SECURITY INTEREST AGREEMENT

THIS SECURITY INTEREST AGREEMENT is entered into by and between KMH Energy Corporation (collectively the "**Grantor**"), Cobalt Coal, LLC (“**Debtor**”), and Kenneth D. Stanley, Tommy N. Bright, I, and James L. Sykes (collectively the "**Lenders**") follows:

Pursuant to a Share Purchase and Agreement (the “Share Purchase Agreement”) and a Promissory Note of even date herewith (the terms of which are incorporated herein by reference as if more fully set forth), among Grantor, Debtor and Lenders, Lenders are, among other things, making a loan to the Debtor in the amount of US$13,250,000 and are requiring collateral to secure the loan. In consideration of the foregoing premises, the agreements set out herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. All of the terms used in this Security Interest Agreement are given the same meaning as set forth in the above-referenced Share Purchase and Agreement of even date herewith.

2. Grantor and Debtor grant Lenders a security interest in all of their right, title, and interest in all of Grantor’s and/or Debtor’s interest in the Miscellaneous Interests, the Purchased Shares, the KMH Permit, the fully funded Bond, the Steinman Lease, any leases held by Purchaser and associated with the Mill Creek Tract, the Addington Station Lease, C & B's DMME license and all other permits related to C & B and the Hagy Seam Deep Mine #1, and any other property rights associated with the proposed mining and selling of coal under the KMH Permit (collectively the "**Security**"), less and except the ACIN LLC lease (also known as the NRP lease), subject to compliance with the Steinman Lease or such other applicable agreements.

3. The security interest herein granted is to secure the payment and performance of all obligations owing to the Lenders under the terms of the above-referenced Promissory Note of even date herewith, and any extensions, renewals, modifications, and/or replacements thereof.

4. Grantor and Debtor acknowledge that the only name by which Grantor and Debtor are known or do business is as set forth above and Grantor and/or Debtor shall immediately notify Lenders upon any name change in Grantor’s or Debtor’s name or designation.

5. To the extent that any of the Security is goods or personal property, same will be located and kept only on those premises being the mine site premises operated/proposed to be operated by Grantor in Dickenson County, Virginia. Except in the ordinary course of business, Grantor and/or Debtor will not permit any of these goods or personal property to be moved from this location without Lender’s prior written consent.

6. Lenders and/or Sterling Holdings (International) PLC, or their affiliate, a prospective lender to Grantor and/or Debtor pursuant to a proposed loan (the “Bridge Loan Facility”) that must close on or before January 31, 2013, *time being of the essence*, will retain the Purchased Shares in their possession until such time as the Promissory Note of even date herewith and/or Grantor’s and/or Debtor’s debt to Sterling Holdings (International) PLC, or their affiliate, has been fully and faithfully satisfied.

7. Except the above referenced Bridge Loan Facility, Grantor and/or Debtor will not permit any other security interest or other lien to be created in the Security without Lenders’ prior written approval.

8. Grantor and/or Debtor agree to pay all fees for the filing of statements or other documents and to take such other actions as might be necessary for the perfection, continuation, and termination of the security interests hereby granted Lenders.

9. Grantor and Debtor agree that the Lenders may assign, in whole or in part, this Security Interest Agreement and the Share Purchase Agreement and Promissory Note of even date herewith to such other third Parties as Lenders in their sole discretion may elect

10. To the extent that the Security includes contract rights, accounts or general intangibles, Grantor and/or Debtor warrant that such Security is genuine, enforceable in accordance with its terms, free from default, prepayment, defense, and is in compliance with law as to form, content and manner of execution and has been properly registered and/or filed where necessary to protect Grantor's and/or Debtor's interests thereunder.

11. Grantor and Debtor shall be in default under this Security Interest Agreement upon the occurrence of any event of default under the above-referenced Share Purchase Agreement and Promissory Note of even date herewith, or upon default in the performance of, or breach of any obligation, covenant, representation or warranty made hereunder. In addition, Grantor and Debtor shall be in default under this Security Interest Agreement should it be in default under the terms of the above-referenced Bridge Loan Facility.

12. Upon default, and at any time thereafter, at Lenders' option, without demand, notice or presentment, Lenders may declare all obligations secured hereby immediately due and payable and may proceed to enforce payment and performance of same. In addition to the remedies provided herein and in the Share Purchase and Sale Agreement and Promissory Note of even date herewith, Lenders shall have all rights and remedies available at law or in equity, including those under the Uniform Commercial Code as enacted in the Commonwealth of Virginia, all of which shall be cumulative. Lenders may require Grantor and/or Debtor to assemble the Security and necessary assignments of the Security available to Lenders at any place in Dickenson County, Virginia to be designated by the Lenders which is reasonably convenient to both parties. Where notice is required by law, Lenders may give Grantor and/or Debtor notice of intended disposition of the Security by sending notice by regular mail, at least twenty (20) days in advance, which provisions for notice Grantor and Debtor agree are reasonable.

13. Grantor and Debtor shall be liable to Lenders for all costs and reasonable attorneys' fees incurred in connection with the enforcement of the default provisions of this Security Interest Agreement and the Share Purchase Agreement and Promissory Note of even date herewith. In the event that litigation becomes necessary with respect to same, said litigation shall be solely and exclusively pursued in the Circuit Court of Dickenson County, Virginia and pursuant to laws of the Commonwealth of Virginia.

14. NOTHING IN THIS SECURITY INTEREST AGREEMENT SHALL BE CONSTRUED A LIMITATION OF THE REMEDIES AVAILABLE LENDERS UNDER SHARE PURCHASE AND SALE AGREEMENT AND PROMISSORY NOTE OF EVEN DATE HEREWITH.

15. SHOULD A COURT OF COMPETENT JURISDICTION STRIKE ANY SPECIFIC PROVISION OF THIS SECURITY INTEREST AGREEMENT, THE REMAINDER OF SAID AGREEMENT SHALL BE SEVERED AND REMAIN IN FULL FORCE AND EFFECT.

DATED at the Town of Tazewell, in the State of Virginia as of the 18th day of December, 2012.

COBALT COAL, LLC (a subsidiary of Cobalt Coal Ltd.)

Per:

Michael Crowder
Managing Member

KMH Energy Corporation

Per:

Michael Crowder
President

Kenneth D. Stanley

KENNETH D. STANLEY

Tommy N. Bright I

TOMMY N. BRIGHT I

James L. Sykes

JAMES L. SYKES