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Net periodic postretirement benefit income (cost), excluding service cost

261

1,330

1,591

Interest income

147

147

Interest expense

(9,243

)

(135

)

(195

)

(9,573

)

Other, net

(54

)

(98

)

54

(98

)

Total other income (expense)

(8,889

)

1,097

(141

)

(7,933

)

Income (loss) before income tax provision and earnings from unconsolidated affiliates

2,238

(24,433

)

24,660

(141

)

2,324

Income tax benefit (expense)

115

115

Income (loss) from unconsolidated affiliates, net of tax

5

133

138

Income (loss) from consolidated affiliates, net of tax

224

24,652

(141

)

(24,735

)

Net income (loss)

	2,577
	224
	24,652
	(141
)	
	(24,735
)	
	2,577

Other comprehensive income (loss)

Postretirement medical plan amortization of prior service cost

(1,821

)

(1,821

)

(1,821

)

3,642

(1,821

)

Income tax on postretirement medical plan

Other comprehensive income (loss)

(1,821

)

(1,821

)

(1,821

)

3,642

(1,821

)

Total comprehensive income (loss)

$

756

$

(1,597

)

$

22,831

$

(141

)

$

(21,093

)

$

756

39

CLOUD PEAK ENERGY INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Supplemental Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)

(in thousands)

	Nine Months Ended September 30, 2018					
	Parent Guarantor (CPE Inc.)	Issuing Company (CPE Resources)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	$ 6,053	$	$ 655,087	$	$ (6,053)	$ 655,087
Costs and expenses						
Cost of product sold (exclusive of depreciation, depletion, and accretion)		3	597,404	41		597,448
Depreciation and depletion		859	45,929			46,788
Accretion			5,359			5,359
(Gain) loss on derivative financial instruments			(730)			(730)
Selling, general and administrative expenses		31,446			(6,053)	25,393
Impairments			800			800
Other operating costs			331			331
Total costs and expenses		32,308	649,093	41	(6,053)	675,389
Operating income (loss)	6,053	(32,308)	5,994	(41)		(20,302)
Other income (expense)						
Net periodic postretirement benefit income (cost), excluding service cost		3,894	19,357			23,251
Interest income	2	836	3			841
Interest expense		(27,014)	(317)	(810)		(28,141)
Other, net		(323)	(535)	323		(535)
Total other income (expense)	2	(22,607)	18,508	(487)		(4,584)
Income (loss) before income tax provision and earnings from unconsolidated affiliates	6,055	(54,915)	24,502	(528)		(24,886)
Income tax benefit (expense)	(302)					(302)
Income (loss) from unconsolidated affiliates, net of tax		15	254			269
Income (loss) from consolidated affiliates, net of tax	(30,673)	24,228	(528)		6,973	
Net income (loss)	(24,919)	(30,673)	24,228	(528)	6,973	(24,919)
Other comprehensive income (loss)						
Postretirement medical plan amortization of prior service cost	(4,287)	(4,287)	(4,287)		8,574	(4,287)
Postretirement medical plan change	24,659	24,659	24,659		(49,318)	24,659
Postretirement medical plan termination	(19,477)	(19,477)	(19,477)		38,954	(19,477)
Income tax on postretirement medical plan						
Other comprehensive income (loss)	895	895	895		(1,790)	895
Total comprehensive income (loss)	$ (24,024)	$ (29,778)	$ 25,123	$ (528)	$ 5,183	$ (24,024)

Table of Contents

CLOUD PEAK ENERGY INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Supplemental Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)

(in thousands)

	Nine Months Ended September 30, 2017					
	Parent Guarantor (CPE Inc.)	Issuing Company (CPE Resources)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	$ 5,887	$	$ 673,813	$	$ (5,887)	$ 673,813
Costs and expenses						
Cost of product sold (exclusive of depreciation, depletion, and accretion)		9	571,588	3		571,600
Depreciation and depletion		626	56,057			56,683
Accretion			5,532			5,532
(Gain) loss on derivative financial instruments			3,102			3,102
Selling, general and administrative expenses		39,748			(5,887)	33,861
Impairments						
Other operating costs		23	406			429
Total costs and expenses		40,406	636,685	3	(5,887)	671,207
Operating income (loss)	5,887	(40,406)	37,128	(3)		2,606
Other income (expense)						
Net periodic postretirement benefit income (cost), excluding service cost		784	3,990			4,774
Interest income	1	303				304
Interest expense	(48)	(31,309)	(404)	(590)		(32,351)
Other, net		(183)	(546)	183		(546)
Total other income (expense)	(47)	(30,405)	3,040	(407)		(27,819)
Income (loss) before income tax provision and earnings from unconsolidated affiliates	5,840	(70,811)	40,168	(410)		(25,213)
Income tax benefit (expense)	(36)					(36)
Income (loss) from unconsolidated affiliates, net of tax		15	756			771
Income (loss) from consolidated affiliates, net of tax	(30,282)	40,514	(410)		(9,822)	
Net income (loss)	(24,478)	(30,282)	40,514	(410)	(9,822)	(24,478)
Other comprehensive income (loss)						
Postretirement medical plan amortization of prior service cost	(5,462)	(5,462)	(5,462)		10,924	(5,462)
Income tax on postretirement medical plan						
Other comprehensive income (loss)	(5,462)	(5,462)	(5,462)		10,924	(5,462)
Total comprehensive income (loss)	$ (29,940)	$ (35,744)	$ 35,052	$ (410)	$ 1,102	$ (29,940)

Table of Contents

CLOUD PEAK ENERGY INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Supplemental Condensed Consolidating Balance Sheet

(in thousands)

	September 30, 2018					
	Parent Guarantor (CPE Inc.)	Issuing Company (CPE Resources)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Current assets						
Cash and cash equivalents	$	$ 109,347	$ 112	$	$	$ 109,459
Accounts receivable			19,751	42,515		62,266
Due from related parties		45,888	46,055		(90,334)	1,609
Inventories, net			69,474			69,474
Derivative financial instruments			730			730
Income tax receivable	14,727					14,727
Other prepaid and deferred charges	482		19,838			20,320
Other assets			806			806
Total current assets	15,209	155,235	156,766	42,515	(90,334)	279,391
Noncurrent assets						
Property, plant and equipment, net		2,916	1,330,726			1,333,642
Goodwill			2,280			2,280
Income tax receivable	14,727					14,727
Other assets	1,014,268	1,268,159	37,679	4,881	(2,284,631)	40,356
Total assets	$ 1,044,204	$ 1,426,310	$ 1,527,451	$ 47,396	$ (2,374,965)	$ 1,670,396
LIABILITIES AND MEMBER S EQUITY						
Current liabilities						
Accounts payable	$	$ 185	$ 40,708	$ 76	$	$ 40,969
Royalties and production taxes			56,088			56,088
Accrued expenses	7,139	9,919	22,027			39,085
Due to related parties	50,250	72		40,012	(90,334)	
Current portion of federal coal lease obligations			379			379
Other liabilities			1,707			1,707
Total current liabilities	57,389	10,176	120,909	40,088	(90,334)	138,228
Noncurrent liabilities						
Senior notes		401,914				401,914
Federal coal lease obligations, net of current portion			1,404			1,404
Asset retirement obligations, net of current portion			108,359			108,359
Accumulated postretirement medical benefit obligation, net of current portion						

Royalties and production taxes			27,079			27,079
Other liabilities			6,597			6,597
Total liabilities	57,389	412,090	264,348	40,088	(90,334)	683,581
Total equity	986,815	1,014,220	1,263,103	7,308	(2,284,631)	986,815
Total liabilities and equity	$ 1,044,204	$ 1,426,310	$ 1,527,451	$ 47,396	$ (2,374,965)	$ 1,670,396

Table of Contents

CLOUD PEAK ENERGY INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Supplemental Condensed Consolidating Balance Sheet

(in thousands)

	December 31, 2017					
	Parent Guarantor (CPE Inc.)	Issuing Company (CPE Resources)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Current assets						
Cash and cash equivalents	$	$ 107,818	$ 130	$	$	$ 107,948
Accounts receivable			17,359	32,716		50,075
Due from related parties		46,350	23,044		(69,272)	122
Inventories, net			72,904			72,904
Income tax receivable	256					256
Other prepaid and deferred charges	283		36,681			36,964
Other assets			1,765			1,765
Total current assets	539	154,168	151,883	32,716	(69,272)	270,034
Noncurrent assets						
Property, plant and equipment, net		3,480	1,362,275			1,365,755
Goodwill			2,280			2,280
Income tax receivable	29,454					29,454
Other assets	1,036,162	1,289,487	33,612	341	(2,328,424)	31,178
Total assets	$ 1,066,155	$ 1,447,135	$ 1,550,050	$ 33,057	$ (2,397,696)	$ 1,698,701
LIABILITIES AND MEMBER S EQUITY						
Current liabilities						
Accounts payable	$ 1	$ 24	$ 29,748	$ 59	$	$ 29,832
Royalties and production taxes			54,327			54,327
Accrued expenses	3,160	5,659	23,999			32,818
Due to related parties	44,039	71		25,162	(69,272)	
Other liabilities			2,435			2,435
Total current liabilities	47,200	5,754	110,509	25,221	(69,272)	119,412
Noncurrent liabilities						
Senior notes		405,266				405,266
Asset retirement obligations, net of current portion			99,297			99,297
Accumulated postretirement medical benefit obligation, net of current portion			24,958			24,958
Royalties and production taxes			21,896			21,896
Other liabilities	11,146		8,917			20,063
Total liabilities	58,346	411,020	265,577	25,221	(69,272)	690,892

Total equity		1,007,809		1,036,115		1,284,473		7,836		(2,328,424)		1,007,809
Total liabilities and equity	$	1,066,155	$	1,447,135	$	1,550,050	$	33,057	$	(2,397,696)	$	1,698,701

43

Table of Contents

CLOUD PEAK ENERGY INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Supplemental Condensed Consolidating Statement of Cash Flows

(in thousands)

	Nine Months Ended September 30, 2018					
	Parent Guarantor (CPE Inc.)	Issuing Company (CPE Resources)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	$	$ 7,928	$ 11,397	$ 4,743	$	$ 24,068
Investing activities						
Purchases of property, plant and equipment		(114)	(7,051)			(7,165)
Investment in development projects			(1,894)			(1,894)
Other		13	56			69
Net cash provided by (used in) investing activities		(101)	(8,889)			(8,990)
Financing activities						
Principal payments of federal coal leases			(574)			(574)
Payment of deferred financing costs				(936)		(936)
Payment amortized to deferred gain		(6,298)				(6,298)
Other			(1,952)			(1,952)
Net cash provided by (used in) financing activities		(6,298)	(2,526)	(936)		(9,760)
Net increase (decrease) in cash, cash equivalents, and restricted cash		1,529	(18)	3,807		5,318
Cash, cash equivalents, and restricted cash at beginning of period		107,818	856			108,673
Cash, cash equivalents, and restricted cash at the end of period	$	$ 109,347	$ 837	$ 3,807	$	$ 113,991

CLOUD PEAK ENERGY INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Supplemental Condensed Consolidating Statement of Cash Flows

(in thousands)

	Nine Months Ended September 30, 2017					
	Parent Guarantor (CPE Inc.)	Issuing Company (CPE Resources)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	$	$ 42,610	$ 14,014	$ 408	$	$ 57,032
Investing activities						
Purchases of property, plant and equipment		(1,420)	(9,907)			(11,327)
Investment in development projects			(2,110)			(2,110)
Other			33			33
Net cash provided by (used in) investing activities		(1,420)	(11,984)			(13,404)
Financing activities						
Repayment of senior notes		(62,094)				(62,094)
Payment of debt refinancing costs				(408)		(408)
Payment amortized to deferred gain		(6,294)				(6,294)
Proceeds from issuance of common stock		68,850				68,850
Cash paid for equity offering		(4,490)				(4,490)
Other		(23)	(1,935)			(1,958)
Net cash provided by (used in) financing activities		(4,051)	(1,935)	(408)		(6,394)
Net increase (decrease) in cash, cash equivalents, and restricted cash		37,139	95			37,234
Cash, cash equivalents, and restricted cash at beginning of period		83,673	760			84,433
Cash, cash equivalents, and restricted cash at the end of period	$	$ 120,812	$ 855	$	$	$ 121,667

CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that involve substantial risks and uncertainties. You can identify these statements by forward-looking words such as anticipate, believe, could, estimate, expect, intend, may, plan, potential, should, will, wou
You should read statements that contain these words carefully because they discuss our current plans, strategies, prospects, and expectations concerning our business, operating results, financial condition, and other similar matters. While we believe that these forward-looking statements are reasonable as and when made, there may be events in the future that we are not able to predict accurately or control, and there can be no assurance that future developments affecting our business will be those that we anticipate. Additionally, all statements concerning our expectations regarding future operating results are based on current forecasts for our existing operations and do not include the potential impact of any future acquisitions, divestitures, or other transactions. The factors listed under Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2017 (our 2017 Form 10-K) and Item 1A of Part II of this report, as well as any cautionary language in this report, describe the known material risks, uncertainties, and events that may cause our actual results to differ materially and adversely from the expectations we describe in our forward-looking statements. Additional factors or events that may emerge from time to time, or those that we currently deem to be immaterial, could cause our actual results to differ, and it is not possible for us to predict all of them. You are cautioned not to place undue reliance on the forward-looking statements contained herein. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by law. The following factors are among those that may cause actual results to differ materially and adversely from our forward-looking statements:

- the timing and extent of any sustained recovery of the currently depressed thermal coal industry and the impact of ongoing or further depressed industry conditions on our financial performance, liquidity, and financial covenant compliance;

- the prices we receive for our coal and logistics services, our ability to effectively execute our forward sales strategy, and changes in utility purchasing patterns resulting in decreased long-term purchases of coal;

- the timing of reductions or increases in customer coal inventories;

- our ability to obtain new coal sales agreements on favorable terms, to resolve customer requests for reductions or deferrals of coal deliveries, and to respond to any cancellations of their committed volumes on terms that preserve the amount and timing of our forecasted economic value;

- the impact of increasingly variable and less predictable demand for thermal coal based on natural gas prices, summer cooling demand, winter heating demand, economic growth rates, and other factors that impact overall demand for electricity;

- our ability to efficiently and safely conduct our mining operations and to adjust our planned production levels to respond to market conditions and effectively manage the costs of our operations;

- competition with other producers of coal and with traders and re-sellers of coal, including the current oversupply of thermal coal, the impacts of currency exchange rate fluctuations and the strong U.S. dollar, and government environmental, energy, and tax policies and regulations that make foreign coal producers more competitive for international transactions;

- the impact of coal industry bankruptcies on our competitive position relative to other companies who have emerged from bankruptcy with reduced leverage and potentially reduced operating costs;

- competition with natural gas, wind, solar, and other non-coal energy resources, which may continue to increase as a result of low domestic natural gas prices, the declining cost of renewables, and due to environmental, energy, and tax policies, regulations, subsidies, and other government actions that encourage or mandate use of alternative energy sources;

- coal-fired power plant capacity and utilization, including the impact of climate change and other environmental regulations and initiatives, energy policies, political pressures, non-governmental organization activities, international treaties or agreements, and other factors that may cause domestic and international electric utilities to continue to phase out or close existing coal-fired power plants, reduce or eliminate construction of any new coal-fired power plants, or reduce consumption of coal from the Powder River Basin (PRB);

- the failure of economic, commercially available carbon capture technology to be developed and adopted by utilities in a timely manner;

- the impact of keep coal in the ground campaigns and other well-funded, anti-coal initiatives by environmental activist groups and others targeting substantially all aspects of our industry;

- our ability to offset declining U.S. demand for coal and achieve longer term growth in our business through our logistics revenue and export sales, including the significant impact of Chinese and Indian thermal coal import demand and production levels from other countries and basins on overall seaborne coal prices, and the impact of any trade wars on our export business;

- railroad, export terminal, and other transportation performance, costs, and availability, including the availability of sufficient and reliable rail capacity to transport PRB coal, any development of future export terminal capacity and our ability to access capacity on commercially reasonable terms;

- the impact of our rail and terminal take-or-pay commitments if we do not meet our required export shipment obligations, including our commitments entered into as part of our export supply agreement with JERA Trading;

- weather conditions and weather-related damage that impact our mining operations, our customers, or transportation infrastructure, including the adverse impacts on our 2018 costs and production volumes of the heavy rain experienced during the second quarter of 2018, particularly at our Antelope Mine and our ability to reach agreements with customers to address currently committed 2018 shipments that we do not expect to be able to satisfy;

- operational, geological, equipment, permit, labor, and other risks inherent in surface coal mining;

- future development or operating costs for our development projects exceeding our expectations or other factors adversely impacting our development projects;

- our ability to successfully acquire coal and appropriate land access rights at economic prices and in a timely manner and our ability to effectively resolve issues with conflicting mineral development that may impact our mine plans;

- the impact of asset impairment charges, if required, as a result of challenging industry conditions or other factors, including any impairments associated with our development projects;

- our plans and objectives for future operations and the development of additional coal reserves, including risks associated with acquisitions;

- the impact of current and future environmental, health, safety, endangered species, and other laws, regulations, treaties, executive orders, court decisions or governmental policies, or changes in interpretations thereof and third-party regulatory challenges, including additional requirements, uncertainties, costs, liabilities, or restrictions adversely affecting the use, demand or price for coal, our mining operations or the logistics, transportation, or terminal industries;

- the impact of required regulatory processes and approvals to lease coal and obtain, maintain, and renew permits for coal mining operations or to transport coal to domestic and foreign customers, including third-party legal challenges to regulatory approvals that are required for some or all of our current or planned mining activities;

- any increases in rates or changes in regulatory interpretations or assessment methodologies with respect to royalties or severance and production taxes and the potential impact of associated interest and penalties;

- inaccurately estimating the costs or timing of our reclamation and mine closure obligations and our assumptions underlying reclamation and mine closure obligations;

- our ability to obtain required surety bonds and provide any associated collateral on commercially reasonable terms;

- the availability of, disruptions in delivery or increases in pricing from third-party vendors of raw materials, capital equipment and consumables which are necessary for our operations, such as explosives, petroleum-based fuel, tires, steel, and rubber;

- our assumptions concerning coal reserve estimates;

- our relationships with, and other conditions affecting, our customers (including our largest customers who account for a significant portion of our total revenue) and other counterparties, including economic conditions and the credit performance and credit risks associated with our customers and other counterparties, such as traders, brokers, and lenders under our Amended Credit Agreement (as defined below) and financial institutions with whom we maintain accounts or enter hedging arrangements;

- the results of our hedging programs and changes in the fair value of derivative financial instruments that are not accounted for as hedges;

- the terms and restrictions of our indebtedness, including our ability to satisfy the quarterly financial covenants in our Amended Credit Agreement and avoid an event of default;

- liquidity constraints, access to capital and credit markets and availability and costs of credit, surety bonds, letters of credit, and insurance, including risks resulting from the cost or unavailability of financing due to debt and equity capital and credit market conditions for the coal sector or in general, changes in our credit rating, our compliance with the covenants in our debt agreements, the credit pressures on our industry due to depressed conditions, or any demands for increased collateral by our surety bond providers, or the continued significant reduction in our borrowing capacity under our Amended Credit Agreement;

- volatility in the price of our common stock, including the impact of any delisting of our stock from the New York Stock Exchange if we fail to meet the minimum average closing price listing standard;

- our liquidity, results of operations, and financial condition generally, including amounts of working capital that are available;

- volatility in our results due to required quarterly mark-to-market accounting adjustments associated with certain historical equity compensation awards;

- litigation and other contingencies;

- the authority of federal and state regulatory authorities to order any of our mines to be temporarily or permanently closed under certain circumstances; and

- other risk factors or cautionary language described from time to time in the reports and registration statements we file with the Securities and Exchange Commission, including those in Item 1A - Risk Factors in our 2017 Form 10-K and any updates thereto in our Forms 10-Q and Forms 8-K, including Item 1A of Part II of this report.

Table of Contents

Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations.***

Explanatory Note

This Item 2 may contain forward-looking statements that involve substantial risks and uncertainties. When considering these forward-looking statements, you should keep in mind the cautionary statements in this report and our other Securities and Exchange Commission (SEC) filings, including the Risk Factors in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017 (2017 Form 10-K) and Item 1A of Part II of this report. See also Cautionary Notice Regarding Forward-Looking Statements in Item 1 above.

This Item 2 is intended to help the reader understand our results of operations and financial condition. This discussion should be read in conjunction with our Unaudited Condensed Consolidated Financial Statements in Item 1 of this report and our other SEC filings, including our Audited Consolidated Financial Statements in Item 8 of our 2017 Form 10-K.

Overview

We are one of the largest producers of coal in the United States of America (U.S.) and the Powder River Basin (PRB), based on our 2017 coal sales. We operate some of the safest mines in the coal industry. According to the most current Mine Safety and Health Administration (MSHA) data, we have one of the lowest employee all injury incident rates among the largest U.S. coal producing companies. We currently operate solely in the PRB, the lowest cost region of the major coal producing regions in the U.S., where we own and operate three surface coal mines: the Antelope Mine, the Cordero Rojo Mine, and the Spring Creek Mine.

Our Antelope Mine and Cordero Rojo Mine are located in Wyoming and our Spring Creek Mine is located in Montana. Our mines produce subbituminous thermal coal with low sulfur content, and we sell our coal primarily to domestic and foreign electric utilities. Thermal coal is primarily consumed by electric utilities and industrial consumers as fuel for electricity generation. In 2017, the coal we produced generated approximately 2% of the electricity produced in the U.S. As of December 31, 2017, we controlled approximately 1.0 billion tons of proven and probable reserves. We do not produce any metallurgical coal.

In addition, we have two development projects, both located in the Northern PRB. For purposes of this report, the term Northern PRB refers to the area within the PRB that lies within Montana and the northern part of Sheridan County, Wyoming. The Youngs Creek project is an undeveloped surface mine project located in Wyoming, seven miles south of our Spring Creek Mine and contiguous with the Wyoming-Montana state line. The Big Metal project is located near the Youngs Creek project on the Crow Indian Reservation in southeast Montana.

As previously disclosed, in January 2013, Big Metal Coal Co, LLC (Big Metal), our wholly-owned subsidiary, entered into an option agreement and a corresponding exploration agreement with the Crow Tribe of Indians (Crow Tribe). These agreements were approved by the U.S. Department of the Interior in June 2013. The option and exploration agreements provided for exploration rights and exclusive options to lease three separate coal deposits on the Crow Indian Reservation over an initial five-year term, which would have expired June 14, 2018, with two extension periods through 2035 if certain conditions were met. On June 7, 2018, Big Metal delivered notice to the Crow Tribe to exercise the Upper Youngs Creek coal lease option and extend the coal lease options for the Squirrel Creek and Tanner Creek project areas. In connection with the option exercise and option extensions, Big Metal paid approximately $1.8 million to the Crow Tribe in June 2018. The coal lease will still require approval from the U.S. Department of the Interior and related regulatory actions before it is effective. Exercise of the Upper Youngs Creek option and payment of the initial option payments for the Squirrel Creek and Tanner Creek project areas trigger commencement of the first option extension periods for Squirrel Creek and Tanner Creek through December 31, 2025.

Since inception of the option agreement, Big Metal has made option and lease bonus payments totaling approximately $12 million to the Crow Tribe, including the option exercise payments in June 2018. The coal located at the Big Metal project is similar quality to that of our Spring Creek Mine and offers lower sodium levels.

Table of Contents

Any future development and coal production from the Big Metal project remains subject to regulatory approvals, completion of access agreements, and significant risk and uncertainty, including coal demand and pricing in the U.S. and internationally. In addition, portions of the potential project remain subject to exercise of additional options.

Our logistics business provides a variety of services designed to facilitate the sale and delivery of coal. These services include the purchase of coal from third parties or from our owned and operated mines, coordination of the transportation and delivery of purchased coal, negotiation of take-or-pay rail agreements and take-or-pay port agreements, and demurrage settlement with vessel operators. For a discussion of our rail and port agreements, see Note 5 of Notes to Unaudited Condensed Consolidated Financial Statements in Item 1.

Segment Information

Our reportable segments include Owned and Operated Mines and Logistics and Related Activities. For a discussion of these segments, see Note 4 of our Unaudited Condensed Consolidated Financial Statements in Item 1.

Core Business Operations

Our key business drivers include the following:

- the volume of coal sold by our Owned and Operated Mines segment;
- the price for which we sell our coal;
- the costs of mining, including labor, repairs and maintenance, fuel, explosives, depreciation of capital equipment, and depletion of coal leases;
- the amount of royalties, severance taxes, and other governmental levies that we pay;
- capital expenditures to acquire property, plant and equipment;

- the volume of deliveries coordinated by our Logistics and Related Activities segment to customer contracted destinations;

- the revenue we receive for our logistics services; and

- the costs for logistics services, rail and port charges for coal sales made on a delivered basis, including demurrage, and any take-or-pay charges.

The volume of coal that we sell in any given year is driven by global and domestic demand for coal-generated electric power. Demand for coal-generated electric power may be affected by many factors including weather patterns, natural gas prices, railroad performance, the availability of coal-fired and alternative generating capacity and utilization, the closure of coal-fired power plants, environmental and legal challenges, political and regulatory factors, energy policies, international and domestic economic conditions, currency exchange rate fluctuations, and other factors discussed in this Item 2 and in our 2017 Form 10-K.

The price at which we sell our coal is a function of the demand for coal relative to the supply. We typically seek to enter into multi-year contracts with our customers, which helps mitigate the risks associated with any short-term imbalance in supply and demand. We have historically entered each year with expected production related to domestic sales effectively fully sold. This strategy helped us run our mines at predictable production rates, which improved control of operating costs. In recent years, our business has become more variable and less predictable because utilities are adjusting their purchasing pattern based on natural gas prices, weather, and other factors and have also been increasingly purchasing coal for shorter terms. As of October 17, 2018, we have current commitments to sell 52 million tons for 2018. Due to operational issues at the Antelope Mine, we currently expect to ship between 49 and 51 million tons in 2018. We are working with our customers to move Antelope tons to our other mines or into 2019 where possible.

Table of Contents

As is common in the PRB, coal seams at our existing mines naturally deepen, resulting in additional overburden to be removed at additional cost. We have experienced increased operating costs for longer haul distances, maintenance and supplies, and employee wages and salaries. We use derivative financial instruments to help manage our exposure to diesel fuel prices. In July 2018, we entered into West Texas Intermediate (WTI) derivative financial instruments to hedge our diesel fuel costs for the remainder of 2018 and all of 2019.

We incur significant capital expenditures to maintain, update, and expand our mining equipment, surface land holdings, and coal reserves. As the costs of acquiring federal coal leases and associated surface rights increase, our depletion costs also increase.

The volume of coal sold on a delivered basis is influenced by international and domestic market conditions. Coal sold on a delivered basis to customer contracted destinations, including sales to Asian customers, involves us arranging and paying for logistics services, which can include rail, rail car hire, vessel chartering, and port charges, including any demurrage incurred and other costs. These logistics costs are affected by volume, various scheduling considerations, and negotiated rates for rail and port services. We have exposure to take-or-pay commitments for our rail and port committed capacities. For a discussion of our rail and port agreements, see Note 5 of Notes to Unaudited Condensed Consolidated Financial Statements in Item 1.

Current Considerations

Owned and Operated Mines Segment

Mine shipments to domestic customers during the three months ended September 30, 2018 were 11.6 million tons, compared to 14.2 million tons shipped to domestic customers in the same period in 2017. Shipments during the third quarter of 2018 were negatively impacted by lower shipments at the Antelope Mine, as well as low demand at the Cordero Rojo Mine. Antelope production continued to be impacted by the heavy rain experienced during the second quarter. While the immediate impact of the rain was mitigated by early August, the increased moisture caused significant spoil failures in both dragline pits in mid-August. This occurred as coal was removed from the base of the wet spoil piles and is still occurring as coal is removed in mid-October. The resulting rehandle of spoil out of the pits reduced coal shipments and diverted resources from pre-stripping, which significantly increased per ton costs. We continue to work with our customers to agree on deferrals, or other resolutions, for a portion of contracted volumes that we do not expect to be able to ship from the Antelope Mine in the fourth quarter due to the ongoing impact of the spoil failures.

Natural gas prices during the third quarter remained in the range of $2.75 to $3.00 per MMBtu and have recently increased to over $3.20 per MMBtu. While storage volumes remain well below average, natural gas prices have been steady due to increasing production. As of October 12, 2018, U.S. Energy Information Administration data showed that natural gas inventories have declined by 17% compared to year ago levels.

Energy Ventures Analysis estimates there were 51 million tons of PRB coal inventories on utility stockpiles at the end of September 2018, a decline of 21 million tons from December 2017 levels. We believe declining customer inventories will increase contracting approaching winter, although our capacity to contract for additional 2018 shipments is limited due to the operational issues at our Antelope Mine discussed above.

Historically, our core cash mining costs (excluding royalties, production taxes, and fuel) have increased as a result of increasing strip ratios and haul distances. PRB strip ratios typically increase as coal seams decline requiring additional overburden removal. Haul distances also increase as mining pits progress further from the load-out. We have seen strip ratios increase in 2018 more than in recent years resulting in higher cost per ton. Lower volumes are expected from the Cordero Rojo Mine in 2018 due to continued low demand for 8400 Btu coal, partially offset by increased volumes at the Spring Creek Mine due to higher export demand. These higher costs and lower volumes are reducing the contribution from the Owned and Operated Mines segment in 2018.

Table of Contents

Logistics and Related Activities Segment

The international thermal Newcastle coal price index during the three months ended September 30, 2018 remained over $100 per tonne, currently settling around $114 per tonne due to strong demand. During the same period, the Kalimantan 5000 GAR index price, which the Spring Creek Mine coal typically prices against, has declined to under $55 per tonne. The recent collapse of the Indonesian rupiah has lowered producers U.S. Dollar cost and the Indonesian Government has removed export restrictions to increase U.S. Dollar exports. The result has been an increase in Indonesian exports and a drop in the Kalimantan 5000 index. The current wide gap between Newcastle and Kalimantan 5000 index pricing is not common compared to historical spreads between those indices.

Based on estimates through August 2018, year-to-date thermal imports into China have increased 33 million tonnes, or almost 27%, compared to August 2017. China s electricity generation has increased by 7.8% through August after increasing by 6.5% last year, with most of this increase from thermal coal generation.

Thermal coal imports to India have increased by nearly 18% this year as domestic coal production has struggled to keep pace with rising demand. South Korean thermal coal imports continue to grow as recently commissioned plants increase their generation. Since we announced the JERA Trading contract to supply a new integrated gasification combined cycle (IGCC) power plant in Japan from late 2019, we have been discussing test burns with five Japanese utilities. Two test burns have been successfully completed and discussions for five more test cargos are underway. There is no assurance that these test burns will lead to future sales.

We exported 1.5 million tons during the three months ended September 30, 2018. We expect lower prices during the fourth quarter of 2018 as subbituminous prices have declined. Demand for our coal has remained strong, and the rail and port system operated as expected. We expect export shipments of approximately 5.5 million tons in 2018.

Potential for Asset Impairments

The carrying value of our mineral properties, equipment, and other long-lived assets are sensitive to declines in domestic and international coal prices. Lower coal prices and lower production volumes, such as those experienced recently, may not only decrease our revenues and cash flows but also may reduce the amount of coal we can produce economically. Lower coal prices may result in asset impairment charges on our long-lived assets, including development projects, due to reductions in the future cash flows associated with our Owned and Operated Mines. The cash flow model that we use to assess impairment includes numerous assumptions, such as our current estimates of forecast coal production, market outlook on forward commodity prices, operating and development costs, and discount rates. All inputs to the cash flow model must be evaluated at each date of estimate. Additional triggering events could include, but are not limited to, an impairment of coal reserves caused by continued declines in coal prices, increasing costs of production, or regulatory changes that adversely impact coal-fired electricity generation. If prices and demand decline, remain at current levels for an extended period of time, or do not improve as expected, we may incur impairment charges with respect to certain of our long-lived assets, primarily associated with our Cordero Rojo Mine. The actual amount of impairment incurred, if any, for our properties will depend on a variety of factors including, but not limited to, subsequent forward price curve changes, the additional risk-adjusted value of proven and probable reserves, weighted-average cost of capital, operating cost estimates and future capital expenditure estimates. Additionally, a further decrease in forward coal prices could result in additional long-lived assets being at risk for impairment. See Item 1A in our 2017 Form 10-K - Risk Factors Risks Related to Our Business and Industry *We may not recover our investments in our mining, exploration, port access rights, development projects, and other assets, which may require us to recognize impairment charges related to those assets.*

Environmental and Other Regulatory Matters

Federal, state, and local authorities regulate the U.S. coal mining industry with respect to various matters, including air quality standards, water pollution, plant and wildlife protection, the discharge of materials into the environment, and the effects of mining on surface and groundwater quality and availability. These laws and regulations have had, and will continue to have, a significant adverse effect on our production costs and our

Table of Contents

competitive position relative to certain other sources of electricity generation. Future laws, regulations, or orders, including those relating to global climate change, may cause coal to become a less attractive fuel source, thereby reducing coal s share of the market for fuels and other energy sources used to generate electricity. See Climate Change Regulatory Environment below and Part I Item I. Business Environmental and Other Regulatory Matters in our 2017 Form 10-K for additional climate disclosures.

Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017

Summary

The following table summarizes key results (in millions, except per share amounts and percentages):

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Change Amount	Change Percent
Total tons sold	13.1	15.6	(2.5)	(16.0)
Total revenue	$ 233.1	$ 248.9	$ (15.8)	(6.3)
Net income (loss)	$ 12.7	$ 2.6	$ 10.1	*
Diluted EPS	$ 0.16	$ 0.03	$ 0.13	*
Adjusted EBITDA (1)	$ 40.7	$ 36.0	$ 4.7	13.1

* Not meaningful

(1) EBITDA and Adjusted EBITDA are intended to provide additional information only and do not have any standard meaning prescribed by U.S. GAAP. A quantitative reconciliation of *Net income (loss)* to Adjusted EBITDA is found in Non-GAAP Financial Measures below.

Table of Contents

Results of Operations

Revenue

The following table presents *Revenue* and tons sold (in millions, except per ton amounts and percentages):

	Three Months Ended September 30, 2018		2017	Change Amount		Percent
Owned and Operated Mines						
Realized price per ton sold	$	12.16	$	12.32	$ (0.16)	(1.3)
Tons sold		13.1		15.5	(2.4)	(15.5)
Coal revenue	$	159.0	$	191.5	$ (32.5)	(17.0)
Other revenue	$	2.9	$	6.5	$ (3.6)	(55.4)
Logistics and Related Activities						
Total tons sold		1.5		1.4	0.1	7.1
Realized price per ton sold - Asian export	$	60.63	$	48.67	$ 11.96	24.6
Tons sold - Asian export		1.5		1.3	0.2	15.4
Realized price per ton sold - Domestic	$	53.28	$	50.48	$ 2.80	5.5
Tons sold - Domestic (1)						
Revenue	$	91.0	$	67.7	$ 23.3	34.4
Other						
Revenue	$		$	0.6	$ (0.6)	(100.0)
Eliminations of Intersegment Sales						
Revenue	$	(19.8)	$	(17.4)	$ (2.4)	(13.8)
Total Consolidated						
Revenue	$	233.1	$	248.9	$ (15.8)	(6.3)

(1) For the three months ended September 30, 2018 and 2017, the domestic logistics volumes were 35,000 tons and 44,100 tons, respectively.

Owned and Operated Mines Segment

The following table shows volume and price related changes to coal revenue for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 (in millions):

Three months ended September 30, 2017	$	191.5
Changes associated with volumes		(30.4)
Changes associated with prices		(2.1)
Three months ended September 30, 2018	$	159.0

Coal revenue decreased for the three months ended September 30, 2018 compared to the same period in 2017 primarily due to fewer tons sold. Volumes decreased due to the continued impact from the heavy rain seen in the second quarter which caused spoil failures in two pits at the Antelope Mine, and has resulted in significant overburden rehandling during the third quarter of 2018. Realized prices for the three months ended September 30, 2018 decreased as compared to the same period in 2017 due to the expiration of higher priced contracts being replaced by lower priced contracts.

Table of Contents

Logistics and Related Activities Segment

Revenue increased for the three months ended September 30, 2018 compared to the same period in 2017 primarily due to an improved export market. We shipped 11 vessels during the three months ended September 30, 2018 compared to nine vessels during the same period in 2017. Realized prices have increased 24.6% for the three months ended September 30, 2018 compared to the same period in 2017.

Other

Revenue decreased for the three months ended September 30, 2018 compared to the same period in 2017 primarily due to no brokered sales for the three months ended September 30, 2018 compared to $0.5 million for the same period in 2017.

Cost of Product Sold

The following table presents *Cost of product sold* (in millions, except per ton amounts and percentages):

	Three Months Ended September 30,				Change		
		2018		2017		Amount	Percent
Owned and Operated Mines							
Average cost per ton sold	$	11.05	$	9.65	$	1.40	14.5
Cost of product sold (produced coal)	$	144.5	$	150.0	$	(5.5)	(3.7)
Other cost of product sold	$	1.7	$	2.7	$	(1.0)	(37.0)
Logistics and Related Activities							
Average cost per ton sold - Asian export	$	53.57	$	46.42	$	7.15	15.4
Average cost per ton sold - Domestic	$	50.89	$	47.83	$	3.06	6.4
Cost of product sold	$	81.8	$	69.6	$	12.2	17.5
Other							
Cost of product sold	$		$	0.6	$	(0.6)	(100.0)
Eliminations of Intersegment Sales							
Cost of product sold	$	(19.5)	$	(17.3)	$	(2.2)	(12.7)
Total Consolidated							
Cost of product sold	$	208.5	$	205.6	$	2.9	1.4

Owned and Operated Mines Segment

Cost of product sold decreased in the three months ended September 30, 2018 as compared to the same period in 2017 primarily due to the decrease in tons sold, which decreased production taxes and royalties. In addition, labor costs decreased due to decreased headcount and benefit costs. Partially offsetting these decreases were increases in fuel and lubes, repairs and maintenance, and explosives. Fuel and lubes increased as a result of an increase in the price of diesel and higher consumption rates. Repairs and maintenance increased as a result of running more haul trucks, as well as work done at our rebuild center on various draglines, dippers and buckets. Explosives increased as a result of an increase in overburden removal. The average cost per ton sold increased primarily due to the lower production and higher strip ratio. *Cost of product sold* and average cost per ton sold have been revised for the three months ended September 30, 2017 from prior period presentation to reflect the adoption of Accounting Standards Update (ASU) 2017-07. The adoption, which required certain postretirement benefit costs to be relocated out of *Operating income (loss)*, increased *Cost of product sold* and average cost per ton sold by $1.3 million and $0.09, respectively, from what was previously reported for the three months ended September 30, 2017. See Note 2 for further information regarding the impact of this ASU on our Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

Logistics and Related Activities Segment

Cost of product sold increased in the three months ended September 30, 2018 as compared to the same period in 2017 primarily due to an increase in rail fuel surcharges, higher severance taxes, and price variable rail rates on our export sales. We shipped 11 vessels during the three months ended September 30, 2018 compared to nine vessels during the same period in 2017.

Other

Cost of product sold decreased in the three months ended September 30, 2018 due to a decrease in our broker activity as compared to the same period in 2017.

Operating Income (Loss)

The following table presents *Operating income (loss)* (in millions, except for percentages):

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Change Amount	Change Percent
Owned and Operated Mines				
Operating income (loss)	$ (2.6)	$ 25.8	$ (28.4)	(110.1)
Logistics and Related Activities				
Operating income (loss)	$ 9.2	$ (1.9)	$ 11.1	*
Other				
Operating income (loss)	$ (5.5)	$ (13.4)	$ 7.9	59.0
Eliminations of Intersegment Sales				
Operating income (loss)	$ (0.4)	$ (0.2)	$ (0.2)	(100.0)
Total Consolidated				
Operating income (loss)	$ 0.7	$ 10.3	$ (9.6)	(93.2)

* Not meaningful

Owned and Operated Mines Segment

Operating income decreased in the three months ended September 30, 2018 as compared to the same period in 2017 primarily due to the decrease in *Revenue* as previously discussed. Partially offsetting this was the decrease in *Cost of product sold* as previously discussed. In addition, *Depreciation and depletion* decreased $1.5 million primarily due to the decrease in production. *Operating income (loss)* has been revised for the three months ended September 30, 2017 from prior period presentation to reflect the adoption of ASU 2017-07. The adoption, which required certain postretirement benefit costs to be relocated out of *Operating income (loss)*, decreased operating income by $1.3 million from what was previously reported for the three months ended September 30, 2017. See Note 2 for further information regarding the impact of this ASU on our Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

Logistics and Related Activities Segment

There were no factors other than those previously discussed for *Revenue* and *Cost of product sold* that influenced the increase in operating income during the three months ended September 30, 2018 as compared to the same period in 2017.

Table of Contents

Other

Operating loss decreased during the three months ended September 30, 2018 as compared to the same period in 2017. The decrease was primarily related to the $8.0 million decrease in *Selling, general and administrative expenses* (SG&A). SG&A decreased due to lower stock based compensation and benefit costs.

Other Income (Expense)

The following table presents *Other income (expense)* (in millions, except for percentages):

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Change Amount	Change Percent
Other income (expense)	$ 12.0	$ (7.9)	$ 19.9	251.9

Other income increased for the three months ended September 30, 2018 as compared to the same period in 2017 primarily due to the $19.5 million gain on the termination of our postretirement medical plan. See Note 15 for further information. *Other income (expense)* has been revised for the three months ended September 30, 2017 from prior period presentation to reflect the adoption of ASU 2017-07. The adoption, which required certain postretirement benefit costs to be relocated out of *Operating income (loss)*, decreased Other expense by $1.6 million from what was previously reported for the three months ended September 30, 2017. See Note 2 for further information regarding the impact of this ASU on our Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

Income Tax Provision

As of September 30, 2018 and December 31, 2017, we had deferred tax assets principally arising from: AROs, alternative minimum tax credits, postretirement benefits, contract rights, and net operating loss carry-forwards. As management cannot determine that it is more likely than not that we will realize the benefit of the deferred tax assets, a valuation allowance equal to the net deferred tax asset has been established.

Our statutory income tax rate, including state income taxes, for the three months ended September 30, 2018 was approximately 23%, while the rate for the three months ended September 30, 2017 was approximately 37%. Our effective tax rate for the three months ended September 30, 2018 and 2017 was 0.0% and (4.9)%, respectively. The difference between the statutory rates for each period is due to the recent enactment of the Tax Cuts and Jobs Act (TCJA) (see Liquidity below). In addition, the difference between our statutory income tax rate and our effective income tax rate for the three months ended September 30, 2018 and 2017 is primarily the result of the impact of percentage depletion, income tax in the states in which we do business and changes in our valuation allowance.

Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017

Summary

The following table summarizes key results (in millions, except per share amounts and percentages):

	Nine Months Ended September 30, 2018		2017	Change Amount	Percent
Total tons sold		36.9		44.1		(7.2)	(16.3)
Total revenue	$	655.1	$	673.8	$	(18.7)	(2.8)
Net income (loss)	$	(24.9)	$	(24.5)	$	(0.4)	(1.6)
Diluted EPS	$	(0.33)	$	(0.34)	$	0.01	2.9
Adjusted EBITDA (1)	$	59.6	$	86.0	$	(26.4)	(30.7)

(1) EBITDA and Adjusted EBITDA are intended to provide additional information only and do not have any standard meaning prescribed by U.S. GAAP. A quantitative reconciliation of *Net income (loss)* to Adjusted EBITDA is found in Non-GAAP Financial Measures below.

Results of Operations

Revenue

The following table presents *Revenue* and tons sold (in millions, except per ton amounts and percentages):

		Nine Months Ended September 30, 2018		2017		Change Amount	Percent
Owned and Operated Mines							
Realized price per ton sold	$	12.18	$	12.23	$	(0.05)	(0.4)
Tons sold		36.9		43.9		(7.0)	(15.9)
Coal revenue	$	449.4	$	536.8	$	(87.4)	(16.3)
Other revenue	$	10.2	$	13.4	$	(3.2)	(23.9)
Logistics and Related Activities							
Total tons delivered		4.2		3.3		0.9	27.3
Realized price per ton sold - Asian export	$	59.21	$	48.97	$	10.24	20.9
Tons sold - Asian export		4.1		3.1		1.0	32.3
Realized price per ton sold - Domestic	$	47.68	$	48.75	$	(1.07)	(2.2)
Tons sold - Domestic		0.1		0.2		(0.1)	(50.0)

Revenue	$	250.0	$	161.9	$	88.1	54.4
Other							
Revenue	$		$	3.0	$	(3.0)	(100.0)
Eliminations of Intersegment Sales							
Revenue	$	(54.5)	$	(41.3)	$	(13.2)	(32.0)
Total Consolidated							
Revenue	$	655.1	$	673.8	$	(18.7)	(2.8)

Table of Contents

Owned and Operated Mines Segment

The following table shows volume and price related changes to coal revenue for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 (in millions):

Nine months ended September 30, 2017	$	536.8
Changes associated with volumes		(85.6)
Changes associated with prices		(1.8)
Nine months ended September 30, 2018	$	449.4

Coal revenue decreased for the nine months ended September 30, 2018 compared to the same period in 2017 primarily due to fewer tons sold. Volumes decreased due to excessive rain, a longer than planned dragline outage, and below plan truck productivity primarily at the Antelope Mine during the second quarter of 2018. Antelope production continued to be impacted by the heavy rain which caused spoil failures in two pits and has resulted in significant overburden rehandling in the third quarter of 2018. Realized prices for the nine months ended September 30, 2018 were slightly lower than those seen in the same period in 2017.

Logistics and Related Activities Segment

Revenue increased for the nine months ended September 30, 2018 compared to the same period in 2017 due to an improved export market. We shipped 31 vessels and a total of 4.1 million tons internationally in the first nine months of 2018 compared to 3.3 million tons on 23 vessels in the first nine months of 2017. Realized prices on our export sales have increased 20.9% for the nine months ended September 30, 2018 compared to the same period in 2017.

Other

Revenue decreased for the nine months ended September 30, 2018 compared to the same period in 2017 primarily due to no brokered sales for the nine months ended September 30, 2018 compared to $2.8 million for the same period in 2017.

Table of Contents

Cost of Product Sold

The following table presents *Cost of product sold* (in millions, except per ton amounts and percentages):

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017	Change Amount	Change Percent
Owned and Operated Mines				
Average cost per ton sold	$ 11.28	$ 9.77	$ 1.51	15.5
Cost of product sold (produced coal)	$ 416.2	$ 429.0	$ (12.8)	(3.0)
Other cost of product sold	5.6	6.2	(0.6)	(9.7)
Logistics and Related Activities				
Average cost per ton sold - Asian export	$ 53.31	$ 48.52	$ 4.79	9.9
Average cost per ton sold - Domestic	$ 43.11	$ 46.05	$ (2.94)	(6.4)
Cost of product sold	$ 229.8	$ 174.7	$ 55.1	31.5
Other				
Cost of product sold	$	$ 2.9	$ (2.9)	(100.0)
Eliminations of Intersegment Sales				
Cost of product sold	$ (54.2)	$ (41.2)	$ (13.0)	(31.6)
Total Consolidated				
Cost of product sold	$ 597.4	$ 571.6	$ 25.8	4.5

Owned and Operated Mines Segment

Cost of product sold decreased in the nine months ended September 30, 2018 as compared to the same period in 2017 primarily due the decrease in tons sold, which decreased production taxes and royalties. In addition, labor costs decreased due to decreased headcount and benefit costs. Partially offsetting these decreases were increases in fuel and lubes and repairs and maintenance. Fuel and lubes increased as a result of an increase in the price of diesel and consumption rates. Repairs and maintenance increased as a result of running more haul trucks, as well as work done at our rebuild center on various draglines, dippers and buckets. The average cost per ton sold increased primarily due to the lower production and higher strip ratios. *Cost of product sold* and average cost per ton sold have been revised for the nine months ended September 30, 2017 from prior period presentation to reflect the adoption of ASU 2017-07. The adoption, which required certain postretirement benefit costs to be relocated out of *Operating income (loss)*, increased *Cost of product sold* and average cost per ton sold by $4.0 million and $0.09, respectively, from what was previously reported for the nine months ended September 30, 2017. See Note 2 for further information regarding the impact of this ASU on our Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

Logistics and Related Activities Segment

Cost of product sold increased in the nine months ended September 30, 2018 as compared to the same period in 2017 due to the increase in export sales. We shipped 4.1 million tons on 31 vessels during the nine months ended September 30, 2018 compared to 3.1 million tons on 23 vessels during the nine months ended September 30, 2017. In addition, rail fuel surcharges, severance taxes, and price variable rail rates on our export sales have increased.

Other

Cost of product sold decreased in the nine months ended September 30, 2018 due to a decrease in our broker activity as compared to the same period in 2017.

Table of Contents

Operating Income (Loss)

The following table presents *Operating income (loss)* (in millions, except for percentages):

	Nine Months Ended September 30,				Change		
	2018		2017		Amount		Percent
Owned and Operated Mines							
Operating income (loss)	$	(13.6)	$	50.4	$	(64.0)	(127.0)
Logistics and Related Activities							
Operating income (loss)	$	20.2	$	(12.8)	$	33.0	*
Other							
Operating income (loss)	$	(26.7)	$	(34.8)	$	8.1	23.3
Eliminations of Intersegment Sales							
Operating income (loss)	$	(0.2)	$	(0.2)	$		
Total Consolidated							
Operating income (loss)	$	(20.3)	$	2.6	$	(22.9)	*

* Not meaningful

Owned and Operated Mines Segment

Operating income decreased in the nine months ended September 30, 2018 as compared to the same period in 2017 primarily due to the decrease in *Revenue* as previously discussed. Partially offsetting this was the decrease in *Cost of product sold* as previously discussed. In addition, *Depreciation and depletion* decreased $10.1 million primarily due to the decrease in production. Finally, we recognized mark-to-market losses on our WTI derivative financial instruments of $3.1 million in the nine months ended September 30, 2017. We recognized a gain of $0.7 million in the nine months ended September 30, 2018. *Operating income (loss)* has been revised for the nine months ended September 30, 2017 from prior period presentation to reflect the adoption of ASU 2017-07. The adoption, which required certain postretirement benefit costs to be relocated out of *Operating income (loss)*, decreased operating income by $4.0 million from what was previously reported for the nine months ended September 30, 2017. See Note 2 for further information regarding the impact of this ASU on our Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

Logistics and Related Activities Segment

There were no factors other than those previously discussed for *Revenue* and *Cost of product sold* that influenced the increase in operating income during the nine months ended September 30, 2018 as compared to the same period in 2017.

Other

Operating loss decreased during the nine months ended September 30, 2018 as compared to the same period in 2017. The decrease was primarily related to a decrease of $8.5 million in SG&A costs, partially offset by the factors already discussed related to *Revenue* and *Cost of product sold*. The decrease in SG&A costs were due to lower stock based compensation, benefit costs, and outside services.

Table of Contents

Other Income (Expense)

The following table presents *Other income (expense)* (in millions, except for percentages):

	Nine Months Ended September 30, 2018	2017	Change Amount	Percent
Other income (expense)	$ (4.6)	$ (27.8)	$ 23.2	83.5

Other expense decreased for the nine months ended September 30, 2018 as compared to the same period in 2017 primarily due to the $19.5 million gain on the termination of our postretirement medical plan. See Note 15 for further information. In addition, interest expense decreased $1.3 million related to the early retirement of the 2019 Notes during the first quarter of 2017 and $1.3 million related to the letters of credit we obtained. Not only has the amount of letters of credit decreased, the fees related to the letters of credit have also decreased. Other income (expense) has been revised for the nine months ended September 30, 2017 from prior period presentation to reflect the adoption of ASU 2017-07. The adoption, which required certain postretirement benefit costs to be relocated out of Operating income (loss), decreased Other expense by $3.2 million from what was previously reported for the nine months ended September 30, 2017. See Note 2 for further information regarding the impact of this ASU on our Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

Income Tax Provision

Our statutory income tax rate, including state income taxes for the nine months ended September 30, 2018, was approximately 23%, while the rate for the nine months ended September 30, 2017, was approximately 37%. Our effective tax rate for the nine months ended September 30, 2018 and 2017 was (1.2)% and (0.1)%, respectively. The difference between the statutory rates for each period is due to the recent enactment of the Tax Cuts and Jobs Act (TCJA) (see Liquidity below). In addition, the difference between our statutory income tax rate and our effective income tax rate for the nine months ended September 30, 2018 and 2017 is primarily the result of the impact of percentage depletion, income tax in the states in which we do business, and changes in our valuation allowance.

Liquidity and Capital Resources

	September 30, 2018	December 31, 2017
	(in millions)	
Cash and cash equivalents	$ 109.5	$ 107.9

In addition to our cash and cash equivalents, our primary sources of liquidity are cash from our operations and, to the extent available under the terms of our agreements, any borrowing capacity under our Amended Credit Agreement and A/R Securitization Program (as defined below). Additionally, we may also seek to periodically access debt and equity markets depending on market conditions, although we cannot assure you that we will be able to issue debt or equity in the future on terms that we deem acceptable or at all.

Cash balances depend on a number of factors, such as the volume of coal sold by our Owned and Operated Mines segment; the price for which we sell our coal; the costs of mining, including labor, repairs and maintenance, fuel, and explosives; the amount of royalties, severance taxes, and other governmental levies that we pay; capital expenditures to acquire property, plant and equipment; the volume of deliveries coordinated by our Logistics and Related Activities segment to customer contracted destinations; the revenue we receive for our logistics services; demurrage and any take-or-pay charges; coal-fired electricity demand, regulatory changes and energy policies impacting our business; and other risks and uncertainties, including those discussed in Item 1A in our 2017 Form 10-K and in Item 1A of Part II of this report. Industry conditions have resulted in increased credit pressures on the coal industry. Any credit demands by third parties or refusals by banks, surety bond providers, investors or others to extend, renew, or refinance credit on commercially reasonable terms may adversely impact our business, financial condition, results of operations, cash flows, and liquidity.

Capital expenditures are necessary to keep our equipment fleets updated to maintain our mining productivity and competitive position and to add new equipment as necessary. Capital expenditures for the nine months ended September 30, 2018 and 2017 were $7.2 million and $11.3 million, respectively. Our anticipated capital expenditures are expected to be between $13 million and $15 million in 2018, which we plan to fund through cash from operations.

Overview of Cash Transactions

We started 2018 with cash, cash equivalents, and restricted cash of $108.7 million and concluded the nine months ended September 30, 2018 with $114.0 million. The primary reason for this increase was cash provided by operating activities of $24.1 million. This was partially offset by capital expenditures of $7.2 million, cash paid for investments in development projects of $1.9 million, and the 2021 Senior Note payment amortized to deferred gain of $6.3 million. The following table represents cash flows (in millions, except percentages).

	Nine Months Ended September 30,		Change	
	2018	**2017**	**Amount**	**Percent**
Beginning balance - cash, cash equivalents, and restricted cash	$ 108.7	$ 84.4	$ 24.3	28.8
Net cash provided by (used in) operating activities	24.1	57.0	(32.9)	(57.7)
Net cash provided by (used in) investing activities	(9.0)	(13.4)	4.4	32.8
Net cash provided by (used in) financing activities	(9.8)	(6.4)	(3.4)	(53.1)
Ending balance - cash, cash equivalents, and restricted cash	$ 114.0	$ 121.7	$ (7.7)	(6.3)

Net cash provided by operating activities decreased for the nine months ended September 30, 2018 as compared to the same period in 2017 primarily due to a decrease in *Net income (loss)* adjusted for non-cash items of $55.0 million partially offset by an increase in working capital of $22.0 million.

The decrease in cash used in investing activities for the nine months ended September 30, 2018 as compared to the same period in 2017 was primarily related to a decrease in capital expenditures of $4.1 million.

Cash used in financing activities increased for the nine months ended September 30, 2018 as compared to the same period in 2017 primarily due to making our first payment of $0.6 million related to the West Antelope II South lease modification as we received approval during the year in addition to the payment of $0.9 million for deferred financing costs related to the refinancing of the A/R Securitization Program. During 2017, we received cash proceeds of $68.9 million from the issuance of 13.5 million shares of common stock partially offset by underwriting discounts and commissions related to the equity offering of $4.4 million and the redemption of our outstanding 2019 Notes of $62.1 million.

First Quarter 2017 Equity Offering and 2019 Notes Redemption

On February 28, 2017, we issued 13.5 million shares of common stock through a registered underwritten public offering and received proceeds, net of underwriting discounts and commissions, of $64.7 million. We used the net proceeds from the offering to fund the full redemption of our remaining outstanding 2019 Notes. On March 31, 2017, we redeemed the 2019 Notes at a total cost of $64.5 million, reflecting a redemption price of 101.417% of the principal amount of $62.1 million, or $63.0 million, plus accrued and unpaid interest of $1.5 million. In addition, we wrote off $0.7 million in deferred financing costs and original issue discount as of the redemption date. The primary purpose of the redemption of the 2019 Notes was to reduce outstanding long-term debt and extend our nearest term maturity date to 2021. The 2019 Notes bore interest at fixed annual rates of 8.50%.

Credit Agreement

Cloud Peak Energy Resources LLC entered into a Credit Agreement with PNC Bank, National Association, as administrative agent, and a syndicate of lenders, originally dated as of February 21, 2014 (as previously amended, the Credit Agreement). The Credit Agreement provides us with a senior secured revolving credit facility that can be used to borrow funds or obtain letters of credit.

On May 24, 2018, we entered into an Amended and Restated Credit Agreement (the Amended Credit Agreement) that amended and restated the existing Credit Agreement. The Amended Credit Agreement extended the maturity of the Credit Agreement from February 21, 2019 to May 24, 2021 and reduced the maximum borrowing capacity to $150 million from the previous maximum capacity of $400 million. The borrowing capacity under the Amended Credit Agreement is reduced by the undrawn face amount of letters of credit issued and outstanding under the Amended Credit Agreement, which may be up to $70 million at any time. The Amended Credit Agreement also requires new quarterly financial covenants of (a) a ratio of first lien gross debt under the Amended Credit Agreement, capital leases and the A/R Securitization Program (including issued but undrawn letters of credit) to EBITDA (as defined in the Amended Credit Agreement) equal to or less than 1.75 to 1; (b) a ratio of EBITDA less capital expenditures to Fixed Charges (as defined in the Amended Credit Agreement) of not less than 1.15 to 1; and (c) a ratio of funded debt (excluding issued but undrawn letters of credit) less unrestricted cash to EBITDA equal to or less than (i) 4.00 to 1 through June 30, 2019, (ii) 3.50 to 1 from September 30, 2019 to December 31, 2019, (iii) 3.00 to 1 from March 31, 2020 to June 30, 2020 and (iv) 2.50 to 1 from September 30, 2020 to maturity. The Amended Credit Agreement also revised the minimum liquidity covenant to require minimum liquidity of not less than $100 million as of the last day of each fiscal quarter, which was reduced from the prior requirement under the Credit Agreement to maintain monthly liquidity of not less than $125 million. Lastly, it revised various negative covenants and baskets that would apply to, among other things, the incurrence of debt, making investments, asset dispositions, and restricted payments. The borrowing capacity is limited by the financial covenants, calculated on a quarterly basis, and will fluctuate from quarter to quarter.

We were in compliance with the covenants contained in the Amended Credit Agreement as of September 30, 2018 and December 31, 2017. As of September 30, 2018, based upon the quarterly financial covenant calculation, we had $16.2 million of borrowing capacity available under the Amended Credit Agreement.

As of September 30, 2018 and December 31, 2017, we had no borrowings under the Amended Credit Agreement. There were no longer any undrawn letters of credit under the Amended Credit Agreement as all issued letters of credit had been transferred to the A/R Securitization Program as of December 31, 2017. Based on current operating plans and forecasts and ongoing challenging industry conditions, there are no assurances that we will remain in compliance with the Amended Credit Agreement s financial covenants for the next 12 months.

A default under the Amended Credit Agreement would permit the lenders to terminate their commitment to make cash advances or issue letters of credit, and require cash collateralization if there were any outstanding letters of credit obligations. A default and acceleration of obligations under the Amended Credit Agreement would also trigger cross-defaults for our Senior Notes due 2021 and 2024, which would permit the Senior Notes lenders to require immediate repayment of all principal, interest, fees and other amounts payable thereunder. A default under the Amended Credit Agreement would also trigger a cross-default for our A/R Securitization Program, which would permit the lender to terminate the A/R Securitization Program and trigger collateralization requirements for outstanding letter of credit obligations. In the event of a potential or actual default, we may not be granted waivers or be able to reach agreement on amendments under our Amended Credit Agreement.

We reserve the right to terminate the Amended Credit Agreement should we deem it appropriate to achieve our business objectives and priorities. A potential Amended Credit Agreement termination would not result in a default under the A/R Securitization Program or Senior Notes due 2021 and 2024. Based on our current forecast, we expect that we will not remain in compliance with our Amended Credit Agreement within the next 12 months. We are currently evaluating various scenarios, which include the potential near-term termination of the Amended Credit Agreement, which would eliminate any potential noncompliance with the Amended Credit Agreement. This would permanently reduce our sources of liquidity to our cash and our A/R Securitization Program capacity, which would have been $115.4 million at September 30, 2018.

Upon the execution of the Amended Credit Agreement, we recorded a charge of $1.6 million in interest expense to write off certain deferred financing costs as certain banks of the syndicate changed and recorded $3.6 million of new deferred financing costs. The aggregate deferred financing costs are being amortized on a straight-line basis to interest expense over the remaining term of the Amended Credit Agreement.

A/R Securitization Program

On May 24, 2018, the Accounts Receivable Securitization Program (the A/R Securitization Program) was amended to extend the term of the A/R Securitization Program to May 24, 2021 from January 23, 2020. All other terms of the program remained substantially the same. The A/R Securitization Program allows for a maximum borrowing capacity of $70 million. The borrowing capacity is limited by eligible accounts receivable (as defined under the terms of the A/R Securitization Program), calculated on a monthly basis, and will fluctuate from month to month. The borrowing capacity is reduced by the undrawn face amount of letters of credit issued and outstanding under the A/R Securitization Program. As of September 30, 2018, we had $27.9 million of borrowing capacity under the A/R Securitization Program, of which $5.9 million was available. The undrawn face amount of letters of credit outstanding was $22.0 million as of September 30, 2018. As of December 31, 2017, there was a $1.1 million deficit between the borrowing capacity and the undrawn face amount of letters of credit, which was cash-collateralized into a restricted cash account in early January 2018. The restriction was lifted on the $1.1 million in early March 2018. There were no borrowings outstanding under the A/R Securitization Program as of September 30, 2018 or December 31, 2017.

Upon the execution of the amendment we recorded $0.9 million of new deferred financing costs. The aggregate deferred financing costs are being amortized on a straight-line basis to interest expense over the remaining term of the A/R Securitization Program.

Our A/R Securitization Program supports the current collateral requirements associated with outstanding third-party surety bonds that primarily secure the performance of our reclamation and lease obligations.

Liquidity

Our aggregate availability for borrowing under the Amended Credit Agreement and the A/R Securitization Program was approximately $22.1 million as of September 30, 2018. Our total liquidity, which includes cash and cash equivalents and, to the extent available under the terms of our agreements, amounts available under both our Amended Credit Agreement and the A/R Securitization Program, was $131.6 million as of September 30, 2018.

The TCJA legislation, enacted in December 2017, made significant changes to U.S. tax laws, including (i) the reduction in the federal corporate tax rate, (ii) the elimination of the corporate alternative minimum tax (AMT) and the ability to offset regular tax liability or claim refunds for AMT credits carried forward, and (iii) imposing limitations on the deductibility of interest expense. We have historically been subject to the AMT, under which taxes were imposed at a 20% rate on taxable income, subject to certain adjustments, and we assumed that we would be subject to the AMT in future periods. As such, the elimination of the AMT and reduction in the federal corporate tax rate to 21% does not have a material impact on our estimates for cash taxes payable in the next several years.

The material immediate impact of the TCJA to us was the elimination of the AMT and the ability to offset our regular tax liability or claim refunds for taxable years 2018 through 2021 for AMT credits carried forward from prior periods. We currently anticipate we will realize approximately $30 million in AMT value over the next four years with approximately half of this value realized in 2019 for taxable year 2018.

We believe our sources of liquidity will be sufficient to fund our primary ordinary course uses of cash for the next twelve months, which include our costs of coal production and logistics services, capital expenditures, and interest on our debt.

In addition, we believe our sources of liquidity will be sufficient to fund the expected cash settlement of our 2016 performance share units upon any vesting in March 2019. The balance of the liability relating to the

2016 grants was $5.2 million as of September 30, 2018. Using the current fair market value of this award, the total cash payout in March 2019 is currently estimated at $6.2 million.

If we do not have sufficient resources from ongoing operations to satisfy our obligations or the timing of payments on our obligations does not coincide with cash inflows from operations, we may need to use our cash on hand or, to the extent available under the terms of our agreements, borrow under our Amended Credit Agreement or our A/R Securitization Program. Any further issuance of letters of credit through our A/R Securitization Program to support additional surety bond collateral requirements would restrict cash and directly reduce liquidity available to operations. If the obligation is in excess of these amounts or if we do not have sufficient or any borrowing capacity under these agreements, we may need to seek additional borrowing sources or take other actions. Depending upon existing circumstances at the time, we may not be able to obtain additional funding on acceptable terms or at all. In addition, our existing debt instruments contain restrictive covenants, which may prohibit us from borrowing under our Amended Credit Agreement or pursuing certain alternatives to obtain additional funding.

We regularly monitor the capital and bank credit markets for opportunities that we believe will improve our balance sheet and may engage, from time to time, in financing or refinancing transactions as market conditions permit. Future activities may include, but are not limited to, public or private debt or equity offerings, the purchase of our outstanding debt for cash in open market purchases or privately negotiated refinancing, and extension and exchange transactions or public or private exchange offers or tender offers. Any financing or refinancing transaction may occur on a stand-alone basis or in connection with, or immediately following, other transactions. Our ability to access the debt or equity capital markets on economic terms in the future will be affected by general economic conditions, the domestic and global financial markets, our operational and financial performance, the value and performance of our debt or equity securities, prevailing commodity prices, and other macroeconomic factors outside of our control.

Off-Balance Sheet Arrangements

In the normal course of business, we are party to guarantees and financial instruments with off-balance sheet risk such as bank letters of credit, performance or surety bonds, and indemnities, which are not reflected on the Unaudited Condensed Consolidated Balance Sheets. These instruments are used to secure certain of our obligations to reclaim lands used for mining, securing coal lease obligations, and for other operating requirements.

As of September 30, 2018, we had $407.6 million of reclamation and lease bonds with underwriters backed by collateral of approximately 5%, or $22.0 million, in the form of letters of credit under our A/R Securitization Program. The terms and conditions with the issuers of the surety bonds allow for collateral calls to mitigate their exposure. The amount of collateral that could be required under these collateral calls would be based on the underlying bonded assets and their risks, our credit profile, and overall market conditions. Should further collateral for these obligations be called, this could utilize a significant portion of our existing liquidity or potentially exceed our existing liquidity. If we are unable to obtain or retain required surety bonds, we may be unable to satisfy legal requirements necessary to conduct our mining operations.

Climate Change Regulatory Environment

Enactment of current, proposed, or future laws or regulations regarding emissions from the combustion of coal by the U.S., some of its states, or by other countries, or other actions to limit such emissions, like the creation of mandatory use requirements for renewable fuel sources, will likely result in electricity generators further switching from coal to other fuel sources. Public concern and the political environment may also continue to materially and adversely impact future coal demand and usage to generate electricity, regardless of applicable legal and regulatory requirements. Additionally, the creation and issuance of subsidies designed to encourage use of alternative energy sources could further decrease the demand for coal as an energy source. The potential financial impact on us as a result of these factors will depend upon the degree to which electricity generators diminish their reliance on coal as a fuel source as a result thereof. That, in turn, will depend on a number of factors, including the appeal and design of the subsidies being offered, the specific requirements imposed by any such laws or regulations such as mandating use by utilities of renewable fuel sources, the time periods over which those laws or regulations would be phased in, and the state of any commercial development and deployment of carbon capture technologies, including storage, conversion, or other commercial use for captured carbon. In view of the significant uncertainty surrounding each of these factors, it is not possible for us to reasonably predict the impact that any such laws or regulations may have on our results of operations, financial condition, or cash flows, however, such impacts may be significant. See Item 1   Business   Environmental and Other Regulatory Matters   Global Climate Change   and Item 1A   Risk Factors   of our 2017 Form 10-K for additional discussion regarding how climate change and other environmental regulatory matters may materially adversely impact our business.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP   ) requires management to make estimates and assumptions that affect reported amounts. These estimates and assumptions are based on information available as of the date of the financial statements. Accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end. The results of operations for the nine months ended September 30, 2018 are not necessarily indicative of results that can be expected for future quarters or the full year. Refer to the section entitled   Critical Accounting Policies and Estimates   of   Management   s Discussion and Analysis of Financial Condition and Results of Operations   in our 2017 Form 10-K for a discussion of our critical accounting policies and estimates.

Newly Adopted Accounting Standards and Recently Issued Accounting Pronouncements

See Note 2 of our Unaudited Condensed Consolidated Financial Statements in Item 1 for a discussion of newly adopted accounting standards and recently issued accounting pronouncements.

Non-GAAP Financial Measures

EBITDA and Adjusted EBITDA are intended to provide additional information only and do not have any standard meaning prescribed by U.S. GAAP. A quantitative reconciliation of historical *Net income (loss)* to Adjusted EBITDA is found in the tables below.

EBITDA represents *Net income (loss)* before: (1) interest income (expense), net, (2) income tax provision, (3) depreciation and depletion, and (4) amortization. Adjusted EBITDA represents EBITDA as further adjusted for accretion, which represents non-cash increases in asset retirement obligation liabilities resulting from the passage of time, and specifically identified items that management believes do not directly reflect our core operations. The specifically identified items that we routinely adjust for are: (1) adjustments to exclude non-cash impairment charges, (2) adjustments for derivative financial instruments, excluding fair value mark-to-market gains or losses and including cash amounts received or paid, (3) adjustments to exclude debt restructuring costs, and (4) non-cash throughput amortization expense and contract termination payments made to amend the BNSF and Westshore agreements.

Because not all companies use identical calculations, our presentation of Adjusted EBITDA may not be comparable to other similarly titled measures of other companies. Our management recognizes that using Adjusted EBITDA as a performance measure has inherent limitations as compared to *Net income (loss)* or other U.S. GAAP financial measures, as this non-GAAP measure excludes certain items, including items that are recurring in nature, which may be meaningful to investors. As a result of the exclusions, Adjusted EBITDA should not be considered in isolation and does not purport to be an alternative to *Net income (loss)* or other U.S. GAAP financial measures as a measure of our operating performance. See Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Non-GAAP Financial Measures of our 2017 Form 10-K for additional information regarding Adjusted EBITDA and its limitations compared to U.S. GAAP financial measures.

Table of Contents

The following tables present a reconciliation of consolidated *Net income (loss)* to consolidated Adjusted EBITDA, consolidated *Net income (loss)* to consolidated *Operating income (loss)*, and segment *Operating income (loss)* to segment Adjusted EBITDA (in millions):

Adjusted EBITDA

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Net income (loss) (1)	$ 12.7	$ 2.6	$ (24.9)	$ (24.5)
Interest income	(0.3)	(0.1)	(0.8)	(0.3)
Interest expense	8.4	9.6	28.1	32.4
Income tax (benefit) expense		(0.1)	0.3	
Depreciation and depletion	17.4	18.8	46.8	56.7
EBITDA	38.2	30.7	49.5	64.3
Accretion	1.9	1.9	5.4	5.5
Derivative financial instruments:				
Exclusion of fair value mark-to-market losses (gains) (2)	(0.7)	(0.8)	(0.7)	3.1
Inclusion of cash amounts received (paid) (3)		(0.8)		(2.0)
Total derivative financial instruments	(0.7)	(1.6)	(0.7)	1.1
Impairments			0.8	
Non-cash throughput amortization expense and contract termination payments	1.3	5.1	4.7	15.0
Adjusted EBITDA (1)	$ 40.7	$ 36.0	$ 59.6	$ 86.0

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(1) Includes a non-cash gain on the termination of our postretirement medical plan of $19.5 million for the three and nine months ended September 30, 2018. Excluding this non-cash gain, Adjusted EBITDA would have been $21.2 million and $40.1 million for the three and nine months ended September 30, 2018, respectively. See Note 15 for a discussion regarding the termination of our postretirement medical plan effective January 1, 2019.

(2) Fair value mark-to-market (gains) losses reflected on the Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

(3) Cash amounts received and paid reflected within operating cash flows in the Unaudited Condensed Consolidated Statements of Cash Flows.

Table of Contents

Adjusted EBITDA by Segment

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Net income (loss) (1)	$ 12.7	$ 2.6	$ (24.9)	$ (24.5)
Interest income	(0.3)	(0.1)	(0.8)	(0.3)
Interest expense	8.4	9.6	28.1	32.4
Other, net	(0.1)	0.1	0.5	0.5
Income tax expense (benefit)		(0.1)	0.3	
Loss (income) from unconsolidated affiliates, net of tax		(0.1)	(0.3)	(0.8)
Net periodic postretirement benefit cost (income), excluding service cost	(20.0)	(1.6)	(23.3)	(4.8)
Consolidated operating income (loss) (1)	$ 0.7	$ 10.3	$ (20.3)	$ 2.6
Owned and Operated Mines				
Operating income (loss) (2)	$ (2.6)	$ 25.8	$ (13.6)	$ 50.3
Depreciation and depletion	17.1	18.5	45.9	56.1
Accretion	1.8	1.7	5.0	5.1
Derivative financial instruments:				
Exclusion of fair value mark-to-market losses (gains)	(0.7)	(0.8)	(0.7)	3.1
Inclusion of cash amounts received (paid)		(0.8)		(2.0)
Total derivative financial instruments	(0.7)	(1.6)	(0.7)	1.1
Impairments			0.8	
Net periodic postretirement benefit income (cost), excluding service cost	16.7	1.3	19.4	4.0
Other		(0.1)	(0.6)	(0.5)
Adjusted EBITDA (2)	$ 32.3	$ 45.6	$ 56.2	$ 116.1
Logistics and Related Activities				
Operating income (loss)	$ 9.2	$ (1.9)	$ 20.2	$ (12.8)
Non-cash throughput amortization expense and contract termination payments	1.3	5.1	4.7	15.0
Adjusted EBITDA	$ 10.5	$ 3.2	$ 24.9	$ 2.2
Other Unallocated Operating Income (Loss)				
Other operating income (loss)	$ (5.5)	$ (13.4)	$ (26.7)	$ (34.8)
Elimination of intersegment operating income (loss)	$ (0.3)	$ (0.2)	$ (0.2)	$ (0.2)

(1) Includes a non-cash gain on the termination of our postretirement medical plan of $19.5 million for the three and nine months ended September 30, 2018. See Note 15 for a discussion regarding the termination of our postretirement medical plan effective January 1, 2019.

(2) The Owned and Operated Mines segment includes a non-cash gain on the termination of our postretirement medical plan of $16.2 million for the three and nine months ended September 30, 2018. Excluding this non-cash gain, Adjusted EBITDA for the Owned and Operated Mines segment would have been $16.1 million and $40.0 million for the three and nine months ended September 30, 2018, respectively.

Item 3. ***Quantitative and Qualitative Disclosures About Market Risk.***

We define market risk as the risk of economic loss as a consequence of the adverse movement of market rates and prices or credit standings. We believe our principal market risks are commodity price risk, interest rate risk, and credit risk.

Commodity Price Risk

Historically, we have principally managed the commodity price risk for our coal contract portfolio with long-term coal sales agreements of varying terms and durations. In recent years, our business has become more variable and less predictable because utilities are adjusting their purchasing pattern based on natural gas prices, weather, and other factors. Market risk includes the potential for changes in the market value of our coal portfolio, which includes index sales and export pricing. As of October 17, 2018, we have contracted to sell approximately 52 million tons during 2018, all of which are under fixed-price contracts. Due to operational issues at the Antelope Mine, we currently expect to ship between 49 and 51 million tons in 2018. We are working with our customers to move a portion of Antelope tons to our other mines or into 2019 where possible.

We also face price risk involving other commodities used in our production process, primarily diesel fuel. Based on our projections of our usage of diesel fuel for the next 12 months, and assuming that the average cost of diesel fuel increases by 10%, we would incur additional fuel costs of approximately $4.7 million over the next 12 months. In July 2018, we entered into WTI derivative financial instruments to manage certain exposures to diesel fuel prices. The terms of the program are disclosed in Note 11 of our Unaudited Condensed Consolidated Financial Statements in Item 1.

Interest Rate Risk

Our Amended Credit Agreement, certain of our capital leases, and our A/R Securitization Program are subject to adjustable interest rates. See Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources of our 2017 Form 10-K. We had no outstanding borrowings under our Amended Credit Agreement or A/R Securitization Program as of September 30, 2018. If we borrow funds under the Amended Credit Agreement or A/R Securitization Program, we may be subject to increased sensitivity to interest rate movements.

Some of the $3.0 million of borrowings under the capital leasing program are also subject to adjustable interest rates although any change to the rate would not have a significant impact on cash flow. Any future debt arrangements that we enter into may also have adjustable interest rates that may increase our sensitivity to interest rate movements.

Credit Risk

We are exposed to credit loss in the event of non-performance by our counterparties, which may include end-use customers, trading houses, brokers, and financial institutions that hold our investments. We attempt to manage this exposure by entering into agreements with counterparties that meet our credit standards and that are expected to fully satisfy their obligations under the contracts. These steps may not always be effective in addressing counterparty credit risk.

When appropriate (as determined by our credit management function), we have taken steps to reduce our credit exposure to customers that do not meet our credit standards or whose credit has deteriorated. These steps include obtaining letters of credit and requiring prepayments for shipments. See Item 1A Risk Factors Risks Related to Our Business and Industry *We are exposed to counterparty risk with our customers,* *trading partners, financial institutions, and other parties with whom we conduct business* in our 2017 Form 10-K.

Item 4. ***Controls and Procedures.***

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to senior management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2018, and has concluded that such disclosure controls and procedures are effective.

Internal Control over Financial Reporting

During the most recent fiscal quarter, there have been no changes to our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II

OTHER INFORMATION

Item 1. ***Legal Proceedings.***

See Note 17 of our Unaudited Condensed Consolidated Financial Statements in Part I, Item 1, of this report relating to certain legal proceedings, which information is incorporated by reference herein.

Item 1A. ***Risk Factors.***

In addition to the other information set forth in this report, including the risk factor set forth below, you should carefully consider the risks and uncertainties described in Item 1A of our 2017 Form 10-K. The risks described herein and in our 2017 Form 10-K are not the only risks we may face. If any of those risk factors, as well as other risks and uncertainties that are not currently known to us or that we currently believe are not material, actually occur, our business, financial condition, results of operations, cash flows, and liquidity could be materially and adversely affected. In our judgment, other than as set forth below, there were no material changes in the risk factors as previously disclosed in Item 1A of our 2017 Form 10-K.

Changes in U.S. trade policies and any resulting trade wars could materially and adversely impact our logistics business, including by negatively affecting our logistics supply chain or international demand and pricing for U.S. thermal coal.

The current Administration has made public statements indicating possible significant changes in U.S. trade policy and has taken certain actions that have adversely impacted U.S. trade and relationships with trading partners, including imposing tariffs on certain goods imported into the United States. Any changes in U.S. trade policy could trigger, and certain actions already taken have triggered, additional retaliatory actions by affected countries, resulting in trade wars. Trade wars may lead to reduced economic activity, increased costs, reduced demand and changes in purchasing behaviors for affected goods, limits on trade with the United States or other potentially adverse economic outcomes. These or other consequences from any trade wars could adversely impact our export volumes, prices and financial results if, for example, demand or pricing for seaborne thermal coal from the U.S. decreases or there are retaliatory measures, including tariffs, that negatively affect our logistics supply chain and our ability or cost to transport our coal by rail to the Westshore export terminal in British Columbia, Canada and from there to export customers. Any negative impacts to our logistics revenues, costs or supply chain could have a material adverse impact on our logistics results and on our consolidated results.

Covenants under our Amended Credit Agreement may limit the amount of funds available to us or potentially result in an event of default.

Our ability to borrow is subject to the terms and conditions of our Amended Credit Agreement. The financial covenants are based on EBITDA for the preceding four fiscal quarters (which is defined in the Amended Credit Agreement and is not the same as EBITDA or Adjusted EBITDA otherwise presented). The covenants include: (a) a ratio of first lien gross debt under the Amended Credit Agreement, capital leases and the A/R Securitization Program (including issued but undrawn letters of credit) to EBITDA equal to or less than 1.75 to 1; (b) a ratio of EBITDA less capital expenditures to Fixed Charges (as defined in the Amended Credit Agreement) of not less than 1.15 to 1; and (c) a ratio of funded debt (excluding issued but undrawn letters of credit) less unrestricted cash to EBITDA equal to or less than (i) 4.00 to 1 through June 30, 2019, (ii) 3.50 to 1 from September 30, 2019 to December 31, 2019, (iii) 3.00 to 1 from March 31, 2020 to June 30, 2020 and (iv) 2.50 to 1 from September 30, 2020 to maturity. The Amended Credit Agreement also requires us to maintain liquidity of not less than $100 million as of the last day of each fiscal quarter. Although we were in compliance with the covenants contained in the Amended Credit Agreement as of September 30, 2018, our available borrowing capacity under the Amended Credit Agreement was reduced to approximately $16.2 million as of September 30, 2018. As of September 30, 2018, we had no borrowings under the Amended Credit Agreement. See Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Credit Agreement.

We cannot assure you that we will remain in compliance with the Amended Credit Agreement s financial covenants. In the event of a potential or actual default, we may not be granted waivers or be able to reach agreement on amendments to our Amended Credit Agreement. A default under the Amended Credit Agreement would permit the lenders to terminate their commitment to make cash advances or issue letters of credit, and require cash collateralization if there were any outstanding letters of credit obligations.

A default under the Amended Credit Agreement would also trigger a cross-default for our A/R Securitization Program, which would permit the lender to terminate the A/R Securitization Program and trigger collateralization requirements for outstanding letter of credit obligations.

A default and acceleration of obligations under the Amended Credit Agreement would also trigger cross-defaults on our Senior Notes due 2021 and 2024, which would permit the Senior Notes lenders to require immediate repayment of all principal, interest, fees and other amounts payable thereunder. The Senior Notes due 2021 and 2024 require a double-trigger (two conditions): a default and an acceleration of an amount greater than $50 million. As of September 30, 2018, our combined obligations under the Amended Credit Agreement and the A/R Securitization Program were below $50 million

Our reliance on information technology, including systems managed by third parties, exposes us to risks from system failures and cybersecurity incidents that could materially and adversely affect our operations, financial results and reputation and result in significant costs and liabilities.

Our business depends on the reliable and secure operation of computer systems, network infrastructure, digital communication technologies and other information technology. Problems may arise in both our internally managed systems and those of third parties, including:

- our service providers for technology, communications and data storage;
- our consulting and advisory firms and contractors that have access to our confidential and proprietary data;
- administrators for our employee medical claims;
- rail and export terminal companies that are part of the supply chain for the delivery of our coal;
- coal power generation facilities that purchase our coal; and
- vendors who provide mining equipment, supplies, and services necessary for our operations.

These systems could be vulnerable to problems resulting from accidents such as fire, power loss or telecommunication failure. In addition, these systems could be vulnerable to cybersecurity incidents or other deliberate activities by others. Cybersecurity risks include those involving unauthorized access, denial-of-service attacks, malicious software, data privacy breaches, cyber or phishing attacks, ransomware, malware, social engineering, physical breaches or other actions. Cybersecurity risks continue to evolve at a rapid pace.

Although we have implemented information technology controls and systems and provide employee training on phishing, malware, and other cyber risks designed to protect information and mitigate the risk of data loss and other cybersecurity risks, such measures cannot entirely eliminate cybersecurity threats, and the controls we have installed may be breached. Additionally, we have limited control and visibility over third-party systems that we rely on for our business. If any of these information technology systems cease to function properly or are breached, we could suffer disruptions to our mining operations and corporate functions and those events may materially and adversely impact our financial results and reputation and result in significant costs and liabilities.

Although we have not suffered any material losses relating to historical cybersecurity attacks on our systems as of the date of this report, there is no assurance that we will not suffer such losses in the future. In addition, as cyber threats continue to change, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate or remediate any cyber vulnerabilities.

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds.***

None.

Item 3. ***Defaults Upon Senior Securities.***

None.

Item 4. ***Mine Safety Disclosures.***

The information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K is included in Exhibit 95.1 to this Form 10-Q.

Item 5. ***Other Information.***

None.

Item 6. ***Exhibits.***

See Exhibit Index at page 75 of this report.

Table of Contents

EXHIBIT INDEX

The exhibits below are numbered in accordance with the Exhibit Table of Item 601 of Regulation S-K.

Exhibit Number	Description of Documents
3.1	Amended and Restated Certificate of Incorporation of Cloud Peak Energy Inc. effective November 25, 2009 (incorporated by reference to Exhibit 3.1 to Cloud Peak Energy Inc. s Annual Report on Form 10-K filed on February 14, 2014 (File No. 001-34547))
3.2	Amended and Restated Bylaws of Cloud Peak Energy Inc., effective July 11, 2018 (incorporated by reference to Exhibit 3.2 to Cloud Peak Energy Inc. s Current Report on Form 8-K filed on July 11, 2018 (File No. 001-34547))
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
95.1*	Mine Safety Disclosure
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Label Linkbase Document
101.PRE*	XBRL Taxonomy Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Definition Document

* Filed or furnished herewith, as applicable

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CLOUD PEAK ENERGY INC.

	By:	/s/ HEATH A. HILL
Date: October 25, 2018		Heath A. Hill
		Executive Vice President and Chief Financial Officer
		(Principal Financial Officer and Duly Authorized Officer)