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To our Members of Advanced BioEnergy, LLC:

Included is your Federal 2009 Schedule K-1 for our tax year ending September 30, 2010. For the majority of our Members, this K-1 will be reported on your 2010 Form 1040. If a Member has a non-calendar year-end the K-1 will be reported on the Members' next fiscal year ending after September 30, 2010. We recommend that you provide this letter along with your K-1 to your tax professional.

In the next few weeks you will receive the Advanced BioEnergy, LLC ("ABE") Annual Report which will include the audited financial statements for the fiscal year ended September 30, 2010. ABE's audited GAAP net income as compared to our taxable net income (reported to our members on Schedule K-1) includes significant timing differences. These significant timing differences include tax depreciation in excess of book depreciation, the cancellation of debt, and the deferral of debt restructuring charges. Please refer to the table and footnotes below for an explanation of these specific timing differences.

In prior fiscal years we have had significant tax losses due in large part to tax depreciation exceeding book depreciation (see footnote (3) below). The amount of taxable income that will be allocated to the members in the current tax year on Schedule K-1 is \$27.0 million. We anticipate that you can utilize accumulated tax losses to offset the income you are allocated for the current tax year. In the event our Members have used prior tax losses to offset non-ABE taxable income, the use of these losses may result in future tax liability. The following table reconciles the audited GAAP net income to taxable income:

<u>Taxable Income Allocated to Members on Schedule K-1 (in Millions)</u>	
Audited GAAP net income (before cancellation of debt income)	\$ 13.5
--Net income from cancellation of debt ⁽²⁾	17.7
Total audited GAAP net income (agrees to net income in Annual Report)	\$ 31.2
Permanent differences (Adjustments will not reverse over time)	(0.1)
Temporary differences (Timing adjustments that reverse over time)	
--Tax income on cancellation of debt ⁽²⁾	13.3
--Tax depreciation in excess of book depreciation ⁽³⁾	(16.9)
--Other temporary differences, net	(0.5)
Net taxable income allocated to Members on Schedule K-1 ⁽¹⁾	\$ 27.0

⁽¹⁾ The net taxable income allocated to Members on Schedule K-1 consists primarily of cancellation of debt income, interest income, net capital gain/loss and ordinary loss. The specific amounts of each item for each member are reported on the Schedule K-1 included with this letter.

⁽²⁾ On the date of the South Dakota debt restructuring (June 19, 2010), the company paid \$2.2 million in cash and \$0.6 million of cash remaining in certain bond debt service reserve accounts, in full satisfaction of the \$20.5 million of principal and accrued interest due on the bonds. This resulted in \$17.7 million in cancellation of debt income for both book and taxable income. The Senior Lenders wrote off an additional \$13.5 million of accrued and unpaid interest. The \$13.5 million write-down was not recognized for book income but instead is being amortized over the life of the restructured senior debt. However, for tax purposes the \$13.5 million write-down is recognized as income in the current tax year. The total cancellation of debt income recognized for tax purposes in the current tax year is \$31.2 million (\$17.7 million + \$13.5 million = \$31.2 million, as described above).

⁽³⁾ Approximately 95% of the Fairmont and Aberdeen II plant construction costs were depreciated over 5 years for tax purposes using the Modified Accelerated Cost Recovery System ("MACRS") depreciation method beginning in September 2008. As the MACRS tax depreciation decreases in future years the Company will eventually recognize a depreciation add-back resulting in future taxable income.

Allocation of Income & Special Allocations

Due to member transactions in the current year, you will not be able to recalculate your share of the member income reflected on this Schedule K-1 based on your ending units. The allocable income per unit is based on the ownership on a daily basis. Further, as required by the LLC Operating Agreement and IRS Regulations, special allocations of income or loss were made during the current year. In addition, please note that the Capital account reflected in Section L of the Schedule K-1 is based on Generally Accepted Accounting Principles and should not be utilized or relied upon for the determination of a member's tax basis.

Cancellation of Debt Income

During the current year, the Company was able to cancel its obligation under certain debt instruments. Pursuant to tax law, the Company recognized income related to this exchange. Members with at risk or passive loss carryovers from prior years should be able to use those losses to offset this income. While the K-1 instructions indicate you should report this as Line 21 Other Income on your Federal Form 1040, you may need to include this income with the ordinary income or loss on Line 1 of Schedule K-1, so that your loss carryovers are appropriately taken.

If you (individually) are considered insolvent or meet other requirements specified in the Code as of the end of your taxable year, this income may be treated as tax-exempt. Please consult your tax advisor regarding this determination.

Long Term Capital Loss

As a part of the restructuring arrangement, the Company recognized a loss on the disposition of Dakota Fuels, Inc., that will be allocated to each Member. The long term capital loss is calculated on a pro rata basis of the effective daily ownership percentage, and will be reported on Line 9a Net long-term capital gain (loss) of the Schedule K-1.

State Taxation

Due to our activities in multiple states, we have taxable income apportioned to each state. Accordingly, you will notice Minnesota and Nebraska K-1s that have been attached to your tax return this year which reflects your allocable share of income in those respective states. We certainly recognize the compliance burden that this may add to filing your income tax return. However, we also recognize that many of our members may ultimately not have a filing responsibility in that particular state if their allocable state income is less than that particular state's filing threshold.

Nebraska Withholding to be Paid

This year we are required as a Partnership to withhold and remit Nebraska income tax for each nonresident individual member. For the purposes of this requirement an individual includes a nonresident grantor of a grantor trust. The amount to be paid is 6.84% of the nonresident member's share of partnership income from Nebraska sources. Only the nonresident member may recover these amounts by filing a Nebraska Individual Income Tax Return, Form 1040N.

We will be reporting the amount withheld from each nonresident member, and a Statement of Nebraska Income Tax Withheld for Nonresident Individual, Form 14N, will be attached. Each member that is impacted by this may claim the amount withheld and remitted by the partnership as a credit against his or her Nebraska income tax liability by attaching a copy of the Form 14N to the Form 1040N.

Passive and At-Risk Limitations

The Company has taxable income in the current year. Our tax advisors have indicated that some members may not have sufficient at-risk basis to utilize prior years' losses. Additionally, if this is considered a passive activity, the use of the prior years' losses may have been further limited. In each situation, the losses allocated to you that were limited due to either an at-risk or passive loss limitation generally will be allowed to carry forward to the current year and utilized to offset current taxable income from the Company.

Small Ethanol Producer Tax Credit

During the current fiscal year, the Company had production capacity in excess of the IRS definitions of a small producer. Accordingly, the Company does not qualify for the small producer credit for fiscal 2010. If this activity was considered a passive activity in the prior year, the prior year loss may have limited the use of this credit. This credit will continue to carry forward until the Company has sufficient taxable income, until the carry forward period expires, or you dispose of your interest in the Company. Please see the instructions for Form 6478 (available on the IRS website) for more information.

Work Opportunity Tax Credit

The Company has qualified for the Federal Work Opportunity Tax Credit. This credit (reported on Line 15 of your K-1 Code J) is associated with the hiring of targeted individuals and is considered a general business credit. Similar to the small producer credit, if this activity is considered a passive activity this year, the credit will carry forward until the Company has net income, the carry forward period expires, or you dispose of your interest in the Company. Please see the instructions for Form 5884 (available on the IRS website) for more information.

Domestic Manufacturers Deduction

This deduction is calculated at the member level and is **reported on Form 8903**. Each member must separately calculate the deduction based on all individual activities and pass-through entities owned by the member. Advanced BioEnergy has operating losses for the current year and thus is considered to have negative qualified production income. The member must include all activities whether or not the entity/activity had positive or negative qualified production income (loss entities/activities cannot be ignored). The detailed information needed for **Form 8903** is included as a footnote to your K-1. To calculate your deduction, follow the steps below:

- Aggregate your Qualified Production Activity Income (as shown on Schedule K-1) on **Line 7 of Form 8903**.
- Aggregate your Form W-2 wages (as shown on Schedule K-1) on **Line 15 of Form 8903**.
- Activities not otherwise reflected on a Schedule K-1 should use Lines 1-6 and Line 14 of Form 8903.
- Perform the math follow through to calculate the deduction.

The information provided above is intended for general information purposes only and is not intended as tax or legal advice. You should contact your personal legal and tax advisors for advice or assistance regarding the tax consequences of your K-1, preparation of your federal and state returns, and for help with any other questions that you may have relating to your personal tax situation. If you have any questions regarding the information reflected in this K-1, please contact me at (763) 226-2701.

A handwritten signature in blue ink, appearing to read "Richard Peterson", is written over a horizontal line.

Richard Peterson
CEO
Advanced BioEnergy, LLC