

Bi-ENERGY ALERT

Volume 3, Issue 3
September, 2008

From the President's Desk

By Robert Ferguson, President



With fall approaching, and Heron Lake BioEnergy's first anniversary date of operations being September 21st, it seems like the first year has raced by. Several key events have transpired over the last several months that need to be mentioned. First of all, thank you to our members, friends, vendors, guests and our employees that made our Open House a huge success. Around 1,500 people attended the event and were given the opportunity to tour the facility in operation, ask questions, and see their investment. I hope your thoughts were positive if you attended.

HLBE filed its Form 10 registration statement with the Securities and Exchange Commission on August 22nd and is presently waiting on review and comments from the SEC. You may view our Form 10 filing at the SEC website which is www.sec.gov. We would hope to receive comments from the SEC very soon. The Form 10 will become effective automatically 60 days after filing and at that time, HLBE will become an SEC reporting company.

The acceleration lane safety project on Trunk Hwy. 60 was completed the week of July 14th. The addition of the acceleration lanes provides truck traffic entering and exiting the plant the opportunity to reach highway speeds before merging into the driving lanes safely. Thanks to SMC Construction and Jackson County Highway Department for the efforts to complete this project in a timely and safe manner.

Hard surfacing projects are being completed on site adjacent to the Boiler and Energy Center complex to facilitate cleanup and cleanliness in these areas. As we approach the end of the first year of operations, we are continuing to address warranty items and operational issues relating to our plant with our vendors and Fagen/ICM. We continue to explore opportunities that will streamline operations and reduce our operation expense.

We are proud to announce the hiring of Brodie McKeown as our new plant manager. Brodie comes to HLBE with eight years of experience in the ethanol, soybean crush and biodiesel industry. He will begin his duties with HLBE on September 22nd, and I want to welcome him aboard our team of employees. We continue to search for a new Chief Financial Officer to replace interim CFO Jim Gerber, who has filled that position on a contractual basis for the past year, and has chosen to return to his private accounting practice. Jim will be presenting his comments separately in this newsletter. On behalf of the company, I want to thank Jim for his efforts and wish him well. We are conducting an active search for a new CFO and hope to make an announcement regarding this position very soon.

Operationally, the plant has experienced some logged down time, including planned annual maintenance down time and down time to deal with various warranty and operational issues. The plant has streamlined several coal handling issues and continues to maximize fermentation yields and production in the plant. Our distillers grain is second to none and reception in the surrounding markets is excellent, which speaks highly of our staff and operations in the plant. Overall, we are happy with plant performance for its first year of operation, but, of course, we will strive to do even better in our second year.

I want to thank the elevators, farm based customers and members who have chosen to market their corn and purchase our DDGS in the past 12 months. We appreciate your business and hope to continue to earn it, as we move forward into our second year of plant operations. Please have a safe and bountiful harvest. Your success is an important part of our business.

Board of Governors

- **Robert Ferguson**
President
- **Doug Schmitz**
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- **David Woestehoff**
Secretary
- **Michael Kunerth**
Treasurer
- **David Bach**
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- **Timothy Helgemoe**
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- **Milton McKeown**
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- **Robert Wolf**
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- **Dave Reinhart**
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- **Brian Thome**
Governor

Inside this issue:

From the President's Desk	1
CFO's Corner	2 & 3
Commodity Central	2
People's Voice	3
Employee Spotlight	3
Corn Rec. Hours & By-Product Ldg.	3
HLBE Info	4
Open House Picture	4

CFO's Corner



By James A. Gerber, Chief Financial Officer

Welcome! Other than responses to specific phone or email inquiries, we have not communicated with you for a considerable amount of time regarding financial

matters. While we are constrained in the information we currently can provide (see below), we determined it would be better to issue this newsletter to provide what little information we are able at the current time. This is our first attempt at this approach, but we hope that once we are required to submit regular SEC reports that all members would have more regular access to the financial information of HLBE. Please see the following topic discussions.

Financial Information Availability –

We receive numerous calls, emails, etc. in regard to the financial results being realized. I understand the purpose behind these communications. You are simply trying to determine how your investment is doing. I would do the same thing. The issue we confront in responding to your requests needs to be communicated to you for your understanding. In the public company reporting arena (HLBE belongs in this arena), we are restricted as to dissemination of financial information. In short, we cannot communicate financial information to any one member (or any other person, for that matter) that has not already been communicated to the whole world through an SEC filing. As a result, we may not be able to respond to specific requests. Please do not take it personally. We are simply trying to adhere to the rules. In the world of the SEC, the accepted avenue to provide members with financial information is through a quarterly or annual SEC filing. We will be updating our website so that members may access our SEC filings directly from the website. From time to time, we may also send out newsletters such as this on HLBE business matters. If the newsletter addresses financial matters, you would also be able to find a copy of the newsletter on our website at the same time it is mailed and filed with the SEC.

Distribution Expectations –

We need to clear a number of hurdles before a decision can be made on distributions. We need to complete the fiscal year end October 31 audit, December 31 tax information, and meet bank loan covenants before even considering this option. Please be patient.

SEC Filings, Etc. –

Our Form 10 was filed on August 22, 2008. It was the culmination of considerable effort on the part of the Company's staff, our legal firm and auditor, and the Board of Governors. We expect to receive comments from the SEC on our filings in the very near future and our next task will be addressing these SEC comments. We will also begin regular quarterly reporting and life as a public reporting company. In addition, in order to comply with SEC and SOX (Sarbanes-Oxley) requirements, HLBE has engaged a firm

(CFO's Corner continued on page 3)

Commodity Central



By Tyronne Bialas, Risk Manager / Grain Procurement Manager

Have you enjoyed the commodity roller-coaster ride of 2008? We started in January with \$4.60 futures. The markets

rallied to \$7.60 on June 26th, and now we are back down to the \$5.30 area as of 9/18/08.

The growing season got off to a very tough start, as we were only 51% planted on corn through May 11th. We finally reached 95% on June 1st, so planting was about two weeks later than we would have liked to see it, especially in a year where we need a big crop to satisfy the estimated record demand.

But from that point, the growing season got off to a decent start. With plenty of subsoil moisture, the crops never really struggled for moisture. However, with the dollar struggling, energy markets still rallying, and fund money still pouring in, the corn market rallied even after this good start. But the market peaked in late June, when more summer showers and nice temperatures continued to bless the crop development. We had crop ratings improve on eight consecutive weeks in the Good-Excellent category through August 10th. Things looked very good in most of the Midwest.

And that's why we are back at \$5.30 futures now. The market is comfortable with yield expectations of 152-153, and that has us at least in a little more comfortable position for the 2008-2009 carryout stocks, as the USDA carryout number is projected to be 1.018 billion bushels for next September 1st.

It will be interesting to see if we reach the demand estimates the USDA is still using. For the '07-'08 carryout, we didn't reach the 2.425 billion bushels for exports. Roughly 100 million bushels were rolled into the '08-'09 crop year. And the demand from ethanol is pegged at 4.1 billion bushels. That would equate to an 11.4 billion gallon ethanol demand, and we are currently only at about a 9.5 billion gallon usage rate annualized from recent data. So we could see some bushels possibly trimmed off of that number.

One thing that could change our yield potential would be an early frost, but by the time you read this we will probably know if that happened or not. Otherwise, if this crop has time to fully mature, we should have a nice crop right at trend-line yields, even with the horrible start that we got off to.

Our Risk/Grain Committee continues to meet at least twice a month to discuss opportunities to lock in margins and protect prices when things are tight. One thing we are definitely seeing more of, since early February, is that the correlation of ethanol prices to corn prices has gone from about 20% percent in the past five years, to over 80% over the past seven months. That makes locking in margins more difficult, as prices move hand in hand. But we continue to look for opportunities.


People's Voice



By Carol Larson, Human Resources & Organizational Development

HLBE culture fosters the development of high performing teams. Effective employees are able to function as a team as they find ways to make decisions to get the job done smoothly and effectively without conflict. Typically their leader is a participative member of the team and everyone is on the same level. A good example of high performing teams was our recent open house in August. We were motivated, charged up and everyone pulled together towards a common goal. Thanks go to the many HLBE employees who put in long days and many hours to share our facility with the investors and the community. We were proud! We had fun! We functioned as a high performing team!

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 23.8 gallons of ethanol displace one barrel of imported oil. Source: Aventine Fun Facts

(continued from CFO's Corner)

to establish controls over financial matters. We are currently on the path to compliance with these internal control reporting requirements. Although this process is time consuming and costly, it is required by law. Our hope is that our work on internal controls will provide members with greater assurance that the financial information we report is reliable and prepared in accordance with generally accepted accounting principles.

Unit Trading –

There are several steps before the Board can authorize trading in HLBE units. The first step was the Form 10 filing and the second step is the effectiveness of the Form 10, which occurs 60 days after the date of filing. Following that 60 day period, the Board will consider whether or not trading can begin given progress on the plant and achievement of performance guarantees. We will advise all members in advance of the commencement of trading of when trading will begin and how trades can be made.

CFO Status –

I have been serving as your contracted interim Chief Financial Officer since March 1, 2007. I served in this capacity as a part time CFO. In my case, part time involved approximately 1,500 hours in my contract year ended February 28, 2008.

Your Board of Governors has made a decision that the position should be full time. I can respect that decision. However, I cannot commit to the full time position. As a result, I did not apply. HLBE is currently searching for a person to fulfill that role. Until the position is filled, I will continue to serve as your interim CFO as long as the Board wishes. However, I will not be on site nearly as much as in the past and I understand this creates inefficiencies. This does not mean you cannot contact me. If I am not on site, I can be found. My offsite email address is jgerber@iw.net and my office phone number is 507.836.8564, Ext. 222.

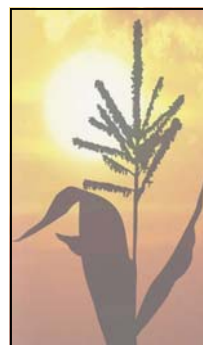


Brent Pavelko, Environmental, Health & Safety

For approximately the last six months, I have been employed with Heron Lake BioEnergy as the Environmental, Health and Safety Manager. My position focuses on maintaining compliance with environmental permits and upholding the balance between environmental protection and producing ethanol. I also administer the Employee Health and Safety Program. Employee and plant safety is the most important aspect of my position and personal safety is something plant employees take great pride in. We have recently formed a Plant Safety Committee which has led to many safety improvements throughout the facility. My duties bring me into each area and department of this plant and I enjoy working with the many dedicated people that help make HLBE a successful new company.

I am originally from Lakefield, MN, and one of the proud “locals” to be working at HLBE producing a renewable fuel from the same corn fields I drive past each day on my way to work. My background includes working in environmental conservation for local, state and federal government agencies. Dealing with governmental agencies for a decade prepared me for meeting the environmental and regulatory challenges posed by a coal-fired ethanol facility. Although using a solid fuel such as coal provides us with unique challenges not faced by natural gas-fired plants, I remain impressed by the efficiency and the cutting-edge clean-coal technologies built into this plant. The fact is, coal provides a domestic, cost-efficient and clean fuel source for the production of ethanol.

There is much more to be done as new technology is constantly being developed that will streamline our industry, provide us with new and innovative “green” options in our process and fuel choices. HLBE remains dedicated to providing a renewable source of energy while maintaining a commitment to environmental quality and the safety of our employees. Everyone at HLBE plays an environmental and safety role and together as a team, we are making great progress!



Corn Receiving Hours

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

By-Product Loading

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

(Tentative Schedule)



**“Integrating
Energy & Environment”**

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OFFICE HOURS

8:00 a.m. to 4:00 p.m.



HLBE held its Open House on August 23rd at our facility in Heron Lake. We would like to thank everyone who attended to help make the day an enjoyable and memorable event.

We're on the web:

www.heronlakebioenergy.com

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

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