



**File No. S-1510120
Vancouver Registry**

IN THE SUPREME COURT OF BRITISH COLUMBIA
IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C.
1985, c. C-36, AS AMENDED
IN THE MATTER OF THE *BUSINESS CORPORATIONS ACT*, S.B.C. 2002, C.57
AND
IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
WALTER ENERGY CANADA HOLDINGS, INC. AND THOSE PETITIONERS LISTED
ON SCHEDULE "A"

PETITIONERS

SECOND REPORT OF THE MONITOR, KPMG INC.

March 24, 2016

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INTRODUCTION AND PURPOSE OF THE MONITOR'S REPORT

1. KPMG Inc. ("**KPMG**" or the "**Monitor**") was appointed as Monitor pursuant to the order (the "**Initial Order**") issued by this Honourable Court on December 7, 2015 (the "**Filing Date**") in respect of the motion (the "**Application**") filed by Walter Energy Canada Holdings, Inc. ("**WECH**"), Walter Canadian Coal ULC ("**WCC**"), Wolverine Coal ULC ("**WC**"), Brule Coal ULC ("**BC**"), Cambrian Energybuild Holdings ULC ("**CEH**"), Willow Creek Coal ULC ("**WIC**"), Pine Valley Coal Ltd. ("**PVC**") and 0541237 BC Ltd. (collectively, the "**Petitioners**") under the *Companies' Creditors Arrangement Act*, R.S.C 1985, c. C-36, as amended (the "**CCAA**") granting, *inter alia*, a stay of proceedings (the "**Stay**") until January 6, 2016. Pursuant to the Initial Order, the Stay and certain other relief was extended to certain of the Petitioners' partnerships and affiliates listed on Schedule "A" hereto (collectively with the Petitioners, "**Walter Canada**"). The proceedings brought by the Petitioners under the CCAA will be referred to herein as the "**CCAA Proceedings**".
2. On December 7, 2015, KPMG filed the Pre-Filing Report of the Proposed Monitor (the "**Pre-Filing Report**") which, amongst other things, described certain of Walter Canada's background information, its cash flow forecast and the current status of its operations.
3. On December 31, 2015, KPMG filed the First Report of the Monitor (the "**First Report**") which, amongst other things, described the Monitor's activities to date, Walter Canada's actual receipts and disbursements against forecast as well as its updated cash flow forecast for the 16-week period ending April 9, 2016 (the "**Previous Cash Flow Forecast**"), the proposed Sale and Investment Solicitation Process (the "**SISP**"), the proposed retention of PJT Partners LP as financial advisor and investment banker (the "**Financial Advisor**") as well as the proposed retention of BlueTree Advisors Inc. as Chief Restructuring Officer (the "**CRO**"), and the proposed Key Employee Retention Plan (the "**KERP**").
4. On January 5, 2016, this Honourable Court granted an order (the "**January 5 Order**") which, amongst other things, extended the Stay to April 5, 2016 and approved the SISP, the KERP and the retention of both the Financial Advisor and the CRO.

5. A more detailed description of Walter Canada's business operations and background to its restructuring proceedings in the period prior to the Filing Date was provided in the Application and is summarized in the Pre-Filing Report.
6. Terms not specifically defined herein shall have the meanings as defined in the Monitor's First Report.
7. Copies of the First Report and further information regarding these CCAA Proceedings can be found on the Monitor's website at www.kpmg.com/ca/walterenergycanada.
8. The purpose of this second report of the Monitor is to provide this Honourable Court with information regarding the following:
 - a) Walter Canada's actual cash flow results for the 12-week period ended March 12, 2016, as compared to the Previous Cash Flow Forecast, including updates on the Surplus Equipment sale, Walter Canada's planned pre-filing payments to certain critical suppliers, the cash collateralization of the Letters of Credit, and other intercompany cash movements;
 - b) Walter Canada's updated cash flow forecast for the 16-week period ending July 2, 2016 (the "**Updated CCAA Cash Flow Forecast**");
 - c) An update with respect to both the SISP and the parallel process being run to obtain asset liquidation proposals;
 - d) A status update regarding the separation of certain functions provided by Walter Energy U.S. to Walter Canada prior to termination of the Shared Services;
 - e) An update as to the status of the following additional matters: creditor inquiries, discussions with First Nations, environmental matters, obtaining new insurance coverage and the status of Walter UK; and
 - f) The Monitor's observations and recommendations in respect of Walter Canada's motion returnable March 30, 2016 seeking an extension of the Stay to June 30, 2016 (the "**Extended Stay Period**") and certain other relief.

REPORT RESTRICTIONS AND SCOPE LIMITATIONS

9. In preparing this report and making the comments herein, the Monitor has been provided with, and has relied upon, unaudited financial information, books and records and financial information prepared by Walter Canada and/or certain of its affiliates, discussions with management of Walter Canada (“**Management**”) and information from other public third-party sources (collectively, the “**Information**”). Except as described in this report in respect of Walter Canada’s Previous Cash Flow Forecast and Updated CCAA Cash Flow Forecast:
- a) The Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards (“CAS”) pursuant to the *Chartered Professional Accountants Canada Handbook* and, accordingly, the Monitor expresses no opinion or other form of assurance in respect of the Information; and
 - b) Some of the information referred to in this report consists of forecasts and projections. An examination or review of the financial forecasts and projections, as outlined in the *Chartered Professional Accountants Canada Handbook*, has not been performed.
10. Future oriented financial information referred to in this report was prepared based on Management’s estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be material.
11. The information contained in this report is not intended to be relied upon by any prospective purchaser or investor in any transaction with Walter Canada.
12. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

ACTUAL RECEIPTS AND DISBURSEMENTS COMPARED TO FORECAST

13. Summarized in the table below are Walter Canada's actual cash receipts and disbursements for the 12-week period ended March 12, 2016 (the "Reporting Period") as compared with the Previous Cash Flow Forecast:

Walter Energy Canada Holdings, Inc. et al			
Summary of Actual versus Forecast Cash Flows			
For the 12-Week Period Ended March 12, 2016			
Prepared on a Consolidated Basis			
Unaudited (US \$000)			
	Actual	Forecast	Variance
Cash Inflow			
Asset Sales	465	375	90
Other Receipts	477	664	(187)
Total Cash Inflow	942	1,039	(96)
Cash Outflow - Operating Disbursements			
Payroll	(348)	(405)	56
Payroll Taxes	(171)	(169)	(3)
Benefits	(47)	(68)	21
Insurance	(4)	-	(4)
Operating Leases and Storage Facilities	(24)	(25)	1
Taxes (BC mineral taxes)	(775)	(803)	28
Utilities	(86)	(141)	55
Fuel	(91)	(172)	81
Maintenance and Supplies	(177)	(964)	788
Environmental Monitoring, Consulting and Tenure Payments	(482)	(721)	239
Professional Fees	(16)	-	(16)
Information Technology	(19)	(20)	1
Total Cash Outflows - Operating Disbursements	(2,240)	(3,488)	1,248
Cash Outflow - Non-Operating Disbursements			
Restructuring Advisor Fees	(1,256)	(2,420)	1,164
Management Services Fees - Walter Energy U.S.	-	(1,230)	1,230
Letters of Credit Collateralization	(16,249)	(16,355)	106
Bank Fees	(242)	(263)	21
Total Cash Outflows - Non-Operating Disbursements	(17,747)	(20,268)	2,521
Net Cash Flow	(19,045)	(22,717)	3,672
Cash, beginning of period (December 20, 2015)	39,787	39,787	-
Effect of Foreign Exchange translation	141	-	141
Cash, end of period (March 12, 2016)	20,883	17,070	3,814
Note 1: Readers are cautioned to read the "Report Restrictions and Scope Limitations" section of this report.			
Note 2: Some variances and totals may not add due to rounding of the underlying numbers.			

14. In aggregate, there was a US\$3.8 million net positive cash flow variance during the Reporting Period, the majority of which was the result of timing differences, certain permanent cost savings and foreign exchange gains. A summary of the more significant variances is as follows:

- a) Asset Sales relate to the Surplus Equipment sale to Jim Walter Resources, Inc. (“JWR”), a related party in the United States, which sale was approved by this Honourable Court on December 7, 2015. The final payment for the Surplus Equipment, in the amount of approximately US\$215,000, was received by the Monitor on February 19, 2016, bringing total receipts held by the Monitor to US\$465,000. The US\$90,000 favourable variance is temporary and the result of the payment of demobilization, transportation and brokerage costs during the week ended March 19, 2016;
- b) Other receipts are US\$187,000 lower than forecast due in part to refund holds (and corresponding audits) initiated by the Canada Revenue Agency (“CRA”) on all of Walter Canada’s accounts subsequent to the Filing Date. Goods and services tax refunds totaling approximately US\$175,000 are currently being withheld by CRA;
- c) Payroll and related taxes have a combined net favourable permanent variance in the amount of US\$53,000;
- d) The favourable variances for Utilities (US\$55,000) and Fuel (US\$81,000) are the result of fuel and utility usage levels being lower than anticipated over the Reporting Period;
- e) The US\$788,000 favourable variance for Maintenance and Supplies was the result of lower than expected payments for pre-filing amounts combined with actual maintenance and supplies costs being incurred at a rate and volume that were less than forecast;

- f) The US\$239,000 favourable variance for Environmental Monitoring, Consulting and Tenure Payments was, in part, also the result of lower than expected payments for pre-filing amounts. The variance was also the result of some expenses having been paid using a credit card that was pre-funded prior to the Filing Date. The prefunded credit card had a balance of approximately \$40,000 that was used to pay certain consulting expenses;
- g) The US\$1.2 million favourable variance for Restructuring Advisor Fees was primarily due to timing of receipt of various invoices for professional services rendered in relation to the CCAA Proceedings to date. It is expected that this variance will reverse in the coming weeks as professional fee invoices are received by Walter Canada and paid;
- h) No amounts were paid to Walter Energy U.S. during the Reporting Period in respect of the Management Services Fees which were originally forecast at approximately US\$1.2 million for the months of December 2015 to February 2016. Discussions are ongoing between the CRO and Walter Energy U.S. regarding these fee levels considering the declining usage of Shared Services by Walter Canada while under care and maintenance and the actual costs of Shared Services being incurred by Walter Energy U.S. A significant portion of this difference is anticipated to reverse once fee levels are agreed;
- i) As directed in the Initial Order, Walter Canada fully cash collateralized, in the amount of \$22,570,494, all undrawn Letters of Credit issued in respect of the Canadian Revolver on January 8, 2016. This amount was funded by Brule Coal Partnership (“BCP”) on behalf of itself and certain other Walter Canada entities, resulting in the creation of certain intercompany charges (as discussed below). Walter Canada realized a foreign exchange gain of US\$106,000 on the collateralization transaction due to the appreciation of the US dollar as compared to the foreign exchange rate estimate in the Previous Cash Flow Forecast. This amount is currently held in a trust account at the Bank of Nova Scotia (“BNS”) on behalf of Brule Coal ULC; and

- j) Pursuant to the Initial Order, Walter Canada was authorized to pay up to \$200,000 of pre-filing amounts owing to suppliers meeting certain requirements. To date, approximately \$130,000 of such pre-filing claims have been paid.

Intercompany Charges and Other Intercompany Transactions

15. Pursuant to the January 5 Order, this Honourable Court granted a charge (the “**Intercompany Charge**”) in favour of any member of Walter Canada that makes a payment or incurs an obligation with respect to any letter of credit obligation, on behalf of any other member of Walter Canada, in the amount of such payment or obligation.
16. As previously discussed, BCP funded the cash collateralization of the Letters of Credit on behalf of itself and Letters of Credit posted by each of Willow Creek Coal Partnership (“**WICP**”), Wolverine Coal Partnership (“**WCP**”) and Walter Canadian Coal Partnership (“**WCCP**”). Accordingly, BCP currently has an Intercompany Charge against each of WICP, WCP and WCCP in the amounts set out in the table below:

Walter Energy Canada Holdings, Inc. et al	
Summary of Intercompany Charges Resulting from Cash Collateralizing Letters of Credit ("LC")	
All figures in CAD \$000's	
Result of LC Collateralization	Amount
Brule Coal Partnership's Intercompany Charge against;	
Willow Creek Coal Partnership	\$ (6,100)
Walter Canadian Coal Partnership	(188)
Wolverine Coal Partnership	(11,545)
	(17,833)
Brule Coal Partnership's self funded LC Obligation	(4,737)
Total value of Letters of Credit cash collateralized	(22,570)

17. In addition, certain of the Walter Canada entities conducted intercompany cash transactions during the Reporting Period to fund overdraft positions and cash needs of certain affiliates within the Walter Canada group, and to facilitate the conversion of U.S. dollars to Canadian dollars as Walter Canada’s banking arrangements with BNS only permit the purchase of foreign currency through the bank accounts of WCCP. These transfers, which are summarized in the table below, resulted in net transfers to WCCP of \$3.9 million and US\$2.5 million:

Walter Energy Canada Holdings, Inc. et al				
Intercompany Payable/(Receivable) from Post-Filing Intercompany Cash Transactions				
All figures in \$000's, currency as noted				
Transactions	Amount			
	WCCP	BCP	WICP	WCP
CAD				
December 2015 - WCCP funds mine entities for operational purposes	4,500	(3,000)	(500)	(1,000)
December 2015 - Balance remaining after purchase of CAD and collateralization of Letters of Credit ⁽¹⁾	(2,430)	2,430	-	-
February 2016 - Mine entities fund WCCP for operational purposes	(6,000)	2,000	2,000	2,000
Ending WCCP Payable to entities as noted in CAD	3,930	(1,430)	(1,500)	(1,000)
USD				
USD funds transferred from BCP to WCCP ⁽²⁾	(2,501)	2,501		
Ending WCCP Payable to BCP in USD	2,501	(2,501)		
Notes				
(1) The residual CAD balance remaining in WCCP from the CAD\$25M purchased after collateralizing the Letters of Credit obligations of CAD\$22.5M.				
(2) The balance remaining in WCCP's USD account from the USD funds transferred by BCP that was not required to purchase CAD\$25M to cash collateralize the LC's, resulting in the USD denominated intercompany balance noted above.				

18. As the Intercompany Charge currently may only secure payments or obligations in respect of any Letter of Credit obligation, Walter Canada is seeking approval from this Honourable Court to expand the Intercompany Charge to include any intercompany payments or obligations. The Monitor is of the view that the Intercompany Charge should be expanded to assist in protecting the various creditor groups of each of the Walter Canada entities.
19. In the currency conversion transactions completed during the Reporting Period, U.S. funds totaling US\$14.5 million were transferred from BCP, WICP and WCP to WCCP to purchase Canadian dollars, after which those Canadian funds, totaling approximately \$20 million, were returned to those three entities on a pro-rata basis. The net result of this currency conversion is that Walter Canada's cash holdings as at March 12, 2016 consisted of US\$4.2 million and \$22.1 million, for a total of approximately \$27.6 million.

UPDATED CCAA CASH FLOW FORECAST

20. Walter Canada, with the assistance of the Monitor, has prepared the Updated CCAA Cash Flow Forecast on a consolidated basis for the 16-week period ending July 2, 2016 (the **“Updated Cash Flow Period”**). The Updated CCAA Cash Flow Forecast has been prepared for a period that mirrors the stay extension sought by the Petitioners. The Updated CCAA Cash Flow Forecast reflects certain updated assumptions of Management based on developments to date during the course of these CCAA Proceedings. A copy of the Updated CCAA Cash Flow Forecast is attached hereto as Schedule “B”.
21. The cash flow forecasts previously filed with this Honourable Court were presented in U.S. dollars and, as such, the actual receipts and disbursements for the reporting period from December 19, 2015 to March 12, 2016 were reported in U.S. Dollars. However, given that almost all of Walter Canada’s cash holdings have now been converted to Canadian dollars and that the majority of future transactions are expected to be conducted in Canadian dollars, the Updated CCAA Cash Flow Forecast has been presented in Canadian dollars.

22. A summary of the Updated CCAA Cash Flow Forecast is set out in the table below:

Walter Energy Canada Holdings, Inc. et al Summary of the Updated CCAA Cash Flow Forecast For the 16-week Period from March 13, 2016 to July 2, 2016 Prepared on a Consolidated Basis Unaudited (CAD \$000)	
Cash Inflow	
Other Receipts	100
Total Cash Inflow	<u>100</u>
Cash Outflow - Operating Disbursements	
Payroll	(525)
Payroll Taxes	(280)
Benefits	(120)
Insurance	(910)
Operating Leases and Storage Facilities	(30)
Property Taxes	(2,605)
Utilities	(220)
Fuel	(160)
Maintenance and Supplies	(560)
Environmental Monitoring and Consulting	(850)
Tenure/Lease Payments	(600)
Transportation Costs from Bulldozer Sale	(120)
Professional Fees	(103)
Information Technology	(170)
Total Cash Outflows - Operating Disbursements	<u>(7,252)</u>
Cash Outflow - Non-Operating Disbursements	
Restructuring Advisor Fees	(3,868)
Management Services Fees - Walter Energy U.S.	(1,330)
Bank Fees	(1,280)
Total Cash Outflows - Non-Operating Disbursements	<u>(6,478)</u>
Net Cash Flow	(13,630)
Cash, beginning of period (March 13, 2016)	<u>27,595</u>
Cash, end of period (July 2, 2016)	<u><u>13,965</u></u>
Note 1: Readers are cautioned to read the "Report Restrictions and Scope Limitations" section of this report. Note 2: Some totals may not add due to rounding of the underlying numbers.	

23. With respect to the Updated CCAA Cash Flow Forecast:

- a) Walter Canada expects there will be an aggregate net cash outflow of \$13.6 million during the Updated Cash Flow Period and that it will have approximately \$14.0 million of combined cash resources remaining at the end of the Updated Cash Flow Period;

- b) Management expects to fund Walter Canada's cash flow requirements with current cash resources on hand and projected collections until the end of the Updated Cash Flow Period;
- c) The following is a general breakdown of the significant components of the forecasted \$13.6 million net cash outflow in the Updated Cash Flow Period by operating and other key categories:
 - i. Other receipts of \$100,000 reflect interest anticipated to be earned on cash balances held at BNS;
 - ii. Payroll costs (\$525,000), payroll taxes (\$280,000) and benefits (\$120,000) relate to Walter Canada's 19 full-time employees and certain part-time employees who provide security at the mine sites and other support services as well as a director of Walter Canada who was previously being paid by Walter Energy U.S. but who, as a result of the sale in the Chapter 11 Proceedings, is no longer being paid by Walter Energy U.S.;
 - iii. Insurance premiums of \$910,000 reflect the annual cost of obtaining stand-alone insurance for Walter Canada covering: property, general liability, vehicle and Directors and Officers liability insurance;
 - iv. Real property leases for office space leases and supply inventory storage facilities are estimated at \$30,000 during the Updated Cash Flow Period;
 - v. Property taxes of \$2.6 million are forecast for Walter Canada's properties in Northeastern British Columbia;
 - vi. Utilities of \$220,000 include estimates for electricity, propane and natural gas costs at Walter Canada's sites;
 - vii. Fuel costs of \$160,000 relate to estimated diesel purchases required to run generators and other equipment at the mine sites;
 - viii. Maintenance and supplies costs of \$560,000 have been forecast to keep the mine assets secured and for required maintenance of the equipment;

- ix. Environmental Monitoring and Consulting Payments of \$850,000 include disbursements related to environmental testing, monitoring and reporting, including estimated costs for engineering and environmental consultants, and for certain site works required at the sites as recommended by Walter Canada's third-party engineering consultants;
- x. Tenure and Lease payments of \$600,000 are forecast to maintain mining and property rights, which includes payments required to fund cash calls required to maintain Walter Canada's fifty percent interest in the Belcourt Saxon joint venture;
- xi. Transportation costs from the Surplus Equipment sale of \$120,000 include costs associated with disassembly and for transport and shipping costs to JWR in Alabama;
- xii. Professional fees of \$103,000 include estimated costs associated with legal counsel relating to the labour union matters and preparation of tax returns and related tax advice;
- xiii. Information Technology costs of \$170,000 are forecast for monthly connectivity charges, software licensing fees and fees from Walter Canada's external IT consultant;
- xiv. Restructuring advisor fees of \$3.9 million have been estimated for professional fees expected to be paid to Walter Canada's counsel, the Monitor and its counsel, the CRO and the Financial Advisor, and includes payment of certain professional fees incurred in January and February 2016;
- xv. With the transition and separation of Walter Canada from Walter Energy U.S. substantially complete, Walter Canada expects to make a final payment to Walter Energy U.S. for services provided to Walter Canada throughout the Stay period;

- xvi. Bank fees are charges associated with Letters of Credit and actual fees for use of WECH's account network at BNS. As the Letters of Credit have been cash collateralized, Walter Canada has begun negotiations in attempts to reduce fees associated with the Letters of Credit with the Administrative Agent; and
 - xvii. Of the cash balance noted in the cash flow, the Monitor is holding gross sale proceeds of US\$465,000 from the Surplus Equipment sale.
- d) The Updated CCAA Cash Flow Projection indicates that Walter Canada has the necessary liquidity to fund its expected cash requirements over the Updated Cash Flow Period.

STATUS OF THE SALE PROCESS

Sale and Investment Solicitation Process

24. The first phase of the SISP concluded on March 18, 2016 ("**Phase I**"), and the following is a summary of the activities undertaken by the SISP Team to date:
- a) In accordance with the terms of the SISP, the Monitor arranged for a notice of the SISP to be published in each of The Vancouver Sun, The Globe and Mail (National Edition) and the Wall Street Journal on January 15, 2016. On the same date, WECH issued a press release announcing the SISP;
 - b) The Financial Advisor, in consultation with the Monitor and the CRO, compiled a list of 82 potentially interested parties and prepared a teaser letter which was distributed to each party;
 - c) A Confidential Information Memorandum ("**CIM**") was prepared by the Financial Advisor with input from the Monitor, the CRO and Walter Canada, as well as their respective legal counsel;
 - d) The Monitor assisted the Financial Advisor in the preparation of the data room, including reviewing the documents which the Financial Advisor had previously obtained from Walter Energy U.S., as well as locating and providing certain additional information deemed necessary for Phase I purposes;

- e) A number of interested parties executed non-disclosure agreements (each an “NDA”) and were provided with access to the CIM and the data room;
 - f) Further due diligence requests were submitted to the Financial Advisor by certain interested parties, and the Monitor assisted in responding to those requests, including by coordinating with Walter Energy U.S. and Walter UK to obtain additional information and documents. In addition, certain interested parties requested and were granted site visits; and
 - g) Throughout Phase I, weekly update conference calls were held with the Financial Advisor in order to provide Walter Canada, the CRO and the Monitor with status updates as to the Financial Advisor’s marketing activities, its assessment as to the level of interest from active parties and other SISP matters.
25. At the end of Phase I, a number of non-binding letters of intent (each a “LOI”) were received and reviewed by the SISP Team. In these LOIs, interest was expressed in respect of all of Walter Canada’s assets and operations, including the Walter UK operations.
26. Based on their review of these LOIs, Walter Canada, the Financial Advisor and the CRO believe that the SISP should advance to Phase II and, accordingly, certain Qualified Bidders who submitted LOIs will be invited to continue into Phase II of the SISP. The Monitor concurs with this decision.
27. In Phase II, Qualified Bidders will be able to perform further due diligence on the assets and operations of Walter Canada and Walter UK, and it is expected that the data room maintained by the Financial Advisor will be expanded to respond to various information requests.
28. The deadline for submission of final binding offers in Phase II with refundable cash deposits (the “**Bid Deadline**”) has been set as May 27, 2016 (being that date which is 60 days after the date on which interested parties will be invited to continue to Phase II), with a closing date to occur by June 30, 2016 (the “**Closing Date**”). The SISP provides that the Bid Deadline may be extended to a later date by either this Honourable Court or the CRO, in consultation with the Financial Advisor and the Monitor, and that the Closing Date may be extended to a later date if agreed to by the SISP Team and the Qualified Bidder.

Solicitation for Asset Liquidation Proposals

29. Further to discussion in the First Report, the Monitor, in consultation with Walter Canada and the CRO, developed and implemented a process (the “**Liquidation RFP Process**”) to solicit proposals (“**Liquidation Proposals**”) in respect of Walter Canada’s assets, excluding the assets of Walter UK, from asset liquidators (the “**Prospective Liquidators**”). This process was run concurrently with the SISP, with a March 18, 2016 deadline for submission of Liquidation Proposals to correspond with the SISP Phase I LOI submission date.
30. In conducting the Liquidation RFP Process, the Monitor undertook a number of activities, including the following:
- a) The Monitor and its counsel, in consultation with the CRO and Walter Canada and its counsel, formulated a Liquidation RFP Process and corresponding process letter setting out, among other things, the required terms and conditions for Liquidation Proposals;
 - b) The Monitor assisted Walter Canada with the preparation of detailed lists of assets available for inclusion in Liquidation Proposals, as well as lists of certain excluded assets owned by third parties. The available assets were divided into asset lots based on their physical locations;
 - c) The Monitor created a data room, separate from the one used in the SISP, and populated it with various asset lists and other information for the Prospective Liquidators;
 - d) In consultation with the Financial Advisor and the CRO, the Monitor developed a list of parties who, based on their deal history or contact with the SISP Team, were thought to have a potential interest in submitting a Liquidation Proposal. The Monitor distributed its process letter to those parties;
 - e) A number of NDAs were finalized between Walter Canada and Prospective Liquidators, and those Prospective Liquidators were then provided with access to the data room;

- f) A number of Prospective Liquidators submitted site visit requests to the Monitor, who coordinated with Walter Canada to facilitate such requests, including dealing with the Prospective Liquidators to obtain completed waivers and certain other documentation required by Walter Canada for visitors to the mine sites;
- g) Throughout the Liquidation RFP Process, the Monitor engaged in numerous discussions and email communications with various Prospective Liquidators to deal with their inquiries as well as other process matters; and
- h) The Monitor also provided the CRO and Walter Canada and its legal counsel with regular updates as to the status of the Liquidation RFP Process.

31. A number of Liquidation Proposals were submitted by the March 18, 2016 submission deadline. Given that the SISP is proceeding into Phase II, the Monitor intends to keep all details in respect of these submitted Liquidation Proposals confidential until after the Bid Deadline, when they will be evaluated against the SISP final binding offers. Liquidation Proposals were requested to remain open for acceptance until June 30, 2016. All Prospective Liquidators have confirmed that their Liquidation Proposals remain open until at least April 30, 2016, with one party confirming its proposal will remain open until June 30, 2016. The Monitor will continue to work with Prospective Liquidators to: (i) seek clarification with respect to their Liquidation Proposals; and (ii) obtain confirmation that Liquidation Proposals will remain open until June 30, 2016 or for a reasonable period after the Bid Deadline.

SEPARATION OF SHARED SERVICES

32. The Monitor has worked closely with Walter Canada and Walter Energy U.S. to transition the Shared Services provided by Walter Energy U.S. to Walter Canada so that Walter Canada is able to operate independently after the sale of Walter Energy U.S. is completed in the Chapter 11 Proceedings and the provision of the Shared Services is terminated (the “**Termination Date**”). This is expected to occur on March 31, 2016. The status of the separation of key functions is as follows:

- a) **Banking and treasury:** Walter Canada has obtained bank account access and now has the ability to process payments electronically through BNS' payment system or issue manual cheques if necessary;
- b) **Financial reporting and tax:** Walter Canada has hired an accountant to perform day-to-day financial record-keeping activities and to complete and submit the required tax filings (income, GST, property and other taxes) with assistance from Walter Canada's external tax advisors as necessary. Walter Canada has also purchased and installed accounting software so that it is able to maintain its own accounting records independent from the systems which had been provided by Walter Energy U.S.;
- c) **Payroll, benefits, human resources and labour relations:** Walter Canada is also now self-sufficient in these areas, including having contracted a Canadian third party payroll provider to process payroll runs. Walter Canada's staff attends to labour relations and human resource functions independently from Walter Energy U.S.;
- d) **Insurance:** As subsequently discussed in detail under "Other Matters", Walter Canada expects to have property insurance and director and officer coverage, independent from the global policies maintained by Walter Energy U.S., in place by the Termination Date;
- e) **Information Technology:** Walter Canada, with assistance from the Monitor, has taken a number of steps to become self-sufficient in this area, including transitioning certain software licenses and server and data hosting obligations from Walter Energy U.S. and engaging an external IT consultant to deal with transition matters as well as to serve as Walter Canada's day-to-day IT support going forward;
- f) **Transfer of Walter Canada records:** The Monitor coordinated with various Walter Energy U.S. staff, as well as with Walter Canada staff, to identify and collect the available electronic and paper records pertaining to Walter Canada from the Walter Energy U.S. systems and offices located in Alabama. These records consisted of thousands of electronic files and approximately 250 boxes of paper

records. As at the date of this report, the data which is known to be outstanding is a complete set of electronic accounting records from the Walter Energy U.S. accounting system, Oracle. Walter Energy U.S. has authorized limited direct Oracle access for certain members of KPMG LLP's IT Advisory practice who are currently working to generate the reports required to extract the historical accounting records for Walter Canada. This process is ongoing and is anticipated to be completed by the Termination Date; and

- g) **Mining permits and tenure management:** All funding, monitoring and correspondence with various Canadian federal, provincial and other government agencies is now being performed by Walter Canada staff.

OTHER MATTERS

Walter Energy U.S. Pension Plan Contingent Claim

- 33. On February 3, 2016, counsel to the United Mine Workers of America 1974 Pension Plan and Trust (the "**1974 Pension Plan**") wrote to the Monitor and the CRO requesting discussions on establishing a framework for reporting developments and engaging with the 1974 Pension Plan, along with certain preliminary information requests.
- 34. As the 1974 Pension Plan may have a claim in these proceedings, the Monitor communicated to the 1974 Pension Plan that the Monitor would provide the 1974 Pension Plan, on a without prejudice basis, with any information that would generally be made available to an interested party upon request to the Monitor. The Monitor will reassess this position once there is greater clarity regarding the quantum and enforceability of the claim of the 1974 Pension Plan.
- 35. The CRO, counsel for Walter Canada and the Monitor plan to meet with counsel for the 1974 Pension Plan prior to the March 30, 2016 stay extension hearing to further discuss their position.

Labour Matters

36. Walter Canada issued a notice of group termination of employment pursuant to Section 64 of the British Columbia *Employment Standards Act* for a group of employees of WCP whose recall rights are expiring. Those employees are represented by the United Steel Workers, Local 1-424 (“USW”). Walter Canada has confirmed to the USW and the BC Ministry of Jobs, Tourism & Skills Training that 275 employees will be terminated between April 16, 2016 and June 16, 2016, with an additional 19 employees to be terminated between June 17, 2016 and August 9, 2016.
37. In addition, Walter Canada recently terminated three employees who were on leave given that they were unable to work for the past one to two years and that it did not appear there was a reasonable prospect of these employees being able to return to work on a regular basis in the foreseeable future.
38. The Monitor, along with the CRO and Walter Canada’s Management and counsel, has recently met with representatives of the USW to review various outstanding severance and benefit claims, and to engage in a dialogue regarding the SISP.

Discussions with First Nations

39. Walter Canada, the CRO and the Monitor have participated in meetings and calls with representatives of certain First Nations regarding the status of the CCAA Proceedings and certain related matters.

Environmental Matters

40. Upon testing of the Biochemical Reactor Treatment System at the Brule facility in early February 2016, Walter Canada discovered that the water level was below what is required to facilitate the intended biochemical reaction due to a suspected leak in the water leveling device. Walter Canada has examined the issue and notified the British Columbia Ministry of Environment (“MOE”). Walter Canada is currently developing an action plan to address the issue with repairs expected to begin at the onset of spring conditions, likely in May 2016. The Monitor will provide this Honourable Court with further updates in respect of this matter in its subsequent reports.

41. Two external geotechnical consultants are required to report annually to the British Columbia Ministry of Energy and Mines (“MEM”) with respect to Walter Canada’s mine sites under various British Columbia Mines Act permit requirements. Annual reporting is in the process of being finalized for submission and Walter Canada is developing a plan to deal with all site works recommended by the external engineers within applicable time frames.
42. An extension for annual environmental test reporting being performed at the sites has been granted by the MOE and the MEM to extend certain reporting deadlines of Walter Canada to May 15, 2016 and May 31, 2016, respectively. Walter Canada expects that it is currently on track to meet these new deadlines.
43. The Monitor, along with the CRO and Walter Canada’s Management and counsel, has continued to participate in an ongoing dialogue with the MEM and its counsel regarding the status of the mines and the SISP. Since the Filing Date, in-person meetings have been held with representatives of MEM and a call has been held with MEM’s counsel. Further dialogue with MEM and its counsel is anticipated as the CCAA Proceedings continue.

Insurance

44. Walter Canada is working with Marsh Canada to purchase property insurance coverage, additional liability coverage and director and officer coverage, all to be in place prior to or at the Termination Date. The director and officer coverage is expected to be in place immediately upon the passing of the Termination Date once Walter Energy U.S.’ existing policies are put into run-off.
45. One of the proposed property insurers requested and was granted access to the Walter Canada mine sites to view the status of the assets. As a result of this visit, the insurer requested that Walter Canada address a number of matters. Walter Canada has addressed these issues and reported the results to Marsh Canada, who has confirmed that all matters were addressed satisfactorily.

Walter UK

46. Walter UK continues to operate in care and maintenance and its cash flow forecast indicates that it continues to have sufficient liquidity to meet its obligations until approximately

September 2016. The CRO and a representative of each of the Monitor and Walter Canada's counsel travelled to the United Kingdom to visit the mine site and meet with Management to discuss the state of the operation and various sale and operating scenarios.

47. KPMG LLP in the UK was engaged to perform a review of strategic alternatives for Walter UK. The CRO and Walter Canada are reviewing these alternatives, which will be further explored and/or developed as the SISP unfolds.

THE MONITOR'S OBSERVATIONS AND RECOMMENDATIONS

48. In the Monitor's opinion, Walter Canada is acting in good faith and with due diligence in an effort to further its restructuring objectives.
49. The first stage of the SISP has been completed, with a number of LOIs having been submitted and a number of Qualified Bidders who will be invited to continue their due diligence with a view to submitting final offers by the May 27, 2016 Bid Deadline, as provided in the SISP.
50. The Monitor is working with the Prospective Liquidators who submitted Liquidation Proposals to keep the terms set out in their Liquidation Proposals open during Phase II of the SISP in order to preserve the asset realization options for Walter Canada in the event that either no transactions are completed pursuant to the SISP, or not all of Walter Canada's assets are sold in one or more completed SISP transactions.
51. Walter Canada continues to have liquidity to the end of the envisaged restructuring process, as presented in the Updated CCAA Cash Flow Forecast.

All of which is respectfully submitted this 24th day of March, 2016.

**KPMG INC., in its sole capacity as
Monitor of Walter Energy Canada Holdings, Inc. et al**



Per: Philip J. Reynolds
Senior Vice President



Per: Anthony Tillman
Senior Vice President

Schedule "A"

List of Petitioners, Partnerships and Affiliates

Petitioners

Walter Canadian Coal ULC
Wolverine Coal ULC
Brule Coal ULC
Cambrian Energybuild Holdings ULC
Willow Creek Coal ULC
Pine Valley Coal, Ltd.
0541237 BC, Ltd.

Partnerships

Walter Canadian Coal Partnership
Wolverine Coal Partnership
Brule Coal Partnership
Willow Creek Coal Partnership

Corporate Affiliates

Belcourt Saxon Coal Ltd.
Belcourt Saxon Coal Limited Partnership

Schedule "B"

**Updated CCAA Cash Flow Forecast
for the 16-Week Period Ending July 2, 2016**

Walter Energy Canada Holdings, Inc. et al.
CCAA Cash Flow Forecast for the 16-Week Period Ending July 2, 2016¹

<i>(Currency in CAD \$000's)</i>																	
<i>Foreign Exchange Rate Assumption (CAD/USD) 1.33</i>																	
Week No.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	16-Week Total
Week Ending	3/19/16	3/26/16	4/2/16	4/9/16	4/16/16	4/23/16	4/30/16	5/7/16	5/14/16	5/21/16	5/28/16	6/4/16	6/11/16	6/18/16	6/25/16	7/2/16	
OPERATING CASH FLOW																	
Operating Receipts																	
Other Receipts	-	-	25	-	-	-	-	25	-	-	-	25	-	-	-	-	100
Total Operating Receipts	-	-	25	-	-	-	-	25	-	-	-	25	-	-	-	-	100
Operating Disbursements																	
Payroll	-	-	(75)	-	(75)	-	(75)	-	(75)	-	(75)	-	(75)	-	(75)	-	(525)
Payroll Taxes	-	-	(40)	-	(40)	-	(40)	-	(40)	-	(40)	-	(40)	-	(40)	-	(280)
Benefits	-	(30)	-	-	(30)	-	(30)	-	-	-	(30)	-	-	-	(30)	-	(120)
Insurance	-	-	(730)	(100)	(50)	-	-	-	-	-	-	-	-	(30)	-	-	(910)
Operating Leases and Storage Facilities	-	(10)	-	-	-	-	(10)	-	-	-	-	(10)	-	-	-	-	(30)
Property taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,605)	-	(2,605)
Utilities	(30)	(50)	-	-	-	-	(50)	-	-	-	(45)	-	-	-	(45)	-	(220)
Fuel	-	(40)	-	-	-	-	(40)	-	-	-	(40)	-	-	-	(40)	-	(160)
Maintenance and Supplies	(35)	(35)	(35)	(35)	(35)	(35)	(35)	(35)	(35)	(35)	(35)	(35)	(35)	(35)	(35)	(35)	(560)
Environmental Monitoring and Consulting	(25)	(25)	(25)	(25)	(25)	(25)	(125)	(125)	(25)	(25)	(125)	(125)	(25)	(175)	(25)	(25)	(850)
Tenure/Lease Payments	(55)	-	-	-	(20)	-	-	-	-	-	(390)	-	-	-	(135)	-	(601)
Transportation Costs from Bulldozer Sale	(120)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(120)
Professional Fees	(33)	-	-	-	(5)	(30)	-	-	-	(5)	(30)	-	-	-	-	-	(103)
Information Technology	(10)	(40)	-	-	-	(40)	-	-	-	(40)	-	-	-	-	(40)	-	(170)
Total Operating Disbursements	(308)	(230)	(905)	(160)	(250)	(90)	(445)	(160)	(175)	(65)	(750)	(170)	(175)	(240)	(3,040)	(90)	(7,252)
Non-Operating Disbursements																	
Restructuring Advisor Fees	(385)	-	(170)	(600)	-	-	(800)	(105)	-	-	(800)	(105)	-	-	(800)	(105)	(3,868)
Shared Services	-	(1,330)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,330)
Bank Fees	-	-	(320)	-	-	-	-	(320)	-	-	-	(320)	-	-	-	(320)	(1,280)
Total Non-Operating Disbursements	(385)	(1,330)	(490)	(600)	-	-	(800)	(425)	-	-	(800)	(425)	-	-	(800)	(425)	(6,478)
TOTAL NET CASH FLOW	(693)	(1,560)	(1,369)	(760)	(250)	(90)	(1,245)	(560)	(175)	(65)	(1,550)	(570)	(175)	(240)	(3,839)	(490)	(13,630)
BEGINNING CASH (FX Effected)	27,595	26,902	25,342	23,973	23,213	22,963	22,873	21,628	21,068	20,893	20,828	19,278	18,709	18,534	18,294	14,454	27,595
Net Cash Flow	(693)	(1,560)	(1,369)	(760)	(250)	(90)	(1,245)	(560)	(175)	(65)	(1,550)	(570)	(175)	(240)	(3,839)	(490)	(13,630)
ENDING CASH (FX Effected)	26,902	25,342	23,973	23,213	22,963	22,873	21,628	21,068	20,893	20,828	19,278	18,709	18,534	18,294	14,454	13,965	13,965

UNAUDITED CASH FLOW FORECAST PREPARED BY MANAGEMENT
 Some totals may not add due to rounding of the underlying numbers

**Walter Energy Canada Holdings, Inc. et al (“Walter Canada”)
Notes to the Unaudited Updated CCAA Cash Flow Forecast
For the 16-Week Period from March 13, 2016 to July 2, 2016**

Unless otherwise noted, the Updated CCAA Cash Flow Forecast is presented in Canadian dollars using an exchange rate of US\$1.00/CDN\$1.33 for conversion of any U.S. dollar amounts.

1. Purpose

The Updated CCAA Cash Flow Forecast has been prepared solely for the purpose of reflecting Management’s best estimate of the cash flow of Walter Canada in its CCAA proceedings, and readers are cautioned that it may not be appropriate for other purposes.

Receipts

2. Other Receipts

Represents interest anticipated to be received for cash balances held at the Bank of Nova Scotia.

Operating Disbursements

3. Payroll

Payroll costs include payments to 19 hourly and salaried employees that are paid bi-weekly or semi-monthly along with certain part-time employees as well as one director who was previously being paid by Walter Energy U.S.

4. Payroll Taxes

Payroll taxes include the relevant taxes associated with employee source deductions and employer matching amounts.

5. Benefits

Disbursements include employee health and life insurance benefits.

6. Insurance

Represents an estimate of Walter Canada’s annual insurance premiums for standalone insurance coverage relating to property, D&O, liability and vehicle insurance.

7. Operating Leases and Storage Facilities

Expected disbursements include payments for office space leases and third-party warehouse space.

8. Property Taxes

Forecast property tax remittances for Walter Canada’s properties in Northeastern British Columbia.

9. Utilities

Represents the estimated costs for electricity, natural gas and propane to maintain the mines under care and maintenance.

10. Fuel

Fuel costs represent diesel purchases required to run generators and other equipment while the mines are under care and maintenance.

11. Maintenance and Supplies

These disbursements relate to various anticipated costs to keep the mine assets secured as well as required maintenance on equipment used at the sites.

12. Environmental Monitoring and Consulting

These expected disbursements relate to various costs including environmental monitoring, engineering and consulting.

13. Tenure/Lease Payments

These disbursements relate to tenure payments to maintain mining and property rights. Included in the forecast amounts are remittances to the Belcourt Saxon joint venture to maintain Walter Canada's 50% interest in the partnership.

14. Transportation Costs from Bulldozer

This includes costs associated with disassembly to prepare the bulldozer for shipment and transportation costs to ship the bulldozer to Walter Energy U.S.

15. Professional Fees

Costs for professionals incurred in the normal course of business for labor union matters and preparation of tax returns and related advice.

16. Information Technology

These disbursements are primarily for monthly connectivity charges, software licensing fees and for external IT support.

Non-Operating Disbursements

17. Restructuring Advisor Fees

Restructuring costs consist of professional fees payable to Walter Canada's counsel, the Monitor and its counsel, the Chief Restructuring Officer ("CRO"), and the Financial Advisor ("FA"). Success fees that may be payable to the CRO and/or FA are not included in the forecast.

18. Shared Services

These disbursements relate to costs charged to Walter Canada for various services provided by Walter Energy U.S. The forecast represents a recent estimate of shared services costs incurred up until the end of March 2016 when the shared services are expected to end. The service fee cost levels are currently being reviewed with Walter Energy U.S.

19. Bank Fees

These are fees associated with Letters of Credit issued and actual fees for use of Walter Canada's account network at the Bank of Nova Scotia. As the Letters of Credit have been cash collateralized, negotiations to reduce the fees associated with the Letters of Credit are expected to take place in the near term.

20. Additional Proceeds from Surplus Equipment Sale

Of the cash balance noted in the cash flow, the Monitor is holding gross sale proceeds of US\$465,000 from the Surplus Equipment sale.