

**UNITED STATES BANKRUPTCY COURT
DISTRICT OF MINNESOTA**

In re:

GOPHER STATE ETHANOL, LLC

Debtor.

**Bky. No. 04-34706
Chapter 11**

**ORDER GRANTING PRELIMINARY MOTION
TO APPROVE POSTPETITION FINANCING PURSUANT
TO SECTION 364(C) AND USE OF CASH COLLATERAL**

This matter came before the Court on August 18, 2004, upon Debtor's Motion for Expedited Hearing for Interim and Final Orders Authorizing Debtor to Obtain Post-Petition Financing and Authorizing Use of Cash Collateral pursuant to Section 364(c) (the "Financing Motion"). Appearances of counsel were as noted in the record. The Court having considered the evidence and the arguments of counsel FINDS AS FOLLOWS:

1. This Court has jurisdiction to hear this Financing Motion pursuant to 28 U.S.C. §§157 and 1334. This is a core proceeding under 28 U.S.C. §157(b)(2)(D), (K), (M), and (O).
2. Notice of filing of the Financing Motion and this hearing was adequate and sufficient under the circumstances pursuant to the Bankruptcy Code, the Federal Rules of Bankruptcy Procedure ("Bankruptcy Rules") and the Local Bankruptcy Rules. A copy of the Financing Motion was properly served upon all parties entitled to service under the Bankruptcy Code, the Bankruptcy Rules and the Local Bankruptcy Rules.
3. It is necessary for the Debtor to obtain limited post-petition financing to operate its business. An immediate need exists for the Debtor to obtain that post-petition financing without which the Estate may suffer substantial harm.

4. The Debtor has been unable to obtain the needed credit: (i) on an unsecured basis as an administrative expense having administrative priority pursuant to section 364(a) or 364(b) of the Bankruptcy Code, (ii) on an unsecured basis as an administrative expense having priority over all administrative expenses pursuant to section 364(c)(1) of the Bankruptcy Code, (iii) secured by a first lien on unencumbered assets of the Debtor pursuant to section 364(c)(2) of the Bankruptcy Code, or (iv) secured by a junior lien pursuant to section 364(c)(3) of the Bankruptcy Code.

5. The assets of the Estate are subject to pre-petition liens in favor of Bruce Hendry and GDN Holdings, LLC (the "Lender"). The debt secured by the Lender's lien exceeds the value of the Collateral if that Collateral were liquidated today.

6. The Debtor has been unable to obtain post-petition financing adequate to meet its needs on terms and conditions more favorable than those set forth in the Motion. Lender is willing to provide the needed credit to the Debtor but only if it is secured by a first priority mortgage and security interest in the property of the Estate under 11 U.S.C. §364(c)(1) on the terms set forth herein.

NOW, THEREFORE, IT IS ORDERED:

- A. The Preliminary Financing Motion is hereby granted.
- B. The Debtor is immediately authorized to borrow, subject to and in accordance with the terms and conditions set forth in the Motion, up to an aggregate amount of \$100,000 from Lender, only for the purposes set forth on Exhibit A to the Motion.
- C. To secure the payment of the Debtor's obligations as authorized by this Order, Lender shall be and hereby is granted, pursuant to section 364(c) of the Bankruptcy Code, a first priority lien in all property of the estate. The first lien in favor of Lender shall be deemed to be perfected as of the date this Order is entered without the need to file any financing statement or take any further action.

D. Lender shall be and hereby is authorized to take any action it deems necessary or appropriate to perfect the liens and security interests granted to him hereunder, including but not limited to filing financing statements, all of which shall be deemed to have been filed on the date of entry of this Order.

E. Except to the extent set forth in the Credit Line Agreement, all loans and extensions of credit hereunder from time to time hereafter owing by the Debtor to Lender shall have superpriority under the provisions of sections 364(c)(1) of the Bankruptcy Code over all administrative expenses incurred in this case, whether arising or assessed under 705, 330, 331, 503(b), 506(c), 507(a), 507(b) or 726 of the Bankruptcy Code and shall at all times be senior to the rights of the Debtor or any successor trustee in this or any subsequent case under the Bankruptcy Code. No other claim, having a priority superior to, or on a parity with, that granted to Lender by this Order, shall be granted while any of the Debtor's obligations to him covered by this Order remain outstanding.

Dated: August 18, 2004

/e/ Dennis D. O'Brien

Dennis D. O'Brien, Judge
United States Bankruptcy Court

NOTICE OF ELECTRONIC ENTRY AND FILING ORDER OR JUDGMENT Filed and Docket Entry made on 08/19/04 Lori A. Vosejka, Acting Clerk, By DLR
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