



## **HOMELAND ENERGY GROUP LTD.**

### **Management's Discussion and Analysis**

**For the three months ended March 31, 2009**

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

*This Management's Discussion & Analysis and the interim unaudited consolidated financial statements contain 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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## **Management's Discussion and Analysis** **For the Three Months Ended March 31, 2009**

This Management's Discussion and Analysis ("MD&A") provides an analysis of the financial condition and results of operations of Homeland Energy Group Ltd. ("Homeland" or the "Company") for the three months ended March 31, 2009 as compared to the comparable periods in 2008 and has been prepared as of May 15, 2009. This MD&A should be read in conjunction with the Company's unaudited consolidated financial statements and notes thereto for the three months ended March 31, 2009 ("Interim Statements"), as well as the annual audited consolidated financial statements and notes thereto for the fiscal year ended December 31, 2008 ("Annual Statements"), which are available at the SEDAR website, [www.sedar.com](http://www.sedar.com).

These Interim Statements have not been reviewed by an auditor and are unaudited. They include all material adjustments, consisting of normal and recurring items, that management considers necessary for fair presentation of the consolidated financial position, results of operations and cash flows.

These Interim Statements have been prepared in accordance with Canadian generally accepted principals ("GAAP") and use the same accounting policies and methods used in the preparation of the Company's most recent annual consolidated financial statements except for those described in the "Changes in Accounting Policies" section below. However, all disclosures required for annual financial statements have not been included in these financial statements. All amounts in this MD&A are expressed in Canadian dollars, unless otherwise stated.

### **Description of Business**

Homeland is a Canadian company engaged in the acquisition, exploration and development of mineral resource properties. The Company owns a portfolio of mineral property assets or rights in South Africa and Botswana, either directly or through one of its subsidiaries. The Company's focus has been on the development of the Kendal Colliery, which is currently in the pre-production operating phase, of which it owns a 74% interest. The business of the Company is the mining of coal and the production of thermal quality coal products in South Africa for domestic use in the power generation industry, domestic use in industrial products industries (such as cement and brick end products) and for export to foreign markets for energy production.

### **Strategy**

Global population and economic expansion rely on power generation to fuel this growth. The need for power generation is especially critical in South Africa for business growth and the improved living conditions for many South Africans. Over the course of the past three years, Homeland has been focused on defining coal resources, advancing mine plans, and carrying out mine development, specifically on the Kendal Colliery. The Company has just begun to make a positive contribution to South Africa's need for reliable energy. Homeland's goal is to become a mid-tier coal producing company with downstream coal use potential. In order to accomplish this, the Company has set out the following objectives:

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- Increase coal production at the Kendal Colliery using on-site and nearby resources;
- Develop the half million tonne coal resource at the Eloff Mineral Project in South Africa;
- Explore and evaluate potential coal projects in southern Africa and other key coal markets; and
- Consider acquisitions that have a strategic fit with existing operations.

### Outlook

The Company is focused on producing thermal coal and developing thermal coal deposits, in order to maximize value for its shareholders and stakeholders of its properties. Homeland intends to build upon a platform of production and cash flow established over the past three years. The growth profile of Homeland will include three primary areas of focus, which include organic growth at the Kendal Colliery and the Eloff mineral deposit in Mpumalanga, South Africa, potential acquisitions of brown fields near operating assets in South Africa, and to a lesser extent, diversification of assets and cash flow outside of southern Africa.

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

The Company has recently completed the first phase of improvements to the coal processing and washing facilities at the Kendal Colliery. Further improvements and expansion are being planned with completion expected to occur early in 2010, allowing increased throughput with a target of 180,000 tonnes per month Run-of-Mine ("ROM") at that time. Ultimately this will lead to increases in the amount of coal Homeland will sell into foreign and local markets, directed at high end coal markets. To support the increased plant throughput resulting from the improvements and expansion, the Company will accelerate the mining schedule and open new box cuts at Kendal in addition to the current cuts already supplying raw material to the processing plant.

The Eloff deposit is a massive lower grade coal deposit currently in the exploration stage. Near term plans include the completion of a pre-feasibility study, discussions with landowners and potential strategic partnerships.

Strategic acquisitions will focus primarily on South Africa, with consideration to projects in the United States and Australasia, three of the world's best and most prolific thermal coal-producing regions. Over the course of the past 12 months, the extensive work Homeland's management team put into a potential acquisition in the United States and the corporate knowledge base that has been created will allow for Homeland to evaluate other opportunities in the eastern United States in the future.

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The power generation market is a natural extension of the coal production business in South Africa. Homeland will hold discussions with domestic and international parties related to the construction of a 25-75 MW power generation plant at the Kendal Colliery. The proposed power plant at Kendal would receive its feed from the plant discard, thus allowing the Company to utilize 100% of its coal production from the Kendal Colliery.

### **Kendal Colliery**

#### **Kendal Colliery, Mpumalanga Province, South Africa**

The Kendal Colliery is a moderate coal resource, currently being mined by open cast methods, and represents the first operating mine in Homeland's portfolio of assets. The project area 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, and approximately six kilometres west of the town of Ogies.

### **Mining Operations**

The Kendal Mine is subdivided into four mining blocks (B, D, E and F). Mining began with Block B in March 2008, where the strip ratio for the two present coal seams has been 4:1. Block B reserves will continue to be mined until the second quarter of 2009. Intensive studies have been conducted to determine the position of underground workings in the upper coal seam adjoining this pit. These underground workings were mined during the 1920s and are expected to form part of the future mining areas, once dewatering is complete.

A second boxcut was begun in Block F in August 2008, where the strip ratio for the two coal seams has been 3.9:1. The excavation of a third boxcut, Block D, was begun in early March 2009 as set out in the general mining plan for Kendal. First coal from this block is planned for late in the second quarter of 2009.

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The following table outlines production for the past three quarters ending March 31, 2009:

	Q3 2008	Q4 2008	Q1 2009
Run-of-Mine ("ROM" tonnes)	108,035	204,315	257,258
Feed to plant (tonnes)	109,460	193,663	224,452
Yield (%)	35.9	36.6	48.6
Product (tonnes saleable)	39,370	71,014	126,579
Sales (tonnes)	29,906	59,069	115,128
Stock (tonnes)	20,017	44,254	63,629

Run-of-mine production was lower than anticipated in the first quarter of 2009 mainly due to excessive rainfall early in the quarter (a total of 332mm of rainfall was measured during January), which resulted in the closure of the weighbridge for two days. Also, throughput was impacted as a result of the heavy rains as it was necessary to re-screen the wet coal coming off the plant screens several times before the sizing of the coal product was acceptable for sale to the market. The Company has completed an evaluation and revision to the original mine plan to allow for increased ROM production in order to reach a planned ROM capacity of 180,000 tonnes per month in 2010.

### Processing Operations

A number of improvements to the Kendal coal product processing facility were implemented in the first quarter of 2009 to create greater plant efficiency and higher plant throughput. These activities include, relocation of the processing plant feeder breaker to its permanent position under the ROM bin to allow for higher levels of feed to the processing plant, installation of a new raw coal screen and cyclone product screen, and installation of a new mineral sizer and feed chute combined with the relocation of the feed conveyor system to align with the new feeder breaker and mineral sizer.

As previously reported, the Company entered into a service agreement with MD Engineering for the supply and operation of the crushing, screening, and washing plants. The Company loaned MD Engineering the funds required to build the plants and required infrastructure. Late in 2008 it was determined that the Company would be better off owning the plants and as a result concluded a purchase agreement with MD Engineering for the various plants. Through ownership of the plant the Company feels it will have greater control over the throughput, which will ultimately lead to higher sales on a monthly basis.

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### Sales

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 Europe and India. Despite the recent fall in spot prices, South African coal exports are still economically viable for both producers and traders, who are expecting profit margins to increase to 2012 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 in the first quarter of 2010 and is currently working on long-term export coal supply contracts with large power generators and on obtaining export allocation at these ports.

### Health & Safety

For the first quarter of 2009, six incidents were reported but zero non-lost time injuries ("NLTI") were reported:

<b>Period</b>	<b>Incidents</b>	<b>NLTI</b>	<b>LTI</b>
January - December 2007	0	1	0
January - December 2008	12	4	0
<b>January - March 2009</b>	<b>6</b>	<b>0</b>	<b>0</b>

### Eloff Mineral Property, Mpumalanga Province, South Africa

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, approximately 10 kilometres to the south of the town of Delmas in Mpumalanga Province of South Africa.

Homeland, along with its joint venture partner, has secured the mineral rights to the Eloff Project by way of Prospecting Right granted by the Department of Minerals and Energy (DME) in October 2006. Homeland currently owns 50% of Eloff, with the option to acquire a further 1% for ZAR 1.00. The Company submitted an application for a mining licence in January 2008 and expects a response from the DME within the next quarter. The project is located close to a number of current and historical 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

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4,921.3 hectares, for a total length of 10,312 metres. The majority were coal-bearing with only 10 boreholes showing no coal or weathered coal.

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.

While an independent technical report was completed by Gemecs (Pty) Ltd. April 30, 2008, inconsistencies were found in coal seam sampling procedures for certain boreholes. Therefore, Homeland undertook to complete an internal technical report omitting those boreholes from the calculation. The table below reflects Homeland's internal results and believes that the recalculation 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 scoping study has been upgraded to a pre-feasibility study.

### *Eloff Mineral Resource\* - March 2009 Homeland Internal Technical Report*

Measured	151.1 million
Indicated	99.2 million
<b>Measured &amp; Indicated Total</b>	<b>250.3 million</b>
Inferred	210.5 million
<b>Total Resource</b>	<b>460.8 million tonnes<sup>2</sup></b>

<sup>2</sup> An adjustment was made to the previous Independent Technical Report (May 2008) to exclude some drill data from the formal calculation. See Technical Report on [www.homelandenergygroup.com](http://www.homelandenergygroup.com)

\* HEG has 50% ownership of Eloff Mineral Project with a local Black Economic Empowerment partner holding 50%

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**Northfield Site Reclamation Project, Kwa-Zulu Natal Province, South Africa**

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 number of defunct mining operations. The Northfield Project is located to the northwest of the town of Glencoe in Kwa-Zulu Natal Province of South Africa. Following the granting of the Mining Permit on November 27, 2007, the Company exercised its option to purchase Northfield 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. The Company is currently reviewing options and holding discussions with interested parties with respect to how the project moves forward.

**Exploration Projects**

Homeland has a 50% interest in 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, a wholly-owned subsidiary of Homeland 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 target is high quality, low phosphorous metallurgical coal.

**Vlakvarkfontein**

At Vlakvarkfontein, a wholly-owned subsidiary of Homeland 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 regard to compensation for further access to complete the drilling program. The boreholes average 50 metres in depth (1,250 metres in total) and both the 4 and 2 seams were intersected.

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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.

Homeland Botswana

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 coal exploration 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.

Based on work done by Wizard, it appears that up to 9 distinct seams are present, with a thick coal shale zone of 5 to 15 metres thick in most prominent zone in this prospecting area. 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 infra-structure 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. During the first quarter of 2009, the decision was made to suspend exploration activities in Botswana based less on early exploration results and more on global economics.

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 geo-scientific and technical disclosure contained in this document.

GMR Group ("GMR")

On November 4, 2008, the GMR Group ("GMR") advised the Company that it would not be exercising its option to acquire 40% of Homeland Mining & Energy SA (Pty) Ltd. ("HMESA") for USD \$135,000,000 and that it had elected to exercise its right to sell the 10% of HMESA that it had already acquired back to Homeland at its original purchase price of USD \$30,000,000. The Company believes that this decision was the direct result of the international economic and financial crisis of the fourth quarter of 2008.

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The Company elected to settle this obligation in common shares of Homeland, at \$0.46 per share. The share price was calculated under the Share Purchase Agreement as the 20 day average closing price ended November 4, 2008 plus a 5% premium. Shareholders of Homeland approved the issue of 75,792,027 common shares on December 30, 2008.

Although the completion date by which the Company was to repurchase the HMESA shares was extended at the request by GMR to allow discussions to continue to explore alternative commercial solutions, on February 23, 2009 the Company issued 75,792,027 common shares of Homeland and reacquired 100% ownership in HMESA.

On March 2, 2009, Homeland issued 15,776,512 common shares to a controlled affiliate of GMR at a price of \$0.20 per share to allow GMR to maintain its 33% holding, following the issue of common shares to Appolo to satisfy a break fee as discussed below.

#### **Appolo Fuels and Diversified Energy ("Appollo")**

The collapse of both the equity and credit markets in the last quarter of 2008 prevented the Company from raising the necessary finance to close the acquisition of Appolo's coal mining and marketing operations in Kentucky and Tennessee. On January 15, 2009 an agreement was reached with the vendors to extend the deadline for closing the acquisition to February 28, 2009. An extension fee of USD \$1,000,000 was paid to the vendors, with an additional USD \$4,000,000 payable to the vendors by February 26, 2009. These fees effectively constituted a break fee and limited the Company's liability under the original binding agreement to US\$5,000,000.

Failure to make the second payment would permit the vendors to elect the alternative of receiving common shares of the Company priced at \$0.16 per share. If the purchase were to close, the fees paid as indicated above would be credited to the purchase price, which remained at USD \$105,000,000 as originally agreed.

On March 2, 2009, Homeland issued 31,561,671 common shares at \$0.16 per share to Appolo at their election. The issue of these shares satisfied the contractual break fee requirement and signified the termination of the original asset purchase agreement between Homeland and Appolo. While the discussions were continuing between the parties, the launch of a proxy dispute added too much uncertainty to complete a deal and the discussions were terminated.

#### **Nedbank Limited ("Nedbank") Loan**

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 from Nedbank, one of South Africa's largest banks. As of March 31, 2009, FCK had drawn ZAR 75,000,000. Together with capitalized interest, the Company owed approximately \$10,600,000 (approximately ZAR 80,000,000) on the facility.

Subsequent to the quarter end the Company drew an additional ZAR 50,000,000

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(approximately \$6,600,000) to fund the improvements and expansion at the Kendal Colliery.

**Shareholder Motion**

During the quarter, the Company received notice from a minority shareholder of the Company requesting a shareholder meeting in order for the shareholder to launch a proxy solicitation to replace the existing board of directors of the Company. The shareholder will be entitled to present an alternative slate of directors at the annual general meeting of shareholders on June 30, 2009.

**Results of Operations**

The Company has not reached commercial production at the Kendal project in South Africa and as a result has not recognized revenues to date. Proceeds from the sale of product less the pre-production operating costs are capitalized to mineral properties and have not been included on the statement of operations.

The net loss for the period increased to \$10,655,378 for the three months ended March 31, 2009 compared with a net loss of \$3,884,242 for the same period in 2008. Stock-based compensation increased from \$180,153 for the three months ended March 31, 2008 to \$1,648,876 for the same period in 2009. Stock-based compensation expense recorded in a particular period is highly dependent on whether options were granted in that particular period and the Company does not have a pre-determined option grant date for the year, giving rise to differences between quarters. The expense recorded in the first quarter of 2009 was especially high as the Company cancelled and re-issued a number of options. This exercise was deemed to be a modification of previous options terms and because the new options vested immediately, the unvested option expense related to the cancelled options was expensed during the quarter as opposed to being expensed over a longer period of time.

Management and administrative services increased during the quarter ended March 31, 2009 compared with the same period in 2008 as additional staff were hired to manage the South African operations, which have expanded considerably over the past year. Professional and advisory fees increased year over year on expenditures related to the GMR and Appollo transactions. Office and general costs increased as the Company entered into a lease agreement for office space in England in the middle of 2008 and as a result of other general increases. Interest expense increased for the period compared to 2008 as the Company entered into a loan agreement with Nedbank, in the fall of 2008, for the development of the Kendal property.

As previously reported, the Company entered into an agreement to acquire 100% of Appollo in August of 2008. As a result of the deteriorating market conditions in the fall of 2008, the Company was unable to raise sufficient financing to complete the transaction. Both the Company and Appollo attempted to salvage the transaction during the first two months of 2009, however early in March 2009 Appollo terminated its agreement with the Company. Payments totaling \$6,348,950 were made to Appollo over the course of the quarter for

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extension and termination fees related to the transaction. Similar fees were not incurred in the first quarter of 2008.

The above increases in expenditures during the first quarter of 2009 compared with 2008, were offset by decreases in foreign exchange losses of approximately \$688,000 and decreases in investments losses and write-downs of investments of approximately \$1,067,000.

### Summary of Quarterly Results

The following quarterly information is presented in Canadian dollars, except per share amounts:

	Mar. 31/09	Dec. 31/08	Sep. 30/08	Jun. 30/08
Revenues	-	-	-	-
Comprehensive Loss	(8,429)	(15,688)	(6,925)	(4,144)
Net Loss per Share - Basic and Diluted	(0.04)	(0.11)	(0.05)	(0.03)
Total Assets	63,665	58,074	58,584	59,107

  

	Mar. 31/08	Dec. 31/07	Sep. 30/07	Jun. 30/07
Revenues	-	-	-	-
Comprehensive Loss	(3,884)	(1,183)	(1,553)	(1,392)
Net Loss per Share - Basic and Diluted	(0.03)	(0.01)	(0.01)	(0.01)
Total Assets	35,431	33,715	27,716	26,305

The net loss results primarily from corporate overheads, including stock-based compensation and the write-off or write-down of investments and/or mineral projects, at which further exploration is not deemed appropriate. Income is generated through interest earned on overnight or short-term deposits. Net losses have generally increased over the past eight quarters as the Company has acquired a number of exploration properties, developed the Kendal project and generally grown the Company. The net losses for the fourth quarter of 2008 and first quarter of 2009 are higher as a result of specific transactions, including the loan with Nedbank and the Apollo transaction.

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

### Expenditures on Mineral Properties

The Company is engaged in the acquisition, exploration and development of coal properties or deposits within South Africa and Botswana. Other than the Kendal property, the Company's projects are in the exploration stage and there can be no assurance that any of them will reach the stage of production. The recoverability of the amounts shown for mineral properties is, as noted above, dependent upon, among other factors, the existence of

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economically recoverable estimated mineral reserves, the ability of the Company to obtain necessary financing to complete the exploration and development of its properties, receipt of environmental and operating permits and future profitable production or proceeds from the disposal of properties.

The Company records its interests in mineral properties and areas of geological interest at cost. Management reviews the carrying values of its mineral properties on a regular basis to determine whether any write-downs are necessary. These expenditures will be depleted over the estimated life of the properties if and when they reach commercial production or will be written down by management when it is determined that the net carrying value will not be recovered.

The following table sets forth certain information relative to the mineral properties of the Company by summarizing capitalized expenditures for the three months ending March 31, 2009, total capitalized costs on the balance sheet as of December 31, 2008, and the percentage of the property owned. The principal mineral found on all of the properties below is coal.

	<u>Capitalized Expenditures</u>		<u>Percentage Owned</u>
	<u>During 2009</u>	<u>At Dec. 31, 2008</u>	
<b><u>South Africa</u></b>			
Kendal	\$ 624,662	\$ 9,319,487	74%
Eloff	43,181	2,565,556	50%
Northfield	563	2,426,565	100%
Vlakovarkfontein	15,012	267,030	50%
Onbekend	-	126,739	50%
Other	-	3,382	50-100%
<b><u>Botswana</u></b>			
Homeland Botswana	131,557	381,508	100%
	<u>\$ 814,975</u>	<u>\$ 15,090,267</u>	

### Liquidity and Capital Resources

#### Working Capital

The Company had cash and cash equivalents of approximately \$8,600,000 and working capital of approximately \$6,000,000 at March 31, 2009, compared with cash and cash equivalents of approximately \$7,800,000 and working capital of approximately \$7,300,000 at December 31, 2008. The decrease in working capital is attributable to higher accounts payable and accrued liabilities of the Kendal operations as it continues to ramp up to commercial production.

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Management believes that it has sufficient funds available to pay its ongoing administrative expenses and to meet its liabilities as they fall due. Approximately \$3,300,000 of the cash and cash equivalents balance is available for this purpose. The remaining cash and cash equivalents was held in South Africa, 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 August 2009.

Subsequent to the quarter end, the Company drew an additional ZAR 50,000,000 (approximately \$6,600,000) from the Nedbank facility to pay for modifications and other capital improvements at the Kendal operation. This leaves a remaining ZAR 25,000,000 (approximately \$3,300,000) of funds available on the facility. The Company believes that it has sufficient cash and credit available to meet its operating costs and undertake planned exploration at certain of its exploration projects.

### Operating Activities

For the three months ended March 31, 2009, cash flows used in operating activities totalled approximately \$2,600,000 compared with approximately \$1,700,000 for the same period in 2008. The increase in cash used relates primarily to the growth of the Company and its activities year over year.

### Investing Activities

For the three months ended March 31, 2009, cash flows used in investing activities totalled approximately \$2,200,000 compared with approximately \$1,000,000 for the same period in 2008. During the first quarter of 2008 the Company received approximately \$800,000 from the reverse takeover transaction that led to the formation of the Company. A similar amount was not received in 2009.

### Investing Activities

The Company completed a share issuance and a short-term debt facility during the three months ended March 31, 2009, generating cash from financing activities totalling approximately \$5,600,000. A shares issuance of approximately 16,000,000 common shares for cash proceeds of approximately \$3,200,000 was completed. A short-term debt facility was completed for \$2,500,000 with Homeland Uranium Inc. and is repayable in January 2010.

Transaction for the three months ended March 31, 2008 include 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. 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.

# HOMELAND ENERGY GROUP LTD.

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### Balance Sheet

#### Assets

The Company had assets totalling approximately \$64,000,000 at March 31, 2008 as compared to approximately \$58,000,000 at December 31, 2008. The majority of the assets relate to investments, long-term loans receivable, deferred exploration and development, and property and equipment totalling approximately \$48,000,000 at March 31, 2009. These asset balances increased modestly from approximately \$44,000,000 at December 31, 2008. Additionally, cash and cash equivalents and inventory increased by approximately \$1,600,000 from December 31, 2008 to March 31, 2009.

#### Long-term Liabilities

The Company had long-term debt of approximately \$13,500,000 at March 31, 2009 (including the current portion), compared with approximately \$10,500,000 at December 31, 2008. The increase relates to the loan completed with Homeland Uranium for \$2,500,000 and accrued interest on the Nedbank facility.

#### Capitalization

The Company had 274,650,688 common shares outstanding at March 31, 2009 compared to 150,270,478 common shares at December 31, 2008. The primary increase in the number of common shares outstanding relates to the GMR, Appollo, and cash issuances as described above.

The Company had 4,550,042 common share purchase options and 1,909,092 common share purchase warrants outstanding at March 31, 2009. The options outstanding have a weighted average exercise price of \$0.65 per option and the warrants have a weighted average exercise price of \$1.50 per warrant. Approximately, 10,000,000 options were cancelled during the quarter ended March 31, 2009. Options and warrants are exercisable into common shares on a one-for-one basis. At December 31, 2008, the Company had 13,360,398 options and 1,909,092 warrants outstanding at weighted average exercise prices of \$1.02 and \$1.50 respectively.

#### Related Party Transactions

Related part 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. These transactions are as follows for the quarter:

- (a) Homeland paid Grove Communications Inc. \$8,937 (2008 - \$68,085) in fees 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. Grove Communications also shared office space with Homeland and contributed \$3,850 (2008 - \$4,701) towards the office rent and related facilities.

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## **Management's Discussion and Analysis** **For the Three Months Ended March 31, 2009**

(b) 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. As at March 31, 2009 the Company had invoiced \$69,385 in rental and recoveries of costs, which remains outstanding.

Payments to a South African company owned by a director and significant shareholder of subsidiaries of the Company for services rendered in respect of the securing and maintaining of prospecting rights totalled approximately \$30,000 (ZAR 240,000) during the quarter (March 31, 2008 - \$32,520). Legal services are provided by a law firm of which an officer of the Company is a partner. The total of these services for the quarter totalled \$146,376 (2008 - \$68,528).

### **Critical Accounting 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. Critical accounting estimates include the Company's estimate of the recoverable value of its mineral properties as well as the valuation of stock-based compensation.

Mineral properties are recorded at cost. All acquisition, exploration, development and related overhead expenditures are recorded at as an asset on the balance sheet. These expenditures will be depleted over the estimated life of the properties if and when they reach commercial production or will be written down by management when it is determined that the net carrying value will not be recovered. Management assesses the appropriateness of its carrying values on a regular basis.

The amount expensed for stock-based compensation is based on the application of a recognized option valuation formula, which is highly dependent on the expected volatility of the Company's common shares. The Company uses an expected volatility rate for the valuation of its stock compensation based on its past stock performance and the stock performance of other companies with similar characteristics as the Company. Actual volatility may be significantly different. While the estimate of stock-based compensation can have a material impact on the operating results reported by the Company, it is a non-cash charge and as such has no material impact on the Company's cash position.

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### Changes in Accounting Policies

The accounting policies followed in preparing these financial statements are those used by the Company as set out in the audited financial statements for the year ended December 31, 2008, except that it has adopted EIC-174 as described below. The Company is currently assessing the impact of EIC 173 and Section 1582, 1601, and 1602 as described below:

### Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

On January 20, 2009, the Emerging Issues Committee ("EIC") of the Canadian Accounting Standards Board ("AcSB") issued EIC Abstract 173, Credit Risk and Fair Value of Financial Assets and Financial Liabilities, which establishes that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. This EIC should be applied retrospectively without restatement of prior years to all financial assets and financial liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The Company is currently assessing the impact of this EIC on its consolidated financial statements.

### Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

In January 2009, the CICA issued Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements, and Section 1602, Non-controlling interests, which replace Section 1581, Business Combinations and Section 1600, Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards ("IFRS"). Section 1582 is applicable for business combinations with acquisition dates on or after January 1, 2011. Early adoption of this section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for fiscal years beginning on or after January 1, 2011. Early adoption of this section is permitted. If the Company chooses to early adopt any one of these sections, the other two sections must also be adopted at the same time. The Company is currently assessing the impact of these new accounting standards on its consolidated financial statements.

### Mining Exploration Costs

On March 27, 2009, the AcSB issued EIC-174 "Mining Exploration Costs". In this EIC the Committee provided additional guidance for an enterprise that has initially capitalized exploration costs and has an obligation in the current and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The EIC should be applied to financial statements issued after March 27, 2009. The Company has adopted EIC-174 in these consolidated financial statements.

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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 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 the convergence of Canadian GAAP and IFRS.

**Financial Instruments**

In fiscal 2008, the Company did not enter into any specialized financial agreements to minimize its investment risk, currency risk or commodity risk. The principal financial instruments affecting the Company's financial condition and results of operations are currently its cash and equivalents, amounts receivable, deposits and prepayments, long-term loans, and accounts payable and accrued liabilities. The Company is subject to foreign currency exposure, as certain of its cash is retained in non-Canadian dollar denominated instruments.

**Risks & Uncertainties**

Homeland's business of acquiring, exploring 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 effect on its financial performance, but there is no guarantee that the Company will be profitable in the future.

Risks and uncertainties affecting the Company remain largely unchanged from those reported in the 2008 annual report. For a more complete description of the uncertainties and risk factors faced by the Company, please refer to the Management's Discussion and Analysis of the audited consolidated annual financial statements of the Company for the year ended December 31, 2008. The following is a brief discussion of those distinctive or special characteristics of Homeland's operations and industry that may have a material impact on, or constitute risk factors in respect of, Homeland's financial and operating performance.

**Financing Risks**

Homeland has limited financial resources, currently has limited 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 its acquisition and other agreements. There is no assurance 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's assets reach steady state production, it will be dependent upon its ability to

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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. 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.

### 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 all landowners to enter property for intended exploration, such as drilling programs, or for mining activities on terms favourable to Homeland or at all.

### 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 assurance that any coal discovered will result in an increase in the Company's resource or reserve 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

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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.

In the event Homeland is fortunate enough to define a coal deposit, 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, 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.

### 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 use, 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 licences and permits issued in respect of its projects may be subject to conditions which, if not satisfied, may lead to the revocation of such licences. In the event of revocation, the value of the Homeland's investments in such projects may decline.

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.

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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 licences 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-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.

### **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, 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. 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.

### **Impact of Current Market Conditions**

In the past, the Company has obtained financing through the issuance of new equity and debt financing to continue its operations until the anticipated commercial sales from the Kendal project. While it has been successful in raising funds in the past, there can be no assurance it will be able to do so in the future should funding be needed, especially given the current global economic conditions and the tight credit markets.

The stock market in general, and the market for mining and exploration companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating results or asset values of those companies. These broad market and industry factors may seriously impact the market price and trading values of Homeland's common shares, regardless of actual performance. Such an impact could either impair the Company's ability to obtain equity financing or cause significant dilution to existing shareholders.

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Coal prices have performed well over the past couple of years, reaching an all-time high in the middle of 2008, 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, prices have retreated substantially over the past 3 quarters as the global economic crisis has taken hold, giving back virtually all of the gains achieved. The forward price curve shows yearly increases through to 2011, with forecasts indicating that increases could become even stronger as India seeks to increase imports from South Africa and China once again emerges into the buying market.

### **Contractual Obligations and Commitments**

#### **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. 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, an officer of the Company is entitled to exercise the change of control clause in their contract, pursuant to which the officer would be entitled to a termination payment up to an aggregate of \$870,000 under certain circumstances. At March 31, 2009 the officer had not exercised this option.

### **Off-Balance Sheet Arrangements and Contingent Liabilities**

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

### **Disclosure Control and Procedures and Internal Control Over Financial Reporting**

#### **Evaluation of disclosure controls and procedures**

The Company has established and maintains disclosure controls and procedures over financial reporting. The Company's certifying officers have evaluated the effectiveness of the issuer's disclosure controls and procedures as of March 31, 2009 and have concluded that such disclosure controls and procedures are adequate and effective to ensure accurate and complete disclosures in interim and annual filings.

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## Management's Discussion and Analysis For the Three Months Ended March 31, 2009

### 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
- 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 unaudited consolidated interim 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 unaudited consolidated interim financial statements for the quarter ended March 31, 2009.

The certifying officers have assessed the effectiveness of the Company's internal control over financial reporting as at March 31, 2009 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 January 1, 2009 and ended March 31, 2009 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

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personnel engaged on a full time basis to manage the Company's financial disclosures.

May 15, 2009