



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
UNAUDITED

THREE MONTHS ENDED MARCH 31, 2011 AND 2010  
(Stated in thousands of Canadian Dollars)

*These Interim Statements have not been reviewed by auditors. They include all material adjustments, consisting of normal and recurring items, that management considers necessary for fair presentation of the consolidated financial position, results of operations and cash flows.*

**HOMELAND ENERGY GROUP LTD.**

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**UNAUDITED**

**MARCH 31, 2011 AND 2010**

*(Stated in thousands of Canadian Dollars)*

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**HOMELAND ENERGY GROUP LTD.**  
**UNAUDITED CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS**  
*(Stated in thousands of Canadian Dollars)*

As at	Note	March 31, 2011	December 31, 2010	January 1, 2010
			(Note 4)	(Note 4)
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents		\$7,853	\$3,702	\$7,295
Restricted cash		528	528	540
Amounts receivable		4,363	5,121	6,043
Deposits and prepaid expenses		205	256	230
Inventory	8	4,384	3,389	8,149
		<b>17,333</b>	12,996	22,257
Long-term deposits and prepaid expenses		16	16	17
Investments	9	2,788	3,002	225
Investments in associate	9	-	-	1,792
Long-term loans receivable	10	2,043	2,044	2,362
Exploration properties	12	5,039	5,731	5,226
Property, plant and equipment	11	44,473	38,488	31,836
		<b>\$71,692</b>	\$62,277	\$63,715
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued liabilities		\$17,799	\$13,315	\$17,829
Current portion of asset retirement obligations	18	319	-	-
Current portion of long-term liabilities	13	-	-	20,528
Loans from GMR Energy	13	33,722	28,843	5,023
		<b>51,840</b>	42,158	43,380
Asset retirement obligations	18	2,752	466	438
		<b>\$54,592</b>	\$42,624	\$43,818
<b>Shareholders' Equity</b>				
		<b>17,100</b>	19,653	19,897
		<b>\$71,692</b>	\$62,277	\$63,715

Going Concern (note 2)

Commitments and Contingencies (notes 13, 19 and 22)

Approved by the Board on June 13, 2011:

Signed: "B.V.N. Rao"  
**B.V.N. Rao, Director**

Signed: "Mike Garvey"  
**Mike Garvey, Director**

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

**HOMELAND ENERGY GROUP LTD.**  
**UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF**  
**COMPREHENSIVE INCOME (LOSS)**  
*(Stated in thousands of Canadian Dollars)*

For the three months ended March 31,	Note	2011	2010
			(Note 4)
<b>Revenue</b>		\$ 6,519	\$ 6,245
<b>Cost of goods sold</b>			
Mining and processing expense		5,105	6,074
Depletion, depreciation and amortization	11	881	453
<b>Gross Income (Loss)</b>		533	(282)
<b>Expenses</b>			
Management and administrative expenses		579	364
Office and general		674	660
Interest expense		345	285
Professional and consulting fees		158	167
Legal and accounting		147	133
Travel and accommodation		78	47
Directors' fees		27	30
Transfer agent and filing		16	24
Amortization		18	48
		2,042	1,758
<b>Loss before Other Items</b>		(1,509)	(2,040)
<b>Other Items</b>			
Foreign exchange gain (loss)		1,606	1,026
Interest income		12	70
Other income (expense)		3	-
Loss on held-for-trading investments	9(c)	(400)	-
Share of equity loss from investment in Homeland Uranium Inc.	9(a)	-	(17)
<b>Loss before Income Taxes</b>		(288)	(961)
Income tax recovery (expense)	20	(132)	-
<b>Net Loss</b>		(420)	(961)
<b>Other Comprehensive Income (Loss)</b>			
Unrealized gain (loss) on available-for-sale investments		(186)	73
Foreign exchange gain (loss) on translation of foreign subsidiaries		(1,947)	(2,063)
<b>Total Comprehensive Income (Loss)</b>		\$ (2,553)	(2,951)
<b>Loss Per Share - Basic and Diluted</b>		\$ (0.01)	\$ (0.01)
<b>Weighted Average Number of Basic and Diluted Common Shares Outstanding During the Period</b>		471,204,149	257,657,352

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

**HOMELAND ENERGY GROUP LTD.**  
**UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
*(Stated in thousands of Canadian Dollars)*

Three months ended March 31, 2011

	Share Capital		Reserves						Deficit	Total
	Number of shares	Amount	Equity settled awards	BEE loan	Available-for-sale financial assets	Currency translation adjustments	Total reserves			
Balance at December 31, 2010	471,204,149	\$88,385	\$225	\$7,231	(\$38)	\$3,066	\$10,484	(\$79,216)	\$19,653	
Net loss for the period								(420)	(420)	
Other comprehensive income (loss):					(186)	(1,947)	(2,133)		(2,133)	
Balances, March 31, 2011	471,204,149	\$88,385	\$225	\$7,231	(\$224)	\$ 1,119	\$8,351	(\$79,636)	\$17,100	

Three months ended March 31, 2010

	Share Capital		Reserves						Deficit	Total
	Number of shares	Amount	Equity settled awards	BEE loan	Available-for-sale financial assets	Currency translation adjustments	Total reserves			
Balance at January 1, 2010	302,115,756	\$ 79,958	\$225	\$7,231	(\$627)	\$807	\$ 7,636	(\$67,697)	\$19,897	
Net loss for the period								(961)	(961)	
Other comprehensive income (loss):					73	(2,063)	(1,990)		(1,990)	
Balances, March 31, 2010	302,115,756	\$ 79,958	\$225	\$7,231	(\$554)	\$1,256	\$5,646	(\$68,658)	\$16,946	

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

**HOMELAND ENERGY GROUP LTD.**  
**UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(Stated in thousands of Canadian Dollars)*

For the three months ended March 31,	2011	2010
		(Note 4)
<b>Cash flows provided by (used in):</b>		
<b>Operating activities:</b>		
<b>Net loss for the period</b>	\$ (420)	\$ (2,387)
Items not affecting cash:		
Depletion and amortization	898	425
Foreign exchange (gain) loss	(1,653)	233
Change in accrued interest expense	346	610
Accrued interest income	(12)	(31)
Equity loss from investment in Homeland Uranium Inc.	-	17
Realized loss on held-for-trading investments	400	-
Change in non-cash working capital items	1,168	(6,339)
<b>Net cash used in operating activities</b>	<b>727</b>	<b>(7,472)</b>
<b>Investing activities:</b>		
Exploration properties	-	(69)
Acquisition of property, plant and equipment	(1,209)	193
<b>Net cash provided in investing activities</b>	<b>(1,209)</b>	<b>124</b>
<b>Financing activities:</b>		
Loans from GMR Energy	4,881	-
Proceeds from short-term debt	-	2,996
<b>Net cash used by financing activities</b>	<b>4,881</b>	<b>2,996</b>
<b>Effect of foreign exchange on cash balances</b>	<b>(248)</b>	<b>(50)</b>
<b>Changes in Cash and Cash Equivalents</b>	<b>4,151</b>	<b>(4,402)</b>
Cash and Cash Equivalents - Beginning of period	3,702	7,295
<b>Cash and Cash Equivalents - End of period</b>	<b>\$ 7,853</b>	<b>\$ 2,893</b>

Supplemental cash flow information (note 16)

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

# HOMELAND ENERGY GROUP LTD.

## NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2011 AND 2010.

(Stated in thousands of Canadian Dollars, unless otherwise stated)

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### 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. The registered office of the company is 144 Front Street West, Toronto Ontario, M5J 2L7 Canada. The principal activity of the Company is "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.

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 condensed interim consolidated financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS"), 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 March 31, 2011, the Company had cash and cash equivalents of \$7,853 and a working capital deficiency of \$34,507, inclusive of a loan due to the majority shareholder of \$33,722 (USD \$34,000) issued on September 27, 2010 and March 28, 2011.

The Company has a need for working capital for operations and for the exploration and development of its properties. During 2010, the Company successfully raised financing via issuance of shares for cash in the amount of \$8,454, as well as received financing of USD \$29,000 (\$29,960) from its majority shareholder. The Company received additional funds of USD \$5,000

## **HOMELAND ENERGY GROUP LTD.**

### **NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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(\$4,879) from its majority shareholder on March 28, 2011 and has subsequently negotiated a loan facility with a local financial institution of \$30,000. It is not possible to predict whether the Company will attain profitable levels of operations.

These condensed interim 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**

#### **(a) Statement of Compliance**

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the Company expects to adopt in its consolidated financial statements as at and for the year ending December 31, 2011.

These are the Company's first interim international consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), including IAS 34 Interim Financial Reporting ("IAS 34"), as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the Company expects to adopt in its annual consolidated financial statements as at and for the year ending December 31, 2011. In previous years, the Company prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") in effect prior to January 1, 2011. Comparative information has been restated from previous ("Canadian GAAP") to IFRS. The impact of the transition to IFRS on the Company's previously reported financial statements are presented in note 4.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of June 13, 2011, the date the Board of Directors approved the condensed interim consolidated financial statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these condensed interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

These condensed interim consolidated financial statements should be read in conjunction with the Company's 2010 annual consolidated financial statements prepared in accordance with Canadian GAAP and in consideration of the IFRS transition disclosures included in note 4 to these condensed interim consolidated financial statements.

#### **(b) Basis of presentation**

These condensed interim consolidated financial statements have been prepared on a historical cost basis except as described in note 3. The accounting policies described in note 4 have been applied consistently to all periods presented in these condensed interim consolidated financial statements except as disclosed.

## HOMELAND ENERGY GROUP LTD.

### NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2011 AND 2010.

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(c) **Basis of consolidation**

The condensed interim consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries), and includes the accounts of the Company and its wholly owned subsidiaries Homeland Energy Corporation, Homeland Mining & Energy SA (Pty), Ferret Coal Holdings (Pty) Ltd and Corpco 331(Pty) as well as 50% owned subsidiaries Nhlalala Mining (Pty) Ltd and Tshedza mining Resources (Pty) Ltd.

*Subsidiaries*

Subsidiaries are entities over which the Company has control, where control is defined as the power to govern financial and operating policies of an entity so as to obtain benefit from its activities. Generally, the Company has a shareholding of more than one half of the voting rights in its subsidiaries. The effects of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are de-consolidated from the date control ceases.

Intercompany transactions between subsidiaries are eliminated in consolidation.

*Associates*

Associates are entities over which the Company has significant influence, but not control. Generally, the Company has a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method as follows:

- investments are initially recognized at cost;
- Associates include goodwill identified on acquisition, net of any accumulated impairment loss;
- the Company's share of post-acquisition profits or losses is recognized in the statement of comprehensive income (loss) and is adjusted against the carrying amount of the investments;
- when the Company's share of losses equals or exceeds its interest in the associates, including unsecured receivables, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the investee; and
- accounting policies of associates are adjusted as necessary to ensure consistency with the policies of the company.
- gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in these entities and losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(d) **Revenue recognition**

Sale of goods (coal) is measured at the fair value of the consideration received or receivable and represents the amount receivable for the goods and services provided in the normal course of business, net of discounts and sales related tax.

*Sale of Goods*

Revenue from the sale of goods (coal) is recognized when all of the following conditions are satisfied:

- the Company has transferred to the buyer the significant risks and rewards of

## HOMELAND ENERGY GROUP LTD.

### NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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- ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### *Interest Income*

Interest income is recognized when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carry amount on initial recognition.

#### (e) **Earnings per share**

The Company presents basic and diluted earnings per share data. Basic earnings per share are calculated by dividing the income or loss attributable to shareholders of the Company by the weighted average number of common shares outstanding during the period. The diluted earnings per share are determined by adjusting the income or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. The Company uses the treasury stock method for calculating diluted earnings per share. The diluted earnings per share calculation considers the impact of employee stock options and other potentially dilutive instruments.

#### (f) **Leasing**

Leases under which the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Obligations incurred under operating leases are charged to the interim consolidated statement of comprehensive income in equal installments over the period of the lease, except when an alternative method is more representative of the time pattern from which benefits are derived.

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the lessee are classified as finance leases. Assets acquired under finance lease agreements are capitalized at the lower of fair value and the present value of the minimum lease payments at inception of the lease, and depreciated over the expected useful life of the asset.

#### (g) **Foreign currency translation**

##### *Presentation currency*

The Company's presentation currency is the Canadian dollar ("C\$"). The functional currency of the Company and its international subsidiaries is the Canadian Dollar and South African Rand ("ZAR"), respectively. These condensed interim consolidated financial statements have been translated to the Canadian dollar in accordance with *IAS 21 The Effects of Changes in Foreign Exchange Rates*. These guidelines require that assets and liabilities be translated using the exchange rate at period end, and income, expenses and cash flows items are translated using the rate that approximates the exchange rates at the dates of the transactions (i.e. the

## HOMELAND ENERGY GROUP LTD.

### NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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average rate for the period). Subsequent to the adoption of IFRS, all resulting exchange differences are reported as a separate component of statement of changes in equity titled "Currency translation adjustments".

#### *Foreign currency translation*

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined.

Exchange differences on foreign currency translation are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

On the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Company are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognised, but they are not reclassified to profit or loss.

In the case of a partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. of associates or jointly controlled entities not involving a change of accounting basis), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income (loss) within "finance costs". All other foreign exchange gains and losses are presented in the statements of comprehensive income (loss).

## HOMELAND ENERGY GROUP LTD.

### NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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(h) **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(i) **Share-based payments**

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 an equity reserve, namely equity settled awards.

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 15(b).

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulated expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefit reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date of the entity obtains the goods or the counterparty renders the service.

(j) **Taxation**

Current tax payable is based on taxable profit for the period. Taxable profit differs from profits reported in the condensed interim consolidated statement of comprehensive loss because of items in income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized in respect of temporary differences between the carrying amounts

## HOMELAND ENERGY GROUP LTD.

### NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(k) **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 machinery	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

Corporate assets consist primarily of office equipment and leasehold improvements and are stated at cost less accumulated depreciation. Depreciation on office equipment is provided over the useful life of the assets on a straight-line basis from 3 to 6 years. Leasehold improvements are depreciated on a straight-line basis over the term of the lease.

(l) **Mineral properties**

Exploration and evaluation

Once a license to explore an area has been secured, expenditures on exploration and evaluation activities are capitalized to exploration and evaluation and classified as a component of property, plant and equipment. Exploration expenditures relate to the initial search for deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential. Management reviews the carrying value of capitalized exploration costs at least annually. The review is based on the Company's intentions for development of the undeveloped property. Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped project. If a project does not prove viable, all irrecoverable costs associated with the project net of any impairment provisions are written off.

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#### Development

When economically viable reserves have been determined and the decision to proceed with development has been approved, the expenditures related to development and construction are capitalized as construction-in-progress and classified as a component of property, plant and equipment. Costs associated with the commissioning of new assets incurred in the period before they are operating in the way intended by management, are capitalized. Development expenditure is net of the proceeds of the sale of metals from ore extracted during the development phase. Interest on borrowings related to the construction and development of assets are capitalized until substantially all the activities required to make the asset ready for its intended use are complete. The costs of removing overburden to access ore are capitalized as pre-production stripping costs and classified as a component of property, plant and equipment.

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 UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2011 AND 2010.

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(m) **Impairment of non-financial assets**

The Company reviews its long-lived assets to determine whether there is any indication for impairment whenever events or changes in circumstances indicate those assets have suffered an impairment loss. If any such indications exist, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(n) **Inventories**

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. Production costs include the cost of raw materials, direct labour, mine-site overhead expenses, and depletion of mining property, plant and equipment. 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. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

(o) **Provisions**

*Asset retirement obligation*

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 a pre-tax rate specific to the obligation. 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.

(p) **Financial instruments**

*Financial assets*

All financial assets are recognized and derecognized on trade date where the purchase or

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sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### *Financial instruments recorded at fair value*

Financial instruments recorded at fair value on the condensed statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- 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 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

#### *Effective interest method*

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

#### *Financial assets at FVTPL*

Financial assets are classified as at FVTPL when the 'financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and
- has a recent actual pattern of short-term profit-taking;
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

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- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the interim consolidated statement of comprehensive income. Fair value is determined in the manner described in note 6(a).

#### *Held-to-maturity investments*

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

#### *Available-for-sale financial assets*

Listed shares and listed redeemable notes held by the Company that are traded in an active market are classified as AFS and are stated at fair value. Fair value is determined in the manner described in note 6(a). Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the available-for-sale financial asset reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. When the investment is disposed or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

#### *Loans and receivables*

Amounts receivables, and long-term loans receivable that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate,

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except for short-term receivables when the recognition of interest would be immaterial.

#### *Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets classified as AFS, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as amounts receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of amounts receivables, where the carrying amount is reduced through the use of an allowance account. When an amount receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

#### *De-recognition of financial assets*

The Company de-recognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

#### *Classification as debt or equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

#### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

#### *Financial liabilities*

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

#### *Other financial liabilities*

Other financial liabilities, including accounts payable and accrued liabilities, long-term liabilities and loan from GMR Energy, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

#### *De-recognition of financial liabilities*

The Company de-recognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

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(q) **Use of estimates**

The preparation of condensed interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from these estimates.

Key areas of estimation, where management has made difficult, complex or subjective judgments, often as a result of matters that are inherently uncertain are as follows:

i. **Income taxes**

Income tax liabilities must be estimated for the Company, including an assessment of temporary differences. Any temporary differences will generally result in the recognition of deferred tax assets and liabilities in the financial statements. Management judgment is required for the calculation of current and deferred taxes.

ii. **Property, plant and equipment ("PP&E")**

Measurement of PP&E involves the use of estimates for determining the expected useful lives of depreciable assets. Management's judgment is also required to determine depreciation methods and an asset's residual value, the rate of capitalization of internal labour costs and whether an asset is a qualifying asset for the purposes of capitalizing borrowing costs.

iii. **Impairment of non-financial assets**

The impairment test on cash generating unit is carried out by comparing the carrying amount of cash generating unit and their recoverable amount. The recoverable amount of a cash generating unit is the higher of fair value, less costs to sell, and its value in use. This complex valuation process entails the use of methods such as the discounted cash flow method which uses assumptions to estimate cash flows. The recoverable amount depends significantly on the discount rate used in the discounted cash flow model as well as the expected future cash flows and the growth rate used for the extrapolation.

iv. **Provisions**

Considerable judgment is used in measuring and recognizing provisions and the exposure to contingent liabilities. Judgment is necessary to determine the likelihood that a pending litigation or other claim will succeed, or a liability will arise and to quantify the possible range of the final settlement

v. **Restoration, rehabilitation and environmental obligations**

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises.

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Discount rates using a pretax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either a unit-of-production or the straight-line method as appropriate. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage that is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses.

vi. Financial risk management and financial instruments

The fair value of investments in publicly traded and private companies and equity instruments is determined on the basis of either prices in regulated markets or quoted prices provided by financial counterparts, or using valuation models which also take into account subjective measurements such as, for example, cash flow estimates or expected volatility of prices.

vii. Stock options

Assumptions are used in the underlying calculation of fair values of the Company's stock options. Fair value is determined using the Black-Scholes pricing model.

Significant changes in the assumptions, including those with respect to future business plans and cash flows, could materially change the recorded carrying amounts.

viii. Reserve estimates

The Company estimates its ore reserves and mineral resources based on information compiled by Qualified Persons as defined in accordance with Canadian Securities Administrators National Instrument 43-101 Standards for Disclosure of Mineral Projects (NI 43-101). Reserves are used in the calculation of depreciation, impairment assessment and for forecasting the timing of payment of mine closure, reclamation and rehabilitation costs.

There are numerous uncertainties inherent in estimating ore reserves, and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecasted prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated.

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#### **Future accounting changes**

##### IFRS 9, Financial Instruments

In October 2010, the IASB issued IFRS 9, Instruments ("IFRS 9"). IFRS 9, which replaces IAS 39 Financial Instruments: Recognition and Measurement, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2013. The Company is assessing the impact of this new standard on its consolidated financial statements.

IFRS 10 *Consolidated Financial Statements* ("IFRS 10") provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC 12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 *Consolidated and Separate Financial Statements*. The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning on January 1, 2013. The Company has not yet determined the impact of the amendments to IFRS 10 on its financial statements.

IFRS 11 *Joint Arrangements* ("IFRS 11") replaces the guidance in IAS 31 *Interests in Joint Ventures*. Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method.

Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 *Investments in Associates* and IAS 36 *Impairment of Assets*. Any impairment losses are recognized as an adjustment to opening retained earnings at the beginning of the earliest period presented. The Company intends to adopt IFRS 11 in its financial statements for the annual period beginning on January 1, 2013. The Company has not yet determined the impact of the amendments to IFRS 7 on its financial statements.

IFRS 13 *Fair Value Measurement* converges IFRS and US GAAP on how to measure fair value and the related fair value disclosures. The new standard creates a single source of guidance for fair value measurements, where fair value is required or permitted under IFRS, by not changing how fair value is used but how it is measured. The focus will be on an exit price. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company has not yet determined the impact of the amendments to IFRS 13 on its financial statements.

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#### 4. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

As stated in note 3(a), these are the Company’s first condensed interim consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in note 3 have been applied in preparing these unaudited condensed interim consolidated financial statements for the three months ended March 31, 2011, the comparative information presented in these unaudited condensed interim consolidated financial statements for the three months ended March 31, 2010 and in preparation of an opening IFRS statement of financial position at January 1, 2010 (the Company’s date of transition to IFRS) and statements of financial position at March 31, 2010 and December 31, 2010.

IFRS 1 requires an entity to adopt IFRS in its first annual financial statements prepared under IFRS by making an explicit and unreserved statement in those financial statements of compliance with IFRS. The Company will make this statement when it issues its 2011 annual financial statements.

IFRS 1 also requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was January 1, 2010 (the “Transition Date”). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be December 31, 2011. However, it also provides for certain optional exemptions and certain mandatory exceptions for first-time IFRS adopters.

##### **Initial elections upon adoption**

Set forth below are the IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS.

- i. *Currency translation differences* - Retrospective application of IFRS would require the Company to determine cumulative currency translation differences in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*, from the date a subsidiary or equity method investee was formed or acquired. IFRS 1 permits cumulative translation gains and losses to be reset to zero at the Transition Date. The Company elected to reset all cumulative translation gains and losses to zero in opening retained earnings at its Transition Date.
- ii. *Share-based payments* - IFRS 2, *Share-based Payments*, encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Company elected to avail itself of the exemption provided under IFRS 1 and applied IFRS 2 for all equity instruments granted after incorporation on October 12, 2006 that had not vested by its Transition Date.

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**IFRS Mandatory Exceptions**

**Estimates** - Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The changes made to the consolidated statements of financial position and consolidated statements of comprehensive income have resulted in reclassifications of various amounts on the consolidated statements of cash flows; however, as there have been no material changes to the net cash flows, no reconciliations have been presented.

**Reconciliations between Canadian GAAP and IFRS**

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with previous Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Company's financial position and shareholders' equity and comprehensive income is set out in the following tables and the notes that accompany the tables.

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Reconciliation of financial position and shareholders' equity at:

	Note	Dec 31, 2010			March 31, 2010			January 1, 2010		
		CDN GAAP	ADJ	IFRS	CDN GAAP	ADJ	IFRS	CDN GAAP	ADJ	IFRS
<b>Assets</b>										
<b>Current Assets</b>										
		\$	\$	\$	\$	\$	\$	\$	\$	\$
Cash and cash equivalents	(b)	3,721	(19)	3,702	3,285	(392)	2,893	7,650	(355)	7,295
Restricted cash		528	-	528	528	-	528	540	-	540
Amounts receivable	(b)	5,129	(8)	5,121	4,712	(228)	4,484	6,045	(2)	6,043
Deposits and prepaid expenses	(b)	257	(1)	256	166	-	166	230	-	230
Inventory		3,389	-	3,389	8,501	-	8,501	8,149	-	8,149
		13,024	(28)	12,996	17,192	(620)	16,572	22,614	(357)	22,257
Long-term deposits and prepaid expenses		16	-	16	17	-	17	17	-	17
Investments		3,002	-	3,002	2,072	-	2,072	2,017	-	2,017
Long-term loans receivable	(b),(d)	11,359	(9,315)	2,044	9,686	(7,560)	2,126	9,665	(7,303)	2,362
Exploration properties		5,375	356	5,731	5,285	(113)	5,172	5,217	9	5,226
Property, plant and equipment	(a),(b)	32,626	5,862	38,488	29,398	1,320	30,718	30,081	1,755	31,836
Other assets	(b)	678	(678)	-	-	-	-	4	(4)	-
		66,080	(3,803)	62,277	63,650	(6,973)	56,677	69,615	(5,900)	63,715
<b>Liabilities</b>										
<b>Current Liabilities</b>										
Accounts payable and accrued liabilities	(b)	13,881	(566)	13,315	10,728	(270)	10,458	18,207	(378)	17,829
Current portion of long-term liabilities		-	-	-	8,186	-	8,186	20,528	-	20,528
Loans from GMR Energy		28,843	-	28,843	20,660	-	20,660	5,023	-	5,023
		42,724	(566)	42,158	39,574	(270)	39,304	43,758	(378)	43,380
<b>Asset retirement obligations</b>		466	-	466	427	-	427	438	-	438
		43,190	(566)	42,624	40,001	(270)	39,731	44,196	(378)	43,818
<b>Shareholders' equity</b>										
	(a),(b)	22,890	(3,237)	19,653	23,649	(6,703)	16,946	25,419	(5,522)	19,897
	\$	66,080	(3,803)	62,277	63,650	(6,973)	56,677	69,615	(5,900)	63,715

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Reconciliation of comprehensive loss:

	Note	For the year ended			For the three-months ended		
		Dec 31, 2010			Mar 31, 2010		
		CDN GAAP	ADJ	IFRS	CDN GAAP	ADJ	IFRS
<b>Revenue</b>	(b)	\$33,016	\$(1,884)	\$31,132	\$6,466	\$(221)	\$6,245
<b>Cost of Goods Sold</b>							
Mining and processing expense	(b)	32,299	(96)	32,203	6,176	(102)	6,074
Depletion, depreciation and amortization	(a),(b)	1,992	(117)	1,875	472	(19)	453
<b>Gross profit (loss)</b>		(1,275)	(1,671)	(2,946)	(182)	(100)	(282)
<b>Expenses</b>							
Management and administrative expenses	(b)	3,252	(1,325)	1,927	364	-	364
Office and general	(b)	3,386	(131)	3,255	672	(12)	660
Interest and accretion expense	(a)	3,271	(2,030)	1,241	770	(485)	285
Professional and consulting fees	(b)	1,161	(20)	1,141	176	(9)	167
Legal and accounting	(b)	858	(55)	803	142	(9)	33
Travel and accommodation		335	-	335	47	-	47
Director's fees	(b)	226	(98)	128	42	(12)	30
Transfer agent and filing		62	-	62	24	-	24
Amortization		83	14	97	18	30	48
		12,634	(3,645)	8,989	2,255	(497)	1,728
<b>Loss before Other Items</b>		(13,909)	1,974	(11,935)	(2,437)	397	(2,040)
<b>Other Items</b>							
Foreign exchange gain (loss)	(b),(c),(d)	712	(948)	(236)	295	731	1,026
Interest Income	(b),(d)	1,043	(1,000)	43	316	(246)	70
Other income (expense)		(87)	-	(87)	-	-	-
Gain on investment		876	-	876	-	-	-
Write-down of exploration properties		(3)	-	(3)	-	-	-
Realized gain (loss) on held-for-trading investments		(118)	-	(118)	-	-	-
Equity pickup (loss) from investment in Homeland Uranium Inc.		(362)	-	(362)	(17)	-	(17)
<b>Loss before Incomes Taxes</b>		(11,848)	26	(11,822)	(1,843)	882	(961)
Income tax recovery (expense)		303	-	303	-	-	-
<b>Net Loss for the Period</b>		(11,545)	26	(11,519)	(1,843)	882	(961)
<b>Other comprehensive income low for the period</b>							
Unrealized gain on available for sale securities		589	-	589	73	-	73
Foreign exchange gain(loss) on translation of foreign subsidiaries	(d)	-	2,259	2,259	-	(2,063)	(2,063)
<b>Comprehensive loss for the period</b>		\$(10,956)	\$2,285	\$(8,671)	\$(1,770)	\$(1,181)	\$(2,951)

## HOMELAND ENERGY GROUP LTD.

### NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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#### (a) Property, Plant and Equipment

The Company has applied IAS 23 which requires the capitalization of interest and other borrowing costs as part of the cost of certain qualifying assets. For the purposes of IAS 23, a qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use. Under previous Canadian GAAP, the Company elected not to capitalize borrowing costs.

The effect arising from these changes are as follows:

	Year ended Dec 31, 2010	Three months ended Mar 31, 2010	
Consolidated statements of comprehensive income:			
Depletion, depreciation and amortization	\$ 194	\$ 52	
Interest and accretion expense	(2,030)	(485)	
Adjustment to retained earnings/deficit	\$ 1,836	\$ 433	

  

	Dec 31, 2010	Mar 31, 2010	Jan 1, 2010
Consolidated balance sheet			
Property, plant and equipment	\$ 4,074	\$ 2,671	\$ 2,238
Adjustment to retained earnings/deficit	\$ 4,074	\$ 2,671	\$ 2,238

#### (b) Consolidated and Separate Financial Statements

Canadian GAAP requires that an entity assess whether it should consolidate another entity using two different frameworks: the variable interest entity model and the voting control model. Under IFRS, the appropriateness of consolidating an entity is based on control, which is defined as the power to govern the financial and operating policies of an entity to obtain benefit. Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than one half of an entity's voting power, but also exists when the parent owns half or less of the voting power but has legal or contractual rights to control, or where it has de facto control.

Under Canadian GAAP, Madic Madic Operations (Pty) Ltd. ("Madic") and Numin Close Corporation ("Numin") met the definition of a variable interest entity in which the Company was the primary beneficiary because of the nature of its investment in these entities. Accordingly, under Canadian GAAP, the Company consolidated Madic & Numin. On transition to IFRS, the Company completed an assessment of whether its interest gives the

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Company the power to govern the financial and reporting policies of Madic and Numin and it concluded that such control did not exist. Consequently, on the Transition Date, applied IAS 27, Consolidated and Separate Financial Statements, retrospectively deconsolidated the accounts of Madic and Numin.

Further, on transition to IFRS and upon deconsolidation of Madic & Numin, the Company completed an impairment analysis and concluded that the amounts receivable from Madic & Numin were not impaired.

The impact arising from the change is summarized as follows:

	Year ended Dec 31, 2010	Three months ended Mar 31, 2010
Consolidated statements of comprehensive income (loss):		
Revenue	\$ (1,884)	\$ (221)
Mining and processing expense	(96)	(102)
Depletion, depreciation and amortization	(436)	(65)
Management and administrative expenses	(1,325)	-
Office and general	(131)	(12)
Professional and consulting fees	(20)	(9)
Legal and accounting	(55)	(9)
Directors' fees	(98)	(12)
Interest income	(1)	-
Foreign exchange gain (loss)	(253)	(532)
Adjustment to retained earnings/deficit	\$ 23	\$ (544)

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	Dec 31, 2010	Mar 31, 2010	Jan 1, 2010
Consolidated balance sheet			
Cash and cash equivalents	\$ (19)	\$ (392)	\$ (355)
Amounts receivable	(8)	(228)	(2)
Deposits and prepaid expenses	(1)	-	-
Long-term loans receivable	2,044	2,126	2,362
Property, plant and equipment	(653)	(1,092)	(1,151)
Other assets	(678)	-	(4)
Accounts payable and accrued liabilities	(566)	(270)	(378)
Adjustment to retained earnings/deficit	\$ 1,251	\$ 684	\$ 1,228

**(c) Cumulative translation differences**

IFRS requires that the functional currency of each entity in the consolidated Group be determined separately in accordance with the indicators as per IAS 21 – Foreign exchange and should be measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The Company has determined that as at October 1, 2009 (the date of commencement of commercial production) and at the Transition Date, the South Africa Rand was the functional currency of all the subsidiary entities in the Company except Homeland Energy Corporation and Homeland Energy Group Ltd (the Parent) which have the Canadian dollar as their functional currency.

Under IFRS, the results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;
- income and expenses for each statement comprehensive income (loss) are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions);
- equity transactions are translated using the exchange rate at the date of the transaction; and
- all resulting exchange differences are recognized as a separate component of equity.

Under IFRS, the cash flow statement must be prepared in the functional currency and then translated to the presentation currency at the exchange rates at the date of the cash flows or an average rate in line with the statement of comprehensive income (loss) treatment.

In accordance with the IFRS 1 optional exemptions, the Company elected to reset the

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translation differences to \$nil at the Transition Date. Under Canadian GAAP, all the subsidiaries were defined as an integrated foreign operation from the date formed/acquired ("Formation Date") to the Transition Date and therefore no foreign exchange translation in equity was noted. In electing to take this IFRS 1 exemption, the Company has elected to reset the translation difference to \$nil at the Transition Date.

The impact arising from the change is summarized as follows:

	Year ended Dec 31, 2010	Three months ended Mar 31, 2010	
Consolidated statements of comprehensive income:			
Depletion, depreciation and amortization	\$ 125	\$ (6)	
Amortization	14	30	
Foreign exchange gain (loss)	-	1,038	
Foreign exchange gain(loss) on translation of foreign subsidiaries	2,259	(2,063)	
<b>Adjustment to retained earnings/deficit</b>	<b>\$2,120</b>	<b>\$ (1,049)</b>	
	Dec 31, 2010	Mar 31, 2010	Jan 1, 2010
Consolidated balance sheet			
Property, plant and equipment	\$ 2,441	\$ (259)	\$ 668
Exploration & development properties	356	(113)	9
<b>Adjustment to retained earnings/deficit</b>	<b>\$ 2,797</b>	<b>\$ (372)</b>	<b>\$ 677</b>

**(d) Black Economic Empowerment ("BEE") transaction**

Canadian GAAP - The Company originally recorded the BEE transaction, as described in Note 15(c), as a disposal of the shares of Kendal, and the assumption of a loan receivable. Interest was accrued annually on the outstanding balance of the loan receivable.

IFRS - The transaction is to be considered in accordance with IFRS 2 - Share-based payments. For accounting purposes, the Company has issued an option for the 26% shareholding in Kendal with an exercise price equal to the amount outstanding on the loan. The value of the option on the date of issuance of \$7,231 (ZAR 54,862) was estimated using the Black-Scholes option pricing model with the following assumptions: risk free rate of return - 15%, volatility - 100%, expected life - 20 years and expected dividend yield of nil. The value of the option was expensed at the time of issuance and been recorded as an equity reserve under equity-settled awards.

This transaction was previously recorded as a loan receivable under the previous Canadian GAAP, which has now been adjusted under IFRS with the following impact:

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	Year ended Dec 31, 2010	Three months ended Mar 31, 2010
Consolidated statements of comprehensive income (loss):		
Interest Income	\$ (999)	\$ (246)
Foreign exchange gain (loss)	(695)	225
Adjustment to retained earnings/deficit	(1,694)	(21)

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	Dec 31, 2010	Mar 31, 2010	Jan 1, 2010
Consolidated balance sheet			
Long-term loans receivable	\$ (11,359)	\$ (9,686)	\$ (9,665)
Adjustment to retained earnings/deficit	(11,359)	(9,686)	(9,665)

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**(e) Share-based compensation**

IFRS 2 is effective for the Company as of January 1, 2010 and is applicable to stock options and grants that are unvested at that date. The transition rules in IFRS 1 and IFRS 2 as applied by the Company result in the following:

- Stock options and share grants subsequent to incorporation on October 26, 2006 are only taken into account if they have not vested as at January 1, 2010; and,
- From January 1, 2010, all stock options, share grants and other share-based payments will be expensed in accordance with the policy stated in note 6.

**Recognition of Expense**

**Canadian GAAP** - For grants of share-based awards with graded vesting, the total fair value of the award is recognized on a straight-line basis over the employment period necessary to vest the award.

**IFRS** - Each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis. The Company has determined no adjustment is required.

**Forfeitures**

**Canadian GAAP** - Forfeitures of awards are recognized as they occur.

## **HOMELAND ENERGY GROUP LTD.**

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**IFRS** - An estimate is required of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. The Company has determined no adjustment is required.

#### **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.

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 the three months ended March 31, 2011.

#### **6. 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.

At March 31, 2011, 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 Limited ("GMR"). 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

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short term that has passed from inception of these instruments. 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, FVTPL, 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 FVTPL. The investment in Homeland Uranium Inc. is accounted for using the equity method of accounting.

At March 31, 2011 and 2010, 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

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 was repaid in full through the use of funds received from GMR Energy in the form of US Dollar promissory notes (see note 13). 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:

		March 31, 2011		December 31, 2010		January 1, 2010
Canadian Dollars	\$	31	\$	160	\$	700
United States Dollars		391		1,753		5,043
British Pounds		-		-		96
South African Rand		7,428		1,785		1,452
Botswana Pula		3		4		4
	\$	7,853	\$	3,702	\$	7,295

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

	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Restricted cash	528	528	540
Accounts receivable	4,303	5,026	5,831
Long-term loan receivable	2,043	2,044	2,362
Accounts payable and accrued liabilities	17,370	13,068	17,265
Credit facilities	-	-	20,582
GMR Energy loan payable (USD 34,000)	33,722	28,843	-

Revenue has been earned in South African Rand. Expenses totaling \$6,519 (2010 - \$6,466) 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 March 31, 2011, 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 \$3,800 (2010 - \$1,300).

**(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 \$700 (2010 - \$620) based on the commercial production revenues earned during the three months ended March 31, 2011. 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, 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.

The Company is exposed to interest rate risk on its variable rate debt. At March 31, 2011, the outstanding balance on the Company's loan due to GMR Energy amounted to \$33,722 (USD \$34,000). A one percent change in interest rates would result in a corresponding change in net loss of approximately \$300 (2010 - \$200).

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**(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 March 31, 2011, the Company had cash and cash equivalents of \$7,853 (2010 - \$3,702) available to settle current liabilities of \$51,521 (2010 - \$42,158). 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 \$33,722 (USD \$34,000) 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.

**7. AMOUNTS RECEIVABLE**

	March 31, 2011	December 31, 2010	January 1, 2010
Trade receivables	\$ 4,111	\$ 4,573	\$ 5,240
Other	252	548	803
	<u>\$ 4,363</u>	<u>\$ 5,121</u>	<u># \$ 6,043</u>

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**8. INVENTORY**

	March 31, 2011	December 31, 2010	January 1, 2010
Stock-piled run-of-mine	\$ 2,063	\$ 1,601	\$ 2,691
Discards	1,089	1,312	-
Finished goods valued	1,232	476	5,458
	<u>4,384</u>	<u>3,389</u>	<u>8,149</u>

Total inventories expensed during the three months ended March 31, 2011 were \$4,408 (2010 - \$5,940).

**9. INVESTMENTS**

	Note	Mar-31 2011	Dec-31 2010	Jan-01 2010
Homeland Uranium Inc. ("HUI") - 11,888,348 (December 31, 2010 - 11,888,348) common shares	(a)	\$ -	\$ -	\$ 1,792
Aviva Corporation Limited - 4,000,000 (December 31, 2010 - 4,000,000) common shares	(b)	1,000	814	225
Southern Andes Energy, Inc. - 4,704,219 (December 31, 2010 - 4,704,219) common shares	(c)	1,788	2,188	-
Other	(d)	-	-	-
		<u>2,788</u>	<u>3,002</u>	<u>\$2,017</u>

(a) This investment has been accounted for as an investment in associate. During the three months ended March 31, 2011, the Company recognized an equity loss of \$nil (March 31, 2010 - \$17) on its investment in HUI.

(b) This investment has been classified as available-for-sale securities. Based on the closing price per Aviva common share on the Australian Securities Exchange on March 31, 2011 of AUD 0.25 (2010 - AUD 0.20), the investment has been written up to \$1,000 (December 31, 2010 - \$814).

(c) This investment has been classified as FVTPL. Based on the closing price per Southern Andes common share at March 31, 2011 of \$0.38 (December 31, 2010 - \$0.465), the investment has been written down by \$400 (December 31, 2010 - \$118) to its quoted market value of \$1,788 (December 31, 2010 - \$2,187).

(d) These investments include investment in Madic (note 10), accounted for as investment in associate carried at nominal value, and investment in Londoloza carried at nominal value.

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#### 10. LONG-TERM LOAN RECEIVABLE

In 2008, the Company has advanced a loan to Madic, of \$1,380 (ZAR 10,000), 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 (ZAR 2,181) was repaid, leaving loan balance including interest of \$1,162 (ZAR 8,250) 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. Homeland has accounted for this investment as an investment in associate, as per note 9(d) above.

Homeland also entered into a Loan Agreement and Share Purchase Option Agreement with Numin, an entity associated with Madic, that is implementing the Madic system, including terms in which it has loaned to this entity company ("Numin") totalling \$720 (ZAR 5,606), of which ZAR 3,000 was the original loan amount, an additional ZAR 1,313 was issued in 2008 and additional ZAR 1,293 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 1.00 per share. During 2010, \$200 (ZAR 1,418) was repaid, leaving loan balance including interest of \$812 (ZAR 5,763) remaining.

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**11. PROPERTY, PLANT AND EQUIPMENT**

	Mining plant and equipment	Corporate assets	Total
<b>Cost</b>			
Balance as at January 1, 2010	\$32,354	\$1,505	\$33,859
Additions	6,510	28	6,538
Effect of foreign currency exchange difference	1,941	8	1,949
Balance as at December 31, 2010	40,805	1,541	42,346
Addition	7,135	-	7,135
Effect of foreign currency exchange difference	(216)	(9)	(225)
Balance as at March 31, 2011	\$47,724	\$1,532	\$49,256
<b>Accumulated depletion and depreciation</b>			
Balance as at January 1, 2010	\$1,552	\$471	\$2,023
Depletion and depreciation for the period	1,682	153	1,835
Balance as at December 31, 2010	3,234	624	3,858
Depletion and depreciation for the period	903	22	925
Balance as at March 31, 2011	\$4,137	\$646	\$4,783
<b>Carrying Amounts</b>			
As at January 1, 2010	\$30,802	\$1,034	\$31,836
As at December 31, 2010	\$37,571	\$917	\$38,488
As at March 31, 2011	\$43,587	\$886	\$44,473

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**12. EXPLORATION PROPERTIES**

	Eloff	Northfield	Other	Total
<b>Cost</b>				
Balance as at January 1, 2010	\$ 2,754	\$ 2,469	\$ 3	\$ 5,226
Additions	374	7	-	383
Effect of foreign currency exchange difference	178	146	-	324
Balance as at December 31, 2010	3,306	2,622	3	5,933
Additions	29	-	-	27
Effect of foreign currency exchange difference	(162)	(127)	0	(289)
Balance as at March 31, 2011	\$ 3,173	\$ 2,495	\$ 3	\$ 5,670
<b>Impairment losses and accumulated depreciation</b>				
Balance as at January 1, 2010	\$ -	\$ -	\$ -	\$ -
Depletion and depreciation for the period		199	3	202
Balance as at December 31, 2010	-	197	3	202
Depletion and depreciation for the period	-	430	-	430
Disposals				
Balance as at March 31, 2011	\$ -	\$ 629	\$ 3	\$ 632
<b>Carrying amounts</b>				
As at January 1, 2010	\$ 2,754	\$ 2,469	\$ 3	\$ 5,226
As at December 31, 2010	\$ 3,306	\$ 2,425	\$ -	\$ 5,731
As at March 31, 2011	\$ 3,173	\$ 1,866	\$ -	\$ 5,039

**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.

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

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.

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**13. CREDIT FACILITIES**

	Note	Mar-31 2011	Dec-31 2010	Jan-01 2010
Nedbank - Non-revolving facility				20,529
GMR Loan Payable	(a)	33,722	28,843	5,023
Less: Current portion		(33,722)	(28,843)	(25,551)
Long-term Portion	\$	-	\$ -	\$ -

On November 30, 2009, the Company signed a promissory note with GMR Energy and funds were advanced in three tranches of \$4,997 on November 30, 2009, \$2,996 on January 15, 2010, and \$3,522 on June 30, 2010, bringing the total advanced to the Company of \$11,515. The funds were used to satisfy, in part, the Company's requirement under the Nedbank amendment to raise ZAR 70,000 by January, 2010. The loan bears interest at LIBOR plus 600 basis points. During the second half of 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, second repayment occurred on October 7, 2010 in the amount of \$3,286, and a final repayment of \$294 was made on December 30, 2010 to settle the loan, including interest.

On September 27, 2010, the Company signed a promissory note with GMR Energy for USD \$29,000 (\$28,843), bearing interest at LIBOR plus 4.5% per annum, payable 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. On March 28, 2011, the Company obtained an additional loan from GMR Energy in the amount of USD \$5,000 (\$4,879), bearing interest at LIBOR plus 4.5% per annum, payable quarterly, and is due on the earlier of the date on which the Company establishes its loan facility and September 27, 2011.

Management has negotiated a loan facility up to \$30,000 from a local financial institution for capital expenditure requirements to support the development of the Kendal and Eloff mines, as well as working capital requirements for the Company and its subsidiaries in South Africa.

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**14. 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 - January 1, 2010		302,115,756	\$ 79,958
Rights offering		169,088,393	8,454
Share issue costs			(27)
Balance - December 31, 2010 and March 31, 2011		471,204,149	\$ 88,385

**15. RESERVES****(a) Share purchase warrants**

There were no share purchase warrants outstanding at March 31, 2011 and 2010.

**(b) Equity-settled awards**

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.

The following summary sets out the activity in outstanding stock options during the three months ended March 31, 2011 and 2010:

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	2011		2010	
	Number of options #	Weighted average exercise price per share \$	Number of options #	Weighted average exercise price per share \$
Outstanding, beginning of period	4,250,000	0.14	9,053,375	0.37
Granted	-	-	-	-
Exercised	-	-	-	-
Expired	(650,000)	0.14	(1,842,125)	1.27
Forfeited	-	-	-	-
Outstanding, end of period	3,600,000	0.14	7,211,250	0.14
Options exercisable, end of period	3,600,000	0.14	7,211,250	0.14

There were no stock options granted during the three months ended March 31, 2011.

During the three months ended March 31, 2011 the Company recognized stock-based compensation of \$nil (2010 - \$nil).

Included in equity-settled awards at the end of the period 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	640,000	640,000	77
December 15, 2014	0.12	2,960,000	2,960,000	148
		<b>3,600,000</b>	<b>3,600,000</b>	<b>225</b>

\* Black-Scholes valuation

These options outstanding at period end had a weighted average remaining contractual life of 1,299 days (2010 - 1,388).

**(c) BEE Loan**

BEE loan	7,231
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On May 22, 2008, Homeland funded a loan of ZAR 55,124 (\$7,083) 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. 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-

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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.

This transaction has been treated as an issuance of an option to BEE, in accordance with IFRS 2 Share-based payments (note 4(d)). Exercise price is equal to the amount outstanding on the loan. The value of the option on the date of issuance of \$7,231 (ZAR 54,862) was estimated using the Black-Scholes option pricing model with the following assumptions: risk free rate of return - 15%, volatility - 100%, expected life - 20 years and expected dividend yield of nil. The value of the option was expensed at the time of issuance and was recorded as an equity reserve under equity-settled awards.

**16. SUPPLEMENTAL CASH FLOW INFORMATION**

	2011	2010
<b>Cash and cash equivalents</b>		
Cash	\$ 7,853	\$ 3,682
Cash Equivalents	-	20
	<u>\$ 7,853</u>	<u>\$ 3,702</u>

**Supplemental Cash Flow Information:**

Interest paid	\$ -	\$ -
Change in accrued exploration and development and property, plant and equipment	(3,129)	87
Income taxes paid	-	-

**17. RELATED PARTY TRANSACTIONS****Subsidiaries**

The consolidated financial statements include the financial statements of Homeland Mining & Energy SA (Pty) Ltd and the subsidiaries listed below:

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Name	Country of incorporation	Effective % equity held
Homeland Energy Corp	Mauritius	100
Homeland Mining & Energy SA (Pty) Ltd	South Africa	100
Ferret Coal (Kendal) (Pty) Ltd	South Africa	100
Corpelo 331 (Pty) Ltd	South Africa	100
Tshedza Mining Resources (Pty) Ltd	South Africa	50
Nhlalala Mining (Pty) Ltd	South Africa	50
Homeland Energy (Botswana) (Pty) Ltd	Botswana	70
Manoka Mining (Pty) Ltd	South Africa	65

Related party transactions during the three months ended March 31, 2011 and 2010 are as follows:

- (a) During the three months ended March 31, 2011, the Company expensed \$31 (2010 - \$63) 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 \$30 (2010 - \$108) owing to this firm. The amount is unsecured, non-interest bearing, with no fixed terms of repayment.
- (b) During the three months ended March 31, 2011 interest earned by GMR amounted to \$346 (2010 - \$nil). See note 13(b).

#### 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:

Balance, December 31, 2010	\$	466
Liabilities incurred		2,605
Less: current portion		(319)
Balance, March 31, 2011	\$	2,752

The Company has estimated its total asset retirement obligations to be \$5,466 at March 31, 2011 using a discount rate of 9%. Reclamation at the Kendal Colliery is expected to occur over the next 10 years.

## HOMELAND ENERGY GROUP LTD.

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#### 19. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Lease commitments

As at March 31, 2011, the Company had lease commitments relating to office rent and operating leases, with anticipated future payments as follows:

	\$
2011	180
2012	232
2013	230
2014	210
2015	210
Thereafter	433
	<u>1,495</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.

(c) Contingent liability

In September 2010, a former contractor of the Company filed a claim against the Company for approximately \$726 (ZAR 5,223). Management believes the claim is without merit and has launched a counter claim for approximately \$1,251 (ZAR 9,000) 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 condensed interim consolidated financial statements.

(d) Common shares to be issued

On February 25, 2011, the board of directors approved the issuance of 333,333 common shares to be issued to the Chief Operating Officer of the Company.

(e) Stock options to be granted

On February 25, 2011, the board of directors approved the granting of 500,000 stock options to the Chief Financial Officer of the Company, with an effective date of grant of April 1, 2011.

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**20. 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% (2010 - 33.0%) were:

	2011 \$	2010 \$
Loss before income taxes	<u>(1,255)</u>	<u>(1,752)</u>
Expected income tax recovery at statutory rates	(389)	(578)
Adjustments resulting from:		
Tax rates in foreign countries at lower tax rates	99	97
Change in tax rates	393	391
Change in foreign exchange rates	0	4
Other	29	94
Income tax expense	<u>132</u>	<u>-</u>

**21. SEGMENTED INFORMATION**

Substantially all of the Company's property, plant and equipment and exploration and development properties are located in South Africa.

During the three months ended March 31, 2011, revenues earned from the sale of coal from mining operations amounted to \$6,519 (2010 - \$6,245) and revenues earned from mining related services provided totaled \$nil (2010 - \$221).

**22. SUBSEQUENT EVENTS**

Subsequent to March 31, 2011, management has negotiated a loan facility of \$30,000 from a local financial institution 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.