Wilpinjong Coal Pty Ltd

Financial Statements

For the year ended
December 31, 2020

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Business Overview

Overview

The Company 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.

In 2020, the Company produced and sold 14.2 million and 13.8 million tons of coal, respectively, from its mining operation.

The Company is a wholly-owned subsidiary of Peabody Energy Corporation (Peabody). All information presented herein is in U.S. dollars unless otherwise noted.

Coal Supply Agreements

Customers. During the year ended December 31, 2020, the Company's major customer was a domestic electricity generator, with coal supplied under a multi-year agreement. The Company also exports coal to customers across the Asia region, primarily via related party affiliates. Industry commercial practice, and Peabody's typical practice, is to negotiate pricing for seaborne thermal coal contracts on an annual fixed, spot fixed or index linked basis.

Transportation

Methods of Distribution. The Company's export coal is usually sold at the loading port, with purchasers paying ocean freight. Transportation costs are paid from the mine to the port, including any demurrage costs (fees paid to third-party shipping companies for loading time that exceeded the stipulated time).

The Company has good relationships with Australian rail carriers and port companies due, in part, to modern coal-loading facilities and the experience of its transportation coordinators.

Export Facilities. The Company sold approximately 42% of its tons into the seaborne coal markets for the year ended December 31, 2020. The Company is reliant on associate entities to provide rail and port capacity and has generally secured its ability to transport coal in Australia through rail and port contracts and access to two east coast coal export terminals that are primarily funded through take-or-pay arrangements. In New South Wales, the primary ports for exporting the Company's thermal coal are at Newcastle, which includes both the Port Waratah Coal Services terminal and the terminal operated by Newcastle Coal Infrastructure Group.

Competition

Demand for coal and the prices that the Company will be able to obtain are highly competitive and influenced by factors beyond its control, including, but not limited to, global economic conditions; demand for electricity, including the impact of energy efficient products; the cost of electricity generation from coal and alternative forms of generation; the impact of weather on heating and cooling demand; and taxes and environmental regulations. The Company's products compete with producers of other forms of electricity generation, including natural gas, oil, nuclear, hydro, wind, solar and biomass, that provide an alternative to coal use. The use and price of thermal coal is heavily influenced by the availability and relative cost of alternative fuels and the generation of electricity utilizing alternative fuels, with customers focused on securing the lowest cost fuel supply in order to coordinate the most efficient utilization of generating resources in the economic dispatch of the power grid at the most competitive price. Regulatory policies and environmental, social and governance considerations can also have an impact on generation choices and coal consumption.

Internationally, thermal coal competes with alternative forms of electricity generation. The competitiveness and availability of natural gas, oil, nuclear, hydro, wind, solar and biomass varies by country and region. Seaborne thermal coal consumption is also impacted by the competitiveness of delivered seaborne thermal coal supply from key exporting countries such as Indonesia, Australia, Russia, Colombia, the U.S. and South Africa, among others. In addition, seaborne thermal coal import demand can be significantly impacted by the availability of domestic coal production, particularly in the two leading coal import countries, China and India, and the competitiveness of seaborne supply from leading thermal coal exporting countries, including Indonesia, Australia, Russia, Colombia, the U.S. and South Africa, among others.

In addition to alternative fuel source competitors, major international direct coal supply competitors (listed alphabetically) include Anglo American plc, BHP, China Shenhua Energy, Coal India Limited, Drummond Company, Glencore, PT Adaro Energy Tbk, SUEK, Whitehaven Coal Limited and Yancoal Australia Ltd, among others.

Coal Reserves

The Company controlled an estimated 93 million tons of proven and probable coal reserves as of December 31, 2020, all of which are in New South Wales, Australia. (Estimated proven and probable coal reserves have been adjusted to account for estimated process dilutions and losses during mining and processing involved in producing a saleable coal product.) All of the Company's Australian proven and probable coal reserves consist of thermal coal and are comprised of leased properties. All of the Company's reserves are compliance coal (assuming application of the U.S. industry standard definition of compliance coal to all of the Company's reserves). Compliance coal is defined by Phase II of the Clean Air Act ("CAA") as coal having sulfur dioxide content of 1.2 pounds or less per million Btu.

Reserves are defined by SEC Industry Guide 7 as that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. Proven and probable coal reserves are defined by SEC Industry Guide 7 as follows:

- Proven (Measured) Reserves — Reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established.

- Probable (Indicated) Reserves — Reserves for which quantity and grade and/or quality are computed from information similar to that used for proven (measured) reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven (measured) reserves, is high enough to assume continuity between points of observation.

The estimates of proven and probable coal reserves are established within these guidelines. Estimates within the proven category have the highest degree of assurance, while estimates within the probable category have only a moderate degree of geologic assurance. Further exploration is necessary to place probable reserves into the proven reserve category. Peabody's active properties generally have a much higher degree of reliability because of increased drilling density.

Peabody's guidelines for geologic assurance surrounding estimated proven and probable Australian coal reserves generally follow the respective industry-accepted practices. In Australia, the estimated proven coal reserves generally lie within 250 meters of a point of observation, while estimated probable coal reserves may lie more than 250 meters, but less than 500 meters, from a point of observation. For some coal reserves, the distance between points of observation is determined by a geostatistical study.

The preparation of coal reserve estimates is completed in accordance with prescribed internal control procedures, which include verification of input data into a coal reserve forecasting and economic evaluation software system, as well as multi-functional management review. The Company's reserve estimates are prepared by Peabody's staff of experienced geologists and engineers. Peabody's corporate Technical Services group is responsible for tracking changes in reserve estimates, supervising geologists and coordinating periodic third-party reviews of reserve estimates by qualified mining consultants.

The Company's coal reserve estimates are predicated on information obtained from an extensive historical database of drill holes and information obtained from an ongoing drilling program. Peabody compiles data from individual drill holes in a computerized drill-hole database from which the depth, thickness and, where core drilling is used, the quality of the coal is determined. The density of a drill pattern determines whether the related coal reserves will be classified as proven or probable. The coal reserve estimates are then input into a computerized land management system, which overlays that geological data with data on ownership or control of the mineral and surface interests to determine the extent of attributable coal reserves in a given area. The land management system contains reserve information, including the quantity and quality (where available) of reserves, as well as production data, surface and coal ownership, lease payments and other information relating to the Company's coal reserves and land holdings. The Company periodically updates its coal reserve estimates to reflect production of coal from those reserves and new drilling or other data received. Accordingly, the coal reserve estimates will change from time to time to reflect the effects of mining activities, analysis of new engineering and geological data, changes in coal reserve holdings, modification of mining methods and other factors.

The Company's estimate of the economic recoverability of coal reserves is generally based upon a comparison of unassigned reserves to assigned reserves currently in production in the same geologic setting to determine an estimated mining cost. These estimated mining costs are compared to expected market prices for the quality of coal expected to be mined and take into consideration typical contractual sales agreements for the region and product. Only coal reserves expected to be mined economically are included in reserve estimates. Finally, coal reserve estimates consider dilutions and losses during mining and processing for recoverability factors to estimate a saleable product. Factors impacting the assessment include geological conditions, production expectations for certain areas, the effects of regulation and taxes by governmental agencies, future price and operating cost assumptions and adverse changes in market conditions and mine closure activities. The estimates are also impacted by decreases resulting from current year production and increases resulting from information obtained from additional drilling.

Peabody periodically engages independent mining and geological consultants and consider their input regarding the procedures used to prepare internal estimates of coal reserves, selected property reserve estimates and tabulation of reserve groups according to standard classifications of reliability. The last audit of the Company's reserves estimates was conducted in 2015, and in coming years additional audits of reserve estimates are planned on a cyclical basis.

With respect to the accuracy of coal reserve estimates, the Company's experience is that recovered reserves are within plus or minus 10% of their proven and probable estimates, on average, and probable estimates are generally within the same statistical degree of accuracy when the necessary drilling is completed to move reserves from the probable to the proven classification.

The Company employs a market-driven, risk adjusted capital allocation process to guide long-term mine planning of active operations and development projects for economically mineable coal. This process is referred to as Life-of-Mine ("LOM") planning. The LOM plan projects, among other things, annual quantities and qualities for each coal product. The saleable product mix may include multiple thermal products with different targeted qualities. The expected volumes and product, as well as annual pricing forecasts for each product, developed as described below, and related cost forecasts, developed as described below, are then evaluated to determine the economically recoverable coal in the LOM plan.

Pricing

The pricing information used to establish reserves includes internal, proprietary price forecasts and existing contract economics, on a product-by-product basis. In general, price forecasts are based on a thorough analytical process utilizing detailed supply and demand models, global economic indicators, projected foreign exchange rates, analyses of price relationships among various commodities, competing fuels analyses, analyses of supplier costs and other variables. Price forecasts, supply and demand models and other key assumptions and analyses are stress tested against independent third-party research not commissioned by us to confirm the conclusions reached through analytical processes, and the Company's price forecasts fall within the ranges of the projections included in this third-party research. The development of the analyses, price forecasts, supply and demand models and related assumptions are subject to multiple levels of management review.

Below is a description of some of the specific factors evaluated in developing the Company's price forecasts for thermal coal products on a product-by-product basis. Differences between the assumptions and analyses included in the Company's price forecasts and realized factors could cause actual pricing to differ from forecasts.

Several factors can influence thermal coal supply and demand and pricing. Demand is sensitive to total electric power generation volumes, which are determined in part by the impact of weather on heating and cooling demand, inter-fuel competition in the electric power generation mix (such as from natural gas and renewable sources), changes in capacity (additions and retirements), competition from other producers, coal stockpiles and policy and regulations. Supply considerations impacting pricing include reserve positions, mining methods, strip ratios, production costs and capacity and the cost of new supply (greenfield developments or extensions at existing mines).

Internationally, thermal coal-fueled generation competes with alternative forms of electricity generation. The competitiveness and availability of generation fueled by natural gas, oil, nuclear, hydro, wind, solar and biomass vary by country and region and can have a meaningful impact on coal pricing. Policy and regulations, which vary from country to country, can also influence prices. In addition, seaborne thermal coal import demand can be significantly impacted by the availability of domestic coal production, particularly in the two leading coal import countries, China and India, and the competitiveness of seaborne supply from leading thermal coal exporting countries, including Indonesia, Australia, Russia, Colombia, the U.S. and South Africa, among others.

In addition to the factors noted above, the prices can be impacted by factors such as (i) mine location, which impacts the total delivered energy costs to customers, (ii) quality characteristics, particularly if they are unique relative to competing mines, (iii) assumed transportation costs and (iv) other mine costs that are contractually passed on to customers in certain commercial relationships.

Costs

The cost estimates used to establish reserves are generally estimated according to internal processes that project future costs based on historical costs and expected trends. The estimated costs normally include mining, processing, transportation, royalty, add-on tax and other mining-related costs. The Company's estimated mining and processing costs reflect projected changes in prices of consumable commodities (mainly diesel fuel, explosives and steel), labor costs, geological and mining conditions, targeted product qualities and other mining-related costs. Estimates for other sales-related costs (mainly transportation and royalty) are based on contractual prices or fixed rates. Specific factors that may impact the cost at the Company's operations include:

- Geological settings. The geological characteristics are among the most important factors that determine the mining cost. Peabody's geology department conducts the exploration program and provides geological models for the LOM process. Coal seam depth, thickness, dipping angle, partings and quality constrain the available mining methods and size of operations. Shallow coal is typically mined by surface mining methods by which the primary cost is overburden removal.

- Scale of operations and the equipment sizes. Truck-and-shovel systems generally have a higher cost for overburden removal.

- Commodity prices. The costs of diesel fuel and explosives are major components of the total mining cost. Forecasted commodity prices are used to project those costs in the Company's financial models used to establish its reserves.

- Target product quality. By targeting a premium quality product, mining and processing processes may experience more coal losses. By lowering product quality the coal losses can be minimized and therefore a lower cost per ton can be achieved. In mine plans, the product qualities are estimated to correspond to existing contracts and forecasted market demands.

- Transportation costs. Estimated costs include rail transportation and related fees at ports.

- Royalty costs. Royalty costs are based upon contractual agreements for the coal leased from governments. Other sales-related costs are determined according to government regulations or historical costs.

- Exchange rates. Costs related to production are predominantly denominated in Australian dollars, while the coal sold into the seaborne export markets is sold in U.S. dollars. As a result, Australian/U.S. dollar exchange rates impact the U.S. dollar cost of Australian production.

Based on product-by-product evaluations of the estimated prices for coal, and the costs and expenses of mining and selling the coal, the Company concluded the reserves were economically recoverable as of December 31, 2020.

Mining and exploration in Australia is generally carried out under leases or licenses granted by state governments. Mining leases are typically for an initial term of up to 21 years (but which may be renewed) and contain conditions relating to such matters as minimum annual expenditures, restoration and rehabilitation. Royalties are paid to the state government as a percentage of the sales price. Generally, landowners do not own the mineral rights or have the ability to grant rights to mine those minerals. These rights are retained by state governments. Compensation is payable to landowners for loss of access to the land or other compensable losses, and the amount of compensation can be determined by agreement or court process. Surface rights are typically acquired directly from landowners through agreement or court determination, subject to some exceptions.

Consistent with industry practice, the Company conducts only limited investigation of title to its coal properties prior to leasing. Title to lands and reserves of the lessors or grantors and the boundaries of their leased properties are not completely verified until the Company prepares to mine those reserves.

The following table provides a summary of the Company's production for the years ended December 31, 2020 and 2019, and other characteristics of the mine as of December 31, 2020. The mine utilizes surface mining methods to extract thermal coal under lease from the New South Wales government.

Summary of Coal Production and Assigned Reserves [1]

(Tons in millions)

Production		As of December 31, 2020							
Year Ended December 31,						Sulfur Content [2]		Modifying Factors [4]	
2020	2019	Interest	Assigned	Proven	Probable	<1.2 lbs. Sulfur Dioxide per Million Btu	As Received Btu per pound [3]	ROM Factor	Yield
14.2	14.1	100 %	93	91	2	93	10,000	104 %	86 %

(1) Assigned reserves represent recoverable coal reserves that are controlled and accessible as of December 31, 2020. Unassigned reserves represent coal at currently non-producing locations that would require significant new mine development, mining equipment or plant facilities before operations could begin on the property. As of December 31, 2020, all tons for the Wilpinjong Mine were assigned.

(2) Compliance coal is defined by Phase II of the CAA as coal having sulfur dioxide content of 1.2 pounds or less per million Btu. Non-compliance coal is defined as coal having sulfur dioxide content in excess of this standard. Electricity generators are able to use coal that exceeds these specifications by using emissions reduction technology, using emission allowance credits or blending higher sulfur coal with lower sulfur coal.

(3) As-received Btu per pound includes the weight of moisture in the coal on an as-sold basis. The range of variability of the moisture content in coal across a given region may affect the actual shipped Btu content of current production from assigned reserves.

(4) The modifying factors reflect the assumptions which are utilized to convert coal quantities and qualities as in ground to run of mine ("ROM") coal after mining, and eventually to saleable product coal after processing. Coal reserves are reported as an estimation of the final saleable quantity, which takes into account any losses and dilutions during mining and processing. The Company generally keeps track of coal reserves through in place coal, ROM coal and product coal. The ROM factor represents the estimated ROM coal in relation to the coal in place with considerations of coal losses and dilutions during mining processes. The yield is the ratio of estimated saleable product coal over ROM coal tons with mainly processing loss considered.

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

Overview

In 2020, the Company produced and sold 14.2 million and 13.8 million tons of coal, respectively, from its mining operation in New South Wales, Australia. That mine utilizes surface extraction processes to mine low-sulfur, high Btu thermal coal, sold in to both export and domestic markets.

Generally, revenues from individual countries vary year by year based on electricity demand, the strength of the global economy, governmental policies and several other factors, including those specific to each country.

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. generally accepted accounting principles (U.S. GAAP). Adjusted EBITDA is used by management as the primary metric to measure segmental 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.

Year Ended December 31, 2020 Compared to the Year Ended December 31, 2019

Summary

Wilpinjong's revenues for the year ended December 31, 2020 decreased from the prior year ($137.2 million) due to lower realized prices and unfavorable mix variances.

Results from continuing operations, net of income taxes decreased for the year ended December 31, 2020 compared to the same prior year period ($497.6 million) due to the unfavorable revenue variance described above as well as unfavorable related party debt extinguishment ($416.7 million), partially offset by lower operating costs and expenses ($39.2 million) and a decrease in income tax provision ($17.1 million).

Tons Sold, Revenues and Adjusted EBITDA

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

	Year Ended December 31,		(Decrease) Increase	
	2020	2019	Tons/$	%
Tons sold	13,800	14,000	(200)	(1.4)%
Revenues	387,262	524,478	(137,216)	(26.2)%
Adjusted EBITDA	112,720	195,500	(82,780)	(42.3)%

Loss From Continuing Operations, Net of Income Taxes

The following table presents loss from continuing operations, net of income taxes, for the year ended December 31, 2020:

		$'000
Adjusted EBITDA [1]	$	112,720
Depreciation, depletion and amortization		(65,942)
Asset retirement obligation expenses		(2,547)
Interest expense		(1,726)
Loss on related parties debt extinguishment		(416,674)
Foreign exchange loss		(18,579)
Management overhead charges		(2,816)
Income tax provision		(21,506)
Loss from continuing operations, net of income taxes	$	(417,070)

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

Revenues: The decrease in revenues for the year ended December 31, 2020 compared to the prior year was driven by unfavorable realized coal pricing and lower volume.

Adjusted EBITDA. Adjusted EBITDA decreased during the year ended December 31, 2020 compared to the prior year as a result of lower revenues, partially offset by lower costs for fuel, equipment maintenance, services and repairs.

Loss on related parties debt extinguishment: In August of 2020, the Company recorded a loss on the extinguishment of its net intercompany receivable from its affiliates in contemplation of the Recapitalization Transactions and as discussed in more detail in that section of this document.

Reconciliation of Non-GAAP Financial Measures

Adjusted EBITDA is defined as (loss) income from continuing operations before deducting net interest expense, income taxes, asset retirement obligation expenses, depreciation, depletion and amortization and reorganization items, net. Adjusted EBITDA is also adjusted for the discrete items that management excluded in analyzing operating performance, as displayed in the reconciliation below for the year ended December 31, 2020:

		$'000
Loss from continuing operations, net of income taxes	$	(417,070)
Depreciation, depletion and amortization		65,942
Asset retirement obligation expenses		2,547
Interest expense		1,726
Loss on related parties debt extinguishment		416,674
Foreign exchange loss		18,579
Management overhead charges		2,816
Income tax provision		21,506
Adjusted EBITDA	$	112,720

Outlook

As part of its normal planning and forecasting process that it performs on behalf of Wilpinjong, Peabody utilizes a broad approach to develop macroeconomic assumptions for key variables, including country-level gross domestic product, industrial production, fixed asset investment and third-party inputs, driving detailed supply and demand projections for key demand centers for coal and electricity generation. Supply models and cost curves concentrate on major supply regions/ countries that impact the regions in which the Company operates. Estimates involve risks and uncertainties and are subject to change based on various factors.

The Company's near-term outlook is intended to coincide with the next 12 to 24 months, with subsequent periods addressed in its long-term outlook. The Company continues to monitor the rapidly evolving COVID-19 pandemic and any impacts related to both its near-term and long-term outlook.

Near-Term Outlook

The COVID-19 pandemic continues to impact the global economy, including demand and pricing for global coal markets. Ultimately, demand for seaborne coal will be dependent on the timing and scale of a COVID-19 recovery.

Seaborne thermal coal markets have recently shown signs of improvement with Newcastle forward prices averaging over $80 per tonne in 2021. Colder than expected weather across Asia and Europe has resulted in record high power generation in key markets, driving global liquefied natural gas prices significantly higher and supporting increased seaborne thermal coal demand. In addition, seaborne thermal supply has been impacted by severe wet weather in Indonesia as well as COVID-related production disruptions in China and labor issues in Colombia. Peabody's seaborne thermal segment is well positioned to serve that demand.

Long-Term Outlook

Current projections indicate a slow seaborne market recovery as the global economy continues to be impacted by COVID-19. Future supply and demand will be impacted by economic conditions and public policy related to the COVID-19 pandemic in key supply and demand centers. Further, we believe coal demand and use will be adversely impacted by the policy decisions of various governments, regulatory bodies, financial institutions and others with respect to concerns over the environmental and social impacts of coal generation.

Seaborne Fundamentals. For seaborne thermal, the Company expects ASEAN countries and India to be drivers for seaborne coal demand growth due to increased electrification and economic gains. This growth is anticipated to more than offset declines from developed economies, including the U.S. and Europe. Seaborne thermal coal will continue to be sourced primarily from seaborne exporters Indonesia and Australia, along with Russia, Colombia, South Africa and the U.S., among others.

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.

Capital Requirements

For 2021, we are targeting capital expenditures of approximately $54.0 million, which includes approximately $43.0 million for an ongoing extension project.

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 December 31, 2020, the Company indirectly had approximately $58.0 million of outstanding surety bonds to provide required financial assurances for post-mining reclamation, and approximately $41.0 million of surety bonds for other obligations and performance guarantees.

Commodity Price Risk

The Company estimates 2021 thermal coal sales volumes of 13 million tons, comprised of thermal export volume of approximately 5-6 million tons and domestic volume of approximately 7-8 million tons. The domestic volume is sold to a single unrelated customer under a long-term coal supply agreement. The agreement mitigates a portion of the Company's commodity price risk.

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.

Organizational Realignment

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, PIC AU Holdings Corporation and PIC AU Holdings, LLC, (the Co-Issuers) to indirectly own and conduct the operations of the Company and the designation of the Company and Co-Issuers as unrestricted subsidiaries under Peabody's then-existing debt agreements.

As part of the transaction the Company subdivided its ordinary shares into 1,202 ordinary shares and the Co-Issuers acquired 100% of such shares.

In connection with these actions, Peabody Energy Australia Pty Ltd paid to the Company $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 is reflected as a loss on early debt extinguishment in the accompanying statement of operations for the year ended December 31, 2020.

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

Surety Agreement

In November 2020, Peabody entered into a surety transaction support agreement (Surety Agreement) with the providers of 99% of its surety bond portfolio (Participating Sureties) to resolve approximately $800.0 million in additional collateral demands made by the Participating Sureties. In accordance with the Surety Agreement, Peabody initially provided $75.0 million of collateral, in the form of letters of credit.

Upon completion of the Refinancing Transactions, as defined below, other provisions of the Surety Agreement became effective. In particular, Peabody granted second liens on $200.0 million of certain mining equipment, including mining equipment of the Company, and will post an additional $25.0 million of collateral per year from 2021 through 2024 for the benefit of the Participating Sureties. The collateral postings may also further increase to the extent that Peabody generates more than $100.0 million of free cash flow (as defined in the Surety Agreement) in any twelve-month period or has asset sales in excess of $10.0 million. Further, the Participating Sureties have agreed to a standstill through December 31, 2024, during which time, the Participating Sureties will not demand any additional collateral, draw on letters of credit posted for the benefit of themselves, or cancel, or attempt to cancel, any existing surety bond. Peabody will not pay dividends or make share repurchases during the standstill period, unless otherwise agreed between the parties.

Refinancing Transactions

On January 29, 2021 (the Settlement Date), Peabody completed a series of transactions (collectively, the Refinancing Transactions) to, among other things, provide Peabody with maturity extensions and covenant relief, while allowing it to maintain sufficient operating liquidity and financial flexibility. The Refinancing Transactions included a senior notes exchange and related consent solicitation, a revolving credit facility exchange, and various amendments to Peabody's existing debt agreements, as summarized below. The Refinancing Transaction resulted in the incurrence of approximately $400 million of long-term debt by the Co-Issuer's and the designation of the Company's assets as collateral for the debt.

Exchange Offer

On the Settlement Date, Peabody settled an exchange offer (Exchange Offer) pursuant to which $398.7 million aggregate principal amount of Peabody's 6.000% Senior Secured Notes due March 2022 (the 2022 Notes) were validly tendered, accepted by Peabody and exchanged for aggregate consideration consisting of (a) $193.9 million aggregate principal amount of new 10.000% Senior Secured Notes due 2024 issued by the Co-Issuers (New Co-Issuer Notes), (b) $195.1 million aggregate principal amount of new 8.500% Senior Secured Notes due 2024 issued by Peabody (New Peabody Notes), and (c) a cash payment of approximately $9.4 million. In connection with the settlement of the Exchange Offer, Peabody also paid early tender premiums totaling $4.0 million in cash.

Following the settlement of the Exchange Offer, approximately $60.3 million aggregate principal amount of the 2022 Notes remain outstanding and are governed by the Existing Indenture, as amended by the supplemental indenture described below.

In connection with the Exchange Offer, Peabody purchased approximately $22.5 million New Peabody Notes at 80% of their accreted value, plus accrued and unpaid interest, during the first quarter of 2021.

Consent Solicitation

Concurrently with the Exchange Offer, Peabody solicited consents from holders of the 2022 Notes to certain proposed amendments to the Existing Indenture to (i) eliminate substantially all of the restrictive covenants, certain events of default applicable to the 2022 Notes and certain other provisions contained in the Existing Indenture and (ii) release the collateral securing the 2022 Notes and eliminate certain other related provisions contained in the Existing Indenture. Peabody received the requisite consents from holders of the 2022 Notes and entered into a supplemental indenture to the Existing Indenture, which became operative on January 29, 2021.

Revolver Transactions

In connection with the Refinancing Transactions, Peabody restructured the revolving loans under its credit agreement by (i) making a pay down of revolving loans thereunder in the aggregate amount of $10.0 million, (ii) the Co-Issuers incurring $206.0 million of term loans under a credit agreement, dated as of the Settlement Date (New Co-Issuer Term Loans, New Co-Issuer Term Loan Agreement), (iii) Peabody entering into a letter of credit facility (the New Peabody LC Agreement), and (iv) amending its credit agreement (collectively, the Revolver Transactions).

The New Co-Issuer Term Loans mature on December 31, 2024 and bear interest at a rate of 10.00% per annum.

On the Settlement Date, Peabody entered into the New Peabody LC Agreement with the revolving lenders party to the credit agreement, pursuant to which Peabody obtained a $324.0 million letter of credit facility under which the Peabody's existing letters of credit under the credit agreement were deemed to be issued. The commitments under the New Peabody LC Agreement mature on December 31, 2024. Undrawn letters of credit under the New Peabody LC Agreement bear interest at 6.00% per annum and unused commitments are subject to a 0.50% per annum commitment fee.

In connection with the Revolver Transactions, the Peabody amended its credit agreement to make certain changes in consideration of the New Peabody LC Agreement. After giving effect to the Revolver Transactions, there remain no revolving commitments or revolving loans under the credit agreement and the first lien net leverage ratio covenant was eliminated, effectively negating the compliance requirement at December 31, 2020. The New Peabody LC Agreement requires that Peabody's restricted subsidiaries maintain minimum aggregate liquidity of $125.0 million at the end of each quarter through December 31, 2024. As such, liquidity attributable to the Company and the Co-Issuers will be excluded from the calculation.

Considering the Refinancing Transactions, Peabody expects to incur approximately $200.0 million of interest expense, including approximately $50.0 million of non-cash interest expense, during the year ended December 31, 2021.

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Report of Independent Auditors

The Board of Directors
Wilpinjong Coal Pty Ltd

We have audited the accompanying financial statements of Wilpinjong Coal Pty Ltd, which comprise the balance sheet as of December 31, 2020, and the related statement of operations & comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wilpinjong Coal Pty Ltd at December 31, 2020, and the results of their operations and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young

Ernst & Young
Brisbane, Australia
31 March 2021

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WILPINJONG COAL PTY LTD
STATEMENT OF OPERATIONS & STATEMENT OF COMPREHENSIVE LOSS
FOR THE YEAR ENDED DECEMBER 31, 2020

		$'000
Revenues	$	387,262
Costs and expenses		
Operating costs and expenses (exclusive of items shown separately below)		292,854
Depreciation, depletion and amortization		65,942
Asset retirement obligation expenses		2,547
Selling and administrative expenses		3,083
Operating profit		22,836
Interest expense		1,726
Loss on related parties debt extinguishment		416,674
Loss from continuing operations before income taxes		(395,564)
Income tax provision		21,506
Net loss		(417,070)
Other comprehensive loss, net of income taxes		—
Comprehensive loss		(417,070)
Comprehensive loss attributable to common stockholders		(417,070)

See accompanying notes to the financial statements

WILPINJONG COAL PTY LTD
BALANCE SHEET
DECEMBER 31, 2020

		$'000
ASSETS		
Current assets		
Cash and cash equivalents	$	107,234
Accounts receivable, net of allowance for credit losses of $0.0 at December 31, 2020		15,700
Trade and other receivables - intercompany		32,453
Inventories		31,356
Other current assets		10,180
Total current assets		196,923
Property, plant, equipment and mine development, net		429,252
Operating lease right-of-use assets		2,720
Investments and other assets		900
Total assets	$	629,795
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt		95
Accounts payable and accrued expenses		64,726
Trade and other payables - intercompany		34,430
Total current liabilities		99,251
Deferred income taxes		40,712
Asset retirement obligations		34,315
Operating lease liabilities, less current portion		1,175
Other non-current liabilities		1,060
Total liabilities	$	176,513
Stockholders' equity		
Common Stock — AUD $1 per share par value; 1,202 shares authorised and issued as of December 31, 2020		1
Additional paid-in capital		495,016
(Accumulated deficit) retained earnings		(41,735)
Wilpinjong Coal Pty Ltd stockholders' equity		453,282
Total stockholders' equity		453,282
Total liabilities and stockholders' equity	$	629,795

See accompanying notes to the financial statements

WILPINJONG COAL PTY LTD
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020

	$'000
Cash Flows From Operating Activities	
Net (loss) income	$ (417,070)
Net loss	(417,070)
Adjustments to reconcile loss from continuing operations, net of income taxes to net cash provided by operating activities:	
Depreciation, depletion and amortization	65,942
Noncash interest expense	2,547
Net gain on disposals	97
Noncash loss on related parties debt extinguishment	416,674
Changes in current assets and liabilities:	
Accounts receivable	(16,873)
Inventories	(6,747)
Deferred tax liabilities	(9,839)
Accounts payable and accrued expenses	38,597
Asset retirement obligations	(2,034)
Net cash provided by continuing operations	71,294
Net cash used in discontinued operations	—
Net cash provided by operating activities	71,294
Cash Flows From Investing Activities	
Additions to property, plant, equipment and mine development	(22,424)
Proceeds from disposal of assets, net of receivables	(10)
Net cash used in investing activities	(22,434)
Cash Flows From Financing Activities	
Payments of finance leases	(2,935)
Net funds received form related parties	61,309
Net cash provided by financing activities	58,374
Net change in cash, cash equivalents and restricted cash	107,234
Cash, cash equivalents and restricted cash at beginning of period	—
Cash, cash equivalents and restricted cash at end of period	$ 107,234

See accompanying notes to the financial statements

WILPINJONG COAL PTY LTD
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2020

	Common Stock	Additional Paid-in Capital	(Accumulated Deficit) Retained Earnings	Total Stockholders' Equity
			$'000	
January 1, 2020	$ —	$ 495,016	$ 375,335	$ 870,351
Net loss	—	—	(417,070)	(417,070)
Shares issued	1	—	—	1
December 31, 2020	$ 1	$ 495,016	$ (41,735)	$ 453,282

See accompanying notes to the financial statements

WILPINJONG COAL PTY LTD
NOTES TO THE FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

Basis of Presentation

The financial statements include the accounts of Wilpinjong Coal Pty Ltd (the Company). The Company is a wholly-owned subsidiary of Peabody Energy Corporation (Peabody). The Company 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 Company has elected to apply pushdown accounting related to Peabody's fresh start reporting from April 3, 2017 when Peabody emerged from Chapter 11 of Title 11 of the U.S. Code (the Bankruptcy Code).

The Company evaluated subsequent events after the balance sheet date of December 31, 2020 through March 31, 2021, as below.

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.

Organizational Realignment

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, (the Co-Issuers) to indirectly own and conduct the operations of the Company and the designation of the Company and Co-Issuers as unrestricted subsidiaries under Peabody's then-existing debt agreements.

As part of the transaction the Company subdivided its ordinary shares into 1,202 ordinary shares and the Co-Issuers acquired 100% of such shares.

In connection with these actions, Peabody Energy Australia Pty Ltd paid to the Company $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 is reflected as a loss on early debt extinguishment in the accompanying statement of operations for the year ended December 31, 2020.

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

Surety Agreement

In November 2020, Peabody entered into a surety transaction support agreement (Surety Agreement) with the providers of 99% of its surety bond portfolio (Participating Sureties) to resolve approximately $800.0 million in additional collateral demands made by the Participating Sureties. In accordance with the Surety Agreement, Peabody initially provided $75.0 million of collateral, in the form of letters of credit.

Upon completion of the Refinancing Transactions, as defined below, other provisions of the Surety Agreement became effective. In particular, Peabody granted second liens on $200.0 million of certain mining equipment, including mining equipment of the Company, and will post an additional $25.0 million of collateral per year from 2021 through 2024 for the benefit of the Participating Sureties. The collateral postings may also further increase to the extent that Peabody generates more than $100.0 million of free cash flow (as defined in the Surety Agreement) in any twelve-month period or has asset sales in excess of $10.0 million. Further, the Participating Sureties have agreed to a standstill through December 31, 2024, during which time, the Participating Sureties will not demand any additional collateral, draw on letters of credit posted for the benefit of themselves, or cancel, or attempt to cancel, any existing surety bond. Peabody will not pay dividends or make share repurchases during the standstill period, unless otherwise agreed between the parties.

Refinancing Transactions

On January 29, 2021 (the Settlement Date), Peabody completed a series of transactions (collectively, the Refinancing Transactions) to, among other things, provide Peabody with maturity extensions and covenant relief, while allowing it to maintain sufficient operating liquidity and financial flexibility. The Refinancing Transactions included a senior notes exchange and related consent solicitation, a revolving credit facility exchange, and various amendments to Peabody's existing debt agreements, as summarized below. The Refinancing Transaction resulted in the incurrence of approximately $400.0 million of long-term debt by the Co-Issuers and the designation of the Company's assets as collateral for the debt.

Exchange Offer

On the Settlement Date, Peabody settled an exchange offer (Exchange Offer) pursuant to which $398.7 million aggregate principal amount of Peabody's 6.000% Senior Secured Notes due March 2022 (the 2022 Notes) were validly tendered, accepted by Peabody and exchanged for aggregate consideration consisting of (a) $193.9 million aggregate principal amount of new 10.000% Senior Secured Notes due 2024 issued by the Co-Issuers (New Co-Issuer Notes), (b) $195.1 million aggregate principal amount of new 8.500% Senior Secured Notes due 2024 issued by Peabody (New Peabody Notes), and (c) a cash payment of approximately $9.4 million. In connection with the settlement of the Exchange Offer, Peabody also paid early tender premiums totaling $4.0 million in cash.

Following the settlement of the Exchange Offer, approximately $60.3 million aggregate principal amount of the 2022 Notes remain outstanding and are governed by the Existing Indenture, as amended by the supplemental indenture described below. In connection with the Exchange Offer, Peabody purchased approximately $22.5 million New Peabody Notes at 80% of their accreted value, plus accrued and unpaid interest, during the first quarter of 2021.

Consent Solicitation

Concurrently with the Exchange Offer, Peabody solicited consents from holders of the 2022 Notes to certain proposed amendments to the Existing Indenture to (i) eliminate substantially all of the restrictive covenants, certain events of default applicable to the 2022 Notes and certain other provisions contained in the Existing Indenture and (ii) release the collateral securing the 2022 Notes and eliminate certain other related provisions contained in the Existing Indenture. Peabody received the requisite consents from holders of the 2022 Notes and entered into a supplemental indenture to the Existing Indenture, which became operative on January 29, 2021.

Revolver Transactions

In connection with the Refinancing Transactions, Peabody restructured the revolving loans under its credit agreement by (i) making a pay down of revolving loans thereunder in the aggregate amount of $10.0 million, (ii) the Co-Issuers incurring $206.0 million of term loans under a credit agreement, dated as of the Settlement Date (New Co-Issuer Term Loans, New Co-Issuer Term Loan Agreement), (iii) Peabody entering into a letter of credit facility (the New Peabody LC Agreement), and (iv) amending its credit agreement (collectively, the Revolver Transactions).

The New Co-Issuer Term Loans mature on December 31, 2024 and bear interest at a rate of 10.00% per annum.

On the Settlement Date, Peabody entered into the New Peabody LC Agreement with the revolving lenders party to the credit agreement, pursuant to which Peabody obtained a $324.0 million letter of credit facility under which the Peabody's existing letters of credit under the credit agreement were deemed to be issued. The commitments under the New Peabody LC Agreement mature on December 31, 2024. Undrawn letters of credit under the New Peabody LC Agreement bear interest at 6.00% per annum and unused commitments are subject to a 0.50% per annum commitment fee.

In connection with the Revolver Transactions, the Peabody amended its credit agreement to make certain changes in consideration of the New Peabody LC Agreement. After giving effect to the Revolver Transactions, there remain no revolving commitments or revolving loans under the credit agreement and the first lien net leverage ratio covenant was eliminated, effectively negating the compliance requirement at December 31, 2020. The New Peabody LC Agreement requires that Peabody's restricted subsidiaries maintain minimum aggregate liquidity of $125.0 million at the end of each quarter through December 31, 2024. As such, liquidity attributable to the Company and the Co-Issuers will be excluded from the calculation.

Dividend

A dividend of $17.1 million on Common stock was declared and paid on March 25, 2021, fully franked for tax purposes.

Going Concern

As at December 31, 2020, the Company reported net current assets of $97.6 million and net assets of $453.2 million.

Subsequent to the organizational realignment disclosed above, the Company now manages cash flows from operations independently, through a separate bank account, no longer having access to the Australian group's central treasury cash function.

In considering the going concern assessment, the Directors have considered the Company's financial position as a stand alone entity noting the following as at December 31, 2020:

- Cash at bank of $107.2 million
- Net current assets of $97.6 million
- Net assets of $453.3 million
- Operating gross profits of $22.8 million
- Net cash flows from operating activities of $71.3 million

Together all of these factors indicate that the Company is in a strong financial position to be able to pay it's debts as and when they fall due over the next 12 months.

Accordingly, the Directors consider that the Company is a going concern. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the entity not continue as a going concern.

Newly Adopted Accounting Standards

Financial Instruments - Credit Losses. In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13 (Topic 326) related to the measurement of credit losses on financial instruments. The new standard replaces the incurred loss methodology to record credit losses with a methodology that reflects the expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The Company adopted the standard on January 1, 2020 using the modified retrospective approach. The Company will be required to use a forward-looking expected loss model for accounts receivables, loans and other financial instruments to record an allowance for the estimated contractual cash flows not expected to be collected.

Effective January 1, 2020, the Company recognizes an allowance for credit losses for financial assets carried at amortized cost to present the net amount expected to be collected as of the balance sheet date. Such allowance is based on the credit losses expected to arise over the life of the asset (contractual term) which includes consideration of prepayments and is based on the Company’s expectations as of the balance sheet date.

Assets are written off when the Company determines that such financial assets are deemed uncollectible. Write-offs are recognized as deductions from the allowance for credit losses. Expected recoveries of amounts previously written off, not to exceed the aggregate of the amount previously written off, are included in determining the necessary reserve at the balance sheet date.

The Company pools its accounts receivable based on similar risk characteristics in estimating its expected credit losses. The Company also continuously evaluates such pooling decisions and adjusts as needed from period to period as risk characteristics change.

Fair Value Measurement. In August 2018, the FASB issued ASU 2018-13, which amended the fair value measurement guidance by removing and modifying certain disclosure requirements, while also adding new disclosure requirements. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. The Company adopted the disclosure requirements effective January 1, 2020.

Income Taxes. In December 2019, the FASB issued ASU 2019-12 as part of its effort to reduce the complexity of accounting standards. The ASU enhances and simplifies various aspects of the income tax accounting guidance in ASC 740, including requirements related to (1) hybrid tax regimes, (2) the tax basis step-up in goodwill obtained in a transaction that is not a business combination, (3) separate financial statements of entities not subject to tax, (4) the intraperiod tax allocation exception to the incremental approach, (5) recognition of a deferred tax liability after an investor in a foreign entity transitions to or from the equity method of accounting, (6) interim-period accounting for enacted changes in tax law and (7) the year-to-date loss limitation in interim-period tax accounting. ASU 2019-12 is effective on January 1, 2021 for calendar year-end public companies and early adoption is permitted. The Company elected to early adopt ASU 2019-12 in the third quarter of 2020 and apply the guidance to the beginning of the annual period, effective January 1, 2020. The adoption did not have any tax impact on the Company.

Accounting Standards Not Yet Implemented

Equity Method Investments. In January 2020, the FASB issued ASU 2020-01, which clarifies the interactions between ASC 321, ASC 323 and ASC 815. The new guidance addresses accounting for the transition into and out of the equity method and measuring certain purchased options and forward contracts to acquire investments. ASU 2020-01 is effective on January 1, 2021 for calendar year-end public companies and early adoption is permitted. The Company plans to adopt the requirements effective January 1, 2021.

Revenues

The majority of the Company’s revenue is derived from the sale of coal under long-term coal supply agreements (those with initial terms of one year or longer and which often include price reopener and/or extension provisions) and contracts with terms of less than one year, including sales made on a spot basis. The Company’s revenue from coal sales is realized and earned when performance obligations are met or control passes to the customer. Under the typical terms of the Company’s coal supply agreements, title and risk of loss transfer to the customer at the mine or port, where coal is loaded to the transportation sources that serve the Company’s mines. The Company incurs certain “add-on” taxes and fees on coal sales. Reported coal sales include taxes and fees charged by various federal and state governmental bodies and the freight charged on destination customer contracts.

The Company’s seaborne operating platform is primarily export focused with customers spread across several countries, with a portion of the thermal coal sold within Australia. Generally, revenues from individual countries vary year by year based on electricity and steel demand, the strength of the global economy, governmental policies and several other factors, including those specific to each country. A majority of these sales are executed through annual and multi-year international coal supply agreements that contain provisions requiring both parties to renegotiate pricing periodically. Industry commercial practice, and the Company’s typical practice, is to negotiate pricing for seaborne thermal coal contracts on an annual, spot or index basis. The portion of sales volume under contracts with a duration of less than one year has increased in recent years. In the case of periodically negotiated pricing, the Company may deliver coal under provisional pricing until a final agreed-upon price is determined. The resulting make-whole settlements are recognized when reasonably estimable.

Contract pricing is set forth on a per ton basis, and revenue is generally recorded as the product of price and volume delivered. Many of the Company’s coal supply agreements contain provisions that permit the parties to adjust the contract price upward or downward at specified times. These contract prices may be adjusted based on inflation or deflation and/or changes in the factors affecting the cost of producing coal, such as taxes, fees, royalties and changes in the laws regulating the mining, production, sale or use of coal. In a limited number of contracts, failure of the parties to agree on a price under those provisions may allow either party to terminate the contract. The Company sometimes experiences a reduction in coal prices in new long-term coal supply agreements replacing some of its expiring contracts.

Coal supply agreements also typically contain force majeure provisions allowing temporary suspension of performance by the Company or the customer during the duration of specified events beyond the control of the affected party. Most of the coal supply agreements contain provisions requiring the Company to deliver coal meeting quality thresholds for certain characteristics such as Btu, sulfur content, ash content, grindability and ash fusion temperature. Failure to meet these specifications could result in economic penalties, including price adjustments, the rejection of deliveries or termination of the contracts. Moreover, some of these agreements allow the Company’s customers to terminate their contracts in the event of changes in regulations affecting the industry that restrict the use or type of coal permissible at the customer’s plant or increase the price of coal beyond specified limits.

Cash and Cash Equivalents

Cash and cash equivalents are stated at cost, which approximates fair value. Cash equivalents consist of highly liquid investments with original maturities of three months or less.

From time to time, the Company is required to remit cash to certain regulatory authorities and other third parties as collateral for financial assurances associated with a variety of long-term obligations and commitments surrounding employee related matters and the mining, reclamation and shipping of its production. The Company had no such cash collateral or restricted cash requirements as of December 31, 2020.

Accounts Receivable

The timing of revenue recognition, billings and cash collections results in accounts receivable from customers. Customers are invoiced as coal is shipped or at periodic intervals in accordance with contractual terms. Invoices typically include customary adjustments for the resolution of price variability related to prior shipments, such as coal quality thresholds. Payments are generally received within thirty days of invoicing.

Inventories

Coal is reported as inventory at the point in time the coal is extracted from the mine. Raw coal represents coal stockpiles that may be sold in current condition or may be further processed prior to shipment to a customer. Saleable coal represents coal stockpiles which require no further processing prior to shipment to a customer.

Coal inventory is valued at the lower of average cost or net realizable value. Coal inventory costs include labor, supplies, equipment (including depreciation thereto) and operating overhead and other related costs incurred at or on behalf of the mining location. Net realizable value considers the projected future sales price of the particular coal product, less applicable selling costs and, in the case of raw coal, estimated remaining processing costs. The valuation of coal inventory is subject to several additional estimates, including those related to ground and aerial surveys used to measure quantities and processing recovery rates.

Materials and supplies inventory is valued at the lower of average cost or net realizable value, less a reserve for obsolete or surplus items. This reserve incorporates several factors, such as anticipated usage, inventory turnover and inventory levels.

Property, Plant, Equipment and Mine Development

Property, plant, equipment and mine development are recorded at cost. Interest costs applicable to major asset additions are capitalized during the construction period. There was no capitalized interest in any of the periods presented. Expenditures which extend the useful lives of existing plant and equipment assets are capitalized. Maintenance and repairs are charged to operating costs as incurred. Costs incurred to develop coal mines or to expand the capacity of operating mines are capitalized. Maintenance and repair costs incurred to maintain current production capacity at a mine are charged to operating costs as incurred. Costs to acquire computer hardware and the development and/or purchase of software for internal use are capitalized and depreciated over the estimated useful lives.

Coal reserves are recorded at cost, or at fair value in the case of non-monetary exchanges of reserves or business acquisitions.

Depletion of coal reserves and amortization of advance royalties are computed using the units-of-production method utilizing only proven and probable reserves (as adjusted for recoverability factors) in the depletion base. Mine development costs are principally amortized over the estimated lives of the mines using the straight-line method. Depreciation of plant and equipment is computed using the straight-line method over the shorter of the asset’s estimated useful life or the life of the mine. The estimated useful lives by category of assets are as follows:

	Years
Building and improvements	up to 25
Machinery and equipment	3 - 25
Leasehold improvements	Shorter of Useful Life or Remaining Life of Lease

The Company leases coal reserves under agreements that require royalties to be paid as the coal is mined. Certain agreements also require minimum annual royalties to be paid regardless of the amount of coal mined during the year. Total royalty expense was $17.8 million for the year ended December 31, 2020.

Mining and exploration in Australia is generally conducted under leases, licenses or permits granted by the relevant state government. Mining and exploration licenses and their associated environmental protection approvals (granted by the state government, and in some cases also the federal government) contain conditions relating to such matters as minimum annual expenditures, environmental compliance, protection of flora and fauna, restoration and rehabilitation. Royalties are paid to the state government as a percentage of the sales price (less certain allowable deductions in some cases). Generally, landowners do not own the mineral rights or have the ability to grant rights to mine those minerals. These rights are retained by the state government. Compensation is often payable to landowners, occupiers and Aboriginal traditional owners with residual native title rights and interests for the loss of access to the land from the proposed mining activities. The amount and type of compensation and the ability to proceed to grant of a mining tenement may be determined by agreement or court determination, as provided by law.

Leases

The Company determines if an arrangement is a lease at inception. Right-of-use (ROU) assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. For the purpose of calculating such present values, lease payments include components that vary based upon an index or rate, using the prevailing index or rate at the commencement date, and exclude components that vary based upon other factors. As most of its leases do not contain a readily determinable implicit rate, the Company uses its incremental borrowing rate at commencement to determine the present value of lease payments. The Company does not separate lease components (i.e., fixed payments including rent, real estate taxes and insurance costs) from non-lease components (i.e., common-area maintenance) and recognizes them as a single lease component for the majority of asset classes. Variable lease payments not included within lease contracts are expensed as incurred. The Company's leases may include options to extend or terminate the lease, and such options are reflected in the term when their exercise is reasonably certain. Lease expense is recognized on a straight-line basis over the lease term. For certain equipment leases, the Company applies a portfolio approach to effectively account for the operating lease ROU assets and liabilities.

Asset Retirement Obligations

The Company’s asset retirement obligation (ARO) liabilities primarily consist of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred, in accordance with applicable reclamation laws and regulations in the Australia.

The Company estimates its ARO liabilities for final reclamation and mine closure based upon detailed engineering calculations of the amount and timing of the future cash spending for a third party to perform the required work. Spending estimates are escalated for inflation and then discounted at the credit-adjusted, risk-free rate. The Company records an ARO asset associated with the discounted liability for final reclamation and mine closure. The obligation and corresponding asset are recognized in the period in which the liability is incurred. The ARO asset is amortized on the units-of-production method over its expected life and the ARO liability is accreted to the projected spending date. As changes in estimates occur (such as mine plan revisions, changes in estimated costs or changes in timing of the performance of reclamation activities), the revisions to the obligation and asset are recognized at the appropriate credit-adjusted, risk-free rate. The Company also recognizes an obligation for contemporaneous reclamation liabilities incurred as a result of surface mining. Contemporaneous reclamation consists primarily of grading, topsoil replacement and re-vegetation of backfilled pit areas.

Contingent Liabilities

From time to time, the Company is subject to legal and environmental matters related to its continuing and discontinued operations and certain historical, non-coal producing operations. In connection with such matters, the Company is required to assess the likelihood of any adverse judgments or outcomes, as well as potential ranges of probable losses.

A determination of the amount of reserves required for these matters is made after considerable analysis of each individual issue. The Company accrues for legal and environmental matters within “Operating costs and expenses” when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The Company provides disclosure surrounding loss contingencies when it believes that it is at least reasonably possible that a material loss may be incurred or an exposure to loss in excess of amounts already accrued may exist. Adjustments to contingent liabilities are made when additional information becomes available that affects the amount of estimated loss, which information may include changes in facts and circumstances, changes in interpretations of law in the relevant courts, the results of new or updated environmental remediation cost studies and the ongoing consideration of trends in environmental remediation costs.

Accrued contingent liabilities exclude claims against third parties and are not discounted. The current portion of these accruals is included in “Accounts payable and accrued expenses” and the long-term portion is included in “Other non-current liabilities” in the balance sheet. In general, legal fees related to environmental remediation and litigation are charged to expense. The Company includes the interest component of any litigation-related penalties within “Interest expense” in the statement of operations.

Income Taxes

The Company is a member of Peabody’s Australian Multiple Entry Consolidated (MEC) group. Peabody Australia Holdco Pty Ltd, the head company of the MEC group, allocates Australian income tax expenses to the Company for utilizing the group’s net operating loss of income tax benefits for the contribution to the group’s total net operating loss.

Income taxes are accounted for using a balance sheet approach. The Company accounts for deferred income taxes by applying statutory tax rates in effect at the reporting date of the balance sheet to differences between the book and tax basis of assets and liabilities. A valuation allowance is established if it is “more likely than not” that the related tax benefits will not be realized. Significant weight is given to evidence that can be objectively verified including history of tax attribute expiration and cumulative income or loss. In determining the appropriate valuation allowance, the Company considers the projected realization of tax benefits based on expected levels of future taxable income, available tax planning strategies, reversals of existing taxable temporary differences and taxable income in carryback years.

The Company recognizes the tax benefit from uncertain tax positions only if it is “more likely than not” the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. To the extent the Company’s assessment of such tax positions changes, the change in estimate will be recorded in the period in which the determination is made. Tax-related interest and penalties are classified as a component of income tax expense.

Restructuring Activities

From time to time, the Company initiates restructuring activities in connection with its repositioning efforts to appropriately align its cost structure or optimize its coal production relative to prevailing market conditions. Costs associated with restructuring actions can include early mine closures, voluntary and involuntary workforce reductions, office closures and other related activities. Costs associated with restructuring activities are recognized in the period incurred.

Impairment of Long-Lived Assets

The Company evaluates its long-lived assets held and used in operations for impairment as events and changes in circumstances indicate that the carrying amount of such assets might not be recoverable. Factors that would indicate potential impairment to be present include, but are not limited to, a sustained history of operating or cash flow losses, an unfavorable change in earnings and cash flow outlook, prolonged adverse industry or economic trends and a significant adverse change in the extent or manner in which a long-lived asset is being used or in its physical condition. The Company generally does not view short-term declines in thermal coal prices as a triggering event for conducting impairment tests because of historic price volatility. However, the Company generally does view a sustained trend of depressed coal pricing (for example, over periods exceeding one year) as an indicator of potential impairment. Because of the volatile and cyclical nature of coal prices and demand, it is reasonably possible that coal prices may decrease and/or fail to improve in the near term, which, absent sufficient mitigation such as an offsetting reduction in the Company's operating costs, may result in the need for future adjustments to the carrying value of the Company's long-lived mining assets and mining-related investments.

Assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. When indicators of impairment are present, the Company evaluates its long-lived assets for recoverability by comparing the estimated undiscounted cash flows expected to be generated by those assets under various assumptions to their carrying amounts. If such undiscounted cash flows indicate that the carrying value of the asset group is not recoverable, impairment losses are measured by comparing the estimated fair value of the asset group to its carrying amount. As quoted market prices are unavailable for the Company's individual mining operations, fair value is determined through the use of an expected present value technique based on the income approach, except for non-strategic coal reserves, surface lands and undeveloped coal properties excluded from the Company's long-range mine planning. In those cases, a market approach is utilized based on the most comparable market multiples available. The estimated future cash flows and underlying assumptions used to assess recoverability and, if necessary, measure the fair value of the Company's long-lived mining assets are derived from those developed in connection with the Company's planning and budgeting process.

The Company believes its assumptions to be consistent with those a market participant would use for valuation purposes. The most critical assumptions underlying the Company's projections and fair value estimates include those surrounding future tons sold, coal prices for unpriced coal, production costs (including costs for labor, commodity supplies and contractors), transportation costs, foreign currency exchange rates and a risk-adjusted, cost of capital (all of which generally constitute unobservable Level 3 inputs under the fair value hierarchy), in addition to market multiples for non-strategic coal reserves, surface lands and undeveloped coal properties excluded from the Company's long-range mine planning (which generally constitute Level 2 inputs under the fair value hierarchy).

There we no impairment charges related to long-lived assets recognized during the year ended December 31, 2020.

Fair Value

For assets and liabilities that are recognized or disclosed at fair value in the financial statements, the Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Foreign Currency

Functional currency is determined by the primary economic environment in which an entity operates, which for the Company is generally the United States dollar because sales prices in international coal markets and the Company's sources of financing its operations are denominated in that currency. Monetary assets and liabilities are remeasured at year-end exchange rates while non-monetary items are remeasured at historical rates. Income and expense accounts are remeasured at the average rates in effect during the year, except for those expenses related to balance sheet amounts that are remeasured at historical exchange rates. Gains and losses from foreign currency remeasurement related to tax balances are included as a component of "Income tax provision," while all other remeasurement gains and losses are included in "Operating costs and expenses" in the statement of operations. The total impact of foreign currency remeasurement on the statement of operations was a net loss of $19.0 million for the year ended December 31, 2020.

Exploration and Drilling Costs

Exploration expenditures are charged to operating costs as incurred, including costs related to drilling and study costs incurred to convert or upgrade mineral resources to reserves.

WILPINJONG COAL PTY LTD
NOTES TO THE FINANCIAL STATEMENTS — (Continued)

Advance Stripping Costs

Pre-production. At existing surface operations, additional pits may be added to increase production capacity in order to meet customer requirements. These expansions may require significant capital to purchase additional equipment, expand the workforce, build or improve existing haul roads and create the initial pre-production box cut to remove overburden (that is, advance stripping costs) for new pits at existing operations. If these pits operate in a separate and distinct area of the mine, the costs associated with initially uncovering coal (that is, advance stripping costs incurred for the initial box cuts) for production are capitalized and amortized over the life of the developed pit consistent with coal industry practices.

Post-production. Advance stripping costs related to post-production are expensed as incurred. Where new pits are routinely developed as part of a contiguous mining sequence, the Company expenses such costs as incurred. The development of a contiguous pit typically reflects the planned progression of an existing pit, thus maintaining production levels from the same mining area utilizing the same employee group and equipment.

Use of Estimates in the Preparation of the Financial Statements

These financial statements have been prepared in conformity with accounting principles generally accepted in the U.S. (U.S. GAAP). In doing so, estimates and assumptions are made that affect the amounts reported in the financial statements and accompanying notes. These estimates are based on historical experience and on various other assumptions deemed reasonable under the circumstances, the results of which form the basis for making judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The Company's actual results may differ materially from these estimates. Significant estimates inherent in the preparation of these financial statements include, but are not limited to, accounting for sales and cost recognition, employee provisions, environmental receivables and liabilities, asset retirement obligations, evaluation of long-lived assets for impairment, income taxes including deferred tax assets, fair value measurements and contingencies.

(2) Revenue Recognition

During the year ended December 31, 2020, the Company generated revenue of $242.0 million related to coal exports with the balance sold domestically. At December 31, 2020, the Company's accounts receivable were comprised of $14.4 million from trade customers and $1.3 million of other miscellaneous receivables. There were no allowances for credit losses at December 31, 2020, and no credit losses were recorded during the year then ended.

The Company expects to recognize revenue subsequent to December 31, 2020 of approximately $813.0 million related to contracts with customers in which volumes and prices per ton were fixed or reasonably estimable at December 31, 2020. Approximately 20% of such amount is expected to be recognized over the next twelve months and the remainder thereafter. Actual revenue related to such contracts may differ materially for reasons, including price adjustment features for coal quality and cost escalations, volume optionality provisions and potential force majeure events. This estimate of future revenue does not include any revenue related to contracts with variable prices per ton that cannot be reasonably estimated, such as the seaborne thermal coal contracts where pricing is negotiated or settled quarterly or annually.

(3) Inventories

Inventories as of December 31, 2020 consisted of the following:

	$'000
Materials and supplies	$ 13,472
Raw coal	14,087
Saleable coal	3,797
Inventories	$ 31,356

Materials and supplies inventories presented above have been shown net of reserves of $0.01 million.

(4) Property, Plant, Equipment and Mine Development

Property, plant, equipment and mine development, net, as of December 31, 2020 consisted of the following:

	$'000
Land and coal interests	$ 383,974
Buildings and improvements	152,242
Machinery and equipment	138,038
Less: Accumulated depreciation, depletion and amortization	(245,002)
Property, plant, equipment and mine development, net	$ 429,252

Land and coal interests presented above included leased coal interests with a net book value of $218.0 million.

(5) Income Taxes

The Company's total income tax provision of $21.5 million for the year ended December 31, 2020 consisted of a current provision of $26.2 million, partially offset by a deferred tax benefit of $4.7 million.

The following is a reconciliation of the expected statutory income tax benefit to the Company's income tax provision for the year ended December 31, 2020:

	$'000
Expected income tax benefit at Australian statutory rate	$ (118,669)
Loss on debt extinguishment	125,002
Remeasurement of foreign income tax accounts	9,610
Other, net	5,563
Total income tax provision	$ 21,506

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and liabilities as of December 31, 2020 consisted of the following:

		$'000
Deferred tax assets:		
Property, plant, equipment and mine development, principally due to differences in depreciation, depletion and asset impairments		4,971
Asset retirement obligations		3,497
Employee benefits		3,465
Other		1,179
Total gross deferred tax assets		13,112
Valuation allowance		(4,971)
Total deferred tax assets		8,141
Deferred tax liabilities:		
Property, plant, equipment and mine development, principally due to differences in depreciation, depletion and asset impairments		44,278
Investments and other assets		4,575
Total deferred tax liabilities		48,853
Net deferred tax liability	$	(40,712)
Deferred taxes are classified as follows:		
Noncurrent deferred income tax asset	$	—
Noncurrent deferred income tax liability		(40,712)
Net deferred tax liability	$	(40,712)

The Company had no unrecognized tax benefits as of December 31, 2020.

The Company is a member of Peabody's Australian Multiple Entry Consolidated (MEC) group. Peabody Australia Holdco Pty Ltd, the head company of the MEC group, allocates Australian income tax expenses to the Company for utilizing the group's net operating loss or income tax benefits for the contribution to the group's total net operating loss. The group's Australian income tax returns for tax years 2013 through 2019 continue to be subject to potential examinations by the Australian Taxation Office.

(6) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following at December 31, 2020:

		$'000
Accrued payroll and related benefits	$	21,103
Trade accounts payable		17,251
Other accrued expenses		17,796
Asset retirement obligations		3,912
Accrued royalties		2,911
Operating lease liabilities		1,753
Accounts payable and accrued expenses	$	64,726

(7) Leases

The Company has operating and finance leases for mining and non-mining equipment, light vehicles and certain other facilities under various non-cancellable agreements. Historically, the majority of the Company's leases have been accounted for as operating leases. Refer to Note 1. "Summary of Significant Accounting Policies." for the Company's policies regarding "Leases."

The Company has certain lease agreements are subject to the restrictive covenants of the Company's credit facilities and include cross-acceleration provisions, under which the lessor could require remedies including, but not limited to, immediate recovery of the present value of any remaining lease payments. The Company typically agrees to indemnify lessors for the value of the property or equipment leased, should the property be damaged or lost during the course of the Company's operations. The Company expects that losses with respect to leased property, if any, may be covered by insurance (subject to deductibles). Aside from indemnification of the lessor for the value of the property leased, the Company's maximum potential obligations under its leases are equal to the respective future minimum lease payments, and the Company assumes that no amounts could be recovered from third parties.

The components of lease expense during the year ended December 31, 2020 was as follows:

	$'000
Operating lease cost:	
Operating leases	$ 3,091
Short-term leases	3,081
Variable leases	1,413
Total operating lease cost	$ 7,585
Finance lease cost:	
Amortization of right-of-use assets	$ 1,207
Interest on lease liabilities	38
Total finance lease cost	$ 1,245

WILPINJONG COAL PTY LTD
NOTES TO THE FINANCIAL STATEMENTS — (Continued)

Supplemental balance sheet information related to operating leases at December 31, 2020 is set forth in the table below.

		$'000
Operating lease right-of-use assets	$	2,720
Accounts payable and accrued expenses	$	1,753
Operating lease liabilities, less current portion		1,175
Total operating lease liabilities	$	2,928
Finance leases:		
Property, plant, equipment and mine development	$	127
Accumulated depreciation		(3)
Property, plant, equipment and mine development, net	$	124
Current portion of long-term debt	$	95
Long-term debt, less current portion		—
Total finance lease liabilities	$	95
Weighted average remaining lease term (years)		1.63
Weighted average discount rate		5.1 %

Supplemental cash flow information related to leases during the year ended December 31, 2020 was as follows:

		$'000
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	$	3,123
Operating cash flows for finance leases		—
Financing cash flows for finance leases		2,935
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases		2,623
Finance leases		591

The Company's operating leases have remaining lease terms ranging from 1 year to 2 years, some of which include options to extend the terms deemed reasonably certain of exercise. The contractual maturities of the operating lease liabilities were as follows:

		$'000
Year ending December 31, 2021	$	1,872
Year ending December 31, 2022		1,316
Total lease payments		3,188
Less imputed interest		(260)
Total lease liabilities	$	2,928

(8) Long-term Debt

The Company's total funded indebtedness (Indebtedness) as of December 31, 2020 consisted of the following:

		December 31, 2020
		$'000
Finance lease obligations		95
		95
Less: Current portion of long-term debt		95
Long-term debt	$	—

(9) Asset Retirement Obligations

Activity related to the Company's asset retirement obligations during the year ended December 31, 2020 was as follows:

		$'000
Balance at January 1, 2020	$	37,963
Liabilities settled or disposed		(2,034)
Accretion expense		2,547
Revisions to estimates		(249)
Balance at December 31, 2020	$	38,227
Less: Current portion (included in "Accounts payable and accrued expenses")		3,912
Noncurrent obligation (included in "Asset retirement obligations")	$	34,315

The credit-adjusted, risk-free interest rate utilized to estimate the Company's asset retirement obligation is 10.45% for a life of mine more than 7 years but less than 10 years at December 31, 2020.

As of December 31, 2020, the Company had $57.9 million in surety bonds outstanding to secure reclamation obligations.

(10) Stockholders' Equity

Common Stock

The Company has 1,202 authorized shares of Common Stock, par value AUD $1.00 per share. Common stock capital is recognised at the fair value of the consideration received by the Company. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the purchase consideration.

The following table summarizes Common Stock activity during the year ended December 31, 2020:

Shares outstanding at January 1, 2020	2
Shares issued for corporate restructure	1,200
Shares outstanding at December 31, 2020	1,202

(11) Management — Labor Relations

On December 31, 2020, the Company had 557 employees, including 470 hourly employees. In Australia, the coal mining industry is unionized and approximately 100% of those hourly employees were represented by organized trade unions.

The Construction, Forestry, Maritime, Mining and Energy Union generally represents the Company's hourly production and maintenance employees, including those employed through contract mining relationships. The Company believes labor relations with its employees are good. Should that condition change, the Company could experience labor disputes, work stoppages or other disruptions in production that could negatively impact the Company's results of operations and cash flows.

The current labor agreement for Wilpinjong Mine expired in May 2020. Management, employees and the union are currently negotiating a new agreement.

(12) Commitments and Contingencies

Commitments

Unconditional Purchase Obligations

As of December 31, 2020, purchase commitments for capital expenditures were $8.3 million, all of which is obligated in the next five years, with $0.6 million obligated within the next 12 months.

In Australia, Peabody, on behalf of it's related entities, has secured the ability to transport coal through rail contracts that are primarily funded through take-or-pay arrangements, with terms ranging up to 22 years. As of December 31, 2020, commitments under take-or-pay arrangements relating to both the Company and a related Peabody entity totaled $693.0 million, of which approximately $28.5 million is obligated within the next year.

Guarantees

A contingent liability of $38.5 million (31 December 2019: nil) exists in respect of the bank guarantee issued by the Company for financial assurance to maintain compliance with certain covenants and restrictions as specified in the coal supply agreement held with a customer of the Company.

Under the terms of the coal supply agreement, the customer may unilaterally demand such a guarantee at any time. The coal supply agreement and an associated step-in deed also require the Company to maintain compliance with certain covenants and restrictions. In the event of noncompliance, the customer may exercise contractual step-in rights to appoint a receiver to operate the mine within the parameters of the coal supply agreement and step-in deed. As at the date of signing this report the Company is in compliance with the terms of these contractual arrangements.

Other contingent liability's of $2.6 million exists at December 31, 2020 (2019: $2.4 million) in respect of guarantees given by the Company for contractual obligations with certain suppliers for agreements entered into.

Contingencies

From time to time, the Company is involved in legal proceedings arising in the ordinary course of business or related to indemnities or historical operations. The Company believes it has recorded adequate reserves for these liabilities. As of December 31, 2020 the Company is not aware of any significant legal proceedings including ongoing proceedings that would impact the Company's results of operations for the periods presented.

(13) Related Parties

The Company routinely enters into transactions with Peabody and its other subsidiaries. The terms of these transactions are outlined in agreements executed by Peabody and its subsidiaries. The amounts included in “Trade and other receivables - intercompany and Trade and other payables - intercompany” reflect the effects of the related party transactions which have not yet been settled by cash payments and temporary cash advances to and from affiliated companies, the majority of which are non-interest-bearing balances. Transactions with affiliates are not necessarily consummated on terms equivalent to those that would have prevailed in an arm’s-length transaction. Other receivables - intercompany and other payables- intercompany have not been offset in the statement of financial position as there is not an enforceable netting arrangement.

Intercompany balances related to the following proprietary limited Peabody entities at December 31, 2020:

		$’000
Trade and other receivables - intercompany		
Peabody Energy Australia	$	20,980
Peabody COALSALES Pacific		11,473
		32,453
Trade and other payables - intercompany		
Peabody Australia Mining		16,647
Peabody Energy Australia Coal		10,546
Peabody Australia Holdco		3,921
Millenium Coal		2,671
Wambo Coal		521
Peabody Pastoral Holdings		76
Coppabella and Moorvale Joint Venture		48
	$	34,430

As previously described in Note 1. “Summary of Significant Accounting Policies,” the Company realized a loss of $416.7 million during the year ended December 31, 2020 related the forgiveness of certain intercompany balances.

The Company is required to provide various forms of financial assurance in support of its mining reclamation obligations in the jurisdictions in which it operates. Such requirements are typically established by statute or under mining permits. At December 31, 2020, the Company’s asset retirement obligations of $38.2 million were supported by surety bonds of $57.9 million. Such surety bonding is secured by Peabody on behalf of the Company.

In connection with the Refinancing Transactions and organizational realignment described in Note 1. “Summary of Significant Accounting Policies,” the Company entered into a management services agreement with Peabody in August 2020. Under the terms of the agreement, Peabody will perform various ongoing support and administrative functions on behalf of the Company in exchange for the incurred cost of such services plus an additional fee of approximately 5%.