

**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**

AND

**IN THE MATTER OF THE *BUSINESS CORPORATIONS ACT*,
S.B.C. 2002, c. 57, AS AMENDED**

AND

**IN THE MATTER OF THE PLAN OF COMPROMISE AND ARRANGEMENT
OF NEW WALTER ENERGY CANADA HOLDINGS, INC., NEW WALTER
CANADIAN COAL CORP., NEW BRULE COAL CORP., NEW WILLOW CREEK
COAL CORP., NEW WOLVERINE COAL CORP. AND CAMBRIAN
ENERGYBUILD HOLDINGS ULC**

PETITIONERS

FOURTEENTH REPORT OF THE MONITOR, KPMG INC.

December 7, 2017

TABLE OF CONTENTS

INTRODUCTION AND PURPOSE OF THE MONITOR'S REPORT	1
REPORT RESTRICTIONS AND SCOPE LIMITATIONS	4
WALTER UK MATTERS	5
CLAIMS PROCESS UPDATE	8
ACTUAL RECEIPTS AND DISBURSEMENTS COMPARED TO FORECAST.....	11
UPDATED CCAA CASH FLOW FORECAST	12
OTHER MATTERS.....	14
THE MONITOR'S OBSERVATIONS AND RECOMMENDATIONS	15

INDEX TO SCHEDULES

Schedule A	Redacted Copy of the Draft UK Offer Letter
Schedule B	Updated CCAA Cash Flow Forecast for the 13-Week Period Ending March 3, 2018

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 petition (the “**Application**”) filed by Walter Energy Canada Holdings, Inc. (“**WECH**”), Walter Canadian Coal ULC, Wolverine Coal ULC, Brule Coal ULC, Cambrian Energybuild Holdings ULC, Willow Creek Coal ULC, Pine Valley Coal Ltd. and 0541237 B.C. Ltd. (collectively, the “**Original 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. The proceedings brought by the Original Petitioners under the CCAA will be referred to herein as the “**CCAA Proceedings**”.
2. Pursuant to the Initial Order, the Stay and certain other relief was extended to certain of the Original Petitioners’ partnerships (collectively with the Original Petitioners, “**Old Walter Canada**”):
 - i) Walter Canadian Coal Partnership;
 - ii) Wolverine Coal Partnership;
 - iii) Brule Coal Partnership; and
 - iv) Willow Creek Coal Partnership.
3. On December 28, 2016, pursuant to orders of this Honourable Court which were granted on December 7, 2016 and December 21, 2016, as well as bankruptcy and proposal proceedings which were initiated by Old Walter Canada under the *Bankruptcy and Insolvency Act* (the “**BIA**”) during December 2016, the CCAA Proceedings in respect of all of the Old Walter Canada entities, except for Cambrian Energybuild Holdings ULC (“**Cambrian**”), were terminated and the CCAA Proceedings were continued with respect to Cambrian and the following new entities which were formed and became petitioners in the CCAA Proceedings on December 8, 2016 (the “**New Walter Entities**” which, collectively with Cambrian, are referred to herein as “**Walter Canada**”):

- i) New Walter Energy Canada Holdings, Inc.;
 - ii) New Walter Canadian Coal Corp.;
 - iii) New Brule Coal Corp.;
 - iv) New Willow Creek Coal Corp.; and
 - v) New Wolverine Coal Corp.
4. Readers are directed to the Thirteenth Report of the Monitor dated October 4, 2017 (the “**Thirteenth Report**”) as well as the Tenth Report of the Monitor dated May 24, 2017 for a comprehensive summary of the CCAA Proceedings up to the date of the Thirteenth Report.
 5. On October 6, 2017, this Honourable Court granted an order which, among other things, extended the Stay until December 15, 2017 and approved the Settlement Term Sheet Re Plan of Compromise and Arrangement among Walter Canada, the United Mine Workers of America 1974 Pension Plan and Trust (the “**1974 Pension Plan**”) and Warrior Met Coal, LLC (“**Warrior**”) (the “**Term Sheet**”).
 6. The Monitor has issued thirteen previous reports since the Initial Order was granted, and those reports are referred to herein, collectively, as the “**Previous Reports**”. Terms not specifically defined herein shall have the meanings as defined in the Previous Reports, the Claims Process Order, or the Claims Process Amendment Order.
 7. The Monitor maintains a website at www.kpmg.com/ca/walterenergycanada (the “**Monitor’s Website**”) on which copies of the Previous Reports as well as additional information regarding these CCAA Proceedings can be found.
 8. The purpose of this Fourteenth report of the Monitor (the “**Fourteenth Report**”) is to provide this Honourable Court with information regarding the following:
 - a) A discussion regarding the draft offer letter (the “**UK Offer Letter**”, a redacted copy of which is attached hereto as Schedule “A”) which Walter Canada received from Specialty Carbons Limited (“**Specialty Carbons**”) on December 5, 2017 in respect of Specialty Carbon’s offer to purchase the shares of certain of the Walter UK entities, and Walter Canada’s motion returnable December 13, 2017 (the

“**December 13 Application**”) seeking, among other things, an order from this Honourable Court authorizing Walter Canada to direct one of the Walter UK entities, Energybuild Holdings Ltd. (“**Energybuild Holdings**”, the proposed vendor set out in the UK Offer Letter) to enter into the UK Offer Letter, as well as an order sealing the confidential affidavit of William E. Aziz sworn on December 7, 2017 (the “**Confidential Aziz Affidavit**”) to which an unredacted copy of the UK Offer Letter is attached;

- b) The Monitor’s observations in respect of Walter Canada’s request to this Honourable Court for authorization to advance additional funds to Walter UK in the amount of up to £200,000 in excess of the amounts previously approved in order to fund its operations while negotiations with Specialty Carbons continue;
- c) An update regarding the status of the Unresolved Claims and other Claims Process matters, as well as Walter Canada’s application to this Honourable Court for a sealing order in respect of certain confidential information that will be filed, including a confidential Monitor’s report which will be filed on or about December 15, 2017, as part of the litigation of the Unresolved Claim of Mr. Kevin James (the “**James Claim**”);
- d) Walter Canada’s actual cash flow results for the 10-week period ended December 2, 2017 as compared to the previous forecast which was filed with the Thirteenth Report for the 12-week period ending December 16, 2017 (the “**Previous CCAA Cash Flow Forecast**”);
- e) Walter Canada’s updated cash flow forecast for the 13-week period ending March 3, 2018 (the “**Updated CCAA Cash Flow Forecast**”);
- f) A discussion in respect of certain other matters, including an update on the status of Walter Canada’s development of a plan of compromise and arrangement (the “**Plan**”); and
- g) The Monitor’s observations and recommendations in respect of the December 13 Application seeking the aforementioned relief as well as an extension of the Stay to February 28, 2018 (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 Old Walter Canada, Walter Canada and/or certain of their respective affiliates, discussions with counsel for Walter Canada, and management and the CRO (collectively, “**Management**”) and information from other public third-party sources (collectively, the “**Information**”). Except as described in this report in respect of the Previous CCAA Cash Flow Forecast and the 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 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.

WALTER UK MATTERS

The UK Offer Letter

13. Walter UK owns the anthracite coal mine in South Wales that is currently in care and maintenance. As has been discussed in a number of the Previous Reports, including the Thirteenth Report, Walter UK and its assets have been marketed several times, including by Walter Canada through two separate Court-approved sale processes within the CCAA Proceedings and, prior to the Filing Date, by Walter Energy, Inc. in its Chapter 11 proceedings. In connection with these sale processes, Walter Canada has entered into non-disclosure agreements with certain parties who have shown interest in the Walter UK assets and has been engaged in discussions with such parties.
14. Walter Canada has been engaged in discussions with Specialty Carbons, the interested party referred to in the Previous Reports, for some time. As noted in the Thirteenth Report, Specialty Carbons' principal conditions precedent to an acquisition of Energybuild Limited and certain of its affiliates was the settlement of certain claims or potential claims of Warrior and the 1974 Pension Plan against Walter UK (the "**UK Claims**").
15. The Term Sheet approved by this Honourable Court on October 6, 2017 includes provisions to address the UK Claims. These provisions facilitated renewed discussions between Walter Canada and Specialty Carbons, which resulted in the UK Offer Letter having been delivered to Walter Canada.
16. The UK Offer Letter sets out Specialty Carbons' proposed terms of its offer to purchase the share capital of Energybuild Limited, Energybuild Mining Limited and Mineral Extraction and Handling Limited (collectively, the "**Energybuild Companies**") from Energybuild Holdings for the consideration set out in the unredacted UK Offer Letter which was attached to the Confidential Aziz Affidavit, plus any applicable stamp or other taxes payable by a buyer. The UK Offer Letter contemplates the negotiation of a final form of a conditional share purchase agreement (the "**UK Share Purchase Agreement**", which is to be based on a template document that Walter Canada previously provided to Specialty Carbons) which will be exchanged on the closing date, which both parties are working towards occurring on or before February 28, 2018.

17. The UK Offer Letter is not a binding agreement of purchase and sale and it does not commit either party to enter into the proposed transaction or to any specific terms of a transaction. However, it does include Walter Canada granting Specialty Carbons a period of exclusivity to negotiate and enter into the transaction contemplated in the UK Offer Letter, and Walter Canada will not be permitted to solicit any further offers for Walter UK or its assets until the earlier of (i) the date this Honourable Court refuses to approve the acceptance of the UK Offer Letter, (ii) the exchange of the UK Share Purchase Agreement or confirmation from Specialty Carbons that it no longer wishes to proceed with this transaction, or (iii) February 28, 2018. Specialty Carbons has indicated that it requires exclusivity in order to perform additional due diligence and initiate preliminary discussions with various stakeholders (including governmental and regulatory authorities) in order to confirm its views as to the prospects for the mine prior to finalizing a share purchase.
18. The Monitor is of the view that, given a short period of additional time, there is a real prospect that Walter Canada will be able to negotiate a final form of the UK Share Purchase Agreement with Specialty Carbons, which it will thereafter present to this Honourable Court for approval.
19. The Monitor is also of the view that, given the amount of time which Walter Canada has invested in negotiating with Specialty Carbons and considering the level of interest expressed by other potentially interested parties to date, it would be reasonable to provide the relatively short period of exclusivity which Specialty Carbons is seeking in order to provide it with some comfort before it expends additional resources on its due diligence activities.
20. For these reasons, the Monitor supports Walter Canada's request for an order from this Honourable Court authorizing Walter Canada to direct Energybuild Holdings to enter into the UK Offer Letter, which would include providing Specialty Carbons with the requested exclusivity period, with a view to enabling Walter Canada and Specialty Carbons to work towards a completed transaction that will benefit the Claimants of Walter Canada.

Request for a Sealing Order re: Confidential Aziz Affidavit

21. The Monitor agrees with the CRO's assertion, in the 16th affidavit of William E. Aziz sworn on December 7, 2017 that the terms of the UK Offer Letter are commercially sensitive and should not be disclosed before the proposed transaction with Specialty Carbons successfully closes.
22. Therefore, the Monitor recommends to this Honourable Court that it grant Walter Canada's requested Order sealing the Confidential Aziz Affidavit to protect certain confidential information contained in the unredacted UK Offer Letter attached thereto.

Request for Authorization to Make Additional Advances to Walter UK

23. To date, this Honourable Court has authorized Cambrian to loan, on a secured basis, up to £900,000 to Walter UK, of which £800,000 has been advanced as at the date of this report, with an additional £100,000 expected to be advanced during the week ending December 16, 2017.
24. Based on its review of Walter UK's latest updated cash flow forecast, Walter Canada is seeking this Honourable Court's authorization for Cambrian to advance up to an additional £200,000 (approximately \$340,000 based on the exchange rates in effect as at the date of this report), on a secured basis, to Walter UK to provide it with sufficient liquidity to approximately the end of February 2018 while efforts continue to finalize a transaction with Specialty Carbons. In the event that the transaction is completed earlier, then the actual funding requirements are expected to be lower.
25. The Monitor is of the view that Walter UK requires additional funding to enable it to continue to meet its financial obligations and that it would be reasonable for this Honourable Court to authorize Cambrian to loan the requested additional advance, on a secured basis, to Walter UK to provide additional time to conclude the proposed transaction with Specialty Carbons.

CLAIMS PROCESS UPDATE

Recently Resolved Claims

26. Three of the four remaining Unresolved Claims as at the date of the Thirteenth Report have now been resolved, leaving one Unresolved Claim (which is discussed in the next section). As a result, the total amount of Allowed Claims is now \$24.4 million (as compared with \$23.8 million as at the date of the Thirteenth Report), as shown in the table below which summarizes the Allowed Claims and the one Claim which was still in dispute as at December 8, 2017:

Quantum and Status of Claims as at December 8, 2017		
(CAD \$000)	# of Claims	Amount
Allowed Claims		
Employee Claims	291	12,205
Other Claims		
Restructuring Claims	3	422
Pre-Commencement Claims	16	11,799
Total Allowed Claims	310	24,426
Unresolved Claims		
James, Kevin	Restructuring Claim ¹	1
		6,747
Total Allowed Claims and Unresolved Claims	311	31,173

Note 1: Initial Claim filed at \$6,747,000.

27. The first recently resolved Claim is that of the USW, in relation to monies claimed to be owed to the USW in respect of its Education and Training Fund. Upon further review by the Monitor, in consultation with Walter Canada, this Claim was recently accepted in the full amount as filed by the USW, which is \$11,570.
28. The second recently resolved Claim is that which the USW filed on behalf of each USW member Employee Claimant claiming an additional \$500 per month of contractual severance and an additional \$500 for Northern Working Allowance. As with the above USW Claim, this Claim was accepted as filed after further review of it by the Monitor, in consultation with Walter Canada. The total allowed amount of this Claim is \$310,500, which has been allocated individually to increase the individual Employee Claims of the applicable Employee Claimants (which is why the number of allowed Employee Claims remains 291, as shown in the Thirteenth Report).

29. The third previously Unresolved Claim that has now been allowed is that of Mitsui Matsushima Co. Ltd. (“**Mitsui**”). As discussed in the Thirteenth Report, this Claim was originally filed in the amount of US\$600,000 and then reduced by Mitsui to US\$325,000 on May 30, 2017. After negotiations between Walter Canada and Mitsui in an effort to consensually resolve this disputed Claim pursuant to the Claims Process Order, the Claim amount was settled at US\$250,000 and it has now been allowed by the Monitor at that amount.

Update on Unresolved Claims

30. Further to the discussion in the Thirteenth Report (and certain other Previous Reports), the Monitor and Walter Canada have been unable to consensually resolve the James Claim through their discussions with Mr. James’ counsel to date. The James Claim relates to certain outstanding royalties that are allegedly owed to Mr. James under a Royalty Sharing Agreement that he signed with Western Canadian Coal Corporation.
31. On October 6, 2017, Mr. James’ counsel filed a Notice of Application with this Honourable Court seeking a declaration that the James Claim be considered a proven Claim and an order to pay Mr. James \$7,150,000, costs and such further relief as this Honourable Court deems just.
32. On November 3, 2017, Walter Canada filed its Application Response, setting out its reasons for opposition of such an order, including Walter Canada’s position that Mr. James is not entitled to the relief he is seeking and its belief that the valuation of the James Claim is overstated.
33. In order to enable the experts of both Walter Canada and Mr. James to determine what they believe to be the value, if any, of the James Claim, Walter Canada would like to make available to those experts certain confidential and commercially sensitive information from the books and records of Conuma Coal Resources Limited (“**Conuma**”), such as mining and technical reports, mine plans, feasibility studies, reserve information and coal assessment reports, which Walter Canada intends to make available by appending same to a confidential affidavit to be sworn by Mr. Philip L. Evans Jr. (the “**Confidential Evans Affidavit**”).

34. Walter Canada has also requested that the Monitor make certain details in respect of the Conuma Transaction available for access by the experts by including that information in a confidential Monitor's report, which the Monitor intends to file on or about December 15, 2017 (the "**Confidential Monitor's Report**").
35. Pursuant to the Conuma APA dated August 8, 2016, Walter Canada is required to maintain the confidentiality of the information which it proposed to make available to the experts, including that which would be included in the Confidential Monitor's Report. Accordingly, Walter Canada is seeking a sealing order from this Honourable Court in respect of the Confidential Evans Affidavit, the Confidential Monitor's Report, as well as any expert reports that rely on the Confidential Evans Affidavit.
36. The Monitor is in agreement that a sealing order is necessary and appropriate in the circumstances to allow for a more precise valuation of the James Claim and ultimately to advance the litigation while preserving the confidentiality of Conuma's proprietary and commercially sensitive information.

Other Claim Matters

37. Further to the discussion in the Thirteenth Report, the Monitor has now received a total of 15 Notices of Dispute of Employee Claim ("**Employee NOD**") from Employee Claimants, which were delivered to the Monitor approximately eleven months after the passing of the October 5, 2016 Claims Bar Date that was established under the Claims Process Order.
38. The Claims Process Order stipulates that any Employee Claimant who wishes to dispute the amount set out in the Employee Claim Amount Notice they receive, must do so by delivering an Employee NOD by no later than the Claims Bar Date.
39. Accordingly, the Monitor, in consultation with Walter Canada and after discussing the matter with the USW's counsel, issued letters to the 15 Employee Claimants notifying each of them that their late-filed Employee NODs had been rejected and confirming that their Employee Claim had been accepted at the amount set out in the original Employee Claim Amount Notice which had previously been mailed to them by the Monitor.

ACTUAL RECEIPTS AND DISBURSEMENTS COMPARED TO FORECAST

40. Walter Canada's actual cash receipts and disbursements for the 10-week period ended December 2, 2017 (the "**Reporting Period**"), as compared with the Previous CCAA Cash Flow Forecast, are summarized in the table below:

Walter Canada Summary of Actual versus Forecast Cash Flow			
For the 10-Week Period from September 24, 2017 to December 2, 2017 ⁽¹⁾			
Prepared on a Consolidated Basis			
Unaudited (CAD \$000)	Actual	Forecast	Variance
Cash Inflow			
Other Receipts	23	12	11
Total Cash Inflow	23	12	11
Cash Outflow - Operating Disbursements			
Director's Fees	(345)	(348)	3
Consulting	(15)	(15)	-
Insurance	(80)	(80)	-
Information Technology	(2)	(3)	1
Total Cash Outflows - Operating Disbursements	(442)	(446)	4
Cash Outflow - Non-Operating Disbursements			
CRO and Restructuring Advisor Fees	(786)	(1,625)	839
Walter U.K. Funding	(418)	(585)	167
Success Fees	(344)	(339)	(5)
Total Cash Outflows - Non-Operating Disbursements	(1,548)	(2,549)	1,001
Net Cash Flow	(1,967)	(2,983)	1,016
Cash, beginning of period (September 24, 2017)	66,205	66,205	-
Effect of Foreign Exchange translation	512	-	512
Cash, end of period (December 2, 2017)⁽²⁾	64,750	63,222	1,528
Note 1: Readers are cautioned to read the "Report Restrictions and Scope Limitations" section of this report.			
Note 2: The cash position noted above excludes approximately US\$270K that was received upon closing of Walter Canada's previous account network at the Bank of Nova Scotia. This amount is excluded as discussions as to whether these funds belong to Walter Canada or Warrior are ongoing.			

41. The following is a summary of the more significant variances in respect of the \$1.5 million aggregate net favourable cash flow variance during the Reporting Period:
- The majority of the \$839,000 favourable variance for CRO and restructuring advisor fees relates to a timing difference in the payment of professional fees that is expected to reverse in the coming weeks.

- b) The \$167,000 favourable variance for Walter UK Funding is a timing difference as a £100,000 advance (approximately \$170,000 at current foreign exchange rates) is expected to be made during the week ending December 16, 2017.
- c) The \$512,000 favourable variance relating to the effect of foreign exchange translation is an unrealized gain primarily due to the strengthening of the US dollar against the Canadian dollar during the Reporting Period, which created an unrealized gain for cash reporting purposes (as Walter Canada has no intention in the short term of converting its US dollar cash balances to Canadian dollars).

UPDATED CCAA CASH FLOW FORECAST

42. The Updated CCAA Cash Flow Forecast has been prepared by Walter Canada, with the assistance of the Monitor, on a consolidated basis for the 13-week period ending March 3, 2018 (the “**Updated Cash Flow Period**”) to correspond with the Extended Stay Period being sought by Walter Canada, and 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” and is summarized in the table below:

Walter Canada Summary of the Updated CCAA Cash Flow Forecast For the 13-Week Period from December 3, 2017 to March 3, 2018 ⁽¹⁾ Prepared on a Consolidated Basis Unaudited (CAD \$000)	
Cash Inflow	
Other Receipts	44
Total Cash Inflow	44
Cash Outflow - Operating Disbursements	
Director's Fees	(33)
Consulting	(40)
Information Technology	(4)
Total Cash Outflows - Operating Disbursements	(77)
Cash Outflow - Non-Operating Disbursements	
CRO and Restructuring Advisor Fees	(1,900)
Walter UK Funding	(510)
Total Cash Outflows - Non-Operating Disbursements	(2,410)
Net Cash Flow	(2,443)
Cash, beginning of period (December 3, 2017)	64,750
Cash, end of period (March 3, 2018)	62,307
Note 1: Readers are cautioned to read the "Report Restrictions and Scope Limitations" section of this report.	

43. Net cash outflows during the Updated Cash Flow Period are expected to total approximately \$2.4 million, which Walter Canada will fund from its current cash resources on hand. On March 3, 2018, at the end of the Updated Cash Flow Period, Walter Canada expects to have approximately \$62.3 million of combined cash resources remaining.
44. The following is a summary of the more significant components of the Updated CCAA Cash Flow Forecast:
- a) Interest income in the estimated amount of approximately \$44,000 is expected to be earned on Walter Canada's cash holdings during the Updated Cash Flow Period and has been categorized under Other Receipts.
 - b) Director's fees totaling \$33,000 relate to the monthly payments to Walter Canada's sole director.
 - c) Consulting fees totaling \$40,000 relate to the external consultant hired by Walter Canada to manage the operations of Walter UK until a transaction is closed as well as to assist in the adjudication of the James Claim.
 - d) Payments to Walter Canada's counsel, the Monitor and its counsel, and the CRO are forecast to be approximately \$1.9 million during the Updated Cash Flow Period. Professional fee costs will primarily relate to working to complete the proposed Walter UK transaction with Specialty Carbons, preparation of the Plan and litigation of the James Claim.
 - e) Walter Canada has budgeted up to £300,000 (approximately \$510,000), subject to obtaining approval from this Honourable Court for authorization for Cambrian to loan, on a secured basis, the requested additional £200,000, to fund the Walter UK operations until the end of February 2018. Actual funding may be lower if a transaction with Specialty Carbons is consummated before February 28, 2018.
 - f) As discussed in certain of the Previous Reports, approximately US\$270,000 has been excluded from the Updated CCAA Cash Flow Forecast in relation to the amount received by Walter Canada from BNS when Walter Canada's account network was closed. The Monitor will provide an update to this Honourable Court once it has determined whether those funds belong to Warrior or Walter Canada and what the appropriate disposition of these funds is.

45. The Updated CCAA Cash Flow Forecast indicates that Walter Canada has the necessary liquidity to fund its expected cash requirements to the end of the Updated Cash Flow Period.

OTHER MATTERS

46. The Term Sheet sets out the key terms of the Plan which Walter Canada expects to present to this Honourable Court at a later date for approval, provided that certain pre-conditions are met.
47. Since the Term Sheet was approved by this Honourable Court on October 6, 2017, Walter Canada has worked diligently to implement the Term Sheet and develop the Plan, which is currently in draft form as Walter Canada, in consultation with the Monitor and its other professional advisors, work through certain aspects of the BIA Proposal which Walter Canada completed in December 2016 and which need to be resolved before the Plan can be finalized and presented to this Honourable Court.
48. As was the case with the Fund Distribution earlier this year, once any final distribution to Employee Claimants (pursuant to terms of the Term Sheet and the as yet unfiled Plan) is declared, the Monitor will be required, pursuant to the *Employment Insurance Act*, to obtain a Determination Letter from Service Canada setting out whether any Employment Insurance benefit overpayment amounts for these Employee Claimants are repayable to the Receiver General.
49. In the expectation that a Plan will be presented to this Honourable Court in the near future, and with a view to seeking to expedite the process of obtaining a Determination Letter in order to allow for a more expeditious distribution to Employee Claimants upon approval of the Plan, the Monitor has engaged with Service Canada and provided it with preliminary information about the Employee Claims. The Monitor has responded to a number of inquiries from Service Canada as it works to understand the various heads of claim of the Employee Claims, and how each will be treated for the purpose of Service Canada's determination of any Employment Insurance benefit overpayment amounts. Service Canada will commence its formal review following approval of a Plan by Walter Canada's creditors and this Honourable Court.

THE MONITOR'S OBSERVATIONS AND RECOMMENDATIONS

50. In the Monitor's opinion, Walter Canada is continuing to act in good faith and with due diligence in furthering its restructuring efforts, including having resolved a number of previously Unresolved Claims, working towards resolving the James Claim and disposing of Walter Canada's sole remaining asset, Walter UK, and furthering development of the Plan.
51. The Monitor recommends to this Honourable Court that it grant Walter Canada's request for an order authorizing Walter Canada to direct Energybuild Holdings to enter into the UK Offer Letter and for Cambrian to loan up to an additional £200,000, on a secured basis, to Walter UK, as well as for an extension of the Stay to February 28, 2018, in order to allow a short period of time for Walter Canada to seek to complete the proposed Walter UK transaction, to provide sufficient working for Walter UK during that period, and for Walter Canada to develop a Plan to present to this Honourable Court at a later date for approval.
52. The Monitor also recommends to this Honourable Court that it grant Walter Canada's requested sealing orders to preserve the confidentiality of both the commercially sensitive aspects of the UK Offer Letter (contained in the Confidential Aziz Affidavit) and any of Conuma's confidential information that may be included with the Confidential Evans Affidavit, the Confidential Monitor's Report, as well as any expert reports that rely on the material in the Confidential Evans Affidavit.

All of which is respectfully submitted this 7th day of December, 2017.

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



Per: Anthony Tillman
Senior Vice President

Schedule “A”

Redacted Copy of the Draft UK Offer Letter

Speciality Carbons Limited

r/o: Whitelion House

17 Newmarket Street

Usk

NP15 1AU

Great Britain

To: Blue Tree Advisors

Suite 5600

100 King Street West

First Canadian Place

Toronto, Ontario

Canada

Attention William E Aziz

E-mail: baziz@bluetreeadvisors.com

Date:

Dear Bill,

Offer

This letter sets out the terms pursuant to which we, **Speciality Carbons Limited** ("**Buyer**") offer to acquire the entire issued share capital of Energybuild Limited, Energybuild Mining Limited and Mineral Extraction and Handling Limited (together, the "**Energybuild Companies**") from **Energybuild Holdings Limited** (the "**Seller**") pursuant to the Sale and Investment Solicitation Process commenced in respect of Walter Energy Canada Holdings, Inc. ("**Walter**") and its subsidiaries and partnerships (the "**Proposed Acquisition**").

The purpose of this letter is to set out our preferred proposal (the "**Proposal**"). Except as provided for in the sections of this letter titled Exclusivity, Confidentiality, Intended Use, Costs, Rights of Third Parties, and Governing Law and Jurisdiction, the terms of this letter are not legally binding, and neither party shall be legally bound to proceed with the Proposal unless and until (i) a formal written share purchase agreement is entered into, and (ii) the share purchase agreement has been approved by the Supreme Court of British Columbia (the "**Court**") as part

of New Walter Energy Canada Holdings, Inc.'s proceedings under the *Companies' Creditors Arrangement Act* (Canada).

We will purchase the share capital of the Energybuild Companies for a consideration of [REDACTED] ("**Purchase Price**"). We will also be liable for any applicable stamp duty and any taxes falling on a buyer in respect of the transaction. Rather than negotiating detailed heads of terms we will use the previously provided draft share purchase agreement as the basis of a conditional share purchase agreement, which is to be exchanged as soon as possible with completion targeted for the end of February 2018.

The consideration will be payable as to [REDACTED] (less the deposit [REDACTED] already paid) on completion. On completion, Seller agrees to make an advance [REDACTED] to Energybuild Ltd. (the "**Working Capital Advance**") (on a secured basis with security covering all of the Energybuild Companies' assets) to provide working capital for the Energybuild Companies, and the Working Capital Advance shall be due and payable 9 months after completion. Buyer shall provide a guarantee to Seller for the obligations of Energybuild Ltd. to repay the Working Capital Advance, which shall be secured by a charge over the shares in the Energybuild Companies.

Cambrian Energybuild Holdings ULC ("**Cambrian**") shall also continue to have a charge on the assets of the Energybuild Companies granted to secure the repayment of the funds advanced to Energybuild Ltd., directly or indirectly, by Cambrian (the "**Cambrian Advance**", and together with the Working Capital Advance, the "**Advances**"). Following completion, Seller shall repay a portion of the Cambrian Advance from that portion of the Purchase Price that is not used by Seller to fund the Working Capital Advance and the Cambrian Advance shall be reduced by the amount so paid. Upon repayment of the Working Capital Advance the Cambrian Advance shall be waived or forgiven or otherwise addressed in a manner satisfactory to Buyer that is intended to preserve all available tax losses in Energybuild Ltd and to minimize the creation of any additional tax liability resulting from any such action.

Seller and Cambrian agree to enter into good faith negotiations regarding a potential subordination by Seller and Cambrian, on terms reasonably acceptable to Seller and Cambrian, of the Advances to the repayment and associated security to third party loans and associated security ("**Third Party Loans**") made to the Buyer following completion, provided that any such Third Party Loans are made for *bona fide* refinancing purposes.

On exchange, the Seller will hand over the following documents to the Buyer:

- a. The current operating lease for Aberpergwm Estate and all recent correspondence;
- b. The Lease relating to Treforgan and all recent correspondence;
- c. All current planning permissions and recent correspondence with the local authority;
- d. All current licenses and recent correspondence with the Coal Authority;
- e. All current licenses and recent correspondence with the Environmental Agency; and
- f. Any other documents with reference to permits, licenses, leases or other property titles or contracts required for the bidder to operate the mine without interference

and completion of the share purchase agreement will be conditional inter alia of the Buyer being satisfied with the status of these documents.

The following provisions shall also apply to this offer:

1. The Seller will sell the shares in the Energybuild Companies with full title and free from all encumbrances, claims, liens, equities, charges and adverse rights of any description.
2. Unless otherwise set out herein, the sale of the shares in the Energybuild Companies shall be on an "as is, where is basis".
3. The Seller will give a full indemnity to the Buyer in respect of any claims contrary to the representation and warranty that the shares in the Energybuild Companies are being sold with full title and free from all encumbrances, claims, liens, equities, charges and adverse rights of any description.
4. The Seller shall make provision for all liabilities of the Energybuild Companies existing as of the Closing Date, other than the following liabilities, which, for greater certainty, shall remain liabilities of the Energybuild Companies and shall not be paid or addressed by the Seller:
 - a. any claims for environmental matters or reclamation obligations, including without limitation (i) claims of Neath Port Talbot County Borough Council, the Coal Authority and any other governmental authority that may arise, whether or not such claims relate to restoration bonds held by such governmental authority, and (ii) any claims relating to the lease for the land upon which the Aberpergwm mine is situated;
 - b. any claims related to work to be performed to comply with any planning commission or other obligation imposed by any governmental authority;
 - c. any claims for taxes of any kind;
 - d. any claims from the Welsh Assembly or any other governmental authority that may be in force in relation to loans provided to the Energybuild Companies by the Welsh Assembly or such governmental authority, including in connection with equipment financing;
 - e. any claims or liabilities of any kind, whether pursuant to contract, purchase order or otherwise, arising (i) in the ordinary course of business and not yet due and payable as of the Closing Date and (ii) that apply to goods to be received or services to be provided or other accruals related to the period after the Closing Date;
 - f. any claim for ordinary course trade payables, including telephone, internet and other communication services, security, electricity, insurance, real property leases and similar matters;
 - g. any claim of UK Methane Limited or its affiliates (collectively, "**UK Methane**") in respect of UK Methane's petroleum exploration licenses and rights, including in relation to bore holes on the Aberpergwm property or an Interaction Agreement among UK Methane and the Energybuild Companies;
 - h. any claim related to the CRC Energy Efficiency Scheme Order; and

- i. any claims of any nature whatsoever that arise or relate to the period after the Closing Date.

and provided further that (i) the Seller shall have no liability to the Buyer for any claims until the aggregate amount of such claims exceeds £100,000; and (ii) in no circumstances shall the Seller be liable for any amount in excess of the Purchase Price.

5. Notwithstanding the limit of liability contained in paragraph 4, completion of the transaction will be conditional on the Seller proving to the Buyer's satisfaction that there are no outstanding liabilities to the Energybuild Companies in respect of
 - a. Any intercompany loans made to the Energybuild Companies by Walter Energy, Inc. or any of its US affiliates and assigned to Warrior Met Coal LLC (the "**Warrior Claim**"); and
 - b. any claim made by the United Mine Workers of America 1974 Pension Plan and Trust in relation to liabilities of Walter Energy, Inc. or any of its US affiliates (the "**UMWA Claim**").
6. Prior to completion, all intercompany loans and all other balances between, on the one hand, the Energybuild Companies, and on the other, Seller and any of its present or former affiliates other than the Energybuild Companies other than (i) the Working Capital Advance, and (ii) the Cambrian Advance, shall be converted to a contribution of capital, waived or forgiven in manner satisfactory to Buyer that is intended to preserve all available tax losses in Energybuild Ltd and to prevent the creation of additional tax liability resulting from any such action. The Seller shall consult with the Buyer regarding any such steps and shall have no liability to the Buyer for any adverse tax consequences of any steps taken after consultation with the Buyer. For greater certainty, the Advances shall remain outstanding and the security for the Advances shall remain in place until the Working Capital Advance is repaid in full.
7. Prior to the acquisition by the Buyer the directors of Energybuild Ltd, Energybuild Mining Ltd and Mineral Extraction and Handling Ltd shall resign as directors and employees, without any liability to the Buyer or to any of the Energybuild Companies. The Energybuild Companies shall provide the current directors of the Energybuild Companies with a release and indemnity in form and substance satisfactory to the Seller effective upon such resignation. The Energybuild Companies shall indemnify the Buyer in full in relation to any claims, losses, damages or liabilities howsoever arising out of the employment and/or directorship of Chris Daniels with any of the Energybuild Companies.

Exclusivity

In the period following acceptance of this offer until the earlier of (i) the day the Court refuses to approve the Seller's acceptance of this letter, (ii) the exchange of the share purchase agreement or confirmation from the Buyer that they no longer wish to proceed with this transaction, or (iii) 28 February 2018, the Buyer shall have exclusive rights to negotiate and enter into the transaction contemplated in this offer and the Seller shall not solicit any other offers for the sale of the shares or assets of the Energybuild Companies.

Confidentiality

The terms of this letter are confidential to the parties and their advisers and are subject to the confidentiality letter between Walter and Buyer dated 25th February 2016 in relation to the Proposed Acquisition (the "**Confidentiality Letter**"), which, subject to the terms of this

paragraph, continues in full force and effect. Notwithstanding the foregoing or anything to the contrary contained in the Confidentiality Letter, this letter may be disclosed to (i) the Court, and (ii) any affiliate of Seller.

Intended Use

The Buyer fully intends to continue to carry out mining operations at the Aberpergwm mine.

Costs

Each party is responsible for its own professional and other costs incurred in connection with the Proposed Acquisition, the share purchase agreement described herein and any other documentation required to enter into a legally binding agreement.

Rights of Third Parties

Except with respect to Cambrian Energybuild Holdings ULC, New Walter Canadian Coal Corp., and New Walter Energy Canada Holdings, Inc., no person that is not a party to the agreement constituted by this letter shall be able to enforce any of its terms under the Contracts (Rights of Third Parties) Act 1999. For greater certainty, each of Cambrian Energybuild Holdings ULC, New Walter Canadian Coal Corp., and New Walter Energy Canada Holdings, Inc. shall be entitled to rely on and enforce the terms of this letter agreement as if they were parties hereto.

Governing Law and Jurisdiction

The agreement constituted by this letter and any dispute or claim arising out of, or in connection with, it, its subject matter or formation shall be governed by, and construed in accordance with, the laws of England and Wales, and the courts of England and Wales shall have the non-exclusive jurisdiction to settle any dispute or claim arising out of, or in connection with, this letter, its subject matter or formation.

Signed for and on behalf of the Buyer

SPECIALITY CARBONS LIMITED

By: _____
Name:
Title:

Signed for and on behalf of the Seller

ENERGYBUILD HOLDINGS LIMITED

By: _____
Name:
Title:

Schedule “B”

**Updated CCAA Cash Flow Forecast for
the 13-Week Period Ending March 3, 2018**

New Walter Energy Canada Holdings, Inc. et al.

Updated CCAA Cash Flow Forecast for the 13-Week Period Ending March 3, 2018⁽¹⁾

<i>(in CAD \$000's)</i>															
Foreign Exchange Rate Assumptions - (USD/CAD) 1.32 and (GBP/CAD) 1.70															
Week No.		1	2	3	4	5	6	7	8	9	10	11	12	13	13-Week Total
Week Ending	Notes	12/9/17	12/16/17	12/23/17	12/30/17	1/6/18	1/13/18	1/20/18	1/27/18	2/3/18	2/10/18	2/17/18	2/24/18	3/3/18	
OPERATING CASH FLOW															
Operating Receipts															
	2	11	-	-	-	11	-	-	-	11	-	-	-	11	44
		11	-	-	-	11	-	-	-	11	-	-	-	11	44
Operating Disbursements															
	3	-	-	-	-	(11)	-	-	-	(11)	-	-	-	(11)	(33)
	4	(10)	-	-	-	(10)	-	-	-	(10)	-	-	-	(10)	(40)
	5	(1)	-	-	-	(1)	-	-	-	(1)	-	-	-	(1)	(4)
		(11)	-	-	-	(22)	-	-	-	(22)	-	-	-	(22)	(77)
Non-Operating Disbursements															
	6	(400)	-	-	-	(500)	-	-	-	(450)	-	-	-	(550)	(1,900)
	7	-	(170)	-	-	(170)	-	-	-	(170)	-	-	-	-	(510)
		(400)	(170)	-	-	(670)	-	-	-	(620)	-	-	-	(550)	(2,410)
TOTAL NET CASH FLOW															
		(400)	(170)	-	-	(681)	-	-	-	(631)	-	-	-	(561)	(2,443)
BEGINNING CASH (FX Effected)															
		64,750	64,350	64,180	64,180	64,180	63,499	63,499	63,499	63,499	62,868	62,868	62,868	62,868	64,750
		(400)	(170)	-	-	(681)	-	-	-	(631)	-	-	-	(561)	(2,443)
ENDING CASH (FX Effected)															
		64,350	64,180	64,180	64,180	63,499	63,499	63,499	63,499	62,868	62,868	62,868	62,868	62,307	62,307

UNAUDITED CASH FLOW FORECAST PREPARED BY MANAGEMENT, MUST BE READ IN CONJUNCTION WITH THE NOTES AND ASSUMPTIONS

New Walter Energy Canada Holdings, Inc. et al (“Walter Canada”)

Notes to the Unaudited Updated CCAA Cash Flow Forecast for the 13-Week Period Ending March 3, 2018

Unless otherwise noted, the Updated CCAA Cash Flow Forecast is presented in Canadian Dollars using an exchange rate of US\$1.00/CDN\$1.32 for conversion of any U.S. Dollar amounts and an exchange rate of GBP£1.00/CDN\$1.70 for conversion of any British Pound 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 during its CCAA proceedings, and readers are cautioned that it may not be appropriate for other purposes.

The Updated CCAA Cash Flow Forecast does not contemplate any distributions to creditors as the timing for doing so is subject to the filing of a plan of compromise and arrangement and obtaining approval thereof from both this Honourable Court and Walter Canada’s creditors, which may occur sometime prior to the end of the forecast period.

Receipts

2. Other Receipts

Amounts forecast represent interest expected to be earned during the forecast period on various short term investments purchased with Walter Canada’s cash holdings.

Operating Disbursements

3. Director’s Fees

Monthly compensation costs for Walter Canada’s sole director over the course of the forecast period.

4. Consulting

These disbursements relate to costs expected to be incurred during the forecast period for an external consultant engaged to perform consulting in respect of Walter UK and the adjudication of the disputed Claim of Kevin James.

5. Information Technology

Forecast payments represent expected costs to maintain use of an electronic data room. These payments will cease upon the anticipated closing of the sale of Walter UK in late February 2018.

Non-Operating Disbursements

6. CRO and Restructuring Advisor Fees

Forecast disbursements for professional fees specific to Walter Canada's restructuring efforts include Walter Canada's counsel, the Monitor and its counsel and the Chief Restructuring Officer. Anticipated fees relate to preparing a plan of compromise and arrangement, addressing the disputed Claim of Kevin James as well as completing a transaction for Walter UK.

7. Walter UK Funding

The forecast payments represent potential advances, on a secured basis, in the amount of up to £300,000 (approximately \$510,000) by Walter Canada to Walter UK as Walter UK is expected to require funding in the near term. Payments have been scheduled based on the anticipated closing of the sale of Walter UK by the end of February 2018. Should the completion of the sale occur prior to that date, funding will cease at that time.