



File No. S-1510120
Vancouver Registry

IN THE SUPREME COURT OF BRITISH COLUMBIA

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C.
1985, c. C-36, AS AMENDED**

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

AND

**IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
WALTER ENERGY CANADA HOLDINGS, INC. AND THOSE PETITIONERS LISTED
ON SCHEDULE "A"**

PETITIONERS

THIRD REPORT OF THE MONITOR, KPMG INC.

June 22, 2016

TABLE OF CONTENTS

INTRODUCTION AND PURPOSE OF THE MONITOR'S REPORT	1
REPORT RESTRICTIONS AND SCOPE LIMITATIONS	3
STATUS OF THE SALE PROCESS	4
ACTUAL RECEIPTS AND DISBURSEMENTS COMPARED TO FORECAST.....	8
UPDATED CCAA CASH FLOW FORECAST	11
OTHER MATTERS.....	14
THE MONITOR'S OBSERVATIONS AND RECOMMENDATIONS	18

INDEX TO SCHEDULES

Schedule A	List of Petitioners, Partnerships and Affiliates
Schedule B	Summary of Intercompany Charges
Schedule C	Updated CCAA Cash Flow Forecast for the 18-Week Period Ending October 15, 2016

INTRODUCTION AND PURPOSE OF THE MONITOR'S REPORT

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

5. On March 24, 2016, KPMG filed the Second Report of the Monitor (the “**Second Report**”) which, amongst other things, described the Monitor’s activities to date, Walter Canada’s actual receipts and disbursements against forecast as well as its updated cash flow forecast for the 16-week period ending July 2, 2016 (the “**Previous Cash Flow Forecast**”), a status update on the SISP and updates in respect of various other matters.
6. On March 30, 2016, this Honourable Court granted an order (the “**March 30 Order**”) which, amongst other things, extended the Stay to June 24, 2016.
7. A more detailed description of Walter Canada’s business operations and background to its restructuring proceedings in the period prior to the Filing Date was provided in the Application and is summarized in the Pre-Filing Report.
8. Terms not specifically defined herein shall have the meanings as defined in the First Report, the Second Report or the SISP.
9. Copies of the Pre-Filing Report, the First Report and the Second Report, as well as further information regarding these CCAA Proceedings, can be found on the Monitor’s website at www.kpmg.com/ca/walterenergycanada.
10. The purpose of this third report of the Monitor is to provide this Honourable Court with information regarding the following:
 - a) An update with respect to both the SISP and the Liquidation RFP Process;
 - b) Walter Canada’s actual cash flow results for the 13-week period ended June 11, 2016, as compared to the Previous Cash Flow Forecast;
 - c) Walter Canada’s updated cash flow forecast for the 18-week period ending October 15, 2016 (the “**Updated CCAA Cash Flow Forecast**”);
 - d) An update in respect of certain additional matters involving Walter Canada’s stakeholders and related matters; and
 - e) The Monitor’s observations and recommendations in respect of Walter Canada’s motion returnable June 24, 2016 seeking an extension of the Stay to October 12, 2016 (the “**Extended Stay Period**”) and certain other relief.

REPORT RESTRICTIONS AND SCOPE LIMITATIONS

11. In preparing this report and making the comments herein, the Monitor has been provided with, and has relied upon, unaudited financial information, books and records and financial information prepared by Walter Canada and/or certain of its affiliates, discussions with management of Walter Canada (“**Management**”) and information from other public third-party sources (collectively, the “**Information**”). Except as described in this report in respect of Walter Canada’s Previous Cash Flow Forecast and Updated CCAA Cash Flow Forecast:
 - a) The Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards 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.
12. 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.
13. 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.
14. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

STATUS OF THE SALE PROCESS

Sale and Investment Solicitation Process

15. The Monitor provided details of the SISP in the First Report and subsequent updates regarding progress made in the Second Report. The second phase of the SISP commenced on March 30, 2016 (“**Phase II**”), on which date the Financial Advisor began informing certain Prospective Bidders who had submitted LOIs in Phase I that they had been invited to continue into Phase II as Bidders.
16. Phase II provided Bidders time to perform further due diligence on the assets and operations of Walter Canada and Walter UK such that final binding offers in Phase II could be provided with refundable cash deposits by the Bid Deadline which was set as May 27, 2016. The SISP was designed such that a Closing Date of June 30, 2016 could be attained.
17. During Phase II, the SISP Team has undertaken, amongst other things, the following activities:
 - a) The content of the data room was expanded to include additional documents to facilitate the due diligence activities of the Bidders, including information that was requested by one or more Bidders;
 - b) Site visits of both the Walter Canada and Walter UK operations were facilitated for certain Bidders, in addition to the Financial Advisor engaging in various discussions and other correspondence with Bidders to respond to their due diligence inquiries and requests;
 - c) The SISP Team facilitated discussions between certain Bidders and certain of Walter Canada’s stakeholders including certain suppliers, mining regulators and union representatives; and
 - d) Weekly update conference calls were held with the Financial Advisor throughout Phase II to provide Walter Canada, the CRO and the Monitor with status updates as to the Bidders’ continuing due diligence activities and requests, and other SISP matters.

18. Pursuant to the provisions of the SISP and in response to requests from certain Bidders, the CRO, in consultation with the Financial Advisor and the Monitor, extended the Bid Deadline by two weeks, to June 10, 2016 (the “**Extended Bid Deadline**”).
19. A number of Bids were submitted by the Extended Bid Deadline, in respect of the assets and operations of both Walter Canada and Walter UK, with certain bids pertaining to all or substantially all of the assets of Walter Canada. The CRO, as noted in the affidavit of Mr. William Aziz sworn June 17, 2016 (the “**Second Aziz Affidavit**”), has instructed the Financial Advisor to engage in discussions with certain Bidders to obtain clarification with respect to certain aspects of their Bids with a view to identifying one or more Bids which may lead to a more advantageous outcome to Walter Canada and its stakeholders than the potential outcome in a liquidation. As at the date of this report, those discussions with certain Bidders are continuing. The Monitor notes that the SISP provides that the CRO, in consultation with the Monitor, has the discretion to, subject to certain conditions, deem Bids to be Qualified Bids.
20. Given the complexities of concluding a going concern transaction, including the negotiation and/or assignment of certain contracts, the CRO, as noted in the Second Aziz Affidavit, expects that the process of negotiating and completing one or more Qualified Bids will require additional time beyond the initial SISP Outside Termination Date of June 30, 2016. However, the CRO also recognizes that this negotiation process needs to be completed as quickly as possible, in part to preserve optionality in terms of commencing a liquidation process during 2016 in the event that a transaction under the SISP cannot be completed, and accordingly, the CRO has amended the Outside Termination Date to July 30, 2016. The Monitor agrees that the Outside Termination Date should be extended for this reasonably short period.

Liquidation RFP Process

21. The Second Report contains a detailed discussion of the Liquidation RFP Process which was conducted in parallel with the SISP to solicit Liquidation Proposals in respect of Walter Canada's assets (excluding Walter UK's assets). As discussed in the Second Report, a number of Liquidation Proposals were submitted by the March 18, 2016 submission deadline set by the Monitor. Since the date of the Second Report, the Monitor has followed up with each of the Prospective Liquidators to obtain clarification with respect to their Liquidation Proposals and also to obtain confirmation from certain of the Prospective Liquidators that their Liquidation Proposals remain open for acceptance until June 30, 2016; one Prospective Liquidator was unwilling to further extend its Liquidation Proposal and withdrew from the Liquidation RFP Process.
22. As the process of reviewing and negotiating Bids is expected to extend beyond June 30, 2016, the Monitor is continuing to work with the remaining active Prospective Liquidators to seek to obtain their agreement to keep their Liquidation Proposals open for acceptance for a further period until a decision is made as to whether an agreement for a transaction under the SISP can be executed and brought before this Honourable Court for approval. Additionally, the Monitor will work with the Prospective Liquidators to understand how their respective liquidation timeframes could be impacted, including obtaining more clarity on the required timelines to plan, advertise and hold an auction or other onsite sale activity, prior to the onset of winter in Northeastern British Columbia. Deferring completion of the liquidation to the spring and summer of 2017 will cause Walter Canada to incur higher holding costs. The Monitor understands that Walter Canada will determine whether to proceed with a going concern transaction under the SISP or to proceed instead with a liquidation of its assets in a timely manner, taking into account the best interests of all stakeholders.

Amendment to PJT Partners LP Engagement Letter

23. As discussed in the First Report, the FA Engagement Letter set out that Walter Canada was to commence paying a US\$100,000 monthly work fee to the Financial Advisor after Walter Energy U.S. converted the Chapter 11 Cases into a liquidation under Chapter 7 of the U.S. Bankruptcy Code, prior to which no monthly work fees were payable by Walter Canada to the Financial Advisor.

24. However, as detailed in the Second Aziz Affidavit, Walter Canada has amended the engagement letter with the Financial Advisor to reflect that the Walter U.S. proceeding did not proceed in the expected manner, with the wind-up of Walter U.S. now being completed using a structured dismissal instead. No other amendments were made to the engagement letter that would impact the economics of the arrangement which are summarized in the First Report.

ACTUAL RECEIPTS AND DISBURSEMENTS COMPARED TO FORECAST

25. Walter Canada's actual cash receipts and disbursements for the 13-week period ended June 11, 2016 (the "Reporting Period"), as compared with the Previous Cash Flow Forecast, are summarized in the following table:

Walter Energy Canada Holdings, Inc. et al			
Summary of Actual versus Forecast Cash Flow			
For the 13-Week Period Ended June 11, 2016			
Prepared on a Consolidated Basis			
Unaudited (CAD \$000)	Actual	Forecast	Variance
Cash Inflow			
Other Receipts	524	75	449
Total Cash Inflow	524	75	449
Cash Outflow - Operating Disbursements			
Payroll	(436)	(450)	14
Payroll Taxes	(235)	(240)	5
Benefits	(91)	(90)	(1)
Insurance	(849)	(879)	30
Operating Leases and Storage Facilities	(33)	(30)	(3)
Utilities	(168)	(175)	7
Fuel	(56)	(120)	64
Maintenance and Supplies	(234)	(455)	221
Environmental Monitoring and Consulting	(235)	(625)	390
Tenure/Lease Payments	(500)	(466)	(34)
Transportation Costs from Bulldozer Sale	(128)	(120)	(8)
Professional Fees	(73)	(103)	30
Information Technology	(131)	(130)	(1)
Total Cash Outflows - Operating Disbursements	(3,169)	(3,883)	714
Cash Outflow - Non-Operating Disbursements			
Restructuring Advisor Fees	(2,640)	(2,963)	323
Shared Services	(1,309)	(1,330)	21
Bank Fees	(20)	(960)	940
Total Cash Outflows - Non-Operating Disbursements	(3,969)	(5,253)	1,284
Net Cash Flow	(6,614)	(9,061)	2,447
Cash, beginning of period (March 13, 2016)	27,586	27,595	(9)
Effect of Foreign Exchange translation	(105)	-	(105)
Cash, end of period (June 11, 2016)	20,867	18,534	2,333
Note 1: Readers are cautioned to read the "Report Restrictions and Scope Limitations" section of this report.			

26. The following is a summary of the more significant variances in the aggregate \$2.4 million net positive cash flow variance during the Reporting Period:

- a) The \$449,000 permanent positive variance in cash receipts was primarily on account of the receipt of proceeds from Walter Canada's sale of a residential property in Chetwynd, British Columbia, as well as receipt of refunds in respect of workers' compensation over-remittances made in previous years, neither of which had been originally forecast;
- b) The favourable variances for Fuel (\$64,000), Maintenance and Supplies (\$221,000) and Environmental Monitoring and Consulting costs (\$390,000) were primarily the result of actual costs and related activities being lower during the Reporting Period than previously forecast. Management expects that these are all permanent differences which are not likely to reverse during the Updated Cash Flow Period;
- c) The unfavourable variance of \$34,000 for Tenure and Lease Payments relates to the early payment of certain tenure payments, which was, in part, offset by a lower than forecast required payment in respect of Walter Canada's portion of costs related to the Belcourt Saxon joint venture;
- d) There was a \$323,000 favourable variance for Restructuring Advisor Fees during the Reporting Period and Management expects that this is primarily a timing difference, noting that certain professional fee invoices in relation to the CCAA Proceedings have not been received by Walter Canada for services previously rendered; and
- e) The \$940,000 favourable variance in respect of Bank Fees associated with the Letters of Credit consisted of a permanent difference in the amount of \$320,000, which was the result of these fees having been forecast on a monthly basis in the Previous Cash Flow Forecast, whereas in fact they are payable on a quarterly basis (the forecast amounts exceeded the actual liability), and a \$640,000 timing difference for quarterly payments which were not made during the Reporting Period. As the Letters of Credit have been cash collateralized, Walter Canada has begun negotiations in attempts to reduce these fees; accordingly, it is uncertain whether the \$640,000, or some portion thereof, may become payable at a later date. As such, the \$640,000 is included in the Updated CCAA Cash Flow Forecast.

Sale of Real Estate

27. In May 2016, WIC completed the aforementioned sale of a residential property in Chetwynd, British Columbia, to a third party at the listing price of \$410,000, which was approximately \$100,000 higher than the \$307,200 assessed value for property taxation purposes as at July 1, 2015. This property had previously been used to provide accommodations to employees and had been listed for sale since 2014. Net proceeds from this sale were approximately \$390,000. The CRO and Monitor consented to Walter Canada concluding this sale.

Intercompany Charges

28. This Honourable Court, in its March 30 Order, amended the Intercompany Charge provisions contained in the January 5 Order to expand the Intercompany Charge such that it no longer secured only payments in respect of Letter of Credit obligations. The amended Intercompany Charge covers any payment (or incurrence or discharge of any obligation) by any Walter Canada entity (a Protected Walter Canada Entity) on behalf of any other Walter Canada entity (a Beneficiary Walter Canada Entity), with each Protected Walter Canada Entity being granted an Intercompany Charge on all the assets of each such Beneficiary Walter Canada Entity in the amount of such payment or obligation.
29. Walter Canada's counsel has prepared intercompany Promissory Grid Notes which document the terms of the various intercompany advances made to date and which set out the amounts owing between certain of the Walter Canada entities which are secured by Intercompany Charges. Any intercompany advances which are made in U.S. Dollars are converted to Canadian Dollars using the Bank of Canada foreign exchange rate in effect on the date of the advance. Attached as Schedule "B" hereto is a summary of the intercompany advances which are subject to Intercompany Charges as at the date of this report.

UPDATED CCAA CASH FLOW FORECAST

30. The Updated CCAA Cash Flow Forecast has been prepared by Walter Canada, with the assistance of the Monitor, on a consolidated basis for the 18-week period ending October 15, 2016 (the “**Updated Cash Flow Period**”) to correspond with the Extended Stay Period, 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 “C” and is summarized in the table below:

Walter Energy Canada Holdings, Inc. et al Summary of the Updated CCAA Cash Flow Forecast For the 18-week Period from June 12, 2016 to October 15, 2016 Prepared on a Consolidated Basis Unaudited (CAD \$000)	
Cash Inflow	
Other Receipts	100
Total Cash Inflow	100
Cash Outflow - Operating Disbursements	
Payroll	(600)
Payroll Taxes	(320)
Benefits	(206)
Insurance	(400)
Operating Leases and Storage Facilities	(40)
Property Taxes	(1,365)
Utilities	(192)
Fuel	(120)
Maintenance and Supplies	(352)
Environmental Monitoring and Consulting	(690)
Tenure/Lease Payments	(290)
Professional Fees	(80)
Information Technology	(162)
Total Cash Outflows - Operating Disbursements	(4,817)
Cash Outflow - Non-Operating Disbursements	
Restructuring Advisor Fees	(3,442)
Bank Fees	(960)
Total Cash Outflows - Non-Operating Disbursements	(4,402)
Net Cash Flow	(9,119)
Cash, beginning of period (June 12, 2016)	20,867
Cash, end of period (October 15, 2016)	11,748
Note 1: Readers are cautioned to read the "Report Restrictions and Scope Limitations" section of this report.	

31. With respect to the Updated CCAA Cash Flow Forecast:
- a) Walter Canada has forecast an aggregate net cash outflow of \$9.1 million during the Updated Cash Flow Period, which it expects to fund from the current cash resources on hand, with an expected \$11.7 million of combined cash resources remaining at the end of the Updated Cash Flow Period;
 - b) The significant components of the forecasted \$9.1 million net cash outflow during the Updated Cash Flow Period are as follows:
 - i. The sole anticipated cash receipt during the Updated Cash Flow Period relates to interest in the amount of approximately \$100,000 which is expected to be earned on cash balances held at BNS. No amounts are included in respect of a sale of any further assets of Walter Canada;
 - ii. Employee remuneration costs in respect of Walter Canada's 19 full-time employees, certain part-time employees and one director are expected to total \$1.1 million, consisting of \$600,000 of payroll costs, \$320,000 of payroll taxes and benefits in the amount of \$206,000;
 - iii. Included in the \$400,000 estimate for insurance costs is an estimated \$300,000 premium for renewal of existing environmental coverage on June 30, 2016 which, as subsequently discussed, is currently being reviewed by Walter Canada. The balance of estimated insurance costs relates to planned renewals of liability insurance and certain automobile coverage during the Updated Cash Flow Period;
 - iv. The Updated CCAA Cash Flow Forecast contemplates \$1.4 million of payments being made in respect of the 2016 property taxes for Walter Canada's properties in Northeastern British Columbia which are due on July 4, 2016 in the total amount of \$2.7 million. Walter Canada intends to enter into discussions with certain municipalities seeking to negotiate a deferral of all or a portion of the property taxes;

- v. During the Updated Cash Flow Period, other ongoing costs to maintain the Walter Canada operations in their current idled state include estimated Utilities costs of \$192,000, Fuel costs of \$120,000, and \$352,000 for Maintenance and Supplies costs.
- vi. The Updated CCAA Cash Flow Forecast does not include a provision under Maintenance and Supplies for potentially significant costs which may be required to repair the as yet unassessed damage caused by a significant rain event that occurred in the area of the Walter Canada mines on June 15 and 16, 2016, discussed below;
- vii. Management expects that the costs for required ongoing environmental testing, monitoring and reporting, as well as for certain site works required at the sites, including payments to engineering and environmental consultants, may total approximately \$690,000 during the Updated Cash Flow Period;
- viii. \$290,000 of Tenure and Lease payments are forecast to be made to maintain Walter Canada's mining and property rights, including a cash call required to maintain its fifty percent interest in the Belcourt Saxon joint venture;
- ix. Other forecast operating costs include \$80,000 for non-restructuring professional fees and \$162,000 for Information Technology costs;
- x. An amount of approximately \$3.4 million has been forecast to provide for Restructuring Advisor fees for the estimated professional fees of Walter Canada's counsel, the Monitor and its counsel, the CRO and the Financial Advisor, including payment of certain professional fees which were incurred but were not yet billed and/or paid as at the commencement of the Updated Cash Flow Period. The Updated CCAA Cash Flow Forecast does not provide for payment of any success fees which may become payable to the CRO and the Financial Advisor as the timing and quantum of any such payments cannot reasonably be predicted;

- xii. No fees in respect of the Letters of Credit have been paid for the first two quarters of 2016. These fees are estimated at \$320,000 per quarter and the Updated CCAA Cash Flow Forecast includes an estimated \$640,000 “catch-up” payment as well as one additional quarterly \$320,000 payment for the quarter ending September 30, 2016. As noted in the Second Report, Walter Canada has begun negotiations with the Administrative Agent in attempts to reduce fees associated with the Letters of Credit; and
 - xiii. The Monitor is continuing to hold the US\$465,000 of gross sale proceeds from the Surplus Equipment sale; however, this amount is included in the cash balances set out in the Updated CCAA Cash Flow Forecast.
- c) The Updated CCAA Cash Flow Forecast indicates that Walter Canada has the necessary liquidity to fund its expected cash requirements over the Updated Cash Flow Period.

OTHER MATTERS

1974 Pension Plan

32. On March 29, 2016, the CRO, counsel for Walter Canada, the Monitor and the Monitor’s counsel, met with counsel for the 1974 Pension Plan to further discuss their position in respect of the potential claim of the 1974 Pension Plan against one or more of the Walter Canada entities (the “**MEPP Claim**”). Following those discussions, the CRO and the Monitor provided, on a without prejudice basis, a summary of the LOIs submitted in Phase I of the SISF as well as updates in respect of the status of the SISF to counsel for the 1974 Pension Plan after it had executed an NDA. Walter Canada engaged in further correspondence with counsel to the 1974 Pension Plan following Phase II of the SISF and provided a summary of the Bids submitted in Phase II to counsel for the 1975 Pension Plan.

33. The CRO, Walter Canada and the Monitor, and their respective counsel, are well advanced in the process of reviewing the MEPP Claim and requested that counsel for the 1974 Pension Plan provide additional support in respect of this potential claim to facilitate further review prior to coming to a final position with respect to the MEPP Claim. Counsel for the 1974 Pension Plan has advised that there is no additional information to be provided unless Walter Canada, the CRO or the Monitor have further questions.

Timing for Application to Obtain Approval of a Claims Process

34. The CRO, in the Second Aziz Affidavit, indicates that Walter Canada anticipates applying to this Honourable Court during the Extended Stay Period for approval of a claims process.
35. The Monitor supports commencing a claims process in the short term as this will permit Walter Canada's creditors to prove their claims as well as providing Walter Canada, the Monitor and this Honourable Court with clarity as to the relative standing of the universe of claims to be considered in the CCAA Proceedings. Accordingly, the Monitor recommends that Walter Canada seek this approval prior to the expiry of the Extended Stay Period, as part of any application it may make for approval of one or more going concern sale transactions or any other matter before this Honourable Court.

Severe Rain Event in Northeastern B.C.

36. As noted in the Second Aziz Affidavit, a significant rain event occurred in the area of the Walter Canada mines on June 15 and 16, 2016. There may be significant costs incurred to repair the as yet unassessed damage caused by the rain event, which ultimately caused the evacuation of certain site personnel via helicopter due to the impact to the access roads. Walter Canada is in the process of performing water control, structure and bridge inspections and general site inspections in order to determine if there has been any damage requiring repair. The Monitor will provide this Honourable Court with further updates in respect of this matter in its subsequent reports.

Other Legal Matters

37. The Monitor received a request in late January 2016 for its consent, and that of Walter Canada, to allow an insurance claim which had been commenced in the Kamloops Registry of the Supreme Court of British Columbia prior to the Filing Date (the “**Action**”) to proceed. This claim related to a vehicular accident which occurred near the Willow Creek mine on or around December 2, 2010. Walter Canada has been named as a third party by the defendant in the Action and any liability of Walter Canada (which has not been proven and which Walter Canada expressly denies) is provided for under Walter Canada’s insurance policies. Following review of this matter, Walter Canada and the Monitor consented to the lifting of the Stay in connection with the Action, with certain caveats including that any related claims against Walter Canada would be unsecured claims which must be addressed in the CCAA Proceedings and that consent was not provided to any action being taken against any directors of Walter Canada, the CRO or the Monitor in respect of the Action or otherwise.

Environmental Matters

38. As noted in the Second Report, Walter Canada was developing an action plan to address water level issues noted with the Biochemical Reactor Treatment System in February 2016. Subsequently, Walter Canada has engaged a consulting firm to design a repair and is in the process of engaging a construction contractor to complete the repairs, likely in the coming weeks. Walter Canada notified the British Columbia Ministry of Environment (“**MOE**”) of this matter upon initial discovery. The Monitor will provide this Honourable Court with further updates in respect of this matter in its subsequent reports.
39. Also as noted in the Second Report, Walter Canada has developed an action plan to deal with all site works recommended by the external geotechnical engineers in annual reporting to the British Columbia Ministry of Energy and Mines (“**MEM**”). Work at the sites commenced in May 2016 in respect of a prioritized plan to deal with all recommendations including repairs to various ditches and water management ways, and reducing the height of a refuse stockpile.

40. The MOE and MEM granted deadline extensions for certain annual environmental and reclamation reports that have now been submitted by Walter Canada.
41. Walter Canada received correspondence from Environment and Climate Change Canada (“ECCC”) in May 2016 in relation to Willow Creek Coal Partnership and Brule Coal Partnership (“BCP”) water quality samples taken in July 2014. The letters note prior inspections regarding selenium levels and reminded Walter Canada of its obligations not to deposit deleterious substance into water frequented by fish. Responses have been prepared and sent to ECCC by Walter Canada in respect of its MOE permits and its approach to managing selenium levels including the operation of the Biochemical Reactor Treatment System at BCP. The CRO has extended an offer to ECCC to meet with them, along with the Monitor, to discuss the status of the CCAA Proceedings and the SISP, which ECCC has considered to be unnecessary at this time.
42. The Monitor, along with the CRO and Walter Canada’s Management and counsel, has continued to participate in an ongoing dialogue with the MEM and its counsel regarding the status of the mines and the SISP. Further dialogue with MEM and its counsel is anticipated as the CCAA Proceedings continue.

Insurance

43. Further to discussion in the Second Report, Walter Canada, with the assistance of the Monitor, worked with Marsh Canada to complete the purchase of property insurance coverage, additional liability coverage as well as director and officer coverage, each of which were in place effective on or before March 31, 2016, the date upon which Walter Energy U.S.’ existing policies were put into run-off.
44. With the assistance of the Monitor, Walter Canada is currently engaged in review and discussions with Marsh Canada to determine whether to renew the existing environmental coverage previously arranged by Walter Energy U.S., including reviewing whether Walter Canada’s other in-place insurance policies provide adequate coverage considering the current and anticipated risk levels at the operations. The Updated CCAA Cash Flow Forecast includes a provision for payment of the estimated \$300,000 premium for the environmental policy renewal.

Walter UK

45. Walter UK's updated cash flow forecast indicates that it continues to have sufficient liquidity to meet its obligations through to at least the end of the Extended Stay Period while it continues to operate in care and maintenance.
46. As discussed in the SISP update section above, Bids were received in respect of the assets of Walter UK. The SISP Team is reviewing these Bids while, at the same time, the CRO and Walter Canada are also continuing to review strategic alternatives for dealing with the assets and operations of Walter UK, with assistance from KPMG in the UK which, as noted in the Second Report, was engaged by Walter Canada.
47. Walter UK's governance structure consisted of one director of Walter Canada (who is located in the United States) and one director located in the UK (the "UK Director") who is also an executive of Walter UK. Due to certain developments, Walter Canada and the CRO, in consultation with the Monitor, decided that additional external governance for Walter UK was advisable. Walter Canada and the CRO, with the assistance of the Monitor and KPMG in the UK, identified several director candidates and, in June 2016, a second UK-based independent individual with mining experience was appointed as a director of the Walter UK companies.

THE MONITOR'S OBSERVATIONS AND RECOMMENDATIONS

48. In the Monitor's opinion, Walter Canada is continuing to act in good faith and with due diligence in an effort to further its restructuring objectives.
49. The second stage of the SISP has been completed, with an extension of the bid deadline provided by the CRO to June 10, 2016, and review of all Bids received is underway with corresponding stakeholder discussions, all with a view to finalizing Qualified Bids in the coming weeks. The Monitor is supportive of this process, including the decision to extend the Outside Termination Date for a reasonably short period to July 30, 2016.

50. The Monitor is working with the Prospective Liquidators who submitted Liquidation Proposals to keep the terms set out in their Liquidation Proposals open during the review of the Bids received in order to preserve the asset realization options for Walter Canada in the event that no transactions are completed pursuant to the SISP or not all of Walter Canada's assets are sold in one or more completed SISP transactions. As at the date of filing this report, it has not been confirmed whether such extensions will be granted and if the potential realizations in a liquidation scenario may be impacted.
51. Walter Canada continues to have liquidity to the end of the envisaged restructuring process, as presented in the Updated CCAA Cash Flow Forecast.
52. While the Monitor is supportive of the Stay extension sought by Walter Canada, the Monitor recognizes that the holding and others costs related to the CCAA Proceedings are not insignificant and delays to finalizing either a going concern or liquidation sale may impact the timing and ultimate quantum of realizations for the creditors. As such, the Monitor anticipates that the SISP process will be brought to a conclusion within a reasonable period and either a going concern or liquidation sale will be brought before this Honourable Court for approval.
53. The Monitor supports Walter Canada's intention to seek approval for a claims process to be initiated prior to the expiry of the Extended Stay Period as it is expected that realizations will be generated for the creditors under either a going concern or liquidation sale.

All of which is respectfully submitted this 22nd day of June, 2016.

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



Per: Philip J. Reynolds
Senior Vice President



Per: Anthony Tillman
Senior Vice President

Schedule "A"

List of Petitioners, Partnerships and Affiliates

Petitioners

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

Partnerships

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

Corporate Affiliates

Belcourt Saxon Coal Ltd.
Belcourt Saxon Coal Limited Partnership

Schedule “B”

Summary of Intercompany Charges

Walter Energy Canada Holdings, Inc. et al				
Summary of Intercompany Charges				
(CAD \$000's)⁽²⁾				
Summary of WCCP⁽¹⁾ Payable				
Transactions	Amount			
	WCCP⁽¹⁾	BCP⁽¹⁾	WICP⁽¹⁾	WCP⁽¹⁾
December 2015 - WCCP funds mine entities for operational purposes	(4,500)	3,000	500	1,000
December 2015 - USD funds transferred from BCP to WCCP ⁽³⁾	3,474	(3,474)	-	-
December 2015 - Excess balance remaining with WCCP after purchase of CAD and collateralization of Letters of Credit ⁽⁴⁾	2,430	(2,430)	-	-
January 2016 - BCP funds WCCP's Letter of Credit obligation	188	(188)	-	-
February 2016 - Mine entities fund WCCP for operational purposes	6,000	(2,000)	(2,000)	(2,000)
March 2016 - WCP funds Belcourt Saxon Joint Venture on behalf of WCCP	150	-	-	(150)
April 2016 - Fund WCCP in USD for Payment of Shared Services to Walter Energy U.S.	1,317	(439)	(439)	(439)
April 2016 - Mine entities fund WCCP in USD for operational purposes	750	(250)	(250)	(250)
Ending WCCP Payable to entities as noted	9,809	(5,781)	(2,189)	(1,839)
Summary of WCP⁽¹⁾ Payable				
Result of LC Collateralization	Amount			
	WCP	BCP		
January 2016 - BCP funds WCP's LC obligation	11,545	(11,545)		
Ending WCP Payable to BCP	11,545	(11,545)		
Summary of WICP⁽¹⁾ Payable				
Result of LC Collateralization	Amount			
	WICP	BCP		
January 2016 - BCP funds WICP's LC obligation	6,100	(6,100)		
Ending WICP Payable to BCP	6,100	(6,100)		
NOTES				
(1) - WCCP refers to Walter Canadian Coal Partnership, BCP refers to Brule Coal Partnership, WICP refers to Willow Creek Coal Partnership, and WCP refers to Wolverine Coal Partnership.				
(2) - The intercompany transactions above that were denominated in USD have been converted to CAD using the Bank of Canada USD/CAD exchange rate at noon on the date of the transaction.				
(3) - Payable results from the residual balance remaining in WCCP's USD account from the USD funds transferred by BCP that was not required to purchase CAD\$25M to cash collateralize the LC's.				
(4) - The residual CAD balance remaining in WCCP from the CAD\$25M purchased after collateralizing the Letters of Credit.				

Schedule “C”

**Updated CCAA Cash Flow Forecast
for the 18-Week Period Ending October 15, 2016**

Walter Energy Canada Holdings, Inc. et al.

CCAA Cash Flow Forecast for the 18-Week Period Ending October 15, 2016 ¹

(Currency in CAD \$000's)																				
Foreign Exchange Rate Assumption (USD/CAD) 1.3																				
Week No.		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	18-Week
Week Ending	Notes	6/18/16	6/25/16	7/2/16	7/9/16	7/16/16	7/23/16	7/30/16	8/6/16	8/13/16	8/20/16	8/27/16	9/3/16	9/10/16	9/17/16	9/24/16	10/1/16	10/8/16	10/15/16	Total
OPERATING CASH FLOW																				
Operating Receipts																				
Other Receipts	2	-	-	25	-	-	-	-	25	-	-	-	25	-	-	-	-	25	-	100
Total Operating Receipts		-	-	25	-	-	-	-	25	-	-	-	25	-	-	-	-	25	-	100
Operating Disbursements																				
Payroll	3	-	-	(75)	-	(75)	-	(75)	-	(75)	-	-	(75)	-	(75)	-	(75)	-	(75)	(600)
Payroll Taxes	3	-	-	(40)	-	(40)	-	(40)	-	(40)	-	-	(40)	-	(40)	-	(40)	-	(40)	(320)
Benefits	3	(12)	(74)	-	-	-	-	(40)	-	-	-	-	(40)	-	-	-	(40)	-	-	(206)
Insurance	4	-	-	-	-	(400)	-	-	-	-	-	-	-	-	-	-	-	-	-	(400)
Operating Leases and Storage Facilities	5	-	-	(10)	-	-	-	-	(10)	-	-	-	-	(10)	-	-	-	(10)	-	(40)
Property taxes	6	-	(65)	(650)	-	-	-	-	-	-	-	-	(650)	-	-	-	-	-	-	(1,365)
Utilities	7	(12)	(45)	-	-	-	-	(45)	-	-	-	(45)	-	-	-	-	(45)	-	-	(192)
Fuel	7	-	(30)	-	-	-	-	(30)	-	-	-	(30)	-	-	-	-	(30)	-	-	(120)
Maintenance and Supplies	8	(2)	(20)	(20)	(20)	(20)	(30)	(20)	(20)	(20)	(20)	(20)	(20)	(20)	(20)	(20)	(20)	(20)	(20)	(352)
Environmental Monitoring and Consulting	9	-	(20)	(75)	(20)	(20)	(75)	(20)	(150)	(75)	(20)	(20)	(75)	(20)	(20)	(20)	(20)	(20)	(20)	(690)
Tenure/Lease Payments	10	-	-	-	-	-	-	(54)	-	-	-	(136)	-	-	-	(100)	-	-	-	(290)
Professional Fees	11	-	(30)	-	-	-	-	(30)	-	-	-	-	(10)	-	-	-	(10)	-	-	(80)
Information Technology	12	(2)	(40)	-	-	-	-	(40)	-	-	-	(40)	-	-	-	(40)	-	-	-	(162)
Total Operating Disbursements		(28)	(324)	(870)	(40)	(555)	(105)	(394)	(180)	(210)	(40)	(291)	(910)	(50)	(155)	(180)	(280)	(50)	(155)	(4,817)
Non-Operating Disbursements																				
Restructuring Advisor Fees	13	(222)	(750)	(105)	-	-	-	(750)	(105)	-	-	(650)	(105)	-	-	(650)	(105)	-	-	(3,442)
Bank Fees	14	-	-	(640)	-	-	-	-	-	-	-	-	-	-	-	-	(320)	-	-	(960)
Total Non-Operating Disbursements		(222)	(750)	(745)	-	-	-	(750)	(105)	-	-	(650)	(105)	-	-	(650)	(425)	-	-	(4,402)
TOTAL NET CASH FLOW		(250)	(1,074)	(1,590)	(40)	(555)	(105)	(1,144)	(260)	(210)	(40)	(941)	(990)	(50)	(155)	(830)	(705)	(25)	(155)	(9,119)
BEGINNING CASH (FX Effected)		20,867	20,617	19,543	17,953	17,913	17,358	17,253	16,109	15,849	15,639	15,599	14,658	13,668	13,618	13,463	12,633	11,928	11,903	20,867
Net Cash Flow		(250)	(1,074)	(1,590)	(40)	(555)	(105)	(1,144)	(260)	(210)	(40)	(941)	(990)	(50)	(155)	(830)	(705)	(25)	(155)	(9,119)
ENDING CASH (FX Effected)	15	20,617	19,543	17,953	17,913	17,358	17,253	16,109	15,849	15,639	15,599	14,658	13,668	13,618	13,463	12,633	11,928	11,903	11,748	11,748

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

**Walter Energy Canada Holdings, Inc. et al (“Walter Canada”)
Notes to the Unaudited Updated CCAA Cash Flow Forecast
For the 18-Week Period from June 12 to October 15, 2016**

Unless otherwise noted, the Updated CCAA Cash Flow Forecast is presented in Canadian dollars using an exchange rate of US\$1.00/CDN\$1.30 for conversion of any U.S. dollar amounts.

1. Purpose

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

Receipts

2. Other Receipts

Represents anticipated interest received on cash balances held at the Bank of Nova Scotia.

Operating Disbursements

3. Payroll, Payroll Taxes and Benefits

Employee remuneration costs are comprised of Payroll costs associated with 19 hourly and salaried employees that are paid bi-weekly or semi-monthly along with certain part-time employees and one director. Payroll taxes as well as health and life benefits associated with these employees are also included in the forecast.

4. Insurance

Disbursements include anticipated payments for annual premiums associated with liability and environmental insurance coverage at the mine sites.

5. Operating Leases and Storage Facilities

Scheduled disbursements for real property leases comprised of office space leases and third-party warehouse space.

6. Property Taxes

Walter Canada’s annual property tax remittances for the non-mine properties are forecast to be remitted in full prior to the July 4, 2016 deadline. Walter Canada intends to enter into discussions with certain municipalities seeking to negotiate a deferral of a portion of the property tax obligations associated with the mine site properties. Accordingly, the Updated CCAA Cash Flow Forecast assumes, as a preliminary estimate which is subject to the outcome of discussions with the municipalities, that the annual mine related property taxes will be paid in quarterly installments.

7. Fuel and Utilities

Represents the estimated usage costs for electricity, natural gas, propane and diesel to run generators and other equipment to maintain the mines under care and maintenance.

8. Maintenance and Supplies

These disbursements relate to anticipated costs to secure the mine sites as well as for required maintenance on equipment used at the sites. During the week of June 12-18, 2016, there was significant precipitation in Northeastern B.C. which damaged service roads leading into the mines. Management anticipates that significant repairs may be required to address this damage. However, as the damage has not yet been assessed it is difficult to forecast the extent and cost of the repairs that may be required. Accordingly, actual maintenance costs may be significantly higher than estimated in the Updated CCAA Cash Flow Forecast on account of these potential disbursements.

9. Environmental Monitoring and Consulting

These expected disbursements relate to various costs associated with environmental monitoring, engineering and consulting, and various site projects currently under way as recommended by Walter Canada's third party engineering consultants.

10. Tenure/Lease Payments

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

11. Professional Fees

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

12. Information Technology

These disbursements are primarily for network connectivity charges, software licensing fees, data room costs associated with the sales process and external IT support.

Non-Operating Disbursements

13. Restructuring Advisor Fees

Restructuring costs consist of professional fees payable to Walter Canada's counsel, the Monitor and its counsel, the Chief Restructuring Officer and the Financial Advisor.

14. Bank Fees

Bank fees includes forecast fees associated with the Letters of Credit issued and actual fees for use of Walter Canada's account network at the Bank of Nova Scotia. As the Letters of Credit have been cash collateralized, negotiations to reduce the fees associated with the Letters of Credit are expected to take place in the near term. As the fees associated with the Letters of Credit are quarterly and no payment has been made in 2016 in regards to these fees, a catch up was forecast during the period of \$640,000 as well as an additional \$320,000 for the period of July to September 2016.

15. Additional Proceeds from Surplus Equipment Sale

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