2010 ANNUAL REPORT

Walter Energy to Acquire Western Coal Corp.

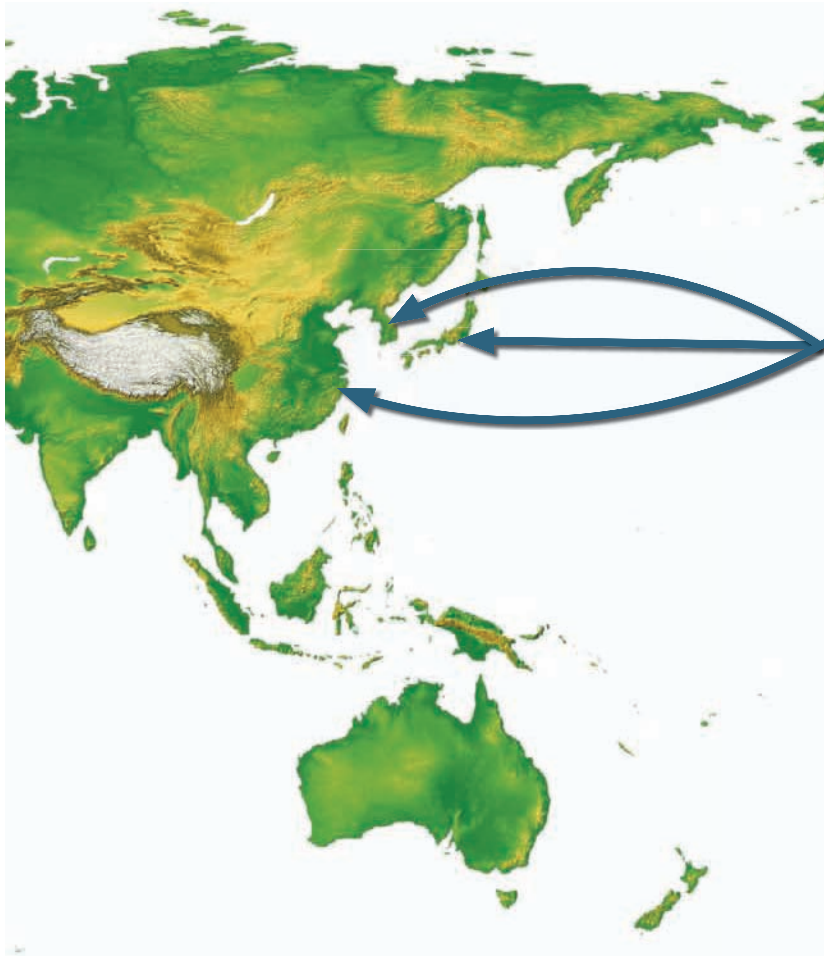
Walter Energy Press Release 12-3-2010

"This is a **transformative** transaction at a time when **global demand for metallurgical coal is surging.** Western Coal has an attractive high-quality metallurgical coal asset base and has embarked on an organic growth strategy that is expected to increase production more than 60 percent by fiscal 2013. It is a **unique strategic fit** with Walter Energy's large scale, high-productivity mines which produce premium-quality metallurgical coal for customers in South America and Europe. Our combined production capacity and geographic footprint leaves us extremely well positioned to benefit from favorable sector dynamics driven by increased steel production in markets such as China, India and Brazil. Bottom line, **this is the right transaction at the right time.**"

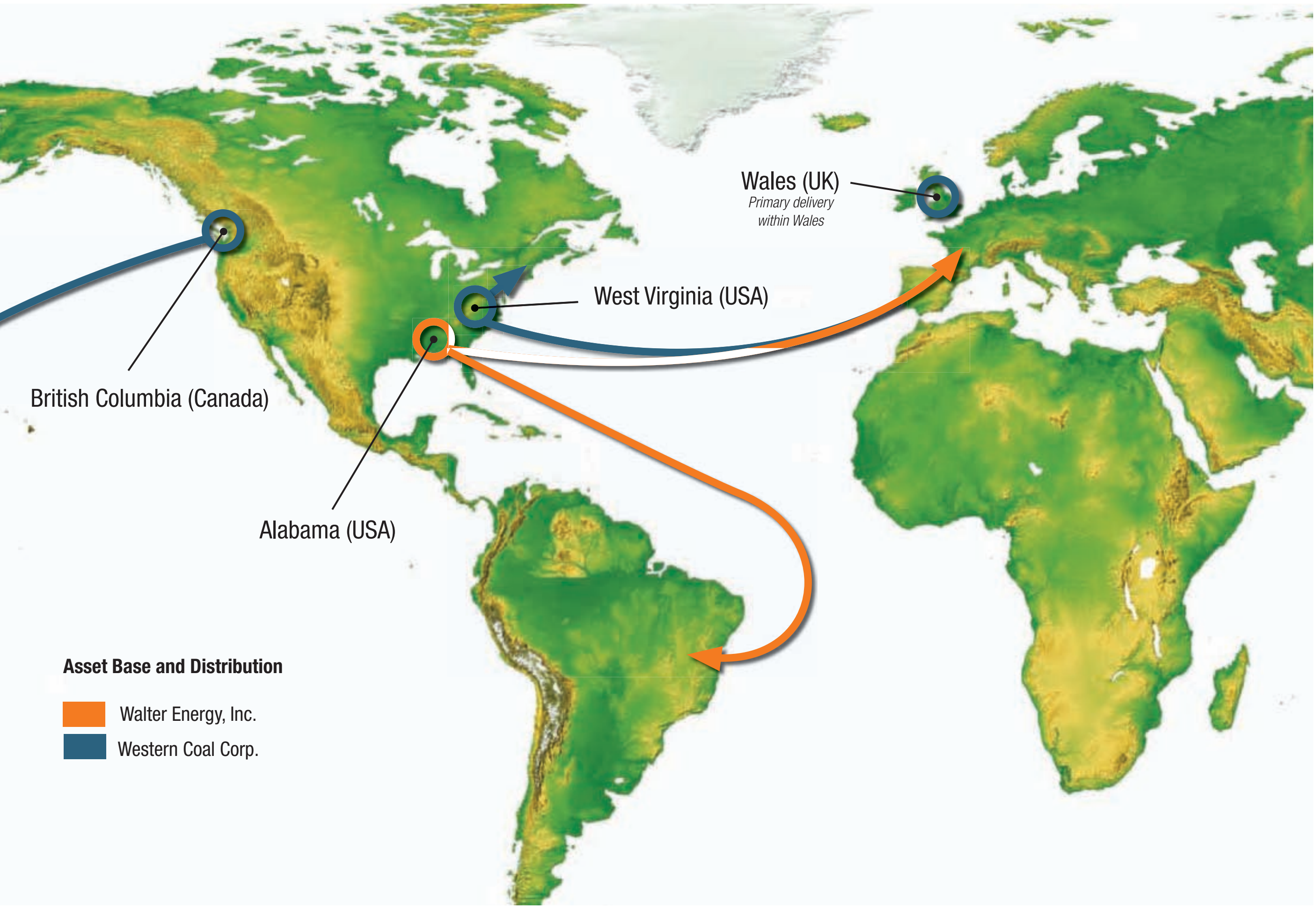
CREATING: The Leading, Publicly Traded "Pure Play" Metallurgical

GEOGRAPHIC DIVERSIFICATION AND ACCESS TO HIGH GROWTH MARKETS

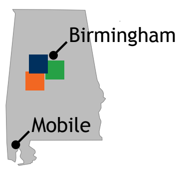
(POST-CLOSE)



Coal Producer in the World

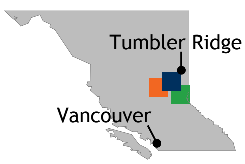


Alabama (USA)
6 mines/1 coke plant



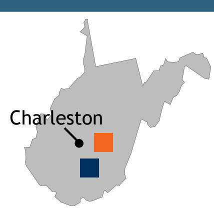
- Jim Walter Resources
- Walter Minerals
- Walter Coke

British Columbia (Canada)
3 mines



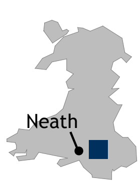
- Willow Creek
- Wolverine
- Brule

West Virginia (USA)
4 mines



- Maple Coal
- Gauley Eagle

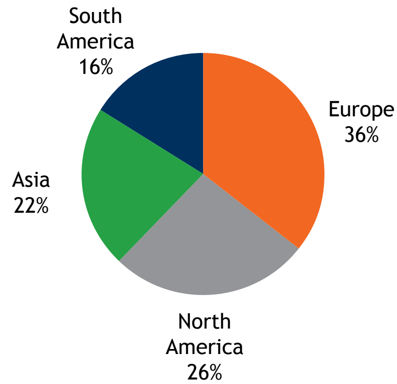
Wales (UK)
1 mine



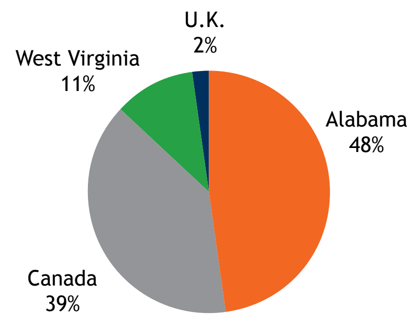
- Aberpergwm

COMPLEMENTARY ASSET AND GEOGRAPHIC DIVERSIFICATION OF THE COMBINED ENTITY (POST-CLOSE)

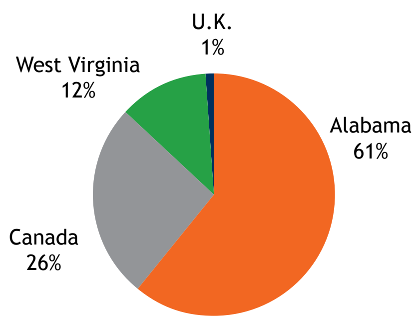
GEOGRAPHIC SALES MIX*



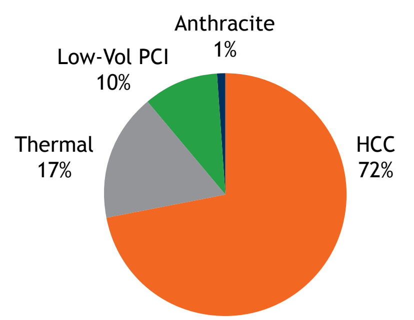
RESERVES



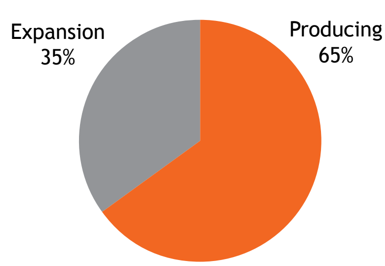
GEOGRAPHIC PRODUCTION MIX*



PRODUCT MIX*



LONG-TERM PRODUCTION PROFILE



Note: *Data above reflects the combined business, post-close.*

** LTM - Combined Walter Energy and Western Coal for period ending 12/31/10*

Michael T. Tokarz
Chairman of the Board

DEAR SHAREHOLDER:

Last year, we transformed Walter Energy. This year, we're transforming it again.

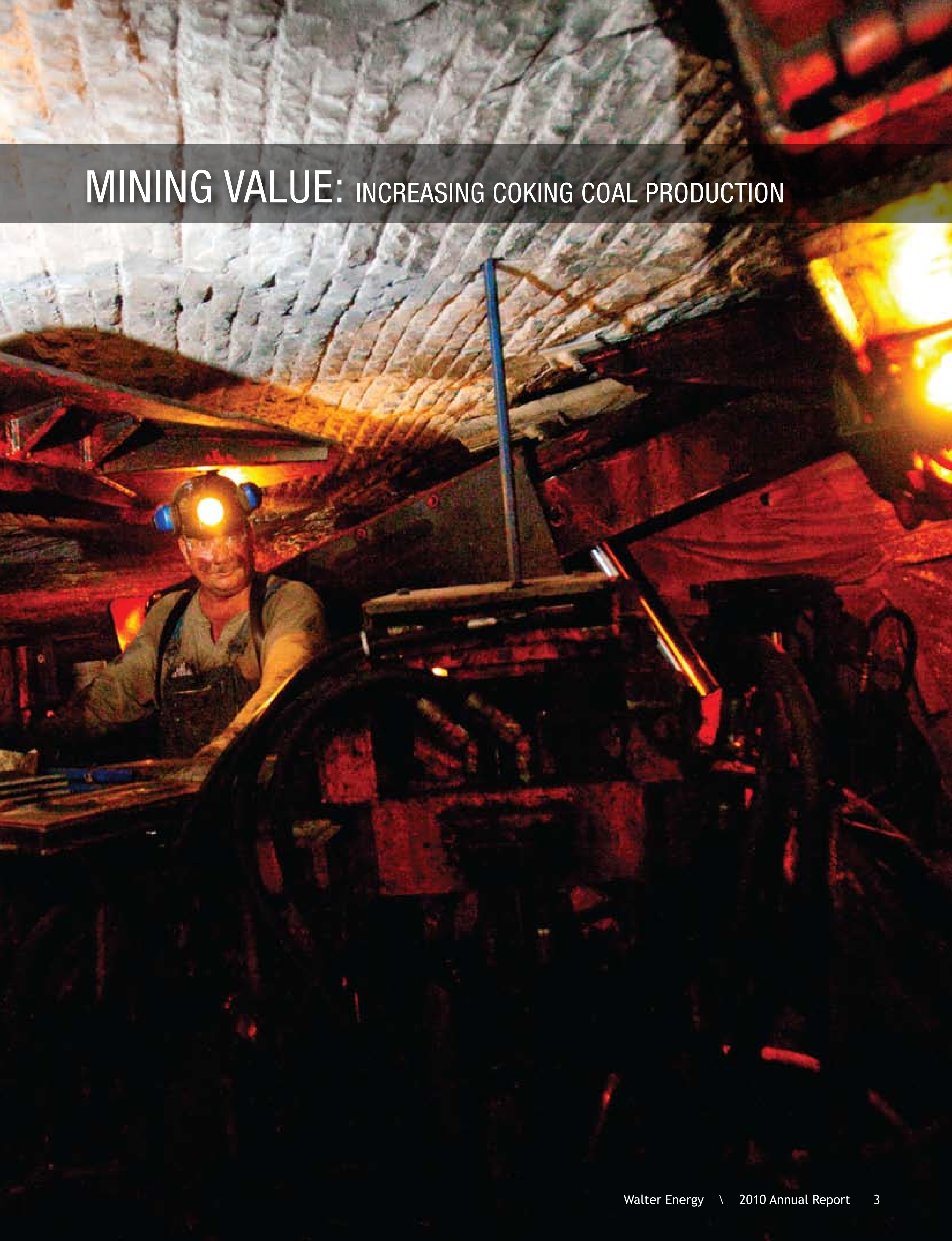
We are delivering on our promise to grow our coking coal enterprise by reinvesting in our business and deploying our strong free cash flows in thoughtful, creative and strategic ways to enhance the value of your investment.

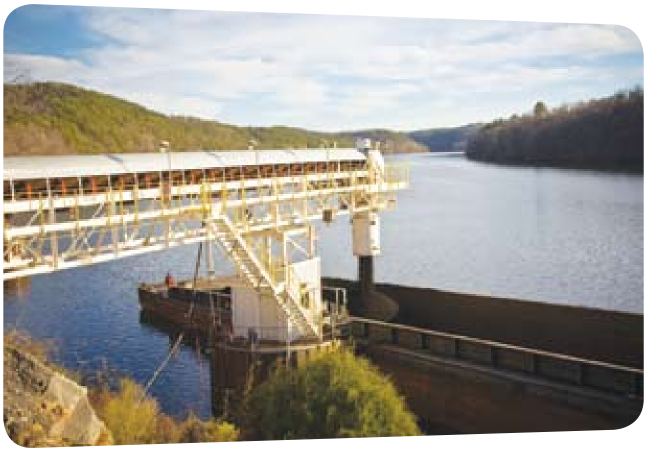
Late in 2010, we were presented with a once-in-a-lifetime opportunity to acquire Canadian coal producer Western Coal Corp., a company we had admired from a distance for a long time. We liked Western Coal's access to the Asian steel markets. We liked its growth story and its plans to increase coking coal production volumes 133 percent by 2013. We liked its experienced, global management team.

As a result of our interaction with Western Coal, we met Keith Calder, a global mining executive with more than 30 years of experience on four continents. We were so impressed with what Calder was able to accomplish in delivering value for shareholders of Western Coal in a very short time that we named him chief executive officer designate of Walter Energy, effective upon the closing of the Western Coal acquisition. Calder shares our Board's vision for the growth and prosperity of our Company. He shares our vision in assembling a world-class organization and he shares our optimism that we can make Walter Energy not only one of the great coal companies, but one of the great companies on the world stage. We hope and expect that he will continue his outstanding track record of creating value through the integration of Western Coal into Walter Energy and beyond as the combined enterprise executes on its growth strategy after closing of the acqusition.

Also, in connection with the acquisition, we expect to add Calder, David R.

MINING VALUE: INCREASING COKING COAL PRODUCTION



Beatty, O.B.E. and Graham Mascall to the Walter Energy Board of Directors, effective upon the closing of the acquisition. Together, they will add more than two decades of experience as directors of global mining companies to our Board. We look forward to their contributions as we begin integrating our two great companies into one after the acquisition closes.

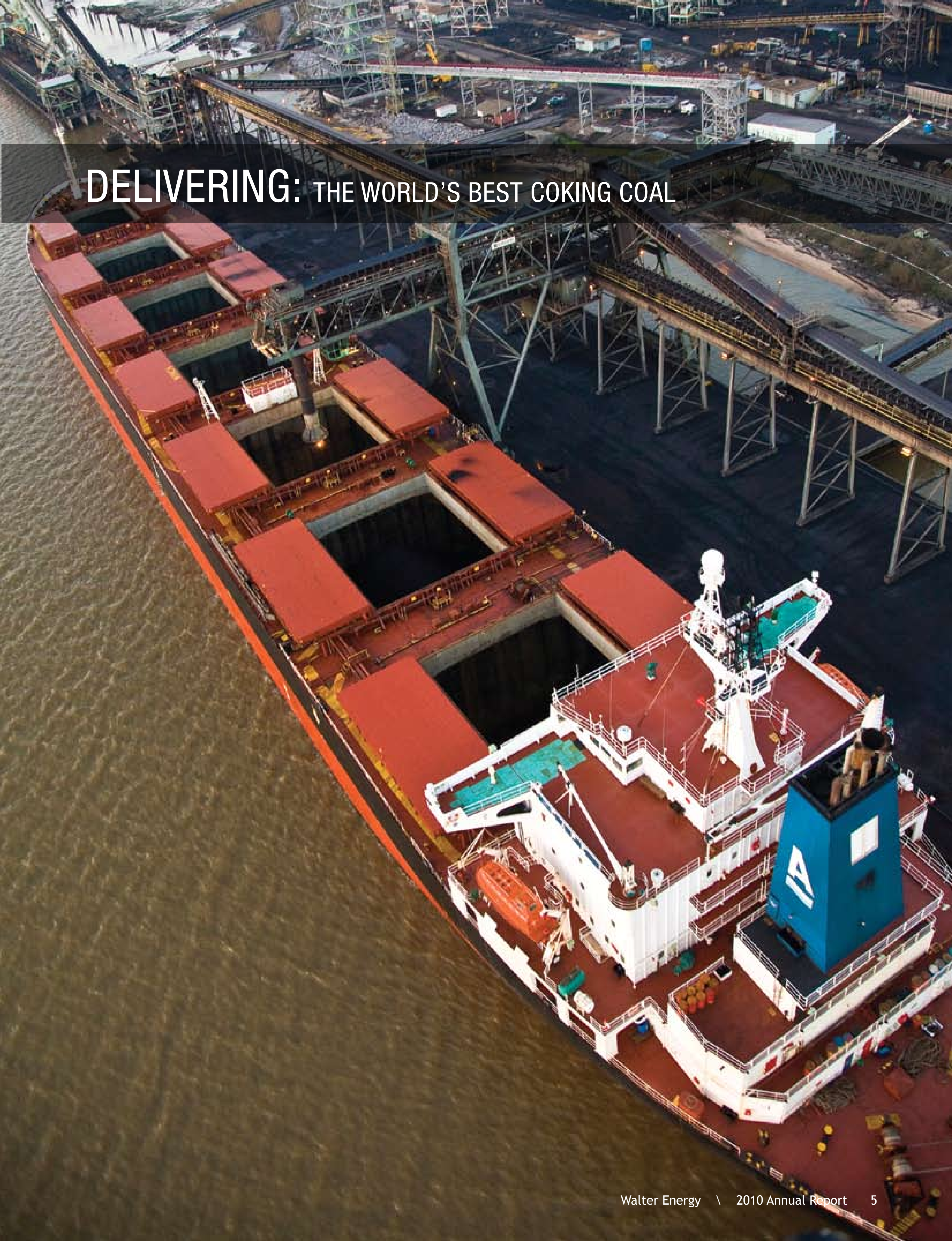
"Long term, the combined company is expected to produce more than 20 million tons annually, with organic expansion initiatives in both Alabama and British Columbia available to further grow our future production capacity."

Western Coal represents the epitome of what we were looking for in a partner. It has a diverse geographic production base, a range of high-quality coking coals, low-vol PCI coal and anthracite, a competitive delivered cost structure, ample capacity from existing transportation infrastructure and, importantly, it has excellent access to Asian markets and is positioned for growth with a number of organic production enhancement projects already on deck, with several other opportunities available nearby as potential bolt-on acquisitions.

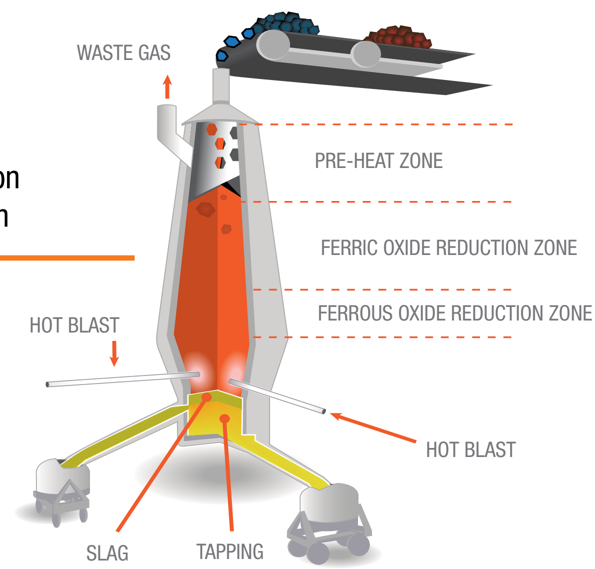
As we said when we announced the acquisition: Bottom line — it was the right transaction at the right time.

The acquisition is expected to close on or about April 1, 2011 and, with the resources of Western Coal, Walter Energy will be positioned as the leading, publicly traded "pure play" metallurgical coal producer in the world with strategic access to high-growth steel-producing countries in both the Atlantic and Pacific basins. Long term, the combined company is expected to produce than 20 million tons annually, with organic expansion initiatives in both Alabama and British Columbia available to further grow our future production capacity. We will have about 30 years of reserves available for future production, the majority of which is high-demand hard coking coal, with a diverse geographical footprint and operations in the United States, Canada and the United Kingdom. Our combined 4,000 employees and contractors form the backbone of a world-class organization, mining value for our shareholders from both our operations and our strategic initiatives, delivering the world's best coking coal, focused on our customers with a marketing reach spanning the globe. All while making each ton a safe ton.

DELIVERING: THE WORLD'S BEST COKING COAL



Typical Blast Furnace Operation Using Coke in Steel Production



"…we generated full-year 2010 EBITDA of nearly $700 million on $1.6 billion in total revenues, an EBITDA margin of nearly 44 percent - illustrating the ability of our business to generate impressive cash flows."

And we're not standing still.

In 2011, we will use expected strong cash flows to continue to execute on organic growth strategies and reinvest in our business. We will achieve repeatable production rates and we will continue our relentless pursuit of an injury-free workplace.

Now that we've covered where we're going, let's take a look back at some of our highlights from 2010.

The worldwide steel market rebounded well from a global lull in 2009. World crude steel production topped 1.4 billion metric tons, an all-time high and a 15 percent increase over 2009. All of the world's leading steel-producing nations reported double-digit growth versus lower results in 2009. In addition, global coking coal supply was constrained by significant events across the world.

With global supply-demand dynamics squarely in our favor in 2010, Walter Energy sold more than 7 million tons of metallurgical coal. We achieved record full-year average pricing of more than $180 per short ton while lowering production costs. As a result, we generated full-year 2010 EBITDA of nearly $700 million on $1.6 billion in total revenues, an EBITDA margin of nearly 44 percent - illustrating the ability of our business to generate impressive cash flows.

Coking coal production was also strong in 2010, with full-year production of nearly 6.7 million tons from our underground mines in Alabama. The nearly

FOCUSED: ON OUR CUSTOMERS

© siebenmorgen

Walter Energy Senior Vice President Sales & Marketing Mike Madden (left) and Director of Marketing and Transportation Rodney Camp. Madden and Camp were largely responsible for Walter Energy selling 7.2 million tons of metallurgical coal in 2010.

Top: Photo courtesy of KBS Kokereibetriebsgesellschaft Schwelgern GmbH

Photos courtesy of SSAB

EBITDA UP
$417.7 Million

NEARLY
TRIPLED ’09
OPERATING INCOME

1.1 MILLION
TON INCREASE IN COKING COAL SALES VOLUME

COKING COAL PRICING
UP 45%

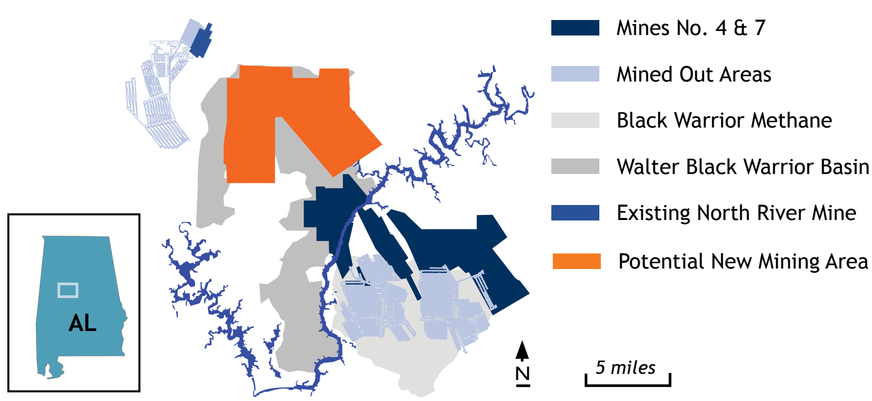
10 percent increase was boosted by additional production generated by the Mine No. 7 East expansion completed in 2009.

Our complementary businesses - Walter Minerals and Walter Coke – added to our financial results in 2010, each with strong performances. Walter Minerals generated $24 million in operating income on 20 percent higher sales volumes. Walter Coke’s metallurgical coke sales rebounded from a soft domestic steel market in 2009 by nearly doubling its sales volumes for the year and generating $32 million in operating income – the second-best operating income it has ever achieved.

We made significant strategic strides in 2010 as well.

In addition to setting the stage for the $3.5 billion acquisition of Western Coal, we announced a letter of intent in 2010 and recently completed negotiations to lease significant metallurgical coal reserves from Chevron Mining and to purchase Chevron’s existing North River steam coal mine. In a separate transaction, we leased an additional 22 million tons of metallurgical coal reserves. These transactions have locked up the majority of the last remaining undeveloped Blue Creek coal reserves, making us the only viable candidate in the region to develop a potential

Alabama Expansion Initiatives



EXPANDING: GLOBAL REACH

new coking coal mine there. This potential new mine would ultimately boost production and further diversify our mining profile in Alabama.

In April, we acquired more than 1,300 existing conventional gas wells, pipeline infrastructure and related equipment located adjacent to our existing operations in Alabama. This $210 million acquisition has current proven reserves of approximately 89 billion cubic feet, with expected annual coal bed methane production of approximately 8.0 billion cubic feet. While the acquisition significantly boosted 2010 natural gas production to more than 10.6 billion cubic feet, it was more important to us because many of the wells sit directly above the Blue Creek Coal reserves we are locking up for the potential new mine. This natural gas operation will help ensure that future coal production areas will be properly degasified, helping to improve the safety and operational efficiency of existing and future underground coking coal production in the area.

We also acquired a river terminal facility in Mobile, Ala., which, once converted to our use, will help ensure that we will have unconstrained shipping capacity to support our long-term coking coal production plans in Alabama, help maintain low mine-to-port costs and make us less reliant on third parties.

Finally, we opened the new Reid School coal mine, adding about 240,000 tons of metallurgical coal annually to Walter Minerals' production profile.

Always conscious of safety, the number of reportable injuries declined more than 21 percent at our underground coal mines in 2010, but even a single incident is too many in our book. We will continue to pursue our goal of having the safest operations in our industry until all of our employees go home safely. Every day.

In 2010, we repurchased more than $65 million in outstanding shares and

SAFETY: EACH TON A SAFE TON

“The investment case for Walter Energy is as strong as it has ever been.”

we paid more than $25 million in regular dividends, returning a total of more than $90 million in cash to shareholders during the year.

Despite spending more than $245 million on strategic growth initiatives in 2010, our balance sheet remained in good shape at year end, with $534 million in liquidity, including $293 million in cash.

The investment case for Walter Energy is as strong as it has ever been. If you have been a shareholder for the past several years, you’ve seen the value of a $100 investment in 2005 grow to nearly $600 today. We produce among the highest quality coking coal, a necessary and increasingly scarce natural resource. Among coal producers globally, we remain the most closely tied investment vehicle to the growing global steel industry. We generate robust EBITDA and cash flows and have industry-leading EBITDA margins on a growing production base. We have among the lowest delivered costs in the world on our product and we have an excellent leadership team in place that continues to reward shareholders with unmatched equity growth, dividends and share repurchases.

Our investment case is only strengthened by our pending acquisition of Western Coal.

We have a very bright future ahead of us. As always, I thank you for your continued investment in us, and in Walter Energy.

Sincerely,

Michael T. Tokarz
Chairman of the Board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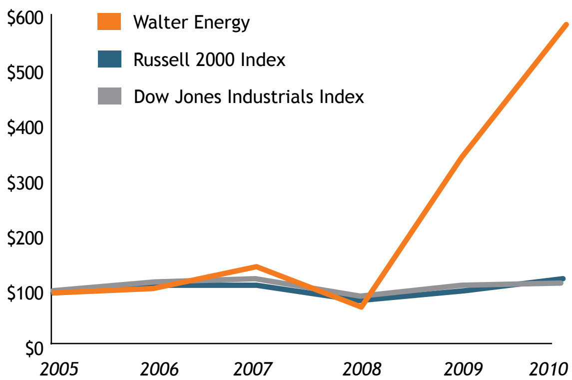
Walter Energy 2010 YEAR-END COMPARISONS

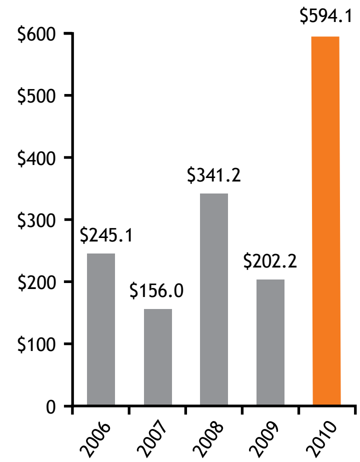
5-YEAR COMPARISON OF TOTAL RETURNS



Total return values were calculated based on cumulative total return assuming (i) the investment of $100 in the Company's Common Stock, the Russell 2000 and the Dow Jones Industrial Average on December 31, 2005 and (ii) reinvestment of all dividends.
Source: Standard & Poor's Compustat

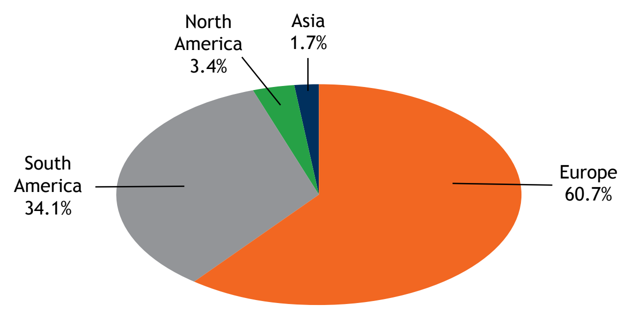
OPERATING INCOME

($ in millions)



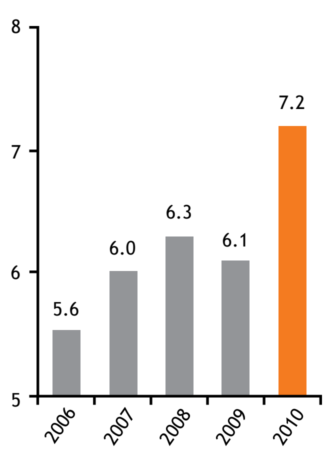
2010 METALLURGICAL COAL DELIVERIES BY DESTINATION

(% in tons)



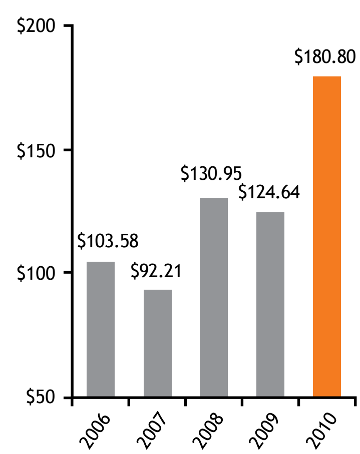
5-YEAR HISTORICAL METALLURGICAL COAL SALES

(Tons, in millions)



5-YEAR AVERAGE METALLURGICAL COAL PRICE

($ per short ton, FOB port)



BY THE NUMBERS

$1.6 BILLION REVENUES

$7.25 PER SHARE DILUTED EARNINGS

175% INCREASE IN EARNINGS

REDUCED UNDERGROUND MINING ACCIDENT RATES 21%

NEARLY **70% IMPROVEMENT** IN STOCK PRICE 1/1/10 – 12/31/10

$90 MILLION RETURNED TO SHAREHOLDERS IN SHARE REPURCHASES & DIVIDENDS

RECORD REVENUES & OPERATING INCOME – UNDERGROUND MINING SEGMENT

$180 RECORD AVERAGE COKING COAL PRICING PER TON

7.2 MILLION SHORT TONS SOLD – METALLURGICAL COAL

1.5 MILLION SHORT TONS SOLD – STEAM & INDUSTRIAL COAL

400 THOUSAND TONS SOLD – METALLURGICAL COKE

10.6 BCF SOLD – NATURAL GAS

CONSOLIDATED RESULTS

($ in thousands, except per share amounts and employees)

CONSOLIDATED RESULTS	FOR THE YEARS ENDED DECEMBER 31, 2010	2009	2008	2007
Net sales and revenues	$1,587,730	$ 966,827	$1,149,684	$ 774,795
Operating income	$ 594,062	$ 202,170	$ 341,207	$ 155,994
Income from continuing operations	$ 389,425	$ 141,850	$ 231,192	$ 98,227
Income (loss) from discontinued operations	(3,628)	(4,692)	115,388	13,772
Net income	$ 385,797	$ 137,158	$ 346,580	$ 111,999
Diluted income (loss) per share:				
Income from continuing operations	$ 7.25	$ 2.64	$ 4.24	$ 1.87
Income (loss) from discontinued operations	(0.07)	(0.09)	2.11	0.26
Net income	$ 7.18	$ 2.55	$ 6.35	$ 2.13

BALANCE SHEET	AT DECEMBER 31, 2010	2009	2008	2007
Total assets*	$1,651,853	$1,244,159	$1,195,695	$ 777,262
Total debt*	$ 168,473	$ 176,498	$ 225,385	$ 225,860
Stockholders' equity	$ 595,066	$ 259,395	$ 630,269	$ 114,713

OTHER	FOR THE YEARS ENDED DECEMBER 31, 2010	2009	2008	2007
Capital expenditures*	$ 157,476	$ 96,298	$ 141,627	$ 147,556
Employees*	2,100	2,100	2,200	1,900

QUARTERLY HIGHLIGHTS

Fiscal year 2010

($ in thousands, except per share amounts)	QUARTER ENDED March 31	June 30	September 30	December 31
Net sales and revenues	$ 312,049	$ 410,622	$ 464,262	$ 400,797
Operating income	$ 71,307	$ 170,233	$ 207,787	$ 144,735
Income from continuing operations	$ 42,695	$ 116,110	$ 136,972	$ 93,648
Income (loss) from discontinued operations	(1,144)	53	(757)	(1,780)
Net income	$ 41,551	$ 116,163	$ 136,215	$ 91,868
Diluted income (loss) per share:				
Income from continuing operations	$ 0.79	$ 2.16	$ 2.57	$ 1.75
Income (loss) from discontinued operations	(0.02)	-	(0.02)	(0.03)
Net income per share	$ 0.77	$ 2.16	$ 2.55	$ 1.72
Weighted average number of diluted shares	54,098,171	53,869,762	53,392,885	53,420,985

** continuing operations only*

Safe Harbor Statement

The attached Form 10-K is an integral part of this document and should be read in conjunction with this annual report. Except for historical information contained herein, the statements in this report are forward-looking and made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and may involve a number of risks and uncertainties. Forward-looking statements are based on information available to management at the time, and they involve judgments and estimates. There can be no assurance that the transaction with Western Coal will close. The transaction is subject to a number of closing conditions which may be outside of Walter Energy's control. Forward-looking statements include expressions such as "believe," "anticipate," "expect," "estimate," "intend," "may," "plan," "predict," "will," and similar terms and expressions. These forward-looking statements are made based on expectations and beliefs concerning future events affecting us and are subject to various risks, uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control, that could cause our actual results to differ materially from those matters expressed in or implied by these forward-looking statements. The following factors are among those that may cause actual results to differ materially from our forward-looking statements: the market demand for coal, coke and natural gas as well as changes in pricing and costs; the availability of raw material, labor, equipment and transportation; changes in weather and geologic conditions; changes in extraction costs, pricing and assumptions and projections concerning reserves in our mining operations; changes in customer orders; pricing actions by our competitors, customers, suppliers and contractors; changes in governmental policies and laws, including with respect to safety enhancements and environmental initiatives; availability and costs of credit, surety bonds and letters of credit; and changes in general economic conditions. Forward-looking statements made by us in this report, or elsewhere, speak only as of the date on which the statements were made. See also the "Risk Factors" in our 2010 Annual Report on Form 10-K and subsequent filings with the SEC which are currently available on our website at www.walterenergy.com. New risks and uncertainties arise from time to time, and it is impossible for us to predict these events or how they may affect us or our anticipated results. We have no duty to, and do not intend to, update or revise the forward-looking statements in this report, except as may be required by law. In light of these risks and uncertainties, readers should keep in mind that any forward-looking statement made in this report may not occur. All data presented herein is as of the date of this report unless otherwise noted.

CORPORATE DIRECTORY

CORPORATE HEADQUARTERS
Walter Energy, Inc.
4211 W. Boy Scout Blvd.
Tampa, FL 33607
(813) 871-4811
www.walterenergy.com

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4211 W. Boy Scout Blvd.
Tampa, FL 33607
investorrelations@walterenergy.com

MEDIA CONTACT
Corporate Communications
Walter Energy, Inc.
4211 W. Boy Scout Blvd.
Tampa, FL 33607
corporatecommunications@walterenergy.com

BOARD OF DIRECTORS[(a)]:

Michael T. Tokarz
Chairman of the Board
Member, Tokarz Group, LLC (2, 4, 5)

Howard L. Clark, Jr.
Vice Chairman
Barclays Capital (3, 4, 5)

Jerry W. Kolb
Retired Vice Chairman
Deloitte & Touche (1, 2)

Patrick A. Kriegshauser
Executive Vice President
Chief Financial Officer
Sachs Electric Company (1, 3)

Joseph B. Leonard
Interim CEO
Walter Energy, Inc.
Former Chairman and CEO
AirTran Holdings, Inc.

Bernard G. Rethore
Chairman Emeritus
Flowserve Corporation (2, 4, 5)

AJ Wagner
Chief Executive Officer
AJ Wagner & Associates, LLC (1, 3)

Board of Directors Committees:
(1) Audit Committee
(2) Compensation and Human Resources Committee
(3) Environmental, Health and Safety Committee
(4) Nominating and Corporate Governance Committee
(5) Executive Committee

[(a)] As of Dec. 31, 2010

Certificates of the Company's Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act have been filed with the Securities and Exchange Commission. In addition, the Company's Principal Executive has submitted to the New York Stock Exchange (NYSE) a certificate certifying that he is not aware of any violations by Walter Energy, Inc. of the NYSE corporate governance listing standards.

ANNUAL MEETING

The annual meeting of shareholders of Walter Energy, Inc. will be held April 20, 2011 at 10 a.m. local time at the Wynfrey Hotel, located at 1000 Riverchase Galleria, Birmingham, AL 35244

FORM 10-K
Additional copies of the Company's annual report to the Securities and Exchange Commission on Form 10-K for the fiscal year ended Dec. 31, 2010 are available on the Company's website or by written request to:

Investor Relations
Walter Energy, Inc.
4211 W. Boy Scout Blvd.
Tampa, FL 33607

Or by e-mailing:
investorrelations@walterenergy.com

COMMON STOCK
Trading Symbol: WLT
New York Stock Exchange

TRANSFER AGENT AND REGISTRAR
American Stock Transfer & Trust Company, LLC

Postal Address:
59 Maiden Lane
Plaza Level
New York, NY 10038

Overnight Address:
Operations Center
6201 15th Avenue
Brooklyn, NY 11219

Shareholder Services:
(800) 937-5449
(718) 921-8124

TTY:
(Teletypewriter for the hearing impaired)
(866) 703-9077
(718) 921-8386

www.amstock.com

OFFICERS OF THE CORPORATION

Joseph B. Leonard
Interim Chief Executive Officer

Lisa A. Honnold
Interim Chief Financial Officer;
Sr. Vice President

Walter J. Scheller
President and Chief Operating Officer
Jim Walter Resources, Inc.

Charles C. "Chuck" Stewart
President – Walter Coke, Inc. & Walter Minerals, Inc.

Miles C. Dearden, III
Sr. Vice President, Treasurer

Michael T. Madden
Sr. Vice President - Sales & Marketing

Keith M. Shull
Sr. Vice President - Human Resources

Catherine C. Bona
Vice President, Interim General Counsel & Secretary

Michael R. Hurley
Vice President - Tax Director

Robert P. Kerley
Vice President & Controller

Billy R. Philbeck
Vice President - Risk Management

Calven Swinea
Vice President - Internal Audit

Mark H. Tubb
Vice President - Investor Relations & Strategic Planning

Michael Griffin
Assistant Treasurer

INDEPENDENT ACCOUNTANTS
Ernst & Young LLP
401 East Jackson Street
Suite 1200
Tampa, FL 33602

WALTER ENERGY™

www.walterenergy.com

WLT LISTED NYSE