PIC AU Holdings LLC

Financial Statements

For the Three and Nine Months Ended
September 30, 2021 and 2020

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PIC AU HOLDINGS LLC

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
Revenues	$ 146,240	$ 97,210	$ 363,123	$ 297,637
Costs and expenses				
Operating costs and expenses (exclusive of items shown separately below)	92,172	90,760	228,195	223,425
Depreciation, depletion and amortization	17,264	15,603	52,363	48,757
Asset retirement obligation expenses	738	636	2,215	1,910
Selling and administrative expenses	927	742	4,512	2,369
Operating profit (loss)	35,139	(10,531)	75,838	21,176
Interest expense	11,602	406	31,351	1,018
Loss on related parties debt extinguishment	—	416,674	—	416,674
Net income (loss) before income taxes	23,537	(427,611)	44,487	(396,516)
Income tax provision	9,931	14,724	21,631	19,951
Net income (loss)	13,606	(442,335)	22,856	(416,467)
Comprehensive income (loss)	13,606	(442,335)	22,856	(416,467)
Comprehensive income (loss) attributable to common stockholders	$ 13,606	$ (442,335)	$ 22,856	$ (416,467)

PIC AU HOLDINGS LLC

UNAUDITED CONSOLIDATED BALANCE SHEETS

	September 30, 2021	December 31, 2020
	$'000	$'000
ASSETS		
Current assets		
Cash and cash equivalents	$ 145,451	$ 107,234
Accounts receivable, net of allowance for credit losses of $0.0 at September 30, 2021	18,342	15,700
Trade and other receivables - intercompany	13,785	32,453
Inventories	34,340	31,356
Other current assets	7,272	10,180
Total current assets	219,190	196,923
Property, plant, equipment and mine development, net	404,984	429,252
Operating lease right-of-use assets	1,662	2,720
Investments and other assets	6,124	900
Total assets	$ 631,960	$ 629,795
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 1,730	$ 95
Accounts payable and accrued expenses	55,631	64,726
Trade and other payables - intercompany	13,908	34,430
Total current liabilities	71,269	99,251
Long-term debt, less current portion	392,544	—
Deferred income taxes	39,366	40,712
Asset retirement obligations	35,337	34,315
Operating lease liabilities, less current portion	306	1,175
Other non-current liabilities	1,307	1,060
Total liabilities	540,129	176,513
Stockholders' equity		
Additional paid-in capital	70,960	455,267
Retained earnings (accumulated deficit)	20,871	(1,985)
PIC AU Holdings LLC stockholders' equity	91,831	453,282
Total stockholders' equity	91,831	453,282
Total liabilities and stockholders' equity	$ 631,960	$ 629,795

PIC AU HOLDINGS LLC
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
Cash Flows From Operating Activities				
Net income (loss)	$ 13,606	$ (442,335)	$ 22,856	$ (416,467)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation, depletion and amortization	17,264	15,603	52,363	48,757
Noncash interest expense	900	15	2,286	35
Net gain on disposal or exchange of assets	—	83	—	83
Net unrealized foreign exchange (gains) losses	2,304	29,343	254	23,463
Asset retirement obligation expenses	738	636	2,215	1,910
Noncash interest on related parties debt extinguishment	—	416,674	—	416,674
Changes in current assets and liabilities:				
Accounts receivable	5,839	(13,611)	(8,268)	(13,365)
Inventories	4,728	(6,722)	(4,847)	(5,749)
Current tax liabilities	(5,692)	17,200	2,740	22,427
Deferred tax liability	3,692	(7,640)	(1,346)	(7,640)
Accounts payable and accrued expenses	5,176	1,199	(5,450)	(3,226)
Cash collateral arrangements	—	—	(5,295)	—
Net cash provided by operating activities	48,555	10,445	57,508	66,902
Cash Flows From Investing Activities				
Additions to property, plant, equipment and mine development	(4,664)	(4,979)	(17,937)	(16,151)
Net cash used in investing activities	(4,664)	(4,979)	(17,937)	(16,151)
Cash Flows From Financing Activities				
Proceeds from long-term debt	—	—	399,884	—
Distribution to related parties	—	—	(399,884)	—
Funds received from related parties	—	61,795	—	20,649
Payment of finance lease obligations	(128)	1,241	(1,354)	(2,898)
Net cash used in financing activities	(128)	63,036	(1,354)	17,751
Net change in cash and cash equivalents	43,763	68,502	38,217	68,502
Cash and cash equivalents at beginning of period	101,688	—	107,234	—
Cash and cash equivalents at end of period	$ 145,451	$ 68,502	$ 145,451	$ 68,502

PIC AU HOLDINGS LLC

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

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

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

	Additional Paid-in Capital	(Accumulated Deficit) Retained Earnings	Total Stockholders' Equity
		$'000	
July 1, 2021	$ 70,960	$ 7,265	$ 78,225
Net income	—	13,606	13,606
September 30, 2021	$ 70,960	$ 20,871	$ 91,831

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

Overview and Basis of Presentation

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements and should be read in conjunction with the consolidated financial statements and notes thereto included in Peabody's Annual Report on Form 10-K for the year ended December 31, 2020. In the opinion of management, these financial statements reflect all normal, recurring adjustments necessary for a fair presentation. Balance sheet information presented herein as of December 31, 2020 has been derived from the Company's audited consolidated balance sheet at that date. The Company's results of operations for the three and nine months ended September 30, 2021 are not necessarily indicative of the results that may be expected for future quarters or for the year ending December 31, 2021.

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

Results of Operations

Non-GAAP Financial Measures

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

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

Three and Nine Months Ended September 30, 2021 Compared to the Three and Nine Months Ended September 30, 2020

Summary

The Company's revenues for the three and nine months ended September 30, 2021 increased from the prior year ($49.0 million and $65.5 million, respectively) primarily due to higher realized prices.

Net income (loss) increased for the three and nine months ended September 30, 2021 compared to the same prior year period ($455.9 million and $439.3 million, respectively) primarily due to the favorable revenue variance described above and the prior year loss on related parties debt extinguishment ($416.7 million in both periods), partially offset by higher interest expense ($11.2 million and $30.3 million, respectively) primarily on the new co-issuer notes and term loan described herein.

Tons Sold, Revenues and Adjusted EBITDA

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

	Three Months Ended September 30,		(Decrease) Increase		Nine Months Ended September 30,		(Decrease) Increase	
	2021	2020	Tons/$	%	2021	2020	Tons/$	%
Tons sold	3,503	3,399	104	3 %	9,697	10,150	(453)	(4)%
Revenues	$146,240	$ 97,210	$ 49,030	50 %	$363,123	$297,637	$ 65,486	22 %
Adjusted EBITDA	56,485	30,741	25,744	84 %	135,192	92,279	42,913	47 %

Net income (loss)

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

	Three Months Ended September 30,		Increase (Decrease) to Income		Nine Months Ended September 30,		Increase (Decrease) to Income	
	2021	2020	$	%	2021	2020	$	%
Adjusted EBITDA [1]	$ 56,485	$ 30,741	$ 25,744	84 %	$135,192	$ 92,279	$ 42,913	47 %
Depreciation, depletion and amortization	(17,264)	(15,603)	(1,661)	(11)%	(52,363)	(48,757)	(3,606)	(7)%
Asset retirement obligation expenses	(738)	(636)	(102)	(16)%	(2,215)	(1,910)	(305)	(16)%
Interest expense	(11,602)	(417,080)	405,478	97 %	(31,351)	(417,692)	386,341	92 %
Foreign exchange gain (loss)	(2,379)	(24,215)	21,836	90 %	(188)	(18,058)	17,870	99 %
Management overhead charges	(965)	(818)	(147)	(18)%	(4,588)	(2,378)	(2,210)	(93)%
Income tax provision	(9,931)	(14,724)	4,793	33 %	(21,631)	(19,951)	(1,680)	(8)%
Net income (loss)	$ 13,606	$(442,335)	$455,941	103 %	$ 22,856	$(416,467)	$439,323	105 %

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

Revenues. The increase in revenues for the three and nine months ended September 30, 2021 compared to the prior year periods was primarily due to higher realized pricing.

Adjusted EBITDA. The increase in Adjusted EBITDA for the three and nine months ended September 30, 2021 compared to the prior year periods primarily resulted from higher net pricing impacts.

Interest expense. The increase in interest expense is attributable to debt issued by the Company during the three and nine months ended September 30, 2021, as further described below. The Company paid cash interest of approximately $10.7 million and $29.1 million during the three and nine months ended September 30, 2021, respectively.

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

Income tax provision. The income tax provision recorded during the three and nine months ended September 30, 2021 was driven by higher revenues and foreign exchange impacts on costs. The Company paid $11.9 million and $20.2 million cash taxes during both the three and nine months ended September 30, 2021, respectively.

Reconciliation of Non-GAAP Financial Measures

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
Net income (loss)	$ 13,606	$ (442,335)	$ 22,856	$ (416,467)
Depreciation, depletion and amortization	17,264	15,603	52,363	48,757
Asset retirement obligation expenses	738	636	2,215	1,910
Interest expense	11,602	406	31,351	1,018
Loss on related parties debt extinguishment	—	416,674	—	416,674
Foreign exchange (gain) loss	2,379	24,215	188	18,058
Management overhead charges	965	818	4,588	2,378
Income tax provision	9,931	14,724	21,631	19,951
Adjusted EBITDA	$ 56,485	$ 30,741	$135,192	$ 92,279

Outlook

Within the global coal industry, supply and demand disruptions were widespread as the COVID-19 pandemic forced country-wide lockdowns and regional restrictions in both 2020 and 2021. Future COVID-19-related developments are unknown, including the duration, severity, scope and the necessary government actions to limit the spread of COVID-19. The global coal industry data for the nine months ended September 30, 2021 presented herein may not be indicative of the ultimate impacts of the COVID-19 pandemic given the various levels of response and unknown duration.

Within the seaborne thermal coal market, a combination of tight supplies and elevated demand have driven Newcastle thermal coal pricing to record levels. China's domestic thermal coal supply remains hampered by heightened safety inspections and mine suspensions, as well as flooding. Thermal electricity generation in China has been strong year-to-date, and the relaxation of China's import controls combined with tight domestic supply has pushed import demand higher. Both India and China are experiencing rolling power outages, as multi-year low stockpile levels and high coal prices are pushing power plants into load shedding. In Europe, gas supply constraints and low wind generation have pushed standby coal plants to resume operation to help supply strong electricity demand. Despite the strong demand, the supply response has been muted, sending thermal coal prices higher. Heavy rains in Indonesia, rail issues in Russia, production issues in Colombia and hampered domestic supply in China have all combined to pressure the global thermal market.

The Company estimates fourth quarter 2021 volume of approximately 4 million tons, of which 2 million is expected to be exported.

The Company estimates fourth quarter capital expenditures of approximately $5 million.

The Company expects to incur approximately $43 million of total interest expense, including approximately $3 million of non-cash interest expense, during the full year 2021.

Included in the income tax provision recorded during the three months ended September 30, 2021 is a current tax liability of approximately $7 million which the Company expects to pay during the quarter ending December 31, 2021.

Liquidity and Capital Resources

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

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

Off-Balance Sheet Arrangements

Australian laws require the Company to provide financial assurances related to requirements to reclaim lands used for mining and to satisfy other miscellaneous obligations. The primary methods used to meet those obligations are to provide a third-party surety bond or provide a letter of credit, which may be provided by Peabody. As of September 30, 2021, the Company indirectly had approximately $38.8 million of outstanding surety bonds to provide required financial assurances for post-mining reclamation and approximately $2.4 million of surety for other obligations and performance guarantees.

Commodity Price Risk

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

Refinancing Transactions

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

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

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

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

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

The Company's and Peabody's debt agreements impose various restrictions and limits on certain categories of payments, such as those for dividends, investments and stock repurchases. The Company and Peabody are also subject to customary affirmative and negative covenants. The Company and Peabody were compliant with all covenants under their respective debt agreements at September 30, 2021.