PIC AU Holdings LLC

Financial Statements

For the year ended
December 31, 2021 and 2020

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Business Overview

Overview

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 coal is sold into domestic and export markets, primarily for electricity generation. In 2021, the Mine produced and sold 13.2 million tons of coal. In 2020, the Mine produced 14.2 million tons of coal and sold 13.8 million tons.

Coal Supply Agreements

Customers. During the year ended December 31, 2021, 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 Pacific 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.

For the year ended December 31, 2021, the Company derived 99% of its revenues from coal supply agreements with three customers. The Company’s largest customer in 2021, a Peabody subsidiary marketing agent, contributed revenue of approximately $289 million, or approximately 54% of the Company’s total revenues from coal supply agreements.

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 sound 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, 2021. 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 in 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 the Company’s 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 imposed by the Government.

Demand for thermal coal products is impacted by economic conditions; demand for electricity, which is impacted by energy efficient products; and the cost of electricity generation from coal and alternative forms of generation. Regulatory policies and environmental, social and governance considerations can also have an impact on generation choices and coal consumption. 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 fuel sources 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.

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 and Resources

The Company controlled an estimated 76 million tons of proven and probable coal reserves as of December 31, 2021, all of which are in New South Wales, Australia.

Information concerning the Company's mining properties in this report has been prepared in accordance with the requirements of subpart 1300 of Regulation S-K, which first became applicable to the Company for the year ended December 31, 2021. These requirements differ significantly from the previously applicable disclosure requirements of SEC Industry Guide 7. Among other differences, subpart 1300 of Regulation S-K requires disclosure of mineral resources, in addition to mineral reserves, as of December 31, 2021. The Company's coal reserves and resources are estimated by individuals deemed Qualified Persons (QP) according to the standards set forth in subpart 1300 of Regulation S-K.

Mineral resources and reserves are defined in subpart 1300 of Regulation S-K as follows:

- *Mineral resource.* A concentration or occurrence of material of economic interest in or on the earth's crust in such form, grade or quality, and quantity that there are reasonable prospects for economic extraction. A mineral resource is a reasonable estimate of mineralization, taking into account relevant factors such as cut-off grade, likely mining dimensions, location or continuity, that, with the assumed and justifiable technical and economic conditions, is likely to, in whole or in part, become economically extractable. It is not merely an inventory of all mineralization drilled or sampled.

- *Mineral reserve.* An estimate of tonnage and grade or quality of indicated and measured mineral resources that, in the opinion of a QP, can be the basis of an economically viable project. More specifically, it is the economically mineable part of a measured or indicated mineral resource, which includes diluting materials and allowances for losses that may occur when the material is mined or extracted.

Under subpart 1300 of Regulation S-K, mineral resources may not be classified as mineral reserves unless the determination has been made by a QP that such mineral resources can be the basis of an economically viable project. The conversion of reported mineral resources to mineral reserves should not be assumed.

Coal resources are estimated from geological models constructed from an extensive historical database of drill holes and the Company's ongoing drilling program. Data from individual drill holes is compiled in a computerized drill-hole database, including the depth, thickness and, where core drilling is used, the quality of the coal observed. For coal deposits, the density of a drill pattern is one of the important factors which determine whether the related coal will be classified as measured, indicated, or inferred.

Mineral resource classifications are differentiated under subpart 1300 of Regulation S-K, in part, as follows:

- *Measured resource*. That part of a mineral resource with the highest level of geological confidence; quantity and grade or quality are estimated on the basis of conclusive geological evidence and sampling. The level of geological certainty associated with a measured mineral resource is sufficient to allow a qualified person to apply modifying factors in sufficient detail to support detailed mine planning and final evaluation of the economic viability of the deposit.

- *Indicated resource.* That part of a mineral resource with a level of geological confidence between that of measured and inferred resources; quantity and grade or quality are estimated on the basis of adequate geological evidence and sampling. The level of geological certainty associated with an indicated mineral resource is sufficient to allow a qualified person to apply modifying factors in sufficient detail to support mine planning and evaluation of the economic viability of the deposit.

- *Inferred resource*. That part of a mineral resource with the lowest level of geological confidence; quantity and grade or quality are estimated on the basis of limited geological evidence and sampling. The level of geological uncertainty associated with an inferred mineral resource is too high to apply relevant technical and economic factors likely to influence the prospects of economic extraction in a manner useful for evaluation of economic viability.

The geological confidence surrounding resource classification is first determined by a drill hole spacing analysis performed by a QP using geostatistical techniques. A QP may also use qualitative analysis to determine the geologic confidence based on historical experience with a specific coal deposit. Resources are further evaluated using a set of structure and quality parameters to determine the reasonable prospects for economic extraction. The structure parameters include coal thickness, depth, dipping angle, and strip ratio, among others. The quality parameters include ash and sulfur content, yield, and heat value, among others. Each coal deposit is different with respect to geology, potential mining methods, logistics, and markets. The cut-off criteria of those structure and quality parameters are different for each deposit, and a QP generally forms those criteria based upon experience with the Company's existing mining operations or adjacent operations with similar geological conditions. Other factors, such as coal control, or surface and underground obstacles are also considered in connection with resource estimates. The reclassification of reported mineral resources from lower to higher levels of geological confidence should not be assumed.

The economically mineable part of a measured coal resource is considered a proven coal reserve and has the highest degree of assurance of economic viability. The economically mineable part of an indicated coal resource is considered a probable coal reserve and has a moderate degree of assurance of economic viability.

The Company develops Life-of-Mine (LOM) plans which employ a market-driven, risk-adjusted capital allocation process to guide long-term mine planning of active operations and development projects. QPs rely on LOM planning as an integral process for coal reserve and resource estimates. The LOM plans consider dilution and losses during mining and processing as recoverability factors to estimate saleable coal. The LOM plans are developed in consideration of market demands and operational constraints. The LOM plans project, among other things, annual quantities and qualities for each coal product. The saleable product mix for a mine may include multiple thermal and metallurgical products with different targeted qualities and sales prices. The expected volumes for each mine 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 viable coal in the LOM plans. Other 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 Company periodically reviews and updates coal reserve and resource estimates to reflect the production of coal, new drill hole data, the effects of mining activities, analysis of new engineering and geological data, changes in property control, modification of mining methods and other factors.

Mineral Rights

All of the Company's Australian coal reserves consist of thermal coal and mining and exploration is 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, 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.

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.

Summary of Coal Reserves and Resources

The tables below present Wilpinjong Mine's estimated coal reserves and resources at December 31, 2021, along with comparative quantities of coal reserves at December 31, 2020. These reserve and resource estimates were supported by the analyses of 1,271 total drill holes within the coal lease area. Coal resources are reported exclusive of coal reserves. The quantity of coal reserves are estimated on a saleable product basis and coal resources are estimated on an *in situ* basis. All of the Company's coal reserves and resources are thermal coal and held under lease from the New South Wales government. The mine utilizes surface mining extraction methods. Coal reserves and resources are reported on selected key quality parameters on an air-dried basis. For further information regarding the reserves and resources of Wilpinjong Mine, refer to Peabody's Annual Report on Form 10-K as filed with the United States Securities and Exchange Commission on February 18, 2022.

WILPINJONG MINE - SUMMARY OF RESERVES AND RESOURCES [1]

(Tons in millions)

	December 31, 2021					December 31, 2020
Coal Reserves [5][6]	Tons	%Ash	%Sulfur	Kcal/kg	% Mine Yield[7]	Tons
Proven	71	24.3	0.5	5,940	81%	91
Probable	5	29.7	0.4	5,478	95%	2
Total	76					93
Year-over-year decrease	-18%					

	December 31, 2021			
Coal Resources [2][3][4]	Tons	%Ash	%Sulfur	Kcal/kg
Measured	103	23.0	0.5	6,042
Indicated	25	25.4	0.5	5,851
Measured and indicated	128	23.5	0.5	6,004
Inferred	6	27.3	0.5	5,707
Total	134			

The year-over-year decrease in the quantity of coal reserves was mostly driven by production depletion.

(1) Economic recoverability is based upon product-specific estimated average sales prices per tonne of $39.18 to $47.98 for the five-year period ending December 31, 2026 and assumed escalation of 2.5% to 3.0% per annum during the subsequent period through the end of the LOM plan.

(2) The quality of coal resources is in situ on an air-dry basis.

(3) The quantity of coal resource estimate is on in situ basis which does not take into consideration coal loss during mining and processing.

(4) Besides the results from drill hole analyses, the raw ash is a key quality parameter that is relevant to both the cut-off grade and metallurgical recovery. The resource is limited by a maximum of 50% raw ash (air-dry basis). Due to the relatively consistent coal thickness and shallow depth, no other geological limiting factors are applied except for the known geological anomalies such as paleochannels and igneous intrusion.

(5) The quality of coal reserves is based on an air-dry basis. It is the laboratory results from the core samples with adjustments that reflect the reconciliation results from actual production.

(6) The quantity of coal reserves estimate is on the saleable product basis which takes into consideration of mining and processing loss. The economic results from the LOM planning process demonstrate the economic viability of the coal reserve estimate.

(7) Mine 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

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, 2021 Compared to the Year Ended December 31, 2020

Summary

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

Net income increased for the year ended December 31, 2021 compared to the same prior year period ($473.2 million) primarily due to the favorable revenue variance described above as well as the related party debt extinguishment ($416.7 million) in the prior year period, partially offset by higher interest expense ($41.8 million) relating to the new co-issuer notes and term loan described herein.

Tons Sold, Revenues and Adjusted EBITDA

The following table presents tons sold, net coal sales revenue, net operating costs and expenses, and Adjusted EBITDA for the Company (in thousands). In order to exclude transactions with other Peabody mines to purchase or sell coal required for blending purposes in the normal course of business, net coal sales revenue and net operating costs, as shown below, have each been adjusted by $10.4 million and $7.5 million, compared to the corresponding amounts in the accompanying statements of operations, for the years ended December 31, 2021 and 2020, respectively. 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.

	Year Ended December 31,		(Decrease) Increase	
	2021	2020	Tons/$	%
	$'000	$'000	$'000	
Tons sold	13,212	13,780	(568)	(4)%
Net coal sales revenue	527,081	379,759	147,322	39 %
Net operating costs and expenses	307,206	266,772	40,434	15 %
Adjusted EBITDA	219,248	112,720	106,528	95 %

Net income (loss)

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

	Year Ended December 31,		Increase (Decrease)	
	2021	2020	$	%
	$'000	$'000	$'000	
Adjusted EBITDA [1]	$ 219,248	$ 112,720	$ 106,528	95 %
Depreciation, depletion and amortization	(69,887)	(65,942)	(3,945)	(6)%
Asset retirement obligation expenses	(2,953)	(2,547)	(406)	(16)%
Interest expense	(43,504)	(1,726)	(41,778)	(2421)%
Loss on related parties debt extinguishment	—	(416,674)	416,674	100 %
Foreign exchange gain/(loss)	579	(18,579)	19,158	103 %
Management overhead charges	(5,981)	(2,816)	(3,165)	(112)%
Income tax provision	(41,328)	(21,506)	(19,822)	(92)%
Net income (loss)	$ 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" section below for definitions and reconciliations to the most comparable measures under U.S. GAAP.

Net coal sale revenues: The increase in revenues for the year ended December 31, 2021 compared to the prior year was primarily due to higher realized pricing.

Adjusted EBITDA. The increase in Adjusted EBITDA for the year 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.

Interest expense. The increase in interest expense is attributable to debt issued by the Company during the year ended December 31, 2021, as further described below. The Company paid cash interest of approximately $39.5 million during the year ended December 31, 2021.

Loss on related parties debt extinguishment: In August of 2020, the Mine recorded a loss on the extinguishment of its net intercompany receivable from its affiliates in connection with the Organizational Realignment.

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 year ended December 31, 2021.

Income tax provision. The income tax provision recorded during the year ended December 31, 2021 was driven by higher revenues and foreign exchange impacts on costs. The Company paid $27.0 million cash taxes during the year ended December 31, 2021.

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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, foreign exchange, management overhead charges, 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:

	Year Ended December 31,	
	2021	2020
	$'000	$'000
Net income (loss)	$ 56,174	$ (417,070)
Depreciation, depletion and amortization	69,887	65,942
Asset retirement obligation expenses	2,953	2,547
Interest expense	43,504	1,726
Loss on related parties debt extinguishment	—	416,674
Foreign exchange (gain) loss	(579)	18,579
Management overhead charges	5,981	2,816
Income tax provision	41,328	21,506
Adjusted EBITDA	$ 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 year 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 12-14 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).

Liquidity and Capital Resources

Liquidity

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.

Indebtedness

The Company's total funded indebtedness (Indebtedness) as of December 31, 2021 and 2020 is presented in the table presented in Note 8 Long Term Debt.

Refinancing Transactions

Organizational Realignment

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.

Refinancing Transactions

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 prepayments may be accepted or declined at the option of the debt holders. Based upon the Company's results for the six-month period ended December 31, 2021, a total offer to prepay $105.6 million of principal was made on a pro rata basis in February 2022, including $51.2 million of the Co-Issuer Notes and $54.4 million of the Co-Issuer Term Loan. The offer for the Co-Issuer Notes expired March 14, 2022. The Company prepaid $17.2 million of principal under the now-expired Co-Issuer Term Loan offer, which is reflected within the "Current portion of long-term debt" in the accompanying consolidated balance sheet as of December 31, 2021. There was no prepayment offer made with respect to the six-month period ended June 30, 2021.

Capital Requirements

The Company estimates 2022 capital expenditures of approximately $20 million to $25 million, which includes approximately $1.8 million for an ongoing extension project.

Financial Assurances

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.

The Company estimates 2022 thermal coal sales volumes of 12-14 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.

Ernst & Young LLP
Suite 2600
7676 Forsyth Boulevard
St. Louis, MO 63105

Tel: +1 314 290 1000
ey.com

Report of Independent Auditors

Audit Committee
PIC AU Holdings LLC

Opinion

We have audited the consolidated financial statements of PIC AU Holdings LLC (the Company), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations, changes in member's equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information

Management is responsible for the other information. The other information comprises the Business Overview and Management's Discussion and Analysis of Financial Condition and Results of Operations but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Ernst + Young LLP

March 30, 2022

PIC AU HOLDINGS LLC
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	2021	2020
	$'000	$'000
Revenues	$ 537,529	$ 387,262
Costs and expenses		
Operating costs and expenses (exclusive of items shown separately below)	317,076	292,854
Depreciation, depletion and amortization	69,887	65,942
Asset retirement obligation expenses	2,953	2,547
Selling and administrative expenses	6,607	3,083
Operating profit	141,006	22,836
Interest expense	43,504	1,726
Loss on affiliates debt extinguishment	—	416,674
Net income (loss) before income taxes	97,502	(395,564)
Income tax provision	41,328	21,506
Net income (loss)	56,174	(417,070)

See accompanying notes to the consolidated financial statements

PIC AU HOLDINGS LLC
CONSOLIDATED BALANCE SHEETS

	Year Ended December 31,			
	2021		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 and 2020		21,505		15,700
Receivables from affiliates		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 MEMBER'S EQUITY				
Current liabilities				
Current portion of long-term debt	$	19,017	$	95
Accounts payable and accrued expenses		58,207		64,726
Payables to affiliates		28,567		34,430
Total current liabilities		105,791		99,251
Long-term debt, less current portion		375,921		—
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
Member's equity		125,149		453,282
Total liabilities and member's equity	$	679,326	$	629,795

See accompanying notes to the consolidated financial statements

PIC AU HOLDINGS LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2021 $'000	Year Ended December 31, 2020 $'000
Cash Flows From Operating Activities		
Net income (loss)	$ 56,174	$ (417,070)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	69,887	65,942
Noncash interest expense	3,189	—
Deferred income taxes	(2,477)	(9,839)
Net loss on disposal or exchange of assets	78	97
Loss on affiliates debt extinguishment	—	416,674
Changes in current assets and liabilities:		
Accounts receivable	(5,805)	(16,873)
Inventories	(7,274)	(6,747)
Other current assets	3,464	—
Accounts payable and accrued expenses	(5,969)	38,597
Transactions with affiliates	14,107	—
Collateral arrangements	(6,559)	—
Asset retirement obligation expenses	2,444	513
Net cash provided by operating activities	121,259	71,294
Cash Flows From Investing Activities		
Additions to property, plant, equipment and mine development	(20,022)	(22,434)
Net cash used in investing activities	(20,022)	(22,434)
Cash Flows From Financing Activities		
Proceeds from long-term debt, net of issuance costs	399,884	—
Payment of debt issuance costs	(15,577)	—
Distribution to affiliates	(384,307)	—
Payments on finance lease obligations	(1,823)	(2,935)
Funds received from affiliates	—	61,309
Net cash (used in) provided by financing activities	(1,823)	58,374
Net change in cash and cash equivalents	99,414	107,234
Cash, cash equivalents at beginning of period	107,234	—
Cash, cash equivalents at end of period	$ 206,648	$ 107,234

See accompanying notes to the consolidated financial statements

PIC AU HOLDINGS LLC

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBER'S EQUITY

	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Class A Member's Equity	Total Stockholders' or Member's Equity
		$'000		
January 1, 2020	$ 495,016	$ 375,335	$ —	$ 870,351
Net loss prior to formation of PIC AU Holdings LLC	—	(415,084)	—	(415,084)
Formation of PIC AU Holdings LLC	(495,016)	39,749	455,267	—
Net loss after formation of PIC AU Holdings LLC	—	—	(1,985)	(1,985)
December 31, 2020	—	—	453,282	453,282
Distribution to affiliates	—	—	(384,307)	(384,307)
Net income	—	—	56,174	56,174
December 31, 2021	$ —	$ —	$ 125,149	$ 125,149

See accompanying notes to the consolidated financial statements

PIC AU HOLDINGS LLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of PIC AU Holdings LLC and its subsidiaries PIC Acquisition Corp. and Wilpinjong Coal Pty Ltd (the Mine). The Company is a wholly-owned subsidiary of Peabody Energy Corporation (Peabody). The Company is used interchangeably to refer to PIC AU Holdings LLC, to PIC AU Holdings LLC and its subsidiaries, or to such subsidiaries, as appropriate to the context.

In July and August 2020, Peabody Energy Corporation (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 (the Co-Issuers), to own and conduct the operations of Peabody's Wilpinjong Mine (the Mine). Upon formation, the Company issued 100 ordinary shares to its sole member, a wholly-owned subsidiary of Peabody. Peabody contributed its 100% interest in the Mine to the Company in August 2020, which was deemed a transfer among entities under common control and recorded at carrying value. All comparative information presented herein as of December 31, 2020 and for the year then ended reflects the accounts of the Company and its subsidiaries, including the Mine, as if the Organizational Realignment occurred on January 1, 2020. All information presented herein is in U.S. dollars unless otherwise noted.

The Company evaluated subsequent events after the balance sheet date of December 31, 2021 through March 30, 2022, the date the financial statements were issued.

Description of Business

The Mine is engaged in the mining of low-sulfur, high Btu thermal coal in New South Wales, Australia, using surface extraction processes. The coal is sold into domestic and export markets, primarily for electricity generation.

Accounting Standards Not Yet Implemented

Reference Rate Reform. In March 2020, ASU 2020-04 was issued, which provides optional guidance for a limited period of time to ease the potential burden on accounting for contract modifications caused by reference rate reform (including reform of the London Interbank Offered Rate (LIBOR) or other reference rate reform). This guidance is effective for all entities as of March 12, 2020 through December 31, 2022. The guidance may be adopted over time as reference rate reform activities occur and should be applied on a prospective basis. The Company does not expect the guidance to have a material impact on its consolidated financial statements or disclosures.

Leases. In November 2021, ASU 2021-09 was issued, which allows lessees to make an accounting policy election by class of underlying asset, rather than on an entity-wide basis, to use a risk-free rate as the discount rate when measuring and classifying leases. The Company is required to apply the amendments for fiscal years beginning after December 15, 2021 and for interim periods with fiscal years beginning after December 15, 2022. The Company does not expect the guidance to have a material impact on its consolidated financial statements or disclosures.

Government Assistance. In November 2021, ASU 2021-10 was issued, which aims to provide increased transparency by requiring business entities to disclose information about certain types of government assistance they receive in the notes to the financial statements. The guidance is effective for annual periods beginning after December 15, 2021, with early application permitted. The Company does not plan to early adopt the guidance in ASU 2021-10 and the Company does not expect the guidance to have a material impact on its disclosures.

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 $6.3 million of such cash collateral requirements as of December 31, 2021, which is included as a component of "Investments and other assets" in the accompanying consolidated balance sheets.

Accounts Receivable

Accounts receivables are initially recognized at their transaction price and subsequently measured at amortized cost.

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.

An impairment analysis is performed at each reporting date to measure expected credit losses. The provision rate reflects supportable information that is available at the reporting date about past events and current conditions including loss patterns, customer type and coverage by letters of support.

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 resource and reserve volumes expected to be mined (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 coal is sold. Certain agreements also require minimum annual royalties to be paid regardless of the amount of coal sold during the year. Total royalty expense was $27.4 million and $17.8 million for the years ended December 31, 2021 and December 31, 2020, respectively.

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 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's financial statements recognize the current and deferred income tax consequences that result from the Company's activities during the current and preceding periods pursuant to the provisions of Accounting Standards Codification Topic 740, Income Taxes (ASC 740), as if the Company were a separate taxpayer rather than a member of the parent company's consolidated tax group. The Company is a single member limited liability company that is disregarded for U.S. federal tax and under ASU 2019-12 does not allocate the consolidated amount of current and deferred tax expense to the separate financial statements. PIC Acquisition Corp. and PIC AU Holding LLC are members of Peabody Energy Corporation's US consolidated tax group. The Mine is a member of Peabody's Australian Multiple Entry Consolidated (MEC) group.

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 depressed coal prices, absent sufficient mitigation such as offsetting reductions 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 years ended December 31, 2021 and 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 $0.7 million and $19.0 million for the years ended December 31, 2021 and December 31, 2020, respectively.

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.

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 United States of America (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, 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 years ended December 31, 2021 and December 31, 2020, the Company generated revenue of $363.6 million and $242.0 million related to thermal coal sold to export customers respectively, with the balance sold to domestic customers.

Committed Revenue from Contracts with Customers

The Company expects to recognize revenue subsequent to December 31, 2021 of approximately $1,033.0 million related to contracts with customers in which volumes and prices per ton were fixed or reasonably estimable at December 31, 2021. Approximately 27% 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.

Accounts Receivable

Trade receivables, net included no allowance for credit losses as of December 31, 2021 and 2020. Miscellaneous receivables, net included no allowance for credit losses as of both December 31, 2021 and 2020. No charges for credit losses were recognized during the years ended December 31, 2021 and 2020.

	Year Ended December 31,	
	2021	2020
	$'000	$'000
Trade receivables. net	$ 17,661	$ 14,361
Miscellaneous receivables, net	$ 3,844	$ 1,339
Accounts receivable, net	$ 21,505	$ 15,700

(3) Inventories

Inventories as of December 31, 2021 and December 31, 2020 consisted of the following:

	Year Ended December 31,	
	2021	2020
	$'000	$'000
Materials and supplies	$ 12,763	$ 13,472
Raw coal	14,532	14,087
Saleable coal	11,335	3,797
Inventories	$ 38,630	$ 31,356

Materials and supplies inventories presented above are net of immaterial reserve amounts at December 31, 2021 and 2020.

PIC AU HOLDINGS LLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(4) Property, Plant, Equipment and Mine Development

Property, plant, equipment and mine development, net, as of December 31, 2021 and December 31, 2020 consisted of the following:

	Year Ended December 31,	
	2021	2020
	$'000	$'000
Land and coal interests	$ 378,473	$ 383,974
Buildings and improvements	154,426	152,242
Machinery and equipment	160,381	138,038
Less: Accumulated depreciation, depletion and amortization	(307,664)	(245,002)
Property, plant, equipment and mine development, net	$ 385,616	$ 429,252

Land and coal interests presented above include coal reserves with a net book value of $187.1 million for 2021 and $218.0 million for 2020. There are no coal reserves unassigned to active mining operations.

(5) Income Taxes

The Company's total income tax provision of $41.3 million and $21.5 million of for the years ended December 31, 2021 and 2020 consisted of a current provision of $43.6 million and $26.2 million, partially offset by a deferred tax benefit of $2.3 million and $4.7 million, respectively.

The following is a reconciliation of the expected statutory income tax benefit to the Company's income tax provision for the years ended December 31, 2021 and December 31, 2020:

	Year Ended December 31,	
	2021	2020
	$'000	$'000
Expected income tax benefit at US statutory rate	$ 20,475	$ (83,068)
Loss on debt extinguishment	—	87,501
Foreign earnings provision differential	14,157	9,172
Remeasurement of foreign income tax accounts	(2,004)	9,610
Non-deductible losses	8,425	—
Other, net	275	(1,709)
Total income tax provision	$ 41,328	$ 21,506

Included in the income tax provision for the year ended December 31, 2021 is a current tax liability of approximately $21 million, which is included in "Payables to affiliates" in the accompanying consolidated balance sheets. The Company paid the amount during the quarter ending March 31, 2022.

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and liabilities as of December 31, 2021 and December 31, 2020 consisted of the following:

	Year Ended December 31,	
	2021	2020
	$'000	$'000
Deferred tax assets:		
Property, plant, equipment and mine development, principally due to differences in depreciation, depletion and asset impairments	$ 4,683	$ 4,971
Asset retirement obligations	$ 4,711	$ 3,497
Employee benefits	$ 3,387	$ 3,465
Other	$ 258	$ 1,179
Total gross deferred tax assets	$ 13,039	$ 13,112
Valuation allowance	$ (4,683)	$ (4,971)
Total deferred tax assets	$ 8,356	$ 8,141
Deferred tax liabilities:		
Property, plant, equipment and mine development, principally due to differences in depreciation, depletion and asset impairments	$ 40,681	$ 44,278
Investments and other assets	$ 5,910	$ 4,575
Total deferred tax liabilities	$ 46,591	$ 48,853
Net deferred tax liability	$ 38,235	$ 40,712
Deferred taxes are classified as follows:		
Noncurrent deferred income tax asset	$ —	$ —
Noncurrent deferred income tax liability	$ 38,235	$ 40,712
Net deferred tax liability	$ 38,235	$ 40,712

The Company's financial statements recognize the current and deferred income tax consequences that result from the Company's activities during the current and preceding periods pursuant to the provisions of ASC740, as if the Company were a separate taxpayer rather than a member of the parent's consolidated income tax group. The Company is a single member limited liability company that is disregarded for US federal tax and under ASU 2019-12 does not allocate the consolidated amount of current and deferred tax expense to the separate financial statements.

PIC Acquisition Corporation and PIC AU Holding LLC are members of Peabody Energy Corporation's US consolidated tax group. Peabody Energy Corporation's US consolidated tax return for the 2019 and 2020 tax years are subject to potential examinations by the Internal Revenue Services. The Mine is a member of Peabody's Australian Multiple Entry Consolidated (MEC) group. The MEC group's Australian income tax returns for tax years 2013 through 2020 continue to be subject to potential examinations by the Australia Tax Office. The Company had no unrecognized tax benefits as of December 31, 2021 and December 31, 2020. As of December 31, 2021, the Company has unremitted earnings relating to Wilpinjong that are not permanently reinvested due to terms of certain debt agreements. There is no residual cash taxes on the unremitted earnings.

PIC AU HOLDINGS LLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(6) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses as of December 31, 2021 and December 31, 2020 consisted of the following:

	Year Ended December 31,	
	2021	2020
	$'000	$'000
Trade accounts payable	$ 21,591	$ 17,251
Accrued payroll and related benefits	20,115	21,103
Other accrued expenses	8,090	17,796
Accrued royalties	5,123	2,911
Asset retirement obligations	1,924	3,912
Operating lease liabilities	1,364	1,753
Accounts payable and accrued expenses	$ 58,207	$ 64,726
Payables to affiliates	$ 28,567	$ 34,430

(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 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 years ended December 31, 2021 and December 31, 2020 was as follows:

	Year Ended December 31,	
	2021	2020
	$'000	$'000
Operating lease cost:		
Operating leases	$ 1,575	$ 3,091
Short-term leases	1,448	3,081
Variable leases	770	1,413
Total operating lease cost	$ 3,793	$ 7,585
Finance lease cost:		
Amortization of right-of-use assets	$ 2,007	$ 1,207
Interest on lease liabilities	612	38
Total finance lease cost	$ 2,619	$ 1,245

PIC AU HOLDINGS LLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Supplemental balance sheet information related to operating leases as of December 31, 2021 and December 31, 2020 is set forth in the table below.

	Year Ended December 31, 2021 $'000	Year Ended December 31, 2020 $'000
Operating lease right-of-use assets	$ 1,291	$ 2,720
Accounts payable and accrued expenses	$ 1,364	$ 1,753
Operating lease liabilities, less current portion	—	1,175
Total operating lease liabilities	$ 1,364	$ 2,928
Finance leases:		
Property, plant, equipment and mine development	$ 9,915	$ 127
Accumulated depreciation	(1,605)	(3)
Property, plant, equipment and mine development, net	$ 8,310	$ 124
Current portion of long-term debt	$ 1,817	$ 95
Long-term debt, less current portion	6,265	—
Total finance lease liabilities	$ 8,082	$ 95
Weighted average remaining lease term (years)		
Operating leases	0.94	
Finance leases	4.05	
Weighted average discount rate		
Operating leases	4.9 %	
Finance leases	6.5 %	

Supplemental cash flow information related to leases during the years ended December 31, 2021 and December 31, 2020 was as follows:

	Year Ended December 31, 2021 $'000	Year Ended December 31, 2020 $'000
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	1,773	3,123
Operating cash flows for finance leases	612	3
Financing cash flows for finance leases	1,823	2,935
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	298	2,623
Finance leases	12,324	591

The Company's operating leases have remaining lease terms ranging from 1 year to 2 years and the Company's finance leases have remaining lease terms ranging from from 2 years to 5 years. The contractual maturities of the operating lease and finance lease liabilities as at December 31, 2021 were as follows:

	Operating	Finance
	$'000	$'000
Year ending December 31, 2022	$ 1,397	$ 2,286
Year ending December 31, 2023	—	2,284
Year ending December 31, 2024	—	2,227
Year ending December 31, 2025	—	2,227
Year ending December 31, 2026	—	186
2026 and thereafter	—	—
Total lease payments	1,397	9,210
Less imputed interest	(33)	(1,128)
Total lease liabilities	$ 1,364	$ 8,082

(8) Current and Long Term Debt

The Company's total funded indebtedness (Indebtedness) as of December 31, 2021 and December 31, 2020 consisted of the following:

	Year Ended December 31,	
	2021	2020
	$'000	$'000
Senior Secured Term Loan due 2024	$ 206,000	$ —
10.000% Senior Secured Notes Due 2024	193,884	—
Finance lease obligations	8,082	95
Less: Debt issuance costs	(13,028)	—
Balance at December 31, 2021	394,938	95
Less: Current portion of long-term debt	19,017	95
Long-term debt	$ 375,921	$ —

Refinancing Transactions

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. 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 refinancing.

Notes interest is payable on March 31, June 30, September 30 and December 31 of each year. During the year ended December 31, 2021, the Company recorded interest expense of $19.6 million related to the 2024 Co-Issuer Notes.

The Co-Issuers' term loans mature on December 31, 2024 and bear interest at a rate of 10.00% per annum. During the year ended December 31, 2021, the Company recorded interest expense of $20.5 million related to the Co-Issuer Term Loans.

In connection with the refinancing transactions, the Company recorded aggregate debt issuance costs of $16.2 million. A portion of such debt issuance costs were paid by Peabody at the time of the debt-for-debt exchange, and a portion was allocated to the Company from the existing debt issuance costs associated with Peabody's exchanged notes. The debt issuance costs are being amortized to interest expense over the terms of the notes and term loans. During the year ended December 31, 2021, $3.2 million was amortized and included in "Interest expense" in the accompanying consolidated statements of operations.

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 prepayments may be accepted or declined at the option of the debt holders. Based upon the Company's results for the six-month period ended December 31, 2021, a total offer to prepay $105.6 million of principal was made on a pro rata basis in February 2022, including $51.2 million of the Co-Issuer Notes and $54.4 million of the Co-Issuer Term Loan. The offer for the Co-Issuer Notes expired March 14, 2022. The Company prepaid $17.2 million of principal under the now-expired Co-Issuer Term Loan offer, which is reflected within the "Current portion of long-term debt" in the accompanying consolidated balance sheet as of December 31, 2021. There was no prepayment offer made with respect to the six-month period ended June 30, 2021.

(9) Asset Retirement Obligations

Activity related to the Company's asset retirement obligations during the year ended December 31, 2021 and December 31, 2020 was as follows:

	Year Ended December 31,	
	2021	2020
	$'000	$'000
Balance at January 1, 2021	$ 38,227	$ 37,963
Liabilities incurred or acquired	—	—
Liabilities settled or disposed	(2,497)	(2,034)
Accretion expense	2,953	2,547
Revisions to estimates	(3,885)	(249)
Balance at December 31, 2021	$ 34,798	$ 38,227
Less: Current portion (included in "Accounts payable and accrued expenses")	1,924	3,912
Noncurrent obligation (included in "Asset retirement obligations")	$ 32,874	$ 34,315

The credit-adjusted, risk-free interest rate utilized to estimate the Company's asset retirement obligation was 8.78% at December 31, 2021 and 10.45% at December 31, 2020.

As of December 31, 2021, the Company had $39.1 million (2020: $57.9 million) in surety bonds outstanding to secure reclamation obligations.

(10) Management — Labor Relations

On December 31, 2021, the Company had 480 hourly employees. In Australia, the coal mining industry is unionized and 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 labor agreement for Wilpinjong Mine was renegotiated between management, employees and the union during 2021. The current labor has an expiry date of June 2024.

(11) Commitments, Guarantees and Contingencies

Commitments

Unconditional Purchase Obligations

As of December 31, 2021, purchase commitments for capital expenditures were $7.6 million, all of which is obligated in the next five years, with $0.3 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, 2021, commitments under take-or-pay arrangements relating to both the Company and a related Peabody entity totaled $682.1 million, of which approximately $26.0 million is obligated within the next year.

Guarantees

Contingent liabilities of $2.4 million exist at December 31, 2021 in respect of guarantees given by the Company for contractual obligations with certain suppliers for agreements entered into.

At December 31, 2020, the Company had issued a bank guarantee for $38.5 million in connection with a customer coal supply agreement. This bank guarantee was cancelled during July 2021. Under the terms of this 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.

Reclamation Bonding

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, 2021, the Company's asset retirement obligations of $34.8 million were supported by surety bonds of $39.1 million.

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, 2021 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.

(12) Transactions with Affiliates

The Company routinely enters into transactions with Peabody and its other subsidiaries in the normal course of business. The terms of these transactions are generally outlined in agreements executed by Peabody and its subsidiaries. Prior to the Organizational Realignment, the Mine was a subsidiary of Peabody Energy Australia Pty Ltd. (PEA), another wholly-owned subsidiary of Peabody. PEA owns various Peabody mining operations subsidiaries and provides a central treasury function for the group. As a subsidiary of PEA, the Mine's payable and receivable balances resulting from transactions with affiliates were generally cash-settled on a long-term, as-needed basis. The cash flows associated with such settlements were deemed financing activity within the accompanying consolidated statements of cash flows. Subsequent to the Organizational Realignment and debt-for-debt exchange described in Note 1. "Summary of Significant Accounting Policies," the Company typically cash-settles balances with affiliates one month in arrears and settlements are deemed operating activity within the accompanying consolidated statements of cash flows.

PIC AU HOLDINGS LLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following affiliates transactions occurred with the following proprietary limited Peabody entities during the years ended December 31, 2021 and December 31, 2020:

	Year Ended December 31,	
	2021	2020
	$'000	$'000
Sales to affiliates		
Peabody COALSALES Pacific	$ 289,266	$ 207,375
Wambo Coal Pty Ltd	7,105	6,812
	296,371	214,187
Purchases from affiliates		
Peabody COALSALES Pacific	10,071	8,118
Wambo Coal Pty Ltd	10,449	7,811
Peabody Energy Australia Pty Ltd	2,187	20
Peabody Energy Australia Coal	9,158	7,660
Sterling Centennial Missouri Insurance Corp.	1,076	761
	$ 32,941	$ 24,370

Affiliates balances related to the following proprietary limited Peabody entities at December 31, 2021 and December 31, 2020 are presented below. Such balances have not been offset in the accompanying consolidated balance sheets as there is not an enforceable netting arrangement.

	Year Ended December 31,	
	2021	2020
	$'000	$'000
Receivables from affiliates		
Peabody Energy Australia	$ 324	$ 20,980
Peabody COALSALES Pacific	9,915	11,473
Millennium Coal	64	—
Sterling Centennial	1,158	—
	11,461	32,453
Payables to affiliates		
Peabody Australia Mining	3,703	16,647
Peabody Energy Australia Coal	3,063	10,546
Peabody Australia Holdco	20,522	3,921
Millennium Coal	—	2,671
Wambo Coal	640	521
Peabody Pastoral Holdings	—	76
Coppabella and Moorvale Joint Venture	—	48
Sterling Centennial	639	—
	$ 28,567	$ 34,430

During the year ended December 31, 2020, the Company realized a loss of $416.7 million related the forgiveness of certain related party balances in connection with the Organizational Realignment.

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, 2021, the Company's asset retirement obligations of $34.8 million were supported by surety bonds of $39.1 million. Such surety bonding is secured by Peabody on behalf of the Company.

In connection with the Organizational Realignment and debt-for-debt exchange 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 2-5%. The Company recorded $2.5 million for this additional fee during the year ended December 31, 2021.