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IN THE UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
RICHMOND DIVISION

In re:	)	Chapter 11
PATRIOT COAL CORPORATION, *et al.*,	)	Case No. 15-32450 (KLP)
Debtors.	)	(Jointly Administered)

DECLARATION OF RAYMOND EDWARD DOMBROWSKI, JR. IN SUPPORT OF AN ORDER CONFIRMING THE DEBTORS' FOURTH AMENDED JOINT PLAN OF REORGANIZATION PURSUANT TO CHAPTER 11 OF THE BANKRUPTCY CODE

Raymond Edward Dombrowski, Jr., hereby declares, under penalty of perjury, as follows:

1. I am a Managing Director at Alvarez & Marsal North America, LLC ("A&M") and I am currently serving as the Chief Restructuring Officer of the above-captioned debtors and debtors in possession (collectively, the "Debtors"). I have served in this position since April 1, 2015. I am familiar with the terms of the *Debtors' Fourth Amended Joint Plan of*

Reorganization Pursuant to Chapter 11 of the Bankruptcy Code (the "Plan"), filed contemporaneously herewith.[1]

2. Through my role as an advisor to the Debtors, which began in March 2015, I am familiar with the Debtors' financial affairs, capital structure and operations. I am not being compensated specifically for this testimony other than through payments received by A&M as a professional retained by the Debtors. If I were called upon to testify, I could and would testify competently to the facts set forth herein.

Qualifications

3. I received my Bachelor's degree, with honors, from the United States Merchant Marine Academy, and a Juris Doctor, with honors, and a Master of Laws degree in taxation from Temple University. Prior to joining A&M, I served as Senior Vice President and CFO of Ogden Corporation and served as a senior executive at subsidiaries of Bell Atlantic Corporation for 14 years.

4. As a Managing Director at A&M, I have assisted a number of corporations in developing and implementing financial turnaround strategies. I have served in interim Chief Executive Officer, Chief Financial Officer, or Chief Restructuring Officer roles to a number of large and mid-size companies both in and out of bankruptcy. I have specific experience in the coal industry, including serving as Chief Restructuring Officer at Mepco, LLC and as restructuring advisor at Oxford Resource Partners LP. In addition, I have worked with SIRVA, SLI, Allegheny Energy, VecTour, APW, Inc. Verestar, Inc., Great Basin Gold, and Marchon Eyewear, among others.

[1] Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the Plan or the memorandum of law in support thereof filed on October 5, 2015 [Docket No. 1554].

Background

5. On March 31, 2015, the Debtors retained A&M as restructuring advisor in connection with the Debtors' restructuring efforts. Immediately after its retention, A&M worked with the Debtors' board of directors, its executive management team, and other retained professionals to evaluate the Debtors' operations, liquidity situation, and the Debtors' ability to satisfy outstanding obligations. In addition to A&M's direct involvement and participation in restructuring negotiations, A&M has, among other things, (a) prepared and administered information and analyses necessary for confirmation of the Plan, including the Liquidation Analysis, and other information contained in the Disclosure Statement and the Plan Supplement; (b) assisted the Debtors in managing day-to-day operations and cash flow; and (c) assisted the Debtors in preparing and complying with the various reporting requirements necessary during the course of these chapter 11 cases, including assistance with the schedules and statements and monthly operating reports. In connection with the performance of these services, A&M has developed a great deal of knowledge regarding the Debtors' finances and business operations.

6. I submit this Declaration in support of confirmation of the Plan. All matters set forth in this Declaration are based on: (a) my personal knowledge; (b) my review of relevant documents; (c) my view, based upon my experience and knowledge of the Debtors' business and financial condition; or (d) as to matters involving United States bankruptcy law or rules or other applicable laws, my reliance on the advice of Debtors' counsel.

The Plan

7. The Plan: (a) complies with all applicable provisions of the Bankruptcy Code as required by section 1129(a)(1) of the Bankruptcy Code; (b) satisfies the other mandatory

requirements of section 1129(a) of the Bankruptcy Code; and (c) satisfies the "cram down" requirements of section 1129(b) of the Bankruptcy Code.

I. The Plan Complies with Section 1122 of the Bankruptcy Code

8. It is my understanding that the Plan complies with section 1123(a)(1) of the Bankruptcy Code because Article III of the Plan provides for the separate classification of Claims and Interests as follows:

a. Class 1: Other Priority Claims;

b. Class 2: Secured Tax Claims;

c. Class 3: Other Secured Claims;

d. Class 4: Prepetition ABL Facility Claims;

e. Class 5: Prepetition LC Facility Claims;

f. Class 6: Prepetition Term Loan Facility Claims;

g. Class 7: Prepetition Notes Claims;

h. Class 8: General Unsecured Claims;

i. Class 9: Intercompany Claims;

j. Class 10: Intercompany Interests; and

k. Class 11: Equity Interests.

9. Generally, the Plan's classification scheme follows the Debtors' capital structure. For example, debt and equity are separately classified and secured debt is separately classified from unsecured debt. Similarly, other aspects of the classification scheme recognize the different legal or factual nature of varying Claims or Interests. Namely, the Plan separately classifies the Claims because each Holder of such Claims or Interests may hold (or may have held) rights in the Estates legally dissimilar to the Claims or Interests in other Classes or because substantial administrative convenience resulted from such classification. For example, Claims

(rights to payment) are classified separately from Interests (representing ownership in the business). Secured Claims are classified separately from unsecured Claims because the Debtors' obligations with respect to the former are secured by collateral. Secured Claims are further grouped into Classes based on, for instance, the collateral securing the Claim (against which the secured claimant has recourse subject to the provisions of the Bankruptcy Code) and the governing credit documents under which the Claim arises. Further, each Claim or Interest in each particular Class possesses substantial similarity to every other Claim or Interest in that Class. Accordingly, the classification of Claims and Interests set forth in the Plan complies with sections 1122 and 1123(a)(1) of the Bankruptcy Code.

II. The Plan Satisfies Section 1123(b) of the Bankruptcy Code

10. The Plan impairs certain Classes of Claims and Interests and leaves others unimpaired, proposes treatment for Executory Contracts and Unexpired Leases, provides a structure for Claim allowance and disallowance and establishes a distribution process for the satisfaction of Allowed Claims entitled to distributions under the Plan. In addition, the Plan contains provisions implementing certain releases and exculpations, discharging Claims and Interests and permanently enjoining certain causes of action. The Plan's discharge, release, exculpation, and injunction provisions are proper because, among other things, they: (a) are the product of arm's-length, good-faith negotiations among the Debtors, on the one hand, and certain of the Released Parties on the other hand; (b) have been critical to obtaining the necessary support from certain constituencies for the Plan; (c) are given for valuable consideration; and (d) are fair and equitable and in the best interests of the Debtors and their estates. Moreover, the Debtors' board of directors reviewed the proposed release, exculpation, and injunction provisions and determined they were appropriate and important in connection with their approval of the Plan.

11. **The Discharge Is Appropriate.**

12. I understand that section 1141(d)(3) of the Bankruptcy Code provides that a Debtor is entitled to a discharge unless, in relevant part, the Plan provides for a liquidation of all or substantially all of the property of the estate. The Plan does not provide for a liquidation of substantially all of the Debtors' assets. Rather, the Plan contemplates the value-maximizing, going-concern sales of substantially all of the Debtors' assets and operations to Blackhawk and to VCLF. As such, I believe the Debtors are entitled to the discharge under the Plan.

13. **The Debtor Release Is Appropriate.**

14. The Plan provides for the release by the Debtors of claims, including direct, indirect, or derivative claims, against the Debtors Releasees and the Third Party Releasees. The Debtor Release is in the best interest of the Debtors' estates and well within their business judgment because the recipients of the Debtor Release are all parties who either have an identity of interest with the Debtors or who were critically important to the negotiation and formulation of the Plan.

15. The Released Parties have been active and important participants in the development of the Blackhawk APA, the VCLF APA, the Plan, and the chapter 11 process. Indeed, the cooperation and support of these Released Parties has enabled the Debtors to formulate two going-concern sale transactions that maximize value for the Debtors' stakeholders despite unprecedented industry challenges and in an environment where coal financings and sale transactions are non-existent.

16. The transactions contemplated by the Plan would not be possible without the contributions that Blackhawk and VCLF have made in formulating the transactions that provide

the bedrock for both the Plan and the Debtors' go-forward business structure, as well as providing consideration and assuming the liabilities necessary to effectuate the Plan transactions.

17. The DIP Lenders and the DIP Agent provided the Debtors with the only available debtor-in-possession financing on terms that were reasonable and competitive, which allowed the Debtors to conduct an accelerated sale process that has led to the Plan. Without the DIP Facility, there was a material risk that the Debtors would have been forced to file cases under chapter 7 and put their operations into a "cold idle" as I described in my testimony at the hearing to consider the DIP Facility, resulting in a devastating impact to their employees, customers, stakeholders, and environmental authorities. The DIP Facility has enabled the Debtors to pursue multiple going-concern sale transactions, which provide for a higher and better recovery to their stakeholders and are a better result for the Debtors' employees, trade vendors, and environmental authorities. The Combined Company 1.5 Lien Term Loan Lenders have provided significant financial commitments to fund emergence in an economic environment where third-party financing for coal companies is nearly impossible, thereby allowing the transactions contemplated under the Plan to be consummated. Given the Debtors' cash position, emergence would otherwise likely not be possible.

18. The Debtors' directors, officers, and related parties also played a crucial role both before and during the chapter 11 cases. The Debtors' board took all appropriate steps to ensure—to the maximum extent possible—that the asset sales would be accomplished swiftly and successfully, all while causing minimal disruption to the Debtors' operations. The board also took an extremely active role in all restructuring-related activities, including overseeing the marketing process and the development of the Plan and the transactions contemplated therein. Since the Petition Date, the Debtors' directors and officers have actively participated in these

cases and continue to support the management team with various operating issues. In the face of a rapidly diminishing cash position and with no further financing available—and in the face of significant litigation threats—the Board and management team could have elected to take an alternative route, which could have caused a devastating impact on the Debtors' ability to seek to obtain confirmation of the Plan and eliminated the possibility of any going-concern transaction.

19. If the Debtors had tried to preserve claims and causes of action against the Released Parties, the transactions contemplated by the Plan would not have been possible and the Debtors would have been forced to liquidate. Indeed, the Combined Company 1.5 Lien Term Loan Lenders only would agree to provide the new money financing that will facilitate consummation of the Plan if the Debtors agreed to, among other things, release the Released Parties. Accordingly, the Debtor Release reflects a reasonable balance of the risk and expense of litigation, on the one hand, against the benefits of resolution of disputes and issues, on the other hand, removing what could otherwise be potentially substantial impediments to emergence from chapter 11.

III. The Plan Satisfies Section 1129(a)(3) of the Bankruptcy Code

20. I understand that section 1129(a)(3) of the Bankruptcy Code requires that a chapter 11 plan be proposed in good faith and not by any means forbidden by law. I believe the Plan meets these requirements. The Plan was proposed in good faith, with the legitimate and honest purpose of maximizing the value of each of the Debtors and the recovery to creditors and other stakeholders. In particular, the Plan satisfies the purposes of the Bankruptcy Code. The Plan has been proposed in good faith and will achieve a result consistent with the objectives and purposes of the Bankruptcy Code. Furthermore, I understand that the Plan has also received the support of Class 4—Prepetition ABL Facility Claims, Class 5—Prepetition LC Facility Claims, and Class 7—Prepetition Notes Claims.

21. The Debtors commenced these Chapter 11 Cases for the sole purpose of maximizing value for all of their stakeholders and they have acted in a manner consistent with their fiduciary duties both prior to and throughout the chapter 11 process. Unprecedented challenges in the domestic coal industry precipitated the Debtors' severe liquidity shortfall and forced the Debtors to commence these chapter 11 cases to obtain the DIP financing necessary to fund the marketing and sale process. I submit that any alternative would have created a material risk of the type of "cold idle" that I described in my testimony at the hearing to consider the DIP Facility. To fend off the very real and value-destructive threat of liquidation and comply with the milestones set forth in the DIP Order, the Debtors, in consultation with their advisors, decided to pursue a sale of substantially all of their assets to maximize potential recoveries for all stakeholders. However, in light of the turbulent market conditions facing coal marketers and distributors and the substantial complexities of their businesses, the Debtors' ability to attract an acceptable buyer or buyers for their assets was far from a foregone conclusion. To achieve this feat, the Debtors engaged in tireless pre- and post-petition efforts to market their assets to strategic and financial buyers and maximize value to the fullest extent possible for their creditors.

22. These efforts ultimately culminated in the Debtors' successful entry into the Blackhawk APA and the VCLF APA, complimentary transactions that unlock synergies, resolve liabilities, and result in distributions to creditors well above those available in a forced liquidation. Moreover, both Blackhawk and VCLF agreed that their respective APAs would act as Stalking Horse Bids, subject to overbids and a marketing process in accordance with the Bidding Procedures Order. Accordingly, the Debtors continued to engage with alternate parties to evaluate whether a potentially higher or better transaction was available for the benefit of their

stakeholders. These efforts ultimately resulted in the submission of a Bid from Coronado in the form of $255 million in Cash. Following extensive negotiations with Coronado, during which process the Debtors continued to consult with all of their major stakeholders, the Debtors determined that the Coronado Bid constituted a Qualified Bid. To further drive value for creditors, the Debtors conducted the Auction with respect to the Blackhawk Assets. Although Coronado did not top the Blackhawk Bid, at the conclusion of the Auction, the Debtors determined that Coronado was the Backup Bidder. Through this process, the Debtors obtained an additional source of recovery for creditors in the event that the Debtors do not consummate the Blackhawk Transaction.

23. Consummating a chapter 11 plan is necessary to bring these cases to conclusion, and I submit that the Plan affords the Debtors the best opportunity to do so.

IV. The Plan Is in the Best Interests of Creditors.

24. I understand that the "best interests of creditors" test of section 1129(a)(7) of the Bankruptcy Code requires that, with respect to each impaired class of claims or interests, each individual holder of a claim or interest has either accepted the plan or will receive or retain property having a present value, as of the effective date of the plan, of not less than what such holder would receive if the debtor were liquidated under chapter 7 of the Bankruptcy Code at that time. I further understand that this analysis applies only to non-accepting impaired claims or equity interests.

25. To determine the value that a rejecting creditor would receive in a hypothetical liquidation of the Debtors' estates under chapter 7 of the Bankruptcy Code, first, the aggregate dollar amount estimated to be generated from a liquidation of the Debtors' assets by a chapter 7 trustee must be determined. This "liquidation value" would consist of the net proceeds from the disposition of the Debtors' assets, plus Cash on hand, reduced by the costs and expenses relating

to, and claims arising in connection with, among other things, (a) the compensation paid to the chapter 7 trustee, (b) the asset disposition, (c) taxes, (d) litigation, (e) chapter 7 operations, and (f) any unpaid administrative expense claims.

26. As set forth in the Liquidation Analysis, a chapter 7 liquidation could also trigger certain additional priority claims (*e.g.*, claims for severance pay) or accelerate the payment of certain priority claims (*e.g.*, tax claims), that would otherwise be payable in the ordinary course of business, but which, in a liquidation scenario, would instead be paid from net proceeds (after paying secured claims to the extent of the value of the underlying collateral but before paying unsecured creditors or equity holders). Additionally, liquidation would likely increase, perhaps significantly, the aggregate amount of unsecured claims arising from additional lease and contract rejections or litigation, among other things. The Liquidation Analysis provides extensive details surrounding the assumptions associated with a hypothetical liquidation of the Debtors' assets in a forced and orderly manner.

27. Under the Plan, all rejecting Holders of impaired Claims would receive property valued at an amount that is in no case less than the value of what they would receive if the Debtors were liquidated under chapter 7 of the Bankruptcy Code.[2] Further, based on the significant challenges currently facing the domestic coal industry, I am uncertain whether the Debtors could even achieve the liquidation recovery reflected in the Liquidation Analysis. The chart below provides a comparison of the recoveries to holders of Claims under the Plan versus under a hypothetical liquidation using the assumptions set forth in the Liquidation Analysis.

[2] *See id.*

Class	Claim	Plan Recovery	Liquidation Recovery
4	Prepetition ABL Facility Claims	100%	100%
5	Prepetition LC Facility Claims	80%	5% to 50%
6	Prepetition Term Loan Facility Claims	Greater than 0%	No Recovery.
7	Prepetition Notes Claims	Greater than 0%	No Recovery.
8	General Unsecured Claims	Greater than 0%	No Recovery.
9	Intercompany Claims	No Recovery.	No Recovery.
10	Intercompany Interests	No Recovery.	No Recovery.
11	Equity Interests	No Recovery.	No Recovery.

28. The Plan provides all Holders of Claims with more than they would receive in a hypothetical liquidation. Accordingly, I believe that the Plan fully complies with and satisfies all of the requirements of section 1129(a)(7) of the Bankruptcy Code.

V. The Plan Is Fair and Equitable and Does not Unfairly Discriminate with Respect to the Deemed Rejecting Class.

29. I understand that to "cram down" the Plan on the non-accepting, Impaired Classes in accordance with the Bankruptcy Code, the Plan must be "fair and equitable" and must not discriminate unfairly with respect to such Class.

30. Here, there is no Class of equal priority receiving more favorable treatment than Classes 6, 8, and 9, and no Class that is junior to Class 6, 8 or 9 will receive or retain any property on account of the Claims or Interests in such Class. Furthermore, I believe that the Plan's treatment of the non-accepting Impaired Classes is proper because all similarly situated holders of Claims and Interests will receive substantially similar treatment. The Plan's treatment of the Deemed Rejecting Classes is proper because no similarly situated class will receive more favorable treatment.

31. Moreover, where the Plan provides differing treatment for certain Classes of Claims or Interests, the Debtors have a rational basis for doing so. For example, I understand that Holders of Class 5—Prepetition LC Facility Claims are receiving a materially higher recovery than Holders of Class 6—Term Loan Facility Claims due to their senior priority under the Debtors' prepetition debt documents, the Intercreditor Agreements, and the Bankruptcy Code. I understand that Class 7—Prepetition Notes Claims will not receive any recovery under the Plan. Likewise, I understand that if the Payout Event occurs, Holders of Class 6—Term Loan Facility Claims will receive their Pro Rata of share of the Payout Event Cash Pool prior to distribution to Holders of Class 8—General Unsecured Claims due to their prepetition secured status. Accordingly, I believe that the Plan is fair and equitable and does not discriminate unfairly with respect to the Rejecting Classes.

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Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge and belief.

Executed on: October 7, 2015

By:

/s/ *Raymond Edward Dombrowski, Jr.*

Raymond Edward Dombrowski, Jr.
Chief Restructuring Officer
Patriot Coal Corporation, et al.