



HOMELAND ENERGY GROUP LTD.

Management's Discussion and Analysis

For the year ended December 31, 2008

(All amounts stated in Canadian dollars, unless otherwise indicated)

The audited consolidated financial statements and this Management's Discussion & Analysis, contains certain "Forward-Looking Statements" that are prospective and reflect management's expectations regarding Homeland Energy Group Ltd's ("Homeland") future growth, results of operations, performance and business prospects and opportunities. Forward-looking statements are not based on historical facts, but rather on current expectations and projections about future events, and are therefore subject to risks and uncertainties which could cause actual results to differ materially from the future results expressed or implied by the forward-looking statements. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe", "expect", "goal", "plan", "intend", "estimate", "may", "could", "should" and "will" or the negatives thereof, or similar variations suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. All statements, other than statements of historical fact, included in these documents, including without limitation statements regarding potential mineralization, the quantity and quality of resources and reserves, estimates of future production, unit or operating costs, costs of capital projects, the timing of commencement of operations, exploration results and future plans and objectives of Homeland are forward-looking statements that involve various risks and uncertainties. Such statements are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations. There can be no assurance that such statements will prove to be accurate, and actual results and future events could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from Homeland's expectations include, but are not limited to, failure to establish estimated resources and reserves, the quality and recovery of ore to be mined varying from estimates, capital and operating costs varying significantly from estimates, delays in obtaining or the failure to obtain required governmental, environmental or other project approvals, inflation, changes in exchange rates, fluctuations in commodity prices, delays in the development of projects, financing risks, general business and economic conditions, industry risks and other factors.

Shareholders and prospective investors should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur. Homeland undertakes no obligation to update publicly or otherwise revise any forward-looking information whether as a result of new information, future events or other such factors which affect this information, except as required by law.

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Introduction

This discussion and analysis of the operating results and financial condition of Homeland Energy Group Ltd. ("**Homeland**", or the "Company") for the year ended December 31, 2008 should be read in conjunction with the audited consolidated financial statements and related notes for the same period, and is intended to provide the reader with a review of the factors that affected the Company's performance during the year ended December 31, 2008 and the factors reasonably expected to impact future operations and results.

The audited consolidated financial statements and related notes of Homeland have been prepared in accordance with accounting principles generally accepted in Canada ("**Canadian GAAP**") and are expressed in Canadian dollars.

All amounts in this report are in Canadian dollars, except where otherwise indicated.

Qualified Person

The Company's exploration and development programs are carried out under the supervision of Homeland's Chief Operating Officer, Mr. Michael Nell. Mr. Nell, a professional mining engineer, is a qualified person as defined by Canadian National Instrument 43-101 with more than 25 years of experience in the coal exploration, development and mining industry. Mr. Nell is responsible for the geoscientific and technical disclosure contained in this document.

Background and Nature of Business

Homeland Energy Group Ltd. (formerly known as Chrysalis Capital IV Corporation) ("**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 (see Significant Events and Transactions), the principal business activity of the Company became the acquisition, exploration, development and operation of energy related resource properties in Southern Africa.

At December 31, 2008, Homeland owned 74% of the Kendal Colliery near Witbank, South Africa - that commenced production in the second half of 2008; 100% of the Northfield Site Reclamation Project near Dundee, South Africa; 50% of an advanced coal development project in South Africa known as the Eloff Mineral Property; as well as interests in a number of earlier-stage exploration properties in the province of Mpumalanga, South Africa and in Botswana.

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The Company complies fully with the Black Economic Empowerment requirements of the South African Minerals and Petroleum Resources Development Act through shareholdings by a number of companies owned by historically disadvantaged South Africans in each of the project companies.

Homeland is also a significant shareholder in Homeland Uranium Inc., a Canadian company involved in the exploration and development of uranium prospects in Niger and the United States, and has strategic investments in Altona Energy Plc and Aviva Corporation Ltd.

The Homeland group has offices at:

- 144 Front Street West, Suite 780, Toronto, Ontario, Canada;
- 4 Old Park Lane, London, England; and
- Office 118, First Floor, Smokey Mountain Office Park, Route N4 Business Park, Ben Fleur x11, Witbank, Mpumalanga, South Africa.

Significant Events and Transactions during the year ended December 31, 2008

Reverse takeover of the Company by Homeland Energy Corp.

On June 13, 2007, the Company entered into an agreement with Homeland Energy Corp. pursuant to which the Company agreed to acquire all of the issued and outstanding common shares of Homeland Energy Corp. This transaction constituted a reverse takeover of the Company by Homeland Energy Corp. inasmuch as following the closing of the transaction, the former shareholders of Homeland Energy Corp. owned the majority of the outstanding common shares of the Company, and five of the six members of the board of directors of the Company were proposed by Homeland Energy Corp.

Homeland Energy Corp. was incorporated as Homeland Uranium Inc. under the laws of Ontario on December 7, 2004 and on September 5, 2006 received authorization from the Ontario Ministry of Consumer and Business Services to apply for continuance into another jurisdiction. On October 12, 2006, the company was continued into the British Virgin Islands as Homeland Energy Corp. On February 29, 2008, Homeland Energy Corp. completed a reverse takeover of Chrysalis Capital IV Corporation, renamed **Homeland Energy Group Ltd.**, by way of a merger of Homeland Energy Corp. with a wholly-owned subsidiary of Chrysalis Capital IV Corporation (the "Merger"). The Merger constituted the Company's Qualifying Transaction pursuant to the policies of the Exchange. On March 5, 2008, Homeland's common shares were posted for trading on the **Toronto Stock Exchange** under the symbol "**HEG**". On April 4, 2008, Homeland Energy Corp. continued to Mauritius with a Category 1 Global Business License.

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Prior to the Merger, the Company consolidated its common shares on a one-for-two basis and Homeland Energy Corp. split its common shares on a four-for-one basis (the "Share Split"). Upon the Merger, the Company then issued one common share for each common share of Homeland Energy Corp. The outstanding options, warrants and other convertible securities of Homeland Energy Corp. became exercisable for common shares of the Company based on the same exchange ratios.

The "acquisition" of Homeland Energy Group Ltd. by Homeland Energy Corp. has been accounted for as a reverse takeover transaction. The audited consolidated financial statements for the years ended December 31, 2008 and 2007 reflect the consolidated assets, liabilities and results of operations of Homeland Energy Corp., the legal subsidiary, prior to the reverse takeover and the consolidated assets, liabilities and results of operations of the Company and Homeland Energy Corp. subsequent to the reverse takeover. The audited consolidated financial statements are issued under the name of the legal parent (the Company), but are deemed to be a continuation of the legal subsidiary (Homeland Energy Corp.).

Conversion of Debenture

On June 12, 2007, the Company entered into a Loan Agreement with **GC-Global Capital Corp.** The Company borrowed the principal amount of US\$2 million through a convertible debenture. On February 28, 2008, GC-Global Capital Corp. exercised its right to convert the principal amount into common shares of the Company at a conversion price of £1.25 (pre-Share Split). This resulted in the issue of 3,241,000 common shares of the Company.

Acquisition of Investments

In February 2008, Homeland issued 2,950,000 common shares as consideration for the purchase of 44,250,000 common shares of **Altona Energy Plc** ("Altona") from third parties. Altona, listed on the Alternative Investment Market ("AIM") in the United Kingdom, holds a 100% interest in three exploration licences, covering 2,500 square kilometres, in the northern portion of the Permian Arckaringa Basin in South Australia, including three coal deposits. All three deposits lie close to the Adelaide to Darwin railroad and the Stuart Highway. Altona's primary focus is the completion of a bankable feasibility study for an integrated 10 million barrel per year Coal to Liquid plant with a 560 MW co-generation power facility. The transaction was valued at \$4,183,992 based on a price of 4.75 pence per Altona common share. Based on the closing price per Altona common share on the AIM on December 31, 2008 of 0.875 pence, the investment has been written down to \$694,725.

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In June 2008, Homeland acquired 4,000,000 common shares of **Aviva Corporation Ltd.** ("Aviva") from third parties at a price of AUD 0.90 per share, for a total investment of \$3,452,538 (AUD 3,609,000, including AUD 9,000 commission). Aviva is an integrated energy company listed on both the Australian and Botswana Stock Exchanges with its head office in Perth. Aviva's most advanced asset is the Coolimba Power project in Western Australia, which will be a 400 MW base load generator employing leading emissions technology for water, sulphur and carbon dioxide. Aviva is earning a 90% interest in the Mmamantswe project in Botswana, where it has outlined a 1.3 billion tonne coal resource. The project is well positioned, being on the South African border and adjacent to key infrastructure, including highway, railway, and high voltage transmission lines. Based on the closing price per Aviva common share on the Australian Securities Exchange on December 31, 2008 of AUD 0.10, the investment has been written down to \$342,000.

Purchases of Mineral Properties *(cancelled subsequent to year end)*

In August 2008, following the completion of extensive due diligence including the commissioning of a National Instrument 43-101 compliant technical report, the Company entered into an asset purchase agreement (the "APA") to acquire all of the assets of Appolo Fuels Inc. and Diversified Energy Inc. (the "Appolo Assets") in consideration for the payment of US\$105 million. This acquisition of the Appolo Assets represented a significant opportunity for the Company to expand its asset base and diversify out of South Africa. The Appolo Assets included several coal mining leases, mining equipment and coal sale contracts.

At the time the APA was executed, the Company was confident that it would be able to obtain financing for the acquisition of the Appolo Assets through equity, debt or some combination thereof due to the high quality of the Appolo Assets and due to the very strong financial market for coal and coal companies. The vendors of the Appolo Assets were not prepared to execute the APA if the transaction was conditional upon financing and no break fee was provided in the original agreement. The Company assessed the risk potential and determined it was in the best interests of shareholders to proceed with the acquisition of the Appolo Assets on the terms set out in the APA. However, during the fall of 2008 economic conditions changed significantly. The collapse of the capital markets and the uncertainty surrounding commodity prices made it increasingly difficult to obtain financing on terms that were acceptable to the Company. Considerable management time was invested in securing satisfactory financing. As the original closing deadline of November 27, 2008 approached it became evident that it would be difficult to complete the transaction on time. The Company was also aware that if it failed to complete the acquisition of the Appolo Assets it could be exposed to considerable liability under the terms of the APA. Management was still of the view that this was a positive

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transaction for the Company. The vendors were approached and were also hopeful that a transaction could be completed, but were also receptive of the Company's need for certainty if financing could not be obtained. In January of 2009 the Company negotiated a break fee for the transaction of US\$6 million dollars. The first US\$1 million had been paid in the form of non-refundable deposits when the APA had been executed. The second US\$1 million was immediately payable. The balance of US\$4 million was due at the end of February 2009. If the Company was unable to pay the balance when it became due, the vendors had the right to elect to settle the payment for shares of the Company priced at \$0.16 per share, which was the market price of the common shares at the time the amendment agreement was executed. Taking into account exchange rates, this represented 31,561,671 common shares of the Company.

This break fee also worked as an extension fee as it allowed the Company to continue to seek alternative sources of financing until the end of February with the amounts paid being credited to the purchase price. The agreement did provide that the closing date could be extended to the end of March 2009 at the option of the Company for a further payment of US\$2.5 million, but that would only have been applicable if the Company had a commitment for financing in place prior to the end of February. In the actual event, the Company did not exercise this option.

The amendment agreement represented an opportunity for the Company to crystallize its potential liability under the APA to US\$6 million.

The Company was unable to obtain the required financing to complete the acquisition of the Appolo Assets and therefore elected to terminate the APA with Appolo on the payment of the final US\$4 million. The Company sought avenues to obtain the required cash to pay the balance of the break fee without additional dilution but was unable to do so. The share price of the Company had risen by the end of February to approximately \$0.25 per share. The TSX had granted approval to issue the 31,561,671 shares to the vendors of the Appolo Assets, but that approval was due to expire on February 27, 2009 and given market prices at the time, an extension was not available. The Company did receive an offer from an existing shareholder of alternative financing on the day immediately preceding the date on which the payment had to be made to the vendors of the Appolo Assets, but the price was only \$0.176 per share which price would have contravened the prescribed discount rules of the TSX. Further, the funds represented by the \$0.176 per share offer were not immediately available and the vendors of the Appolo Assets were not prepared to grant an extension on the due date for the payment of the balance of the break fee as it would have resulted in the loss of their ability to obtain shares of the Company at the negotiated price. Given the lack of certainty whether the alternative financing would actually have been available and the lack of time to execute a rights

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offering to shareholders, the Company chose to honour its contractual obligation to the Appolo Asset vendors and issue the 31,561,671 shares.

The Company's management and board of directors believed the Appolo Assets to be a valuable strategic fit with other assets in Homeland's property portfolio. While the Appolo operations had proven profitable for many years, the technical and operational expertise from Homeland's South African mine-development team might have been applied to the Appolo operations to optimize production, create efficiencies and increase the value of Appolo's Assets. The Company continues to believe that the Appolo Assets would have made an accretive acquisition.

Term Loan Facility

Ferret Coal (Kendal) (Pty) Ltd. ("FCK"), a 74% owned subsidiary of Homeland and the owner of the Kendal Colliery, secured a ZAR 150 million (\$19,665,000) five and a half-year Term Loan Facility (the "Facility") from Nedbank Limited, one of South Africa's largest banks, with the first drawdown of ZAR 25 million (\$3,184,997) taking place on September 30, 2008. The balance of the Facility is available for drawdown to September 2009. As of December 31, 2008, FCK had drawn ZAR 75 million and together with capitalized interest owed \$10,134,974 (ZAR 77 million).

As the Kendal Colliery continues its ramp up to full production over the coming months and the Company initiates Phase II of the development program (including a new boxcut and additional pre-stripping), Homeland anticipates that it will have access to all the necessary financing to complete the move to commercial production and achieve positive cash flow from operations.

The Facility is secured by guarantees from, and pledges of the shares of, certain subsidiaries as well as by all assets of Ferret Coal (Kendal) (Pty) Ltd. and is repayable from September 2009 through December 2013. Amounts drawn under the Facility bear interest at the rate of JIBAR plus 3.15% per annum prior to Completion (as defined in the Facility), and at the rate of JIBAR plus 2.50% per annum following Completion. Undrawn amounts are subject to a commitment fee of 0.50% per annum. The effective interest rate at December 31, 2008 was 14.575%.

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The following is a schedule of future repayments in terms of the Facility Agreement, assuming full draw down of capital by September 30, 2009 and the capitalization of approximately ZAR 20 million of interest:

	Equivalent (\$)	Amount (ZAR)
2009	2,228,690	17,000,000
2010	4,457,380	34,000,000
2011	4,903,118	37,400,000
2012	5,348,856	40,800,000
2013	5,348,856	40,800,000
	22,286,900	170,000,000

Based on current planning Homeland does not anticipate drawing on the full Facility.

The following financial covenants are applicable to Ferret Coal (Kendal) (Pty) Ltd.:

- Debt Service Ratio - Default: 1.3 (Cash lockup: 1.7)
- Loan Life Cover Ratio - Default: 1.5 (Cash lockup: 1.9)
- Debt / Equity Ratio - Default: 70 / 30 (Cash lockup: 65 / 35)

Placement of common shares with the GMR Group.

During 2007 the Company began a process of seeking potential joint venture partners for its South African assets to expedite the development of the Company's business. On December 15, 2007, Homeland signed a memorandum of understanding (the "MOU") with the GMR Group ("GMR"), setting out the basic terms and conditions upon which the Company would sell up to a 50% voting and participating equity interest in Homeland Mining & Energy SA (Pty) Ltd. ("HMESA"). Upon signing the MOU, Homeland received a payment of US\$3,000,000.

During early 2008 the Company and GMR negotiated the terms of a share purchase agreement (the "SPA"), which was executed on April 9, 2008. Under the terms of the MOU and the SPA, GMR exercised its rights to increase its interest in HMESA to 10% for the payment of an additional US\$27,000,000. In total, GMR advanced to the Company US\$30,000,000, which the Company utilized to develop its South African assets and make further strategic investments.

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Under the terms of the SPA, GMR had a further right to acquire 40% of the shares of HMESA (which would have increased GMR's position to 50%) for an additional payment which was dependent on the timing of the exercise of the option (the "Final Option"). However, under the terms of the SPA, GMR had the right to require the Company to repurchase the 10% stake in HMESA acquired by GMR if they elected not to exercise the Final Option. The repurchase price was set at US\$30,000,000. The Company had the right to pay this amount in either cash or shares of the Company. Homeland had an equivalent call right on the shares of HMESA held by GMR if the Final Option was not exercised.

While the transaction was implemented by way of a series of options the purpose of the transaction was for GMR and Homeland to become equal partners in the South African assets. The option structure effectively provided the Company with an interest free loan to develop the Kendal Colliery and make other strategic investments during the assessment period. However, it was never intended that GMR should only be a 10% shareholder by either party. The rationale for the establishment of the put and call options on the 10% stake was to allow GMR to avoid a situation where they had only a 10% minority stake and no way to liquidate, and to allow the Company to avoid having a minority partner.

On November 4, 2008, GMR gave notice to the Company that it would not be exercising the Final Option and also advised the Company that it would exercise its right to have the Company repurchase its 10% interest in HMESA. The Company then elected to exercise its right to satisfy its obligation by delivering shares of the Company. The share price was calculated under the SPA as the 20 day average closing price ended November 3, 2008 plus a 5% premium, which worked out to approximately \$0.455175 per share. Taking into account exchange rates at the time, the Company was required to issue 75,792,027 shares to GMR to satisfy its obligations under the SPA. Although this represented significant dilution to shareholders, the Company was of the opinion that it would be preferable to reduce the Company's liabilities by US\$30 million at a share price that was significantly higher than the market price of the Company's common shares at the time. Shareholder approval for this transaction was obtained on December 30, 2008.

Prior to the issuance of shares to GMR, the Company continued to explore alternative transactions with GMR to avoid the dilution that would result from the repurchase of the shares of HMESA. However, the parties were unable to agree to terms and the repurchase transaction was completed on February 23, 2009, which resulted in GMR holding approximately one-third of the Company's outstanding shares with the Company holding 100% of HMESA and the South African assets.

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Funding of continuous conveyor mining system

The Company has advanced ZAR 10 million (\$1.4 million) to Madic Operations (Pty) Ltd. ("Madic") to capitalize the development of the Madic continuous conveyor system. Madic shall repay this shareholder loan, plus interest calculated at a rate of 5% p.a., within a period of two years; failing which interest shall accrue at the prime rate of interest until payment in full. Homeland is also entitled, but not obligated, to purchase at cost a maximum of four Madic Systems and has been granted a 45% equity interest in Madic, subject to a 10% call option in favour of the majority shareholder. Homeland has the right to appoint one of two directors of Madic.

At the date of the agreement, the Company valued the loan at its present value using a market rate of 14.5%. This resulted in a value of \$919,311 being allocated to the loan and the residual of \$460,689 being allocated to the option. The value of the 45% interest in Madic is nominal; therefore, no value has been attributed to it.

In addition, Homeland has lent ZAR 4.3 million (\$0.5 million) to an associated company of Madic ("Numin") that is seeking to implement the Madic system. This loan will bear interest at the prime lending rate less 1% and is repayable within one year. Homeland has an option to acquire a 20% equity interest in Numin.

As the Madic continuous conveyor system is not yet operational, and therefore neither Madic nor Numin yet has received any revenue from the lease or operation of the system, no portion of the Loan has yet been recorded as short-term and no value has been attributed to the equity interests.

Funding of Black Economic Empowerment investment in the Kendal Colliery

In May 2008, through its wholly-owned South African subsidiary Homeland Coal Mining SA (Pty) Ltd., Homeland lent ZAR 55,124,000 (\$7.2 million) to aid a private Black Economic Empowerment ("BEE") company in South Africa to purchase the 26% of Ferret Coal (Kendal) (Pty) Ltd. ("FCK") that the Company does not own. The loan bears interest at the South African prime overdraft rate, and the related equity interest in FCK is 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 FCK or out of proceeds of their disposal of these shares to a Broad Based Black Economic Empowerment Partner in terms on the loan agreement. Any outstanding balance on the loan would be repaid to Homeland in 20 years. In the period ended December 31, 2008, interest receivable in the amount of ZAR 5.4 million was accrued. The carrying amount of the Loan at December 31, 2008 is \$7,939,614.

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Repayment of the loan within the next 12-months cannot be anticipated with sufficient certainty to justify classifying any component thereof as short-term. The Company anticipates working with the borrower to place a significant portion of these shares in a transaction that will see the loan repaid in full as soon as possible.

Exploration and Development Update

In situ coal resources in South Africa, reported according to the requirements of the Canadian National Instrument 43-101:

Project	Measured (Mt)	Indicated (Mt)	Total M&I (Mt)	Inferred (Mt)
Kendal ¹	8.7	0.7	9.4	25.2
Eloff ²	151.1	99.2	250.3	210.5
Grand Total	159.8	99.9	259.7	235.7

Notes: 1. At July 31, 2007, as reported by SRK Consulting (South Africa) (Pty) Ltd.
2. At March 30, 2009, as reported by Homeland Mining & Energy SA (Pty) Ltd.

The reduction in resource estimates for the Eloff Mineral Property from previous statements is due to the fact that inconsistencies were found in the seam sampling procedures in certain boreholes. This situation will be reversed on the completion of a small infill drilling program of some 30 slim cores. Homeland does not feel that this reduction should reflect negatively on the previously announced resource, but rather the change is a matter of technical correctness to ensure consistency in geological reporting that management feels more comfortable with.

Kendal Colliery, Mpumalanga Province, South Africa

The Kendal Mine is a moderate coal resource, minable by open cast methods, and represents the first operating mine in Homeland's portfolio of assets. The project area is partly underlying farming (maize and livestock) land, and has historically supported mining operations supplying coal to the local market. The Kendal Colliery lies in the west-central region of the Witbank Coalfield, and began processing coal in July 2008. The Colliery is located approximately 100 kilometres east of Johannesburg, near the Kendal Power Station in Mpumalanga Province, at Latitude 26°04' South, Longitude 28°59' East, some six kilometres west of the town of Ogies. The elevation of the project is some 1,570 metres above mean sea level.

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Activities during 2008 included:

- Completion of all required civil works supporting the plant infrastructure.
- Final assembly of a new 200 tonne per hour combined drum and cyclone dense medium coal washing plant, built by Derek Parnaby Cyclones International Ltd in the United Kingdom.
- Construction of the run-of-mine tips, crushing and screening circuit, conveyor systems and discard bins (expected to be upgraded and finalized by April 2009).
- Commissioning of the weighbridges, completion of the water reticulation system, connection of Eskom provided power, and erection of high masts for lighting.
- Fencing of the area, additional landscaping, installation of a slurry pipe line, upgrading of the main entrance roads, and construction of an office complex.
- Awarding of the mining contract to Moolman Mining, a division of Aveng Ltd. of South Africa. The scope of work was defined as the mining of a minimum of 150,000 run-of-mine tonnes of coal per month up to the point of delivery to the crushing and screening plants. The tender includes the removal of all material above the coal seams, intermediate coal partings between significant seams and subsequent rehabilitation of the mined out area; subject to the standards set by Homeland. The initial duration of the contract is three years, subject to standard adjustments in line with industry norms, at which time the contract may be re-negotiated or re-tendered.
- Homeland has secured and is in the process of finalizing the acquisition of all necessary surface rights through the purchase of the lands covered by the area of interest.

On March 18, 2008, the Company was notified by the South African Department of Minerals and Energy of the granting of the Mining Right in terms of Section 23 of the Mineral and Petroleum Resources Development Act, 2002, (Act 28 of 2002) in respect of Portion 6 of the farm Bankfontein 216 IR and Portions 5 and 10 of the farm Heuvelfontein 215 IR, situated in the magisterial district of Witbank; the Kendal Colliery. Homeland owns 74% of Ferret Coal (Kendal) (Pty) Ltd, the company that made the application, with the remaining 26% owned by a local strategic partner in South Africa.

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The Kendal Mine is subdivided into four mining blocks (B, D, E and F). Mining has commenced at block B, where the number 2 seam (at 25 metres and laterally consistent) and number 4 seam (at 15 metres, but which is affected by weathering) are found. The accumulative strip ratio for both seams is 4:1. Establishment of a second boxcut was commenced at Block F in August 2008, where the number 2 seam is found at 18 metres, for a strip ratio of 3.9:1.

In April 2008, dewatering of the first boxcut and the removal of overburden commenced. May 2008 saw mining activity focused on the ramp area and the removal of overburden on a three-shift seven-day cycle. Dewatering of the boxcut was completed and some 192,603 cubic metres of overburden were removed. The first blast was conducted in June 2008 and the first coal was transferred from the pit to the plant stockpile in July 2008. During plant commissioning, by toll washing third party coal, it was determined that certain screens did not operate effectively. The plant was shut down in late June 2008 and the screens were replaced with new screens designed for the purpose. The feeder breaker was also replaced, to achieve better crushing ratios and improve throughput, and the opportunity was taken to make other improvements.

Production in the year ended December 31, 2008:

	July 2008	August 2008	September 2008	October 2008	November 2008	December 2008	Total 2008
Run-of-Mine ("ROM" tonnes)	10,964	64,440	32,631	80,829	21,120	102,366	312,350
Feed to plant (tonnes)	3,928	31,957	73,575	71,928	53,124	68,611	303,123
Yield (%)	45.21	38.23	34.49	36.78	33.63	38.90	36.42
Product (tonnes saleable)	1,776	12,217	25,377	26,457	17,864	26,693	110,384
Sales (tonnes)	-	5,216	24,690	19,531	27,529	12,279	89,245
Stock (tonnes)	1,776	8,777	9,464	16,390	6,725	21,139	

The run-of-mine production and therefore the feed to the plant was lower than anticipated due to, in the case of B Block, two intrusive paeleo channels and a narrow pit requiring a boxcut style operation which limited steady state operations – the Company was unaware of these paeleo channels as no extensive exploration drilling could be undertaken in advance of the granting of the mining licence, and in the case

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of F Block, 'wet' soft materials as a result of the rain hindered production and a low volatile area (in an isolated area of the Block) stopped production for 2 weeks.

The low plant yield can be partially attributed to poorer coal qualities than were initially anticipated from both the B and F Blocks and to the negative effect on the plant yield as a result of the initial decision to process the coal produced to obtain a B Grade product. The results from the detailed exploration program of 2008 are now being included in a revised Mine Plan and Processing Model for 2009 and beyond. Plant improvement projects are also ongoing with a plant outage of ten days planned for April 2009 to target the following areas:

- the feeder breaker will be moved to its permanent position underneath the ROM bin, which will be erected in March 2009;
- the feed conveyor will be moved in line with the new feeder breaker position and the new mineral sizer;
- the new mineral sizer, with its associated structure and feed chute will be installed; and
- the new raw coal screen, to prevent blinding when handling wet material, and cyclone product screen with its associated structures and under pans, will be installed.

Mining activity in the year ended December 31, 2008:

	May 2008	Jun 2008	Jul 2008	Aug 2008	Sep 2008	Oct 2008	Nov 2008	Dec 2008	Tot 2008
BLOCK B									
Overburden Stripping (m ³)	192,603	350,959	359,149	472,445	307,904	167,163	146,976	328,553	2,325,752
Run-of-Mine (tonnes)	-	-	10,964	64,440	32,631	80,829	21,120	35,716	245,700
BLOCK F									
Overburden Stripping (m ³)	-	-	-	40,394	224,282	262,630	239,167	213,891	980,364
Run-of-Mine (tonnes)	-	-	-	-	-	-	-	66,650	66,650
TOTAL									
Overburden Stripping (m ³)	192,603	350,959	359,149	512,839	532,186	429,793	386,143	542,444	3,306,116
Run-of-Mine (tonnes)	-	-	10,964	64,440	32,631	80,829	21,120	102,366	312,350

Note: Stripping includes pre-stripping and excavation of boxcuts.

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Safety & Health

In the year to date, four non-lost time injuries ("NLTI") were reported:

PERIOD	ACCIDENTS	NLTI	LTI
January - December 2007	0	1	0
January - July 2008	5	4	0
August 2008	0	0	0
September 2008	0	0	0
October 2008	2	0	0
November 2008	3	0	0
December 2008	2	0	0
Total 2008	12	5	0

The Kendal Mine is managed by Mr. Hilton Papenfus, General Manager, Operations, who joined Homeland in April 2008. Mr. Papenfus is a mining engineer with over 26 years of experience in the management of opencast and underground coal operations and related projects with such companies as Anglo Coal, Eyesizwe and Exxaro. Mr. Papenfus will oversee the mining, contracted out to Moolman Mining, South Africa and the processing plant, operated by mineral processing firm Fraser Alexander.

Homeland held a grand opening ceremony for the Kendal Colliery on Wednesday October 1, 2008. The gathering included approximately 300 guests, including Government and local officials, employees, contractors, business partners and members of the local communities.

An independent NI 43-101 compliant technical report for Kendal was prepared by SRK Consulting of Johannesburg dated October 5, 2007, which may be found in the "Core Assets" section of the Company's website at www.homelandenergygroup.com.

Eloff Mineral Property, Mpumalanga Province, South Africa [Pre-development Stage]

The Eloff Project is a significant coal resource, largely mineable by open cast methods, underlying predominantly farming (maize and livestock) land that has historically been considered for supplying a low grade of coal to the local power generating industry. A component of the resource could be upgraded for local industrial consumption or the export market. The Eloff Mineral Property lies in the western extremity of the Witbank Coalfield, located at Latitude 26°15' South, Longitude 28°42' East, some 10 kilometres to the south of the town of Delmas in Mpumalanga Province of South Africa. The elevation of the project is some 1,600 metres above mean sea level.

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Homeland has secured the mineral rights to the Eloff Project (within the farms Weilaagte and Welgevonden) by way of Prospecting Right (Protocol Number 141/2006), granted by the Department of Minerals and Energy to Tshedza Mining Resources (Pty) Limited ("Tshedza") in October 2006. Homeland currently owns 50% of Tshedza, with the option to acquire a further 1% for ZAR 1.00. The Company has submitted an application for a mining licence, which is expected to be granted in the second quarter of fiscal 2009.

The project is located close to a number of current and defunct mining operations. Several prospecting drilling campaigns have been carried out in the area, the most recent being commissioned by Homeland in May 2007. A total of 165 holes were drilled in 2007 over the project area of 4,921.3 hectares, for a total length of 10,312 metres. The majority were coal-bearing with only 10 boreholes, along the edge of a paeleo drainage channel, showing no coal or weathered coal. The drill pattern was set out initially on a 500 metre by 500 metre pattern, designed to supplement the 65 holes drilled in 1980/81 from which results the size of the project was first realized. Exploration is carried out using vertical diamond-drilled fully-cored boreholes of a TNW size (60.5 mm core diameter).

A total of 398 boreholes have been drilled to date (and rehabilitated) for a total of 24,000 metres and it is expected that an additional 20 holes (2,000 metres) will be required. Drilling was suspended in September 2008, pending review of an initial scoping study. See table of resources, page 11: The reduction in resource estimates, from the April 30, 2008 report by Gemecs (Pty) Ltd, is due to the fact that inconsistencies were found in the seam sampling procedures in certain boreholes. This situation will be reversed on the completion of a small infill drilling program of some 30 slim core holes. Homeland does not feel that this reduction should reflect negatively on the Gemecs resource, but rather the change is a matter of technical correctness to ensure consistency in geological reporting that the Company feels more comfortable with. It is anticipated that a full Bankable Feasibility Study, including detailed beneficiation plant design, infrastructure layout, staff requirements, and capital and operating budget projections, will be undertaken after the recent preliminary assessment has been upgraded to a pre-feasibility study. The Pre-Feasibility Study is expected to commence shortly at a cost of approximately ZAR 1 million (\$125,000).

Northfield Site Reclamation Project, Kwa-Zulu Natal Province, South Africa [Tailings Reclamation Project]

The Northfield Site Reclamation Project is a small resource of dried fine tailings resulting from the processing of coal at the now defunct Northfield Colliery. The Project lies in the north western Kwa-Zulu Natal Coalfield, and is located close to a

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number of defunct mining operations. The Northfield Project is located at Latitude 28°08' South, Longitude 30°08' East, to the northwest of the town of Glencoe in Kwa-Zulu Natal Province of South Africa. The elevation of the project is some 1,380 metres above mean sea level.

Following the granting of the Mining Permit on November 27, 2007, the Company exercised its option to purchase Corpclo (Pty) Ltd. for ZAR 12 million (\$1.8 million). Homeland has a 100% interest in the Northfield Site Reclamation Project. Once the mining permit was awarded, site establishment commenced. Initial work included cleaning dams, fixing roads and removing alien vegetation. A weighbridge was purchased and installed, a site office erected, the mining lease area fenced and the mining and security contractors appointed. An amended environment management program report was submitted to the Department of Mines and Energy, as requested, which has been accepted along with the financial guarantees. An updated Mining Permit was awarded in August 2008.

Exploitation of the slurry dump has been delayed, however, as the initial contracted buyer for the product failed to provide the necessary financial guarantees. A recent agreement is expected to result in coal sales commencing in January 2010.

Exploration Projects

Through its equity interest in Tshedza Mining Resources (Pty) Ltd and Nhlalala Mining (Pty) Ltd ("Nhlalala"), the Company has a 50% interest in amongst others the following South African exploration properties. Homeland has an option to increase this interest to 51% in each company, with regulatory approval, through the payment of ZAR 1.00.

Onbekend

At Onbekend, Tshedza holds a prospecting license over some 2,864.2 hectares. Resource definition drilling began in 2007 and has been completed with the drilling of 134 boreholes at an average dept of 50 metres (6,700 metres in total). The main coal seam is the C seam (seam height of 0.8 metre, intersected at 24 metres), although there is a significant portion of B seam (seam height of 0.3 metre, intersected at 15 metres). The target is high quality, low phosphorous metallurgical coal.

Vlakovarkfontein (Arbor)

At Vlakovarkfontein, Nhlalala holds a prospecting license over some 1,117.2 hectares. Only 25 boreholes, of a 50 borehole program, have been drilled as the Company is currently in negotiations with the surface rights owners with regards to compensation for further access to complete the drilling program. The boreholes

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average 50 metres in depth (1,250 metres in total) and both the 4 and 2 seams were intersected.

The qualities as received from the laboratory indicate that the coal is of similar quality to the Kendal Mine. As Vlakvarkfontein is located only approximately 13 kilometres from the Kendal Colliery, the use of the Kendal processing facility will be considered to treat this coal.

Project Acquisitions

The Company is also seeking to expand its project base regionally:

Homeland has established Homeland Mining and Energy Botswana (Pty) Ltd, a Botswana registered company, and in late 2007 opened an office in Gaborone. A country manager was appointed to oversee operations from an administrative and commercial perspective, and a vehicle, office furniture and equipment were purchased.

In June 2008, an Agreement was concluded giving the Company a 70% interest in Wizard Investments whose concession is based around the village of Takotakwane, about 150 kilometres North West of Gaborone. The licence is valid until March 31, 2010, and it is possible to extend the licences twice, for two years at a time, providing the previously approved work commitment has been completed.

The Kweneng area has been modelled based on information provided by Wizard. Up to 9 distinct seams are present, with a thick coal shale zone of 5 to 15 metres thick being the most prominent zone. The seams are generally thin and deep occurring between 80 and 250 metres below surface. The area is vast, stretching over 100 kilometres in length and 30 kilometres in width. Drilling under the direction of Homeland commenced during October 2008, following site establishment and infrastructure development, and negotiations with land owners, village chiefs and the Department of Water. An initial program of 12 boreholes was completed in early 2009 and the results are pending.

Reporting Period

At December 31, 2008, Homeland had net working capital of \$7,305,665 (December 31, 2007: \$3,583,343), including cash and equivalents of \$7,815,158 (December 31, 2007: \$5,930,444). In addition, on January 20, 2009 the Company secured a short-term working capital facility for US\$2.5 million and on March 6, 2009 the Company received \$3,155,302 from a private placement with its largest shareholder. Working capital will be used for exploration and development expenditure as well as to support corporate overheads.

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Exploration Expenditures

Mineral exploration costs have formed the bulk of the Company's expenditures to date. These costs are set out in the following table:

	2008	2007	2006	2005
	\$	\$	\$	\$
<i>Coal Properties:</i>				
Acquisition costs	103,679	1,840,201	2,520,246	-
Property costs	-	-	10,766	-
Pre-production costs (net of sales)	217,975	-	-	-
Management and Consulting	256,651	749,994	525,830	-
Drilling and Analysis	2,020,339	859,130	-	-
Infrastructure and Earthworks	4,421,824	757,552	-	-
Surveying and Other	512,299	379,875	10,610	-
	7,532,767	4,586,752	3,067,452	-
<i>Uranium Properties:</i>				
Acquisition costs	-	147,400	3,527,510	-
Property costs	-	-	469,974	274,344
Management and Consulting	-	265,358	844,197	469,832
Surveying and Other	-	-	262,460	52,983
	-	412,758	5,104,141	797,159
Total cost to the Company	7,532,767	4,999,510	8,171,593	797,159

Acquisition costs incurred in 2008 represent the acquisition of Wizard Investments in Botswana for Pula 630,000 (\$103,679).

Significant components of the exploration and development programs in 2008 included:

- A drilling program at the Eloff Mineral Property (\$976,525), that has recently been temporarily suspended while the results are incorporated into the preliminary assessment and soon to be initiated pre-feasibility study. Targeted additional drilling will continue once access agreements have been negotiated with the landowners. A Pre-Feasibility Study has been commissioned at a cost of ZAR 1 million (approximately \$125,000), which will be followed by a full Feasibility Study over the next 12 months.
- Drilling also took place at the Kendal Colliery (\$796,473), with closer spaced holes designed to aid in mine planning. A new Mine Plan and Processing Model has recently been completed for 2009 and beyond.

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- Although resistance was encountered from certain landowners, drilling did take place at the Onbekend exploration project (\$29,997), and will continue at the other exploration projects following new access agreements currently being finalized with landowners. To this end, a number of mining companies operating in the area are cooperating and hope to establish a reasonable standard fee structure with landowners. The coal sampled is sent for analysis to coal and mineral analytical laboratories at Witlab (Pty) Ltd and the South African Bureau of Standards.
- Work on infrastructure and earthworks continued throughout the year at both the Kendal Colliery (\$4,131,116), where the processing plant began commissioning in July 2008, and at the Northfield Site Reclamation Project (\$155,879), which entailed preparing the site for exploitation and screening of the peripheral resources.
- Commissioning of the Kendal Colliery resulted in net pre- (commercial) production costs of \$217,975 in the year, broken down as follows:

- Revenue from coal sales:	(\$ 7,425,169)
- Mining costs:	\$ 6,527,825
- Processing costs:	\$ 2,484,161
- Engineering, environmental and transport costs:	\$ 237,480
- Social upliftment costs:	\$ 357,758
- <u>Less:</u> Closing stocks:	(\$ 1,964,080)
- Direct project management and consulting fees included \$126,368 paid to a company owned by a director and significant shareholder of Tshedza Mining Resources (Pty) Ltd and Nhlalala Mining (Pty) Ltd as a retainer for services rendered in respect of the securing and maintenance of prospecting rights.

Results of operations

The net loss for the year ended December 31, 2008 was \$24,023,944 and the comprehensive loss for the year was \$30,641,454, which included unrealized losses on available-for-sale securities of \$6,617,510; being the unrealized losses recorded on the Company's investments in Altona Energy Plc and Aviva Corporation Ltd. The comparatives for fiscal 2007 were a net loss of \$5,093,217 and a comprehensive loss of \$5,093,217.

The net loss for the year ended December 31, 2008 included \$3,888,257 (2007: \$1,542,404) of management and administrative services, which is significantly higher than in 2007 due to the addition of staff in South Africa, Toronto and London, associated with both the listing of the Company on the Toronto Stock Exchange and

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in particular with the development of the Company's Kendal Colliery in South Africa. Dedicated South African technical staff are charged to the exploration and/or development projects concerned. Also included is a contingent lump sum payment, paid upon the conclusion of a revised employment agreement between the Company and its Chief Financial Officer in July 2008 that removed the previous contractual entitlement to a lump sum termination payment.

Labour Analysis as at December 31:

Division	Employees	Contractors	Total 2008	Total 2007
Toronto	5	2	7	3
London	3	1	4	2
Botswana	3	0	3	0
South Africa	16	0	16	12
Kendal	3	307	310	0
Northfield	3	0	3	0
Total	33	310	343	17

The substantial travel and accommodation expenses incurred of \$1,508,321 (2007: \$956,498) are due to the frequent visits by London and Toronto based management to the operations in South Africa, attendance of directors at in-person Board Meetings, and the costs associated with negotiations with potential providers of finance, customers and strategic partners. The escalating investor relations program (2008: \$540,990, compared with \$135,114 in 2007) also added to the significant travel commitment of senior management. The investor relations program was managed by a full time Vice President Investor Relations, who was appointed at the beginning of the year, and included groups in the England (\$48,909) and the USA (\$138,559). The Chief Executive Officer and VP Investor Relations committed significant time to bringing the Company's message to investors in both North America and Europe, although with the recent challenging market conditions these activities have been scaled back and have become more focused on product marketing with the Company attending trade conferences in North America, Europe and Africa.

Legal fees in the year ended December 31, 2008 of \$865,263, included legal fees paid to counsel in Canada (\$325,835, excluding the reverse takeover), South Africa (\$243,769), England (\$115,003) and other jurisdiction (\$46,852) - attributable to the substantial number of legal contracts being concluded in the early stages of the various projects, the sale of an interest in HMESA to the GMR Group and its subsequent repurchase, the acquisition of Appolo and Diversified and general

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corporate activities. In addition, legal fees associated with the reverse takeover of Chrysalis Capital IV Corporation amounted to \$133,804.

Professional and consulting fees of \$1,942,060 (2007: \$382,501) include the Facility Fee paid to Nedbank of ZAR 3 million (\$394,900), the introductory fee upon the receipt of the US\$30 million from GMR Limited of \$1,213,740, to an individual who later became an employee of the Company, the fees paid to technical consultants in South Africa for the Competent Persons Reports associated with the listing of the Company on the Toronto Stock Exchange, etc. (\$126,953), fees paid for administration assistance to a related party in Toronto (\$60,000), fees paid for advice with regards tax structuring and the assessment of internal controls (\$51,225), fees paid to a strategic advisor in South Africa (\$23,377) and other general consulting fees incurred across the group companies (\$71,865).

Project evaluation expenditure relates to the costs incurred negotiating, concluding and on subsequent due diligence associated with the acquisition of Appolo Fuels Inc. and Diversified Energy Inc. and includes:

- Option payments to the vendors:	\$ 1,024,408
- Legal and financial consultants:	\$ 122,740
- Technical consultants:	<u>\$ 430,689</u>
- Total:	<u>\$ 1,577,837</u>

The write down of investments (\$590,261) related to the write off of earlier due diligence costs incurred associated with an investment that was considered within the South African export industry. A third party offered substantially more than the Company was willing to pay for an investment associated with the export of coal from South Africa and the Company decided to withdraw from negotiations. The knowledge gained from the time and money invested will, however, benefit the Company in the long-term.

A significant non-cash contributor to the net loss in the year ended December 31, 2008 was stock-based compensation, calculated in terms of the Black-Scholes Model, of \$4,275,060 (2007: \$1,369,845); being the book entries associated with the granting of stock options that are required in terms of Canadian GAAP to be recognized over the vesting period of the stock options.

Also included in the net loss for 2008 are foreign exchange losses of \$4,908,311, which includes \$4,018,879 related to the revaluation of the obligation to pay US\$30 million to GMR Limited, as a result of the appreciation of the United States Dollar between the time that the Company received the funds from GMR Limited and the crystallization of the obligation to repay GMR Limited (in common shares of the Company - see subsequent events). The other significant component of this foreign

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exchange loss was the loss realized on the depreciation of the value of United States Dollar denominated investments held in Canada early in 2008, in Canadian Dollar terms.

As at December 31, 2007, the Company originally recorded their investment in Homeland Uranium Inc. ("HUI") using the cost method of accounting. The Company is now recording the investment under the equity method of accounting and the 2007 consolidated financial statements have been restated. Effective February 1, 2007, the Company transferred its uranium assets to a Canadian private company (HUI) in return for 16,000,000 common shares. As the Company had an original control position in HUI, and the sale therefore occurred between two related entities, the transaction was accounted for at cost. Following financings by HUI that raised \$1.84 million at \$0.23 per share, and \$23 million at \$0.80 per unit (in which the Company participated to the extent of \$5 million), the Company's interest in HUI decreased to approximately 42%. HUI was consolidated with Homeland from February 1, 2007 to the date of dilution of Homeland's interest in HUI to 42%. At the time of dilution, the investment was valued at \$7,824,955 and classified as an equity investment. Upon dilution, the Company recognized a gain on dilution of \$1,739,058. During the year ended December 31, 2008, the Company recognized an equity loss of \$2,393,400 (2007: \$346,966).

The higher level of exploration and development activities and the resultant expansion of the office facilities and management structure have led to a substantial increase in office and administration expenses, from \$407,645 in 2007 to \$780,275 in 2008, including rent paid of \$288,287. Rent paid includes Canada (\$40,447), England (\$134,618), South Africa (\$98,740) and Botswana (\$14,482).

Interest paid of \$342,118 includes interest on the Nedbank Credit Facility of \$303,751 and interest on the GC Global convertible debenture of \$37,199.

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Selected Annual Information

The table below outlines selected financial information related to the Company's fiscal years ended December 31, 2008, 2007 and 2006. The financial information is extracted from the Company's audited consolidated financial statements.

(In thousands of Canadian dollars, except per share amounts)

Fiscal Period	Revenue	Comprehensive (Loss)	Comprehensive (Loss) per Share (\$)	Total Assets	Total long-term Liabilities	Cash Dividends
2008	-	(30,641)	(0.21)	58,074	8,311	-
2007	-	(5,093)	(0.04)	33,715	1,930	-
2006	-	(2,949)	(0.04)	13,231	-	-

For the year ended December 31, 2008, the Company incurred a net loss of \$24,023,944 (\$0.16 per share) and a comprehensive loss of \$30,641,454 (\$0.21 per share), that included unrealized losses on available-for-sale securities of \$6,617,510, compared to a net loss / comprehensive loss of \$5,093,217 (\$0.04 per share) in 2007.

Interest income increased from \$165,398 in 2007 to \$1,099,432 in 2008 as the Company's cash and equivalents balance was higher in the current year. Also included in interest income is \$712,891 charged on and capitalized to the loan made to a BEE company (see Note 10(c) of the audited consolidated financial statements).

Stock-based compensation expense increased to \$4,275,060 in the current year (2007: \$1,369,845), and included charges for options granted in previous years that vest over an extended period. Investments written down of \$590,261 in the current year relates to the investment considered in a venture to facilitate the export of the Company's coal from South Africa, from which the Company later withdrew. Foreign exchange losses of \$4,908,311 (2007: \$559,911) include a loss of \$4,018,879 recorded on the obligation to repay GMR Limited US\$30 million, received earlier in the year, subsequently settled in common shares (see Note 25(a) of the audited consolidated financial statements). Equity losses of \$2,393,400 (2007: \$346,966, also losses recognized on consolidation were \$228,161 and gains recognized on dilution were \$1,739,058) were recognized on the equity accounting of HUI. Amortization expense increased to \$197,764 (2007: \$99,807) as a result of additions to capital assets. Unrealized losses in the market value of investments of \$6,617,510 (2007: \$nil) were due to the decrease in the quoted market value of investments held by the Company.

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Other general and administrative expense increased to \$12,758,580 (2007: \$4,392,983), and included management and administrative services of \$3,888,257 (2007: \$1,542,404), professional and consulting fees of \$1,942,060 (2007: \$382,501) and legal fees of \$865,263 (\$250,919). In the year ended December 31, 2008, the Company increased its exploration, development, administration and financing activities which required the hiring of additional employees, consultants and contractors. The Company also expensed the option fees paid and due diligence costs incurred during the year on the attempted acquisition of Appolo and Diversified, which acquisition was suspended in March 2009 with the payment of the negotiated break fee (see Note 25(b) of the audited consolidated financial statements).

For the year ended December 31, 2008, the Company spent \$7,532,767 (net of recoveries) on its exploration and development properties, compared to \$4,999,510 in 2007. The past year was an extremely busy year for the Company, particularly at the Kendal Colliery in South Africa which began producing coal in the third quarter. The ramp up to commercial production is expected to be completed in the second quarter of 2009.

The general trend of increasing assets has resulted from the Company raising funds from equity investors and investing in its exploration and development properties in South Africa and Botswana; as well as in investments such as Homeland Uranium Inc., Aviva Corporation Ltd. and Altona Resources Plc.

As at December 31, 2007, the Company originally recognized a current future income tax asset of \$710,138. Due to uncertainty whether the subjective criteria of the "more likely than not" test of recognizing these future income tax assets are being met, the Company has restated the 2007 consolidated financial statements to reverse the future income tax asset and the future income tax expense included in the statement of operations.

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Selected Quarterly Information

The table below outlines selected financial information related to the Company's most recent 12-quarters. The financial information is extracted from the Company's interim unaudited consolidated financial statements.

(In thousands of Canadian dollars, except per share amounts)

Fiscal Period	Revenue	Comprehensive (Loss)	Comprehensive (Loss) per Share (\$)	Total Assets	Total long-term Liabilities	Cash Dividends
2008 - Q4	-	(17,213)	(0.11)	58,074	8,311	-
2008 - Q3	-	(6,457)	(0.04)	59,373	31,972	-
2008 - Q2	-	(4,159)	(0.03)	60,072	29,120	-
2008 - Q1	-	(2,812)	(0.02)	36,410	-	-
Total	-	(30,641)	(0.21)	N/A	N/A	-
2007 - Q4	-	(1,183)	(0.01)	33,715	1,930	-
2007 - Q3	-	(1,553)	(0.01)	27,716	1,553	-
2007 - Q2	-	(1,392)	(0.01)	26,305	1,501	-
2007 - Q1	-	(965)	(0.01)	17,319	-	-
Total	-	(5,093)	(0.04)	N/A	N/A	-
2006 - Q4	-	(1,445)	(0.02)	13,231	-	-
2006 - Q3	-	(515)	(0.01)	13,828	-	-
2006 - Q2	-	(248)	(0.00)	12,830	-	-
2006 - Q1	-	(741)	(0.01)	5,534	-	-
Total	-	(2,949)	(0.04)	N/A	N/A	-

In the three months ended December 31, 2008, the Company recorded a comprehensive loss of \$17.2 million (\$0.11 per share), compared with a comprehensive loss of \$1.2 million for the same period in the prior year. The comprehensive loss in the three months included the foreign exchange loss on the revaluation of the US\$30 million obligation to the GMR Group and the expensing of the project evaluation costs associated with the attempted acquisition of Appolo and Diversified, both as discussed above, as well as \$2,638,994 of the unrealized losses in the market value of investments and a \$2,393,400 equity loss on HUI.

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Liquidity

The following table summarizes the Company's cash flows and cash on hand:

	2008	2007	2006
	\$	\$	\$
Cash and equivalents	7,815,158	5,930,444	2,370,478
Working capital	7,305,665	3,583,343	2,438,197
Cash used in operating activities	(17,656,308)	(1,384,628)	(1,698,080)
Cash used in investing activities	(21,886,048)	(14,899,695)	(5,101,068)
Cash provided by financing activities	40,860,770	19,844,289	8,626,737

At December 31, 2008, the Company had cash and equivalents of \$7,815,158 and working capital of \$7,305,665. On January 20, 2009, the Company secured a short-term working capital facility for US\$2.5 million to supplement the cash-on-hand at its parent company and on March 6, 2009 the Company received \$3,155,302 from a private placement with its largest shareholder (see Notes 25(c) and (a) of the audited consolidated financial statements, respectively).

Management believes that with these inflows of cash, the Company has sufficient funds available to it in Canada to pay its ongoing administrative expenses and to meet its liabilities as they fall due. The majority of the Company's cash and equivalents at December 31, 2008 was held in South Africa (\$7.1 million), from where it cannot be repatriated to Mauritius or Canada until the Kendal Colliery satisfies the "completion tests" imposed in terms of the Nedbank Facility. This is not expected to occur before at least August 2009. In South Africa, the Company believes that it has sufficient cash-on-hand to meet its operating costs and undertake the planned exploration at its various projects and, taking the available Nedbank Facility into account, has adequate access to additional liquidity to complete the next phase of development at the Kendal Colliery. Homeland will, however, require additional resources to meet its anticipated property development expenditure at, for example, the Eloff Mineral Property, although such development is unlikely to commence for at least 12-months, or to fund any additional acquisition opportunities. The Company will consider all alternative models, including the introduction of a strategic partner, when evaluating its development strategy for the Eloff Mineral Property.

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Operating Activities

Cash used in operating activities during the year ended December 31, 2008 included administrative expenses and interest income of \$12,117,886 (2007: \$4,160,266). Non-cash working capital used \$5,538,422 (2007: \$2,775,638), primarily as a result of an increase in accounts receivable associated with sales of coal from the Kendal Colliery paid on 30-day terms. Accounts payable associated with the exploration and development operations have been offset against mineral properties, with accounts payable therefore reducing substantially following the reclassification of the US\$3 million accrual associated with GMR in 2007 (see Subsequent Events).

Investing Activities

Cash used by investing activities in the year ended December 31, 2008 was \$21,886,048, compared to \$14,899,695 in the year ended December 31, 2007. Expenditures on exploration and development used \$6,625,632, compared with \$4,888,708 in 2007. In the third and fourth quarters of 2008 the Company capitalized the net pre-production operating expenditure at the Kendal Colliery (i.e. net of revenue generated) of \$217,975, while it continued with development activities and the commissioning of the Kendal Colliery and processing infrastructure. The Company applied \$2,833,565 to acquire land at the Kendal Mine site, plant and equipment, motor vehicles, computer software and office space for the South African team. The provision of long-term finance to a strategic partner in the second quarter of 2008 accounted for 36% of the investing activities in the year, with the second largest component being the development activities at the Kendal Colliery. Other investing activities included the investment by the Company in Aviva Corporation Ltd., of \$3,452,538 and the additional long-term finance provided by the Company for the funding of the Madic Continuous Conveyor System.

Financing Activities

In January 2008 Homeland closed an offering of 2,000,000 units at a price of \$1.20 per unit, each unit consisting of one common share and one-half of one common share purchase warrant, each full purchase warrant exercisable at \$1.50 per share until May 21, 2009. Net of financing costs of \$40,000 this generated \$2.36 million in cash. The Company also paid \$1.34 million to settle a penalty based on the timing of the listing of the Company's shares on the Toronto Stock Exchange under an earlier subscription agreement. In the three months ended June 30, 2008, the Company received \$21,750 upon the exercise of stock options. On December 30, 2008, shareholders approved the Company's election to settle its obligation to GMR in common shares, at \$0.455175 per share, the funds for which were received earlier in the year (US\$30 million).

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In September 2008, Ferret Coal (Kendal) (Pty) Ltd., a 74% owned subsidiary of Homeland, secured a ZAR 150 million (\$19,665,000) five and a half-year Term Loan Facility from Nedbank Limited, one of South Africa's largest banks, with the first draw down of ZAR 25 million (\$3,185,000) taking place on September 30, 2008. In October 2008, the Company drew down an additional ZAR 50 million (\$6,080,000). The balance of the Facility is available for draw down to September 2009. The Facility is secured by guarantees from, and pledges of the shares of, certain subsidiaries as well as by all assets of Ferret Coal (Kendal) (Pty) Ltd., and is repayable from September 2009 through December 2013. Amounts drawn under the facility bear interest at the rate of JIBAR plus 3.15% per annum prior to Completion, and at the rate of JIBAR plus 2.50% per annum following Completion. Undrawn amounts are subject to a commitment fee of 0.50% per annum. The effective interest rate at December 31, 2008 was 14.575%.

Board of Directors and Management

Following completion of the Merger on February 29, 2008, Robert Munro remained on the board of directors of Homeland Energy Group Ltd. and Tom Griffis, Stephen Coates, Avrom Howard, Neil McLoughlin and Laurence Curtis joined the board of directors from Homeland Energy Corp. Brief biographies of the directors and officers of the Company were included in the Management's Discussion and Analysis of the results of Homeland Energy Corp. for the year ended December 31, 2007, which is available on www.SEDAR.com.

The Company has expanded the management team in London, Toronto and South Africa to include Coal Marketing, Investor Relations, Strategic Planning and Development, and Production and Mine Management expertise. In anticipation of the commissioning of the Kendal Mine, Mr. Hilton Papenfus joined the Company in April 2008.

Hilton Papenfus - General Manager, Operations - Homeland Mining and Energy SA (Pty) Ltd. (responsible for the Kendal Mine)

Mr. Papenfus is a mining engineer with 26 years' experience in opencast and underground coal mining operations and related projects with Anglo Coal, Eyesizewe and Exxaro. As well, Mr. Papenfus has experience as a Business Manager for a commercial explosives company serving the mining industry in South Africa.

With effect from April 15, 2009, Mr. Andrew Gottwald will be joining the Company as Chief Financial Officer. Mr. Gottwald, is a member of the Institute of the Chartered Accountants of Ontario and brings experience in an operating environment as VP Finance and Chief Financial Officer of Tahera Diamond

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Corporation. Mr. Woodhead will be available to the Company through the transition before moving on to pursue new interests.

Mr. Andrew Gottwald - Chief Financial Officer.

Mr. Gottwald is a Chartered Accountant with over 10 years experience in the financial services industry. Prior to joining Tahera Diamond Corporation as Controller in 2000, Mr. Gottwald was a financial analyst with Arthur Andersen LLP. Promoted to Chief Financial Officer in 2001 and Executive Vice President Finance in 2007, Mr. Gottwald managed the transition of Tahera's Jericho diamond mine from its exploration stage through development and into commercial production, negotiated and completed 16 equity and two debt financings totalling over \$220 million, and developed and implemented accounting, reporting and procedural systems appropriate for the growth of the company and ongoing regulatory and accounting changes. Mr. Gottwald also holds a degree in Statistical Sciences from the University of Western Ontario.

Significant Accounting Policies and Estimates

Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of any contingent assets and liabilities as at the date of the financial statements, as well as the reported amounts of revenues earned and expenses incurred during the period. These estimates are based on historical experience and other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

The Company's critical accounting policies are those that affect the financial statements and are summarized in Note 4 of the audited consolidated annual financial statements of Homeland for the year ended December 31, 2008. Critical accounting policies and estimates in the period included the capitalization of the costs relating to the acquisition, exploration and development of pre- (commercial) production resource properties and the recognition of impairment of those assets, the valuation of warrants, stock options and tax accounts, the valuation of investments and long-term loans, contingent liabilities, and the choice of Generally Accepted Accounting Principles ("GAAP").

Mineral Properties

The decision to capitalize exploration expenditures, and the timing of the recognition that capitalized exploration is unlikely to have future economic benefits, can materially affect the reported earnings of the Company. Homeland follows Canadian GAAP and in line with accepted industry practice for exploration and development companies has adopted the policy of deferring property specific acquisition,

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exploration and development costs. Deferred costs relating to properties that are relinquished, or where continued exploration is deemed inappropriate, are written off in the year such assessment is made. If Homeland adopted a policy of expensing all exploration costs, the Company's asset base, shareholders' equity, and loss from operations would be materially different. These deferred costs will be amortized on the unit-of-production basis over the estimated useful lives of the properties following the commencement of commercial production. The cost of mineral properties includes any cash consideration paid, and the fair market value of shares issued on the acquisition of property interests. The recorded amounts represent actual expenditures incurred and are not intended to reflect present or future values. The Company reviews capitalized costs on its property interests on a periodic, or at least annual, basis and will recognize an impairment in value based upon current exploration results and upon management's assessment of the future probability of profitable revenues from the property or from the sale of the property. Management's assessment of the property's current fair market value may also be based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review.

Asset retirement obligations

The Company is required to record a liability for the estimated future costs associated with its legal obligations relating to the reclamation and closure of its exploration, development or mining properties. This amount is initially recorded at its discounted present value, with subsequent annual recognition of an accretion amount on the discounted liability. An equivalent amount is recorded as an increase to mineral properties and deferred exploration costs and amortized over the useful life of the properties.

Homeland's current legal obligations relating to the reclamation of its mineral properties relate to the reclamation of the plant site at the Kendal Colliery and the site of the mine dump at the Northfield Site Reclamation Project. These liabilities have been estimated and confirmed by the South African Department of Minerals and Energy and deposits have been posted as security. The rehabilitation of the mining areas are part of the ongoing mining contract, whereby previously mined out areas are backfilled and rehabilitated using materials from the next area to be mined.

Fair value

Canadian GAAP requires that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve

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uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The Company's financial instruments are primarily comprised of cash and equivalents, restricted cash, amounts receivable, investments, long-term loans, accounts payable and accrued liabilities, other current liabilities and credit facilities. The carrying values of these items, excluding credit facilities approximate their fair values due to the relatively short-term expected maturities of these instruments and/or the short-term that has passed from inception of these instruments. The fair values of long-term loans and investments were calculated based on market information and the Company's best estimate. The fair value of the credit facilities approximates carrying value due to the short period of time that has passed from inception of the financial instrument.

Changes in Accounting Policies

On December 1, 2006, the Canadian Institute of Chartered Accountants ("CICA") issued three new accounting standards: Capital Disclosures (Handbook Section 1535), Financial Instruments - Disclosures (Handbook Section 3862), and Financial Instruments - Presentation (Handbook Section 3863). In June 2007, the CICA issued a new accounting standard: Handbook Section 1400, General Standards for Financial Statement Presentation. These new standards became effective for the Company in 2008.

Capital Disclosures

Handbook Section 1535 requires the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied with any capital requirements, the consequences of such noncompliance. The Company has included disclosures recommended by the new Handbook Section 1535 in Note 7 to its audited consolidated financial statements.

Financial Instruments

Handbook Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments - Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The

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Company has included disclosures recommended by the new Handbook Sections 3862 and 3863 in Note 8 to its audited consolidated financial statements.

Inventory

A new Handbook Section 3031 has established standards for the measurement and disclosure of inventories. The standards provide guidance on the determination of cost and require the allocation of overhead expenses and other costs to inventory. Inventories must be measured at the lower of cost and net realizable value. Consistent use must be made of the method of determining inventory. Reversal of previous write-downs is required when there is a subsequent increase in the value of inventories. The amount of inventories recognized as an expense during the period is disclosed. The adoption of these standards did not have a material impact on the Company's audited consolidated financial statements.

General Standards of Financial Statement Presentation

The CICA has amended Section 1400, General Standards of Financial Statement Presentation, which is effective for interim periods beginning on or after October 1, 2008, to include requirements to assess and disclose the Company's ability to continue as a going concern. The adoption of the amended standards did not have a material impact on the Company's audited consolidated financial statements.

New Accounting Pronouncements

International Financial Reporting Standards ("IFRS")

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by the end of 2011. In accordance with CSA Staff Notice 52-320, as the majority of the Company's current activities are located in South Africa, the Company currently prepares the bulk of its accounts in accordance with IFRS and then converts to Canadian GAAP. Management believes that very limited changes will be required in order to achieve full compliance with IFRS. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

Risks & Uncertainties

Homeland's business of exploring for and developing coal deposits involves a variety of operational, financial and regulatory risks that are typical in the natural resource industry. The Company attempts to mitigate these risks and minimize their

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effect on its financial performance, but there is no guarantee that the Company will be profitable in the future.

Financing Risks

Homeland has limited financial resources, currently has no source of operating cash flow and has no assurance that additional funding will be available to it for further exploration and development of its projects or to fulfill its obligations under any applicable agreements. There can be no assurances that the Company will be able to obtain adequate funding in the future or that the terms of such financing will be favourable. Unless and until Homeland develops or acquires income producing assets, it will be dependent upon its ability to obtain future equity or debt funding to support exploration, evaluation and development of the properties in which it has an interest.

Although the Company has been successful in the past in obtaining financing through the sale of equity securities, and placement of debt instruments, there can be no assurance that additional funding will be available, or available under terms favourable to the Company especially in the current economic climate. Homeland's ability to raise further equity or debt finance will vary according to a number of factors, including the success of exploration results and the future development of the projects, stock market conditions and prices for coal. Failure to obtain additional financing could result in delay or indefinite postponement of further exploration and development of its projects with the possible loss of such properties.

The Company's current activities are focussed on the development of the Kendal Colliery and the Northfield Site Reclamation Project, as well as exploration at the Eloff Mineral Property and elsewhere. The Kendal Colliery will provide the operating cash flow in the short-term necessary for fund all exploration activities and corporate overheads once it achieves commercial production. Any adverse developments affecting these projects could materially affect the Company's financial condition and results of operations.

Nature of Mineral Exploration and Development Projects

The exploration for and development of coal deposits involves significant risks, which even a combination of careful evaluation, experience and knowledge may not eliminate. Few properties which are explored are ultimately developed into producing mines. There can be no guarantee that the estimates of quantities and qualities of coal disclosed will be economically recoverable. With all mining operations there is uncertainty and, therefore, risk associated with operating parameters and costs resulting from the scaling up of extraction methods tested in pilot conditions. Coal exploration is speculative in nature and there can be no

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assurance that any coal discovered will result in an increase in the Company's resource base.

Homeland's operations will be subject to all of the hazards and risks normally encountered in the exploration, development and production of coal. These include unusual and unexpected geological formations, formation pressures, fires, power failures, flooding, explosions, cave-ins, landslides, the inability to obtain suitable or adequate equipment or machinery, labour disputes, or adverse weather conditions, and other conditions involved in the extraction of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although precautions to minimize risk will be taken, operations are subject to hazards that may result in environmental pollution and consequent liability that could have a material adverse impact on the business, operations and financial performance of the Company.

Certain of Homeland's properties are in the exploration stage and at present do not have a known commercial coal deposit. Proposed prospecting programs are in some cases an exploratory search to define such a deposit and in other cases designed to increase the confidence in or expand the current coal resource estimates. The long-term profitability of Homeland's operations will be in part directly related to the cost and success of its exploration programs, which may be affected by a number of factors that are beyond the control of Homeland.

Although Homeland believes it will be able to define and expand its coal deposits, the economics of commercial production depend on many factors, including the cost of operations, the size of the deposit and quality of the coal, proximity to infrastructure, financing costs and Government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of coal and environmental protection. The effects of these factors cannot be accurately predicted, but any combination of these factors could adversely affect the economics of commencement or continuation of commercial production.

Success in establishing reserves is a result of a number of factors, including the quality of management, Homeland's level of geological and technical expertise, the quality of land available for exploration and development, the availability of suitable contractors, and other factors. Substantial expenditures are required to establish reserves through drilling, to determine the optimal metallurgical process and to construct mining and processing facilities. Because of these uncertainties, no assurance can be given that exploration programs will result in the establishment or expansion of resources or reserves.

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Volatility of Coal Prices

The market price of coal is volatile and is affected by numerous factors that are beyond the Company's control. These include international supply and demand, the level of consumer product demand, international economic trends, fluctuations in the oil prices, the buying and selling of coal swaps in the coal derivatives market which is often led by sentiment, currency exchange rate fluctuations, the level of interest rates, the rate of inflation, global or regional political events as well as a range of other market forces. Future sustained downward movements in coal market prices could render less economic, or uneconomic, some or all of the coal extraction and/or exploration activities to be undertaken by the Company. Although both domestic and international prices have softened considerably in the past six months, it is still economically viable to sell coal in both markets. With the forward price curve strengthening through to 2011 both domestic sellers and exporters are expected to continue to benefit. The sharply escalating prices of 2007 and 2008 were seen as artificial, largely riding on the back of unprecedented oil hikes and over-reaction on derivatives platforms which hiked the coal indices. Although demand for coal had also substantially increased during this period, particularly from China, the physical demand/supply fundamentals would have increased coal prices substantially, but not to that degree of volatility.

Physical coal demand is expected to continue to increase, particularly in the developing economies in the Far East and the market strongly believes that this factor will keep prices buoyed in the medium to long term.

Substantial Capital Requirements

Substantial additional funds for the establishment of Homeland's current and planned mining operations will be required. No assurances can be given that the Company will be able to raise the additional funding that may be required for such activities, should such funding not be fully generated from operations. Coal prices, environmental rehabilitation or restitution, revenues, taxes, transportation costs, capital expenditures and operating expenses and geological results are all factors that will have an impact on the amount of additional capital that may be required. To meet such funding requirements, Homeland may be required to undertake additional equity financing, which would be dilutive to shareholders. Debt financing, if available, may also involve restrictions on financing and operating activities. There is no assurance that additional financing will be available on terms acceptable to the Company or at all. If Homeland is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion, and pursue only those development plans that can be funded through cash flows generated from its existing operations.

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Governmental Regulations, Licences and Permits

The activities of Homeland, and its subsidiary and affiliated companies, are subject to government approvals, and various laws and regulations governing Black Economic Empowerment and the repatriation of funds in South Africa, prospecting, development, land resumptions, production taxes, labour standards and occupational health, mine safety, toxic substances and other matters, including issues affecting local previously disadvantaged populations. Although the Company believes that its activities are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner that could limit or curtail development or production. Amendments to current laws and regulations governing operations and activities of exploration and mining, or more stringent implementation thereof, could have a material adverse impact on the business, operations and financial performance of the Company. Further, the mining licenses and permits issued in respect of its projects may be subject to conditions which, if not satisfied, may lead to the revocation of such licenses. In the event of revocation, the value of Homeland's investments in such projects may decline.

Homeland's exploration and development activities require permits from various government authorities, and are subject to extensive state, provincial and local laws and regulations governing prospecting, development, production, exports, taxes, currency movements, labour standards, occupational health and safety, mine safety and other matters. The governing laws and regulations are subject to change, can become more stringent and compliance can therefore become more costly.

Homeland draws on the expertise and commitment of its management team, their advisors, its employees and contractors to ensure compliance with current laws and fosters a climate of open communication and co-operation with regulatory bodies. To the extent such approvals are required and not obtained, Homeland's planned exploration and development activities may be delayed, curtailed, or cancelled entirely.

Homeland believes that it holds, has applied for, or has the capability of applying for when appropriate all necessary licences, rights and permits under applicable laws and regulations, and believes it is presently complying in all material respects with the terms of such licenses and permits. There is no assurance that future changes in such regulation, if any, will not adversely affect Homeland's operations.

In the ordinary course of business, Homeland is required to obtain or renew governmental permits for the operation and expansion of existing mining operations or for the development, construction and commencement of new mining operations. Obtaining or renewing the necessary governmental permits is a complex and time-

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consuming process involving numerous jurisdictions, which often involves public hearings and costly undertakings. The duration and success of Homeland's efforts to obtain or renew permits are contingent upon many variables not within the Company's control, including the interpretation of applicable requirements implemented by the permitting authority. Homeland may not be able to obtain or renew permits that are necessary to its operations, or the cost to obtain or renew permits may exceed what Homeland believes it can recover from the property once in production. Any unexpected delays or costs associated with the permitting process could delay the development or impede the operation of a mine, which could have a material adverse effect on Homeland's operations and profitability.

Title to Assets

The validity of mining or exploration titles or claims, which constitute most of Homeland's property holdings, can be uncertain and may be contested. Homeland has used its reasonable commercial efforts to investigate its title or claims to its various properties and, to the best of its knowledge, except where Homeland has otherwise identified, those titles or claims are in good standing. However, no assurance can be given that applicable governments will not revoke or significantly alter the conditions of the applicable exploration and mining titles or claims and that such exploration and mining titles or claims will not be challenged or impugned by third parties.

Homeland has not conducted surveys of all the claims in which it holds direct or indirect interests and therefore, the precise area and location of such claims may be in doubt. Homeland's properties may be subject to prior unregistered liens, agreements or transfers, native land claims or undetected title defects.

Access to Land

Several of the Homeland tenements are exploration licences and access to land within the tenement area is dependent upon reaching an equitable access agreement with landholders and, in the case of coal production, the acquisition or lease of freehold land or similarly reaching an equitable access agreement with landholders. Homeland may be unable to reach agreement with landowners to enter property for intended exploration, such as drilling programs, or for mining activities on terms favourable to Homeland or at all.

Mineral Resources and Reserves

Mineral reserves are, in the large part, estimates and no assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated level of recovery will be realized. Reserve estimates for properties that have not yet

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commenced production may require revision based on actual production experience. Market price fluctuations of commodities, as well as increased production costs or reduced recovery rates may render mineral reserves containing relatively lower grades of mineralization uneconomic and may ultimately result in a restatement of reserves. Moreover, short-term operating factors relating to the mineral reserves, such as the need for orderly development of the ore bodies and the processing of new or different mineral qualities may cause a mining operation to be unprofitable in any particular accounting period.

Competition for New Properties and Personnel

Mines have limited lives and as a result, Homeland may in the future seek to replace and expand its reserves through the acquisition of new properties. There is a limited supply of desirable mineral lands available in areas where Homeland would consider conducting exploration and/or production activities. Homeland faces strong competition for new properties from other mining companies, some of which have greater financial resources than it does. Homeland competes with other mining companies, many of which have greater financial resources than the Company, for the acquisition of coal claims, leases and other coal interests as well as for the recruitment and retention of qualified employees and other personnel. As a result, Homeland may be unable to acquire attractive new mining properties on terms that it considers acceptable.

Competition in the mining business for limited sources of capital could adversely affect Homeland's ability to acquire and develop suitable coal mines, coal developmental projects, coal producing companies or properties having significant exploration potential. As a result, there can be no assurance that Homeland's acquisition and exploration plans will yield new mineral reserves to replace or expand current mineral reserves.

Homeland's success will depend on its ability to attract and retain qualified and experienced personnel. The loss of any key executive or manager of the Company, or member of the South African technical team, may have an adverse effect on the future of its business. While the Company has entered into contracts and adopted a stock option plan with the aim of securing the services of the existing management, the retention of their services cannot be guaranteed. The number of persons skilled in acquisition, exploration and development of mining properties is limited and competition for such persons is intense. As Homeland's business activity grows, Homeland will require additional key executive, financial, operational, administrative and mining personnel. Although Homeland believes that it will be successful in attracting, training and retaining qualified personnel, there can be no assurance of such success. If Homeland is not successful in attracting and training

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qualified personnel, the efficiency of its operations could be affected, which could have a material adverse effect on Homeland's results of operations and profitability.

Homeland could experience labour disputes, work stoppages or other disruptions in production that could adversely affect its operations.

Environmental Risks

Mining operations are subject to various environmental laws and regulations including, for example, those relating to waste treatment, emissions and disposal, and companies must generally comply with permits or standards governing, among other things, tailing dams and waste disposal areas, water consumption, air emissions and water discharges. Existing and possible future environmental legislation, regulations and actions could cause significant expense, capital expenditures, restrictions and delays in Homeland's activities, the extent of which cannot be predicted and which may well be beyond the capacity of Homeland to fund. Homeland's right to exploit any minerals it discovers is subject to various reporting requirements and to acquiring certain government approvals and there is no assurance that such approvals, including environmental approvals, will be granted without inordinate delays or at all.

Additionally, all phases of the mining business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and state and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with mining operations. The legislation also requires that facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs.

The Kyoto Protocol to the United Nations Framework Convention on Climate Change was negotiated in December 1997 and aims to reduce emissions of greenhouse gases. While these restrictions have not yet been ratified by the member nations, their possible future ratification and implementation could adversely impact on the price and demand for coal or may result in the imposition of additional taxes or levies or other increased costs.

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Foreign Exchange Rate Fluctuations

Homeland's revenues and expenses will be incurred in South African Rand and Canadian Dollars, though its financings are expected to be completed in Canadian Dollars. Although the Company has taken certain steps to help mitigate foreign currency fluctuations, there is no assurance that the activities or products are or will continue to be effective. Accordingly, the inability of the Company to obtain or to put in place effective hedges could materially increase exposure to fluctuations in the value of the Canadian Dollar relative to the South African Rand. This could adversely affect Homeland's financial position and operating results.

Uninsured Risks

Although Homeland maintains insurance to cover normal business risks, the availability of insurance for many of the hazards and risks is extremely limited or uneconomical at this time.

As a participant in mining and exploration activities the Company may become subject to liability for hazards that cannot be insured against or against which it may elect not to be so insured because of high premium costs. Furthermore, Homeland may incur a liability to third parties (in excess of any insurance coverage) arising from negative environmental impacts or any other damage or injury.

Conflicts of Interest

Certain of Homeland's shareholders, directors, officers and technical consultants are or may become shareholders, directors, officers or employees of, or technical consultants to, other natural resource companies, and, to the extent that such other companies may participate in ventures with the Company, these individuals may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or of its terms. In appropriate cases Homeland will establish a special committee of independent directors to review a matter in which one or more directors or officers may have a conflict.

From time to time, Homeland, together with several other companies, may be involved in a joint venture opportunity where several companies participate in the acquisition, exploration and development of natural resource properties, thereby permitting Homeland to be involved in a greater number of larger projects with an associated reduction of financial exposure in any given project. Homeland may also assign all or a portion of its interest in a particular project to any of these companies due to the financial position of the other company or companies. Directors are

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required to act honestly and in good faith with a view to furthering the best interests of Homeland. In determining whether or not Homeland will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the potential benefits to Homeland, the degree of risk to which Homeland may be exposed and its financial position at that time.

Joint Ventures

Homeland holds, and expects to hold in the future, interests in joint ventures. Joint ventures may involve special risks associated with the possibility that the joint venture partners may:

- have economic or business interests or targets that are inconsistent with those of Homeland;
- be unwilling or unable to fulfil their obligations under the joint venture or other agreements;
- take action contrary to Homeland's policies or objectives; or
- experience financial or other difficulties.

Any of the foregoing may have a material adverse effect on the results of operations or financial condition of the Company.

Financial Instruments

Fair Value:

Canadian GAAP requires that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying amounts for cash and equivalents (including its restricted cash), amounts receivable, deposits and prepayments, and accounts payable and accrued liabilities on the balance sheets approximate fair value due to their short-term maturity. The fair values of long-term loans made and credit facilities entered into approximates their carrying values based on the anticipated short-term nature and the current interest rates of these instruments. The fair value of investments is, where possible, based on quoted market prices.

In fiscal 2008, the Company did not enter into any specialized financial agreements to minimize its investment risk, currency risk or commodity risk. The Company is subject to foreign currency exposure, as certain of its cash is retained in non-

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Canadian dollar denominated instruments (see Note 8(b) of the audited consolidated financial statements).

Related Party Transactions

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

- (a) During the year ended December 31, 2008, the Company paid Grove Communications Inc. \$80,410 (2007: \$161,531) in consulting and administration fees and in respect of investor relations, accounting and office administration work undertaken. The owner of Grove Communication Inc. is a director and officer of the Company.
- (b) During the year ended December 31, 2008, Grove Communications Inc. shared office space with Homeland and contributed \$17,102 (2007: \$25,573) towards the office rent and related facilities.
- (c) With the leasing of new premises in London in 2008, Juno Special Situations Corporation, a company with which a director and an officer of Homeland are associated, agreed to share office space. At December 31, 2008, the Company had invoiced \$67,430 in rental and recoveries of costs incurred on the set up of the office, which amount remained outstanding.
- (d) During the year ended December 31, 2008, \$325,233 (2007: \$4,676) was expensed for legal services provided by a law firm of which an officer of the Company is a partner. Included in accounts payable and accrued liabilities at December 31, 2008 was \$39,196 (2007: nil) owing to this law firm. The amount is unsecured, non-interest bearing, with no fixed terms of repayment.
- (e) In South Africa, during the year ended December 31, 2008, \$126,368 (2007: \$147,000) was paid to a company owned by a director and significant shareholder of subsidiaries of the Company, as a retainer for services rendered in respect of the securing and maintaining of prospecting rights.
- (f) During the year ended December 31, 2008, 4,969,000 (2007: 1,200,000) stock options were granted to directors and officers of the Company.
- (g) Related parties were also reimbursed for out of pocket expenses.

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Contractual Obligations and Commitments

Lease Commitments

In late 2005, the Company entered into a five year lease agreement for office space in Toronto. Remaining gross annual lease commitments are as follows:

	\$
2009	54,000
2010	54,000
	<u>108,000</u>

In 2007, Homeland Mining and Energy (Botswana) (Pty) Ltd. entered into a two year lease agreement for office space in Gaborone, Botswana. The operating lease is subject to annual escalation of 10%. Remaining gross annual lease commitments are as follows:

	\$
2009	17,396

In 2008, the Company entered into a 4.5 year lease agreement for office space in London, England. Gross annual lease commitments are as follows:

	\$
2009	229,000
2010	229,000
2011	229,000
2012	229,000
	<u>916,000</u>

Environmental Contingencies

The Company's exploration 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 a party to agreements with officers that contain change of control clauses pursuant to which the officers would be entitled to termination payments up

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to an aggregate of \$870,000 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. As a result of the placement of shares with GMR, these parties are entitled to exercise these clauses in their contracts.

Off-Balance Sheet Arrangements and Contingent Liabilities

The Company has no material off-balance sheet arrangements or contingent liabilities, not already discussed above.

National Instrument 52-109 Disclosure

Evaluation of disclosure controls and procedures

The Company has established and maintains disclosure controls and procedures over financial reporting. Pursuant to National Instrument 52-109 "Certification of Disclosures in Issuers' Annual and Interim Filings" (National Instrument 52-109") the Company's certifying officers have evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2008 and have concluded that such disclosure controls and procedures were effective to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to the Company's certifying officers on a timely basis.

Internal controls over financial reporting

Management of the Company is responsible for establishing and maintaining a system of effective internal controls over financial reporting. The Company's internal controls over financial reporting are designed to provide reasonable assurance to the Company's management and board of directors of the reliability of the Company's financial reporting for external purposes in accordance with accounting principles generally accepted in Canada and the fair presentation of published financial statements. Internal control over financial reporting includes:

- maintaining records that in reasonable detail accurately and fairly reflect the transactions of the Company;
- providing reasonable assurance that transactions are recorded as necessary for the preparation of financial statements in accordance with Canadian GAAP;
- providing reasonable assurance that receipts and expenditures are made in accordance with authorizations of management and the board of directors; and

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- providing reasonable assurance that the unauthorized acquisition, use or disposition of assets that could have a material effect on the Company's financial statements would be prevented or detected on a timely basis.

The audited consolidated financial statements have been prepared by management in accordance with Canadian GAAP and in accordance with accounting policies set out in the notes to the consolidated financial statements for the year ended December 31, 2008.

The certifying officers have assessed the effectiveness of the Company's internal control over financial reporting as at December 31, 2008 based on the criteria set forth in "Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission".

In compliance with Form 52-109F2 of National Instrument 52-109, management must disclose in its Management's Discussion and Analysis any material weakness found to exist within its system of internal control over financial reporting. Typical with smaller organizations, management has identified a material weakness during the year caused by a lack of segregation of duties. This is a typical issue for smaller companies, and management believes that the risks associated with the lack of segregation of duties have been mitigated by the implementation of other controls.

There have been no changes in the Company's internal control over financial reporting that occurred during the period beginning on October 1, 2008 and ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The Audit Committee has direct oversight responsibilities for the review and approval of the quarterly and annual financial disclosures. The Company has qualified senior accounting personnel engaged on a full time basis to manage the Company's financial disclosures.

Current Market Conditions

The Company's focus over the past couple of years has been on coal.

During 2007 and 2008, coal prices surged from the mid US\$50's at the beginning of 2007 to an all-time high of US\$180 by mid 2008 according to the Richards Bay Coal Index ("API4"). The index was largely driven by the escalating appetite for coal in the Far East, mainly in China and India, and the overall rise in commodity prices. However, during the third and fourth quarters of 2008, as the global economic crisis started to take hold, the price promptly started to edge downwards with 2008 finishing in the high US\$70's. The API4 remained at this level until end of February

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2009 and then started to slide to the current level of between the high US\$50's and low US\$60's. This most recent downward trend is a direct backlash of tumbling oil prices, currency fluctuations and a general decrease in global coal demand. The forward price curve, however, shows yearly increases through to 2011 into the low US\$70's, with forecasts indicating that this increase could become even stronger as India seeks to increase imports from South Africa and China once again emerges into the buying market, stabilizing the API4 in the US\$80 to US\$90 range in the medium to longer term.

There is ongoing and increasing demand from international buyers for Homeland's 0 x 50mm export quality steam coal from the Kendal Colliery, particularly from power generators in India and Europe. Although international prices have fallen significantly in the past six months, exports are still economically viable and are expected to remain so throughout the forward price curve to 2011 and beyond. Homeland expects to start selling the Kendal coal into the export market through the Richards Bay Coal Terminal, as well as sized coal through the Port of Durban, during the course of 2009 and is currently working on obtaining export allocation at these ports.

Outlook

Homeland anticipates that it will be cash flow positive at the end of 2009, taking into account debt repayments on the Nedbank facility as well as capital expenditures for the expansion of the Kendal Colliery.

Homeland intends to build upon the platform of assets, of production and of cash flow established over the past three years and over the past 12 months in particular. The growth profile of Homeland will include three primary areas of focus: organic growth of production at Kendal Colliery and the continued development of the Eloff Mineral Property in Mpumalanga, South Africa; potential acquisitions of brown fields near operating assets in South Africa; and, diversification of assets and cash flow outside of southern Africa.

In the context of current world markets, the current economic climate and difficult commodity market, the Company believes that efforts are most importantly directed at the Company's core of assets in South Africa. Having developed the Kendal Colliery from a brown fields acquisition in 2006 through to site preparation and construction from late 2007 and 2008, Homeland views an increase of production at Kendal as the best use of capital in the near term.

The Eloff deposit with a potential mining licence in the near future will also require continued work to progress. Pre-feasibility work, discussions with landowners and

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potential strategic partnerships will move this potentially massive development toward commencement of production later in 2009.

In terms of strategic acquisitions, the Company will focus on South Africa, the United States and Australasia, three of the world's best and most prolific thermal coal-producing regions. The Company's failed attempt to purchase the Appolo Assets in the Central Appalachian region of the United States was a great disappointment, however, the extensive work on that attempted acquisition and the insights gained will allow Homeland to better evaluate other opportunities in the eastern United States.

The power generation market is a natural extension of the coal production business in South Africa. Homeland will resume discussions begun earlier in 2009 with domestic and international parties for construction of a 25-75MW power generation plant at Kendal and a potential 250-500MW power generation plant at Eloff to supply power directly to large industrial customers. A 25MW pilot plant is planned for Kendal with a lead-time of approximately 12 to 18 months to commercial operation date (COD). If a pilot plant at Kendal proves successful, the Company believes that the larger power plant at Eloff may take approximately 24 months from decision date to COD.

The proposed power plant at Kendal would receive its feed from the plant discard, thus allowing the Company to utilize 100% of its coal products from Kendal, while increasing and diversifying its sources of cash flow from operations. While these discussions are advancing, they have yet to realize a definitive agreement and may not come to fruition. It is, however, the Company's belief that opportunities like this, to turn waste product to energy are of significant potential benefit to shareholders and to the communities in which it operates.

The Company remains focused on leveraging its core strengths to create value from its assets - producing thermal coal and developing thermal coal deposits - as well as generating cash flow, responsibly deploying capital, maximizing cash balances and maintaining flexibility to acquire accretive projects where a strategic fit is proven. Homeland continues to seek disciplined organic growth and growth through strategic acquisition. The Company will continue to strive to improve the value and returns of its projects.

During these uncertain global economic times, the Company remains committed to its growth and expansion plan with strict oversight given to minimizing business and operational risks, generating liquidity and containing costs and dilution to shareholders.

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By 2011, management expects that Homeland Energy will be a dramatically different company. Strategically-acquired energy projects in other mining-friendly jurisdictions will spread geographic risks, and investment in mine-mouth power plant opportunities for Kendal and Eloff will diversify cash flow sources. Each of these will be the culmination of strategic work began months or years ago by Homeland's qualified management and operations teams working toward a simple and clear plan to maximize shareholder value.

For additional information, please refer to the Company's website at www.homelandenergygroup.com.

Subsequent Events

Placement of common shares with GMR Group.

For discussion on the issuance of the 75,792,027 common shares to GMR on February 23, 2009 please see the heading "Significant Events and Transactions during the year ended December 31, 2008 - Placement of common shares with the GMR Group" above.

On March 2, 2009, following the payment of the break fee associated with the termination of the acquisition of Appolo and Diversified (please see the heading "Significant Events and Transactions during the year ended December 31, 2008 - Placement of common shares with the GMR Group" above and Note 25 (b) of the audited consolidated financial statements), Homeland agreed to issue a further 15,776,512 common shares to Crossridge Investments Limited, a controlled affiliate of GMR, at a price of \$0.20 per share to allow GMR to maintain their percentage interest in the Company. This represents a 25% discount to the five-day Volume Weighted Average Price of Homeland shares trading on the Toronto Stock Exchange in the previous five days of trading. This placement closed on Friday, March 6, 2009. GMR owns approximately 33.3% of the issued and outstanding shares of Homeland.

Payment of Break Fee to Appolo and Diversified

In January 2009, the Company negotiated a break fee for the asset purchase agreement of the Appolo Assets of US\$6 million dollars. The first US\$1 million had been paid in the form of non-refundable deposits when the APA had been executed. The second US\$1 million was immediately payable (paid January 20, 2009). The balance of US\$4 million was due at the end of February 2009. If the Company was unable to pay the balance when it became due, the vendors had the right to elect to settle the payment for shares of the Company priced at \$0.16 per share, which was the market price of the common shares at the time the amendment agreement was

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executed. Taking into account exchange rates, this represented 31,561,671 shares of the Company.

This break fee also worked as an extension fee as it allowed the Company to continue to seek alternative sources of financing until the end of February with the amounts paid being credited to the purchase price. The agreement did provide that the closing date could be extended to the end of March 2009 at the option of the Company for a further payment of US\$2.5 million, but that would only have been applicable if the Company had a commitment for financing in place prior to the end of February. In the actual event, the Company did not exercise this option.

The amendment agreement represented an opportunity for the Company to crystallize its potential liability under the APA to US\$6 million.

The Company was unable to obtain the required financing to complete the acquisition of the Appolo Assets and therefore elected to terminate the APA with Appolo on the payment of the final US\$4 million and the Company chose to honour its contractual obligation to the Appolo Asset vendors and issue the 31,561,671 common shares.

Short-Term Loan from Homeland Uranium Inc.

On January 20, 2009, Homeland concluded a loan agreement with Homeland Uranium Inc. in the amount of US\$2.5 million, at an interest rate of 10% for a term of one year, to cover the Company's short-term cash obligations at the parent company level. As security, the Company pledged the 22,250,000 shares of Homeland Uranium Inc. that it owns. Homeland has issued 250,000 common shares priced at \$0.20 per share to Homeland Uranium Inc. as a placement fee in respect of this transaction. The loan was approved by the independent directors of both companies.

Grant of Stock Options

In February 2009, the board of directors granted 2,500,000 stock options to directors, officers, employees and consultants, exercisable at \$0.20 per common share until February 10, 2014, and vesting as to one-third immediately, one-third after 12 months and one-third after 24 months. Also in February and March 2009, the Company and certain directors, officers, and employees reached agreement for the cancellation of 8,734,000 outstanding stock options. The Company is awaiting consent from employees to cancel a further 1,478,335 stock options.

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Annual Meeting

The Company will hold its 2009 shareholder meeting on Tuesday, June 30, 2009 for shareholders of record as of May 15, 2009. While the meeting is normal course of business for Homeland, it also responds to a request from Lawrence Asset Management Inc. for Homeland to hold a shareholder meeting at which they plan to propose a replacement of Homeland's current Board of Directors.

Supplement to the Financial Statements

Critical Exchange Rates

The most important exchange rate to impact on the Company's business is the South African Rand ("ZAR") relative to the Canadian Dollar, as revenue and operating expenditure at a project level is largely ZAR based. The following are examples of the \$1.00 to ZAR exchanges rates (source: Bank of Canada):

Fiscal Period End	Date	Rate
Current	March 26, 2009	7.6046
2008 - Q4	December 31, 2008	7.6278
	December 1, 2008	8.3403
	October 31, 2008	8.1103
2008 - Q3	September 30, 2008	7.8493
	September 2, 2008	7,2674
	July 31, 2008	7.1276
2008 - Q2	June 30, 2008	7.6628
	May 31, 2008	7.6628
	April 30, 2008	7.5019
2008 - Q1	March 31, 2008	7.9239
	February 29, 2008	7.9051
	January 31, 2008	7.4405
2007	December 31, 2007	6.9444
	October 1, 2007	6.9156
	July 3, 2007	6.5746
	April 2, 2007	6.3012

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Outstanding Share and Option Data

As at March 27, 2009, the following items were issued and outstanding:

- 274,650,688 common shares;
- 5,925,460 stock options at an average price of \$0.75 per common share, maturing at various dates until February 10, 2014;
- 36,250 charity options with an exercise price of \$0.40 per common share, until the earlier of February 12, 2012 and the 90th day from the date that the Charity ceases to be an Eligible Charitable Organization; and
- 1,909,092 share purchase warrants with an exercise price of \$1.50 per common share and an expiry date of May 21, 2009.

March 27, 2009