



**HOMELAND ENERGY  
GROUP LTD.**

## **HOMELAND ENERGY GROUP LTD.**

### **MANAGEMENT DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED DECEMBER 31, 2010**

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

*This Management's Discussion and Analysis and the 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.*

**HOMELAND ENERGY GROUP LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

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 year ended December 31, 2010. This MD&A should be read in conjunction with the Company's annual audited consolidated financial statements and notes thereto for the year ended December 31, 2010 ("Annual Statements"), which are available at the SEDAR website, [www.sedar.com](http://www.sedar.com).

The Annual Statements have been prepared in accordance with Canadian generally accepted principals ("GAAP"). All amounts in this MD&A are expressed in Canadian Dollars, unless otherwise stated.

## **COMPANY OVERVIEW AND CORPORATE HISTORY**

### **DESCRIPTION OF BUSINESS**

**Homeland Energy Group Ltd.** is a Canadian company engaged in the acquisition, exploration, development and production of mineral resource properties. The Company owns a portfolio of mineral property assets or rights in South Africa, either directly or through one of its subsidiaries. The Company's focus has been on the development of the Kendal Colliery ("Kendal"), which is currently in commercial production, 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 product industries (such as cement and brick-end products) and for export to foreign markets for energy production.

Homeland Energy Group Ltd. 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 and was listed on the TSX Exchange on February 12, 2007. Following the closing of its Qualifying Transaction on February 29, 2008, the principal business activity of the Company became the, exploration, development and operation of energy related resource properties located primarily in Southern Africa.

### **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 at Kendal. The Company has begun to make a positive contribution to South Africa's need for reliable energy as demonstrated by the Company supplying coal into the Power Generation Market, notably to Eskom. To date, this has been done primarily through third parties. However, the Company continues to pursue opportunities to initiate a direct supply contract with Eskom. Homeland's goal remains 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:

# HOMELAND ENERGY GROUP LTD.

## MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2010

- \* Refine production and marketing efforts at Kendal;
- \* Develop 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

Homeland anticipates that it will be cash flow positive in 2011, taking into account existing debt repayments to GMR Energy Limited ("GMR Energy") as well as ongoing measured capital expenditures for the expansion of the Kendal Colliery.

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

In the context of world markets and the current economic climate, the Company believes that its efforts are most importantly directed at establishing its core assets in South Africa. Having developed the Kendal Colliery from a brown field acquisition in 2006 through to site preparation and construction from late 2007 and 2008 through reaching commercial production in October of 2009, Homeland views an increase in production through supplying its low-grade coal to Eskom at Kendal, as the best use of capital in the near term.

The Eloff deposit will also require continued work to progress. The feasibility study, discussions with landowners and potential strategic partnerships are expected to move this development toward commencement of production planned for mid-2013.

In terms of strategic acquisitions, the Company will focus on South Africa, one of the world's best and most prolific thermal coal-producing regions. Homeland may explore the potential of constructing a power generation plant in the proximity of its Eloff property in the future, the possibility of supplying coal to Eskom, and explore the potential export market. 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.

# **HOMELAND ENERGY GROUP LTD.**

## **MANAGEMENT DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED DECEMBER 31, 2010**

### **CURRENT MARKET CONDITIONS**

The outlook for the coal industry has revived materially from the weakness experienced in 2008 and 2009. The Energy Information Administration (EIA) estimates that the world coal consumption will rebound, returning to its pre-recession level (2008 level) by 2013. Generally, most coal companies have been profitable in 2010, given the recovery in the global and domestic coal demand. This uptrend in profits is largely driven by soaring demand from the Asian countries. The scarcity of coal in relation to the growing needs of the Pacific markets, specifically from China and India, has led to improvement in coal exports from around the world. Despite some recent pressures, the overall trend in thermal coal prices has been favourable, driven by improvements in demand from the domestic and international markets and reduced stockpiles.

Throughout most of 2010 Richards Bay Coal Index (“API4”) coal prices increased to around the mid \$90s, due to the rising demand for coal in China and India.

Going forward, the API4 is expecting to gradually increase to around \$120 - \$150 within the coming year.

With the emergence of greater certainty in the global economic recovery, the increase in international demand for coal has propelled South Africa back into its key role in the export market. Recently, this has seen increasing volumes of South African coal being sold on long-term contracts to power utilities and industrial concerns, particularly into the Far East, led by the growing appetite for South African coal from India and China. Thirty-two percent of the 63 million tonnes of steam coal exported through the Richards Bay Coal Terminal (RBCT) in 2010 went into the Indian market.

One of the key factors limiting the volume of exports through RBCT and Maputo is the lack of rolling stock in the Transnet railway system, which is having a serious impact on both the export volumes and filling the additional throughput in the RBCT Phase V expansion project from the current capacity of 82 million tonnes to 91 million tonnes. This continuing logistics problem within South Africa, coupled with the tight supply of Russian and Australian export coal and the diversion of large volumes of South African coal into Asia from the European markets, are some of the key factors expected to keep driving prices higher.

### **PROPERTIES AND EXPLORATION PROJECTS**

#### **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 kilometers east of Johannesburg, and approximately six kilometres west of the town of Ogies.

**HOMELAND ENERGY GROUP LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

**MINING OPERATIONS**

Mining is currently undertaken in Block D and Block F, both of which are currently in steady state operation with a strip ratio of approximately 4:1 for Block D and around 2.5:1 for Block F which is anticipated to be completed by the end of Q2 2011. An additional 400,000 tonnes of plant coal was identified on the southern portion of the Block F reserve, which was previously not included in the mining plan. This has had a favorable impact on yield. The Company has completed extensive studies to determine the position of underground workings in the 4 lower coal seams in Block E. Currently, the boxcut in Block E is under way, and is expected to yield its first coal by Q2 2011. Detailed mine scheduling in the form of a Life-of-Mine Plan for Block E was completed in Q4 2010 and further refinement of this plan will continue in 2011. Mining during 2011 will focus on Block F and Block E. It is planned to suspend production in Block D due to poor yielding coal but might later be mined for the Eskom market.

An additional 60,000 tonnes of plant coal was sourced from the mining of the barrier pillar between Kendal Colliery and a neighboring mine.

The following table outlines production for the four quarters ended December 31, 2010:

	<b>Q1 2010</b>	<b>Q2 2010</b>	<b>Q3 2010</b>	<b>Q4 2010</b>
Run-of-Mine ("ROM" tonnes)	<b>291,856</b>	<b>238 409</b>	<b>286 408</b>	<b>275 866</b>
Feed to plant (tonnes)	<b>239,965</b>	<b>224 558</b>	<b>299 683</b>	<b>253 582</b>
Yield (%)	<b>47.2</b>	<b>41.7</b>	<b>35.7</b>	<b>39.6</b>
Product (tonnes saleable)	<b>113,263</b>	<b>93 571</b>	<b>106 841</b>	<b>100 423</b>
Sales (tonnes)	<b>116,778</b>	<b>359 134</b>	<b>571 939</b>	<b>268 984</b>
Stock (tonnes)	<b>290,206</b>	<b>189 819</b>	<b>89 872</b>	<b>113 774</b>
Stock Discard	<b>510,768</b>	<b>461 310</b>	<b>277 100</b>	<b>248 333</b>

Run-of-Mine ("ROM") production was lower than anticipated in the three months ended December 31, 2010. The mining contractor was instructed to ramp up production in the beginning of Q3 2010 as a result of increased sales and increased plant performance leaving the ROM stockpile depleted. The Company aims to maintain stocks of not more than one week's production. Increased levels of production were not forthcoming and it was then decided to engage with existing contractors and give them notice to deploy their equipment in Block D and to relinquish their contract over Block F. The contractor mining the Block E box cut was deployed to Block F. Production was also hampered by above average high rainfall.

Yield on production was lower than anticipated during 2010. During Q4 2010 the face length in Block F shortened substantially causing production to reduce from this area. The

# HOMELAND ENERGY GROUP LTD.

## MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2010

coal quality from Block F is generally higher than that of Block D which has a longer face length. The result has been that a larger ratio of coal was produced from Block D than from F resulting in lower yields. During Q4 2010, the above situation continued but to make matters worse geological intrusions in the form of Dolerite were experienced in both Blocks F and D resulting in a lower than anticipated yields. In order to improve the situation until Block E comes to production, coal was sourced from the mining of the barrier pillar between Kendal colliery and the neighbouring Wescoal mine. This coal was of significantly higher yield. Another pillar of about 400,000 tonnes was also identified at Block F which is currently being mined. This pillar has been yielding higher production.

### PROCESSING OPERATIONS

Plant throughput for the quarter ended December 31 2010 was negatively impacted as a result of the poor quality of raw coal from Block F and Block D. This was a result of geological intrusions. Throughput was further affected by low tonnages mined by the opencast mining contractor. In Q4 2010, the mine continued to expend significant costs and operational time to bring the plant back to an acceptable standard.

Plant availability improved significantly during Q4. The plant was, however, under-utilised due to the lack of ROM production.

### SALES CONTRACT

Discard was sold under a contract to Just Coal, which supplies to Eskom. Homeland is currently in discussions with Eskom to become a direct supplier of low-grade coal for power generation. It is envisaged to construct a re-wash plant, should such a contract materialise. Sales were further negatively impacted in the last month of 2010 due to the holiday period and rainy season in South Africa.

### HEALTH, SAFETY & ENVIRONMENT

For Q4 2010, there were 4 accidents were reported:

Period	Accidents	Medical treatment	Lost-Time Injury
Q1 2010	0	0	0
Q2 2010	2	0	1
Q3 2010	1	0	1
Q4 2010	4	0	0

1. 08/10/2010 - Moolmans - Water Bowser operator reversed up a berm causing the water cart to overturn.
2. 27/10/2010 - Just Coal - A tipper truck reversed into another tipper truck at the Wescoal gate.
3. 18/11/2010 - Moolmans - Employee was on his way to the plant in a private vehicle when he lost control on the wet road and slid into a safety beam

# **HOMELAND ENERGY GROUP LTD.**

## **MANAGEMENT DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED DECEMBER 31, 2010**

4. 26/11/2010 - Moolmans CML - The CML tipper truck was on his way back to the loading area when he lost control and drove into the safety beam causing the tipper truck to overturn.

The results of a compliance audit recommended that the current approved Environmental Management Planning (EMP) be amended and that the water use licence for the operation be upgraded to an Integrated Water Use Licence (IWULA). Both of these recommendations were actioned. The IWULA has been submitted to the Department of Water Affairs (DWAf), and the amended EMP has since been submitted to the Department of Mineral Resources (DMR). Approvals by the DMR and DWAf of these two documents are expected in 2011.

It is planned to shortly employ as per the Social and Labour Plan (SLP) commitments, a Health and Safety, Geology and Human Resources intern.

### **GEOLOGY**

An additional 15 boreholes were drilled in order to further delineate the Block E expansion area. All geological information for Kendal was validated by Caracle Creek International Consultants, after which the geological model was updated and a revised Life-of-Mine Plan was completed in Q4 2010.

### **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 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.

Homeland currently owns 50% of Tshedza, with the option to acquire a further 1% for ZAR 1.00. In May 2009 the Company received formal notification from the South African Department of Mining & Energy that a Mining Right has been granted for Eloff. Homeland has engaged the Department of Mineral Resources (DMR) in order to revise the upfront rehabilitation guarantee required. The DMR has agreed to allow Homeland to amend the EMP, Mine Works Plans (MWP) and the rehabilitation guarantee value. During a meeting between management and DMR, DMR has agreed to reduce the rehabilitation guarantee value significantly. It is planned to notarize the execution of the Mining Right during the first half of 2011. 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-

**HOMELAND ENERGY GROUP LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

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).

An area in the northwest quadrant of the property was identified as a target for potential opencast mining. An additional 50 boreholes have been drilled and plans for development of Eloff are underway. As coal markets continue to improve and with the Kendal operations becoming more consistent and self sustaining, the Company intends to focus more attention on the Eloff Property. Full washability analysis and the updated Geological model are expected in the first half of 2011. On completion of the CPR the NI 43-101 will be updated in the second half of 2011. A tender process for a full Feasibility study has been initiated and it is expected to award the tender by Q2 of 2011.

The relationship with the land owners at Eloff is good. The Company is dealing with 13 different farmers. Acquisition of the surface rights is planned to commence during the first half of 2011. Mine design and construction is planned to commence in Q4 2011 and could take up to 18 months to complete after which mining activities can commence.

**NORTHFIELD COLLIERY, KWA-ZULU NATAL PROVINCE, SOUTH AFRICA**

The Company continues to hold a 100% interest in the Northfield Site Reclamation Project. Following the successful trial offtake agreement with Osho Coal, a further commitment for 50,000 tonnes was received and this is expected to continue throughout 2011. The Company is negotiating a long-term agreement with Osho Coal, which is expected to be executed in the near future.

**QUALIFIED PERSON**

Mr Henry Hoffmann, current COO of Homeland, has been appointed as a qualified person as defined by Canadian National Instrument 43-101 and is responsible for all technical disclosure contained in this MD&A. The responsibility for the Company's exploration and development programs has been contracted to Caracle Creek International Consulting under the auspices of Dr John Hancox.

**BOARD OF DIRECTORS AND MANAGEMENT**

During the second quarter of 2010, Mr. Laurence Curtis stepped down from the board of directors. Mr. Curtis was replaced by two new directors, Ms. Neena Gupta and Mr. Mike Garvey. In July 2010, Mr. Ajay Gupta was appointed as Chief Financial Officer. Mr. Jeff Lowe completed his term as director and consultant to the Company at the end of September 2010. Subsequent to the year end, in January 2011, Mr. Avrom Howard resigned from the board of directors.

# HOMELAND ENERGY GROUP LTD.

## MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2010

### RESULTS OF OPERATIONS

#### FINANCIAL OVERVIEW AND SELECTED FINANCIAL INFORMATION

The following selected financial information was obtained directly from or calculated using the Company's financial statements for the years ended December 31, 2010, 2009, and 2008.

	Year ended Dec 31 2010	Year ended Dec 31 2009	Year ended Dec 31 2008
<b>Results of Operations:</b>			
Total revenues	\$ 33,016,352	\$ 7,071,273	\$ -
Net income (loss)	(11,544,978)	(35,599,314)	(24,577,479)
Basic earnings (loss) per share	(0.03)	(0.14)	(0.17)
	As at Dec 31 2010	As at Dec 31 2009	As at Dec 31 2008
<b>Financial Position:</b>			
Net working capital	\$ (29,699,548)	\$ (21,143,128)	\$ 7,313,809
Investments	3,001,863	2,017,074	11,121,315
Long-term loan receivable	11,358,870	9,664,922	7,939,614
Property, plant and equipment	32,625,995	30,081,459	9,535,198
Exploration and development properties	5,374,828	5,216,521	15,090,267
Total assets	66,080,273	69,614,694	57,608,733
Total long-term liabilities	465,831	437,449	8,310,722

#### GENERAL

Net loss for the year ended December 31, 2010 was \$11,544,978 compared with a net loss of \$35,599,314 for 2009. The net loss for the year ended December 31, 2010 improved from prior year by \$24.05 million, due to a significant reduction in gross loss as a percentage of sales from -27% to -4%, reduction in operating expenses of \$6.20 million, \$2.07 million reduction of stock-based compensation, \$1.38 million reduction in management and administrative expenses, \$0.23 million reduction in office and general, \$3.37 million reduction in foreign exchange loss, offset by a \$1.10 million increase in interest expense and \$0.22 million increase in professional and consulting fees. Several 2009 events did not recur in 2010 such as the one-time transaction break fee relating to Appollo of \$6.3 million, the write-down of investments totalling \$4.9 million and impairment provision on available-for-sale investments of \$2.6 million. The Appollo transaction in 2009 resulted in a \$6.3 million break fee, of which \$4 million was paid in shares (31,561,671 shares at US\$0.1267 per share) and the balance of \$2.3 million was paid in cash.

# **HOMELAND ENERGY GROUP LTD.**

## **MANAGEMENT DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED DECEMBER 31, 2010**

The gross loss for the year ended 2010 is primarily attributable to poor yields causing mining costs to be proportionately higher and therefore lower gross profits. The trend has, and management continues to believe, toward lower losses and increased profitability during 2011. The Company is continuing to develop the Kendal property to bring the mine into full commercial production, which initiated in October 2009 and production is expected to ramp up in future periods. As the Company continues to improve its production and delivery systems, the trend for reducing operating losses is improving, as evidenced by a \$24.05 million favourable variance net loss for the year ended December 31, 2010 when compared to 2009, clearly indicating that the Company is successfully transitioning from development stage to full commercial production phase.

### **REVENUES**

Revenue for the year ended December 31, 2010 was \$33,016,352 compared to \$7,071,273 for the year ended December 31, 2009. The Company determined that it had reached commercial production on October 1, 2009, and accordingly all revenue earned from the sale of coal at Kendal was taken into income after this time. Prior to that time, the Company capitalized such amounts as pre-production revenue under Exploration and Development Properties on the Company's balance sheet. Revenue earned in Q4 2010 was \$6,200,250 compared to \$7,071,273 for Q4 2009.

Sales have improved since the implementation of a marketing strategy. All high volume stockpiles that have built up since Q4 2009 have been depleted. All coal currently produced is sold, with minimal stockholding. Sales were lower than expected in 2010 due to low yields achieved and poor Run-of-Mine production as discussed on page 5. Though mitigating steps continue to be taken, from an operating perspective, Kendal's results have still not been optimal. This is mainly due to lower yield and lower production of coal than expected. The Company continued to see improvements in operations in the second half of the year based on the steps initiated in the first half of the year.

### **OPERATING EXPENSES**

The major expenses during the year ended December 31, 2010 include management and administrative expenses, office and general, and interest expense.

Management and administrative expenses in 2010 were \$3,251,663 compared to \$4,626,729 in 2009 and decreased approximately \$1.4 million from 2009 mainly due to a reclassification of expenses between management and administrative expenses and mining and processing expense in Q2 and Q3 2010, as well as a general reduction in expenses during the last half of the year.

Office and general expenses in 2010 were \$3,386,235 compared to \$3,611,665 in 2009, and decreased by approximately \$0.23 million from 2009 mainly due to a \$660,000 provision of bad debt expense for the year ended December 31, 2010, offset by a general reduction in operating expenses.

# HOMELAND ENERGY GROUP LTD.

## MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2010

Interest expense in 2010 was \$3,270,542 compared to \$2,165,777 in 2009, and increased by approximately \$1.10 million from 2009 due to accumulating interest on the Nedbank loan, as well as additional interest from new loans from GMR Energy and GMR Energy (Mauritius) Limited during the year totalling approximately \$36 million, and loans outstanding from GMR Energy (Mauritius) Limited in 2009 of approximately \$5 million, of which \$11.7 million has been repaid during the year. The Nedbank loan was fully repaid during the year from the proceeds of the loans from GMR Energy (Mauritius) Limited.

### SUMMARY OF QUARTERLY RESULTS

The following quarterly information is presented in Canadian Dollars:

(\$'000) - Except Net Loss Per Share

Fiscal Period	Revenue \$	Net Loss \$	Net Loss Per Share \$	Total Assets \$	Total long-term Liabilities \$	Cash Dividends \$
2010 - Q4	6,199	(2,785)	(0.01)	66,080	466	-
2010 - Q3	11,509	(4,863)	(0.01)	70,674	454	-
2010 - Q2	8,842	(2,357)	(0.01)	63,584	429	-
2010 - Q1	6,466	(1,843)	(0.01)	63,649	427	-
<b>Total</b>	<b>33,016</b>	<b>(11,848)</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>-</b>
2009 - Q4	7,071	(10,128)	(0.04)	69,614	437	-
2009 - Q3	Nil	(8,408)	(0.03)	67,778	439	-
2009 - Q2	Nil	(6,238)	(0.02)	70,118	463	-
2009 - Q1	Nil	(10,825)	(0.05)	63,665	9,508	-
<b>Total</b>	<b>7,071</b>	<b>(35,599)</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>-</b>

### EXPENDITURES ON EXPLORATION AND DEVELOPMENT PROPERTIES

The Company is engaged in the exploration and development of coal properties or deposits within South Africa. 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 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

**HOMELAND ENERGY GROUP LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

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 exploration and development properties of the Company by summarizing capitalized expenditures net of amortization during the year ended December 31, 2010, total capitalized costs on the balance sheet as of December 31, 2009 and December 31, 2010, and the percentage of the property owned. The principal mineral found on all of the properties below is coal.

	Capitalized Expenditures			Percentage Owned
	December 31, 2009	Net additions during the year	December 31, 2010	
<b><u>South Africa</u></b>				
Eloff	\$ 2,778,679	\$ 352,156	\$ 3,130,835	50%
Northfield	2,434,460	(190,467)	2,243,993	100%
Other	3,382	(3,382)	-	50-100%
	<u>\$ 5,216,521</u>	<u>\$ 158,307</u>	<u>\$ 5,374,828</u>	

## LIQUIDITY AND CAPITAL RESOURCES

### WORKING CAPITAL

The Company had cash and cash equivalents of \$3,720,603 and a working capital deficit of \$29,699,548 at December 31, 2010, primarily attributable to the current loan payable to GMR Energy. This compares with cash and cash equivalents of \$7,650,261 and working capital deficit of \$21,143,128 at December 31, 2009.

The Company currently does not have sufficient cash and credit facilities available to meet its operating costs and planned capital expenditures in their entirety. During the year the Company successfully raised financing via issuance of shares for \$8.45 million and received financing of \$29.96 million (USD \$29.0 million) from the majority shareholder. The Company plans to raise additional funds as needed to maintain its capital structure and working capital requirements. Management plans to increase production over the coming quarters to meet the working capital requirements in the near future. Management is currently negotiating a new financing term from financial institutions to repay the GMR Energy loan.

### OPERATING ACTIVITIES

For the year ended December 31, 2010, cash flows used in operating activities totalled \$17,386,861 compared with \$8,798,160 used in 2009.

# **HOMELAND ENERGY GROUP LTD.**

## **MANAGEMENT DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED DECEMBER 31, 2010**

During the year, cash and cash equivalents decreased by \$3,929,658 mainly due to cash used in operating activities of \$17,386,861, cash used in investing activities of \$1,932,129, and cash provided by financing activities of \$15,258,053.

### **INVESTING ACTIVITIES**

During the year, the Company acquired property, plant and equipment totalling \$4.42 million.

### **FINANCING ACTIVITIES**

During 2010, the Company raised \$8.45 million from its Rights Offering (see note 13(vii) in the consolidated financial statements). These proceeds were used to repay \$8.1 million of the outstanding loan to GMR, leaving a balance due to GMR of \$3.5 million, which was subsequently repaid out of the new financing.

On September 27, 2010, the Company signed a promissory note with GMR Energy for \$29.96 million (USD \$29.0 million), bearing interest at LIBOR plus 4.5% per annum, calculated monthly and paid quarterly, with the entire amount due on September 27, 2011. The loan is secured by a pledge of operating assets as well as non-core assets related to Kendal Colliery and Northfield Property. The loan is guaranteed by several subsidiaries of the Company. The purpose of the loan was to assist the Company to repay the Nedbank Credit Facility of \$23.1 million (including principal and interest) as well as to assist in funding operations during commercial production over the next few quarters. The loan is subject to renewal at the end of its term.

Subsequent to December 31, 2010, management is in the process of negotiating a loan facility of up to \$50 million from financial institutions for capital expenditure requirements to support the development of the Kendal and Eloff mines, for working capital requirements for HEG and its subsidiaries in South Africa, and to repay the GMR Energy loan when it falls due in September 2011. In the interim, the Company has obtained an additional loan from GMR Energy in the amount of USD \$5,000,000 (\$4,879,000) on March 28, 2011, bearing interest at LIBOR plus 450 basis points, payable quarterly, and is due on the earlier of the date on which the Company establishes its loan facility and September 27, 2011.

### **BALANCE SHEET**

#### **ASSETS**

The Company had assets totalling \$66,080,273 at December 31, 2010 as compared to \$69,614,694 at December 31, 2009. These asset balances decreased by \$3.53 million at December 31, 2010 due to decrease in cash and cash equivalents by \$3.93 million, a decrease in inventory levels by \$4.76 million, an increase in long-term loan receivable by \$ 1.7 million, and an increase in property, plant and equipment of \$2.54 million.

# **HOMELAND ENERGY GROUP LTD.**

## **MANAGEMENT DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED DECEMBER 31, 2010**

### **TOTAL LIABILITIES**

The Company had total liabilities of \$43,189,830 at December 31, 2010 compared with liabilities of approximately \$44,195,627 as at December 31, 2009. The decrease in liabilities is due to an increase in the loan received from GMR Energy of \$23.8 million, offset by the repayment of the Nedbank credit facility of \$20.5 million and a decrease in accounts payable of \$4.3 million.

### **CAPITALIZATION**

The Company had 471,204,149 common shares outstanding at December 31, 2010, as a result of 169,088,393 additional common shares issued from the Rights Offering on July 12, 2010 for total proceeds of \$8,454,420.

At December 31, 2010, the total security holding percentage of GMR Energy Limited ("GMR"), including Crossridge Investments Limited ("Crossridge") an affiliate of GMR, is approximately 62.22% in the Company, represented by an aggregate of 293,215,907 of the issued and outstanding common shares of the Company. GMR acquired a total of 159,862,800 common shares through its participation in the Rights Offering on July 12, 2010 and now holds 263,119,985 common shares representing approximately 55.84% of Homeland's common shares. Crossridge owns and controls 30,096,012 of Homeland's issued and outstanding common shares, which is approximately 6.38% of Homeland's common shares.

The proceeds of the Rights Offering were used to repay the \$7,993,140 loan made by an affiliate of GMR and for general working capital purposes as disclosed in the Final Prospectus dated May 31, 2010 as amended by Amendment No. 1 dated June 30, 2010.

The Company had 4,250,000 common share purchase options outstanding at December 31, 2010. The options outstanding have a weighted-average exercise price of \$0.14 per option. Options are exercisable into common shares on a one-for-one basis. A total of 4,803,375 common share purchase options expired over the year.

At December 31, 2009, the Company had 9,053,375 options outstanding at a weighted-average exercise price of \$0.37.

### **RELATED PARTY TRANSACTIONS**

Transactions with related parties are measured at the exchange amounts and for the year ended December 31, 2010 are as follows:

Homeland paid Grove Communications Inc. \$nil during the year ended December 31, 2010 (2009 - \$9,278) in fees in respect of investor relations and office administration work undertaken. The owner of Grove Communication Inc. is a former officer and director of the Company.

**HOMELAND ENERGY GROUP LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

With the leasing of new premises in London in 2008, Juno Special Situations Corporation, a company with which a former director and an officer of Homeland are associated, agreed to share office space. At December 31, 2010, the Company had invoiced Juno for rental and recoveries of costs, and \$26,156 (2009 - \$27,915) remains outstanding. This amount is unsecured, non-interest bearing with no fixed terms of repayment.

Expenses incurred from a South African company owned by a director and significant shareholder of subsidiaries of the Company for services rendered in respect of securing and maintaining prospecting rights totalled \$nil for the year ended December 31, 2010 (2009 - \$67,791).

Legal services are provided by a law firm of which an officer of the Company is a partner. Homeland expensed \$206,365 during the year ended December 31, 2010 (2009 - \$286,733). Included in the accounts payable and accrued liabilities at December 31, 2010 was \$8,839 (2009 - \$46,178) owing to this firm. The amount is unsecured, non-interest bearing, with no fixed terms of repayment.

During 2010, nil (2009 - 5,775,000) stock options were granted to directors and officers of the Company.

Related parties were reimbursed for out-of-pocket expenses. As at December 31, 2010, \$1,472 (2009 - \$365,789) was included in accounts payable to officers and directors. These amounts are unsecured, non-interest bearing, with no fixed terms of repayment.

Certain expenditures during 2010 relating to GMR were initially paid for by the Company. Included in accounts receivable at year end is \$3,416 (2009 - \$127,000) outstanding from GMR. These amounts are unsecured, non-interest bearing, with no fixed terms of repayment. Interest expense earned by GMR and GMR Energy amounted to about \$690,608 for the year ended December 31, 2010 (2009 - \$25,984). Three of the Company's directors are employees of GMR. GMR with its affiliates is also the Company's largest shareholder.

The Company and HUI had one director in common prior to June 30, 2010 and one of its directors is a Named Executive Officer in HUI. Refer to notes to the December 31, 2010 consolidated financial statements 8(a) and 13(ii).

**OFF-BALANCE SHEET ARRANGEMENTS AND CONTINGENT LIABILITIES**

The Company has no material off-balance sheet arrangements or contingent liabilities.

**MANAGEMENT CONTRACTS**

The Company is not party to any outstanding agreements with officers that contain change of control clauses pursuant to which the officers would be entitled to termination payments under certain circumstances.

**HOMELAND ENERGY GROUP LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

**MADIC AND NUMIN**

The Company began doing business with Madic Operations (Pty) Ltd (“Madic”) and Numin (Pty) Ltd. (“Numin”) to utilize their machinery during the production process at Kendal. Madic is the corporation which owns the machinery; Numin is the operating company that employs the people that operate the machinery. The MADIC machine is an extendable coal receiving system, connected to the end of a conveyor onto which a continuous haulage or Shuttle car discharges its load. The major advantage of the system is in keeping the tipping point as close as possible to the underground section’s coal winning process. It drastically reduces the tramming time of a shuttle car and facilitates and reduces the number of belt extensions required resulting in an increased production output. An added benefit is the reduction in labour requirements.

Homeland invested into the project with the aim of later mining one of its underground reserves utilizing a MADIC system. The agreement is that Homeland may acquire a fixed number of four systems at cost.

In 2008, the Company advanced a loan to Madic, of \$1,380,000 (ZAR 10 million), in order to capitalize the development of a continuous conveyor system for the mining industry. Madic is required to repay the loan, plus interest calculated at a rate of 5% per annum. In terms of this Loan Agreement, Homeland is entitled, but not obligated, to purchase at cost a maximum of four Madic continuous conveyor systems. During 2010, \$307,418 (ZAR 2,181,818) was repaid, leaving loan balance including interest of \$1,162,553 (ZAR 8,250,906) remaining.

As part of this agreement, Homeland has acquired 45% of Madic, and has simultaneously granted a call option in terms of which it could be compelled to sell 10% (the “Option Shares”) back to the vendor at its then market value (including a proportionate interest in any loan account at face value). Should this option be exercised, Homeland would have the further option, *in lieu* of selling the Option Shares, to pay the market value of the Option Shares to the vendor at that time and retain the shares. Homeland is entitled to appoint one of the two directors of Madic.

In addition, Homeland has entered into a Loan Agreement and Share Purchase Option Agreement with an entity associated with Madic that is implementing the Madic system, including terms in which it has loaned to this entity company (“Numin”) totaled \$719,600 (ZAR 5,606,465), of which ZAR 3,000,000 was the original loan amount, an additional ZAR 1,313,465 was issued in 2008 and additional ZAR 1,293,000 was issued in 2009. This loan bears interest at the prime lending rate less 1% and is repayable within one year. Homeland has been granted an option, for a period of three years, to purchase 20% of the issued share capital in Numin for a nominal value of ZAR 1 per share. During 2010, \$199,822 (ZAR 1,418,184) was repaid, leaving loan balance including interest of \$812,004 (ZAR 5,762,979) remaining.

# **HOMELAND ENERGY GROUP LTD.**

## **MANAGEMENT DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED DECEMBER 31, 2010**

The Company follows the recommendations in Accounting Guideline 15, "Consolidation of Variable Interest Entities ("VIE")" which establishes the application of consolidation principles to entities that are subject to control on a basis other than ownership of voting interests. The guideline requires the primary beneficiary of a VIE to consolidate the VIE. A VIE is an entity which either does not have sufficient equity at risk to finance its activities without additional subordinated financial support or where the holders of the equity at risk lack the characteristics of a controlling financial interest. The primary beneficiary is the enterprise that will absorb or receive the majority of the VIE's expected losses, expected residual returns, or both. The Company has determined that Madic Operations (Pty) Ltd. ("Madic") and Numin (Pty) Ltd. ("Numin") are VIEs, and as the Company has been determined to be the primary beneficiary of each entity, Madic and Numin have been consolidated in the company's consolidated financial statements. For particulars of the impact of this change on prior periods please see the Management Discussion and Analysis for the year and periods ended December 31, 2009, March 31, 2010 , June 30, 2010 and September 30, 2010 under the heading "Numin and Madic".

### **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 year. 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 3 of the audited consolidated annual financial statements of Homeland for the year ended December 31, 2010. Critical accounting policies and estimates in the year included the determination of variable interest entities, the capitalization of the costs relating to the acquisition and exploration and development 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, the amounts of classification of mineral reserves and resources, method and rate of depletion and amortization, site restoration obligations, and the choice of Generally Accepted Accounting Principles ("GAAP").

### **CHANGES IN ACCOUNTING POLICIES**

The accounting policies followed in preparing the Annual Statements are those used by the Company as set out in the audited financial statements for the year ended December 31, 2010.

**HOMELAND ENERGY GROUP LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

**FUTURE ACCOUNTING CHANGES**

**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 was permitted. Section 1601 together with Section 1602 establishes the 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 was permitted. The Company decided not to early adopt and is currently assessing the impact of these new accounting standards on its consolidated financial statements.

**INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")**

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011, with earlier adoption permitted. Accordingly, the Company will transition from current Canadian GAAP reporting and commence reporting under IFRS in the first quarter of 2011, with restatement of comparative information presented. The conversion to IFRS from Canadian GAAP may materially affect the Company's reported financial position and results of operations and will affect the Company's accounting policies, information technology and data systems, internal control over financial reporting, and disclosure controls and procedures. The transition may also affect business activities, such as foreign currency, certain contractual arrangements, capital requirements and compensation arrangements.

The International Accounting Standards Board responsible for the development and publication of IFRS has a significant number of projects underway, many of which could impact the differences between Canadian GAAP and IFRS applicable to the Company. Changes in IFRS could result in additional adjustments and/or changes to the adjustments currently being recognized in the IFRS opening balance sheet. Accordingly, the Company continues to monitor and evaluate changes in IFRS, and to update the conversion plan as required.

The Company's IFRS conversion plan consists of three phases: Scoping and Diagnostic; Detailed Evaluation; and Implementation and Review. The Scoping and Diagnostic phase included the completion of a high-level impact assessment to identify key areas that may be affected by the conversion and the development of a detailed implementation plan. The Detailed Evaluation phase included a detailed analysis of the IFRS - Canadian GAAP

**HOMELAND ENERGY GROUP LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

differences and accounting policy choices under IFRS, and the initial assessment of the nonfinancial reporting related impacts. The Scoping phase has been completed.

The Diagnostic and Detailed Evaluation and Implementation and Review phases are in progress and will be completed in the first half of 2011.

Based on the work completed to date, the transition to IFRS did not result in significant impacts to the Company's business activities or its covenants, capital requirements or compensation arrangements. The transition did not result in significant changes to key controls during or after the transition to IFRS. Changes to financial reporting processes and data systems were required as a result of changes in accounting policies, and internal control and disclosure control documentation is being updated accordingly. The initial training of finance personnel is ongoing.

The Company has identified several areas where potential differences between Canadian GAAP and IFRS could result in changes to the amounts reported by the Company in its financial statements. While the quantification of these potential changes has not yet been finalized, the areas where the changes are most anticipated include:

#### Asset Retirement Obligations

Under IFRS, a liability must be recognized at the time when the entity becomes legally or constructively obliged to rehabilitate a disturbance resulting from mining activities, while under Canadian GAAP, a liability is only recognized when the entity is legally bound. Discount rates used should reflect the risks specific to the decommissioning provision. Unlike IFRS, under Canadian GAAP discount rates for asset retirement obligations are based on the entity's credit-adjusted risk-free rate. IFRS requires re-measurement of the liability at each reporting date whereas Canadian GAAP requires re-measurement of the liability in the event of changes in the amount or timing of cash flows required to settle the obligation. Over and above this, IAS 37, Provisions, Contingent Liabilities and Contingent Assets, requires the re-measurement of the provision for reclamation and rehabilitation if there is a change in the current market-based discount rate. However under Canadian GAAP, the provision for reclamation and rehabilitation is not adjusted for changes in the discount rate.

#### Property, Plant and Equipment

IFRIC 1, Changes in Decommissioning, Restoration and Similar Liabilities, contains guidance on accounting for changes in decommissioning, restoration and similar liabilities due to timing in the revision of estimated outflows and revisions to the risk-free discount rate. Where changes occur, these changes are required to be capitalized as part of the cost of the underlying assets and depreciated prospectively over the remaining life of the asset to which they relate.

IFRS requires identifying and measuring the cost of significant individual components of assets which have different useful lives than the core asset. Significant components are then separately depreciated based on their individual useful lives.

**HOMELAND ENERGY GROUP LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

#### Share-based payments

While there is convergence between IFRS and Canadian GAAP in that share-based payments are recognized as an expense, there are a number of measurement differences. Under Canadian GAAP, the Company records forfeitures on unvested stock options as they occur. Unlike Canadian GAAP, IFRS requires that the rate of forfeiture be estimated every reporting period and an adjustment be made to stock-based compensation expense. Canadian GAAP also allows the vesting of employee stock options to be recognized to operations on a straight-line basis whereas IFRS requires the use of a graded-vesting model.

#### Income Taxes

IFRS requires a deferred tax asset or liability to be recognized for exchange gains and losses related to nonmonetary assets and liabilities that are re-measured into the functional currency using the historical exchange rates. Under Canadian GAAP, a deferred tax asset or liability is not recognized for a temporary difference arising from the difference between the historical exchange rate and the current exchange rate translations of the cost of non-monetary assets and liabilities of integrated foreign operations.

Furthermore, Canadian GAAP requires that the current and long-term portions of future income tax assets, and future income tax liabilities, be shown separately on the financial statements, whereas IFRS does not.

#### Exploration Expenditures

IFRS 6 applies to exploration and evaluation expenditures incurred by an entity in connection with the exploration and evaluation of mineral resources. An entity may choose to defer on the balance sheet nearly all exploration and evaluation expenditures or recognize all such expenditures in operations as incurred. IFRS currently allows an entity to retain its existing accounting policies related to the exploration and evaluation of mineral properties, subject to some restrictions.

#### Impairment of Assets

IAS 36, Impairment of Assets ("IAS 36") uses a one-step approach for testing and measuring asset impairments, with asset carrying values being compared to the higher of their value in use and fair value less costs to sell. Value in use is defined as being equal to the present value of future cash flows expected to be derived from the asset in its current state. In the absence of an active market, fair value less costs to sell may also be determined using discounted cash flows. The use of discounted cash flows under IFRS to test and measure asset impairment differs from Canadian GAAP where undiscounted future cash flows are initially used to compare against the asset's carrying value to determine if impairment exists. This may result in more frequent adjustments in the carrying value of assets under IFRS. However, under IAS 36, previous impairment losses may be reversed where circumstances change such that the impairment has been reduced. This also differs from Canadian GAAP, which prohibits the reversal of previously recognized impairment losses.

**HOMELAND ENERGY GROUP LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

IFRS 1, First-Time Adoption of IFRS

IFRS 1 provides the framework for the first-time adoption of IFRS and specifies that, in general, an entity shall apply the principles under IFRS retrospectively. Certain optional exemptions and mandatory exceptions to retrospective application are provided for under IFRS 1. Prior to reporting the first IFRS compliant financial statements for the quarter ending March 31, 2011, the Company may decide to apply certain exemptions contained in IFRS 1.

i) Business combinations

IFRS 1 provides an option to not restate business combinations that occurred prior to the transition date or to only restate business combinations that occurred after a designated date prior to the transition date.

ii) Fair value as deemed cost

IFRS 1 allows an entity to initially measure an item of property, plant and equipment upon transition to IFRS at fair value on the transition date or at an event-driven fair value (i.e. a fair value determined through a business combination or initial public offering). This elective exemption can be applied on an individual asset basis.

iii) Cumulative translation account ("CTA") IFRS 1 allows cumulative translation differences for all foreign operations to be deemed zero at the date of transition to IFRS, with future gains or losses on subsequent disposal of any foreign operations to exclude translation differences arising from prior to the date of transition to IFRS.

iv) Decommissioning liabilities

Under IFRS 1, an entity can elect to not apply the provisions of IFRIC 1 - Changes in Existing Decommission, Restoration and Similar Liabilities, as they relate to changes in such liabilities before the date of transition to IFRS.

When applying this exemption, an entity determines its decommissioning liabilities at the transition date, discounts the liabilities back to the dates when they first arose using management's best estimate of the historical risk-adjusted discount rates, and depreciates these amounts forward to the transition date to determine the amount to be included in the depreciated cost of the assets.

v) Share-based payment

IFRS 1 encourages, but does not require a first-time adopter to apply IFRS 2 - Share-based Payment ("IFRS 2") to equity instruments that were granted on or before November 7, 2002, or were granted after November 7, 2002 but vested before the Company's IFRS transition date. Accordingly, an entity may elect not to retrospectively apply IFRS 2 to these equity instruments.

# HOMELAND ENERGY GROUP LTD.

## MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2010

### vi) Borrowing costs

IFRS 1 permits an entity to apply the transitional provisions of IAS 23 - Borrowing Costs ("IAS 23") as an alternative to full retrospective application. Under these provisions, the Company may elect to only apply IAS 23 to qualifying assets for which the commencement date for capitalization is on or after the date of transition (or an elected earlier date).

### FINANCIAL INSTRUMENTS

During the year ended December 31, 2010, 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, accounts 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 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 effect on its financial performance, but there is no guarantee that the Company will be profitable in the future.

### FINANCING RISK

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.

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 become 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 growth of the business, 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 operation and continued development of the Kendal Colliery and exploration and development at the Eloff Mineral Property. Any adverse developments affecting these projects could materially affect the Company's financial condition and results of operations.

**HOMELAND ENERGY GROUP LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

**GOING CONCERN RISK**

The financial statements for year ended December 31, 2010 have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis, which assumes that the Corporation will continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities in the normal course of business. As at December 31, 2010 the Corporation had a working capital deficit of \$29,699,548. The majority of this is due to the GMR Energy loan being classified as a short-term obligation.

The Nedbank Facility has been settled in Q3 2010. The Corporation is of the view that the Kendal Mine will generate sufficient cash flow for fiscal 2011 to allow it to meet its working capital requirements.

The ability of the Corporation to continue as a going concern for the foreseeable future is dependent on raising sufficient funds to meet these ongoing obligations. While the Corporation has been successful in raising financing to date, there can be no assurance that it will be able to do so in the future. If the Corporation is unable to meet these obligations from cash flow from operations and additional financings, it may not be able to continue as a "going concern."

During 2010, the Company has successfully raised financing via issuance of shares for cash in the amount of \$8,454,420, as well as receiving financing of USD \$29,000,000 (\$29,960,000) from its majority shareholder. The Company is presently negotiating a loan facility with a local financial institution of up to \$50 million, and has received additional funds of USD \$5,000,000 (\$4,879,000) from its majority shareholder on March 28, 2011. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels 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 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

# **HOMELAND ENERGY GROUP LTD.**

## **MANAGEMENT DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED DECEMBER 31, 2010**

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.

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.

### **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 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. However, with the upturn in the global economy, and future coal prices rising along the curve through to 2012, sustained upward movements in coal market prices could render Kendal coal more economic than the outlook reflected during 2010.

Domestic prices in South Africa have held to levels higher than their export equivalent throughout 2009 and are expected to remain at 2010 levels with a strengthening being forecasted for 2011.

With international prices expected to continue to increase, particularly in the Far East, this is also expected to have an upward impact on domestic price levels as more coal makes its way into the export market, reducing quantities available domestically. This is expected to secure both the domestic and international demand for Kendal coal in the foreseeable future.

# **HOMELAND ENERGY GROUP LTD.**

## **MANAGEMENT DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED DECEMBER 31, 2010**

### **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.

### **GOVERNMENTAL REGULATIONS, LICENCES AND PERMITS**

The activities of Homeland, and its subsidiaries 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

# **HOMELAND ENERGY GROUP LTD.**

## **MANAGEMENT DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED DECEMBER 31, 2010**

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-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

# **HOMELAND ENERGY GROUP LTD.**

## **MANAGEMENT DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED DECEMBER 31, 2010**

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 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 qualified

# **HOMELAND ENERGY GROUP LTD.**

## **MANAGEMENT DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED DECEMBER 31, 2010**

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.

### **FOREIGN EXCHANGE RATE FLUCTUATIONS**

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 and US Dollar relative to the South African Rand. This could adversely affect Homeland's financial position and operating results. Homeland's revenues and expenses will be incurred in South African Rand and Canadian Dollars, though its financings are expected to be completed in US Dollars.

**HOMELAND ENERGY GROUP LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

**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 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.

**HOMELAND ENERGY GROUP LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

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 cash equivalents (including its restricted cash), accounts receivable, 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 receivable and credit facilities and GMR Energy loan payable 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.

For the year ended December 31, 2010 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-Canadian Dollar denominated instruments.

**DISCLOSURE CONTROL AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING**

**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;

# HOMELAND ENERGY GROUP LTD.

## MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2010

- 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 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, 2010.

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.

A material weakness is a deficiency, or a combination of deficiencies, in internal controls over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

Typical with smaller organizations, management has identified a 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. As at the end of the year covered by this management discussion and analysis, management has concluded that the internal controls over financial reporting were appropriately designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

There have been no changes in the Company's internal control over financial reporting that occurred during the year beginning on January 1, 2010 and ended December 31, 2010 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.

### **SUBSEQUENT EVENTS**

Subsequent to December 31, 2010, management is in the process of negotiating a loan facility of up to \$50 million from financial institutions for capital expenditure requirements to support the development of the Kendal and Eloff mines, for working capital requirements for HEG and its subsidiaries in South Africa, and to repay the GMR Energy loan when it falls due in September 2011. In the interim, the Company has obtained an additional loan from GMR Energy in the amount of USD \$5,000,000 (\$4,879,000) on March 28, 2011, bearing

**HOMELAND ENERGY GROUP LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

interest at LIBOR plus 450 basis points, payable quarterly, and is due on the earlier of the date on which the Company establishes its loan facility and September 27, 2011.

**SUPPLEMENT TO THE FINANCIAL STATEMENTS**

**OUTSTANDING SHARE AND OPTION DATA**

As at March 30, 2011, the following items were issued and outstanding:

- 471,204,149 common shares;
- 4,250,000 stock options at an average price of \$0.14 per common share, maturing at various dates until December 15, 2014;
- 36,250 charity options with an exercise price of \$0.40 per common share, until the earlier of February 12, 2012 and the 90<sup>th</sup> day from the date that the Charity ceases to be an Eligible Charitable Organization;

March 30, 2011