COBALT COAL LTD.

MANAGEMENT DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2013

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FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013

DESCRIPTION OF BUSINESS

Cobalt Coal Ltd. (“Cobalt” or the “Company”) is a junior mining company based in Calgary Alberta that is engaged in the acquisition, development and production of metallurgical coal, principally in the Appalachian area of the USA. Metallurgical coal is also known as met coal or coking coal, and is used in the steel making process.

Cobalt trades on the TSX-V Exchange under the symbol “CCF”.

The following discussion, analysis of financial results and related data has been prepared by management of Cobalt and is reported in United States dollars, its functional currency. The financial data presented herein has been prepared in accordance with International Financial Reporting Standards (“IFRS”).

This discussion and analysis is dated November 23, 2013.

Further information related to the Company is filed on the System for Electronic Document Analysis and Retrieval (“SEDAR”) and can be reviewed at www.sedar.com.

FORWARD-LOOKING STATEMENTS

The information herein contains forward-looking statements and assumptions. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as “seek”, “anticipate”, “plan”, continue”, “estimate”,” expect”, “may”, “will”, “project”, “predict”, “potential”, “targeting”, “intend”, “could”, “might”, “should”, “believe” and other similar expressions. Such statements and assumptions also include those relating to guidance, results of operations and financial condition, capital spending, financing sources, commodity prices, cost of production and the magnitude of reserves and resources. By their nature, forward-looking statements are subject to numerous known and unknown risks and uncertainties that could significantly affect anticipated results in the future and, accordingly, actual results may differ materially from those predicted. Cobalt is exposed to numerous operational, technical, financial and regulatory risks and uncertainties, many of which are beyond its control and may significantly affect anticipated future results.

The acquisition and development of coal deposits involves a high degree of risk that even a combination of careful evaluation, experience, knowledge and sufficient financial resources may not eliminate. Substantial expenses may be required to locate and establish coal reserves and resources and to construct mining and processing facilities at a particular site. Whether a coal deposit will be commercially viable depends on a number of factors, some of which are: the particular attributes of the deposit such as size, grade, quality and proximity to infrastructure; commodity prices, all of which are inherently cyclical and cannot be predicted with certainty; and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The effect of these factors cannot be accurately predicted and the combination of these factors may result in Cobalt not receiving an adequate return on invested capital.

Cobalt is also exposed to financial risks that include, but are not limited to, access to debt or equity markets and fluctuations in commodity prices, interest rates and the Canadian/US dollar exchange rate. Cobalt is subject to regulatory legislation; compliance with which may require significant expenditures and non-compliance with which may result in fines, penalties or production restrictions.

Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue

reliance should not be placed on forward-looking statements. Cobalt does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

OVERVIEW

Cobalt owns the Westchester Coal Mine and its associated lease (the "Westchester Mine") in West Virginia, USA. In January 2011, the Company signed an additional lease involving lands that contain coal deposits immediately adjacent to the Westchester Mine. These newly leased lands can only be accessed from Cobalt's existing underground infrastructure (the "Westchester Expansion Lease").

In February and December 2012, the Company acquired coal leases in Virginia. The leases include the acquisition of five separate tracts of land covering approximately 5300 acres in Virginia with one of the tracts being already permitted for production and for waste disposal enabling the construction of a wash plant on that tract.

OUTLOOK

World–wide prices for metallurgical or "met" coal have been subject to volatility during these difficult economic times, however, they have demonstrated resiliency especially compared to "steam" or "thermal" coal which is used for power generation as compared to met coal which is used in the steel making process. The met coal industry began a slowdown in the fall of 2011 which has continued into 2013. However, during this slowdown, principally caused by decreasing demand during this period from uncertainty in the worldwide economy (including a general slowdown in the Chinese economy), the uncertainty on the met coal supply side has subsided. There had been supply side uncertainty as a result of interruptions in Australian deliveries due to recurring floods and a newly implemented resource tax in Australia which had caused a significant increase in met coal producers' unit production cost but Australia would now appear to be back supplying the Asian customers. Management continues to be of the belief that met coal prices will again be robust in the near term as demand increases affording the Company the opportunity to generate significant positive cash flow once Westchester production is optimized and the mines to be developed on the Virginia Properties are brought into production.

HIGHLIGHTS

- In 2012, Cobalt acquired leases known to contain significant deposits of metallurgical coal in Dickenson County, Virginia (the "Virginia Properties"). During the first quarter of 2013, the Company began preliminary work on the first tract of the Virginia Property with the intent of being in a position to commence coal production later in 2014
- During 2013, the Company initiated discussions with the aim of securing a Joint Venture partner or securing additional funding for the Virginia Properties

SELECTED FINANCIAL INFORMATION

The following information is provided for the nine months ended and as at September 30:

		2013		2012
Revenue	**$**	**-**	$	**3,659,377**
Net and comprehensive loss	**$**	**2,391,315**	$	**5,852,877**
Total assets	**$**	**19,504,941**	$	**5,881,761**
Total long-term liabilities	**$**	**11,472,266**	$	**2,552,262**
Total liabilities	**$**	**22,670,223**	$	**6,380,164**
Total shareholders' deficiency	**$**	**3,165,282**	$	**498,403**

In the fourth quarter of 2012, the operations at the Westchester Mine were suspended until Cobalt secures the financing necessary to complete Westchester electrification and to secure the additional equipment necessary to conduct operations on a consistent "up time" basis.

The increase in the total assets and liabilities for 2013 as compared to 2012 is attributable to the purchase of the Virginia properties in December 2012.

The change in the total shareholders' deficiency as at September 30, 2013 as compared to September 30, 2012 is mainly attributable to an impairment charge of $3.8 million recorded in 2012 on mineral properties and plant and equipment.

GOING CONCERN, FORBEARANCE and RESTRUCTURING

Historical Matters

In April 2011, the Company undertook a thorough review of operations focusing on the impediments that were restricting the Company from being profitable. The Company arrived at the conclusion that it would be very difficult to achieve profitable operations in the near term or quite possibly at all under the financial structure that was in place.

The significant impediments that were contributing to the continued operating losses included the following:

- Lack of working capital – as an example, the Company has been unable to inventory key spare parts and as a result they are obtained on an as needed basis resulting in longer than necessary production shutdowns;
- Power – mining equipment was being powered by diesel generators that are expensive to operate and prone to shutdowns. The mine requires electrical power from the main grid that could reduce operating costs by as much as $50,000 per month and allow uninterrupted service and therefore much improved recoveries. Electrical power was not available to the mine requiring a power line to be constructed over approximately six (6) miles of rugged terrain;
- Equipment – the Company needs to acquire additional equipment in order to achieve what would be considered a "full spread" thus providing increased operational efficiency at the Westchester Mine. A second "spread" is also required to meet management's production targets;
- Debt – the Company requires additional equity in order to acquire equipment, complete main grid electrification, increase working capital and to repay debentures;

The debentures required a quarterly interest payment at June 30, 2011. The Company was unable to pay this amount on June 30th due to a lack of cash resources and as such the Company was in default under the terms of the debentures. As part of the restructuring, the Company was able to settle a portion of the debentures, but as of September 30, 2013, the Company was in default on the remaining debentures in the principal amount of C$195,000 and interest payments totalling $63,785 have not been made.

Current Issues

The Company continues to lack the necessary cash resources for the profitable operations of the Westchester Mine. Additional funds to acquire equipment, complete main grid electrification and provide working capital will be required before re-commencing mining operations. In 2012, the Company issued promissory notes with a face value of $13.25 million to acquire the Virginia properties (note 6). The first principal repayment of $1 million plus interest is due December 18, 2013. In addition, the Company was to have drilled 5 test holes by December 18, 2013 which have not been completed. To date, the Company has been unable to secure the necessary cash funds to meet these obligations and to repay the credit facility of with a principal amount of $1,603,000 (C$1,650,000) plus interest due on December 18, 2013 or to commence coal mining operations on these properties. The company had planned to repay these promissory notes from profitable operations and/or a financing and/or a joint venture arrangement. The world capital markets continue to be depressed and there is no certainty that the raising of funds will be successful.

Continuation of the Company as a going concern is dependent upon obtaining additional capital and/or achieving profitable operations and/or arranging a joint venture arrangement. Unless the Company is able to conclude one or more of those objectives,, the Company's continuing operating losses, negative working capital at September 30, 2013 of $11.2 million and uncertainty regarding its ability to obtain financing in a timely manner, represent material uncertainties which raise significant doubt as to the Company's ability to continue as a going concern. If the going concern basis is not appropriate, adjustments may be necessary to the carrying amounts and classification of the Company's assets and liabilities and such adjustments may be significant. The consolidated financial statements do not include any adjustments relating to the realization of assets and liquidation of liabilities that might be necessary should the Company be unable to continue as a going concern.

The business of mining resource properties involves a high degree of risk and therefore there is no assurance that current mine programs will result in profitable operations. The recoverability of the investment in the mining properties is dependent upon the recovery of coal resources, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain the necessary financing to complete profitable production or proceeds from disposition of its properties. There is no certainty the Company will be successful with these efforts.

MINERAL PROPERTIES

Cobalt has concentrated its efforts on developing an asset base in the Appalachian coal producing region of the SE United States. The Appalachian area includes parts of West Virginia, Virginia, Kentucky, Ohio, Pennsylvania, the Carolinas and Tennessee. Appalachia's history of producing large volumes of metallurgical coal, along with the very significant coal infrastructure already in place make the area ideal for the implementation of Cobalt's business model. Coal assets in the area can be acquired and brought into production relatively quickly.

The original Westchester property consisted of the Westchester Mine and the surrounding mineral leases that were associated with the Westchester property, those being the Alawest #1 and #2 leases, which are referred to herein as the Westchester Mine.

In January 2011, the Company acquired an additional lease containing coal deposits immediately adjacent to the leases that form part of the Westchester Mine which can only be accessed from Cobalt's existing underground infrastructure. That additional lease is referred to herein as the Westchester Expansion Lease.

In 2012, the Company acquired the Virginia coal mining properties by acquiring 100% ownership of both C&B Coal, LLC ("C&B") and KMH Energy Corporation ("KMH").

C&B was acquired for $1,389,362 in exchange for cash of $200,000, a promissory note of $800,000 and assumption of liabilities of $389,362. The promissory note was non-interest bearing. The promissory note was partially repaid ($150,000) in December 2012 with the balance having been paid in April 2013.

KMH was acquired for $14,466,216. The consideration for this purchase was comprised of cash of $1,750,000, the issuance of a promissory note with a fair value of $11,893,000 (face value of $13,250,000) and acquisition costs of $823,216. The acquisition costs included a finders' fee of $671,000 which was satisfied by a cash payment of $136,000, the issuance of 8,881,200 common shares at an attributable value of $450,000 and a payment due one year from closing of $85,000. The remainder of the acquisition costs of $152,216 related to professional fees and reimbursement of expenses incurred by the vendor which were paid in cash.

The acquisitions of C&B and KMH did not qualify as a business combination for accounting purposes and as such, have been accounted for as mineral property acquisitions.

The Company has paid advance royalties on future production of $685,000. This amount is recoverable from royalties otherwise payable on future production.

MINERAL RESOURCES

During 2012, the Company completed a technical report on the Westchester Mine and the Westchester Expansion Lease in West Virginia and also completed a technical report on the Virginia Properties. The technical reports satisfied the requirements of NI 43-101 and have been filed on Sedar (www.sedar.com). A summary of the resources identified in the technical reports is as follows:

WESTCHESTER LEASE AND EXPANSION - COAL RESOURCES SUMMARY

STM Group	In-Place Underground Clean Coal Resources (Tons)			
	Measured	Indicated	Total Measured & Indicated	Additional Inferred
Bituminous	1,766,300	-	**1,766,300**	**-**

The Coal Resources estimated above are situated on 898.6 contiguous acres comprised of three separate leases, all located in McDowell County, West Virginia.

VIRGINIA PROPERTIES - COAL RESOURCE SUMMARY

Tract	ASTM Group	In-Place Coal Resources (KTONS)		
		Measured	Indicated	Inferred
Mill Creek	Bituminous	9,335	14,775	2,507
ACIN		3,389	0	0
Davis		37,460	48,083	67,401
Tarpon		1,227	0	37,025
Fleming		0	4,921	18,354
Stanley		0	518	2,293
Total		119,708		127,580

The Coal Resources estimated above are situated on approximately 5300 acres comprised of two separate leases and 6 separate tracts, all located in Dickenson County, Virginia.

RESULTS OF OPERATIONS

Revenue

Revenue for the nine months ended September 30, 2013 was $nil from coal sales at the Westchester Mine as compared to $3,659,367 for the 2012 comparable period.

The company shut down mining operations in November 2012 for electrification installation. Mining operations remain suspended pending the Company having secured the funding necessary to obtain additional mining equipment and having adequate levels of working capital necessary to conduct efficient, non-interrupted mining operations.

Cost of Sales

Cost of sales totalled $866,222 for the first nine months of 2013 as compared to $5,088,078 for the comparable period in 2012, a decrease of $4,221,856.

Remuneration costs, being mine-site salaries and related costs such as benefits and severance tax for the first half of 2013 were $nil as operations were suspended. The 2012 remuneration costs were $1,777,379.

Overhead costs totalled $156,508 for the first nine months of 2013 as compared to the 2012 cost of $2,694,888. The 2013 overhead costs were primarily incurred on the Virginia properties while the 2012 costs were incurred at the Westchester Mine.

Amortization, depletion and accretion totalled $709,714 for 2013 as compared to $345,811 in 2012, an increase of $363,903. The 2013 amortization reflects the change in the estimated useful life of the mining equipment from ten years to 3 years. This change in the estimated useful life was accounted for prospectively in the fourth quarter of 2012.

Administrative Expense

Administrative expenses are as follows for the nine months ended September 30:

		2013		**2012**
Remuneration	$	201,822	$	220,750
Professional fees		116,961		318,729
Office and administration		47,668		133,465
Stock-based compensation		11,724		57,756
	$	378,175	$	730,700

Professional fees decreased in 2013 by $201,768 as compared to 2012 as 2012 includes the preparation costs of the NI 43-101 Technical Reports prepared on the Virginia Properties.

Office and administration expenses have decreased by $85,797 compared to the same period in 2012 because the mine office was closed in late 2012 and that along with reduced operations in 2013 have contributed to lower costs.

Stock-based compensation was $11,724 as fewer stock options vested in 2013 as compared to 2012.

Finance Charges

Finance charges are as follows for the nine months ended September 30:

		2013		**2012**
Interest on debentures and notes payable	$	715,980	$	99,847
Accretion on the notes payable and debentures		445,709		293,333
Financing costs		350,000		20,635
Foreign exchange		(141,786)		-
Other		-		834
	$	1,369,903	$	414,649

The interest and accretion related to the debentures and notes payable increased by $768,509 reflecting the new financings that were completed during the first half and end of 2012 and were outstanding for less than a full year in 2012. The notes payable with a face value of $13,250,000 related to the acquisition of the Virginia properties were issued on December 18, 2012.

The financings costs in 2013 of $350,000 reflect the value attributed to the common shares issued as a structuring fee in connection with the credit facility obtained in 2013.

The foreign exchange gain of $141,786 results from the Company holding significant intercompany payables denominated in C$. As the US$ was stronger than the C$ at September 30, 2013, there was a significant gain.

Change in Value of Derivative Financial Instrument

As the warrants and equity conversion feature of the 2012 debentures have an exercise price in Canadian dollars which is different to the functional currency of the Company (US dollars), the equity conversion feature is treated as a financial liability or asset and the fair value movement during the period is recognized in the statement of comprehensive loss.

Balance, January 1, 2012	**$**	**(1,171)**
Value of equity conversion feature		(141,500)
Movement in fair value		1,222,271
Balance, December 31, 2012	**$**	**1,079,600**
Foreign exchange loss		(43,057)
Movement in fair value		222,985
Balance, September 30, 2013	**$**	**1,259,528**

Statement of Cash Flows

During the nine months ended September 30, 2013, cash balances increased $185,753 and as a result the Company had cash of $963 at September 30, 2013.

During the nine months ended September 30, 2013, the Company utilized cash of $354,509 in operations and raised net $807,095 from financing activities - $1,603,000 from the 2013 credit facility, payment of the $650,000 note payable from C&B Coal acquisition and $145,905 from loans from a director.

RELATED PARTY TRANSACTIONS

For the nine months ended September 30, 2013, the Company accrued management fees of $81,000 for an officer of the Company. The amount is included in Administrative Expenses.

At September 30, 2013, trade and other payables includes fees payable to an officer of C$340,243 and accrued salary to another officer of $133,000.

The loan payable due to a director is non-interest bearing, due on demand and is secured by a guarantee of the Company.

Directors acquired C$500,000 of the $1,500,000 principal amount of Debentures that were issued in 2012. Interest of $45,049 has been accrued in 2013 and $90,419 is included in trade and other payables..

DEBT FINANCINGS

Debentures payable

	September 30, 2013	December 31, 2012
Balance, beginning of year	$ 1,634,300	$ 191,900
Principal amount issued	-	1,515,000
Fair value of conversion feature	-	(141,500)
Foreign exchange	(68,266)	9,300
Accretion expense	50,635	59,600
	1,616,670	1,634,300
Less: amount due within	(1,616,670)	(191,900)
Balance, end of period	$ -	$ 1,442,400

During 2012, the Company completed several non-brokered private placements aggregating C$1,500,000 of unsecured, convertible, redeemable debentures ("Debentures") subject to certain vesting conditions which bear interest at 12% per annum upon maturity of the Debentures.

The Debentures will mature 24 months from the date of issuance and are convertible by either the holder at maturity or the Company at anytime, into units (the "2012 Units") of the Company at a conversion rate of $0.15 principal amount of Debenture per 2012 Unit. Each 2012 Unit will be comprised of one common share in the capital of Cobalt and one common share purchase warrant (a "Warrant"). Each Warrant is subject to vesting conditions and will entitle the holder to acquire one common share at $0.20 per share of Cobalt for a period of two (2) years from the closing of the Offering.

As the equity conversion feature has an exercise price in Canadian dollars which differs from the functional currency of the Company (US dollars), it is treated as a derivative financial liability or asset and the fair value movement during the period is recognized in the statement of comprehensive loss. The residual amount on initial recognition is allocated to the debenture, which is accreted over the life of the agreement.

Any directly attributable transaction costs relating to the derivative components are expensed.

Subsequent to initial recognition, the conversion feature component of the debenture is re-measured at fair value. The residual component of the debenture is not re-measured subsequent to initial recognition.

The 2012 debentures were issued in the year at four closings and as such the fair value of the conversion feature at the date of issuance, $141,500, was estimated at the date of grant of each closing using the Binomial pricing model.

In September and October 2010, the Company issued C$620,000 of units ("2010 Units") at C$1.00 per Unit. Each 2010 Unit was comprised of a secured non-convertible debenture in the principal amount of C$1.00 ("2010 Debentures") and a common share equal to 20% of the value of the 2010 Units subscribed for at a deemed price of C$0.05 per share. In aggregate, 2,400,000 common shares were issued pursuant to the 2010 Debentures.

2010 Debentures bear interest at 15% per annum, payable quarterly and due two years from the date of issuance. The 2010 Debentures are secured by the assets of the Company.

The Company did not pay the interest payment that was due on June 30, 2011 and therefore was in default under the terms of the 2010 Debentures.
On August 19, 2011, the Company finalized, with holders of C$425,000 in face value of 2010 Debentures, a conversion proposal made by Cobalt to the 2010 Debenture holders whereby they would receive a repayment of 50% of the face value of the 2010 Debentures by the issuance of Cobalt common shares at a deemed price of C$0.12 per share with the balance payable by the issuance of promissory notes payable in cash on or before December 15, 2011. Promissory notes totaling C$212,500 were issued, were non-interest bearing and unsecured and have been repaid in accordance with their terms.

2010 Debentures with a face value of C$195,000 (US$189,345) remain outstanding at September 30, 2013. The Company is in default in respect of those remaining 2010 Debentures for non-payment of the principal and interest of $63,785.

NOTES PAYABLE

Notes payable consist of the following:

		September 30, 2013		December 31, 2012
Balance, beginning of year	$	12,543,000	$	-
Issued (repayment) in regards to the acquisition of C&B Coal, LLC		(650,000)		650,000
Issued in regards to the acquisition of KMH Energy Corporation		-		13,250,000
Issued in the period pursuant to the credit facility		1,603,000		-
Face value of notes payable		13,496,000		13,900,000
Accretion		395,074		-
Fair value adjustment		-		(1,357,000)
		13,891,074		12,543,000
Less: current portion due within one year		(2,603,000)		(1,650,000)
Balance, end of period	**$**	**11,288,074**	**$**	**10,893,000**

Credit Facility

In January 2013, the company entered into a credit facility whereby the lender will provide a loan for up to US$1,750,000. The proceeds of the loan were used to reimburse the loan payable owing to a director for the advances made to close the acquisition of the Virginia properties.

The credit facility has a one year term and bears interest at 10% per annum. In addition, the Company paid a structuring fee to the lender in the amount of C$350,000 by the issuance of 7 million of the Company's common shares. The loan is secured by a first charge on the Virginia properties.

C&B Coal LLC

The note payable of $650,000 related to the acquisition of C&B Coal, Inc. is non-interest bearing and was repaid in April 2013.

KMH Energy Corporation

The notes payable related to the acquisition of KMH Energy Corporation bear interest at 5% and require the following payments:

- US$1 million plus accrued interest by December 18, 2013
- US$5,625,000 plus accrued interest by December 18, 2014
- US$6,625,000 plus accrued interest by December 31, 2015

It was determined that the interest rate on the promissory notes was below the Company's borrowing rate for instruments with a similar risk profile and as such there was an adjustment to the face value of the promissory notes at issuance of $1,357,000 to reflect an overall interest rate of 10%. The discount amount of $1,357,000 will be amortized to income over the life of the promissory notes.

The interest rate on the promissory note may increase to 15% if a new NI 43-101 Technical Report on the acquired properties indicates there are in excess of 50 million tons of proven and probable reserves. The new NI 43-101 Technical Report is required by October 15, 2014.

The promissory note is secured by; inter alias, the mining permit and mineral leases related to the acquired mineral properties.

SHARE CAPITAL

Authorized

Unlimited number of Class A voting common shares
Unlimited number of preferred shares

Issued

Class A voting common shares	Number		Amount
Balance, January 1, 2012	61,386,895	$	9,226,856
Issued as a finders' fee	8,881,200		450,000
Balance, December 31, 2012	**70,268,095**		**$ 9,676,856**
Issued in regards to a structuring fee	7,000,000		350,000
Balance, September 30, 2013	**77,268,095**		**10,026,856**

2013

The Company paid a structuring fee to the credit facility lender in the amount of C$350,000 by the issuance of 7 million of the Company's common shares.

2012

As explained in the section Mineral Properties, 8,881,200 common shares were issued as a finders' fee on the acquisition of the Virginia Properties.

Agent Options

In connection with the private placement in December 2011, the agents for the offering were granted 1,348,831 brokers' options to purchase common shares at a price of C$0.12 until June 2013. The options have expired.

Stock Options

The Company has established a stock option plan for directors, officers, and employees. The number of shares reserved under this plan shall not exceed 10% of the issued and outstanding shares from time to time, exercisable for up to five years. The details of the stock options outstanding at June 30, 2013 are as follows:

	September 30, 2013			**December 31, 2012**		
	Stock options		**Weighted average exercise price ($C)**	Stock options		Weighted average exercise price ($C)
Outstanding, beginning of year	**431,500**	**$**	**1.10**	**592,000**	**$**	**1.10**
Forfeited	**(5,000)**		**1.00**	**(132,500)**		**1.14**
Expired	**-**		**-**	**(28,000)**		**1.50**
Outstanding, end of period	**426,500**	**$**	**1.10**	**431,500**	**$**	**1.10**
Exercisable, end of period	**345,667**	**$**	**1.10**	**269,833**	**$**	**1.13**

Options Outstanding	Exercise Price ($C)	Options Exercisable	Expiry Date
242,500	1.10	161,667	January 5, 2016
65,000	1.00	65,000	October 19, 2015
60,000	1.30	60,000	May 10, 2015
59,000	1.00	59,000	October 7, 2014
426,500		345,667	

The weighted average life outstanding of the options at September 30, 2013 is 2 years.

The stock options vest equally as to one-third annually commencing one year from the date of grant, except for the 2011 issuance, which commence vesting one year from the date of grant.

SUMMARY OF QUARTERLY RESULTS (unaudited)

Quarter ended	2013			2012				2011
	Sept 30	June 30	March 31	Dec. 31	Sept. 30	June 30	March 31	Dec. 31
Revenue	$-	$-	$-	$226,480	$888,660	$1,530,268	$1,240,439	$925,009
Comprehensive loss	1,153,698	14,604	$1,223,013	$1,096,851	$4,587,849	$972,146	$292,882	$383,726
Loss per share	$0.015	$0.00	$0.020	$0.017	$0.075	$0.016	$0.005	$0.011

The fourth quarter revenue in 2012 is lower than previous quarters as mining operations were halted for the installation of electricity to the mine. The suspension of operations continues into 2013.

The fourth quarter loss in 2012 includes a depreciation charge of $738,400 reflecting the change in estimate in useful life of the mining equipment from 10 years to 3 years.

The third quarter loss in 2012 is significantly higher than other quarters as an impairment charge of $3.8 million was recorded.

SUBSEQUENT EVENT

The requirement to make mine improvement expenditures at Mill Creek in the minimum amount of $500,000 and drill 6 test holes on the Virginia Properties before July 31, 2013 was extended to December 17, 2013.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no Off-Balance Sheet Arrangements

COMMITMENTS

Westchester Mine, West Virginia

The Company has entered into royalty agreements with an unrelated third party that require payments of 7.5% - 8% of revenue based on the tons of clean coal sold from the Westchester Lease and Westchester Expansion lease. The Company has entered into a wheelage agreement requiring a wheelage payment of $0.25 per clean ton of coal sold from the Westchester Expansion Lease.

Virginia Properties

The mineral lease acquired in conjunction with the KMH acquisition in 2012 has a term of 20 years with an option to renew for a further 20 years (until 2052). Royalties are payable at a rate of 6.5% of the gross selling price or $2 per ton of coal mined, whichever is greater. An additional 2% overriding royalty, again based on the gross selling price of the coal sold, is payable to the KMH vendors.

In connection with the acquisition of KMH, the Company agreed to spend $500,000 on improvements to the Mill Creek tract by July 31, 2013 in furtherance of preparing that tract for production. Additionally, the Company agreed to drill 6 test holes on the leases acquired in relation to the KMH acquisition by July 31, 2013. The deadline for completing these expenditures and drilling was extended to December 17, 2013.

The mineral lease acquired on the C&B acquisition has a term of 5 years. There is a royalty payable to the lease owner equivalent to 6% of the gross selling price or $4 per ton of coal mined, whichever is greater. There is also a 3% overriding royalty based on the gross selling price of the clean coal sold.

The vendors of C&B are entitled to a royalty of $0.50 per clean ton sold from production on the lease acquired in connection with the C&B acquisition to a maximum of $1 million. After achieving that threshold, a further royalty is payable at the reduced rate of $0.25 per clean ton sold from the subject lease. The Company has entered into a wheelage agreement requiring the payment of a wheelage fee of $0.25 per clean ton of coal which is produced from the lease acquired in conjunction with the C&B acquisition and is payable to the holder of the lease acquired in conjunction with the KMH acquisition insofar as coal can only be produced from the former lease by transiting through the underground infrastructure located within the later lease.

RISK FACTORS

The following is a description of the principal risk factors affecting the Company.

Mining Industry Risks

The exploration for and development of coal deposits involves a high degree of risk that even a combination of careful evaluation, experience, knowledge and sufficient financial resources may not eliminate. Whether a coal deposit will be commercially viable depends on a number of factors, some of which are: the particular attributes of the deposit such as size, grade and proximity to infrastructure; commodity prices which are inherently cyclical and cannot be predicted with certainty; and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The effect of these factors cannot be accurately predicted and the combination of these factors may result in not receiving an adequate return on invested capital.

Properties without Known Mineable Reserves

The Company's activities will continue to be directed towards the search for, evaluation of, and development of coal deposits. There is no assurance that expenditures associated with those activities will result in securing commercial coal deposits and actual expenditures may be higher than currently anticipated.

Uncertainty as to Calculations of Coal Deposit Estimates

There is a significant degree of uncertainty attributable to the calculation of coal deposit estimates. Until the coal is actually mined and processed, mineral deposit estimates, grades and recovery rates must be considered as estimates only. Consequently, there can be no assurance that any coal deposit estimates or grade information contained herein (including in the documents incorporated herein by reference) will prove accurate. In addition, the value of coal deposits may vary depending on coal prices and other factors. Any material change in grades, stripping ratios or other mining and processing factors may affect the economic viability of projects. Furthermore, coal deposit estimate information should not be interpreted as any assurance of mine life or of the potential profitability of existing or future projects.

Uninsurable Risks

The Company may become subject to liability for cave-ins, pollution or other hazards against which it cannot insure or against which it may elect not to insure because of high premium costs or for other reasons. The payment of any such liabilities would reduce the funds available for development and

mining activities. Payment of liabilities for which the Company does not carry insurance may have a material adverse effect on the Company's financial position.

Currency

Currency fluctuations may materially affect the financial position and results of Cobalt. Cobalt does not intend to engage in currency hedging to offset currency fluctuations risks.

Governmental Regulation of the Mining Industry

The mineral development or exploration activities of Cobalt are subject to various laws governing prospecting, development, production, taxes, labour standards and occupational health, mine safety, toxic substances and other matters. Mining and exploration activities are also subject to various laws and regulations relating to protection of the environment. 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 production or development. Amendments to current laws and regulations governing the operations and activities of Cobalt or more stringent implementation thereof could have a material adverse effect on the business, financial condition and results of operations of the Company.

Exploration and Development Risks

Resource exploration and development is a speculative business, characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover deposits but also from finding deposits that, though present, are insufficient in quantity and quality to return a profit from production. The marketability of resources or reserves acquired or discovered by the Company may be affected by numerous factors which are beyond the control of Cobalt and which cannot be accurately predicted, such as market fluctuations, the proximity and capacity of milling facilities, commodity markets, processing equipment availability and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection, the combination of which factors may result in Cobalt not receiving an adequate return of investment capital.

There is no assurance that Cobalt's mineral exploration and development activities will result in any discoveries or acquisitions of commercial bodies of coal. The long-term profitability of Cobalt's operations will in part be directly related to the costs and success of its development efforts which may be affected by a number of factors. Substantial expenditures are required to establish reserves through drilling and to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery or acquisition of a deposit, no assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that funds required for development can be obtained on a timely basis.

If Cobalt loses or abandons its interest in its properties, there is no assurance that it will be able to acquire another mineral property of merit or that such an acquisition would be approved by the Exchange. There is also no guarantee that the Exchange will approve the acquisition of any additional properties by Cobalt, whether by way of option or otherwise, should Cobalt wish to acquire any additional properties.
The business of exploration and development of minerals and mining involves a high degree of risk. Although Cobalt's Westchester Coal Mine is a producing mine, few properties that are explored are ultimately developed into producing mines and there is no guarantee Cobalt's new projects will become producing mines.

Insurance

In the course of exploration, development and production of mineral properties, certain risks, and in particular, unexpected or unusual geological operating conditions including rock bursts, cave-ins, fires, flooding and earthquakes may occur. It is not always possible to fully insure against such risks and Cobalt may decide not to take out insurance against such risks as a result of high premiums or other

reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of Cobalt.

Permits and Licenses

The future operations of Cobalt may require permits from various federal, provincial and local governmental authorities and will be governed by laws and regulations governing prospecting, development, mining, production, export, taxes, labour standards, occupational health, waste disposal, land use, environmental protections, mine safety and other matters. There can be no guarantee that Cobalt will be able to obtain all necessary permits and approvals that may be required to undertake development activity or commence construction or operation of mine facilities on Cobalt's properties.

Environmental Legislation

Environmental laws and regulations may affect the operations of Cobalt. These laws and regulations set various standards regulating certain aspects of health and environmental quality. They provide for penalties and other liabilities for the violation of such standards and establish, in certain circumstances, obligations to rehabilitate current and former facilities and locations where operations are or were conducted. The permission to operate can be withdrawn temporarily where there is evidence of serious breaches of health and safety standards, or even permanently in the case of extreme breaches. Significant liabilities could be imposed for damages, clean-up costs or penalties in the event of certain discharges into the environment, environmental damage caused by previous owners of acquired properties or non-compliance with environmental laws or regulations. In all major developments, Cobalt generally relies on recognized designers and development contractors, from which Cobalt will, in the first instance, seek indemnities. Cobalt intends to minimize risks by taking steps to ensure compliance with environmental, health and safety laws and regulations and operating to applicable environmental standards. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions hereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations, including Cobalt may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on Cobalt and cause increases in exploration expenses, capital expenditures or production costs, reduction in levels of production at producing properties, or abandonment or delays in development of new mining properties.

Title to Properties

The acquisition of title to coal properties is a very detailed and time-consuming process. Title to, and the area of, coal concessions may be disputed. Although Cobalt believes it has taken reasonable measures to ensure proper title to its properties, there is no guarantee that title to any of its properties will not be challenged or impaired. Third parties may have valid claims underlying portions of Cobalt's interests

Market Prices

If Cobalt seeks to bring a property to production, the profitability of its operations will be dependent in part upon the market price of coal. Coal prices fluctuate widely and are affected by numerous factors beyond the control of Cobalt. The level of interest rates, the rate of inflation, the world supply of and demand for mineral commodities, and exchange rate stability can all cause significant price fluctuations. Such external economic factors are in turn influenced by changes in international investment patterns, monetary systems and political developments. The price of coal commodities has fluctuated widely in recent years, and future price declines could cause commercial production to be impracticable, thereby having a material adverse effect on Cobalt's business, financial condition and results of operations.

Competition

The mining industry is intensely competitive in all of its phases and Cobalt will compete with many companies possessing greater financial and technical resources than itself. Competition in the coal mining industry is primarily for: mineral rich properties which can be developed and produced economically; the technical expertise to find, develop, and operate such properties; the labour to operate the properties; and, the capital for the purpose of funding such properties. Many competitors not only explore for and mine coal, but conduct refining and marketing operations on a world-wide basis. Such competition may result in Cobalt being unable to acquire desired properties (due to the auction process involved in property acquisition), to recruit or retain qualified employees or to acquire the capital necessary to fund its operations and develop its properties. Existing or future competition in the mining industry could materially adversely affect Cobalt's prospects for coal exploration and success in the future.

Additional Financing

The exploration and development of Cobalt's properties, including continuing exploration and development projects, and the construction of mining facilities and the commencement of mining operations, will require substantial additional financing. Failure to obtain sufficient financing will result in a delay or indefinite postponement of exploration development or production on any or all of Cobalt's properties or even a loss of a property interest. Sources of funds now available to Cobalt are limited and may include the sale of equity capital, properties, royalty interests, the entering into of future joint ventures and the exercise of outstanding options and warrants. Additional financing may not be available when needed or, even, if available, the terms of such financing might not be favourable to Cobalt and might involve substantial dilution to existing shareholders. Failure to raise capital when needed would have a material adverse effect on Cobalt's business, financial condition and results of operations.

Competition for Key Personnel

Cobalt will be dependent upon the continued support and involvement of a number of key management personnel. The loss of the services of one or more of such personnel could have a material adverse effect on Cobalt. Cobalt's ability to manage its exploration and development activities and, hence, its success, will depend in large part on the efforts of these individuals. Cobalt faces intense competition for qualified personnel and there can be no assurance that Cobalt will be able to attract and retain such personnel.

Possible Volatility of Stock Price

The market price of Cobalt Shares will be subject to wide fluctuations in response to factors such as actual or anticipated variations in Cobalt's consolidated results of operations, changes in financial estimates by securities analysts, general market consolidated and other factors. Market fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations may adversely affect the market price of the Cobalt Shares. Factors such as the price of coal, announcements by competitors, and changes in stock market analyst recommendations regarding Cobalt, and general market conditions and attitudes affecting other exploration and mining companies may have a significant effect on the market price of the Cobalt Shares. Moreover, it is likely that during future quarterly periods, Cobalt's results and exploration activities may fluctuate significantly or may fail to meet the expectations of stock market analysts and investors and, in such event, the market price of the Cobalt Shares could be materially adversely affected. In the past, securities class action litigation has often been initiated following periods of volatility in the market price of a company's securities. Such litigation, if brought against Cobalt, could result in substantial costs and a diversion of management's attention and resources, which could have a material adverse effect on Cobalt's business, financial condition and results of operations.

Ability to Manage Growth

The size of Cobalt's business and assets is expected to grow in the coming years. In order to effectively deploy its capital and manage its growth, Cobalt will need to retain additional personnel and augment, improve or replace existing systems and controls. As a result, there can be no assurances that Cobalt will

be able to effectively manage its growth and, if it is unable to do so, its business, financial conditions and results could be adversely affected.

Ability to Sell Securities

Securities of Cobalt may be subject to resale restrictions under applicable securities legislation. Accordingly, there may be a long time period between the date of purchase of securities and the date that a shareholder is able to sell these securities. In this time, the market price of Cobalt's securities will vary. Additionally, there may be limited liquidity in the market for such securities. As such, there is no assurance that the market price at which a shareholder is able to sell any will equal or exceed the price at which the securities were originally issued by Cobalt.

Acquisition Risk

As part of Cobalt's business strategy, it may seek to grow by acquiring businesses that it believes will complement its current business. Cobalt may not effectively select acquisition candidates or negotiate or finance acquisitions or integrate the acquired businesses and their personnel into its business. Cobalt cannot guarantee that it can complete any acquisition it pursues on favourable terms, or that any completed acquisitions will ultimately benefit its business and the results of operations of Cobalt. The risks inherit with acquisitions include the risks associated with the integration of acquired operations, diversion of management's attention and potential loss of key employees. Cobalt may not be able to successfully integrate products, technologies or personnel of a business acquired in the future. Failure could have a Material Adverse Effect on the business, financial condition and results of operations of Cobalt.

Dividends

To date, Cobalt has not paid any dividends on their outstanding shares and does not expect to do so in the foreseeable future. Any decision to pay dividends on Cobalt's Shares will be made by the Board of Directors of Cobalt on the basis of Cobalt's earnings, financial requirements and other conditions.

Conflicts of Interest

Certain of the directors and officers of Cobalt will be engaged in, and will continue to engage in, other business activities on their own behalf and on behalf of other companies and, as a result of these and other activities, such directors and officers of Cobalt may become subject to conflicts of interest. The ABCA provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided under the ABCA. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the ABCA.

Other Risks

Cobalt also faces a number of risk factors that are outside of its control, generally, including, without limitation, terrorist activities, natural disasters, general economic and other conditions.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The significant accounting policies used by Cobalt are disclosed in Note 4 to the 2012 Financial Statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a regular basis. The emergence of new information and changed circumstance may result in actual results or changes to estimate amounts that differ materially from current estimates. The following discussion helps to assess

the critical accounting policies and practices of the Company and the likelihood of materially different results being reported.

Depletion

The Company defers expenditures directly attributable to the exploration of mineral properties, pending a decision as to the commercial viability of a property. Under this method, all costs related to the acquisition of, exploration for and development of mineral properties is capitalized whether successful or not. Depletion of the capitalized mineral properties is calculated using the unit of production method, based on production volumes in relation to estimated proven reserves.

Impairment Test

The carrying value of property, plant and equipment is reviewed for impairment. Impairment is determined by the carrying amount of the property, plant and equipment exceeding the sum of the discounted cash flows expected to result from the company's assets. Cash flows are calculated based on third party quoted forward prices and adjusted for the Company's contract prices and quality differentials. If there is impairment, the magnitude of it would be calculated by comparing the carrying amount of property, plant and equipment to the estimated net present value of future cash flows. A pre-tax risk-free interest rate is used to arrive at the net present value of the future cash flows. Any excess carrying value above the net present value of future cash flows would be recorded as a permanent impairment and charged to earnings.

Decommissioning Liabilities

The Company recognizes the fair value of a decommissioning liability ("ARO") in the period in which it is incurred when a reasonable estimate of fair value can be made. The fair value of the estimated ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a unit-of-production basis over the life of the reserves. The liability amount is increased each reporting period due to the passage of time and the amount of this accretion is charged to earnings in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost would also result in an increase or decrease to the ARO. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. Any difference between the actual cost incurred upon settlement of the ARO and the recorded liability is recognized as a gain or loss in the Company's earnings in the period in which the settlement occurs.

Determination of the original undiscounted costs is based on engineering estimates using current costs and technology in accordance with existing legislation and industry practice. The estimation of these costs can be affected by many factors.

Income Taxes

The determination of income and other tax liabilities requires interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from the estimated amount recorded by management.

Stock-Based Compensation

The Company has a stock-based compensation plan. Stock-based compensation and other stock based payments granted to employees, officers, directors and consultants are accounted for using the fair value method which requires the Company to estimate the future volatility of the Company's share price, future dividend payments and the expected life of the options.

FUTURE ACCOUNTING PRONOUNCEMENTS

During the year, there were a number of new accounting pronouncements that may impact the Company in the future and are as follows:

The IASB and International Financial Reporting Interpretations Committee ("IFRIC") have issued the following standards that have not been applied in these consolidated financial statements as their effective dates fall within annual periods beginning subsequent to the current reporting period.

IFRS 10 – Consolidated Financial Statements

This standard is effective January 1, 2013 and builds on the existing principles of control and elaborates on the definition of control when determining an entity should be consolidated or not.

IFRS 11 - Joint Arrangements

This standard is effective January 1, 2013. The standard focuses on the rights and obligations of an arrangement rather than its legal form and requires a single method to account for its interests in jointly controlled entities.

IFRS 12 – Disclosure of Interests in Other Entities

This standard is effective January 1, 2013. This new standard details disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose entities and other off-statement of financial position vehicles.

IFRS 13 – Fair Value Measurement

This standard is effective January 1, 2013. This standard sets out a single framework for measuring fair value and disclosure requirements surrounding the inputs and assumptions used in determining fair value.

IFRS 9 – Financial Instruments

This standard is effective January 1, 2015. This standard will address the classification and measurement of financial assets and liabilities.

The Company does not believe that the new standards will materially affect them other than possibly IFRS 11, Joint Arrangements; however, no determination of the affect of this standard is currently possible.