

# HOMELAND ENERGY GROUP LTD.

## INTERIM CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008

(Unaudited, stated in Canadian Dollars)

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November 14, 2008

## **HOMELAND ENERGY GROUP LTD.**

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

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

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

The accompanying unaudited interim consolidated 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 consolidated annual financial statements. Only changes in accounting principles have been disclosed in these interim consolidated financial statements.

These interim consolidated 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 interim consolidated financial statements, management is satisfied that these interim consolidated financial statements have been fairly presented. This disclosure has been approved by the Board of Directors.

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

As at	30 September 2008 (Unaudited) \$	31 December 2007 (Audited) \$
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and equivalents	8,055,622	5,930,444
Restricted cash	489,689	428,877
Amounts receivable	1,833,172	833,500
Deposits and prepaid expenses	446,149	125,483
Current portion of long-term loans (Note 9)	-	399,064
Future income tax assets	628,265	710,138
	<u>11,452,897</u>	<u>8,427,506</u>
<b>Long-term Deposits and Prepaid Expenses</b>	<b>273,245</b>	<b>304,886</b>
<b>Investments</b> (Note 8)	<b>14,345,786</b>	<b>11,922,025</b>
<b>Long-term Loans</b> (Note 9)	<b>13,451,616</b>	<b>3,855,977</b>
<b>Mineral Properties</b> (Note 11)	<b>17,530,056</b>	<b>7,918,430</b>
<b>Property and Equipment</b> (Note 10)	<b>2,319,734</b>	<b>1,192,997</b>
	<u>59,373,334</u>	<u>33,621,821</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	4,139,363	4,134,025
<b>Long-Term Liabilities</b>		
Convertible Debenture (Note 12)	-	1,606,004
Credit Facilities (Note 13)	3,184,997	-
Provision for Rehabilitation	359,559	324,332
Unrealized Gain on Disposal (Note 19)	28,427,277	-
	<u>36,111,196</u>	<u>6,064,361</u>
<b>SHAREHOLDERS' EQUITY</b>		
Capital Stock (Note 14(b))	42,130,568	33,615,679
Share Purchase Warrants (Note 14(c))	221,500	89,000
Contributed Surplus (Note 15)	3,293,409	2,168,687
Equity Portion of Convertible Debenture	-	502,179
Accumulated other Comprehensive (Loss)	(3,978,516)	-
Accumulated Deficit through Development Stage	(18,404,823)	(8,818,085)
	<u>23,262,138</u>	<u>27,557,460</u>
	<u>59,373,334</u>	<u>33,621,821</u>

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

<b>As at</b>	<b>30 September 2008 (Unaudited) \$</b>	<b>31 December 2007 (Audited) \$</b>
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**Going concern (Note 2)**

**Commitments (Note 17)**

**APPROVED BY THE BOARD**

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

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

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

**HOMELAND ENERGY GROUP LTD.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
(Unaudited, stated in Canadian Dollars)

	Three months ended 30 September 2008 \$	Three months ended 30 September 2007 \$	Nine months ended 30 September 2008 \$	Nine months ended 30 September 2007 \$
<b>Revenue</b>	-	-	-	-
<b>Expenses</b>				
Amortization	68,200	53,055	146,539	98,598
Audit fees	78,902	-	156,368	-
Directors' fees	30,000	14,610	91,534	48,125
Exploration expense	20,961	-	180,471	22,099
Foreign exchange loss	339,517	(192,469)	803,472	199,915
Insurance	28,075	-	79,772	-
Interest expense	1,623	64,169	39,646	72,031
Interest - accretion expense	-	-	35,771	-
Investor relations	94,447	59,612	431,844	104,548
Legal fees	244,160	-	661,303	-
Management and administrative services	769,849	246,652	2,257,102	999,138
Office and general	133,332	152,825	318,772	284,009
Office rental	62,199	-	186,872	-
Professional and consulting fees	(162,025)	197,949	630,954	575,167
Transfer agent and filing	9,727	11,179	266,771	12,727
Stock-based compensation	742,353	662,319	1,993,480	901,819
Travel and accommodation	522,809	402,361	1,178,255	745,089
Write down of investments	-	-	642,447	-
	<b>2,984,129</b>	<b>1,672,262</b>	<b>10,101,373</b>	<b>4,063,265</b>
<b>Loss for the period before the undernoted</b>	<b>(2,984,129)</b>	<b>(1,672,262)</b>	<b>(10,101,373)</b>	<b>(4,063,265)</b>
Interest income	462,121	81,756	608,244	116,106
Other income	43,750	37,349	43,750	37,349
<b>Net loss for the period</b>	<b>(2,478,258)</b>	<b>(1,553,157)</b>	<b>(9,449,379)</b>	<b>(3,909,810)</b>
<b>Deficit - beginning of period</b>	<b>(15,926,565)</b>	<b>(5,988,658)</b>	<b>(8,818,085)</b>	<b>(3,632,005)</b>
<b>Deficit - reverse takeover of Homeland</b>	<b>-</b>	<b>-</b>	<b>(137,359)</b>	<b>-</b>
<b>Deficit - end of period</b>	<b>(18,404,823)</b>	<b>(7,541,815)</b>	<b>(18,404,823)</b>	<b>(7,541,815)</b>
<b>Loss per share - Basic and Diluted</b>	<b>(0.02)</b>	<b>(0.06)</b>	<b>(0.06)</b>	<b>(0.15)</b>
<b>Weighted average number of common shares outstanding during the period</b>	<b>150,270,478</b>	<b>26,778,394</b>	<b>145,852,125</b>	<b>26,261,072</b>

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

**HOMELAND ENERGY GROUP LTD.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Unaudited, stated in Canadian Dollars)

	<b>Three months ended 30 September 2008 \$</b>	Three months ended 30 September 2007 \$	<b>Nine months ended 30 September 2008 \$</b>	Nine months ended 30 September 2007 \$
Unrealized (losses) on available-for-sale securities, net of tax expense	<b>(3,978,516)</b>	-	<b>(3,978,516)</b>	-
<b>Other comprehensive (loss), net of tax</b>	<b>(3,978,516)</b>	-	<b>(3,978,516)</b>	-
<b>Net (loss) for the period</b>	<b>(2,478,258)</b>	(1,553,157)	<b>(9,449,379)</b>	(3,909,810)
<b>Comprehensive (loss)</b>	<b>(6,456,774)</b>	(1,553,157)	<b>(13,427,895)</b>	(3,909,810)

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

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

	<b>Three months ended 30 September 2008 \$</b>	<b>Three months ended 30 September 2007 \$</b>	<b>Nine months ended 30 September 2008 \$</b>	<b>Nine months ended 30 September 2007 \$</b>
<b>Cash Provided by (used in):</b>				
<b>Operating Activities</b>				
Net loss for the period	(2,478,258)	(1,553,157)	(9,449,379)	(3,909,810)
Adjustments for items not affecting cash:				
Amortization	68,200	38,736	146,539	98,598
Stock-based compensation	742,353	662,319	1,993,480	901,819
Write down of investments	-	-	642,447	-
Accretion expense	-	-	35,771	-
Foreign exchange	15,288	(126,175)	81,873	(121,469)
Changes in non-cash working capital items:				
Amounts receivable	(1,053,054)	(466,831)	(999,672)	(618,013)
Deposits and prepaid expenses	(31,795)	(282,744)	(41,535)	(349,113)
Accounts payable and accrued liabilities	2,532,481	222,168	(185,592)	(54,295)
<b>Net Cash used in Operating Activities</b>	<b>(204,785)</b>	<b>(1,505,684)</b>	<b>(7,776,068)</b>	<b>(4,052,283)</b>
<b>Financing Activities</b>				
Issuance of common shares, for cash	-	2,146,208	2,400,000	12,935,004
Exercise of share purchase warrants, for cash	-	-	-	2,884,260
Exercise of stock options, for cash	-	166,931	21,750	166,931
Issuance of convertible debenture	-	-	-	2,120,800
Credit Facility	3,184,997	-	3,184,997	-
Share issue costs	-	(105,690)	(1,340,000)	(579,016)
<b>Net Cash provided by Financing Activities</b>	<b>3,184,997</b>	<b>2,207,449</b>	<b>4,266,747</b>	<b>17,527,979</b>
<b>Investing Activities</b>				
Increase in investments	-	(218,534)	(3,504,724)	(5,615,238)
Provision of long-term finance	(1,948,785)	(385,975)	(9,196,575)	(1,970,569)
Expenditure on mineral properties	(5,508,367)	(1,548,236)	(9,576,399)	(1,850,373)
Acquisition of property and equipment	(327,380)	(450,518)	(1,273,276)	(806,873)
Introduced in RTO	-	-	819,008	-
Restricted cash	14,019	-	(60,812)	-
Unrealized gain on disposal	(692,643)	-	28,427,277	-
<b>Net Cash generated by (used in) Investing Activities</b>	<b>(8,463,156)</b>	<b>(2,603,263)</b>	<b>5,634,499</b>	<b>(10,243,053)</b>
<b>Change in cash and equivalents</b>	<b>(5,482,944)</b>	<b>(1,901,498)</b>	<b>2,125,178</b>	<b>3,232,643</b>
<b>Cash and equivalents - beginning of period</b>	<b>13,538,566</b>	<b>7,504,619</b>	<b>5,930,444</b>	<b>2,370,478</b>
<b>Cash and equivalents - end of period</b>	<b>8,055,622</b>	<b>5,603,121</b>	<b>8,055,622</b>	<b>5,603,121</b>

**HOMELAND ENERGY GROUP LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited, stated in Canadian Dollars)

	<b>Three months ended 30 September 2008 \$</b>	Three months ended 30 September 2007 \$	<b>Nine months ended 30 September 2008 \$</b>	Nine months ended 30 September 2007 \$
<b>Cash and equivalents consist of:</b>				
<b>Cash</b>	4,834,445	1,157,313	4,834,445	1,157,313
<b>Equivalents</b>	3,221,177	4,445,808	3,221,177	4,445,808
	<b>8,055,622</b>	5,603,121	<b>8,055,622</b>	5,603,121

**Supplemental Cash Flow information:**

Interest paid	1,623	-	39,646	-
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 unaudited interim consolidated financial statements.)*

# HOMELAND ENERGY GROUP LTD.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2008

(Unaudited, 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, 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, annual consolidated financial statements of Homeland Energy Corp. (see Note 4) for the year ended December 31, 2007. The accompanying unaudited, interim consolidated financial statements do not include all the information and note disclosures required by generally accepted accounting principles for annual consolidated financial statements and therefore should be read in conjunction with the most recent audited, annual consolidated financial statements and the notes below. Operating results for the period ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ended December 31, 2008. The Canadian dollar is the principal currency of the Company's business.

**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 - having commenced in the third quarter of 2008. Homeland also owns an advanced-stage coal development project in South Africa (namely Eloff) and a number of earlier-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, to preserve its interests in the underlying properties, to discover additional commercially recoverable reserves, to achieve profitable operations and/or to dispose of its interests in these mineral properties on an advantageous basis. Changes in future conditions could require material write downs in the carrying value of its mineral properties.

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

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# HOMELAND ENERGY GROUP LTD.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**Three and nine months ended September 30, 2008**

(Unaudited, stated in Canadian Dollars)

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### 2. GOING CONCERN

These unaudited interim 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.

As at September 30, 2008, the Company had cash and equivalents of \$8,055,622 and working capital of \$7,313,534. Management of the Company believes that it has sufficient funds to pay its ongoing administrative expenses and to meet its liabilities as they fall due. However, the Company does not have sufficient resources to meet its anticipated acquisition and property development expenditure commitments. The Company's ability to continue operations and fund its acquisition and mineral property expenditure commitments is dependent on the successful conclusion of ongoing negotiations to secure additional financing. Management is actively pursuing such additional sources of financing and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future.

These unaudited 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.

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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, this company was continued into the British Virgin Islands as Homeland Energy Corp., a company incorporated under the provisions of the BVI Business Companies Act, 2004. On February 29, 2008, Homeland Energy Corp. completed a reverse-takeover of Chrysalis Capital IV Corporation, which was 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. All outstanding options, warrants and other convertible securities of Homeland Energy Corp. are exercisable for common shares of the Company based on the same exchange ratios.

# HOMELAND ENERGY GROUP LTD.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**Three and nine months ended September 30, 2008**

(Unaudited, stated in Canadian Dollars)

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

**Further to the reverse takeover transaction described above, these unaudited, consolidated interim financial statements for the three and nine periods ended September 30, 2008 and the comparative audited, annual financial statements for the year ended December 31, 2007 reflect the consolidated assets, liabilities and results of operations of Homeland Energy Corp., the legal subsidiary, prior to the reverse takeover and the consolidated assets, liabilities and results of operations of the Company and Homeland Energy Corp. subsequent to the reverse takeover. The 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 Canadian Institute of Chartered Accountants ("CICA") issued three new accounting standards: Capital Disclosures (Handbook Section 1535), Financial Instruments - Disclosures (Handbook Section 3862), and Financial Instruments - Presentation (Handbook Section 3863). In June 2007, the CICA issued a new accounting standard: Handbook Section 1400, General Standards for Financial Statement Presentation. These new standards became effective for the Company in 2008.

##### (a) Capital Disclosures

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

# HOMELAND ENERGY GROUP LTD.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2008

(Unaudited, stated in Canadian Dollars)

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**(c) Inventory**

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

**(d) General Standards of Financial Statement Presentation**

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

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**5. NEW CANADIAN ACCOUNTING PRONOUNCEMENTS**

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

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by the end of 2011. 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's objectives in managing its capital are to ensure sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions, ensure externally imposed capital requirements relating to its credit facilities are being met, and to provide returns to its shareholders.

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

# HOMELAND ENERGY GROUP LTD.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**Three and nine months ended September 30, 2008**

(Unaudited, stated in Canadian Dollars)

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

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

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

Not meeting these capital requirements will result in an event of default by the Company's subsidiary. As at September 30, 2008, Ferret Coal (Kendal) (Pty) Ltd. had met all of these externally imposed capital requirements.

The Company's overall strategy with respect to capital management remains unchanged from the year ended December 31, 2007.

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### 7. FINANCIAL RISK FACTORS

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

#### (a) Fair value of financial instruments

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

The Company's financial instruments are primarily comprised of cash and equivalents, restricted cash, amounts receivable, deposits and prepaid expenses, marketable securities, accounts payable and accrued liabilities, other current liabilities and credit facilities. The carrying values of these items approximate their fair values due to the relatively short-term maturities of these instruments. Fair values of long-term investments were calculated based on market information and the Company's best estimate.

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

Investments are classified as available for sale. The Company recorded a mark-to-market loss of \$3,978,516 for the three and nine months ended September 30, 2008 on strategic investments.

# HOMELAND ENERGY GROUP LTD.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2008

(Unaudited, stated in Canadian Dollars)

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**(b) Foreign currency risk**

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars and in South African Rand. The Company funds certain exploration, development and administrative expenses in South Africa and the United Kingdom on a cash basis using funds converted from its bank accounts held in Canada. The Company does not hold significant balances for extended periods in foreign currencies, to reduce its exposure to foreign exchange risk. The Company has recently commenced with the sale of coal and such sales are currently predominately denominated in South African Rand, the same currency in which the operating costs are incurred. The Company is primarily exposed to currency fluctuations relative to the Canadian Dollar as a significant portion of the Company's operating costs and capital expenditures are denominated in foreign currencies; predominately the South African Rand ("ZAR").

Management believes the foreign exchange risk derived from currency conversions is not material and therefore does not formally hedge its foreign exchange risk.

**(c) Commodity 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 currently low since the Company is not yet in commercial production.

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

**(d) Interest rate risk**

The Company has cash balances and, through a subsidiary company, senior interest-bearing debt.

The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. 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 September 30, 2008, the Company's long-term debt amounted to \$3,184,997 (ZAR 25 million).

**(e) Credit risk**

Credit risk is the risk that a third party might fail to fulfill its performance obligations under the terms of a financial instrument. The Company's credit risk is primarily attributable to cash and equivalents, amounts receivable, and deposits and prepaid expenses. 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

## HOMELAND ENERGY GROUP LTD.

### NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**Three and nine months ended September 30, 2008**

(Unaudited, stated in Canadian Dollars)

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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 low.

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

**(f) Liquidity risk**

Liquidity risk is the risk that a financial instrument cannot be eliminated quickly, by either liquidating it or by establishing an off-setting position. The Company addresses the capital management process as described in Note 6.

The Company's approach to managing liquidity risk is to ensure that it will have access to sufficient liquidity to meet liabilities when due. As at September 30, 2008, the Company had cash and equivalents of \$8,055,622 (December 31, 2007 - \$5,930,444) available to settle current liabilities of \$4,139,363 (December 31, 2007 - \$4,134,025). Except for an amount due in November 2008 of \$764,400 (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.

On November 4, 2008, the GMR Group ("GMR") advised Homeland of its decision not to exercise its option to acquire a further 40% of the Company's subsidiary, Homeland Mining and Energy SA (Pty) Ltd. ("HMESA") (see Note 19). GMR simultaneously exercised its option to put the HMESA shares acquired by it under the first and second options back to Homeland. The purchase price for these shares is equal to the original price paid by GMR (US\$30 million) and is payable in cash or, at the election of Homeland, in common shares of Homeland at \$0.455 per share.

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# HOMELAND ENERGY GROUP LTD.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**Three and nine months ended September 30, 2008**

(Unaudited, stated in Canadian Dollars)

### 8. INVESTMENTS

	<b>30 September 2008</b>	31 December 2007
	\$	\$
Homeland Uranium Inc. (Note 8 (a)) - 22,250,000 common shares	<b>11,314,058</b>	11,314,058
Altona Resources Plc (Note 8 (b)) - 44,250,000 common shares	<b>1,356,727</b>	-
Aviva Corporation Ltd (Note 8 (c)) - 4,000,000 common shares	<b>1,675,000</b>	-
Londoloza Mineral and Mining Brokers (Pty) Ltd. - representing a 35% interest, written down to \$1.00 in 2006	<b>1</b>	1
Option to invest in a South Africa private company (in the export industry), written off in 2008 (Note 8 (d))	-	607,966
	<b>14,345,786</b>	<b>11,922,025</b>

- (a) Effective February 1, 2007, the Company transferred its uranium assets to a Canadian private company, Homeland Uranium Inc. ("HUI"), in return for 16,000,000 common shares. As the Company had an original control position in HUI, and the sale therefore occurred between two related entities, the transaction was accounted for at cost. Following financings by HUI that raised \$1.84 million at \$0.23 per share, and \$23 million at \$0.80 per unit (in which the Company participated to the extent of \$5 million), the Company's interest in HUI decreased to approximately 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. Based on the closing price per Altona common share on the AIM on September 30, 2008 of 1.625 pence, the investment has been written down to \$1,356,727.
- (c) In June 2008, Homeland acquired 4,000,000 common shares of Aviva Corporation Ltd ("Aviva") 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). Based on the closing price per Aviva common share on the Australian Securities Exchange on September 30, 2008 of AUD 0.50, the investment has been written down to \$1,675,000.

# HOMELAND ENERGY GROUP LTD.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2008

(Unaudited, stated in Canadian Dollars)

- (d) The Company wrote off the due diligence costs associated with an investment that was considered within the South African export industry when a third party offered substantially more than the Company was willing to pay for the investment in question and the Company decided to withdraw from negotiations.

### 9. LONG-TERM LOANS

	30 September 2008	31 December 2007
	\$	\$
MD Engineering (Note 9 (a))	4,381,081	3,783,440
Madic Operations (Pty) Ltd. (Note 9 (b))	1,273,999	450,881
Numin (Pty) Ltd. (Note 9 (b))	382,200	-
African Spirit Trading 307 (Pty) Ltd. (Note 9 (c))	7,414,336	-
Superior Drilling (Note 9 (d))	-	20,720
	<b>13,451,616</b>	<b>4,255,041</b>
Less: Current portion	-	399,064
Long-term portion	<b>13,451,616</b>	<b>3,855,977</b>

- (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 (the "Plants") at its Kendal Mine. A Loan Agreement has also been executed under which the Company advanced approximately ZAR 34 million (\$4,381,081) 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.

Discussions have advanced between MD Engineering and Homeland that are expected to result in Homeland purchasing the Plants from MD Engineering against settlement 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 Plants, 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 has acquired 45% of Madic Operations (Pty) Ltd. ("Madic"). Homeland has simultaneously granted 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 is entitled to appoint one of the two directors of Madic.

## HOMELAND ENERGY GROUP LTD.

### NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**Three and nine months ended September 30, 2008**

(Unaudited, stated in Canadian Dollars)

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The Company simultaneously undertook to advance a shareholder's loan to Madic of up to ZAR 10 million (\$1,273,999), 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 of four Madic continuous conveyor systems.

Homeland has fulfilled its full ZAR 10 million (\$1,273,999) commitment.

In addition, Homeland has entered into a Loan Agreement and Share Purchase Option Agreement with a company related to Madic that will seek to implement the Madic system, in terms of which it will loan to this company ("Numin") of up to ZAR 3 million (approximately \$382,200). 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 advanced ZAR 2 million (\$254,800) of the ZAR 3 million (\$382,200) commitment and has accrued for the payment of the remaining ZAR 1 million (\$127,400), which was advanced in October 2008.

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

- (c) In May 2008, through its wholly-owned South African subsidiary Lovelute Investments (Pty) Ltd., Homeland lent ZAR 55,124,000 (\$7,022,792) to aid a private Black Economic Empowerment ("BEE") company in South Africa to purchase the 26% of Ferret Coal (Kendal) (Pty) Ltd. ("Kendal") that the Company does not own. The loan bears interest at the South African prime overdraft rate (of which an amount of ZAR 3,073,352 has been accrued at September 30, 2008), 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. No component of the loan is currently expected to be repaid within the next 12-months.
  - (d) Homeland Mining and Energy SA (Pty) Ltd. has entered into agreements from time to time 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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**Three and nine months ended September 30, 2008**

(Unaudited, 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	754,251	12,574	741,677
Motor vehicles	339,098	53,532	285,566
Office furniture and equipment	180,068	57,622	122,446
Computer equipment	257,120	74,238	182,882
Buildings	856,299	-	856,299
Leasehold improvements	232,761	101,897	130,864
	<b>2,619,597</b>	<b>299,863</b>	<b>2,319,734</b>

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# HOMELAND ENERGY GROUP LTD.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**Three and nine months ended September 30, 2008**

(Unaudited, 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 September 30, 2008, the Company retained title, directly or indirectly, to the following properties:

(Unaudited)	Ferret Coal Kendal	Tshedza				Nhlalala			Corpco	Homeland Botswana (Wizard)	Homeland Energy USA	Total
		Eloff	Onbekend	Welgevonden	Witbank	Vlakkvarkfontein	Langsloot	Fraaiuitzicht	Northfield			
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Property acquisition costs</b>												
Opening Balance	2,105,016	415,230	-	-	-	-	-	-	1,840,201	-	-	4,360,447
Incurred in period	-	-	-	-	-	-	-	-	-	99,240	1,407,160	1,506,400
<b>Total Acquisition Costs</b>	<b>2,105,016</b>	<b>415,230</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,840,201</b>	<b>99,240</b>	<b>1,407,160</b>	<b>5,866,847</b>
<b>Deferred exploration costs</b>												
Opening Balance	1,851,540	891,149	96,177	755	153	202,682	182	1,166	153,249	-	-	3,197,053
Management & consulting	102,314	190,883	-	-	-	48,324	-	-	14,204	-	-	355,725
Drilling & analysis	748,308	995,813	30,589	-	-	-	-	-	9,127	-	-	1,783,837
Infrastructure & earthworks	2,780,172	67,879	-	-	-	-	-	-	157,596	-	-	3,005,647
Other	118,840	8,265	577	-	148	225	240	1,531	229,626	28,153	-	387,605
Pre-production (net)	2,360,246	-	-	-	-	-	-	-	-	-	-	2,360,246
<b>Total Deferred Exploration</b>	<b>7,961,420</b>	<b>2,153,989</b>	<b>127,343</b>	<b>755</b>	<b>301</b>	<b>251,231</b>	<b>422</b>	<b>2,697</b>	<b>563,802</b>	<b>28,153</b>	<b>-</b>	<b>11,090,113</b>
<b>Translation adjustment</b>												
Opening Balance	188,957	62,390	4,593	36	7	9,680	9	55	95,203	-	-	360,930
Incurred in period	155,203	32,079	792	-	4	1,233	6	38	10,429	12,382	-	212,166
<b>Total Translation Adjustment</b>	<b>344,160</b>	<b>94,469</b>	<b>5,385</b>	<b>36</b>	<b>11</b>	<b>10,913</b>	<b>15</b>	<b>93</b>	<b>105,632</b>	<b>12,382</b>	<b>-</b>	<b>573,096</b>
<b>Closing Balance</b>	<b>10,410,596</b>	<b>2,663,688</b>	<b>132,728</b>	<b>791</b>	<b>312</b>	<b>262,144</b>	<b>437</b>	<b>2,790</b>	<b>2,509,635</b>	<b>139,775</b>	<b>1,407,160</b>	<b>17,530,056</b>

# HOMELAND ENERGY GROUP LTD.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**Three and nine months ended September 30, 2008**

(Unaudited, 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. 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 an estimated 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.

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 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 mine and processing plants is underway and the Kendal Mine is expected to reach full steady state operating capacity from multiple opencast pits by the end of 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, and has an option to acquire a further 1% for ZAR 1.00. 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.

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

The Eloff Project contains an estimated 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 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.

### **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.

## HOMELAND ENERGY GROUP LTD.

### NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**Three and nine months ended September 30, 2008**

(Unaudited, stated in Canadian Dollars)

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#### **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.

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 is being sought. Small amounts of coal are being sold monthly to the surface rights owner.

#### ***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 19).

#### **Homeland Energy USA Corp. - U.S.A.**

In August 2008, Homeland finalized a binding agreement to purchase the operating assets of Appolo Fuels Inc., owner and operator of the Appolo coal mine, and Diversified Energy Inc., an associated coal marketing firm, for a total purchase price is US\$105 million plus finder's fees.

An independent technical report by Norwest Corporation has confirmed resources and reserves for the Appolo Fuels mines, situated in Bell County, Kentucky and Claiborne County, Tennessee, of an estimated 114 million short tons (103 million metric tonnes), with a saleable mineral reserve of an estimated 45 million short tons (41 million metric tonnes).

The Company has capitalized the option payments made to secure this acquisition, as well as the costs incurred in the due diligence process to date.

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# HOMELAND ENERGY GROUP LTD.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2008

(Unaudited, 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. CREDIT FACILITIES

	Face Value	30 September 2008	31 December 2007
	\$	\$	\$
ZAR 150 million non-revolving facility	19,109,984	3,184,997	-
Less: current portion		-	-
Long-term portion		3,184,997	-

On September 30, 2008, the first ZAR 25 million (\$3,184,997) was drawn down on a ZAR 150 million (\$19,109,984) credit facility that is secured by guarantees from, and pledges of the shares of, certain subsidiaries and is repayable from September 2009 through December 2013. Amounts drawn under the facility bear interest at the rate of JIBAR plus 3.15% per annum prior to Completion, and at the rate of JIBAR plus 2.50% per annum following Completion. Undrawn amounts are subject to a commitment fee of 0.50% per annum. The effective interest rate at September 30, 2008 was 15.2%.

Once fully drawn down, which is expected to occur over the next 12-months, the following is a schedule of future credit facility repayments, including capital and approximately ZAR 20 million of interest expected to be capitalized in the first 12-months:

	Equivalent (\$)	Amount (ZAR)
2008	-	-
2009	2,165,798	17,000,000
2010	4,331,596	34,000,000
2011	4,764,756	37,400,000
2012	5,197,915	40,800,000
2013	5,197,915	40,800,000
	21,657,980	170,000,000

# HOMELAND ENERGY GROUP LTD.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2008

(Unaudited, stated in Canadian Dollars)

### 14. 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 14(b)(i))	500,000	2,400,000
Valuation of warrants issued on private placement (Note 14(c))	-	(132,500)
Acquisition of shares in Altona Resources Plc. (Note 14(b)(ii))	737,500	3,540,000
Conversion of convertible debenture (Note 14(b)(iii))	810,250	2,143,954
Additional shares issued upon listing (Note 14(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>
Share split (Note 3)	106,776,228	-
Homeland Energy Group Ltd. common shares (Note 3)	7,345,626	985,826
Effect of reorganization (Note 3)	(3,672,813)	-
Exercise of stock options (Note 14(b)(v))	4,229,361	917,609
<b>Balance, September 30, 2008</b>	<b>150,270,478</b>	<b>42,130,568</b>

# HOMELAND ENERGY GROUP LTD.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**Three and nine months ended September 30, 2008**

(Unaudited, 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 14(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 (numbers and unit prices of common shares and warrants stated pre-share split, see Note 3). A fair value of \$132,500 was ascribed to these warrants based on the Black-Scholes model. The Company paid 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 and a price of 4 pence per Altona common share. Numbers and unit prices of Homeland common shares stated pre-share split (see Note 3).
- (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 (numbers and unit prices of common shares stated 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 at \$3.19 per share (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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**Three and nine months ended September 30, 2008**

(Unaudited, 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)	\$6.00	-	-	-	-
Adjustment for share split	1,909,092	\$1.50	-	-	-	-
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 September 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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**Three and nine months ended September 30, 2008**

(Unaudited, stated in Canadian Dollars)

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

	2008			2007		
	Number of options #	Weighted average exercise price per share \$	Grant Date Fair Value per share \$	Number of options #	Weighted average exercise price per share \$	Grant Date 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)	1.41	-	-	-	-
Adjustment for share split	10,800,000	0.35	-	-	-	-
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	<b>14,263,644</b>	<b>0.95</b>	<b>0.23</b>	2,700,000	1.41	0.80

### 15. CONTRIBUTED SURPLUS

	30 September 2008	31 December 2007
	\$	\$
Opening balance	2,168,687	1,624,000
Homeland Energy Group Ltd. options	27,101	-
Stock-based compensation	1,993,480	1,369,845
Stock options exercised	(895,859)	(825,158)
Closing balance	<b>3,293,409</b>	2,168,687

# HOMELAND ENERGY GROUP LTD.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**Three and nine months ended September 30, 2008**

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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 #	Grant Date 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	396,417
March 1, 2010	US\$0.50	270,000	3,333	74,519
August 13, 2010	US\$0.625	848,336	448,335	259,352
September 14, 2010	\$0.80	400,000	266,667	160,125
October 2, 2010	\$0.80	400,000	133,333	141,750
December 31, 2010	\$1.10	400,000	133,333	178,646
May 22, 2011	\$1.25	6,949,000	2,854,667	1,166,223
June 18, 2011	\$1.76	1,200,000	300,000	335,938
February 12, 2012	\$0.40	192,125	192,125	14,363
Cancelled options				129,276
		<b>14,263,644</b>	<b>7,535,976</b>	<b>3,293,409</b>

(\*) Black-Scholes valuation

# HOMELAND ENERGY GROUP LTD.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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### 16. RELATED PARTY TRANSACTIONS

- (a) During the nine months ended September 30, 2008, Homeland paid Grove Communications Inc. \$69,875 (September 30, 2007: \$60,488) 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 nine months ended September 30, 2008, Grove Communications Inc. shared office space with Homeland and contributed \$14,103 (September 30, 2007: \$16,036) towards the office rent and related facilities.
- (c) In South Africa, during the nine months ended September 30, 2008, \$96,648 (September 30, 2007: \$112,000) 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.
- (d) 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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### 17. COMMITMENTS

#### **Surface Rights**

A subsidiary of the Company entered into two separate agreements to purchase the surface rights at the Kendal Mine, located near Witbank in South Africa. In one of the agreements, the amended purchase price of ZAR 5.4 million (approximately \$690,000), less a deposit of ZAR 2,000,000 (approximately \$260,000) paid in trust, remains outstanding pending transfer of the property.

#### **Environmental Contingencies**

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

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**HOMELAND ENERGY GROUP LTD.**

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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**18. SEGMENTED INFORMATION**

For the nine months ended	September 30, 2008	September 30, 2007
	\$	\$
<b>Comprehensive Income (Loss) by Segment:</b>		
Canada	(4,302,847)	-
Mauritius (formerly of the British Virgin Islands)	(6,524,564)	(3,073,908)
South Africa	(2,480,121)	(835,902)
United States of America	-	-
Botswana	(99,579)	-
Swaziland	(20,784)	-
<b>Consolidated Comprehensive Loss</b>	<b>(13,427,895)</b>	<b>(3,909,810)</b>

At	September 30, 2008	December 31, 2007
	\$	\$
<b>Total Assets by Segment:</b>		
Canada	2,233,519	-
Mauritius (formerly of the British Virgin Islands)	15,234,077	17,103,938
South Africa	40,264,267	16,410,088
United States of America	1,407,160	-
Botswana	234,311	107,795
Swaziland	-	-
<b>Consolidated Total Assets</b>	<b>59,373,334</b>	<b>33,621,821</b>

<b>Total Liabilities by Segment:</b>		
Canada	360,841	-
Mauritius (formerly of the British Virgin Islands)	28,453,689	4,657,443
South Africa	7,286,635	1,406,918
United States of America	-	-
Botswana	10,031	-
Swaziland	-	-
<b>Consolidated Total Liabilities</b>	<b>36,111,196</b>	<b>6,064,361</b>

# HOMELAND ENERGY GROUP LTD.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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### 19. SUBSEQUENT EVENTS

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

On November 4, 2008, the GMR Group ("GMR") advised the Company that it would not be exercising its option to acquire 40% of Homeland Mining & Energy SA (Pty) Ltd. ("HMESA") for US\$135 million. GMR concurrently elected to sell the 10% of HMESA that it had already acquired back to Homeland at its original purchase price of US\$30 million.

The background to this transaction is that on December 15, 2007, Homeland signed a memorandum of understanding (the "MOU") with GMR, setting out the basic terms and conditions upon which the Company would sell up to a 50% voting and participating equity interest in HMESA. HMESA owns the Company's interests in the Kendal 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 had 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, or US\$135 million, if such option is exercised after September 2, 2008 but on or before December 31, 2008 (the "Third Option"). On November 4, 2008, GMR advised the Company that it would not be exercising its final option, and simultaneously advised that it would be exercising its option to put the HMESA shares acquired by it under the first and second options back to Homeland. The purchase price for the shares would be equal to the original price paid by GMR (US\$30 million) and is payable in cash, or at the election of Homeland, in common shares of Homeland at \$0.455 per share.

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### 20. COMPARATIVE FIGURES

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

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