

HOMELAND ENERGY GROUP LTD.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

(Stated in Canadian Dollars)

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**HOMELAND ENERGY GROUP LTD.
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008**

Management's Responsibility for Financial Reporting

The accompanying audited consolidated balance sheets as at December 31, 2008 and 2007 and audited consolidated statements of operations and deficit, comprehensive loss and cash flows for the years then ended of Homeland Energy Group Ltd. ("Homeland" or the "Company") were prepared by management in accordance with Canadian generally accepted accounting principles. Management acknowledges responsibility for the preparation and presentation of the audited consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances. The most significant of these accounting principles have been set out herein.

The Board of Directors is responsible for reviewing and approving the audited consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting and disclosure process and the audited consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the audited consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate systems of internal control over financial reporting, to provide reasonable assurance that relevant and reliable financial information is produced. Management conducted an evaluation of the effectiveness of internal control over financial reporting based on "Internal Control - Integrated Framework" published by The Committee of Sponsoring Organizations of the Treadway Commission (commonly called the COSO Framework).

Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as at December 31, 2008, although management has identified a material weakness during the year caused by a lack of segregation of duties. This is a typical issue for smaller companies, and management believes that the risks associated with the lack of segregation of duties have been mitigated by the implementation of other controls.

Conclusion Relating to Disclosure Controls and Procedures

The Company has established and maintains disclosure controls and procedures over financial reporting. The certifying officers have evaluated the effectiveness of the issuer's disclosure controls and procedures as of December 31, 2008 and have concluded that such procedures are adequate and effective to ensure accurate and complete disclosures in interim and annual filings.

Signed "Stephen Coates"
Stephen Coates
Chief Executive Officer

Signed "Stephen Woodhead"
Stephen Woodhead
Chief Financial Officer

March 27, 2009



McGovern, Hurley, Cunningham, LLP
Chartered Accountants

AUDITORS' REPORT

To: The Shareholders of
Homeland Energy Group Ltd.

We have audited the consolidated balance sheet of Homeland Energy Group Ltd. as at December 31, 2008 and the consolidated statements of operations and deficit, comprehensive loss, accumulated other comprehensive loss and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures were reported on by another firm of Chartered Accountants who issued an audit report without reservation dated February 29, 2008, except for Note 18(f) which is dated March 18, 2008. We have audited the restatements in the December 31, 2007 consolidated financial statements and in our opinion, such adjustments, in all material respects, are appropriate and have been properly applied.

MCGOVERN, HURLEY, CUNNINGHAM, LLP

A handwritten signature in cursive script that reads 'McGovern, Hurley, Cunningham, LLP'.

**Chartered Accountants
Licensed Public Accountants**

Toronto, Canada
March 20, 2009

HOMELAND ENERGY GROUP LTD.
CONSOLIDATED BALANCE SHEETS
(Stated in Canadian Dollars)

As at December 31	2008 \$	2007 \$ (As Restated) (See Note 24)
ASSETS		
Current Assets		
Cash and equivalents	7,815,158	5,930,444
Restricted cash	499,616	428,877
Amounts receivable	3,062,008	833,500
Deposits and prepaid expenses	345,530	125,483
Inventory	1,956,114	-
Current portion of long-term loans (Note 10)	-	399,064
	13,678,426	7,717,368
Long-term Deposits and Prepaid Expenses	14,487	304,886
Investments (Note 9)	11,121,315	13,085,956
Long-term Loans (Note 10)	9,420,665	3,855,977
Mineral Properties (Note 12)	15,090,267	7,557,500
Other Assets (Note 10(b))	460,689	-
Property and Equipment (Note 11)	8,288,458	1,192,997
	58,074,307	33,714,684
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	4,144,071	4,134,025
Current portion of long-term liabilities (Note 14)	2,228,690	-
	6,372,761	4,134,025
Long-Term Liabilities		
Convertible debenture (Note 13)	-	1,606,004
Credit facilities (Note 14)	7,906,284	-
Asset retirement obligations (Note 21)	404,438	324,332
	8,310,722	1,930,336
	14,683,483	6,064,361
SHAREHOLDERS' EQUITY		
Capital Stock (Note 15(b))	42,269,384	33,615,679
Capital Stock to be Issued (Note 17)	34,645,799	-
Share Purchase Warrants (Note 15(c))	344,000	89,000
Contributed Surplus (Note 18)	5,498,317	2,168,687
Equity Portion of Convertible Debenture (Note 13)	-	502,179
Accumulated Other Comprehensive (Loss)	(6,617,510)	-
Accumulated Deficit	(32,749,166)	(8,725,222)
	43,390,824	27,650,323
	58,074,307	33,714,684
Going Concern (Note 2)		
Commitments and Contingencies (Notes 8 and 20)		

APPROVED BY THE BOARD

Signed "A. Tom Griffis"
A. Tom Griffis, Director

Signed "Stephen Coates"
Stephen Coates, Director

(The accompanying notes are an integral part of these consolidated financial statements.)

HOMELAND ENERGY GROUP LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
(Stated in Canadian Dollars)

For the years ended December 31

	2008 \$	2007 \$ (As restated) (See Note 24)
Revenue	-	-
Expenses		
Amortization	197,764	99,807
Audit fees	181,643	141,240
Directors' fees	121,581	63,500
Exploration expense	454,187	145,301
Foreign exchange loss	4,908,311	559,911
Insurance	132,148	44,570
Interest expense	342,118	131,408
Interest - accretion expense	35,771	115,583
Investor relations and investor information	540,990	135,114
Legal fees	865,263	250,919
Management and administrative services	3,888,257	1,542,404
Office and general	491,988	231,966
Office rental	288,287	175,679
Professional and consulting fees	1,942,060	382,501
Project evaluation	1,577,837	-
Transfer agent and filing	272,807	18,656
Stock-based compensation (Notes 15(d) and 18)	4,275,060	1,369,845
Travel and accommodation	1,508,321	956,498
Write down of investments	590,261	-
Write down of mineral properties	-	96,704
Homeland Uranium Inc. loss	-	347,946
	22,614,654	6,809,552
(Loss) for the year before the undernoted	(22,614,654)	(6,809,552)
Interest income	1,099,432	165,398
Other income	42,903	39,060
Recovery of non controlling interest loss	-	119,785
Equity (loss) from investment in Homeland Uranium Inc.	(2,393,400)	(346,966)
Gain on dilution of controlling interest in Homeland Uranium Inc.	-	1,739,058
Accretion income	41,020	-
Loss before income taxes	(23,824,699)	(5,093,217)
Income taxes payable	(199,245)	-
Net (loss) for the year	(24,023,944)	(5,093,217)
(Deficit) - beginning of year	(8,725,222)	(3,632,005)
(Deficit) - end of year	(32,749,166)	(8,725,222)
(Loss) per share - basic and diluted	(0.16)	(0.04)
Weighted average number of common shares outstanding during the year - basic and diluted	147,069,295	116,753,868

(The accompanying notes are an integral part of these consolidated financial statements.)

HOMELAND ENERGY GROUP LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS)
(Stated in Canadian Dollars)

For the years ended December 31,	2008 \$	2007 \$ (As restated) (See Note 24)
Other comprehensive (loss)	(6,617,510)	-
Net (loss) for the year	<u>(24,023,944)</u>	<u>(5,093,217)</u>
Comprehensive (loss) for the year	<u>(30,641,454)</u>	<u>(5,093,217)</u>

HOMELAND ENERGY GROUP LTD.
CONSOLIDATED STATEMENTS OF ACCUMULATED COMPREHENSIVE (LOSS)
(Stated in Canadian Dollars)

For the years ended December 31,	2008 \$	2007 \$ (As restated) (See Note 24)
Accumulated other comprehensive (loss) at the beginning of year	-	-
Unrealized (loss) on available-for-sale securities, net of tax of \$nil	<u>(6,617,510)</u>	-
Other comprehensive (loss), being accumulated other comprehensive (loss) at the end of year	<u>(6,617,510)</u>	-

(The accompanying notes are an integral part of these consolidated financial statements.)

HOMELAND ENERGY GROUP LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Stated in Canadian Dollars)

For the years ended December 31	2008 \$	2007 \$ (As restated) (See Note 24)
Cash Provided by (used in):		
Operating Activities		
Net loss for the year	(24,023,944)	(5,093,217)
Adjustments for items not affecting cash:		
Amortization	197,764	99,807
Foreign exchange	3,438,257	414,943
Interest - accretion expense	35,771	115,583
Stock-based compensation (Note 15(d) and 16)	4,275,060	1,369,845
Write down of investments	590,261	-
Write down of mineral properties	-	96,704
Accretion income	(41,020)	-
Accrued interest expense	1,016,565	-
Homeland Uranium Inc. loss, net of non controlling interest	-	228,161
Gain on dilution of controlling interest in Homeland Uranium Inc.	-	(1,739,058)
Equity loss from investment in Homeland Energy Inc	2,393,400	346,966
Changes in non-cash working capital items:		
Amounts receivable	(2,234,846)	(678,549)
Deposits and prepaid expenses	70,352	(321,229)
Accounts payable and accrued liabilities	(3,373,928)	3,775,416
Net cash used in operating activities	(17,656,308)	(1,384,628)
Financing Activities		
Issuance of common shares, for cash	2,400,000	14,935,006
Exercise of share purchase warrants, for cash	-	3,270,648
Exercise of stock options, for cash	21,750	265,051
Issuance of convertible debenture	-	1,992,600
Cash received from GMR (Note 17(a))	30,514,020	-
Credit Facility	9,265,000	-
Share issue costs	(1,340,000)	(619,016)
Net cash provided by financing activities	40,860,770	19,844,289
Investing Activities		
Increase in investments	(3,452,538)	(5,607,966)
Provision of long-term loans	(9,549,779)	(3,018,198)
Mineral properties	(6,625,632)	(4,888,708)
Acquisition of property and equipment	(2,833,565)	(955,946)
Cash received on RTO	646,205	-
Restricted cash	(70,739)	(428,877)
Net cash used in investing activities	(21,886,048)	(14,899,695)
Effect of foreign exchange on cash balances	566,300	-
Change in cash and equivalents	1,884,714	3,559,966
Cash and equivalents - beginning of year	5,930,444	2,370,478
Cash and equivalents - end of year	7,815,158	5,930,444

See Note 16 for supplemental cash flow information.

(The accompanying notes are an integral part of these consolidated financial statements.)

HOMELAND ENERGY GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2008 and 2007
(Stated in Canadian Dollars)

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Homeland Energy Group Ltd. (formerly known as Chrysalis Capital IV Corporation) (“Homeland” or the “Company”) was incorporated under the *Canada Business Corporations Act* on October 12, 2006. The Company was set up as a capital pool company under the policies of the TSX Venture Exchange (the “Exchange”) and was listed on the Exchange on February 12, 2007. Following the closing of its qualifying transaction on February 29, 2008, see Note 3, the principal business activity of the Company changed to “the acquisition, exploration, development and operation of energy related resource properties” primarily in Southern Africa, but with a broader focus of investigating appropriate opportunities globally. The Company is a development stage entity as defined by the Canadian Institute of Chartered Accountants Accounting Guideline 11.

Homeland is in the process of exploring and developing its mineral property interests in Southern Africa, with the sale of product from the Kendal Colliery near Witbank, South Africa having commenced in the third quarter of 2008. Homeland also owns an advanced-stage coal development project in South Africa (namely the Eloff Mineral Property) and a number of earlier-stage exploration properties in South Africa and Botswana.

The recoverability of the carrying value of Homeland’s mineral properties, and indeed the Company’s continued existence, is dependent upon the ability of the Company to preserve its interests in the underlying properties and to achieve profitable operations and/or to dispose of its interests in these mineral properties on an advantageous basis. Changes in future conditions could require material write downs in the carrying value of the mineral properties.

Although the Company has taken steps to verify and secure title to the mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration and development of such properties, these procedures do not guarantee the Company's title. Although management is not aware of any such agreements, transfers or defects, property title may be subject to unregistered prior agreements, claims or transfers and title may be affected by undetected defects. Assets located outside of North America are subject to the risk of foreign investment, including currency exchange fluctuations and restrictions, and to political uncertainty.

These consolidated financial statements include the assets, liabilities and operations of Homeland Energy Group Ltd. and its direct and indirect subsidiaries and were prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). The Canadian dollar is the principal currency of the Company's business.

HOMELAND ENERGY GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2008 and 2007
(Stated in Canadian Dollars)

2. GOING CONCERN

These consolidated financial statements have been prepared on a going concern basis in accordance with Canadian GAAP, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

At December 31, 2008, the Company had cash and equivalents of \$7,815,158 and working capital of \$7,305,665. On January 20, 2009, the Company secured a short-term working capital facility for US\$2.5 million (see Note 25(c)), and on March 6, 2009 the Company received \$3,155,302 from a private placement with its largest shareholder (see Note 25(a)). Management of the Company believes that it has sufficient funds available to pay its ongoing administrative expenses and to meet its liabilities as they fall due. However, the Company does not have sufficient resources to meet its anticipated property development expenditure at, for example, the Eloff Mineral Property, or to fund any additional acquisition opportunities. The Company's ability to fund its acquisition program and mineral property development is dependent on the successful conclusion of negotiations to secure additional financing.

These consolidated financial statements do not reflect any adjustments in the carrying values of the assets and liabilities, the reported expenses, and the balance sheet classifications used that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

3. BUSINESS COMBINATIONS

Reverse takeover and public listing

Now a wholly-owned subsidiary of Homeland, **Homeland Energy Corp.** was incorporated as Homeland Uranium Inc. under the laws of Ontario on December 7, 2004 and on September 5, 2006 received authorization from the Ontario Ministry of Consumer and Business Services to apply for continuance into another jurisdiction. On October 12, 2006, this company was continued into the British Virgin Islands as Homeland Energy Corp., a company incorporated under the provisions of the BVI Business Companies Act, 2004. On February 29, 2008, Homeland Energy Corp. completed a reverse-takeover of Chrysalis Capital IV Corporation, which was then renamed **Homeland Energy Group Ltd.**, by way of a merger of Homeland Energy Corp. with a wholly-owned subsidiary of Chrysalis Capital IV Corporation (the "Merger"). The Merger constituted the Company's qualifying transaction pursuant to the policies of the Exchange. On March 31, 2008, Homeland Energy Corp. re-domiciled from the British Virgin Islands to Mauritius.

Prior to the Merger, the Company consolidated its common shares on a one-for-two basis and Homeland Energy Corp. split its common shares on a four-for-one basis. Upon the Merger, the Company then issued one common share for each common share of Homeland Energy Corp. issued and outstanding immediately prior to the merger. All outstanding options, warrants and other convertible securities of Homeland Energy Corp. are exercisable for common shares of the Company based on the same exchange ratios.

On March 5, 2008, Homeland's common shares were posted for trading on the **Toronto Stock Exchange** under the symbol "HEG".

HOMELAND ENERGY GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2008 and 2007
(Stated in Canadian Dollars)

3. BUSINESS COMBINATIONS (Continued)

The acquisition of Homeland Energy Group Ltd. (formerly Chrysalis Capital IV Corporation) by Homeland Energy Corp. has been accounted for as a reverse takeover transaction in accordance with guidance provided in Emerging Issues Committee ("EIC") Abstract No. 10. The Company did not qualify as a business for accounting purposes, and accordingly the transaction has been accounted for as an issuance of shares and warrants by Homeland Energy Corp. for the net monetary assets of the Company of \$666,479 (including cash of \$646,205), accompanied by a recapitalization of the Company.

The net assets acquired were allocated to the shares and options issued to the security holders of the legal parent on a pro rata basis based on their relative fair market values. The fair value of options was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield - 0%; risk-free interest rate - 3%; estimated life - 1 to 4 years; and expected volatility - 71%.

Further to the reverse takeover transaction described above, these consolidated financial statements for the years ended December 31, 2008 and 2007 reflect the consolidated assets, liabilities and results of operations of Homeland Energy Corp., the legal subsidiary, prior to the reverse takeover and the consolidated assets, liabilities and results of operations of the Company and Homeland Energy Corp. subsequent to the reverse takeover. The consolidated financial statements are issued under the name of the legal parent (the Company), but are deemed to be a continuation of the legal subsidiary (Homeland Energy Corp.).

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. All significant inter-company transactions and balances have been eliminated. Minority interests in the Company's subsidiaries have resulted in a non-controlling interest. The proportionate share of the net loss of the Company has decreased the non-controlling interest to \$Nil as of December 31, 2008 and 2007.

(b) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of any contingent assets and liabilities as at the date of the consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Significant areas where management judgment is applied are asset valuations, fair value considerations regarding loans and investments, the recoverability of exploration and development expenditures on mineral properties, the amount and classification of mineral resources and reserves, the estimated fair value of assets acquired in the reverse takeover and public listing, the amount of future site reclamation costs and asset retirement obligations, the valuation of warrants and stock options, tax accounts, and contingent liabilities.

The Company regularly reviews the estimates and assumptions that affect the consolidated financial statements and actual results may differ from those estimates. In the opinion of management, all adjustments considered necessary for the fair presentation of the results for the years presented are reflected in the consolidated financial statements.

HOMELAND ENERGY GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2008 and 2007
(Stated in Canadian Dollars)

4. SIGNIFICANT ACCOUNTING POLICIES

(c) Mineral properties

Direct property acquisition costs, holding costs, field exploration and supervisory costs, and development costs (net of any revenue from pre-commercial production) relating to specific properties are capitalized and deferred until the property to which they directly relate is placed into commercial production, at which time they will be amortized, on a unit of production basis, or until the property to which they relate is abandoned, sold or considered to be impaired in value, at which time an appropriate charge against income will be made. Costs include the cash consideration paid as well as the fair market value of shares, warrants or stock options issued, if any, on the acquisition of exploration properties. Properties acquired under option agreements whereby payments are made at the sole discretion of the Company are recorded in the accounts at such time as the payments are made. The proceeds from options granted are applied to the cost of the related property and any excess is included in income for the year. Costs incurred for administration and general exploration that are not project specific, are charged to operations.

The recorded amounts for the acquisition costs of properties and their related capitalized exploration and development expenses represent actual expenditures incurred and are not intended to reflect present or future values. The Company, however, reviews the capitalized costs on its properties on a periodic basis and will recognize any impairment in value based upon the stage of exploration and/or development, work programs proposed, current exploration results and upon management's assessment of the future probability of profitable revenues from each property, or from the sale of the relevant property. Management's assessment of a property's current fair market value may also be based on a review of other property transactions that have occurred in the same geographic area as that of the property under review. The recovery of acquisition costs and deferred exploration is dependent upon the existence of economically recoverable reserves, the Company's ability to obtain the necessary financing to complete exploration and development, and future profitable production or proceeds from disposition of such properties.

(d) Property and equipment

Property and equipment is recorded at cost less accumulated amortization. The Company provides for amortization on a straight line basis using the following rates, designed to amortize the cost of the assets over their estimated useful lives:

Plant and machinery	3 years
Motor vehicles	5 years
Office furniture and equipment	3 to 5 years
Computer equipment	3 years
Buildings	3 years
Leasehold improvements	5 years

HOMELAND ENERGY GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Foreign currency translation

The Canadian dollar is the functional currency of the Company and its subsidiaries. The Company considers its Mauritius, South African and Botswana operations to be integrated operations. As such, monetary assets and liabilities of the Company's foreign operations denominated in a currency other than the Canadian dollar are translated into Canadian dollars at the exchange rate prevailing as at the balance sheet date. Non-monetary assets and liabilities are translated at the historical exchange rates prevailing at each transaction date. Revenue and expenses are translated at the average exchange rates prevailing during the year, with the exception of depreciation and amortization which is translated at historical rates. Exchange gains and losses on translation are included in the consolidated statements of operations and deficit.

(f) Cash and equivalents

Cash and equivalents consist principally of cash on account, money market funds and other highly liquid interest bearing instruments with original maturities of three months or less.

(g) Long-life asset impairment

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability is assessed based on the carrying amount of the long-lived asset compared to its fair value, as determined by the sum of the future undiscounted cash flows expected to result from the use and the eventual disposal of the long life assets. An impairment loss is recognized in the period when the carrying amount exceeds the fair value.

(h) Asset retirement obligations

The fair value of an asset retirement obligation is recognized in the period in which the obligation is incurred, discounted to its present value using the Company's credit adjusted risk free interest rate. The fair value of the estimated obligation is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The costs capitalized to the related asset will be amortized to earnings in a manner consistent with the depletion, depreciation and amortization of the underlying asset. The liability amount is increased in each reporting period due to passage of time and the amount of accretion is charged to earnings in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted costs could also result in an increase or decrease in the obligation. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded.

(i) Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing the earnings (loss) available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of diluted earnings (loss) per share, according to the treasury stock method, assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the year, with the incremental number of shares being included in the denominator of the diluted earnings (loss) per share calculation. The diluted earnings (loss) per share calculation assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings (loss) per share. The outstanding share purchase warrants and stock options described in Note 15 have been excluded from the diluted earnings (loss) per share as inclusion would be anti-dilutive.

HOMELAND ENERGY GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2008 and 2007
(Stated in Canadian Dollars)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Stock-based compensation

Under the Company's Stock Option Plan, stock-based compensation awards are available to officers, directors, employees and consultants. All stock-based payments have been accounted for using a fair value-based method of accounting. The fair value of each stock option granted is accounted for in operations, over the vesting period thereof, and the related credit is included in contributed surplus. If and when the stock options are ultimately exercised and common shares are issued, the proceeds of exercise and contributed surplus will be transferred to capital stock. The fair value is calculated using the Black-Scholes option pricing model, which was actually developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, the option pricing model requires the input of highly subjective assumptions, including the expected price volatility and anticipated term. Changes in these highly subjective input assumptions can materially affect the fair value estimate. For these reasons the model does not necessarily provide a reliable measure of the fair value of the Company's stock-based compensation or granted stock options.

The Company's Stock Option Plan is described further in Note 15(d).

(k) Income taxes

The Company accounts for and measures future tax assets and liabilities in accordance with the asset and liability method. Under this method, future tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates, expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no, or a reduced, net asset is recognized.

(l) Inventory

Material and supplies expected to be used in production are valued at the lower of average cost and realizable value. Stock-piled ore inventory is valued at the lower of average production cost and net realizable value. Finished goods inventory which consists of coal which is available for sale is valued at the lower of average production cost and net realizable value. Production costs include the cost of raw materials, direct labour, mine site overhead expenses, amortization of operating property and equipment and depletion of mineral property costs.

(m) Comparative figures

Certain comparative amounts have been reclassified to conform to the current year's presentation.

HOMELAND ENERGY GROUP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2008 and 2007
(Stated in Canadian Dollars)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Comprehensive loss

Comprehensive loss, composed of net loss and other comprehensive loss is defined as the change in shareholders' equity from transactions and other events from non-owner sources. Other comprehensive loss ("OCL") includes unrealized gains and losses on available-for-sale securities and changes in the fair market value of derivatives designated as cash flow hedges, all net of related income taxes. The components of comprehensive loss are disclosed in the statement of operations and comprehensive loss. Cumulative changes in other comprehensive loss are included in accumulated other comprehensive loss ("AOCL"), which is presented as a new category in shareholders' equity.

(o) Financial instruments

Financial assets and liabilities, including derivative instruments, are initially recognized and subsequently measured based on their classification as "held-for-trading", "available-for-sale" financial assets, "held-to-maturity", "loans and receivables", or "other" financial liabilities. Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in net income for the period. Available-for-sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive income until the asset is removed from the balance sheet. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Derivative instruments, including embedded derivatives, are measured at their fair value with changes in fair value recognized in net income for the period, unless the instrument is a cash flow hedge and hedge accounting is applied, in which case changes in fair value are recognized in other comprehensive income.

(p) Investments

Securities which are traded on a recognized securities exchange and for which no sales restrictions apply are recorded at fair values based on quoted closing prices at the balance sheet date or the closing price on the last day the security traded if there were no trades on the balance sheet date. Securities in privately-held companies are recorded at cost unless an upward adjustment is considered appropriate and supported by pervasive and objective evidence such as a significant subsequent equity financing by an unrelated, professional investor at a transaction price higher than the Company's carrying value. Downward adjustments to carrying values are made when there is evidence of a decline in value as indicated by the assessment of the financial condition of the investment based on third party financing, operational results, forecasts, and other developments since acquisition. The Company has classified its investments as available for sale.

5. ADOPTION OF NEW ACCOUNTING STANDARDS

The following new accounting standards of the Canadian Institute of Chartered Accountants ("CICA") became effective for the Company in 2008:

(a) Capital Disclosures

Handbook Section 1535 requires the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied with any capital requirements, the consequences of such noncompliance. The Company has included disclosures recommended by the new Handbook Section 1535 in Note 7 to these consolidated financial statements.

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5. ADOPTION OF NEW ACCOUNTING STANDARDS (Continued)

(b) Financial Instruments

Handbook Sections 3862 and 3863 replaced Handbook Section 3861, Financial Instruments - Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company has included disclosures recommended by the new Handbook Sections 3862 and 3863 in Note 8 to these consolidated financial statements.

(c) Inventory

A new Handbook Section 3031 has established standards for the measurement and disclosure of inventories. The standards provide guidance on the determination of cost and require the allocation of overhead expenses and other costs to inventory. Inventories must be measured at the lower of cost and net realizable value. Consistent use must be made of the method of determining inventory. Reversal of previous write-downs is required when there is a subsequent increase in the value of inventories. The amount of inventories recognized as an expense during the period is disclosed. The adoption of these standards did not have a material impact on the Company's consolidated financial statements.

(d) General Standards of Financial Statement Presentation

The CICA has amended Section 1400, General Standards of Financial Statement Presentation, which is effective for interim periods beginning on or after October 1, 2008, to include requirements to assess and disclose the Company's ability to continue as a going concern. The adoption of the amended standards did not have a material impact on the Company's consolidated financial statements.

6. NEW CANADIAN ACCOUNTING PRONOUNCEMENTS

International Financial Reporting Standards ("IFRS")

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by the end of 2011. In accordance with CSA Staff Notice 52-320, as the majority of the Company's current activities are located in South Africa, the Company currently prepares the bulk of its accounts in accordance with IFRS and then converts to Canadian GAAP. Management believes that very limited changes will be required in order to achieve full compliance with IFRS. The Company continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

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7. CAPITAL MANAGEMENT

The Company's objectives in managing its capital are to ensure sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions, ensure externally imposed capital requirements relating to its credit facilities are being met, and to provide returns to its shareholders.

The Company manages its capital structure and makes adjustments to it in light of general economic conditions, the risk characteristics of the underlying assets and the Company's working capital requirements. The properties in which the Company currently has an interest are in the exploration, development and pre-commercial production stages; as such the Company remains dependent on external financing to fund many of its activities. In order to carry out its planned acquisition, exploration and development activities, and to pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. In order to maintain or adjust its capital structure, the Board of Directors may approve the issue of shares or the undertaking of other activities as deemed appropriate under the specific circumstances.

The Board of Directors reviews and approves all material transactions out of the ordinary course of business, including proposals on acquisitions or other major investments or divestitures, as well as capital and operating budgets.

The Company's externally imposed capital requirements, attributable to the Facility entered into by its subsidiary, Ferret Coal (Kendal) (Pty) Ltd., with Nedbank Limited are as follows:

- (a) Debt Service Ratio by Ferret Coal (Kendal) (Pty) Ltd. of 1.3 times;
- (b) Loan Life Cover Ratio by Ferret Coal (Kendal) (Pty) Ltd. of 1.5 times; and
- (c) Debt to Equity Ratio by Ferret Coal (Kendal) (Pty) Ltd. of 70 : 30.

Failure to meet these capital requirements could result in an event of default by the Company's subsidiary under the terms of the Facility Agreement, and Nedbank Limited requiring the immediate repayment of the outstanding balance under the Facility. As at December 31, 2008, Ferret Coal (Kendal) (Pty) Ltd. was in compliance with all of these externally imposed capital requirements and, based on the financial model agreed with Nedbank Limited, anticipates remaining in compliance with these capital requirements for the life of the Facility.

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8. FINANCIAL RISK FACTORS

The Company's financial risk exposures and their impact on the Company's financial instruments are summarized below:

(a) Fair value of financial instruments

The estimated fair value of the Company's financial instruments has been determined based on the Company's assessment of available market information and appropriate valuation methodologies. However, these estimates may not necessarily be indicative of the amounts that the Company could realize in a current market exchange.

The Company's financial instruments are primarily comprised of cash and equivalents, restricted cash, amounts receivable, investments, long-term loans, accounts payable and accrued liabilities, other current liabilities and credit facilities. The carrying values of these items, excluding credit facilities approximate their fair values due to the relatively short-term expected maturities of these instruments and/or the short-term that has passed from inception of these instruments. The fair values of long-term loans and investments were calculated based on market information and the Company's best estimate. The fair value of the credit facilities approximates carrying value due to the short period of time that has passed from inception of the financial instrument.

The Company has designated its cash and equivalents, including restricted cash, as held-for-trading, which are measured at fair value. Financial instruments included in amounts receivable and long-term loans are classified as loans and receivables, which are measured at amortized cost. Credit facilities and accounts payable and accrued liabilities and other current liabilities are classified as other financial liabilities, which are measured at amortized cost.

Investments (excluding the investment in Homeland Uranium Inc.) are classified as available for sale. The Company recorded a mark-to-market loss of \$6,617,510 for the year ended December 31, 2008 on its investments.

(b) Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are primarily transacted in Canadian dollars and in South African Rand. The Company has funded certain exploration, development and administrative expenses in South Africa and the United Kingdom on a cash basis using funds converted from its bank accounts held in Canada. The South African operations are now funded locally by way of the Nedbank Facility and utilizing cash held in South African Rand with South African financial institutions. Until "Completion" as defined in terms of the Nedbank Facility Agreement, i.e. until the commissioning of the Kendal Mine is complete and operations are at steady state, all cash held or generated in South Africa must remain in South Africa under the security provisions of the Nedbank operating loan.

The Company has recently commenced with the sale of coal and such sales are currently predominately denominated in South African Rand, the same currency in which the operating costs are incurred.

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8. FINANCIAL RISK FACTORS (Continued)

(b) Foreign currency risk (continued)

The Company does not use derivative instruments to reduce its exposure to foreign currency risk. The Company held the following cash and equivalents, denominated in foreign currencies, at December 31:

	2008	2007
	\$	\$
Canadian Dollars	596,526	1,847,301
US Dollars	86,655	3,610,189
British Pounds	7,706	1,640
South African Rand	7,098,784	411,329
Botswana Pula	25,487	59,985
	7,815,158	5,930,444

The foreign currency losses reported in 2008 resulted primarily from the appreciation of the United States Dollar denominated obligation to GMR Energy Limited ("GMR") in late 2008, relative to the Canadian Dollar, that was eventually settled in common shares. A change in the Canadian dollar by 5% could result in a \$50,000 increase or decrease in net loss.

(c) Commodity price risk

The Company is exposed to price risk with respect to commodity prices. Homeland closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. The Company believes that price risk with respect to commodities is currently relatively low given that the Company is not yet in commercial production.

Effective October 1, 2008, the Company entered into contracts to sell 35,000 tonnes per month of washed product at ZAR 720.00 (\$92) per tonne for 12-months, and 6,000 tonnes per month of duff at ZAR 500.00 (\$64) per tonne for three years (including provision for an annual escalation factor). This contract is currently under review for non-performance by the counter-party.

(d) Interest rate risk

The Company has cash balances and, through a subsidiary company, senior interest-bearing debt. The Company's current policy is to hold its cash balances with reputable banking institutions in Canada, South Africa, the United Kingdom and Mauritius and to invest excess cash in investment-grade short-term deposit certificates where applicable. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

The Company is exposed to interest rate risk on its variable rate debt. At December 31, 2008, the outstanding balance on the Company's long-term credit Facility amounted to \$10,134,974 (ZAR 77 million). A one percent increase or decrease in the interest rate could result in a \$100,000 increase or decrease to net loss.

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8. FINANCIAL RISK FACTORS (Continued)

(e) Credit risk

Credit risk is the risk that a third party might fail to fulfill its performance obligations under the terms of a financial instrument. The Company's credit risk is primarily attributable to cash and equivalents, amounts receivable, deposits and prepaid expenses and long-term loans. Cash equivalents consist of overnight deposits and savings accounts, which have been placed with reputable financial institutions, primarily in Canada and South Africa, from which management believes the risk of loss to be remote. Financial instruments included in amounts receivable, and deposits and prepaid expenses consist of sales receivables on 30-day terms, goods and services tax due from the Federal Government of Canada, value added tax due from the department of Inland Revenue in South Africa, and deposits with and receivables from unrelated companies. Management believes that the credit risk concentration with respect to financial instruments included in amounts receivable and deposits and prepaid expenses is low. Long-term loans have been made to entities in which the Company has a commercial interest in the technology being developed, and in which the Company's technical management believes there is a reasonable probability of successful implementation, or where the Company has the contractual ability to ensure repayment in the short term through the successful commissioning of the Kendal Colliery.

The Company's Kendal Colliery in South Africa has entered into a significant sales contract with a single counterparty. Although this constitutes a concentration of credit risk, the terms for payment are 30-days.

(f) Liquidity risk

Liquidity risk is the risk that a financial instrument cannot be eliminated quickly, by either liquidating it or by establishing an off-setting position. The Company addresses the capital management process as described in Note 7.

The Company's approach to managing liquidity risk is to ensure that it will have access to sufficient liquidity to meet liabilities as they fall due. As at December 31, 2008, the Company had cash and equivalents of \$7,815,158 (December 31, 2007: \$5,930,444) available to settle current liabilities of \$6,372,761 (December 31, 2007: \$4,134,025). On January 20, 2009, the Company supplemented its available cash-on-hand by US\$2.5 million by way of a one-year credit facility at an interest rate of 10%, secured with the shares that the Company holds in Homeland Uranium Inc., the provider of the facility, and on March 6, 2009, the Company received \$3,155,302 from a private placement (see Note 25(a)). Except for \$2,228,690, all of the Company's current liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

On November 4, 2008, the GMR advised Homeland of its decision not to exercise its option to acquire 40% of the Company's subsidiary, Homeland Mining and Energy SA (Pty) Ltd. ("HMESA") (see Note 25(a)), and exercised its option to put the HMESA shares acquired by it under earlier options back to Homeland. On December 30, 2008, shareholders approved the issue of 75,792,027 common shares in the capital of the Company to GMR to satisfy the repurchase price for these shares of US\$30 million, at a price per common share of Homeland of \$0.455175 per share.

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9. INVESTMENTS

	31 December, 2008 \$	31 December, 2007 \$
Homeland Uranium Inc. (Notes 9 (a) and 25 (c)) - 22,250,000 common shares	10,084,589	12,477,989
Altona Energy Plc (Note 9 (b)) - 44,250,000 common shares	694,725	-
Aviva Corporation Ltd (Note 9 (c)) - 4,000,000 common shares	342,000	-
Londoloza Mineral and Mining Brokers (Pty) Ltd. - representing a 35% interest, written down to \$1.00 in 2006	1	1
Option to invest in a South Africa private company (in the export industry), written off in 2008 (Note 9 (d))	-	607,966
Madic Operations (Pty) Ltd. (Note 10(b))	-	-
	11,121,315	13,085,956

- (a) Effective February 1, 2007, the Company transferred its uranium assets to a Canadian private company, Homeland Uranium Inc. ("HUI"), in return for 16,000,000 common shares. As the Company had an original control position in HUI, and the sale therefore occurred between two related entities, the transaction was accounted for at carrying value of \$6,314,058. Following financings by HUI that raised \$1.84 million at \$0.23 per share, and \$23 million at \$0.80 per unit (in which the Company participated to the extent of \$5 million), the Company's interest in HUI decreased to approximately 42%.

HUI was consolidated with Homeland from February 1, 2007 to the date of dilution of Homeland's interest in HUI to 42%. At the time of dilution, the investment was valued at \$7,824,955 and classified as an equity investment. Upon dilution, the Company recognized a gain on dilution of \$1,739,058. During the year ended December 31, 2008, the Company recognized an equity loss of \$2,393,400 (2007: \$346,966).

- (b) In February 2008, Homeland issued 2,950,000 common shares in consideration for the purchase of 44,250,000 common shares of Altona Energy Plc ("Altona"). This investment represented a strategic interest in a large Australian coal asset held by a public company listed on the AIM in the United Kingdom. The transaction was valued at \$4,183,992 based on a price of 4.75 pence per Altona common share. Based on the closing price per Altona common share on the AIM on December 31, 2008 of 0.875 pence, the investment has been written down to \$694,725.
- (c) In June 2008, Homeland acquired 4,000,000 common shares of Aviva Corporation Ltd ("Aviva") at a price of AUD 0.90 per share, for a total investment of \$3,452,538 (AUD 3,609,000, including AUD 9,000 commission). Based on the closing price per Aviva common share on the Australian Securities Exchange on December 31, 2008 of AUD 0.10, the investment has been written down to \$342,000.
- (d) The Company wrote off the option payment and related due diligence costs associated with an investment that was considered within the South African export industry when a third party offered substantially more than the Company was willing to pay for the investment in question and the Company decided to withdraw from negotiations.

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10. LONG-TERM LOANS

	31 December, 2008	31 December, 2007
	\$	\$
MD Engineering (Note 10 (a))	-	3,783,440
Madic Operations (Pty) Ltd. (Note 10 (b))	915,558	450,881
Numin (Pty) Ltd. (Note 10 (b))	565,493	-
African Spirit Trading 307 (Pty) Ltd. (Note 10(c))	7,939,614	-
Superior Drilling	-	20,720
	9,420,665	4,255,041
Less: Current portion	-	399,064
Long-term portion	9,420,665	3,855,977

- a) At the commencement of operations at the Kendal Colliery, the Company entered into a Service Agreement with MD Engineering for the supply and operation of the crushing and screening and washing plants (the "Plants"). A Loan Agreement was also concluded under which the Company advanced approximately ZAR 34.4 million (\$4.5 million) to MD Engineering for the construction of the Plants and related infrastructure. The loan was subject to interest at the South African Prime rate plus 1% p.a., repayable over the five years of the initial Service Agreement, and secured over the Plants and related infrastructure by way of a Surety Bond.

Effective December 31, 2008, Homeland has purchased the Plants from MD Engineering against settlement of the long-term loan and payment of an additional \$655,500 (ZAR 5,000,000), which has been accrued at December 31, 2008.

- (b) The Company has advanced a loan to Madic Operations (Pty) Ltd. ("Madic"), of \$1,380,000 (ZAR 10 million), in order to capitalize the development of a continuous conveyor system for the mining industry. Madic shall repay the loan, plus interest calculated at a rate of 5% p.a., within a period of two years from the date the conveyor system is successfully installed; failing which interest shall accrue at the prime rate of interest until payment in full. In terms of this Loan Agreement, Homeland is entitled, but not obligated, to purchase at cost a maximum of four Madic continuous conveyor systems.

As part of this agreement, Homeland has acquired 45% of Madic at nominal value, and has simultaneously granted a call option in terms of which it could be compelled to sell 10% (the "Option Shares") back to the vendor at its then market value (including a proportionate interest in any loan account at face value). Should this option be exercised, Homeland would have the further option, *in lieu* of selling the Option Shares, to pay the market value of the Option Shares to the vendor at that time and retain the shares. Homeland is entitled to appoint one of the two directors of Madic.

At the date of the agreement, the Company valued the loan at its present value using a market rate of 14.5%. This resulted in a value of \$919,311 being allocated to the loan and the residual of \$460,689 being allocated to the option. The value of the 45% interest in Madic is nominal; therefore, no value has been attributed to it.

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10. LONG-TERM LOANS (Continued)

(b) (Continued)

In addition, Homeland has entered into a Loan Agreement and Share Purchase Option Agreement with a company associated with Madic that is implementing the Madic system, in terms of which it has loaned to this company ("Numin") \$543,500 (ZAR 4,313,465). This loan bears interest at the prime lending rate less 1% and is repayable within one year. Homeland has been granted an option, for a period of three years, to purchase 20% of the issued share capital in Numin for a nominal value of ZAR 1 per share.

Given the uncertain timing or quantum of any additional returns, no value has been attributed to the 45% equity interest in Madic or the option to acquire a 20% equity interest in Numin.

As the Madic continuous conveyor system is not yet operational, and therefore neither Madic nor Numin yet has received any revenue from the lease or operation of the system, no portion of the Loan has yet been recorded as short-term.

- (c) In May 2008, Homeland lent \$7,226,723 (ZAR 55,124,000) to aid a private Black Economic Empowerment ("BEE") company in South Africa to purchase the 26% of Ferret Coal (Kendal) (Pty) Ltd. ("Kendal") that the Company does not own. The loan bears interest at the South African prime overdraft rate (of which an amount of \$712,891 (ZAR 5,437,786) has been accrued at December 31, 2008), and the related equity interest in the Kendal Mine is pledged as security for the loan. The carrying amount of the loan at December 31, 2008 is \$7,939,614. Repayment of the loan will take place out of dividends or other payments accruing to the borrower in respect of the Kendal Mine, or out of the proceeds of their disposal to a third party purchaser in terms of the loan agreement. The Company's minority BEE partner will be entitled to future earnings based on their respective ownership of shares, but only once this loan account plus interest has been paid. Any outstanding balance on the loan will be repaid to Homeland in 20 years.

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11. PROPERTY AND EQUIPMENT

2008			
	Cost \$	Accumulated Amortization \$	Net \$
Plant and machinery (Note 10(a))	6,076,250	28,915	6,047,335
Motor vehicles	336,538	69,128	267,410
Office furniture and equipment	182,940	67,443	115,497
Computer equipment	266,067	92,709	173,358
Land and buildings	1,562,707	-	1,562,707
Leasehold improvements	235,410	113,259	122,151
	8,659,912	371,454	8,288,458
2007			
	Cost \$	Accumulated Amortization \$	Net \$
Plant and machinery	731,250	20,847	710,403
Motor vehicles	172,544	15,654	156,890
Office furniture and equipment	99,617	31,945	67,672
Computer equipment	126,772	28,081	98,691
Land and buildings	13,139	-	13,139
Leasehold improvements	214,803	68,601	146,202
	1,358,125	165,128	1,192,997

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12. MINERAL PROPERTIES

Homeland is engaged in the business of the acquisition, exploration, development and operation of resource properties in southern Africa, while evaluating advanced opportunities globally. As at December 31, 2008, the Company retained title, directly or indirectly, to the following properties:

	Ferret Coal		Tshedza			Nhlalala			Corpco	Homeland Botswana (Wizard)	Total
2008	Kendal	Eloff	Onbekend	Witbank	Vlakovarkfontein	Langsloot	Fraaiuitzicht	Northfield			
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Property acquisition costs											
Opening Balance	2,105,016	415,230	-	-	-	-	-	1,840,201	-	4,360,447	
Incurred in period	-	-	-	-	-	-	-	-	103,679	103,679	
Total Acquisition Costs	2,105,016	415,230	-	-	-	-	-	1,840,201	103,679	4,464,126	
Deferred exploration costs											
Opening Balance	1,851,540	891,904	96,177	153	202,682	182	1,166	153,249	-	3,197,053	
Management & consulting	100,332	139,797	-	-	-	-	-	13,929	2,593	256,651	
Drilling & analysis	796,473	976,525	29,997	-	-	-	-	8,951	208,393	2,020,339	
Infrastructure & earthworks	4,131,116	67,986	-	-	-	-	-	155,879	66,843	4,421,824	
Other	117,035	74,114	565	145	64,348	235	1,501	254,356	-	512,299	
Pre-production (net)	217,975	-	-	-	-	-	-	-	-	217,975	
Total Deferred Exploration	7,214,471	2,150,326	126,739	298	267,030	417	2,667	586,364	277,829	10,626,141	
Closing Balance	9,319,487	2,565,556	126,739	298	267,030	417	2,667	2,426,565	381,508	15,090,267	

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12. MINERAL PROPERTIES (Continued)

2007	Ferret Coal	Tshedza				Nhlalala			Corpco	Homeland	Homeland	Total
	Kendal	Eloff	Onbekend	Witbank	Boschpoort, Steynsdraai, Witrand	Vlakovarkfontein	Langsloot	Fraaiuitzicht	Northfield	Swaziland	USA, Niger (Uranium)	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Property acquisition costs												
Opening Balance	2,105,016	415,230	-	-	-	-	-	-	-	-	3,527,510	6,047,756
Incurring in period	-	-	-	-	-	-	-	-	1,840,201	-	147,400	1,987,601
Total Acquisition Costs	2,105,016	415,230	-	-	-	-	-	-	1,840,201	-	3,674,910	8,035,357
Deferred exploration costs												
Opening Balance	434,585	42,596	-	-	-	59,259	-	-	-	10,766	2,373,790	2,920,996
Management & consulting	289,052	241,616	346	-	10,429	107,902	-	-	100,649	-	265,358	1,015,352
Drilling & analysis	75,148	582,588	91,648	-	74,396	35,350	-	-	-	-	-	859,130
Infrastructure & earthworks	694,843	13,412	3,527	-	-	-	-	-	45,770	-	-	757,552
Other	357,912	11,692	656	153	1,113	171	182	1,166	6,830	-	-	379,875
Total Deferred Exploration	1,851,540	891,904	96,177	153	85,938	202,682	182	1,166	153,249	10,766	2,639,148	5,932,905
Interests in Mineral Properties Written Off	-	-	-	-	(85,938)	-	-	-	-	(10,766)	(6,314,058)	(6,410,762)
Closing Balance	3,956,556	1,307,134	96,177	153	-	202,682	182	1,166	1,993,450	-	-	7,557,500

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12. MINERAL PROPERTIES (Continued)

Ferret Coal Holdings (Pty) Limited - South Africa

In June 2006, the Company completed the purchase of Ferret Coal Holdings (Pty) Ltd., a private South African company that holds a 74% interest in Ferret Coal (Kendal) (Pty) Ltd. Consideration for the acquisition of Ferret Coal Holdings (Pty) Ltd. was \$2,105,016 (ZAR 13,000,000). In May 2008, the Company facilitated the sale of the remaining 26% from the original BEE shareholders to a new BEE group, itself active in the South African coal sector (see Note 10 (c)).

The Kendal Colliery is located in the Witbank Coalfield, south west of the town of Ogies in the Mpumalanga Province of South Africa. On March 18, 2008, Ferret Coal (Kendal) (Pty) Ltd. was notified by the South African Department of Minerals and Energy ("DME") that the Mining Right for its wholly owned Kendal Colliery had been granted.

Tshedza Mining Resources (Pty) Limited ("Tshedza") - South Africa

In March 2006, the Company entered into an agreement to purchase a 50% interest in Tshedza, including its Eloff coal deposit, and has an option to acquire a further 1% for ZAR 1.00 with the approval of the DME. Homeland is required to fund all costs associated with the applications for prospecting, as well as all costs associated with any granted prospecting rights through to the granting of a mining license.

The Eloff Mineral Property lies in the western extremity of the Witbank Coalfield, south of the town of Eloff, in the Mpumalanga Province of South Africa.

Nhlalala Mining (Pty) Limited ("Nhlalala") - South Africa

In March 2006, the Company entered into an agreement to purchase a 50% interest in Nhlalala, with options to acquire a further 1% for ZAR 1.00 (with the approval of the DME) and a further 23% at market value. Homeland is required to fund all costs associated with the applications for prospecting, as well as all costs associated with any granted prospecting rights through to the granting of a mining license.

Corpelo 331 (Pty) Ltd. ("Corpelo") - South Africa

In November 2007, the Company entered into an agreement to purchase Corpelo for ZAR 12 million (approximately \$1.5 million), settled in two tranches of ZAR 6 million.

The Northfield Site Reclamation Project is a small coking-quality slurry dump consisting of dried fine tailings from the processing of coal from the now defunct Northfield Colliery. The Project lies in northwestern Kwa-Zulu Natal Coalfield, to the north west of the town of Glencoe in the Kwa-Zulu Natal Province of South Africa.

Homeland Mining and Energy (Botswana) (Pty) Ltd. - Botswana

In June 2008, Homeland entered into an agreement to acquire 70% of Wizard Investments (Pty) Ltd ("Wizard"), owner of a Botswana prospecting licence (granted for the three years from April 1, 2007 to March 31, 2010, with certain rights of renewal). Homeland paid the shareholders of Wizard Pula 500,000, and refunded them Pula 130,000 in respect of half of the cost of their prospecting activities in the first year (in total \$103,679). Homeland assumed responsibility for the work program and associated costs for years two and three of the prospecting licence.

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13. CONVERTIBLE DEBENTURE

On June 12, 2007, the Company entered into a Loan Agreement with GC-Global Capital Corp. to borrow the principal amount of US\$2 million through a convertible debenture. On February 27, 2008, GC-Global Capital Corp. exercised their right to convert the principal amount into common shares of the Company at a conversion price of £1.25. This resulted in the issue of 3,241,000 common shares.

14. CREDIT FACILITIES

	31 December, 2008 \$	31 December, 2007 \$
Non-revolving facility	10,134,974	-
Less: current portion	2,228,690	-
Long-term portion	7,906,284	-

At December 31, 2008, the Company had drawn down \$9,831,223 (ZAR 75,000,000) on a \$19,665,000 (ZAR 150,000,000) credit facility provided by Nedbank Limited to Ferret Coal (Kendal) (Pty) Ltd. (the "Facility"). The Facility is secured by guarantees from, and pledges of shares by, certain group companies and is repayable from September 2009 through December 2013. Amounts drawn down under the Facility bear interest at the rate of JIBAR plus 3.15% per annum prior to the Company utilizing the full Facility, and at the rate of JIBAR plus 2.50% per annum following completion (as defined in the Facility). Undrawn amounts are subject to a commitment fee of 0.50% per annum. The effective interest rate at December 31, 2008 was 14.575%. Interest of \$303,751 (ZAR 2,307,551) has been accrued at December 31, 2008 (2007: \$Nil).

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15. CAPITAL STOCK

On February 28, 2008, the Company implemented a four-for-one stock split of its issued and outstanding common shares. Information related to common shares, stock options, warrants and earnings per share have been restated to reflect the impact of the Company's four-for-one stock split.

(a) Authorized

Unlimited number of common shares with no par value.

(b) Issued

	Issued	Amount
	#	\$
Balance, December 31, 2006	92,619,440	13,723,931
Exercise of share purchase warrants (i)	12,000,000	3,590,124
Exercise of share purchase warrants (ii)	1,180,000	187,325
Private placement (iii)	15,876,920	10,641,396
Shares issued to consultant (iv)	500,000	294,800
Private placement (v)	2,682,760	2,146,208
Exercise of stock options (vi)	5,660,000	1,090,209
Private placement (vii)	1,818,184	2,000,002
Valuation of warrants issued on private placement (vii) and Note 15(c)	-	(89,000)
Exercise of share purchase warrants (viii)	800,000	649,700
Share issue costs	-	(619,016)
Balance, December 31, 2007	133,137,304	33,615,679
Private placement (ix)	2,000,000	2,400,000
Valuation of warrants issued on private placement (ix) and Note 15(c)	-	(255,000)
Acquisition of shares in Altona Energy Plc. (x)	2,950,000	4,183,992
Conversion of convertible debenture (xi)	3,241,000	2,143,954
Additional shares issued upon listing (xii)	1,040,000	829,105
Shares issued to shareholders of legal parent upon RTO (Note 3)	3,672,813	603,150
Exercise of stock options (xiii)	4,229,361	917,609
Share issue costs	-	(2,169,105)
Balance, December 31, 2008	150,270,478	42,269,384

As at December 31, 2008, an aggregate of 750,000 common shares (out of an initial 1,500,000 common shares) remain held in escrow with the Escrow Agent under the provisions of the CPC Escrow Agreement.

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15. CAPITAL STOCK (Continued)

- (i) On January 16, 2007, the Company received \$2,795,760 (US\$2.4 million) from the exercise of 12,000,000 share purchase warrants at \$0.233 (US\$0.20) per common share. These warrants had a grant date estimated fair value of \$794,364.
- (ii) On May 30, 2007, the Company received \$88,500 from the exercise of 1,180,000 share purchase warrants at \$0.075 per common share. These warrants had a grant value estimated fair value of \$98,825.
- (iii) On June 21, 2007, the Company closed a private offering of 15,876,920 common shares at a price of \$0.67 (£0.3125) per common share, for gross proceeds of \$10,641,396 (£5,000,000). The Company paid a cash commission equal to 5% of the gross proceeds on certain of the placements amounting to \$473,326, which is included in share issue costs.
- (iv) In January 2007, eight exploration concessions were granted to a company in Niger whereupon Homeland was required to issue 500,000 shares to a consultant. These shares were valued at \$294,800. Homeland Uranium Inc. refunded 50% of the value of the shares issued.
- (v) On August 17, 2007, Homeland closed a private offering of 2,682,760 common shares at a price of \$0.80 per common share, for gross proceeds of \$2,146,208. The Company paid a cash commission equal to 5% of the gross proceeds on certain of the private placements amounting to \$105,690, which is included in above issue costs.
- (vi) Between August and October 2007, former employees and consultants to the Company, as well as certain directors, exercised a total of 6,700,000 stock options, some availing themselves of a cashless exercise option, and received 5,660,000 common shares, at a weighted average exercise price of \$0.156 (US\$0.125) per common share for gross proceeds of \$265,051 (US\$212,500). These options had a grant value estimated fair value of \$825,158.
- (vii) On November 21, 2007, Homeland closed a private offering of 1,818,184 common shares and 909,092 share purchase warrants at a price of \$1.10 per unit, for gross proceeds of \$2,000,002. A value of \$89,000 was ascribed to these warrants based on their estimated fair value on the date of grant as determined using the Black-Scholes valuation method (Note 15(c)). The Company paid a cash commission on gross proceeds equal to \$40,000, which is included in above issue costs.
- (viii) In November and December 2007, shareholders of the Company exercised a total of 800,000 share purchase warrants at a weighted average exercise price of \$0.483 (US\$0.50) per common share for total gross proceeds of \$386,388. These warrants had a grant value estimated fair value of \$263,312.
- (ix) In January 2008, Homeland closed a private offering of 2,000,000 common shares and 1,000,000 share purchase warrants, valued at \$255,000 (See Note 15(c)), at a price of \$1.20 per unit for gross proceeds of \$2,400,000. Each whole warrant entitles the holder to purchase one additional common share at a price of \$1.50 per common share before May 21, 2009. The Company paid a cash commission of \$40,000, which is included in above issue costs.

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15. CAPITAL STOCK (Continued)

- (x) In February 2008, Homeland issued 2,950,000 common shares as consideration for the purchase of 44,250,000 common shares of Altona Energy Plc ("Altona") from third parties. The transaction was valued at \$4,183,992 based on a price of \$0.095 (4.75 pence) per Altona common share.
- (xi) GC-Global exercised their right to convert their debenture (see Note 13) into common shares of the Company on February 27, 2008. This resulted in the issue of 3,241,000 common shares.
- (xii) As a result of clauses in earlier private placement subscription agreements requiring the Company to be on a listed stock exchange at a specified date, the Company issued an additional 1,040,000 common shares at \$0.798 per share and paid \$1,300,000 in cash upon the closing of the RTO described in Note 3 and the listing of the Company's shares on the Toronto Stock Exchange.
- (xiii) Between April and June 2008, a total of 5,047,856 stock options were exercised, most in terms of the cashless exercise alternative provided for in the Company's stock option plan, and 4,229,361 common shares were issued for gross proceeds to the Company of \$21,750. Included in the cost attributable to the shares that were issued upon the exercise of the options is the estimated grant date value of the options as determined using the Black-Scholes model of \$895,859.

(c) Share purchase warrants

The fair value of all the warrants issued during the year was estimated using the Black-Scholes option pricing model, with the following assumptions:

	2008	2007
Expected life (years)	1.5	1.5
Expected volatility (%)	71	40
Expected dividends	0	0
Risk-free interest rate (%)	3.6	4.0

The following summary sets out the activity in outstanding share purchase warrants in the year:

	2008			2007		
	Number of share purchase warrants #	Weighted average exercise price per share \$	Estimated grant date fair value \$	Number of share purchase warrants #	Weighted average exercise price per share \$	Estimated grant date fair value \$
Opening balance	909,092	1.50	89,000	13,980,000	US 0.2075	1,156,501
Granted (Note 15(b)(ix) (vii))	1,000,000	1.50	255,000	909,092	1.50	89,000
Exercised	-	-	-	(13,980,000)	US 0.2075	(1,156,501)
Closing balance	1,909,092	1.50	344,000	909,092	1.50	89,000

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15. CAPITAL STOCK (Continued)

(c) Share purchase warrants (Continued)

The following table summarizes the share purchase warrants outstanding at December 31, 2008:

Expiry date	Exercise price per share \$	Warrants outstanding #	Estimated grant date fair value \$
May 21, 2009	1.50	1,909,092	344,000

(d) Stock options

Homeland may grant incentive stock options to its directors, officers, employees and consultants, for the purchase of common shares of the Company. Stock options are non-transferable. The Plan provides for the issuance of stock options to acquire up to 10% of the Company's issued and outstanding capital. The plan is a rolling plan as the number of shares reserved for issuance pursuant to the grant of stock options will increase as the Company's issued and outstanding share capital increases. The Board of Directors of the Company determines the exercise price, which may be no less than the current market price at the time of the grant, the term and the vesting rules; which have historically been at the time of granting of the option or over a period of up to two years. Stock options terminate within 90 days of the termination of employment or other contracting arrangement of the option holder. Once vested, stock options are exercisable at any time until expiry or termination as above.

During 2008, the Company recognized stock-based compensation of \$4,275,060 (2007: \$1,369,845) based on options granted or vested in the respective years. The estimated grant date fair values were determined using the Black Scholes option pricing model under the following assumptions:

	2008	2007
Expected life (years)	3	2.5
Expected volatility (%)	71	100
Expected dividends	-	-
Risk-free interest rate (%)	3.1	4.0

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15. CAPITAL STOCK (Continued)

(d) Stock options (Continued)

The following summary sets out the activity in outstanding stock options in the year:

	2008	Estimated		2007	Estimated
	Number	Weighted	grant date	Number	Weighted
	of	average	fair value	of	average
	options	exercise price	per share	options	exercise price
	#	per share	per share	#	per share
	#	\$	\$	#	\$
Opening balance	10,800,000	0.3525	0.20	14,900,000	0.225
Options issued to legal parent upon RTO (Note 3)	563,438	0.40	0.11	-	-
Granted	8,149,000	1.33	0.58	3,200,000	0.6125
Exercised *	(5,981,665)	0.22	0.18	(6,700,000)	US 0.125
Forfeited	(170,375)	0.40	0.12	(600,000)	Market
Closing balance	13,360,398	1.02	0.26	10,800,000	0.3525

* Included in the number of options exercised during 2008 are the 1,104,183 options that were exercised on a cashless basis for 1,000,000 common shares of the Company (Note 17(b)). Shares were issued for 4,877,482 options that were exercised during the year-ended December 31, 2008.

Included in contributed surplus at the end of the year are the following stock options at valuations estimated using the Black-Scholes option pricing model on the date of grant:

Expiry date	Exercise price per share \$	Options outstanding #	Options vested #	Estimated grant date fair value * \$
January 20, 2009 (a)	US 0.125	800,000	800,000	90,320
February 15, 2009 (a)	0.40	164,688	164,688	29,742
July 25, 2009	US 0.25	100,000	100,000	47,466
October 28, 2009	US 0.50	400,000	400,000	186,114
November 1, 2009	US 0.50	1,200,000	1,200,000	402,000
March 1, 2010	US 0.50	270,000	270,000	86,103
August 13, 2010	US 0.625	848,335	448,335	278,851
September 14, 2010	0.80	400,000	266,667	168,000
October 2, 2010	0.80	400,000	266,667	160,125
January 1, 2011	1.10	400,000	133,333	218,712
May 22, 2011	1.25	6,949,000	2,854,667	2,819,757
June 18, 2011	1.76	1,200,000	600,000	860,942
February 12, 2012	0.40	228,375	228,375	20,909
Cancelled options				129,276
		13,360,398	7,732,732	5,498,317

* Black-Scholes valuation

(a) The expiry of the January 20, 2009 options was deferred in terms of the Company's Stock Option Plan by the operation of a Blackout Period. These options originally expired on November 24, 2008. Both the January 20, 2009 and February 15, 2009 options expired, unexercised subsequent to year-end.

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16. SUPPLEMENTAL CASH FLOW INFORMATION

	31 December, 2008	31 December, 2007
	\$	\$
Cash and equivalents consist of		
Cash	7,790,666	541,308
Equivalents	24,492	5,389,136
	7,815,158	5,930,444
Supplemental Cash Flow information:		
Interest paid	38,367	246,991
Change in accrued mineral properties	2,755,086	-
Shares issued for investments (Note 15(b)(x))	4,183,992	-
Shares issued on conversion of convertible debt (Note 15(b)(xi))	2,143,954	-
Change in accrued property and equipment	655,500	-
Shares included in share issue costs (Note 15(b)(xii))	829,105	-
Income taxes paid	-	-

17. SHARES TO BE ISSUED

- (a) On December 30, 2008, the shareholders of the Company in a General Meeting elected to settle a US\$30 million obligation to GMR in common shares and consented to the issue of 75,792,027 common shares of the Company at \$0.455175 per share. Delivery of these shares was delayed at the request of GMR Limited, but was ultimately completed on February 23, 2009 (see Note 25(a)).
- (b) Stock options amounting to 1,104,183 were exercised on a cashless basis by a director and an officer. This resulted in 1,000,000 common shares being reserved for issuance at December 31, 2008. The estimated grant date fair value of the options of \$112,900 has been included in shares to be issued. Subsequent to year-end, these shares were issued.

18. CONTRIBUTED SURPLUS

	31 December, 2008	31 December, 2007
	\$	\$
Opening balance	2,168,687	1,624,000
Options issued to legal parent upon RTO (Note 3)	63,329	-
Stock-based compensation - employee and director	2,971,618	1,369,845
Stock-based compensation - non-employee	1,303,442	-
Stock options exercised (Notes 15(b) and 17(b))	(1,008,759)	(825,158)
	5,498,317	2,168,687
Closing balance	5,498,317	2,168,687

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19. RELATED PARTY TRANSACTIONS

- (a) During the year ended December 31, 2008, Homeland paid Grove Communications Inc. \$80,410 (2007: \$161,531) in fees in respect of investor relations, accounting and office administration work undertaken. The owner of Grove Communication Inc. is a director and officer of the Company.
- (b) During the year ended December 31, 2008, Grove Communications Inc. shared office space with Homeland and contributed \$17,102 (2007: \$25,573) towards the office rent and related facilities.
- (c) With the leasing of new premises in London in 2008, Juno Special Situations Corporation, a company with which a director and an officer of Homeland are associated, agreed to share office space. At December 31, 2008, the Company had invoiced \$67,430 in rental and recoveries of costs incurred on the establishment of the office, which amount remained outstanding. These amounts are unsecured, non-interest bearing with no fixed terms of repayment.
- (d) During the year ended December 31, 2008, \$325,233 (2007: \$4,676) was expensed for legal services provided by a law firm of which an officer of the Company is a partner. Included in accounts payable and accrued liabilities at December 31, 2008 was \$39,196 (2007: nil) owing to this law firm. The amount is unsecured, non-interest bearing, with no fixed terms of repayment.
- (e) In South Africa, during the year ended December 31, 2008, \$126,368 (2007: \$147,000) was paid to a company owned by a director and significant shareholder of subsidiaries of the Company for services rendered in respect of the securing and maintaining of prospecting rights.
- (f) During the year ended December 31, 2008, 4,969,000 (2007: 1,200,000) stock options were granted to directors and officers of the Company.
- (g) Related parties were reimbursed for out of pocket expenses. As at December 31, 2008, \$13,965 (2007: \$nil) was included in accounts payable to officers and directors. These amounts are non-interest bearing, unsecured, with no fixed terms of repayment.

Related party transactions are in the normal course of operations and are measured in these consolidated financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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20. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Lease Commitments

In 2005, the Company entered into a five year lease agreement for office space in Toronto. Gross annual lease commitments are as follows:

	\$
2009	54,000
2010	54,000
	108,000

In 2007, Homeland Mining and Energy (Botswana) (Pty) Ltd. entered into a two year lease agreement for office space in Gaborone, Botswana. The operating lease is subject to annual escalation of 10%. The gross annual lease commitment in 2009 is \$17,396.

In 2008, the Company entered into a 4.5 year lease agreement for office space in London, England. Gross annual lease commitments are as follows:

	\$
2009	229,000
2010	229,000
2011	229,000
2012	229,000
	916,000

(b) Environmental Contingencies

The Company's exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

(c) Management Contracts

The Company is a party to agreements with officers that contain change of control clauses pursuant to which the officers would be entitled to termination payments up to an aggregate of \$870,000 under certain circumstances. A change of control is defined as inter-alia the acquisition of 30% or more of the Company's issued and outstanding shares. As a result of the placement of shares with GMR, these parties are entitled to exercise these clauses in their contracts (see Note 25(a)).

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21. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations ("ARO") are based on management's estimates of costs to abandon and reclaim mineral properties and facilities as well as an estimate of the future timing of the costs to be incurred.

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the ARO associated with the retirement of the Company's exploration properties:

	December 31, 2008 \$	December 31, 2007 \$
Balance, beginning of year	324,332	-
Liabilities incurred	80,106	324,332
Balance, end of year	<u>404,438</u>	<u>324,332</u>

The Company has estimated its total asset retirement obligations to be \$404,438 at December 31, 2008. Reclamation at the Kendal Colliery is not expected to occur before the year 2024.

22. INCOME TAXES

(a) Provision for income taxes

The major items causing the Company's income tax expense to differ from the Canadian combined federal and provincial statutory rate of 33.5% (2007: 36.1%) were:

	2008 \$	2007 \$
(Loss) before income taxes	<u>(23,824,699)</u>	<u>(5,093,217)</u>
Expected income tax recovery at statutory rates	(7,981,274)	(1,833,558)
Adjustments resulting from:		
Tax rates in foreign countries at lower tax rates	3,609,774	1,333,558
Share issue costs	(446,700)	-
Stock-based compensation	1,377,200	-
Change in tax rates	260,300	-
Tax assets acquired on RTO	(87,400)	-
Non-deductible expenses	217,700	-
Other	32,945	(184,800)
Change in valuation allowance	3,216,700	684,800
Income tax expense	<u>199,245</u>	<u>-</u>

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22. INCOME TAXES (Continued)

(b) Future income tax balances

The tax effect of temporary differences that give rise to future income tax assets and liabilities in Canada at December 31, 2008 and 2007 are as follows:

	2008 \$	2007 \$
Future income tax assets		
Non-capital losses	2,791,100	418,200
Foreign currency translation	769,000	323,700
Share issue costs	387,800	-
Other	24,500	13,800
Valuation allowance	(3,972,400)	(755,700)
	-	-
	2008 \$	2007 \$
Future income tax assets		
Canada	1,956,500	-
Mauritius	120,600	-
South Africa	1,793,500	710,200
Botswana	66,900	16,800
Swaziland	34,900	28,700
	3,972,400	755,700
Valuation allowance	(3,972,400)	(755,700)
	-	-

The Company has approximately \$5,400,000 of non capital losses and approximately \$1,300,000 of share issue costs in Canada which under certain circumstances can be used to reduce the taxable income of future years.

The Canadian non-capital losses expire as follows:

Expiry Date	Amount (\$)
2026	6,000
2027	156,000
2028	5,238,000
	5,400,000

The Company has approximately ZAR 26,400,000 of non-capital losses in South Africa that do not expire. The Company has approximately Pula 1,500,000 of non-capital losses in Botswana that expire in 2012 (Pula 408,000) and 2013 (Pula 1,092,000). The Company has approximately \$4,000,000 in non-capital losses in Mauritius that expire in 2013.

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23. SEGMENTED INFORMATION

Substantially all of the Company's property and equipment is located in South Africa.

For the years ended	December 31, 2008 \$	December 31, 2007 \$
Comprehensive (Loss) by Segment:		
Canada	(7,635,374)	-
Mauritius (formerly of the British Virgin Islands)	(17,819,465)	(3,304,865)
South Africa	(3,387,584)	(1,625,300)
United States of America	(1,577,837)	-
Botswana	(200,410)	(67,375)
Swaziland	(20,784)	(95,677)
Consolidated Comprehensive (Loss)	(30,641,454)	(5,093,217)

For the years ended	December 31, 2008 \$	December 31, 2007 \$
Total Assets by Segment:		
Canada	855,210	-
Mauritius (formerly of the British Virgin Islands)	11,528,738	18,267,869
South Africa	45,184,243	15,339,020
Botswana	506,116	107,795
Swaziland	-	-
Consolidated Total Assets	58,074,307	33,714,684

Total Liabilities by Segment:		
Canada	362,381	-
Mauritius (formerly of the British Virgin Islands)	17,916	4,657,443
South Africa	14,226,479	1,406,918
Botswana	76,707	-
Swaziland	-	-
Consolidated Total Liabilities	14,683,483	6,064,361

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24. RESTATEMENT

- (a) As at December 31, 2007, the Company originally recorded their investment in HUI using the cost method of accounting. As disclosed in Note 9(a), the Company is now recording the investment under the equity method of accounting. During the year ended December 31, 2007, the Company held a 100% interest in HUI which was diluted to a 65% interest and finally to a 42% interest. The Company's 2007 consolidated financial statements have been restated to reflect the impact of the consolidation of HUI during the period the Company held a controlling interest in HUI and subsequently recorded an equity loss from the investment.
- (b) As at December 31, 2007, the Company originally recognized a current future income tax asset of \$710,138. Due to the "more likely than not" test of recognizing these future income tax assets not being met, the Company has restated the 2007 consolidated financial statements to reverse the future income tax asset and the future income tax expense included in the statement of operations.
- (c) As at December 31, 2007, the Company originally recorded a foreign exchange loss of \$360,930 as a component of mineral properties. Due to the foreign exchange loss not being directly attributable to the development of the property, the 2007 consolidated financial statements have been restated to reallocate this amount to the foreign exchange loss in the statement of operations.

As a result of the above changes, the Company has amended its consolidated financial statements for the year ended December 31, 2007 as follows:

	Previously Reported \$	Adjustments \$	Restated \$
Consolidated Balance Sheet as at December 31, 2007			
Future income tax assets (b)	710,138	(710,138)	-
Investments (a)	11,922,025	1,163,931	13,085,956
Mineral properties (c)	7,918,430	(360,930)	7,557,500
(Deficit) accumulated through development Stage(a)(b)(c)	(8,818,085)	92,863	(8,725,222)
Consolidated Statement of Operations and Deficit for the year ended December 31, 2007			
Foreign exchange (loss) (b) (c)	(194,983)	(364,928)	(559,911)
Homeland Uranium Inc. (loss) (a)	-	(347,946)	(347,946)
Recovery of non-controlling loss (a)	-	119,785	119,785
Equity (loss) from investment in Homeland Uranium Inc. (a)	-	(346,966)	(346,966)
Gain on dilution of controlling interest in Homeland Uranium Inc. (a)	-	1,739,058	1,739,058
Future income taxes (b)	706,140	(706,140)	-
Net (loss) for the year	(5,186,080)	92,863	(5,093,217)

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24. RESTATEMENT (Continued)

	Previously Reported \$	Adjustments \$	Restated \$
Consolidated Statement of Cash Flows for the year ended December 31, 2007			
Net (loss) for the year	(5,186,080)	92,863	(5,093,217)
Foreign exchange	-	414,943	414,943
Homeland Uranium Inc. loss, net of non-controlling interest	-	228,161	228,161
Gain on dilution of controlling interest in Homeland Uranium Inc.	-	(1,739,058)	(1,739,058)
Equity loss from investment in Homeland Uranium Inc.	-	346,966	346,966
Future income taxes	(656,125)	656,125	-

25. SUBSEQUENT EVENTS

(a) Placement of common shares with GMR.

On November 4, 2008, the GMR advised the Company that it would not be exercising its option to acquire 40% of HMESA for US\$135 million and that it had elected to exercise its right to sell the 10% of HMESA that it had already acquired back to Homeland at its original purchase price of US\$30 million.

The background to this transaction is that on December 15, 2007, Homeland signed a memorandum of understanding (the "MOU") with GMR, setting out the basic terms and conditions upon which the Company would sell up to a 50% voting and participating equity interest in HMESA. HMESA owns the Company's interests in the Kendal Colliery, the Northfield Site Reclamation Project, and the Eloff Mineral Property and other South African exploration projects. Upon signing the MOU, Homeland received a deposit of US\$3 million against the transfer to GMR of 1% of the shares of HMESA, the liability for the potential repayment of which was reflected in accounts payable and accrued liabilities at December 31, 2007. On April 15, 2008, GMR exercised its first option, to acquire an additional 4% of the shares of HMESA for a further payment of US\$12 million, and on May 5, 2008 GMR exercised its second option, to acquire a further 5% of the shares of HMESA for a purchase price of a further US\$15 million. The US\$30 million received from the sale of 10% of HMESA to GMR was utilized inter-alia to fund the development of the Kendal Mine.

GMR had a final option to purchase a further 40% of the shares of HMESA for either US\$125 million, if such option was exercised on or before September 2, 2008, or US\$135 million, if such option was exercised after September 2, 2008 but on or before December 31, 2008 (the "Third Option"). On November 4, 2008, GMR advised the Company that it would not be exercising its final option, and simultaneously advised that it would be exercising its option to put the HMESA shares acquired by it back to Homeland. The purchase price for the shares would be equal to the original price paid by GMR (i.e. US\$30 million). The Company elected to settle this obligation in common shares of Homeland, at \$0.455175 per share.

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25. SUBSEQUENT EVENTS (Continued)

(a) Placement of common shares with GMR (Continued)

Although the completion date by which the Company was to repurchase the HMESA shares was extended at the request by GMR to allow discussions to continue to explore alternative commercial solutions, on February 23, 2009 the Company issued 75,792,027 common shares at \$0.455175 and reacquired 100% ownership in HMESA.

On March 2, 2009, following the payment of the break fee associated with the termination of the acquisition of Appolo and Diversified (see Note 25 (b)), Homeland agreed to issue a further 15,776,512 common shares to Crossridge Investments Limited, a controlled affiliate of GMR, at a price of \$0.20 per share to allow GMR to maintain their percentage interest (33%) in Homeland.

(b) Payment of Break Fee to vendors of Appolo and Diversified

On August 28, 2008, the Company executed an asset purchase agreement for the acquisition of all of the assets of Appolo Fuels Inc. ("Appolo") and Diversified Energy Inc. ("Diversified") for a purchase price of US\$105 million with a closing date of November 27, 2008. The original agreement did not provide for a break fee. The Company was unable to complete the acquisition within the time provided. On January 15, 2009, an agreement was reached with the vendors to provide for a break fee for the transaction of US\$6 million dollars. The first US\$1 million had been paid in the form of non-refundable deposits when the original agreement had been executed. The second US\$1 million was paid on January 20, 2009. The balance of US\$4 million was due on February 26, 2009. The vendors also agreed to extend the deadline for closing the transaction to February 28, 2009, with the US\$1 million paid in January of 2008 and the final US\$4 million to be credited towards the purchase price if the acquisition was completed. Under the terms of the amendment agreement, failure to make the US\$4 million payment would permit the vendors to elect to receive common shares of the Company priced at \$0.16 per common share.

On March 2, 2009, Homeland issued 31,561,671 common shares at \$0.16 to Diversified at the election of Diversified and Appolo in satisfaction of the US\$4 million payable. The issue of these shares satisfies the contractual break fee requirement and signifies the termination of the original asset purchase agreement between Homeland and Appolo.

(c) Short-Term Loan from Homeland Uranium Inc.

On January 20, 2009, Homeland concluded a loan agreement with Homeland Uranium Inc. in the amount of US\$2.5 million, at an interest rate of 10% for a term of one year, to cover the Company's short-term cash obligations. As security, the Company pledged the 22,250,000 shares of Homeland Uranium Inc. that it owns. Homeland has issued 250,000 common shares priced at \$0.20 per share to Homeland Uranium Inc. as a placement fee in respect of this transaction. The loan was approved by the independent directors of both companies.

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25. SUBSEQUENT EVENTS (Continued)

(d) Stock Options

In February 2009, the board of directors granted 2,500,000 stock options to directors, officers, employees and consultants, exercisable at \$0.20 per common share until February 10, 2014, and vesting as to one-third immediately, one-third after 12 months and one-third after 24 months.

Also in February and March 2009, the Company and certain directors, officers, and employees reached agreement for the cancellation of 8,734,000 stock options. The Company is awaiting consent from employees to cancel a further 1,478,335 stock options.