



K.H. RAO & CO.,
CHARTERED ACCOUNTANTS

'KRISHNA COMPLEX', V FLOOR
14, STATE BANK ROAD
BANGALORE - 560 001
PHONE : 25588110

AUDITORS' REPORT

To The Board of Directors of Homeland Energy Group Ltd

We have audited the attached Balance Sheet of **Homeland Energy Group Ltd.** ('the Company') as at 31st December 2010 and the Profit and Loss Account and Cash Flow Statement, annexed thereto for the year ended on that date. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We further report that:

1. We have obtained all the information and explanations which to the best of Our Knowledge and belief were necessary for the purpose of our audit.
2. In our opinion, proper books of account, as required by law have been kept by the company, so far as appears from our examination of the books.
3. The said Balance Sheet, the Profit & Loss Account & the cash flow statement are in agreement with books of account.
4. In our opinion, the Balance Sheet, the Profit & Loss Account & the cash flow statement complies with the mandatory Accounting Standards referred in Section 211 (3C) of the Companies Act, 1956, and

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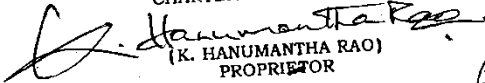
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In our opinion, and to the best of our information and according to the explanations given to us, the said accounts, together with and subject to notes annexed thereto, give the information required, and give a true and fair view:

- a. In the case of Balance Sheet of the state of affairs of the company as at 31st December 2010; and
- b. In the case of the Profit & Loss Account, of the profit of the Company for the year ended on that date
- c. In case of the Cash Flow Statement, of the cash flows for the year ended on that date

For K.H. RAO & CO.
CHARTERED ACCOUNTANTS


(K. HANUMANTHA RAO)
PROPRIETOR



Membership Number: - 024951

MEMBERSHIP No. 024951
Firm Regn. No. 005507S

Homeland Energy Group Ltd
Consolidated Balance Sheet as at Dec 31, 2010

Particulars	Sch. Ref	Dec 31, 2010		Jun 30, 2010	
		Amount in INR		Amount in INR	
I. Sources of Funds					
1. Shareholders' Funds					
a) Capital	1		3,960,348,861		3,960,348,861
b) Stock Options Outstanding	2	11,314,620		17,289,543	
Less : Deferred Employee compensation outstanding					
Closing Balance			11,314,620		17,289,543
c) Reserves and Surplus	3		(2,677,289,537)		(2,636,910,265)
2. Loan Funds					
b) Secured Loans	4	1,291,607,452		1,021,133,875	
b) UnSecured Loans	5	13,984,122	1,305,591,574	14,277,923	1,035,411,798
Total			2,599,965,518		2,376,139,937
II. Application of Funds					
1. Fixed Assets	6				
Gross Block		1,851,251,243		1,439,099,803	
Less: Depreciation		175,991,453		122,093,111	
Net Block			1,675,259,790		1,317,006,692
2. Exploration and Development Properties	7		178,169,365		161,824,684
3. Investments	8		136,131,246		109,489,744
4. Current Assets, Loans and Advances					
a) Cash and Bank Balances	9	189,434,314		215,030,803	
b) Loans and Advances	10	687,620,244		589,444,764	
c) Sundry Debtors	11	197,118,614		198,183,609	
d) Inventory	12	151,765,107		290,282,165	
		1,225,938,278		1,292,941,341	
Less : Current Liabilities and Provisions	13				
a) Liabilities		594,673,249		475,871,899	
b) Provisions		20,859,912		29,250,625	
		615,533,162		505,122,524	
Net Current Assets			610,405,117		787,818,817
Total			2,599,965,518		2,376,139,937
Accounting Policies and Notes to Accounts	20				

For K.H. RAO & CO.
CHARTERED ACCOUNTANTS

(K. HANUMANTHA RAO)
PROPRIETOR



Membership Number :-024951

MEMBERSHIP No. 024951
Firm Regn. No. 0055073

For and on Behalf of Board
Homeland Energy Group Ltd

Mr. Ashis Basu
Director
Place :- Bangalore

Mr. Raaj Kumar
Director

Homeland Energy Group Ltd
Profit and Loss Account for the period from 1st July to 31st Dec 2010

Particulars	Sch. Ref	July 1st to Dec 31st 2010	Jan 1st to June 30th 2010
		Amount in INR	Amount in INR
I. Income			
Sales		751,715,435	626,831,222
Other Income	14	56,401,720	24,419,977
		808,117,155	651,251,200
II. Expenditure			
Mining and Processing Expenses	15	799,381,170	626,593,572
Administration and Other Expenses	16	144,106,005	126,975,468
Interest and Finance charges	17	78,720,054	60,476,473
Depreciation	18	23,652,516	42,747,779
Losses on Investment	19	8,518,675	7,666,551
		1,054,378,420	864,459,843
III. Profit / (Loss)Loss Before Taxation		(246,261,265)	(213,208,643)
Provision for Taxation			
- Income Tax Recovery		(13,416,840)	-
IV. Profit / (Loss) After Taxation		(232,844,425)	(213,208,643)
Deficit brought forward from Previous Period		(3,059,465,581)	(2,846,256,938)
V. Deficit carried to Balance Sheet		(3,292,310,006)	(3,059,465,581)
Accounting Policies and Notes to Accounts	20		

For K.H. RAO & CO.
CHARTERED ACCOUNTANTS

Hanumantha Rao
(K. HANUMANTHA RAO)
PROPRIETOR

Membership Number :-024951



MEMBERSHIP No. 024951
Firm Regn. No. 005507S

For and on Behalf of Board
Homeland Energy Group Ltd

Mr. Ashis Basu
Director
Place :- Bangalore

Mr. Raaj Kumar
Director

HomeLand Energy Group Ltd
Schedules forming part of the Balance Sheet as at Dec 31,2010

Schedule 1	December 31, 2010	June 30, 2010
	Amount in INR	Amount in INR
Capital		
Authorised Unlimited Number of common Shares with no par value	-	-
Issued and Subscribed 471,204,149 ordinary Shares	3,960,348,861	3,960,348,861
Total	3,960,348,861	3,960,348,861

Schedule 2	December 31, 2010	June 30, 2010
	Amount in INR	Amount in INR
Stock Options Outstanding	11,314,620	17,289,543
Less: Deferred Stock options expense	-	-
Total	11,314,620	17,289,543

Schedule 3	December 31, 2010	June 30, 2010
	Amount in INR	Amount in INR
Reserves and Surplus		
General Reserves	311,811,163	305,836,240
Profit and Loss	(3,292,310,006)	(3,059,465,581)
FCTR	303,209,096	116,718,866
Capital Reserve	210	210
Total	(2,677,289,537)	(2,636,910,265)

Schedule 4	December 31, 2010	June 30, 2010
	Amount in INR	Amount in INR
Secured Loans		
Other than Short Term. form Ned Bank Ltd. Loan is secured by guarantees from, and pledge of shares by, certain group companies and is repayable from September 2009 through December 2013. Loan bears the Interest at the Johannesburg Interbank Agreed Rate of (JIBAR) plus 2.75% per annum prior to company utilising the full facility and at the rate of JIBAR plus 2.50% per annum following completion (as defined in the loan agreement). Undrawn amount are subject to a commitment fees of 0.50% Per annum.	-	872,541,620
Short Term. GMR Energy (Mauritius) Ltd Loan is secured by pledge of certain noncore assets as well as a secondary position with respect to certain assets related to Kendal Colliery that are already subject to a first priority pledge to Nedbank Limited, and is repayable by July 31,2010. Loan bears the Interest at LIBOR + 600 Basis Points .	-	148,592,256
GMR Energy Ltd Loan is secured by pledge of Kendal Colliery, and is repayable by September 30,2011. Loan bears the interest at LIBOR + 450 Basis Points .	1,291,607,452	-
Total	1,291,607,452	1,021,133,875



Homeiland Energy Group Limited

Schedule 6- Fixed Assets

Details of Assets	Gross Block		Depreciation		Net Block	
	as on 30.06.2010	Additions July to Dec	as on 31.12.2010	for the Period July to Dec	as on 31.12.2010	as on 31.12.2010
Mining property, Plant and Machinery	1,344,943,263	375,682,794	1,739,144,227	(18,573,091)	(138,194,720)	1,601,039,508
Motor vehicles	13,362,407	963,723	14,478,749	(380,401)	(5,646,900)	8,831,849
Office Furniture and equipment	3,743,962	5,792,119	10,652,489	(1,984,488)	(6,766,288)	3,886,201
Computer Equipment	8,210,459	4,686,807	13,037,390	(2,210,415)	(11,249,734)	1,787,656
Land and Buildings	31,671,175	2,732,364	34,770,332	(2,880,150)	(2,910,700)	31,859,632
Leasehold improvements	11,093,895	-	11,211,589	(504,115)	(9,556,363)	1,655,226
Conveyor system	26,074,641	1,577,437	27,946,486	(7)	(1,756,748)	26,189,739
Goodwill	-	-	-	-	-	-
Total	1,439,099,803	392,455,245	1,851,251,243	(23,652,516)	(175,991,453)	1,675,259,790



Schedule 5	December 31, 2010	June 30, 2010
	Amount in INR	Amount in INR
Un Secured Loans		
From Others	13,984,122	14,277,923
Total	13,984,122	14,277,923

Schedule 7	December 31, 2010	June 30, 2010
	Amount in INR	Amount in INR
Investments		
Name of the Company	Amount	Amount
Homeland Uranium Inc. (11,888,348 common shares)	45	71,713,741
Aviva Corporation (4,000,000 common shares)	38,176,652	37,775,959
Southern Andes Energy Inc. (4,704,219 common shares)	97,954,548	-
Londoloza Mineral and Mining Brokers (Pty) Ltd (35% Interest, written down to CAD 1 in 2006)	1	44
Total	136,131,246	109,489,744

Schedule 8	December 31, 2010	June 30, 2010
	Amount in INR	Amount in INR
Cash and Bank Balances		
Cash on Hand	681,892	-
Balances with banks other than Scheduled banks		
- On current accounts	161,040,902	203,092,548
- On Deposit accounts	4,105,938	11,938,255
- Others	23,605,583	-
Total	189,434,314	215,030,803

Schedule 9	December 31, 2010	June 30, 2010
	Amount in INR	Amount in INR
Loans and Advances		
Loans and Advances (Unsecured, Considered Good)		
Short term Deposits and Prepayments	10,330,246	-
Loans to group companies	171,089,793	6,335,329
Rehabilitation deposit	747,215	145,676,066
Secured		
Loans to other companies	505,452,989	437,433,369
Total	687,620,244	589,444,764



Schedule 10	December 31, 2010	June 30, 2010
	Amount in INR	Amount in INR
Sundry Debtors (Trade and Unsecured unless stated otherwise)		
Debts outstanding for a period exceeding 6 months:		
Considered good	160,811,399	164,861,250
Considered doubtful	32,192,476	65,972,184
Less: Provision for doubtful debts	(32,192,476)	(65,972,184)
Other Debts:		
Considered good	36,507,215	33,322,359
Considered doubtful	-	-
Less: Provision for doubtful debts	-	-
Total	197,118,614	198,183,609

Schedule 11	December 31, 2010	June 30, 2010
	Amount in INR	Amount in INR
Inventory		
Stock-piled run-of-mine ore	71,713,021	200,150,973
Discards	58,771,018	-
Finished Goods	21,281,068	90,131,193
Total	151,765,107	290,282,165

Schedule 12	December 31, 2010	June 30, 2010
	Amount in INR	Amount in INR
Exploration and Development Properties		
Acquisition Expenditures		
Eloff & Other	67,295,269	61,033,419
Northfield	110,874,097	100,791,265
Total	178,169,365	161,824,684

Schedule 13	December 31, 2010	June 30, 2010
	Amount in INR	Amount in INR
Current Liabilities		
Sundry Creditors:		
Trade payables	448,641,901	413,598,935
Dues to other than Micro and Small Enterprises	-	-
Deposit for future sales	11,359,790	36,180,292
Provision for accrued interest	(483,867)	1,462,850
Provision Leave Liability	2,645,100	3,504,670
Accruals	125,212,416	13,411,909
Accounting and Audit Fees payable	4,500,300	7,055,950
Payroll payable	2,797,609	657,293
	594,673,249	475,871,899
Total	594,673,249	475,871,899
Provisions		
Provision for asset retirement obligations	20,859,912	19,000,609
Provision for Taxation (Lovelute)	-	10,250,016
	20,859,912	29,250,625
Total	615,533,162	505,122,524



Homeland Energy Group Ltd
Schedules forming part of the Profit and Loss Account for the period from 1st July to 31st Dec 2010

Schedule 14	July 1st to Dec 31st 2010	Jan 1st to June 30th 2010
	Amount in INR	Amount in INR
Other Income		
Interest Income	19,251,267	26,885,598
Loss on sale of capital assets	1,663,593	(2,465,621)
Rental Income	4,943,566	-
Gain on Investment	33,564,614	-
Other income	(3,021,320)	-
Total	56,491,720	24,419,977

Schedule 15	July 1st to Dec 31st 2010	Jan 1st to June 30th 2010
	Amount in INR	Amount in INR
Operating Expenses		
Cost of Sales / Purchases	7,029,275	-
Mining Cost	518,364,300	345,079,250
Re-Handle	31,408,706	39,430,621
Salaries	325,890	12,428,933
Washing Cost	27,144,182	54,593,648
Re-Screening	13,627,718	15,051,399
Discard Disposal	16,155,563	9,784,421
Product Handling	17,405,587	9,299,368
Logistics	8,351,135	13,797,588
Engineering - Process	25,099,203	23,781,236
Surveying	(439,426)	2,989,258
Sampling	8,225,936	11,522,573
Royalty	6,008,804	-
Cost of production	678,705,971	528,759,195
Add: Adjustment for opening and closing Inventory	120,675,199	97,834,377
Total	799,381,170	626,593,572

Schedule 16	July 1st to Dec 31st 2010	Jan 1st to June 30th 2010
	Amount in INR	Amount in INR
Administration and Other Expenses		
Management and Administrative salary costs	67,771,647	15,220,286
Office and General		
Insurance	5,104,157	4,974,177
Investor relations and shareholders' information #REF!	4,887,031	5,795,833
	(5,078,085)	-
Office and General Expenses	69,546,521	42,186,849
Rent	5,285,420	7,797,958
Travel and Entertainment	7,245,142	6,522,750
Legal and audit fees	22,829,568	13,097,082
Professional and Consulting fees	21,934,424	28,611,776
Directors' Fees	7,668,109	2,324,689
Transfer Agent and Filing fees	405,237	2,355,342
Foreign exchange fluctuation	(15,960,714)	(13,544,802)
Provision for Doubtful Debts	(47,532,452)	11,633,520
Total	144,106,005	126,975,468

Schedule 17	July 1st to Dec 31st 2010	Jan 1st to June 30th 2010
	Amount in INR	Amount in INR
Interest and Finance Charges		
Interest on Term loans	78,720,054	60,476,473
Total	78,720,054	60,476,473

Schedule 18	July 1st to Dec 31st 2010	Jan 1st to June 30th 2010
	Amount in INR	Amount in INR
Depreciation		
Depreciation	23,652,516	42,747,779
Total	23,652,516	42,747,779

Schedule 19	July 1st to Dec 31st 2010	Jan 1st to June 30th 2010
	Amount in INR	Amount in INR
Losses on Investments		
#REF!	-	-
#REF!	-	-
#REF!	8,368,920	7,666,551
Impairment of Investment in Associates	149,755	-
Total	8,518,675	7,666,551



**Homeland Energy Group Ltd
Schedule 20**

Legal Status and Business Activity

("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, the principal activity of the Company changed to "the acquisition, exploration, development and operation of energy related resource properties" primarily in Southern Africa, but with a broader focus of investigating appropriate opportunities globally. The Company was a development stage entity, as defined by the Canadian Institute of Chartered Accountants Accounting Guideline 11, until September 30, 2009.

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

SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Preparation of Financial Statements:

The financial statements are prepared under the historical cost convention on the accrual basis, in accordance with the Indian Generally Accepted Accounting Principles ("GAAP") and mandatory accounting standards as specified in the Companies (Accounting Standard) Rules, 2006, the provisions of the Companies Act, 1956. Accounting policies have been consistently applied except where a newly issued accounting standard is initially adopted or a revision to an existing accounting standard requires a change in the accounting policy hitherto in use. Management evaluates all recently issued or revised accounting standards on an ongoing basis.

B. Basis of Consolidation:

These Consolidated financial Statements include the accounts of the Company and its subsidiaries. All significant inter- Company transactions and balances have been eliminated. Minority Interest in the Company's subsidiaries has resulted in a non-controlling interest. The Minority interest's proportionate share of net loss of the Company has decreased the non-controlling interest to CAD Nil as of December 31, 2010.

C. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting period. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates

D. Revenue and Expenses Recognition:

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

Interest on investments and bank deposits are booked on a time proportion basis taking into account the amounts invested and the rate of interest.



Homeland Energy Group Ltd
Schedule 20

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

E. Exploration And Evaluation Expenditure

Exploration and evaluation expenditure incurred for potential mineral reserves is recognized and reported as part of "capital work-in-progress"

- when such costs are expected to be either recouped in full through successful exploration and development of the area of interest or
- alternatively by its sale, or when exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or
- Otherwise of economically available reserves and active and significant operations in relation to the area are continuing or are planned for future.

Exploration assets are reassessed on regular basis and these costs are carried forward provided that at least one of the conditions outlined above is met. All other exploration and evaluation expenditure is recognized as expense in the period in which it is incurred.

F. Impairment Of Assets

All the fixed assets including intangible assets are assessed for any indication of impairment at the end of each financial year. On such indication, the impairment (being the excess of carrying value over the recoverable value of the asset) is charged to the profit and loss account in the respective financial year. Recoverable amount is higher of the net selling price of an asset and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value at the weighted average cost of capital.

After impairment, depreciation is provided on the revised carrying amount of the asset over its remaining useful life.

A previously recognized impairment loss is increased or reversed depending on changes in circumstances. However the carrying value after reversal is not increased beyond the carrying value that would have prevailed by charging usual depreciation if there was no impairment.

G. Fixed Assets :

Property, plant and equipment is recorded at cost less accumulated amortization. The Company provides for amortization on a straight line basis using the following rates, designed to amortize the cost of the assets over their estimated useful lives:

Mining Property, Plant and Equipment	Unit of production basis over reserves
Motor vehicles	5 years
Office furniture and equipment	3 to 5 years
Computer equipment	3 years
Buildings	3 years
Leasehold improvements	5 years
Conveyor system	5 years



Homeland Energy Group Ltd
Schedule 20

H. Borrowing cost:

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset are capitalized as part of the cost of that asset till the date of capitalization of qualifying asset. Other borrowing costs are recognized as expenses in the period in which they are incurred.

I. Employee Benefits

There are no benefits other than employee health insurance plans to the employees.

J. Stock Based Compensation

Under the Company's stock option plan, stock-based compensation awards are available to officers, directors, employees and consultants. All stock-based payments have been accounted for using a fair value-based method of accounting. The fair value of each stock option granted is accounted for in operations, over the vesting period thereof, and the related credit is included in Stock Options Outstanding account. If and when the stock options are ultimately exercised and common shares are issued, the proceeds of exercise and Stock options outstanding account will be transferred to capital stock. Upon the expiry of Options the amount representing the value of expired options is transferred to General Reserves. The fair value is calculated using the Black-Scholes option pricing model, which was actually developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, the option pricing model requires the input of highly subjective assumptions, including the expected price volatility and anticipated term. Changes in these highly subjective input assumptions can materially affect the fair value estimate. For these reasons the model does not necessarily provide a reliable measure of the fair value of the Company's stock-based compensation or granted stock options.

K. Leases

Where the Company is the lessee

Finance leases, which effectively transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the lower of the fair value and present value of the minimum lease payments at the inception of the lease term and disclosed as leased assets. Lease payments are apportioned between the finance charges and reduction of the lease liability based on the implicit rate of return. Finance charges are charged directly against income. Lease management fees, legal charges and other initial direct costs are capitalized.

If there is no reasonable certainty that the Company will obtain the ownership by the end of the lease term, capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased item, are classified as operating leases. Operating lease payments are recognized as an expense in the Profit and Loss account on a straight-line basis over the lease term.

L. Inventory :

Material and supplies expected to be used in production are valued at the lower of average cost and realizable value. Stock-piled run-of-mine ore inventory is valued at the lower of average



Homeland Energy Group Ltd
Schedule 20

production cost and net realizable value. Finished goods inventory which consists of coal which is available for sale is valued at the lower of average production cost and net realizable value. Production costs include the cost of raw materials, direct labor, mine site overhead expenses, amortization of mining property, plant and equipment

M. Investments:

Investments that are readily realizable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long-term investments. Long term investments are carried at cost less provision made to recognize any decline, other than temporary, in the value of such investments. Current investments are valued at cost or market value whichever is lower. Cost of acquisition is inclusive of expenditure incidental to acquisition.

Gains/losses, on investment in futures, both equity and index, being the difference between the contracted rate and the rate on the settlement or sale date, whichever is earlier, are recognized in the Profit and Loss Account on settlement/sale. The open contracts as at the year-end are marked-to-market and the resultant loss, if any, is charged to the Profit and Loss Account.

N. Foreign Currency Transactions:

Financial Statements Translation

Functional Currency of Homeland Energy Group Ltd is Canadian Dollar, the Financial Statements of Homeland Energy group Ltd has been prepared for consolidation purposes, the financial statements of HEG had been converted into Indian Rupees Currency.

The Canadian Dollar is the functional currency of the Company and its subsidiaries. The Company considers its Mauritius, South African and Botswana operations to be nonintegrated operations. As such, all assets and liabilities of the Company's foreign operations denominated in a currency other than the INR are translated into INR at the exchange rate prevailing as at the balance sheet date. Revenue and expenses are translated at the average exchange rates prevailing during the year, with the exception of depreciation and amortization which is translated at historical rates. Exchange gains and losses on translation are included in the Foreign Currency Translation Reserve.

O. Taxes on Income:

Tax expense comprises both Current tax and deferred tax at the applicable enacted or substantively enacted rates. Current tax represents the amount of Income tax payable in respect of the taxable income for the reporting period. Deferred tax represents the effect of timing difference between taxable income and accounting income for the reporting period that originate in one period and are capable of reversal in one or more subsequent periods. Deferred tax assets are recognized only to the extent that there is reasonable certainty that sufficient future taxable income will be available to realize these assets.

P. Contingent Liabilities:

Contingent liabilities, if any, are disclosed by way of Notes on accounts. Provision is made in the Accounts in respect of those contingencies which are likely to materialize into liabilities after the year end, till the approval of accounts by the Board of Directors and which have material effect on the position stated in Balance sheet.



Homeland Energy Group Ltd
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Q. Cash And Cash Equivalents :

Cash comprises cash at Bank. Cash equivalents are short term, highly liquid investment that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

R. Provisions :

Provisions are recognized when the company has a present legal or constructive obligation as a result of past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

NOTES TO ACCOUNTS

1. Nature of Business:

Homeland Energy Group Ltd. ("Homeland" or the "Company") was incorporated under the Canada Business Corporations Act on October 12, 2006. The Company is currently engaged in 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.

2. Secured Loans:-

The Company entered into a Term Loan Facility Agreement signed September 29, 2008, with Nedbank Limited to finance the development of a mine at the Kendal property in South Africa. The Facility is secured by guarantees from, and pledges of shares by, certain group companies and is repayable from June 2010 through September 2014. Amounts drawn down under the Facility bear interest at the Johannesburg Interbank Agreed Rate of ("JIBAR") plus 2.75% per annum prior to the Company utilizing the full Facility, and at the rate of JIBAR plus 2.50% per annum following completion (as defined in the Facility). Undrawn amounts are subject to a commitment fee of 0.50% per annum. During the year, the company repaid the Ned Bank credit facility in full.

On November 30, 2009, the Company signed a promissory note in relation to a loan from GMR Energy (Mauritius) Limited to the Company of CAD \$4,996,928(USD 4,790,000). The funds were used to satisfy, in part, the Company's requirement under the Nedbank amendment to raise ZAR 70,000,000 by January, 2010. This loan was due March 31, 2010 and was subsequently deferred to July 31, 2010 and bears interest at LIBOR plus 600 basis points. The loan is secured by a pledge of certain noncore assets as well as a secondary position with respect to certain assets related to the Kendal Colliery that are already subject to a first priority pledge to Nedbank Limited. On January 15, 2010, GMR Energy (Mauritius) Limited advanced a further sum of CAD 2,996,212(USD 2,920,000.00) bringing the total advanced to the Company to CAD 7,993,140(USD 7,710,000). During June 2010, a further CAD 3,521,997(USD 3,178,000) was advanced bringing the total advanced to the Company to CAD 11,515,137 (USD 10,888,000). During the year, the entire balance of all three tranches including interest was repaid.

On September 27, 2010 the Company signed a promissory note with GMR Energy Limited for USD 29 Million(INR 1,291,607,452 Approx.), bearing interest at LIBOR plus 4.5% p.a., calculated monthly and paid quarterly, with the entire amount due on September 27, 2011. The loan is secured by way of a pledge of operating assets as well as noncore assets related to the



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Kendal colliery as well as the Northfield Property. The loan is guaranteed by several subsidiaries of the Company.

The Management is in the process of negotiating a credit facility of up to CAD 50 million from financial institutions to repay the GMR Energy Loan of USD 29 million when it falls due for repayment in September 2011. The funds will also be used to support the development of the Kendal and Eloff mines and for working capital requirements for HEG and its subsidiaries in South Africa.

3. Loans and Advances:-

In May 2008, Homeland funded a loan to aid a private Black Economic Empowerment ("BEE") company in South Africa to purchase 26% of Ferret Coal (Kendal) (Pty) Ltd. ("Kendal"). The loan bears interest at the South African prime overdraft rate with the related equity interest in the Kendal Mine pledged as security for the loan. Repayment of the loan will take place out of dividends or other payments accruing to the borrower in respect of the Kendal Mine, or out of the proceeds of their disposal to a third party purchaser in terms of the loan agreement. The Company's minority BEE partner will be entitled to future earnings based on their respective ownership of shares, but only once this loan account plus interest has been paid. Any outstanding balance on the loan will be repaid to Homeland in 20 years.

Homeland has advanced a loan to Madic Operations (Pty) Ltd. ("Madic"), in order to capitalize the development of a continuous conveyor system for the mining industry. As part of this agreement, Homeland has acquired 45% of Madic at nominal value, and has simultaneously granted a call option in terms of which it could be compelled to sell 10% (the "Option Shares") back to the vendor at its then market value (including a proportionate interest in any loan account at face value). Should this option be exercised, Homeland would have the further option, in lieu of selling the Option Shares, to pay the market value of the Option Shares to the vendor at that time and retain the shares. Homeland is entitled to appoint one of the two directors of Madic.

Madic is a jointly controlled entity for Homeland. Included herein is the carrying value as at December 31, 2010 of the other venturer's share of the loan amounting to INR 29,819,450. Madic shall repay the loan, plus interest calculated at a rate of 5% p.a., within a period of two years from the date the conveyor system is successfully installed; failing which interest shall accrue at the prime rate of interest until payment in full. In terms of this loan agreement, Homeland is entitled, but not obligated, to purchase at cost a maximum of four Madic continuous conveyor systems."

The Company entered into loan and share purchase option agreements with Numin (Pty) Ltd. ("Numin"), a company associated with Madic that is implementing the Madic system. This loan bears interest at the prime lending rate less 1% and is repayable within one year of the of the Madic system being operational. Homeland has been granted an option, for a period of three years, to purchase 20% of the issued share capital in Numin for a nominal value of ZAR 1 per share. The carrying value of the loan at December 31, 2010 is INR 41,414,815.

Homeland has advanced a loan to Tshedza Mining Resources (Proprietary) Limited and Nhlalala Mining (Proprietary) Limited, both of which are jointly controlled entities for Homeland. Included herein is the carrying value as at December 31, 2010 of the other venturer's share of the loan amounting to INR 81,191,227 in respect of Tshedza Mining Resources (Proprietary) Limited and INR 11,080,622 in respect of Nhlalala Mining (Proprietary) Limited.

4. Stock Based Compensation

The Company has provided various share-based payment schemes to its employees as well as non-employees. During the period ended December 31, 2010, the following Stock option scheme was in operation:



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Date of grant	10.02.2009	16.12.2009
Number of options granted	3,500,000	5,545,000
Method of Settlement (Equity/Cash)	Equity	Equity
Vesting Period	5 Years	5 Years
Exercise Period	5 Years	5 Years
Vesting Conditions	Terminates after 90 days from cessation of employment	Terminates after 90 days from cessation of employment

The details of activity under Stock Options have been summarized below:

	Dec 2010	
	Number of options	Weighted Average Exercise Price(CAD)
Outstanding at the beginning of the Period	6,461,250	0.13
Granted during the Period	-	-
Forfeited during the Period	-	-
Exercised during the Period	-	-
Expired during the Period	2,211,250	0.95
Outstanding at the end of the Period	4,250,000	0.14
Exercisable at the end of the Period	4,250,000	0.14

Weighted average fair value of options granted on the date of grant is CAD. 0.06 (June 2010 CAD. 0.06)

The details of exercise price for stock options outstanding at the end of the Period ended:-

December 31, 2010			
exercise price Per Share	Number of options outstanding	Weighted average remaining contractual life of options (in years)	Weighted average exercise price
0.20	765,000	3Yrs 2 Months	0.12
0.12	3,485,000	3 Yrs 11 Months	0.05
Total Weighted Average Exercise Price		0.06	



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Stock Options granted

The weighted average fair value of stock options granted during the period was CAD Nil (June 2010 CAD Nil). The Black Scholes valuation model has been used for computing the weighted average fair value considering the following inputs:

	Dec 2010
Weighted average share price	0.06
Exercise Price	0.13
Expected Volatility	71
Life of the options granted (Vesting and exercise period) in years	1.50
Expected dividends	0
Average risk-free interest rate	3.60
Expected dividend rate	0

The expected volatility was determined based on historical volatility data; historical volatility includes early years of the Company's life; the Company expects the volatility of its share price to reduce as it matures. To allow for the effects of early exercise, it was assumed that the employees will exercise the options one and half year after the vesting date.

5. Leases

- a. In 2005, the company entered into a five year non-cancelable lease agreement for office space in Toronto. This agreement was amended in the current year to include an additional three years. The lease rent for this lease is included in Schedule 16. The gross annual lease commitments in respect of this non-cancellable lease are as follows:

	Particulars	Amount (CAD)	Amount (INR)
i)	Payable not later than one year	91,127	4,080,650
ii)	Payable later than one year and not later than five years	182,253	8,161,300
iii)	Payable later than five years	0	0

- b. In 2008, the company entered into a 4.5 year lease agreement for office space in London, England. The lease rent for this lease is included in Schedule 16. The gross annual lease commitments in respect of this non-cancellable lease are as follows:

	Particulars	Amount (CAD)	Amount (INR)
i)	Payable not later than one year	136,407	6,108,323
ii)	Payable later than one year and not later than five years	687,729	30,796,490
iii)	Payable later than five years	432,201	19,353,983

- c. Apart from the above, the company has certain office equipment on lease (telephone lease lines, photocopier machine etc.). The gross annual lease commitments in respect of these non-cancellable operating leases are as follows:

	Particulars	Amount (CAD)	Amount (INR)
i)	Payable not later than one year	12,615	564,897



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ii)	Payable later than one year and not later than five years	11,857	530,974
iii)	Payable later than five years	1,160	51,967

6. Related Party transactions:-

On November 30, 2009, the Company signed a promissory note in relation to a loan from GMR Energy (Mauritius) Limited to the Company of CAD \$4,996,928(USD 4,790,000). The funds were used to satisfy, in part, the Company's requirement under the Nedbank amendment to raise ZAR 70,000,000 by January, 2010. This loan was due March 31, 2010 and was subsequently deferred to July 31, 2010 and bears interest at LIBOR plus 600 basis points. The loan is secured by a pledge of certain noncore assets as well as a secondary position with respect to certain assets related to the Kendal Colliery that are already subject to a first priority pledge to Nedbank Limited. On January 15, 2010, GMR Energy (Mauritius) Limited advanced a further sum of CAD 2,996,212(USD 2,920,000.00) bringing the total advanced to the Company to CAD 7,993,140(USD 7,710,000). During June 2010, a further CAD 3,521,997(USD 3,178,000) was advanced bringing the total advanced to the Company to CAD 11,515,137 (USD 10,888,000). During the year, the entire balance of all three tranches including interest was repaid.

7. Investments:

On December 15, 2010, pursuant to a reduction in capital initiative, HUI distributed share dividends of Southern Andes Energy Inc. ("Southern Andes") to all their shareholders on the basis of a distribution ratio of 0.3957 for each common share held by shareholders of HUI. Shareholders were not required to pay for the Southern Andes shares that they received pursuant to the distribution nor were they required to surrender or exchange common shares of HUI in order to receive the Southern Andes shares. As a result of the distribution, the company acquired 4,704,219 common shares of Southern Andes. This investment has been classified as 'available-for-sale' securities.

8. Segment Reporting

The company is engaged primarily in the business of the acquisition, exploration, development and operation of energy related resource properties. As the basic nature of the activities is governed by the same set of risk and returns these have been grouped as a single business segment. Accordingly separate primary and secondary segment reporting disclosures as envisaged in Accounting Standard (AS-17) on Segmental Reporting issued by the ICAI are not applicable to the present activities of the company.

9. Subsequent Events

In the month of February 2011 the Company has received a bridge financing Loan from GMR Energy Limited of USD 5 Million. The Loan bears interest Libor +450 basis points.

In February 2011, a former contractor of the Company filed a claim against the Company for approximately \$6,800,000 to be settled on completion of his contract on March 31, 2011. Included in accounts payable is \$5,313,234 relating to this supplier account. Management has adequate plans to pay the outstanding amount of \$5,313,234 and intends to defend its position vigorously for the disputed amount of approximately \$1,500,000. At this point, management does not believe any additional amounts would be due and payable



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to this contractor relating to previous works done and cannot reasonably predict the likelihood or outcome of this case at this time.

10. Commitments and Contingencies:-

Environmental Contingencies

The Company's mining and exploration and development activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company 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.

Management Contracts

The Company is not party to any outstanding agreements with officers that contain change of control clauses pursuant to which officers would be entitled to termination payments under certain circumstances. A change of control is defined as inter-alia the acquisition of 30% or more of the Company's issued and outstanding shares.

Claims against the Company

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

For K.H. RAO & CO.
CHARTERED ACCOUNTANTS
K. Hanumantha Rao
(K. HANUMANTHA RAO)
PROPRIETOR



For On Behalf of Board

Ashis Basu
Mr. Ashis Basu
Director
Date:
Place: - Bangalore

Raaj Kumar
Mr. Raaj Kumar
Director

Membership Number

MEMBERSHIP No. 024951
Firm Regn. No. 005507S