PIC AU Holdings LLC

Financial Statements

For the Three and Six Months Ended
June 30, 2021 and 2020

TABLE OF CONTENTS

PIC AU HOLDINGS LLC

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
Revenues	$ 124,999	$ 102,116	$ 216,755	$ 200,036
Costs and expenses				
Operating costs and expenses (exclusive of items shown separately below)	71,559	116,614	138,050	132,308
Depreciation, depletion and amortization	16,470	17,001	35,099	33,154
Asset retirement obligation expenses	739	637	1,477	1,274
Selling and administrative expenses	775	735	1,430	1,592
Operating profit (loss)	35,456	(32,871)	40,699	31,708
Interest expense	11,757	345	19,749	612
Income (loss) from continuing operations before income taxes	23,699	(33,216)	20,950	31,096
Income tax provision	10,827	26,506	11,700	5,227
Net income (loss)	12,872	(59,722)	9,250	25,869
Comprehensive income (loss)	12,872	(59,722)	9,250	25,869
Comprehensive income (loss) attributable to common stockholders	$ 12,872	$ (59,722)	$ 9,250	$ 25,869

PIC AU HOLDINGS LLC

UNAUDITED CONSOLIDATED BALANCE SHEETS

	June 30, 2021	December 31, 2020
	$'000	$'000
ASSETS		
Current assets		
Cash and cash equivalents	$ 101,688	$ 107,234
Accounts receivable, net of allowance for credit losses of $0.0 at June 30, 2021	40,266	15,700
Trade and other receivables - intercompany	1,501	32,453
Inventories	40,060	31,356
Other current assets	9,821	10,180
Total current assets	193,336	196,923
Property, plant, equipment and mine development, net	417,364	429,252
Operating lease right-of-use assets	2,125	2,720
Investments and other assets	6,355	900
Total assets	$ 619,180	$ 629,795
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 1,828	$ 95
Accounts payable and accrued expenses	57,943	64,726
Trade and other payables - intercompany	15,724	34,430
Total current liabilities	75,495	99,251
Long-term debt, less current portion	392,640	—
Deferred income taxes	35,674	40,712
Asset retirement obligations	35,180	34,315
Operating lease liabilities, less current portion	649	1,175
Other non-current liabilities	1,317	1,060
Total liabilities	540,955	176,513
Stockholders' equity		
Additional paid-in capital	70,960	455,267
Retained earnings (accumulated deficit)	7,265	(1,985)
PIC AU Holdings LLC stockholders' equity	78,225	453,282
Total stockholders' equity	78,225	453,282
Total liabilities and stockholders' equity	$ 619,180	$ 629,795

PIC AU HOLDINGS LLC

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
Cash Flows From Operating Activities				
Net income (loss)	$ 12,872	$ (59,722)	$ 9,250	$ 25,869
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation, depletion and amortization	16,470	17,001	35,099	33,154
Noncash interest expense	838	1	1,386	20
Net unrealized foreign exchange (gains) losses	(2,050)	45,400	(2,050)	(5,880)
Asset retirement obligations accretion	739	637	1,477	1,274
Changes in current assets and liabilities:				
Accounts receivable	(17,063)	(5,312)	(23,453)	(2,262)
Inventories	(10,481)	943	(9,575)	1,001
Current and deferred tax liabilities	10,827	26,506	11,700	5,227
Accounts payable and accrued expenses	(707)	6,359	(5,513)	(2,580)
Cash collateral arrangements	—	—	(5,295)	—
Net cash provided by operating activities	11,445	31,813	13,026	55,823
Cash Flows From Investing Activities				
Additions to property, plant, equipment and mine development	(7,159)	(8,498)	(13,272)	(11,172)
Net cash used in investing activities	(7,159)	(8,498)	(13,272)	(11,172)
Cash Flows From Financing Activities				
Proceeds from long-term debt	—	—	399,884	—
Distribution to related parties	—	—	(384,307)	—
Funds advanced to related parties	(4,613)	(21,231)	(18,608)	(40,512)
Payment of finance lease obligations	(1,605)	(2,084)	(2,269)	(4,139)
Net cash used in financing activities	(6,218)	(23,315)	(5,300)	(44,651)
Net change in cash and cash equivalents	(1,932)	—	(5,546)	—
Cash and cash equivalents at beginning of period	103,620	—	107,234	—
Cash and cash equivalents at end of period	$ 101,688	$ —	$ 101,688	$ —

PIC AU HOLDINGS LLC
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
		$'000	
January 1, 2021	$ 455,267	$ (1,985)	$ 453,282
Net loss	—	(3,622)	(3,622)
Distribution to related parties	(384,307)	—	(384,307)
March 31, 2021	$ 70,960	$ (5,607)	$ 65,353

	Additional Paid-in Capital	(Accumulated Deficit) Retained Earnings	Total Stockholders' Equity
		$'000	
April 1, 2021	$ 70,960	$ (5,607)	$ 65,353
Net income	—	12,872	12,872
June 30, 2021	$ 70,960	$ 7,265	$ 78,225

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 (Organizational Realignment) 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 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 consolidated financial statements and notes thereto included in Peabody's Annual Report on Form 10-K for the year ended December 31, 2020. 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, 2020 has been derived from the Company's audited consolidated balance sheet at that date. The Company's results of operations for the three and six months ended June 30, 2021 are not necessarily indicative of the results that may be expected for future quarters or for the year ending December 31, 2021.

All comparative information included herein for the three and six months ended June 30, 2020 is based upon the accounts of the Mine prior to the formation of the Company. All information presented herein is in U.S. dollars unless otherwise noted.

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 and Six Months Ended June 30, 2021 Compared to the Three and Six Months Ended June 30, 2020

Summary

The Company's revenues for the three and six months ended June 30, 2021 increased from the prior year ($22.9 million and $16.7 million, respectively) due to higher realized prices, partially offset by lower volume.

Results from continuing operations, net of income taxes increased for the three months ended June 30, 2021 compared to the same prior year period ($72.6 million) due to the favorable revenue variance described above, lower operating costs primarily due to prior year foreign exchange losses ($46.1 million) and a decrease in the provision for income taxes ($15.7 million), partially offset by increased interest expense related to the refinancing transactions described below ($11.4 million).

Results from continuing operations, net of income taxes decreased for the six months ended June 30, 2021 compared to the same prior year period ($16.6 million) due to increased interest expense related to the refinancing transactions described below ($19.1 million) and an increase in the provision for income taxes ($6.5 million), partially offset by the favorable revenue variance described above.

Tons Sold, Revenues and Adjusted EBITDA

The following table presents tons sold, revenues and Adjusted EBITDA for the Company (in thousands):

	Three Months Ended June 30,		(Decrease) Increase		Six Months Ended June 30,		(Decrease) Increase	
	2021	**2020**	**Tons/$**	**%**	**2021**	**2020**	**Tons/$**	**%**
Tons sold	3,306	3,596	(290)	(8)%	6,194	6,752	(558)	(8)%
Revenues	$124,999	$102,116	$ 22,883	22 %	$216,755	$200,036	$ 16,719	8 %
Adjusted EBITDA	51,581	29,556	22,025	75 %	76,150	61,183	14,967	24 %

Income (loss) from continuing operations, net of income tax

The following table presents income (loss) from continuing operations, net of income tax for the Company (in thousands):

	Three Months Ended June 30,		Increase (Decrease) to Income		Six Months Ended June 30,		Increase (Decrease) to Income	
	2021	**2020**	**$**	**%**	**2021**	**2020**	**$**	**%**
Adjusted EBITDA [(1)]	$ 51,581	$ 29,556	$ 22,025	75 %	$ 76,150	$ 61,183	$ 14,967	24 %
Depreciation, depletion and amortization	(16,470)	(17,001)	531	3 %	(35,099)	(33,154)	(1,945)	(6)%
Asset retirement obligation expenses	(739)	(637)	(102)	(16)%	(1,477)	(1,274)	(203)	(16)%
Interest expense	(11,757)	(345)	(11,412)	(3,308)%	(19,749)	(612)	(19,137)	(3,127)%
Foreign exchange gain (loss)	1,683	(44,458)	46,141	104 %	2,190	6,157	(3,967)	(64)%
Management overhead charges	(599)	(331)	(268)	(81)%	(1,065)	(1,204)	139	12 %
Income tax provision	(10,827)	(26,506)	15,679	59 %	(11,700)	(5,227)	(6,473)	(124)%
Income (loss) from continuing operations, net of income tax	$ 12,872	$(59,722)	$ 72,594	122 %	$ 9,250	$ 25,869	$(16,619)	(64)%

(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.

Revenues. The increase in revenues for the three and six months ended June 30, 2021 compared to the prior year periods was due to higher realized pricing, partially offset by lower volume.

Adjusted EBITDA. The increase in Adjusted EBITDA for the three and six months ended June 30, 2021 compared to the prior year periods primarily resulted from higher revenues.

Interest expense. The increase in interest expense is attributable to debt issued by the Company during the three and six months ended June 30, 2021, as further described below. The Company paid cash interest of approximately $10.9 million and $18.3 million during the three and six months ended June 30, 2021, respectively.

Foreign exchange gain/losses. Foreign exchange gains or losses primarily relate to the impact of exchange rate movements on foreign currency payables to and receivables from related parties. In connection with the Organizational Realignment, the balance of related party payables and receivables were forgiven during the year ended December 31, 2020 with balances now cash settled on a monthly basis, thereby reducing the impact of exchange rate movements during the three and six months ended June 30, 2021.

Income tax provision. The income tax provision recorded during the three and six months ended June 30, 2021 was driven by higher revenues and foreign exchange impacts on costs. The Company paid $8.3 million cash taxes during both the three and six months ended June 30, 2021.

Reconciliation of Non-GAAP Financial Measures

Adjusted EBITDA is defined as income (loss) from continuing operations, net of income tax before deducting net interest expense, income taxes, asset retirement obligation expenses 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 June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
Income (loss) from continuing operations, net of income tax	$ 12,872	$ (59,722)	$ 9,250	$ 25,869
Depreciation, depletion and amortization	16,470	17,001	35,099	33,154
Asset retirement obligation expenses	739	637	1,477	1,274
Interest expense	11,757	345	19,749	612
Foreign exchange (gain) loss	(1,683)	44,458	(2,190)	(6,157)
Management overhead charges	599	331	1,065	1,204
Income tax provision	10,827	26,506	11,700	5,227
Adjusted EBITDA	$ 51,581	$ 29,556	$ 76,150	$ 61,183

Outlook

Within the global coal industry, supply and demand disruptions were widespread as the COVID-19 pandemic forced country-wide lockdowns and regional restrictions. Future COVID-19-related developments are unknown, including the duration, severity, scope and the necessary government actions to limit the spread of COVID-19. The global coal industry data for the six months ended June 30, 2021 presented herein may not be indicative of the ultimate impacts of the COVID-19 pandemic given the various levels of response and unknown duration.

Within the seaborne thermal coal market, tight supplies and elevated demand have driven Newcastle thermal coal pricing to levels not seen in over 10 years. China's domestic thermal coal supply remains hampered by heightened safety inspections and mine suspensions. The relaxation of China's import controls combined with tight domestic supply has pushed import demand higher. In addition, India's thermal coal imports improved ahead of the monsoon season. However, supply response to elevated demand has been muted year-to-date, sending thermal coal prices higher.

The Company estimates 2021 thermal coal sales volumes of approximately 13.5 million tons, comprised of thermal export volume of approximately 6.0 million tons and domestic volume of approximately 7.5 million tons.

For 2021, the Company is targeting capital expenditures of approximately $30 million, which includes approximately $20 million for an ongoing extension project.

The Company expects to incur approximately $40 million of interest expense, including approximately $3 million of non-cash interest expense, during 2021.

Included in the income tax provision recorded during the three months ended June 30, 2021 is a current tax liability of $12.5 million which the Company expects to pay during the quarter ending September 30, 2021.

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 June 30, 2021, the Company indirectly had approximately $40.5 million of outstanding surety bonds to provide required financial assurances for post-mining reclamation and approximately $39.7 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.

Refinancing Transactions

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).

In connection with the Organizational Realignment, the Company, the Mine and another Peabody subsidiary formed for purposes of the debt-for-debt exchange (the Co-Issuers) were designated as unrestricted subsidiaries under Peabody's then-existing debt agreements. Additionally, the Mine subdivided its ordinary shares into 1,202 ordinary shares and the Company ultimately acquired 100% of such shares. Peabody Energy Australia Pty Ltd paid to the Mine $100.0 million cash as partial repayment of intercompany receivables, and the balance of intercompany payables and receivables were forgiven. The net impact of the forgiveness of such intercompany balances was recorded as a loss on early debt extinguishment during the year ended December 31, 2020.

The transaction also included the release of the Mine from Peabody's accounts receivable securitization program.

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.

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. The Co-Issuers' 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 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 June 30, 2021.