

A large yellow excavator is shown in the center of the image, positioned on a large pile of dark coal. The excavator's arm is extended, and its bucket is filled with light-colored, crushed rock or coal fines. In the background, there are more piles of coal and a clear blue sky. To the left, a tall metal structure, possibly part of a conveyor system, is visible. The overall scene is an active coal processing or mining site.

Changes in Financial Structure of Coal Companies

Prepared for:

30th Professional Engineers in Mining Seminar
Marriott Griffin Gate Resort, Lexington, Kentucky

September 15, 2017

By: John E. Feddock, P.E.



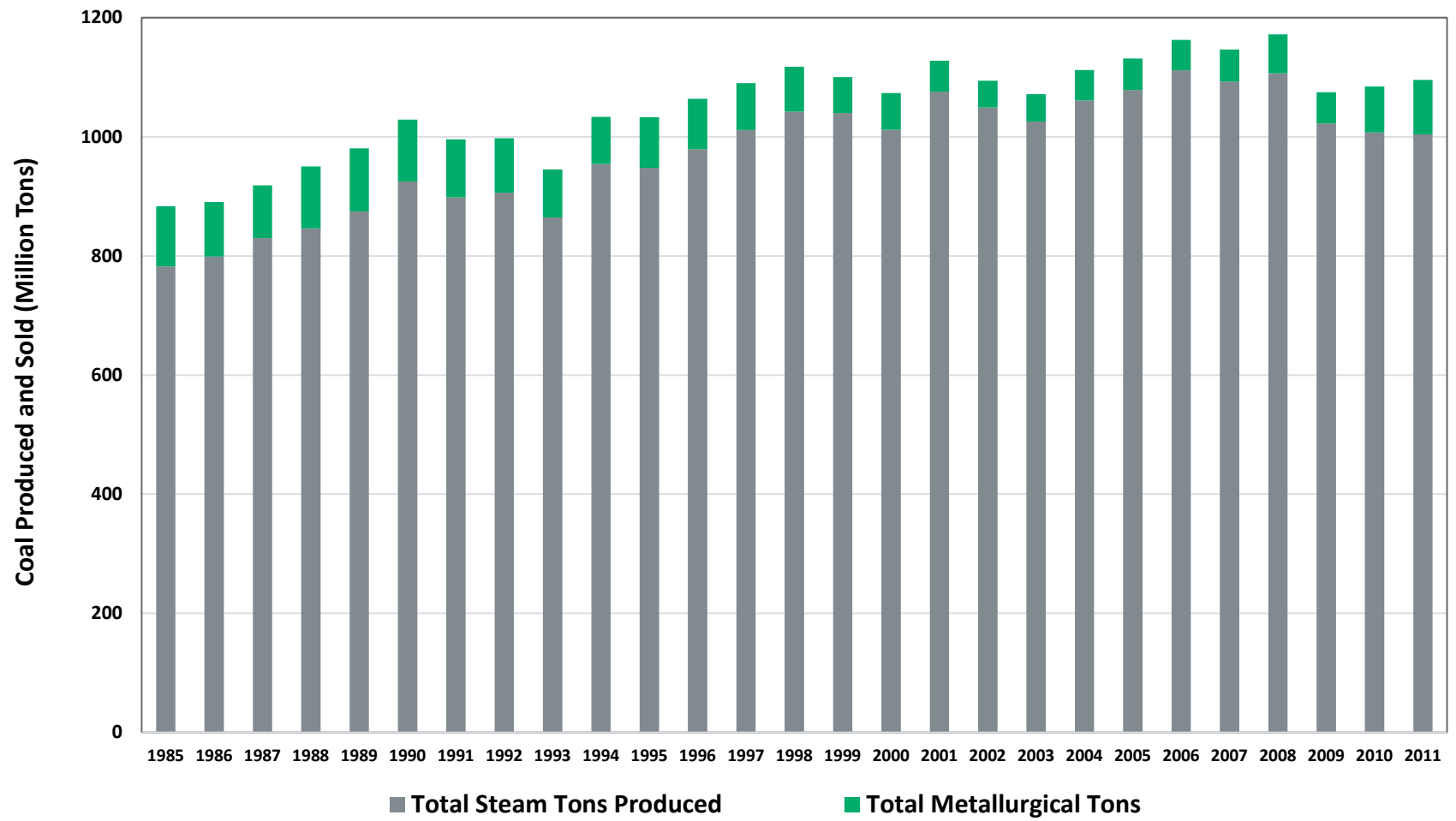
2011 was a Good Year in the Coal Industry

- > The economy and coal markets were booming.
- > There are 45 public coal companies and numerous private coal producers.
- > Delivered prices of steam coal exceed \$68.00 per ton
- > Severe weather in Australia curtails metallurgical coal production.
- > Delivered prices of metallurgical coal rise above an average \$185 per ton.

- > To meet demand, total coal production will top 1.096 billion tons and metallurgical coal production will reach 92 million tons.
- > Encouraged by the up market:
 - > Peabody Energy buys Macarthur Coal, Ltd in the Bowen Basin of Australia.
 - > Alpha Natural Resources absorbs Massey Energy.
 - > Arch Coal buys International Coal Group, Inc.
 - > Other producers buy or acquire assets.

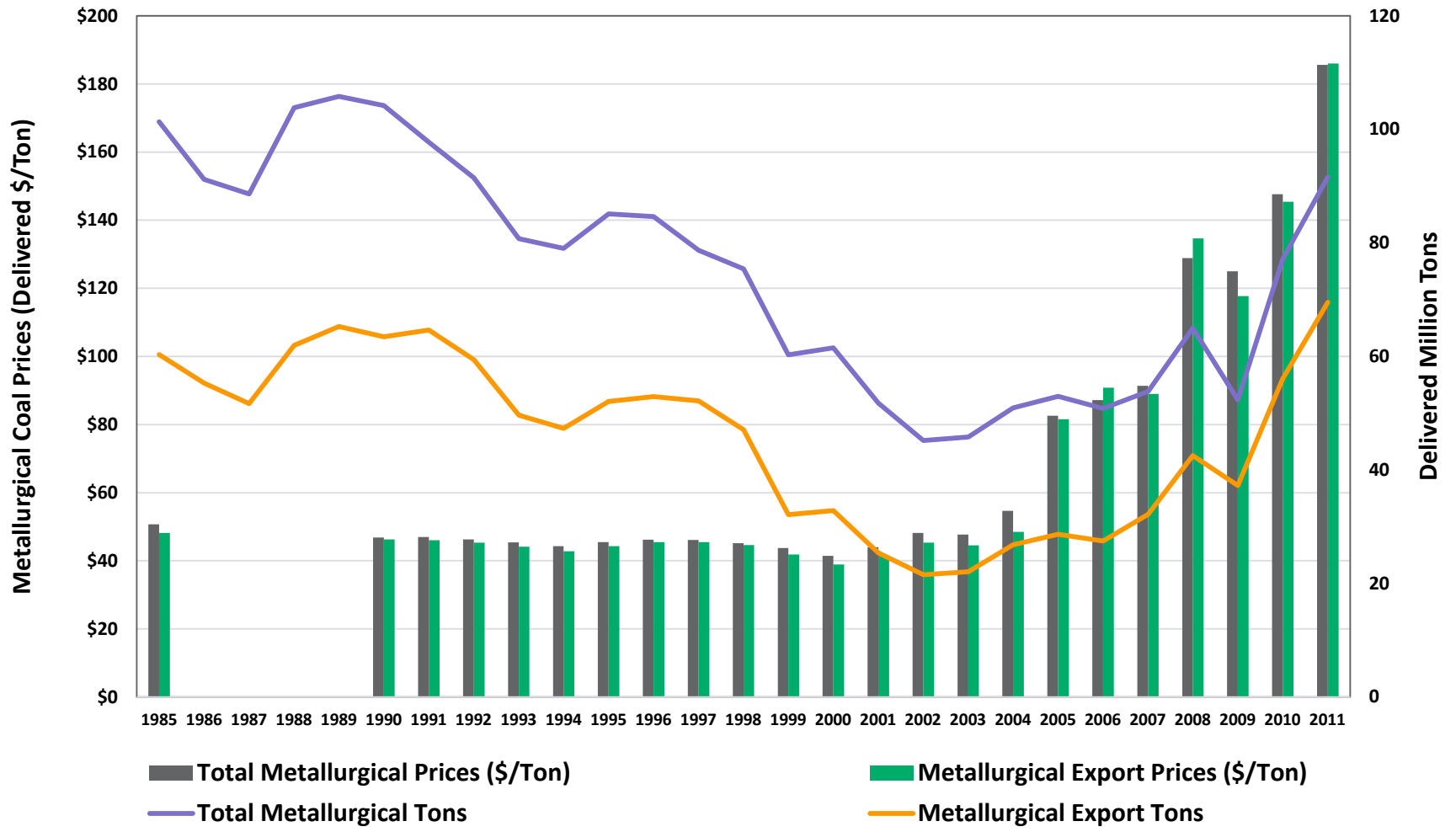


Total Coal Production was 1.1 Billion tons





Metallurgical Coal Demand is on the Upswing



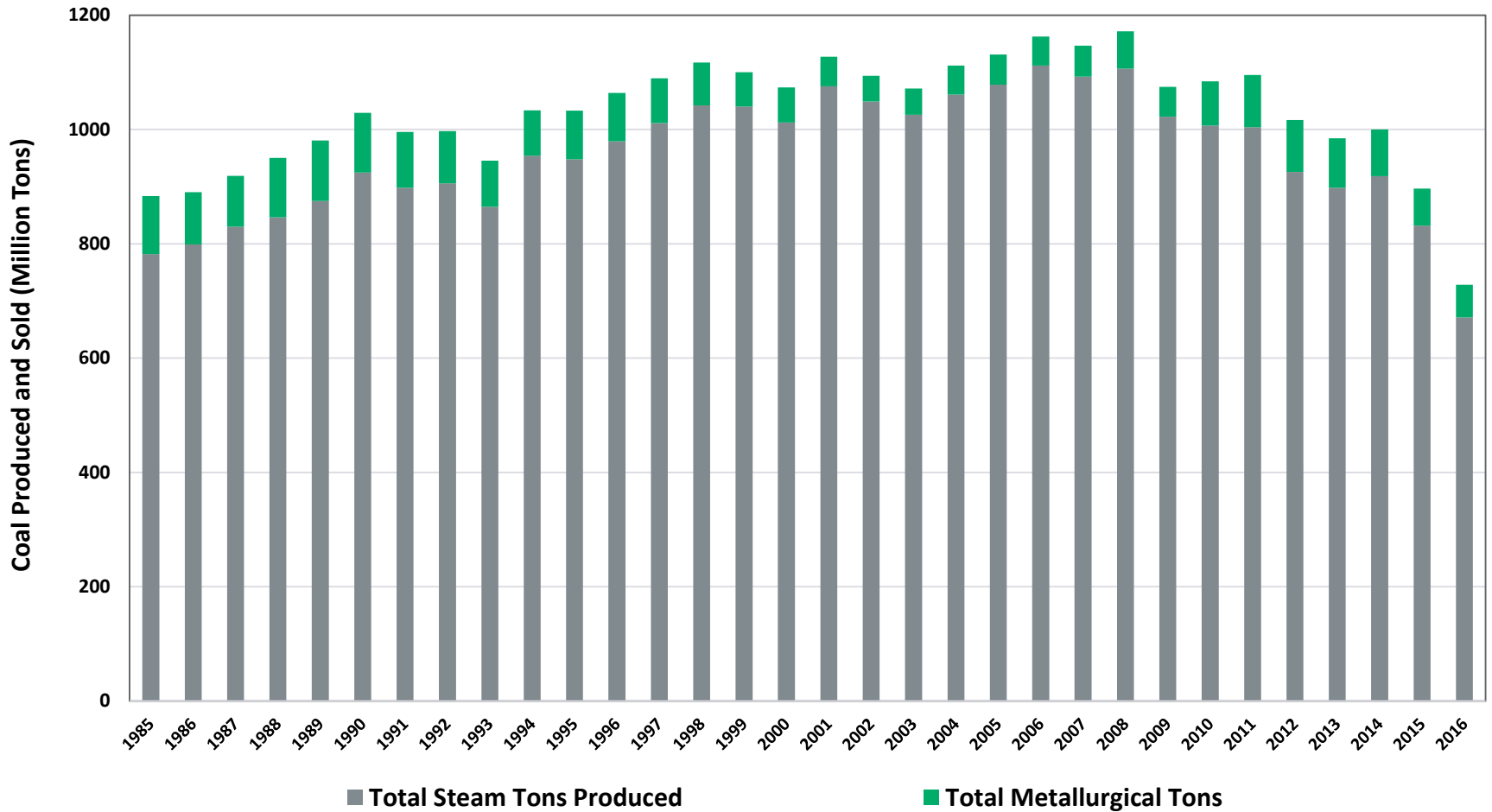


The Hurricane Starts in 2012

- > Shale Gas use expands in the electric generation market, resulting fuel switching (from coal to gas) by utilities.
- > Adoption of stringent air emission regulations continue with the closure of older less efficient coal fired power plants.
- > Prices of coal used for electric generation decline due to oversupply.
- > Decline in economic growth in foreign markets and the U. S. result in a drop in metallurgical coal demand and metallurgical coal prices.
- > These factors placed unplanned pressure upon coal companies after 2011 **to mine only economically advantaged reserves and to curb output to meet the reduced demand.**
- > These factors had economic impacts upon all companies that planned expansions in 2011, including ANR, Arch, and Peabody.

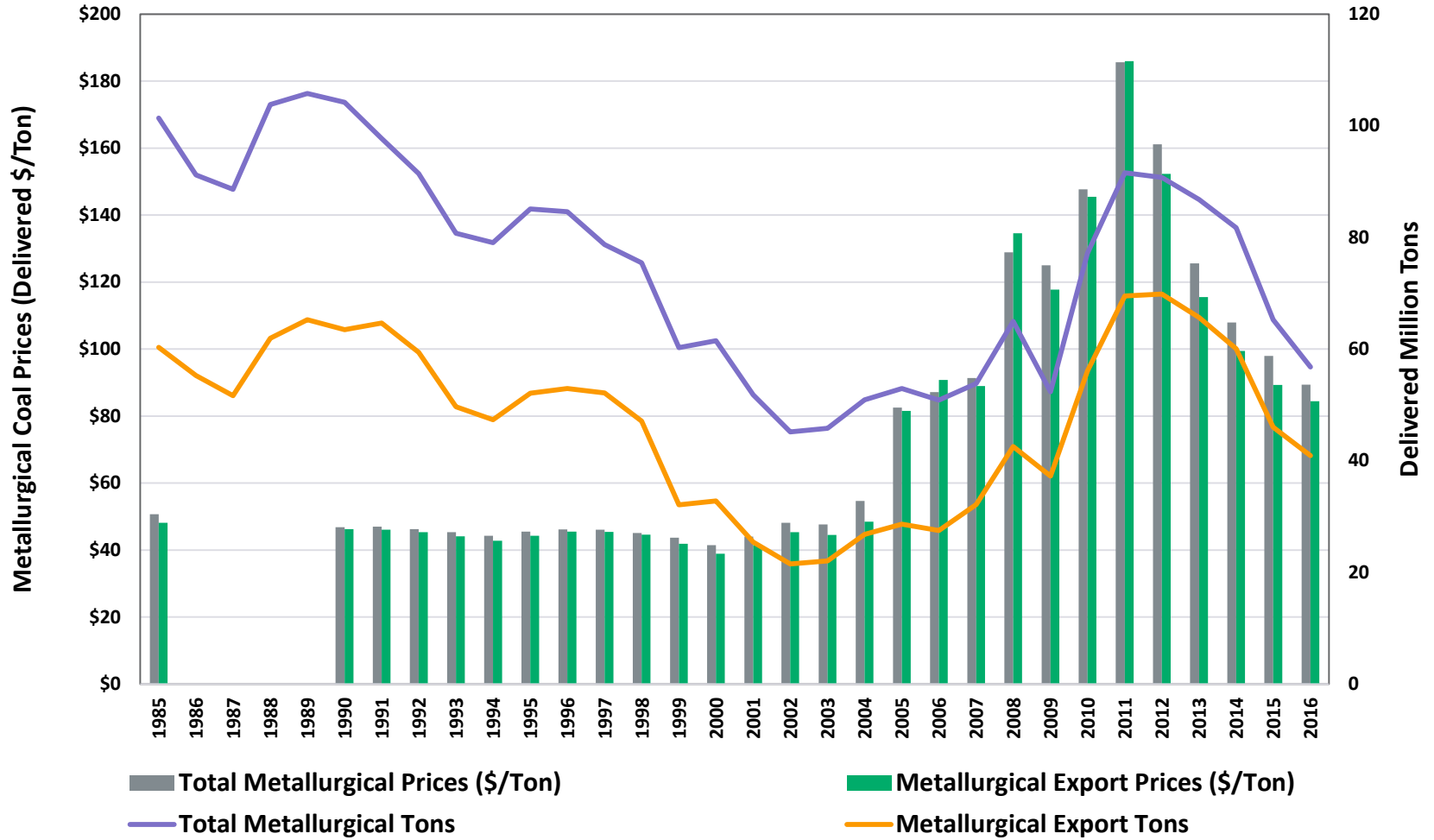


Total US Coal Production is up in 2011, But!



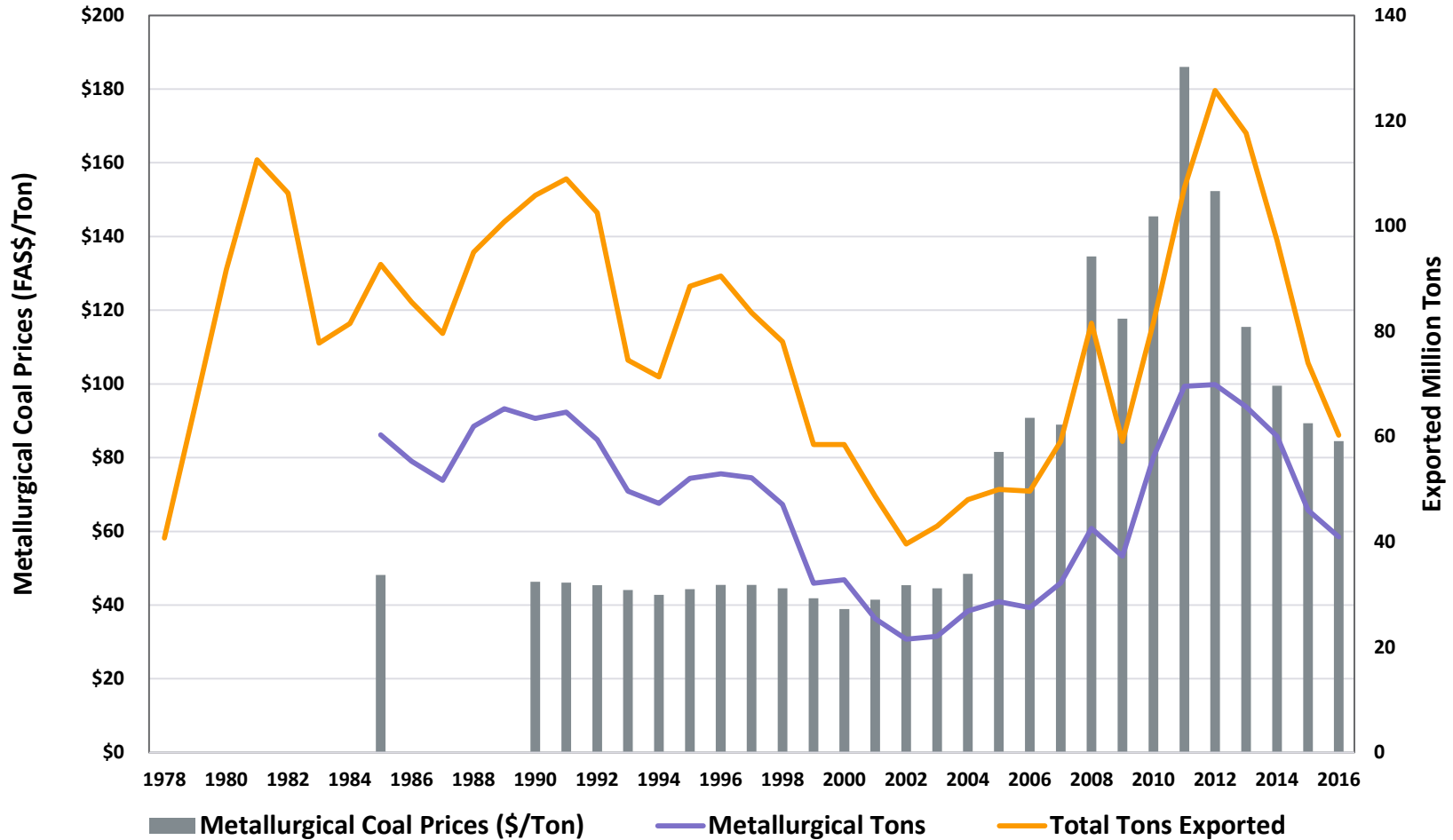


After 2011 Metallurgical Coal Prices and Demand Drop





Total Exports reach new Levels in 2012, then decline





The Hurricane Hits

In 2011, there were 45 public Coal Companies operating in the United States

- > 18 Companies were either land holding companies, brokers or coal traders.
- > The remaining 27 companies were producing companies.

Between 2012 and 2016,

- > 8 of the producing companies would file Bankruptcy under Chapter 11 (protection from Creditors until a reorganization plan could be approved).
- > 4 of the 8 companies would cease to exist as the reorganization involved selling assets to various buyers.
- > 3 of the producing companies that successfully reorganized had to change their corporate financial structure.



Bankruptcy extended to Private Companies

- > Between 2012 and 2016, 42 privately held coal companies filed bankruptcy.
- > 21 of these companies filed under Chapter 7, (where its assets are sold off to pay its lenders (creditors)).
- > 4 private companies filed under Chapter 15 where a company with foreign assets or entanglements or a foreign company is allowed to reorganize or liquidate assets.
- > The remaining 17 filed under Chapter 11 for reorganization; however, four of these converted to Chapter 7 as reorganization failed.



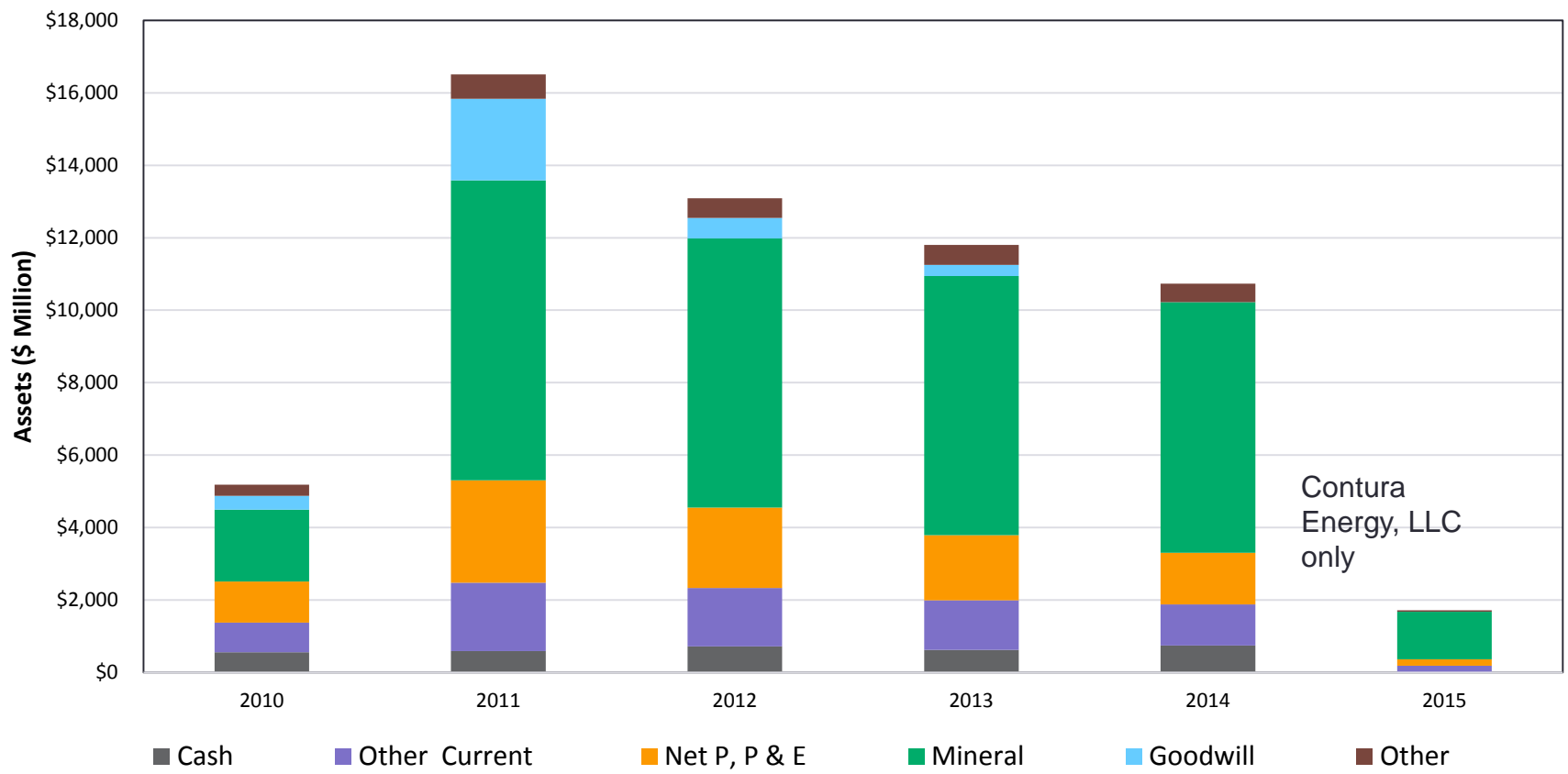
Balance Sheet Comparison

- > A *balance sheet* is a financial statement that summarizes a company's assets, liabilities and shareholders' equity at a specific point in time. These three *balance sheet* segments give investors an idea as to what the company owns and owes, as well as the amount invested by shareholders.

| Assets | | Liabilities |
|---------------------------------|---|-----------------------------------|
| Cash and Cash Equivalents | | Current Liabilities |
| Current Assets | | Deferred Income Taxes |
| Net Property, Plant & Equipment | | Asset Retirement Obligations |
| Mineral Owned and Leased | | Other Long Term Liabilities |
| Goodwill | | Long Term Debt |
| Other Noncurrent Assets | | Total Liabilities |
| | | Total Shareholders' Equity |
| Total Assets | = | Total Liabilities + Equity |



Alpha Natural Resources, Inc. - Assets

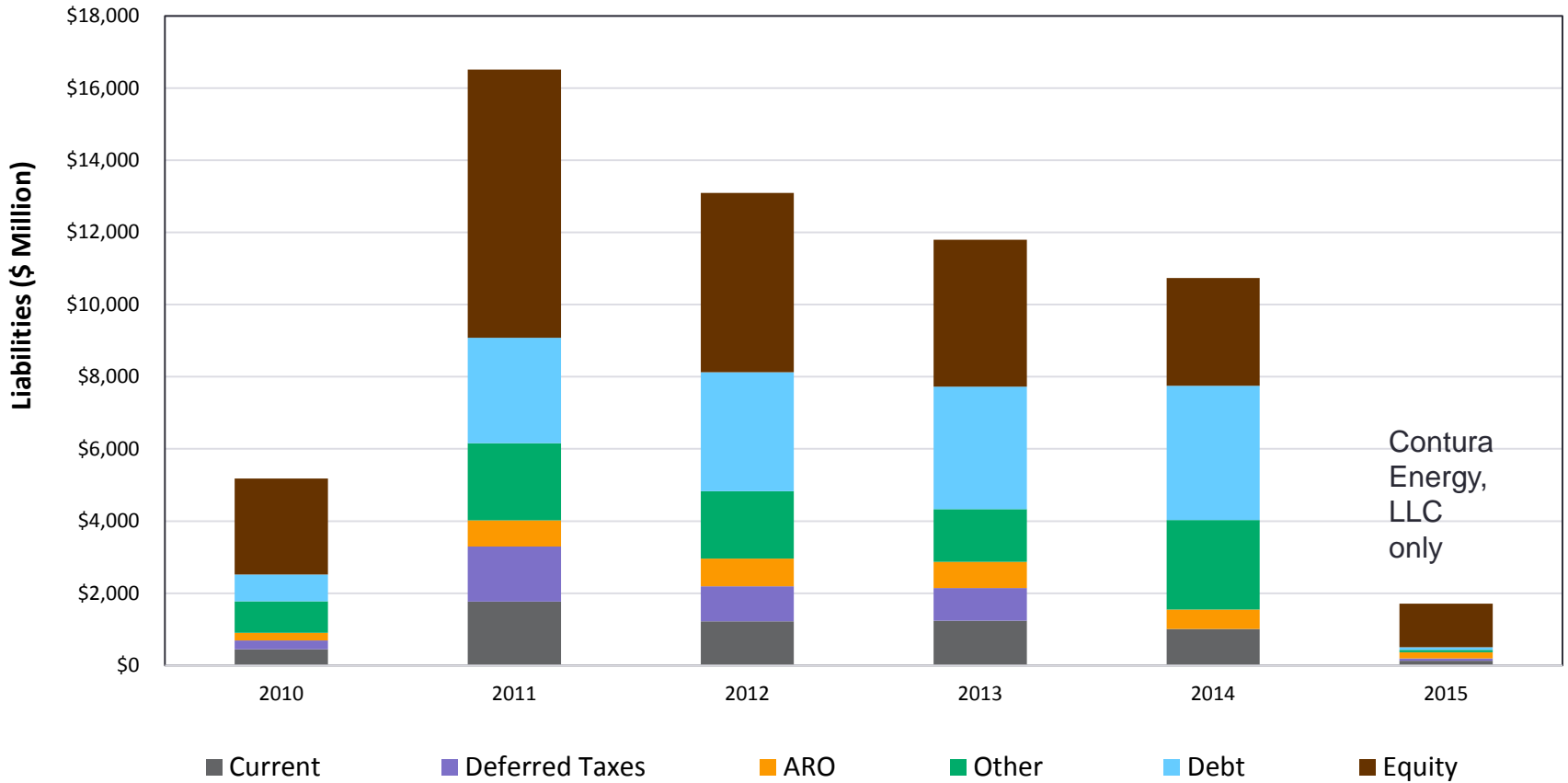


Acquired Massey Energy in June 11

Filed Bankruptcy August 2015-Emerged July 2016



Alpha Natural Resources, Inc. - Liabilities

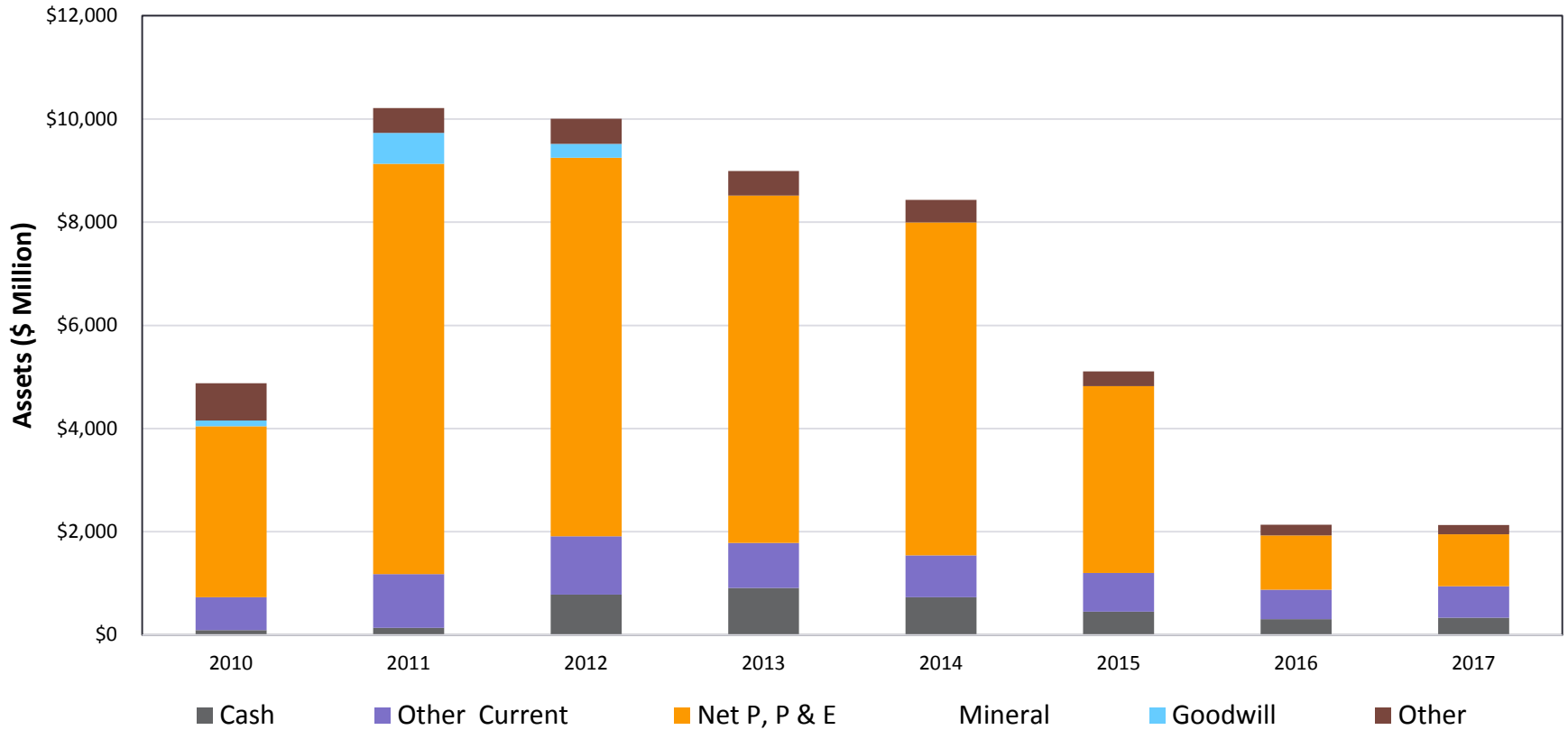


Acquired Massey Energy in June 2011

Filed Bankruptcy August 2015-Emerged July 2016



ARCH Coal, Inc. - Assets

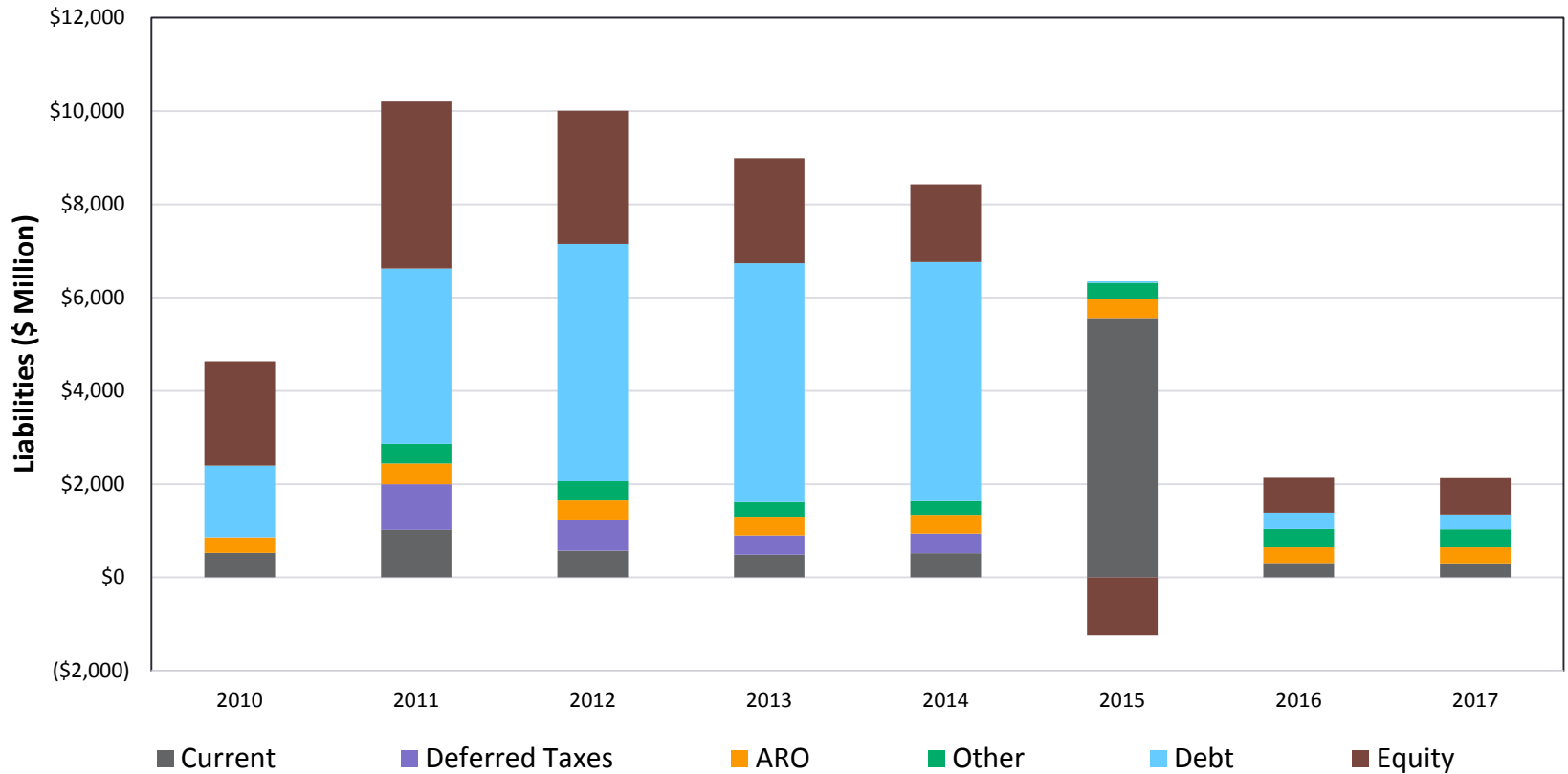


Acquired ICG, Inc. in June 2011

Filed Bankruptcy January 2016-Emerged October 2016



ARCH Coal, Inc. - Liabilities

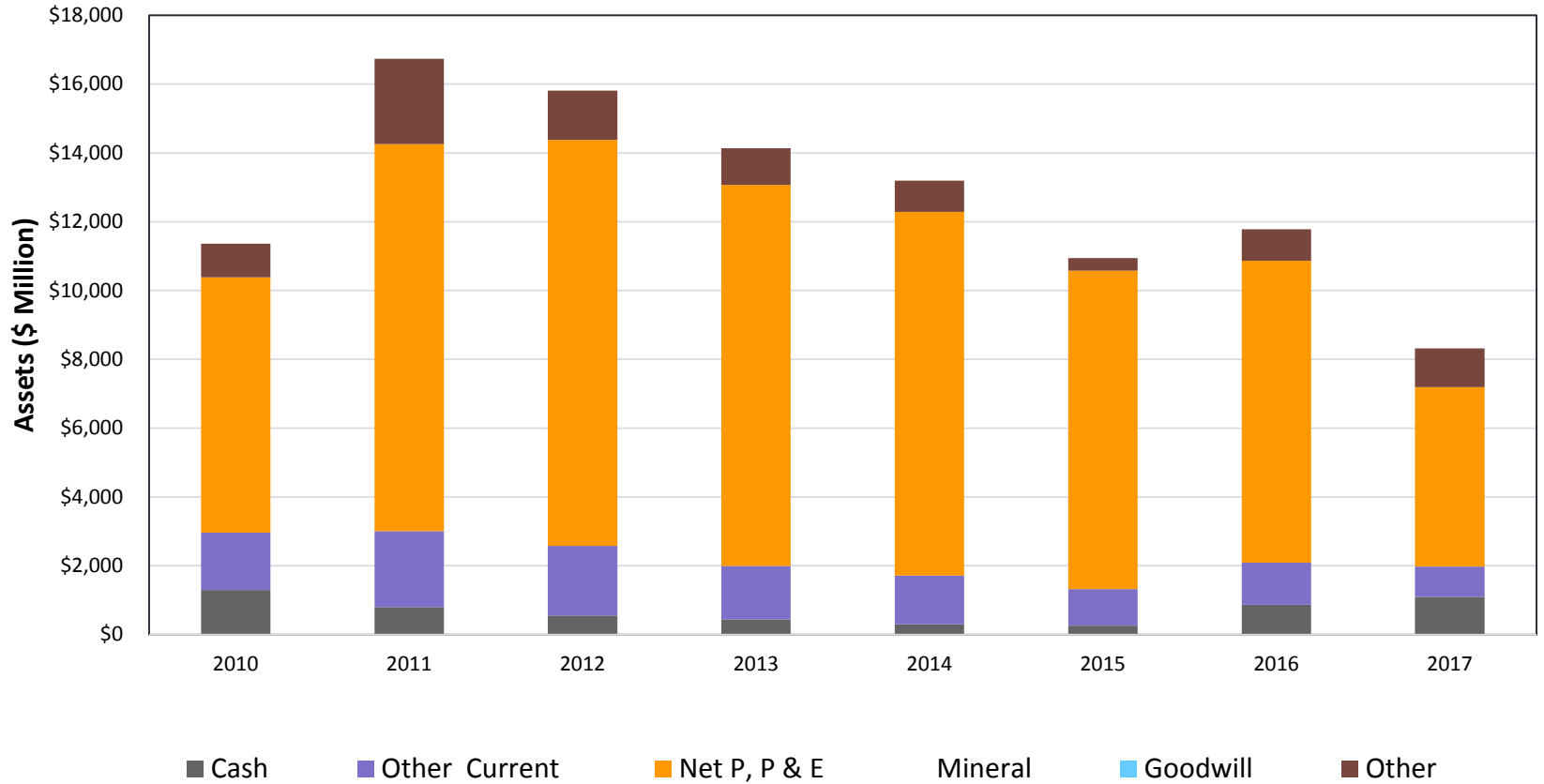


Acquired ICG, Inc. in June 2011

Filed Bankruptcy January 2016-Emerged October 2016



Peabody Energy, Inc. - Assets

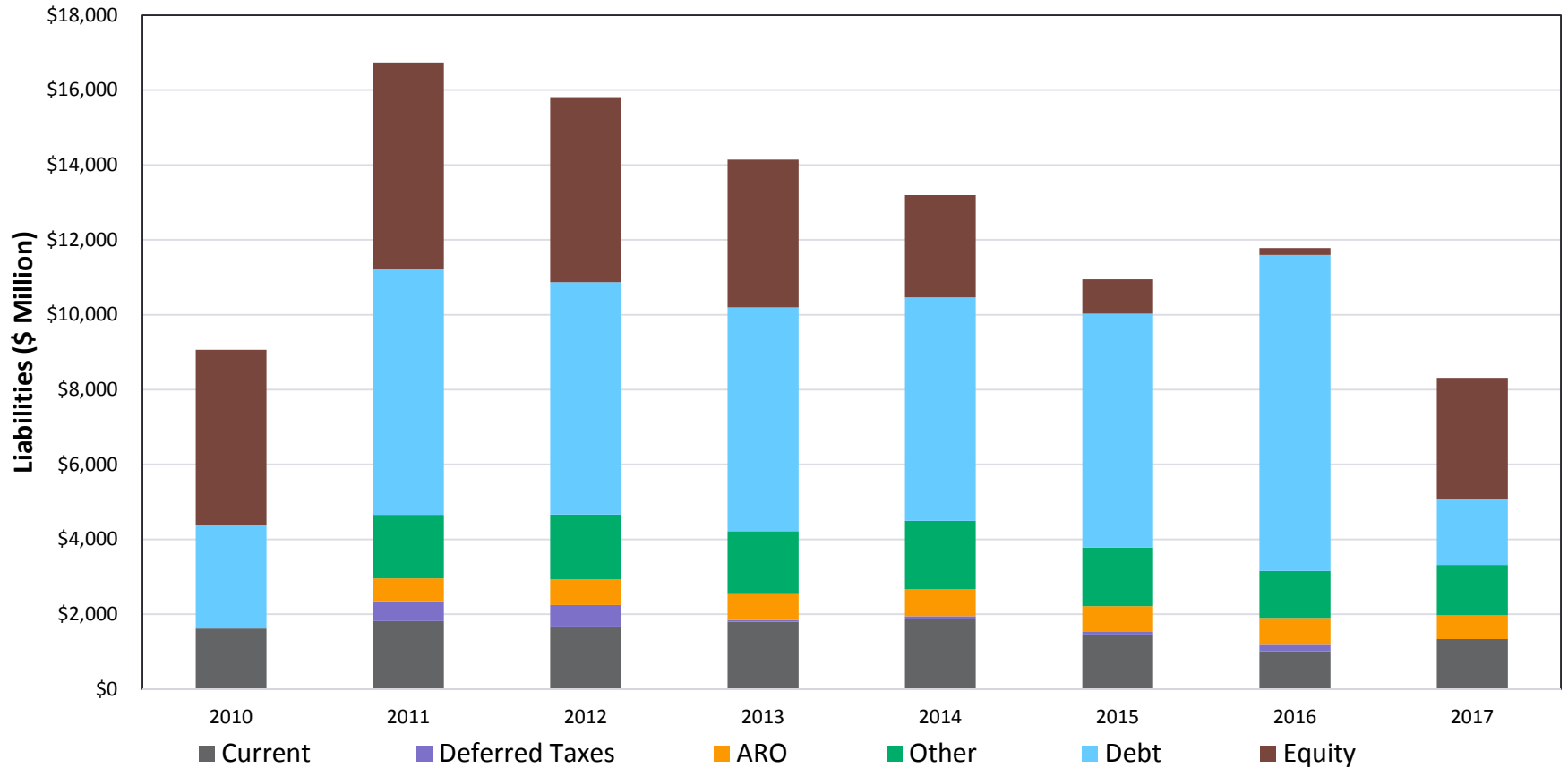


Purchased Macarthur Coal, Ltd in 2011

Filed Bankruptcy April 2016-Emerged April 2017



Peabody Energy, Inc. - Liabilities



Purchased Macarthur Coal, Ltd in 2011

Filed Bankruptcy April 2016-Emerged April 2017



Financial Changes

ASSETS that changed when emerging from Bankruptcy

- > Accounting procedures were updated as “fresh start accounting” or assets were valued based upon Fair Market Value.
- > Sold certain assets to reduce the liability and debt responsible for those assets.
- > Goodwill was eliminated if not already expunged.

LIABILITIES that changed when emerging from Bankruptcy

- > Significantly changed the debt either by replacement or eliminating certain debt classes.
- > Reduced or eliminated other long term liabilities.
- > Asset Retirement Obligations (reclamation upon mine closure) remained.
- > Equity was either restated under different ownership or changes in ownership classes.

END

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