PIC AU Holdings LLC

Unaudited Financial Statements

For the Three and Twelve Months Ended
December 31, 2021 and 2020

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PIC AU HOLDINGS LLC

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
Revenues	$ 174,406	$ 89,625	$ 537,529	$ 387,262
Costs and expenses				
Operating costs and expenses (exclusive of items shown separately below)	88,881	69,429	317,076	292,854
Depreciation, depletion and amortization	17,524	17,185	69,887	65,942
Asset retirement obligation expenses	738	637	2,953	2,547
Selling and administrative expenses	2,095	714	6,607	3,083
Operating profit	65,168	1,660	141,006	22,836
Interest expense	12,153	708	43,504	1,726
Loss on related parties debt extinguishment	—	—	—	416,674
Net income (loss) before income taxes	53,015	952	97,502	(395,564)
Income tax provision	19,697	1,555	41,328	21,506
Net income (loss)	33,318	(603)	56,174	(417,070)
Comprehensive income (loss)	33,318	(603)	56,174	(417,070)
Comprehensive income (loss) attributable to common stockholders	$ 33,318	$ (603)	$ 56,174	$ (417,070)

PIC AU HOLDINGS LLC

UNAUDITED CONSOLIDATED BALANCE SHEETS

	December 31, 2021	December 31, 2020
	$'000	$'000
ASSETS		
Current assets		
Cash and cash equivalents	$ 206,648	$ 107,234
Accounts receivable, net of allowance for credit losses of $0.0 at December 31, 2021	21,505	15,700
Trade and other receivables - intercompany	11,461	32,453
Inventories	38,630	31,356
Other current assets	6,716	10,180
Total current assets	284,960	196,923
Property, plant, equipment and mine development, net	385,616	429,252
Operating lease right-of-use assets	1,291	2,720
Investments and other assets	7,459	900
Total assets	$ 679,326	$ 629,795
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 1,817	$ 95
Accounts payable and accrued expenses	58,207	64,726
Trade and other payables - intercompany	28,567	34,430
Total current liabilities	88,591	99,251
Long-term debt, less current portion	393,121	—
Deferred income taxes	38,235	40,712
Asset retirement obligations	32,874	34,315
Operating lease liabilities, less current portion	—	1,175
Other non-current liabilities	1,356	1,060
Total liabilities	554,177	176,513
Stockholders' equity		
Additional paid-in capital	70,960	455,267
Retained earnings (accumulated deficit)	54,189	(1,985)
PIC AU Holdings LLC stockholders' equity	125,149	453,282
Total stockholders' equity	125,149	453,282
Total liabilities and stockholders' equity	$ 679,326	$ 629,795

PIC AU HOLDINGS LLC

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
Cash Flows From Operating Activities				
Net income (loss)	$ 33,318	$ (603)	$ 56,174	$ (417,070)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation, depletion and amortization	17,524	17,185	69,887	65,942
Noncash interest expense	1,727	—	4,013	—
Net loss on disposal or exchange of assets	78	14	78	97
Net unrealized foreign exchange gains	(988)	(23,463)	(734)	—
Asset retirement obligation expenses	738	637	2,953	2,547
Noncash interest on related parties debt extinguishment	—	—	—	416,674
Changes in current assets and liabilities:				
Accounts receivable	4,882	(3,508)	(3,386)	(16,873)
Inventories	(3,877)	(998)	(8,724)	(6,747)
Current tax liabilities	14,028	8,919	16,768	31,346
Deferred tax liability	(1,131)	(2,200)	(2,477)	(9,839)
Accounts payable and accrued expenses	(1,267)	8,443	(6,717)	5,217
Cash collateral arrangements	(1,281)	—	(6,576)	—
Net cash provided by operating activities	63,751	4,426	121,259	71,294
Cash Flows From Investing Activities				
Additions to property, plant, equipment and mine development	(2,085)	(6,273)	(20,022)	(22,424)
Proceeds from disposal of assets, net of receivables	—	(10)	—	(10)
Net cash used in investing activities	(2,085)	(6,283)	(20,022)	(22,434)
Cash Flows From Financing Activities				
Proceeds from long-term debt	—	—	399,884	—
Distribution to related parties	—	—	(399,884)	—
Funds received from related parties	—	40,660	—	61,309
Payment of finance lease obligations	(469)	(71)	(1,823)	(2,935)
Net cash (used in) /provided by financing activities	(469)	40,589	(1,823)	58,374
Net change in cash and cash equivalents	61,197	38,732	99,414	107,234
Cash and cash equivalents at beginning of period	145,451	68,502	107,234	—
Cash and cash equivalents at end of period	$ 206,648	$ 107,234	$ 206,648	$ 107,234

PIC AU HOLDINGS LLC

UNAUDITED SUPPLEMENTARY CONSOLIDATED STATEMENT OF CASH FLOWS

		Six Months Ended December 31, 2021
		$'000
Cash Flows From Operating Activities		
Net income	$	46,924
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization		34,788
Noncash interest expense		2,627
Net loss on disposal or exchange of assets		78
Net unrealized foreign exchange losses		1,316
Asset retirement obligation expenses		1,476
Changes in current assets and liabilities:		
Accounts receivable		10,720
Inventories		852
Current tax liabilities		8,336
Deferred tax liability		2,561
Accounts payable and accrued expenses		3,909
Cash collateral arrangements		(1,281)
Net cash provided by operating activities		112,306
Cash Flows From Investing Activities		
Additions to property, plant, equipment and mine development		(6,749)
Net cash used in investing activities		(6,749)
Cash Flows From Financing Activities		
Payment of finance lease obligations		(597)
Net cash used in financing activities		(597)
Net change in cash and cash equivalents		104,960
Cash and cash equivalents at beginning of period		101,688
Cash and cash equivalents at end of period	$	206,648

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	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

	Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
		$'000	
October 1, 2021	$ 70,960	$ 20,871	$ 91,831
Net income	—	33,318	33,318
December 31, 2021	$ 70,960	$ 54,189	$ 125,149

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. Financial statement information presented herein as of December 31, 2020 and for the year then ended has been derived from the Company's audited consolidated financial statements for the year ended December 31, 2020. The Company's results of operations for the three and twelve months ended December 31, 2021 are not necessarily indicative of the results that may be expected for future quarters.

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 Twelve Months Ended December 31, 2021 Compared to the Three and Twelve Months Ended December 31, 2020

Summary

The Company's revenues for the three and twelve months ended December 31, 2021 increased from the prior year ($78.6 million and $147.3 million, respectively) primarily due to higher realized prices.

Net income increased for the three and twelve months ended December 31, 2021 compared to the same prior year period ($33.9 million and $473.2 million, respectively) primarily due to the favorable net revenue described above and the prior year loss on related parties debt extinguishment ($416.7 million), partially offset by higher interest expense ($11.4 million and $41.8 million, respectively) relating to the new co-issuer notes and term loan described herein.

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

The following table presents tons sold, net coal sales revenue, net operating costs and expenses, and Adjusted EBITDA for the Company (in thousands). Net revenues and net operating costs and expenses below have been adjusted compared to the Statements of Operations to exclude transactions with other Peabody mines to purchase or sell coal required for blending purposes in the normal course of business totaling $6.2 million and $10.4 million for the three and twelve months ended December 31, 2021, respectively. The twelve months ended December 31, 2020, has also been adjusted by $7.5 million. Net operating costs and expenses have also been adjusted to remove the impacts of foreign exchange gains/losses. The net revenues, net operating costs and expenses, and tons sold presented below reflect sales of Wilpinjong production to third parties and associated costs to produce.

	Three Months Ended December 31,		(Decrease) Increase		Twelve Months Ended December 31,		(Decrease) Increase	
	2021	2020	Tons/$	%	2021	2020	Tons/$	%
Tons sold	3,515	3,630	(115)	(3)%	13,212	13,780	(568)	(4)%
Net coal sales revenue	168,226	89,625	78,601	88 %	527,081	379,759	147,322	39 %
Net operating costs and expenses	83,468	68,908	14,560	21 %	307,206	266,772	40,434	15 %
Adjusted EBITDA	84,632	20,450	64,182	314 %	219,248	112,720	106,528	95 %

Net income (loss)

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

	Three Months Ended December 31,		Increase (Decrease) to Income		Twelve Months Ended December 31,		Increase (Decrease) to Income	
	2021	2020	$	%	2021	2020	$	%
Adjusted EBITDA [(1)]	$ 84,632	$ 20,450	$ 64,182	314 %	$219,248	$ 112,720	$106,528	95 %
Depreciation, depletion and amortization	(17,524)	(17,185)	(339)	(2)%	(69,887)	(65,942)	(3,945)	(6)%
Asset retirement obligation expenses	(738)	(637)	(101)	(16)%	(2,953)	(2,547)	(406)	(16)%
Interest expense	(12,153)	(708)	(11,445)	(1,617)%	(43,504)	(418,400)	374,896	90 %
Foreign exchange gain (loss)	767	(521)	1,288	247 %	579	(18,579)	19,158	103 %
Management overhead charges	(1,969)	(447)	(1,522)	(340)%	(5,981)	(2,816)	(3,165)	(112)%
Income tax provision	(19,697)	(1,555)	(18,142)	(1167)%	(41,328)	(21,506)	(19,822)	(92)%
Net income (loss)	$ 33,318	$ (603)	$ 33,921	5625 %	$ 56,174	$(417,070)	$473,244	113 %

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

Net coal sales revenue. The increase in revenues for the three and twelve months ended December 31, 2021 compared to the prior year periods was primarily due to higher realized pricing.

Adjusted EBITDA. The increase in Adjusted EBITDA for the three months ended December 31, 2021 compared to the prior year period primarily resulted from higher net pricing impacts offset by cost increases. The cost increases were primarily due to heavy rainfall and COVID-related staffing shortages. The increase in Adjusted EBITDA for the twelve months ended December 31, 2021 compared to the prior period 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 twelve months ended December 31, 2021, as further described below. The Company paid cash interest of approximately $10.4 million and $39.5 million during the three and twelve months ended December 31, 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 twelve months ended December 31, 2021.

Income tax provision. The income tax provision recorded during the three and twelve months ended December 31, 2021 was driven by higher revenues and foreign exchange impacts on costs. The Company paid $6.8 million and $27.0 million cash taxes during both the three and twelve months ended December 31, 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 December 31,		Twelve Months Ended December 31,	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
Net income (loss)	$ 33,318	$ (603)	$ 56,174	$ (417,070)
Depreciation, depletion and amortization	17,524	17,185	69,887	65,942
Asset retirement obligation expenses	738	637	2,953	2,547
Interest expense	12,153	708	43,504	1,726
Loss on related parties debt extinguishment	—	—	—	416,674
Foreign exchange (gain) loss	(767)	521	(579)	18,579
Management overhead charges	1,969	447	5,981	2,816
Income tax provision	19,697	1,555	41,328	21,506
Adjusted EBITDA	$ 84,632	$ 20,450	$219,248	$ 112,720

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 twelve months ended December 31, 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, Newcastle thermal coal prices remained elevated for the year ended December 31, 2021, compared to the prior year, driven by a combination of tight supplies and elevated demand. China's domestic thermal coal supply was hampered by heightened safety inspections and mine suspensions through much of the year. Thermal electricity generation in China was strong for the year ended December 31, 2021, and the relaxation of China's import controls combined with tight domestic supply pushed import demand higher for the year. In Europe, gas supply constraints have pushed standby coal plants to resume operation to help supply strong electricity demand. Despite the strong demand, the supply response has been muted from key exporters such as Australia, Colombia and South Africa, keeping thermal coal prices elevated.

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

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

The Company expects to incur approximately $44 million of total interest expense, including approximately $4 million of non-cash interest expense, during the full year 2022 (assuming no principal debt reductions).

Included in the income tax provision recorded during the three months ended December 31, 2021 is a current tax liability of approximately $21 million which the Company expects to pay during the quarter ending March 31, 2022.

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 December 31, 2021, the Company indirectly had approximately $39.1 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 December 31, 2021.

The 2024 Co-Issuer notes and term loan are subject to mandatory prepayment offers at the end of each six-month period whereby the Excess Cash Flow (as defined in the 2024 Co-Issuer Notes Indenture) generated by the Company during each such period may be applied to the principal of the 2024 Co-Issuer Notes and the Co-Issuer Term Loans on a pro rata basis, provided that the liquidity attributable to the Co-Issuers would not fall below $60.0 million. Such offer may be accepted or declined at the option of the debt holders. Based upon the Company's results for the six-month period ended December 31, 2021, an offer of approximately $106 million is expected to be made during the first quarter of 2022. There was no offer made with respect to the six-month period ended June 30, 2021.