

Bi-ENERGY ALERT

Volume 1, Issue 3
January 31st, 2008

From the President's Desk

By Robert Ferguson, President



Welcome to 2008, and a short look back to calendar year end 2007. HLBE ended the year with very close to 13 million gallons of ethanol produced from our first grind on September 21st, 2007. Taking into consideration startup activities, and the intricacies of new plant characteristics, ethanol production was respectful, and we have entertained very positive comments on our distiller's dry grains from the end users. Margins on both products have moved in a positive direction, with distillers values following corn prices and ethanol prices and demand being boosted by crude oil prices and blending margins. On that note, HLBE shipped its first 74 car unit train of ethanol to the east coast on the 19th of January.

HLBE's ability to have ownership of corn feedstock ownership thru our elevator facilities at Lakefield and Wilder has allowed HLBE to maintain corn coverage for grind at prices below the current cash prices bid today for the first quarter and into the second quarter of 2008. No one knows where the weather and world economics will take the commodities, but our Risk Management/Grain Committee will be constantly monitoring margin potential to capture ethanol margin for the company.

Speaking of margins, CFO Jim Gerber reported in his column that November margins are positive and preliminary December margins look very good, but until all accounting is completed and audited, we will review that number with preliminary unaudited first quarter results, along with our audited 2007 fiscal year end results at the Annual Meeting on March 29th, at the Heron Lake Community Center.

We have received calls from several investors pertaining to dividends if HLBE continues to be profitable thru 2008. First of all, I want to reiterate that HLBE loan provisions with our lenders pertaining to dividend distributions are defined in the covenants of the loan agreement. If HLBE continues to meet said covenants and working capital requirements thru October 31st, 2008, our fiscal year end, and upon Lender approval, HLBE could pay cash dividends/distributions in an amount not to exceed, in the aggregate, 65% of HLBE's Net Income defined by our audited October 31st, 2008 fiscal year end. Considering the timing of finishing the October 31st year end financials for audit, obtaining approval from our lenders and the Board of Governors for the distribution, I would anticipate this distribution in early 2009.

At the January 9th Board of Governors meeting, HLBE accepted the resignation of Darv Oelke, the site Manager for our Lakefield and Wilder locations. Darv is making a career change, and purchased a Resort near Deer River in Northern Minnesota. HLBE was fortunate to retain Darv's energies in the Lakefield and Wilder acquisition two years ago, and we wish him success in his new adventure. We are currently in the process of hiring a replacement for Darv's position. Good luck, Darv.

In closing, HLBE continues to look for efficiencies in the operations of the plant, and overall margins in the Company. Please plan on attending our Annual Meeting on March 29th at the Heron Lake Community Center, if you so choose. The mailing for the annual meeting will be sent the first week of March.

Board of Governors

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Treasurer
- **David Bach**
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- **Milton McKeown**
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- **Dave Reinhart**
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- **Brian Thome**
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CFO's Corner



By James A. Gerber, Chief Financial Officer

This article will include an update of items mentioned in the October newsletter and then a discussion about current issues.

October Newsletter Update –

SEC Filing – In October, we discussed the timing of the SEC filing. At that time, the filing was scheduled to be in November. Subsequent to the issuance of the newsletter, legal counsel involved in the filing determined it would be beneficial to file with fiscal year end financial results rather than using results through July. As a result, the filing will be made when the final fiscal year end audited numbers are available.

Financing Package – Our short term money loan package was discussed in October. The package was renewed in November. As a result of this renewal, it will not be necessary to address this issue again until the fall of 2008. The package was renewed with the line of credit set at \$7,500,000. The interest rate is variable.

Current Issues –

Fiscal 2007 Audit – Your company's year end for financial reporting is October 31st. The independent auditors have completed their fieldwork and are currently reviewing the financial statements for issuance. Due to the hiring of personnel in April and May in anticipation of a June startup, not starting up until late September due to construction and permitting delays, and then encountering normal and abnormal inefficiencies in startup, our financial results for fiscal 2007 will be a loss.

Fiscal 2008 Financial Results – We have internally completed the November 2007 financials. We are happy to report a \$481,785 income for November.

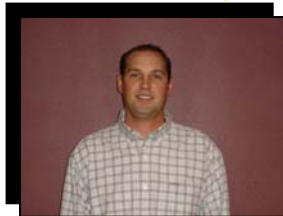
Cost Segregation Study – Heron Lake BioEnergy has engaged an independent party to assist in the allocation of your company's investment in the plant to the proper categories – Land Improvements, Buildings, Equipment, etc. This breakdown is very important. It will determine future depreciation calculations.

Schedule K-1 Issuance – Although K-1's are not legally required to be issued until April 15th, this certainly is not a practical date to consider. In order to accommodate our farmer investors, it is our goal to issue the K-1's around February 15th, 2008.

Based on conversations with some investors, there is one misconception we need to address. The procedure to produce a K-1 is not like producing a Form 1099. Form 1099 information is generated from payments made during a calendar year. This is a simple process. On the other hand, HLBE's Schedule K-1 information is generated from the financial results for a calendar year. The compilation of this financial information takes time internally and then we need to coordinate the preparation of the Company's Form 1065 and related Schedule K-1's with external personnel. This procedure requires timing and coordination.

Thank you for your time. Call me at 507.793.0077 or email me at jimg@heronlakebioenergy.com with your comments or concerns.

Commodity Central



By Tyronne Bialas, Risk Manager / Grain Procurement Manager

WOW! When was the last time you saw the corn market move \$1.50 in three months? Even the rally in 1996 took longer

than three months to change that much. But that is what has happened with the culmination of the January USDA Crop Report. The USDA drastically raised feed use 300 million bushels and lowered the 2007 corn production by 94 million bushels. This ultimately lowered the 2008 (Sept. 1) carryout by 359 million bushels.

Looking back to 2002/2003 and 2003/2004 for comparison years, in 2002/2003, we had a 1,087 million bushel carryout with a stocks/use ratio of 11.4%. In 2003/2004, it was a 958 million bushel carryout with a stocks/use ratio of 9.4%. This year, we are at a 1,438 million bushel carryout with a stocks/use ratio of 11.1%.

So why are we looking at \$4.76 corn when in those two prior years referenced we struggled to get to \$3.00 for a period longer than 2 1/2 months? Two words: Index Funds. They have drastically impacted the crude oil complex and have even jumped to the commodity side. Do you have a guess where Crude Oil futures were on Sept. 15th, 2003? They were \$27.03. In four years and four months, that futures price has increased by more than 332% to about \$90 per barrel.

As long as funds are invested, it should be safe to say we'll maintain higher energy prices and higher commodity prices. Our Risk Management/Grain Committee will continue to look for pricing opportunities to capture ethanol margins that will have positive returns to you, the investor.

We have had the luxury of utilizing space at Lakefield and Wilder, and at a time like this, that has allowed us to save on corn costs by owning bushels earlier. The good news is that with this big corn rally, we've seen ethanol follow suit to the tune of about 45 cents per gallon. Every day, markets change, so I don't want to write down any price received for ethanol because by the time you read this, it will have changed.

As a reminder, remember to get the orange scan card prior to delivering corn to the plant. You can obtain those in the main office.

Lastly, we held a marketing meeting with the Heron Lake State Bank at the Community Center in Heron Lake on Wednesday, January 23rd and had a nice turnout. HLBE had a representative from FCStone talk about contracting alternatives and a rep from Northstar Commodity, who gave a market outlook. Watch for details on our website, as we plan on hosting more of these meetings in the future. (See picture on back page.)

****PLEASE NOTE: WE NO LONGER HAVE A POST OFFICE BOX NUMBER.**

OUR PERMANENT ADDRESS IS:
91246 390TH AVE.

Corey's Vista



By Corey Aanenson, Plant Manager

Heron Lake BioEnergy is wrapping up four full months of operations. In every month of operations, we have been becoming more efficient; increasing ethanol production, minimizing our input cost, and working out startup bugs. The efficiency of the plant is always being looked at to improve operations, maximize our gallon per bushel and reduce our inputs. The more we improve efficiencies the better the facility runs, stays clean, and improves quality control. We have also been trying to reduce our input cost. By this, I mean maximize our effectiveness of chemicals that we are using and not overdosing or using more than we have to.

Start-up bugs are still lingering around the facility. Most of them are in the boiler / energy center area. We have worked a lot of issues out of the facility, but the ones that are remaining are taking more planning and down time to accomplish. We are pursuing the remaining issues in the facility and hope to have most of them worked out come spring / summer.

We did have a problem with the boiler combustor that took the facility down. We all pulled together and worked hard to fix it. The effort, response, and teamwork was outstanding. I want to thank everyone that helped to make that shut down as short as possible. We did an excellent job in keeping the whole facility from having anything freeze during the below freezing weather conditions.

Heron Lake BioEnergy relies on corn as its feedstock and specifically, the fermentable starch found therein. The grain we receive here is a very important part of our operation as it is the starch contained in each kernel of corn that directly affects alcohol yield. Because of the importance of starch, we are setting ourselves up to monitor starch levels in incoming grain. We will be pulling a representative sample to determine starch levels of the corn coming in all the way to the Wet or Dry feed that we are selling. We are in the process of acquiring lab equipment that will improve our ability for an accurate determination of the starch level. Additionally, this equipment will help us monitor process control and the quality of the distiller's dried grains. This information will then be used to make process changes optimizing chemical and energy usage within the plant. Results will include an increasing alcohol yield and production of a more highly desirable distiller's dried grains.



Corn Receiving Hours

**Monday - Friday
7:00 a.m. – 4:30 p.m.**

By-Product Loading

**Monday - Friday
7:00 a.m. – 4:30 p.m.**

(Tentative Schedule)



Rusty Krentz, Lab Manager

My name is Rustan Krentz, and I am the Quality Control Lab Manager at Heron Lake BioEnergy. I am originally from Walnut Grove, MN, and graduated from Westbrook-Walnut Grove High School in 1998. I received my Bachelor's Degree from Iowa State University with a double major in Biology and Environmental Studies, and my Master's Degree in Environmental Biology from the University of South Dakota, where my thesis project focused on prairie restoration.

I live on a small farm near Jeffers, MN. In my spare time I enjoy playing volleyball and softball, hunting, fishing, and attending Minnesota Twins baseball games. During the fall, I am also an assistant high school volleyball coach at Red Rock Central.

Before coming to HLBE, I was employed as a quality control lab technician in the soybean processing/biodiesel industry at Minnesota Soybean Processors in Brewster, MN. I also worked as a lab technician for the USDA Corn Insects and Crop Genetics Research Unit in Ames, IA, where we were working on sequencing the soybean genome, and as a research assistant at Iowa State University for the Plant Pathology/Epidemiology Unit.

Here at Heron Lake BioEnergy, my main duties are to test our products to assure that they meet or exceed industry standards and requirements. We conduct testing throughout the entire ethanol production process, from incoming grain to finished ethanol, to monitor ethanol levels, moisture content, acid levels, and sugars to make sure we are producing as much ethanol as possible from each bushel of corn. We also look at the data to see if there are any changes we can make or areas we can improve our overall plant efficiency. We test and certify each batch of outgoing ethanol daily to confirm that all industry requirements are met, and copies of this certification accompany each outgoing load. In addition to testing the ethanol and DDGS, we also do some monitoring of the plant water and discharge water.

Bio Bits

*Higher grocery prices have more to do with \$3.50 per gallon fuel than with \$3.50 per bushel corn - crude oil at nearly \$80 per barrel makes it more expensive to process, package, and ship everything... including groceries.

*Processing, packaging, and transportation make up 80% of the real cost of food. Source: ACE Ethanol

Please make sure HLBE has your current and correct mailing address and email address!



**“Integrating
Energy & Environment”**

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Heron Lake, MN 56137 Fax: 507.793.0078
E-mail: info@heronlakebioenergy.com
OFFICE HOURS - 8:00 a.m. to 4:00 p.m.



**We're on the web:
www.heronlakebioenergy.com**

January 23rd, 2008 - HLBE held its first marketing meeting last Wednesday at the Heron Lake Community Center. The meeting was held to talk about grain outlooks with local producers and to answer questions.

****NOTICE****

The HLBE ANNUAL MEETING is scheduled to be held on Saturday, March 29th at 1:00 p.m. at the Heron Lake Community Center. A notice will be sent out to the investors.

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