

# HOMELAND ENERGY GROUP LTD.

## CONSOLIDATED INTERIM FINANCIAL STATEMENTS

JUNE 30, 2008

(Stated in Canadian Dollars)

### CONTENTS

Responsibility for Consolidated Interim Financial Statements	2
Consolidated Balance Sheets	3
Consolidated Statements of Operations and Deficit	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6 – 28

August 13, 2008

## **HOMELAND ENERGY GROUP LTD.**

### **CONSOLIDATED INTERIM FINANCIAL STATEMENTS JUNE 30, 2008**

These consolidated interim financial statements are unaudited and have not been reviewed by the auditors.

#### **Responsibility for Consolidated Interim Financial Statements**

The accompanying consolidated interim financial statements for Homeland Energy Group Ltd. have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. The most significant of these accounting principles have been set out in the December 31, 2007 audited annual consolidated financial statements. Only changes in accounting principles have been disclosed in these consolidated interim financial statements.

These consolidated interim financial statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent on future events. Estimates and approximations have therefore been made using careful judgement.

Recognizing that the Company is responsible for both the integrity and objectivity of the consolidated interim financial statements, management is satisfied that these consolidated interim financial statements have been fairly presented. This disclosure has been approved by the Board of Directors.

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

As at	30 June 2008 (Unaudited) \$	31 December 2007 (Audited) \$
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and equivalents	13,538,566	5,930,444
Cash held under security deposits	503,708	428,877
Amounts receivable	780,118	833,500
Deposits and prepaid expenses	406,822	125,483
Current portion of long-term loans (Note 9)	-	399,064
Future income tax assets	643,553	710,138
	15,872,767	8,427,506
<b>Long-term Deposits and Prepaid Expenses</b>	<b>280,777</b>	<b>304,886</b>
<b>Investments</b> (Note 8)	<b>18,324,302</b>	<b>11,922,025</b>
<b>Long-term Loans</b> (Note 9)	<b>11,502,831</b>	<b>3,855,977</b>
<b>Mineral Properties</b> (Note 11)	<b>12,030,438</b>	<b>7,918,430</b>
<b>Property and Equipment</b> (Note 10)	<b>2,060,554</b>	<b>1,192,997</b>
	60,071,669	33,621,821
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	1,606,882	4,134,025
Provision for Rehabilitation	368,308	324,332
	1,975,190	4,458,357
<b>Convertible Debenture</b> (Note 12)	-	1,606,004
<b>Unrealized Gain on Disposal</b> (Note 18)	29,119,920	-
	31,095,110	6,064,361
<b>SHAREHOLDERS' EQUITY</b>		
Capital Stock (Note 13(b))	42,130,568	33,615,679
Share Purchase Warrants (Note 13(c))	221,500	89,000
Contributed Surplus (Note 14)	2,551,056	2,168,687
Equity Portion of Convertible Debenture	-	502,179
Retained Income through Development Stage	(15,926,565)	(8,818,085)
	28,976,559	27,557,460
	60,071,669	33,621,821
<b>Going concern</b> (Note 2) and <b>Commitments</b> (Note 16)		

**APPROVED ON BEHALF OF THE BOARD**

*"signed"* A. Tom Griffis  
**A. Tom Griffis, Director**

*"signed"* Stephen Coates  
**Stephen Coates, Director**

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

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

<b>(Unaudited)</b>	<b>Three months ended 30 June 2008 \$</b>	<b>Three months ended 30 June 2007 \$</b>	<b>Six months ended 30 June 2008 \$</b>	<b>Six months ended 30 June 2007 \$</b>
<b>Revenue</b>	-	-	-	-
<b>Expenses</b>				
Amortization	45,350	29,056	78,339	45,543
Audit fees	66,030	-	77,466	-
Directors' fees	29,953	33,515	61,534	33,515
Exploration expense	125,634	(7,605)	159,510	22,099
Foreign exchange loss	546,394	294,060	463,955	392,384
Insurance	24,700	-	51,697	-
Interest expense	824	-	38,023	-
Interest - accretion expense	-	-	35,771	-
Investor relations	212,494	28,055	337,397	44,936
Legal fees	161,363	-	417,143	-
Management and administrative services	852,604	523,364	1,487,253	752,486
Office and general	85,408	90,805	185,440	139,046
Office rental	62,267	-	124,673	-
Professional and consulting fees	687,272	191,862	792,979	377,218
Transfer agent and filing	30,062	1,548	257,044	1,548
Stock-based compensation	1,070,974	85,000	1,251,127	239,500
Travel and accommodation	341,837	147,235	655,446	342,728
Write down of investments	(96,322)	-	642,447	-
	<b>4,246,844</b>	1,416,895	<b>7,117,244</b>	2,391,003
<b>Loss for the period before the undernoted</b>	<b>(4,246,844)</b>	(1,416,895)	<b>(7,117,244)</b>	(2,391,003)
Interest income	87,700	24,761	146,123	34,350
<b>Net loss and comprehensive loss for the period</b>	<b>(4,159,144)</b>	(1,392,134)	<b>(6,971,121)</b>	(2,356,653)
<b>Deficit - beginning of period</b>	<b>(11,767,421)</b>	(4,596,524)	<b>(8,818,085)</b>	(3,632,005)
<b>Deficit - reverse takeover of Homeland</b>	-	-	<b>(137,359)</b>	-
<b>Deficit - end of period</b>	<b>(15,926,565)</b>	(5,988,658)	<b>(15,926,565)</b>	(5,988,658)
<b>Loss per share - Basic and Fully Diluted</b>	<b>(0.03)</b>	(0.05)	<b>(0.05)</b>	(0.09)
<b>Weighted average number of common shares outstanding during the period</b>	<b>148,118,577</b>	26,778,394	<b>143,618,671</b>	26,261,072

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

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

<b>(Unaudited)</b>	<b>Three months ended 30 June 2008 \$</b>	<b>Three months ended 30 June 2007 \$</b>	<b>Six months ended 30 June 2008 \$</b>	<b>Six months ended 30 June 2007 \$</b>
<b>Cash Provided by (used in):</b>				
<b>Operating Activities</b>				
Net loss for the period	(4,159,144)	(1,392,134)	(6,971,121)	(2,356,653)
Adjustments for items not affecting cash:				
Amortization	45,350	36,216	78,339	59,862
Stock-based compensation	1,070,974	85,000	1,251,127	239,500
Write down of investments	(96,322)	-	642,447	-
Accretion expense	-	-	35,771	-
Foreign exchange	(21,205)	2,549	66,585	4,706
Changes in non-cash working capital items:				
Amounts receivable	(253,432)	(173,802)	53,382	(151,182)
Deposits and prepaid expenses	23,834	(35,992)	(9,740)	(66,369)
Accounts payable and accrued liabilities	(2,476,264)	(115,586)	(2,718,073)	(276,463)
<b>Net Cash used in Operating Activities</b>	<b>(5,866,209)</b>	<b>(1,593,749)</b>	<b>(7,571,283)</b>	<b>(2,546,599)</b>
<b>Financing Activities</b>				
Issuance of common shares, for cash	-	8,590,465	2,400,000	10,788,796
Exercise of share purchase warrants, for cash	-	88,500	-	2,884,260
Exercise of stock options, for cash	21,750	-	21,750	-
Issuance of convertible debenture	-	2,120,800	-	2,120,800
Share issue costs	-	(390,706)	(1,340,000)	(473,326)
<b>Net Cash provided by Financing Activities</b>	<b>21,750</b>	<b>10,409,059</b>	<b>1,081,750</b>	<b>15,320,530</b>
<b>Investing Activities</b>				
Increase in investments	(3,356,216)	(5,157,900)	(3,504,724)	(5,396,704)
Provision of long-term finance	(7,535,625)	(591,923)	(7,247,790)	(1,584,594)
Expenditure on mineral properties	(2,277,510)	(160,269)	(4,068,032)	(302,137)
Acquisition of property and equipment	(833,694)	(114,772)	(945,896)	(356,355)
Unrealized gain on disposal	29,119,920	-	29,119,920	-
<b>Net Cash generated by (used in) Investing Activities</b>	<b>15,116,875</b>	<b>(6,024,864)</b>	<b>13,353,478</b>	<b>(7,639,790)</b>
<b>Change in cash and equivalents</b>	<b>9,272,416</b>	<b>2,790,446</b>	<b>6,863,945</b>	<b>5,134,141</b>
<b>Cash and equivalents - beginning of period</b>	<b>4,769,858</b>	<b>4,714,173</b>	<b>6,359,321</b>	<b>2,370,478</b>
<b>Cash and equivalents - introduced in RTO</b>	<b>-</b>	<b>-</b>	<b>819,008</b>	<b>-</b>
<b>Cash and equivalents - end of period</b>	<b>14,042,274</b>	<b>7,504,619</b>	<b>14,042,274</b>	<b>7,504,619</b>
<b>Cash and equivalents consist of:</b>				
Cash	2,460,572	6,715,712	2,460,572	6,715,712
Equivalents	11,077,994	788,907	11,077,994	788,907
Cash held under security deposits	503,708	-	503,708	-
	<b>14,042,274</b>	<b>7,504,619</b>	<b>14,042,274</b>	<b>7,504,619</b>
<b>Supplemental Cash Flow information:</b>				
Interest paid	824	7,862	38,023	7,862
Shares issued on acquisition (Note 13 (b) (ii))	-	-	3,540,000	-
The Company paid no income taxes in the reported periods.				

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

# HOMELAND ENERGY GROUP LTD.

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and six months ended June 30, 2008

*(Stated in Canadian Dollars)*

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

These unaudited, interim consolidated financial statements include the assets, liabilities and operations of Homeland Energy Group Ltd. and its direct and indirect subsidiaries, which were prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") for the preparation of interim financial information, and follow the same accounting policies and methods of application as the audited, consolidated annual financial statements of Homeland Energy Corp. (see Note 4) for the year ended December 31, 2007. The accompanying interim consolidated financial statements do not include all the information and note disclosures required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the most recent audited annual consolidated financial statements and the notes below.

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

Homeland is in the process of exploring and developing its mineral property interests in southern Africa, with the sale of product from the first two projects - the Kendal Mine near Witbank, South Africa and the Northfield site reclamation project near Dundee, South Africa - now expected to commence in the third quarter of 2008. Homeland also owns an advanced-stage coal development project in South Africa (namely Eloff) and a number of early-stage exploration properties in the provinces of Mpumalanga and Kwa-Zulu Natal, and in Botswana.

The recoverability of the carrying value of mineral properties, and indeed the Company's continued existence, is dependent upon the ability of the Company to raise additional financing, preserve its interest in the underlying properties, discover additional commercially recoverable reserves, achieve profitable operations and/or dispose of its interests in mineral properties on an advantageous basis. Changes in future conditions could require material write downs in the carrying value of mineral properties.

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

The Canadian dollar is the principal currency of the Company's business.

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# HOMELAND ENERGY GROUP LTD.

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and six months ended June 30, 2008

*(Stated in Canadian Dollars)*

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### 2. GOING CONCERN

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

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### 3. BUSINESS COMBINATIONS

#### Reverse take-over and public listing

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

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

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

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

# HOMELAND ENERGY GROUP LTD.

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and six months ended June 30, 2008

*(Stated in Canadian Dollars)*

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Further to the reverse takeover transaction described above, these unaudited consolidated interim financial statements for the three and six periods ended June 30, 2008 and the year ended December 31, 2007 reflect the assets, liabilities and results of operations of Homeland Energy Corp., the legal subsidiary, prior to the reverse takeover and the consolidated assets, liabilities and results of operations of the Company and Homeland Energy Corp. subsequent to the reverse takeover. The unaudited consolidated interim financial statements are issued under the name of the legal parent (the Company), but are deemed to be a continuation of the legal subsidiary (Homeland Energy Corp.).

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#### 4. CHANGES IN ACCOUNTING POLICIES

On December 1, 2006, the CICA issued three new accounting standards: Capital Disclosures (Handbook Section 1535), Financial Instruments - Disclosures (Handbook Section 3862), and Financial Instruments - Presentation (Handbook Section 3863). These new standards became effective for the Company on January 1, 2008.

##### (a) Capital Disclosures

Handbook Section 1535 requires the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied with any capital requirements, the consequences of such noncompliance. The Company has included disclosures recommended by the new Handbook section in Note 6 to these interim consolidated financial statements.

##### (b) Financial Instruments

Handbook Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments - Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company has included disclosures recommended by the new Handbook section in Note 7 to these interim consolidated financial statements.

##### (c) General Standards of Financial Statement Presentation

In June 2007, the Canadian Institute of Chartered Accountants ("CICA") issued a new accounting standard: Handbook Section 1400, General standards for financial statement presentation. These standards become effective for interim and annual financial statements for the Company's reporting periods beginning on January 1, 2008.

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# HOMELAND ENERGY GROUP LTD.

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and six months ended June 30, 2008

*(Stated in Canadian Dollars)*

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### 5. NEW CANADIAN ACCOUNTING PRONOUNCEMENTS

#### **(a) General Standards of Financial Statement Presentation**

The CICA has amended Section 1400, General Standards of Financial Statement Presentation, which is effective for interim periods beginning on or after October 1, 2008, to include requirements to assess and disclose the Company's ability to continue as a going concern. The Company is currently assessing the impact of this new accounting standard on its consolidated financial statements.

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

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by the end of 2011. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

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### 6. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The properties in which the Company currently has an interest are in the exploration and development stages; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and development, and to pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. 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 six months ended June 30, 2008. Neither the Company, nor its subsidiaries, are subject to externally imposed capital requirements.

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# HOMELAND ENERGY GROUP LTD.

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and six months ended June 30, 2008

*(Stated in Canadian Dollars)*

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### 7. FINANCIAL RISK FACTORS

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

#### **Credit risk**

The Company's credit risk is primarily attributable to cash and equivalents, and to receivables included in amounts receivable and deposits and prepaid expenses. The Company has no significant concentration of credit risk arising from operations. Cash equivalents consist of overnight deposits and savings accounts, which have been placed with reputable financial institutions, from which management believes the risk of loss to be remote. Financial instruments included in amounts receivable and deposits and prepaid expenses consist of goods and services tax due from the Federal Government of Canada, value added tax due from the department of Inland Revenue in South Africa, and deposits with and receivables from unrelated companies. Management believes that the credit risk concentration with respect to financial instruments included in amounts receivable and deposits and prepaid expenses is remote.

#### **Liquidity risk**

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2008, the Company had cash and equivalents of \$13,538,566 (December 31, 2007 - \$5,930,444) available to settle current liabilities of \$1,975,190 (December 31, 2007 - \$4,458,357). Except for an amount due in November 2008 of \$783,000 (ZAR 6 million), see Note 11, all of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

If the GMR Group were not to exercise their option to acquire a further 40% of the Company's subsidiary, Homeland Mining and Energy SA (Pty) Ltd. ("HMESA") (see Note 18), then GMR would have a right to put the HMESA shares acquired by it under the first and second options back to Homeland prior to December 31, 2008. The purchase price for the shares would be equal to the original price paid by GMR and is payable in cash or, at the election of Homeland, in common shares of Homeland at the then prevailing market rates plus a 5% premium. Homeland would also have the right in those circumstances to buy back the HMESA shares sold under the first and the second options. The purchase price for the shares subject to this buy back right is payable in cash and would be equal to the original price paid plus 10% interest accruing as to 50% from the date that the first option was completed and as to 50% from the date that the second option was completed. The Company would only exercise this right if it had secured additional funds specifically for this purpose.

#### **Market risk**

##### **(a) Interest rate risk**

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its

## HOMELAND ENERGY GROUP LTD.

### NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**Three and six months ended June 30, 2008**

*(Stated in Canadian Dollars)*

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banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

**(b) Foreign currency risk**

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars and South African Rands. The Company funds certain development, exploration and administrative expenses in South Africa and the United Kingdom on a cash basis using funds converted from its bank accounts held in Canada. Management believes the foreign exchange risk derived from currency conversions is not material and therefore does not hedge its foreign exchange risk. The Company does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk.

**(c) Price risk**

The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. The Company believes that price risk with respect to commodities is remote since the Company is not a producing entity.

**(d) Fair values**

The estimated fair value of the Company's financial instruments has been determined based on the Company's assessment of available market information and appropriate valuation methodologies. However, these estimates may not necessarily be indicative of the amounts that the Company could realize in a current market exchange. The Company's cash and equivalents, marketable securities, amounts receivable, deposits and prepayments, accounts payable, and accrued liabilities are considered financial instruments. The estimated fair values of these financial instruments approximate their carrying amounts because of the limited term of these instruments.

The Company has designated its cash and equivalents as held-for-trading, which are measured at fair value.

Financial instruments included in amounts receivable and deposits and prepaid expenses are classified as loans and receivables, which are measured at amortized cost.

Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

As at June 30, 2008, the carrying and fair value amounts of the Company's financial instruments are approximately the same.

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# HOMELAND ENERGY GROUP LTD.

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and six months ended June 30, 2008

(Stated in Canadian Dollars)

### 8. INVESTMENTS

	30 June 2008	31 December 2007
	\$	\$
Homeland Uranium Inc. (Note 8 (a)) - 22,250,000 common shares	11,314,058	11,314,058
Altona Resources Plc (Note 8 (b)) - 44,250,000 common shares	3,557,705	-
Aviva Corporation Ltd (Note 8 (c)) - 4,000,000 common shares	3,452,538	-
Londoloza Mineral and Mining Brokers (Pty) Ltd. - representing a 35% interest, written down to \$1.00 in 2006	1	1
Option to invest in a South Africa private company (in the export industry), written off in 2008	-	607,966
	<b>18,324,302</b>	<b>11,922,025</b>

- (a) Effective February 1, 2007, the Company completed the transfer of its uranium assets to a Canadian private company, Homeland Uranium Inc. ("HUI"), for 16,000,000 common shares. As the Company had an original control position in HUI, and the sale therefore occurred between two related entities, the transaction was accounted for at cost. Following financings by HUI that raised \$1.84 million at \$0.23 per share, and \$23 million at \$0.80 per unit, each unit consisting of one common share and one-half of one share purchase warrant, each whole purchase warrant entitling the holder to purchase one additional common share at a price of \$1.25 per share, expiring June 19, 2009 (in which the Company participated to the extent of \$5 million), the Company's interest in HUI decreased to approximately 39%.

Following the above share issuances, the Company ceased to exercise significant influence over HUI and classified the investment as "available for sale". The investment is carried at cost as it is not traded in an active market.

- (b) In February 2008, Homeland issued 737,500 common shares in consideration for the purchase of 44,250,000 common shares of Altona Resources Plc ("Altona") from third parties. This investment represented a strategic interest in a large Australian coal asset held by a public company listed on the AIM in the United Kingdom. The transaction was valued at \$3,540,000 based on a price of \$4.80 per Homeland common share (pre-share split, see Note 3) and a price of 4 pence per Altona common share.
- (c) In June 2008, Homeland acquired 4,000,000 common shares of Aviva Corporation Ltd from third parties at a price of AUD 0.90 per share, for a total investment of AUD 3,609,000 (including AUD 9,000 commission).

# HOMELAND ENERGY GROUP LTD.

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and six months ended June 30, 2008

(Stated in Canadian Dollars)

### 9. LONG-TERM LOANS

	30 June 2008	31 December 2007
	\$	\$
MD Engineering (Note 9 (a))	3,852,444	3,783,440
Madic Operations (Pty) Ltd. (Note 9 (b))	456,705	450,881
African Spirit Trading 307 (Pty) Ltd. (Note 9 (c))	7,193,682	-
Superior Drilling (Note 9 (d))	-	20,720
Contractor credit facilities	11,502,831	4,255,041
Less: Current portion	-	399,064
Long-term portion	11,502,831	3,855,977

- (a) The Company has entered into a Service Agreement with MD Engineering for the supply and operation of the crushing and screening and washing plants at its Kendal Mine. A Loan Agreement has also been executed under which the Company advanced approximately ZAR 30 million to MD Engineering for the construction of the plants and related infrastructure. The loan bears interest at the South African Prime rate plus 1% p.a., is repayable over the five years of the initial Service Agreement, and is secured over the plants and related infrastructure by way of a Surety Bond.

Subsequent to the end of the quarter, discussions have commenced between MD Engineering and Homeland that are expected to result in Homeland purchasing the plant and equipment from MD Engineering against repayment of the long-term loan. No disruptions to operations are anticipated, as the primary sub-contractor to MD Engineering, Fraser Alexander, will continue to operate the plant and equipment, but under a contract directly with Homeland. Fraser Alexander is one of South Africa's oldest services groups to the mining and industrial sectors.

- (b) Through its South African subsidiary, Lovelute Investments (Pty) Ltd., Homeland is in the process of acquiring 45% of Madic Operations (Pty) Ltd. ("Madic"). Homeland has agreed to grant a call option in terms of which it could be compelled to resell 10% of Madic (the "Option Shares") 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. Homeland will be entitled to appoint one of the two directors to the Board of Madic.

The Company has also undertaken to advance a shareholder's loan to Madic of up to ZAR 10 million, in order to capitalize the development of the Madic continuous conveyor system. Madic shall repay the shareholder's loan, plus interest calculated at a rate of 5% p.a., within a period of two years; failing which interest shall accrue at the prime rate of interest until payment in full. In terms of this Loan Agreement, Homeland will be entitled, but not obligated, to purchase at cost a maximum number of four Madic Systems.

## HOMELAND ENERGY GROUP LTD.

### NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**Three and six months ended June 30, 2008**

*(Stated in Canadian Dollars)*

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To date Homeland has advanced ZAR 3.2 million (\$456,705) of the ZAR 10 million (approximately \$1.3 million) commitment.

In addition, Homeland is entering into a Loan Agreement and Share Purchase Option Agreement with the company that will seek to implement the Madic system, in terms of which it expects to grant a loan to this company ("Numin") of up to ZAR 3 million (approximately \$400,000). This loan will bear interest at the prime lending rate less 1% and is repayable within one year. Homeland will simultaneously be granted an option, for a period of three years, to purchase 20% of the issued share capital in Numin for a nominal value of ZAR 1 per share.

To date Homeland has not yet advanced the funds pending execution of the contract documents.

- (c) In May 2008, through its wholly-owned South African subsidiary Lovelute Investments (Pty) Ltd., Homeland lent ZAR 55,124,000 (\$7,193,682) to aid a private Black Economic Empowerment company in South Africa to purchase the 26% of Ferret Coal (Kendal) (Pty) Ltd. ("Kendal") that the Company does not own. The loan bears interest at the South African prime overdraft rate, and the related equity interest in the Kendal Mine is 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 proceeds of their disposal to a third party purchaser in terms of the loan agreement. Any outstanding balance on the loan will be repaid to Homeland in 20 years.
  - (d) Homeland Mining and Energy SA (Pty) Ltd. has entered into agreements to provide financial assistance to companies that have provided services to Homeland's mineral properties in South Africa, for the acquisition and/or construction of the plant and equipment necessary to provide these services. These credit facilities are generally interest bearing, denominated in South African Rands, repayable over the term of the related service agreements, and are collateralized by security over the particular asset financed. All such facilities are currently paid up.
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**HOMELAND ENERGY GROUP LTD.**

**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**Three and six months ended June 30, 2008**

*(Stated in Canadian Dollars)*

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10. **PROPERTY AND EQUIPMENT**

	<b>Cost</b>	<b>2008 Accumulated Amortization</b>	<b>Net</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Plant and machinery	748,699	5,961	742,738
Motor vehicles	327,340	33,235	294,105
Office furniture and equipment	138,632	46,592	92,040
Computer equipment	224,477	53,805	170,672
Buildings	636,277	-	636,277
Leasehold improvements	214,803	90,081	124,722
	<b>2,290,228</b>	<b>229,674</b>	<b>2,060,554</b>

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# HOMELAND ENERGY GROUP LTD.

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and six months ended June 30, 2008

(Stated in Canadian Dollars)

### 11. MINERAL PROPERTIES

Homeland is engaged in the business of the acquisition, exploration and development of mineral resource properties in southern Africa, with an emphasis on energy based resources. As at June 30, 2008, the Company retained title, directly or indirectly, to the following properties:

	January 1 2008	Additions: Operating Costs	Additions: Consulting/ Management	Additions: Drilling/ Analysis	Additions: Infrastructure/ Earthworks	Additions: Surveying/ Other	Transfers to Investments/ Written Off	June 30 2008
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Ferret Coal:</b>								
<b>Kendal</b>								
Acquisition	2,105,016	-	-	-	-	-	-	2,105,016
Exploration	1,851,540	179,104	69,700	428,471	1,625,887	92,770	-	4,247,472
	<b>3,956,556</b>	<b>179,104</b>	<b>69,700</b>	<b>428,471</b>	<b>1,625,887</b>	<b>92,770</b>	-	<b>6,352,488</b>
<b>Tshedza:</b>								
<b>Eloff</b>								
Acquisition	415,230	-	-	-	-	-	-	415,230
Exploration	891,149	-	40,036	812,380	-	6,710	-	1,750,275
	<b>1,306,379</b>	-	<b>40,036</b>	<b>812,380</b>	-	<b>6,710</b>	-	<b>2,165,505</b>
<b>Onbekend</b>								
Acquisition	-	-	-	-	-	-	-	-
Exploration	96,177	-	-	30,323	-	572	-	127,072
	<b>96,177</b>	-	-	<b>30,323</b>	-	<b>572</b>	-	<b>127,072</b>
<b>Welgevonden</b>								
Acquisition	-	-	-	-	-	-	-	-
Exploration	755	-	-	-	-	-	-	755
	<b>755</b>	-	-	-	-	-	-	<b>755</b>
<b>Witbank(Ermelo)</b>								
Acquisition	-	-	-	-	-	-	-	-
Exploration	153	-	-	-	-	146	-	299
	<b>153</b>	-	-	-	-	<b>146</b>	-	<b>299</b>
	<b>1,403,464</b>	-	<b>40,036</b>	<b>842,703</b>	-	<b>7,428</b>	-	<b>2,293,631</b>
<b>Nhlalala:</b>								
<b>Vlakkvarkfontein</b>								
Acquisition	-	-	-	-	-	-	-	-
Exploration	202,682	-	31,936	-	-	223	-	234,841
	<b>202,682</b>	-	<b>31,936</b>	-	-	<b>223</b>	-	<b>234,841</b>
<b>Langsloot</b>								
Acquisition	-	-	-	-	-	-	-	-
Exploration	182	-	-	-	-	238	-	420
	<b>182</b>	-	-	-	-	<b>238</b>	-	<b>420</b>
<b>Fraaiuitzicht</b>								
Acquisition	-	-	-	-	-	-	-	-
Exploration	1,166	-	-	-	-	1,518	-	2,684
	<b>1,166</b>	-	-	-	-	<b>1,518</b>	-	<b>2,684</b>
	<b>204,030</b>	-	<b>31,936</b>	-	-	<b>1,979</b>	-	<b>237,945</b>
<b>Corpco:</b>								
<b>Northfield</b>								
Acquisition	1,840,201	-	-	-	-	-	-	1,840,201
Exploration	153,249	-	14,081	9,048	156,226	119,870	-	452,474
	<b>1,993,450</b>	-	<b>14,081</b>	<b>9,048</b>	<b>156,226</b>	<b>119,870</b>	-	<b>2,292,675</b>
Translation	360,930	-	-	-	-	492,769	-	853,699
	<b>7,918,430</b>	<b>179,104</b>	<b>155,753</b>	<b>1,280,222</b>	<b>1,782,113</b>	<b>714,816</b>	-	<b>12,030,438</b>

# HOMELAND ENERGY GROUP LTD.

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**Three and six months ended June 30, 2008**

*(Stated in Canadian Dollars)*

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### **Ferret Coal Holdings (Pty) Limited - South Africa**

In June 2006, the Company completed the purchase of Ferret Coal Holdings (Pty) Ltd., a private South African company that holds a 76% interest in Ferret Coal (Kendal) (Pty) Ltd. On March 18, 2008, Ferret Coal (Kendal) (Pty) Ltd. was notified by the South African Department of Minerals and Energy that the Mining Right for its wholly-owned Kendal Mine had been granted. Consideration for the acquisition of Ferret Coal Holdings (Pty) Ltd. was \$2,105,016 (ZAR 13,000,000). In May 2008, the Company facilitated the sale of the remaining 26% from the original BEE shareholders to a new BEE group itself active in the South African coal sector (see Note 9 (c)).

### **KENDAL MINERAL PROPERTY, MPUMALANGA PROVINCE, SOUTH AFRICA**

The Kendal Mine contains 9.4 million tonnes of measured and indicated and 25.2 million tonnes of inferred coal resources. The mine lies in the Witbank Coalfield, and the surrounding areas support a number of mining operations. The Kendal Mine is located to the south west of the town of Ogies, in the Mpumalanga Province of South Africa at an elevation of some 1,580 metres above mean sea level.

Homeland has carried out a conceptual mine plan based on the results of previous exploration campaigns. Potential markets have been identified and the mining, beneficiation and material handling contractors have been appointed. On March 18, 2008, the Company was advised by the South African Department of Minerals and Energy of the granting of the Mining Right in terms of Section 23 of the Mineral and Petroleum Resources Development Act, 2002, (Act 28 of 2002) in respect of Portion 6 of the farm Bankfontein 216 IR and Portions 5 and 10 of the farm Heuvelfontein 215 IR, situated in the magisterial district of Witbank.

Commissioning of the processing plant commenced in the second quarter of 2008 with coal bought from neighbouring projects. After certain improvements and modifications were made, commissioning of the processing plant continued in the third quarter. The Kendal Mine is expected to be producing and selling coal from multiple opencast pits by the end of the third quarter and reach full steady state operating capacity in the fourth quarter on 2008.

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

In March 2006, the Company entered into an agreement to purchase a 50% interest in Tshedza, including its Eloff coal deposit, with options to acquire a further 1% for ZAR 1.00 and a further 23% at market value. Homeland is required to fund all costs associated with the applications for prospecting, as well as all costs associated with any granted prospecting rights through to the granting of a mining license. On October 11, 2006, Tshedza was granted the rights to prospect on five of its projects, and on August 28, 2007, on a further project.

### **ELOFF MINERAL PROPERTY, MPUMALANGA PROVINCE, SOUTH AFRICA**

The Eloff Project contains 465 million tonnes of measured and indicated and 45 million tonnes of inferred coal resources, primarily opencastable, which could supply a lower-grade coal to the power generating industry and/or be upgraded for local industrial consumption or export. The Eloff Project lies in the western extremity of the Witbank Coalfield, and the surrounding areas

# HOMELAND ENERGY GROUP LTD.

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and six months ended June 30, 2008

*(Stated in Canadian Dollars)*

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support a number of mining operations. The Eloff Project is located to the south of the town of Eloff, in the Mpumalanga Province of South Africa at an elevation of some 1,620 metres above mean sea level.

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

In March 2006, the Company entered into an agreement to purchase a 50% interest in Nhlalala, with options to acquire a further 1% for ZAR 1.00 and a further 23% at market value. Homeland is required to fund all costs associated with the applications for prospecting, as well as all costs associated with any granted prospecting rights through to the granting of a mining license. On October 11, 2006, Nhlalala was granted the rights to prospect on three of its projects, and on August 28, 2007, on a further project.

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

In November 2007, the Company entered into an agreement to purchase Corpclo. The purchase price of ZAR 12 million (approximately \$1.5 million) is being settled in two tranches of ZAR 6 million, one of which was paid in November 2007 with the remaining amount due in November 2008. The Company has pledged 50% of the shares of Corpclo as security, until the settlement of the outstanding balance.

### **NORTHFIELD MINERAL PROPERTY, KWAZULU-NATAL PROVINCE, SOUTH AFRICA**

The Northfield Dump Rehabilitation Project is a small coking-quality slurry dump consisting of dried fine tailings from the processing of coal from the now defunct Northfield Colliery. The Project lies in north western Kwa-Zulu Natal Coalfield, and is located close to a number of defunct mining operations. The Northfield Project is located to the north west of the town of Glencoe in the Kwa-Zulu Natal Province of South Africa at an elevation of some 1,380 metres above mean sea level.

When the party with whom the Company had concluded an offtake agreement failed to provide the necessary financial guarantees, operations were suspended and a new buyer for the coal sought.

### ***Disposition of interest in Homeland Mining & Energy SA (Pty) Ltd. ("HMESA")***

The companies listed above are all subsidiaries of HMESA and are included in the transaction with the GMR Group (see Note 18).

### ***Qualified Person***

The Company's exploration and development programs are carried out under the supervision of Homeland's Chief Operating Officer, Mr. Michael Nell. Mr. Nell, a professional mining engineer, is a qualified person as defined by Canadian National Instrument 43-101 with more than 25 years of experience in the coal exploration, development and mining industry. Mr. Nell is responsible for the geoscientific and technical disclosure contained in this document.

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# HOMELAND ENERGY GROUP LTD.

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and six months ended June 30, 2008

(Stated in Canadian Dollars)

### 12. CONVERTIBLE DEBENTURE

On June 12, 2007, the Company entered into a Loan Agreement with GC-Global Capital Corp. The Company borrowed the principal amount of US\$2 million through a convertible debenture. On February 28, 2008, GC-Global Capital Corp. exercised their right to convert the principal amount into common shares of the Company at a conversion price of £1.25. This resulted in the issue of 810,250 common shares (pre-share split, see Note 3).

### 13. CAPITAL STOCK

#### (a) Authorized

Unlimited number of common shares with no par value.

#### (b) Issued

	Issued	Amount
	#	\$
<b>Balance, December 31, 2007</b>	<b>33,284,326</b>	<b>33,615,679</b>
Private placement (Note 13(b)(i))	500,000	2,400,000
Valuation of warrants issued on private placement (Note 13(c))	-	(132,500)
Acquisition of shares in Altona Resources Plc. (Note 13(b)(ii))	737,500	3,540,000
Conversion of convertible debenture (Note 13(b)(iii))	810,250	2,143,954
Additional shares issued upon listing (Note 13(b)(iv))	260,000	829,105
Share issue costs	-	(2,169,105)
<b>Balance, pre-reverse takeover of Homeland (see Note 3)</b>	<b>35,592,076</b>	<b>40,227,133</b>
Reversal of Homeland Energy Corp. common shares (Note 3)	(35,592,076)	-
Homeland Energy Group Ltd. common shares (Note 3)	7,345,626	985,826
Effect of reorganization (Note 3)	(3,672,813)	-
New Homeland Energy Group Ltd. common shares issued (Note 3)	142,368,304	-
Exercise of stock options (Note 13(b)(v))	4,229,361	917,609
<b>Balance, June 30, 2008</b>	<b>150,270,478</b>	<b>42,130,568</b>

# HOMELAND ENERGY GROUP LTD.

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and six months ended June 30, 2008

*(Stated in Canadian Dollars)*

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- (i) In January 2008, Homeland closed a private offering of 500,000 common shares and 250,000 warrants (see Note 13(c)), priced at \$4.80 per unit, each whole warrant entitling the holder to purchase one additional common share at a price of \$6.00 per common share before May 21, 2009, for gross proceeds of \$2,400,000. A fair value of \$132,500 was ascribed to these warrants based on the Black-Scholes model. The Company paid a cash commission on gross proceeds of \$40,000.
- (ii) In February 2008, Homeland issued 737,500 common shares as consideration for the purchase of 44,250,000 common shares of Altona Resources Plc ("Altona") from third parties. The transaction was valued at \$3,540,000 based on a price of \$4.80 per Homeland common share (or \$1.20 post-share split, see Note 3) and a price of 4 pence per Altona common share.
- (iii) GC-Global exercised their right to convert their debenture (see Note 12) into common shares of the Company on February 28, 2008. At a conversion price of £1.25 per common share, this resulted in the issue of 810,250 common shares (pre-share split, see Note 3).
- (iv) As a result of clauses in earlier private placement subscription agreements, upon the closing of the reverse take-over of Chrysalis Capital IV Corporation and the listing of the common shares of the Company on Toronto Stock Exchange, an additional 260,000 common shares (pre-share split, see Note 3) were issued and \$1.3 million in cash paid.
- (v) Between April and June 2008, a total of 5,047,856 stock options were exercised, most in terms of the cashless exercise alternative provided for in the Company's stock option plan, and 4,229,361 common shares were issued, for gross proceeds to the Company of \$21,750. Included in the cost attributable to the shares that were issued upon the exercise of the options is the fair value of the options as determined using the Black-Scholes model of \$895,859.

### (c) Share purchase warrants

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

	2008	2007
Expected life (years)	1.5	1.5
Expected volatility (%)	40	40
Expected dividends	0	0
Risk-free interest rate (%)	4	4

# HOMELAND ENERGY GROUP LTD.

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**Three and six months ended June 30, 2008**

*(Stated in Canadian Dollars)*

On February 29, 2008, Homeland completed its reverse-takeover of Chrysalis Capital IV Corporation (see Note 3). Concurrently with the closing of this transaction, all outstanding stock options and warrants were adjusted to take into account the four-for-one share split. The following summary sets out the activity in outstanding share purchase warrants in the period:

	2008			2007		
	Number of share purchase warrants #	Weighted average exercise price \$ per share	Fair Value \$	Number of share purchase warrants #	Weighted average exercise price \$ per share	Fair Value \$
Opening balance	227,273	\$6.00	89,000	3,495,000	US\$0.83	1,156,501
Granted	250,000	\$6.00	132,500	227,273	\$6.00	89,000
Adjustment for share split	(477,273)	-	-	-	-	-
Adjustment for share split	1,909,092	-	-	-	-	-
Granted	-	-	-	-	-	-
Exercised	-	-	-	(3,495,000)	US\$0.83	(1,156,501)
Closing balance	1,909,092	\$1.50	221,500	227,273	\$6.00	89,000

The following table summarizes the share purchase warrants outstanding at June 30, 2008:

Expiry date	Exercise price per share \$	Warrants outstanding #	Fair Value \$
May 21, 2009	1.50	1,909,092	221,500
		1,909,092	221,500

### (d) Stock options

Options to purchase common shares of the Company may be granted to directors, officers, employees and consultants. The fair value of all options granted during the period was estimated using the Black-Scholes option pricing model, with the following assumptions:

	2008	2007
Expected life (years)	1.5 to 2.5	2.5
Expected volatility (%)	40	100
Expected dividends	0	0
Risk-free interest rate (%)	2.7	4.0

**HOMELAND ENERGY GROUP LTD.**

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**Three and six months ended June 30, 2008**

*(Stated in Canadian Dollars)*

The following summary sets out the activity in outstanding options in the period:

	Number of options #	2008 Weighted average exercise price per share \$	Fair Value per share \$	Number of options #	2007 Weighted average exercise price per share \$	Fair Value per share \$
Opening balance	2,700,000	1.41	0.80	3,725,000	0.90	0.44
Adjustment for share split	(2,700,000)	-	-	-	-	-
Adjustment for share split	10,800,000	-	-	-	-	-
Homeland Energy Group Ltd. options	362,500	0.40	0.07	-	-	-
Granted	8,149,000	1.33	0.11	800,000	2.45	0.87
Exercised	(5,047,856)	0.22	0.18	(1,675,000)	US\$0.50	0.49
Cancelled	-	-	-	(150,000)	Market	0.79
Closing balance	14,263,644	0.95	0.21	2,700,000	1.41	0.80

14. **CONTRIBUTED SURPLUS**

	30 June 2008 \$	31 December 2007 \$
Opening balance	2,168,687	1,624,000
Homeland Energy Group Ltd. options	27,101	-
Stock-based compensation	1,251,127	1,369,845
Stock options exercised	(895,859)	(825,158)
Closing balance	2,551,056	2,168,687

# HOMELAND ENERGY GROUP LTD.

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**Three and six months ended June 30, 2008**

*(Stated in Canadian Dollars)*

On February 29, 2008, Homeland completed its reverse-takeover of Chrysalis Capital IV Corporation (see Note 3). Concurrently with the closing of this transaction, all outstanding stock options and warrants were adjusted to take into account the four-for-one share split.

Included in contributed surplus at the end of the period are the following stock options at valuations determined using the Black-Scholes option pricing model:

Expiry date	Exercise price per share \$	Options outstanding #	Options vested #	Fair Value (*) \$
November 24, 2008	US\$0.125	1,904,183	1,904,183	203,220
July 25, 2009	US\$0.25	100,000	100,000	47,466
October 28, 2009	US\$0.50	400,000	400,000	186,114
November 1, 2009	US\$0.50	1,200,000	800,000	379,667
March 1, 2010	US\$0.50	270,000	3,333	62,936
August 13, 2010	US\$0.50	848,336	46,667	213,853
September 14, 2010	\$0.80	400,000	133,333	141,750
October 2, 2010	\$0.80	400,000	133,333	118,125
December 31, 2010	\$1.10	400,000	133,333	148,021
May 22, 2011	\$1.25	6,949,000	2,854,667	747,702
June 18, 2011	\$1.76	1,200,000	300,000	158,563
February 12, 2012	\$0.40	192,125	192,125	14,363
Cancelled options				129,276
		<b>14,263,644</b>	<b>7,000,974</b>	<b>2,551,056</b>

(\*) Black-Scholes valuation

## HOMELAND ENERGY GROUP LTD.

### NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and six months ended June 30, 2008

*(Stated in Canadian Dollars)*

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#### 15. RELATED PARTY TRANSACTIONS

- (a) During the six months ended June 30, 2008, Homeland paid Grove Communications Inc. \$54,525 (2007: \$45,488) in fees in respect of investor relations, accounting and office administration work undertaken. The owner of Grove Communication Inc. is a director and officer of the company.
- (b) During the six months ended June 30, 2008, Grove Communications Inc. shared office space with Homeland and contributed \$9,402 (2007: \$13,483) towards the office rent and related facilities.
- (d) In South Africa, during the six months ended June 30, 2008, approximately \$63,872 (2007: \$76,000) was paid to a company owned by a director and significant shareholder of subsidiaries of the Company, as a retainer for services rendered in respect of the securing of prospecting rights.
- (e) See also Note 9.

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

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#### 16. COMMITMENTS

##### **Surface Rights**

The Company has entered into two separate agreements to purchase the surface rights at the Kendal Mine, located near Witbank in South Africa. In the first of such agreements, the purchase price is ZAR 4.8 million (approximately \$630,000), of which ZAR 2,000,000 (approximately \$260,000) has already been paid as a deposit in trust. In the second of such agreements, the purchase price of ZAR 2.0 million (approximately \$260,000) remains due and payable. The documentation for this sale has now been finalized and payment is expected to take place shortly.

##### **Madic Operations**

The Company has agreed to invest ZAR 10 million (approximately \$1.3 million) in Madic Operations to capitalize the development of the Madic continuous conveyor system. See Note 9 (b). To date, ZAR 3.2 million (approximately \$460,000) of this commitment has been funded.

In addition, the Company expects to advance ZAR 3 million (approximately \$400,000) to a company related to Madic Operations to fund the implementation of the Madic system in an operating environment. See Note 9 (b). No advances were made against this commitment as of June 30, 2008.

# HOMELAND ENERGY GROUP LTD.

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**Three and six months ended June 30, 2008**

*(Stated in Canadian Dollars)*

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### **Management Contracts**

The Company is party to certain management contracts. These contracts contain clauses requiring that a lump sum termination payment equivalent to up to 36 months remuneration plus all bonuses paid to the employee within the last 36 months shall be paid within 30 days of the occurrence of certain events, such as a change of control. The signing of the Share Purchase Agreement with the GMR Group (see Subsequent Events) on April 9, 2008 constituted such a change of control. Subsequent to the period end, the Company and its Chief Financial Officer agreed upon a revised employment agreement which removed this entitlement. The Chief Executive Officer has also agreed to a significant rewording of his employment contract to the benefit of the Company, with no additional compensation sought. No contingent payments have been reflected in these consolidated financial statements.

### **Finder's Fee**

In terms of a contract between Homeland and the individual who introduced the Company to the GMR Group, the Company is required to pay a 4% finder's fee upon the exercise of each option by the GMR Group and receipt by the Company of the related funds. Each payment will be recognized as a cost of the sale of the related shares as it becomes due and payable. The individual concerned was subsequently employed by the Company.

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**HOMELAND ENERGY GROUP LTD.**

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**Three and six months ended June 30, 2008**

*(Stated in Canadian Dollars)*

**17. SEGMENTED INFORMATION**

For the six months ended	June 30, 2008	June 30, 2007
	\$	\$
<b>Operating Profit (Loss) by Segment:</b>		
Canada	(3,290,261)	-
Mauritius (British Virgin Islands)	(2,220,395)	(1,593,412)
South Africa	(1,434,554)	(763,241)
Botswana	(5,127)	-
Swaziland	(20,784)	-
<b>Consolidated Operating Loss</b>	<b>(6,971,121)</b>	<b>(2,356,653)</b>
<hr/>		
At	June 30, 2008	December 31, 2007
	\$	\$
<b>Total Assets by Segment:</b>		
Canada	3,440,958	-
Mauritius (British Virgin Islands)	28,224,545	17,103,938
South Africa	28,298,371	16,410,088
Botswana	107,795	107,795
Swaziland	-	-
<b>Consolidated Total Assets</b>	<b>60,071,669</b>	<b>33,621,821</b>
<hr/>		
<b>Total Liabilities by Segment:</b>		
Canada	125,082	-
Mauritius (British Virgin Islands)	29,122,958	4,657,443
South Africa	1,847,070	1,406,918
Botswana	-	-
Swaziland	-	-
<b>Consolidated Total Liabilities</b>	<b>31,095,110</b>	<b>6,064,361</b>

# HOMELAND ENERGY GROUP LTD.

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and six months ended June 30, 2008

*(Stated in Canadian Dollars)*

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### 18. SUBSEQUENT EVENTS

#### **Disposition of interest in Homeland Mining & Energy SA (Pty) Ltd.**

On December 15, 2007, Homeland signed a memorandum of understanding (the "MOU") with the GMR Group ("GMR"), setting out the basic terms and conditions upon which the Company would sell up to a 50% voting and participating equity interest in Homeland Mining & Energy SA (Pty) Ltd. ("HMESA"). HMESA owns the Company's interests in the Kendal Mine, the Northfield dump rehabilitation project, and the Eloff and other South African exploration projects. Upon signing the MOU, Homeland received a deposit of US\$3 million against the transfer to GMR of 1% of the shares of HMESA, the liability for the potential repayment of which was reflected in accounts payable and accrued liabilities at December 31, 2007.

On February 8, 2008, the first stage of due diligence review was completed and GMR provided notice that it would exercise its first option, to acquire an additional 4% of the shares of HMESA for a further payment of US\$12 million (i.e. GMR had acquired 5% of HMESA for a purchase price of US\$15 million). Closing occurred on April 9, 2008, following the satisfactory negotiation and execution of definitive documentation and the payment of the purchase price.

On May 5, 2008, GMR provided notice that it would exercise its second option, to acquire a further 5% of the shares of HMESA for a purchase price of a further US\$15 million.

The US\$30 million received from the sale of 10% of HMESA to GMR by Homeland Energy Corp., the Company's wholly-owned Mauritian subsidiary, less costs directly attributable to the sale, has been recorded as an unrealized capital gain.

GMR also has a final option to purchase a further 40% of the shares of HMESA for either US\$125 million, if such option is exercised on or before September 2, 2008, valuing HMESA at US\$310 million, or US\$135 million, if such option is exercised after September 2, 2008 but on or before December 31, 2008 (the "Third Option").

GMR has a right to put the HMESA shares acquired by it under the first and second options back to Homeland prior to December 31, 2008. The purchase price for the shares would be equal to the original price paid by GMR and is payable in cash, or at the election of Homeland, in common shares of Homeland at the then prevailing market rates plus a 5% premium.

Homeland has a right to buy back the HMESA shares sold under the first and the second options if GMR does not exercise the Third Option. The purchase price for the shares subject to this buy back right is payable in cash and would be equal to the original price paid plus 10% interest accruing as to 50% from the date that the first option was completed and as to 50% from the date that the second option was completed.

GMR Group is a Bangalore headquartered global infrastructure group with interests in Airports, Energy, Highways and Urban infrastructure as well as in the manufacturing sector, spanning the Agri-business and including Sugar and Ferro alloys. The company is one of the fastest growing

# HOMELAND ENERGY GROUP LTD.

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**Three and six months ended June 30, 2008**

*(Stated in Canadian Dollars)*

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infrastructure organizations in India. Employing the Public Private Partnership model, the GMR Group has successfully implemented several infrastructure projects in India. With completion of the development of India's newest airport, the Rajiv Gandhi International Airport in Hyderabad, and the modernization and re-development of the Delhi International Airport project well underway, GMR Group has established itself as a frontrunner and pioneer in the core infrastructure areas of the country. GMR's subsidiary, GMR Infrastructure Limited ("GIL"), is a Bombay-listed publicly traded company. GIL was formed to fund the capital requirements of the GMR Group's initiatives in the infrastructure sector. GIL is engaged in the development of various infrastructure projects in the power and transportation sectors through several special purpose vehicles.

GMR Group's assets include six power plants, three of which are in production today in Mangalore, Chennai and Andhra Pradesh; six road projects, two of which are in commercial operation and four under development; and two airport projects. The GMR Group plays an active role in all stages of development of all projects, including the supervision of construction services, financing and operation. The GMR Group is also actively engaged in the areas of Education, Health, Hygiene and Sanitation, Empowerment & Livelihoods and Community-Based Programs under its Foundation wing, reaffirming its grass root presence as change agents of society in the field of Corporate Social Responsibility. A dedicated division, the GMR Varalakshmi Foundation, manned by committed professionals, oversees and manages these projects across India.

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### 19. **COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

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