



CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009  
(Stated in Canadian Dollars)

**HOMELAND ENERGY GROUP LTD.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2010 AND 2009**

*(Stated in Canadian Dollars)*

**CONTENTS**

Auditors' Report	3
Consolidated Balance Sheets	4
Consolidated Statements of Operations and Deficit	5
Consolidated Statements of Comprehensive Loss	6
Consolidated Statements of Accumulated Other Comprehensive Loss	6
Consolidated Statements of Cash Flows	7
Notes to the Consolidated Financial Statements	8 - 35



McGovern, Hurley, Cunningham, LLP  
Chartered Accountants

INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
Homeland Energy Group Ltd.

We have audited the accompanying consolidated financial statements of Homeland Energy Group Ltd. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of operations and deficit, consolidated statements of comprehensive loss, consolidated statements of accumulated other comprehensive loss, and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Homeland Energy Group Ltd. and its subsidiaries as at December 31, 2010 and 2009, and their financial performance and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements indicating the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

McGOVERN, HURLEY, CUNNINGHAM, LLP

Chartered Accountants  
Licensed Public Accountants

TORONTO, Canada  
March 25, 2011

2005 Sheppard Avenue East, Suite 300, Toronto, Ontario, Canada, M2J 5B4  
Telephone: (416) 496-1234 – Fax: (416) 496-0125 – E-Mail: info@mhc-ca.com – Website: www.mhc-ca.com

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

As at December 31,	2010	2009
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 3,720,603	\$ 7,650,261
Restricted cash	527,820	540,398
Accounts receivable	5,129,151	6,045,258
Deposits and prepaid expenses	257,749	229,923
Inventory (note 7)	3,389,128	8,149,210
	13,024,451	22,615,050
Long-term deposits and prepaid expenses	16,686	15,670
Investments (note 8)	3,001,863	2,017,074
Long-term loan receivable (note 9)	11,358,870	9,664,922
Exploration and development properties (note 11)	5,374,828	5,216,521
Property, plant and equipment (note 10)	32,625,995	30,081,459
Other assets	677,580	3,998
	\$ 66,080,273	\$ 69,614,694
<b>Liabilities</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 13,880,599	\$ 18,207,397
Loan from GMR Energy (note 12)	28,843,400	5,022,912
Current portion of credit facilities (note 12)	-	20,527,869
	42,723,999	43,758,178
Asset retirement obligations (note 18)	465,831	437,449
	43,189,830	44,195,627
<b>Shareholders' Equity</b>		
Capital stock (note 13)	95,468,046	87,040,612
Contributed surplus (note 14)	7,907,528	7,907,528
	103,375,574	94,948,140
Deficit	(80,446,993)	(68,902,015)
Accumulated other comprehensive loss	(38,138)	(627,058)
	(80,485,131)	(69,529,073)
	22,890,443	25,419,067
	\$ 66,080,273	\$ 69,614,694

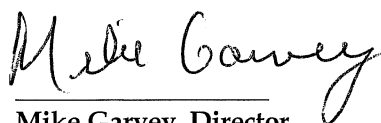
Going Concern (note 2)

Commitments and Contingencies (notes 12, 17 and 22)

Approved by the Board:



**B.V.N. Rao, Director**



**Mike Garvey, 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,	2010	2009
<b>Revenue</b>	\$ 33,016,352	\$ 7,071,273
<b>Cost of goods sold</b>		
Mining and processing expense	32,299,491	7,709,369
Depletion and amortization	1,991,962	1,307,000
<b>Gross Loss</b>	<b>(1,275,101)</b>	<b>(1,945,096)</b>
<b>Expenses</b>		
Management and administrative expenses	3,251,663	4,626,759
Office and general	3,386,236	3,611,665
Stock-based compensation (note 14(b))	-	2,065,212
Interest expense	3,270,542	2,165,777
Professional and consulting fees	1,161,380	942,407
Legal and accounting	857,577	754,320
Travel and accommodation	335,347	844,686
Directors' fees	225,673	352,500
Transfer agent and filing	62,344	74,917
Amortization	82,991	23,697
Foreign exchange (gain) loss	(711,878)	2,662,065
	<b>11,921,875</b>	<b>18,124,005</b>
<b>Loss before Other Items</b>	<b>(13,196,976)</b>	<b>(20,069,101)</b>
<b>Other Items</b>		
Interest income	1,042,855	1,548,326
Other income (expense)	(86,344)	54,635
Gain on investment (note 8(a))	875,612	-
Write-down of exploration and development properties (note 11)	(3,382)	(979,609)
Loss on held-for-trading investments (note 8(c))	(117,605)	-
Equity loss from investment in Homeland Uranium Inc. (note 8(a))	(362,138)	(742,457)
Realized loss on sale-of-available for sale investments (note 8(d))	-	(1,132,030)
Impairment provision on available-for-sale investments (note 8(b))	-	(2,600,000)
Write-down of investment (note 8(a))	-	(4,960,127)
Transaction break fees (note 13(iv))	-	(6,348,951)
Loan placement fee	-	(50,000)
<b>Loss before Income Taxes</b>	<b>(11,847,978)</b>	<b>(35,279,314)</b>
Income tax recovery (expense) (note 19)	303,000	(320,000)
<b>Net Loss</b>	<b>(11,544,978)</b>	<b>(35,599,314)</b>
<b>Deficit - Beginning of Year</b>	<b>(68,902,015)</b>	<b>(33,302,701)</b>
<b>Deficit - End of Year</b>	<b>\$ (80,466,993)</b>	<b>\$ (68,902,015)</b>
<b>Loss Per Share - Basic and Diluted</b>	<b>\$ (0.03)</b>	<b>\$ (0.14)</b>
<b>Weighted Average Number of Basic and Diluted Common Shares Outstanding During the Year</b>	<b>381,795,766</b>	<b>257,657,352</b>

*(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,	2010	2009
Other comprehensive income for the year	588,920	5,990,452
Net loss for the year	\$ (11,544,978)	\$ (35,599,314)
Comprehensive loss for the year	\$ (10,956,058)	\$ (29,608,862)

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

For the years ended December 31,	2010	2009
Accumulated other comprehensive loss at the beginning of the year	\$ (627,058)	\$ (6,617,510)
Unrealized gain on available-for-sale securities	588,920	2,258,422
Reclassification of realized loss on available-for-sale securities	-	1,132,030
Reclassification of impairment on available-for-sale securities	-	2,600,000
Other comprehensive income for the year	588,920	5,990,452
Accumulated other comprehensive loss at the end of the year	\$ (38,138)	\$ (627,058)

*(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,	2010	2009
<b>Cash Flows provided by (Used In):</b>		
<b>Operating Activities:</b>		
<b>Net Loss for the Year</b>	\$ (11,544,978)	\$ (35,599,314)
Items not affecting cash:		
Depletion and amortization	2,074,953	1,330,697
Stock-based compensation	-	2,065,211
Foreign exchange (gain) loss	(2,015,966)	2,752,279
Change in accrued interest expense	(2,355,380)	2,074,806
Accrued interest income	(1,087,436)	(2,165,777)
Equity loss from investment in Homeland Uranium Inc.	362,138	742,457
Write-down of exploration and development properties	200,831	979,609
Realized loss on held-for-trading investments	117,605	-
Gain on investment (note 8 (c))	(875,612)	-
Realized loss and impairment provision on Aviva		2,600,000
Loss on settlement for HUI and impairment		4,960,126
Loss on Altona shares	-	1,132,030
Issuance of common shares, for break fee		50,000
Issuance of common shares, for loan placement fee		5,050,000
Issuance of common shares, for loan interest		90,413
Change in non-cash working capital items	(2,263,016)	5,139,303
<b>Net cash used in operating activities</b>	<b>(17,386,861)</b>	<b>(8,798,160)</b>
<b>Investing Activities:</b>		
Exploration and development properties	(359,138)	(28,475,475)
Acquisition of property, plant and equipment	(1,572,991)	(1,797,382)
Pre-production revenue	-	17,290,036
Proceed from sale of investments	-	3,051,962
<b>Net cash provided in investing activities</b>	<b>(1,932,129)</b>	<b>(9,930,859)</b>
<b>Financing Activities:</b>		
Loans from GMR Energy	36,478,209	4,996,928
Loan from HUI	-	2,500,000
Proceeds from credit facilities	-	5,622,500
Repayment of credit facilities	(18,132,453)	-
Repayment of GMR loan	(11,515,137)	-
Issuance of common shares, for cash	8,454,420	5,077,857
Share issuance costs	(26,986)	(52,428)
<b>Net cash used by financing activities</b>	<b>15,258,053</b>	<b>18,144,857</b>
<b>Effect of foreign exchange on cash balances</b>	<b>131,279</b>	<b>379,712</b>
<b>Changes in Cash and Cash Equivalents</b>	<b>(3,929,658)</b>	<b>(204,450)</b>
Cash and Cash Equivalents - Beginning of Year	7,650,261	7,854,711
<b>Cash and Cash Equivalents - End of Year</b>	<b>\$ 3,720,603</b>	<b>\$ 7,650,261</b>

Supplemental cash flow information (note 15)

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

## **HOMELAND ENERGY GROUP LTD.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2010 AND 2009.**

**(Stated in Canadian Dollars, unless otherwise stated)**

---

#### **1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION**

**Homeland Energy Group Ltd.** ("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 and was listed on the TSX Exchange on February 12, 2007. Following the closing of its qualifying transaction on February 29, 2008, the principal 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 was a development stage entity, as defined by the Canadian Institute of Chartered Accountants Accounting Guideline 11, until September 30, 2009.

On October 1, 2009, the Company commenced commercial production of coal from its Kendal project in South Africa. Homeland also owns an advanced-stage coal development property in South Africa (namely the Eloff Mineral Property) and other properties in South Africa.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration and development programs, or mining operations, will result in profitable mining operations. The recoverability of the carrying value of Homeland's mining and exploration and development 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 mining and exploration and development properties on an advantageous basis. Changes in future conditions could require material write downs in the carrying value of the mining and exploration and development properties.

Although the Company has taken steps to verify and secure title to the mining and exploration and development 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 may also be subject to the risks of foreign investment, increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and restrictions, and to political uncertainty.

#### **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, 2010, the Company had cash and cash equivalents of \$3,720,603 and a working capital deficiency of \$29,699,548, inclusive of a loan due to the majority shareholder of \$28,843,400 (USD \$29,000,000) on September 27, 2011. During the year, the Company transitioned from development to production stage and experienced some high capital cost in respect of plant modifications and other development projects, for which the Company has negotiated agreements with certain suppliers and contractors to extend normal creditor payment terms.

## **HOMELAND ENERGY GROUP LTD.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2010 AND 2009.**

**(Stated in Canadian Dollars, unless otherwise stated)**

---

#### **2. GOING CONCERN**

The Company has a need for working capital for operations and for the exploration and development of its properties. During 2010, the Company has successfully raised financing via issuance of shares for cash in the amount of \$8,454,420, as well as receiving financing of USD \$29,000,000 (\$29,960,000) from its majority shareholder. The Company is presently negotiating a loan facility with a local financial institution of up to \$50 million, and has received additional funds of USD \$5,000,000 (\$4,879,000) from its majority shareholder on March 28, 2011. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations.

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. SIGNIFICANT ACCOUNTING POLICIES**

These consolidated financial statements have been prepared in accordance with Canadian GAAP, consistently applied, except as disclosed.

(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.

The Company follows the recommendations in Accounting Guideline 15, "Consolidation of Variable Interest Entities ("VIE") which establishes the application of consolidation principles to entities that are subject to control on a basis other than ownership of voting interests. The guideline requires the primary beneficiary of a VIE to consolidate the VIE. A VIE is an entity which either does not have sufficient equity at risk to finance its activities without additional subordinated financial support or where the holders of the equity at risk lack the characteristics of a controlling financial interest. The primary beneficiary is the enterprise that will absorb or receive the majority of the VIE's expected losses, expected residual returns, or both. The Company has determined that Madic Operations (Pty) Ltd. ("Madic") and Numin Close Corporation ("Numin") are VIEs, and as the Company has been determined to be the primary beneficiary of each entity, Madic and Numin have been consolidated in these financial statements. See note 21.

(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 the determination of variable interest entities, asset valuations, fair value considerations regarding loans and investments, the recoverability of expenditures on mining and exploration and development properties, the amount and classification of mineral resources and reserves, the methods and rates of amortization and depletion, the amount of future site reclamation costs and asset retirement obligations, the valuation of

## HOMELAND ENERGY GROUP LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009.

(Stated in Canadian Dollars, unless otherwise stated)

---

#### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

warrants, stock options, inventory, mineral properties (including estimated reserves), 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. Such adjustments could be material. 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.

##### (c) Exploration and development properties

Direct property acquisition costs, holding costs, field exploration and supervisory costs, and development costs (net of any pre-commercial production revenues and related pre-commercial production operating costs) 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 are re-classified as mining property, plant and equipment and are 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 will be made to operations.

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 operations 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 operations, 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.

## HOMELAND ENERGY GROUP LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009.

(Stated in Canadian Dollars, unless otherwise stated)

---

#### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### (d) Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization and depletion. 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. Mining property, plant and equipment is depleted based on units of production over total estimated recoverable reserves.

Mining property, plant and equipment	Unit-of-production basis over reserves
Motor vehicles	5 years
Office furniture and equipment	3 to 6 years
Computer equipment	3 years
Leasehold improvements	5 years
Conveyor system	5 years

##### (e) Foreign currency translation

The functional and reporting currency of the Company is the Canadian dollar. Transactions in foreign currencies are translated into the currency of measurement at the exchange rates in effect on the transaction date. Monetary balance sheet items expressed in foreign currencies are translated into Canadian dollars at the exchange rates in effect at the balance sheet date. The resulting exchange gains and losses are recognized in operations.

The Company's integrated foreign subsidiaries are financially or operationally dependent on the Company. The Company uses the temporal method to translate the accounts of its integrated operations into Canadian dollars. Monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates for the period, except for amortization, which is translated on the same basis as the related asset. The resulting exchange gains or losses are recognized in operations.

##### (f) Cash and cash equivalents

Cash and cash equivalents consist primarily 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 future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which carrying amounts of the asset exceed the fair value of the assets.

## **HOMELAND ENERGY GROUP LTD.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2010 AND 2009.**

**(Stated in Canadian Dollars, unless otherwise stated)**

---

#### **3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **(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 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 operations in a manner consistent with the depletion 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 operations 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 14 have been excluded from the diluted earnings (loss) per share as inclusion would be anti-dilutive.

##### **(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.

## **HOMELAND ENERGY GROUP LTD.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2010 AND 2009.**

**(Stated in Canadian Dollars, unless otherwise stated)**

---

#### **3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **(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 basis. 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 operations 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 or a reduced tax asset is recognized.

##### **(l) Inventory**

Material and supplies expected to be used in production are valued at the lower of average cost and net realizable value. Stock-piled run-of-mine ore inventory is valued at the lower of average production cost and net realizable value. Discards which consist of usable byproduct are 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, and depletion of mining property, plant and equipment.

##### **(m) Comparative figures**

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

##### **(n) Comprehensive loss**

Comprehensive loss is composed of net loss and other comprehensive income (loss), which is defined as the change in shareholders' equity from transactions and other events from non-owner sources. Other comprehensive income (loss) ("OCL") includes unrealized gains and losses on available-for-sale financial assets and reclassification adjustments for gains and losses included in operations, all net of the related income taxes. The components of comprehensive loss are disclosed in the statement of comprehensive loss. Cumulative changes in other comprehensive loss are included in accumulated other comprehensive loss ("AOCL"), which is presented as a separate 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 loss 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 (loss)

## HOMELAND ENERGY GROUP LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009.

(Stated in Canadian Dollars, unless otherwise stated)

---

#### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

until the asset is removed from the balance sheet or until impairment is determined to be other than temporary. 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 operations 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 (loss).

##### (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 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, other than its investment in Homeland Uranium Inc., as available for sale.

Investments in which the Company has significant influence, but does not control, are accounted for using the equity method. Under the equity method, the investment is initially recorded at cost and the carrying value is adjusted thereafter, to reflect the Company's prorated share of income or losses of the equity accounted investment and any dividends received from the investment. The Company's share of net income and losses of such investments are included in the statement of operations.

##### (q) Revenue recognition

Revenue from the sale of coal is recognized when persuasive evidence of a sale arrangement exists, the risks and rewards of ownership passes to the purchaser including delivery of the product, the selling price is fixed or determinable, and collectability is reasonably assured. Revenue earned in the pre-production stage and related operating costs have been recorded against the carrying value of mining and exploration and development properties. Revenue earned in the commercial production stage, commencing October 1, 2009, and related operating costs have been recorded to the statement of operations.

Other revenue is recognized when persuasive evidence of a sale arrangement exists, the service is provided, the selling price is fixed or determinable and collectability is reasonably assured.

## **HOMELAND ENERGY GROUP LTD.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2010 AND 2009.**

**(Stated in Canadian Dollars, unless otherwise stated)**

---

#### **4. FUTURE ACCOUNTING CHANGES**

##### **International Financial Reporting Standards ("IFRS")**

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed January 1, 2011, as the date International Financial Reporting Standards ("IFRS") will replace current Canadian generally accepted accounting principles for publicly accountable enterprises. As a result, the Company will report under IFRS starting with the interim period ending March 31, 2011, with restatement for comparative purposes of amounts reported under Canadian GAAP.

The Company's IFRS conversion plan consists of three phases: Scoping and Diagnostic; Detailed Evaluation; and Implementation and Review. The Scoping and Diagnostic phase included the completion of a high-level impact assessment to identify key areas that may be affected by the conversion and the development of a detailed implementation plan. The Detailed Evaluation phase included a detailed analysis of the IFRS - Canadian GAAP differences and accounting policy choices under IFRS, and the initial assessment of the nonfinancial reporting related impacts. The Scoping phase has been completed.

Based on the work completed to date, the transition to IFRS did not result in significant impacts to the Company's business activities or its covenants, capital requirements or compensation arrangements. The transition did not result in significant changes to key controls during or after the transition to IFRS. Changes to financial reporting processes and data systems were required as a result of changes in accounting policies, and internal control and disclosure control documentation is being updated accordingly. The initial training of finance personnel is ongoing.

The International Accounting Standards Board responsible for the development and publication of IFRS has a significant number of projects underway, many of which could impact the differences between Canadian GAAP and IFRS applicable to the Company. Changes in IFRS could result in additional adjustments and/or changes to the adjustments currently being recognized in the IFRS opening balance sheet. Accordingly, the Company continues to monitor and evaluate changes in IFRS, and to update the conversion plan as required.

##### **Business combinations, consolidated financial statements and non-controlling interests**

In January 2009, the CICA issued Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements, and Section 1602, Non-controlling interests, which replace Section 1581, Business Combinations and Section 1600, Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards ("IFRS"). Section 1582 is applicable for business combinations with acquisition dates on or after January 1, 2011. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements.

Section 1601 is applicable for the Company's interim and annual consolidated financial statements for fiscal years beginning on or after January 1, 2011. Early adoption of this section is permitted. The Company has decided not to early adopt this section and is currently assessing the impact of these new accounting standards on its consolidated financial statements.

## **HOMELAND ENERGY GROUP LTD.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2010 AND 2009.**

**(Stated in Canadian Dollars, unless otherwise stated)**

---

#### **5. CAPITAL MANAGEMENT**

The Company's capital consists of its shareholders' equity and its credit facilities and loans. The Company's objectives in managing its capital are to ensure sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions, to 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 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 issuance 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.

During the year ended December 31, 2010, the Company repaid its credit facility with Nedbank Limited, and is no longer subject to any other covenants or pre-payment of principal is required.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during 2010 and 2009.

#### **6. FINANCIAL RISK FACTORS**

The Company's financial risk exposures and their impact on the Company's financial instruments are summarized below. There have been no changes in the risks, objectives, policies and procedures during 2010 and 2009.

##### **(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.

At December 31, 2010, the Company's financial instruments are primarily comprised of cash and cash equivalents, restricted cash, accounts receivable, investments, long-term loan receivable, accounts payable and accrued liabilities, and loan from GMR Energy. The carrying values of these items, excluding the long-term loan receivable, 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 value of long-term loan receivable was calculated based on market information and the Company's best estimate.

## HOMELAND ENERGY GROUP LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009.

(Stated in Canadian Dollars, unless otherwise stated)

---

#### 6. FINANCIAL RISK FACTORS (Continued)

Investments classified as available-for-sale are carried at their quoted market value. The fair value of investments accounted for as equity investments were estimated based on recent transactions and market-based information, when available, and was estimated to be approximately equal to the carrying value of the investment.

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

Investments (excluding the investment in Southern Andes Energy Inc. and Homeland Uranium Inc.) are classified as available-for-sale. The investment in Southern Andes Energy Inc. is classified as held-for-trading. The investment in Homeland Uranium Inc. is accounted for using the equity method of accounting.

The Company uses the following hierarchy for determining the fair value of financial instruments: Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets; Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instruments. Level 3 - inputs to the valuation methodology are observable and significant to the fair value method.

At December 31, 2010 and 2009, the Company's financial instruments that are carried at fair value, consisting of cash and cash equivalents, and restricted cash are classified as Level 2. The investment in Aviva Corporation Limited, and the investment in Southern Andes Energy, Inc. have been classified as Level 1 within the fair value hierarchy.

#### (b) Foreign currency risk

The Company's functional currency is the Canadian Dollar and major purchases are primarily transacted in Canadian Dollars, US Dollars and South African Rand. The Company has funded certain exploration, development and administrative expenses in South Africa on a cash basis using funds converted from its bank accounts held in Canada. The South African operations were funded locally by way of the Nedbank Facility, utilizing cash held in South African Rand with South African financial institutions. During 2010, the Nedbank facility had been repaid in full through the use of funds received from GMR Energy (Mauritius) Limited (GMR) in the form of US Dollar promissory notes (see note 12(b)). The South African operations are also funded by intercompany advances from the parent company.

Coal sales are currently predominately denominated in South African Rand, the same currency in which the operating costs are incurred.

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

**HOMELAND ENERGY GROUP LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2010 AND 2009.  
(Stated in Canadian Dollars, unless otherwise stated)

**6. FINANCIAL RISK FACTORS (Continued)**

	December 31, 2010	December 31, 2009
Canadian Dollars	\$ 160,342	\$ 699,790
United States Dollars	1,753,483	5,042,807
British Pounds	-	95,862
South African Rand	1,802,665	1,807,743
Botswana Pula	4,113	4,059
	<u>\$ 3,720,603</u>	<u>\$ 7,650,261</u>

Other monetary assets and liabilities denominated in foreign currencies, consist primarily of South African rand, except as indicated, are as follows (stated in Canadian Dollars):

	December 31, 2010 \$	December 31, 2009 \$
Restricted cash	527,820	540,398
Accounts receivable	5,032,093	5,833,395
Long-term loan receivable	11,358,870	9,664,922
Accounts payable and accrued liabilities	13,633,520	17,642,944
Credit facilities	-	20,527,869
GMR Energy loan payable (USD 29,000,000)	28,843,400	-

Revenue has been earned in South African Rand. Expenses totaling \$43,509,422 (2009 - \$17,502,143) have been incurred in South African Rand.

The foreign currency losses reported resulted primarily from the appreciation of the South African Rand relative to the Canadian and US Dollar and the Company having net South African Rand costs at its Kendal operation in South Africa. Based on the foreign currency denominated balances noted above as of December 31, 2010, a ten percent change in the value of all foreign currencies relative to the Canadian dollar could result in a corresponding change in net loss of approximately \$1,400,000 (2009 - \$1,400,000).

**(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. A ten percent change in commodity prices would have impacted the Company's revenues and net loss by approximately \$3,300,000 (2009 - \$676,000) based on the commercial production revenues earned during 2010. The Company is exposed to price risks with respect to the market price of its publicly traded investments.

**(d) Interest rate risk**

The Company has cash and cash equivalent balances, long-term loan receivable and current loan payable to GMR Energy, which are subject to interest rate risk. The Company's current policy is to hold its cash balances with reputable banking institutions in Canada, South Africa 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.

## HOMELAND ENERGY GROUP LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009.

(Stated in Canadian Dollars, unless otherwise stated)

---

#### 6. FINANCIAL RISK FACTORS (Continued)

The Company is exposed to interest rate risk on its variable rate debt. At December 31, 2010, the outstanding balance on the Company's loan due to GMR Energy amounted to \$28,843,400 (USD \$29,000,000). A one percent change in interest rates would result in a corresponding change in net loss of approximately \$300,000 (2009 - \$200,000).

The Company is exposed to interest rate risk on its long-term loan receivable. A one percent change in interest rates could result in a corresponding change in net loss of approximately \$100,000 (2009 - \$97,000).

##### (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 cash equivalents, accounts receivable, deposits and prepaid expenses and long-term loan receivable. 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 accounts receivable, and deposits and prepaid expenses consist of sales receivables on 30-day terms, harmonized sales 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 accounts 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 through the successful commissioning of the Kendal Colliery.

##### (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 5.

The Company's approach to managing liquidity risk is to attempt to ensure that it will have access to sufficient liquidity to meet liabilities as they become due. As at December 31, 2010, the Company had cash and cash equivalents of \$3,720,603 (2009 - \$7,650,261) available to settle current liabilities of \$42,723,999 (2009 - \$43,758,178). Except for the loan payable to GMR Energy, all of the Company's current liabilities have contractual maturities of 30 days and are subject to normal trade terms.

Management is in the process of negotiating a credit facility from financial institutions to repay the GMR Energy loan of \$28,843,400 (USD \$29,000,000) when it falls due in September 2011. The funds will also be used to support the development of the Kendal and Eloff mines and for working capital requirements for Homeland and its subsidiaries in South Africa. There are no assurances that such credit facilities negotiations will result in credit facilities being made available to the company.

## HOMELAND ENERGY GROUP LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009.

(Stated in Canadian Dollars, unless otherwise stated)

#### 7. INVENTORY

Inventory consists of stock-piled run-of-mine ore valued at \$1,601,452 (2009 - \$2,691,314), discards valued at \$1,312,440 (2009 - \$nil) and finished goods valued at \$475,236 (2009 - \$5,457,896). Total inventories expensed during 2010 were \$30,200,188 (2009 - \$7,488,827).

#### 8. INVESTMENTS

	Note	2010	2009
Homeland Uranium Inc. ("HUI") - 11,888,348 (December 31, 2009 - 11,888,348) common shares	(a)	\$ 1	\$ 1,791,593
Aviva Corporation Limited - 4,000,000 (December 31, 2009 - 4,000,000) common shares	(b)	814,400	225,480
Southern Andes Energy, Inc. - 4,704,219 (December 31, 2009 - nil) common shares	(c)	2,187,461	-
Other		1	1
		\$ 3,001,863	\$ 2,017,074

(a) During 2009, the Company sold 10,361,052 of the shares held in HUI to HUI in settlement of the short-term debt arrangement the Company entered into with HUI earlier in 2009. The transaction was valued at \$2,590,413, being the principal amount of the short-term debt of \$2,500,000 plus accrued interest, resulting in an initial loss on the sale of HUI of its investment of \$2,077,023. As a result of the valuation of this transaction with HUI, the Company determined that its remaining investment in HUI was impaired. An additional net impairment provision of \$2,883,104 has been recorded. This investment has been accounted for using the equity method as the Company determined that it has significant influence over HUI.

During 2010, the Company recognized an equity loss of \$362,138 (2009- \$742,457) on its investment in HUI. The carrying value on this investment was reduced to \$1 upon receipt of the dividend described in note 8(c). A gain on investment of \$875,612 was also recorded as the dividend exceeded the carrying value of the investment.

(b) In June 2008, Homeland acquired 4,000,000 common shares of Aviva Corporation Limited ("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). This investment has been classified as available-for-sale securities. During 2009, management estimated that a portion of the unrealized loss on the investment in Aviva is other-than-temporary and recorded an impairment provision of \$2,600,000.

Based on the closing price per Aviva common share on the Australian Securities Exchange on December 31, 2010 of AUD 0.20 (2009 - AUD 0.06), the investment has been written up to \$814,400 (2009 - \$225,480).

## HOMELAND ENERGY GROUP LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009.

(Stated in Canadian Dollars, unless otherwise stated)

#### 8. INVESTMENTS (Continued)

- (c) On December 15, 2010, HUI distributed share dividends consisting of shares of Southern Andes Energy, Inc. ("Southern Andes") to all HUI shareholders on the basis of a distribution ratio of 0.3957 Southern Andes shares for each common share held by shareholders of HUI. Shareholders were not required to pay for the Southern Andes shares that they received pursuant to the distribution nor were they required to surrender or exchange common shares of HUI in order to receive the Southern Andes shares. As a result of the distribution, Homeland acquired 4,704,219 common shares of Southern Andes valued at \$2,305,066 on the date of distribution. This investment has been classified as held-for-trading securities. Based on the closing price per Southern Andes common share at December 31, 2010 of \$0.465, the investment has been written down by \$117,605 to its quoted market value of \$2,187,461.
- (d) During 2009, Homeland sold all 44,250,000 common shares of Altona for total cash proceeds of \$3,051,962 resulting in a realized loss on sale of investments of \$1,132,030. This investment had been classified as an available-for-sale investment.

#### 9. LONG-TERM LOAN RECEIVABLE

In May 2008, Homeland funded a loan to aid a private Black Economic Empowerment ("BEE") company in South Africa to purchase 26% of Ferret Coal (Kendal) (Pty) Ltd. ("Kendal"). The loan bears interest at the South African prime overdraft rate with the related equity interest in the Kendal Mine pledged as security for the loan. The carrying amount of the loan at December 31, 2010 is ZAR 75,224,305 (\$11,358,870) (2009 - ZAR 68,158,830 (\$9,664,922)) including accrued interest of ZAR 20,100,305 (\$3,035,146) (2009 - ZAR 13,039,567 (\$1,601,502)). 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 2028.

#### 10. PROPERTY, PLANT AND EQUIPMENT

			2010	
	Cost	Accumulated Amortization	Net	
Mining property, plant and machinery	\$ 33,512,254	\$ (2,564,582)	\$ 30,947,672	
Motor vehicles	299,601	(113,659)	\$ 185,942	
Office furniture and equipment	228,240	(145,990)	\$ 82,250	
Computer equipment	275,822	(232,365)	\$ 43,457	
Land and buildings	676,920	-	\$ 676,920	
Leasehold improvements	250,370	(213,407)	\$ 36,963	
Conveyor system	1,288,333	(635,542)	\$ 652,791	
	\$ 36,531,540	\$ (3,905,545)	\$ 32,625,995	

**HOMELAND ENERGY GROUP LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

YEARS ENDED DECEMBER 31, 2010 AND 2009.

(Stated in Canadian Dollars, unless otherwise stated)

**10. PROPERTY, PLANT AND EQUIPMENT (Continued)**

	2009		
	Cost	Accumulated Amortization	Net
Mining property, plant and machinery	\$ 28,927,429	\$ (1,200,990)	\$ 27,726,439
Motor vehicles	357,209	(110,610)	246,599
Office furniture and equipment	210,079	(122,005)	88,074
Computer equipment	275,086	(170,169)	104,917
Land and buildings	676,920	-	676,920
Leasehold improvements	250,370	(163,333)	87,037
Conveyor system	1,351,473	(200,000)	1,151,473
	<b>\$ 32,048,566</b>	<b>\$ (1,967,107)</b>	<b>\$ 30,081,459</b>

**11. EXPLORATION AND DEVELOPMENT PROPERTIES**

The following tables summarize exploration and development property activity during 2010 and 2009:

	Value December 31, 2009	Expenditures for the year	Write-offs/ depletion during the year	Value December 31, 2010
Eloff	\$ 2,778,679	\$ 352,156	\$ -	\$ 3,130,835
Northfield	2,434,460	6,982	(197,449)	2,243,993
Other	3,382	-	(3,382)	-
	<b>\$ 5,216,521</b>	<b>\$ 359,138</b>	<b>\$ (200,831)</b>	<b>\$ 5,374,828</b>

	Value December 31, 2008	Expenditures net of preproduction revenues for the year	Reclassified to property, plant and equipment & Impairment	Value December 31, 2009
Kendal	\$ 9,319,487	\$ 10,760,089	\$ (20,079,576)	-
Eloff	2,565,556	213,123	-	2,778,679
Northfield	2,426,565	7,895	-	2,434,460
Homeland Botswana	381,508	106,275	(487,783)	-
Vlakovarkfontein	267,030	98,057	(365,087)	-
Onbekend	126,739	-	(126,739)	-
Other	3,382	-	-	3,382
	<b>\$ 15,090,267</b>	<b>\$ 11,185,439</b>	<b>\$ (21,059,185)</b>	<b>\$ 5,216,521</b>

## **HOMELAND ENERGY GROUP LTD.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2010 AND 2009.**

**(Stated in Canadian Dollars, unless otherwise stated)**

---

#### **11. EXPLORATION AND DEVELOPMENT PROPERTIES (Continued)**

##### **Ferret Coal Holdings (Pty) Limited ("Kendal") - 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 9).

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.

During 2009, the Company earned pre-production revenues of ZAR 128,359,581 (\$17,290,036) that have been recorded against the deferred exploration and development costs related to the Kendal project. On October 1, 2009, the Company declared commercial production at the Kendal project and recorded all subsequent operating revenues and costs to the statement of operations. Upon commencement of commercial production, the capitalized costs related to the Kendal property were reclassified to Property, Plant and Equipment.

##### **Tshedza Mining Resources (Pty) Limited ("Tshedza or Eloff") - 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 or "Vlakvarkfontein" and "Onbekend") - 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. The carrying value of these properties was written off in 2009.

##### **Corpclo 331 (Pty) Ltd. ("Corpclo" or "Northfield") - South Africa**

In November 2007, the Company entered into an agreement to purchase Corpclo for ZAR 12,000,000 (approximately \$1,500,000), settled in two tranches of ZAR 6,000,000 each.

The Northfield Site Reclamation Project is a small power-generation 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. Sales commenced on this property in 2010.

**HOMELAND ENERGY GROUP LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009.

(Stated in Canadian Dollars, unless otherwise stated)

**11. EXPLORATION AND DEVELOPMENT PROPERTIES (Continued)****Homeland Mining and Energy (Botswana) (Pty) Ltd. ("Homeland Botswana") - Botswana**

In June 2008, Homeland entered into an agreement to acquire 70% of Wizard Investments (Pty) Ltd ("Wizard"), owner of a Botswana prospecting license (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 license. The carrying value of this property was written off in 2009.

**12. CREDIT FACILITIES**

	Note	2010	2009
Nedbank - Non-revolving facility	(a)	\$ -	\$ 20,527,869
GMR Loan Payable	(b)	28,843,400	5,022,912
Less: Current portion		(28,843,400)	(25,550,781)
Long-term Portion		\$ -	-

(a) The Company entered into a Term-Loan Facility Agreement signed September 29, 2008, with Nedbank Limited to finance the development of a mine at the Kendal property in South Africa. The Facility was secured by guarantees from, and pledges of shares by, certain group companies and was repayable from June 2010 through September 2014. Amounts drawn down under the Facility bear interest at the Johannesburg Interbank Agreed Rate of ("JIBAR") plus 2.75% 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. During the year ended December 31, 2010, the Company repaid the Nedbank credit facility in full.

(b) On November 30, 2009, the Company signed a promissory note in relation to a loan from GMR Energy (Mauritius) Limited to the Company of \$4,996,928. The funds were used to satisfy, in part, the Company's requirement under the Nedbank amendment to raise ZAR 70,000,000 by January, 2010. This loan was due March 31, 2010 and was subsequently deferred to July 31, 2010 and bears interest at LIBOR plus 600 basis points. The loan is secured by a pledge of certain noncore assets as well as a secondary position with respect to certain assets related to the Kendal Colliery that were subject to a first priority pledge to Nedbank Limited. On January 15, 2010, GMR Energy (Mauritius) Limited advanced a further sum of \$2,996,212 bringing the total advanced to the Company to \$7,993,140. During June 2010, a further \$3,521,997 was advanced bringing the total advanced to the Company to \$11,515,137. During the year ended December 31, 2010, the entire balance of all three tranches including interest was repaid. First repayment occurred on July 16, 2010 in the amount of \$8,124,027, second repayment occurred on October 7, 2010 in the amount of \$3,285,722, and a final repayment of \$293,657 was made on December 30, 2010 to settle the loan, including interest.

## HOMELAND ENERGY GROUP LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009.

(Stated in Canadian Dollars, unless otherwise stated)

#### 12. CREDIT FACILITIES (Continued)

On September 27, 2010, the Company signed a promissory note with GMR Energy for \$28,843,400 (USD \$29,000,000), bearing interest at LIBOR plus 4.5% per annum, calculated monthly and paid quarterly, with the entire amount due on September 27, 2011. The loan is secured by a pledge of operating assets as well as noncore assets related to the Kendal Colliery as well as the Northfield Property. The loan is guaranteed by several subsidiaries of the Company.

Management is in the process of negotiating a loan facility of up to \$50 million from financial institutions for capital expenditure requirements to support the development of the Kendal and Eloff mines, for working capital requirements for HEG and its subsidiaries in South Africa, and to repay the GMR Energy loan when it falls due in September 2011. In the interim, the Company has obtained an additional loan from GMR Energy in the amount of USD \$5,000,000 (\$4,879,000) on March 28, 2011, bearing interest at LIBOR plus 450 basis points, payable quarterly, and is due on the earlier of the date on which the Company establishes its loan facility and September 27, 2011.

#### 13. CAPITAL STOCK

##### Common shares

Authorized -

Unlimited number of common shares with no par value

Issued and outstanding common shares	Note	Number of Shares	Share Capital
Balance - December 31, 2008		150,270,478	\$ 42,269,384
Option exercise	(i)	1,000,000	112,900
Loan placement fee to Homeland Uranium Inc.	(ii)	250,000	50,000
Settlement of obligation, shares issued to GMR	(iii)	75,792,027	34,532,899
Break fee, shares issued to Appolo Fuels & Diversified Energy	(iv)	31,561,671	5,050,000
Shares issued to GMR - private placement	(v)	15,776,512	3,155,302
Shares issued to GMR - private placement	(vi)	27,465,068	1,922,555
Share issue costs		-	(52,428)
Balance - December 31, 2009		302,115,756	\$ 87,040,612
Rights offering	(vii)	169,088,393	8,454,420
Share issue costs			(26,986)
Balance - December 31, 2010		\$ 471,204,149	\$ 95,468,046

- (i) Stock options amounting to 1,104,183 were exercised on a cashless basis by directors and an officer in 2008. This resulted in 1,000,000 common shares being reserved for issuance at December 31, 2008 with an estimated grant date fair value of the options of \$112,900. As at December 31, 2008, these shares were recorded as capital stock to be issued. The common shares were issued on January 20, 2009.

## HOMELAND ENERGY GROUP LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009.

(Stated in Canadian Dollars, unless otherwise stated)

---

#### 13. CAPITAL STOCK (Continued)

- (ii) The Company received proceeds of \$2,500,000 from a loan with Homeland Uranium Inc. on January 20, 2009. As part of this transaction the Company issued 250,000 common shares as a placement fee to Homeland Uranium Inc. The common shares were valued at \$0.20 per share representing the trading value at that time. See note 16(i).
- (iii) On December 30, 2008, the shareholders of the Company elected to settle a US\$30,000,000 obligation to GMR in common shares and consented to the issue of 75,792,027 common shares of the Company at approximately \$0.46 per share. Delivery of these shares was delayed at the request of GMR, but was ultimately completed on February 23, 2009. As at December 31, 2008 these shares were recorded as capital stock to be issued.

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 Homeland Mining & Energy SA (Proprietary) Limited ("HMESA"). HMESA owns the Company's interests in the Kendal Colliery, the Northfield Site Reclamation Project, and the Eloff Mineral Property. Upon signing the MOU, Homeland received a deposit of US\$3,000,000 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\$12,000,000, 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\$15,000,000. The US\$30,000,000 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\$125,000,000, if such option was exercised on or before September 2, 2008, or US\$135,000,000, 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\$30,000,000).

- (iv) 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\$105,000,000 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\$6,000,000. The first US\$1,000,000 had been paid in the form of non-refundable deposits when the original agreement had been executed. The second US\$1,000,000 was paid on January 20, 2009. The balance of US\$4,000,000 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\$1,000,000 paid in January of 2008 and the final US\$4,000,000 to be credited towards the purchase price if the acquisition was completed. Under the terms of the amended agreement, failure to make the

## HOMELAND ENERGY GROUP LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009.

(Stated in Canadian Dollars, unless otherwise stated)

---

#### 13. CAPITAL STOCK (Continued)

US\$4,000,000 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\$4,000,000 (\$5,050,000) 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.

(v) On March 6, 2009, the Company completed a private placement with GMR for proceeds of \$3,155,302 resulting in the issuance of 15,776,512 common shares at the price of \$0.20 per common share. Three of the Company's directors are employees of GMR.

(vi) On December 9, 2009, the Company completed a private placement with GMR for proceeds of \$1,922,555 resulting in the issuance of 27,465,068 common shares at the price of \$0.07 per common share. Three of the Company's directors are employees of GMR.

(vii) On July 12, 2010, the Company concluded a rights offering whereby a total of 169,088,393 common shares were issued at a price of \$0.05 per common share for gross proceeds of \$8,454,420. GMR acquired 159,862,800 common shares issued in the rights offering.

#### 14. CONTRIBUTED SURPLUS

The following table summarizes the change in contributed surplus during the year ending:

	2010	2009
Contributed surplus - beginning of year	\$ 7,907,528	\$ 5,498,317
Stock-based compensation - employee and director	-	1,663,575
Stock-based compensation - non-employee	-	401,636
Expiry of 1,909,092 warrants	-	344,000
Contributed surplus - end of year	\$ 7,907,528	\$ 7,907,528

##### (a) Share purchase warrants

On May 21, 2009, 1,909,092 common share purchase warrants with an exercise price of \$1.50 per warrant expired. The total value of these warrants is \$344,000, and has been transferred to contributed surplus.

There were no share purchase warrants outstanding at December 31, 2010 and 2009.

##### (b) 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

**HOMELAND ENERGY GROUP LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

YEARS ENDED DECEMBER 31, 2010 AND 2009.

(Stated in Canadian Dollars, unless otherwise stated)

**14. CONTRIBUTED SURPLUS (Continued)**

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.

The following summary sets out the activity in outstanding stock options during 2010 and 2009:

**(b) Stock options (Continued)**

	2010		2009	
	Number of options #	Weighted average exercise price per share \$	Number of options #	Weighted average exercise price per share \$
Outstanding, beginning of year	9,053,375	0.37	13,360,398	1.05
Granted	-	-	9,045,000	0.15
Exercised	-	-	-	-
Expired	(4,803,375)	0.95	(5,173,021)	0.57
Forfeited	-	-	(8,179,002)	0.99
Outstanding, end of year	4,250,000	0.14	9,053,375	0.37
Options exercisable, end of year	4,250,000	0.14	9,053,375	0.37

There were no stock options granted during 2010.

During 2010, the Company recognized stock-based compensation of \$nil (2009 - \$2,065,212).

The fair value of all the options issued during 2009 was estimated using the Black-Scholes option pricing model, with the following assumptions:

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

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 * \$
February 10, 2014	0.20	765,000	765,000	91,800
December 15, 2014	0.12	3,485,000	3,485,000	174,250
		<b>4,250,000</b>	<b>4,250,000</b>	<b>226,050</b>

\* Black-Scholes valuation

**HOMELAND ENERGY GROUP LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

YEARS ENDED DECEMBER 31, 2010 AND 2009.

(Stated in Canadian Dollars, unless otherwise stated)

**15. SUPPLEMENTAL CASH FLOW INFORMATION**

	2010	2009
<b>Cash and cash equivalents</b>		
Cash	\$ 3,720,603	\$ 7,629,329
Cash Equivalents	-	20,932
	<u>\$ 3,720,603</u>	<u>\$ 7,650,261</u>

**Supplemental Cash Flow Information:**

Interest paid	\$ 4,716,448	\$ 90,462
Change in accrued exploration and development and property, plant and equipment	(2,909,983)	(2,544,954)
Option exercise (Note 15(i))	-	112,900
Income taxes paid	290,675	-
Shares issued for settlement of debt (note 13(iii))	-	34,532,899
Investments sold in settlement of debt (note 8(a))	-	2,590,413

**16. RELATED PARTY TRANSACTIONS**

Transactions with related parties are in the normal course of operations and are measured at the exchange amounts, which is the amount of consideration established and agreed to by the related parties. Related party transactions during the years ended December 31, 2010 and 2009 are as follows:

- (a) Homeland paid Grove Communications Inc. \$nil (2009 - \$9,278) in respect of investor relations and office administration work, expensed in office and general during the year. The owner of Grove Communication Inc. is a former officer and director of the Company.
- (b) With the leasing of new premises in London in 2008, Juno Special Situations Corporation, a company with which a former director and an officer of Homeland is associated, agreed to share office space. The Company had invoiced Juno for rental and recoveries of costs, and at year end \$26,156 (2009 - \$27,915) remains outstanding in accounts receivable. This amount, is unsecured, non-interest bearing with no fixed terms of repayment.
- (c) In South Africa, during 2010, \$nil (2009 - \$67,791) 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.
- (d) During 2010, the Company expensed \$206,365 (2009 - \$286,733) in legal fees provided by a law firm of which an officer of the Company is a partner. Included in accounts payable and accrued liabilities at year end was \$8,839 (2009 - \$46,178) owing to this firm. The amount is unsecured, non-interest bearing, with no fixed terms of repayment.

## HOMELAND ENERGY GROUP LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009.

(Stated in Canadian Dollars, unless otherwise stated)

---

#### 16. RELATED PARTY TRANSACTIONS (Continued)

- (e) During 2010, nil (2009 - 5,775,000) stock options were granted to directors and officers of the Company.
- (f) Related parties were reimbursed for out-of-pocket expenses. As at December 31, 2010, \$1,472 (2009 - \$365,789) was included in accounts payable to officers and directors. These amounts are unsecured, non-interest bearing, with no fixed terms of repayment.
- (g) Certain expenditures during 2010 relating to GMR were initially paid for by the Company. Included in accounts receivable at December 31, 2010 is \$3,416 (2009 - \$127,000) outstanding from GMR.  
  
These amounts are unsecured, non-interest bearing, with no fixed terms of repayment. Three of the Company's directors are employees of GMR. GMR and its affiliates are also the Company's largest shareholder.
- (h) During 2010, interest earned by GMR and GMR Energy amounted to \$690,608 (2009 - \$25,984). See note 12(b).
- (i) The Company and HUI had one director in common prior to June 30, 2010 and one of its directors is a Named Executive Officer in HUI. See notes 8(a) and 13(a)(ii).

#### 17. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Lease commitments

As at December 31, 2010, the Company had lease commitments relating to office rent and operating leases, with anticipated future payments as follows:

	\$
2011	240,149
2012	232,428
2013	229,855
2014	209,778
2015	209,778
Thereafter	433,362
	<u>1,555,350</u>

(b) Environmental contingencies

The Company's mining and exploration and development 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 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.

**HOMELAND ENERGY GROUP LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

YEARS ENDED DECEMBER 31, 2010 AND 2009.

(Stated in Canadian Dollars, unless otherwise stated)

**17. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)****(c) Contingent liability**

In September 2010, a former contractor of the Company filed a claim against the Company for approximately \$726,000 (ZAR 5,222,648). Management believes the claim is without merit and has launched a counter claim for approximately \$1,251,000 (ZAR 9,000,000) against the former contractor. The Company intends to defend its position vigorously, but cannot reasonably predict the likelihood or outcome of this case at this time. No provision for this claim has been recorded in these financial statements.

**18. ASSET RETIREMENT OBLIGATION**

The Company's asset retirement obligations ("ARO") are based on management's estimates of costs to abandon and reclaim mining, exploration and development 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:

	2010	2009
Balance, beginning of year	\$ 437,449	\$ 404,438
Liabilities incurred	28,382	33,011
Balance, end of year	\$ 465,831	\$ 437,449

The Company has estimated its total asset retirement obligations to be \$465,831 at December 31, 2010. Reclamation at the Kendal Colliery is not expected to occur before the year 2024.

**HOMELAND ENERGY GROUP LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009.

(Stated in Canadian Dollars, unless otherwise stated)

**19. 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 31.0% (2009 - 33.0%) were:

	2010 \$	2009 \$
Loss before income taxes	<u>(11,847,978)</u>	<u>(35,279,314)</u>
Expected income tax recovery at statutory rates	(3,673,000)	(11,478,000)
Adjustments resulting from:		
Tax rates in foreign countries at lower tax rates	345,000	4,271,000
Share issue costs	(8,000)	(17,000)
Stock- based compensation	-	682,000
Change in tax rates	1,018,000	1,090,000
Change in foreign exchange rates	(228,000)	-
Non-deductible expenses	225,000	46,000
Other	1,666,000	1,470,400
Change in valuation allowance	352,000	4,255,600
Income tax expense	<u>(303,000)</u>	<u>320,000</u>

**(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, 2010 and 2009 are as follows:

	2010	2009
Future income tax assets		
Non-capital losses	8,520,000	7,901,000
Share issue costs	190,000	258,000
Property, plant and equipment and exploration and development properties	(252,000)	(79,000)
Other	122,000	148,000
Valuation allowance	<u>(8,580,000)</u>	<u>(8,228,000)</u>
	-	-

**HOMELAND ENERGY GROUP LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009.

(Stated in Canadian Dollars, unless otherwise stated)

**19. INCOME TAXES (Continued)**

	<b>2010</b>	2009
Future income tax assets		
Canada	<b>2,955,000</b>	4,886,000
Mauritius	<b>212,000</b>	222,000
South Africa	<b>5,315,000</b>	3,029,000
Botswana	<b>98,000</b>	91,000
	<b>8,580,000</b>	8,228,000
Valuation allowance	<b>(8,580,000)</b>	(8,228,000)
	<b>-</b>	-

The Company has approximately \$11,011,000 of non-capital losses and approximately \$700,000 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 (\$)
2025	6,000
2026	156,000
2027	30,000
2028	5,414,000
2029	3,783,000
2030	1,622,000
	<b>11,011,000</b>

The Company has approximately ZAR 129,063,000 of non-capital losses in South Africa that do not expire. The Company has approximately Pula 2,243,000 of non-capital losses in Botswana that expire in 2012 (Pula 408,000), 2013 (Pula 1,070,000), 2014 (Pula 593,000) and 2015 (Pula 172,000). The Company has approximately \$7,500,000 of non-capital losses of which \$4,000,000 expire in 2013, \$3,400,000 expire in 2014, and \$100,000 expire in 2015 in Mauritius.

**HOMELAND ENERGY GROUP LTD.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009.

(Stated in Canadian Dollars, unless otherwise stated)

**20. SEGMENTED INFORMATION**

Substantially all of the Company's property, plant and equipment and exploration and development properties are located in South Africa. Segmented information by geographic region is as follows:

For the years ended December 31,	2010	2009
	\$	\$
<b>Comprehensive Gain (Loss) by Segment:</b>		
Canada	(1,622,277)	(6,375,915)
Mauritius (formerly of the British Virgin Islands)	881,504	(5,676,205)
South Africa	(10,190,070)	(11,075,761)
United States of America	-	(6,375,264)
Botswana	(25,215)	(105,717)
Swaziland	-	-
Consolidated Comprehensive (Loss)	(10,956,058)	(29,608,862)
<b>Total Assets by Segment:</b>		
Canada	2,142,356	6,095,785
Mauritius (formerly of the British Virgin Islands)	3,615,059	2,767,149
South Africa	60,283,494	60,126,412
Botswana	39,364	625,348
Consolidated Total Assets	66,080,273	69,614,694
<b>Total Liabilities by Segment:</b>		
Canada	29,082,310	5,226,037
Mauritius (formerly of the British Virgin Islands)	8,168	361,328
South Africa	14,095,342	38,596,062
Botswana	4,010	12,200
Consolidated Total Liabilities	43,189,830	44,195,627

During the year, revenues have been earned from the sale of coal from mining operations of \$31,132,490 (2009 - \$6,278,516) and from mining related services provided of \$1,883,862 (2009 - \$792,757).

## **HOMELAND ENERGY GROUP LTD.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2010 AND 2009.**

**(Stated in Canadian Dollars, unless otherwise stated)**

---

#### **21. MADIC & NUMIN**

The Company has advanced a loan to Madic, of \$1,380,000 (ZAR 10,000,000) in 2008, 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% per annum. In terms of this Loan Agreement, Homeland is entitled, but not obligated, to purchase at cost a maximum of four Madic continuous conveyor systems. During 2010, \$307,418 (ZAR 2,181,818) was repaid, leaving loan balance including interest of \$1,162,553 (ZAR 8,250,906) remaining.

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.

In addition, Homeland has entered into a Loan Agreement and Share Purchase Option Agreement with an entity associated with Madic that is implementing the Madic system, including terms in which it has loaned to this entity company ("Numin") totaled \$719,600 (ZAR 5,606,465), of which ZAR 3,000,000 was the original loan amount, an additional ZAR 1,313,465 was issued in 2008 and additional ZAR 1,293,000 was issued in 2009. 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. During 2010, \$199,822 (ZAR 1,418,184) was repaid, leaving loan balance including interest of \$812,004 (ZAR 5,762,979) remaining.

As at December 31, 2010 and 2009, the Company determined that Madic and Numin are VIEs, and that the Company is the primary beneficiary of each entity. As a result, Madic and Numin have been consolidated in these financial statements for both years ending December 31, 2010 and 2009.

#### **22. SUBSEQUENT EVENTS**

Subsequent to December 31, 2010, management is in the process of negotiating a loan facility of up to \$50 million from financial institutions for capital expenditure requirements to support the development of the Kendal and Eloff mines, for working capital requirements for HEG and its subsidiaries in South Africa, and to repay the GMR Energy loan when it falls due in September 2011. In the interim, the Company has obtained an additional loan from GMR Energy in the amount of USD \$5,000,000 (\$4,879,000) on March 28, 2011, bearing interest at LIBOR plus 450 basis points, payable quarterly, and is due on the earlier of the date on which the Company establishes its loan facility and September 27, 2011.