



## **HOMELAND ENERGY GROUP LTD.**

### **MANAGEMENT DISCUSSION AND ANALYSIS**

**FOR THE THREE MONTH ENDED MARCH 31, 2010**

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

*This Management's Discussion & 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 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, 2010 as compared to the comparable periods in 2009 and have been prepared as of May 19, 2010. This MD&A should be read in conjunction with the Company's consolidated financial statements and notes thereto for the three months ended March 31, 2010 ("Interim Statements"), as well as the annual audited consolidated financial statements and notes thereto for the fiscal year ended December 31, 2009 ("Annual Statements"), which are available at the SEDAR website, [www.sedar.com](http://www.sedar.com).

The Interim Statements have been reviewed by the Company's auditors and are unaudited for the three months ended March 31, 2010. They include all material adjustments, consisting of normal and recurring items, that management considers necessary for fair presentation of the consolidated financial position, results of operations and cash flows.

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

**DESCRIPTION OF BUSINESS**

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

**STRATEGY**

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

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- 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 intends to build upon the platform of assets, production and cash flow 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 and the continued development of the Eloff Mineral Property in Mpumalanga, South Africa; potential acquisitions of brown fields near operating assets in South Africa; and, diversification of assets and cash flows outside of South Africa.

In the context of current world markets, the current economic climate and the difficult commodity market, the Company believes that efforts are most appropriately directed at the Company's core of 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, Homeland views an increase of production at Kendal as the best use of capital in the near term.

The Eloff deposit will also require continued work to progress. Pre-feasibility work, discussions with landowners and potential strategic partnerships will move this development toward commencement of production in late 2012.

In terms of strategic acquisitions, the Company will focus on South Africa and Australasia, two of the world's best and most prolific thermal coal-producing regions. Homeland may explore the potential of constructing a power generation plant at its Kendal (using discards) and Eloff properties in the future. The Company remains focused on leveraging its core strengths to create value from its assets, producing thermal coal and developing thermal coal deposits, generating cash flow, responsibly deploying capital, maximizing cash balances and maintaining flexibility to acquire accretive projects where a strategic fit is proven. Homeland continues to seek disciplined organic growth and growth through strategic acquisition. The Company will continue to strive to improve the value and returns of its projects.

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

During 2011, management expects that Kendal will achieve profitability and generate positive cash flow.

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**KENDAL COLLIERY, MPUMALANGA PROVINCE, SOUTH AFRICA**

The Kendal Colliery is a moderate coal resource, currently being mined by open cast methods, and represents the first operating mine in Homeland's portfolio of assets. The project area has historically supported mining operations supplying coal to the local market. The Kendal Colliery lies in the west-central region of the Witbank Coalfield, and began processing coal in July 2008. The Colliery is located approximately 100 kilometers east of Johannesburg, and approximately six kilometres west of the town of Ogies.

**MINING OPERATIONS**

The Kendal Mine is subdivided into four mining blocks (B, D, E and F). Mining began with Block B in March 2008, where the strip ratio for the two present coal seams has been 4:1. Block B reserves were mined out at the end of July 2009. A second boxcut began in Block F in August 2008. Mining is currently underway in both Block D and F, both of which are currently under steady state operation with a strip ratio of approximately [3:1] for Block D and around [2.5 :1] for Block F which is anticipated to be completed in early 2011. The Company has completed intensive studies to determine the position of underground workings in the 4 upper coal seams in Block E. Currently the Company plans to start mining operations in Block E in early 2011 after completing dewatering operations in the area.

Detailed mine scheduling for Block E and further refinement of the current mining plan is under way. Mining during 2010 will focus on Block F and Block D.

The following table outlines production for the past four quarters ending March 31, 2010:

	Q2 2009	Q3 2009	Q4 2009	Q1 2010
Run-of-Mine ("ROM" tonnes)	268,518	404,092	356,774	<b>291,856</b>
Feed to plant (tonnes)	232,181	319,933	287,112	<b>239,965</b>
Yield (%)	41.63	47.87	46.95	<b>47.2</b>
Product (tonnes saleable)	96,647	153,153	134,794	<b>113,263</b>
Sales (tonnes)	128,333	172,310	130,840	<b>116,778</b>
Stock (tonnes)	139,000	204,214	265,234	<b>290,206</b>
Stock Discard	-	-	379,038	<b>510,768</b>

ROM production was lower than anticipated in the three months ending March 31, 2010. ROM production was intentionally slowed down in order to reduce the outstanding payment liability towards the mining contractor, and also due to slow sales of product. The ROM stocks at the plant and the product stocks were in excess of one month's production. The aimed stocks should not be more than one week's production. The Company plans to

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ramp-up ROM production up to 150,000 tonnes per month by the middle of 2010. With reference to total stock, Run of Mine (ROM) stock is 244,370, discard stock of 510,768 and finished goods and saleable product stock of 45,836.

**PROCESSING OPERATIONS**

Plant throughput for the quarter ending March 31, 2010 was still negatively impacted as a result of the down time due to in-seam rock, which the new feeder breaker and sizer could not properly process. Both plant throughput and plant yield did not significantly improve during this quarter as expected. The plant contractor did not perform to pre agreed KPI's and coal qualities were erratic. The decision was made to develop a new scope of work and go on tender for the operation of the plant.

**SALES**

The Company cancelled the services of a marketing agency at the end of the first quarter of 2010, and decided to appoint an in house marketing manager to assist with the sale of its coal. Sales still did not materialize since the plant contractor produced products of varying qualities and product sizing did not match the desired specifications of its customers resulting in sales not being completed. The problem of sales was further exacerbated by the fact that Kendal had no marketing strategy and was depending purely on spot sales. A strategy was implemented to sign up at least 50% of the products onto medium to long term contracts. As at March 31, 2010 about 40 % of all products (excluding the low grade discard and 4 seam coal) had been committed to contracts.

**HEALTH & SAFETY**

For the first three months of 2010, 3 incidents were reported, with zero non-lost time injuries ("NLTI") and one lost-time injury that were reported:

<b>Period</b>	<b>Incidents</b>	<b>NLTI</b>	<b>LTI</b>
January - December 2008	12	4	0
January - December 2009	12	1	1
<b>January - March 2010</b>	<b>3</b>	<b>0</b>	<b>1</b>

**ELOFF MINERAL PROPERTY, MPUMALANGA PROVINCE, SOUTH AFRICA**

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

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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. In May 2009, the Company received formal notification from the South Africa Department of Mining & Energy that a Mining Right had been approved for Eloff. The project is located close to a number of current and defunct mining operations. Several prospecting drilling campaigns have been carried out in the area, the most recent being commissioned by Homeland in May 2007. A total of 165 holes were drilled in 2007 over the project area of 4,921.3 hectares, for a total length of 10,312 metres. The majority were coal-bearing with only 10 boreholes, along the edge of a paeleo drainage channel, showing no coal or weathered coal. The drill pattern was set out initially on a 500 metre by 500 metre pattern, designed to supplement the 65 holes drilled in 1980/81 from which results the size of the project was first realized. Exploration is carried out using vertical diamond-drilled fully-cored boreholes of a TNW size (60.5 mm core diameter).

A total of 398 boreholes have been drilled to date (and rehabilitated) for a total of 24,000 metres. Drilling was suspended in September 2008, pending review of an initial scoping study.

An area in the northwest quadrant of the property has been identified as a target for potential mining for which an additional 50 boreholes must first be drilled. In principle, agreement for drilling has been reached with a prominent farmer on the land and a further meeting with any remaining farmers will be undertaken. All drilling is planned to be completed and the plan for development of Eloff is expected to be finalized during 2010. 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.

**EXPLORATION PROJECTS**

The Company continues to hold a 100% interest in the Northfield Site Reclamation Project, and is currently considering alternatives to monetize this investment.

The exploration licenses, Onbekend and Vlakvarkfontein, expired in 2009. However, applications for Mining Rights have been submitted. There is no guarantee that the Mining Rights will be granted to the Company. The Company wrote off the carrying value of Onbekend and Vlakvarkfontein properties during 2009.

**QUALIFIED PERSON**

The Company's exploration and development programs were carried out under the supervision of Homeland's Chief Geologist, Mr. Graham Gemmell. Mr. Gemmell is a

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qualified person as defined by Canadian National Instrument 43-101. Mr. Gemmell is responsible for the geo-scientific and technical disclosure contained in this document. Mr. Andrew Birtles of SRK Consulting (South Africa) (Pty) Ltd. co-authored the internal Kendal technical report dated May 14, 2010. Mr Birtles is also a qualified person under National Instrument 43-101.

**BOARD OF DIRECTORS AND MANAGEMENT**

In January 2010 Mr. Henry Hoffmann joined the Company as Chief Operating Officer. Mr. Mike Nell resigned in February 2010.

In January 2010 Mr. Ashis Basu, a director of the Company, assumed the role of interim Chief Executive Officer.

**Credit Facility with NedBank**

As of March 31, 2010, the Company had drawn ZAR 125,000,000 (\$17,312,500) (December 31, 2009 - ZAR 125,000,000 (approximately \$17,725,000)) on the Nedbank Loan Facility and together with capitalized interest and a waiver fee owed ZAR 149,167,293 (\$20,659,670). The effective interest rate at March 31, 2010 was 12.329%. Interest of ZAR 4,400,937 (\$609,530) for the three months ended March 31, 2010 was incurred (December 31, 2009 - ZAR 19,766,356 (\$2,802,869)).

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 June 2010 through September 2014. Amounts drawn down under the Facility currently bear interest at the Johannesburg Interbank Agreed Rate ("JIBAR") plus 4.75% per annum prior to the completion and at the rate of JIBAR plus 4.10% per annum following completion (as defined in the Facility). Undrawn amounts are subject to a commitment fee of 0.50% per annum. In addition, the Company will be required to leave all cash generated from its operations at Kendal in South Africa until completion. While there are number of criteria that must be met to reach the completion standard, failure to meet these tests does not constitute an event of default under the Facility but does restrict the ability of the Company to utilize its assets without the consent of NedBank.

Ferret Coal (Kendal) (Pty) Ltd was in default of certain clauses of the Facility from April 30, 2009 and as a result was not permitted to draw the remaining ZAR 25,000,000 of that facility. On November 4, 2009, Ferret Coal (Kendal) (Pty) Ltd entered into the Waiver and Third Amending Agreement with Nedbank whereby Nedbank agreed to waive these defaults and extend the repayment terms of the facility, subject to the following conditions:

- ZAR 70,000,000 being injected into Ferret Coal (Kendal) (Pty) Ltd by way of equity or subordinated loan by January 2010;
- An increase in interest rate margins on the facility to JIBAR plus 4.75% from July 1, 2009 until completion and JIBAR plus 4.10% thereafter;

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- Additional reporting requirements being applied to Ferret Coal (Kendal) (Pty) Ltd; and
- Ferret Coal (Kendal) (Pty) Ltd paying Nedbank a waiver fee of ZAR 2,416,531 (\$334,690), such waiver fee being capitalized to the facility.

The first step in meeting these conditions was to complete a private placement to the Company's largest shareholder, GMR in December 2009. A total of 27,465,068 common shares of Homeland were issued at \$0.07 per common share to an affiliate of GMR. During 2009, GMR Energy (Mauritius) Limited, another affiliate of GMR, advanced \$4,996,928 to the Company. The loan is due June 30, 2010 and bears interest at LIBOR plus 600 basis points. On January 15, 2010, GMR Energy (Mauritius) Limited advanced a further sum of \$2,996,212 to Homeland, as an addition to the loan announced on January 8, 2010, bringing the total advanced to the company to \$7,993,140. The proceeds of these loans were advanced to Ferret Coal (Kendal) (Pty) Ltd by means of subordinated shareholders loans, thereby satisfying the requirements of the infusion of ZAR 70,000,000 by January 2010.

Ferret Coal (Kendal) (Pty) Ltd was required to make a payment into the Debt Service Reserve Account by March 31, 2010. Ferret Coal (Kendal) (Pty) Ltd was not able to make this payment, and the Company is in negotiations with Nedbank with regard to a waiver of this default and a deferral of this requirement to June 30, 2010. Repayments under the facility will commence on June 30, 2010. The Company is taking all required steps to ensure that the June 30, 2010 payment will be made and that the Debt Service Reserve Account will be brought back into good standing. These loan repayments are anticipated to be funded during 2010 largely by the sale of non-core assets and/or operational cashflows.

The following is a schedule of future repayments in terms of the Facility Agreement. As of March 31, 2010, Ferret Coal (Kendal) (Pty) Ltd had drawn ZAR 125,000,000 and together with capitalized interest of ZAR 21,750,761 and a waiver fee of ZAR 2,416,531 which results in a repayment schedule as at March 31, 2010:

	<b>Equivalent (\$)</b>	<b>Amount (ZAR)</b>
2010	3,116,000	22,500,000
2011	4,155,000	30,000,000
2012	4,778,000	34,500,000
2013	4,986,000	36,000,000
2014	3,624,670	26,167,293
	<b>20,659,670</b>	<b>149,167,293</b>

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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)

**RESULTS OF OPERATIONS**

The net loss for the three months ended March 31, 2010 was \$1,842,905 compared with a net loss of \$10,825,378 for the same period in 2009. The loss for the quarter ended March 31, 2010 was lower by approximately \$9,000,000 when compared to the previous year, primarily as a result of expensing approximately \$6,300,000 regarding Appolo during the first quarter of 2009 for extension and termination fees but also significantly lower management and administration costs for the first quarter of 2010.

Revenue for the first quarter of 2010 was \$6,465,712 compared with \$nil for the first quarter of 2009. The Company determined that it had reached commercial production on October 1, 2009. Prior to that time, the Company did not record the proceeds from the sale of coal at Kendal as revenue but instead capitalized such amounts as pre-production revenue under Exploration and Development Properties on the Company's balance sheet.

From an operating perspective, Kendal's results have not been optimal. This is namely due to a lack of process and production efficiencies and an ineffective and costly sales process. These issues have resulted in an overall high cost of mining and can be characterized by low yield of product, multiple handling of the coal, and frequent breakdowns. As a result, an operational improvement audit was conducted during the third quarter of 2009 by KPMG to identify critical areas in the value chain where efficiencies can be obtained and costs removed from the system. The audit by the KPMG team was well received by the operating management team, and they have jointly determined six distinct initiatives for overall performance improvement. Once implemented, through a cross-functional steering committee, it is anticipated significant financial benefits will be realized. During the 1<sup>st</sup> quarter of 2010 the KPMG team assisted the Colliery in the conducting of market research and in developing a marketing strategy. They further assisted in the development of a scope of work and KPIs for the new wash plant tender. Further cost reductions resulted from their assistance with re-negotiating the contract with the logistics contractor (Warthog), and in cutting back on re handling of coal at the ROM tip, and in the reduction of re screening coal. KPMG also facilitated a study whereby fines production in the pit was reduced by 10%.

**SUMMARY OF QUARTERLY RESULTS**

The following quarterly information is presented in thousands of Canadian Dollars, except per share amounts:

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Fiscal Period	Revenue \$	Net Loss \$	Net Loss Per Share \$	Total Assets \$	Total long-term Liabilities \$	Cash Dividends \$
2010 - Q1	6,466	(1,843)	(0.01)	63,649	427	-
2009 - Q4	7,071	(10,128)	(0.04)	69,614	437	-
2009 - Q3	100	(8,408)	(0.03)	67,086	439	-
2009 - Q2	100	(6,238)	(0.02)	69,440	463	-
2009 - Q1	-	(10,825)	(0.05)	63,101	9,508	-
<b>Total</b>	<b>-</b>	<b>(35,599)</b>	<b>(0.14)</b>	<b>N/A</b>	<b>N/A</b>	<b>-</b>
2008 - Q4	-	(13,833)	(0.09)	57,608	8,311	-
2008 - Q3	-	(2,441)	(0.02)	58,049	31,972	-
2008 - Q2	-	(4,282)	(0.03)	59,816	29,120	-
2008 - Q1	-	(4,022)	(0.03)	35,354	-	-
<b>Total</b>	<b>-</b>	<b>(24,578)</b>	<b>(0.17)</b>	<b>N/A</b>	<b>N/A</b>	<b>-</b>

**EXPENDITURES ON EXPLORATION AND DEVELOPMENT PROPERTIES**

The Company is engaged in the exploration and development of coal properties or deposits within South Africa. Other than the Kendal property, the Company's projects are in the exploration stage and there can be no assurance that any of them will reach the stage of production. The recoverability of the amounts shown for mineral properties is, as noted above, dependent upon, among other factors, the existence of economically recoverable estimated mineral reserves, the ability of the Company to obtain necessary financing to complete the exploration and development of its properties, receipt of environmental and operating permits and future profitable production or proceeds from the disposal of properties.

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

No exploration has taken place during the first quarter of 2010. Emphasis during this period has been on improving the quality of Kendal's geological model.

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The following table sets forth certain information relative to the exploration and development properties of the Company by summarizing capitalized expenditures for the three months ending March 31, 2010, total capitalized costs on the balance sheet as of December 31, 2009, and the percentage of the property owned. The principal mineral found on all of the properties below is coal.

	<u>Capitalized Expenditures</u>		Percentage Owned
	During 2010	At Dec. 31, 2009	
<b><u>South Africa</u></b>			
Eloff	\$ -	\$ 2,778,679	50%
Northfield	2,356	2,434,460	100%
Other	66,416	3,382	50-100%
	<u>\$ 68,772</u>	<u>\$ 5,216,521</u>	

**LIQUIDITY AND CAPITAL RESOURCES**

**WORKING CAPITAL**

The Company had cash and cash equivalents of \$3,285,102 and a working capital deficit of \$22,381,283 at March 31, 2010, primarily attributable to reclassification of the Nedbank loan to current liability as a result of it being in default. This compares with cash and cash equivalents of \$7,650,261 and working capital deficit of \$21,143,128 at December 31, 2009. As at March 31, 2010, Ferret Coal (Kendal) (Pty) Ltd. ("Kendal") was not in compliance with its externally imposed capital requirements and as a result is in default on its loan with Nedbank. As the loan is in default it can be called at any time and therefore has been presented as a current liability. The Company is working on various options to bring the loan back into good standing at which time the loan may be reclassified as a long-term liability.

Cash and cash equivalents held in South Africa cannot be repatriated to Mauritius or Canada until the Kendal Colliery satisfies the "completion tests" and certain other conditions imposed by the terms of the Nedbank Facility.

The Company currently does not have sufficient cash and credit facilities available to meet its operating costs and planned capital expenditures in their entirety.

**OPERATING ACTIVITIES**

For the three months ended March 31, 2010, cash flows used in operating activities totalled \$7,485,777 compared with \$2,576,255 used in the same period in 2009.

During the quarter, cash and cash equivalents were reduced by \$4.4 million, and is primarily attributable to approximately \$7.5 million of operating cash used to reduce accounts payable and align suppliers closer to acceptable payment terms, which was partially offset by the

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receipt of approximately \$3 million of an additional loan from GMR, the Company's largest shareholder, as noted below under financing activities.

**INVESTING ACTIVITIES**

For the three months ended March 31, 2010, cash flows provided by investing activities totalled approximately \$125,000 compared with cash used of approximately \$2,206,000 for the same period in 2009. Investing activities were very marginal due to the cash constraints on the Company during the first quarter of 2010.

**FINANCING ACTIVITIES**

During the first quarter of 2010, GMR loaned the Company approximately an additional \$3,000,000 bringing the total loan amount to approximately \$8,000,000. This loan was due March 31, 2010 but has since been extended to June 30, 2010. This cash combined with cash received in Q4 2009 satisfied the Nedbank requirement of additional equity of ZAR 70,000,000 for its Kendal operation.

**BALANCE SHEET**

**ASSETS**

The Company had assets totalling \$63,649,470 at March 31, 2010 as compared to \$69,614,694 at December 31, 2009. The majority of the assets relate to investments, short and long term accounts receivable, exploration and development properties, and property, plant and equipment, and inventory totalling \$59,655,351 at March 31, 2010. These asset balances decreased from \$61,174,444 at December 31, 2009. Total assets declined quarter over quarter due to use of cash for working capital purposes and slower sales.

**TOTAL LIABILITIES**

The Company had total liabilities of approximately \$40,000,000 at March 31, 2010 compared with liabilities of approximately \$44,200,000 as at December 31, 2009. The decrease in liabilities is due primarily to receipt of the GMR loan proceeds of approximately \$3,000,000 in January 2010 and subsequent payment to suppliers.

**CAPITALIZATION**

The Company had 302,115,756 common shares outstanding at March 31, 2010 and May 19, 2010.

The Company had 7,211,250 common share purchase options outstanding at March 31, 2010. The options outstanding have a weighted average exercise price of \$0.14 per option. Options are exercisable into common shares on a one-for-one basis. A total of 1,842,125 common share purchase options expired during the quarter.

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At May 19 2010 the Company had 7,011,250 common share purchase options outstanding at a weighted average price of \$0.14.

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

**RELATED PARTY TRANSACTIONS**

Transactions with related parties are measured at the exchange amounts and for the three months ended March 31, 2010 are as follows:

Homeland paid Grove Communications Inc. \$nil during the three month period ending March 31, 2010 (2009 - \$8,937) in fees in respect of investor relations and office administration work undertaken. The owner of Grove Communication Inc. is a former officer and director of the Company.

Grove Communications also shared office space with Homeland and contributed \$nil during the three month period ending March 31, 2010 (2009 - \$3,850) towards the office rent and related facilities.

With the leasing of new premises in London in 2008, Juno Special Situations Corporation, a company with which a former director and an officer of Homeland are associated, agreed to share office space. At March 31, 2010 the Company had invoiced Juno for rental and recoveries of costs, and \$25,446 remains outstanding. This amount is unsecured, non-interest bearing with no fixed terms of repayment.

Expenses have been incurred to a South African company owned by a former director and significant shareholder of subsidiaries of the Company for services rendered in respect of the securing and maintaining of prospecting rights totalled approximately \$nil for the three months ended March 31, 2010 versus \$27,076 for the three months ended March 31, 2009.

Legal services are provided by a law firm of which an officer of the Company is a partner. Homeland expensed \$62,601 during the three month period ending March 31, 2010 (2009 - \$107,180). Included in the accounts payable and accrued liabilities at March 31, 2010 was \$108,151 (2009 - \$50,284) owing to this firm. The amount is unsecured, non-interest bearing, with no fixed terms of repayment.

The Company and HUI have certain directors in common. As at March 31, 2010, the Company holds approximately 25.80% (March 31, 2009 - 39.42%) of HUI.

Three of the Company's director's are employees of GMR. GMR and its affiliates are also the Company's largest shareholder.

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**Numin and Madic**

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

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

The Company has advanced a loan of \$1,380,000 (ZAR 10 million) to Madic, in order to capitalize the development of a continuous conveyor system for the mining industry. Madic is required to repay the loan plus interest calculated at a rate of 5% p.a. within a period of two years from the date the conveyor system is successfully installed; failing which interest shall accrue at the prime rate of interest until payment in full. In terms of this Loan Agreement, Homeland is entitled, but not obligated, to purchase at cost a maximum of four Madic continuous conveyor systems.

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

In addition, Homeland has entered into a Loan Agreement and Share Purchase Option Agreement with Numin, an entity associated with Madic that is implementing the Madic system. The Company has loaned to Numin \$543,500 (ZAR 4,313,465). This loan bears interest at the prime lending rate less 1% and is repayable within one year. Homeland has been granted an option, for a period of three years, to purchase 20% of the issued share capital in Numin for a nominal value of ZAR 1 per share.

The Company follows the recommendations in Accounting Guideline 15, “Consolidation of Variable Interest Entities (“VIE”)” which establishes the application of consolidation principles to entities that are subject to control on a basis other than ownership of voting interests. The guideline requires the primary beneficiary of a VIE to consolidate the VIE. A VIE is an entity which either does not have sufficient equity at risk to finance its activities without additional subordinated financial support or where the holders of the equity at risk

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lack the characteristics of a controlling financial interest. The primary beneficiary is the enterprise that will absorb or receive the majority of the VIE's expected losses, expected residual returns, or both. The Company previously recorded the advances and investments in Madic and Numin as investments in loans receivable, investments and other assets on the balance sheet of the Company. The Company has determined that Madic and Numin are VIEs, and as the Company has been determined to be the primary beneficiary of each entity, Madic and Numin have been consolidated in the company's consolidated financial statements.

As a result of the change in accounting treatment, the Company was required to restate its financial statements for the period ending March 31, 2009. Management is of the view that the restatement to this period is not significant representing a decrease in assets of \$564,000, an increase in liabilities of \$160,000, an increase in net loss of \$170,000 and an increase in deficit of \$724,000.

For particulars of the impact of this change on other prior periods please see the Management Discussion and Analysis for the year ended December 31, 2009 under the heading "Numin and Madic".

Since January 2010, the Company has received from Madic ZAR 1,090,909(\$144,218) and Numin ZAR 709,091 (\$96,508) towards repayment of the respective loans.

**CRITICAL ACCOUNTING ESTIMATES**

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

The Company's critical accounting policies are those that affect the financial statements and are summarized in note 4 of the audited consolidated annual financial statements of Homeland for the year ended December 31, 2009. Critical accounting policies and estimates in the period included 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, 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 audited financial statements for the year ended December 31, 2009.

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**BUSINESS COMBINATIONS, CONSOLIDATED FINANCIAL STATEMENTS AND NON-CONTROLLING INTERESTS**

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

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

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

In accordance with CSA Staff Notice 52-320, as the majority of the Company's current activities are located in South Africa, the Company currently prepares the bulk of its accounts in accordance with IFRS and then converts to Canadian GAAP. Management believes that very limited changes will be required in order to achieve full compliance with IFRS. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

In order to ensure an orderly conversion, the Company has developed a conversion plan that consists of four primary stages including planning, assessment, design and implementation with periodic meetings with the Audit Committee to report progress and findings. With the assistance of external advisors, the planning stage is in progress and includes identifying and mobilizing the necessary resources, both internal and external, to execute the plan, establishing a conversion timeline and reassessing the differences between Canadian GAAP and IFRS that may be significant to the Company's reported financial position and results of operations. The assessment stage is also in progress and includes

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conducting a detailed assessment of the effect of the transition to IFRS on financial reporting, systems and business activities in Canada. The Company has identified mineral property, plant and equipment, future income taxes, asset retirement obligation, and financial instruments as areas where the adoption of IFRS may have a material effect on the Company's financial reporting, processes and controls. Also as part of the assessment stage, the Company is assessing the available elections under IFRS to determine the effect of each election to the Company. This assessment is expected to be complete in the second quarter of 2010. The Company will then commence the design stage which includes completing an assessment of the IFRS estimates of the quantified effects of the anticipated changes to the financial reporting on the Company's IFRS opening balance sheet and identifying business processes and resources that may require modification as a result of these changes. The implementation stage will proceed concurrently with the assessment and design phases and will include preparing draft IFRS compliant model financial statements and making appropriate changes to business, reporting and system processes and training to support preparation and maintenance of IFRS compliant financial data for the IFRS opening balance sheet at January 1, 2010 and going forward. The Company believes the plan is sufficiently advanced and adequate resources are in place to ensure an efficient and effective transition to IFRS reporting.

**FINANCIAL INSTRUMENTS**

During the three months ended March 31, 2010, the Company did not enter into any specialized financial agreements to minimize its investment risk, currency risk or commodity risk. The principal financial instruments affecting the Company's financial condition and results of operations are currently its cash and equivalents, amounts receivable, deposits and prepayments, long-term loans, and accounts payable and accrued liabilities.

The Company is subject to foreign currency exposure, as certain of its cash is retained in non-Canadian Dollar denominated instruments.

**RISKS & UNCERTAINTIES**

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

**Financing Risk**

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

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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 become available under terms favourable to the Company especially in the current economic climate. Homeland's ability to raise further equity or debt finance will vary according to a number of factors, including the success of exploration results and the future development of the projects, stock market conditions and prices for coal. Failure to obtain additional financing could result in delay or indefinite postponement of further exploration and development of its projects with the possible loss of such properties.

The Company's current activities are focussed on the 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.

#### Liquidity Risk

The Corporation's cash balance at March 31, 2010 was \$3,285,102 excluding restricted cash of \$527,820. The Corporation had a working capital deficit of \$22,381,283 as at March 31, 2010. This is primarily a result of the facility with NedBank being in default and therefore the entire amount due to NedBank being classified as a current liability. The Corporation agreed with NedBank to increase its equity investment in the Kendal Colliery by ZAR 70,000,000 (\$9,674,000) by January 15, 2010. Failure to meet this requirement would have caused the first payment of the loan to have been due on December 31, 2009 rather than June 30, 2010 as provided for in the third amendment to the facility entered into in November of 2009 and the Corporation would have been in default under the facility. The Corporation advanced the sum of ZAR 70,255,463 in satisfaction of this requirement by January of 2010. The Corporation has continued to experience challenges with the NedBank Facility. For additional reference to the Nedbank facility see page 7.

#### No Reserves Determined

To date, the Corporation has calculated a "Resource" as such term is defined by the Canadian Institute of Mining rather than a "Reserve" for the Kendal Colliery. A Resource, by definition, does not have demonstrated economic viability as would be the case if a Reserve had been calculated. The Corporation made the decision to commence production at the Kendal Colliery without the preparation of a feasibility study in compliance with National Instrument 43-101 - Standards of Disclosure for Mineral Projects that demonstrated the economic viability of the Kendal Colliery. Such an undertaking would result in the conversion of the Resource into a Reserve. As a result, production at the Kendal Mine is subject to a higher degree of risk than would be the case if the Resource had been converted into a Reserve. However, this risk is mitigated by the nature of completing the determination of a Reserve for a coal deposit which is subject to less variability than for

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other types of deposits. At the time management made the decision to commence mining operations at the Kendal Mine it had run mine modelling analysis that supported that decision. However, the Company has since determined it would be in the best interests of all stakeholders to undertake a Reserve calculation in accordance with National Instrument 43-101. The necessary work is being undertaken by SRK Consulting (SA) (Pty) Ltd and Caracle Creek International Consulting Ltd. and it is expected that a new report will be available by the end of the third quarter of 2010.

#### Nature of Mineral Exploration and Development Projects

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

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

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

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

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of these factors could adversely affect the economics of commencement or continuation of commercial production.

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

#### Volatility of Coal Prices

The market price of coal is volatile and is affected by numerous factors that are beyond the Company's control. These include international supply and demand, the level of consumer product demand, international economic trends, fluctuations in oil prices and 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 2009.

The level of volatility evident during 2008 is not expected to return in the foreseeable future, especially considering greater regulation within the financial markets.

Domestic prices in South Africa have held to levels higher than their export equivalent throughout 2009 and are expected to remain at current levels throughout 2010, with even a strengthening being forecast 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, therefore 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

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

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

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

Homeland believes that it holds, has applied for, or has the capability of applying for when appropriate all necessary licences, rights and permits under applicable laws and regulations. Homeland also 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.

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

#### Title to Assets

The validity of mining or exploration titles or claims, which constitute most of Homeland's property holdings, can be uncertain and may be contested. Homeland has made 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

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mineral reserves containing relatively lower grades of mineralization uneconomic and may ultimately result in a restatement of reserves. Moreover, short-term operating factors relating to the mineral reserves, such as the need for orderly development of the ore bodies and the processing of new or different mineral qualities may cause a mining operation to be unprofitable in any particular accounting period.

#### Competition for New Properties and Personnel

Mines have limited lives and as a result, Homeland may in the future seek to replace and expand its reserves through the acquisition of new properties. There is a limited supply of desirable mineral lands available in areas where Homeland would consider conducting exploration and/or production activities. Homeland faces strong competition for new properties from other mining companies, some of which have greater financial resources than it does. Homeland also competes with other mining companies 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

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

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

#### Foreign Exchange Rate Fluctuations

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

#### Uninsured Risks

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

As a participant in mining and exploration activities the Company may become subject to liability for hazards that cannot be insured against or against which it may elect not to be so

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insured because of high premium costs. Furthermore, Homeland may incur 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. To the extent that such other companies may participate in ventures with the Company, these individuals may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or of its terms. In appropriate cases Homeland will establish a special committee of independent directors to review a matter in which one or more directors or officers may have a conflict.

From time to time, Homeland, together with several other companies, may be involved in a joint venture opportunity where several companies participate in the acquisition, exploration and development of natural resource properties, thereby permitting Homeland to be involved in a greater number of larger projects with an associated reduction of financial exposure in any given project. Homeland may also assign all or a portion of its interest in a particular project to any of these companies due to the financial position of the other company or companies. Directors are required to act honestly and in good faith with a view to furthering the best interests of Homeland. In determining whether or not Homeland will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the potential benefits to Homeland, the degree of risk to which Homeland may be exposed and its financial position at that time.

#### Joint Ventures

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

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

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

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**Financial Instruments**

**Fair Value**

Canadian GAAP requires that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date and are 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, credit facilities and GMR loans payable entered into approximates their carrying values based on the anticipated short-term nature and the current interest rates of these instruments. The fair value of investments is, where possible, based on quoted market prices.

In the first quarter 2010, the Company did not enter into any specialized financial agreements to minimize its investment risk, currency risk or commodity risk. The Company is subject to foreign currency exposure, as a portion of its cash is retained in non-Canadian Dollar denominated instruments.

**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. A change of control is defined as inter-alia the acquisition of 30% or more of the Company's issued and outstanding shares.

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

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

**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

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for external purposes in accordance with accounting principles generally accepted in Canada and the fair presentation of published financial statements. Internal control over financial reporting includes:

- maintaining records that in reasonable detail accurately and fairly reflect the transactions of the Company;
- providing reasonable assurance that transactions are recorded as necessary for the preparation of financial statements in accordance with Canadian GAAP;
- providing reasonable assurance that receipts and expenditures are made in accordance with authorizations of management and the board of directors; and
- providing reasonable assurance that the unauthorized acquisition, use or disposition of assets that could have a material effect on the Company's financial statements would be prevented or detected on a timely basis.

The unaudited consolidated financial statements have been prepared by management in accordance with Canadian GAAP and in accordance with accounting policies set out in the notes to the consolidated financial statements for the quarter ended March 31, 2010.

In compliance with Form 52-109F2 of National Instrument 52-109, management must disclose in its Management's Discussion and Analysis any material weakness found to exist within its system of internal control over financial reporting.

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

A material weakness in internal control over financial reporting as of March 31, 2010 and March 31, 2009 existed as management did not have sufficient accounting personnel to appropriately review and approve complex accounting transactions. As a result, Numin and Madic were not properly accounted for as VIEs. The material weakness resulted in the restatement of the Company's previously issued quarterly financial statements as at March 31, 2009 to correct the accounting as VIEs. However, Management has determined that the impact on the Company's financial statements from the reclassification of Numin and Madic was not material. It is therefore not refiling interim financial statements for the period ended March 31, 2009. Instead, a summary of the changes to the financial statements for that period is provided under the heading "Numin and Madic".

Management has taken steps to resolve this weakness by implementing procedures to ensure that proper assessment of acquisitions and other transactions are taken.

In addition, 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

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period covered by this management discussion and analysis, management has concluded that the internal controls over financial reporting were appropriately designed, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP except with respect to the assessment of complex transactions described above.

Other than as disclosed above, there have been no changes in the Company's internal controls over financial reporting that occurred during the period beginning on January 1, 2010 and ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

**Limitations on Scope of Design**

The Company has limited the scope and design of its disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures of Numin and Madic. For additional details on Numin and Madic, please see the heading "Numin and Madic".

**Current Market Conditions**

For a description of current market conditions please see the December 31, 2009 Management Discussion and Analysis.

**Subsequent Events**

Due to the need to change the accounting treatment for Numin and Madic, the Company was unable to file its financial statements for the year ended December 31, 2009 by the filing deadline. The Company obtained a Management Cease Trade order to allow the common shares to continue to trade while management worked to complete the applicable disclosure.

May 19, 2010