

February 12, 2009

Dear Members of Highwater Ethanol, LLC:

Highwater Ethanol, LLC (The "Company") is a Limited Liability Company (LLC) taxed as a partnership which means it is a "flow-through" entity for federal and state income tax purposes. The company itself does not pay income tax at the company level, but the income or loss flows through to the individual owners of membership interests in proportion to their ownership interest. This will be reported to you on a K-1 form which we will mail to you as soon as possible, but not later than February 20, 2009. The portion of company income or loss reflected on your K-1 form must be reported on your personal individual income tax return.

The Company ended its fiscal year on October 31, 2008. The following is an ESTIMATE of Schedule K-1 information to be used for year end tax planning purposes only. As a member of the Company you will receive an actual K-1 in early 2009; however, the actual K-1 provided to you may differ from this estimate potentially resulting in a variation of your anticipated tax liability. If you owned your membership units or a portion of them for less than the entire year, your share of company income or loss will be pro-rated to show the amount for the portion of our fiscal year that you owned the units.

We recommend you consult your tax advisor regarding this tax memo and any implications it may have on your individual tax and financial situation. This is only an estimate and your individual liability may differ significantly. We expect the Schedule K-1 information per line item and per membership unit owned for the entire fiscal year to be as follows:

Original Investors who held their units the entire year:

Schedule K-1 Items

Ordinary Loss Line 1	(\$5.60) per unit
Interest Income Line 5	\$230.66 per unit

New Investors who were issued units on April 1, 2008:

Schedule K-1 Items

Ordinary Loss Line 1	(\$4.21) per unit
Interest Income Line 5	\$230.66 per unit

Sincerely,

Duan Kletscher, CEO/GM
Highwater Ethanol, LLC