



**HOMELAND ENERGY
GROUP LTD.**

HOMELAND ENERGY GROUP LTD.

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED MARCH 31, 2011

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

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

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

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This Management's Discussion and Analysis ("MD&A") provides an analysis of the financial condition and results of operations of Homeland Energy Group Ltd. ("Homeland" or the "Company") for the three months ended March 31, 2011. This MD&A should be read in conjunction with the Company's interim consolidated financial statements and notes thereto for the three months ended March 31, 2010 ("Interim Statements") and the annual statements for the year ended December 31, 2010, which are available at the SEDAR website, www.sedar.com. The Annual Statements were 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. 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 and short term contracts. However, the Company continues to pursue opportunities to initiate a direct supply through a long term contract with Eskom. Homeland's goal remains to become a mid-tier coal producing

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company with downstream coal use potential. In order to accomplish this, the Company has set out the following objectives:

- * Increase 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 by 2011, taking into account establishing new financing facility with financial institution, 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.

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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.

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 the first quarter of 2011 Richards Bay Coal Index (“API4”) coal prices increased to about \$120 per tonne, due to the rising demand for coal in China and India, as well as shortfalls of coal supply due to flooding in Australia in 2010

Going forward, the Richards Bay Coal Index (“API4”) coal prices are expected to be in the range of \$120 to \$130 per tonne for the remainder of the 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

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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.

MINING OPERATIONS

Mining is currently undertaken in Block F, which is currently in a steady state of operation with a strip ratio of approximately 2.5:1 and 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 early Q3 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. Production in Block D was suspended 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 March 31, 2011:

	Q2 2010	Q3 2010	Q4 2010	Q1 2011
Run-of-Mine ("ROM" tonnes)	238 409	286 408	275 866	262 915
Feed to plant (tonnes)	224 558	299 683	253 582	218 592
Yield (%)	41.7	35.7	39.6	40.0
Product (tonnes saleable)	93 571	106 841	100 423	87 640
Sales (tonnes)	359 134	571 939	268 984	211 968
Stock (tonnes)	189 819	89 872	113 774	129 148
Stock Discard	461 310	277 100	248 333	216 601

Run-of-Mine ("ROM") production was lower than anticipated in the three months ended March 31, 2011. In spite of several reminders to the mining contractors the increased levels of production were not forthcoming and it was then decided to terminate the contract with the old contractor and engage the new contractor for mining Block F. Production was also hampered by above average high rainfall during the period.

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Yield on production was lower than anticipated during Q1 2011 mainly because of lower quality of coal from Block F than expected. The 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 Q1 2011, 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 March 31, 2011 was negatively impacted as a result of the poorer than expected quality of raw coal from Block F. This was a result of geological intrusions. Throughput was further affected by low tonnages mined by the opencast mining contractor. In Q1 2011, the mine continued to expend significant costs and operational time to bring the plant back to an acceptable standard.

Plant availability improved significantly during Q1. 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. The company has also entered into a short term contract with Eskom during Q1 2011, whereby they will be directly supplying Eskom with low grade coal. This short term contract consists of a supply of up to 20,000 tonne per month, over a period of 6 months. Homeland is still in discussions with Eskom with regards to becoming a long term supplier of low-grade coal for power generation. It is envisaged to construct a re-wash plant, should such a contract materialise. Sales were negatively impacted in Q1 2011 period due to rainy season in South Africa.

HEALTH, SAFETY & ENVIRONMENT

For Q1 2011, there were 2 accidents reported:

Period	Accidents	Medical treatment	Lost-Time Injury
Q2 2010	2	0	1
Q3 2010	1	0	1
Q4 2010	4	0	0
Q1 2011	2	1	1

1. 10/01/2011 - Kwena - Boilermaker was busy cutting off bolts on Dilute tank cover, when the cover fell the boilermaker stepped back and the cutting torch caused superficial burns to the boilermaker assistant. (Medical treatment case)

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2. 27/01/2011 – Macro recycling – The crusher operator was repairing the remote cable when the crusher inadvertently moved hitting the operator on the chest causing him to fall to the ground. (Lost time injury)

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). Homeland has proceeded to implement both of these recommendations. The IWULA has been submitted to the Department of Water Affairs (DWA), and the amended EMP has since been submitted to the Department of Mineral Resources (DMR). Approvals by the DMR and DWA of these two documents are expected in 2011.

As per the Social and Labour Plan (SLP) commitments, Health and Safety, Geology and Human Resources interns were appointed.

GEOLOGY

All geological information for Kendal was validated by Caracle Creek International Consultants (“CCIC”), after which the geological model was updated and a revised Life-of-Mine Plan was completed in Q4 2010. Please refer to the updated NI 43-101 compliant technical report filed in connection with Kendal.

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 approximately 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 After 6 months of discussions and negotiations between management and DMR, DMR had agreed to reduce the rehabilitation guarantee value significantly from ZAR89m to ZAR14.8m. The Mining Right was notarially executed on February 24, 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 paele drainage channel, showing no coal or weathered coal. The drill pattern was set out initially on a 500- metre by 500-metre pattern, designed to supplement the 65

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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 was completed by CCIC during Q1 2011. The NI 43-101 was updated during May 2011. A tender process for a full Feasibility study has been initiated and it is expected to award the tender during 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 Chief Operating Officer 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 first quarter of 2011, Mr. Avrom Howard resigned from the board of directors.

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RESULTS OF OPERATIONS

FINANCIAL OVERVIEW AND SELECTED FINANCIAL INFORMATION

The following selected financial information was obtained directly from or calculated using the Company's interim financial statements for the three months ended March 31, 2011, 2010, and years ended December 31, 2010 and 2009.

	Three months ended Mar 31 2011	Three months ended Mar 31 2010	Year ended Dec 31 2010	Year ended Dec 31 2009
<i>(in 000's except per share amounts)</i>				
Results of Operations:				
Total revenues	\$ 6,519	\$ 6,245	\$ 31,132	\$ 7,701
Comprehensive income (loss)	215	542	(6,260)	(29,609)
Basic earnings (loss) per share	(0.01)	(0.01)	(0.03)	(0.14)
	As at Mar 31 2011	As at Mar 31 2010	As at Dec 31 2010	As at Dec 31 2009
Financial Position:				
Net working capital	\$ (33,507)	\$ (22,732)	\$ (29,162)	\$ (21,123)
Net working capital, excluding shareholder loan	(785)	(4,088)	(319)	(16,100)
Investments	2,788	2,072	3,002	2,017
Long-term loan receivable	2,043	2,126	2,044	2,362
Property, plant and equipment	43,507	30,804	37,668	32,584
Exploration and development properties	4,958	5,523	5,848	5,603
Total assets	70,645	57,114	61,574	64,840
Total long-term liabilities	443	427	466	438

Note: The effective transition date from Canadian GAAP to IFRS was January 1, 2010. As a result Q2, Q3 and Q4 of 2009 have not been restated to IFRS.

GENERAL

Total revenues for the three months ended March 31, 2011 was \$6.52 million compared with total revenues of \$6.24 million for the same period in 2010. Production during Q1 2011 was comparable to that of Q1 2010. Gross profit for the three months ended March 31, 2011 was \$1.26 million compared to a gross loss of \$0.32 million in the same period of 2010. Comprehensive loss for the three months ended March 31, 2011 was \$0.22 million compared to \$0.59 million for the same period in 2010.

The net loss for the three months ended 2011 is primarily attributable to lower production and poor yields than expected. The trend has been, and management continues to believe, toward lower losses and increased profitability towards end of 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 focus on improving its production and delivery

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systems, the trend for reducing operating losses is improving, indicating that the Company is successfully transitioning from development stage to full commercial production phase.

REVENUES

Revenue for the three months ended March 31, 2011 was \$6.52 million compared with total revenues of \$6.24 million for the three months ended March 31, 2010. 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 that 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.

Sales have improved relative to Q4 2010 and Q1 2010, and currently all products being produced are sold with minimal stockholding. Sales however were still lower than expected in the first quarter of 2011 due to low yields achieved and poor Run-of-Mine production as a result of adverse climating conditions 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 during the period.

OPERATING EXPENSES

The operating expenses includes mining and processing expenses reported at \$5.10 million for the period ended March 31, 2011 as compared to \$6.07 million for the period ended 2010. The reduction of operating expenses of \$0.97 million over the periods is mainly due to lower cost of mining per tonne and process improvements. The other major expenses during the periods were management and administrative expenses, office and general, and foreign exchange loss.

Management and administrative expenses for the three months ended March 31, 2011 were \$0.58 million compared to \$0.36 million in the same period of 2010 and increased approximately by \$0.22 million from prior period mainly due to an increase in salaries and wages of new employees engaged during the last year to ramp up the operations at the Kendal mine.

Office and general expenses for the three months ended March 31, 2011 were \$0.67 million which approximate the three months ended March 31, 2010 of \$0.66 million.

Foreign exchange loss for the three months ended March 31, 2011 was \$1.61 million compared to a foreign exchange gain of \$1.03 million in the same period of 2010 and increased approximately \$2.69 million from comparative period mainly due to an increase in foreign exchange loss from translation of intercompany accounts held in Rand following IFRS.

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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 Income (Loss) Per Share \$	Total Assets \$	Total long-term Liabilities \$	Cash Dividends \$
2011 - Q1	6,519	(420)	(0.01)	71,692	3,071	-
2010 - Q4	6,199	(2,067)	(0.01)	66,080	466	-
2010 - Q3	11,509	(4,679)	(0.01)	70,674	454	-
2010 - Q2	8,842	(2,440)	(0.01)	63,584	429	-
Total	33,069	(12,699)	N/A	N/A	N/A	-
2010 - Q1	6,245	(961)	(0.01)	57,114	427	-
2009 - Q4	7,071	(11,502)	(0.04)	69,614	437	-
2009 - Q3	Nil	(4,469)	(0.03)	67,778	439	-
2009 - Q2	Nil	(5,049)	(0.02)	70,118	463	-
Total	13,316	(22,598)	N/A	N/A	N/A	-

Note: The effective transition date from Canadian GAAP to IFRS was January 1, 2010. The results of Q2, Q3 and Q4 of 2009 and 2010 have not been restated to IFRS.

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 over the estimated life of the properties if and when they reach commercial production or

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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 three months ended March 31, 2011, total capitalized costs on the balance sheet as of March 31, 2010 and March 31, 2011, and the percentage of the property owned. The principal mineral found on all of the properties below is coal.

(Stated in 000's)	Capitalized Expenditures			Percentage Owned
	December 31, 2010	Net additions during the year	March 31, 2011	
<u>South Africa</u>				
Eloff	\$ 3,368	\$ (279)	\$ 3,089	50%
Northfield	2,480	-	1,869	100%
	<u>\$ 5,848</u>	<u>\$ (890)</u>	<u>\$ 4,958</u>	

LIQUIDITY AND CAPITAL RESOURCES

WORKING CAPITAL

The Company had cash and cash equivalents of \$7.85 million and a working capital deficit of \$33.50 million at March 31, 2011, primarily attributable to the current loan payable to majority shareholder GMR Energy of \$33.72 million. This compares with cash and cash equivalents of \$3.70 million and working capital deficit of \$29.16 million at December 31, 2010.

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 three-month period the Company received additional financing of \$4.88 million (USD \$5.0 million) from the majority shareholder. The Company has recently negotiated a term sheet to establish a term loan facility with a financial institution of up to \$29.28 million (USD \$30.0 million), and is in the process of completing the documentation and establishing it. This new loan facility will help the Company to fund the capital and development projects in the pipeline. The Company plans to raise additional funds as needed to maintain its capital structure and working capital requirements.

OPERATING ACTIVITIES

For the three-month period ended March 31, 2011, cash flows provided by operating activities totalled \$3.61 million compared with \$9.17 million cash flows used in the same period of 2010. Management plans to increase production over the coming quarters to meet the working capital requirements in the near future.

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During the three-month period, cash and cash equivalents increased by \$4.15 million mainly due to cash provided by financing activities of \$4.88 million, and cash increase from operating activities of \$3.61 million was used in investing activities of \$4.33 million.

INVESTING ACTIVITIES

During the three-month period ended March 31, 2011, the Company invested in property, plant and equipment totalling \$4.33 million.

FINANCING ACTIVITIES

During the three-month period ended March 31, 2011, the Company obtained an additional loan from GMR Energy in the amount of USD \$5.0 million (\$4.88 million) 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.

Subsequent to March 31, 2011, management negotiated a loan facility up to \$30 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.

BALANCE SHEET

ASSETS

The Company had assets totalling \$70.65 million at March 31, 2011 as compared to \$61.57 at December 31, 2010. These asset balances increased by \$9.08 million during the three-month period ended March 31, 2011 due to an increase in cash and cash equivalents of \$4.15 million, an increase in inventory levels of \$1.0 million, and an increase in property, plant and equipment of \$5.84 million offset by decrease in accounts receivable of \$0.76 million, and decrease in exploration and development properties of \$0.89 million.

TOTAL LIABILITIES

The Company had total liabilities of \$51.48 million at March 31, 2011 compared with liabilities of \$42.62 million as at December 31, 2010. The increase in liabilities is due to an increase in the loans received from GMR Energy of \$4.88 million and an increase in accounts payable of \$4.0 million.

CAPITALIZATION

The Company had 471,204,149 common shares outstanding at March 31, 2011, which did not change from the year ended December 31, 2010.

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At March 31, 2011, 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 Company had 3,600,000 common share purchase options outstanding at March 31, 2011. 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 650,000 common share purchase options expired during the period.

RELATED PARTY TRANSACTIONS

Transactions with related parties are measured at the exchange amounts and for the three-months ended March 31, 2011 are as follows:

Legal services are provided by a law firm of which an officer of the Company is a partner. Homeland expensed \$986 during the three-month period ended March 31, 2011 (2010 - \$62,601). Included in the accounts payable and accrued liabilities at March 31, 2011 was \$nil (2010 - \$108,151) owing to this firm. The amount is unsecured, non-interest bearing, with no fixed terms of repayment.

Interest expense earned by GMR and GMR Energy amounted to about \$345,489 for the three-months ended March 31, 2011 (2010 - \$nil). Three of the Company’s directors are employees of GMR. GMR with its affiliates is also the Company’s largest shareholder.

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.

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

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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 interim consolidated financial statements of Homeland for the three months ended March 31, 2011. 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 Interim Statements are those used by the Company as set out in the interim financial statements for the three months ended March 31, 2011.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

NEW ACCOUNTING POLICIES

International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board confirmed that IFRS will be used for interim and annual financial statements of publicly accountable enterprises effective for fiscal years beginning on or after January 1, 2011. Accordingly, the Corporation has commenced reporting on an IFRS basis in the current interim financial statements. Comparative information for periods from January 1, 2010 onwards has been restated in accordance with IFRS.

Transition to IFRS from Canadian GAAP

In conjunction with its conversion to IFRS, the Corporation completed an assessment of its information systems and based on this review no significant changes to the information systems were required as part of the IFRS conversion process. In addition, the effects of the adoption of IFRS on the Corporation's business activities and internal controls, including disclosure controls and procedures, were reviewed and no significant changes to the Corporation's business activities and internal control environment were required.

First-time adoption of IFRS

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IFRS 1 generally requires that first-time adopters of IFRS retrospectively apply all IFRS standards with the exception of certain optional exemptions and mandatory exceptions. In converting its Canadian GAAP financial statements to IFRS the Corporation utilized the IFRS 1 exemptions pertaining to currency translation differences and share-based payments.

IFRS 1 does not allow hindsight to be used to create or revise previous estimates. The estimates previously made by the Corporation under Canadian GAAP have not been revised for application of IFRS except where necessary to reflect a change resulting from differences in accounting policy.

Impact of adoption of IFRS on financial reporting

The most significant impacts of IFRS upon conversion were within the areas of property, plant and equipment, interest expense, foreign exchange gain (loss), share-based payments, and long-term loans receivable. The effects and adjustments required to the Corporation's statement of financial position as a result of the transition to IFRS are discussed below.

Property, Plant and Equipment ("PP&E")

The Company has also applied IAS 23 which requires the capitalization of interest and other borrowing costs as part of the cost of certain qualifying assets. For the purposes of IAS 23, a qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use. Under previous Canadian GAAP, the Company elected not to capitalize borrowing costs.

As a result of applying IAS 23, \$3.31 million of interest expense was capitalized to property, plant and equipment at January 1, 2010. Please refer to the interim consolidated financial statements note 4(a) for details.

Business Combinations

The company has applied IFRS 3 Business Combinations. As a result of the new standards, the entities Madic & Numin no longer meet the definition of a Variable Interest Entity as per the previous Canadian GAAP, and have been de-consolidated from these financial statements. Please refer to the interim consolidated financial statements note 4(b) for details of numerical changes.

Cumulative translation differences

The Company has determined that as at the Transition Date, the South Africa Rand was the functional currency of all the subsidiary entities in the Company except Homeland Energy Corporation and Homeland Energy Group Ltd (the Parent) which have the Canadian dollar as their functional currency. In accordance with the IFRS 1 optional exemptions, the Company elected to reset the translation differences to NIL at the Transition Date. Under Canadian GAAP, all the subsidiaries were defined as an integrated foreign operation from the date formed/acquired ("Formation Date") to the Transition Date and therefore no foreign exchange translation in equity was noted. Under IFRS, the subsidiaries have a South African

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Rand functional currency since the Formation Date and, therefore, as at the Transition Date, a foreign exchange translation reserve had accumulated. In electing to take this IFRS 1 exemption, the Company has elected to reset the translation difference to NIL at the Transition Date.

The change in accounting policies related to cumulative translation differences resulted in a reclassification of foreign exchange loss from income statement to statement of changes in equity of \$3.3 million as at January 1, 2010.

Share-based Payments

IFRS 2, "Share-based Payments", requires each tranche of a share-based award to be treated as a separate grant with a different vesting date and fair value. Under Canadian GAAP, share-based awards were permitted to be valued using a pooled approach. In addition, IFRS does not permit the recognition of the expense associated with share-based payments to be recognized on a straight-line basis as was permitted under Canadian GAAP.

IFRS 2 in relation to the BEE loan receivable also resulted in a change in the accounting of this loan.

The change in accounting policies related to share-based payments resulted in the removal of \$9.67 million of the loan receivable from BEE as at January 1, 2010 and an increase in stock-based compensation expense of \$9.69 million resulting in a decrease in equity of \$9.69 million as at January 1, 2010.

FINANCIAL INSTRUMENTS

During the three months ended March 31, 2011, 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 cash 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.

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FINANCING RISK

Homeland has limited financial resources 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.

GOING CONCERN RISK

The interim financial statements for three months ended March 31, 2011 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 March 31, 2011 the Corporation had a working capital deficit of \$33.5 million, including a \$33.72 million loan due to majority shareholder, GMR Energy classified as a short-term obligation.

The Nedbank Facility was settled in third quarter of 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 the past three quarters, the Company has successfully raised financing via issuance of shares for cash in the amount of \$8.45 million, as well as received financing of USD \$34.0 million (\$34.84 million) from its majority shareholder. The Company is presently

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negotiating a loan facility with a local financial institution of up to \$50 million. 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 are subject to all of the hazards and risks normally encountered in the exploration, development and production of coal. These include unusual and unexpected geological formations, formation pressures, fires, power failures, flooding, explosions, cave-ins, landslides, the inability to obtain suitable or adequate equipment or machinery, labour disputes, or adverse weather conditions, and other conditions involved in the extraction of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although precautions to minimize risk will be taken, operations are subject to hazards that may result in environmental pollution and consequent liability that could have a material adverse impact on the business, operations and financial performance of the Company.

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

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

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VOLATILITY OF COAL PRICES

The market price of coal is volatile and is affected by numerous factors that are beyond the Company's control. These include international supply and demand, the level of consumer product demand, international economic trends, fluctuations in 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.

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,

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toxic substances and other matters, including issues affecting local previously disadvantaged populations. Although the Company believes that its activities are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner that could limit or curtail development or production. Amendments to current laws and regulations governing operations and activities of exploration and mining, or more stringent implementation thereof, could have a material adverse impact on the business, operations and financial performance of the Company. Further, the mining licenses and permits issued in respect of its projects may be subject to conditions which, if not satisfied, may lead to the revocation of such licenses. In the event of revocation, the value of Homeland's investments in such projects may decline.

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

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

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

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

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TITLE TO ASSETS

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

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

ACCESS TO LAND

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

MINERAL RESOURCES AND RESERVES

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

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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 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,

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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.

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

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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 fulfill their obligations under the joint venture or other agreements;
- take action contrary to Homeland's policies or objectives; or
- experience financial or other difficulties.

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

FINANCIAL INSTRUMENTS

FAIR VALUE

IFRS 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

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instruments. The fair value of investments is, where possible, based on quoted market prices.

For the three months ended March 31, 2011 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 IFRS;
- 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 interim consolidated financial statements have been prepared by management in accordance with IFRS and in accordance with accounting policies set out in the notes to the interim consolidated financial statements for the three months ended March 31, 2011.

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.

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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 IFRS.

There have been no changes in the Company's internal control over financial reporting that occurred during the period beginning on January 1, 2011 and ended March 31, 2011 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 March 31, 2011, management has negotiated a loan facility of US\$30 million from a financial institution to meet the capital expenditure requirements and to support the development of the Kendal and Eloff mines.

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;
- 3,600,000 stock options at an average price of \$0.14 per common share, maturing at various dates until December 15, 2014;

June 13, 2011