

# Bi-ENERGY ALERT

Volume 2, Issue 3  
April, 2008

## From the President's Desk

By Robert Ferguson, President



Welcome to the second newsletter of 2008. To those who attended our Annual Meeting on March 29th in person or forwarded your proxy to vote your preferences, thank you for your interest in your investment in Heron Lake BioEnergy. The annual meeting was well attended, and I hope the chronology from inception to the present day provided the membership insight to the significant challenges and hurdles HLBE went through to become a reality and bring the plant into operation.

The first quarter of fiscal 2008 has provided solid financial results, which Jim Gerber will provide in his report. The ability to originate and store corn in our elevator facilities at Lakefield and Wilder has enhanced our ability to keep the average price of corn below current market levels, along with the rebound of ethanol prices, has allowed margins to remain positive and we hope this trend continues thru the balance of 2008.

Several projects that will be moving forward in the next month will be the completion of the acceleration and turning lane extensions on Trunk Hwy. 60 at the intersection with County Road 24. This project is a MnDOT requirement with the State of Minnesota and will be completed by June 29th, prior to the 4th of July. The Contract was awarded to Southern Minnesota Construction from Mankato for a total cost of \$474,000. Other small site improvements will include small areas of hard surfacing to facilitate cleanup around the wet cake pad and also around the boiler area. Funds for these projects were retained from the USDA Rural Development Loan we received through Federated REA in Jackson. Other areas of energy savings and efficiencies will be explored as we move through the year.

The employee base at HLBE should be commended for their efforts at maximizing production and efficiency at the plant. We experienced several shutdowns in the very cold part of winter, and in both occasions, none of the plant facilities experienced frozen equipment or pipe damage. Thanks to all of our dedicated employees for their efforts. On that note, I would like to welcome Brent Pavelko, our new Environmental Health and Safety Coordinator, Carol Larson, our Human Resources and Employee Benefits Coordinator, and John Bandy, our Maintenance Manager. These employees bring experience in their respective fields and will be positive additions to our Company.

Small areas of dirt work and cleanup will be completed on the plant grounds, with seeding to follow on critical areas. **Please mark your calendar for our Open House, which will be held on August 23rd.** We anticipate a large turnout and will provide future updates in the next newsletter.

As this newsletter goes to print, it is obvious that we are experiencing different weather patterns than in the last 4-5 years, with delayed planting becoming more prevalent as we look at the calendar. I am sure the farmers will be working diligently, when conditions permit, to plant their corn and soybean intentions. For all that are involved in production agriculture, please work safe and recognize the conditions around you. We have lost several members to farm accidents in the past four years. Thank you to all the farmers and elevators that have chosen to market your corn to Heron Lake BioEnergy. Your support of the plant is important in our long range viability.

## Board of Governors

- **Robert Ferguson**  
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## CFO's Corner



By James A. Gerber, Chief Financial Officer

Welcome! For those investor's who attended HLBE's first Annual Meeting, some of this article's information will be repetitive. For those who were not able

to attend, we would like to update you on what has been happening in connection with the financial side of your business.

### January Newsletter Follow Up -

SEC Filing - This is a work in process. The currently scheduled completion date is to internally sign the Form 10 on May 7th and then file.

Cost Segregation Study - This study was completed in February. This process of allocating our fixed asset investment went smoothly. The ease of this process was due to the dedicated construction period efforts of Charlie Worm. If you run into Charlie, tell him thanks.

Schedule K-1 Issuance - Our goal was February 15th. We did not quite make that deadline. The schedules were mailed out on February 20th and 21st. The goal next year is February 10th.

### Financial Results -

As indicated in the January newsletter, Heron Lake BioEnergy was anticipating a fiscal 2007 loss due to the plant not starting to grind until September 21st, 2007. We simply did not have a final number available to report when the January newsletter was printed. When completed, the Company's financials showed a \$5,448,286 loss for the year ended October 31, 2007.

By the annual meeting date, HLBE was able to present an internally generated Statement of Operations net income of approximately \$4,655,000 for the first quarter ending January 31, 2008. I also indicated at the meeting net income may even be better pending resolution of a decision on depreciable lives for some of the Company's fixed assets. This decision has been made and accepted by Heron Lake BioEnergy's external auditors. Based on this decision, an adjustment has been made to the internal statements. The first quarter results have been adjusted to report a net income of approximately \$5,200,000, an increase of \$545,000 to the amount reported at the annual meeting. The final quarterly review has not been issued by our independent auditors.

Internal February financials have also been completed. The Statement of Operations is reporting a year to date net income of approximately \$7,500,000.

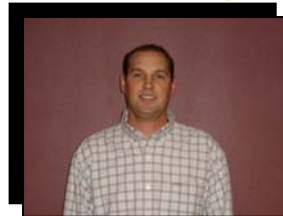
Preliminary results from March are positive. When final net income is determined, we anticipate the results to approximate a \$1,500,000 net income for the month.

### Interest Rate Decision -

Heron Lake BioEnergy has been watching Libor interest rate changes. Since HLBE's primary debt Libor related interest rate is variable and our term debt load is in excess of \$59,500,000, this is very important to track. A change of 1% in the rate affects the net income by \$595,000 per year

(CFO's Corner continued on next column)

## Commodity Central



By Tyronne Bialas, Risk Manager / Grain Procurement Manager

Since the Jan. 11th report, the USDA left this year's carryout alone @ 1.438 billion bushels... until the April 9th report. The

USDA cut the carryout by 155 million bushels down to 1.283 billion. That is a stocks/use ratio of 9.8%.

The biggest reason for our carryout being cut down that much is ethanol demand and exports. Ethanol demand is pegged at 3.1 billion bushels, and exports are a whopping 2.5 billion. And, as usual, feed and residual is the biggest use. This year that demand number is 6.150 billion....more than 47% of what the US produced last year.

Now, our challenge will be to make sure we have enough acres planted this year and bushels grown this summer to fulfill the demand in '08-'09. In the face of very tight bean supplies (and therefore high prices) and the high input cost of corn production, bean acres are expected to gain 11.162 million acres this year. That's an increase of 17.5%. So, that will mean less corn acres getting planted this year; about 8% less than last year. The USDA is anticipating 86.014 million acres of corn being planted on their March 31st report.

Add to that what appears to be the challenge of a wet spring. As of April 21st, the US is usually 17% planted on a 5 year average. This year, we were only at 4%. Last year was a rather wet spring as well, and we were 9% planted on April 21st. We are rapidly approaching a point where we need a few windows to get this crop in the ground. If we continue this wet pattern, it will only magnify the importance of perfect weather during pollination.....and no early frosts.

As mentioned at the annual meeting on March 29th, we had about four months of corn secured, with two more months secured for fall and forward, and corn options in place for two additional months grind to protect us against rising prices.

Our risk and grain committee continues to meet regularly and discuss strategies that we feel would best lock-in opportunities for profit, and minimize future price swings.

And again, make sure you obtain the orange scan cards before delivering corn to the plant.

(continued from CFO's Corner)

based on the current outstanding principal. Rates have varied from a high of 9.07% to a current low of 6.25%. An option is available to fix the interest rate. A decision was made in late April to fix the rate on \$45,000,000, which is approximately 75% of the term debt. Doing this protects Heron Lake BioEnergy against interest rate increases on a significant portion of its term debt and yet allows the capture of a decrease against a portion of the debt. Recent developments indicated that the Libor rate is increasing.

Thank you for your time. Call me at 507.793.0077 or email me at [jimg@heronlakebioenergy.com](mailto:jimg@heronlakebioenergy.com) with your comments or concerns.

## People's Voice



**By Carol Larson, Human Resources & Organizational Development**

Hello everyone.

My name is Carol Larson and I am originally from Heron Lake, MN. My parents and family

members continue to farm in the area and although I currently reside in the Twin Cities, where I provide employers with human resource consultative services, my heart remains with the small employer in the rural community.

I have been informally partnering with HLBE in the capacity of human resources and organizational development over the past several years and was recently invited by the board to design HR strategies and processes that align with their organizational values, mission and business objectives. I have a passion for my job and providing services linked to business strategy, change management, HR services and employee commitment and satisfaction.

Our goal is to be the employer of choice and our people make all the difference. Our corporate values and commitment is to create an environment that is safe, fosters teamwork, encourages growth and on-going development, instills a sense of ownership and that each employee is valued, rewarded and recognized for their efforts and accomplishments.

Leadership and I have been busy identifying our short and long term objectives which include; human resource services, recruitment and hiring top talent, performance coaching, wage and benefit review and analysis.

I look forward to our next chat. Have a wonderful spring and thank you for your time. You can reach me at the HLBE office at 507.793.0077 or send me an email me at [caroll@heronlakebioenergy.com](mailto:caroll@heronlakebioenergy.com) with your comments.



**John H. Bandy Jr., Maintenance Manager**

My name is John Bandy and I am the Maintenance Manager at Heron Lake BioEnergy. I am originally from McCormick, South Carolina. I graduated from McCormick High School in 1981 and spent six years in the United States Marine Corps. The first two years I was an infantry machine gunner and the last four years I was in aircraft maintenance, serving in Beirut, Lebanon, Peace Keeping forces Alpha company, and in the Far East with VMAQ-2, 2nd Marine Air wing, Iwakuni, Japan.

I am married to Tonia Bandy and we have four children, Chase, Jasmine, Rex and Dillon. We live on a small farm in Lakefield, MN. In my spare time I enjoy golfing, hunting, and spending quality time with the family and working around the farm.

I have been in construction and industrial maintenance for the past 22 years. I have worked in all aspects of the plant and operations scope; first on ethanol plant construction with Fagen Inc. as a Maintenance Manager with East Kansas Agri-Energy, and in construction management as an Assistant Site Supt. with ICM. I have been involved with the construction and start up of multiple ethanol plants including: East Kansas Agri-Energy (50 mil.), Front Range Energy in Greeley, CO (100 mil.), Andersons Ethanol in Clymer, IN (50 mil.), coal-fired Red Trail Energy in Richardton, ND and Heron Lake BioEnergy. I came to Heron Lake in January 2007 and stayed until construction was completed on the boiler and decided to put down roots in Minnesota.

I was given the opportunity to return to HLBE in early April 2008 as the Maintenance Manager, after Tim Luig accepted the Energy Manager position, and was thrilled. I love the day to day operations of the ethanol industry and the maintenance end of it even more. My duties include the daily scheduling of maintenance personnel, contractors, preventative maintenance and day to day operations of the maintenance department. I am the Systems Administrator of MAPCON, our computer maintained maintenance system or CMMS. Even though I have only been here a short time, I have settled in well and have found that the team environment here at HLBE is great.

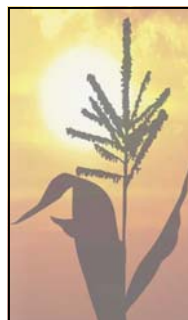
### **HLBE Annual Meeting Election Results**

***91% For - To elect three governors to serve a term of three years***

***91% For - To approve amendments to***

***Sections 5.4 and 5.5 of the Member Control Agreement***

**HLBE will now be issuing newsletters in February, May, August & November to be able to include our quarterly financial results.**



### **Corn Receiving Hours**

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

### **By-Product Loading**

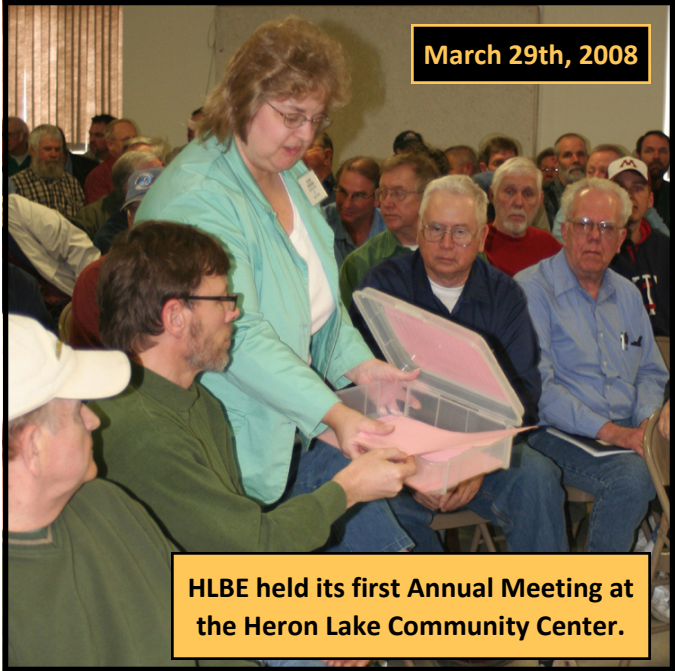
**Monday - Friday  
7:00 a.m. – 4:30 p.m.  
(Tentative Schedule)**



**“Integrating  
Energy & Environment”**

Heron Lake BioEnergy Phone: 507.793.0077  
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**OFFICE HOURS** - 8:00 a.m. to 4:00 p.m.

**We're on the web:  
[www.heronlakebioenergy.com](http://www.heronlakebioenergy.com)**



March 29th, 2008

HLBE held its first Annual Meeting at the Heron Lake Community Center.

**\*\*NOTICE\*\***  
**HLBE will be having an Open House at the plant from  
1:00 p.m. - 4:00 p.m. on Saturday, August 23rd, 2008.**

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