PIC AU Holdings LLC

Unaudited Financial Statements

For the Three Months Ended
March 31, 2022 and 2021

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PIC AU HOLDINGS LLC
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31,	
	2022	2021
	$'000	$'000
Revenues	$ 147,183	$ 91,756
Costs and expenses		
Operating costs and expenses (exclusive of items shown separately below)	82,803	66,491
Depreciation, depletion and amortization	15,603	18,629
Asset retirement obligation expenses	735	738
Selling and administrative expenses	1,516	655
Operating profit	46,526	5,243
Interest expense	11,156	7,992
Net loss on early debt extinguishment	490	—
Interest income	(2)	—
Net income (loss) before income taxes	34,882	(2,749)
Income tax provision	13,579	873
Net income (loss)	21,303	(3,622)

PIC AU HOLDINGS LLC
UNAUDITED CONSOLIDATED BALANCE SHEETS

	March 31, 2022	December 31, 2021
	$'000	$'000
ASSETS		
Current assets		
Cash and cash equivalents	$ 212,788	$ 206,648
Accounts receivable, net of allowance for credit losses of $0.0 at March 31, 2022 and at December 31, 2021	46,368	21,505
Receivables from affiliates	1,730	11,461
Inventories	32,983	38,630
Other current assets	7,827	6,716
Total current assets	301,696	284,960
Property, plant, equipment and mine development, net	370,365	385,616
Operating lease right-of-use assets	1,061	1,291
Investments and other assets	7,880	7,459
Total assets	$ 681,002	$ 679,326
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 1,919	$ 19,017
Accounts payable and accrued expenses	58,782	58,207
Payables to affiliates	26,630	28,567
Total current liabilities	87,331	105,791
Long-term debt, less current portion	376,789	375,921
Deferred income taxes	35,092	38,235
Asset retirement obligations	33,608	32,874
Operating lease liabilities, less current portion	101	—
Other non-current liabilities	1,629	1,356
Total liabilities	534,550	554,177
Member's equity	146,452	125,149
Total liabilities and member's equity	$ 681,002	$ 679,326

PIC AU HOLDINGS LLC

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
	2022	2021
	$'000	$'000
Cash Flows From Operating Activities		
Net income (loss)	$ 21,303	$ (3,622)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	15,603	18,629
Noncash interest expense	906	548
Net loss on early debt extinguishment	490	—
Deferred income taxes	(3,143)	(3,535)
Changes in current assets and liabilities:		
Accounts receivable	(24,863)	(7,024)
Inventories	5,647	906
Other current assets	(1,111)	696
Accounts payable and accrued expenses	1,018	(5,508)
Transactions with affiliates	7,794	5,990
Collateral arrangements	—	(5,295)
Asset retirement obligation expenses	735	738
Net cash provided by operating activities	24,379	2,523
Cash Flows From Investing Activities		
Additions to property, plant, equipment and mine development	(323)	(6,113)
Net cash used in investing activities	(323)	(6,113)
Cash Flows From Financing Activities		
Proceeds from long-term debt, net of issuance cost	—	399,884
Payment of debt issuance costs	—	(15,577)
Repayments of long-term debt	(17,446)	—
Distribution to affiliates	—	(384,307)
Payment of finance lease obligations	(470)	(24)
Net cash (used in) /provided by financing activities	(17,916)	(24)
Net change in cash and cash equivalents	6,140	(3,614)
Cash and cash equivalents at beginning of period	206,648	107,234
Cash and cash equivalents at end of period	$ 212,788	$ 103,620

PIC AU HOLDINGS LLC

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN MEMBER'S EQUITY

	Class A Member's Equity	Total Member's Equity
	$'000	
January 1, 2022	$ 125,149	$ 125,149
Net income	21,303	21,303
March 31, 2022	$ 146,452	$ 146,452

	Class A Member's Equity	Total Member's Equity
	$'000	
January 1, 2021	$ 453,282	$ 453,282
Net income	(3,622)	(3,622)
Distribution to affiliates	(384,307)	(384,307)
March 31, 2021	$ 65,353	$ 65,353

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview and Basis of Presentation

PIC AU Holdings LLC (the Company) is a wholly-owned subsidiary of Peabody Energy Corporation (Peabody). In July and August 2020, Peabody effected certain changes to its corporate structure in contemplation of a debt-for-debt exchange, which included, among other steps, the formation of certain wholly-owned subsidiaries, including the Company, to own and conduct the operations of Peabody's Wilpinjong Mine (the Mine). The Mine is engaged in the mining of low-sulfur, high Btu thermal coal in New South Wales, Australia, using surface extraction processes. The coal is sold into domestic and export markets, primarily for electricity generation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements and should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2021 and the consolidated financial statements and notes thereto included in Peabody's Annual Report on Form 10-K for the year ended December 31, 2021. In the opinion of management, these financial statements reflect all normal, recurring adjustments necessary for a fair presentation. Balance sheet information presented herein as of December 31, 2021 has been derived from the Company's audited consolidated financial statements at that date. The Company's results of operations for the three months ended March 31, 2022 are not necessarily indicative of the results that may be expected for future quarters or for the year ending December 31, 2022.

Results of Operations

Non-GAAP Financial Measures

The following discussion of the Company's results of operations includes references to and analysis of Adjusted EBITDA, which is a financial measure not recognized in accordance with U.S. GAAP. Adjusted EBITDA is used by management as the primary metric to measure operating performance.

Company management believes non-GAAP performance measures are used by investors to measure its operating performance and lenders to measure its ability to incur and service debt. These measures are not intended to serve as alternatives to U.S. GAAP measures of performance and may not be comparable to similarly-titled measures presented by other companies. Refer to the "Reconciliation of Non-GAAP Financial Measures" section contained within this section for definitions and reconciliations to the most comparable measures under U.S. GAAP.

Three Months Ended March 31, 2022 Compared to the Three Months Ended March 31, 2021

Summary

The Company's net coal sales revenue for the three months ended March 31, 2022 increased from the prior year by $56.6 million primarily due to higher realized prices.

Net income increased for the three months ended March 31, 2022 compared to the same prior year period by $24.9 million primarily due to the favorable net coal sales revenue described above, partially offset by higher net operating costs and expenses of $17.7 million, and a higher income tax provision of $12.7 million due to higher profits achieved.

Tons Sold, Net Coal Sales Revenue, Net Operating Costs and Expenses, and Adjusted EBITDA

The following table presents tons sold, net coal sales revenue, net operating costs and expenses, and Adjusted EBITDA for the Company (in thousands). In order to exclude transactions with other Peabody mines to purchase or sell coal required for blending purposes in the normal course of business, net coal sales revenue and net operating costs, as shown below, have each been adjusted by $1.1 million for the three months ended March 31, 2021, compared to the corresponding amounts in the accompanying statements of operations. No such adjustment was required for the three months ended March 31, 2022. Net operating costs and expenses have also been adjusted to remove the impacts of foreign exchange gains/losses. The net coal sales revenue, net operating costs and expenses, and tons sold presented below reflect sales of Wilpinjong production to third parties and associated costs to produce.

	Three Months Ended March 31,		Increase	
	2022	2021	Tons/$	%
Tons sold	2,967	2,888	79	3 %
Net coal sales revenue	$ 147,183	$ 90,628	$ 56,555	62 %
Net operating costs and expenses	83,541	65,871	17,670	27 %
Adjusted EBITDA (1)	63,642	24,569	39,073	159 %

Net income (loss)

The following table presents net income (loss) for the Company (in thousands):

	Three Months Ended March 31,		Increase (Decrease) to Income	
	2022	2021	$	%
Adjusted EBITDA (1)	$ 63,642	$ 24,569	$ 39,073	159 %
Depreciation, depletion and amortization	(15,603)	(18,629)	3,026	16 %
Asset retirement obligation expenses	(735)	(738)	3	— %
Interest expense	(11,156)	(7,992)	(3,164)	(40)%
Net loss on early debt extinguishment	(490)	—	(490)	n.m.
Interest Income	2	—	2	n.m.
Foreign exchange gain	738	507	231	46 %
Management overhead charges	(1,516)	(466)	(1,050)	(225)%
Income tax provision	(13,579)	(873)	(12,706)	(1455)%
Net income (loss)	$ 21,303	$ (3,622)	$ 24,925	688 %

(1) This is a financial measure not recognized in accordance with U.S. GAAP. Refer to the “Reconciliation of Non-GAAP Financial Measures” below for definitions and reconciliations to the most comparable measures under U.S. GAAP.

Net coal sales revenue. The increase for the three months ended March 31, 2022 compared to the prior year periods was primarily due to higher realized pricing.

Adjusted EBITDA. The increase for the three months ended March 31, 2022 compared to the prior year period primarily resulted from higher net pricing impacts offset by cost increases. The cost increases were primarily due to heavy rainfall and COVID-related staffing shortages.

Interest expense. The increase for the three months ended March 31, 2022 compared to the prior year period is due to interest charges commencing from February 2021. The Company paid cash interest of approximately $10.3 million during the three months ended March 31, 2022.

Management overhead charges. The increase for the three months ended March 31, 2022 compared to the prior year period resulted from the marketing overhead fee. This fee is calculated on revenue which has increased due to higher coal prices.

Income tax provision. The income tax provision recorded during the three months ended March 31, 2022 was driven by higher income. The Company paid $20.5 million cash taxes during the three months ended March 31, 2022.

Reconciliation of Non-GAAP Financial Measures

Adjusted EBITDA is defined as income (loss) from continuing operations before deducting net interest expense, income taxes, asset retirement obligation expenses, foreign exchange, management overhead charges, and depreciation, depletion and amortization. Adjusted EBITDA is also adjusted for the discrete items that management excluded in analyzing operating performance, as displayed in the reconciliation below:

	Three Months Ended March 31,	
	2022	2021
	$'000	$'000
Net income (loss)	$ 21,303	$ (3,622)
Depreciation, depletion and amortization	15,603	18,629
Asset retirement obligation expenses	735	738
Interest expense	11,156	7,992
Net loss on early debt extinguishment	490	—
Interest Income	(2)	—
Foreign exchange gain	(738)	(507)
Management overhead charges	1,516	466
Income tax provision	13,579	873
Adjusted EBITDA	$ 63,642	$ 24,569

Outlook

Within the seaborne thermal coal market, the Russian-Ukrainian conflict and the subsequent ban of Russian coal by European countries has driven global thermal coal prices to record levels and high volatility during the three months ended March 31, 2022. Prior to the onset of the the Russian-Ukrainian conflict, thermal coal supply was already tight due to an export ban in Indonesia in January as well as heavy rains and COVID-19 restrictions in Australia. During the three months ended March 31, 2022, Newcastle thermal coal pricing hit record levels due to concerns over a severe supply shock following the onset of the the Russian-Ukrainian conflict, but pricing subsided slightly to end the quarter in the $200 per metric tonne range. In China, domestic coal production has been strong during the three months ended March 31, 2022, which has lowered import demand to start the year. In India, coal production has been elevated as well, allowing coal buyers to wait for lower thermal seaborne prices and limit imports; however stockpile levels have fallen recently. Overall, global thermal coal markets remain turbulent as supply remains tight and European coal importers look to replace Russian coal.

The Company estimates 2022 volume of approximately 13-14 million tons, of which 5.5 million to 6 million tons is expected to be exported.

The Company estimates 2022 capital expenditures of approximately $20 million to $25 million.

The Company expects to incur approximately $43 million of total interest expense, including approximately $4 million of non-cash interest expense, during the full year 2022 (assuming no additional principal debt reductions).

Liquidity and Capital Resources

The Company's primary source of cash is proceeds from the sale of coal to its Peabody affiliates and unrelated customers. The primary uses of cash include cash costs of coal production, capital expenditures, royalty payments, lease payments and other expenses.

Historically, excess cash produced by the Company was provided to its parent entities to fund its obligations and capital requirements. Liquidity for the Company consists of cash on the balance sheet.

Off-Balance Sheet Arrangements

Australian laws require the Company to provide financial assurances related to requirements to reclaim lands used for mining and to satisfy other miscellaneous obligations. The primary methods used to meet those obligations are to provide a third-party surety bond or provide a letter of credit, which may be provided by Peabody. As of March 31, 2022, the Company indirectly had approximately $40.3 million of outstanding surety bonds to provide required financial assurances for post-mining reclamation and approximately $2.5 million of surety for other obligations and performance guarantees.

Commodity Price Risk

Costs related to production are predominantly denominated in Australian dollars, while the export coal sold is in U.S. dollars. The domestic volume sold is also denominated in Australian dollars. As a result, changes in Australian/U.S. dollar exchange rates may impact results.

Financing Activity

During the fourth quarter of 2020 and the first quarter of 2021, Peabody entered into a series of interrelated agreements with its surety bond providers, the revolving lenders under its credit agreement and certain holders of its senior secured notes to extend a significant portion of its near-term debt maturities to December 2024 and to stabilize collateral requirements for its existing surety bond portfolio. Such agreements and related activities are described below (as applicable to the Company).

On the January 29, 2021, Peabody settled an exchange offer pursuant to which $398.7 million aggregate principal amount of Peabody's 6.000% Senior Secured Notes due March 2022 were validly tendered, accepted by Peabody and exchanged for aggregate consideration consisting of (as applicable to the Company) $193.9 million aggregate principal amount of new 10.000% Senior Secured Notes due 2024 issued by the Co-Issuers (2024 Co-Issuer Notes).

Additionally, Peabody restructured the revolving loans under its credit agreement, resulting in the Co-Issuers incurring $206.0 million of term loans, dated as of January 29, 2021 (Co-Issuer Term Loans). The Co-Issuer Term Loans mature on December 31, 2024 and bear interest at a rate of 10.00% per annum. Proceeds from the senior secured notes and term loans were received by the Company and concurrently distributed to Peabody, net of related debt issuance costs, in connection with the above refinancing.

The 2024 Co-Issuer Notes and Co-Issuer Term Loans are subject to mandatory prepayment offers at the end of each six-month period whereby the Excess Cash Flow (as defined in the 2024 Co-Issuer Notes' indenture) generated by the Company during each such period may be applied to the principal of the 2024 Co-Issuer Notes and the Co-Issuer Term Loans on a pro rata basis, provided that the Company's liquidity not fall below $60.0 million. Such offer may be accepted or declined at the option of the debt holders. Based upon the Company's results for the six-month period ended December 31, 2021, a required offer to prepay $105.6 million of total principal resulted in the prepayment of $17.2 million of Co-Issuer Term Loan principal, $0.3 million of 2024 Co-Issuer Notes principal, and a related loss on early debt extinguishment of $0.5 million during the three months ended March 31, 2022.

The Company's and Peabody's debt agreements impose various restrictions and limits on certain categories of payments, such as those for dividends, investments and stock repurchases. The Company and Peabody are also subject to customary affirmative and negative covenants. The Company and Peabody were compliant with all covenants under their respective debt agreements at March 31, 2022.