

IN THE SUPREME COURT OF BRITISH COLUMBIA

IN BANKRUPTCY AND INSOLVENCY

IN THE MATTER OF

**THE JOINT PROPOSAL OF
WALTER ENERGY CANADA HOLDINGS, INC. WALTER CANADIAN COAL ULC,
BRULE COAL ULC, WILLOW CREEK COAL ULC, PINE VALLEY COAL LTD.,
WOLVERVINE COAL ULC, 0541237 B.C. LTD., WALTER CANADIAN COAL
PARTNERSHIP, BRULE COAL PARTNERSHIP, WILLOW CREEK COAL
PARTNERSHIP AND WOLVERVINE COAL PARTNERSHIP**

JOINT PROPOSAL

KPMG Inc., in its capacity as trustee in bankruptcy of the Walter Canada Group, hereby submits this Proposal pursuant to Section 50 of the BIA and pursuant to the CCAA Procedure Order pronounced in respect of the Walter Canada Group and the New Walter Canada Group.

**ARTICLE 1
INTERPRETATION**

1.1 Definitions

For the purposes of this Proposal, all capitalized terms used but not defined herein shall have the meanings given in the CCAA Procedure Order and the following terms shall have the following meanings:

- (a) “**Affected Claimant**” means any Claimant other than any Claimant with respect to a Priority Claim or any Claimant with a Claim under the Promissory Note;
- (b) “**Allowed Claim**” has the meaning given in the Claims Process Order;
- (c) “**Annulment Time**” means the time that is the first instant on the Proposal Completion Date, at which time the bankruptcy of the members of the Walter Canada Group is annulled;
- (d) “**Bankruptcy Date**” means the date on which the members of the Walter Canada Group made an assignment in bankruptcy pursuant to the BIA;
- (e) “**Bankruptcy Trustee**” means KPMG Inc., in its capacity as bankruptcy trustee in respect of the bankruptcy proceedings of the Walter Canada Group under the BIA;
- (f) “**BIA**” means the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3 as amended;

- (g) “**BIA Proceedings**” means the consolidated bankruptcy proceedings of the Walter Canada Group under the BIA, having Court File No. ● ● ●;
- (h) “**BIA Procedure Order**” means the Order of the Court pronounced ● in the BIA Proceedings abridging certain time periods and dispensing with certain requirements under the BIA;
- (i) “**BIA Proposal Approval Order**” means an Order of the Court, in form and substance satisfactory to the Walter Canada Group, the Purchaser, the New Walter Canada Group and the Proposal Trustee, approving this Proposal;
- (j) “**Business Day**” means any day other than a Saturday, a Sunday, or a statutory holiday in the Province of British Columbia;
- (k) “**CCAA**” means the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended;
- (l) “**CCAA Charge**” has the meaning given in the Claims Process Order;
- (m) “**CCAA Procedure Order**” means the Order of the Court pronounced December 7, 2016 in the CCAA Proceedings approving the transaction contemplated by the Term Sheet and authorizing the formation of the New Walter Canada Group;
- (n) “**CCAA Proceedings**” means the CCAA Proceedings commenced in respect of the Walter Canada Group pursuant to the Initial Order and having File No. S-1510120;
- (o) “**Chair**” means the chair of the Creditors’ Meeting as designated by the Official Receiver or nominee thereof;
- (p) “**Claim**” has the meaning given in subsection 2(1) of the CCAA and, for greater certainty, shall include all “Claims” as defined in the Claims Process Order but shall exclude any Claim that has already been barred pursuant to the terms of the Claims Process Order;
- (q) “**Claimant**” means any Person with a Claim and, for greater certainty, shall include all “Claimants” as defined in the Claims Process Order;
- (r) “**Claims Process Order**” means the Order of the Court establishing a claims procedure in the CCAA Proceedings in respect of the Walter Canada Group pronounced on August 16, 2016, as amended from time to time;
- (s) “**Conuma APA**” means the Asset Purchase Agreement dated August 8, 2016 among Conuma Coal Resources Limited and the Walter Canada Group, as amended;
- (t) “**Court**” means the Supreme Court of British Columbia or the Supreme Court of British Columbia in bankruptcy and insolvency, as applicable;

- (u) “**Creditors’ Meeting**” means the meeting of Affected Claimants holding Claims for the purposes of, among other things, considering and, if deemed appropriate, passing the Resolution and includes any adjournment, postponement or other rescheduling of such meeting;
- (v) “**Creditors’ Meeting Date**” means December [15], 2016, subject to any adjournment, postponement or further Order;
- (w) “**CRO**” means BlueTree Advisors, Inc., in its capacity as Chief Restructuring Officer of the New Walter Canada Group and former Chief Restructuring Officer of the Walter Canada Group;
- (x) “**Crown Claims**” means Claims of Her Majesty in right of Canada or any province, for all amounts that were outstanding on the Proposal Commencement Date and are of a kind that could be subject to a demand under:
 - (i) subsection 224(1.2) of the *Income Tax Act*;
 - (ii) any provision of the Canada Pension Plan or of the Employment Insurance Act that refers to subsection 224(1.2) of the *Income Tax Act* and provides for the collection of a contribution, as defined in the Canada Pension Plan, or an employee’s premium, or employer’s premium, as defined in the *Employment Insurance Act*, and of any related interest, penalties or other amounts; or
 - (iii) any provision of provincial legislation that has a similar purpose to subsection 224(1.2) of the *Income Tax Act*, or that refers to that subsection, to the extent that it provides for the collection of a sum, and of any related interest, penalties or other amounts, where the sum:
 - (A) has been withheld or deducted by a person from a payment to another person and is in respect of a tax similar in nature to the income tax imposed on individuals under the *Income Tax Act*; or
 - (B) is of the same nature as a contribution under the Canada Pension Plan if the province is a “province providing a comprehensive pension plan” as defined in subsection 3(1) of the *Canada Pension Plan* and the provincial legislation establishes a “provincial pension plan” as defined in that subsection;
- (y) “**Deemed Claims**” means all Claims, other than the Residual Liabilities and the Priority Claims, and for greater certainty includes the Insolvency Claims and the Intercompany Claims, and provided, for greater certainty, that any Priority Claim that is not an Allowed Claim and that has not been barred pursuant to the terms of the Claims Process Order shall be a Deemed Claim against the applicable member of the New Walter Canada Group for further determination pursuant to the Claims Process Order;

- (z) **“Deemed Interest Amount”** means an amount equal to the amount of accrued but unpaid interest owing by WECH in respect of the Promissory Note for the period from the issuance of the Promissory Note and ending on the Proposal Commencement Date, up to a maximum amount equal to the amount by which (i) the value of the Transferred Assets transferred to New Walter pursuant to Section 4.1(g) hereof exceeds (ii) the amount of all Claims that are Deemed Claims against New Walter pursuant to Section 4.1(f) hereof, provided however that, for the purpose of the calculation of such maximum amount, the amount of such Deemed Claims shall not include the UMWA 1974 Pension Plan Claim;
- (aa) **“Directors/Officers Claim”** means any right or claim of any Person against one or more of the directors and/or officers of the Walter Canada Group that relates to a Claim (including for greater certainty, a “Restructuring Claim” as defined in the Claims Process Order), however arising, for which the directors and/or officers are by statute or otherwise by law liable to pay in their capacity as directors and/or officers;
- (bb) **“Governmental Entity”** means any: (i) multinational, federal, provincial, territorial, state, regional, municipal, local or other government, governmental or public department, central bank, court, tribunal, arbitral body, commission, board, bureau or agency, domestic or foreign; (ii) subdivision, agent, commission, board, or authority of any of the foregoing; or (iii) quasi-governmental or private body exercising any regulatory, expropriation or taxing authority under or, for the account of, any of the foregoing;
- (cc) **“Initial Order”** means the Order of the Court issued on December 7, 2015 in respect of the CCAA Proceedings, as amended;
- (dd) **“Insolvency Claim”** means:
 - (i) the reasonable fees and expenses incurred by the CRO, legal counsel to the Walter Canada Group and the New Walter Canada Group, the Monitor and its legal counsel;
 - (ii) Claims of the Bankruptcy Trustee, the Proposal Trustee and their legal counsel; and
 - (iii) All other Claims secured by the CCAA Charges;
- (ee) **“Inspector”** has the meaning set out in Section 3.9;
- (ff) **“Intercompany Claims”** means any Claim of a member of the Walter Canada Group against any other member of the Walter Canada Group;
- (gg) **“Monitor”** means KPMG Inc. in its capacity as CCAA monitor of the New Walter Canada Group and former CCAA monitor of the Walter Canada Group;
- (hh) **“New Brule”** means New Brule Coal Corp.;
- (ii) **“New Walter”** means New Walter Energy Canada Holdings, Inc.;

- (jj) “**New Walter Canada Group**” means New Walter, New WCCP, New Brule, New Willow Creek and New Wolverine;
- (kk) “**New WCCP**” means New Walter Canada Coal Corp.;
- (ll) “**New Willow Creek**” means New Willow Creek Coal Corp.;
- (mm) “**New Wolverine**” means New Wolverine Coal Corp.;
- (nn) “**Obligations**” has the meaning set out in Section 4.3(a);
- (oo) “**Official Receiver**” means the officer appointed pursuant to section 12(2) of the BIA in the City of Vancouver, British Columbia.
- (pp) “**Operative Time**” means the time on the Proposal Commencement Date at which all liabilities of and Claims (other than the Residual Liabilities) against any member of the Walter Canada Group shall be released, discharged and extinguished as set out in Section 4.1(j) of this Proposal;
- (qq) “**Order**” means any order of the Court in the CCAA Proceedings, in the BIA Proceedings or in respect of this Proposal;
- (rr) “**Partnerships**” has the meaning given in Section 5.3(c);
- (ss) “**Person**” means any person, including any individual, partnership, joint venture, venture capital fund, association, corporation, limited liability company, limited liability partnership, unlimited liability company, trust, trustee, executor, administrator, legal personal representative, estate, group, unincorporated association or organization, Governmental Entity, syndicate, the Proposal Trustee, or other entity, whether or not having legal status;
- (tt) “**Priority Claims**” means all Crown Claims and all Priority Employee Claims that are Allowed Claims and all Claims against any member of the Walter Canada Group or the Bankruptcy Trustee for obligations incurred after the Bankruptcy Date and which were authorized and approved by the Bankruptcy Trustee prior to the Annulment Time and not otherwise addressed in this Proposal;
- (uu) “**Priority Employee Claims**” means Claims of employees of the Walter Canada Group (if any) required to be paid under subsection 60(1.3) of the BIA;
- (vv) “**Promissory Note**” means the Secured Promissory Note dated April 1, 2011 issued by WECH to WEI;
- (ww) “**Proposal**” means this Proposal as varied, amended, modified or supplemented in accordance with the provisions hereof and the BIA;
- (xx) “**Proposal Commencement Date**” has the meaning ascribed to it under Section 5.5;

- (yy) **“Proposal Commencement Time”** means 5:00 p.m. on the Proposal Commencement Date;
- (zz) **“Proposal Completion Date”** means the date immediately after the Proposal Commencement Date on which this Proposal is completed and the Annulment Time occurs.
- (aaa) **“Proposal Trustee”** means KPMG Inc., in its capacity as trustee in respect of this Proposal;
- (bbb) **“Purchase Price”** means \$17,350,000 plus the cost of the Retained Business Assets;
- (ccc) **“Purchaser”** means 1098138 B.C. Ltd.;
- (ddd) **“Purchaser Guarantor”** means Amacon Land Corporation;
- (eee) **“Released Claims”** has the meaning ascribed to such term in Section 4.3(b);
- (fff) **“Released Parties”** has the meaning ascribed to such term in Section 4.3(b);
- (ggg) **“Required Majority”** means the affirmative vote of (i) a majority in number of the Affected Claimants (other than Affected Claimants with Insolvency Claims) voting on the Resolution (in person or by proxy) at the Creditors’ Meeting; and (ii) Affected Claimants (other than Affected Claimants with Insolvency Claims) representing not less than 66²/₃% in value of the Claims of the Affected Claimants voting on the Resolution (in person or by proxy) at the Creditors’ Meeting;
- (hhh) **“Residual Assets”** means:
 - (i) the shares of Walter Canadian Coal ULC, Wolverine Coal ULC, Brule Coal ULC, Willow Creek Coal ULC, Pine Valley Coal Ltd. and 0541237 B.C. Ltd.;
 - (ii) the partnership interests in Walter Canadian Coal Partnership, Brule Coal Partnership, Wolverine Coal Partnership and Willow Creek Coal Partnership;
 - (iii) securities of mining and/or mining related businesses held by Walter Canadian Coal Partnership having a cost of approximately \$50,000 to be acquired after the date of the Term Sheet and prior to the Proposal Commencement Date and which, for greater certainty, shall not include the capital stock of Cambrian Energybuild Holdings ULC or Belcourt Saxon Coal Ltd., or any partnership interest in Belcourt Saxon Coal Limited Partnership;
 - (iv) all short term liquid investments affording an appropriate safety of principal held by Wolverine Coal Partnership having a cost of approximately \$50,000;

- (v) all short term liquid investments affording an appropriate safety of principal held by Brule Coal Partnership having a cost of approximately \$50,000;
 - (vi) all short term liquid investments affording an appropriate safety of principal held by Willow Creek Coal Partnership having a cost of approximately \$50,000 (the investments set out in paragraphs (iii) through (vi) are collectively referred to herein as the “**Retained Business Assets**”); and
 - (vii) the Walter Canada Group’s corporate and partnership minute books, financial and accounting records, taxation records and documents (including banking records and other evidence of fund transfers) necessary to substantiate the share capital of WECH;
- (iii) “**Residual Liabilities**” means
- (i) all liabilities for any Taxes due or accruing due on and after the Proposal Commencement Date; and
 - (i) all liabilities and claims that are not Claims that can be compromised pursuant to the CCAA or the BIA;
- (jjj) “**Resolution**” means the resolution of the Affected Claimants providing for the approval of this Proposal by the Affected Claimants;
- (kkk) “**Tax**” means any domestic or foreign federal, state, local, provincial, territorial or municipal taxes or other impositions by any Government Entity, including Transfer Taxes and the following taxes and impositions: net income, gross income, capital, value added, goods and services, capital gains, alternative, net worth, harmonized sales, gross receipts, sales, use, ad valorem, business rates, transfer, franchise, profits, business, environmental, real or immovable property, municipal, school, Canada Pension Plan, withholding, workers’ compensation levies, payroll, employment, unemployment, employer health, occupation, social security, excise, stamp, customs, and all other taxes, fees, duties, assessments, deductions, contributions, withholdings or charges of the same or of a similar nature, however denominated, together with any interest and penalties, fines, additions to tax or additional amounts imposed or assessed with respect thereto;
- (lll) “**Term Sheet**” means the Term Sheet dated November 28, 2016 among the Walter Canada Group and the Purchaser and the Purchaser Guarantor;
- (mmm) “**Transferred Assets**” means all of the Walter Canada Group’s right, title and interest in, to, under or relating to the assets, property and undertaking owned or used or held by the Walter Canada Group on the date set for such transfer in this Proposal and any other Order of the Court, including the following properties, assets and rights:
- (i) the Purchase Price;

- (ii) all rights of the Walter Canada Group under the Term Sheet, this Proposal and any Orders in the CCAA Proceedings and the BIA Proceedings, unless specified therein;
- (iii) all records, documents and information in the possession of the Walter Canada Group, including any records prepared in connection with this Proposal, the Conuma APA, the CCAA Proceedings or any other matter, and all records, documents and information in the possession of the Walter Canada Group but not owned by the Walter Canada Group;
- (iv) copies of any book, record, literature, list and any other written or recorded information of the Walter Canada Group as at or prior to the Proposal Commencement Date to which the New Walter Canada Group, the CRO or the Monitor in good faith determine are reasonably likely to be needed to access for bona fide tax or legal purposes, including in respect of any matter arising in the CCAA Proceedings;
- (v) all information, materials, documents, reports and/or records, whether written or electronic, prepared by the Walter Canada Group's legal counsel and the Monitor and the Monitor's legal counsel, whether or not prepared before or after Proposal Commencement Date, that is attorney-client privileged and any and all attorney work product (provided however that no material prepared by legal counsel of the Purchaser, who may become legal counsel to the Walter Canada Group after the Proposal Commencement Date, is intended to be included in this paragraph);
- (vi) all information, materials, documents, reports and/or records, whether written or electronic, in the possession of the CRO, the Monitor or the Proposal Trustee;
- (vii) any deposits held on behalf of the Walter Canada Group, including any deposits held in trust accounts to secure payment of the reasonable fees and disbursements of the Monitor, the Proposal Trustee and any professional advisors of the Walter Canada Group and of the Monitor and Proposal Trustee, any deposits provided to any Governmental Entity in respect of Tax liabilities, and any amounts paid by or on behalf of the Walter Canada Group in respect of any employment liabilities;
- (viii) all cash, cash equivalents, bank balances, and moneys in possession of banks, the Monitor, the Proposal Trustee and other depositories;
- (ix) marketable shares, notes, bonds, debentures or other securities of or issued by corporations, partnerships or other persons and all certificates or other evidences of ownership thereof owned or held by or for the account of the Walter Canada Group, including the shares in the capital stock of Cambrian Energybuild Holdings ULC and Belcourt Saxon Coal Ltd., and including any partnership interest in Belcourt Saxon Coal Limited Partnership, but excluding all other shares and partnership interests of other Walter Canada Group entities that constitute Residual Assets;

- (x) the accounts receivable, bills receivable, trade accounts, book accounts, and any other amount due or deemed to be due to the Walter Canada Group or any of them including any payments, refunds and rebates receivable;
- (xi) refunds due or payable in respect of reassessments for Taxes paid by any member of the Walter Canada Group up to the Proposal Commencement Date;
- (xii) refundable Taxes;
- (xiii) any person's entitlement to seek recourse pursuant to sections 38 and 95-101 of the BIA and any equivalent provincial statute as against the Walter Canada Group or any other person *mutatis mutandis* and as if this Proposal had not been implemented;
- (xiv) amounts owing to the Walter Canada Group or any of them from any director, officer, former director or officer, shareholder, employee of any member of the Walter Canada Group;
- (xv) director and officer insurance policies and the right to receive insurance recoveries under (i) any insurance policies for losses that occurred prior to Proposal Commencement Date and (ii) any director and officer insurance policies in respect of any matters at any time;
- (xvi) all rights and interests under or pursuant to all warranties, representations, indemnities and guarantees, express, implied or otherwise, of or made by suppliers or others in connection with any other Transferred Assets, the Conuma APA or any Deemed Claims; and
- (xvii) all other rights, properties and assets of the Walter Canada Group or any of them as at the Proposal Commencement Date of whatsoever nature or kind and wherever situated (other than such rights, properties and assets that are not transferrable under section 11.3 of the CCAA or 84(1) of the BIA),

but excluding the Residual Assets. For greater certainty and notwithstanding the foregoing, the Transferred Assets shall not include the Walter Canada Group's corporate and partnership minute books, financial and accounting records, taxation records and documents (including banking records and other evidence of fund transfers) necessary to substantiate the share capital of WECH and provided further that the New Walter Canada Group shall be permitted to retain a copy of any such minute books, financial and accounting records, taxation records and documents;

- (nnn) "**Transfer Taxes**" means all goods and services, sales, excise, use, transfer, gross receipts, documentary, filing, recordation, value-added, stamp, stamp duty reserve, and all other similar taxes, duties or other like charges, however

denominated, in each case including interest, penalties or additions attributable thereto whether or not disputed, including GST/ HST and PST;

- (ooo) “**Trustee Certificate**” has the meaning ascribed to it in Section 5.5;
- (ppp) “**UMWA 1974 Pension Plan Claim**” has the meaning given in the Claims Process Order;
- (qqq) “**Walter Canada Group**” means Walter Energy Canada Holdings, Inc., Walter Canadian Coal ULC, Brule Coal ULC, Willow Creek Coal ULC, Pine Valley Coal Ltd., Wolverine Coal ULC, 0541237 B.C. Ltd., Walter Canadian Coal Partnership, Brule Coal Partnership, Willow Creek Coal Partnership and Wolverine Coal Partnership;
- (rrr) “**WECH**” means Walter Energy Canada Holdings, Inc.; and
- (sss) “**WEI**” means New WEI, Inc., formerly known as Walter Energy, Inc.

1.2 Interpretation

For purposes of this Proposal:

- (a) the division of this Proposal into Articles, Sections, Schedules, and paragraphs and the insertion of captions and headings to Articles, Sections and paragraphs are for convenience only and are not intended to affect or be used in the interpretation of this Proposal;
- (b) where the context requires, a word or words importing the singular shall include the plural and vice versa and a word or words importing one gender shall include all genders;
- (c) unless otherwise stated, all monetary amounts in this Proposal, including the symbol “\$”, are in Canadian currency;
- (d) the terms “hereof”, “herein”, “hereunder”, “hereto” and words of similar import shall, unless otherwise stated, be construed to refer to this Proposal in its entirety rather than to any particular provision of this Proposal and all references in this Proposal to Articles and Sections are references to Articles and Sections of or to this Proposal;
- (e) in the computation of periods of time from a specified date to a later specified date, unless otherwise stated, “from” means “from and including” and the words “to” or “until” mean “to but excluding”;
- (f) the deeming provisions are not rebuttable and are conclusive and irrevocable; and
- (g) the words “includes” and “including” mean “includes, without limitation” and “including without limitation”.

1.3 Date for any Action

In the event that any date on which any action is required to be taken under this Proposal by any of the parties is not a Business Day, then, unless otherwise stated herein, that action shall be required to be taken on the next succeeding day that is a Business Day.

1.4 Time

All times expressed in this Proposal are prevailing local time in Vancouver, British Columbia, Canada unless otherwise stipulated.

1.5 Statutory References

Unless otherwise indicated, any reference in this Proposal to a statute refers to that statute and to the regulations made thereunder, as amended and as in force from time to time, or any statute or regulations that supplement or supersede such statute or regulations.

ARTICLE 2 PURPOSE

2.1 Purpose of the Proposal

The purpose of this Proposal is to monetize a significant portion of the remaining value in the Walter Canada Group for the benefit of all Claimants and other stakeholders of the Walter Canada Group.

To achieve this goal, this Proposal is filed by the Bankruptcy Trustee for and on behalf of the Walter Canada Group to cause the Transferred Assets to become assets of the New Walter Canada Group and to cause the Deemed Claims to become liabilities of the New Walter Canada Group so as to preserve the Claims of the Affected Claimants and the interests of other stakeholders in and to the Transferred Assets and to permit the resolution of such Claims and interests pursuant to the CCAA.

The New Walter Canada Group will continue in the place and stead of the Walter Canada Group for all purposes in the CCAA Proceedings, including for the purposes of finally determining all Claims pursuant to the Claims Process Order.

2.2 Effect of the Proposal

The corporate structure of the Walter Canada Group includes a number of partnerships. WECH, the principal entity affected by this Proposal, is the general partner of Walter Canada Coal Partnership, which in turn is the general partner of each of the other Partnerships. As such, all Claimants with a claim against any of the Partnerships have a Claim against WECH. All of the Claimants who have filed a Proof of Claim under the Claims Process Order have Claims against one or more of the Partnerships and, as such, a Claim against WECH as ultimate general partner. The effect of this Proposal is to increase the value available for distribution to any Claimants with Affected Claims against WECH (*i.e.* all Affected Claimants).

For the purposes of determining the nature and priority of the Deemed Claims, the applicable member of the New Walter Canada Group (and the Transferred Assets transferred to such

member) shall stand in the place and stead of the member of the Walter Canada Group formerly liable for such Claim (other than any claim that has already been barred pursuant to the Claims Process Order and other than any Residual Liability), and from and after the Proposal Commencement Date, all such Claims against such member of the Walter Canada Group and any encumbrances in respect of such Claims shall be Deemed Claims against the corresponding member of the New Walter Canada Group and shall be deemed encumbrances on the applicable Transferred Assets and such Deemed Claims and deemed encumbrances shall have the same priority with respect to the applicable member of the New Walter Canada Group and the applicable Transferred Assets as they had with respect to the corresponding member of the Walter Canada Group and the Transferred Assets immediately prior to the Proposal Commencement Date, as if the applicable member of the New Walter Canada Group was in all respects the corresponding member of the Walter Canada Group and as if the Transferred Assets had not been transferred and had remained in the possession or control of the member of the Walter Canada Group having that possession or control immediately prior to the transfer.

All Claims against the Walter Canada Group (other than the Residual Liabilities and Priority Claims) shall be compromised, extinguished and released pursuant to the terms hereof.

2.3 Affected Claimants

Although all Claims against the Walter Canada Group (other than the Residual Liabilities and Priority Claims) shall be cancelled, compromised and extinguished pursuant to this Proposal, no Affected Claimant's Claim is adversely affected because each such claim shall become a Deemed Claim against the applicable member of the New Walter Canada Group. Each Affected Claimant's Claim against any member of the Walter Canada Group shall be preserved pursuant to the terms hereof as a Deemed Claim against the applicable member of the New Walter Canada Group as set out herein.

ARTICLE 3 THE CREDITORS' MEETING AND RELATED MATTERS

3.1 Voting Claimants

All Affected Claimants, other than Claimants with Insolvency Claims, shall be entitled to vote their Claims (whether or not such Claims are Allowed Claims) in respect of this Proposal.

Affected Claimants with Insolvency Claims and all Claimants and other stakeholders who are not Affected Claimants, including Claimants to the extent of Priority Claims or to the extent of a Claim under the Promissory Note, will not be entitled to vote at the Creditors' Meeting. Nothing in this Proposal shall affect the defences, both legal and equitable, with respect to any Priority Claim, Deemed Claim or Deemed Interest Amount, including any rights with respect to legal and equitable defences or entitlements to set-offs or recoupments against such Claims.

3.2 Classes of Creditors

For the purposes of voting on this Proposal, all Affected Claimants' Claims shall be included in a single class of creditors.

3.3 Creditors' Meeting

The Creditors' Meeting held in respect of the Affected Claimants shall be held in accordance with this Proposal for the purposes of, among other things, considering and voting on the Resolution or any other matters to be considered at the Creditors' Meeting.

3.4 Approval by the Affected Claimants

The Walter Canada Group will seek approval of this Proposal by the affirmative vote for the Resolution by the Required Majority. Such vote will be conducted by ballot. For the purposes of determining whether or not the Resolution has passed, the Chair shall tabulate the votes cast or deemed cast by each Affected Claimant.

Any other matter submitted for a vote at the Creditors' Meeting shall be decided by affirmative vote of (i) a majority in number the Affected Claimants (other than Claimants with Insolvency Claims) voting (in person or by proxy) on such matter at the Creditors' Meeting; and (ii) Affected Claimants (other than Claimants with Insolvency Claims) representing not less than $66\frac{2}{3}\%$ in value of the Claims of the Affected Claimants voting on the Resolution (in person or by proxy) at the Creditors' Meeting, which may be adduced by show of hands, unless the Chair decides, in the Chair's sole and absolute discretion, to hold such vote by way of written ballot.

3.5 Claims for Voting Purposes

For each vote conducted by ballot, each Affected Claimant (other than Claimants with Insolvency Claims) with one or more Affected Claimant's Claim shall be entitled to one (1) vote and the weight attributed to such vote (for the purposes of determining the Required Majority) shall be equal to the aggregate Canadian dollar value of such Affected Claimant's Claim (if necessary, converted into Canadian dollars in accordance with the provisions of the Claims Process Order). An Affected Claimant with a Claim that is not yet an Allowed Claim shall be entitled to vote such Claim in respect of the Resolution and the value of the Affected Claimant's Claim for voting purposes shall be the value of such Claim as set out in the Affected Claimant's Proof of Claim or Notice of Dispute, as applicable. The Proposal Trustee may, in its discretion, maintain a separate tabulation of any Affected Claimants' Claims that are not yet Allowed Claims.

No Affected Claimant shall be entitled to bifurcate or sub-divide a Claim for purposes of voting. If an Affected Claimant has assigned part, but not all, of the Affected Claimant's Claim, then only the Affected Claimant shall be entitled to vote at the Creditors' Meeting (in person or by proxy) and the value of such vote shall be the unassigned portion of such Affected Claimant's Claim. In such case, the assignee of such Affected Claimant's Claim shall not be entitled to vote the assigned portion of such Affected Claimant's Claim at the Creditors' Meeting unless the Chair, in the Chair's sole and absolute discretion, determines that the assignee shall be permitted to vote.

For greater certainty, no Claimant shall be entitled to vote any claim that has been barred pursuant to the terms of the Claims Process Order.

3.6 Adjournment

If the Creditors' Meeting is adjourned or postponed by the Chair upon the direction of the Proposal Trustee (which Proposal Trustee may so direct in its sole and absolute discretion) or because a quorum (as required under the BIA) is not obtained, the Creditors' Meeting will be adjourned, postponed or otherwise rescheduled by the Proposal Trustee to such date, time and place as may be decided by the Proposal Trustee, in the Proposal Trustee's sole and absolute discretion and upon such notice as the Proposal Trustee deems appropriate.

3.7 Voting of Proxies

Where an Affected Claimant has submitted a proxy in advance of the Creditors' Meeting, such Affected Claimant's proxy will be voted on any ballot in accordance with the Affected Claimant's instruction to vote for or against the approval of the Resolution and any other matters before the Creditors' Meeting.

Forms of proxy may confer discretionary authority on the individuals designated therein with respect to amendments or variations of matters identified in the notice of the Creditors' Meeting and other matters that may properly come before the Creditors' Meeting.

All other matters related to the solicitation of votes for the Creditors' Meeting, the delivery of materials to Affected Claimants and the voting procedure and tabulation of votes cast at the Creditors' Meeting shall be as set forth in the BIA Procedure Order.

3.8 Claims Bar Date

If any Claimant has failed to file its Proof of Claim prior to the relevant Claims Bar Date and has not, in accordance with the Claims Process Order, been permitted to file its Proof of Claim late, or if such Claimant received a Notice of Revision or Disallowance pursuant to the Claims Process Order and did not respond within the time period provided for by the Claims Process Order, such Claimant shall have the Claim provided for in the applicable Notice of Revision or Disallowance and, if such Claim is nil, such Claimant shall be forever barred from voting at the Creditors' Meeting and any meeting in respect of the Proposal and such Claimant shall be forever barred from receiving a distribution under this Proposal or any subsequent plan of compromise or arrangement in respect of the New Walter Canada Group, and (i) the Walter Canada Group and the Purchaser shall be released from the Claims of such Claimant, (ii) such Claims shall not be Deemed Claims against any member of the New Walter Canada Group and (iii) Section 4.3(b) shall apply to all such Claims and, for the purposes of the application Section 4.3(b) pursuant to this Section 3.8, the Released Parties referenced therein shall include the New Walter Canada Group and its present and former advisors, partners, principals, employees, officers, directors, representatives, financial advisors, legal counsel, accountants, investment bankers, consultants, agents, predecessors, affiliates, subsidiaries, related companies, heirs, spouses, dependents, administrators and executors.

3.9 Inspectors

At the Creditors' Meeting, the Affected Claimants with Allowed Claims may appoint from one (1) to five (5) inspectors (each an "**Inspector**") under this Proposal, whose powers shall be restricted to advising the Proposal Trustee in respect of such matters as the Proposal Trustee may

consider appropriate from time to time, and considering and approving any amendments to this Proposal which have been agreed and consented to by the Proposal Trustee and the Purchaser.

Provided that all acts done by the Inspectors are done in good faith, the Inspectors shall not be liable to the Affected Claimants for any actions taken by the Inspectors.

ARTICLE 4 TERMS OF THE PROPOSAL

4.1 Terms of the Proposal

Each of the following transactions contemplated by and provided for under this Proposal will be consummated and effected, and shall for all purposes be deemed to occur, commencing at the Proposal Commencement Time and concluding on the Proposal Completion Date, in the manner and the sequence and at the times set forth below:

- (a) The Purchaser shall subscribe for 200,000,000 common shares in the capital of WECH and, in respect thereof,
 - (i) at least five days before the Proposal Commencement Date, the Purchaser shall pay to the Proposal Trustee (on WECH's behalf) an amount equal to the Purchase Price as the subscription price for such shares,
 - (ii) WECH shall issue such shares to the Purchaser as fully-paid and non-assessable common shares in the capital of WECH, and
 - (iii) WECH shall add an amount equal to the Purchase Price to the capital in respect of its common shares;
- (b) The 1,207,905 issued and outstanding shares in the capital of WECH held by WEI and recorded on the Central Securities Register of WECH shall be repurchased for no consideration but shall not be cancelled and shall continue to be held by WECH;
- (c) Any issued and outstanding shares of WECH not recorded on the Central Securities Register of WECH shall be repurchased for no consideration and cancelled, and any option or other right to acquire shares or securities of WECH held by any person shall be cancelled for no consideration;
- (d) All obligations of WECH under the Promissory Note shall be released, extinguished and discharged;
- (e) The Walter Canada Group shall pay in cash to the Monitor, acting upon the irrevocable direction from the Proposal Trustee, all amounts owed in respect of any Priority Claims that are Allowed Claims (if any) plus the amount of the levy payable under section 147 of the BIA, and the Monitor shall pay all such Priority Claims and such levy within the time period prescribed under the BIA; for greater certainty, any Priority Claim that is not an Allowed Claim and has not been barred pursuant to the terms of the Claims Process Order shall be a Deemed Claim

against the applicable member of the New Walter Canada Group for further determination pursuant to the Claims Process Order;

- (f) Each of the applicable member(s) of the New Walter Canada Group shall be deemed liable for all Deemed Claims (which, for greater certainty, exclude the Residual Liabilities and Priority Claims but include the Insolvency Claims) of the corresponding Walter Canada Group entity and WECH shall be deemed liable to WEI for the Deemed Interest Amount, as follows:
- (i) all Claims against Wolverine Coal ULC and Wolverine Coal Partnership shall be Deemed Claims against New Wolverine, New WCCP and New Walter;
 - (ii) all Claims against Brule Coal ULC and Brule Coal Partnership shall be Deemed Claims against New Brule, New WCCP and New Walter;
 - (iii) all Claims against Willow Creek Coal ULC, Willow Creek Coal Partnership and Pine Valley Coal Ltd. shall be Deemed Claims against New Willow Creek, New WCCP and New Walter;
 - (iv) all Claims against Walter Canadian Coal Partnership, Walter Canadian Coal ULC and 0541237 BC Ltd shall be Deemed Claims against New WCCP and New Walter;
 - (v) all Claims against WECH (other than any Claim in respect of the Promissory Note) shall be Deemed Claims against New Walter; and
 - (vi) New Walter shall be deemed liable for the Deemed Interest Amount, provided however that the Deemed Interest Amount shall be subject to the terms of the Claims Process Order and shall have the same status thereunder as the Claim to which it relates,

and, for certainty, all of the Residual Liabilities shall be and are retained by the applicable member of the Walter Canada Group and shall not be Deemed Claims against any member of the New Walter Canada Group.

- (g) All of the Transferred Assets of the Walter Canada Group shall be transferred and deemed transferred to the applicable member(s) of the New Walter Canada Group and, subject to any agreement among the members of the New Walter Canada Group, shall be so transferred specifically as follows:
- (i) all Transferred Assets of Wolverine Coal ULC and Wolverine Coal Partnership are transferred to New Wolverine;
 - (ii) all Transferred Assets of Brule Coal ULC and Brule Coal Partnership are transferred to New Brule;
 - (iii) all Transferred Assets of Willow Creek Coal ULC, Willow Creek Coal Partnership and Pine Valley Coal Ltd. are transferred to New Willow Creek;

(iv) all Transferred Assets of (A) Walter Canadian Coal ULC, (B) 0541237 BC Ltd. and (C) Walter Canadian Coal Partnership (including, for greater certainty, the Walter Canadian Coal Partnership assets consisting of (i) the shares of Cambrian Energybuild ULC and (ii) if applicable, Walter Canadian Coal Partnership's shares of Belcourt Saxon Coal Ltd. and Walter Canadian Coal Partnership's interest in Belcourt Saxon Coal Limited Partnership) are transferred to New WCCP; and

(v) all Transferred Assets of WECH are transferred to New Walter,

and, for certainty, all of the Residual Assets shall be and are retained by the applicable member of the Walter Canada Group and shall not be transferred to or assumed by any member of the New Walter Canada Group;

- (h) Any remaining directors and officers of any member of the Walter Canada Group are deemed to resign and to no longer hold such positions;
- (i) The directors nominated by the Purchaser who have executed a consent to act as a director shall be appointed as directors of the applicable member of the Walter Canada Group;
- (j) All liabilities of or Claims (other than the Residual Liabilities) against any member of the Walter Canada Group shall be released, discharged and extinguished (and, for greater certainty, the time at which this step occurs shall be the Operative Time);
- (k) All Directors/Officers Claims (other than such Directors/Officers Claims that cannot be released pursuant to section 50(14) of the BIA) shall be released, discharged and extinguished at the Operative Time; and
- (l) The bankruptcy of the members of the Walter Canada Group shall be annulled as of the Annulment Time and all right, title and interest of the Bankruptcy Trustee in the Residual Assets shall re-vest in the applicable member of the Walter Canada Group free and clear of all liens, charges and encumbrances, except as expressly provided for herein, in the CCAA Procedure Order or a subsequent Order of the Court. For greater certainty, the annulment of the bankruptcy of the members of the Walter Canada Group shall not occur until all of the steps in paragraphs (a) to (k) of this Section 4.1 above have been completed.

4.2 Corporate Actions

From and after the Proposal Commencement Time, all corporate actions contemplated by this Proposal shall be deemed to have been authorized and approved in all respects (subject to the provisions of this Proposal). All matters provided for in this Proposal shall be deemed to have timely occurred in the order and at the times provided for in Section 4.1 of this Proposal, in accordance with applicable law, and shall be effective, without any requirement of further action by any creditors, security holders, shareholders, directors, officers or managers of the Walter Canada Group. On the Proposal Commencement Date, the Proposal Trustee shall be authorized

and directed to issue, execute and deliver the agreements, documents, securities and instruments contemplated by this Proposal in the name of and on behalf of the Walter Canada Group.

4.3 Proposal Releases

The following releases will become effective at the Operative Time:

(a) **Releases by the Walter Canada Group and the Purchaser of Walter Canada Group Advisors**

Subject to the provisions of the BIA, the Walter Canada Group and the Purchaser will be deemed to forever release, waive and discharge any and all demands, claims, actions, causes of action, counterclaims, suits, rights, obligations, debts, sums of money, accounts, covenants, damages, judgments, expenses, liabilities, executions, liens, encumbrances, security interests and other recoveries on account of any indebtedness, liability, obligation, demand or cause of action of whatever nature, including interest thereon and costs, fees or other amounts in respect thereof (collectively, the “**Obligations**”) (other than the rights of the Walter Canada Group and the Purchaser to enforce this Proposal and the contracts, instruments, and other agreements or documents delivered hereunder) whether reduced to judgment, liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, direct, indirect or derivative, then existing or hereafter arising, in law, equity or otherwise that are based in whole or in part on any act, omission, transaction, event or other circumstance or occurrence existing or taking place on or prior to the Proposal Commencement Time in any way relating to, arising out of or in connection with the business and affairs of the Walter Canada Group, the subject matter of, or the transactions or events giving rise to, any Claims, this Proposal, the CCAA Proceedings and the related BIA Proceedings that could be asserted by or on behalf of the Walter Canada Group or the Purchaser against: (i) the agents, legal counsel, financial advisors and other professionals of the Walter Canada Group, in each case in their respective capacities as of the Proposal Commencement Time; (ii) the CRO; (iii) the Monitor, the Proposal Trustee, the Bankruptcy Trustee and their legal counsel; (iv) the Purchaser and its legal counsel; and (v) where applicable, with respect to each of the above named Persons, such Person’s present and former advisors, partners, principals, employees, officers, directors, representatives, financial advisors, legal counsel, accountants, investment bankers, consultants, agents, predecessors, affiliates, subsidiaries, related companies, heirs, spouses, dependents, administrators and executors.

(b) **Releases by Others**

Each of (i) the Walter Canada Group, (ii) the CRO, (iii) KPMG LLP, (iv) KPMG Inc., including in its capacity as Monitor, Bankruptcy Trustee and Proposal Trustee, (v) the Purchaser, and (vi) with respect to each of the above named Persons, such Person’s present and former advisors, partners, principals, employees, officers, directors, representatives, financial advisors, legal counsel, accountants, investment bankers, consultants, agents, predecessors, affiliates, subsidiaries, related companies, heirs, spouses, dependents, administrators and

executors (collectively, the “**Released Parties**”) will be released and discharged from any and all Obligations, whether reduced to judgment, liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, direct, indirect or derivative, then existing or hereafter arising, in law, equity or otherwise, that any Person (including the Claimants, the Purchaser and the Walter Canada Group, and any Person who may claim contribution or indemnification against or from them) may be entitled to assert based in whole or in part on any act, omission, transaction, event or other circumstance or occurrence existing or taking place on or prior to the Proposal Completion Time in any way relating to, arising out of or in connection with the business and affairs of the Walter Canada Group, the subject matter of, or the transactions or events giving rise to, any Claims, this Proposal, the CCAA Proceedings and the related BIA Proceedings (collectively, the “**Released Claims**”), provided, however, that nothing herein will release or discharge: (A) the Walter Canada Group from any Residual Liabilities; or (B) any Released Party if the Released Party is judged by the expressed terms of a judgment rendered on a final determination on the merits to have committed fraud or wilful misconduct or to have been grossly negligent.

4.4 Permanent Injunction

At the Operative Time, the Walter Canada Group and the Purchaser shall be permanently and forever barred, estopped, stayed and enjoined with respect to the Obligations set out in Section 4.3(a) and all Claimants and other Persons shall be permanently and forever barred, estopped, stayed and enjoined with respect to the Released Claims from: (i) commencing, conducting or continuing in any manner, directly or indirectly, any actions, suits, demands or other proceedings of any nature or kind whatsoever (including, without limitation, any proceeding in a judicial, arbitral, administrative or other forum) against the Released Parties; (ii) enforcing, levying, attaching, collecting or otherwise recovering or enforcing by any manner or means, directly or indirectly, any judgment, award, decree or order against the Released Parties or their property; (iii) commencing, conducting or continuing in any manner, directly or indirectly, any actions, suits or demands, including, without limitation, by way of contribution or indemnity or other relief, in common law, or in equity, or under the provisions of any statute or regulation, or other proceedings of any nature or kind whatsoever (including, without limitation, any proceeding in a judicial, arbitral, administrative or other forum) against any Person who makes such a claim or might reasonably be expected to make such a claim, in any manner or forum, against one or more of the Released Parties; (iv) creating, perfecting, asserting or otherwise enforcing, directly or indirectly, any lien, encumbrance or security interest of any kind; or (v) taking any actions to interfere with the implementation or consummation of this Proposal.

4.5 Waiver of Defaults

At the Operative Time, all Persons shall be deemed to have waived any and all defaults of the Walter Canada Group then existing or previously committed by the Walter Canada Group or caused by the Walter Canada Group, directly or indirectly, or non-compliance with any covenant, positive or negative, pledge, warranty, representation, term, provision, condition or obligation, express or implied, in any contract, credit document, purchase order, agreement for sale, lease or other agreement, written or oral, and any and all amendments or supplements thereto, existing between such Person and the Walter Canada Group arising from the filing by the Walter Canada Group under the BIA or the transactions contemplated by this Proposal, and

any and all notices of default and demands for payment under any instrument, including any guarantee arising from such default, shall be deemed to have been rescinded; provided, however, that any such defaults may still be asserted against the New Walter Canada Group in accordance with the process established in the CCAA Proceedings and any Order pronounced in respect thereof.

4.6 Books and Records

- (a) Notwithstanding any term in this Proposal, from and after the Proposal Commencement Date, the Purchaser, the Walter Canada Group and the New Walter Canada Group will make available to the other, as reasonably requested, and to any Tax authority, all information, records or documents currently or subsequently in the possession or control of such party relating to liability for Taxes with respect to the Residual Assets, the Transferred Assets, the Deemed Claims and the Residual Liabilities for all periods prior to or including the Proposal Commencement Date, and will preserve such information, records or documents until the expiration of any applicable statute of limitations or extensions thereof. In the event that one party needs access to records in the possession of the other party relating to any of the Residual Assets, the Transferred Assets, the Deemed Claims and the Residual Liabilities for purposes of preparing Tax returns or complying with any Tax audit request, subpoena or other investigative demand by any tax authority, or for any other legitimate Tax-related purpose not injurious to the other party, the other party will allow representatives of the first party, at the first party's sole expense, access to such records during regular business hours at the other party's place of business for the sole purpose of obtaining information for use as aforesaid and will permit the other party to make extracts and copies thereof as may be necessary or convenient.
- (b) Notwithstanding any term in this Proposal, from and after the Proposal Commencement Date, the Purchaser and the Walter Canada Group shall take all reasonable steps to preserve and keep the books and records delivered to it in connection with the completion of the transaction contemplated by this Proposal, including in respect of the period prior to the date of the Initial Order, for a period of six years from the Proposal Commencement Date, or for any longer period as may be required by any law or Government Entity, and shall make such records available to New Walter Canada Group, the Monitor, the Proposal Trustee, the CRO or the Bankruptcy Trustee of the New Walter Canada Group on a timely basis, as may be required by it, including in connection with the CCAA Proceedings and the claims process being conducted thereunder and with any administrative or legal proceeding that may be initiated by, on behalf of, or against the New Walter Canada Group and, for greater certainty, any litigation with respect to the UMWA 1974 Pension Plan Claim, including any discovery process that may be ordered in respect thereof.

4.7 Continuation of Partnerships

All of the Partnerships shall continue to exist as partnerships through and after the Proposal Completion Date and are not and shall not be dissolved, notwithstanding the

terms of any of the applicable partnership agreements, the *Partnership Act* (British Columbia), the CCAA Proceedings, the BIA Proceedings, this Proposal or the transactions occurring pursuant to the terms hereof.

ARTICLE 5 CONDITIONS

5.1 Confirmation of Proposal

Provided that this Proposal is approved by the Required Majority:

- (a) the Proposal Trustee shall forthwith seek the BIA Proposal Approval Order; and
- (b) subject to the BIA Proposal Approval Order being made in form and substance acceptable to the New Walter Canada Group, Proposal Trustee and the Purchaser and the satisfaction of the conditions to the implementation of this Proposal set forth in Section 5.3, this Proposal shall be implemented by the Proposal Trustee and shall be binding upon each of the Walter Canada Group and all Persons referred to in this Proposal.

5.2 Paramountcy

From and after the Proposal Commencement Date, any conflict between (i) this Proposal, and (ii) the covenants, warranties, representations, terms, conditions, provisions or obligations, express or implied, of any contract, purchase order, mortgage, security agreement, indenture, trust indenture, loan or other agreement, commitment letter, lease or other arrangement or undertaking, written or oral (including any and all amendments or supplements thereto) existing with, between or among one or more of the Affected Claimants and the Walter Canada Group as at the Proposal Commencement Date will be deemed to be governed by the provisions of this Proposal and the BIA Proposal Approval Order, which shall take precedence and priority. All Affected Claimants shall be deemed irrevocably for all purposes to consent to all transactions contemplated in and by this Proposal.

5.3 Conditions Precedent to Implementation of the Proposal

The implementation of this Proposal is subject to the following conditions precedent, which may be waived in writing as provided in Section 5.4:

- (a) there shall be no evidence that WECH does not own, directly or indirectly, 100% of the equity interests of the other members of the Walter Canada Group;
- (b) the Walter Canada Group shall have the Retained Business Assets;
- (c) from and after the date of the Term Sheet, no special resolution to dissolve any of Walter Canadian Coal Partnership, Wolverine Coal Partnership, Brule Coal Partnership or Willow Creek Coal Partnership (the “**Partnerships**”) shall have been passed;

- (d) from and after the date of the Term Sheet, no steps shall have been taken to change the membership of the Partnerships nor any member's interest in any of the Partnerships;
- (e) from and after the date of the Term Sheet until the Proposal Commencement Date, there shall be no jurisprudence or change in law that would have a material adverse effect on the tax attributes of the Walter Energy Group or tax impact of the transactions contemplated by or related to this Proposal;
- (f) the Purchaser shall have paid the Purchase Price to the Proposal Trustee, to hold in escrow for delivery to the New Walter Canada Group in accordance with the terms hereof;
- (g) this Proposal shall have been approved by the Required Majority;
- (h) The BIA Proposal Approval Order sanctioning this Proposal shall have been made and entered in form and substance satisfactory to the Walter Canada Group, the New Walter Canada Group, the Purchaser and the Proposal Trustee, no appeals or leaves to appeal shall have been filed or commenced in respect of the BIA Approval Order which has not been dismissed or withdrawn and the operation and effect of the BIA Proposal Approval Order shall not have been stayed, revised, modified, reversed or amended, and the BIA Proposal Approval Order shall, among other things:
 - (i) declare that this Proposal has been approved by the Required Majority of Affected Claimants in conformation with the BIA and the BIA Procedure Order;
 - (ii) declare that all steps taken by the Proposal Trustee as contemplated in the BIA Procedure Order have been satisfied;
 - (iii) declare that this Proposal and the transactions contemplated hereby are fair and reasonable, and in the best interests of the Walter Canada Group and its Affected Claimants and other stakeholders of the Walter Canada Group;
 - (iv) order that this Proposal (including the settlements, compromises, arrangements, reorganizations, transfers corporate transactions and releases set out herein) is sanctioned and approved pursuant to the BIA and, as at the Proposal Completion Date, will be effective and will enure to the benefit of and be binding upon the Walter Canada Group and all other Persons named or referred to in this Proposal, in the BIA Proposal Approval Order, the CCAA Procedure Order and any subsequent Order of the Court, if any;
 - (v) authorize and direct the Proposal Trustee to issue, execute and deliver the agreements, documents, securities and instruments contemplated by this Proposal, in the name of and on behalf of the Walter Canada Group, in order to effect all corporate actions contemplated by this Proposal;

- (vi) enjoin the commencement or prosecution, whether directly, derivatively or otherwise, of any demands, claims, actions, causes of action, counterclaims, suits, or any indebtedness, liability, obligation or cause of action released and discharged pursuant to this Proposal;
- (vii) annul the bankruptcy of the Walter Canada Group as of the Annulment Time; and
- (viii) be pronounced by the Court on or before December 28, 2016;
- (i) all relevant Persons shall have executed, delivered and filed all documents and other instruments, in form and substance satisfactory to the Walter Canada Group, the New Walter Canada Group, the Purchaser and the Proposal Trustee, that, in the opinion of the Proposal Trustee acting reasonably, are necessary to implement the provisions of this Proposal;
- (j) no effective injunction, writ or preliminary restraining order or any order of any nature shall have been issued and remain in effect by a competent authority prohibiting this Proposal from being consummated as provided herein and no law shall be in effect prohibiting this Proposal from being consummated as provided herein; and
- (k) the Purchaser shall be satisfied that the Annulment Time will occur on or before December 30, 2016.

5.4 Waiver of Conditions

Other than the approval of the Proposal by the Required Majority pursuant to Section 5.3(g) and the granting of the BIA Proposal Approval Order pursuant to Section 5.3(h) (but not the specific terms of that Order), the Purchaser and the New Walter Canada Group may, with the consent of the Proposal Trustee, at any time and from time to time waive the fulfillment or satisfaction, in whole or in part, of the conditions set forth in Section 5.3 above, except for the conditions set out in Sections 5.3(a) to 5.3(e), which may only be waived by the Purchaser, and the condition set out in Section 5.3(f), which may only be waived by the New Walter Canada Group, with the consent of the Monitor, in each case without any other notice to parties in interest or the Court and without a hearing.

5.5 Trustee's Certificate

Upon receipt of written evidence of the satisfaction or waiver of each of the conditions precedent set out in Section 5.3, the Proposal Trustee will file with the Court a copy of the certificate given by the Proposal Trustee to the Walter Canada Group, the New Walter Canada Group, the Purchaser and the Official Receiver stating that all conditions precedent set out in Section 5.3 have been satisfied or waived (the "**Trustee's Certificate**"). The date that the Trustee's Certificate is given to the Walter Canada Group, the New Walter Canada Group, the Purchaser and the Official Receiver and filed with the Court shall be deemed to be the "**Proposal Commencement Date**". The delivery of the Trustee's Certificate to each of the Purchaser, the New Walter Canada Group and the Walter Canada Group shall be conclusive evidence that this

Proposal and the transactions contemplated herein shall become effective in accordance with the terms herein.

ARTICLE 6 MISCELLANEOUS

6.1 Modification of Proposal

After the Creditors' Meeting (and both prior to and subsequent to the obtaining of the BIA Proposal Approval Order), the Purchaser and the New Walter Canada Group, in consultation with the Proposal Trustee, may at any time and from time to time agree to modify, amend, vary or supplement this Proposal, without the need for obtaining an Order of the Court or providing notice to the Affected Claimants if the Proposal Trustee determines that such modification, amendment, variation or supplement would not be materially prejudicial to the interests of the Affected Claimants under this Proposal or the BIA Proposal Approval Order and is necessary in order to give effect to the substance of this Proposal or the BIA Proposal Approval Order. The Proposal Trustee shall post on the Proposal Trustee's website, as soon as possible, any such modification, amendment, variation or supplement to this Proposal, with notice of such posting forthwith provided to all known Claimants at the filing date.

6.2 Capacity of Proposal Trustee

KPMG Inc., is acting in its capacity as Bankruptcy Trustee and Proposal Trustee under this Proposal and not in its personal capacity and shall not incur any liabilities or obligations in connection with this Proposal or in respect of the business or obligations of any of the members of the Walter Canada Group or the New Walter Canada Group.

6.3 Capacity of the CRO

The CRO is acting and has acted in its capacity as CRO pursuant to the terms of the Order of the Court dated January 5, 2016, as amended or supplemented by further Court Orders and shall not be responsible or liable for any obligations of any member of the Walter Canada Group or of the New Walter Canada Group; provided however that the CRO shall exercise the powers granted to the CRO to cause the members of the New Walter Canada Group to perform their obligations (if any) under this Proposal, the CCAA Procedure Order and any subsequent Order of the Court.

6.4 Notices

Any notices or communication to be made or given hereunder to the Walter Canada Group, the Purchaser and the Proposal Trustee shall be in writing and shall refer to this Proposal and may, subject as hereinafter provided, be made or given by fax or e-mail addresses to the respective parties as follows:

- (a) if to the New Walter Canada Group, on or prior to the Proposal Commencement Date, the Walter Canada Group:

William E. Aziz
Chief Restructuring Officer

Email: baziz@bluetreadvisors.com

With a copy to:

Osler, Hoskin & Harcourt LLP
Box 50, 1 First Canadian Place
Toronto, Ontario, M5X 1B8

Attention: Marc Wasserman / Patrick Riesterer
Fax No.: 416.862.6666
Email: mwasserman@osler.com / priesterer@osler.com

And with a copy to:

DLA Piper (Canada) LLP
Suite 2800, Park Place
666 Burrard St.
Vancouver, British Columbia V6C 2Z7

Attention: Mary Buttery / Lance Williams
Facsimile: (604) 605-3768
Email: mary.buttery@dlapiper.com / lance.williams@dlapiper.com

(b) If to the Proposal Trustee:

KPMG Inc.
777 Dunsmuir Street, PO Box 10426
Vancouver, British Columbia V7Y 1K3

Attention: Philip Reynolds / Anthony Tillman
Facsimile: (604) 691-3036
Email: pjreynolds@kpmg.ca / atillman@kpmg.ca

with a copy to:

McMillan LLP
181 Bay Street, Suite 440
Toronto, ON M5J 2T3

Attention: Wael Rostom / Caitlin Fell
Facsimile: 416.865.7048
Email: wael.rostom@mcmillan.ca / caitlin.fell@mcmillan.ca

(c) If to the Purchaser, or after the Proposal Commencement Date, the Walter Canada Group:

Jeff Shickele

Director
1098138 B.C. Ltd.
Suite 500, 856 Homer Street
Vancouver, BC V6B 2W5

Facsimile: 604.602.7110
Email: jshickele@amacon.com

and a copy to:

Randy Morphy
Borden Ladner Gervais LLP
Suite 1200 – 200 Burrard Street
PO Box 48600
Vancouver, BC V7X 1T2

Facsimile: 604.622.5006
Email: rmorphy@blg.com

or to such other fax or e-mail as any party may from time to time notify the others in accordance with this Section 6.4. All such notices and communications shall be deemed to have been received, in the case of notice by fax or e-mail sent prior to 5:00 p.m. (local time) on a Business Day, when such fax or email is sent or if sent after 5:00 p.m. (local time) on a Business Day or at any time on a non-Business Day, on the next following Business Day. This Proposal and any action taken by any Person pursuant to this Proposal shall not be invalidated where the BIA Procedure Order provides that any notice may be dispensed with or where there is an unintentional failure by the New Walter Canada Group, the Walter Canada Group or the Proposal Trustee to give any notice contemplated hereunder to any particular Claimant.

Any notices or communications to be made or given hereunder by the New Walter Canada Group, the Walter Canada Group or the Proposal Trustee to a Claimant shall be sent as provided for in the BIA Procedure Order or by fax, e-mail, ordinary mail, registered mail or courier. A Claimant shall be deemed to have received any document sent pursuant to this Proposal: (i) in the case of a document sent by fax or e-mail prior to 5:00 p.m. (local time) on a Business Day, when such fax or email is sent or if sent after 5:00 p.m. (local time) on a Business Day or at any time on a non-Business Day, on the next following Business Day; (ii) in the case of documents sent by courier, on the Business Day immediately following the day on which the document is sent; and (iii) in the case of a document sent by ordinary or registered mail, four (4) Business Days after the document is sent. Documents shall not be sent by ordinary or registered mail during a postal strike or work stoppage of general application.

Notices or communications may be sent to a Claimant as follows: (i) at the addresses set forth in the Proof of Claim filed by such Claimant; (ii) to the address set forth in any written notice of address changes delivered to the Proposal Trustee; or (iii) the last known address for such Claimant available to the Proposal Trustee.

6.5 Severability of Proposal Provisions

If, prior to the Proposal Commencement Date, any term or provision of this Proposal is held by the Court to be invalid, void or unenforceable, the Court, at the request of the Proposal Trustee, the New Walter Canada Group or the Purchaser, shall have the power to alter and interpret such term or provision to make it valid or enforceable to the maximum extent practicable, consistent with the original purpose of the term or provision held to be invalid, void or unenforceable, and such term or provision shall then be applicable as altered or interpreted. Notwithstanding any such holding, alteration or interpretation, the remainder of the terms and provisions of this Proposal shall remain in full force and effect and shall in no way be affected, impaired or invalidated by such holding, alteration or interpretation.

6.6 Non-consummation

If this Proposal is not approved by the Required Majority, if any of the other conditions set forth in Section 5.3 above are not satisfied or waived in accordance with the terms hereof or if the BIA Proposal Approval Order is not granted, then: (i) this Proposal shall be null and void in all respects, (ii) no transfer of Transferred Assets and no assumption of Deemed Claims shall occur; (iii) any Claim, any settlement, compromise or release embodied in this Proposal, assumption or termination, repudiation of executory contracts or leases effected by this Proposal, and any document or agreement executed pursuant to this Proposal shall be deemed null and void, and (iv) nothing contained in this Proposal, and no act taken in preparation for consummation of Proposal, shall:

- (a) constitute or be deemed to constitute a waiver or release of any Claims by or against the Walter Canada Group or any other Person;
- (b) prejudice in any manner the rights of the Walter Canada Group, the New Walter Canada Group or any other Person in any further proceedings involving the Walter Canada Group or the New Walter Canada Group; or
- (c) constitute an admission of any sort by the Walter Canada Group, the New Walter Canada Group or any other Person.

6.7 Governing Law

This Proposal shall be governed by and construed in accordance with the laws of the Province of British Columbia and the federal laws of Canada applicable therein. Any questions as to the interpretation or application of this Proposal and all proceedings taken in connection with this Proposal and its provisions shall be subject to the exclusive jurisdiction of the Court.

6.8 Successors and Assigns

This Proposal shall be binding upon and shall enure to the benefit of the heirs, administrators, executors, legal representatives, successors (including by merger, amalgamation, consolidation, conversion or reorganization or following any winding-up, liquidation or dissolution) and permitted assigns of any Person named or referred to in this Proposal.

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