

MINNESOTA ENERGY RESOURCES CORPORATION

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

FINANCIAL STATEMENTS

For the Quarter Ended June 30, 2018

MINNESOTA ENERGY RESOURCES CORPORATION

| CONDENSED INCOME STATEMENTS (Unaudited) | Three Months Ended | | Six Months Ended | |
|---|--------------------|-------------|------------------|--------------|
| | June 30 | | June 30 | |
| | 2018 | 2017 | 2018 | 2017 |
| <i>(in millions)</i> | | | | |
| Operating revenues | 46.8 | 41.9 | 159.7 | 145.6 |
| Operating expenses | | | | |
| Cost of sales | 21.1 | 18.8 | 86.9 | 76.8 |
| Other operation and maintenance | 16.3 | 14.9 | 34.7 | 34.1 |
| Depreciation and amortization | 1.5 | 3.2 | 5.0 | 6.4 |
| Property and revenue taxes | 2.7 | 3.0 | 5.6 | 5.6 |
| Total operating expenses | 41.6 | 39.9 | 132.2 | 122.9 |
| Operating income | 5.2 | 2.0 | 27.5 | 22.7 |
| Interest expense | 1.1 | 1.0 | 2.3 | 2.1 |
| Income before income taxes | 4.1 | 1.0 | 25.2 | 20.6 |
| Income tax expense | 1.1 | 0.4 | 6.6 | 8.5 |
| Net income | 3.0 | 0.6 | 18.6 | 12.1 |

MINNESOTA ENERGY RESOURCES CORPORATION

| CONDENSED BALANCE SHEETS (Unaudited) (in millions, except share amounts) | June 30 2018 | December 31 2017 |
|--|-----------------|---------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 2.4 | \$ 1.0 |
| Accounts receivable and unbilled revenues, net of reserves of \$2.5 | 27.6 | 41.6 |
| Receivables from related parties | 2.2 | 0.1 |
| Materials, supplies, and inventories: | | |
| Natural gas in storage | 4.9 | 10.0 |
| Materials and supplies | 0.4 | 0.2 |
| Amounts recoverable from customers | 5.9 | 21.5 |
| Other | 1.6 | 5.4 |
| Current assets | 45.0 | 79.8 |
| Long-term assets | | |
| Property, plant, and equipment, net of accumulated depreciation of \$159.0 and \$153.4, respectively | 392.0 | 378.0 |
| Regulatory assets | 29.6 | 36.6 |
| Goodwill | 127.7 | 127.7 |
| Other | 12.4 | 8.9 |
| Long-term assets | 561.7 | 551.2 |
| Total assets | \$ 606.7 | \$ 631.0 |
| Liabilities and Equity | | |
| Current liabilities | | |
| Short-term debt to parent | \$ — | \$ 41.7 |
| Accounts payable | 17.4 | 42.8 |
| Payables to related parties | 6.9 | 3.0 |
| Accrued taxes | 12.7 | 10.5 |
| Customer credit balances | 6.4 | 8.8 |
| Amounts refundable to customers | 8.5 | 0.6 |
| Other | 5.4 | 8.0 |
| Current liabilities | 57.3 | 115.4 |
| Long-term liabilities | | |
| Long-term debt | 119.2 | 119.2 |
| Deferred income taxes | 72.4 | 74.6 |
| Regulatory liabilities | 85.8 | 80.5 |
| Other | 17.5 | 17.4 |
| Long-term liabilities | 294.9 | 291.7 |
| Commitments and contingencies | | |
| Common stock – without par value, 100 shares authorized; 100 shares issued and outstanding | 133.4 | 121.4 |
| Retained earnings | 121.1 | 102.5 |
| Total common shareholder's equity | 254.5 | 223.9 |
| Total liabilities and equity | \$ 606.7 | \$ 631.0 |

MINNESOTA ENERGY RESOURCES CORPORATION

| CONDENSED STATEMENTS OF CASH FLOWS (Unaudited) | | Six Months Ended | |
|--|----|------------------|---------------|
| | | June 30 | |
| (in millions) | | 2018 | 2017 |
| Operating activities | | | |
| Net income | \$ | 18.6 | \$ 12.1 |
| Reconciliation to cash provided by operating activities | | | |
| Depreciation and amortization | | 5.0 | 6.4 |
| Deferred income taxes, net | | (3.1) | 5.2 |
| Change in – | | | |
| Accounts receivable and unbilled revenues | | 11.9 | 20.6 |
| Materials, supplies, and inventories | | 4.9 | 6.8 |
| Amounts recoverable from customers | | 15.6 | 6.6 |
| Prepaid taxes | | 2.4 | 7.5 |
| Other current assets | | 1.7 | (0.1) |
| Accounts payable | | (16.5) | (12.6) |
| Amounts refundable to customers | | 7.9 | 4.6 |
| Other current liabilities | | (2.4) | (5.6) |
| Other, net | | 9.9 | 1.5 |
| Net cash provided by operating activities | | 55.9 | 53.0 |
| Investing activities | | | |
| Capital expenditures | | (21.5) | (17.5) |
| Payments for assets transferred from WEC Business Services LLC | | (3.2) | (2.7) |
| Other, net | | (0.1) | — |
| Net cash used in investing activities | | (24.8) | (20.2) |
| Financing activities | | | |
| Short-term debt to parent, net | | (41.7) | (24.6) |
| Retirement of long-term debt to parent | | — | (78.0) |
| Equity contribution from parent | | 22.0 | — |
| Return of capital to parent | | (10.0) | (50.0) |
| Issuance of long-term debt | | — | 120.0 |
| Other, net | | — | (0.7) |
| Net cash used in financing activities | | (29.7) | (33.3) |
| Net change in cash and cash equivalents | | 1.4 | (0.5) |
| Cash and cash equivalents at beginning of period | | 1.0 | 0.9 |
| Cash and cash equivalents at end of period | \$ | 2.4 | \$ 0.4 |
| Supplemental cash flow information | | | |
| Cash (paid) for interest, net of amount capitalized | \$ | (2.6) | \$ (3.7) |
| Cash (paid) received for income taxes, net | | (0.8) | 8.1 |