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Granite Falls, MN 56241



Employees at Granite Falls Energy, LLC

From the desk of the Tom Branhan CEO/General Manager

September, 2006



The ethanol industry continues to gain momentum in constructing new plants as well as gaining acceptance for the use of ethanol outside of the mid-west. There are now 104 plants in operation and at least 45 new plants under construction and/or expansion. This is unprecedented growth by any measure and I think the boom will continue for another year or so.

Granite Falls Energy is at the heart of this revolution—an energy revolution. Ethanol's production drives economic development, adds value to agriculture, and moves our nation toward energy independence. Its use cleans America's air and offers consumers a cost-effective choice at the pump. By the end of this year the U.S. ethanol industry will

provide more than 5 billion gallons of clean burning, renewable fuel to our country's supply.

Ethanol has been used in automobiles since Henry Ford designed his 1908 Model T to operate on pure ethanol. In 2005, ethanol-enriched fuel accounted for approximately 3% of all automotive fuel sold in the US. Ethanol enriched fuels burn cleaner and do not leave gummy deposits in fuel systems and also help to maintain a cleaner engine for optimal performance. All major auto manufactures selling cars in the US approve fuels enriched with up to 10% blended ethanol. E10 is safe for use in small engines, including snowmobiles, motorcycles and lawnmowers.

With ethanol plants springing up across the country — in California, the Midwest, and soon the East Coast — fuel retailers face choices and challenges, but also entrepreneurial opportunities. For example, Sioux Valley Co-op (SVC) in Watertown, S.D., which recently installed blender pumps that will allow customers to essentially blend their preferred level of ethanol-enriched fuels — E10, E20, E30 or E85. Some states don't require any labeling at the pump. If there is no visible label, ask the retailer if the fuel contains ethanol. Stickers on the pump with the words "ethanol," "ethanol enriched" fuel, "E10" or "E85" indicate that the fuel being sold contains ethanol.

Every gallon of ethanol used helps support the American Farmer so the next time you are at the pump, use ethanol and encourage others to do so as well.



Harvest is Here!

The USDA came out with their Production Report on September 12th with the yield being at 154.7, up 2.5 bushels per acres from their August report. USDA's production was up 118 million bushels from the last report but they did take the carry out down due to more exports. The USDA pegged the carryout at 1.22 billion bushels for the 2006-2007 crop year.

Tami Schaefer
Grains
Commodities
Manager

We have approximately 1/3 of our grind need hedged for the 2006-2007 crop year. We also have some hedges on for the 2007-2008 crop year when the carry out looks to be under 1 billion bushels.

The DDG market has been pretty flat in the last couple of months. The market normally picks up going into fall with cows coming out of pasture and the colder weather. We are currently producing Modified Wet Distillers Grain. If you are interested in using this feed product in your livestock rations please contact the office at Granite Falls for analysis and availability of our product.

Have a safe and prosperous fall!

Check us out on the web at
www.granitefallsenergy.com



Paul Enstad
Chairman GFE

I hope everyone has enjoyed the summer. With the school year starting again, it reminds me that we are moving closer to our one year anniversary of operations for Granite Falls Energy, LLC. It has been a successful year for Granite Falls Energy! The Board of Governors, management and all employees are working hard to make the plant run as smoothly and efficiently as possible.

New technology is being introduced for the dry mill ethanol plants to squeeze even more product from each bushel of corn. We are continually looking at ways to become more efficient. A decision was made some time ago to install a computerized monitoring system into the plant. This has really been positive for the plant operators as this system continually looks at the different processing that is occurring and shows them what is going on. It takes much of the guess work out of the equation. The industry is on a fast track right now and the firms and companies that design this new technology are moving just as fast. Proven technology is what we are looking for. We can have all sorts of "bells and whistles", but we need to make sure that they can add to the bottom line. We are reassured that we will be among the first to know about the winners and the losers as we are very well represented by the premier ethanol plant builder in the country. Fagen, Inc. is expanding and we are happy to see that. They are headquartered only three miles from our plant and this is a huge asset for us.

We have seen record prices for ethanol this summer as ethanol has followed rising gasoline prices. The timing could not have been much better to start up our plant. As we viewed the YTD June financial reports in July, it made great business sense for us to pay down much more debt than we had anticipated and still have a disbursement for the investors. Our fiscal year ends October 31st. We plan to send out a letter towards the end of 2006 with information concerning the K-1s that will be coming sometime thereafter. For those that need to plan ahead, this information should be useful for year-end tax planning.

As mentioned at the annual meeting, we expect to complete construction of the infrastructure necessary to draw water for the plant from the Minnesota River in December. The aquifer that we are currently drawing from continues to meet our needs but we have an agreement with the DNR to seek additional sources of water. It makes sense for us to use the river for our needs. The well can still be used if needed.

Many have asked when or if we plan to expand the plant. We have withdrawn our permit application to increase production from our current rate of forty five million gallons per year up to fifty two million gallons per year. We have decided to apply for a permit that would allow us to double our production. This is the first step that we must take and we do not believe that we are losing time or production by withdrawing our prior application. It just was not proceeding as we had hoped and we felt that we might as well go for the larger permit application now rather than later. This gives us many more options. Tests will then be run and we can move forward rather quickly from that point. I cannot give you a timeline on this yet. To set a target date now would not be advisable. The MPCA will have influence on our decisions as we move forward. Many other studies will need to be completed before we can ask for a vote to expand including a financial forecast. We can have those done rather quickly. At this time I believe that all is being done that can be done. We are working hard to find a way to expedite this process. It can be a daunting task but we must remain diligent and leave nothing to chance. We feel good about our air emissions tests. The issue that takes time is water, and I am confident that we are on the right course there as well. Above all, we must protect our environment, even though the process can be frustrating.

It was great seeing many of you at the annual meeting as well as at the grand opening. Thanks for attending!



Maintenance Activities From Under The Hard Hat

We've been running for approximately 10 months now and I have to say that our plant has been running very well. We've had a few warranty-related equipment and plant items to correct. Our vendors and contractors have been extremely cooperative in resolving the issues and putting permanent fixes to them. It certainly makes the maintenance manager's job a lot easier!

Our first scheduled plant maintenance shutdown went very well. We had no surprises and we were able to complete all tasks ahead of schedule during the shutdown. We have settled into some very good maintenance routines for our facility and equipment since the shutdown based on our findings. These routines include alterations to lubrication schedule intervals to improve/extend the life cycles of bearings, bushings, and gear boxes.

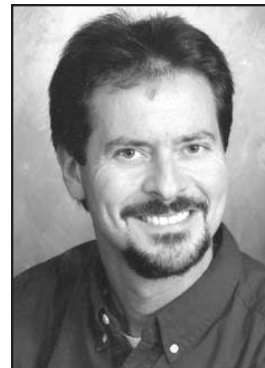
- The GFE maintenance crew continues with normal shift hours and call-ins have really been minimal. As I've said before we do not need to baby-sit this plant!
- During our 100 degree temp days, a few weeks ago, we anticipated seeing electric motor kick-outs and bearing failures. Though more thermal inspections were conducted during this period we did not have any problems due to heat.
- Our maintenance crew has expanded by one person with the addition of a master electrician. All maintenance personnel continue to demonstrate their multi-talented abilities in all maintenance functions and work together very well.
- Asphalt paving was completed near our admin building as well as final site grading and grass seeding; all done prior to our June open house.
- Our preventive maintenance data base program now has over 1300 line items that are being tracked for preventative maintenance. The data base input for this program is nearly complete.
- Work is progressing nicely on our river water treatment building and, like our original facility, most of the construction work is below the surface. We expect our treatment building to begin appearing within the next 30 days and anticipate treating water from the Minnesota River in December.

We are also finalizing our plans for our October shut-down and looking forward to a productive shutdown and, once again, do not anticipate any surprises with equipment.

Have a safe and great fall season!



Robin Spaude
GFE Plant
Manager



Bert Magstadt
Energy
Commodities
Manager

We have over 2/3 of our ethanol contracted through the remainder of 2006 at a favorable rate and over 1/3 of our ethanol contracted for the first part of 2007. It seems with the high prices this summer, most end users of ethanol are hesitant to contract all of their needs at this time; smaller deals are being done here and there instead. We anticipate that over the next month or so, more contracts will be put into place to get us closer to 80% of our ethanol volumes contracted for the remainder of 2006.

With the summer driving season over and no disruptions of gasoline refineries, unleaded gasoline futures have come off from record highs in the \$2.30's to \$1.60's today, or a \$0.70 drop in 6 weeks.

Natural gas prices continue to go lower. The three main reasons behind this price decrease are all-time high storage levels, no significant heat this summer in the south and no hurricanes at all. Prices are still higher than normal for this up coming winter and next summer, but less than 6 months ago. We currently have 100% of our natural gas hedged through March 2007.



Stacie Schuler
Chief Financial
Officer/Controller

Happy Harvest from the Administrative Staff...

It's hard to believe that we are only a couple of months away from our fiscal year end of October 31st. It has been quite an exciting time for GFE, as well as the whole ethanol industry. In June, Denise MaKarrall joined our staff as Receptionist/Investor Services. Angela and I are very fortunate to have her working with us in the administration office.

The SEC reporting has been completed for the third fiscal quarter that ended July 31, 2006, and is available for viewing via the SEC link on our website. The earnings for the quarter were \$13,334,637 [\$428.00 per unit], and year-to-date earnings through the third quarter were \$22,694,581 [728.42 per unit]. In March we converted our \$34,000,000 construction loan into term loans. We made our first scheduled loan payments in June, as well as an additional \$5,000,000. Earlier this month we made our second scheduled payment. Our long term debt is currently \$23,294,197.

As I am sure you are all well aware, the Board of Governors approved of an early cash distribution of \$320.96 per unit of ownership as of June 30, 2006. Please remember that this cash payment to investors/owners is not taxable. It is not a "dividend" and you will not receive a Form 1099 based on these payments. You will receive a Form K-1 based on your ownership percentage of the Company after our fiscal year end audit and tax work are completed. This is what you will use for income tax purposes. Since the final version for the Form K-1 will not be available until January 2007, we will do our best to have an estimate statement out to all investor/owners in December to use for tax planning. Even if you have sold or transferred your units during the year, you will receive a Form K-1 based on your pro-rated ownership during the fiscal year. Please call our office if you have any questions regarding these statements.

All unit trades completed by August 31st through Alerus Securities, and private transfers submitted to our office by September 15th, have been approved by the Board of Governors. These trades and transfers will be effective October 1, 2006. You will receive your new Certificate of Ownership shortly after this date. You can view units available for sale, or offers to purchase units, on www.alerusagstock.com or call Alerus Securities toll free at 800-279-3200, ext. 3402. This information is also available via the "Trading Capital Units (Shares)" link on our website.

Please remember to be careful around all of the agricultural equipment. We wish everyone a safe and successful harvest season!



David Culver
Director of
Operations

Granite Falls is and has been running well despite the challenges of a hot summer. The hot temperatures often bring more of a challenge than the cold of winter because of the increased susceptibility to bacterial infections to the fermentation system. There were minimal instances with this sort of problem this year.

The plant has operated well since its first day, and we are now closing in on a full year of operation. This means a full year of experience in all seasons of operating the plant and an increased understanding of the potential problems throughout the year. We will always find new ones, but everyone will grow in confidence to handle those problems as well.

On a more melancholy note, Doug Reisdorfer, our plant manager at Granite Falls since construction, has decided to move on to new opportunities in the industry. He has left us with a well trained crew. His leaving will create a bit

more work for me in the short term, but it is a challenge that everyone has expressed the willingness to meet. I wish Doug well in his new endeavors and hopefully he does as good of a job in those projects as he did in ours.

This newsletter contains forward-looking statements which discuss the future of the ethanol industry and our future operating and financial performance. These statements involve numerous assumptions, risks and uncertainties. Our actual results or actions may differ materially from these forward-looking statements for many reasons, including the factors identified in our periodic reports filed with the SEC. Please access our reports at www.sec.gov for more information.



Pete Bullene
EHS Manager

We have received the results of the ICM safety audit conducted on April 27, 2006. The facility was rated at 95 out of a possible 100. Your plant is the FIRST NEW ETHANOL FACILITY to achieve a score this high.

We all are aware safety is a team effort and you should be proud of your facility's accomplishments. Without this team effort such a score could not be achieved. Granite Falls Energy is very fortunate to have continued support from the Board of Governors and Management. As your safety program continues to develop and grow in the future the benefits to all involved will be apparent.

In August of 2006 GFE invited Minnesota Occupational Safety and Health Administration (MNOSHA) to the facility for an onsite compliance audit. This governmental agency monitors and regulates the conditions in which employees work. The inspector conduct-

ing the audit was very impressed with the current safety programs and training. He commended the facility and staff for all of the progress that they have made in such a short amount of time.

A follow up visit by MNOSHA is scheduled for November 2006, which will make GFE eligible to become exempt from further inspections. This will be the first ethanol facility in the state of Minnesota to accomplish this elevated level of recognition.

In closing, it is great to see a state of the art facility come together and I'm proud to be part of the team. Safety is always a huge matter in any environment and I'm pleased to see it's a top priority at GFE!