

MINNESOTA ENERGY RESOURCES CORPORATION

(An Indirect Wholly Owned Subsidiary of WEC Energy Group, Inc.)

FINANCIAL STATEMENTS

For the Quarter Ended June 30, 2017

MINNESOTA ENERGY RESOURCES CORPORATION

CONDENSED INCOME STATEMENTS (Unaudited)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2017	2016	2017	2016
<i>(in millions)</i>				
Operating revenues	\$ 41.9	\$ 37.1	\$ 145.6	\$ 138.5
Operating expenses				
Cost of sales	18.8	15.8	76.8	70.9
Other operation and maintenance	14.9	20.2	34.1	39.8
Depreciation and amortization	3.2	2.8	6.4	5.6
Property and revenue taxes	3.0	2.5	5.6	4.5
Total operating expenses	39.9	41.3	122.9	120.8
Operating income (loss)	2.0	(4.2)	22.7	17.7
Other expense, net	—	(0.1)	—	(0.1)
Interest expense	1.0	1.2	2.1	2.6
Other expense	(1.0)	(1.3)	(2.1)	(2.7)
Income before income taxes	1.0	(5.5)	20.6	15.1
Income tax expense (refund)	0.4	(2.3)	8.5	6.3
Net income (loss)	\$ 0.6	\$ (3.2)	\$ 12.1	\$ 8.8

MINNESOTA ENERGY RESOURCES CORPORATION

CONDENSED BALANCE SHEETS (Unaudited) (in millions, except share amounts)	June 30 2017	December 31 2016
Assets		
Current assets		
Cash and cash equivalents	\$ 0.4	\$ 0.9
Accounts receivable and unbilled revenues, net of reserves of \$2.6 and \$2.2, respectively	26.9	54.2
Accounts receivable from related parties	0.1	—
Materials, supplies, and inventory:		
Natural gas in storage	3.4	10.2
Materials and supplies	0.2	0.2
Prepaid taxes	—	7.5
Other	2.0	3.5
Current assets	33.0	76.5
Long-term assets		
Property, plant, and equipment, net of accumulated depreciation of \$153.0 and \$151.1, respectively	349.6	334.0
Regulatory assets	35.4	39.4
Goodwill	127.7	127.7
Other	2.7	2.2
Long-term assets	515.4	503.3
Total assets	\$ 548.4	\$ 579.8
Liabilities and Equity		
Current liabilities		
Short-term debt to parent	\$ 11.8	\$ 36.4
Accounts payable	16.1	25.7
Accounts payable to related parties	2.0	4.4
Accrued taxes	9.3	9.1
Customer credit balances	6.6	10.8
Amounts refundable to customers	4.8	0.2
Accrued payroll and benefits	3.3	4.1
Other	1.2	1.9
Current liabilities	55.1	92.6
Long-term liabilities		
Long-term debt	120.0	—
Long-term debt to parent	—	78.0
Deferred income taxes	108.6	103.4
Regulatory liabilities	40.3	41.1
Other	16.1	18.2
Long-term liabilities	285.0	240.7
Commitments and contingencies		
Common stock – without par value, 100 shares authorized; 100 shares issued and outstanding	121.4	171.4
Retained earnings	86.9	75.1
Total common shareholder's equity	208.3	246.5
Total liabilities and equity	\$ 548.4	\$ 579.8

MINNESOTA ENERGY RESOURCES CORPORATION

CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)		Six Months Ended	
		June 30	
<i>(in millions)</i>		2017	2016
Operating activities			
Net income	\$	12.1	\$ 8.8
Reconciliation to cash provided by operating activities			
Depreciation and amortization		6.4	5.6
Deferred income taxes and investment tax credits, net		5.2	(2.1)
Change in –			
Accounts receivable and unbilled revenues		27.2	12.5
Materials, supplies, and inventories		6.8	11.3
Other current assets		7.4	3.3
Accounts payable		(12.6)	(10.4)
Other current liabilities		(1.0)	1.0
Other, net		1.5	8.2
Net cash provided by operating activities		53.0	38.2
Investing activities			
Capital expenditures		(17.5)	(12.6)
Payments for assets transferred from WEC Business Services LLC		(2.7)	—
Net cash used in investing activities		(20.2)	(12.6)
Financing activities			
Short-term debt to parent, net		(24.6)	(2.2)
Retirement of long-term debt to parent		(78.0)	(29.0)
Equity contribution from parent		—	6.0
Return of capital to parent		(50.0)	—
Issuance of long-term debt		120.0	—
Other, net		(0.7)	—
Net cash used in financing activities		(33.3)	(25.2)
Net change in cash and cash equivalents		(0.5)	0.4
Cash and cash equivalents at beginning of period		0.9	—
Cash and cash equivalents at end of period	\$	0.4	\$ 0.4
Supplemental cash flow information			
Cash (paid) for interest, net of amount capitalized	\$	(3.7)	\$ (5.0)
Cash received (paid) for income taxes, net		8.1	(3.2)