

Colonial Coal International Corp.

Management's Discussion and Analysis of Financial Position and Results of Operations ("MD&A")

The following information, prepared as of December 16, 2014, should be read in conjunction with the unaudited interim consolidated financial statements of Colonial Coal International Corp. ("CCIC" or the "Company") for the three months ended October 31, 2014, as well as the audited consolidated financial statements for the year ended July 31, 2014 and the related management's discussion and analysis (the "Annual MD&A"). The unaudited condensed interim consolidated financial statements for the three months ended October 31, 2014 have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts are expressed in Canadian dollars unless otherwise indicated.

The Company's critical accounting estimates, significant accounting policies and risk factors as disclosed in the Annual Financial Statements and Annual MD&A have remained substantially unchanged and are still applicable to the Company unless otherwise indicated.

This MD&A contains forward looking statements. For a description of assumptions made in developing the forward-looking statements and the material factors that could cause the Company's actual results to differ materially from the forward-looking statements in this MD&A, please see the "Forward-Looking Statements" and the "Risks and Uncertainties" sections below.

Forward-Looking Statements

Forward-looking statements look into the future and provide an opinion as to the effect of certain events and trends on the business. Forward-looking statements may include words such as "plans", "intends", "anticipates", "should", "estimates", "expects", "believes", "indicates", "suggests" and similar expressions.

This MD&A and in particular the "Outlook" section, contains forward-looking statements. These forward-looking statements are based on current expectations and various estimates, factors and assumptions and involve known and unknown risks, uncertainties and other factors. Information concerning mineral resource estimates and the interpretation of drill results may also be considered as a forward-looking statement; as such information constitutes a prediction of what mineralization might be found to be present if and when a project is actually developed.

It is important to note that:

- Unless otherwise indicated, forward-looking statements in this MD&A describe the Company's expectations as of December 16, 2014.
- Readers are cautioned not to place undue reliance on these statements as the Company's actual results, performance or achievements may differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements if known or unknown risks, uncertainties or other factors affect the Company's business, or if the Company's estimates or assumptions prove inaccurate. Therefore, the Company cannot provide any assurance that forward-looking statements will materialize. Factors that could cause results or events to differ materially from current expectations expressed or implied by the forward-looking statements include, but are not limited to, possible variations in mineral resources; availability of sufficient financing to fund planned or further required work in a timely manner and on acceptable terms; and political, regulatory, environmental and other risks of the mining industry.

- Subject to applicable laws, the Company assumes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or any other reason.

The material assumptions that were applied in making the forward-looking statements in this MD&A include, but are not limited to: statements regarding the Company's litigation to enforce its rights and its objective to redevelop Watson Island; statements regarding estimated mineral resources and annual clean coal production at the Huguenot Coal Project; and the interpretation of exploration programs and drill results and execution of the Company's existing plans or exploration programs at its coal projects, any of which may change due to changes in the views of the Company or if new information arises which makes it prudent to change such plans or programs.

Cautionary Note Regarding Reserve and Resource Estimates

The material in this MD&A has been prepared in accordance with the requirements of the securities laws in effect in Canada, which differ from the requirements of U.S. securities laws. Unless otherwise indicated, all resource estimates included in this MD&A have been prepared in accordance with National Instrument 43-101 Standards of Disclosure for Mineral Projects ("NI 43-101") and the Canadian Institute of Mining and Metallurgy Classification System. NI 43-101 is a rule developed by the Canadian Securities Administrators which establishes standards for all public disclosure an issuer makes of scientific and technical information concerning mineral projects. Canadian standards, including NI 43-101, differ significantly from the requirements of the United States Securities and Exchange Commission ("SEC"), and resource and reserve information contained herein may not be comparable to similar information disclosed by U.S. companies. In particular, and without limiting the generality of the foregoing, the term "resource" does not equate to the term "reserves". Investors should also understand that "inferred mineral resources" have a great amount of uncertainty as to their existence and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an "inferred mineral resource" will ever be upgraded to a higher category. The estimation of quantities of resources and reserves is complex, based on significant subjective assumptions and forward-looking information, including assumptions that arise from the evaluation of geological, geophysical, engineering and economic data for a given ore body. This data could change over time as a result of numerous factors, including new information gained from development activities, evolving production history and a reassessment of the viability of production under different economic conditions. Changes in data and/or assumptions could cause reserve estimates to substantially change from period to period. No assurance can be given that the indicated level of mineral will be produced. Actual production could differ from expected production and an adverse change in mineral prices could make a reserve uneconomic to mine. Variations could also occur in actual ore grades and recovery rates from estimates.

For a description of material factors that could cause the Company's actual results to differ materially from the forward-looking statements in this MD&A, please see "Risks and Uncertainties".

General

The Company owns two (Huguenot and Flatbed) coal exploration properties, both of which are located in northeastern British Columbia. The Company has recently received a Work Permit to conduct exploration on the Flatbed property. The Company is also pursuing the acquisition of Watson Island, located just outside of Prince Rupert, British Columbia, for the purpose of developing a seaport terminal and supporting industrial park.

Huguenot Coal Project

The Huguenot Coal Project is located approximately 690 kilometres north-northeast of Vancouver, close to the provincial boundary with Alberta. It is situated approximately 85 km south-southeast of the town of Tumbler Ridge and 115 km southwest of the city of Grande Prairie, Alberta. In June 2014, the Company received from the British Columbia Ministry of Energy and Mines (“MEM”) 19 new coal licenses bringing the total number of licenses to 32 with an overall area of 22,893 ha. Previous to this, and in support of current initiatives to protect mountain caribou and their habitat, the Company agreed to withdraw application for approximately 1,130 hectares of identified winter habitat. The new coal licenses principally cover potential down-dip extensions to the main deposit plus additional resource potential, located east of the main deposit, along a regional trend that includes the Wapiti (Canadian Dehua) and Flatbed coal projects to the northwest.

As reported in the Company’s September 24, 2013 news release, the Huguenot property underwent a successful Preliminary Economic Assessment (“PEA”) in 2013. The PEA, prepared by Norwest Corporation (“Norwest”) in accordance with NI 43-101 standards, has been filed on SEDAR.

In summary, Norwest updated previously reported (2012) in situ and potentially mineable resources, developed a conceptual mine plan to exploit the coal resources through a combination of open pit and underground mining, and prepared scoping-level cost estimates and economic analyses.

Measured and indicated in-situ coal resources total 277.7 million tonnes, with Inferred resources adding a further 119.2 million tonnes, as tabulated below:

Deposit type	Measured (Mt)	Indicated (Mt)	Inferred (Mt)
Surface	96.20	35.75	0.53
Underground	18.85	126.88	118.66
TOTAL	115.05	162.63	119.19

The project was found to have positive economics and to be worthy of continued exploration and development. Clean coal production of 89 million tonnes was projected over a mine life of 31 years from combined surface and underground mining operations. Coal resources accounted for in both the open pit and underground mine plans were estimated as:

Mining Method	ROM (Mt)	Clean (Mt)
Open Pit	56	39
Underground	66	50
TOTAL	122	89

The PEA is preliminary in nature and includes inferred mineral resources that are considered to be too geologically speculative to be subject to economic considerations that would enable them to be categorized as mineral reserves. There is no certainty that the forecast results stated in the PEA will be realized. Further details are included in the Company’s press release dated September 24, 2013, and in the actual PEA, both of which are filed on SEDAR.

Management continues to pursue and evaluate opportunities for financing further work at Huguenot, including the possibility of joint venturing the property.

Flatbed Coal Project

The Flatbed Coal Project, located in the Liard Mining Division in northeastern British Columbia, is comprised of seven coal licenses covering a total area of 9,077 hectares. The coal licenses were received from MEM in June 2014. A decision to grant coal licenses over an additional 2,400 hectares has been deferred to allow additional time for further evaluation of this area's winter use by caribou belonging to the Quintette herd. The deferred ground formed the southernmost portions of the original coal license applications and does not contain any of the Flatbed property's initial targets.

In September 2014, MEM issued a Work Permit to the Company to conduct Phase 1 of its Notice of Work ("NoW") application on its Flatbed property. This phase allows for the drilling of 48 drill holes and 12.2 kms of access trail. The permit is valid until October 30, 2018. MEM is proceeding with its review of Phase 2 of the NoW application.

The Flatbed property borders portions of the Quintette (Teck), Trend (Peace River Coal) and Duke Mountain (Teck) properties. The Company previously announced (January 29, 2013) that, based upon a review of various data from in and around the Flatbed property, the Company's geological consultant identified three targets worthy of future exploration aimed at the location of underground mineable metallurgical coal deposits for seams targeted at depths between 200 metres and 600 metres.

The Company is reviewing its options to finance exploration of the Flatbed property, including the possibility of joint venturing the property.

Watson Island

The Company owns 100% of Watson Island Development Corporation ("WatCo"), a company formed to purchase or acquire Watson Island, located near Prince Rupert, British Columbia, for the purpose of the development of a deep sea port and industrial project. As consideration for 45% of the Company's interest in WatCo, the Company has agreed to pay a former shareholder of WatCo 10% of the proceeds of future financings by WatCo to a maximum of \$800,000.

In July 2012, the City of Prince Rupert ("COPR") accepted an offer from WatCo to purchase Watson Island, subject to a number of conditions. Sale conditions included the development, approval and funding of a remediation plan for the land, which is contaminated as a result of decades of pulp mill operation. It was also a requirement of the purchase that WatCo would not be obligated for any historical environmental liabilities on Watson Island beyond a proposed lump sum financial contribution to an environmental remediation plan. At the time of entering into the offer to purchase, WatCo had been, and was to continue, funding the land expense costs of Watson Island and offered to fund the planning process and to make a significant contribution to the environmental remediation plan. Other conditions included notice requirements of the local governments, resolution of the court actions against the COPR by Sun Wave Forest Products Ltd. ("Sun Wave") relating to the title to Watson Island, and historic licensing and regulatory issues.

The COPR settled with Sun Wave in August 2013 and WatCo and the COPR subsequently negotiated to settle the terms of a definitive agreement. In the course of negotiations with the COPR, WatCo eventually accepted all of the terms of the definitive agreement proposed by the COPR and the COPR then advised that it would not proceed with the sale of Watson Island to WatCo. WatCo has commenced litigation in the British Columbia Supreme Court against the COPR to enforce WatCo's rights in connection with the acquisition of Watson Island. A Certificate of Pending litigation has been filed to prevent the land from being sold to others while the litigation is outstanding.

Management reviewed the carrying value of deferred acquisition costs as at July 31, 2014 and in view of uncertainties, wrote down the deferred costs to a nominal amount of \$1. The Company is continuing with its litigation against the COPR to enforce WatCo's rights in connection with the acquisition.

WatCo's objective is to redevelop Watson Island as a multi-product bulk commodity shipping terminal with a supporting industrial park. Watson Island is an ideal site for a bulk terminal, as its existing marine and rail infrastructure can readily accommodate smaller bulk vessels, including Handymax-sized ships. The terminal could accommodate a range of bulk commodities, including coal, potash, pellets and liquids. Watson Island is also one of the closest points in North America to Asia, allowing for a shorter shipping route than other major ports.

Results of Operations

During the first quarter ended October 31, 2014, the Company reported a net loss of \$486,472 (\$0.01 per share) compared to a loss of \$409,976 (\$0.01 per share) reported in the first quarter ended October 31, 2013.

Expenses increased from \$419,538 to \$493,514. Significant variances include first quarter business investigation costs associated with the Watson Island project which were \$114,882 (2013 - \$nil). Current year first quarter costs for Watson Island have been expensed, whereas similar costs incurred during the comparative first quarter ended October 31, 2013, amounting to \$213,579, were deferred. Travel and promotion expense increased from \$30,682 to \$40,648 as management attended a series of industry meetings in Asia and Europe; and office and administration costs increased from \$47,873 to \$58,958. These variances were offset by a decrease in professional fees incurred in respect of accounting, legal and tax services from \$60,421 to \$45,014. Management fees of \$127,500 incurred during the first quarter ended October 31, 2014 (2013 - \$133,500) were charged in respect of services rendered by directors and/or officers of the Company.

During the comparative first quarter ended October 31, 2013, the Company expensed \$36,059 in preliminary exploration expenditures at Flatbed. Until June 2014, the Company's Flatbed property was comprised of coal license applications and under IFRS, the Company expenses exploration expenditures incurred prior to the receipt from the government of formal coal licenses. During the first quarter ended October 31, 2014, the preliminary exploration costs at Flatbed amounting to \$27,088 were deferred.

Expenses were offset by \$7,042 (2013 - \$9,562) in interest income earned on the Company's surplus cash balance. During the first quarter, the Company also recorded an unrealized loss on the value of its marketable securities amounting to \$39,779 (2013 - gain of \$44,000). This unrealized loss has been recorded as other comprehensive loss and has not been included in the determination of net loss for the period.

Capital Expenditures

Total exploration spending at Huguenot for the first quarter ended October 31, 2014 decreased to \$90,920 from \$240,514 incurred in the first quarter ended October 31, 2013. Costs incurred during the first quarter included \$18,090 in licenses fees as well as costs associated with baseline environmental data collection. The Company also incurred deferred exploration expenditures of \$27,088 (2013 - \$nil) at Flatbed. During the comparative quarter ended October 31, 2013, Flatbed expenditures amounting to \$36,059 were expensed.

During the comparative quarter, the Company also incurred \$213,579 in deferred acquisition costs associated with Watson Island. These costs included \$180,000 incurred in respect of the Exclusivity Agreement with the City of Prince Rupert, and various due diligence expenditures. During the quarter ended October 31, 2014, Watson Island project expenditures amounting to \$114,882 were expensed.

Financing Activities

During each of the quarters ended October 31, 2014 and 2013, the Company did not complete any financings.

Summary of Quarterly Results (unaudited)

Three months ended	October 31, 2014	July 31, 2014	April 30, 2014	January 31, 2014	October 31, 2013	July 31, 2013	April 30, 2013	January 31, 2013
Total revenues	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil
Deferred exploration costs (recovery)	\$118,008	(\$686,167)	\$137,641	(\$1,263,510)	\$240,514	\$382,140	\$468,294	\$135,881
Net loss	(\$486,472)	(\$3,848,618)	(\$440,021)	(\$377,359)	(\$409,976)	(\$742,246)	(\$355,453)	(\$517,292)
Net loss per share (Basic and diluted)	(\$0.01)	(\$0.06)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)

The net loss for the quarter ended July 31, 2014 included a writedown of deferred acquisition costs of \$3,395,512 and a charge for impairment of marketable securities in the amount of \$64,549 (July 31, 2013 - \$231,100). Deferred exploration costs for the quarter ended July 31, 2014 were offset by a BCMETC of \$841,125 (January 31, 2014 - \$1,401,801; January 31, 2013 - \$338,414).

Liquidity and Capital Resources

As at October 31, 2014, the Company had working capital of \$1,974,673, including cash of \$2,377,832.

The Company is in the business of exploring for coal which by its nature involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The Company has not as yet put any of its coal properties into commercial production and therefore has no operating revenues. The Company has completed a PEA on its 100%-owned Huguenot Coal Project. The results of the PEA suggest that the Huguenot project has positive economics and that it is worthy of continued exploration and development. The Company is dependent on raising additional financing to fund further exploration and development requirements on existing properties, to fund property acquisitions and for general corporate costs. The only sources of future funds presently available to the Company are the sale of additional equity capital, the sale of marketable securities, selling or leasing the Company's interest in a property or entering into joint venture arrangements or other strategic alliances in which the funding sources could become entitled to an interest in the properties or the projects. The Company's capital resources are largely determined by the strength of the junior resource markets and by the status of the Company's projects in relation to these markets, and its ability to compete for the investor support of its projects.

The recoverability of the carrying value of the coal properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, demonstration of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to obtain financing or, alternatively, upon the Company's ability to dispose of its interests on an advantageous basis.

WatCo is pursuing the acquisition of Watson Island. WatCo's intent is to redevelop Watson Island as a bulk shipping terminal, with a supporting industrial park. These WatCo expenditures would require significant financial resources. The Company is dependent upon share

issuances or debt financings, or the disposal of other assets to provide the funding necessary to meet these expenditures, or alternatively, the Company's interest in WatCo could be diluted.

The Company has incurred losses since inception and expects to incur further losses in the development of its business and at October 31, 2014, the Company had an accumulated deficit of \$18,015,040 which has been funded primarily by the issuance of equity. These factors may cast significant doubt upon the Company's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business. The Company's ability to continue as a going concern is dependent upon its ability to obtain the necessary financing to meet its general operating expenses and to continue to explore its coal properties. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

Contractual Obligations

Colonial has the following contractual obligation as at October 31, 2014:

	Total	Payments Due by Period		
		Less than 1 year	1-3 years	3-5 years
Lease agreement for office premises	\$125,100	\$75,100	\$50,000	\$nil

The Huguenot Coal Project is subject to a 1.5% production royalty, including 1.2% which is payable to certain directors of the Company. A pre-production royalty is payable at the rate of \$62,500 per month commencing on April 1, 2015 and ending on the date on which production commences. The commencement date of the pre-production royalty has twice been deferred for one year.

Transactions with Related Parties

Related party transactions are comprised of services rendered by directors and/or officers of the Company and companies controlled by them or persons associated with them, and Tuya Energy Inc. which has five directors in common. Related party transactions are in the ordinary course of business and are measured at the exchange amount. The Company incurred the following expenditures during the three month periods ended October 31, 2014 and 2013 that were charged by related parties. These transactions were made on terms equivalent to those that prevail in arm's length transactions.

	Three months ended October 31, 2014	Three months ended October 31, 2013
Consulting fees (1)	\$7,500	\$7,500
Directors' fees (2)	\$4,500	\$13,500
Management fees (3)	\$127,500	\$133,500
Professional fees (4)	\$22,700	\$20,700
	<u>\$162,200</u>	<u>\$175,200</u>

- (1) Fees paid to Shane Austin, son of David Austin, President and CEO of the Company.
- (2) Fees paid to Ian Downie, Wayne Waters and Anthony Hammond.
- (3) Fees paid to David Austin, John Perry and Anthony Hammond, or to companies controlled by them.
- (4) Fees paid to a company controlled by William Filtness, CFO of the Company.

Amounts due to related parties at October 31, 2014 amounting to \$60,195 (July 31, 2014 - \$11,207) are non-interest bearing and have no specific terms of repayment and include amounts payable to companies controlled by John Perry and by William Filtner for consulting services; to directors for reimbursement of certain expenses; and to Tuya, a related company with five directors in common, for reimbursement of certain common expenses.

Tuya has advanced an aggregate \$270,000 to the Company. These advances bear interest at the rate of 12% per annum and are payable on demand. As at October 31, 2014, the amount payable to Tuya, including interest, was \$297,399.

The Huguenot Coal Project is subject to a 1.5% production royalty, including 1.2% which is payable to certain directors of the Company. Under the terms of the royalty agreement, as amended, a pre-production royalty is payable at the rate of \$62,500 per month commencing on April 1, 2015 and ending on the date on which production commences.

The compensation paid or payable to key management, including the Company's Chief Executive Officer, Chief Operating Officer and directors for services rendered during the three month periods ended October 31, 2014 and 2013 is as follows:

	Three months ended October 31, 2014	Three months ended October 31, 2013
Directors' fees	\$4,500	\$13,500
Management fees	\$127,500	\$133,500
	<u>\$132,000</u>	<u>\$147,000</u>

Critical Accounting Estimates

The accounting estimates considered to be significant to the Company include the carrying values of coal properties and deferred exploration costs, deferred acquisition costs and marketable securities, and the computation of share-based payments expense and warrants.

Management reviews the carrying values of its coal properties on at least an annual basis, or when an impairment indicator exists, to determine whether an impairment should be recognized. In addition, capitalized costs related to relinquished property rights are written off in the period of relinquishment. Colonial has not written down any of its coal properties to date. Capitalized costs in respect of Colonial's coal properties amounted to \$9,772,467 as at October 31, 2014. These costs may not be recoverable and there is a risk that these costs may be written down in future periods.

Management reviews the carrying value of other deferred costs on at least an annual basis, or when an impairment indicator exists, to determine whether an impairment should be recognized. During the year ended July 31, 2014, the Company wrote down the deferred acquisition costs associated with Watson Island to a nominal value of \$1, recognizing an impairment loss of \$3,395,512.

Marketable securities are valued at each balance sheet date on the basis of period-end market bid quotations. During the year ended July 31, 2014, the Company recognized an impairment loss of \$64,549 (2013 - \$231,100) due to a significant or prolonged decrease in the fair value of various public company interests.

The Company uses the fair-value method of accounting for share-based payments related to incentive stock options and compensation warrants modified or settled. Under this method, compensation cost attributable to options and awards granted is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. In

determining the fair value, the Company makes estimates of the expected volatility of the stock as well as an estimated risk-free interest rate and an estimated forfeiture rate. Changes to these estimates could result in the fair value of the share-based payments expense being less than or greater than the amount recorded. During the three months ended October 31, 2014, the Company did not grant any stock options.

Changes in Accounting Policies Including Initial Adoption

Certain pronouncements were issued by the International Accounting Standards Board (“IASB”) or the IFRS Interpretations Committee that are mandatory for accounting periods beginning before or on January 1, 2014.

The following new standards, amendments and interpretations that have been adopted for the Company’s current fiscal year have not had a material impact on the Company:

- IFRIC 21, “*Levies*”, provides guidance on accounting for levies in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation and confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs.
- IAS 32, “*Financial Statements: Presentation*”, has been amended to clarify some of the requirements for offsetting financial assets and liabilities on the balance sheet.

Accounting Standards Issued But Not Yet Applied

The following new standards have been issued by the IASB but not yet applied:

- IFRS 9, “*Financial Instruments*”, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. This new standard is effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. The Company has not assessed the impact of this standard.
- IFRS 15, “*Revenue from Contracts with Customers*”, was issued in May 2014 and establishes principles to address the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. The required adoption date for IFRS 15 is the annual period beginning on or after January 1, 2017, with early adoption permitted. The Company has not assessed the impact of this standard.

Off-Balance Sheet Arrangements

The Company has not entered into any material off-balance sheet arrangements.

Financial Instruments

The Company's financial instruments consist of cash, short term investments, receivables, marketable securities, reclamation deposits, accounts payable and accrued liabilities, amounts payable to related parties, and loans payable to related party. As at October 31, 2014, the Company's cash was held in Canadian dollars, the Company's functional currency. The Company has no operations in foreign jurisdictions outside of Canada at this time and as such has no currency risk associated with its operations.

Outstanding Share Data

Authorized Capital:

An unlimited number of common shares, without par value, and an unlimited number of preferred shares, issuable in series

Issued and outstanding as at December 16, 2014:

65,091,896 common shares

Outstanding options and warrants as at December 16, 2014:

Type of Security	Number	Exercise Price	Expiry date
Stock options	4,845,000	\$0.77	October 7, 2020

Risks and Uncertainties

The Company's coal projects are in the exploration stage only and commercial coal reserves have yet to be demonstrated. Development of these projects would follow only if favourable exploration results are obtained. There is no guarantee that the Company will ever reach the production stage. The business of exploration for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines.

The Company currently has no revenues from operations. If the Company's exploration programs are successful, additional funds will be required in order to complete the development of its properties. Additionally, the WatCo planned expenditures will require significant financial resources. The only sources of future funds presently available to the Company are the sale of additional equity capital, the sale of investments, and the sale or lease of the Company's interest in a property or entering into joint venture arrangements or other strategic alliances in which the funding sources could become entitled to an interest in the properties or the projects. The Company's capital resources are largely determined by the strength of the junior resource markets and by the status of the Company's projects in relation to these markets, and its ability to compete for investor support of its projects. There is no assurance that the Company will be successful in raising additional funds in the future. If the Company does not have the necessary capital to meet its obligations under its contractual obligations, the Company may have to forfeit its interest in properties or prospects earned or assumed under such contracts. In addition, if the Company does not have sufficient funds to pursue its exploration programs, the viability of the Company could be jeopardized.

Beyond exploration and funding risk, the Company is faced with a number of other risk factors as detailed in the Annual MD&A.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

In connection with National Instrument 52-109 (Certificate of Disclosure in Issuer's Annual and Interim Filings) ("NI 52-109") the Chief Executive Officer and Chief Financial Officer have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the interim consolidated financial statements for the three months ended October 31, 2014 and this accompanying MD&A (together the "Interim Filings").

In contrast to the full certificate under NI 52-109, the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109. For further information the reader should refer to the Venture Issuer Basic Certificates filed by the Company on SEDAR at www.sedar.com.

Outlook

As at October 31, 2014, the Company had working capital of \$2.0 million, including cash of \$2.4 million.

Management continues to pursue and evaluate opportunities for financing further work at Huguenot, including the possibility of joint venturing the property, taking into account current market uncertainties. Coal quality database consolidation and assessment report preparation is ongoing as are baseline environmental data collection and data consolidation.

At Flatbed, the Company has received a Work Permit to conduct Phase 1 of its Notice of Work ("NoW") application. This phase encompasses a total of 48 drill holes and 12.2 km of access trail. The permit is valid until October 30, 2018. MEM is proceeding with their review of Phase 2 of the NoW application. The Company is reviewing its options to finance exploration of the Flatbed property, including the possibility of joint venturing the property.

WatCo is continuing to work towards completing the existing offer to acquire Watson Island and has commenced litigation in the British Columbia Supreme Court against the City of Prince Rupert to enforce its rights in connection with the acquisition. WatCo is also in discussions with strategic investment partners to develop the property into a multi-product bulk facility. The intent is that WatCo will fund and facilitate the development of this plan in consultation with the community, development experts and governments. The goal is to develop the island to highest and best purposes and to maximize the reuse and repurposing of land, buildings and infrastructure and employ the lowest-impact approach to the operation of the terminal.

Other Information

Additional information related to the Company is available for viewing on SEDAR at www.sedar.com and at the Company's website at www.ccoal.ca.