

HIGHWATER ETHANOL, LLC
TRADING SERVICE SUMMARY
December 1, 2009

The following is a summary of the basic provisions of a Trading Service for members and nonmembers of Highwater Ethanol, LLC (“Highwater” or the “Company”) to buy and sell membership units of Highwater. This is not a complete description of all the material aspects of the Trading Service. You should read the entire Operational Manual carefully before buying or selling Highwater’s membership units on the Trading Service.

- ***Trading Restrictions.*** Strict regulation of trading of Highwater’s membership units is necessary in order to remain exempt from IRS regulations that would result in double taxation of earnings. Accordingly, you may only trade or transfer membership units in accordance with the Trading Service Agreement and Operational Manual and all transfers must be approved by the Board of Governors. All unauthorized trades or transfers will be void and could subject the seller to involuntary redemption of his or her membership units at a fraction of their original price.

- ***Trading Periods.*** The Board of Governors will consider trades and transfers once per quarter. All trades and transfers that are approved will be effected on the first day of the following quarter, except when an offer to sell is posted the last 45 days of a quarter and is matched with an offer to buy in which case the transfers are approved the next following quarter. The quarters begin on January 1, April 1, July 1 and October 1 of each calendar year.

- ***Transfer Requirements.*** No member may transfer any unit if, in the determination of the Board of Governors, such transfer would cause the Company to be treated as a publicly traded partnership. The Board of Governors may elect in its sole discretion not to recognize any transfer unless and until (i) the Company has received an opinion of counsel satisfactory in form and substance to the Board that the transfer may be lawfully made without registration under applicable state and federal securities laws and that such transfer will not cause the Company to be treated as a Publicly Traded Partnership and (ii) all documents of conveyance are executed and delivered to the Company including the transferor’s membership certificate. There is no limit on the number of units or percentage interest that any member may own.

- ***New Members.*** All new members must sign a counterpart signature page to Highwater’s Amended and Restated Member Control Agreement.

- ***Private transfers.*** Private transfers include a transfer by gift or bequest to a spouse or child of a transferring member or to a trust established for the benefit of such spouse or child or to an existing member of the Company upon ten (10) days written notice to the Company of such gift or some transfers upon death. To make a private transfer you must complete a Private Transfer Application and submit it to the Board of Governors for approval and submit any other required documentation.

- ***Trading Service.*** Highwater has engaged FNC Ag Stock, LLC to operate a Trading Service for Highwater’s membership units. You may not sell or transfer Highwater’s membership units to any unrelated party other than through this Trading Service. Sellers shall pay FNC a commission of three (3%) of the purchase price for each trade, with a minimum of Two hundred fifty Dollars (\$250.00) per transaction. Offers to buy or sell membership units through the Trading Service are non-binding until a written contract for sale has been executed. All offers to buy and sell remain subject to authorization by Highwater Board of Governors.
 - o Offers to buy or sell membership units through the Trading Service are non-binding until a written contract for sale has been executed. All matched offers to buy and sell remain subject to authorization by the transfer agent.

 - o Members interested in buying or selling their membership units should contact FNC at (701) 780-2828 or (855) 827-7391 to complete a Listing Agreement or place a bid. You must indicate the price and number of membership units you desire to buy or sell in whole unit increments. You may submit your offer to buy or sell at any time during the quarter; however, if you list the membership units for sale during the last 45 days of the quarter, the transaction will not be submitted to the transfer agent until the end of the next quarter. Offers to buy or sell membership units will be made available by FNC upon request and

available listings, recent sales and offers to purchase will be posted on FNC' website at www.fncagstock.com.

- FNC will match bids with the listed offers for sale on a daily basis (with the exception of weekends and holidays), except that bids may not be matched with offers to sell until the membership units have been listed for at least 15 days. In matching offers, preference is generally given first to the lowest priced offers to sell or the highest bid price, then in the order received. The purchase price will be at or above the seller's posted price.
- When an offer to sell is matched with a bid, FNC will contact the buyer and seller by telephone to confirm the sale and then send buyer a Unit Transfer Application. The buyer must return the signed contract to FNC within ten (10) business days with a 100% deposit of the purchase price plus the counterpart signature page to the member control agreement and other documentation, if applicable. The purchase price deposit will be held by an independent escrow agent until the sale is completed.
- After FNC receives the buyer's contract and deposit, FNC will send the contract to the seller who must sign and return it to FNC within ten (10) business days as well as forward to Highwater his or her membership unit certificate(s) (or a lost certificate affidavit). In the Listing Agreement, the seller agrees to pay FNC' commission if the seller fails to sign and return these documents as required.
- If you have pledged your membership units to secure a loan, you must get a signed consent from your lender to sell your membership units. The escrow agent will make the check for the sale proceeds payable to both you and the lender upon written request by the lender.
- Approximately 30 days prior to the end of each quarter, FNC will submit to the Company's transfer agent the contracts and related documentation to confirm compliance with all Operating Agreement restrictions, including Board approval.
- If the sale is authorized, the transfer agent will reissue the membership units to the buyer and inform FNC to direct the escrow agent to disburse the net sale proceeds to the seller, after payment of FNC' commission. If the sale is not authorized, the purchase price will be returned to the buyer and no commission will be charged.
- Offers to sell and offers to buy may not be listed any longer than 120 days. After an offer to sell or buy has been listed for 120 days it will be removed. A buyer may repost his or her offer to buy immediately; however, a seller will not be able to list any membership units for sale for at least 60 days after the offer is removed.
- No more than 10% of Highwater's outstanding membership units may be traded through the Trading Service in any calendar year. If the 10% limit is reached, no further trading will be authorized until after the end of the year.

CAUTION: This summary is current only as of the date printed on the first page. It may be updated or revised from time in the discretion of Highwater's Board and in coordination with FNC. The most current version will always be available on Highwater's website, upon request to Highwater or by link on FNC' website. Buyers and sellers should confirm that they are referring to the most current version of the Trading Service Operations Manual when using the Trading Service or transferring membership units.

HIGHWATER ETHANOL, LLC TRADING SERVICE SCHEDULE

<u>Activity</u>	<u>Quarter 1</u>	<u>Quarter 2</u>	<u>Quarter 3</u>	<u>Quarter 4</u>
First day of quarter	January 1	April 1	July 1	October 1
	February 13*	May 16*	August 16*	November 15*
Deadline to submit offers to sell that can be approved during quarter if matched	February 28**	May 31**	August 31**	November 30**
Deadline to submit offers to purchase for match to be approved during quarter**	March 17	June 16	September 15	December 15
Deadline for purchaser to submit entire balance of purchase price to FCN	March 17	June 16	September 15	December 15
Deadline for FCN to submit required documentation to transfer agent for authorization	April 1	July 1	October 1	January 1
Effective date of trades authorized by transfer agent				

* Dates are provided only for guidance and therefore may vary. The actual deadline to submit is 45 days prior to the end of each quarter.

** May be waived in FNC' discretion if other sale conditions met.

HIGHWATER ETHANOL, LLC
TRADING SERVICE OPERATIONAL MANUAL
EFFECTIVE: December 1, 2009

I. Purpose and Overview

Pursuant to the Trading Service Agreement dated December 1, 2009, incorporated by reference to this Operational Manual, Highwater Ethanol, LLC (“Highwater” or the “Company”) and FNC Ag Stock, LLC (“FNC”), hereby agree to the following rules and procedures for the trading of membership units, and delivery of all necessary agreements and documents for the effective trading and transfer of membership units.

Highwater must limit trading to preserve its favorable pass-through tax status. As a result, members will generally only be allowed to sell their membership units through the Trading Service. Transfers that are not made through the Trading Service will be null and void, unless they are transferred between family members, bequests upon death, or otherwise exempt from transfer restrictions and are approved by the Board of Governors. Members should review the provisions of the Trading Service on Highwater’s website for further guidance.

Brokers and dealers may not use the Trading Service to purchase or sell membership units for the accounts of others.

There is no charge to buyers or sellers to register or post membership units on the Trading Service; however, sellers will be charged a commission for completed transactions which is described below. Interested buyers and sellers should carefully read and follow the instructions provided below.

II. Terms and Conditions of Use

1. Highwater is not listed on a national securities exchange or other regulated securities market.
2. The information set forth on the Trading Service does not consist of firm quotes, but rather merely lists the names, addresses and telephone numbers of interested sellers and buyers, the number of units offered or desired to be purchased, and the price at which the proposed transaction would occur. Highwater will not assure that any particular transaction will occur as to any particular number of units or at any particular price. All the transactions must be executed independent of Highwater or any of its affiliates.

This Trading Service Manual may be revised from time to time in the discretion of Highwater and in coordination with FNC. The most current version will always be available on Highwater’s website, upon request to Highwater or by link on fncagstock.com. Buyers and sellers should confirm that they are referring to the most current version of this Operating Manual when using the Trading Service.

3. All applicable state and federal securities laws, including registration requirements, apply to any offer made or transaction consummated using the Trading Service.
4. “Two-sided quotes” in which a person indicates a bid to buy at one price and an offer to sell at another price are prohibited.
5. Highwater will act as Transfer Agent and can be contacted at:

Telephone: (507) 752-6160
Fax: (507) 752-6162
E-mail: alison.kircher@highwaterethanol.com
Main Contact: Alison Kircher

6. Any person that is a broker-dealer or an associated person of a broker-dealer or who has a state securities license is responsible for identifying that fact.
7. By accessing the service, the buyer and seller of the units agree to fully indemnify, defend and hold harmless Highwater and its directors, employees, agents and members from any and all claims arising out of participation with units appearing on the Trading Service.
8. The securities appearing on the Trading Service are illiquid and inherently risky. Therefore, a prospective investor must understand that he/she/it must be able to withstand the total loss of their investment.
9. The securities listed on the Trading Service are not endorsed by any regulatory authority. The fact that the securities may have been registered with a state regulatory agency and/or the SEC does not constitute an endorsement by any regulatory body. Any representation to the contrary is a criminal offense.
10. The appearance of securities on the Trading Service does not constitute an offer to sell nor solicitation of an offer to buy securities by Highwater.

III. Trading Periods

Sellers may post offers to sell membership units (also referred to as the “ask price”) and purchasers may post offers to purchase membership units (also referred to as the “bid price”) on the Trading Service during any business day of the year. Offers to sell will be matched with offers to purchase on a rolling, daily basis after the Offer to Sell has been posted for at least 15 days. Trades will be completed four times a year on the first day of each quarter beginning on January 1, April 1, July 1 and October 1. Trades will be coordinated upon final notification of acceptance from Highwater’s transfer agent (the “Transfer Agent”).

IV. General Rules and Procedures

1. Questions About the Trading Service. Questions regarding registration, buying and selling on the Trading Service should be directed to FNC as follows:

Telephone: (701) 780-2828 or (855) 827-7391

Fax: (701) 757-0889

Website: www.fncagstock.com

2. Questions About Highwater and Member Information. Questions regarding Highwater should be directed to Highwater as follows:

Telephone: (507) 752-6160

Fax: (507) 752-6162

E-mail: alison.kircher@highwaterethanol.com

Main Contact: Alison Kircher

3. Access to Offers to Sell or Purchase. Interested buyers and sellers may contact FNC for purposes of buying and selling membership units as follows:

Telephone: (701) 780-2828 or (855) 827-7391

Physical Address: FNC Ag Stock, LLC

4050 Garden View Drive, Suite 103

Grand Forks, ND 58201

Mailing Address: FNC Securities Corporation

PO Box 5088

Grand Forks, ND 58206-5088

Offers to sell or purchase shall be posted to the Trading Service only after the submission to FNC of a fully completed Listing Agreement (described more fully in Section IV).

FNC shall provide, orally or in writing, to persons that inquire all offers to sell or purchase posted to the Trading Service as of the day of the inquiry. FNC shall provide such information, either orally or in writing, within a reasonable period of time following such request.

4. Non-firm quotes. All offers to sell and purchase posted to the Trading Service shall be considered non-firm.

5. Communication of Offers to Purchase and Sell. Offers to purchase and sell must be communicated to a registered representative of FNC by telephone or in person no later than 5:00 p.m. (C.S.T.) of any business day or by 3:30 p.m. when oral bidding will be required per item 10(c) (matching order roles). Communication to FNC of said offers by email, voice mail, or otherwise is prohibited.

6. Increments. Offers to sell and offers to purchase membership units must be made in whole unit increments and a purchase price per membership unit in whole dollars and cents. No offer to sell or purchase of partial or fractionalized membership units may be posted to the Trading Service.
7. Waiting period. An offer to purchase may not be accepted by the seller prior to the 15th calendar day after the offer to sell is posted to the Trading Service.
8. Modification of offers. An offer to sell may be modified by the seller at any time, subject however to the restriction that an offer to purchase cannot be accepted by a seller prior to the 15th calendar day after the modified offer to sell is posted to the Trading Service. Said modification shall not alter or extend the 120-day maximum period the membership units can be posted for sale by the Trading Service. If FNC communicates to a seller an offer to purchase and the offer to purchase is at a bid price equal to or in excess of the seller's ask price, and if the seller declines to accept the offer to purchase for the bid price, seller shall either set a new ask price (non-firm) or request cancellation of the offer to sell. If the seller sets a new ask price (non-firm), the seller's ask price shall not be eligible for acceptance until the 15th day after which the modified offer is communicated to FNC and posted to the Trading Service.
9. Cancellation of offers. Sellers may cancel an offer to sell at any time prior to his/her/its acceptance of an offer to purchase. All offers to purchase (bids) may be cancelled by contacting FNC by telephone or in writing at any time prior to an agreement for sale being reached by seller and purchaser (communication of an offer and acceptance).
10. Matching order rules. Matching of offers to sell and offers to purchase shall be governed according to the following rules:
 - a. An offer to sell shall not be eligible for matching and acceptance with an offer to purchase prior to the 15th calendar day of said offer to sell being posted to the Trading Service.
 - b. For multiple offers to purchase, the offer to purchase with the highest bid price shall have the first opportunity for matching.
 - c. For multiple offers to purchase which are at or exceed an asking price eligible for matching and which are posted between the 1st and 15th calendar day after an offer to sell has been posted to the Trading Service, FNC shall make reasonable efforts to contact all such bidders at the end of the day of the 15th calendar day, and inform them of the multiple bids, at which time each bidder will be allowed to submit one final bid.
 - d. For multiple offers to sell, the offer to sell with the lowest asking price posted to the Trading Service shall have the first opportunity for matching.

- e. For multiple sellers at same asking price, the seller who posted the offer to sell membership units first in time has priority. For multiple purchasers at same bid price, a purchaser who posted an offer to purchase first in time has priority.
- f. After price and time, precedence is given to the seller or purchaser with the largest order.
- g. If priority cannot be established by price, timing or order quantity a prevailing seller or purchaser is selected at the discretion of FNC.

11. Closing date; Purchase Price. Closing of the sale, at which time the net proceeds will be forwarded to the seller, shall not take place prior to 45 days after the offer to sell is posted to the Trading Service. The purchase price for each sale shall be the bid price stated in the offer to purchase that is matched with the offer to sell.

12. Removal. Offers to sell and offers to purchase may be posted to and listed on the Trading Service for a maximum of 120 days. Any offer to sell or purchase that has not been matched at the end of the 120 days shall be removed from the Trading Service.

13. Eligibility for future posting. A seller whose offer to sell has not been matched within 120 days and consequently whose offer to sell has been removed from the Trading Service will not be eligible to post a new or subsequent offer to sell unless and until 60 calendar days have expired from the date of the previous offer to sell was removed from the Trading Service. Purchasers will be eligible to repost any offer to purchase immediately after it is removed.

V. Trading, Payment and Transfer Procedures

1. Listing Agreement. To be eligible to sell membership units, the seller and FNC must sign a Listing Agreement authorizing FNC to seek a purchaser for membership units. The Listing Agreement will specify and include the following:

- Name, address, telephone number of the interested seller;
- Number of membership units offered for sale;
- Price at which membership units are offered for sale;
- Expiration date;
- Listing date;
- Responsibilities and obligations of seller and FNC;
- Obligation of FNC to secure 100% of purchase price;
- Sales commission rate and minimum commission.

2. Placing offers to purchase. Prospective purchasers who desire to place an offer to purchase may contact FNC in person or by telephone. An offer to purchase may be made at the lowest listed asking price or any other price. Two-sided quotes in which a person indicates a bid to buy at one price and sell at another are prohibited.

3. Communication offer to purchase to seller. Once an offer to purchase is made that equals or exceeds the asking price of one or more listed offers for sale, the eligible offer to purchase is communicated to the seller having the lowest asking price for readily available membership units in accordance with the matching order rules as described above. FNC will use reasonable efforts to contact eligible sellers; however, if FNC is unable to make contact with a seller within a reasonable time according to its best judgment, FNC will communicate said offer to next eligible seller. After communication of offer to purchase to seller, if offer to purchase is at or above the posted asking price, seller has option to accept or reject offer to purchase.

4. Contract for Sale and Transfer Application.

- a. Upon verbal agreement for sale between a purchaser and seller, FNC will generate and send to purchaser a Contract for Sale, Transfer Application and a counterpart signature page to the Member Control Agreement.
- b. Purchaser shall be obligated to fully execute and return to FNC said Contract for Sale, Transfer Application, an earnest money deposit equal to 100% of the accepted purchase price (check made payable to "Alerus Financial, Escrow Agent") and an executed Member Control Agreement signature page if a new member of Highwater, within ten (10) days of receipt of the Contract for Sale and Transfer Application.
- c. Upon receipt of the purchaser's executed Contract for Sale, Transfer Application and earnest money, FNC will immediately deposit the earnest money into a noninterest bearing escrow account at Alerus Financial ("Escrow Agent") and forward the Contract for Sale and Transfer Application to the seller for signature.
- d. Seller shall execute and return to FNC said Contract for Sale and Transfer Application and return to Highwater membership unit certificate(s) (or a satisfactory lost certificate affidavit) both within ten (10) days of the date of receipt of the Contract for Sale and Transfer Application.
- e. In the event the Seller granted to a lender a security interest in the Membership Units, the Seller is required to provide proof of the lender's consent and any transfer instructions with the Contract for Sale and Transfer Application. At the time of closing the securities must be free and clear of any lien, encumbrance, pledge or security interest.

5. Notification. Upon receipt of the fully executed documents from the seller and funds from the purchaser, FNC shall forward to the Transfer Agent the Contract for Sale, Transfer Application, and Member Control Agreement membership signature page. The Transfer Agent shall subsequently confirm with FNC the Board's approval of the completed transaction.

6. Completion of Sale. Upon receipt, FNC will forward to Highwater's Transfer Agent copies of all Contracts for Sale, Transfer Application and other documents relating to each match of membership units together with proof of purchaser's 100% remittance. Upon FNC' receipt of notice from the Transfer Agent that a membership unit certificate is being issued to the purchaser FNC shall direct the Escrow Agent to transfer the sale proceeds (purchase price minus commission) to the seller on the effective date (see below). On or shortly following the effective date, the Transfer Agent will send the new certificate to the purchaser. If any liens or restrictions on the membership units prevent the transfer agent from processing the sale, FNC shall direct the Escrow Agent to refund the entire amount deposited to the purchaser within 10 business days of receipt of notification of such determination.
7. FNC' commission. Prior to the Escrow Agent's transfer of the sale proceeds to the seller, the Escrow Agent shall deduct an amount representing the sales' commission and transfer such commission to FNC. The commission will be three (3%) of the purchase price, but in no event less than Two hundred fifty Dollars (\$250.00).
8. Trade effective date. All sales and transfers shall be effective upon the first day of the quarter following a match if 45 days has expired since the offer to sell was posted. If the offer to sell is posted during the last 45 days of the quarter, the sale will be effective on the first day of the next following quarter. For example, if an offer to sell is submitted between January 1 and February 13, the trade will be effective on April 1 if buyer and seller meet the above delivery deadlines. On the other hand, if the offer to sell is posted after February 13, the trade will not be effective until July 1 even if all delivery deadlines are met.
9. Reporting Requirements. Sales by officers, directors, and certain beneficial owners must be reported to the SEC within two (2) days, and the acquisition of ownership of ten percent (10%) must be reported to the SEC within ten (10) days.

HIGHWATER ETHANOL, LLC MEMBERSHIP UNIT TRANSFER AND TRADING SYSTEM

All transfers of membership units of Highwater Ethanol, LLC ("Highwater") must be completed in accordance with the guidelines set forth herein, as it may be amended from time to time by Highwater's Board of Governors (the "Board of Governors" or the "Board"). This Transfer and Trading System (the "System") is adopted pursuant to the authority vested in the Board by the Member Control Agreement adopted and agreed to by the members of Highwater.

It sets forth certain rights and obligations of the members and the Board, but is not intended to, and does not, impose any requirements upon any third party, including, without limitation, any alternative trading service.

I. General Requirements

- A. No Default.** A person desiring to transfer membership units must be current and not in default of any obligation owed Highwater.
- B. IRS Rules.** This System shall be operated so as to prevent Highwater from being classified as a publicly traded partnership under Section 7704 of the Internal Revenue Code of 1986 and the corresponding regulations promulgated thereunder (collectively “the Code”). Any interpretation of the provisions of this Trading Service shall be conducted in accordance with this requirement.
- C. Operating Agreement.** Any transfers of membership units must comply with Highwater’s member control agreement (the “Member Control Agreement”), in addition to the requirements set forth in this Trading Service.
- D. Minimum Ownership Requirements.** Each member must own at least one membership unit.
- E. Minimum Transfer Requirement.** All transfers must be completed in whole unit increments.
- F. Board Approval.** At the end of each quarter, the Board of Governors will review all private transfer request forms, contracts for sale and other requisite documents provided by transferors and transferees. The Board has the right to approve or reject any proposed transfers or sales in its discretion; provided, however, that the Board is not authorized to approve any transfer or sale that would result in either the transferor or transferee owning less than one membership unit or that would result in Highwater being treated as a publicly traded partnership under the Code.
- G. Effective Date.** All sales and transfers shall be made effective upon the first day of the quarter following the date the transaction is approved by the Board. Highwater’s trading quarters shall begin on January 1, April 1, July 1, and October 1 of each calendar year.
- H. Transfer Agent.** The Board of Governors may designate a transfer agent (the “Transfer Agent”) to keep Highwater’s records of membership units ownership and to complete the transfer of membership unit certificates and other necessary membership documents. All relevant information required to complete the transfer of membership units on Highwater’s books and records must be provided to the Transfer Agent. The Transfer Agent shall be responsible for verifying that all information and authorizations necessary under the Member Control Agreement to complete a sale or transfer has been received and that the membership units are eligible for sale or transfer. If no transfer agent is designated by the Board, then Highwater shall serve as its own transfer agent and the Board shall carry out or delegate the duties of the Transfer Agent set forth herein.

II. Transfers of Membership Units

A. Permitted Transfers. A person may transfer the person's membership units only if the transfer is a private transfer described under Section B below, falls within the 2% safe harbor described under Section C below, or if the transfer is completed through the Trading Service described under Section D below.

B. Private Transfers.

1. A private transfer shall mean one of the following:
 - a. A transfer by gift in which the transferee's tax basis in the units transferred is determined by reference to the transferor's tax basis in the interests transferred;
 - b. Transfers at death, including transfers from an estate or testamentary trust;
 - c. Transfers between members of a family (as defined by Section 267(c)(4) of the Code, which provides that "family" means only a person's brothers and sisters (whether by whole or half blood), spouse, ancestors and lineal descendants);
 - d. Transfers involving the issuance of interests by or on behalf of the limited liability company in exchange for cash, property or services;
 - e. Transfers involving distributions from a retirement plan qualified under Section 401(a) of the Code or an individual retirement account; or
 - f. "Block" transfers, meaning the transfer of membership units representing in the aggregate more than 2% of the total issued and outstanding membership units in one or more transactions during any 30 calendar day period by a person and any related persons (within the meaning of Section 267(b) or 707(b)(1) of the Code, which provides generally that "related persons" includes, among others, members of a family, an individual and an entity majority-owned by such individual, two entities that are majority-owned by the same persons, the grantor and fiduciary of a trust, the fiduciary and beneficiary of a trust, and the executor and beneficiary of an estate);
 - g. Transfers pursuant to a right of redemption or repurchase agreement meeting certain requirements;
 - h. Transfers pursuant to a closed end redemption plan;
 - i. Transfers by one or more members of interests representing in the aggregate 50% or more of the total interests in limited liability company capital and profits in one transaction or a series of related transactions; and

- j. Transfers not recognized by the limited liability company.
2. All private transfers shall be completed in accordance with the following procedures:
- a. The holder of membership units must complete and submit to the Board of Governors:
 - A completed Private Transfer Application;
 - The membership unit certificate(s) or an affidavit of lost certificate; • An executed counterpart signature page to Highwater's Member Control Agreement for each transferee that is not already a member.
 - Copies of all relevant documents that will assist the Board of Governors in determining if the transaction qualifies as a private transfer;
 - b. The Board of Governors will determine whether the transfer qualifies as a private transfer;
 - c. If the transfer qualifies as a private transfer and is approved by the Board, the Board will do or direct its Transfer Agent to do the following:
 - Cancel the membership unit certificate(s); and
 - Issue a new membership unit certificate(s); and
 - d. If the transfer does not qualify as a private transfer, the Board of Governors will notify the transferor that the transfer does not qualify and return to the transferor the documents identified in subsection (a) above.

C. 2% Safe Harbor

1. In addition to private transfers, and transfers made pursuant to a Trading Service (described below), Highwater may allow other transfers of up to 2% of Highwater's outstanding units to be transferred each tax year. It is very important that the Board document and monitor the number of units which are transferred using this 2% Safe Harbor to ensure that no more than the allowable number is transferred in any given tax year.

D. Operation of Trading Service.

1. A person intending to transfer membership units, other than in a private transfer or pursuant to the 2% Safe Harbor, must do so through the Trading Service established by the Board of Governors.
2. Trading will be conducted through a third-party trading service which will be owned, operated, and maintained as an alternative trading service under Regulation ATS by a registered broker-dealer (the "Trading Service Operator"). The Trading Service will be accessible through and by telephone, the internet, email or in person that will permit buyers and sellers to trade membership units of Highwater on a periodic basis pursuant to specific rules and procedures mutually agreed upon between Highwater

and the Trading Service Operator. The specific rules and procedures relating to posting or listing membership units for sale or purchase on the Trading Service, matching offers to buy and sell membership units, timing, payment and delivery shall be set forth under a separate Trading Service Agreement and Operational Manual to be adopted by Highwater and the Trading Service Operator.

3. The responsibilities of the Trading Service Operator are set forth solely in the Trading Service Agreement, the Operational Manual and Regulation ATS. The Trading Service Operator is not responsible in any way for enforcing the provisions of this Trading Service. In addition, nothing in the Trading Service Agreement or Operational Manual shall be construed to prevent a subscriber (as that term is defined in SEC Regulation ATS) from trading outside the trading service.

4. Member Control Agreement requirements and IRS restrictions that do not relate to procedures set forth in the Operational Manual shall be governed and enforced by the Board pursuant to the authority vested in the Board by the members in the Member Control Agreement.