



**HOMELAND ENERGY GROUP LTD.**  
**Management's Discussion and Analysis**  
**For the three and nine months ended September 30, 2008**  
*(All amounts stated in Canadian dollars, unless otherwise indicated)*

*The interim report, including the consolidated financial statements and this Management's Discussion & Analysis, contains certain "Forward-Looking Statements" that are prospective and reflect management's expectations regarding Homeland Energy Group Ltd's ("Homeland") future growth, results of operations, performance and business prospects and opportunities. Forward-looking statements are not based on historical facts, but rather on current expectations and projections about future events, and are therefore subject to risks and uncertainties which could cause actual results to differ materially from the future results expressed or implied by the forward-looking statements. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe", "expect", "goal", "plan", "intend", "estimate", "may", "could", "should" and "will" or the negatives thereof, or similar variations suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. All statements, other than statements of historical fact, included in these documents, including without limitation statements regarding potential mineralization, the quantity and quality of resources and reserves, estimates of future production, unit 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, general business and economic conditions, industry risks and other factors.*

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

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Introduction

This discussion and analysis of the operating results and financial condition of Homeland Energy Group Ltd. ("**Homeland**", or the "Company") for the three and nine months ended September 30, 2008 should be read in conjunction with the unaudited consolidated interim financial statements and related notes for the same period, and is intended to provide the reader with a review of the factors that affected the Company's performance during the three and nine months ended September 30, 2008 and the factors reasonably expected to impact future operations and results.

The consolidated interim financial statements and related notes of Homeland have been prepared in accordance with accounting principles generally accepted in Canada ("**Canadian GAAP**") and are expressed in Canadian dollars. All amounts in this report are in Canadian dollars, except where otherwise indicated.

***Qualified Person***

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

Background and Nature of Business

**Homeland Energy Group Ltd.** (formerly known as Chrysalis Capital IV Corporation) ("**Homeland**" or the "Company") was incorporated under the *Canada Business Corporations Act* on October 12, 2006. The Company was set up as a capital pool company under the policies of the TSX Venture Exchange (the "Exchange") and was listed on the Exchange on February 12, 2007. Following the closing of the qualifying transaction on February 29, 2008 (see Significant Events and Transactions), the principal business activity of the Company became the acquisition, exploration and development of energy related resource properties in Southern Africa.

At September 30, 2008, Homeland owned 74% of the Kendal Colliery near Witbank, South Africa - that has begun production; 100% of the Northfield site reclamation project near Dundee, South Africa; 50% of an advanced coal development project in South Africa (Eloff); as well as interests in a number of earlier-stage exploration properties in the provinces of Mpumalanga and Kwa-Zulu Natal, and in Botswana. The Company is currently negotiating funding to close the acquisition of a producing coal operation located in the Central Appalachian Coal Basin of the eastern United States.

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

Homeland is also a significant shareholder of Homeland Uranium Inc., a Canadian company involved in the exploration and development of uranium projects in Niger and the United States.

The Homeland group has offices at:

- 144 Front Street West, Suite 780, Toronto, Ontario, Canada;
- 4 Old Park Lane, London, England; and
- Bureau de Paul Building 3, Corner Nelson Mandela Avenue and Paul Sauer Street, Witbank, South Africa.

**Significant Events and Transactions**

**Reverse take-over of the Company by Homeland Energy Corp.**

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

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

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

**The "acquisition" of Homeland Energy Group Ltd. by Homeland Energy Corp. has been accounted for as a reverse takeover transaction. The consolidated interim financial statements for the three and nine months ended September 30, 2008 and for the year ended December 31, 2007 reflect the consolidated assets, liabilities and results of operations of Homeland Energy Corp., the legal subsidiary, prior to the reverse takeover and the consolidated assets, liabilities and results of operations of the Company and Homeland Energy Corp. subsequent to the reverse takeover. The consolidated interim financial statements are issued under the name of the legal parent (the Company), but are deemed to be a continuation of the legal subsidiary (Homeland Energy Corp.).**

#### **Conversion of Debenture**

On June 12, 2007, the Company entered into a Loan Agreement with **GC-Global Capital Corp.** The Company borrowed the principal amount of US\$2 million through a convertible debenture. On February 28, 2008, GC-Global Capital Corp. exercised its right to convert the principal amount into common shares of the Company at a conversion price of £1.25. This resulted in the issue of 810,250 common shares (pre-share split, see above).

#### **Acquisition of Investments**

In February 2008, Homeland issued 737,500 common shares (pre-share split) as consideration for the purchase of 44,250,000 common shares of **Altona Resources Plc** ("Altona") from third parties. Altona, listed on the Alternative Investment Market ("AIM") in the United Kingdom, holds a 100% interest in three exploration licences, covering 2,500 square kilometres, in the northern portion of the Permian Arckaringa Basin in South Australia, including three coal deposits. All three deposits lie close to the Adelaide to Darwin railroad and the Stuart Highway. Altona's primary focus is the completion of a bankable feasibility study for an integrated 10 million barrel per year Coal to Liquid plant with a 560 MW co-generation power facility. The transaction was valued at \$3,540,000 based on a price of \$4.80 per Homeland common share (pre-share split) and a price of 4 pence per Altona common share. Based on the closing price per Altona common share on the AIM on September 30, 2008 of 1.625 pence, the investment has been written down to \$1,356,727.

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In June 2008, Homeland acquired 4,000,000 common shares of **Aviva Corporation Ltd** from third parties at a price of AUD 0.90 per share, for a total investment of AUD 3,609,000 (including AUD 9,000 commission). Aviva is an integrated energy company listed on both the Australian and Botswanan Stock Exchanges with its head office in Perth. Aviva's most advanced asset is the Coolimba Power project in Western Australia, which will be a 400MW base load generator employing leading emissions technology for water, sulphur and carbon dioxide. Aviva is earning a 90% interest in the Mmamantswe project in Botswana, where it has outlined a 1.3 billion tonne coal resource. The project is well positioned, being on the South African border and adjacent to key infrastructure, including highway, railway, and high voltage transmission lines. Based on the closing price per Aviva common share on the Australian Securities Exchange on September 30, 2008 of A\$0.50, the investment has been written down to \$1,675,000.

### **Purchases of Mineral Properties**

In August 2008, Homeland entered into a binding agreement for the purchase of a producing coal operation located in the Central Appalachian Coal Basin of the eastern United States. This acquisition represents a material addition to the Company's current operations in southern Africa and diversifies Homeland's geographic exposure. Full due diligence on the property, including the preparation of a NI 43-101 compliant reserve and resource statement has been completed. The Company is in the process of negotiating arrangements for the funding of the US\$105 million purchase price as well as the necessary working capital. Non-refundable option payments of US\$1,000,000 have been paid to date and will be set off against the purchase price.

An independent technical report compiled by Norwest Corporation ("Norwest") as the culmination of Homeland's due diligence efforts in the acquisition of **Appolo Fuels** and its associated coal marketing company, **Diversified Energy** has confirmed resources and reserves for the Appolo Fuels mines, situated in Bell County, Kentucky and Claiborne County, Tennessee, of 114 million short tons (103 million metric tonnes), with a saleable mineral reserve of 45 million short tons (41 million metric tonnes). Current mine production is 1.6 Mtpa of a high quality thermal coal with an average thermal quality of 12,800 British Thermal Units per pound. The report used a number of assumptions to arrive at a reasonable valuation for Appolo mines, including:

- Long term coal price of US\$90 per short ton (Free-on-Board rail car),
- Cash operating costs ranging from US\$60 per short ton in the early years to \$70 and \$80 per short ton in the latter years,
- Capital expenditures ranging from \$2.3 million in the earlier years to \$10 million in mid years and decreasing again towards the end of the mine life, and
- 15% discount rate and a zero rate of inflation applied to both costs and coal prices.

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**Based on these assumptions, Norwest's technical report supports a net present value of US\$353 million for the Appolo mines.**

Summary of estimated in-situ mineral resources:

	<b>Inferred</b>	Measured	Indicated	<b>Measured and Indicated</b>
Surface resources (Million short tons)	<b>5.4</b>	26.1	14.3	<b>40.4</b>
Underground resources (Million short tons)	<b>12.3</b>	55.2	18.8	<b>74.0</b>
<b>Total resources (Million short tons)</b>	<b>17.7</b>	81.3	33.1	<b>114.4</b>

To estimate proven and probable mineral reserves, Norwest applied a 25-year mine plan to both the surface and underground Measured & Indicated resources. This mine plan was based on current operations and does not take into account the plans of Appolo management, endorsed by Homeland's management, for increased production in coming years.

Summary of estimated clean, recoverable mineral reserves for Appolo coal mines:

	Proven	Probable	<b>Proven and Probable</b>
Clean surface reserves (Million short tons)	14.0	6.4	<b>20.4</b>
Clean underground reserves (Million short tons)	18.2	6.2	<b>24.4</b>
<b>Total clean reserves (Million short tons)</b>	32.2	12.6	<b>44.8</b>

The Appolo mining operations are situated west of Middlesboro, Kentucky on property leaseholds totaling approximately 33,000 acres, and are located in both Bell County, Kentucky and Claiborne County, Tennessee. Appolo's operations consist of three company operated surface mines equipped with highwall miners; one surface mine operated by a contractor with a highwall miner; one contractor operated underground mine; a preparation plant with a capacity of 700 tons per hour; and a rail load-out facility with a capacity of 3.5 million tons per year. Appolo has been operating on these properties since 1972, with total production in 2005, 2006, and 2007 being 1.3 million (M), 1.3M, and 1.2M clean short tons, respectively.

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Coals on the Appolo properties are ranked High Volatile Bituminous A and generally utilized as thermal coal in the industrial and electric utility industries. Appolo currently produces two high grade thermal coals that are sold into the industrial market: a generally less than 1% sulphur product and an over 2.5% sulphur product. Numerous companies have conducted exploration programs on the current Appolo and adjoining properties. Appolo has drilled 478 holes since 1977. Drilling data from other local sources were also made available to Norwest. In total, data for 748 holes were provided to Norwest for evaluation.

The Qualified Persons for the preparation of the independent technical report, under the definition provided by Canadian National Instrument 43-101, are Mr. Warren A. Evenson, P. Geol. a senior geologist with Norwest; Mr. R. Kevin Whipkey P.E., a professional mining engineer employed by Norwest, and David Miller, P.E. a professional mining engineer employed by Norwest. A copy of Norwest's Independent Technical Report on Appolo Fuels' properties has been filed on SEDAR and may be accessed at [www.SEDAR.com](http://www.SEDAR.com).

### **Term Loan Facility**

Ferret Coal (Kendal) (Pty) Ltd., a 74% owned subsidiary of Homeland and the owner of the Kendal Colliery, has secured a ZAR 150 million (\$19,109,984) five and a half-year Term Loan Facility from Nedbank Limited, one of South Africa's largest banks, with the first drawdown of ZAR 25 million (\$3,184,997) taking place on September 30, 2008. The balance of the Facility is available for drawdown to September 2009.

As the Kendal Colliery continues its ramp up to full production over the coming months, including a new box cut and additional pre-stripping, Homeland Mining & Energy SA (Pty) Ltd anticipates that it has access to all the necessary financing to complete the move to positive cash flow.

The second draw down, in October 2008, of ZAR 50 million has meant that the Facility has covered all development and working capital requirements of the Kendal Colliery since July 1, 2008.

The Facility is secured by guarantees from, and pledges of the shares of, certain subsidiaries as well as by all assets of Ferret Coal (Kendal) (Pty) Ltd. and is repayable from September 2009 through December 2013. Amounts drawn under the facility bear interest at the rate of JIBAR plus 3.15% per annum prior to Completion, and at the rate of JIBAR plus 2.50% per annum following Completion. Undrawn amounts are subject to a commitment fee of 0.50% per annum. The effective interest rate at September 30, 2008 was 15.2%.

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The following is a schedule of future credit facility repayments, including capital and approximately ZAR 20 million of interest expected to be capitalized to September 30, 2009:

	Equivalent (\$)	Amount (ZAR)
2008	-	-
2009	2,165,798	17,000,000
2010	4,331,596	34,000,000
2011	4,764,756	37,400,000
2012	5,197,915	40,800,000
2013	5,197,915	40,800,000
	<b>21,657,980</b>	<b>170,000,000</b>

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

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

**Long-term loan for construction of plant and equipment for the Kendal Mine**

The Company has entered into a Service Agreement with MD Engineering for the supply and operation of the crushing and screening and washing plants (the "Plants") at its Kendal Colliery. A Loan Agreement has also been executed under which the Company advanced approximately ZAR 34 million to MD Engineering for the construction of the Plants and related infrastructure. This loan bears interest at the South African prime rate plus 1% p.a., is repayable over the five years of the initial Service Agreement, and is secured over the Plants and related infrastructure by way of a Surety Bond.

Discussions are advancing between MD Engineering and Homeland that are expected to result in Homeland purchasing the Plants from MD Engineering against repayment of the long-term loan. No disruptions to operations are anticipated, as the primary sub-contractor to MD Engineering, Fraser Alexander, will continue to operate the Plants, but under a contract directly with Homeland. Fraser Alexander is one of South Africa's oldest services groups to the mining and industrial sectors.

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**Funding of continuous conveyor mining system**

The Company has advanced ZAR 10 million (approximately \$1.3 million) to Madic Operations (Pty) Ltd. ("Madic") to capitalize the development of the Madic continuous conveyor system. Madic shall repay this shareholder loan, plus interest calculated at a rate of 5% p.a., within a period of two years; failing which interest shall accrue at the prime rate of interest until payment in full. Homeland is also entitled, but not obligated, to purchase at cost a maximum of four Madic Systems.

In addition, Homeland has lent ZAR 3 million (approximately \$400,000) to an associated company of Madic ("Numin") that will seek to implement the Madic system. This loan will bear interest at the prime lending rate less 1% and is repayable within one year.

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

**Funding of Black Economic Empowerment investment in the Kendal Mine**

In May 2008, through its wholly-owned South African subsidiary Homeland Coal Mining SA (Pty) Ltd., Homeland lent ZAR 55,124,000 (approximately \$7 million) to aid a private Black Economic Empowerment company in South Africa to purchase the 26% of Ferret Coal (Kendal) (Pty) Ltd. ("Kendal") that the Company does not own. The loan bears interest at the South African prime overdraft rate, and the related equity interest in Kendal is pledged as security for the loan. Repayment of the loan will take place out of dividends or other payments accruing to the borrower in respect of Kendal, or out of proceeds of their disposal of these shares to a third party purchaser in terms on the loan agreement. Any outstanding balance on the loan will be repaid to Homeland in 20 years. In the period ended September 30, 2008, interest receivable in the amount of ZAR 3,073,352 was accrued.

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Exploration and Development Update

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

<b>Project</b>	<b>Measured (Mt)</b>	<b>Indicated (Mt)</b>	<b>Total M&amp;I (Mt)</b>	<b>Inferred (Mt)</b>
<b>Kendal <sup>1</sup></b>	<b>8.7</b>	<b>0.7</b>	<b>9.4</b>	<b>25.2</b>
<b>Eloff <sup>2</sup></b>	<b>262.0</b>	<b>190.0</b>	<b>452.0</b>	<b>58.0</b>
<b>Grand Total</b>	<b>270.7</b>	<b>190.7</b>	<b>461.4</b>	<b>83.2</b>

Notes: 1. At July 31, 2007, as reported by SRK Consulting (South Africa) (Pty) Ltd.  
2. At April 30, 2008, as reported by Gemecs (Pty) Ltd.

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

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

Activities during 2008 have included:

- Completion of all required civil works supporting the plant infrastructure.
- Final assembly of the new 200 tonne per hour combined drum and cyclone dense medium coal washing plant, built by Derek Parnaby Cyclones International Ltd in the United Kingdom.
- Construction of the crushing and screening plants, run-of-mine tips, and discard bins (expected to be completed in early 2009).
- Commissioning of the weighbridges, completion of the water reticulation system, connection of Eskom provided power, and erection of high masts for lighting.
- Fencing of the area, additional landscaping, installation of a slurry pipe line, upgrading of the main entrance roads, and construction of an office complex.

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- Awarding of the mining contract to Moolmans, following a tender process that was overseen by Venn and Milford, a well-respected consulting firm known for their project management and engineering work with coal mines in South Africa. The scope of work was defined as the mining of a minimum of 150,000 run-of-mine tonnes of coal per month up to the point of delivery to the crushing and screening plants. The tender includes the removal of all material above the coal seams, intermediate coal partings between significant seams and subsequent rehabilitation of the mined out area; subject to the standards set by Homeland. The initial duration of the contract is three years, subject to standard adjustments in line with industry norms, at which time the contract may be re-negotiated or re-tendered.
- Homeland has secured and is in the process of finalizing the acquisition of all necessary surface rights through the purchase of lands covered by the area of interest.

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

The Kendal Mine is subdivided into four mining blocks (B, D, E and F). Mining has commenced at block B, where the number 2 seam (at 25 metres and laterally consistent) and number 4 seam (at 15 metres, but which is affected by weathering) are found. The accumulative strip ratio for both seams is 4:1. The coal is expected to be washed to a B-Grade.

In April 2008, dewatering of the first box cut and the removal of overburden commenced. May 2008 saw mining activity focused on the ramp area and the removal of overburden on a three-shift seven-day cycle. Dewatering of the box cut was completed and some 196,000 cubic metres of overburden was removed. The first blast was conducted in June 2008 and the first coal was transferred from the pit to the plant stockpile. Approximately 393,000 cubic metres of overburden was removed. During plant commissioning, by toll washing third party coal, certain screens did not operate effectively. The plant was shut down in late June 2008 and the screens were replaced with new screens designed for the purpose. The feeder breaker was also replaced, to achieve better crushing ratios and improve throughput, and the opportunity was taken to make other improvements.

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Production in the three months ended September 30, 2008:

	<b>July 2008</b>	<b>August 2008</b>	<b>September 2008</b>	<b>Total</b>	
Run-of-mine coal mined from Block B and delivered to the stockpile	10,964 tonnes	64,440 tonnes	32,630 tonnes	108,034 tonnes	N1
Coal processed through the Parnaby wash plant	3,665 tonnes	32,066 tonnes	68,130 tonnes	103,861 tonnes	
Saleable product	2,067 tonnes	13,161 tonnes	25,313 tonnes	40,541 tonnes	
Plant yield	56%	41%	37%	39%	N2

N1: Deliveries in September were lower than anticipated as a washout area was encountered that resulted in an estimated loss of 30,000 tonnes of coal, in addition to which an excavator experienced 7-days of downtime due to hydraulic problems.

N2: The low yield can be attributed to the poorer quality coal that has initially been mined from Block B. Plant improvement projects are also ongoing with the following areas targeted: installation of a mineral sizer (completion expected in February 2009), installation of poly urethane screen panels on the raw coal screen to prevent blinding when handling wet material, modification of the double deck feed and discharge arrangements and investigation of single deck screen panels for effective duff and grain separation (completion expected in the fourth quarter of 2008).

Total overburden stripping at block B in July, August and September 2008 amounted to 359,149, 472,445 and 284,365 respectively. In addition, establishment of a second box cut commenced at block F. At this block the number 2 seam is found at 18 metres, for a strip ratio of 3.9:1. Pre-stripping of the F Block boxcut commenced in August 2008 with a total of 40,394 m<sup>3</sup> being removed. In September a further 223,920 m<sup>3</sup> was removed.

The first formal contracts, for the sale of approximately 500,000 tonnes of thermal coal from the Kendal Colliery, for take delivery between October 1, 2008 and September 30, 2009, have been concluded at prices of in excess of ZAR 700 per metric tonne (approximately US\$90 per tonne). The current contracts, which are open to discussion for renewal in 12 months' time, are with domestic industrial users of thermal coal.

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Safety & Health - the mine had no accidents during August or September. In the year to date, five non-lost time injuries were reported:

PERIOD	ACCIDENTS	NLTI	LTI
January - December 2007	0	1	0
January - July 2008	5	5	0
August 2008	0	0	0
September 2008	0	0	0
<b>Total 2008</b>	<b>5</b>	<b>5</b>	<b>0</b>

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

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

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

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

The Eloff Project is a significant coal resource, largely mineable by open cast methods, underlying predominantly farming (maize and livestock) land that has historically been considered for supplying a low grade of coal to the local power generating industry. A component of the resource could be upgraded for local industrial consumption or the export market. The Eloff Project 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 has secured the mineral rights to the Eloff Project (within the farms Weilaagte and Welgevonden) by way of Prospecting Right (Protocol Number 141/2006), granted by the Department of Minerals and Energy to Tshedza Mining Resources (Pty) Limited ("Tshedza") in October 2006. Homeland currently owns 50% of Tshedza, with the option to acquire a further 1% for ZAR 1.00. The Company has submitted an application for a mining right.

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

A total of 398 boreholes have been drilled to date (and rehabilitated) for a total of 24,000 metres and it is expected that an additional 20 holes (2,000 metres) will be required. Prior to the suspension of drilling in September pending review of the recently completed pre-feasibility study, a total of 1,230 metres were drilled. Exploration is carried out using vertical diamond-drilled fully-cored boreholes of a TNW size (60.5 mm core diameter).

An initial round of public meetings was held in early July, following which an environmental management program report for the Eloff Mining Project was submitted to the South African Department of Minerals and Energy on July 14, 2008. This process moves Homeland closer to completing the requirements for a mining permit. It is anticipated that a full Bankable Feasibility Study, including detailed beneficiation plant design, infrastructure layout, staff requirements, and capital and operating budget projections will commence shortly.

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

The Northfield Project is a small resource of dried fine tailings resulting from the processing of coal at the now defunct Northfield Colliery. The Project lies in the north western Kwa-Zulu Natal Coalfield, and is located close to a number of defunct mining operations. The Northfield Project is located at Latitude 28°08' South, Longitude 30°08' East, to the northwest of the town of Glencoe in Kwa-Zulu Natal Province of South Africa. The elevation of the project is some 1,380 metres above mean sea level.

Following the granting of the Mining Permit on November 27, 2007, the Company exercised its option to purchase Corpclo (Pty) Ltd., and in December 2007 paid ZAR 6 million to the former owners against a total purchase price of ZAR 12 million (approximately \$1.5 million). The remaining ZAR 6 million has been accrued and will be paid in December 2008. Homeland has a 100% interest in the Northfield Project.

Once the mining permit was awarded, site establishment commenced. Initial work included cleaning dams, fixing roads and removing alien vegetation. A weighbridge was purchased and installed, a site office erected, the mining lease area fenced and the mining and security contractors appointed. An amended environment management program report was submitted to the Department of Mines and Energy, as requested, which has been accepted along with the financial guarantees. An updated Mining Permit was awarded in August 2008.

Exploitation of the slurry dump has been delayed, as the initial buyer of the product failed to provide the necessary financial guarantees.

**Exploration Projects**

Through its equity interest in Tshedza Mining Resources (Pty) Ltd and Nhlalala Mining (Pty) Ltd, the Company has a 50% interest in the following South African exploration properties. Homeland has an option to increase this interest to 51% in each company, with regulatory approval, through the payment of ZAR 1.00, and a further option to increase its interest to 74% in each company through the purchase of 23% from its Black Economic Empowerment Partner for market value.

***Onbekend***

At Onbekend, Tshedza Mining Resources (Pty) Ltd holds a prospecting license over some 2,864.2 hectares. Resource definition drilling began in 2007 and has been completed with the drilling of 134 boreholes at an average dept of 50 metres (6,700 metres in total). A further 12 holes (700 metres of drilling) are planned. The main coal seam is the C seam (seam height of 0.8 metre, intersected at 24 metres), although there is

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a significant portion of B seam (seam height of 0.3 metre, intersected at 15 metres). The target is excellent quality, low phosphorous metallurgical coal.

*Vlakvarkfontein (Arbor)*

At Vlakvarkfontein, Nhlalala Mining (Pty) Ltd holds a prospecting license over some 1,117.2 hectares. Only 25 boreholes, of a 50 borehole program, have been drilled as the Company is currently in negotiations with the surface rights owners with regards to compensation for further access to complete the drilling program. The boreholes average 50 metres in depth (1,250 metres in total) and both the 4 and 2 seams were intersected.

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

**Project Acquisitions**

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

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

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

The Kweneng area has been modeled based on information provided by Wizard. Up to 9 distinct seams are present, with a thick coal shale zone of 5 to 15 metres thick being the most prominent zone. The seams are generally thin and deep occurring between 80 and 250 metres below surface. The area is vast, stretching over 100 kilometres in length and 30 kilometres in width. Drilling under the direction of Homeland commenced during October 2008. Site establishment and infra-structure development began in the period under review, together with negotiations with land owners, village chiefs and the Department of Water.

An initial program of 12 boreholes is planned for the last quarter of 2008.

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Reporting Period

At September 30, 2008, Homeland had net working capital of \$7.3 million (December 31, 2007: \$4.0 million), including cash and equivalents of \$8.1 million (December 31, 2007: \$5.9 million). Working capital will be used for exploration and development expenditure as well as to support corporate overheads.

**Exploration Expenditures**

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

	2008 9-months \$	2007 12-months \$	2006 12-months \$	2005 12-months \$
<i>Coal Properties:</i>				
Acquisition costs	1,506,400	1,840,201	2,520,246	-
Property costs	-	-	10,766	-
Pre-production costs (net of sales)	2,360,246	-	-	-
Management and Consulting	355,725	749,994	733,926	-
Drilling and Analysis	1,783,837	859,130	-	-
Infrastructure and Earthworks	3,005,647	757,552	-	-
Surveying and Other	387,605	379,875	10,610	-
Translation adjustment (non-cash)	212,166	360,930	(208,096)	-
	<b>9,611,626</b>	<b>4,947,682</b>	<b>3,067,452</b>	<b>-</b>
<i>Uranium Properties:</i>				
Acquisition costs	-	147,400	3,527,510	-
Property costs	-	-	469,974	274,344
Management and Consulting	-	265,358	844,197	469,832
Surveying and Other	-	-	262,460	52,983
	-	412,758	5,104,141	797,159
<b>Total cost to the Company</b>	<b>9,611,626</b>	<b>5,360,440</b>	<b>8,171,593</b>	<b>797,159</b>

Acquisition costs incurred in the period include the acquisition of Wizard Investments in Botswana for Pula 630,000 (\$99,240) and the option payments (\$1,024,408) and due diligence costs (\$382,752) involved in the acquisition of Appolo Fuels and Diversified Energy in the U.S.A. The primary components of the due diligence process were the technical review by Norwest Corporation, and the preparation of the associated NI 43-

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101 independent technical report, and the legal due diligence (including verification of title, etc) by U.S.A. based counsel.

Significant components of the exploration and development programs in the nine months ended September 30, 2008 included:

- A drilling program at the Eloff Project (\$995,813), that has recently been temporarily suspended and the results incorporated into the pre-feasibility study. Targeted additional drilling will continue once the pre-feasibility study has been analysed and the Bankable Feasibility Study commissioned; which is expected to be completed over the next twelve months. Drilling also took place at the Kendal Mine during the second quarter (\$748,308), with closer spaced holes to aid in mine planning. Although resistance was encountered from certain landowners, drilling did take place at the Onbekend exploration project (\$30,589), and will continue at this and other exploration projects following new access agreements being finalized with landowners. To this end, a number of mining companies operating in the area are cooperating and hope to establish a reasonable standard fee structure with landowners. The coal sampled is sent for analysis to Witlab (Pty) Ltd and the South African Bureau of Standards, coal and mineral analytical laboratories;
- Work on infrastructure and earthworks continued throughout the nine months under review at both the Kendal Colliery (\$2,780,172), where the crushing and screening and washing plants began commissioning in July 2008, and at the Northfield Reclamation Project (\$157,596), which entailed preparing the site for exploitation and screening of the peripheral resources;
- Commissioning of the Kendal Colliery has resulted in pre- (commercial) production costs of \$2,360,246 in the period. These include mining (\$2,326,105), processing (\$842,405), other operating (\$104,209) and social upliftment (\$325,807) costs, against which the proceeds from the sale of coal in the period of \$1,238,280, are offset; and
- Direct project management and consulting fees included \$96,648 paid to a company owned by a director and significant shareholder of Tshedza Mining Resources (Pty) Ltd and Nhlalala Mining (Pty) Ltd as a retainer for services rendered in respect of the securing of prospecting rights.

The translation loss, resulting from the movement of the South African vs. the Canadian currency, is a result of the advancement of funds by the Canadian parent company to the South African subsidiary for the purpose of exploration and development, by way of a Canadian Dollar denominated loan. This component of the translation loss incurred in the nine month period is capitalized to Mineral Properties (\$212,166).

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**Results of operations**

The net loss for the nine months ended September 30, 2008 was \$9,449,379, including a loss of \$2,478,258 in the three months ended September 30, 2008 and losses of \$4,159,144 and \$2,811,977 in the three months ended June 30 and March 31, 2008 respectively. The net loss in the nine months ended September 30, 2007 amounted to \$3,909,810.

In addition to the above operating losses, the comprehensive income (loss) for the nine months ended September 30, 2008 of (\$13,427,895) included unrealized losses on available-for-sale securities of \$3,978,516; being the unrealized losses recorded on the Company's investments in Altona Resources Plc and Aviva Corporation Ltd.

The net loss for the quarters ended September 30, June 30 and March 31, 2008 included \$769,849, \$852,604 and \$634,649 of management and administrative services, and \$522,809, \$341,837 and \$313,609 of travel and accommodation expenses.

Expenditure on management and administrative services is significantly higher than in 2007 (\$999,138 in the nine months ended September 30, 2007) due to the addition of staff in South Africa, Toronto and London, associated with both the listing of the Company on the Toronto Stock Exchange and particularly with the development of the Company's Kendal Colliery in South Africa. Directly attributable time of the South African technical staff is now charged to the exploration and/or development projects concerned.

Travel expenses incurred are substantial due to the frequent visits by London and Toronto based management to the operations in South Africa, attendance of directors at in-person Board Meetings, and the costs associated with negotiations with potential providers of finance, customers and strategic partners. The escalating investor relations program (\$431,844 in the nine months ended September 30, 2008, compared with \$104,548 in the nine months ended September 30, 2007) also adds to the significant travel commitment of senior management.

Professional and consulting fees reduced in the third quarter of 2008 with the decision to capitalize the costs associated with the acquisition of Appollo Fuels and Diversified Energy in the U.S.A., following the execution of a binding agreement. Professional and consulting fees in the nine months ended September 30, 2008 of \$1,448,625 (2007: \$575,167) includes audit fees (\$156,368) - in both Canada and South Africa, legal fees (\$661,303) - in South Africa, Canada and England (attributable to both the substantial number of legal contracts being concluded in the early stages of the various projects, as well as to the reverse takeover of Chrysalis Capital IV Corporation and sale of an interest in Homeland Mining and Energy SA (Pty) Ltd to the GMR Group), and the fees

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paid to technical consultants for the Competent Persons Reports associated with the listing of the Company on the Toronto Stock Exchange.

A significant non-cash contributor to the net loss in the quarter ended September 30, 2008 was stock-based compensation of \$742,353 (quarter ended June 30: \$1,070,974 and quarter ended March 31: 180,153), being the book entries associated with the earlier grants of stock options that are required over their vesting periods. The net loss for the nine months ended September 30, 2008 also includes a non-cash charge of \$642,447, being the write off of the due diligence costs associated with an investment that was considered within the South African export industry. A third party offered substantially more than the Company was willing to pay for the investment in question and the Company decided to withdraw from negotiations. The knowledge gained from the time and money invested will, however, benefit the Company in the long-term.

The Company now has 21 staff in Witbank (South Africa), five in Toronto (Canada) and two in London (England), and also relies on support from additional part-time consultants. The higher level of exploration and development activities and the resultant expansion of the office facilities and management structure have led to a substantial increase in office and administration expenses, from \$284,009 in the nine months ended September 30, 2007, to \$162,438, \$147,675 and \$195,531 in the three months ended March 31, June 30 and September 30, 2008 respectively.

In 2008, significant new expenses included transfer agent and filing fees associated with the listing of the Company on the Toronto Stock Exchange (\$266,771, compared with \$12,727 in 2007), and investor relations and promotional activities associated with the public status of the Company. The Chief Executive Officer and a full time Vice President, Investor Relations have committed significant time to bringing the Company's message to investors in both North America and Europe, although with the recent challenging market conditions these activities have been scaled back and have taken on a more product marketing tone with the Company attending trade conferences in North America, Europe and Africa.

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Quarterly Information

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

Fiscal Period	Revenue	Comprehensive (Loss)	Net Profit (Loss) per Share (\$)	Total Assets	L.T. Liab.	Dividends
2008 - Q3	-	(6,457)	(0.04)	59,373	31,972	-
2008 - Q2	-	(4,159)	(0.03)	60,072	29,120	-
2008 - Q1	-	(2,812)	(0.02)	36,410	-	-
<b>Total</b>	<b>-</b>	<b>(13,428)</b>	<b>(0.09)</b>	<b>N/A</b>	<b>N/A</b>	<b>-</b>
2007 - Q4	-	(1,276)	(0.04)	33,622	1,606	-
2007 - Q3	-	(1,553)	(0.06)	27,716	1,553	-
2007 - Q2	-	(1,392)	(0.05)	26,305	1,501	-
2007 - Q1	-	(965)	(0.04)	17,319	-	-
<b>Total</b>	<b>-</b>	<b>(5,186)</b>	<b>(0.18)</b>	<b>N/A</b>	<b>N/A</b>	<b>-</b>
2006 - Q4	-	(1,445)	(0.07)	13,231	-	-
2006 - Q3	-	(515)	(0.02)	13,828	-	-
2006 - Q2	-	(248)	(0.01)	12,830	-	-
2006 - Q1	-	(741)	(0.05)	5,534	-	-
<b>Total</b>	<b>-</b>	<b>(2,949)</b>	<b>(0.15)</b>	<b>N/A</b>	<b>N/A</b>	<b>-</b>
<b>2005</b>	<b>-</b>	<b>(683)</b>	<b>(0.10)</b>	<b>N/A</b>	<b>N/A</b>	<b>-</b>

The net loss results primarily from corporate overheads, including stock based compensation and the write off or write down of investments and/or mineral projects, at which further exploration is not deemed appropriate. Income is generated through interest earned on overnight or short-term deposits.

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

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Liquidity

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

	<b>30 September 2008 \$</b>	31 December 2007 \$	31 December 2006 \$
Cash and equivalents	<b>8,055,622</b>	6,359,321	2,370,478
Working capital	<b>7,313,534</b>	3,969,149	2,438,197
Cash used in operating activities	<b>(7,776,068)</b>	(1,384,628)	(1,698,080)
Cash generated by investing activities	<b>4,815,491</b>	(14,470,818)	(5,101,068)
Cash provided by financing activities	<b>4,266,747</b>	19,844,289	8,626,737

Cash used in operating activities during the three months ended September 30, 2008 included administrative expenses and interest income of \$1,652,417 (June 30, 2008: \$3,160,347 and March 31, 2008: \$1,736,505). Non-cash working capital generated \$1,447,632 (June 30, 2008 (used): \$2,705,862 and March 31, 2008 (generated): \$31,431), primarily as a result of an increase in accounts payable associated with operating costs at the Kendal Colliery paid on 30-day terms.

Cash used by investing activities in the three months ended September 30, 2008 was \$8,463,156, compared to cash generated of \$14,989,030 and cash used of \$1,710,383 in the three months ended June 30 and March 31, 2008 respectively. Expenditures on exploration and development used \$5,508,367, \$2,277,510 and \$1,790,522 in the three months ended September 30, June 30 and March 31, 2008 respectively. In the third quarter the Company capitalized the option payments made and due diligence costs incurred with respect to the acquisition of Appolo Fuels and Diversified Energy in the USA (\$1,407,160). The Company also capitalized the net pre-production operating expenditure at the Kendal Colliery (net of revenue generated) of \$2,181,142, while it continued with development activities and the commissioning of the Kendal Mine and processing infrastructure. The Company applied \$327,380, \$833,694 and \$112,202 in three months to September 30, June 30 and March 31 respectively to fund property and equipment that included motor vehicles, computer software and office space for the South African team. In the second quarter, the provision of long-term finance to African Spirit Trading 307 (Pty) Ltd. of \$7,193,682 accounted for more than 50% of the outflow of funds, with the second largest component being the investment by the Company in Aviva Corporation Ltd., of \$3,452,538. There were no similar investments in the third quarter and the additional long-term finance provided by the Company related primarily to the funding of the balance of the Madic Continuous Conveyor System and additional costs associated with the Kendal washing plant owned by MD Engineering.

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Investing activity outflows in the second quarter were offset by the capitalization of the proceeds received from the GMR Group ("GMR") on the sale of 10% on Homeland's South African subsidiary, Homeland Mining and Energy SA (Pty) Ltd. ("HMESA"), see Subsequent Events. The Company's Mauritian subsidiary realized a capital gain of \$29 million on the sale of a 10% interest in HMESA to GMR. As GMR Group had an option to put the shares back to Homeland in certain circumstances, the gain was not recorded as realized by the Company. No significant developments took place in the third quarter, but subsequent to the period end the GMR Group advised the Company that it would not be exercising its third option (to acquire a further 40% of HMESA) and that it had instead elected to put the 10% already acquired back to Homeland (see Subsequent Events). The unrealized gain of \$28.4 million includes the gross proceeds received (\$30.5 million), which are partially offset by the costs associated with the sale of the HMESA shares to GMR including the commission paid upon the exercise of the first and second options and a payment upon the conclusion of a revised employment agreement between the Company and its Chief Financial Officer that removed an entitlement to a lump sum termination payment upon the signing of the Share Purchase Agreement with the GMR Group.

No cash transactions involving equity took place in the three months ended September 30, 2008. Cash provided by financing activities was \$21,750 in the three months ended June 30, 2008, being cash received upon the exercise of stock options, compared with \$1,060,000 during the three months ended March 31, 2008. In January 2008 Homeland closed an offering of 500,000 units (pre-share split) at a price of \$4.80 per unit, each unit consisting of one common share and one-half of one common share purchase warrant, each full purchase warrant exercisable at \$6.00 per share (pre-share split) until May 21, 2009. Net of financing costs of \$40,000 this generated \$2.36 million in cash. The Company, however, paid \$1.34 million to settle a penalty based on the timing of the listing of the Company's shares on the Toronto Stock Exchange under an earlier subscription agreement.

Ferret Coal (Kendal) (Pty) Ltd., a 74% owned subsidiary of Homeland, has secured a ZAR 150 million (approximately \$19 million) five and a half-year Term Loan Facility from Nedbank Limited, one of South Africa's largest banks, with the first draw down of ZAR 25 million (\$3,184,997) taking place on September 30, 2008. The balance of the Facility is available for draw down to September 2009. The Facility is secured by guarantees from, and pledges of the shares of, certain subsidiaries as well as by all assets of Ferret Coal (Kendal) (Pty) Ltd. and is repayable from September 2009 through December 2013. Amounts drawn under the facility bear interest at the rate of JIBAR plus 3.15% per annum prior to Completion, and at the rate of JIBAR plus 2.50% per annum following Completion. Undrawn amounts are subject to a commitment fee of 0.50% per annum. The effective interest rate at September 30, 2008 was 15.2%.

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Board of Directors and Management

Following completion of the merger between Homeland Energy Group Ltd. (formerly Chrysalis Capital IV Corporation) and Homeland Energy Corp. on February 29, 2008, Robert Munro remained on the board of directors of Homeland Energy Group Ltd. and Tom Griffis, Stephen Coates, Avrom Howard, Neil McLoughlin and Laurence Curtis joined the board of directors from Homeland Energy Corp. Brief biographies of the directors and officers of the Company were included in the Management's Discussion and Analysis of the results of Homeland Energy Corp. for the year ended December 31, 2007, which is available on [www.SEDAR.com](http://www.SEDAR.com). The Company has expanded the management team in London, Toronto and South Africa to include Coal Marketing, Investor Relations, Strategic Planning and Development, and Production and Mine Management expertise. In anticipation of the commissioning of the Kendal Mine, Mr. Hilton Papenfus joined the Company.

Significant Accounting Policies and Estimates

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

The Company's critical accounting policies are those that affect the financial statements and are summarized in Note 4 of the audited consolidated annual financial statements of Homeland Energy Corp. for the year ended December 31, 2007. Critical accounting policies and estimates in the period included the capitalization of the costs relating to the acquisition, exploration and development of non-producing resource properties and the recognition of impairment of those assets, the valuation of warrants, stock options and tax accounts, the valuation of investments, contingent liabilities, and the choice of Generally Accepted Accounting Principles ("GAAP").

Changes in Accounting Policies

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

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**Capital Disclosures**

Handbook Section 1535 requires the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied with any capital requirements, the consequences of such noncompliance. The Company has included disclosures recommended by the new Handbook section in Note 6 to its interim consolidated financial statements.

**Financial Instruments**

Handbook Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments - Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company has included disclosures recommended by the new Handbook section in Note 7 to its interim consolidated financial statements.

**Inventory**

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

**General Standards of Financial Statement Presentation**

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

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New Accounting Pronouncements

**International Financial Reporting Standards ("IFRS")**

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by the end of 2011. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

Risks & Uncertainties

Homeland's business of acquiring, exploring and developing coal deposits involves a variety of operational, financial and regulatory risks that are typical in the natural resource industry. The Company attempts to mitigate these risks and minimize their effect on its financial performance, but there is no guarantee that the Company will be profitable in the future.

For a more complete description of the uncertainties and risk factors faced by the Company, please refer to the Management's Discussion and Analysis of the audited consolidated annual financial statements of Homeland Energy Corp. for the year ended December 31, 2007, any of which may have a material adverse effect on the results of operations or financial condition of the Company.

**Financing Risks**

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

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

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further exploration and development of its projects with the possible loss of such properties.

The Company's current activities are focused on the development of the Kendal Mine, completion of the acquisition of Appolo Fuels and Diversified Energy, as well as exploration at the Eloff Project and elsewhere. The first two of which will provide the operating cash flow in the short-term necessary for funding all exploration activities and corporate overheads. Any adverse developments affecting these projects could materially affect the Company's financial condition and results of operations.

In the short-term, Homeland must conclude arrangements for funding the US\$105 million purchase price for Appolo Fuels and Diversified Energy, for working capital, as well as for the repurchase of the 10% of Homeland Mining and Energy SA (Pty) Ltd. that it sold to the GMR Group (for US\$30 million).

**Access to Land**

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

**Nature of Mineral Exploration and Development Projects**

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

Homeland's operations will be subject to all of the hazards and risks normally encountered in the exploration, development and production of coal. These include unusual and unexpected geological formations, formation pressures, fires, power failures, flooding, explosions, cave-ins, landslides, the inability to obtain suitable or adequate equipment or machinery, labour disputes, or adverse weather conditions, and other conditions involved in the extraction of material, any of which could result in

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damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although precautions to minimize risk will be taken, operations are subject to hazards that may result in environmental pollution and consequent liability that could have a material adverse impact on the business, operations and financial performance of the Company.

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

In the event Homeland is fortunate enough to define a coal deposit, the economics of commercial production depend on many factors, including the cost of operations, the size of the deposit and quality of the coal, proximity to infrastructure, financing costs and Government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of coal and environmental protection. The effects of these factors cannot be accurately predicted, but any combination of these factors could adversely affect the economics of commencement or continuation of commercial production.

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

**Governmental Regulations, Licences and Permits**

The activities of Homeland, and its subsidiary and affiliated companies, are subject to government approvals and various laws and regulations governing: Black Economic Empowerment and the repatriation of funds (in South Africa), prospecting, development, land use, production taxes, labour standards and occupational health, mine safety, toxic substances and other matters, including issues affecting local previously disadvantaged populations. Although the Company believes that its activities are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner that could limit or curtail development or production. Amendments to current laws and

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regulations governing operations and activities of exploration and mining, or more stringent implementation thereof, could have a material adverse impact on the business, operations and financial performance of the Company. Further, the mining licences and permits issued in respect of its projects may be subject to conditions which, if not satisfied, may lead to the revocation of such licences. In the event of revocation, the value of the Homeland's investments in such projects may decline.

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

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

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

### **Volatility of Coal Prices**

The market price of coal is volatile and is affected by numerous factors that are beyond the Company's control. These include international supply and demand, the level of consumer product demand, international economic trends, currency exchange rate fluctuations, the level of interest rates, the rate of inflation, global or regional political events as well as a range of other market forces. Sustained downward movements in coal market prices could render less economic, or uneconomic, some or all of the coal extraction and/or exploration activities to be undertaken by the Company.

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Use of Financial Instruments

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

Related Party Transactions

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

- (a) During the nine months ended September 30, 2008, the Company paid Grove Communications Inc. \$69,875 (nine months ended September 30, 2007: \$60,488) in consulting and administration fees and in respect of investor relations, accounting and office administration work undertaken. The owner of Grove Communication Inc. is a director and officer of the company.
- (b) During the nine months ended September 30, 2008, Grove Communications Inc. shared office space with Homeland and contributed \$14,103 (nine months ended September 30, 2007: \$16,036) towards the office rent and related facilities.
- (c) In South Africa, during the nine months ended September 30, 2008, \$96,648 (nine months ended September 30, 2007: \$112,000) was paid to a company owned by a director and significant shareholder of subsidiaries of the Company, as a retainer for services rendered in respect of the securing of prospecting rights.

Contractual Obligations and Commitments

**Surface Rights**

The Company has entered into two separate agreements to purchase the surface rights at the Kendal Project, located near Witbank in South Africa. In one such agreement the amended purchase price is ZAR 5.4 million (approximately \$690,000), of which ZAR 2 million (approximately \$260,000) has already been paid as a deposit in trust. The balance remains outstanding pending transfer of the property.

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Off-Balance Sheet Arrangements and Contingent Liabilities

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

Multilateral Instrument 52-109 Disclosure

**Internal controls over financial reporting**

Management of the Company is responsible for establishing and maintaining 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 regarding 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 GAAP;
- providing reasonable assurance that receipts and expenditures are made in accordance with authorizations of management and the board of directors; and
- providing reasonable assurance that the unauthorized acquisition, use or disposition of assets that could have a material effect on the Company's financial statements would be prevented or detected on a timely basis.

The Chief Executive Officer and Chief Financial Officer, together with the other members of management, after having designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reporting in accordance with the issuer's GAAP as of September 30, 2008, have not identified any material changes to the Company's internal control over financial reporting that would materially affect, or is reasonably likely to materially affect the Company's internal control over financial reporting.

The review, documentation and assessment of the Company's internal controls is an ongoing project and improvements will be made where considered appropriate.

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Outlook

Homeland's pipeline of prospects at different stages of development offers a well-balanced portfolio of quality exploration and development opportunities. The Company's medium term goal is to develop into a mid-tier coal producer, while maintaining a significant strategic investment in a new global uranium prospect, Homeland Uranium Inc.

Homeland Energy continues to adhere to the business and growth strategy it put in place earlier in 2008. Key growth drivers remain:

- The acquisition of Appolo Fuels and Diversified Energy, as well as production optimization for the Appolo operations;
- Coal production from the Kendal Colliery;
- Development of the Eloff Project;
- Exploration and evaluation of other potential coal projects; and
- The acquisition of producing assets with a strategic fit to those currently owned by Homeland.

Homeland also continues to evaluate a secondary stock exchange listing in London and/or Johannesburg, depending on the results of several strategic decisions that must be taken in the next several months.

For additional information, please refer to the Company's website at [www.homelandenergygroup.com](http://www.homelandenergygroup.com).

Subsequent Events

**Disposition of interest in Homeland Mining & Energy SA (Pty) Ltd.**

On December 15, 2007, Homeland signed a memorandum of understanding (the "MOU") with the GMR Group ("GMR"), setting out the basic terms and conditions upon which the Company would sell up to a 50% voting and participating equity interest in Homeland Mining & Energy SA (Pty) Ltd. ("HMESA"). Upon signing the MOU, Homeland received a deposit of US\$3 million against the transfer to GMR of 1% of the shares of HMESA, the liability for the potential repayment of which was reflected in accounts payable and accrued liabilities at December 31, 2007.

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On February 8, 2008, the first stage of due diligence review was completed and GMR provided notice that it would exercise its first option, to acquire an additional 4% of the shares of HMESA for a further payment of US\$12 million (i.e. GMR had acquired 5% of HMESA for a purchase price of US\$ 15 million). Closing occurred on April 9, 2008, following the satisfactory negotiation and execution of definitive documentation and the payment of the purchase price.

On May 5, 2008, GMR provided notice that it would exercise its second option, to acquire a further 5% of the shares of HMESA for a purchase price of a further US\$15 million.

The US\$30 million received from the sale of 10% of HMESA to GMR by Homeland Energy Corp., the Company's wholly-owned Mauritian subsidiary, less costs directly attributable to the sale, has been recorded as an unrealized capital gain.

GMR had a final option to purchase a further 40% of the shares of HMESA for either US\$125 million, if such option is exercised on or before September 2, 2008, or US\$135 million, if such option is exercised after September 2, 2008 but on or before December 31, 2008 (the "Third Option"). On November 4, 2008, GMR advised the Company that it would not be exercising its final option, and simultaneously advised that it would be exercising its option to put the HMESA shares acquired by it under the first and second options back to Homeland. The purchase price for the shares would be equal to the original price paid by GMR (US\$30 million) and is payable in cash, or at the election of Homeland, in common shares of Homeland at \$0.455 per share.

The repurchase of this 10% stake again gives Homeland 100% of HMESA, including its 74% interest in the Kendal Colliery, 50% interest in the Eloff Project and interests in several additional exploration and development projects. HMESA maintains its focus on ramping up the Kendal Colliery to full production of 150,000 tonnes per month of run-of-mine coal by early 2009 and on advancing the geological and economic assessment work on the large-tonnage Eloff project. The Company is confident that the South African assets will continue to appeal to strategic investors who are able to recognize the long-term intrinsic value and steady cash flow that these assets will provide.

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Supplement to the Financial Statements

**Critical Exchange Rates**

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

<b>Fiscal Period End</b>	<b>Date</b>	<b>Rate</b>	<b>Fiscal Period End</b>	<b>Date</b>	<b>Rate</b>
Current	November 13, 2008	8.5034	2008 - Q1	March 31, 2008	7.9239
2008 - Q3	September 30, 2008	7.8493		February 29, 2008	7.9051
	September 2, 2008	7,2674		January 31, 2008	7.4405
	July 31, 2008	7.1276	2007	December 31, 2007	6.9444
2008 - Q2	June 30, 2008	7.6628		October 1, 2007	6.9156
	May 31, 2008	7.6628		July 3, 2007	6.5746
	April 30, 2008	7.5019		April 2, 2007	6.3012

**Outstanding Share and Option Data**

As at November 13, 2008, the following items were issued and outstanding:

- 150,270,478 common shares;
- 14,263,644 stock options at an average price of \$0.95 per common share, maturing at various dates until February 12, 2012;
- 164,688 agent options with an exercise price of \$0.40 per common share, expiring on February 15, 2009;
- 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; and
- 1,909,092 share purchase warrants with an exercise price of \$1.50 per common share and an expiry date of May 21, 2009.