for their services, less \$17,476 in federal and state filing fees, less \$227,563 in commissions (7%) paid to Smith Hayes Financial Services for the money raised by them in the offering, plus \$329,166 that was earned as interest while the money was held in escrow. The following is a breakdown of shares registered and shares sold in the offering: Number of Shares Aggregate Price of Registered for Sale Shares Offered Shares Sold Aggregate Price of Shares Sold -----

-----	3,800,000	\$38,000,000	3,445,990	\$34,459,900
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In late November 2005 we began releasing funds from escrow. The following table describes our use of net offering proceeds through May 31, 2006:

Recoverable rail line costs	\$ 3,500,000	Real property	\$ 684,461	Land improvements	\$ 1,634,485	Construction-in-progress	\$ 5,181,862	Debt financing fees and equity in creditors	\$ 355,150	Other costs	\$ 572,846	----- Total	\$ 11,928,804
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===== All of the foregoing payments were direct or indirect payments to persons or entities other than our directors, officers, or unit holders owning 10% or more of our shares. This total does not include operating expenses incurred in prior periods. **Item 3. Defaults Upon Senior Securities** None **Item 4. Submission of Matters to a Vote of Security Holders** We held our annual meeting of stockholders on March 27, 2006, at which meeting five director nominees were submitted for approval by the shareholders. At the annual meeting, Dave Hart and Wayne Hoovestol were nominated for election to the class of directors whose term expires at the 2008 annual meeting of shareholders and Dan Christensen, Steven Nicholson, and Robert Vavra were nominated for election to the class of directors whose term expires at the 2009 annual meeting of shareholders. The shareholders elected Mr. Hart by a vote of 2,734,990 for and 26,000 withheld authority, Mr. Hoovestol by a vote of 2,731,990 for and 29,000 withheld authority, and Mr. Christensen by a vote of 2,743,490 for and 17,500 withheld authority, Mr. Nicholson by a vote of 2,734,990 for and 26,000 withheld authority, and Mr. Vavra by a vote of 2,739,490 for and 21,000 withheld authority. The terms of Barry Ellsworth, Brian Peterson, and Hersch Patton, who were not up for election at the 2006 annual meeting of shareholders, expire at the 2007 annual meeting of shareholders. 22

Item 5. Other Information None **Item 6. Exhibits** **EXHIBIT INDEX** **EXHIBIT NO. DESCRIPTION OF EXHIBIT** 3(i).1 Amended and Restated Articles of Incorporation of the Company (Incorporated by reference to Exhibit 3(i).1 of the Company's Registration Statement on Form S-1 filed December 16, 2004, File No. 333-121321)

3(ii).1 Bylaws of the Company (Incorporated by reference to Exhibit 3(ii).1 of the Company's Registration Statement on Form S-1 filed December 16, 2004, File No. 333-121321) 10.1 Letter Agreement by and between the Company and U.S. Energy, Inc., dated October 5, 2004 (Incorporated by reference to Exhibit 10.5 of the Company's Registration Statement on Form S-1 filed December 16, 2004, File No. 333-121321) 10.2 Letter of Intent by and between the Company and the City of Shenandoah, dated December 16, 2004 (Incorporated by reference to Exhibit 10.7 of the Company's Registration Statement on Form S-1/A filed February 4, 2005, File No. 333-121321) 10.3 Master Loan Agreement, dated January 30, 2006, by and between the Company and Farm Credit Services of America, FLCA (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, dated February 6, 2006) 10.4 Construction and Term Loan Supplement, dated January 30, 2006, by and between the Company and Farm Credit Services of America, FLCA (Incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K, dated February 6, 2006) 10.5 Construction and Revolving Term Loan Supplement, dated January 30, 2006, by and between the Company and Farm Credit Services of America, FLCA (Incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K, dated February 6, 2006) 10.6 Security Agreement, dated January 30, 2006, by and between the Company and Farm Credit Services of America, FLCA (Incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K, dated February 6, 2006) 10.7 Administrative Agency Agreement, dated January 30, 2006, by and between the Company, Farm Credit Services of America, FLCA and CoBank, ACB (Incorporated by reference to Exhibit 10.5 of the Company's Current Report on Form 8-K, dated February 6, 2006) 10.8 Real Estate Mortgage and Financing Statement, dated January 30, by and between the Company and Farm Credit Services of America, FLCA (Incorporated by reference to Exhibit 10.14 of the Company's Annual Report on Form 10-K, dated November 30, 2005) 10.9 Lump Sum Design Build Agreement, dated January 13, 2006, by and between the Company and Fagen, Inc. (Incorporated by reference to Exhibit 10.15 of the Company's Annual Report on Form 10-K/A, dated November 30, 2005) 10.10 Allowance Contract, by and between the Company and BNSF Railway Company, dated January 26, 2006 (Incorporated by reference to Exhibit 10.14 of the Company's Annual Report on Form 10-K, dated November 30, 2005) 23

EXHIBIT NO. DESCRIPTION OF EXHIBIT 10.11 Share Exchange Agreement, dated February 22, 2006, by and between the Company and the parties identified therein (Incorporated by reference to Exhibit 10.14 of the Company's Annual Report on Form 10-K, dated November 30, 2005) 31.1 Certification by Barry A. Ellsworth under Section 302 of the Sarbanes-Oxley Act of 2002. 31.2 Certification by Dan Christensen under Section 302 of the Sarbanes-Oxley Act of 2002. 32.1 Certification of Barry A. Ellsworth pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. 32.2 Certification of Dan Christensen pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. **SIGNATURES** Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized. **GREEN PLAINS RENEWABLE ENERGY, INC.** Date: June 27, 2006 By /s/ Barry A. Ellsworth Barry A. Ellsworth President (Principal Executive Officer) Date: June 27, 2006 By /s/ Dan Christensen Dan Christensen Treasurer (Principal Financial Officer) 24