

Bi-ENERGY ALERT

Volume 3, Issue 2
July 31st, 2007

From the President's Desk

By Robert Ferguson, President



Rumors and Facts. Welcome to the Second Quarter 2007 Newsletter from Heron Lake BioEnergy. I hope that your summer activities are going as planned and that rainfall, which in our area has been very scattered, has allowed your crops to move toward maturity in a normal manner.

Heron Lake BioEnergy would like to welcome Dave Reinhart to the Board of Governors to fill Ron Fagen's appointed board seat.

In conversation with friends and investors in our project, it is apparent that there are rumors circulating pertaining to the potential start-up dates and solvency of the HLBE project. First of all, it is always best to come to the source of your investment to evaluate the information that you are hearing. HLBE is one of the few ethanol projects in Minnesota that is very near completion. Projects of this magnitude are complicated and intense to permit and to construct, relying on many contractors and subs to perform all the integrated processes required to bring the plant to completion. Deliveries of materials and timing of contractor services must always mesh to meet anticipated deadlines.

Presently, the ethanol industry is experiencing extreme growth potential. This creates supply issues for construction companies and supporting industries to supply needed materials for the process, which brings me to the point of potential grind dates and start-up of the plant. We have relayed potential grind dates to you, the shareholders, which were supplied to us by Fagen/ICM as far back as May, and potentially in June and July. The reality of the situation is that substantial completion of the plant was July 27th, which also included the design build changes which are listed on the enclosed letterhead from Fagen Engineering.

As stated in the attached letter from Fagen Engineering, as design build process improvements are discovered, they are initiated in future plants going forward to improve and streamline the plant processes, whether in ethanol production processes or in plant emissions to the environment. These improved design processes minimize downtime and provide for current state-of-the-art engineering design of your facility. You, as an investor, need to understand the pros and cons to these processes. They provide you the latest in technology for your investment, but also can create delays due to related deliveries of materials and construction. Secondly, they create the need for approval by the appropriate internal agencies of MPCA in the State of Minnesota.

Your Board of Governors, management, and employees of HLBE have been and are continuing to work arduously to make all processes move forward as streamlined as possible. With the completion of substantial construction and the removal of construction cranes and equipment, the plant is in the process of hard surfacing the plant roads for grain deliveries and plant inputs. This process should be completed by August 6th, and with cure time, should allow deliveries of corn the week of August 20th. Also, the rail loop and supporting Union Pacific mainline switches have estimated completion schedules of August 20th.

HLBE has five-year coal contracts in place with established prices for our coal, transloading, and delivery to the plant. The first train set has been shipped and is in inventory at Southern Minnesota Beet Sugar Cooperative, for delivery to our plant at our call. The water treatment plant has been pre-tested and has delivered treated water to the plant to hydro test all the tanks for leaks. The Grains Committee, the Board, and management have made many complex decisions to retain two months corn inventory for the plants grind at start-up. Understanding the com-

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Board of Governors

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- **Robert Wolf**
Governor
- **Dave Reinhart**
Ron Fagen Appointed

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Wayne's Writings



**By Wayne Gordon,
Interim General Manager**

If you drove by the plant today, you would see that the construction process is almost completed. For the most part, the construction workers are off to another site. The concrete pavers are busy paving our hard surface roads and should be finished soon. It will take approximately three weeks for the concrete to cure, and then we will be able to fill the two 250,000 bushel silos.

Another area of construction that is progressing is the rail loop track. RailWorks is in the process of the installation of this track. We have the loop primarily completed with the final lift happening in the next two weeks. We are also installing a lateral track (parallel to the UP main line) which will give Union Pacific and HLBE great flexibility to move DDG's and ethanol cars into and out of the loop for more systematic loading. HLBE should be very competitive with the ability to load unit trains.

A special thanks to the corn contract holders for their patience in the delivery of June and July corn. Lee and Darv have done an excellent job in finding a delivery point for these contracts. Once we get up and running, it should be easier.

Please feel free to call with any questions. Lakefield office - 507.662.5271 or HLBE office - 507.793.0077

Corn Receiving Hours **By-Product Loading**
Monday - Thursday **7:30 a.m. - 4:30 p.m.**
7:30 a.m. - 4:30 p.m. **(Tentative Schedule)**

From the President's Desk con't. from page 1

plexities of this process due to delays in the grind date and taking into account the drought situation in SW MN is an understatement. You can read more about the corn inventories piece under Jim Gerber's column.

The anticipated grind date will be September 1st, subject to MPCA's approval of the design build modifications described in the attached Fagen Engineering letter to HLBE. The attached changes are Title 1 modifications to our existing Air Permit, that will require a thirty day public comment period at MPCA, which concludes on August 30th.

The complexities of permitting and constructing a plant of HLBE's magnitude in the State of Minnesota are enormous. The Company's financial lenders are fully abreast of the change in grind dates and permitting activities and are coordinating with us to facilitate our needs. I can assure you that the Board of Governors, the employees and management have, and will continue, to work arduously to bring the plant on line as seamlessly as possible, and to provide you, the investor, an investment that will meet your expectations in the future. Finally, as I stated earlier, please contact the source of your investment for information, not the coffee shop or other off-site sources.

You will be notified by future mailings pertaining to a time and date for the annual meeting. Have a safe and enjoyable summer.

CFO'S Corner



**By James A. Gerber,
Chief Financial Officer**

In last quarter's newsletter, I introduced you to the personnel who would be taking care of your Company's accounting and finance needs. At the time of that writing, I had only been on board for approximately two months and Luke Schneider was scheduled to start in May. Luke did indeed start in May, and since that time, a number of accounting/finance projects have been completed or initiated. Here is an update:

Preparation of Financial Information for Securities and Exchange Commission (SEC) Filings - When the initial filing is made, current and prior year quarterly, as well as inception to date, financial information will be presented. In preparation for this filing, the financial information for quarters ending January 2006 and 2007 and April 2006 and 2007, has been forwarded to HLBE's independent auditors for their review. The July 2006 financial information will be forwarded along with the July 2007 information in August.

Financing Package - HLBE finances its construction and operation needs with AgStar Financial Services, ACA. In May, the loan agreement was amended to accommodate the most recent needs at that time.

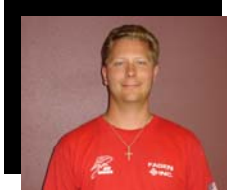
Scale Interfacing with Accounting Package - Charlie Worm has been instrumental in test firing this procedure. A number of tests have been conducted on a preliminary basis. As soon as the roads are completed and we can receive grain, the real world will be tested. Hopefully, this interfacing will be an efficient tool to settle grain.

Financing and Space for Corn Inventory - Due to the plant not starting in June as anticipated, it was necessary to make a decision in regard to the May and June corn which had been purchased. The decision was to market the May and June corn due to space limitations. In late June and throughout July, the local area has not received sufficient amounts of rainfall. As a result of this lack of rainfall and the resulting fear of a shrinking corn crop in this area, it was the opinion of the grain committee that the Company own at least two months grind (3,000,000 bushels) of corn going into harvest. Consequently, it was decided the July contract deliveries of corn needed to be retained. Financing and space was arranged to carry these bushels. Heron Lake BioEnergy would like to thank three owners (New Vision Co-op, Wilmont-Adrian Cooperative Elevator and Schmitz Grain, Inc.) for stepping forward and reserving space for a significant amount of the July corn.

Thank you.

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

Construction Comments



By Barry Jacobs, Project Manager

PLANT:

1. Hoffman Concrete Inc. is paving the plant roads with concrete. They should be finished with the main portions of the road this week, leaving only the radiuses and approaches to the buildings.
2. HLBE and Schmidt Construction are spreading rock and black dirt throughout the plant to finish landscaping and to get ready for seeding.
3. Rail Works is working on finishing the four tracks that run through the Rail Loadout and Grains Receiving area.

FERMENTATION/PROCESS AREA:

1. 100% complete besides minor punch list items.

DISTILLATION:

1. This area is 100% complete.

ENERGY CENTER:

1. This area is 99% complete.
2. Minor electrical items remain, including heat trace, conduit supports, and the LP backup generator for the boiler feed water pumps.
3. There are also minor punch list items to complete.

GRAINS AREA:

1. The DDG control system was uploaded and all systems were tested out.
2. Once the rail is installed in the Receiving building, the Scale will be finished and calibrated.
3. This area is 99% complete with some electrical work to finish, such as lighting and receptacles.
4. There are also minor punch list items to complete.

TANK FARM:

1. This area is 99% complete with some electrical work to finish that includes two lights, heat trace wire and terminations.

RAIL LOAD-OUT:

1. This area is 99% complete, with some electrical work remaining, including lighting, grounding, receptacles, and installing printers.

COOLING TOWER / PUMPHOUSE:

1. This area is 100% complete.

SCALE HOUSE:

1. This area is 100% complete.

COAL ISLAND:

1. ICM is nearly complete. There is a small amount of pipe and duct insulation that needs to be finished.
2. There are some minor electrical terminations that need to be completed in the HRSG unit and at the LP backup generator for the boiler feed pumps.
3. Their last item to finish is the coal area punch list.

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If you would like to receive our newsletter by e-mail, please send us your e-mail address. You will receive a full color newsletter and we will save money on postage!

Corey's Vista



By Corey Aanenson, Plant Manager

Start-up is on the horizon and we are busy preparing. It is our hope that with the extra time we've had, we'll have a smooth start-up. We are all eager and enthusiastic to start producing ethanol.

We have our employee's in place and are thrilled with the choices that we made during the selection process. We feel that we have an excellent team to operate our facility. The employee's have many different levels of experience and qualifications. Together as a team, we should be able to run the plant smoothly. The employee's and management have the passion to succeed and we will encourage a "can do" attitude!

Along with preparing for start-up, we have been training our employee's on different topics like safety, chemicals, and equipment usage related to the facility operation. The sessions were very beneficial. We also had two weeks of hands-on training at LincolnWay Energy, an operational coal-fired plant in Nevada, IA. Lately, our employees have been cleaning up the facility, learning the equipment, labeling, and doing other jobs to help get the plant ready and getting a better understanding of the facility.

Heron Lake BioEnergy has a commitment to safety. Along with start-up comes extra safety precautions. Registration at the main office is mandatory due to HLBE being a restricted site. Using Regular Business Hours will ensure safety and convenience for everyone. There will be speed limit signs posted and enforced, so please drive carefully, as people will be walking on site as well as operating machinery. We will develop and maintain a safe work-place and will give top precedence to protecting our employee's and community.



An ear of corn averages 800 kernels in 16 rows. A pound of corn consists of about 1,300 kernels. 100 bushels of corn produces about 7,280,000 kernels.



July 23rd - View of the HLBE ethanol plant taken from the top of the Grains Silo, looking to the west between the Process Center and the Energy Center.



“Integrating Energy & Technology”

The latest technology will be used to keep emissions at the same level as natural gas.

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E-mail: info@heronlakebioenergy.com
OFFICE HOURS - 8:00 a.m. to 4:00 p.m.

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

****NOTICE****
The HLBE ANNUAL MEETING will not be held on August 11th. A notice will be sent out to the investors when a definite date has been set.



**JOE
MAERTENS
1944 - 2007
BLESSED
BE HIS
MEMORY**

Joseph Edward Maertens was born on July 17, 1944 in Marshall, MN. He graduated from Canby High School and joined the U.S. Navy for four years before receiving an Honorable Discharge. Joe passed away on May 18, 2007.

Joe received electrician training and later became a master electrician. He worked for Don Welling in Fulda and for Willmar Electric for 17 years. He began working for Fagen Engineering in Granite Falls in 1993. Joe was the project manager on numerous ethanol plants throughout the Midwest, and was currently the project manager at Heron Lake BioEnergy. He enjoyed fishing, gardening, landscaping, bowling, reading and spending time with his family.

Joe was a hard worker who was very dedicated to getting our ethanol plant up and running. He will be deeply missed by everyone at HLBE. Barry Jacobs is our new project manager.

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