



Ethanol - The Alternative Solution

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Plant News & Ethanol Update

September 2010

Things to consider when delivering new crop to Homeland

With harvest likely to start soon, and well ahead of normal schedules, there are just a few things to keep in mind if you are delivering new crop corn to the plant.

First, we cannot accept moisture levels over 17%.

Secondly, we recognize that a lot of this year's corn is going to come in blended with last year's corn. That's OK, just be sure the corn is blended uniformly so we can treat you fairly. Homeland will likely be taking two samples — both a probe sample and a grab sample from the bottom of load — to test for consistency. The discount used will be the higher of the two.

We appreciate our suppliers' understanding that the quality of inputs directly impacts the quality of our products, which is especially important in maintaining our export markets for DDGs as feed.

Everyone at Homeland Energy wishes you all a safe and successful 2010 harvest.

From the CEO:

Fall looks positive with corn harvest on the way

After a difficult 2009 harvest, and problems with corn quality as a result, Homeland Energy Solutions joins local farmers in looking forward to a successful harvest. We're very fortunate to be looking at what I think is probably one of the best crops that we've ever had in our area.

It shouldn't require a lot of drying, and I think it's going to be a considerable improvement in quality over what we've dealt with in the last year, including problems with vomitoxin and other molds that impact the quality of DDGS produced by the plant.

Last year's poor quality crop resulted in fewer feed issues than we anticipated, thanks in part to cooperation from our corn suppliers, and we were able to consistently meet all of the requirements for export markets. We've exported approximately 90% of our distillers grain production since the barge season began. And when river transportation ends for the season, we have a fleet of 180 rail cars that continue to give us access to the export market.

Ethanol production and marketing has remained strong. While shipping

by rail has its challenges, Homeland Energy continues to supply ethanol through Chicago to New York and smaller East Coast terminals.

From a management standpoint, the Board of Directors is continuing to focus on paying down debt to make Homeland a financially strong company. Our employees continue to set a new standard for productivity.

The commodities markets have changed rapidly over the summer, bringing up some concerns. Since we filed our quarterly report on June 30 — where we talked about corn, ethanol and DDG prices all being down for the year — things have really changed. Ethanol prices have rallied on the back of a rally in the corn market. At the same time, gasoline prices have fallen. Our crush margin has stayed positive, but it is alarming that gasoline prices are going down at a time when ethanol and corn are going up. The margin between ethanol and gasoline has disappeared. It is a situation that we will be monitoring.

— *Walt Wendland*
President & CEO

Homeland Energy Solutions

Positive returns continue in 2nd quarter

Homeland Energy Solutions continued its success by showing positive results for the second quarter of 2010. The operation of the plant continues to be very efficient allowing us to continue to see favorable financial results in a tightening ethanol market with the increasing prices for corn.

The quarter ended with net income topping \$2 mil-

lion or over \$22 per membership unit. Highlights of the financial results are as follows. A more detailed version is currently available on the HES or SEC website or by clicking [here](#).

— **Jeff Grober, Chief Financial Officer**
Homeland Energy Solutions

BALANCE SHEET			
	6/30/10	3/31/10	12/31/09
Current Assets	\$23,081,129	\$25,017,424	\$19,811,778
Property & Equipment	144,250,831	146,436,843	149,107,152
Other Assets	13,069,402	13,134,598	13,600,758
Total Assets	180,401,362	184,588,865	182,519,688
Current Liabilities	\$11,093,397	15,498,682	\$12,652,511
Long-term Liabilities	53,557,751	55,410,855	62,263,911
Total Members' Equity	115,750,214	113,679,328	107,603,266
Total Liabilities & Equity	180,401,362	184,588,865	182,519,688
Book Value per membership unit	1,266	1,243	1,177

INCOME STATEMENT				
	Qtr Ended 6/30/10	Qtr Ended 6/30/09	Year to date 6/30/10	Year to date 6/30/09
Revenue	\$55,629,916	39,562,718	112,643,402	39,562,718
Cost of Goods Sold	52,519,070	38,133,578	102,356,914	38,133,578
Operating Expenses	564,278	150,199	1,134,895	1,366,736
Operating Income (Loss)	2,546,568	1,278,941	9,151,593	62,404
Other Income (Expenses)	(475,682)	(232,607)	(1,004,645)	(155,050)
Net Income (Loss)	2,070,886	1,046,334	8,146,948	(92,646)
Net Income (Loss) Per Unit	\$22.65	11.44	89.09	(1.01)

Iowa leads the nation in production; shouldn't it also lead in usage?

Energy author/blogger Robert Rapier challenges Iowa to utilize its homegrown ethanol at home

In his Aug. 30 post to the blog R-Squared at www.consumerenergyreport.com, Rapier offers a case study of the use of E-85 in Iowa, which has actually been dropping. Check out a few excerpts and summaries, and then decide what you can do to help Iowa be as self-sustaining as possible. [Click here](#) for the complete text.

Rapier says Iowa is “the Saudia Arabia of Ethanol”

“Iowa is to corn ethanol what Saudi Arabia is to oil. At present Iowa has the capacity to produce 3.5 billion gallons of ethanol per year, which is 26% of the nation’s total. This is of course due to the large amount of corn production in Iowa, enabled by ample rainfall and rich topsoil.”

But ...

“Gasoline consumption in Iowa is presently around 1.6 billion gallons per year. ... Yet amazingly, Iowa does not have an E10 blend mandate that is so common in many other states. Of the 3.5 billion gallons of ethanol Iowa produces each year, only 100 million gallons is consumed in the state (less than 3%). Perhaps even more amazing is that Iowa — seemingly the best candidate in the U.S. for biofuel self-sufficiency — ranks in the Top 10 consumers of gasoline per capita in the U.S. ... Petroleum continues to supply over 90% of the motor fuel in Iowa, and virtually all of the fuel used in the farm equipment for growing all of that corn. Something is wrong with this picture.”

Why?

“The price spread between gasoline and E85 is consistently higher in Iowa than in other states. The reported price spread in Iowa as of July 2010 was 30.1%, which should be large enough to drive consumers to E85 over gasoline. So what is the problem?”

There are three possible problems that I can identify: 1). Perhaps there isn’t enough E85 infrastructure in place. 2). There aren’t enough E85 vehicles on the road; 3). The price is still too high relative to gasoline.

There are 136 service stations in Iowa selling E85 (out of 977 total service stations) and a total of 2,233 Stations selling E85 in the United States. As of 2009, there are reportedly around 8 million vehicles on U.S. roads that are E85 capable. Given a total vehicle population of around 250 million, that means that only around 3% of the cars on the road are E85-capable.”

He quotes the Iowa Renewable Fuels Association also in pointing out that Iowa chose E10 only 73% of the time in 2009, and that E-85 sales were down 15% in the first three quarters of ‘09, compared to the year before.

“The number of E85 vehicles has been slowly rising, so if E85 sales (in Iowa) are falling then there is also apparently a cost factor that is coming into play. ... If E85 is ever to become the dominant fuel in Iowa, the price differential will have to properly reflect the fuel economy difference of E85 versus gasoline. E85 contains about 25% less energy than gasoline on a volumetric basis. Owners that experience a 25% reduction in fuel economy will expect to pay 25% less for their fuel.”

What needs to happen?

“From my perspective, the objective would be to increase the sustainability of ethanol — starting in Iowa — by increasing local consumption. This would decrease U.S. dependence on foreign oil more than if we have to transport oil from the coasts inland to Iowa while transporting ethanol from Iowa to the coasts”.

Rapier said he doesn’t believe pump infrastructure is the limiting factor in Iowa, especially given the available incentives for adding pumps and blending E-85.

“U.S. automakers also expect to meet a goal of making half their vehicle production flex-fuel by 2012, up from around 30 percent now. ... On the other hand comes news that people may not be interested in buying them.”

That reluctance could be countered, he noted, by ethanol-optimized engines now in the development stage, but not yet available to consumers.

Credits for E85 vehicles, plus tractors

“So it would appear that consumers may need some convincing before they are ready to take the plunge on an E85 vehicle. There are several ways to incentivize sales of E85 vehicles. The worst is probably just to mandate that vehicles sold in the state of Iowa are E85-compatible. ... Probably the most manageable would be rebates or expanded tax credits — at the state or federal level — for the purchase of an E85 vehicle.”

“Beyond personal transportation, corn growers should be pushing for tractors that can run off of ethanol. They can be built. In 2006 the Saskatchewan Research Council unveiled a tractor modified to operate on 100 percent hydrated ethanol.”

Homeland Energy Solutions

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Area's first blender pump expands motorists' options

Five Star Cooperative of New Hampton hosted a Grand Opening Open House Sept. 3 for northeast Iowa's first blender pump. Along with lunch and a ribbon cutting ceremony, Iowa Secretary of Agriculture Bill Northey shared a few words with the crowd about the important role blender pumps can play in helping Iowa utilize more of its production here where it is produced. Pictured is Homeland Energy Solutions employee Tony Zeien filling up his pickup with E-85. Tony is a valuable employee in Homeland's grain handling department.



Blender pumps are specially designed pumps that can utilize a retail station's existing underground infrastructure to house tanks of E-85 and E-10, which is then blended in the pump itself to provide E-10, E-85 and other mid-range blends of ethanol from the same pump. As more stations around the country add blender pumps, they are expected to play a significant role in expanding ethanol's use in flex-fuel vehicles (FFVs).

Meet your team members

Kevin Howes, plant manager

Q. What do you like most about working at Homeland?

A. "I love working with a team that gets the job done regardless of position. We have a very team oriented environment where everyone pitches in whenever needed. Homeland is a family type environment as well."

Q. Where did you come from? (HS, college, previous jobs)

A. I was born and raised in Dubuque



and received a bachelor of science degree in chemical engineering in 1993 from Iowa State University. I came to Homeland with six years of experience in the biofuels industry and ten years in the ag chemical industry, including many leadership and management positions.

Q. Tell us about your family.

My wife, Sabrina, and I have 5 children: Kris, 20; Max, 8; Zach, 7; Will, 5; and Mya, 3.

Q. Any hobbies or interests?

I enjoy spending time outdoors with my family through various sports, hunting and fishing.