

MINNESOTA ENERGY RESOURCES CORPORATION

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

FINANCIAL STATEMENTS

For the Quarter Ended September 30, 2017

MINNESOTA ENERGY RESOURCES CORPORATION

CONDENSED INCOME STATEMENTS (Unaudited)	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2017	2016	2017	2016
<i>(in millions)</i>				
Operating revenues	\$ 32.1	\$ 32.3	\$ 177.7	\$ 170.8
Operating expenses				
Cost of sales	15.9	15.8	92.7	86.7
Other operation and maintenance	13.3	13.6	47.4	53.4
Depreciation and amortization	3.3	2.7	9.7	8.3
Property and revenue taxes	2.6	2.2	8.2	6.7
Total operating expenses	35.1	34.3	158.0	155.1
Operating (loss) income	(3.0)	(2.0)	19.7	15.7
Other expense	—	—	—	0.1
Interest expense	1.2	1.1	3.3	3.7
Other expense	(1.2)	(1.1)	(3.3)	(3.8)
(Loss) income before income taxes	(4.2)	(3.1)	16.4	11.9
Income tax (benefit) expense	(1.7)	(1.3)	6.8	5.0
Net (loss) income	\$ (2.5)	\$ (1.8)	\$ 9.6	\$ 6.9

MINNESOTA ENERGY RESOURCES CORPORATION

CONDENSED BALANCE SHEETS (Unaudited) (in millions, except share amounts)	September 30 2017	December 31 2016
Assets		
Current assets		
Cash and cash equivalents	\$ 0.3	\$ 0.9
Accounts receivable and unbilled revenues, net of reserves of \$2.3 and \$2.2, respectively	25.6	54.2
Materials, supplies, and inventory:		
Natural gas in storage	12.8	10.2
Materials and supplies	0.2	0.2
Prepaid taxes	1.3	7.5
Other	2.0	3.5
Current assets	42.2	76.5
Long-term assets		
Property, plant, and equipment, net of accumulated depreciation of \$154.0 and \$151.1, respectively	363.5	334.0
Regulatory assets	34.1	39.4
Goodwill	127.7	127.7
Other	7.8	2.2
Long-term assets	533.1	503.3
Total assets	\$ 575.3	\$ 579.8
Liabilities and Equity		
Current liabilities		
Short-term debt to parent	\$ 28.3	\$ 36.4
Accounts payable	20.4	25.7
Accounts payable to related parties	1.9	4.4
Accrued taxes	8.1	9.1
Customer credit balances	9.2	10.8
Other	6.9	6.2
Current liabilities	74.8	92.6
Long-term liabilities		
Long-term debt	120.0	—
Long-term debt to parent	—	78.0
Deferred income taxes	116.6	103.4
Regulatory liabilities	41.2	41.1
Other	16.9	18.2
Long-term liabilities	294.7	240.7
Commitments and contingencies		
Common stock – without par value, 100 shares authorized; 100 shares issued and outstanding	121.4	171.4
Retained earnings	84.4	75.1
Total common shareholder's equity	205.8	246.5
Total liabilities and equity	\$ 575.3	\$ 579.8

MINNESOTA ENERGY RESOURCES CORPORATION

CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)		Nine Months Ended	
		September 30	
<i>(in millions)</i>		2017	2016
Operating activities			
Net income	\$	9.6	\$ 6.9
Reconciliation to cash provided by operating activities			
Depreciation and amortization		9.7	8.3
Deferred income taxes and investment tax credits, net		13.5	4.4
Change in –			
Accounts receivable and unbilled revenues		28.6	17.3
Materials, supplies, and inventories		(2.6)	3.1
Prepaid taxes		6.2	(2.0)
Other current assets		0.5	0.5
Accounts payable		(9.6)	(8.6)
Other current liabilities		(2.2)	(7.6)
Other, net		(1.8)	8.6
Net cash provided by operating activities		51.9	30.9
Investing activities			
Capital expenditures		(32.6)	(23.4)
Payments for assets transferred from WEC Business Services LLC		(3.0)	—
Net cash used in investing activities		(35.6)	(23.4)
Financing activities			
Short-term debt to parent, net		(8.1)	15.8
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		(0.8)	—
Net cash used in financing activities		(16.9)	(7.2)
Net change in cash and cash equivalents		(0.6)	0.3
Cash and cash equivalents at beginning of period		0.9	—
Cash and cash equivalents at end of period	\$	0.3	\$ 0.3
Supplemental cash flow information			
Cash (paid) for interest, net of amount capitalized	\$	(3.8)	\$ (5.6)
Cash received (paid) for income taxes, net		12.9	(3.0)