



ANNUAL  
REPORT  
**2020**



# WARRIOR 2020 ANNUAL REPORT

## MET COAL

### 2020 HIGHLIGHTS

Warrior Met Coal is a U.S.-based, environmentally and socially minded supplier to the global steel industry. It is dedicated entirely to mining non-thermal metallurgical coal used as a critical component of steel production by metal manufacturers in Europe, South America and Asia. Warrior is a large-scale, low-cost producer and exporter of premium metallurgical coal, also known as hard-coking coal (HCC), operating highly-efficient longwall operations in its

underground mines based in Alabama. The HCC that Warrior produces from the Blue Creek coal seam contains very low sulfur, has strong coking properties and is of a similar quality to coal referred to as the premium HCC produced in Australia. The premium nature of Warrior's HCC makes it ideally suited as a base feed coal for steel makers and results in price realizations near the Platts Index price. For more information, please visit [www.warriormetcoal.com](http://www.warriormetcoal.com).

### SUMMARY STATISTICS

(U.S. Dollars)

**Revenue:**  
\$782.7 Million

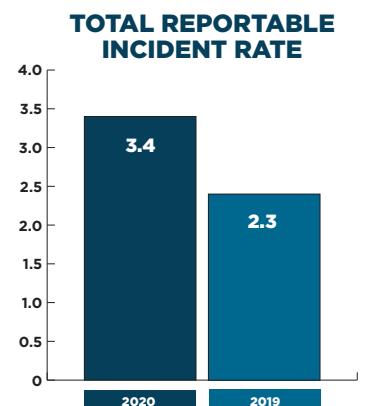
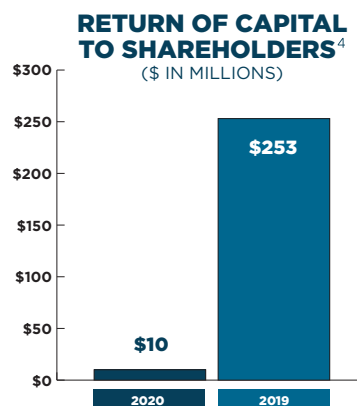
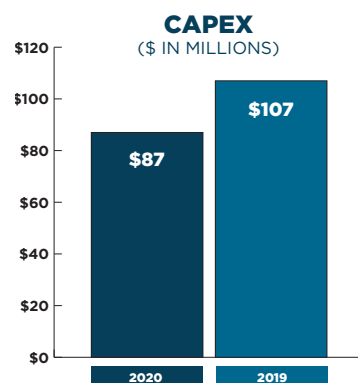
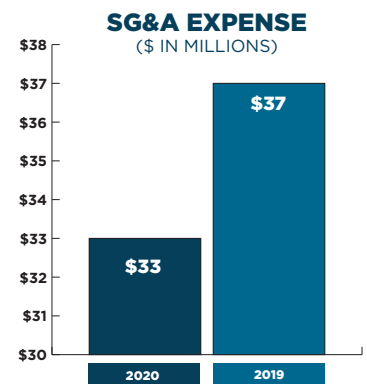
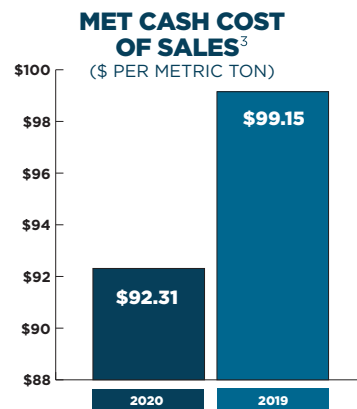
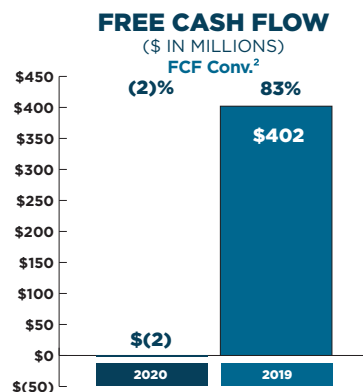
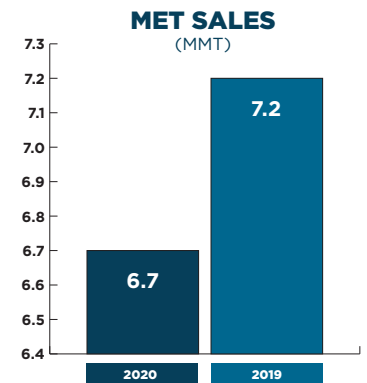
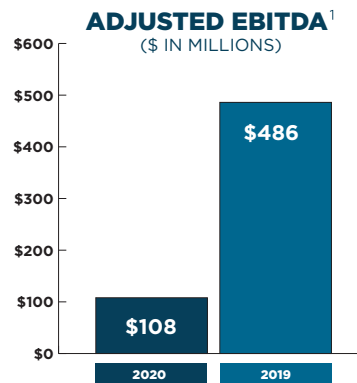
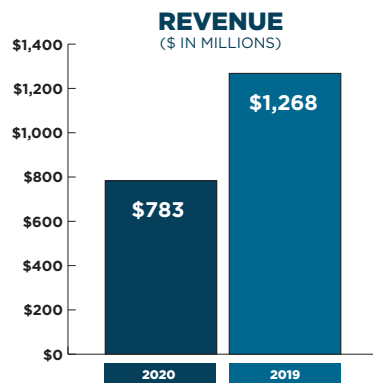
**Net Loss:**  
\$35.8 Million

**Net Loss Per Share:**  
\$0.70

**Adjusted EBITDA<sup>(1)</sup>:**  
\$108.3 Million

**Metallurgical (Met) Coal Sales:**  
6.7 Million  
Metric Tons (MMT)

**Employees:**  
1,401



- (1) Adjusted EBITDA is a non-GAAP financial measure and is defined and reconciled on page 65 of the Annual Report on Form 10-K for the year ended December 31, 2020.
- (2) Free Cash Flow (FCF) is defined as net cash provided by operating activities less purchases of property, plant, equipment and mine development costs. FCF Conversion is defined as FCF/Adj. EBITDA. FCF is a non-GAAP financial measure and is defined and reconciled on page A-4 of this document.
- (3) Cash cost of sales per metric ton is a non-GAAP financial measure and is defined and reconciled on page 65 of the Annual Report on Form 10-K for the year ended December 31, 2020.
- (4) Return of capital to stockholders includes special dividends, regular quarterly dividends and stock repurchases.



Dear Fellow Shareholders,

2020 was a dramatically different year for the world and for Warrior Met Coal. It was a year that presented challenges with no playbook as the COVID-19 pandemic had an unprecedented impact on our business and adversely affected economies and financial markets around the world.

However, the challenges presented by 2020 also proved that Warrior is uniquely well-positioned to weather any prolonged economic volatility. As an environmentally and socially minded supplier to the global steel industry, we are entirely dedicated to mining non-thermal metallurgical (met) coal used as a critical component of steel production by metal manufacturers in Europe, South America, and Asia. We have one of the world's highest quality met coal portfolios with strong customer relationships. Our balance sheet is strong, and our low and variable cost structure enables us to drive high margins and positive free cash flow across any economic backdrop. Most important, our employees are highly committed to working safely and efficiently, even in a pandemic.

Therefore, while the events of 2020 meant we needed to curtail the pace of our growth plans, including putting our new Blue Creek initiative on hold, it is notable that our financial strength and operational discipline provided us with the resilience to weather the storm. We are well-equipped to leverage this strong foundation to restart our growth trajectory when the global economy returns to higher steel production, met coal demand, and pricing.

I am incredibly proud of our employees for their perseverance during this extremely challenging time and of Warrior's many achievements, including:

- Operational performance that included production volume of 7.1 million metric tons while implementing and maintaining enhanced company-wide safety and social distancing protocols;
- Focus on cost control and expense reduction that resulted in our lowest annual cash cost of sales (free on board port) per metric ton of \$92.31 and a reduction in Selling, General and Administrative expenses by 11% to \$32.9 million;
- Reduction in planned capital expenditures of 40% as the significant past investments we made in our business allowed us to preserve cash without impacting our operations;
- An ongoing commitment to return capital to shareholders through quarterly dividends totaling \$10.4 million; and

- A proactive approach to environmental, social, and governance (“ESG”) matters, which is highlighted by our industry leading safety record, water usage reduction goal, greenhouse gas (GHG) capture increase, and diversity recruitment initiative.

### **Financial and Operating Results Reflect the Resiliency of the Business**

While 2020 presented us with unprecedented challenges in the face of lower steel production, reduced demand for met coal, and lower met coal pricing, Warrior remained focused on managing the aspects of the business we can control. Our results reflect the effectiveness of the actions we took and the tireless efforts of our team.

- Adjusted EBITDA of \$108.3 million and Adjusted EBITDA margins (calculated as Adjusted EBITDA divided by total revenues) of 13.8%
- Full-year 2020 revenues of \$783 million on annual sales volume of 6.7 million metric tons at an average net selling price of \$113.12 per metric ton
- Full-year 2020 cash from operations of \$112.6 million and nearly positive free cash flow despite the low price environment and capital expenditures and mine development costs of \$114.6 million

### **Protecting the Health and Safety of our Employees**

Our employees are central to everything we do, and the safety of our people has always been our top priority. While the COVID-19 pandemic presented new and unique challenges, we took immediate and definitive steps to enhance our company-wide safety protocols and protect our employees. This included cleaning and sanitizing high traffic areas, staggering shifts to allow for social distancing, implementing a strict screening process with mandatory temperature checks, providing employees with protective gear like masks and gloves, and eliminating business travel.

We also worked with the National Mining Association and other key national and local stakeholders to secure the essential industry designation for the mining industry. This designation ensured that our employees were able to remain employed and would not have to worry about financial stability during a time of great stress and uncertainty in our country.

The pandemic has expanded the lens through which we view employee safety, but our end goal remains unchanged: to ensure our people feel safe coming to work every day. We are dedicated to achieving an accident-free workplace and are proud of our safety record, which includes a leading safety incident rate and incident severity measure.

Warrior’s focus on our employees extends beyond the workplace and into the communities where we live and work. We remained committed to fulfilling our civic and social responsibility, and we worked with community partners and local nonprofit organizations to quickly identify immediate needs to support our communities throughout the year.

### **Preserving Financial Liquidity**

Throughout 2020, we remained focused on cash preservation and enhancing total liquidity, and we took decisive actions to adapt our capital allocation strategy to meet these goals. We increased our liquidity through a \$40 million drawdown of our revolving credit facility, and we reduced cash outlays by delaying the budgeted \$25 million development of Blue Creek, reducing cash outlays for capital expenditures, temporarily suspending our stock repurchase program, and reducing expenses to drive our lowest annual cash cost of sales (free on board port).

Our balance sheet remains strong, and we ended the year with ample liquidity. Our low and variable cost structure, coupled with no near-term debt maturities, positions us well to weather any prolonged economic challenges.

In addition, as of the end of 2020, we had federal and state net operating losses (“NOLs”) totaling approximately \$920.7 million and \$995.8 million, respectively. We also have approximately \$18.6 million of general business credits. We expect to continue using these NOLs and general business credits prior to expiration, which will reduce our cash tax burden to zero over the next several years and significantly enhance our free cash flow.

### **Defining our Recovery Path**

Our results from this past year demonstrate the enduring quality of our premier products, as well as our ability to effectively manage through market cycles. Our long-standing strategic choices have put us in a strong position to respond to both near-term challenges and emerging opportunities as the pandemic plays out. We remain focused on managing costs and preserving liquidity, while carefully reinvesting in the business, and we will continue to work with our customers and seek sales opportunities in all geographic regions. Our confidence in Warrior’s growth potential remains strong, recognizing that the market recovery may be choppy due to the pandemic as well as market-specific challenges. There has been no change in how we think about our business or our long-term strategic initiatives.

I want to thank our employees for their dedication and hard work despite the unprecedented challenges we faced over the last year. In addition, I would like to express my appreciation to the Board for its continued guidance and support.

Finally, I want to sincerely thank you, our shareholders, for your continued belief in Warrior Met Coal. While this year presented new challenges, it also highlighted our ability to successfully execute in periods of uncertainty, and we move into 2021 with great confidence in our team, our strategy, and our future.

Sincerely,

A handwritten signature in black ink, appearing to read 'W. Scheller III', with a long horizontal flourish extending to the right.

Walter J. Scheller III  
Chief Executive Officer

**CONSOLIDATED RESULTS:**

(\$ in thousands, except per share amounts and employees)	For the year ended December 31,		
	2020	2019	2018
Revenues	\$ 782,738	\$ 1,268,309	\$ 1,378,007
Operating (loss) income	\$ (27,139)	\$ 383,392	\$ 508,287
Net (loss) income	\$ (35,761)	\$ 301,699	\$ 696,787
Basic and diluted net (loss) income per share:			
Net (loss) income per share-basic	\$ (0.70)	\$ 5.87	\$ 13.19
Net (loss) income per share-diluted	\$ (0.70)	\$ 5.86	\$ 13.17

BALANCE SHEET	AT DECEMBER 31,		
	2020	2019	2018
Total assets	\$ 1,393,936	\$ 1,344,264	\$ 1,395,040
Total liabilities	\$ 668,695	\$ 578,682	\$ 682,428
Stockholders' equity	\$ 725,241	\$ 765,582	\$ 712,612

OTHER	2020			2019			2018		
	Capital expenditures	\$	87,488	\$	107,278	\$	101,620		
Employees		1,401		1,417		1,395			

**RECONCILIATION OF FREE CASH FLOW TO AMOUNTS REPORTED UNDER U.S. GAAP:**

(\$ in thousands)	For the year ended December 31,		
	2020	2019	2018
Net cash provided by operating activities	\$ 112,626	\$ 532,814	\$ 559,396
Purchases of property, plant and equipment and mine development costs	(114,581)	(130,670)	(101,620)
Free cash flow <sup>(1)</sup>	\$ (1,955)	\$ 402,144	\$ 457,776

**QUARTERLY HIGHLIGHTS FISCAL YEAR 2020:**

(\$ and shares in thousands, except per share amounts)	QUARTER ENDED			
	March 31	June 30	September 30	December 31
Revenues	\$ 226,720	\$ 163,701	\$ 180,064	\$ 212,253
Operating income (loss)	\$ 30,497	\$ (5,331)	\$ (14,527)	\$ (37,778)
Net income (loss)	\$ 21,545	\$ (9,161)	\$ (14,434)	\$ (33,711)
Net income (loss) per share-basic	\$ 0.42	\$ (0.18)	\$ (0.28)	\$ (0.66)
Net income (loss) per share-diluted	\$ 0.42	\$ (0.18)	\$ (0.28)	\$ (0.66)
Weighted average number of shares outstanding-basic	51,106	51,187	51,190	51,190
Weighted average number of shares outstanding-diluted	51,273	51,288	51,356	51,190

<sup>(1)</sup> Free cash flow is defined as net cash provided by operating activities less purchases of property, plant and equipment and mine development costs. Free cash flow is not a measure of financial performance in accordance with GAAP, and we believe items excluded from net cash provided by operating activities are significant to the reader in understanding and assessing our results of operations. Therefore, free cash flow should not be considered in isolation, nor as an alternative to net cash provided by operating activities under GAAP. We believe free cash flow is a useful measure of performance and we believe it aids some investors and analysts in comparing us against other companies to help analyze our current and future potential performance. Free cash flow may not be comparable to similarly titled measures used by other companies.

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the fiscal year ended December 31, 2020  
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the transition period from      to



Commission File Number: 001-38061

**Warrior Met Coal, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**81-0706839**

(I.R.S. Employer Identification No.)

**16243 Highway 216**

**Brookwood                      Alabama**  
(Address of Principal Executive Offices)

**35444**  
(Zip Code)

**(205) 554-6150**

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.01 per share	HCC	New York Stock Exchange
Rights to Purchase Series A Junior Participating Preferred Stock, par value \$0.01 per share	--	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C 7262(b)) by the registered public accounting firm that prepared or issued its audit report..

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of voting stock held by non-affiliates of the registrant, based on the closing price of the common stock on June 30, 2020, the registrant's most recently completed second fiscal quarter, as reported by the New York Stock Exchange, was approximately \$787.7 million.

Number of shares of common stock outstanding as of February 22, 2021: 51,342,601

#### **Documents Incorporated By Reference**

Portions of the registrant's definitive proxy statement for its 2020 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days of December 31, 2020, are incorporated by reference into Part III of this report for the year ended December 31, 2020.

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## FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (this “Annual Report”) includes statements of our expectations, intentions, plans and beliefs that constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and are intended to come within the safe harbor protection provided by those sections. These statements, which involve risks and uncertainties, relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable and may also relate to our future prospects, developments and business strategies. We have used the words “anticipate,” “approximately,” “assume,” “believe,” “could,” “contemplate,” “continue,” “estimate,” “expect,” “target,” “future,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “should” and similar terms and phrases, including in references to assumptions, in this Annual Report to identify forward-looking statements. These forward-looking statements are made based on expectations and beliefs concerning future events affecting us and are subject to uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control, that could cause our actual results to differ materially from those matters expressed in or implied by these forward-looking statements. These risks and uncertainties include, but are not limited to:

- the impact of global pandemics, such as the COVID-19 (as defined below) pandemic, including its impact on our business, employees, suppliers and customers, the met coal and steel industries, and global economic markets;
- our relationships with, and other conditions affecting, our customers;
- successful implementation of our business strategies;
- unavailability of, or price increases in, the transportation of our met coal;
- significant cost increases and fluctuations, and delay in the delivery of raw materials, mining equipment and purchased components;
- work stoppages, negotiation of labor contracts, employee relations and workforce availability;
- competition and foreign currency fluctuations;
- litigation, including claims not yet asserted;
- terrorist attacks or security threats, including cybersecurity threats.
- global steel demand and the downstream impact on met coal prices;
- impact of weather and natural disasters on demand and production;
- a substantial or extended decline in pricing or demand for metallurgical ("met") coal;
- inherent difficulties and challenges in the coal mining industry that are beyond our control;
- our ability to develop or acquire met coal reserves in an economically feasible manner;
- geologic, equipment, permitting, site access, operational risks and new technologies related to mining;
- inaccuracies in our estimates of our met coal reserves;
- costs associated with our workers' compensation benefits;
- challenges to our licenses, permits and other authorizations;
- challenges associated with environmental, health and safety laws and regulations;
- regulatory requirements associated with federal, state and local regulatory agencies, and such agencies' authority to order temporary or permanent closure of our mines;

- climate change concerns and our operations' impact on the environment;
- failure to obtain or renew surety bonds on acceptable terms, which could affect our ability to secure reclamation and coal lease obligations;
- our obligations surrounding reclamation and mine closure;
- our substantial indebtedness and debt service requirements;
- our ability to comply with covenants in our asset-based revolving credit facility (as amended and restated, the "ABL Facility") and the Indenture (as defined below);
- adequate liquidity and the cost, availability and access to capital and financial markets;
- our expectations regarding our future cash tax rate as well as our ability to effectively utilize our net operating loss carry forwards ("NOLs");
- our ability to continue paying our quarterly dividend or pay any special dividend;
- the timing and amount of any stock repurchases we make under our New Stock Repurchase Program (as defined below) or otherwise; and
- any consequences related to our transfer restrictions under our certificate of incorporation and our NOL rights agreement;

These forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Forward-looking statements should, therefore, be considered in light of various factors, including those set forth under "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," "Part I, Item IA. Risk Factors" and elsewhere in this Annual Report, and those set forth from time to time in our other filings with the Securities and Exchange Commission (the "SEC"). These documents are available through our website or through the SEC's Electronic Data Gathering and Analysis Retrieval system at <http://www.sec.gov>. In light of such risks and uncertainties, we caution you not to place undue reliance on these forward-looking statements.

When considering forward-looking statements made by us in this Annual Report or elsewhere, such statements speak only as of the date on which we make them. New risks and uncertainties arise from time to time, and it is impossible for us to predict these events or how they may affect us. We have no duty to, and do not intend to, update or revise the forward-looking statements in this Annual Report after the date of this Annual Report, except as may be required by law. In light of these risks and uncertainties, you should keep in mind that any forward-looking statement made in this Annual Report or elsewhere might not occur.

## GLOSSARY OF SELECTED TERMS

The following is a glossary of selected terms used in the Annual Report:

**Ash.** Impurities consisting of silica, iron, alumina and other incombustible matter that are contained in coal. Since ash increases the weight of coal, it adds to the cost of handling and can affect the burning characteristics of coal.

**Assigned reserves.** Coal that is planned to be mined at an operation that is currently operating, currently idled or for which permits have been submitted and plans are eventually to develop the mine and begin mining operations.

**Bituminous coal.** A common type of coal with moisture content less than 20% by weight. It is dense and black and often has well-defined bands of bright and dull material.

**British thermal unit (“Btu”).** A measure of the thermal energy required to raise the temperature of one pound of pure liquid water one degree Fahrenheit at the temperature at which water has its greatest density (39 degrees Fahrenheit).

**Coal seam.** Coal deposits occur in layers. Each layer is called a “seam.”

**Coke.** A hard, dry carbon substance produced by heating coal to a very high temperature in the absence of air. Coke is used in the manufacture of iron and steel. Its production results in a number of useful by-products.

**Continuous miner.** A machine used in underground mining to cut coal from the seam and load onto conveyors or shuttle cars in a continuous operation. In contrast, a conventional mining unit must stop extracting in order to begin loading.

**Continuous mining.** A form of underground mining that cuts the coal from the seam and loads the coal on to a conveyor system continuously, thus eliminating the separate cycles of cutting, drilling, shooting and loading.

**CSX.** CSX Corporation.

**EPA.** Environmental Protection Agency.

**Hard coking coal (“HCC”).** Hard coking coal is a type of met coal that is a necessary ingredient in the production of strong coke. It is evaluated based on the strength, yield and size distribution of coke produced from such coal, which is dependent on the rank and plastic properties of the coal. Hard coking coals trade at a premium to other coals due to their importance in producing strong coke and because they are a limited resource.

**Longwall mining.** A form of underground mining that employs a shearer with two rotating drums pulled mechanically back and forth across a long exposed coal face. A hydraulic system supports the roof of the mine while the drums are mining the coal. Conveyors move the loosened coal to an underground mine conveyor that transports coal to the surface. Longwall mining is the most efficient underground mining method.

**Metallurgical (“met”) coal.** The various grades of coal with suitable carbonization properties to make coke or to be used as a pulverized injection ingredient for steel manufacture, including hard coking coal (see definition above), semi-soft coking coal and PCI coal. Met coal quality depends on four important criteria: (1) volatility, which affects coke yield; (2) the level of impurities, including sulfur and ash, which affect coke quality; (3) composition, which affects coke strength; and (4) other basic characteristics that affect coke oven safety. Met coal typically has particularly high Btu characteristics but low ash and sulfur content.

**Metric ton.** Equal to approximately 2,205 pounds. The international standard for quoting price per ton is based in U.S. dollars per metric ton. Unless otherwise indicated, the metric ton is the unit of measure referred to in this Annual Report and any reference to “ton(s)” or “tonnage” in this Annual Report refers to metric ton(s). One metric ton is equivalent to 1.10231 short tons.

**Mineable Coal.** That portion of the coal reserve base which is commercially mineable and excludes all coal that will be left, such as in pillars, fenders or property barriers.

**MSHA.** Mine Safety and Health Administration.

**Overburden.** Layers of earth and rock covering a coal seam. In surface mining operations, overburden must be removed prior to coal extraction.

**PCI coal.** Coal used by steelmakers for pulverized coal injection (PCI) into blast furnaces to use in combination with the coke used to produce steel. The use of PCI allows a steel maker to reduce the amount of coke needed in the steel making process.

**Preparation plant.** Preparation plants are usually located on a mine site, although one plant may serve several mines. A preparation plant is a facility for crushing, sizing and washing coal to remove impurities and prepare it for use by a particular customer. The washing process has the added benefit of removing some of the coal's sulfur content.

**Probable reserves.** Reserves for which quantity and grade and/or quality are computed from information similar to that used for proven reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between points of observation.

**Productivity.** As used in this Annual Report, refers to clean metric tons of coal produced per underground man hour worked, as published by the MSHA.

**Proven reserves.** Reserves for which: (a) quantity is computed from dimensions revealed in outcrops (part of a rock formation that appears at the surface of the ground), trenches, workings or drill holes; (b) grade and/or quality are computed from the results of detailed sampling; and (c) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established.

**Reclamation.** The process of restoring land and the environment to their original or otherwise rehabilitated state following mining activities. The process commonly includes "recontouring" or reshaping the land to its approximate original appearance, restoring topsoil and planting native grass and ground covers. Reclamation operations are usually underway before the mining of a particular site is completed. Reclamation is closely regulated by both state and federal law.

**Recoverable reserves.** Metric tons of mineable coal that can be extracted and marketed after deduction for coal to be left behind within the seam (i.e. pillars left to hold up the ceiling, coal not economical to recover within the mine, etc.) and adjusted for reasonable preparation and handling losses

**Reserve.** That part of a mineral deposit that could be economically and legally extracted or produced at the time of the reserve determination.

**Roof.** The stratum of rock or other mineral above a coal seam; the overhead surface of a coal working place.

**SEC.** Securities and Exchange Commission.

**Slurry Impoundment.** The entire structure used for coal slurry waste disposal, including the embankment, basin, beach, pool, and slurry. During the process of mining and cleaning coal, waste is created and must be permanently disposed of in an impoundment. Slurry, a combination of silt, dust, water, bits of coal and clay particles is the most commonly disposed of material held in an impoundment.

**Subsidence.** Lateral or vertical movement of surface land that occurs when the roof of an underground mine collapses. Longwall mining causes planned subsidence by the mining out of coal that supports the overlying strata.

**Sulfur.** One of the elements present in varying quantities in coal that contributes to environmental degradation when coal is burned. Sulfur dioxide is produced as a gaseous by-product of coal combustion.

**Surface mine.** A mine in which the coal lies at or near the surface and can be extracted by removing the covering layer of soil (see "Overburden") without tunneling underground.

**Ton or tonnage.** See "metric ton" above.

**Thermal coal.** Coal used by power plants and industrial steam boilers to produce electricity, steam or both. It generally is lower in Btu heat content and higher in volatile matter than met coal.

***Underground mine.*** Also known as a “deep” mine, it is usually located several hundred feet or more below the earth’s surface. An underground mine’s coal is typically removed mechanically and transferred by shuttle car, conveyor and hoist to the surface.

## EXPLANATORY NOTE

*On April 12, 2017, Warrior Met Coal, LLC, a Delaware limited liability company, converted into Warrior Met Coal, Inc., a Delaware corporation, as described in “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations-Basis of Presentation-Factors Affecting the Comparability of our Financial Statements-Corporate Conversion and IPO.” We refer to this transaction herein as the “corporate conversion.” As used in this Annual Report, unless the context otherwise requires, references to the “Company,” “Warrior,” “we,” “us,” “our” or “Successor” refer to Warrior Met Coal, LLC, a Delaware limited liability company, and its subsidiaries for periods beginning as of April 1, 2016 and ending immediately before the completion of our corporate conversion, and to Warrior Met Coal, Inc., a Delaware corporation and its subsidiaries for periods beginning with the completion of our corporate conversion and thereafter. In the corporate conversion, 3,832,139 units of Warrior Met Coal, LLC converted into 53,442,532 shares of common stock of Warrior Met Coal, Inc. using an approximate 13.9459-to-one conversion ratio. References in this Annual Report to the “Predecessor” refer to the assets acquired and liabilities assumed by Warrior Met Coal, LLC from Walter Energy, Inc., a Delaware corporation (“Walter Energy”), in the Asset Acquisition on March 31, 2016. The Predecessor periods included in this Annual Report begin as of January 1, 2016 and end as of March 31, 2016.*

## Part I

### Item 1. Business

#### Overview

We are a U.S.-based, environmentally and socially minded supplier to the global steel industry. We are dedicated entirely to mining non-thermal met coal used as a critical component of steel production by metal manufacturers in Europe, South America and Asia. We are a large-scale, low-cost producer and exporter of premium met coal, also known as hard coking coal (“HCC”), operating highly-efficient longwall operations in our underground mines based in Alabama, Mine No. 4 and Mine No. 7. Our mining operations also consist of other surface met and thermal coal mines, five of which are currently under lease to third parties and four of which are not operating and are not currently planned to be operated in the future. Our met coal production totaled 7.1 million in 2020. Our natural gas operations remove and sell natural gas from the coal seams owned or leased by reducing natural gas levels in our mines.

We operate as a single reportable segment. See the financial statements beginning on page F-1 of this Annual Report for our consolidated revenues, profit/loss and total assets.

#### *Our Competitive Strengths*

We believe that we have the following competitive strengths:

**Leading pure-play met coal producer focused on premium met coal products.** Unlike other publicly-listed U.S. coal companies, substantially all of our revenue is derived from the sale of premium met coal in the global seaborne markets. All of our resources are primarily allocated to the mining, transportation and marketing of met coal. The premium HCC we produce at Mine No. 4 and Mine No. 7 is of a similar quality to the HCC produced in Australia. The premium nature of our HCC makes it ideally suited as a base feed coal for steel makers and results in price realizations near or above the Platts Index. Coal from Mine No. 7 is classified as a premium low-volatility (“LV”) HCC and coal from Mine No. 4 is classified as premium LV to mid-volatility (“MV”) HCC. The combination of low sulfur, low-to-medium ash, LV to MV, and other characteristics of our coal, as well as our ability to blend them, makes our HCC product an important component within our customers’ overall coking coal requirements. As a result, our realized price has historically been slightly above, in line with or at a slight discount to the Platts Index. Other publicly-listed U.S. coal companies sell a higher proportion of lower quality met coals, including high-volatility, semi-soft coking coal (“SSCC”), and pulverized coal injection (“PCI”) coal. These lower quality coals typically have lower realized prices compared to LV and MV met coals due to their relative availability and lower quality characteristics. Additionally, these companies typically have significant thermal coal production that further reduces their realized price and operating margin per metric ton. As a result of our premium met coal, we are able to achieve higher realized prices and operating margins relative to other U.S. met coal producers.

**World-class Blue Creek provides us with a high-return growth project.** Blue Creek represents one of the last remaining large scale untapped premium quality, high volatility (“High Vol”) A coal reserves in the U.S. with 103.0 million metric tons of recoverable reserves and we have the ability to acquire adjacent reserves that would increase the total reserves to over 154 million metric tons with a mine life of approximately 50 years assuming a single longwall operation. High Vol A has traditionally priced at a slight discount to the Australian premium LV and the U.S. LV coals; however we have observed extended periods in which they achieved a premium over these indices. We expect High Vol A coals will continue to become increasingly scarce as a result of Central Appalachian producers mining thinner and deeper reserves, which is expected to continue to support prices. We believe this creates an opportunity for Blue Creek to take advantage of favorable pricing dynamics driven by the declining supply of premium High Vol A coals. On February 19, 2020, we announced the commencement of the development of the Blue Creek project with expected capital expenditures related to this project in 2020 of \$25.0 million. Due to the uncertainties regarding the duration of the COVID-19 pandemic and its overall impact on the global economy, in the first quarter of 2020, we decided to delay the capital expenditures related to this project. We now have delayed the development of this project until at least the summer of 2021.

**Highly flexible cost structure protects through-the-cycle profitability.** We have “variabilized” our cost structure in our labor, royalties and logistics contracts, increasing the proportion of our cost structure that varies in response to changes in HCC prices based on a variety of indices. Our Collective Bargaining Agreement (“CBA”) with the United Mine Workers of America (“UMWA”), combined with our flexible rail, port and barge logistics and our royalty structure, results in a highly variable operating cost profile that allows our cash cost of sales to move with changes in the price we realize for our coal. Approximately two-thirds of our cash cost of sales relate to the cost of production at our mines, while the remaining one-third relates to our logistics costs from mine to port as well as royalties. Our logistics costs are structured to reduce cash requirements



in lower HCC price environments and to increase cash requirements within a range with higher HCC prices. Our royalties are calculated as a percentage of the price we realize and therefore increase or decrease with changes in HCC prices. Our CBA includes variable elements that tie compensation to HCC prices. In addition, we can adjust our usage of continuous miner units in response to HCC pricing. Our variable cost structure dramatically lowers our cash cost of sales if our realized price falls, while being effectively capped in higher price environments allowing us to generate significant operating cash flow. Our highly flexible cost structure provides us with a key competitive advantage relative to our competitors and which we expect should allow us to remain profitable in all coal market conditions.

**Significant logistical cost advantage to the seaborne market.** Our two operating mines and Blue Creek are located approximately 300 miles from our export terminal capacity in Mobile, Alabama and have alternative transportation routes to move our coal to port. These alternatives include direct rail access at the mine sites and a wholly-owned barge load-out facility, enabling us to utilize the lowest cost option between the two at any given point in time. We believe our logistics costs are highly competitive. In addition, we have a contract with the Port of Mobile in Alabama, that provides us up to 8.0 million metric tons of annual port capacity through July 2026 for our coal at very competitive rates. The total annual throughput capacity of the McDuffie Coal Terminal at the Port of Mobile in Alabama is approximately 27.2 million metric tons and this coal terminal is presently utilized for all of our coal exports. We believe, and representatives of the McDuffie Coal Terminal have informed us that they believe, that there is ample capacity to support the full production rates of Blue Creek, and we are working with the McDuffie Coal Terminal to achieve the needed capacity. Our proximity to port contrasts with the approximately 400-mile distances for major Central Appalachian met coal producers to access their nearest port, the Port of Hampton Roads, Virginia. Our proximity to port and the flexibility of our logistics networks underpin our logistical cost advantage compared to other U.S. met coal producers.

We sell our coal to a diversified customer base of blast furnace steel producers, primarily located in Europe, South America and Asia. We enjoy a shipping time and distance advantage serving customers throughout the Atlantic Basin relative to competitors located in Australia and Western Canada. This advantage results in a higher margin for our met coal. Our strategic location is enhanced by our long-tenured, well-established customer portfolio, which includes significant recurring sales to multiple customers in excess of 10 years.

**High realized prices and low variable cost structure drive industry leading margins.** The coal from our mines is competitive in quality with the premium HCC produced in Australia, which is used to set pricing for the industry. The combination of low sulfur, low-to-medium ash, LV to MV and high coking strength drives our consistently high price realization relative to other U.S. met coal producers who typically focus on lower rank met coals. We believe Mine No. 4 and Mine No. 7 are two of the lowest cost met coal mines in North America. Our low cost position is derived from our operations' favorable geology, automated long-wall mining methods, and significant flexibility allowed under our CBA. Additionally, given our highly flexible cost structure, we believe we will be able to maintain our industry leading margins in all coal market conditions, which we expect should allow us to continue to outperform our competitors.

**Clean balance sheet and tax asset to drive robust cash flow generation.** Unlike other U.S. coal producers in our peer group, we have no pension or OPEB legacy liabilities with manageable surety bond requirements. With minimal legacy liabilities, we are not burdened by the annual fixed obligations that are typically associated with these types of liabilities. Our clean balance sheet and its low sustaining capital expenditure requirements position us to generate strong cash flows across a range of met coal price environments. Additionally, we expect our cash flows to benefit from a low cash tax rate as a result of our significant NOLs. As a result of these tax assets, and the repeal of the corporate alternative minimum tax ("AMT") beginning after December 31, 2017 (see Note 7 to our consolidated financial statements included elsewhere in this Annual Report), we believe our effective cash tax rate will be approximately 0%, exclusive of the AMT credit refunds, until our NOLs generated prior to 2018 are fully utilized or expire, which will enable strong cash conversion from our operating profits.

**Disciplined financial policies to ensure stable performance.** We believe maintaining financial discipline will provide us with the ability to manage the volatility in our business resulting from changes in met coal prices. We intend to preserve a strong and conservative balance sheet, with sufficient liquidity and financial flexibility to support our operations. As such, we will seek to maintain a conservative financial leverage target of 1.50 - 2.00x based on normalized EBITDA and seek to maintain minimum liquidity of \$100 million. We plan to continually evaluate our liquidity needs based on our estimated capital needs. As of December 31, 2020, we had approximately \$243.5 million of available liquidity consisting of \$31.6 million of borrowing capacity under the ABL Facility and \$211.9 million of cash and cash equivalents. In the event we generate cash flow in excess of the needs of our business, we plan to take a holistic approach to capital allocation and will evaluate a range of options, including debt repayment. We will seek to preserve our capital structure with low financial leverage that is largely free from legacy liabilities in order to ensure maximum free cash flow generation.

**Highly experienced leadership team with deep industry expertise.** Our Chief Executive Officer (“CEO”), Walter J. Scheller, III, is the former CEO of Walter Energy and has eight years of direct experience managing Mine No. 4 and Mine No. 7, and over 30 years of experience in longwall coal mining. Furthermore, following the acquisition of certain assets of Walter Energy, we hired several key personnel with extensive direct operational experience in met coal longwall mining, including our Chief Operating Officer, Jack Richardson, and our Chairman, Stephen D. Williams. We have a strong record of operating safe mines and are committed to environmental excellence. Our dedication to safety is at the core of all of our overall operations as we work to further reduce workplace incidents by focusing on policy awareness and accident prevention. Our continued emphasis on enhancing our safety performance has resulted in zero fatal incidents as compared to the national fatal incidence rate for underground coal mines in the United States of 0.006 for the nine months ended September 30, 2020, as well as total reportable incidence rates of 3.94 at Mine No. 4 and 3.06 at Mine No. 7 for the year ended December 31, 2020, which is considerably lower than the national total reportable incidence rate for all underground coal mines in the United States of 4.47 for the nine months ended September 30, 2020, which represents the latest data available.

**Strong focus on reducing greenhouse gas emissions.** Investors and other third parties are increasingly focused on sustainability matters, and we are committed to reducing the release of greenhouse gases (“GHG”). GHG emissions are produced as a by-product of mining activities, as operations in underground metallurgical coal mines produce coal bed methane. With a view towards being an industry leader in environmental performance, we are actively engaged in several initiatives that occur before, during and after mining to reduce GHG emissions, including the capture of coalbed methane. Currently, the Company is able to capture approximately 67% of the methane that is produced as part of our mining operations through direct pipelines as well as our low-quality gas plant. Much of this methane is sold into the natural gas market. The remainder of the methane is released through our mines’ ventilation systems as coal mine methane (“CMM”) emissions. These emissions that are released into the environment are extremely diluted. We have also partnered with a third-party to utilize new technology to increase the efficiency of methane reductions where practical. Currently, we have planned to install the first full-scale methane destroying unit in early 2021, as discussed under “Our Business Strategies - Capitalize on opportunities for technological innovation to continue to reduce our impact on the environment.”

From its inception, the Company has participated in the EPA’s voluntary program aimed at CMM emission reductions. We are also proud to participate in the EPA’s voluntary GHG reporting program which the EPA is using to improve its estimates of national GHG emissions. The Company’s focus on reducing GHG emissions has proven effective, as the Company’s annual Toxic Release Inventory, which is required annually by the EPA, demonstrates that we do not have any reportable air emissions.

### ***Our Business Strategies***

Our objective is to increase stockholder value through our continued focus on asset optimization and cost management to drive profitability and cash flow generation. Our key strategies to achieve this objective are described below:

**Maximize profitable production.** In the year ended December 31, 2020, we produced 7.1 million metric tons of met coal from Mine No. 7 and Mine No. 4. We have the flexibility in our CBA that allows us to increase annual production with minimal incremental capital expenditures. Based on our management’s operational experience, we are confident in our ability to continue to produce at or close to this capacity in a safe and efficient manner, and with a comparable cost profile to our current costs, should market conditions warrant.

**Maximize organic growth.** In the first quarter of 2020, we announced the commencement of the development of Blue Creek into a new, world-class longwall mine located in Alabama near our existing mines. Due to COVID-19, we delayed spending the \$25.0 million that we budgeted for the development of Blue Creek until at least summer 2021. The new single longwall mine at Blue Creek is expected to have the capacity to produce an average of 3.9 million metric tons per annum of premium High-Vol A met coal over the first ten years of production. Once fully developed, we expect Blue Creek to be a transformational investment that will increase annual production capacity by 54% and expand our product portfolio to our global customers, offering three premium hard coking coals that are expected to achieve the highest premium met coal prices in the seaborne markets. We control approximately 103.0 million metric tons of recoverable reserves at Blue Creek and have the ability to acquire adjacent reserves that would increase total recoverable reserves to over 154 million metric tons at Blue Creek. Blue Creek is expected to have a mine life of approximately 50 years assuming a single longwall operation.

We expect Blue Creek’s estimated production cost per short ton to be in the first quartile of the U.S. and global seaborne hard coking coal cost curve and to be approximately 25 to 30% lower than our existing mines today. We believe the combination of a low production cost and the high quality of the High Vol A product, if we achieve the expected price

realizations, will generate some of the highest met coal margins in the U.S., generate strong investment returns and achieve a rapid payback across a range of met coal price environments.

We expect to invest approximately \$550 to \$600 million over five years to develop Blue Creek once development begins. Based on the current schedule, we expect first development tons from continuous miner units to occur in 2023 with the longwall scheduled to start up in 2025. Our strong cash flow generation and current available liquidity, as well as the ability to finance \$110 - \$120 million of capital expenditures through equipment leases, allows us to be opportunistic as we evaluate funding options for Blue Creek.

**Maintain and further improve our low and variable cost structure.** While we have already achieved significant structural cost reductions at our two operating mines, we see further opportunities to reduce our costs over time. Our CBA with the UMWA allows for these ongoing cost optimization initiatives. For example, in our CBA, we have additional flexibility in our operating days and alternative work schedules as compared to certain optional and more expensive provisions under the predecessor, Walter Energy, Inc. ("Walter Energy"), collective bargaining agreement. We have variable elements that tie compensation to HCC prices. Additionally, our CBA enables us to contract out work under certain circumstances. We believe these types of structural incentive provisions and workforce flexibility in the initial CBA are helpful to further align our organization with operational excellence and to increase the proportion of our costs that vary in response to changes in the HCC price.

**Broaden our marketing reach and maintain strong correlation between realized coal prices and the Platts Index.** We have implemented a strategy to improve both our sales and marketing focus, with a goal of achieving better pricing relative to the Platts Index, which includes: (i) opportunistic selling into the spot met coal market and (ii) selected instances of entering into fixed price contracts. Each of these elements is intended to further embed our coal product among a broader group of steel customers. Traditionally, we have predominantly marketed our coal to European and South American buyers. For the year ended December 31, 2020, our sales geographic customer mix was 56% in Europe, 25% in South America and 19% in Asia. Since February 2017, we have had an arrangement with Xcoal Energy & Resource ("Xcoal") to serve as Xcoal's strategic partner for exports of LV HCC into certain markets. Under this arrangement, Xcoal takes title to and markets coal that we would historically have sold on the spot market to certain markets, in an amount of the greater of (i) 10% of our total production during the applicable term of the arrangement or (ii) 250,000 metric tons. While the volumes being sold through this arrangement with Xcoal are relatively limited, we are positioned to potentially benefit from Xcoal's expertise and relationships across all coal that we sell. To that end, we also have an incentive-based arrangement with Xcoal to cover other tonnage, in the event Xcoal is able to offer us a higher realized price relative to the Platts Index than we have previously achieved.

**Capitalize on opportunities for technological innovation to continue to reduce our impact on the environment.** We strive to ensure that our business is focused on limiting environmental impact and on being an environmental steward in the communities where we live and work. We focus our opportunities for technological innovation around GHG emissions, water management, waste management and biodiversity impact. As described above, the Company currently captures approximately 67% of the coalbed methane that is produced during our mining activities as part of our commitment to reduce the Company's GHG emissions. We are then able to sell this gas into the natural gas market. In addition to capturing pipeline quality gas, the Company also operates a low-quality gas plant, which is able to improve the quality of ordinarily unsaleable gas that would otherwise escape to the atmosphere. The improved gas is then sold and used by consumers. This plant operates using a complex system that concentrates the methane by removing other gases such as nitrogen and oxygen. We are also exploring technologies with a third party for destroying CMM. To prove one such technology, the Company built a pilot or demonstrator plant. This plant successfully operated from 2014 to 2017. During the demonstration period, the plant effectively destroyed coal mine methane released from our underground operations. We and a third party also have plans to install the first full-scale methane destroying unit in early 2021. We also successfully achieved a 99.8% compliance record with the Environmental Protection Agency ("EPA") National Pollutant Discharge Elimination System program, which addresses water pollution by regulation point source discharges. This reflects that we only had two minor instances of non-compliance with water quality standards within the annual period ending in the second quarter of 2020 and each of these were related to heavy rainfall events. We currently have a goal to reduce water usage at our current facilities by 25% by 2030. The Company's management and board of directors (the "Board") are increasingly focused on these and other opportunities for technical innovation.

## **Description of Our Business**

Our underground mining operations are headquartered in Brookwood, Alabama and as of December 31, 2020, based on a reserve report prepared by Marshall Miller, were estimated to have approximately 97.5 million metric tons of recoverable reserves located in west central Alabama between the cities of Birmingham and Tuscaloosa. Operating at approximately 2,000 feet below the surface, the Mines No. 4 and No. 7 are two of the deepest underground coal mines in North America. The met coal is mined using longwall extraction technology with development support from continuous miners.

Our two operating mines and Blue Creek are located approximately 300 miles from our export terminal at the Port of Mobile in Alabama, which we believe to be the shortest mine-to-port distance of any U.S.-based met coal producer. Our low and variable cost structure, flexible and efficient rail and barge network underpins our cost advantage and dependable access to the seaborne markets. We sell our coal to a diversified customer base of blast furnace steel producers, primarily located in Europe, South America and Asia. We enjoy a shipping time and distance advantage serving our customers throughout the Atlantic Basin relative to competitors located in Australia and Western Canada.

Our HCC, mined from the Southern Appalachian region of the United States, is characterized by low-to-medium volatile matter (“VM”) and high coke strength after reaction (“CSR”). These qualities make our coal ideally suited as a coking coal for the manufacture of steel. As a result of our high quality coal, our realized price has historically approximated the Platts Premium Low Volatility (“LV”) Free-On-Board (“FOB”) Australia Index price (the “Platts Index”). In contrast, coal produced in the Central Appalachian region of the United States is typically characterized by medium-to-high VM and a CSR that is below the requirements of the Australian Index price.

The met coal from our Mines No. 4 and No. 7 is sold as a high quality LV and MV met coal. Mines No. 4 and No. 7 are located near Brookwood, Alabama, and are serviced by CSX railroad. A coal producer is typically responsible for transporting the coal from the mine to an export coal-loading facility. Exported coal is usually sold at the loading port, with the buyer responsible for further transportation from the port to their location. Both mines also have access to our barge load-out facility on the Black Warrior River. Service via both rail and barge culminates in delivery to the Port of Mobile in Alabama, where shipments are exported to our international customers via ocean vessels. Substantially all of our met coal sales consist of sales to international customers.

We also own mineral rights for approximately 103.0 million additional metric tons of recoverable reserves at Blue Creek located to the northwest of Mine No. 4, based on a reserve report prepared by Stantec. We have the ability to acquire adjacent reserves that would increase total reserves to over 154 million metric tons at Blue Creek. According to our third party reserve report, the met coal reserve base of Blue Creek is a high quality High Vol A coal that is characterized by low-sulfur and high CSR.

#### *Coal Preparation and Blending*

Our met coal mines have preparation and blending facilities convenient to each mine. The met coal preparation and blending facilities receive, blend, process and ship met coal that is produced from the mines. Using these facilities, we are able to ensure a consistent quality and efficiently blend our met coal to meet our customers’ specifications.

#### *Marketing, Sales and Customers*

Met coal prices can differ substantially by region and are impacted by many factors, including the overall economy, demand for steel, location, market, quality and type of met coal, mine operation costs and the cost of customer alternatives. The major factors influencing our business are the global economy and demand for steel. Our operations’ high quality met coal is considered among the highest quality met coals in the world and is preferred as a base met coal in our customers’ blends. Our marketing strategy is to focus on international markets mostly in Europe and South America where we have a shipping time and distance advantage and where our met coal is in demand.

We focus on long-term customer relationships where we have a competitive advantage. We sell most of our met coal under fixed supply contracts primarily with indexed pricing terms and volume terms of one to three years. Some of our sales of met coal can, however, occur in the spot market as dictated by available supply and market demand. Our business is not substantially dependent on any contract, such as a contract to sell the major part of our products or other agreement to use a patent, formula, trade secret, process or trade name upon which our business depends to a material extent. For more information regarding our customers, see Note 2 to our consolidated financial statements included elsewhere in this Annual Report.

We have an arrangement with Xcoal to serve as Xcoal’s strategic partner for exports of LV HCC into certain markets. Xcoal has specialized marketing capabilities and deep technical expertise as the largest met coal marketer in the United States. Our arrangement with Xcoal is expected to expand the geographic reach of our customers through Xcoal’s global presence. Xcoal has 20 offices worldwide, including in Brussels, the UAE, Singapore, Beijing, Shanghai, Seoul, Mumbai, and Rio de Janeiro. We expect to be able to leverage Xcoal’s more than 30 year history selling coal to key European and Asian steel customers to further improve the selling prices of our met coal relative to the global Platts Index.

## *Trade Names, Trademarks and Patents*

As part of the acquisition of certain assets of Walter Energy, we acquired all intellectual property, including copyrights, patents, trademarks, trade names and trade secrets, owned by Walter Energy and its subsidiaries and used or held for use in the business or our assets. Promptly following the closing of the acquisition, Walter Energy, was required to discontinue the use of its name (and any other trade names or “d/b/a” names utilized by its subsidiaries) and may not subsequently change its name to or otherwise use or employ any name which includes the words “Walter.” We do not believe that any one such trademark is material to our individual segments or to the business as a whole.

## *Competition*

Substantially all of our met coal sales are exported. Our major competitors are businesses that sell into our core business areas of Europe, South America and Asia. We primarily compete with producers of premium met coal from Australia, Canada, Russia, Mozambique and the United States. The principal factors on which we compete are met coal prices at the port of delivery, coal quality and characteristics, customer relationships and the reliability of supply. The demand for our met coal is significantly dependent on the general global economy and the worldwide demand for steel. Although there are significant challenges in the current economy, we believe that we have competitive strengths in our business areas that provide us with distinct advantages.

## *Suppliers*

Supplies used in our business include petroleum-based fuels, explosives, tires, conveyance structure, ventilation supplies, lubricants and other raw materials as well as spare parts and other consumables used in the mining process. We use third-party suppliers for a significant portion of our equipment rebuilds and repairs, drilling services and construction. We believe adequate substitute suppliers are available and we are not dependent on any one supplier; however, we procure some equipment from a concentrated group of suppliers, and obtaining this equipment often involves long lead times. Occasionally, demand for such equipment by mining companies can be high and some types of equipment may be in short supply. We continually seek to develop relationships with suppliers that focus on reducing our costs while improving quality and service.

## **Environmental Responsibility and Sustainability**

The Company takes pride in its environmental record and strives to be an industry leader in environmental stewardship. The Company recently released its inaugural environmental, social and governance sustainability report that was prepared in accordance with the Global Reporting Initiative (“GRI”) Standards -- Core Option and highlights the Company's strong environmental record.

We continually invest in new technologies to lessen our environmental impact and to improve our efficiencies and productivity. Our executive leadership team is focused on establishing qualitative and quantitative goals that hold us accountable to our investors, employees, customers, community, as well as other stakeholders. As noted above, we are actively engaged in the EPA’s voluntary programs to reduce and report GHG emissions and to improve estimates of national GHG emissions. With regard to the Company’s water management efforts, we have a strong environmental compliance record with the EPA’s National Pollutant Discharge Elimination System (NPDES) program, which addresses water pollution by regulating point sources that discharge pollutants into the waters of the United States. We also monitor adjacent streams and groundwater wells quarterly in order to determine if these water supplies could potentially have been affected by mining operations. Waste water, or water used for mining or processing of coal, is stored in locations such as impoundment structures or clarifying or settling ponds. Additionally, the Company performs a minimum of at least one complete inspection of all tailing impoundments at intervals not to exceed seven calendar days as required by federal regulation, and all of the Company’s tailing impoundments are classified as “low-hazard” structures. We continue to improve our land reclamation efforts, which has yielded success across all of our sites and facilities. We began an aggressive reclamation campaign in 2017, which has successfully reduced reclamation liability by 1,333 acres. Finally, the Company is highly proactive in planning all ongoing and future activities to minimize negative impacts to wildlife and their habitats by mining activities. All of the Company’s permit applications are reviewed by the regional U.S. Fish and Wildlife office for potential negative impacts to any protected species or habitat within the area.

The Company has dedicated employees that oversee the Company’s efforts with respect to various environmental issues, including our efforts with respect to the programs discussed above. Through their efforts, as well as oversight by our senior management and the Board, we continue to make significant progress in improving our environmental stewardship. The Environmental, Health & Safety Committee of the Board is tasked with assessing the effectiveness of the Company’s environmental, health and safety policies, programs and initiatives, as well as reviewing and monitoring the Company’s

compliance with applicable environmental, health and safety laws, rules and regulations. This committee receives quarterly reports from Company management, during which the committee reviews and discusses the Company's various environmental, health and safety initiatives and any issues related to these areas.

The safety of our employees is a core value for us. Our health and safety policies and programs are the cornerstone of our operating philosophy and are integrated into all of our daily operations and activities. Our continued emphasis on enhancing our safety performance has resulted in total reportable incident rates at Mine No. 4 and Mine No. 7, based on Mine, Safety and Health Administration ("MSHA") criteria, which are lower than the national total reportable incidence rate for all underground coal mines in the United States. This record reflects our effectiveness in protecting our employees. In 2018, the Company hired a new Vice President of Safety, who is responsible for developing and overseeing health and safety programs at the Company's mines, and he regularly reports to the Environmental, Health & Safety Committee so that the Board is apprised of the Company's safety-related efforts and challenges.

## **Environmental and Regulatory Matters**

Our businesses are subject to numerous federal, state and local laws and regulations with respect to matters such as permitting and licensing, employee health and safety, reclamation and restoration of property and protection of the environment. In the U.S., environmental laws and regulations include, but are not limited to, the federal Clean Air Act and its state and local counterparts with respect to air emissions; the Clean Water Act and its state counterparts with respect to water discharges and dredge and fill operations; the Resource Conservation and Recovery Act and its state counterparts with respect to solid and hazardous waste generation, treatment, storage and disposal, as well as the regulation of underground storage tanks; the Comprehensive Environmental Response, Compensation and Liability Act and its state counterparts with respect to releases, threatened releases and remediation of hazardous substances; the Endangered Species Act with respect to protection of threatened and endangered species; the National Environmental Policy Act with respect to the impacts of federal actions such as the issuance of permits and licenses; and the Surface Mining Control and Reclamation Act of 1977 and its state counterparts with respect to environmental protection and reclamation standards for mining activities. Compliance with these laws and regulations may be costly and time-consuming and may delay commencement, continuation or expansion of exploration or production at our operations. These laws are constantly evolving and may become more stringent. The ultimate impact of complying with existing laws and regulations is not always clearly known or determinable due in part to the fact that certain implementing regulations for these environmental laws have not yet been promulgated and in certain instances are undergoing revision or judicial review. These laws and regulations, particularly new legislative or administrative proposals (or judicial interpretations of existing laws and regulations) related to the protection of the environment, could result in substantially increased capital, operating and compliance costs and could have a material adverse effect on our operations and/or, along with analogous foreign laws and regulations, our customers' ability to use our products.

Due in part to the extensive and comprehensive regulatory requirements, along with changing interpretations of these requirements, violations occur from time to time in our industry and at our operations. Expenditures relating to environmental compliance are a major cost consideration for our operations and environmental compliance is a significant factor in mine design, both to meet regulatory requirements and to minimize long-term environmental liabilities. To the extent that these expenditures, as with all costs, are not ultimately reflected in the prices of our products and services, operating results will be reduced. We believe that our major North American competitors are confronted by substantially similar conditions and thus do not believe that our relative position with regard to such competitors is materially affected by the impact of environmental laws and regulations. However, the costs and operating restrictions necessary for compliance with environmental laws and regulations may have an adverse effect on our competitive position with regard to foreign producers and operators who may not be required to undertake equivalent costs in their operations. In addition, the specific impact on each competitor may vary depending on a number of factors, including the age and location of its operating facilities, applicable legislation and its production methods.

### *Permitting and Approvals*

Numerous governmental permits and approvals are required for mining and natural gas operations. We are required to prepare and present to federal, state and local authorities data pertaining to the effect or impact that any proposed exploration project for production of coal or gas may have on the environment, the public and our employees. In addition, we must also submit a comprehensive plan for mining and reclamation upon the completion of mining operations. The requirements are costly and time-consuming and may delay commencement or continuation of exploration, production or expansion at our operations. Typically, we submit necessary mining permit applications several months, or even years, before we anticipate mining a new area.

Applications for permits and permit renewals at our mining and gas operations are subject to public comment and may be subject to litigation from third parties seeking to deny issuance of a permit or to overturn the applicable agency's grant of the permit application, which may also delay commencement, continuation or expansion of our mining and gas operations. Further, regulations provide that applications for certain permits or permit modifications in the U.S. can be delayed, refused or revoked if an officer, director or a stockholder with a 10% or greater interest in the entity is affiliated with or is in a position to control another entity that has outstanding permit violations or has had a permit revoked. Significant delays in obtaining, or denial of, permits could have a material adverse effect on our business.

### *Mine Safety and Health*

The MSHA, under the Federal Mine Safety and Health Act of 1977 (the "Mine Act") and the Mine Improvement and New Emergency Response Act of 2006 (the "MINER Act"), as well as regulations adopted under these federal laws impose rigorous safety and health standards on mining operations. Such standards are comprehensive and affect numerous aspects of mining operations, including, but not limited to: training of mine personnel, mining procedures, ventilation, blasting, use of mining equipment, dust and noise control, communications and emergency response procedures. For instance, MSHA implemented a rule in August 2014 to reduce miners' exposure to respirable coal dust, which reduced respirable dust standards for certain occupants and miners and required certain monitoring of shift dust levels. In August 2016, Phase III of MSHA's respirable dust rule went into effect, further lowering the respirable dust standards. Separately, MSHA has implemented a rule imposing a requirement on certain continuous mining machines, requiring operators to provide proximity detection systems. MSHA monitors compliance with these laws and standards by regularly inspecting mining operations and taking enforcement actions where MSHA believes there to be non-compliance. These federal mine safety and health laws and regulations have a significant effect on our operating costs.

### *Workers' Compensation and Black Lung*

We are insured for workers' compensation benefits for work related injuries that occur within our operations. Workers' compensation liabilities, including those related to claims incurred but not reported, are recorded principally using annual valuations based on discounted future expected payments using historical data of the operating subsidiary or combined insurance industry data when historical data is limited. Beginning on June 1, 2020, the Company has a deductible policy where the Company is responsible for the first \$1.0 million for each workers' compensation related claim from any of our employees.

In addition, certain of our subsidiaries are responsible for medical and disability benefits for black lung disease under the Federal Coal Mine Health and Safety Act of 1969, the Mine Act and the Black Lung Benefits Revenue Act of 1977 and the Black Lung Benefits Reform Act of 1977 (together, the "Black Lung Benefits Act"), each as amended, and are insured under a guaranteed cost insurance policy beginning on April 1, 2016 through May 31, 2018 for black lung claims of any of our employees. From June 1, 2018 to May 31, 2020, the Company had a deductible policy where the Company is responsible for the first \$0.5 million for each black lung claim from any of our employees.

We also assumed all of the black lung liabilities of Walter Energy and its U.S. subsidiaries. We are self-insured for these black lung liabilities and have posted \$17.0 million in surety bonds and \$8.5 million of collateral recognized as short term investment in addition to maintaining a black lung trust of \$3.0 million that was acquired from Walter Energy. We received a letter from the Department of Labor on February 21, 2020 under its new process for self-insurance renewals that would require us to increase the amount of collateral posted to \$39.8 million, but we have appealed such increase. Changes in the estimated claims to be paid or changes in the amount of collateral required by the Department of Labor may have a greater impact on our profitability and cash flows in the future." Under the Black Lung Benefits Act, as amended, each coal mine operator must make payments to a trust fund for the payment of benefits and medical expenses to claimants who last worked in the coal industry prior to January 1, 1970. The trust fund is funded by an excise tax on production; however, this excise tax does not apply to coal shipped outside the United States. Based on our limited sales of coal in the United States, we do not expect to incur a material expense related to this excise tax. However, the excise tax may result in a material expense to us in the future if our coal sales in the United States significantly increase. The Patient Protection and Affordable Care Act includes significant changes to the federal black lung program, including an automatic survivor benefit paid upon the death of a miner with an awarded black lung claim and the establishment of a rebuttable presumption with regard to pneumoconiosis among miners with 15 or more years of coal mine employment that are totally disabled by a respiratory condition. These changes could have a material impact on our costs expended in association with the federal black lung program. In addition to possibly incurring liability under federal statutes we may also be liable under state laws for black lung claims. For additional information, please see "Part I, Item 1A. Risk Factors—Risks Related to Our Business—We are responsible for medical and disability benefits for black lung disease under federal law."

## *Surface Mining Control and Reclamation Act*

The Surface Mining Control and Reclamation Act of 1977 (“SMCRA”) requires that comprehensive environmental protection and reclamation standards be met during the course of and following completion of mining activities. Permits for all mining operations must be obtained from the Federal Office of Surface Mining Reclamation and Enforcement (“OSM”) or, where state regulatory agencies have adopted federally approved state programs under the SMCRA, the appropriate state regulatory authority. The Alabama Surface Mining Commission reviews and approves SMCRA permits in Alabama.

SMCRA permit provisions include requirements for coal prospecting, mine plan development, topsoil removal, storage and replacement, selective handling of overburden materials, mine pit backfilling and grading, subsidence control for underground mines, surface drainage control, mine drainage and mine discharge control, treatment and revegetation. These requirements seek to limit the adverse impacts of coal mining and more restrictive requirements may be adopted from time to time.

Before a SMCRA permit is issued, a mine operator must submit a bond or otherwise secure the performance of reclamation obligations. The Abandoned Mine Land Fund, which is part of SMCRA, imposes a general funding fee on all coal produced. The proceeds are used to reclaim mine lands closed or abandoned prior to 1977. On December 7, 2006, the Abandoned Mine Land Program was extended for another 15 years.

We maintain extensive coal refuse areas and slurry impoundments at our mining complexes. Such areas and impoundments are subject to comprehensive regulation. Structural failure of an impoundment can result in damage to the environment and natural resources, such as bodies of water that the coal slurry reaches, as well as create liability for related personal injuries, property damages and injuries to wildlife. Some of our impoundments overlie mined out areas, which can pose a heightened risk of failure and the assessment of damages arising out of such failure. If one of our impoundments were to fail, we could be subject to substantial claims for the resulting environmental contamination and associated liability, as well as for related fines and penalties.

On December 12, 2008, the OSM finalized rulemaking regarding the interpretation of the stream buffer zone provisions of SMCRA, which confirmed that excess spoil from mining and refuse from coal preparation could be placed in permitted areas of a mine site that constitute waters of the U.S. The rule was subsequently vacated based, in part, upon the fact that the U.S. Fish & Wildlife Service was not consulted with respect to possible effects on endangered species under terms of the Endangered Species Act. On December 20, 2016, the OSM published a new, finalized “Stream Protection Rule,” setting standards for “material damage to the hydrologic balance outside the permit area” that are applicable to surface and underground mining operations. However, on February 16, 2017, former President Trump signed a joint congressional resolution disapproving the Stream Protection Rule pursuant to the Congressional Review Act. Accordingly, the regulations in effect prior to the Stream Protection Rule apply, including OSM’s 1983 rule, which requires coal companies to keep operations 100 feet from streams or otherwise minimize any damage. It remains unclear whether and how additional actions by the Biden Administration could further impact regulatory or enforcement activities pursuant to the SMCRA.

Drainage flowing from or caused by mining activities can be acidic with elevated levels of dissolved metals, a condition referred to as “acid mine drainage” (“AMD”). Treatment of AMD can be costly. Although we do not currently face material costs associated with AMD, there can be no assurance that we will not incur significant costs in the future.

### *Surety Bonds/Financial Assurance*

We use surety bonds and letters of credit to provide financial assurance for certain transactions and business activities. Federal and state laws require us to obtain surety bonds or other acceptable security to secure payment of certain long-term obligations including mine closure or reclamation costs and other miscellaneous obligations. The amount of security required to be obtained can change as the result of new federal or state laws, as well as changes to the factors used to calculate the bonding or security amounts.

Surety bond rates have increased in recent years and the market terms of such bonds have generally become less favorable. In addition, the number of companies willing to issue surety bonds has decreased. Bonding companies may also require posting of collateral, typically in the form of letters of credit to secure the surety bonds. Moreover, the changes in the market for coal used to generate electricity in recent years have led to bankruptcies involving prominent coal producers. Several of these companies relied on self-bonding to guarantee their responsibilities. In response to these bankruptcies, the OSM issued a Policy Advisory in August 2016 to state agencies that are authorized under the SMCRA to implement the act in their states, notifying those state agencies that the OSM would more closely review self-bonding arrangements. Certain states had previously announced that they would no longer accept self-bonding to secure reclamation obligations under the state mining



laws. Although the Policy Advisory was rescinded in October 2017, some states may be reluctant to approve self-bonding arrangements. This may lead to increased demand for other forms of financial assurance, which may strain capacity for those instruments and increase our costs of obtaining and maintaining the amounts of financial assurance needed for our operations. These actions, individually and collectively, may increase the amount of financial assurance needed and limit the types of acceptable instruments, straining the capacity of the surety markets to meet demand. This may increase the time required to obtain, and increase the cost of obtaining, the required financial assurances. Although Alabama's regulatory framework technically allows for self-bonding, as a practical matter, due to the onerous regulatory requirements for self-bonding, mining companies in Alabama utilize surety bonds, collateral bonds, or letters of credit to meet their financial assurance requirements. As of December 31, 2020, we had outstanding surety bonds with parties for post-mining reclamation at all of our mining operations totaling \$40.8 million, \$17.0 million for black lung liabilities and \$3.6 million for miscellaneous purposes.

### *Climate Change*

Global climate change continues to attract considerable public and scientific attention, with widespread concern about the impacts of human activity, especially the emission of greenhouse gas ("GHG"), such as carbon dioxide and methane. Some of our operations, such as methane release resulting from met coal mining, directly emit GHGs. Further, the products that we produce result in the release of carbon dioxide into the atmosphere by end-users. Laws and regulations governing emissions of GHGs have been adopted by foreign governments, including the European Union and member countries, U.S. regulatory agencies, individual states in the U.S. and regional governmental authorities. While Congress has from time to time considered legislation to reduce emissions of GHGs, there has not been significant activity in the form of adopted legislation to reduce GHG emissions at the federal level in recent years. In the absence of such federal climate legislation, almost one-half of the states have taken legal measures to reduce emissions of GHGs primarily through the planned development of GHG emission inventories and/or regional GHG cap and trade programs. Further, numerous proposals have been made and are likely to continue to be made at the international, national, regional and state levels of government that are intended to limit emissions of GHGs by enforceable requirements and voluntary measures.

In December 2009, the EPA published findings that GHG emissions present an endangerment to public health and welfare because, according to the EPA, emissions of such gases contribute to warming of the earth's atmosphere and other climatic changes. The EPA's findings focus on six GHGs, including carbon dioxide and nitrous oxide (which are emitted from coal combustion) and methane (which is emitted from coal beds). The findings by the EPA allowed the agency to proceed with the adoption and implementation of regulations to restrict emissions of GHGs under existing provisions of the federal Clean Air Act, including rules that regulate emissions of GHGs from motor vehicles and certain large stationary sources of emissions such as power plants or industrial facilities. In May 2010, the EPA adopted regulations that, among other things, established Prevention of Significant Deterioration ("PSD") and Title V permit reviews for certain large stationary sources, such as coal-fueled power plants, that are potential major sources of GHG emissions. The so-called Tailoring Rule established new GHG emissions thresholds that determine when stationary sources must obtain permits under the PSD and Title V programs of the Clean Air Act. On June 23, 2014, the Supreme Court held that stationary sources could not become subject to PSD or Title V permitting solely by reason of their GHG emissions. The Court ruled, however, that the EPA may require installation of best available control technology for GHG emissions at sources otherwise subject to the PSD or Title V programs. On August 26, 2016, the EPA proposed changes needed to bring EPA's air permitting regulations in line with Supreme Court and D.C. Circuit decisions on greenhouse gas permitting. The proposed rule was published in the Federal Register on October 3, 2016 and the public comment period closed on December 16, 2016. It is unclear when a final rule will be issued and/or whether and how additional actions by the Biden Administration could impact further regulatory developments in this area.

In June 2010, Earthjustice petitioned the EPA to make a finding that emissions from coal mines may reasonably be anticipated to endanger public health and welfare, and to list them as a stationary source subject to further regulation of emissions. On April 30, 2013, the EPA denied the petition. Judicial challenges seeking to force the EPA to list coal mines as stationary sources have likewise been unsuccessful to date. If the EPA were to make an endangerment finding in the future, we may have to further reduce our methane emissions, install additional air pollution controls, pay certain taxes or fees for our emissions, incur costs to purchase credits that permit us to continue operations as they now exist at our underground coal mines or perhaps curtail coal production.

In addition, in August 2015, the EPA announced three separate, but related, actions to address carbon dioxide pollution from power plants, including final Carbon Pollution Standards for new, modified and reconstructed power plants, a final Clean Power Plan to cut carbon dioxide pollution from existing power plants, and a proposed federal plan to implement the Clean Power Plan emission guidelines. However, on March 28, 2017, the Trump Administration issued an executive order directing the EPA to review all three actions and, if appropriate, initiate a rulemaking to rescind or revise the rules consistent with the stated policy of promoting clean and safe development of the nation's energy resources, while at the same time avoiding regulatory burdens that unnecessarily encumber energy production. Accordingly, on December 20, 2018, the EPA published a

proposed rule to amend the standards for new, modified and reconstructed stationary power plants. Also, on July 8, 2019, the EPA published a final replacement rule that would "reduce the compliance burden" of the Clean Power Plan. However, on January 20, 2021, President Biden issued an executive order directing federal agencies, including the EPA, to immediately review all federal regulations promulgated during the last four years that conflict with specified objectives, including the reduction of greenhouse gas emissions. If the Clean Power Plan is retained in its original form, it could have a material adverse impact on the demand for thermal coal nationally. While the Clean Power Plan does not affect our marketing of met coal, the continued regulatory focus could lead to future GHG regulations for the mining industry and its steelmaking customers, which ultimately could make it more difficult or costly for us to conduct our operations or adversely affect demand for our products.

Demand for met coal and natural gas also may be impacted by international efforts to reduce GHG emissions. In December 2015, the United States joined the international community at the 21st Conference of the Parties of the United Nations Framework Convention on Climate Change in Paris, France. The text of the Paris Agreement calls for nations to undertake "ambitious efforts" to hold the increase in the global average temperature to well below 2° C above pre-industrial levels and pursue efforts to limit the temperature increase to 1.5° C above pre-industrial levels; reach global peaking of GHG emissions as soon as possible; and take action to conserve and enhance sinks and reservoirs of GHGs, among other requirements. The Paris Agreement went into effect on November 4, 2016. The Paris Agreement establishes a framework for the parties to cooperate and report actions to reduce GHG emissions. Although the United States withdrew from the Paris Agreement, effective November 4, 2020, President Biden issued an executive order on January 20, 2021 to rejoin the Paris Agreement, which took effect on February 19, 2021. Furthermore, many state and local leaders have stated their intent to intensify efforts to support the commitments set forth in the international accord. It is possible that the Paris Agreement and subsequent domestic and international regulations will have adverse effects on the market for met coal, natural gas, and other fossil fuel products.

Methane must be expelled from our underground coal mines for mining safety reasons. Our gas operations extract methane from our underground met coal mines prior to mining. With the exception of some methane that is vented into the atmosphere when the met coal is mined, much of the methane is captured and sold into the natural gas market and used as fuel. If regulation of GHG emissions does not exempt the release of methane, we may have to curtail met coal production, pay certain taxes or fees for our emissions or incur costs to purchase credits that allow us to continue operations as they now exist at our underground met coal mines.

The existing laws and regulations or other current and future efforts to stabilize or reduce GHG emissions could adversely impact the demand for, price of and value of our products and reserves. As our operations also emit GHGs directly, current or future laws or regulations limiting GHG emissions could increase our own costs. Although the potential impacts on us of additional climate change regulation are difficult to reliably quantify, they could be material.

Finally, climate change may cause more extreme weather conditions such as more intense hurricanes, thunderstorms, tornadoes and snow or ice storms, as well as rising sea levels and increased volatility in seasonal temperatures. Extreme weather conditions can interfere with our services and increase our costs, and damage resulting from extreme weather may not be fully insured. However, at this time, we are unable to determine the extent to which climate change may lead to increased storm or weather hazards affecting our operations.

#### *Clean Air Act*

The federal Clean Air Act and comparable state laws that regulate air emissions affect coal mining operations both directly and indirectly. Direct impacts on coal mining may occur through permitting requirements and/or emission control requirements relating to particulate matter, such as fugitive dust, or fine particulate matter measuring 2.5 micrometers in diameter or smaller. The Clean Air Act indirectly affects our mining operations by extensively regulating the air emissions of sulfur dioxide, nitrogen oxides, mercury, ozone and other compounds emitted by steel manufacturers, coke ovens and coal-fired utilities. As described above, existing and proposed regulations also subject GHG emissions to regulation under the Clean Air Act.

#### *Clean Water Act*

The federal CWA and corresponding state and local laws and regulations affect our operations by restricting the discharge of pollutants, including dredged and fill materials, into waters of the United States. CWA requirements that may directly or indirectly affect our operations include the following:

- *Water Discharge.* The CWA and corresponding state laws affect our operations by imposing restrictions on discharges of wastewater into creeks and streams. These restrictions, more often than not, require us to pre-treat the wastewater

prior to discharging it. Permits requiring regular monitoring and compliance with effluent limitations and reporting requirements govern the discharge of pollutants into regulated waters. Our mining operations maintain water discharge permits as required under the National Pollutant Discharge Elimination System program of the CWA. We believe that we have obtained all permits required under the CWA and corresponding state laws and are in substantial compliance with such permits. However, new requirements under the CWA and corresponding state laws may cause us to incur significant additional costs that could adversely affect our operating results. For instance, in 2016, the EPA published stringent water quality standards for selenium. We have begun to incorporate these new standards into our current permit applications; however, there can be no guarantee that we will be able to meet these or any other new standards with respect to our permit applications.

- *Dredge and Fill Permits.* Many mining activities, such as the development of refuse impoundments, fresh water impoundments, refuse fills, and other similar structures, may result in impacts to waters of the United States, including wetlands, streams and, in certain instances, man-made conveyances that have a hydrologic connection to such streams or wetlands. Under the CWA, coal companies are required to obtain a Section 404 permit from the U.S. Army Corps of Engineers (“USACE”) prior to conducting such mining activities. The USACE is authorized to issue general “nationwide” permits for specific categories of activities that are similar in nature and that are determined to have minimal adverse effects on the environment. Permits issued pursuant to Nationwide Permit 21 generally authorize the disposal of dredged and fill material from surface coal mining activities into waters of the United States, subject to certain restrictions. The USACE may also issue individual permits for mining activities that do not qualify for Nationwide Permit 21.

Recent regulatory actions and court decisions have created some uncertainty over the scope of CWA jurisdiction. On June 29, 2015, the EPA and the USACE jointly promulgated final rules redefining the scope of waters protected under the CWA, revising regulations that had been in place for more than 25 years. The new rules could expand the scope of CWA jurisdiction, making more waters subject to the CWA’s permitting and other requirements in the case of discharges. However, on October 22, 2019, the agencies published a final rule to repeal the 2015 rules. The 2015 rules and the 2019 repeal are subject to several ongoing legal challenges. Also, on April 21, 2020, the EPA and the USACE published a final rule replacing the 2015 rule, and significantly reducing the waters subject to federal regulation under the Clean Water Act. Several state and environmental groups have challenged the replacement rule. As a result of such recent developments, it remains unclear whether and how the rules will be implemented.

#### *Resource Conservation and Recovery Act*

The Resource Conservation and Recovery Act (“RCRA”) and corresponding state laws establish standards for the management of solid and hazardous wastes generated at our various facilities. Besides affecting current waste disposal practices, RCRA also addresses the environmental effects of certain past hazardous waste treatment, storage and disposal practices. In addition, RCRA also requires certain of our facilities to evaluate and respond to any past release, or threatened release, of hazardous waste that may pose a risk to human health or the environment.

RCRA may affect coal mining operations by establishing requirements for the proper management, handling, transportation and disposal of solid and hazardous wastes. Currently, certain coal mine wastes, such as earth and rock covering a mineral deposit (commonly referred to as overburden) and coal cleaning wastes, are exempted from hazardous waste management under RCRA. Any change or reclassification of this exemption could significantly increase our coal mining costs.

#### *Comprehensive Environmental Response, Compensation and Liability Act*

The Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA” or “Superfund”) and similar state laws affect our met coal mining operations by, among other things, imposing investigation and cleanup requirements for threatened or actual releases of hazardous substances. Under CERCLA, joint and several liability may be imposed on operators, generators, site owners, lessees and others regardless of fault or the legality of the original activity that caused or resulted in the release of the hazardous substances. Although the EPA excludes most wastes generated by coal mining and processing operations from the hazardous waste laws, the universe of materials and substances governed by CERCLA is broader than “hazardous waste” and as such even non-hazardous wastes can, in certain circumstances, contain hazardous substances, which if released into the environment are governed by CERCLA. Alabama’s version of CERCLA mirrors the federal version with the important difference that there is no joint and several liability. Liability is consistent with one’s contribution to the contamination. In addition, the disposal, release or spilling of some products used by coal companies in operation, such as chemicals, could trigger the liability provisions of CERCLA or similar state laws. Thus, we may be subject to liability under CERCLA and similar state laws for properties that (1) we currently own, lease or operate, (2) we, our predecessors, or former subsidiaries have previously owned, leased or operated, (3) sites to which we, our predecessors or

former subsidiaries, sent waste materials, and (4) sites at which hazardous substances from our facilities' operations have otherwise come to be located.

### *Endangered Species Act and Similar Laws*

The federal Endangered Species Act and other related federal and state statutes, such as the federal Bald and Golden Eagle Protection Act, protect species threatened or endangered with possible extinction. Protection of threatened, endangered and other special status species may have the effect of prohibiting or delaying us from obtaining mining permits and may include restrictions on our activities in areas containing the affected species. Also, the designation of previously unidentified threatened, endangered or special status species in areas where we operate could cause us to incur additional costs or become subject to operating delays, restrictions or bans.

### **Seasonality**

Our primary business is not materially impacted by seasonal fluctuations. Demand for met coal is generally more heavily influenced by other factors such as the global economy, demand for steel, interest rates and commodity prices.

### **Human Capital**

As of December 31, 2020, we had 1,401 employees, of whom 970 were hourly employees and 431 were salaried employees, and of whom approximately 67.2% were covered by the UMWA CBA, which expires on March 31, 2021. We have not had any union-organized work stoppages since our inception. We believe that we have good relationships with our employees and with the unions representing our employees. We are currently renegotiating our UMWA CBA. There is no guarantee that we will reach an agreement in a timely manner, and if an agreement is not reached, there could be an interruption in production at each of our mines.

The Company prioritizes employee safety, wellbeing, personal and professional development, and diversity and inclusion. At the direction of our Standing Committees of our Board of Directors, our human resource department is responsible for developing and executing our human capital strategy. This includes the attraction, acquisition, development and engagement of talent to deliver on our strategy and the design of employee compensation, incentive, welfare and benefits programs. We focus on the following factors in order to implement and develop our human capital strategy:

- Safety of Our Employees
- Evaluation of Employee Performance, Training and Talent Development
- Employee Health and Welfare
- Diversity and Inclusion

### *Safety of Our Employees*

We incorporate safety principles into every aspect of our business. We are proud of our safety record, which includes a safety incident rate that is 32% better than the U.S. industry rate and an incident severity measure that is consistently less than half the national average. To achieve such results, we have established a culture of awareness and incident prevention through numerous safety initiatives including, among others:

- 100% compliance with required annual MSHA safety training;
- Beginning all meetings with a safety share;
- Our "Stop and Correct Authority" that we have granted all employees, contractors, and visitors, we encourage anyone who observes unsafe acts or conditions to take corrective actions; and
- Our Safety ACTION training program, with monthly trainings scheduled specific to the tasks that each individual is asked to perform.

### *Evaluation of Employee Performance, Training and Talent Development*

We strive to recruit, hire and retain a talented and diverse team of people. Our employees are supported with training and development opportunities to pursue their career paths and to ensure compliance with our policies.

Our training program incorporates industry best practices and includes the following for new employees, among others: code of business conduct and ethics training, driving policy, employee handbook, safety policy and work rules. We also require

the following annual trainings on certain topics among others: Anti-Corruption and Anti-Bribery, cybersecurity, diversity and harassment, employee hazard, surface retraining, underground retraining and discipline specific retraining.

We are committed to developing and retaining our workforce. Our employees make us who we are, and we offer tools to identify, grow and nurture our talent including:

- Future Leaders Development Program
- Annual Supervisor and Development Training
- Employee Education Assistance
- Annual Performance Evaluations

### *Employee Health and Welfare*

Our compensation and benefits teams aim to develop and implement policies and programs that support our business goals, maintain competitiveness, promote shared fiscal responsibility among the Company and our employees, strategically align talent within our organization and reward performance, while also managing the costs of such policies and programs. We provide our employees with competitive fixed and/or variable pay, and for eligible employees we currently provide access to medical, dental and life insurance benefits, disability coverage, 401(k) plan and employee assistance programs, among other benefits.

During the unprecedented COVID-19 global pandemic, we focused first and foremost on the safety of our employees, supporting our local community and ensuring our employees were able to remain employed. We worked with the National Mining Association and other key national and local stakeholders to secure essential industry designation for the mining industry so that our employees and their families would not have to worry about financial stability during a time of great stress in our country. We have put in place numerous safety procedures to protect our workforce during the pandemic and continue to enhance our practices to remain aligned with federal, state, local and international regulations and guidelines. Further, despite the negative impact that the COVID-19 pandemic has had on our business, we have not cut salaries or hourly rates for our employees, nor have we adjusted our benefits coverage and we have not had to furlough any employees.

### **Available Information**

We are required to file annual, quarterly and current reports, proxy statements and other information with the SEC. Our filings with the SEC are also available to the public from commercial document retrieval services and at the SEC's website at <http://www.sec.gov>.

Our common stock is listed and traded on the New York Stock Exchange under the symbol "HCC." Our reports, proxy statements and other information filed with the SEC can also be inspected and copied at the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

We also make available on our website (<http://www.warriormetcoal.com>) all of the documents (including any amendments thereto) that we file or furnish with the SEC, free of charge, as soon as reasonably practicable after we electronically file such material with the SEC. Our Code of Business Conduct and Ethics, Corporate Governance Guidelines and the charters of our audit committee, compensation committee, nominating and corporate governance committee and environmental, health & safety committee are also available on our website and in print free of charge to any stockholder who requests them. Requests should be sent by mail to our corporate secretary at our executive office at 16243 Highway 216, Brookwood, Alabama 35444. Information contained on our website is not incorporated by reference into this Annual Report. We intend to disclose on our website any amendments or waivers to our Code of Business Conduct and Ethics that are required to be disclosed pursuant to Item 5.05 of Form 8-K.

## Item 1A. Risk Factors

*Our business involves substantial risks. Any of the risk factors described below or elsewhere in this Annual Report could significantly and adversely affect our business prospects, financial condition and results of operations. The risks described below are not the only ones facing us. Additional risks and uncertainties not presently known to us or that we currently deem to be immaterial may also adversely affect us.*

### Summary of Risk Factors

The following is a summary of some of the risks and uncertainties that could materially adversely affect our business, financial condition and results of operations. You should read this summary together with the more detailed description of each risk factor contained below.

#### *Risks Related to Our Business*

- Global pandemics, such as the COVID-19 pandemic, may occur which could adversely affect our business, financial condition and results of operations;
- Deterioration in global economic conditions may adversely affect our business, results of operations and cash flows;
- If we fail to implement our business strategies successfully, our financial performance could be harmed;
- We may be unsuccessful or delayed in developing Blue Creek, which could significantly affect our operations and/or limit our long-term growth;
- If transportation for our met coal is disrupted, unavailable or more expensive for our customers, our ability to sell met coal could suffer;
- Work stoppages, labor shortages and other labor relations matters may harm our business. Union-represented labor creates an increased risk of work stoppages and higher labor costs;
- We require a skilled workforce to run our business. If we cannot hire qualified people to meet replacement or expansion needs, we may not be able to achieve planned results;
- Significant competition, as well as changes in foreign markets or economies, could harm our sales, profitability and cash flows;
- Our sales in foreign jurisdictions are subject to risks and uncertainties, such as new tariffs and other trade measures, which could adversely affect our results of operations, financial position and cash flows;

#### *Risks Related to Our Industry*

- Our business may suffer from a substantial or extended decline in met coal pricing and demand or other factors beyond our control, which could negatively affect our operating results and cash flows;
- Substantially all of our revenues are derived from the sale of met coal. This lack of diversification of our business could adversely affect our financial condition, results of operations and cash flows;
- Met coal mining involves many hazards and operating risks, and is dependent upon many factors and conditions beyond our control, which may cause our profitability and financial position to decline;

- Negative views with respect to environmental and social matters and related governance considerations could harm the perception of our Company by certain investors and financial institutions, including banks and insurance companies, adversely affecting our ability to obtain financing and insurance coverage, among others;
- Our inability to develop met coal reserves in an economically feasible manner or our inability to acquire additional met coal reserves that are economically recoverable may adversely affect our business;
- Any significant downtime of our major pieces of mining equipment could impair our ability to supply met coal to our customers and materially and adversely affect our results of operations and cash flows;
- We may not recover our investments in our mining, exploration and other assets, which may require us to recognize impairment charges related to those assets;

#### *Risks Related to Regulatory Compliance*

- We are responsible for medical and disability benefits for black lung disease under federal law. Changes in the estimated claims to be paid or changes in the amount of collateral required may affect our operating results and cash flows;
- Extensive federal and state environmental, health and safety laws and regulations impose significant costs on our operations and future regulations could increase these costs, limit our ability to produce or adversely affect our ability to meet our customers' demands;
- Failure to obtain or renew surety bonds on acceptable terms could affect our ability to secure reclamation and coal lease obligations and, therefore, our ability to mine or lease met coal;
- We have reclamation and mine closing obligations. If the assumptions underlying our accruals are inaccurate, we could be required to expand greater amounts than anticipated;

#### *Risks Related to our Financial Results and Finances*

- Our substantial indebtedness could adversely affect our ability to raise additional capital to fund our operations and dividend policy, limit our ability to react to changes in the economy or our industry and prevent us from making debt service payments on the Notes;
- We may be unable to generate sufficient taxable income from future operations, which may limit or eliminate our ability to utilize our significant tax NOLs or our deferred tax assets;
- Changes in the method pursuant to which LIBOR rates are determined and potential phasing out of LIBOR after 2021 may affect our financial results;

#### *Risks Related to the Ownership of our Common Stock*

- The market price of our common stock may fluctuate significantly and investors in our common stock could incur substantial losses;
- If securities or industry analysts adversely change their recommendations regarding our stock or if our operating results do not meet their expectations, our stock price could decline;

- Any declaration and payment of future dividends to holders of our common stock may be limited by restrictive covenant of our ABL Facility and the indenture governing the Notes, and will be on the sole discretion of the Board and will also depend on many factors;
- Our common stock is subject to the 382 Transfer Restrictions (as defined below) under our certificate of incorporation and the Rights Agreement which are intended to prevent a Section 382 "ownership change," which if not complied with, could result in the forfeiture of such stock and related dividends or substantial dilution of the stock ownership, respectively; and
- Delaware law and our charter documents may impede or discourage a takeover or change of control, which could adversely affect the price of our common stock.

## **Risks Related to Our Business**

***Our activities may be adversely affected by global pandemics, including the global outbreak of the novel coronavirus (COVID-19), which may prevent us from meeting our targeted production levels and/or executing our planned development initiatives (including, but not limited to, the development of Blue Creek), negatively impact our customers' demand for met coal and their ability to honor or renew contracts, adversely affect the health and welfare of Company personnel or prevent our vendors and contractors from performing normal and contracted activities.***

The outbreak of COVID-19, which was first detected in Wuhan, China in December 2019 and declared a pandemic by the World Health Organization in March 2020, could have a material and adverse effect on our business, financial condition and results of operations. The outbreak has resulted, and may continue to result, in disruptions to economic and industrial activity worldwide. Though the global impact of COVID-19 is rapidly evolving and remains highly uncertain, the outbreak may ultimately cause a significant decline in global steel production and, in turn, reduce demand for met coal. As mentioned elsewhere in this Annual Report, we are highly dependent on the global steel industry. Our sales are primarily derived from coal shipments to customers located in regions that are, or may become, heavily affected by the COVID-19 outbreak, particularly Asia and Europe. Not only is steel production in these regions at risk of decline, but we may also face additional challenges in the event that transportation restrictions are put in place that affect our ability to deliver coal to our customers in these regions. These factors may influence our customers' ability to honor or renew their contracts.

In addition to the potential impact on global met coal demand, COVID-19 or any other global pandemic may result in disruptions or restrictions on our employees' ability to operate our coal mines in the ordinary course of business, which would restrict our production capacity. Similarly, we cannot predict how, if at all, the outbreak will affect our suppliers' ability to provide the mining materials and equipment we require. If our production capacity or our ability to meet our supply needs is affected, our business and our financial results could be materially and adversely affected. Finally, the COVID-19 pandemic has substantially affected national and international financial markets, which could affect our ability to obtain financing for our business and/or pursue our planned development projects, including the development of our Blue Creek mine. The extent to which COVID-19 or any other global pandemic will impact our business and our financial results will depend on future developments, which are highly uncertain and cannot be predicted. Such developments may include the geographic spread of the virus, the severity of the disease, the duration of the outbreak, the actions that may be taken by various governmental authorities in response to the outbreak and the impact on the U.S. or global economy.

***Deterioration in global economic conditions as they relate to the steelmaking industry, as well as generally unfavorable global economic, financial and business conditions, may adversely affect our business, results of operations and cash flows.***

Demand for met coal depends on domestic and foreign steel demand. As a result, if economic conditions in the global steelmaking industry deteriorate as they have in past years, the demand for met coal may decrease. In addition, the global financial markets have been experiencing volatility and disruption over the last several years and, more recently, due to the COVID-19 pandemic. These markets have experienced, among other things, volatility in security prices, commodities and currencies, diminished liquidity and credit availability, rating downgrades and declining valuations of certain investments. Weaknesses in global economic conditions have had an adverse effect and could have a material adverse effect on the demand for our met coal and, in turn, on our sales, pricing and profitability.

In addition, future governmental policy changes in foreign countries may be detrimental to the global coal market. For example, the Chinese government has from time to time implemented regulations and promulgated new laws or restrictions on their domestic coal industry, sometimes with little advance notice, which has impacted worldwide coal demand, supply and



prices. During the past several years, the Chinese government has initiated a number of anti-smog measures aimed at reducing hazardous air emissions through temporary production capacity restrictions with the steel, coal and coal-fired power sectors. It is possible that policy changes from foreign countries may be detrimental to the global coal markets and, thus, impact our business, financial condition or results of operations.

If met coal prices drop to or below levels experienced in 2015 and the first half of 2016 for a prolonged period or if there are further downturns in economic conditions, particularly in developing countries such as China and India, our business, financial condition or results of operations could be adversely affected. While we are focused on cost control and operational efficiencies, there can be no assurance that these actions, or any others we may take, will be sufficient in response to challenging economic and financial conditions. In addition, the current level of met coal prices may not be sustainable.

***We sell most of our met coal under fixed supply contracts primarily with indexed pricing terms that vary and volume terms of one to three years and are therefore exposed to commodity price risk on our sales.***

Sales commitments in the met coal market are typically not long-term in nature and are generally no longer than one to three years in duration. Globally the market is evolving to shorter term pricing. Many of our met coal supply agreements are priced on the basis of a variety of indices, where prices are determined on or before shipment by averaging the leading spot indexes reported in the market. As a result, our sales are subject to fluctuations in market pricing and we are not protected from oversupply or market conditions where we cannot sell our coal at economic prices. To limit this exposure, and where we can, we have, and will continue to, incorporate economic hardship clauses in our sales contracts. However, there can be no assurances we will be able to mitigate such conditions as they arise. Met coal has been an extremely volatile commodity over the past ten years and prices may become volatile again in the future given the rapid increase of the last few years and the sharp decline in the second half of 2019. Any sustained failure to be able to market our coal during such periods would have a material adverse effect on our business, results of operations, cash flows and ability to pay dividends to our stockholders.

***The failure of our customers to honor or renew contracts could adversely affect our business.***

A significant portion of the sales of our met coal is to customers with whom we have had a relationship for a long period of time. Typically, our customer contracts are for terms of one to three years or are evergreen with respect to contracted volumes. The success of our business depends on our ability to retain our current customers, renew our existing customer contracts and solicit new customers. Our ability to do so generally depends on a variety of factors, including the quality and price of our products, our ability to market these products effectively, our ability to deliver on a timely basis and the level of competition that we face. If our customers do not honor contract commitments, or if they terminate agreements or exercise force majeure provisions allowing for the temporary suspension of performance during specified events beyond the parties' control, such as the COVID-19 pandemic, and we are unable to replace the contract, our revenues will be materially and adversely affected. Changes in the met coal industry may cause some of our customers not to renew, extend or enter into new met coal supply agreements or to enter into agreements to purchase fewer metric tons of met coal or on different terms than in the past.

***Our ability to collect payments from our customers could be impaired and, as a result, our financial position could be materially and adversely affected if their creditworthiness deteriorates, if they declare bankruptcy, or if they fail to honor their contracts with us.***

Our ability to receive payment for met coal sold and delivered depends on the continued creditworthiness and financial stability of our customers. A significant number of our customers are affected by the COVID-19 pandemic, which may result in a deterioration of their financial stability and, in some cases, a bankruptcy. If we determine that a customer is not creditworthy or if a customer declares bankruptcy, we may not be required to deliver met coal sold under the customer's sales contract. If this occurs, we may decide to sell the customer's met coal on the spot market, which may be at prices lower than the contracted price, or we may be unable to sell the met coal at all. In addition, if customers refuse to accept shipments of our met coal for which they have an existing contractual obligation, our revenues will decrease and we may have to reduce production at our mines until our customers' contractual obligations are honored. Further, competition with other met coal suppliers could cause us to extend credit to customers on terms that could increase the risk of payment default. Our inability to collect payment from counterparties to our sales contracts may materially adversely affect our business, financial condition, results of operations and cash flows.

***A significant reduction of, or loss of, purchases by our largest customers could materially adversely affect our profitability.***

For the year ended December 31, 2020, we derived approximately 64.5% of our total sales revenues from our five largest customers. There are inherent risks whenever a significant percentage of total revenues are concentrated with a limited

number of customers, and it is not possible for us to predict the future level of demand for our met coal that will be generated by our largest customers. We expect to renew, extend or enter into new supply agreements with these and other customers; however, we may be unsuccessful in obtaining such agreements with these customers and these customers may discontinue purchasing met coal from us, reduce the quantity of met coal that they have historically purchased from us or pressure us to reduce the prices that we charge for our met coal due to market, economic or competitive conditions, including effects from the COVID-19 pandemic. If any of our major customers were to significantly reduce the quantities of met coal they purchase from us and we are unable to replace these customers with new customers (or we fail to obtain new, additional customers), or if we are otherwise unable to sell met coal to those customers on terms as favorable to us as the terms under our current agreements, our profitability could suffer significantly.

***If we fail to implement our business strategies successfully, our financial performance could be harmed.***

Our future financial performance and success are dependent in large part upon our ability to successfully implement our business strategies. We may not be able to implement our business strategies successfully or achieve the anticipated benefits. If we are unable to do so, our long-term growth, profitability and ability to service any debt we incur in the future may be materially adversely affected. Even if we are able to implement some or all of the key elements of our business plan successfully, our operating results may not improve to the extent we anticipate, or at all. Implementation of our business strategies, including the development of Blue Creek, could also be affected by a number of factors beyond our control, such as global economic conditions (including effects of the COVID-19 pandemic), met coal prices, domestic and foreign steel demand, and environmental, health and safety laws and regulations.

A key element of our business strategy involves increasing production at our existing mines and developing Blue Creek recoverable reserves in a cost efficient manner. As we expand our business activities, there will be additional demands on our financial, technical, operational and management resources. These aspects of our strategy are subject to numerous risks and uncertainties, including:

- an inability to retain or hire experienced crews and other personnel and other labor relations matters;
- a lack of customer demand for our mined met coal;
- an inability to secure necessary equipment, raw materials or engineering in a timely manner to successfully execute our expansion plans;
- unanticipated delays that could limit or defer the production or expansion of our mining activities and jeopardize our long term relationships with our existing customers and adversely affect our ability to obtain new customers for our mined met coal; and
- a lack of available cash or access to sufficient debt or equity financing for investment in our expansion.

***We may be unsuccessful or delayed in developing Blue Creek, which could significantly affect our operations and/or limit our long-term growth.***

The development of Blue Creek will require substantial capital expenditures that we may not recover. In addition, during our development of Blue Creek we will face numerous financial, regulatory, environmental, political and legal uncertainties that are beyond our control and that may cause unforeseen delays in, or unexpectedly increase the costs associated with, the completion of Blue Creek. Accordingly, we may not be able to complete the development of Blue Creek on schedule, at the budgeted cost or at all, and any such delays or increased costs could have a material adverse effect on our financial condition, results of operations or cash flows. We initially delayed spending the \$25.0 million that we budgeted for the development of the Blue Creek project until at least July 1, 2020 and have now further delayed the development of that project until at least summer 2021. Our planned development of Blue Creek involves numerous risks, including, but not limited to, the following:

- uncertainties in the national and worldwide economy and the price of met coal;
- our ability to obtain additional debt and/or equity financing to fund the development, permitting, construction and mining activities of Blue Creek on terms that are acceptable to us, or at all;
- the diversion of management's attention from our existing mining operations;

- our ability to obtain favorable tax or other incentives;
- potential opposition from non-governmental organizations, local groups, or local residents;
- the fact that our development, construction, ramp-up and operating costs may be higher than our estimates and further increase our planned capital expenditure and liquidity requirements;
- shortages of construction materials and equipment or delays in the delivery of such materials and equipment;
- unanticipated facility or equipment malfunctions or breakdowns;
- delays from unexpected adverse geological and/or weather conditions, accidents, and other factors beyond our control, including the COVID-19 pandemic;
- failure to obtain, or delays in obtaining, all necessary governmental and third-party rights-of-way, easements, permits, licenses and approvals;
- local infrastructure conditions and other logistical challenges;
- the possibility that we may have insufficient expertise to engage in such development activity profitably or without incurring inappropriate amounts of risks;
- the fact that the coal reserves at Blue Creek may not be as economically recoverable as planned;
- difficulties in integrating Blue Creek with our existing mining operations and failure to achieve any estimated economies of scale; and
- our ability to hire qualified construction and other personnel.

We cannot assure you that we will be able to overcome these risks or successfully develop Blue Creek. If we are unable to complete, or are substantially delayed in completing, the development of Blue Creek, our business, financial condition, results of operations, cash flows and ability to pay dividends to our stockholders could be adversely affected. Furthermore, even if Blue Creek is successfully developed, constructed, and placed into operation, we cannot assure you that it will operate at a profit sufficient to recover our total investment. In addition, if its development is successful, the operation of Blue Creek would exacerbate our existing mining and operation risks discussed elsewhere in this Report, including, but not limited to, risks related to increasing the concentration of our mining operations in Alabama, hazards and operating risks, transportation risks, liability risks and regulatory risks. See “-Risks Related to Our Business-All of our mining operations are located in Alabama, making us vulnerable to risks associated with having our production concentrated in one geographic area”, “-Met coal mining involves many hazards and operating risks, and is dependent upon many factors and conditions beyond our control, which may cause our profitability and financial position to decline”, “-If transportation for our met coal is disrupted, unavailable or more expensive for our customers, our ability to sell met coal could suffer”, “-Our business is subject to inherent risks, some for which we maintain third party insurance. We may incur losses and be subject to liability claims that could have a material adverse effect on our financial condition, results of operations or cash flows” and “-Our mines are subject to stringent federal and state safety regulations that increase our cost of doing business at active operations and may place restrictions on our methods of operation. In addition, federal, state or local regulatory agencies have the authority to order certain of our mines to be temporarily or permanently closed under certain circumstances, which could materially and adversely affect our ability to meet our customers’ demands.”

***We may be unsuccessful in integrating the operations of any future acquisitions, including acquisitions involving new lines of business, with our existing operations, and in realizing all or any part of the anticipated benefits of any such acquisitions.***

From time to time, we may evaluate and acquire assets and businesses that we believe complement our existing assets and business. The assets and businesses we acquire may be dissimilar from our existing lines of business. Acquisitions may require substantial capital or the incurrence of substantial indebtedness. Our capitalization and results of operations may change

significantly as a result of future acquisitions. Acquisitions and business expansions involve numerous risks, including the following:

- difficulties in the integration of the assets and operations of the acquired businesses;
- inefficiencies and difficulties that arise because of unfamiliarity with new assets and the businesses associated with them and new geographic areas;
- the possibility that we have insufficient expertise to engage in such activities profitably or without incurring inappropriate amounts of risk; and
- the diversion of management's attention from other operations.

Further, unexpected costs and challenges may arise whenever businesses with different operations or management are combined, and we may experience unanticipated delays in realizing the benefits of an acquisition. Entry into certain lines of business may subject us to new laws and regulations with which we are not familiar, and may lead to increased litigation and regulatory risk. Also, following an acquisition, we may discover previously unknown liabilities associated with the acquired business or assets for which we have no recourse under applicable indemnification provisions. If a new business generates insufficient revenue or if we are unable to efficiently manage our expanded operations, our results of operations may be adversely affected.

***If transportation for our met coal is disrupted, unavailable or more expensive for our customers, our ability to sell met coal could suffer.***

Transportation costs represent a significant portion of the total cost of met coal to be delivered to our customers and, as a result, the cost of delivery is a factor in a customer's purchasing decision. Overall price increases in our transportation costs could make our met coal less competitive with the same or alternative products from competitors with lower transportation costs. We typically depend upon overland conveyor, trucks, rail or barges to transport our products. Disruption or delays of any of these transportation services due to weather related problems, which are variable and unpredictable, strikes or lock-outs, accidents, infrastructure damage, governmental regulation, third-party actions, lack of capacity or other events beyond our control, such as the COVID-19 pandemic, could impair our ability to supply our products to our customers and result in lost sales and reduced profitability. In addition, increases in transportation costs resulting from emission control requirements and fluctuations in the price of gasoline and diesel fuel, could make met coal produced in one region of the United States less competitive than met coal produced in other regions of the United States or abroad.

All of our met coal mines are served by only one rail carrier, which increases our vulnerability to these risks, although our access to barge transportation partially mitigates that risk. In addition, the majority of the met coal produced by our underground mining operations is sold to met coal customers who typically arrange and pay for transportation from the state-run docks at the Port of Mobile in Alabama to the point of use. As a result, disruption at the docks, port congestion and delayed met coal shipments may result in demurrage fees to us. If this disruption were to persist over an extended period of time, demurrage costs could significantly impact our profits. In addition, there are limited cost effective alternatives to the port. The cost of securing additional facilities and services of this nature could significantly increase transportation and other costs. An interruption of rail or port services could significantly limit our ability to operate and, to the extent that alternate sources of port and rail services are unavailable or not available on commercially reasonable terms, could increase transportation and port costs significantly. Further, delays of ocean vessels could affect our revenues, costs and relative competitiveness compared to the supply of met coal and other products from our competitors.

***Our business is subject to the risk of increases or fluctuations in the cost, and delay in the delivery, of raw materials, mining equipment and purchased components.***

Met coal mining consumes large quantities of commodities including steel, copper, rubber products, diesel and other liquid fuels, and requires the use of capital equipment. Some commodities, such as steel, are needed to comply with roof control plans required by regulation. The cost of roof bolts we use in our mining operations depends on the price of scrap steel. The prices we pay for commodities and capital equipment are strongly impacted by the global market. A rapid or significant increase in the costs of commodities or capital equipment we use in our operations could impact our mining operations costs because we may have a limited ability to negotiate lower prices and, in some cases, may not have a ready substitute.

We use equipment in our met coal mining and transportation operations such as continuous mining units, conveyors, shuttle cars, rail cars, locomotives, roof bolters, shearers and shields. Some equipment and materials are needed to comply with

regulations, such as proximity detection devices on continuous mining machines. We procure some of this equipment from a concentrated group of suppliers, and obtaining this equipment often involves long lead times. Occasionally, demand for such equipment by mining companies can be high and some types of equipment may be in short supply. Delays in receiving or shortages of this equipment, as well as the raw materials used in the manufacturing of supplies and mining equipment, which, in some cases, do not have ready substitutes, or the cancellation of our supply contracts under which we obtain equipment and other consumables, could limit our ability to obtain these supplies or equipment. In addition, there continues to be consolidation in the supplier base providing mining materials and equipment, which has resulted in a limited number of suppliers for certain types of equipment and supplies. If any of our suppliers experiences an adverse event (including as a result of the COVID-19 pandemic), decides to cease producing products used by the mining industry, or decides to no longer do business with us, we may be unable to obtain sufficient equipment and raw materials in a timely manner or at a reasonable price to allow us to meet our production goals and our revenues may be materially adversely impacted.

We use considerable quantities of steel in the mining process. If the price of steel or other materials increases substantially or if the value of the U.S. dollar declines relative to foreign currencies with respect to certain imported supplies or other products, our operating expenses could increase. Any of the foregoing events could materially and adversely impact our business, financial condition, results of operations and cash flows.

***Our business may require substantial ongoing capital expenditures, and we may not have access to the capital required to reach full productive capacity at our mines.***

Maintaining and expanding mines and related infrastructure is capital intensive. Specifically, the exploration, permitting and development of met coal reserves, mining costs, the maintenance of machinery, facilities and equipment and compliance with applicable laws and regulations require ongoing capital expenditures. While a significant amount of the capital expenditures required at our mines has been spent, we must continue to invest capital to maintain our production. In addition, any decisions to increase production at our existing mines or the development of the high-quality met coal recoverable reserves at Blue Creek could also affect our capital needs or cause future capital expenditures to be higher than in the past and/or higher than our estimates. We cannot assure you that we will be able to maintain our production levels or generate sufficient cash flow, or that we will have access to sufficient financing to continue our production, exploration, permitting and development activities at or above our present levels and on our current or projected timelines, and we may be required to defer all or a portion of our capital expenditures. Our results of operations, business and financial condition may be materially adversely affected if we cannot make such capital expenditures.

To fund our capital expenditures, we will be required to use cash from our operations, incur debt or sell equity securities. Using cash from operations will reduce cash available for maintaining or increasing our operations activities. Our ability to obtain bank financing or our ability to access the capital markets for future equity or debt offerings, on the other hand, may be limited by our financial condition at the time of any such financing or offering and the covenants in our existing debt agreements, as well as by general economic conditions, contingencies and uncertainties that are beyond our control, such as the COVID-19 pandemic. If cash flow generated by our operations or available borrowings under our bank financing arrangements are insufficient to meet our capital requirements and we are unable to access the capital markets on acceptable terms or at all, we could be forced to curtail the expansion of our existing mines and the development of our properties, which, in turn, could lead to a decline in our production and could materially and adversely affect our business, financial condition and results of operations..

***Work stoppages, labor shortages and other labor relations matters may harm our business. Union-represented labor creates an increased risk of work stoppages and higher labor costs.***

If we fail to maintain satisfactory labor relations, disputes with the unionized portion of our workforce could affect us adversely. Union-represented labor creates an increased risk of work stoppages and higher labor costs. As of December 31, 2020, 67.2% of our employees were represented by the UMWA. In connection with the acquisition of certain assets of Walter Energy, we negotiated the CBA with the UMWA, which was ratified by UMWA's members on February 16, 2016 and has a five-year term. If we are unable to negotiate the renewal of the CBA before its expiration date on April 1, 2021, our operations and our profitability could be adversely affected. Future work stoppages, labor union issues or labor disruptions at our mining operations, as well as at the operations of key customers or service providers, could impede our ability to produce and deliver our products, to receive critical equipment and supplies or to collect payment. This may increase our costs or impede our ability to operate one or more of our operations.

***We require a skilled workforce to run our business. If we cannot hire qualified people to meet replacement or expansion needs, we may not be able to achieve planned results.***

Efficient met coal mining using modern techniques and equipment requires skilled laborers with mining experience and proficiency as well as qualified managers and supervisors. The demand for skilled employees sometimes causes a significant constriction of the labor supply resulting in higher labor costs. When met coal producers compete for skilled miners, recruiting challenges can occur and employee turnover rates can increase, which negatively affect operating efficiency and costs. If a shortage of skilled workers exists and we are unable to train or retain the necessary number of miners, it could adversely affect our productivity, costs and ability to expand production.

***Significant competition, as well as changes in foreign markets or economies, could harm our sales, profitability and cash flows.***

We compete with other producers primarily on the basis of price, met coal quality, transportation costs and reliability of delivery. The consolidation of the global met coal industry over the last several years has contributed to increased competition among met coal producers and we cannot assure you that the result of current or further consolidation will not adversely affect us. In addition, some of our global competitors have significantly greater financial resources and/or a broader portfolio of coals than we do, and in recent periods a number of our competitors idled production in light of lower met coal prices in 2015 and the first half of 2016. The production that was idled by our competitors may restart, and in some instances has already restarted, and may affect domestic and foreign met coal supply into the seaborne market and associated prices and impact our ability to retain or attract met coal customers.

Further, potential changes to international trade agreements, trade concessions, foreign currency fluctuations or other political and economic arrangements may benefit met coal producers operating in countries other than the United States. We may be adversely impacted on the basis of price or other factors with companies that in the future may benefit from favorable foreign trade policies or other arrangements. In addition, increases in met coal prices could encourage existing producers to expand capacity or could encourage new producers to enter the market. Overcapacity and increased production within the met coal industry, both domestically and internationally, could materially reduce met coal demand and prices and therefore materially reduce our revenues and profitability. In addition, our ability to ship our met coal to international customers depends on port and transportation capacity. Increased competition within the domestic met coal industry for international sales could result in us not being able to obtain throughput capacity at port facilities, as well as transport capacity, could cause the rates for such services to increase to a point where it is not economically feasible to export our met coal.

The general economic conditions in foreign markets and changes in currency exchange rates are factors outside of our control that may affect international met coal prices. If our competitors' currencies decline against the U.S. dollar or against our customers' currencies, those competitors may be able to offer lower prices to our customers. Furthermore, if the currencies of our overseas customers were to significantly decline in value in comparison to the U.S. dollar, on which our sales contracts are based, those customers may seek decreased prices for the met coal that we sell to them. These factors, in addition to adversely affecting the competitiveness of our met coal in international markets, may also negatively impact our collection of trade receivables from our customers and could reduce our profitability or result in lower met coal sales.

***Our sales in foreign jurisdictions are subject to risks and uncertainties that may have a negative impact on our profitability.***

Substantially all of our met coal sales consist of sales to international customers and we expect that international sales will continue to account for a substantial portion of our revenue. A number of foreign countries in which we sell our met coal implicate additional risks and uncertainties due to the different economic, cultural and political environments. Such risks and uncertainties include, but are not limited to:

- longer sales-cycles and time to collection;
- tariffs and international trade barriers and export license requirements, including any that might result from the current global trade uncertainties;
- fewer or less certain legal protections for contract rights;
- different and changing legal and regulatory requirements;
- potential liability under the U.S. Foreign Corrupt Practices Act of 1977, as amended, or comparable foreign regulations;

- government currency controls;
- fluctuations in foreign currency exchange and interest rates; and
- political and economic instability, changes, hostilities and other disruptions (including as a result of the COVID-19 pandemic), as well as unexpected changes in diplomatic and trade relationships.

Negative developments in any of these factors in the foreign markets into which we sell our met coal could result in a reduction in demand for met coal, the cancellation or delay of orders already placed, difficulty in collecting receivables, higher costs of doing business and/or non-compliance with legal and regulatory requirements, each or any of which could materially adversely impact our cash flows, results of operations and profitability.

***New tariffs and other trade measures could adversely affect our results of operations, financial position and cash flows.***

New tariffs and other trade measures could adversely affect our results of operations, financial position and cash flows. On March 8, 2018, former President Trump signed proclamations imposing a 25 percent tariff on imports of certain steel mill products and aluminum products. The U.S. continues to impose tariffs of 7.5 percent and 25.0 percent on certain Chinese-origin products. In response to the tariffs imposed by the U.S., other countries, including China and European Union member countries have announced tariffs on U.S. goods and services. The continuation of these tariffs, along with any additional tariffs or trade restrictions that may be implemented by the U.S. or retaliatory trade measures or tariffs implemented by other countries, could result in reduced economic activity, increased costs in operating our business, reduced demand and changes in purchasing behaviors for met coal, limits on trade with the United States or other potentially adverse economic outcomes. In addition, trade conflicts between the U.S. and other nations that result in imposition of barriers to trade, such as import tariffs, could materially and adversely affect the international demand and pricing for our coal. While, the imposition of these trade barriers by other nations have not yet had a significant impact on our business or results of operations, we cannot predict further developments, and such existing or future tariffs could have a material adverse effect on our results of operations, financial position and cash flows. If these barriers endure, or are enhanced, our coal exports may decline, and increased domestic supply could cause competition among coal producers in the U.S. to intensify, potentially resulting in additional downward pressure on domestic coal prices and our business, financial condition and results of operations.

***We may be subject to litigation, the disposition of which could negatively affect our profitability and cash flow in a particular period, or have a material adverse effect on our business, financial condition and results of operations.***

Our profitability or cash flow in a particular period could be affected by an adverse ruling in any litigation that may be filed against us in the future. In addition, such litigation could have a material adverse effect on our business, financial condition and results of operations. See “Part I, Item 3. Legal Proceedings.”

***Terrorist attacks and cyber-attacks or other security breaches may negatively affect our business, financial condition and results of operations and cash flows.***

Our business is affected by general economic conditions, fluctuations in consumer confidence and spending, and market liquidity, all of which can decline as a result of numerous factors outside of our control, such as terrorist attacks and acts of war. Future terrorist attacks against U.S. targets, rumors or threats of war, actual conflicts involving the United States or its allies, or military or trade disruptions affecting our customers could cause delays or losses in transportation and deliveries of met coal to our customers, decreased sales of our met coal and extension of time for payment of accounts receivable from our customers. Strategic targets such as energy-related assets may be at greater risk of future terrorist attacks than other targets in the United States. It is possible that any, or a combination, of these occurrences could have a material adverse effect on our business, financial condition and results of operations.

In addition, we have become increasingly dependent upon digital technologies, including information systems, infrastructure and cloud applications and services, to operate our businesses, process and record financial and operating data, communicate with our employees and business partners, analyze seismic and drilling information, estimate quantities of met coal reserves, as well as other activities related to our businesses. As our dependence on digital technologies has increased, the risk of cyber incidents, including both deliberate attacks and unintentional events, also has increased. A cyber-attack may involve persons gaining unauthorized access to our digital systems for purposes of gathering, monitoring, releasing, misappropriating or corrupting proprietary or confidential information, or causing operational disruption.

To that end, we have implemented security protocols and systems with the intent of maintaining the physical security of our operations and protecting our and our counterparties' confidential information and information related to identifiable individuals against unauthorized access. Despite such efforts, we may be subject to security breaches, which could result in unauthorized access to our facilities or the information that we are trying to protect. Unauthorized physical access to one of our facilities or electronic access to our information systems could result in, among other things, unfavorable publicity, litigation by affected parties, damage to sources of competitive advantage, disruptions to our operations, loss of customers, financial obligations for damages related to the theft or misuse of such information and costs to remediate such security vulnerabilities, any of which could have a substantial impact on our results of operations, financial condition or cash flows. Our insurance may not protect us against such occurrences. While to date we have not experienced any material losses relating to cyber incidents, as cyber incidents continue to evolve, we may be required to expend additional resources to continue to modify or enhance our protective measures or to investigate and remediate any vulnerability to cyber incidents.

## **Risks Related to Our Industry**

***Our business may suffer as a result of a substantial or extended decline in met coal pricing or the failure of any recovery or stabilization of met coal prices to endure, as well as any substantial or extended decline in the demand for met coal and other factors beyond our control, which could negatively affect our operating results and cash flows.***

Our profitability depends on the prices at which we sell our met coal, which are largely dependent on prevailing market prices. A substantial or extended decrease in met coal pricing or the failure of a price recovery or stabilization following such decrease will negatively affect our operating cash flows. We have experienced significant price fluctuations in our met coal business, and we expect that such fluctuations will continue. Demand for, and therefore the price of, met coal is driven by a variety of factors, including, but not limited to, the following:

- the domestic and foreign supply and demand for met coal;
- the quantity and quality of met coal available from competitors;
- the demand for and price of steel;
- adverse weather, climatic and other natural conditions, including natural disasters;
- domestic and foreign economic conditions, including slowdowns in domestic and foreign economies and financial markets;
- global and regional political events;
- domestic and foreign legislative, regulatory and judicial developments, environmental regulatory changes and changes in energy policy and energy conservation measures that could adversely affect the met coal industry;
- capacity, reliability, availability and cost of transportation and port facilities, and the proximity of available met coal to such transportation and port facilities; and
- other factors beyond our control, such as terrorism, war, and pandemics, including the COVID-19 pandemic.

The met coal industry also faces concerns with respect to oversupply from time to time, which could materially adversely affect our financial condition and results of operations. In addition, reductions in the demand for met coal caused by reduced steel production by our customers, increases in the use of substitutes for steel (such as aluminum, composites or plastics) or less expensive substitutes for met coal and the use of steelmaking technologies that use less or no met coal can significantly adversely affect our financial results and impede growth. Our natural gas business is also subject to adverse changes in pricing due to, among other factors, changes in demand and competition from alternative energy sources.

***Our customers are continually evaluating alternative steel production technologies which may reduce demand for our product.***

Our product is primarily used as HCC for blast furnace steel producers. High-quality HCC commands a significant price premium over other forms of coal because of its value in use in blast furnaces for steel production. High-quality HCC is a



scarce commodity and has specific physical and chemical properties which are necessary for efficient blast furnace operation. Alternative technologies are continually being investigated and developed with a view to reducing production costs or for other reasons, such as minimizing environmental or social impact. If competitive technologies emerge or are increasingly utilized that use other materials in place of our product or that diminish the required amount of our product, such as electric arc furnaces or pulverized coal injection processes, demand and price for our met coal might fall. Many of these alternative technologies are designed to use lower quality coals or other sources of carbon instead of higher cost high-quality HCC. While conventional blast furnace technology has been the most economic large-scale steel production technology for a number of years, and while emergent technologies typically take many years to commercialize, there can be no assurance that over the longer term competitive technologies not reliant on HCC could emerge which could reduce demand and price premiums for HCC.

***Substantially all of our revenues are derived from the sale of met coal. This lack of diversification of our business could adversely affect our financial condition, results of operations and cash flows.***

We rely on the met coal production from our two active met coal mines for substantially all of our revenues. For the year ended December 31, 2020, revenues from the sale of met coal accounted for approximately 97.3% of our total revenues. As noted above, demand for met coal depends on domestic and foreign steel demand. At times, the pricing and availability of steel can be volatile due to numerous factors beyond our control. Recently, the COVID-19 pandemic has adversely affected the economies and financial markets of many countries, including those of our customers, which are primarily located in Europe, South America and Asia. Any resulting economic downturn could adversely affect demand for our met coal and contribute to volatile supply and demand conditions affecting prices and volumes. In addition, the ability of our suppliers' and customers' employees to work may be significantly impacted by individuals contracting or being exposed to COVID-19, or as a result of control measures taken by us, other businesses and the government to curtail the spread of the virus, which may significantly affect the demand for met coal. When steel prices are lower, the prices that we charge steelmaking customers for our met coal may decline, which could adversely affect our financial condition, results of operations and cash flows. Since we are heavily dependent on the steelmaking industry, adverse economic conditions in this industry, even in the presence of otherwise favorable economic conditions in the broader coal industry, could have a significantly greater impact on our financial condition and results of operations than if our business were more diversified. In addition, our lack of diversification may make us more susceptible to such adverse economic conditions than our competitors with more diversified operations and/or asset portfolios, such as those that produce thermal coal in addition to met coal.

***All of our mining operations are located in Alabama, making us vulnerable to risks associated with having our production concentrated in one geographic area.***

All of our mining operations are geographically concentrated in Alabama. As a result of this concentration, we may be disproportionately exposed to the impact of delays or interruptions in production caused by significant governmental regulation, transportation capacity constraints, constraints on the availability of required equipment, facilities, personnel or services, curtailment of production, extreme weather conditions, natural disasters, pandemics (such as COVID-19) or interruption of transportation or other events that impact Alabama or its surrounding areas. If any of these factors were to impact Alabama more than other met coal producing regions, our business, financial condition, results of operations and cash flows will be adversely affected relative to other mining companies with operations in unaffected regions or that have a more geographically diversified asset portfolio.

***Met coal mining involves many hazards and operating risks, and is dependent upon many factors and conditions beyond our control, which may cause our profitability and financial position to decline.***

Our mining operations, including our preparation and transportation infrastructure, are subject to inherent hazards and operating risks that could disrupt operations, decrease production and increase the cost of mining for varying lengths of time. Specifically, underground mining and related processing activities present risks of injury to persons and damage to property and equipment. In addition, met coal mining is dependent upon a number of conditions beyond our control that can disrupt operations and/or affect our costs and production schedules at particular mines. These risks, hazards and conditions include, but are not limited to:

- variations in geological conditions, such as the thickness of the met coal seam and amount of rock embedded in the met coal deposit and variations in rock and other natural materials overlying the met coal deposit, that could affect the stability of the roof and the side walls of the mine;
- mining, process and equipment or mechanical failures, unexpected maintenance problems and delays in moving longwall equipment;

- the unavailability of raw materials, equipment (including heavy mobile equipment) or other critical supplies such as tires, explosives, fuel, lubricants and other consumables of the type, quantity and/or size needed to meet production expectations;
- adverse weather and natural disasters, such as heavy rains or snow, forest fires, flooding and other natural events, including seismic activities, ground failures, rock bursts or structural cave-ins or slides, affecting our operations or transportation to our customers;
- railroad delays or derailments;
- environmental hazards, such as subsidence and excess water ingress;
- delays and difficulties in acquiring, maintaining or renewing necessary permits or mining rights;
- availability of adequate skilled employees and other labor relations matters;
- security breaches or terroristic acts;
- unexpected mine accidents, including rock-falls and explosions caused by the ignition of met coal dust, natural gas or other explosive sources at our mine sites or fires caused by the spontaneous combustion of met coal or similar mining accidents;
- competition and/or conflicts with other natural resource extraction activities and production within our operating areas, such as natural gas extraction or oil and gas development; and
- other hazards that could also result in personal injury and loss of life, pollution and suspension of operations.

These risks and conditions could result in damage to or the destruction of our mineral properties, equipment or production facilities, personal injury or death, environmental damage, delays in mining, regulatory investigations, actions and penalties, repair and remediation costs, monetary losses and legal liability. In addition, a significant mine accident could potentially cause a suspension of operations or a complete mine shutdown. Our insurance coverage may not be available or sufficient to fully cover claims that may arise from these risks and conditions.

We have also seen adverse geological conditions in the mines, such as variations in met coal seam thickness, variations in the competency and make-up of the roof strata, fault-related discontinuities in the met coal seam and the potential for ingress of excessive amounts of natural gas or water. Such adverse conditions may increase our cost of sales and reduce our profitability, and may cause us to decide to close a mine. Any of these risks or conditions could have a negative impact on our financial condition, results of operations and cash flows.

In addition, if any of the foregoing changes, conditions or events occurs and is not excusable as a force majeure event, any resulting failure on our part to deliver met coal to the purchaser under our contracts could result in economic penalties, suspension or cancellation of shipments or ultimately termination of the agreement, any of which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

***Our business is subject to inherent risks, some for which we maintain third party insurance. We may incur losses and be subject to liability claims that could have a material adverse effect on our financial condition, results of operations or cash flows.***

We maintain insurance policies that provide limited coverage for some, but not all, potential risks and liabilities associated with our business. The insurance that we maintain may contain certain deductible amounts and cover risks and liabilities typical for a coal mining business including, but not limited to, property, general liability and business interruption. Although we maintain insurance for a number of risks and hazards, we may not be insured or fully insured against the losses or liabilities that could arise from a significant accident in our coal operations. We may elect not to obtain insurance for any or all of these risks if we believe that the cost of available insurance is excessive relative to the risks presented. Moreover, a significant mine accident could potentially cause a mine shutdown. The occurrence of an event that is not fully covered by insurance could have a material adverse effect on our business, financial condition, results of operations and cash flows.

As a result of market conditions, premiums and deductibles for certain insurance policies can increase substantially, and in some instances, certain insurance may become unavailable or available only for reduced amounts of coverage. As a result,

we may not be able to renew our existing insurance policies or procure other desirable insurance on commercially reasonable terms, if at all. In addition, certain environmental, contamination and pollution risks generally are not fully insurable. Even where insurance coverage applies, insurers may contest their obligations to make payments. Our financial condition, results of operations and cash flows could be materially and adversely affected by losses and liabilities from uninsured or under-insured events, as well as by delays in the payment of insurance proceeds, or the failure by insurers to make payments.

We also may incur costs and liabilities resulting from claims for damages to property or injury to persons arising from our operations. We must compensate employees for work-related injuries. If we do not make adequate provision for our workers' compensation and black lung liabilities, or we are pursued for applicable sanctions, costs and liabilities, our operations and profitability could be adversely affected. Certain of our subsidiaries are responsible for medical and disability benefits for black lung disease under federal law and are insured beginning April 1, 2016 for claims made by or on behalf of any of our employees. As a result of our limited operating history as a stand-alone company, the Department of Labor required us to provide insurance coverage rather than be self-insured for these obligations.

***The number and quality of viable financing alternatives available to us may be significantly impacted by unfavorable lending and investment policies by financial institutions associated with concerns about environmental impacts of carbon based fuels. Negative views with respect to environmental and social matters and related governance considerations could result in a low Environmental, Social, and Corporate Governance ("ESG") or sustainability score and could harm the perception of our Company by certain investors or result in the exclusion of our securities from consideration by those investors. In addition, there are fewer insurance companies willing to provide line of business coverages related to ESG concerns which can result in higher company premiums and retained losses.***

Global climate change continues to attract considerable public and scientific attention, with widespread concern about the impacts of human activity, especially the emission of GHGs, such as carbon dioxide and methane. Some of our operations, such as methane release resulting from met coal mining, directly emit GHGs.

Certain financial institutions, including banks and insurance companies, have taken actions to limit available financing, insurance and other services to entities that produce or use fossil fuels. Increasingly, the actions of such financial institutions and insurance companies are based upon non-standardized ESG or "sustainability" scores, ratings and benchmarking studies provided by various organizations that assess corporate governance related to environmental and social matters. Currently, there are no universal standards for such scores or ratings, but the importance of sustainability evaluations is becoming more broadly accepted by investors and stockholders. Further, there have been efforts in recent years by members of the general financial and investment communities, including investment advisors, sovereign wealth funds, public pension funds, universities and other institutional investors, to divest themselves and to promote the divestment of securities issued by companies involved in carbon based fuels or that have low ratings or scores in studies and assessments of the type noted above, including coal producers. These entities also have been pressuring lenders to limit financing available to such companies. Companies in the energy industry, and in particular those focused on coal, natural gas or petroleum extraction and refining, often perform less well under ESG assessments compared to companies in other industries. These may have adverse consequences including, but not limited to:

- restricting our ability to access capital and financial markets in the future;
- reducing the demand and price for our equity securities;
- increasing the cost of borrowing;
- causing a decline in our credit ratings;
- reducing the availability, and/or increasing the cost of, third-party insurance;
- increasing our retention of risk through self-insurance
- making it more difficult to obtain surety bonds, letters of credit, bank guarantees or other financing; and
- limiting our flexibility in business development activities such as the development of Blue Creek, mergers, acquisitions or divestitures.

***Defects in title of any real property or leasehold interests in our properties or associated met coal reserves could limit our ability to mine or develop these properties or result in significant unanticipated costs.***

All of our mining operations are conducted on properties owned or leased by us. Our right to mine our met coal reserves may be materially adversely affected by defects in title or boundaries or if our property interests are subject to superior property rights of third parties. We do not have title insurance for any of our real property or leasehold interests and, title to most of our owned or leased properties and mineral rights is not usually verified until we make a commitment to mine a property, which may not occur until after we have obtained necessary permits and completed exploration of the property. Any challenge to our title or leasehold interests could delay the mining of the property, result in the loss of some or all of our interest in the property or met coal reserves and increase our costs. In order to conduct our mining operations on properties where these defects exist, we may incur unanticipated costs perfecting title. In addition, if we mine or conduct our operations on property that we do not own or lease, we could incur civil damages or liabilities for such mining operations and be subject to conversion, negligence, trespass, regulatory sanction and penalties. Some leases have minimum production requirements or require us to commence mining operations in a specified term to retain the lease. Failure to meet those requirements could result in losses of prepaid royalties and, in some rare cases, could result in a loss of the lease itself.

***We face uncertainties in estimating our proven and probable met coal reserves, and inaccuracies in our estimates of our met coal reserves could result in decreased profitability from lower than expected revenues or higher than expected costs.***

Our future performance depends on, among other things, the accuracy of our estimates of our proven and probable met coal reserves. Reserve estimates are based on a number of sources of information, including engineering, geological, mining and property control maps and data, our operational experience of historical production from similar areas with similar conditions and assumptions governing future pricing and operational costs. We update our estimates of the quantity and quality of proven and probable met coal reserves at least annually to reflect the production of met coal from the reserves, updated geological models and mining recovery data, the tonnage contained in new lease areas acquired and estimated costs of production and sales prices. There are numerous factors and assumptions inherent in estimating met coal quantities, qualities and costs to mine, including many factors beyond our control, such as the following:

- geological and mining conditions, including faults in the met coal seam;
- historical production from the area compared with production from other producing areas;
- the percentage of met coal ultimately recoverable;
- the assumed effects of regulations and taxes and other payments to governmental agencies;
- our ability to obtain, maintain and renew all required permits;
- future improvements in mining technology;
- assumptions concerning the timing of the development of the reserves; and
- assumptions concerning equipment and operational productivity, future met coal prices, operating costs, including those for critical supplies such as fuel, tires and explosives, capital expenditures and development and reclamation costs.

Each of these factors may vary considerably from the assumptions used in estimating the reserves. As a result, estimates of the quantities and qualities of economically recoverable met coal attributable to any particular group of properties, classifications of reserves based on risk of recovery, estimated cost of production, and estimates of future net cash flows expected from these properties as prepared by different engineers or by the same engineers at different times may vary materially due to changes in the above factors and assumptions. Actual production recovered from identified reserve areas and properties, and revenues and expenditures associated with our mining operations may vary materially from estimates. Any inaccuracy in our estimates related to our reserves could result in decreased profitability from lower than expected revenues and/or higher than expected costs.

***Our inability to develop met coal reserves in an economically feasible manner or our inability to acquire additional met coal reserves that are economically recoverable may adversely affect our business.***

Our long-term profitability depends in part on our ability to cost-effectively mine and process met coal reserves that possess the quality characteristics desired by our customers. As we mine, our met coal reserves decline. As a result, our future success depends upon our ability to develop or acquire additional met coal reserves that are economically recoverable to replace the reserves that we produce. Coal is economically recoverable when the price at which our met coal can be sold exceeds the costs and expenses of mining and selling such met coal. We may not be able to obtain adequate economically recoverable replacement reserves when we require them and, even if available, such reserves may not be at favorable prices or we may not be capable of mining those reserves at costs that are comparable to our existing met coal reserves. Our ability to develop or acquire met coal reserves in the future may also be limited by the availability of cash from our operations or financing under our existing or future financing arrangements, as well as certain restrictions under such arrangements. If we are unable to develop or acquire replacement reserves, our future production may decrease significantly as existing reserves are depleted and this may have a material adverse impact on our cash flows, financial position and results of operations.

***Any significant downtime of our major pieces of mining equipment could impair our ability to supply met coal to our customers and materially and adversely affect our results of operations and cash flows.***

We depend on several major pieces of mining equipment to produce and transport our met coal, including, but not limited to, longwall mining systems, continuous mining units, our preparation plant and blending facilities, and conveyors. Obtaining or repairing these major pieces of mining equipment often involves long lead times. If any of these pieces of equipment or facilities suffer major damage or are destroyed by fire, abnormal wear, flooding, incorrect operation or otherwise, we may be unable to replace or repair them in a timely manner or at a reasonable cost, which would impact our ability to produce and transport met coal and materially and adversely affect our business, results of operations, financial condition and cash flows. Moreover, MSHA and other regulatory agencies sometimes make changes with regards to requirements for pieces of equipment. For example, in 2015, MSHA promulgated a new regulation requiring the implementation of proximity detection devices on all continuous mining machines. Such changes could cause delays if manufacturers and suppliers are unable to make the required changes in compliance with mandated deadlines.

If either our preparation plant or river barge load-out facilities, or those of a third party processing or loading our met coal, suffer extended downtime, including major damage, or are destroyed, our ability to process and deliver met coal to prospective customers would be materially impacted, which would materially adversely affect our business, results of operations, financial condition and cash flows.

***We may not recover our investments in our mining, exploration and other assets, which may require us to recognize impairment charges related to those assets.***

The value of our assets may be adversely affected by numerous uncertain factors, some of which are beyond our control, including unfavorable changes in the economic environments in which we operate, lower-than-expected coal pricing, technical and geological operating difficulties, an inability to economically extract our coal reserves and unanticipated increases in operating costs. These may cause us to fail to recover all or a portion of our investments in those assets and may trigger the recognition of impairment charges in the future, which could have a substantial impact on our results of operations.

Because of the volatile and cyclical nature of the U.S. and international coal markets, it is reasonably possible that our current estimates of projected future cash flows from our mining assets may change in the near term, which may result in the need for adjustments to the carrying value of our assets.

## **Risks Related to Regulatory Compliance**

***We are responsible for medical and disability benefits for black lung disease under federal law. We assumed certain historical self-insured black lung liabilities of Walter Energy and its subsidiaries incurred prior to April 1, 2016 in connection with the acquisition of certain assets of Walter Energy. We are self-insured for these black lung liabilities and have posted certain collateral with Department of Labor as described below. Changes in the estimated claims to be paid or changes in the amount of collateral required by the Department of Labor may have a greater impact on our profitability and cash flows in the future.***

We are responsible for medical and disability benefits for black lung disease under the Federal Coal Mine Health and Safety Act of 1969, the Mine Act and the Black Lung Benefits Act, each as amended, and are self-insured for black lung related claims asserted by or on behalf of former employees of Walter Energy and its subsidiaries as assumed in the acquisition of

certain assets of Walter Energy for the period prior to April 1, 2016. We perform an annual actuarial evaluation of the overall black lung liabilities as of each December 31<sup>st</sup>. The calculation is performed using assumptions regarding rates of successful claims, discount factors, benefit increases and mortality rates, among others. If the number of or severity of successful claims increases, or we are required to accrue or pay additional amounts because the successful claims prove to be more severe than our original assessment, our operating results and cash flows could be negatively impacted. Our self-insurance program for these legacy liabilities is unique to the industry and was specifically negotiated with the Department of Labor requiring us to post \$17.0 million in surety bonds or Treasury bills as collateral in addition to maintaining a black lung trust of \$3.0 million that was acquired in the acquisition of certain assets of Walter Energy. We received a letter from the Department of Labor on February 21, 2020 under its new process for self-insurance renewals that would require us to increase the amount of collateral posted to \$39.8 million, but we have appealed such increase. In the event that we are not successful with respect to such appeal, we will be required to post additional collateral. For additional information see “Part I, Item 1. Business-Environmental and Regulatory Matters-Workers’ Compensation and Black Lung.” Our estimated total black lung liabilities as of December 31, 2020 were \$36.9 million (net of the black lung trust). In future years, the Department of Labor could require us to increase the amount of the collateral which could negatively impact our cash flows.

***Our failure to obtain and renew permits necessary for our mining operations could negatively affect our business.***

Mining companies must obtain numerous permits that impose strict regulations on various environmental and operational matters in connection with met coal mining. These include permits issued by various federal, state and local agencies and regulatory bodies. The permitting rules, and the interpretations of these rules, are complex, change frequently and are often subject to discretionary interpretations by the regulators, all of which may make compliance more difficult or impractical, and may possibly preclude the continuance of ongoing operations or the development of future mining operations. The public, including non-governmental organizations, anti-mining groups and individuals, have certain statutory rights to comment upon and submit objections to requested permits and environmental impact statements prepared in connection with applicable regulatory processes, and otherwise engage in the permitting process, including bringing citizens’ lawsuits to challenge the issuance of permits, the validity of environmental impact statements or performance of mining activities. In addition, due to the COVID-19 pandemic, there may be delays in obtaining permits from governmental agencies and regulatory bodies. Accordingly, required permits may not be issued or renewed in a timely fashion or at all, or permits issued or renewed may be conditioned in a manner that may restrict our ability to efficiently and economically conduct our mining activities, any of which would materially reduce our production, cash flow and profitability.

***Extensive environmental, health and safety laws and regulations impose significant costs on our operations and future regulations could increase those costs, limit our ability to produce or adversely affect the demand for our products.***

Our businesses are subject to numerous federal, state and local laws and regulations with respect to matters such as:

- permitting and licensing requirements;
- employee health and safety, including occupational and mine health and safety;
- workers’ compensation;
- black lung disease;
- reclamation and restoration of property; and
- environmental laws and regulations, including those related to greenhouse gases and climate change, air quality, water quality, stream and surface water quality and protection, management of materials generated by mining operations, the storage, treatment and disposal of wastes, protection of plant and wildlife such as endangered species, protection of wetlands and remediation of contaminated soil and groundwater.

In addition, the coal industry in the U.S. is affected by significant legislation mandating certain benefits for current and retired coal miners. Compliance with these requirements imposes significant costs on us and can result in reduced productivity. Moreover, the possibility exists that new health and safety legislation and/or regulations may be adopted and/or orders may be entered that may materially and adversely affect our mining operations. We must compensate employees for work-related injuries. If we do not make adequate provisions for our workers’ compensation liabilities, it could harm our future operating results. In addition, the erosion through tort liability of the protections we are currently provided by workers’ compensation laws could increase our liability for work-related injuries and materially and adversely affect our operating results.

Compliance with applicable federal, state and local laws and regulations may be costly and time-consuming and may delay commencement or interrupt continuation of exploration or production at one or more of our operations. These laws are constantly evolving and may become increasingly stringent. The ultimate impact of complying with existing laws and regulations is not always clearly known or determinable due in part to the fact that certain implementing regulations for these laws have not yet been promulgated and in certain instances are undergoing revision. These laws and regulations, particularly new legislative or administrative proposals (or judicial interpretations of existing laws and regulations), could result in substantially increased capital, operating and compliance costs and could have a material adverse effect on our operations and/or, along with analogous foreign laws and regulations, our customers' ability to use our products.

Due in part to the extensive and comprehensive regulatory requirements, along with changing interpretations of these requirements, violations of applicable federal, state and local laws and regulations occur from time to time in our industry and at our operations. Changes in the law may require an unprecedented compliance effort on our part, could divert management's attention, and may require significant expenditures. To the extent that these expenditures, as with all costs, are not ultimately reflected in the prices of our products and services, operating results will be detrimentally impacted. We believe that our major North American competitors are confronted by substantially similar conditions and thus do not believe that our relative position with regard to such competitors is materially affected by the impact of safety and environmental laws and regulations. However, the costs and operating restrictions necessary for compliance with safety and environmental laws and regulations, which is a major cost consideration for our operations, may have an adverse effect on our competitive position with regard to foreign producers and operators who may not be required to undertake equivalent costs in their operations. In addition, the specific impact on each competitor may vary depending on a number of factors, including the age and location of its operating facilities, applicable state legislation and its production methods.

***Our mines are subject to stringent federal and state safety regulations that increase our cost of doing business at active operations and may place restrictions on our methods of operation. In addition, federal, state or local regulatory agencies have the authority to order certain of our mines to be temporarily or permanently closed under certain circumstances, which could materially and adversely affect our ability to meet our customers' demands.***

The Mine Act and the MINER Act impose stringent health and safety standards on mining operations. Regulations that have been adopted under the Mine Act and MINER Act are comprehensive and affect numerous aspects of mining operations, including training of mining personnel, mining procedure, the equipment used in emergency procedures, and other matters. Alabama has a similar program for mine safety and health regulation and enforcement. The various requirements mandated by law or regulation can place restrictions on our methods of operations, and potentially lead to fees and civil penalties for the violation of such requirements, creating a significant effect on operating costs and productivity.

In addition, federal, state or local regulatory agencies have the authority under certain circumstances following significant health and safety incidents, such as fatalities, to order a mine to be temporarily or permanently closed. If this occurred, we may be required to incur capital expenditures to re-open the mine. In the event that these agencies order the closing of our mines, our met coal sales contracts generally permit us to issue force majeure notices, which suspend our obligations to deliver met coal under these contracts; however, our customers may challenge our issuances of force majeure notices. If these challenges are successful, we may have to purchase met coal from third-party sources, if available, to fulfill these obligations or incur capital expenditures to re-open the mines and/or negotiate settlements with the customers, which may include price reductions, the reduction of commitments, and the extension of time for delivery or terminate customers' contracts. Any of these actions could have a material adverse effect on our business and results of operations.

***Increased focus by regulatory authorities on the effects of coal mining on the environment and recent regulatory developments related to coal mining operations could make it more difficult or increase our costs to receive new permits or to comply with our existing permits to mine met coal or otherwise adversely affect us.***

Regulatory agencies are increasingly focused on the effects of coal mining on the environment, particularly relating to water quality, which has resulted in more rigorous permitting requirements and enforcement efforts. See "Part I, Item 1. Business-Environmental and Regulatory Matters" for a detailed discussion of these regulations and programs.

The SMCRA requires that comprehensive environmental protection and reclamation standards be met during the course of and following completion of mining activities. Among other requirements, the SMCRA provides that the applicable regulatory authority may not issue a permit unless the operation has been designed to prevent material damage to the hydrologic balance outside the permit area. In 1983, the OSM issued rules providing that no land within 100 feet of a stream shall be disturbed by surface mining activities, unless specifically authorized by the regulatory authority. On December 20, 2016, the OSM published a new, finalized "Stream Protection Rule," setting standards for "material damage to the hydrologic balance outside the permit area" that are applicable to surface and underground mining operations. However, on February 16, 2017,

former President Trump signed a joint congressional resolution disapproving the Stream Protection Rule pursuant to the Congressional Review Act. Accordingly, the regulations in effect prior to the Stream Protection Rule now apply, including OSM's 1983 rule. It remains unclear whether and how additional actions by the Biden Administration could further impact regulatory or enforcement activities pursuant to the SMCRA.

Section 404 of the Clean Water Act ("CWA") requires mining companies to obtain USACE permits to place material in streams for the purpose of creating slurry ponds, water impoundments, refuse areas, valley fills or other mining activities. As is the case with other met coal mining companies, our construction and mining activities require Section 404 permits. The issuance of permits to construct valley fills and refuse impoundments under Section 404 of the CWA has been the subject of many court cases and increased regulatory oversight, resulting in additional permitting requirements that are expected to delay or even prevent the opening of new mines. Stringent water quality standards for materials such as selenium have recently been issued. We have begun to incorporate these new requirements into our current permit applications; however, there can be no guarantee that we will be able to meet these or any other new standards with respect to our permit applications.

Additionally, in January 2011, the EPA rescinded a federal CWA permit held by another coal mining company for a surface mine in Appalachia citing associated environmental damage and degradation. On April 23, 2013, the D.C. Circuit ruled that the EPA has the power under the CWA to retroactively veto a Section 404 dredge and fill permit "whenever" it makes a determination about certain adverse effects, even years after the USACE has granted the permit to an applicant. On March 24, 2014, the U.S. Supreme Court denied petitions for review. Subsequently, on July 19, 2016, the D.C. Circuit affirmed the district court's further ruling that the EPA's decision to withdraw approval for disposal sites satisfied administrative requirements. The D.C. Circuit held that the EPA's ex post withdrawal was a product of its broad veto authority under the CWA, not a procedural defect. While our operations are not directly impacted by this ruling, it could be an indication that other surface mining water permits could be subject to more substantial review in the future.

Recent regulatory actions and court decisions have created some uncertainty over the scope of CWA jurisdiction. On June 29, 2015, in response to a 2006 Supreme Court decision discussing the scope of CWA jurisdiction, the EPA and the USACE jointly promulgated final rules redefining the scope of waters protected under the CWA, revising regulations that had been in place for more than 25 years. The new rules could expand the scope of CWA jurisdiction, making more waters subject to the CWA's permitting and other requirements in the case of discharges. However, on October 22, 2019, the agencies published a final rule to repeal the 2015 rules. The 2015 rules and the 2019 repeal are subject to several ongoing legal challenges. Also, on April 21, 2020, the EPA and the USACE published a final rule replacing the 2015 rule, and significantly reducing the waters subject to federal regulation under the Clean Water Act. Several state and environmental groups have challenged the replacement rule. As a result of such recent developments, it remains unclear whether and how the rules will be implemented.

It is unknown what future changes will be implemented to the permitting review and issuance process or to other aspects of mining operations, but increased regulatory focus, future laws and judicial decisions could materially and adversely affect all coal mining companies. In addition, the public, including non-governmental organizations, anti-mining groups and individuals, have certain statutory rights to comment upon and submit objections to requested permits and environmental impact statements prepared in connection with applicable regulatory processes, and otherwise engage in the permitting process, including bringing citizens' lawsuits to challenge the issuance of permits, the validity of environmental impact statements or performance of mining activities.

In each jurisdiction in which we operate, we could incur additional permitting and operating costs, may be unable to obtain new permits or maintain existing permits and could incur fines, penalties and other costs, any of which could materially adversely affect our business. If met coal mining methods are limited or prohibited, it could significantly increase our operational costs and make it more difficult to economically recover a significant portion of our reserves. In the event that we cannot increase the price we charge for met coal to cover the higher production costs without reducing customer demand for our met coal, there could be a material adverse effect on our financial condition and results of operations. In addition, increased public focus on the environmental, health and aesthetic impacts of coal mining could harm our reputation and reduce demand for met coal.

***Regulation of greenhouse gas emissions could increase our operating costs and impact the demand for, price of and value of our products.***

Climate change continues to attract public and scientific attention, and increasing attention by government as well as private businesses is being paid to reducing GHG emissions. There are three primary sources of GHGs associated with the met coal industry. First, the end use of our met coal by our customers in steelmaking is a source of GHGs. Second, combustion of fuel by equipment used in met coal production and to transport our met coal to our customers is a source of GHGs. Third, met



coal mining itself can release methane, which is considered to be a more potent GHG than CO<sub>2</sub>, directly into the atmosphere. These emissions from met coal consumption, transportation and production are subject to pending and proposed regulation as part of initiatives to address global climate.

There are many legal and regulatory approaches currently in effect or being considered to address GHGs, including international treaty commitments, new foreign, federal and state legislation that may impose a carbon emissions tax or establish a “cap and trade” program, and regulation by the EPA. See “Part I, Item 1. Business—Environmental and Regulatory Matters—Climate Change” for a detailed discussion of these regulations and programs.

The existing laws and regulations or other current and future efforts to stabilize or reduce GHG emissions could adversely impact the demand for, price of and value of our products and reserves. As our operations also emit GHGs directly, current or future laws or regulations limiting GHG emissions could increase our own costs. For example, methane must be expelled from our underground met coal mines for mining safety reasons. Although our natural gas operations capture methane from our underground met coal mines, some methane is vented into the atmosphere when the met coal is mined. In June 2010, Earthjustice petitioned the EPA to make a finding that emissions from coal mines may reasonably be anticipated to endanger public health and welfare, and to list them as a stationary source subject to further regulation of emissions. On April 30, 2013, the EPA denied the petition. Judicial challenges seeking to force the EPA to list coal mines as stationary sources have likewise been unsuccessful to date. If the EPA were to make an endangerment finding in the future, we may have to further reduce our methane emissions, install additional air pollution controls, pay certain taxes or fees for our emissions, incur costs to purchase credits that permit us to continue operations as they now exist at our underground met coal mines or perhaps curtail met coal production. Although the potential impacts on us of additional climate change regulation are difficult to reliably quantify, they could be material.

In addition, there have also been efforts in recent years to influence the investment community, including investment advisors and certain sovereign wealth, pension and endowment funds promoting divestment of fossil fuel equities and pressuring lenders to limit funding to companies engaged in the extraction of fossil fuel reserves. Such environmental activism and initiatives aimed at limiting climate change and reducing air pollution could interfere with our business activities, operations and ability to access capital.

In addition, claims have been made against certain companies alleging that GHG emissions constitute a public nuisance under federal and/or state common law. Private individuals or public entities may seek to enforce environmental laws and regulations against us and could allege personal injury, property damages or other liabilities. While we are not a party to any such litigation, we could be named in actions making similar allegations. An unfavorable ruling in any such case could significantly impact our operations and could have an adverse impact on our financial condition.

Further, climate change may cause more extreme weather conditions such as more intense hurricanes, thunderstorms, tornadoes and snow or ice storms, as well as rising sea levels and increased volatility in seasonal temperatures. Extreme weather conditions can interfere with our services and increase our costs, and damage resulting from extreme weather may not be fully insured. However, at this time, we are unable to determine the extent to which climate change may lead to increased storm or weather hazards affecting our operations.

***The results of the 2020 U.S. presidential and congressional elections may create regulatory uncertainty for the coal mining industry. Changes in mining or environmental laws could increase costs and harm our business, financial condition and results of operations.***

Joe Biden’s victory in the U.S. presidential election, as well as a closely divided Congress, may create regulatory uncertainty in the coal mining industry. During the election campaign, President Biden made comments suggesting that he was supportive of various programs and initiatives designed to, among other things, curtail climate change, clean up abandoned mines, and “green” the mining industry. Also, during his first week in office, President Biden issued several executive orders to, among other things, make climate considerations an essential element of U.S. policy. However, he has also called for heavy investment in infrastructure projects, many of which require the use of steel. It remains unclear what actions President Biden will take to implement his policy initiatives, and what support he will have for any potential legislature from Congress. Further, it is uncertain to what extent any new mining or environmental laws or regulations, or any repeal of existing mining or environmental laws or regulations, may affect our coal mining operations. However, such actions could materially increase our costs or impair our ability to explore and develop other mining projects, which could materially harm our business, financial condition and results of operations.

***Our operations may impact the environment or cause exposure to hazardous substances and our properties may have environmental contamination, which could result in material liabilities to us.***

Our operations currently use hazardous materials from time to time. We could become subject to claims for toxic torts, natural resource damages and other damages as well as for the investigation and cleanup of soil, surface water, groundwater and other media. Such claims may arise, for example, out of conditions at sites that we currently own or operate, as well as at sites that we previously owned or operated, or may acquire. Our liability for such claims may be joint and several, so that we may be held responsible for more than our share of the contamination or other damages, or even for the entire amount of damages assessed.

We maintain extensive met coal refuse areas and slurry impoundments at our mining complexes. Such areas and impoundments are subject to comprehensive regulation. Slurry impoundments have been known to fail, releasing large volumes of met coal slurry into the surrounding environment. Structural failure of an impoundment can result in extensive damage to the environment and natural resources, such as bodies of water that the met coal slurry reaches, as well as create liability for related personal injuries, property damages and injuries to wildlife. Some of our impoundments overlie mined out areas, which can pose a heightened risk of failure and the assessment of damages arising out of such failure. If one of our impoundments were to fail, we could be subject to substantial claims for the resulting environmental contamination and associated liability, as well as for related fines and penalties.

Drainage flowing from or caused by mining activities can be acidic with elevated levels of dissolved metals, a condition referred to as AMD. Treatment of AMD can be costly. Although we do not currently face material costs associated with AMD, it is possible that we could incur significant costs in the future.

These and other similar unforeseen impacts that our operations may have on the environment, as well as exposures to hazardous substances or wastes associated with our operations, could result in costs and liabilities that could materially and adversely affect us. See also “Part I, Item 1. Business—Environmental and Regulatory Matters.”

***Failure to obtain or renew surety bonds on acceptable terms could affect our ability to secure reclamation and coal lease obligations and, therefore, our ability to mine or lease met coal.***

Federal and state laws require us to obtain surety bonds or post other financial security to secure performance or payment of certain long-term obligations, such as mine closure or reclamation costs, federal and state workers’ compensation and black lung benefits costs, coal leases and other obligations. The amount of security required to be obtained can change as the result of new federal or state laws, as well as changes to the factors used to calculate the bonding or security amounts. We may have difficulty procuring or maintaining our surety bonds. Our bond issuers may demand higher fees or additional collateral, including letters of credit or other terms less favorable to us upon those renewals. Because we are required by state and federal law to have these bonds or other acceptable security in place before mining can commence or continue, our failure to maintain surety bonds, letters of credit or other guarantees or security arrangements would materially and adversely affect our ability to mine or lease met coal. That failure could result from a variety of factors, including lack of availability, higher expense or unfavorable market terms, the exercise by third-party surety bond issuers of their right to refuse to renew the surety and restrictions on availability of collateral for current and future third-party surety bond issuers under the terms of our financing arrangements.

***We have reclamation and mine closing obligations. If the assumptions underlying our accruals are inaccurate, we could be required to expend greater amounts than anticipated.***

The SMCRA establishes operational, reclamation and closure standards for our mining operations. Alabama has a state law counterpart to SMCRA. We accrue for the costs of current mine disturbance and of final mine closure and reclamation, including the cost of treating mine water discharge where necessary. The amounts recorded are dependent upon a number of variables, including the estimated future closure costs, estimated proven reserves, assumptions involving profit margins, inflation rates and the assumed credit-adjusted risk-free interest rates. If these accruals are insufficient or our liability in a particular year is greater than currently anticipated, our future operating results could be materially affected.

## Risks Related to our Financial Results and Finances

***We have a substantial amount of indebtedness. Our substantial indebtedness could adversely affect our ability to raise additional capital to fund our operations and dividend policy, limit our ability to react to changes in the economy or our industry and prevent us from making debt service payments on the Notes.***

As of December 31, 2020, we had approximately \$418.4 million of outstanding indebtedness (consisting of \$343.4 million of Notes, net of \$3.5 million in unamortized debt discount, \$38.5 million of financing lease obligations and \$40.0 million drawn under our ABL Facility), all of which are secured, and \$31.6 million of availability under our ABL Facility (subject to meeting the borrowing base and other conditions therein).

Our substantial indebtedness could have important consequences for us. For example, it could:

- restrict us from making strategic acquisitions, engaging in development activities, introducing new technologies or exploiting business opportunities;
- cause us to make non-strategic divestitures;
- require us to dedicate a substantial portion of our cash flow from operations to the repayment of our indebtedness, thereby reducing funds available to us for other purposes, including the payment of quarterly dividends or any special dividends, as well as engaging in any stock repurchases;
- limit our flexibility in planning for, or reacting to, changes in our operations or business;
- limit our ability to raise additional capital for working capital, capital expenditures, operations, debt service requirements, strategic initiatives or other purposes;
- limit, along with the financial and other restrictive covenants in our indebtedness, among other things, our ability to borrow additional funds or dispose of assets;
- prevent us from raising the funds necessary to repurchase all of the Notes tendered to us upon the occurrence of certain changes of control, which failure to repurchase would constitute a default under the indenture governing the Notes;
- make it more difficult for us to satisfy our obligations with respect to our indebtedness, including the Notes, and any failure to comply with the obligations of any of our debt instruments, including restrictive covenants and borrowing conditions, could result in an event of default under the indenture governing the Notes and the agreements governing other indebtedness;
- make us more highly leveraged than some of our competitors, which may place us at a competitive disadvantage;
- make us more vulnerable to downturns in our business or the economy; or
- expose us to the risk of increased interest rates, as certain of our borrowings, including borrowings under the ABL Facility, are at variable rates of interest and are based upon benchmarks that are subject to potential change or elimination, including as a result of the FCA Announcement (as defined below).

In addition, our ABL Facility and the indenture governing the Notes contain restrictive covenants that limit our ability to engage in activities that may be in our long-term best interest. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of substantially all of our indebtedness.

***We may not be able to generate sufficient cash to service all of our indebtedness and may be forced to take other actions to satisfy our obligations under our indebtedness that may not be successful.***

Our ability to pay principal and interest on the Notes and the ABL Facility and to satisfy our other debt obligations will depend upon, among other things:

- our future financial and operating performance (including the realization of any cost savings described herein), which will be affected by prevailing economic, industry and competitive conditions and financial, business, legislative, regulatory and other factors, many of which are beyond our control; and

- our future ability to borrow under the ABL Facility, the availability of which depends on, among other things, our complying with the covenants in the ABL Facility.

We cannot assure you that our business will generate cash flow from operations, or that we will be able to draw under the ABL Facility or otherwise, in an amount sufficient to fund our liquidity needs, including the payment of principal and interest on the Notes.

If our cash flows and capital resources are insufficient to service our indebtedness, we may be forced to reduce or delay capital expenditures, sell assets, seek additional capital or restructure or refinance our indebtedness, including the Notes. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. In addition, the terms of existing or future debt agreements, including the ABL Facility and the indenture governing the Notes, may restrict us from adopting some of these alternatives. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. We may not be able to consummate those dispositions for fair market value or at all. Furthermore, any proceeds that we could realize from any such dispositions may not be adequate to meet our debt service obligations then due. Our inability to generate sufficient cash flow to satisfy our debt obligations, or to refinance our indebtedness on commercially reasonable terms or at all, could result in a material adverse effect on our business, results of operations and financial condition and could negatively impact our ability to satisfy our obligations under the Notes.

If we cannot make scheduled payments on our indebtedness, we will be in default, and holders of the Notes could declare all outstanding principal and interest to be due and payable, the lenders under the ABL Facility could terminate their commitments to loan money, our secured lenders (including the lenders under the ABL Facility and the holders of the Notes) could foreclose against the assets securing their loans and the Notes and we could be forced into bankruptcy or liquidation.

***Despite our current indebtedness levels, we may still be able to incur substantially more debt, including secured indebtedness.***

As of December 31, 2020, we had approximately \$418.4 million of total debt outstanding (consisting of \$343.4 million of Notes, net of \$3.5 million in unamortized debt discount, \$38.5 million of financing lease obligations and \$40.0 million drawn under our ABL Facility). Despite our current indebtedness, we may be able to incur substantial additional debt in the future, including secured indebtedness. As of December 31, 2020, the Company had an aggregate principal amount of \$40.0 million drawn under the ABL Facility and there were \$9.4 million of letters of credit issued and outstanding under the ABL Facility. At December 31, 2020, the Company had \$31.6 million of availability under the ABL Facility (calculated net of \$9.4 million of letters of credit issued and outstanding at such time). Although covenants under the indenture governing the Notes and the ABL Facility will limit our ability to incur additional indebtedness, these restrictions are subject to a number of qualifications and exceptions and, under certain circumstances, debt incurred in compliance with these restrictions could be substantial. Further, subsidiaries that we designate as unrestricted subsidiaries can incur unlimited additional indebtedness that is structurally senior to the Notes. In addition, the indenture governing the Notes and the ABL Facility will not limit us from incurring obligations that do not constitute indebtedness as defined therein.

If we incur any additional indebtedness secured by liens that rank equally with those securing the Notes, including any additional notes or term loan facilities, the holders of that indebtedness will be entitled to share ratably with the holders in any proceeds distributed in connection with any insolvency, liquidation, reorganization, dissolution or other winding-up of our company. If new debt is added to our current debt levels, the related risks that we and our subsidiaries now face could intensify. Additionally, we may recapitalize, incur additional indebtedness and take a number of other actions that could have the effect of diminishing our ability to make payments on the Notes when due.

***Our debt agreements contain restrictions that will limit our flexibility in operating our business.***

The ABL Facility and the indenture governing the Notes contain, and any other existing or future indebtedness of ours would likely contain, a number of covenants that will impose significant operating and financial restrictions on us, including restrictions on our and our subsidiaries ability to, among other things:

- incur additional debt, guarantee indebtedness or issue certain preferred shares;
- pay dividends on or make distributions in respect of, or repurchase or redeem, our capital stock or make other restricted payments;

- prepay, redeem or repurchase subordinated debt;
- make loans or certain investments;
- sell certain assets;
- grant or assume liens;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets;
- enter into certain transactions with our affiliates;
- alter the businesses we conduct;
- enter into agreements restricting our subsidiaries' ability to pay dividends; and
- designate our subsidiaries as unrestricted subsidiaries.

As a result of these covenants, we will be limited in the manner in which we conduct our business, and we may be unable to engage in favorable business activities or finance future operations or capital needs.

In addition, our ABL Facility requires us to maintain a minimum fixed charge coverage ratio at any time when the average availability is less than a certain amount at such time. In that event, we must satisfy a minimum fixed charge ratio of 1.0 to 1.0.

A failure to comply with the covenants under the ABL Facility or any of our other future indebtedness could result in an event of default, which, if not cured or waived, could have a material adverse effect on our business, financial condition and results of operations. In the event of any such event of default, the lenders thereunder:

- will not be required to lend any additional amounts to us;
- could elect to declare all borrowings outstanding, together with accrued and unpaid interest and fees, to be due and payable and terminate all commitments to extend further credit;
- could require us to apply all of our available cash to repay these borrowings; or
- could effectively prevent us from making debt service payments on the Notes (due to a cash sweep feature).

Such actions by the lenders under the ABL Facility could also cause cross defaults under our other indebtedness. If we were unable to repay those amounts, the lenders under the ABL Facility could proceed against the collateral granted to them to secure the ABL Facility. If any of our outstanding indebtedness under the ABL Facility or our other indebtedness, including the Notes, were to be accelerated, there can be no assurance that our assets would be sufficient to repay such indebtedness in full.

***Our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase.***

Borrowings under our ABL Facility are at variable rates of interest and are based upon benchmarks that are subject to potential change or elimination, including as a result of the FCA Announcement (as defined below), and therefore expose us to interest rate risk. If interest rates increase, our debt service obligations on the variable rate indebtedness will increase even though the amount borrowed remains the same, and our net income and cash flows, including cash available for servicing our indebtedness, will correspondingly decrease.

***We may be unable to generate sufficient taxable income from future operations, or other circumstances could arise, which may limit or eliminate our ability to utilize our significant tax NOLs or our deferred tax assets.***

In connection with the acquisition of certain assets of Walter Energy consummated on March 31, 2016, we acquired deferred tax assets primarily associated with NOLs attributable to Walter Energy's write-off of its investment in Walter Energy Canada Holdings, Inc. A valuation allowance was established on our opening balance sheet at April 1, 2016 because it was more likely than not that a portion of the acquired deferred tax assets would not be realized in the future. At December 31, 2017, we had a \$312.5 million valuation allowance established against our deferred income tax assets, which represented a full

valuation allowance against our net deferred income tax assets. For 2017, we recorded a pre-tax profit of \$471.0 million; however, we remained in a three-year cumulative loss position, had limited operating results as a new Company and given the industry's recent history of significant losses concluded as of December 31, 2017 that another year of significant profitability was needed to support a release of the valuation allowance.

During 2018, we continued our trend of sustained profitability, recording a pre-tax profit of \$367.1 million for the year. During the fourth quarter of 2018, after considering all relevant factors, we concluded that our deferred income tax assets are more likely than not to be realized. In evaluating the likelihood of utilizing our net deferred tax assets, the significant relevant factors that we considered are: (1) our recent history of profitability; (2) growth in the U.S. and global economies; (3) estimate of future HCC prices; (4) we moved from a three-year cumulative loss position to a cumulative income position for the first time since we established the full valuation allowance; and (5) future impact of taxable temporary differences. Based on this evaluation, at December 31, 2018, we released our valuation allowance against our net deferred income tax assets, primarily resulting in the \$65.4 million benefit in our provision for income taxes. As of December 31, 2020, we have considered all positive and negative evidence and concluded that our deferred income tax assets remain more likely than not to be realized and a valuation allowance was not required.

Certain factors could change or circumstances could arise that could further limit or eliminate the amount of the available NOLs to the Company, such as an ownership change, an adjustment by a tax authority or changes in state and federal tax legislation. Also, certain circumstances, including our failing to generate sufficient future taxable income from operations, could limit our ability to fully utilize our deferred tax assets. Under the Internal Revenue Code of 1986, as amended (the "Code"), a company is generally allowed a deduction for NOLs against its federal taxable income. At December 31, 2020, we had federal and state NOLs of approximately \$920.7 million and \$995.8 million, respectively. In addition, we have approximately \$18.6 million of general business credits. These NOLs and income tax credit carryforwards collectively represent a deferred tax asset of approximately \$253.8 million.

Our NOLs are subject to adjustment on audit by the Internal Revenue Service (the "IRS") and state authorities. The IRS has not audited any of the tax returns for any of the years in which the losses giving rise to the NOLs were generated. Were the IRS to challenge the size or availability of our NOLs and prevail in such challenge, all or a portion of our NOLs, or our ability to utilize our NOLs to offset any future taxable income, may be impaired, which could have a significant negative impact on our financial condition, results of operations and cash flows.

A company's ability to deduct its NOLs and utilize certain other available tax attributes can be substantially constrained under the general annual limitation rules of Section 382 of the Code if it undergoes an "ownership change" as defined in Section 382 or if similar provisions of state law apply. We experienced an ownership change in connection with the acquisition of certain assets of Walter Energy and as such, the limitations under Section 382 would generally apply unless an exception to such rule applies. An exception to the limitation rules of Section 382 is applicable to certain companies under the jurisdiction of a bankruptcy court. Due to certain uncertainties as to whether such exception applies to us, we filed a request for a private letter ruling from the IRS on these points.

On September 18, 2017, the IRS issued to us a private letter ruling, which favorably resolved these uncertainties. Based on such private letter ruling, we believe that there is no current limitation under Section 382 on the utilization of our NOLs to shield our income from federal taxation. The private letter ruling was issued based on, among other things, certain facts and assumptions, as well as certain representations, statements and undertakings provided to the IRS by us. If any of these material facts, assumptions, representations, statements or undertakings are, or become, incorrect, inaccurate or incomplete, the private letter ruling may be invalidated and our ability to rely on the conclusions reached therein could be jeopardized.

While we do not believe an ownership change has occurred since April 1, 2016, because the rules under Section 382 are highly complex and actions of our stockholders which are beyond our control or knowledge could impact whether an ownership change has occurred, we cannot give you any assurance that another Section 382 ownership change has not occurred or will not occur in the future. As a result of our qualifying for the aforementioned exception, were we to have undergone a subsequent ownership change prior to April 1, 2018, our NOLs would effectively be reduced to zero. An ownership change after such date would severely limit our ability to utilize our NOLs and other tax attributes.

Certain transactions, including public offerings by us or our stockholders and redemptions may cause us to undergo an "owner shift" which by itself or when aggregated with other owner shifts that we have undergone or will undergo could cause us to experience an ownership change. Our certificate of incorporation contains transfer restrictions (the "382 Transfer Restrictions") to minimize the likelihood of an ownership change. See "-Risks Related to the Ownership of Our Common Stock-Our common stock is subject to the 382 Transfer Restrictions under our certificate of incorporation and the Rights Agreement which are intended to prevent a Section 382 "ownership change," which if not complied with, could result in the

forfeiture of such stock and related distributions or substantial dilution of the stock ownership, respectively. Accordingly, this may impact the market price of our common stock and discourage third parties from seeking strategic transactions with us that could be beneficial to our stockholders.” The 382 Transfer Restrictions were originally set to expire in April 2020. Pursuant to the amendment to the certificate of incorporation approved by the Company’s stockholders at the Company’s Annual Meeting of Stockholders held on April 23, 2019, the Company will effect a three-year extension of the Transfer Restrictions, which became effective on March 18, 2020 upon the filing of a certificate of amendment setting forth such amendment with the Secretary of State of the State of Delaware. In addition, on February 14, 2020, we adopted a NOLs rights agreement (the “Rights Agreement”) to supplement the 382 Transfer Restrictions. See “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations-Rights Agreement.” We may engage in transactions or approve waivers of the 382 Transfer Restrictions or the Rights Agreement that may cause an ownership shift. In doing so, we expect to first perform the calculations necessary to confirm that our ability to use our NOLs and other federal income tax attributes will not be affected or otherwise determine that such transactions or waivers are in our best interests. For example, under certain circumstances, the Board may determine it is in our best interest to exempt certain transactions from the operation of the 382 Transfer Restrictions and the Rights Agreement, if such transaction is determined not to be detrimental to the utilization of our NOLs or otherwise in our best interests. These calculations are complex and reflect certain necessary assumptions. Accordingly, it is possible that we could approve or engage in a transaction involving our common stock that causes an ownership change and impairs the use of our NOLs and other federal income tax attributes. For more information, see “-Risks Related to the Ownership of Our Common Stock-We could engage in or approve transactions involving our common stock that adversely affect significant stockholders and our other stockholders.”

***Changes in the method pursuant to which LIBOR rates are determined and potential phasing out of LIBOR after 2021 may affect our financial results.***

The United Kingdom Financial Conduct Authority (“FCA”), which regulates LIBOR, has recently announced that the FCA intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021 (the “FCA Announcement”). The FCA Announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. Following the implementation of any reforms to LIBOR or the methods pursuant to which LIBOR rates are determined, or other benchmark rates that may be enacted in the United Kingdom or elsewhere, the manner of administration of such benchmarks may change, with the result that such benchmarks may perform differently than in the past, such benchmarks could be eliminated entirely, or there could be other consequences which cannot be predicted. If the Agent under our ABL Facility determines, or the lenders holding more than a majority of the outstanding loans and commitments under the ABL Facility notify the Agent, that (i) adequate and reasonable means do not exist for ascertaining LIBOR for any requested interest period, or (ii) the FCA or any governmental authority having jurisdiction over the Agent has made a public statement identifying a specific date after which LIBOR shall no longer be made available, or used for determining the interest rate of loans, then the Agent and Company may mutually agree to amend the ABL Facility to replace LIBOR with an alternate benchmark rate that has been broadly accepted by the syndicated loan market in the United States in lieu of LIBOR (any such proposed rate, a “LIBOR Successor Rate”). We can give no assurance that we and the Agent will be able to agree on a LIBOR Successor Rate. If the Agent and the Company cannot mutually agree on a LIBOR Successor Rate, the obligation of the Lenders to make or maintain LIBOR loans shall be suspended and LIBOR loans incurred under the ABL Facility will be deemed to have converted to loans that bear interest based on the base rate.

**Risks Related to the Ownership of our Common Stock**

***The market price of our common stock may fluctuate significantly and investors in our common stock could incur substantial losses.***

The market price of our common stock could fluctuate significantly due to a number of factors, including:

- our quarterly or annual earnings, or those of other companies in our industry;
- actual or anticipated fluctuations in our operating and financial results, including reserve estimates;
- changes in accounting standards, policies, guidance, interpretations or principles;
- the public reaction to our press releases, our other public announcements and our filings with the SEC;
- announcements by us or our competitors of significant acquisitions, dispositions or innovations;

- changes in financial estimates and recommendations by securities analysts following our stock, or the failure of securities analysts to cover our common stock;
- changes in earnings estimates by securities analysts or our ability to meet those estimates;
- the operating and stock price performance of other comparable companies;
- declaration of bankruptcy by any of our customers or competitors;
- general economic conditions, overall market fluctuations, and changes in the price of met coal, steel or other commodities, including the impact of the COVID-19 pandemic on any of the foregoing;
- additions or departures of key management personnel;
- actions by our stockholders;
- the trading volume of our common stock;
- sales of our common stock by us or the perception that such sales may occur; and
- changes in business, legal or regulatory conditions, or other developments (including the COVID-19 pandemic) affecting participants in, and publicity regarding, the met coal mining business, the domestic steel industry or any of our significant customers.

In particular, the realization of any of the risks described in these “Risk Factors” could have a material and adverse impact on the market price of our common stock in the future and cause the price of our stock to decline. In addition, the stock market in general has experienced extreme volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock, regardless of our actual performance. In the past, following periods of volatility in the market price of a company’s securities, stockholders have often instituted securities class action litigation against the company. If we were to be involved in a class action lawsuit, it could divert the attention of senior management, and, if adversely determined, have a material adverse effect on our business, results of operations and financial condition.

***If securities or industry analysts adversely change their recommendations regarding our stock or if our operating results do not meet their expectations, our stock price could decline.***

The trading market for our common stock could be influenced by the research and reports that industry or securities analysts may publish about us or our business. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. Moreover, if one or more of the analysts who cover our company downgrade our stock or if our operating results do not meet their expectations, our stock price could decline.

***Any declaration and payment of future dividends to holders of our common stock may be limited by restrictive covenants of our ABL Facility and the indenture governing the Notes, and will be at the sole discretion of the Board and will also depend on many factors.***

Any declaration and payment of future dividends to holders of our common stock may be limited by restrictive covenants of our ABL Facility and the indenture governing the Notes, and will be at the sole discretion of the Board and will depend on many factors, including our financial condition, earnings, capital requirements, level of indebtedness, borrowing availability under our ABL Facility, statutory and contractual restrictions applying to the payment of dividends and other considerations that the Board deems relevant. The terms of our ABL Facility and the indenture governing the Notes may restrict our ability to pay cash dividends on our common stock. We are prohibited from paying any cash dividend on our common stock unless we satisfy certain conditions. Furthermore, we are permitted under the terms of our ABL Facility and the indenture governing the Notes to incur additional indebtedness, the terms of which may severely restrict or prohibit the payment of dividends and the associated debt service may impact our ability to satisfy the conditions for paying dividends under our ABL Facility and the indenture governing the Notes. The agreements governing our current and future indebtedness may not permit us to pay dividends on our common stock.



***An investor's percentage ownership in us may be diluted by future issuances of capital stock or securities or instruments that are convertible into our capital stock, which could reduce its influence over matters on which stockholders vote.***

The Board has the authority, without action or vote of our stockholders, to issue all or any part of our authorized but unissued shares of common stock, including shares issuable upon the exercise of options, shares that may be issued to satisfy our obligations under our incentive plans, shares of our authorized but unissued preferred stock and securities and instruments that are convertible into our common stock. Issuances of common stock or voting preferred stock would reduce an investor's influence over matters on which our stockholders vote and, in the case of issuances of preferred stock, likely would result in its interest in us being subject to the prior rights of holders of that preferred stock.

***We may issue preferred stock whose terms could adversely affect the voting power or value of our common stock.***

Our certificate of incorporation authorizes us to issue, without the approval of our stockholders, one or more classes or series of preferred stock having such designations, preferences, limitations and relative rights, including preferences over our common stock respecting dividends and distributions, as the Board may determine. The terms of one or more classes or series of preferred stock could adversely impact the voting power or value of our common stock. In addition, the issuance of such preferred stock could make it more difficult for a third party to acquire us. For example, we might grant holders of preferred stock the right to elect some number of our directors in all events or on the happening of specified events or the right to veto specified transactions. Similarly, the repurchase or redemption rights or liquidation preferences we might assign to holders of preferred stock could affect the residual value of the common stock. On February 14, 2020, the Company entered into the Rights Agreement. In connection with the adoption of the Rights Agreement, the Board approved a certificate of designations of Series A Junior Participating Preferred Stock designating 140,000 shares of preferred stock, which was filed on February 14, 2020 with the Secretary of State of the State of Delaware and became effective on such date. See "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Designation of Series A Junior Participating Preferred Stock."

***Our common stock is subject to the 382 Transfer Restrictions under our certificate of incorporation and the Rights Agreement which are intended to prevent a Section 382 "ownership change," which if not complied with, could result in the forfeiture of such stock and related dividends or substantial dilution of the stock ownership, respectively. Accordingly, this may impact the market price of our common stock and discourage third parties from seeking strategic transactions with us that could be beneficial to our stockholders.***

Our certificate of incorporation contains certain transfer restrictions on our shares, which we refer to as the "382 Transfer Restrictions." The 382 Transfer Restrictions are intended to prevent the likelihood that we will be deemed to have an "ownership change" within the meaning of Section 382 of the Code that could limit or eliminate our ability to utilize significant NOLs and other federal income tax attributes under and in accordance with the Code and regulations promulgated by the IRS.

In particular, without the approval of the Board, no person or group of persons treated as a single entity under Treasury Regulation Section 1.382-3 will be permitted to acquire, whether directly, indirectly or constructively, and whether in one transaction or a series of related transactions, any of our common stock or any other instrument treated as stock for purposes of Section 382, to the extent that after giving effect to such purported acquisition (a) the purported acquirer, or any other person by reason of the purported acquirer's acquisition, would become a Substantial Holder (as defined below), or (b) the percentage of ownership of our common stock by a person that, prior to giving effect to the purported acquisition, is already a Substantial Holder would be increased. A "Substantial Holder" is a person that owns (as determined for purposes of Section 382 of the Code) at least 4.99% of the total value of our common stock, including any instrument treated as stock for purposes of Section 382 of the Code.

Furthermore, under our certificate of incorporation, the Board has the sole power to determine compliance with the 382 Transfer Restrictions and we cannot assure you that the Board will concur with any conclusions reached by any holder of our securities or their respective advisors, and/or approve or ratify any proposed acquisitions of our securities. If the Board determines that a Prohibited Transfer (as defined in our certificate of incorporation) has occurred, such Prohibited Transfer shall, to the fullest extent permitted by law, be void *ab initio* and have no legal effect, and upon written demand by us, the Purported Transferee (as defined in the certificate of incorporation) shall disgorge or cause to be disgorged our securities, together with any dividends or distributions received, with respect to such securities.

On February 14, 2020, we adopted the Rights Agreement to supplement the 382 Transfer Restrictions. In general terms, the Rights Agreement works by imposing a significant penalty upon any person or group that acquires 4.99% or more of the outstanding common stock or any existing stockholder who currently owns 5.00% or more of the common stock that acquires

any additional shares of common stock (such person, group or existing stockholder, an "Acquiring Person") without the approval of the Board. Under the Rights Agreement, from and after February 28, 2020, each share of our common stock carries with it one preferred share purchase right until the earlier of the date when the preferred share purchase rights become exercisable or expire. The Rights Agreement also gives discretion to the Board to determine that someone is an Acquiring Person even if they do not own 4.99% or more of the outstanding common stock but do own 4.99% or more in value of the Company's outstanding stock, as determined pursuant to Section 382 of the Code and the regulations promulgated thereunder. In addition, the Board has established procedures to consider requests to exempt certain acquisitions of the Company's securities from the Rights Agreement if the Board determines that doing so would not limit or impair the availability of the NOLs or is otherwise in the best interests of the Company. See "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Rights Agreement.

The 382 Transfer Restrictions and the Rights Agreement may make our stock less attractive to large institutional holders and limit the price that investors might be willing to pay for shares of our common stock and otherwise have an adverse impact on the market for our common stock. In addition, these restrictions could discourage a third party from proposing a change of control or other strategic transaction concerning the Company or otherwise have the effect of delaying or preventing a change of control of the Company that other stockholders may view as beneficial. Because of the complexity of applying Section 382, and because the determination of ownership for purposes of Section 382 does not correspond to SEC beneficial ownership reporting on Schedules 13D and 13G, stockholders and potential acquirers of our securities should consult with their legal and tax advisors prior to making any acquisition of our securities that could implicate the 382 Transfer Restrictions.

***We could engage in or approve transactions involving our common stock that adversely affect significant stockholders and our other stockholders.***

Under the 382 Transfer Restrictions that are contained in our certificate of incorporation and the Rights Agreement, our 4.99% stockholders will effectively be required to seek the approval of, or a determination by, the Board before they engage in certain transactions involving our common stock. Furthermore, we could engage in or approve transactions involving our common stock that limit our ability to approve future transactions involving our common stock by our 4.99% stockholders without impairing the use of our federal income tax attributes. In addition, we could engage in or approve transactions involving our common stock that cause stockholders owning less than 4.99% to become 4.99% stockholders, resulting in those stockholders' having to either disgorge our securities, and any dividends or distributions related to such securities, in accordance with the 382 Transfer Restrictions or seek the approval of, or a determination by, the Board before they could engage in certain future transactions involving our common stock.

***Provisions in our certificate of incorporation and bylaws and Delaware law, as well as the Rights Agreement, make it more difficult to effect a change in control of the Company, which could adversely affect the price of our common stock.***

The existence of some provisions in our certificate of incorporation and bylaws and Delaware corporate law, as well as the Rights Agreement, could delay or prevent a change in control of our company, even if that change would be beneficial to our stockholders. Our certificate of incorporation and bylaws contain provisions that may make acquiring control of our company difficult, including:

- the Board's ability to issue, from time to time, one or more series of preferred stock and, with respect to each such series, to fix the terms thereof by resolution;
- provisions relating to the appointment of directors upon an increase in the number of directors or vacancy on the Board;
- provisions requiring stockholders to hold at least a majority of our outstanding common stock in the aggregate to request special meetings;
- provisions that restrict transfers of our stock (including any other instruments treated as stock for purposes of Section 382) that could limit our ability to utilize NOLs;
- provisions that provide that the doctrine of "corporate opportunity" will not apply with respect to the Company, to any of our stockholders or directors, other than any stockholder or director that is an employee, consultant or officer of ours; and
- provisions that set forth advance notice procedures for stockholders' nominations of directors and proposals for consideration at meetings of stockholders.

In addition, we have elected to opt out of Section 203 of the Delaware General Corporation Law ("DGCL"), which, subject to some exceptions, prohibits business combinations between a Delaware corporation and an interested stockholder, which is generally defined as a stockholder who becomes a beneficial owner of 15% or more of a Delaware corporation's voting stock for a three-year period following the date that the stockholder became an interested stockholder.

These provisions also could discourage proxy contests and make it more difficult for you and other stockholders to elect directors and take other corporate actions. As a result, these provisions could make it more difficult for a third party to acquire us, even if doing so would benefit our stockholders, which may limit the price that investors are willing to pay in the future for shares of our common stock.

***The related party transactions and corporate opportunities provisions in our certificate of incorporation permit us to enter into transactions in which one or more of our directors or officers may be a party to or may be interested in and could enable our non-employee directors or stockholders and their affiliates to benefit from corporate opportunities that might otherwise be available to us.***

Subject to the limitations of applicable law, our certificate of incorporation, among other things:

- permits us to enter into contracts and transactions in which one or more of our officers or directors may be a party to or may be financially or otherwise interested in so long as such contract or transaction is approved by the Board in accordance with the DGCL;
- permits any of our stockholders or non-employee directors and their affiliates to engage in a corporate opportunity in the same or similar business activities or lines of business in which we engage or propose to engage, compete with us and to make investments in any kind of property in which we may make investments and will not be deemed to have (i) acted in a manner inconsistent with his or her fiduciary or other duties to us regarding the opportunity, (ii) acted in bad faith or in a manner inconsistent with our best interests or (iii) be liable to us or our stockholders for breach of any fiduciary duty by reason of the fact that they have engaged in such activities; and
- provides that if any of our stockholders, non-employee directors or their affiliates acquire knowledge of a potential business opportunity, transaction or other matter (other than one expressly offered to any non-employee director in writing solely in his or her capacity as our director), such stockholder, non-employee director or affiliate will have no duty to communicate or offer that opportunity to us, and will be permitted to pursue or acquire such opportunity or offer that opportunity to another person and will not be deemed to have (i) acted in a manner inconsistent with his or her fiduciary or other duties to us regarding the opportunity, (ii) acted in bad faith or in a manner inconsistent with our best interests or (iii) be liable to us or our stockholders for breach of any fiduciary duty by reason of the fact that they have pursued or acquired such opportunity or offered the opportunity to another person.

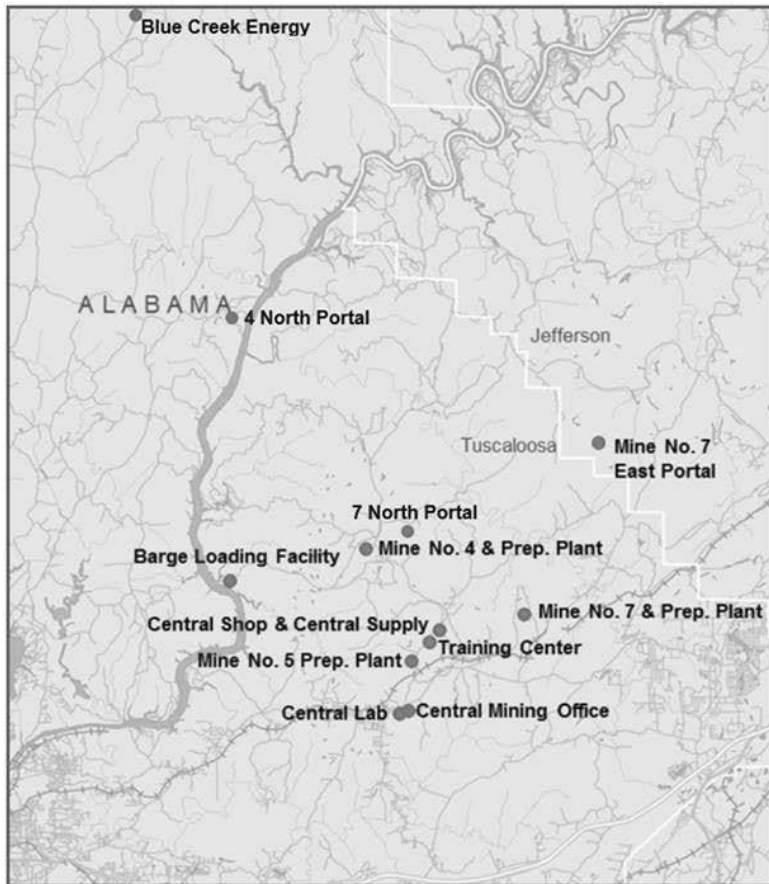
Our stockholders or their affiliates, or our non-employee directors, may become aware, from time to time, of certain business opportunities (such as acquisition opportunities) and may direct such opportunities to other businesses in which they have invested, in which case we may not become aware of or otherwise have the ability to pursue such opportunity. Further, such businesses may choose to compete with us for these opportunities, possibly causing these opportunities to not be available to us or causing them to be more expensive for us to pursue. As a result, our renouncing our interest and expectancy in any business opportunity that may be from time to time presented to our stockholders and their affiliates, or our non-employee directors, could adversely impact our business or prospects if attractive business opportunities are procured by such parties for their own benefit rather than for ours.

#### **Item 1B. Unresolved Staff Comments**

None.

## Item 2. Properties

The following map shows the major locations of our mining operations.



Our administrative headquarters and production facilities as of December 31, 2020 were as follows:

Business Unit/Location (State/County/Town)	Principal Operations	Land Acreage		Building Square Footage	
		Leased	Owned	Leased	Owned
<b>Warrior Met Coal Mining, LLC</b>					
Alabama/Tuscaloosa/ Brookwood	Administrative headquarters & mine support facilities	—	—	—	668,764
Alabama/Jefferson & Tuscaloosa/Adger & Brookwood	Coal mines, mine support facilities, land holdings & barge loadout	18,504	46,323	—	—
Alabama/Mobile/Mobile	Administrative headquarters, mine support facilities & real estate	—	—	1,471	—
<b>Warrior Met Coal BCE, LLC</b>					
Alabama/Jefferson/Adger	Real estate	—	223	—	—
Alabama/Tuscaloosa/Whitson	Coal mines & land holdings	26,194	2,112	—	2,360
<b>Warrior Met Coal Gas, LLC</b>					
Alabama/Tuscaloosa/Tuscaloosa	Administrative headquarters & mine support facilities	10	28	—	15,425
Alabama/Tuscaloosa & Fayette / Various	Natural gas fields-developed	86,922	—	—	—
<b>Warrior Met Coal Land, LLC</b>					
Alabama/Various/Various	Real estate	—	21,042	400	12,430
Alabama/Various/Various	Real estate-mineral interest only	—	170,061	—	—
<b>Warrior Met Coal TRI, LLC</b>					
Alabama/Tuscaloosa/ Brookwood	Real estate	—	187	—	—
<b>Warrior Met Coal LA, LLC</b>					
Louisiana/Terrebonne/Houma	Real estate	—	1,304	—	—
<b>Warrior Met Coal WV, LLC</b>					
West Virginia/Various/Various	Real estate	—	2,510	—	—
West Virginia/Various/Various	Real estate-mineral interest only	—	3,740	—	—

### Estimated Recoverable Coal Reserves

The estimates of our proven and probable reserves as of December 31, 2020 included in this Annual Report (i) for our Mine No. 4 and Mine No. 7 were prepared by Marshall Miller, (ii) for our Blue Creek mine were prepared by Stantec, and (iii) for our other mining properties described in this Annual Report were prepared by McGehee Engineering Corp. ("McGehee"). Within Marshall Miller, the technical person primarily responsible for preparing the estimates of our proven and probable reserves for our Mine No. 4 and Mine No. 7 is K. Scott Keim. Within Stantec, the technical person primarily responsible for preparing the estimates of our proven and probable reserves for our Blue Creek mine is Pat Akers. Within McGehee, the technical person primarily responsible for preparing the estimates of our proven and probable reserves for our mining properties owned by Warrior Met Coal TRI, LLC and Warrior Met Coal Land, LLC is Sanford M. Hendon.

We maintain an internal staff of engineers and geoscience professionals who worked closely with our independent reserve engineers to ensure the integrity, accuracy and timeliness of the data used to calculate our estimated reserves. Our internal technical team members meet with our independent reserve engineers periodically to discuss the assumptions and methods used in the proved reserve estimation process. We provide historical information to the independent reserve engineers for our properties, such as ownership interest, production, test data, commodity prices and operating and development costs.

These estimates are based on engineering, economic and geologic data, coal ownership information and current and proposed mine plans. Our proven and probable coal reserves are reported as "recoverable coal reserves," which is the portion of the coal that could be economically and legally extracted or produced at the time of the reserve determination, taking into

account mining recovery and preparation plant yield. These estimates are periodically updated to reflect past coal production, new drilling information and other geologic or mining data. Acquisitions or dispositions of coal properties will also change these estimates. Changes in mining methods may increase or decrease the recovery basis for a coal seam, as will changes in preparation plant processes.

“Reserves” are defined by the SEC Industry Guide 7 as that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. Industry Guide 7 divides reserves between “proven (measured) reserves” and “probable (indicated) reserves,” which are defined as follows:

- “Proven (Measured) Reserves.” Reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established.
- “Probable (Indicated) Reserves.” Reserves for which quantity and grade and/or quality are computed from information similar to that used for proven (measured) reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven (measured) reserves, is high enough to assume continuity between points of observation.

As of December 31, 2020, we had estimated reserves totaling 210.4 million metric tons, of which 103.3 million metric tons, or 49.1%, were “assigned” recoverable reserves that were either being mined, were controlled and accessible from a then active mine, or located at idled facilities where limited capital expenditures would be required to initiate operations when conditions warrant. The remaining 107.1 million metric tons were classified as “unassigned,” representing coal at currently non-producing locations that we anticipate mining in the future, but which would require significant additional development capital before operations could begin.

Our reserve estimates are predicated on engineering, economic, and geological data assembled and analyzed by internal engineers, geologists and finance associates, as well as third-party consultants. We update our reserve estimates annually to reflect past coal production, new drilling information and other geological or mining data, and acquisitions or sales of coal properties.

The following table provides the location and coal reserves associated with each mine or potential mine as of December 31, 2020:

**As of December 31, 2020**  
**(in thousands of metric tons)<sup>(1)</sup>**

Location/Mine	Type <sup>(7)</sup>	Status of Operation <sup>(6)</sup>	Coal Bed	Assigned/Unassigned <sup>(4)</sup>	Recoverable Reserves <sup>(2)</sup>			Reserve Control <sup>(5)</sup>	
					Reserves <sup>(2)</sup>	Proven <sup>(3)</sup>	Probable <sup>(3)</sup>	Owned	Leased
<b>Alabama:</b>									
<b>Warrior Met Coal Mining, LLC</b>									
No. 4	U	Production	Blue Creek/ Mary Lee	Assigned	40,676	40,621	54	—	40,675
No. 7	U	Production	Blue Creek/ Mary Lee	Assigned	56,818	40,432	16,386	466	56,352
<b>Warrior Met Coal BCE, LLC</b>									
Blue Creek	U	Exploration	Mary Lee	Unassigned	103,042	64,309	38,733	2,624	100,418
<b>Warrior Met Coal TRI, LLC</b>									
Carter/Swann's Crossing <sup>(8)</sup>	S	Idled	Brookwood	Assigned	2,609	2,609	—	2,609	—
<b>Warrior Met Coal Land, LLC</b>									
Beltona East	S	Development	Black Creek	Unassigned	1,013	1,013	—	1,013	—
Bull Gap Mine	S	Development		Unassigned	624	624	—	624	—
Carter West	S	Development		Unassigned	8	8	—	8	—
Howton	S	Idled	Brookwood	Unassigned	271	271	—	271	—
Kimberly	S	Development	Black Creek	Unassigned	128	128	—	128	—
Morris <sup>(8)</sup>	S	Production	Mary Lee	Assigned	3,191	3,191	—	3,191	—
Searles 8 & 10 <sup>(8)</sup>	S	Production	Brookwood	Assigned	6	6	—	6	—
Searles BW-UG	U	Exploration		Unassigned	2,032	2,032	—	2,032	—
<b>Total Alabama</b>					<b>210,418</b>	<b>155,244</b>	<b>55,173</b>	<b>12,972</b>	<b>197,445</b>
<b>Total Warrior Met Coal</b>					<b>210,418</b>	<b>155,244</b>	<b>55,173</b>	<b>12,972</b>	<b>197,445</b>

- (1) 1 metric ton is equivalent to 1.102311 short tons.
- (2) Reserves are that part of a mineral deposit which can be economically and legally extracted or produced at the time of the reserve determination. Recoverable reserves represent the amount of proven and probable reserves that can actually be recovered taking into account all mining and preparation losses involved in producing a saleable product using existing methods under current law. Recoverable reserve estimates incorporate losses for dilution and mining recovery based upon a 95% longwall recovery, 35% to 40% continuous miner recovery and a 95% preparation plant efficiency. The ranges of met coal sales prices used to assess our reserves were \$103 and \$93 per metric ton (which represents a 3-year average between 2014 and 2016) at Mine No. 4 and Mine No. 7, respectively, and \$117 per metric ton at Blue Creek. We believe that the ranges of met coal sales prices used to assess our reserves exclude favorable changes in met coal prices since such time. For example, our average net selling price per metric ton realized for Mine No. 4 and Mine No. 7 for the year ended December 31, 2020 was \$113.12 per metric ton, which was a year in which met coal prices were negatively impacted by the COVID-19 pandemic, and at the time of the Blue Creek reserve study was \$195 per metric ton. Our mineral reserves were also assessed using a historical three year average met coal sales price to determine the reserves were economical. Mine No. 4 and Mine No. 7 proven reserves were estimated within a 3/4 mile radius from point of measurement with thickness and representative coal quality and probable reserves were estimated within a 3/4 mile radius from a point of measurement with thickness but no representative coal quality. Mine No. 4 and Mine No. 7 mineral reserves were estimated within an accuracy threshold of plus or minus 15 percent which represents the margin of error of a standard final feasibility study. Blue Creek and our surface mines proven reserves were estimated within a 3/4 mile radius from point of measurement. Blue Creek mineral reserves were estimated within an accuracy threshold of plus or minus 25 percent which represents the margin of error of a standard pre-feasibility study. Blue Creek is an adjacent property to our existing operating Mines No. 7 and No. 4 and could allow for either a continuation of current production levels or allow for additional tons to be brought to market. This property has similar mining conditions, measured geology and the ability to utilize equipment and infrastructure from our current operations.
- (3) Reserves are further categorized as Proven (Measured) and Probable (Indicated) as defined by SEC Industry Guide 7 as follows: Proven (Measured) Reserves are reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling and (b) the sites of inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established. Probable (Indicated) Reserves are reserves for which quantity and grade and/or quality are computed from information

similar to that used for proven (measured) reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than for proven (measured) reserves, is high enough to assume continuity between points of observation.

- (4) “Assigned” reserves represent recoverable reserves that are either currently being mined, reserves that are controlled and accessible from a currently active mine or reserves at idled facilities where limited capital expenditures would be required to initiate operations. “Unassigned” reserves represent coal at currently non-producing locations that would require significant additional capital spending before operations begin.
- (5) “Reserve Control” of recoverable reserves is either through direct ownership of the property or through third-party leases. Third-party leases have initial terms extending up to 30 years and generally provide for terms or renewals through the anticipated life of the associated mine. These renewals are conditioned upon the payment of minimum royalties. Under current mining plans, assigned reserves reported will be mined out within the period of existing leases or within the time period of probable lease renewal periods. All recoverable reserves reported are either 100% owned or controlled through lease agreements.
- (6) The “Status of Operation” for each mine is classified as follows: Exploration-mines where exploration has been conducted sufficient to define recoverable reserves, but the mine is not yet in development or production stage; Development-an established commercially minable deposit (reserves) is being prepared for extraction but that is not yet in production; Production-the mine is actively operating; Idled -previously active mines that have been idled until such time as reinitiating operations are considered feasible. If conditions warrant, the mines could be re-opened with less capital investment than would be required to develop a new mine.
- (7) Type of Mine: U = Underground; S = Surface
- (8) Reserve is leased to a third party, royalty is collected by us from the third party and we have first right of refusal to purchase mined product if we elect to exercise the right.

The following table provides a summary of the quality of our reserves as of December 31, 2020:

**Estimated Recoverable Coal Reserves (Continued)**  
**As of December 31, 2020**  
**(in thousands of metric tons)<sup>(1)</sup>**

Location/Mine	Reserves	Type <sup>(2)</sup>	Quality			Average Coal Seam Thickness (in Feet)	Date Mine:	
			% Ash	% Sulfur	BTU/lb.		Acquired/ Opened	Ceased/ Idled
<b>Alabama:</b>								
<b>Warrior Met Coal Mining, LLC</b>								
No. 4 <sup>(3)</sup>	40,676	LVM/MVM	10.76	0.76	N/A	6.50	1976	N/A
No. 7	56,818	LVM	9.53	0.62	N/A	5.40	1978	N/A
<b>Warrior Met Coal BCE, LLC</b>								
Blue Creek	103,042	HVM	9.10	0.70	N/A	5.20	N/A	N/A
<b>Warrior Met Coal TRI, LLC</b>								
Carter/Swann’s Crossing	2,609	M/T	11.23	1.23	12,575	10.43	2011	2013
<b>Warrior Met Coal Land, LLC</b>								
Beltona East	1,013	M/T	7.79	2.58	14,162	4.88	N/A	N/A
Bull Gap Mine	624	M/T	4.07	1.54	14,013	4.98	N/A	N/A
Carter West	8	M/T	6.57	1.58	13,937	1.10	N/A	N/A
Howton	271	M/T	12.80	1.27	12,619	7.52	2006	2009
Kimberly	128	M/T	6.47	2.32	13,748	5.58	N/A	N/A
Morris	3,191	T	20.46	1.19	11,260	5.12	2014	N/A
Searles 8	6	M/T	13.34	1.24	12,307	5.90	2013	N/A
Searles BW-UG	2,032	T	15.89	0.95	11,587	3.57	N/A	N/A
<b>Total Alabama</b>	<b>210,418</b>							
<b>Total Warrior Met Coal</b>	<b>210,418</b>							

(1) 1 metric ton is equivalent to 1.102311 short tons.



- (2) Coal Type: M=Metallurgical Coal; T=Thermal; LVM = LV Metallurgical Coal; MVM = MV Metallurgical Coal; HVM = High Volatility Metallurgical Coal
- (3) Current pricing for Mine No. 4 reflects a combination of both LV and MV markets. It is anticipated that the pricing of coal produced at Mine No. 4 for at least the next six years will be priced relative to the LV and MV markets. Beyond this period, the volatile contents in the area are anticipated to increase and the coal may be priced relative to the MV and HV markets.

The following table provides a summary of information regarding our mining operations as of December 31, 2020:

Location/Mine	Reserves (thousands of metric tons) <sup>(1)</sup>	Type <sup>(2)</sup>	Mining Equipment <sup>(3)</sup>	Transportation		Preparation Plant		Source of Power <sup>(5)</sup>
				Rail	Other <sup>(4)</sup>	Capacity (metric tons per hr)	Utilization %	
<b>Alabama:</b>								
<b>Warrior Met Coal Mining, LLC</b>								
No. 4	40,676	U	LW,CM	CSX	T,B	1,180	80%	ALPCO
No. 5*	N/A	N/A	N/A	N/A	N/A	907	86%	ALPCO
No. 7	56,818	U	LW,CM	CSX	T,B	1,270	90%	ALPCO
<b>Warrior Met Coal BCE, LLC</b>								
Blue Creek	103,042	U		In exploration or development				
<b>Warrior Met Coal TRI, LLC</b>								
Carter/Swann's Crossing	2,609	S	S,T	N/A	T,B	N/A	N/A	ALPCO
<b>Warrior Met Coal Land, LLC</b>								
Beltona East	1,013	S		In exploration or development				
Bull Gap Mine	624	S		In exploration or development				
Carter West	8	S		In exploration or development				
Howton	271	S	S,T	N/A	T	N/A	N/A	ALPCO
Kimberly	128	S		In exploration or development				
Morris	3,191	S	S,T	N/A	T	N/A	N/A	ALPCO
Searles 8	6	S	S,T	N/A	T	N/A	N/A	ALPCO
Searles BW-UG	2,032	U		In exploration or development				
<b>Total Alabama</b>	<b>210,418</b>							
<b>Total Warrior Met Coal</b>	<b>210,418</b>							

- (1) 1 metric ton is equivalent to 1.102311 short tons.
- (2) Type of Mine: S = Surface; U = Underground
- (3) Mining Equipment: D = Dragline; S = Shovel/Excavator/Loader; T = Trucks; LW = Longwall; CM = Continuous Miner; H=Highwall Miner
- (4) Transportation: Other T = Trucks; B = Barge Loadout availability
- (5) Source of Power: ALPCO = Alabama Power Company
- \* Represents a preparation plant

The following table provides the production (in thousands) and average coal selling price per metric ton for our operating mines for each of the three years ended December 31, 2020, 2019 and 2018:

Location/Mine	Production <sup>(1)</sup> / Average Coal Selling Price Per Metric Ton					
	2020		2019		2018	
<b>Alabama:</b>						
<b>Warrior Met Coal Mining, LLC</b>						
No. 4	1,956	\$ 115.87	2,015	\$161.78	1,939	\$182.20
No. 7	5,176	\$ 112.19	5,669	\$173.91	5,078	\$198.06
<b>Total Alabama</b>	<u>7,132</u>		<u>7,684</u>		<u>7,017</u>	

- (1) There were no purchases of coal from third parties during the periods presented. All metric tons produced were on leased property.

Information provided within the previous tables concerning our properties has been prepared in accordance with applicable U.S. federal securities laws. All mineral reserve estimates have been prepared in accordance with SEC Industry Guide 7.

### Item 3. Legal Proceedings

We are involved in various legal proceedings occurring in the ordinary course of business. It is the opinion of management, after consultation with legal counsel, that these matters will not materially affect our consolidated financial position, results of operations or cash flows.

The Company is subject to a wide variety of laws and regulations concerning the protection of the environment, both with respect to the construction and operation of its plants, mines and other facilities and with respect to remediating environmental conditions that may exist at its own and other properties. See “Part I, Item 1. Business—Environmental and Regulatory Matters” for additional information. The Company believes that it is in substantial compliance with federal, state and local environmental laws and regulations. The Company accrues for environmental expenses resulting from existing conditions that relate to past operations when the costs are probable and can be reasonably estimated.

### Item 4. Mine Safety Disclosures

The information concerning mine safety violations and other regulatory matters is filed as Exhibit 95 to this Annual Report pursuant to the requirements of Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K (17 CFR 229.104).

## Part II

### Item 5. Market For Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

#### Market Information

Our common stock began trading on the NYSE under the symbol “HCC” on April 13, 2017. Before then, there was no public market for our common stock.

#### Capital Allocation

On May 17, 2017, the Board adopted a policy (the “Capital Allocation Policy”) of paying a quarterly cash dividend of \$0.05 per share. The Capital Allocation Policy states the following: In addition to the regular quarterly dividend and to the extent that the Company generates excess cash that is beyond the then current requirements of the business, the Board may consider returning all or a portion of such excess cash to stockholders through a special dividend or implementation of a stock repurchase program. Any future dividends or stock repurchases will be at the discretion of the Board and subject to consideration of a number of factors, including business and market conditions, future financial performance and other strategic investment opportunities. We will also seek to optimize our capital structure to improve returns to stockholders while allowing flexibility for us to pursue very selective strategic growth opportunities that can provide compelling stockholder returns. Our ability to pay dividends on our common stock is limited by covenants in the ABL Facility and the indenture governing the Notes and may be further restricted by the terms of any future debt or preferred securities. See “Part I, Item 1A. Risk Factors—Risks Related to the Ownership of our Common Stock—Any declaration and payment of future dividends to holders of our common stock may be limited by restrictive covenants of our ABL Facility and the indenture governing the Notes, and will be at the sole discretion of the Board and will also depend on many factors” and “Part II, Item 7. Management’s Discussion and Analysis of Financial Conditions and Results of Operation—Liquidity and Capital Resources—ABL Facility” and “—Senior Secured Notes.”

#### Holders

As of February 22, 2021, we had approximately 422 holders of record of our common stock.

#### Equity Compensation Plans

The following table sets forth certain information relating to our equity compensation plans as of December 31, 2020:

	<b>Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants, and Rights</b>	<b>Weighted Average Exercise Price of Outstanding Options, Warrants, and Rights<sup>(1)</sup></b>	<b>Number of Securities Remaining Available for Future Issuance</b>
Equity compensation plans approved by security holders:			
2017 Equity Incentive Plan	812,396 <sup>(2)</sup>	\$ —	4,977,874
2016 Equity Incentive Plan	43,580 <sup>(3)</sup>	\$ —	— <sup>(4)</sup>

(1) The weighted-average exercise price does not take into account restricted stock units or phantom units, which do not have an exercise price.

(2) The number of securities to be issued under our 2017 Equity Incentive Plan represents 799,240 unvested restricted stock units and 13,157 shares of common stock issuable upon settlement of vested restricted stock unit awards.

(3) The number of securities to be issued under our 2016 Equity Incentive Plan represents 43,580 shares of common stock issuable upon settlement of a vested phantom unit award.

(4) While our 2016 Equity Incentive Plan remains in effect with respect to awards granted prior to the effectiveness of our 2017 Equity Incentive Plan, no further awards will be granted under the 2016 Equity Plan.

## Stock Repurchases

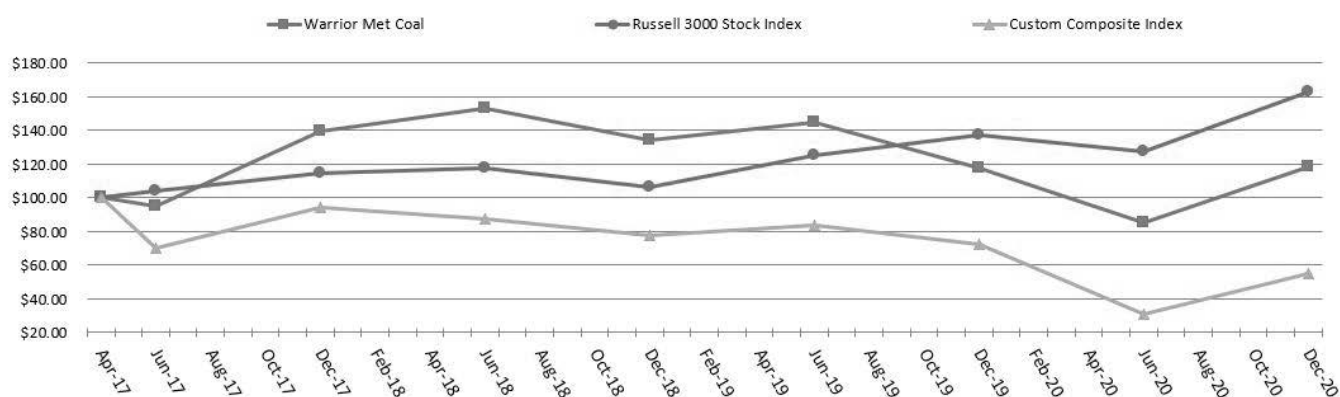
There were no share repurchases of our common stock made during the quarter ended December 31, 2020.

## Stock Performance Graph

The performance graph and the information contained in this section is not “soliciting material”, is being “furnished” not “filed” with the SEC and is not to be incorporated by reference into any of our filings under the Securities Act or the Exchange Act whether made before or after the date hereof and irrespective of any general incorporation language contained in such filing.

The following graph shows a comparison from April 13, 2017 (the date our common stock commenced trading on the NYSE) through December 31, 2020 of the cumulative total return for our common stock, the Russell 3000 Stock Index and a peer group comprised of Arch Resources, Inc. and Peabody Energy Corp (“Custom Composite Index”). The Custom Composite Index reflects publicly listed U.S. companies within the coal industry of similar size and product type. The graph assumes that \$100 was invested on April 13, 2017 in our common stock and each index and that all dividends were reinvested.

Note that historical stock price performance is not necessarily indicative of future stock price performance.



## Item 6. Selected Historical Financial Data

The following tables set forth our selected historical financial data as of and for each of the periods indicated. The selected consolidated historical financial data as of December 31, 2020 and 2019, for the years ended December 31, 2020, December 31, 2019, and December 31, 2018 is derived from the audited consolidated financial statements of the Successor included elsewhere in this Annual Report. The selected consolidated historical financial data as of December 31, 2018 and 2017, for the year ended December 31, 2017 and for the nine months ended December 31, 2016 is derived from the audited consolidated financial statements of the Successor included in our Annual Report on Form 10-K for the year ended December 31, 2018 (the “2018 Annual Report”) and the selected combined historical financial data for the three months ended March 31, 2016 is derived from the audited combined historical financial statements of our Predecessor included in the 2018 Annual Report. The term “Successor” refers to (1) Warrior Met Coal, LLC and its subsidiaries for periods beginning as of April 1, 2016 and ending immediately before the completion of our corporate conversion and (2) Warrior Met Coal, Inc. and its subsidiaries for periods beginning with the completion of our corporate conversion and thereafter. The term “Predecessor” refers to the assets acquired and liabilities assumed by Warrior Met Coal, LLC from Walter Energy in the Asset Acquisition on March 31, 2016. The Predecessor periods included in the 2018 Annual Report begin as of January 1, 2016 and end as of March 31, 2016.

You should read this selected consolidated and combined historical financial data together with “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the financial statements and related notes thereto included elsewhere in this Annual Report or the 2018 Annual Report, as applicable. Our historical results are not necessarily indicative of our future results of operations, financial position and cash flows.

	Successor					Predecessor
	For the years ended December 31,				For the nine months ended December 31,	For the three months ended March 31,
	2020	2019	2018	2017	2016	2016
<b>Statements of Operations Data :</b>						
(in thousands except per share data)						
<b>Revenues:</b>						
Sales	\$ 761,871	\$ 1,235,998	\$ 1,342,683	\$ 1,124,645	\$ 276,560	\$ 65,154
Other revenues	20,867	32,311	35,324	44,447	21,074	6,229
Total revenues	782,738	1,268,309	1,378,007	1,169,092	297,634	71,383
<b>Costs and expenses:</b>						
Cost of sales (exclusive of items shown separately below)	625,170	720,745	716,645	592,530	244,723	72,297
Cost of other revenues (exclusive of items shown separately below)	33,736	29,828	10,172	28,422	19,367	4,698
Depreciation and depletion	118,092	97,330	97,209	75,413	47,413	28,958
Selling, general and administrative	32,879	37,014	36,626	36,453	20,507	9,008
Other postretirement benefits	—	—	—	—	—	6,160
Restructuring costs	—	—	—	—	—	3,418
Transaction and other costs	—	—	9,068	12,873	13,568	—
Total costs and expenses	809,877	884,917	869,720	745,691	345,578	124,539
<b>Operating (loss) income</b>	<b>(27,139)</b>	<b>383,392</b>	<b>508,287</b>	<b>423,401</b>	<b>(47,944)</b>	<b>(53,156)</b>
Interest expense, net	(32,310)	(29,335)	(37,314)	(6,947)	(1,711)	(16,562)
Loss on early extinguishment of debt	—	(9,756)	—	—	—	7,920
Other income	3,544	22,815	—	—	—	—
<b>(Loss) income before income taxes</b>	<b>(55,905)</b>	<b>367,116</b>	<b>470,973</b>	<b>416,454</b>	<b>(49,655)</b>	<b>(61,798)</b>
Income tax (benefit) expense <sup>(1)</sup>	(20,144)	65,417	(225,814)	(38,592)	18	18
<b>Net (loss) income</b>	<b>\$ (35,761)</b>	<b>\$ 301,699</b>	<b>\$ 696,787</b>	<b>\$ 455,046</b>	<b>\$ (49,637)</b>	<b>\$ (61,816)</b>
Basic and diluted net (loss) income per share:						
Net (loss) income per share—basic	\$ (0.70)	\$ 5.87	\$ 13.19	\$ 8.62		
Net (loss) income per share—diluted	\$ (0.70)	\$ 5.86	\$ 13.17	\$ 8.62		
Weighted average number of shares outstanding—basic	51,168	51,363	52,812	52.8		
Weighted average number of shares outstanding— diluted	51,168	51,493	52,918	52.806		
Dividends per share <sup>(2)</sup> :	\$ 0.20	\$ 4.61	\$ 6.73	\$ 14.92		
<b>Statements of Cash Flow Data:</b>						
Cash provided by (used in):						
Operating activities	\$ 112,626	\$ 532,814	\$ 559,396	\$ 434,512	\$ (9,187)	\$ (40,698)
Investing activities	\$ (108,189)	\$ (134,213)	\$ (107,629)	\$ (92,625)	\$ (30,884)	\$ (5,422)
Financing activities	\$ 14,096	\$ (411,623)	\$ (281,626)	\$ (458,279)	\$ 192,727	\$ (6,240)

(1) The income tax benefit recorded for the year ended December 31, 2018 is primarily due to the NOL valuation allowance release (see Note 7 to our consolidated financial statements included elsewhere in this Annual Report).

(2) The dividends per share paid for the year ended December 31, 2017 reflect two special cash dividends that were paid in the aggregate amount of \$790.0 million.

	Successor				Predecessor
	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016
	(in thousands)				
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 211,916	\$ 193,383	\$ 205,577	\$ 35,470	\$ 150,045
Working capital <sup>(1)</sup>	\$ 297,165	\$ 315,094	\$ 345,497	\$ 163,614	\$ 228,986
Mineral interests, net	\$ 100,855	\$ 110,130	\$ 120,427	\$ 130,004	\$ 143,231
Property, plant and equipment, net	\$ 637,108	\$ 606,200	\$ 540,315	\$ 536,745	\$ 496,959
Total assets	\$ 1,393,936	\$ 1,344,264	\$ 1,395,040	\$ 993,315	\$ 947,631
Long-term debt	\$ 379,908	\$ 339,189	\$ 468,231	\$ 342,948	\$ 3,725
Total liabilities	\$ 668,695	\$ 578,682	\$ 682,428	\$ 580,292	\$ 194,664
Total stockholders' equity	\$ 725,241	\$ 765,582	\$ 712,612	\$ 413,023	\$ 752,967

(1) Working capital consists of current assets less current liabilities, excluding current portion of long-term debt.

## ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion and analysis provides a narrative of our results of operations and financial condition for the years ended December 31, 2020, December 31, 2019, and December 31, 2018. You should read the following discussion and analysis of our financial condition and results of operations together with our audited financial statements and related notes appearing elsewhere in this Annual Report. Some of the information contained in this discussion and analysis or set forth elsewhere in this Annual Report, including information with respect to our plans and strategy for our business and related financing, includes forward-looking statements that involve risks and uncertainties. As a result of many factors, including those factors set forth in "Part I, Item 1A. Risk Factors," our actual results could differ materially from the results described in, or implied by, the forward-looking statements contained in the following discussion and analysis. Please see "Forward-Looking Statements."*

### Overview

We are a U.S.-based, environmentally and socially minded supplier to the global steel industry. We are dedicated entirely to mining non-thermal met coal used as a critical component of steel production by metal manufacturers in Europe, South America and Asia. We are a large-scale, low-cost producer and exporter of premium met coal, also known as hard coking coal ("HCC"), operating highly-efficient longwall operations in our underground mines based in Alabama, Mine No. 4 and Mine No. 7.

As of December 31, 2020, Mine No. 4 and Mine No. 7, our two operating mines, had approximately 97.5 million metric tons of recoverable reserves and our undeveloped Blue Creek mine contained 103.0 million metric tons of recoverable reserves. As a result of our high quality coal, our realized price has historically been in line with, or at a slight discount to, the Platts Index. Our HCC, mined from the Southern Appalachian portion of the Blue Creek coal seam, is characterized by low sulfur, low-to-medium ash, and LV to MV. These qualities make our coal ideally suited as a coking coal for the manufacture of steel.

We sell substantially all of our met coal production to steel producers. Met coal, which is converted to coke, is a critical input in the steel production process. Met coal is both consumed domestically in the countries where it is produced and exported by several of the largest producing countries, such as China, Australia, the United States, Canada and Russia. Therefore, demand for our coal will be highly correlated to conditions in the global steelmaking industry. The steelmaking industry's demand for met coal is affected by a number of factors, including the cyclical nature of that industry's business, technological developments in the steelmaking process and the availability of substitutes for steel such as aluminum, composites and plastics. A significant reduction in the demand for steel products would reduce the demand for met coal, which would have a material adverse effect upon our business. Similarly, if alternative ingredients are used in substitution for met coal in the integrated steel mill process, the demand for met coal would materially decrease, which could also materially adversely affect demand for our met coal.

The global steelmaking industry's demand for met coal is also affected by pandemics, epidemics or other public health emergencies, such as the recent outbreak of the novel coronavirus ("COVID-19"), which has spread from China to many other countries including the United States. In March 2020, the World Health Organization ("WHO") declared COVID-19 as a pandemic, and the President of the United States declared the COVID-19 outbreak a national emergency. The outbreak has resulted in governments around the world implementing stringent measures to help control the spread of the virus, including quarantines, "shelter in place" and "stay at home" orders, travel restrictions, business curtailments, school closures, and other measures. In addition, governments and central banks in several parts of the world have enacted fiscal and monetary stimulus measures to counteract the impacts of COVID-19.

We are a company operating in a critical infrastructure industry, as defined by the U.S. Department of Homeland Security. As such, we continue to operate our mines in a safe manner under the guidelines issued by the Centers for Disease Control and Prevention and Alabama State Health Department. This includes, among other things, eliminating business travel, staggering manbuses, cage and shift start times to allow for social distancing, enhanced disinfectant cleaning at all locations, maintaining antibacterial supplies at all locations, providing employees with masks, gloves and other gear, eliminating visitors or vendors on property without strict screening process and testing the temperature of all employees. As of the filing of this Form 10-K, we have not had to idle or temporarily idle our mines.

Notwithstanding our continued operations, COVID-19 has had and may continue to have further negative impacts on our two operating mines, supply chain, transportation networks and customers, which may compress our margins, and reduce demand for the met coal that we produce, including as a result of preventative and precautionary measures that we, other businesses and governments are taking. The COVID-19 outbreak is a widespread public health crisis that is adversely affecting

the economies and financial markets of many countries, including those of our customers, which are primarily located in Europe, South America and Asia. A prolonged economic downturn could adversely affect demand for our met coal and contribute to volatile supply and demand conditions affecting prices and volumes. The progression of COVID-19 could also negatively impact our business or results of operations through the temporary closure of one of our mines, customers or critical suppliers, or the McDuffie Coal Terminal at the Port of Mobile in Alabama, or a disruption to our rail and barge carriers, which would delay or prevent deliveries to our customers, among others.

In addition, the ability of our employees and our suppliers' and customers' employees to work may be significantly impacted by individuals contracting or being exposed to COVID-19, or as a result of the control measures noted above, which may significantly affect the demand for met coal. Our customers may be directly impacted by business curtailments or weak market conditions and may not be willing or able to fulfill their contractual obligations or open letters of credit. We may also experience delays in obtaining letters of credit or processing letter of credit payments due to the impacts of COVID-19 on foreign issuing and U.S. intermediary banks. Furthermore, the progression of, and global response to, the COVID-19 outbreak has begun to cause, and increases the risk of, further delays in construction activities and equipment deliveries related to our capital projects, including potential delays in obtaining permits from government agencies. The extent of such delays and other effects of COVID-19 on our capital projects, certain of which are outside of our control, is unknown, but they may impact or delay the timing of anticipated benefits of capital projects.

In light of the uncertainties regarding the duration of the COVID-19 pandemic and its overall impact on the Company, its operations and the global economy, we withdrew our full-year 2020 guidance issued on February 19, 2020 and will not provide full year 2021 guidance at this time. We also continue to appropriately adjust our operational needs, including managing our expenses, capital expenditures, working capital, liquidity and cash flows. In addition, as a precautionary measure, we borrowed \$70.0 million under the ABL Facility on March 24, 2020 (the "ABL Draw") in order to increase the Company's cash position and preserve financial flexibility. In June 2020, we reduced the principal amount of the outstanding ABL Draw by \$30.0 million. As of December 31, 2020, the Company had an aggregate principal amount of \$40.0 million drawn under the ABL Facility. We intend on retaining the funds in cash to preserve liquidity amid the growing uncertainty surrounding the COVID-19 outbreak. We also delayed spending the \$25.0 million that we budgeted for the development of Blue Creek until at least summer 2021 and temporarily suspended our New Stock Repurchase Program. Our financial approach continues to focus on cash flow management and protecting the balance sheet in order to strategically move through this period of uncertainty and mitigate potential long-term impacts to the business (see *Liquidity and Capital Resources* below).

## **Basis of Presentation**

The consolidated financial statements included elsewhere in this Annual Report and the other financial information presented and discussed in this management's discussion and analysis includes the accounts of Warrior Met Coal, Inc. and its subsidiaries (the "Company").

## **How We Evaluate Our Operations**

Our primary business, the mining and exporting of met coal for the steel industry, is conducted in one business segment: Mining. All other operations and results are reported under the "All Other" category as a reconciling item to consolidated amounts, which includes the business results from our sale of natural gas extracted as a byproduct from our underground coal mines and royalties from our leased properties. Our natural gas and royalty businesses do not meet the criteria in ASC 280, *Segment Reporting*, to be considered as operating or reportable segments.

Our management uses a variety of financial and operating metrics to analyze our performance. These metrics are significant factors in assessing our operating results and profitability and include: (i) Segment Adjusted EBITDA; (ii) sales volumes and average selling price, which drive coal sales revenue; (iii) cash cost of sales, a non-GAAP financial measure; and (iv) Adjusted EBITDA, a non-GAAP financial measure.



	For the years ended December 31,		
	2020	2019	2018
(in thousands)			
Segment Adjusted EBITDA	\$ 136,701	\$ 515,253	\$ 626,038
Metric tons sold	6,735	7,240	6,931
Metric tons produced	7,132	7,683	7,017
Gross price realization <sup>(1)</sup>	96 %	98 %	97 %
Average net selling price per metric ton	\$ 113.12	\$ 170.72	\$ 193.72
Cash cost of sales per metric ton	\$ 92.31	\$ 99.15	\$ 103.35
Adjusted EBITDA	\$ 108,276	\$ 485,693	\$ 601,901

<sup>(1)</sup> Gross price realization represents a volume weighted-average calculation of our daily realized price per ton based on gross sales, which excludes demurrage and other charges, as a percentage of the Platts Index.

### ***Segment Adjusted EBITDA***

We define Segment Adjusted EBITDA as net (loss) income adjusted for other revenues, cost of other revenues, depreciation and depletion, selling, general and administrative, and certain transactions or adjustments that the CEO, our Chief Operating Decision Maker does not consider for the purposes of making decisions to allocate resources among segments or assessing segment performance. Segment Adjusted EBITDA is used as a supplemental financial measure by management and by external users of our financial statements, such as investors, industry analysts, lenders and ratings agencies, to assess:

- our operating performance as compared to the operating performance of other companies in the coal industry, without regard to financing methods, historical cost basis or capital structure;
- the ability of our assets to generate sufficient cash flow to pay distributions;
- our ability to incur and service debt and fund capital expenditures; and
- the viability of acquisitions and other capital expenditure projects and the returns on investment of various investment opportunities, such as Blue Creek.

### ***Sales Volumes, Gross Price Realization and Average Net Selling Price***

We evaluate our operations based on the volume of coal we can safely produce and sell in compliance with regulatory standards, and the prices we receive for our coal. Our sales volume and sales prices are largely dependent upon the terms of our coal sales contracts, for which prices generally are set on daily index averages or a quarterly basis. The volume of coal we sell is also a function of the pricing environment in the international met coal markets and the amounts of LV and MV coal that we sell. We evaluate the price we receive for our coal on two primary metrics: first, our gross price realization and second, our average net selling price per metric ton.

Our gross price realization represents a volume weighted-average calculation of our daily realized price per ton based on the blended gross sales of our LV and MV coal, excluding demurrage and quality specification adjustments, as a percentage of the Platts Index daily price. Our gross price realizations reflect the premiums and discounts we achieve on our LV and MV coal versus the Platts Index price because of the high quality premium products we sell into the export markets. In addition, the premiums and discounts in a quarter or year can be impacted by a rising or falling price environment.

On a quarterly basis, our blended gross selling price per metric ton may differ from the Platts Index price per metric ton, primarily due to our gross sales price per ton being based on a blended average of gross sales price on our LV and MV coals as compared to the Platts Index price and due to the fact that many of our met coal supply agreements are based on a variety of indices.

Our average net selling price per metric ton represents our coal net sales revenue divided by total metric tons of coal sold. In addition, our average net selling price per metric ton is net of the previously mentioned demurrage and quality specification adjustments.

### ***Cash Cost of Sales***

We evaluate our cash cost of sales on a cost per metric ton basis. Cash cost of sales is based on reported cost of sales and includes items such as freight, royalties, manpower, fuel and other similar production and sales cost items, and may be adjusted for other items that, pursuant to GAAP, are classified in the Statements of Operations as costs other than cost of sales, but relate directly to the costs incurred to produce met coal and sell it free-on-board at the Port of Mobile in Alabama. Our cash cost of sales per metric ton is calculated as cash cost of sales divided by the metric tons sold. Cash cost of sales is used as a supplemental financial measure by management and by external users of our financial statements, such as investors, industry analysts, lenders and ratings agencies, to assess:

- our operating performance as compared to the operating performance of other companies in the coal industry, without regard to financing methods, historical cost basis or capital structure; and
- the viability of acquisitions and other capital expenditure projects and the returns on investment of various investment opportunities, such as Blue Creek.

We believe that this non-GAAP financial measure provides additional insight into our operating performance, and reflects how management analyzes our operating performance and compares that performance against other companies on a consistent basis for purposes of business decision making by excluding the impact of certain items that management does not believe are indicative of our core operating performance. We believe that cash costs of sales presents a useful measure of our controllable costs and our operational results by including all costs incurred to produce met coal and sell it free-on-board at the Port of Mobile in Alabama. Period-to-period comparisons of cash cost of sales are intended to help management identify and assess additional trends potentially impacting our Company that may not be shown solely by period-to-period comparisons of cost of sales. Cash cost of sales should not be considered an alternative to cost of sales or any other measure of financial performance or liquidity presented in accordance with GAAP. Cash cost of sales excludes some, but not all, items that affect cost of sales, and our presentation may vary from the presentations of other companies. As a result, cash cost of sales as presented below may not be comparable to similarly titled measures of other companies.

The following table presents a reconciliation of cash cost of sales to total cost of sales, the most directly comparable GAAP financial measure, on a historical basis for each of the periods indicated.

	<b>For the years ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
(in thousands)			
Cost of sales	\$ 625,170	\$ 720,745	\$ 716,645
Asset retirement obligation accretion and valuation adjustment	(1,702)	(1,519)	875
Stock compensation expense	(1,789)	(1,405)	(1,214)
Cash cost of sales	<u>\$ 621,679</u>	<u>\$ 717,821</u>	<u>\$ 716,306</u>

### ***Adjusted EBITDA***

We define Adjusted EBITDA as net (loss) income before net interest expense, income tax expense (benefit), depreciation and depletion, non-cash asset retirement obligation accretion, non-cash stock compensation expense, other non-cash accretion and valuation adjustments, transaction and other costs, loss on early extinguishment of debt and other income and expenses. Adjusted EBITDA is used as a supplemental financial measure by management and by external users of our financial statements, such as investors, industry analysts, lenders and ratings agencies, to assess:

- our operating performance as compared to the operating performance of other companies in the coal industry, without regard to financing methods, historical cost basis or capital structure; and
- the viability of acquisitions and other capital expenditure projects and the returns on investment of various investment opportunities, such as Blue Creek.

We believe that the presentation of Adjusted EBITDA in this Annual Report provides information useful to investors in assessing our financial condition and results of operations. The GAAP measure most directly comparable to Adjusted EBITDA is net (loss) income. Adjusted EBITDA should not be considered an alternative to net income or loss or any other measure of financial performance or liquidity presented in accordance with GAAP. Adjustments excludes some, but not all, items that affect net (loss) income and our presentation of Adjusted EBITDA may vary from that presented by other companies.

The following table presents a reconciliation of Adjusted EBITDA to net (loss) income, the most directly comparable GAAP financial measure, on a historical basis for each of the periods indicated.

	<b>For the years ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
(in thousands)			
Net (loss) income	\$ (35,761)	\$ 301,699	\$ 696,787
Interest expense, net	32,310	29,335	37,314
Income tax (benefit) expense	(20,144)	65,417	(225,814)
Depreciation and depletion	118,092	97,330	97,209
Asset retirement obligation accretion and valuation adjustment <sup>(1)</sup>	2,631	(7,891)	(19,942)
Stock compensation expense <sup>(2)</sup>	7,602	5,820	6,405
Other non-cash accretion and valuation adjustments <sup>(3)</sup>	6,014	7,042	874
Transaction and other costs <sup>(4)</sup>	—	—	9,068
Loss on early extinguishment of debt <sup>(5)</sup>	—	9,756	—
Other income and expenses <sup>(6)</sup>	(2,468)	(22,815)	—
Adjusted EBITDA	<u>\$ 108,276</u>	<u>\$ 485,693</u>	<u>\$ 601,901</u>

- (1) Represents non-cash accretion expense and valuation adjustment associated with our asset retirement obligations (see Note 8 to our consolidated financial statements).
- (2) Represents non-cash stock compensation expense associated with equity awards.
- (3) Represents non-cash accretion expense and valuation adjustment associated with our black lung obligations (see Note 10 to our consolidated financial statements).
- (4) Represents non-recurring costs incurred by the Company in connection with the offering of the Notes (see Note 13 to our consolidated financial statements) and the Secondary Equity Offerings (as defined in Note 17).
- (5) Represents a loss incurred in connection with the early extinguishment of debt (see Note 13 to our consolidated financial statements).
- (6) Represents settlement proceeds received for the Shared Services Claim and Hybrid Debt Claim associated with the Walter Canada CCAA and other Walter Claims (each discussed below) less incremental expenses incurred by the Company related to COVID-19.

## Results of Operations

### Year Ended December 31, 2020 and 2019

The following table summarizes certain financial information relating to our operating results that have been derived from our audited financial statements for the year ended December 31, 2020 and 2019.

(in thousands)	For the years ended December 31,			
	2020	% of Total Revenues	2019	% of Total Revenues
<b>Revenues:</b>				
Sales	\$ 761,871	97.3 %	\$1,235,998	97.5 %
Other revenues	20,867	2.7 %	32,311	2.5 %
Total revenues	782,738	100.0 %	1,268,309	100.0 %
<b>Costs and expenses:</b>				
Cost of sales (exclusive of items shown separately below)	625,170	79.9 %	720,745	56.8 %
Cost of other revenues (exclusive of items shown separately below)	33,736	4.3 %	29,828	2.4 %
Depreciation and depletion	118,092	15.1 %	97,330	7.7 %
Selling, general and administrative	32,879	4.2 %	37,014	2.9 %
Total costs and expenses	809,877	103.5 %	884,917	69.8 %
Operating (loss) income	(27,139)	(3.5)%	383,392	30.2 %
Interest expense, net	(32,310)	(4.1)%	(29,335)	(2.3)%
Loss on early extinguishment of debt	—	— %	(9,756)	(0.8)%
Other income	3,544	0.5 %	22,815	1.8 %
(Loss) income before income tax (benefit) expense	(55,905)	(7.1)%	367,116	28.9 %
Income tax (benefit) expense	(20,144)	(2.6)%	65,417	5.2 %
Net (loss) income	\$ (35,761)	(4.6)%	301,699	23.8 %

Sales, production and cost of sales components on a per unit basis for the year ended December 31, 2020 and 2019 were as follows:

<i>Met Coal (metric tons in thousands)</i>	For the years ended December 31,	
	2020	2019
Metric tons sold	6,735	7,240
Metric tons produced	7,132	7,683
Gross price realization	96 %	98 %
Average net selling price per metric ton	\$ 113.12	\$ 170.72
Cash cost of sales per metric ton	\$ 92.31	\$ 99.15

The year ended December 31, 2020 was a challenging year. COVID-19 has had an unprecedented impact on our business, adversely affecting the economies and financial markets of many countries, including those of our customers, which are primarily located in Europe, South America and Asia. Despite the ongoing challenges posed by COVID-19, we are pleased with our performance in 2020.

The following list highlights our key accomplishments for the year ended December 31, 2020:

- we achieved an annual sales volume of 6.7 million metric tons and production volume of 7.1 million metric tons;

- we continued to successfully implement and maintain social distancing procedures under the guidelines issued by the Centers for Disease Control and Prevention related to COVID-19 while continuing to operate our mines near capacity;
- we achieved our lowest annual cash cost of sales per metric ton of \$92.31;
- we reduced 2020 selling, general and administrative expenses by 11% to \$32.9 million
- we reduced planned capex by 40% or \$57.5 million from plan;
- we delivered positive cash flows from operations and nearly positive free cash flow in a low price environment while continuing to invest \$114.6 million in property, plant and equipment and mine development;
- we maintained a strong balance sheet with total liquidity of \$243.5 million, consisting of cash and cash equivalents of \$211.9 million and \$31.6 million available under our ABL Facility; and
- we demonstrated an ongoing commitment to returning capital to our stockholders, paying our regular \$0.05 per share quarterly dividends.

Sales were \$761.9 million for the year ended December 31, 2020, compared to \$1.2 billion for the year ended December 31, 2019. The \$474.1 million decrease in revenues was primarily driven by a \$387.9 million decrease related to a \$57.60 decrease in the average selling price per metric ton of met coal combined with a \$86.2 million decrease due to a 0.5 million metric ton decrease in met coal sales volume.

Other revenues for the year ended December 31, 2020 were \$20.9 million compared to \$32.3 million for the year ended December 31, 2019. Other revenues are comprised of revenue derived from our natural gas operations, as well as earned royalty revenue. The \$11.4 million decrease in other revenues is primarily due to a 22% decrease in gas sales driven by a decrease in natural gas prices and production during 2020.

Cost of sales (exclusive of items shown separately below) was \$625.2 million, or 79.9% of total revenues for the year ended December 31, 2020, compared to \$720.7 million, or 56.8% of total revenues for the year ended December 31, 2019. The \$95.6 million decrease in cost of sales was primarily driven by a \$50.1 million decrease due to a 0.5 million metric ton decrease in met coal sales volumes combined with a \$46.1 million decrease due to a \$6.84 per metric ton decrease in the average cash cost of sales per metric ton. The decrease in average cash cost of sales per metric ton is primarily due to our variable cost structure in our labor, royalties and logistics contracts that vary in response to changes in met coal prices.

Cost of other revenues was \$33.7 million for the year ended December 31, 2020, compared to \$29.8 million for the year ended December 31, 2019. The \$3.9 million increase is primarily due to a net change of \$10.4 million in our asset retirement obligation adjustment related to our gas businesses primarily attributable to the net impact of changes in current estimates of the costs and scope of remaining reclamation work, changes in discount rates and fluctuations in projected mine life estimates. This increase is partially offset by a \$3.2 million decrease in expenses related to Blue Creek, a \$2.2 million decrease in gas cost of sales (excluding asset retirement obligation adjustments) related to the 28% decrease in gas sales driven by natural gas prices and production during 2020, and a \$1.0 million decrease in our black lung obligation actuarial adjustment.

Depreciation and depletion was \$118.1 million, or 15.1% of total revenues, for the year ended December 31, 2020, compared to \$97.3 million, or 7.7% of total revenues for the year ended December 31, 2019. The increase in depreciation expense is primarily driven by an increase in the book value of in-service assets.

Selling, general and administrative expenses were \$32.9 million, or 4.2% of total revenues, for the year ended December 31, 2020 compared to \$37.0 million, or 2.9% of total revenues for the year ended December 31, 2019. The \$4.1 million decrease in selling, general and administrative expenses is primarily due to decreases in professional services and employee related expenses.

Interest expense, net was \$32.3 million, or 4.1% of total revenues, for the year ended December 31, 2020, compared to \$29.3 million, or 2.3% of total revenues, for the year ended December 31, 2019. The \$3.0 million increase was primarily driven by a decrease in interest income of \$3.4 million and a \$0.6 million increase in interest expense primarily related to the ABL Draw.

For the year ended December 31, 2019, we recognized a loss on early extinguishment of debt of \$9.8 million upon the extinguishment of \$131.6 million of our Notes (as defined below). The loss on early extinguishment of debt represents a

premium paid to retire the debt, accelerated amortization of debt discount, net, and fees incurred in connection with the transactions.

Other income was \$3.5 million, or 0.5% of total revenues, for the year ended December 31, 2020 compared to \$22.8 million or 1.8% of total revenues, for the year ended December 31, 2019.

In connection with our acquisition of certain core operating assets of Walter Energy, we acquired a receivable owed to Walter Energy by Walter Canada for certain shared services provided by Walter Energy to Walter Canada (the “Shared Services Claim”) and a receivable for unpaid interest owed to Walter Energy from Walter Canada in respect of a promissory note (the “Hybrid Debt Claim”). Each of these claims were asserted by us in the Walter Canada CCAA proceedings. Walter Energy deemed these receivables to be uncollectible for the year ended December 31, 2015 and we did not assign any value to these receivables in acquisition accounting as collectability was deemed remote. In 2019, we received \$22.8 million in settlement proceeds for the Shared Services Claim and Hybrid Debt Claim which is reflected as other income in the Statements of Operations. In March 2020, we received an additional \$1.8 million in settlement proceeds for the Shared Services Claim and Hybrid Debt Claim which is reflected as other income in the Statements of Operations. The collectability of additional amounts, if any, related to the Shared Services Claim and Hybrid Debt Claim depends on the outcome of, and the timing of any resolution of, the Walter Canada CCAA proceedings and cannot be predicted with certainty

During the fourth quarter of 2020, we received \$1.7 million in settlement proceeds related to other Walter Energy claims. As with the Walter Canada CCAA claims, we did not assign any value to these receivables in acquisition accounting as collectability was deemed remote.

For the year ended December 31, 2020, we recognized an income tax benefit of \$20.1 million or an effective tax rate of 36.0% primarily due to a loss recognized before income taxes and a \$4.0 million income tax benefit from the IRC Section 451 Marginal Well Credit. The Marginal Well Credit is a production-based tax credit that provides a credit for qualified natural gas production. The credit is phased out when natural gas prices exceed certain levels. For the year ended December 31, 2019, we recognized an income tax expense of \$65.4 million or an effective tax rate of 17.8%. In the fourth quarter of 2019, an adjustment of \$6.7 million was recorded to recognize additional alternative minimum tax credits, general business credits and net operating losses available to the Company in connection with a settlement agreement between Walter Energy and the Internal Revenue Service.

At December 31, 2020, we had federal and state NOLs of approximately \$920.7 million and \$995.8 million, respectively. The increase in the federal and state NOLs from the prior year was primarily driven by the Company applying a 100%, first-year bonus depreciation for certain qualified equipment for tax purposes as allowed under the Tax Cuts and Jobs Act combined with the current year net loss. Accordingly, we expect to continue to utilize our NOLs and we believe we will not pay any cash federal income taxes for the next six to eight years based on our long-term forecast of met coal prices, sales volumes and performance. Our U.S. federal and state pre-tax net operating loss carryforwards do not begin to expire until 2034 and 2029, respectively. Our general business credits begin to expire in December 31, 2027. See Note 7 of the Notes to the Consolidated Financial Statements for more information.

**Year Ended December 31, 2019 and 2018**

The following table summarizes certain financial information relating to our operating results that have been derived from our audited financial statements for the year ended 2019 and 2018.

	<b>For the years ended December 31,</b>			
	<b>2019</b>	<b>% of Total Revenues</b>	<b>2018</b>	<b>% of Total Revenues</b>
<b>(in thousands)</b>				
Revenues:				
Sales	\$ 1,235,998	97.5 %	1,342,683	97.4 %
Other revenues	32,311	2.5 %	35,324	2.6 %
Total revenues	1,268,309	100.0 %	1,378,007	100.0 %
Costs and expenses:				
Cost of sales (exclusive of items shown separately below)	720,745	56.8 %	716,645	52.0 %
Cost of other revenues (exclusive of items shown separately below)	29,828	2.4 %	10,172	0.7 %
Depreciation and depletion	97,330	7.7 %	97,209	7.1 %
Selling, general and administrative	37,014	2.9 %	36,626	2.7 %
Transaction and other costs	—	— %	9,068	70.0 %
Total costs and expenses	884,917	69.8 %	869,720	63.1 %
Operating income	383,392	30.2 %	508,287	36.9 %
Interest expense, net	(29,335)	(2.3)%	(37,314)	(2.7)%
Loss on early extinguishment of debt	(9,756)	(8.0)%	—	— %
Other income	22,815	1.8 %	—	— %
Income before income tax expense (benefit)	367,116	28.9 %	470,973	34.2 %
Income tax expense (benefit)	65,417	5.2 %	(225,814)	(16.4)%
Net income	<u>\$ 301,699</u>	<u>23.8 %</u>	<u>696,787</u>	<u>50.6 %</u>

Sales, production and cost of sales components on a per unit basis for the year ended 2019 and 2018 were as follows:

	<b>For the years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Met Coal (metric tons in thousands)</b>		
Metric tons sold	7,240	6,931
Metric tons produced	7,683	7,017
Gross price realization <sup>(1)</sup>	98 %	97 %
Average net selling price per metric ton	\$ 170.72	\$ 193.72
Cash cost of sales per metric ton	\$ 99.15	\$ 103.35

<sup>(1)</sup> For the years ended 2019 and 2018, our gross price realization represents a volume weighted-average calculation of our daily realized price per ton based on gross sales, which excludes demurrage and other charges, as a percentage of the Platts Index price.

The year ended December 31, 2019 was an outstanding year, as reflected in our record high operational performance and strong financial performance. For the full year of 2019, we produced 7.7 million metric tons of coal and sold 7.2 million metric tons, both of which were record highs for us. We were pleased with our performance in 2019, even in the face of challenging market conditions in the second half of the year. Even with a slowdown in steel production in the latter half of 2019, as well as additional macroeconomic issues in the global economy which significantly impacted pricing, we were still able to execute another year of strong sales volume along with a significant increase in production volume.

The following list highlights our key accomplishments for the year ended December 31, 2019:

- through strong operational and financial performance, we were able to increase our guidance targets for 2019 and produced and sold record high volumes;
- we achieved a record annual sales volume of 7.2 million metric tons and cash cost of sales per metric ton of \$99.15;
- we recorded our best ever annual production volume of 7.7 million metric tons, while achieving a record low safety incident rate at the mines of 2.30;
- we successfully retired \$131.6 million aggregate principal amount of our Notes through the Restricted Payment Offer (as defined below) and Tender Offer (as defined below) to permit up to \$299.0 million in stockholder returns;
- we demonstrated an ongoing commitment to returning capital to our stockholders, including \$240.4 million of special dividends and our regular \$0.05 per share quarterly dividends;
- we implemented the New Stock Repurchase Program (as defined below) of \$70.0 million after fully exhausting the First Stock Repurchase Program (as defined below) of \$40.0 million and repurchased 0.6 million shares of the Company's common stock, totaling \$12.5 million;
- we amended our ABL Facility to generally conform certain definitions with the corresponding definitions of these terms in our indenture governing the Notes; and
- we successfully completed five longwall operation moves during 2019.

Sales were \$1.2 billion for the year ended December 31, 2019, compared to \$1.3 billion for the year ended December 31, 2018. The \$106.7 million decrease in revenues was primarily driven by a \$166.5 million decrease in revenue related to a \$23.00 decrease in the average selling price per metric ton of met coal offset partially by a \$59.9 million increase in revenue due to a 0.3 million metric ton increase in met coal sales volume.

Other revenues for the year ended December 31, 2019 were \$32.3 million compared to \$35.3 million for the year ended December 31, 2018. Other revenues are comprised of revenue derived from our natural gas operations, as well as earned royalty revenue. The \$3.0 million decrease in other revenues is primarily due to an 18% decrease in gas sales driven by a decrease in natural gas prices and production during 2019.

Cost of sales (exclusive of items shown separately below) was \$720.7 million, or 56.8% of total revenues for the year ended December 31, 2019, compared to \$716.6 million, or 52.0% of total revenues for the year ended December 31, 2018. The \$4.1 million increase in cost of sales was primarily driven by a \$31.9 million increase due to a 0.3 million metric ton increase in met coal sales volumes offset partially by a \$30.4 million decrease due to a \$4.20 per metric ton decrease in the average cash cost of sales per metric ton. The decrease in average cash cost of sales per metric ton is primarily due to our variable cost structure in our labor, royalties and logistics contracts that vary in response to changes in met coal prices.

Cost of other revenues was \$29.8 million for the year ended December 31, 2019, compared to \$10.2 million for the year ended December 31, 2018. The \$19.7 million increase is primarily due to the change in our asset retirement obligation adjustment attributable to the net impact of changes in current estimates of the costs and scope of remaining reclamation work, changes in discount rates and fluctuations in projected mine life estimates. This increase is partially offset by an 18% decrease in gas sales driven by natural gas prices and production during 2019.

Depreciation and depletion was \$97.3 million, or 7.7% of total revenues, for the year ended December 31, 2019, compared to \$97.2 million, or 7.1% of total revenues for the year ended December 31, 2018. The year ended December 31, 2018, included \$4.0 million of accelerated depreciation on equipment beyond its economic repair. This was offset by an increase of \$4.1 million in capital expenditures combined with an increase in depletion due to an increase in metric tons produced.

Selling, general and administrative expenses were \$37.0 million, or 2.9% of total revenues, for the year ended December 31, 2019, and remained consistent compared to \$36.6 million, or 2.7% of total revenues for the year ended December 31, 2018.



Transaction and other costs were \$9.1 million, or 0.7% for the year ended December 31, 2018 which was comprised primarily of professional fees incurred in connection with the issuance of the New Notes and the Secondary Equity Offerings.

Interest expense, net was \$29.3 million, or 2.3% of total revenues, for the year ended December 31, 2019, compared to \$37.3 million, or 2.7% of total revenues, for the year ended December 31, 2018. The \$8.0 million decrease was primarily driven by the retirement of debt of \$131.6 million in the first quarter of 2019. Interest expense, net is comprised of interest on our senior secured notes and amortization of our ABL Facility and senior secured notes debt issuance costs offset partially by earned interest income.

For the year ended December 31, 2019, we recognized a loss on early extinguishment of debt of \$9.8 million upon the extinguishment of \$131.6 million of our Notes (as defined below). The loss on early extinguishment of debt represents a premium paid to retire the debt, accelerated amortization of debt discount, net, and fees incurred in connection with the transactions.

Other income was \$22.8 million, or 1.8% of total revenues, for the year ended December 31, 2019. In 2019, we received \$22.8 million in settlement proceeds for the Shared Services Claim and Hybrid Debt Claim which is reflected as other income in the Statements of Operations.

For the year ended December 31, 2019, we recognized income tax expense of \$65.4 million or an effective tax rate of 17.8% which was principally offset by the utilization of our NOLs for cash tax purposes. In the fourth quarter of 2019, an adjustment of \$6.7 million was recorded to recognize additional alternative minimum tax credits, general business credits and net operating losses available to the Company in connection with a settlement agreement between Walter Energy and the Internal Revenue Service.

At December 31, 2019, we had federal and state NOLs of approximately \$785.6 million and \$860.3 million, respectively. Accordingly, we expect to continue to utilize our NOLs and we believe we will not pay any cash federal income taxes for the next six to eight years based on our long-term forecast of met coal prices, sales volumes and performance. Our U.S. federal pre-tax net operating loss carryforwards do not begin to expire until 2034. For the year ended December 31, 2018 we recognized an income tax benefit of \$225.8 million or an effective tax rate of (47.9)%.

During the fourth quarter of 2018, we concluded that our deferred income tax assets are more likely than not to be realized. In making such determination, we considered all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income and our continued strong financial performance which contributed to a cumulative three-year income position. Accordingly, at December 31, 2018, we released all of our valuation allowance against our deferred income tax assets. The release of the valuation allowance primarily resulted in a net income tax benefit of \$225.8 million that was recorded in income tax (expense) benefit in our Statements of Operations.

On January 14, 2019, the IRS issued a statement that AMT refunds for taxable years beginning after December 31, 2017 will not be subject to sequestration which reversed an earlier IRS announcement that refundable AMT credits would be subject to sequestration. As a result, we completed our accounting for the income tax effects of the Tax Cuts and Jobs Act and recorded a measurement period adjustment recognizing an income tax receivable and related income tax benefit of \$2.8 million. As of December 31, 2019, we had a current income tax receivable of \$12.9 million and a non-current income tax receivable of \$11.3 million. During the third quarter of 2020, the Company received these proceeds.

## **Liquidity and Capital Resources**

### ***Overview***

Our sources of cash have been coal and natural gas sales to customers, proceeds received from the Notes (as defined below) and access to our ABL Facility. Historically, our primary uses of cash have been for funding the operations of our coal and natural gas production operations, our capital expenditures, our reclamation obligations, payment of principal and interest on our Notes, professional fees and other non-recurring transaction expenses. In addition, we used available cash on hand to repurchase shares of common stock and to pay our quarterly and special dividends, each of which reduces or reduced cash and cash equivalents.

Going forward, we will use cash to fund debt service payments on our Notes, the ABL Facility and our other indebtedness, to fund operating activities, working capital, capital expenditures, and strategic investments, and, if declared, to pay our quarterly and/or special dividends. Our ability to fund our capital needs going forward will depend on our ongoing ability to generate cash from operations and borrowing availability under the ABL Facility, and, in the case of any future

strategic investments, capital expenditures, or special dividends financed partially or wholly with debt financing, our ability to access the capital markets to raise additional capital.

Our ability to generate positive cash flow from operations in the future will be, at least in part, dependent on continued stable global economic conditions. In March 2020, the WHO declared the outbreak of COVID-19 a global pandemic. There is significant uncertainty as to the effects of this pandemic on the global economy, which in turn may, among other things, impact our ability to generate positive cash flows from operations, fund capital expenditure needs and successfully execute and fund key initiatives, such as the development of Blue Creek. As events relating to COVID-19 continue to develop globally and impact the capital markets, our liquidity could also be adversely impacted due to possible deterioration in our customers' financial condition and their ability to timely pay outstanding receivables owed to us.

Our available liquidity as of December 31, 2020 was \$243.5 million, consisting of \$211.9 million of cash and cash equivalents and \$31.6 million of availability under our ABL Facility. As of December 31, 2020, we had an aggregate principal amount of \$40.0 million drawn under the ABL Facility and issued and outstanding letters of credit with a face amount equal to \$9.4 million. On March 24, 2020, we borrowed \$70.0 million in a partial draw of the ABL Facility (the "ABL Draw") as a precautionary measure in order to increase our cash position and preserve financial flexibility in light of the current uncertainty resulting from the COVID-19 outbreak. In June 2020, we reduced the outstanding principal amount of the ABL Draw by \$30.0 million.

We believe that our future cash flows from operations, together with cash on our balance sheet and proceeds from the ABL Draw, will provide adequate resources to fund our debt service payments and planned operating and capital expenditure needs for at least the next twelve months. However, as the impact of the COVID-19 pandemic on the economy and our operations evolves, we will continue to assess our liquidity needs. A continued worldwide disruption could materially affect our future access to our sources of liquidity, particularly our cash flows from operations, financial condition, capitalization and capital investments. In the event of a sustained market deterioration, we may need additional liquidity, which would require us to evaluate available alternatives and take appropriate actions.

If our cash flows from operations are less than we require, we may need to incur additional debt or issue additional equity. From time to time we may need to access the long-term and short-term capital markets to obtain financing. Our access to, and the availability of, financing on acceptable terms and conditions in the future will be affected by many factors, including: (i) our credit ratings, (ii) the liquidity of the overall capital markets, (iii) the current state of the global economy and (iv) restrictions in our ABL Facility, the Indenture (as defined below), and any other existing or future debt agreements. There can be no assurance that we will have or continue to have access to the capital markets on terms acceptable to us or at all.

### ***Statements of Cash Flows***

Cash balances were \$211.9 million, \$193.4 million and \$205.6 million at December 31, 2020, December 31, 2019, and December 31, 2018, respectively.

The following table sets forth, a summary of the net cash provided by (used in) operating, investing and financing activities for the period (in thousands):

	<b>For the years ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Net cash provided by operating activities	\$ 112,626	\$ 532,814	\$ 559,396
Net cash used in investing activities	(108,189)	(134,213)	(107,629)
Net cash provided by (used in) financing activities	14,096	(411,623)	(281,626)
Net increase (decrease) in cash and cash equivalents and restricted cash	<u>\$ 18,533</u>	<u>\$ (13,022)</u>	<u>\$ 170,141</u>

### ***Operating Activities***

Net cash flows from operating activities consist of net (loss) income adjusted for noncash items, such as depreciation and depletion of property, plant and equipment and mineral interests, deferred income tax expense (benefit), stock-based compensation, amortization of debt issuance costs and debt discount, net, accretion expense and valuation adjustment associated with our asset retirement obligations, loss on early extinguishment of debt and changes in net working capital. The

timing between the conversion of our billed and unbilled receivables into cash from our customers and disbursements to our vendors is the primary driver of changes in our working capital.

Net cash provided by operating activities was \$112.6 million for the year ended December 31, 2020, and was primarily attributed to a net loss of \$35.8 million adjusted for depreciation and depletion expense of \$118.1 million, an increase in other operating activities of \$19.6 million, stock-based compensation expense of \$7.6 million, accretion expense of asset retirement obligations of \$3.0 million, amortization of debt issuance costs and debt discount of \$1.5 million and a decrease in net working capital of \$19.0 million, partially offset by a deferred income tax benefit of \$20.1 million and a change in the asset retirement obligation due to a change in estimate of \$0.4 million. The decrease in our working capital was primarily attributable to a decrease in income tax receivable and trade accounts receivable combined with an increase in accounts payable offset partially by an increase in inventories combined with a decrease in accrued expenses. The decrease in income tax receivable is due to the alternative minimum tax ("AMT") credit refund of \$24.3 million received during the third quarter of 2020. The decrease in trade accounts receivable and increase in inventories is due to a 0.5 million metric ton decrease in met coal sales volume. The increase in our accounts payable is primarily driven by the timing of payments.

Net cash provided by operating activities was \$532.8 million for the year ended December 31, 2019, and was primarily attributed to net income of \$301.7 million adjusted for depreciation and depletion expense of \$97.3 million, deferred income tax expense of \$68.5 million, an increase in other operating activities of \$26.1 million, loss on early extinguishment of debt of \$9.8 million, stock-based compensation expense of \$5.8 million, accretion expense of asset retirement obligations of \$3.2 million, amortization of debt issuance costs and debt discount of \$1.4 million, and a decrease in net working capital of \$30.2 million, partially offset by a change in asset retirement obligation due to a change in estimate of \$11.1 million. The decrease in our working capital was primarily attributable to a decrease in trade accounts receivable combined with a decrease in income tax receivable and an increase in inventories offset by accrued expenses and accounts payable due to decreased fourth quarter production and sales volume.

Net cash provided by operating activities was \$559.4 million for the year ended December 31, 2018, and was primarily attributed to net income of \$696.8 million adjusted for depreciation and depletion expense of \$97.2 million, stock based compensation expense of \$6.4 million, amortization of debt issuance costs and debt discount of \$2.5 million, accretion of asset retirement obligations of \$4.6 million, offset partially by an increase in net working capital of \$10.7 million, a change in asset retirement obligation due to a change in estimate of \$24.6 million and the release of our valuation allowance against deferred income tax assets of \$223.0 million. The increase in our working capital was primarily attributable to an increase in trade accounts receivable due to higher sales volumes combined with an increase in income tax receivable offset by an increase in accounts payable and accrued expenses due to increased production and sales volume.

### ***Investing Activities***

Net cash used in investing activities was \$108.2 million for the year ended December 31, 2020, primarily comprised of \$87.5 million of purchases of property, plant and equipment and \$27.1 million of capitalized mine development costs associated with our Mine No. 4 development. We spent approximately \$60.0 million in sustaining capital and spent an additional \$28.0 million in other discretionary capital, which included primarily the service shaft construction and bathhouse at Mine No. 4. The cash capital expenditures exclude non-cash capital accruals and leases of approximately \$44.8 million. Net cash used in investing activities also includes \$8.5 million of purchases of short-term investments offset partially by \$14.7 million of sales of short-term investments and \$0.2 million of proceeds from sale of property, plant and equipment.

Net cash used in investing activities was \$134.2 million for the year ended December 31, 2019, primarily comprised of \$107.3 million of purchases of property, plant and equipment and \$23.4 million of capitalized mine development costs associated with our Mine 4 development. We spent approximately \$89.0 million in sustaining capital and spent an additional \$18.0 million in other discretionary capital, which included primarily the shaft construction at Mine No. 4. The cash capital expenditures exclude non-cash capital accruals and leases of approximately \$45.5 million. Net cash used in investing activities also includes \$24.2 million of purchases of short-term investments offset partially by \$17.5 million of sales of short-term investments and \$3.1 million of proceeds from sale of property, plant and equipment.

Net cash used in investing activities was \$107.6 million for the year ended December 31, 2018, primarily comprised of \$101.6 million of purchases of property, plant and equipment and \$8.9 million of capitalized mine development costs associated with our Mine 4 development. We spent approximately \$69.0 million in sustaining capital and spent an additional \$33.0 million in other discretionary capital, which included the construction of a new portal at Mine No. 7. The cash capital expenditures exclude non-cash capital accruals and leases of approximately \$6.3 million.

## ***Financing Activities***

Net cash provided by financing activities was \$14.1 million for the year ended December 31, 2020, primarily due to the proceeds received from the ABL Draw of \$70.0 million offset by the subsequent partial repayment of the ABL Draw in an amount equal to \$30.0 million, principal repayments of financing lease obligations of \$14.2 million and the payment of dividends of \$10.4 million.

Net cash used in financing activities was \$411.6 million for the year ended December 31, 2019, primarily due to the payment of regular quarterly dividends and the April 2019 Special Dividend totaling \$240.4 million in the aggregate, retirements of debt of \$140.3 million, repayments of financing lease obligations of \$17.3 million, and common shares repurchased of \$12.5 million.

Net cash used in financing activities was \$281.6 million for the year ended December 31, 2018, primarily due to the payment of dividends totaling \$360.6 million in the aggregate, common shares repurchased of \$38.0 million, payment of debt issuance costs of \$3.7 million, retirements of debt of \$3.1 million, offset partially by the net proceeds received from the issuance of the New Notes of \$128.8 million.

## **Capital Allocation**

On May 17, 2017, the Board adopted the Capital Allocation Policy of paying a quarterly cash dividend of \$0.05 per share. The Capital Allocation Policy states the following: In addition to the regular quarterly dividend and to the extent that the Company generates excess cash that is beyond the then current requirements of the business, the Board may consider returning all or a portion of such excess cash to stockholders through a special dividend or implementation of a stock repurchase program. Any future dividends or stock repurchases will be at the discretion of the Board and subject to consideration of a number of factors, including business and market conditions, future financial performance and other strategic investment opportunities. The Company will also seek to optimize its capital structure to improve returns to stockholders while allowing flexibility for the Company to pursue very selective strategic growth opportunities that can provide compelling stockholder returns.

The Company has paid a regular quarterly cash dividend of \$0.05 per share every quarter since the Board adopted the Dividend Policy. As of December 31, 2020, the Company has paid \$39.5 million of regular quarterly cash dividends under the Dividend Policy.

As the Company continues to monitor its liquidity in light of the COVID-19 pandemic, the Company may decide to suspend its Dividend Policy in the future if the Board deems it to be necessary or appropriate.

## **April 2018 Special Dividend**

On April 3, 2018, the Board declared the April Special Dividend of approximately \$350.0 million, which was funded with the net proceeds from the offering of the New Notes due 2024, together with cash on hand of approximately \$225.0 million, and was paid on April 20, 2018 to stockholders of record as of the close of business on April 13, 2018.

## **April 2019 Special Dividend**

On April 23, 2019, the Board declared a special cash dividend of approximately \$230.0 million which was paid with cash on hand and was paid on May 14, 2019 to stockholders of record as of the close of business on May 6, 2019.

## **Stock Repurchase Program**

On March 26, 2019, the Board approved the Company's second stock repurchase program (the "New Stock Repurchase Program") that authorizes repurchases of up to an aggregate of \$70.0 million of the Company's outstanding common stock. The Company fully exhausted its previous stock repurchase program (the "First Stock Repurchase Program") of \$40.0 million of its outstanding common stock. The New Stock Repurchase Program does not require the Company to repurchase a specific number of shares or have an expiration date. The New Stock Repurchase Program may be suspended or discontinued by the Board at any time without prior notice.

Under the New Stock Repurchase Program, we may repurchase shares of our common stock from time to time, in amounts, at prices and at such times as we deem appropriate, subject to market and industry conditions, share price, regulatory requirements and other considerations as determined from time to time by us. Our repurchases may be executed using open

market purchases or privately negotiated transactions in accordance with applicable securities laws and regulations, including Rule 10b-18 of the Exchange Act and repurchases may be executed pursuant to Rule 10b5-1 under the Exchange Act. Repurchases will be subject to limitations in the ABL Facility and the Indenture. We intend to fund repurchases under the New Stock Repurchase Program from cash on hand and/or other sources of liquidity.

As of December 31, 2020, we have repurchased 500,000 shares for approximately \$10.6 million, leaving approximately \$58.8 million of share repurchases authorized under the New Stock Repurchase Program.

In light of the uncertainties resulting from COVID-19 and as a precautionary measure to preserve liquidity, the Company has temporarily suspended its New Stock Repurchase Program. The Company will continue to monitor its liquidity in light of the COVID-19 pandemic and will consider when to reinstate the program.

### ***ABL Facility***

On April 1, 2016, we entered into the ABL Facility with certain lenders and Citibank, N.A. (together with its affiliates, "Citibank"), as administrative agent and collateral agent, with an aggregate lender commitment of up to \$50.0 million, at any time outstanding, subject to borrowing base availability.

On October 15, 2018, we entered into an Amended and Restated Asset-Based Revolving Credit Agreement, by and among us and certain of our subsidiaries, as borrowers, the guarantors party thereto, the lenders from time to time party thereto and Citibank, N.A. as administrative agent (in such capacity, the "Agent"), which amended and restated in its entirety the existing ABL Facility and, among other things (i) increased the aggregate commitments available to be borrowed under the ABL Facility to \$125.0 million, (ii) extended the maturity date of the ABL Facility to October 15, 2023; (iii) decreased the applicable interest rate margins with respect to the loans and the applicable fees in connection with the issuance of letters of credit; and (iv) amended certain covenants and other terms and provisions.

On December 19, 2019, we entered into an Amendment No. 2 to the Amended and Restated Credit Agreement (the "Second Amendment"), which, among other things amended the definitions of Fixed Charges and Fixed Charge Coverage Ratio in the Amended and Restated Credit Agreement to generally conform to the corresponding definitions in the Indenture, solely for purposes of incurring unsecured debt based on the Fixed Charge Coverage Ratio and added customary language in connection with the Qualified Financial Contract Stay Rules.

On July 20, 2020, we entered into an Amendment No. 3 to the Amended and Restated Credit Agreement (the "Third Amendment"), which among other things (i) clarified certain definitions related to the calculation of the borrowing base and (ii) decreased the aggregate commitments available to be borrowed under the ABL Facility to \$120.0 million on February 28, 2021.

Under the ABL Facility, up to \$10.0 million of the commitments may be used to incur swingline loans from Citibank and up to \$50.0 million of the commitments may be used to issue letters of credit. The ABL Facility will mature on October 15, 2023. As of December 31, 2020, the Company had \$40.0 million outstanding under the ABL Facility and there were \$9.4 million of letters of credit issued and outstanding under the ABL Facility. At December 31, 2020, we had \$31.6 million of availability under the ABL Facility. We intend to retain these funds in cash to preserve liquidity amid the growing uncertainty surrounding the COVID-19 outbreak. The ABL Draw, which is a proactive measure similar to actions taken by other public companies, is one of the Company's precautionary measures taken to reduce risk during these unprecedented times.

Revolving loan (and letter of credit) availability under the ABL Facility is subject to a borrowing base, which at any time is equal to the sum of certain eligible billed and unbilled accounts, certain eligible inventory, certain eligible supplies inventory and qualified cash, in each case, subject to specified advance rates. The borrowing base availability is subject to certain reserves, which may be established by the agent in its reasonable credit discretion. The reserves may include rent reserves, lower of cost or market reserve, port charges reserves and any other reserves that the agent determines in its reasonable credit judgment to the extent such reserves relate to conditions that could reasonably be expected to have an adverse effect on the value of the collateral included in the borrowing base.

Subject to permitted exceptions, the obligations of the borrowers under the ABL Facility are guaranteed by each of our domestic subsidiaries and secured by (i) first-priority security interests in the ABL Priority Collateral (as defined in the indenture governing the Notes), which includes, among other things, certain accounts receivables, inventory and cash of ours and the guarantors, and (ii) second-priority security interests in the Notes Priority Collateral (as defined in the indenture governing the Notes), which includes, among other things, material mining properties, shares of capital stock of the guarantors, intellectual property, as extracted collateral (to the extent not constituting inventory), and certain fixed assets of ours and the guarantors.

Borrowings under the ABL Facility bear interest at a rate equal to LIBOR or an alternate base rate plus an applicable margin, which is determined based on the average availability of the commitments under the ABL Facility, ranging currently from 150 bps to 200 bps or 50 bps to 100 bps, respectively. In addition to paying interest on the outstanding borrowings under the ABL Facility, we are required to pay a fee in respect of unutilized commitments, which is based on the availability of the commitments under the ABL Facility, ranging from 25 bps to 37.5 bps. We are also required to pay a fee on amounts available to be drawn under outstanding letters of credit under the ABL Facility at a rate not in excess of 200 bps, and certain administrative fees.

We are able to voluntarily repay outstanding loans and reduce unused commitments, in each case, in whole or in part, at any time without premium or penalty. We are required to repay outstanding loans and cash collateralize letters of credit anytime the outstanding loans and letters of credit exceed the maximum availability then in effect. We are also required to use net proceeds from certain significant asset sales to repay outstanding loans, but may re-borrow following such prepayments if the conditions to borrowings are met.

The ABL Facility contains customary covenants for asset-based credit agreements of this type, including among other things: (i) requirements to deliver financial statements, other reports and notices; (ii) restrictions on the existence or incurrence of certain indebtedness; (iii) restrictions on the existence or incurrence of certain liens; (iv) restrictions on making certain restricted payments; (v) restrictions on making certain investments; (vi) restrictions on certain mergers, consolidations and asset dispositions; (vii) restrictions on certain transactions with affiliates; and (viii) restrictions on modifications to certain indebtedness. Additionally, the ABL Facility contains a springing fixed charge coverage ratio of not less than 1.00 to 1.00, which ratio is tested if availability under the ABL Facility is less than a certain amount. As of December 31, 2020, we were not subject to this covenant. Subject to customary grace periods and notice requirements, the ABL Facility also contains customary events of default.

We were in compliance with all applicable covenants under the ABL Facility as of December 31, 2020.

### ***Senior Secured Notes***

On November 2, 2017, we consummated a private offering (the "Offering") of \$350.0 million aggregate principal amount of 8.00% Senior Secured Notes due 2024 to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), and to certain non-U.S. persons in transactions outside the United States in accordance with Regulation S under the Securities Act. The Company used the net proceeds of approximately \$340.0 million from the Offering, together with cash on hand of approximately \$260.0 million, to pay a special cash dividend of approximately \$600.0 million, or \$11.21 per share, to all of its stockholders on a pro rata basis.

On March 1, 2018, we issued \$125.0 million in aggregate principal amount of its 8.00% Senior Secured Notes due 2024 (the "New Notes") to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), and to certain non-U.S. persons in transactions outside the United States in accordance with Regulation S under the Securities Act ("Regulation S"). The New Notes were issued at 103.00% of the aggregate principal amount thereof, plus accrued interest from November 2, 2017. The New Notes were issued as "Additional Notes" under the indenture dated as of November 2, 2017 (the "Original Indenture") among the Company, the subsidiary guarantors party thereto and Wilmington Trust, National Association, as trustee (the "Trustee") and priority lien collateral trustee (the "Priority Lien Collateral Trustee"), as supplemented by the First Supplemental Indenture, dated as of March 1, 2018 (the "First Supplemental Indenture" and, the Original Indenture as supplemented thereby, the "Indenture"). The New Notes have not been and will not be registered under the Securities Act, and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act. The Company used the net proceeds of the offering of the New Notes, together with cash on hand of \$225.0 million, to pay a special dividend of approximately \$350.0 million, or \$6.53 per share, to all of its stockholders on a pro rata basis on April 20, 2018.

The Notes will mature on November 1, 2024 and interest is payable on May 1 and November 1 of each year, commencing May 1, 2018.

The Notes are redeemable at our option, in whole or in part, from time to time, on or after November 1, 2020, at redemption prices specified in the indenture, plus accrued and unpaid interest, if any, to, but excluding the redemption date. We are also required to make offers to purchase the Notes (i) at a purchase price of 101.00% of the principal amount thereof in the event we experience specific kinds of change of control triggering events, (ii) at a purchase price of 103.00% of the principal amount thereof prior to making certain restricted payments, and (iii) at a purchase price of 100.00% of the principal amount thereof in the event we make certain asset sales or dispositions and do not reinvest the net proceeds therefrom or use such net

proceeds to repay certain indebtedness, in each case, plus accrued and unpaid interest, if any, to, but excluding the date of purchase.

### **Offer to Purchase the Notes**

On February 21, 2019, the Company commenced an offer to purchase (the “Restricted Payment Offer”), in cash, up to \$150,000,000 principal amount of its outstanding Notes, at a repurchase price of 103% of the aggregate principal amount of such Notes, plus accrued and unpaid interest with respect to such Notes to, but not including, the date of repurchase (the “Restricted Payment Repurchase Price”). Concurrently with, but separate from, the Restricted Payment Offer, the Company commenced a cash tender offer (the “Tender Offer” and, together with the Restricted Payment Offer, the “Offers”) to purchase up to \$150,000,000 principal amount of the Notes at a repurchase price of 104.25% of the aggregate principal amount of such Notes, plus accrued and unpaid interest to, but not including, the date of repurchase (the “TO Repurchase Price”). The Offers expired on March 22, 2019 (the “Expiration Date”).

#### ***Restricted Payment Offer***

As of the Expiration Date, \$1,900,000 aggregate principal amount of the Notes were validly tendered and not validly withdrawn pursuant to the Restricted Payment Offer. Pursuant to the terms of the Restricted Payment Offer:

(1) an automatic pro ration factor of 31.5789% was applied to the \$1,900,000 aggregate principal amount of the Notes that were validly tendered and not validly withdrawn in the Restricted Payment Offer (rounded down to avoid the purchase of Notes in a principal amount other than in integrals of \$1,000), which resulted in \$599,000 aggregate principal amount of the Notes (the “RP Pro-Rated Tendered Notes”);

(2) the Company accepted all \$599,000 aggregate principal amount of the RP Pro-Rated Tendered Notes for payment of the Restricted Payment Repurchase Price in cash; and

(3) the remaining balance of \$1,301,000 aggregate principal amount of the Notes tendered that were not RP Pro-Rated Tendered Notes were not accepted for payment and were returned to the tendering holder of the Notes.

The Company consummated the Restricted Payment Offer on March 25, 2019.

Accordingly, pursuant to the terms of the Indenture, the Company was permitted to make one or more restricted payments in the form of special dividends to holders of the Company’s common stock and/or repurchases of the Company’s common stock in the aggregate amount of up to \$299,401,000 (the “RP Basket”) without having to make another offer to repurchase Notes. The Company used a portion of the RP Basket to pay the April 2019 Special Dividend (as defined below) and intends to use the remainder of the RP Basket to make repurchases under the New Stock Repurchase Program (as defined below).

#### ***Tender Offer***

As of the Expiration Date, \$415,099,000 aggregate principal amount of the Notes were validly tendered and not validly withdrawn pursuant to the Tender Offer. Pursuant to the terms of the Tender Offer:

(1) an automatic pro ration factor of 31.5789% was applied to the \$415,099,000 aggregate principal amount of the Notes that were validly tendered and not validly withdrawn in the Tender Offer (rounded down to avoid the purchase of Notes in a principal amount other than in integrals of \$1,000), which resulted in \$130,966,000 aggregate principal amount of the Notes (the “TO Pro-Rated Tendered Notes”);

(2) the Company accepted all \$130,966,000 aggregate principal amount of the TO Pro-Rated Tendered Notes for payment of the TO Repurchase Price in cash; and

(3) the remaining balance of \$284,133,000 aggregate principal amount of the Notes tendered that were not TO Pro-Rated Tendered Notes were not accepted for payment and were returned to the tendering holder of the Notes.

The Company consummated the Tender Offer on March 26, 2019.

In connection with the payments for the RP Pro-Rated Tendered Notes and the TO Pro-Rated Tendered Notes, the Company recognized a loss on early extinguishment of debt of \$9.8 million during the year ended December 31, 2019.

### ***Short-Term Investments***

During the year ended December 31, 2020, we had \$17.0 million of surety bonds with \$8.5 million of collateral recognized as short term investments. These investments were posted as collateral for the self-insured black lung related claims asserted by or on behalf of former employees of Walter Energy and its subsidiaries, which were assumed in the acquisition of certain assets of Walter Energy and relate to periods prior to March 31, 2016.

### ***Capital Expenditures***

Our mining operations require investments to maintain, expand, upgrade or enhance our operations and to comply with environmental regulations. Maintaining and expanding mines and related infrastructure is capital intensive. Specifically, the exploration, permitting and development of met coal reserves, mining costs, the maintenance of machinery and equipment and compliance with applicable laws and regulations require ongoing capital expenditures. While a significant amount of the capital expenditures required at our mines has been spent, we must continue to invest capital to maintain our production. In addition, any decisions to increase production at our mines and the development of the high-quality met coal recoverable reserves at Blue Creek could also affect our capital needs or cause future capital expenditures to be higher than in the past and/or higher than our estimates.

To fund our capital expenditures, we may be required to use cash from our operations, incur debt or sell equity securities. Our ability to obtain bank financing or our ability to access the capital markets for future equity or debt offerings may be limited by our financial condition at the time of any such financing or offering and the covenants in our current or future debt agreements, as well as by general economic conditions, contingencies and uncertainties, including as a result of the COVID-19 pandemic that are beyond our control.

Our capital expenditures were \$87.5 million and \$107.3 million for the year ended December 31, 2020 and December 31, 2019, respectively. This represents the continuation of the capital investment program that we implemented in 2017 to upgrade all key production equipment to further improve efficiency and reliability of our mining operations. We spent approximately \$60.0 million in sustaining capital and an additional \$28.0 million in other discretionary capital, which included primarily the service shaft construction and bathhouse at Mine No. 4. The capital expenditures exclude non-cash capital accruals and leases of approximately \$44.8 million. Our deferred mine development costs were \$27.1 million and \$23.4 million for the years ended December 31, 2020 and December 31, 2019, respectively, and relate to Mine No. 4. We evaluate our spending on an ongoing basis in connection with our mining plans and the prices of met coal taking into consideration the funding available to maintain our operations at optimal production levels.

### ***Rights Agreement***

On February 14, 2020, we adopted the Rights Agreement in an effort to prevent the imposition of significant limitations under Section 382 of the Code on our ability to utilize our current NOLs to reduce our future tax liabilities.

The Rights Agreement is intended to supplement the 382 Transfer Restrictions and is designed to serve the interests of all stockholders by preserving the availability of our NOLs and is similar to plans adopted by other companies with significant NOLs.

Pursuant to the Rights Agreement, one preferred stock purchase right (a "Right" or the "Rights") will be distributed to stockholders of the Company for each share of common stock of the Company outstanding as of the close of business on February 28, 2020. Initially, these Rights will not be exercisable and will trade with the shares of common stock. If the Rights become exercisable, each Right will initially entitle stockholders to buy one one-thousandth of a share of a newly created series of preferred stock designated as "Series A Junior Participating Preferred Stock" at an exercise price of \$31.00 per Right. While the Rights Agreement is in effect, any person or group that acquires beneficial ownership of 4.99% or more of the common stock or any existing stockholder who currently owns 5.00% or more of the common stock that acquires any additional shares of common stock (such person, group or existing stockholder, an "Acquiring Person") without approval from the Board would be subject to significant dilution in their ownership interest in the Company. In such an event, each Right will entitle its holder to buy, at the exercise price, common stock having a market value of two times the then current exercise price of the Right and the Rights held by such Acquiring Person will become void. The Rights Agreement also gives discretion to the Board to determine that someone is an Acquiring Person even if they do not own 4.99% or more of the Common Stock but do own 4.99% or more in value of the outstanding stock, as determined pursuant to Section 382 of the Code and the regulations promulgated thereunder. In addition, the Board has established procedures to consider requests to exempt certain acquisitions of the Company's securities from the Rights Agreement if the Board determines that doing so would not limit or impair the



availability of the NOLs or is otherwise in the best interests of the Company. The Board may redeem the Rights for \$0.01 per Right at any time before any person or group triggers the Rights Agreement. The distribution of the Rights is not a taxable event for stockholders of the Company and will not affect the Company's financial condition or results of operations (including earnings per share).

The Rights will expire on the earliest of (i) the close of business on February 14, 2023, (ii) the close of business on the first anniversary of the date of entry into the Rights Agreement, if stockholder approval of the Rights Agreement has not been received by or on such date, (iii) the time at which the Rights are redeemed as provided in the Rights Agreement, (iv) the time at which the Rights are exchanged as provided in the Rights Agreement, (v) the time at which the Board determines that the NOLs are fully utilized or no longer available under Section 382 of the Code, (vi) the effective date of the repeal of Section 382 of the Code if the Board determines that the Rights Agreement is no longer necessary or desirable for the preservation of NOLs, or (vii) the closing of any merger or other acquisition transaction involving the Company pursuant to an agreement of the type described in the Rights Agreement. Additional details about the Rights Agreement is contained in the Company's Current Report on Form 8-K filed with the SEC on February 14, 2020.

### **Designation of Series A Junior Participating Preferred Stock**

In connection with the adoption of the Rights Agreement, the Board approved a certificate of designations of Series A Junior Participating Preferred Stock designating 140,000 shares of preferred stock, which was filed on February 14, 2020 with the Secretary of State of the State of Delaware and became effective on such date. Each one one-thousandth of a share of Series A Junior Participating Preferred Stock, if issued:

- will not be redeemable;
- will entitle the holder to quarterly dividend payments equal to the dividend paid on one share of common stock;
- will entitle the holder upon liquidation, dissolution or winding-up of the Company to receive the greater of (a) \$0.01 per one one-thousandth of a share of Series A Junior Participating Preferred Stock (plus any accrued but unpaid dividends) and (b) an amount equal to the payment made on one share of common stock;
- will have the same voting power as one share of common stock; and
- if shares of common stock are exchanged via merger, consolidation, or a similar transaction, will entitle the holder to a payment equal to the payment made on one share of Common Stock.

### **Blue Creek**

We believe that Blue Creek represents one of the few remaining untapped reserves of premium High Vol A met coal in the United States and that it has the potential to provide us with meaningful growth. We believe that the combination of a low production cost and the high quality of the High Vol A met coal mined from Blue Creek, assuming we achieve our expected price realizations, will generate some of the highest met coal margins in the U.S., generate strong investment returns for us and achieve a rapid payback of our investment across a range of met coal price environments.

According to our third party reserve report, Blue Creek contains approximately 103.0 million metric tons of recoverable reserves and we have the ability to acquire adjacent reserves that would increase total reserves to over 154 million metric tons. We expect that Blue Creek will have a mine life of approximately 50 years assuming a single longwall operation.

Our third-party reserve report also indicates that, once developed, Blue Creek will produce a premium High Vol A met coal that is characterized by low-sulfur and high CSR. High Vol A met coal has traditionally priced at a discount to the Australian Premium Low Vol and the U.S. Low Vol coals; however, in the last eighteen months, it has been priced at or slightly above these coals. Warrior expects High Vol A coals will continue to become increasingly scarce as a result of Central Appalachian producers mining thinner and deeper reserves, which we expect will continue to support prices. This trend creates an opportunity for us to take advantage of favorable pricing dynamics driven by the declining supply of premium High Vol A met coal.

If we are able to successfully develop Blue Creek, we expect that it will be a transformational investment for us. We expect that the new single longwall mine at Blue Creek will have the capacity to produce an average of 3.9 million metric tons

per annum of premium High Vol A met coal over the first ten years of production, thereby increasing our annual production capacity by 54%. This, in turn, would expand our product portfolio to our global customers by allowing us to offer three premium hard coking coals from a single port location. Given these factors, and assuming we achieve expected price realizations, we believe that we will achieve some of the highest premium met coal margins in the United States.

The COVID-19 pandemic has substantially affected national and international financial markets, which could affect our ability to obtain financing for Blue Creek. The extent to which COVID-19 will impact our business and our financial results will depend on future developments, which are highly uncertain and cannot be predicted. Such developments may include the geographic spread of the virus, the severity of the disease, the duration of the outbreak, the actions that may be taken by various governmental authorities in response to the outbreak and the impact on the U.S. or global economy. As a result of this uncertainty, the Company initially delayed spending the \$25.0 million that we budgeted for the development of the Blue Creek project until at least July 1, 2020 and has now further delayed the development of that project until at least summer 2021.

## Outlook

As a result of the COVID-19 pandemic and the unprecedented period of uncertainty, including the unknown duration and overall impact on our operations and the global economy, we withdrew our full-year 2020 guidance issued on February 19, 2020. Due to the ongoing uncertainty related to the COVID-19 pandemic, we will not provide full year 2021 guidance at this time. Although we are aggressively managing our response to the recent COVID-19 pandemic, its impact on our full-year fiscal 2021 results and beyond is uncertain. The Company is taking a more conservative approach to managing its cash flow given this uncertainty, and is carefully managing operating expenses, working capital, and capital expenditures during this period, as well as suspending our New Stock Repurchase Program. We have also implemented extensive preventative measures across all operations in order to safeguard the health of our employees. This includes among other things: eliminating business travel, staggering manbuses, cage and shift start times to allow for social distancing, enhanced disinfectant cleaning at all locations, maintaining antibacterial supplies at all locations, providing employees with mask, gloves and other gear, eliminating visitors or vendors on property without strict screening process and testing temperatures of all employees. We believe that the most significant elements of uncertainty are the intensity and duration of the impact on the global steel industry, primarily due to restrictions to contain the virus. However, we believe the execution of our strategy will continue to provide attractive opportunities for profitable growth in the long term following the recovery of the global economy from the effects of the COVID-19 pandemic.

## Contractual Obligations

The following is a summary of our significant contractual obligations at December 31, 2020.

	Payments due by Year				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
	(in thousands)				
Senior Secured Notes (principal and interest) <sup>(1)</sup>	\$ 451,045	27,475	54,950	368,620	—
Minimum throughput obligations <sup>(2)</sup>	\$ 426,999	95,874	150,267	153,133	27,725
Royalty obligations <sup>(3)</sup>	\$ 81,389	5,999	11,879	11,879	51,632
Black lung obligations <sup>(4)</sup>	\$ 82,143	2,367	5,123	4,845	69,808
Asset retirement obligations <sup>(4)</sup>	\$ 78,752	4,375	4,247	6,432	63,698
Financing lease obligations <sup>(5)</sup>	\$ 42,894	16,276	23,330	3,288	—
<b>Total contractual obligations</b>	<b>\$ 1,163,222</b>	<b>\$ 152,366</b>	<b>\$ 249,796</b>	<b>\$ 548,197</b>	<b>\$ 212,863</b>

- (1) Represents principal and interest payments on our Notes. See Note 13 to our consolidated financial statements.
- (2) Represents minimum throughput obligations with our rail and port providers.
- (3) We have obligations on various coal and land leases to prepay certain amounts, which are recoupable in future years when mining occurs.
- (4) Represents estimated costs for black lung and asset retirement obligations, which have been presented on an undiscounted basis.
- (5) Represents a financing lease obligation for the purchase of underground mining equipment. See Note 14 to our consolidated financial statements.

## **Off-Balance Sheet Arrangements**

In the ordinary course of our business, we are required to provide surety bonds and letters of credit to provide financial assurance for certain transactions and business activities. Federal and state laws require us to obtain surety bonds or other acceptable security to secure payment of certain long-term obligations including mine closure or reclamation costs and other miscellaneous obligations. As of December 31, 2020, we had outstanding surety bonds and letters of credit with parties for post-mining reclamation at all of our mining operations totaling \$40.8 million, \$17.0 million as collateral for self-insured black lung related claims and \$3.6 million for miscellaneous purposes.

## **Critical Accounting Policies and Estimates**

The financial statements are prepared in conformity with GAAP, which require the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses in the period presented. Management evaluates these estimates and assumptions on an ongoing basis, using historical experience, consultation with experts and other methods considered reasonable in the particular circumstances. Nevertheless, actual results may differ significantly from management's estimates.

We believe the following discussion addresses our most critical accounting estimates, which are those that are most important to the presentation of our financial condition and results of operations and require management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. These estimates are based upon management's historical experience and on various other assumptions that we believe reasonable under the circumstances. Changes in estimates used in these and other items could have a material impact on our financial statements. Our significant accounting policies are described in Note 2 to our financial statements included elsewhere in this Annual Report.

### ***Coal Reserves***

There are numerous uncertainties inherent in estimating quantities and values of economically recoverable coal reserves, including many factors that are beyond our control. As a result, estimates of economically recoverable coal reserves are by their nature uncertain. Information about our reserves consists of estimates based on engineering, economic and geological data assembled by our internal engineers and geologists or third-party consultants. A number of sources of information are used to determine accurate recoverable reserve estimates including:

- geological conditions;
- historical production from the area compared with production from other producing areas;
- the assumed effects of regulations and taxes by governmental agencies;
- previously completed geological and reserve studies;
- assumptions governing future prices; and
- future operating costs.

Some of the factors and assumptions, which will change from time to time, that impact economically recoverable reserve estimates include, among other factors:

- mining activities;
- new engineering and geological data;
- acquisition or divestiture of reserve holdings; and
- modification of mining plans or mining methods.

Each of these factors may vary considerably from the assumptions used in estimating reserves. For these reasons, estimates of economically recoverable quantities of coal attributable to a particular group of properties, and classifications of

these reserves based on risk of recovery and estimates of future net cash flows, may vary substantially. Actual production, revenues and expenditures with respect to reserves will likely vary from estimates and these variances may be material. Variances could affect our projected future revenues and expenditures, as well as the valuation of coal reserves and depletion rates. As of December 31, 2020, we had 210.4 million metric tons of proven and probable coal reserves.

### ***Asset Retirement Obligations***

Our asset retirement obligations primarily consist of spending estimates to reclaim surface lands and supporting infrastructure at both surface and underground mines in accordance with applicable reclamation laws in the United States as defined by each mining permit. Significant reclamation activities include reclaiming refuse piles and slurry ponds, reclaiming the pit and support acreage at surface mines, and sealing portals at underground mines. Asset retirement obligations are determined for each mine using various estimates and assumptions, including estimates of disturbed acreage as determined from engineering data, estimates of future costs to reclaim the disturbed acreage and the timing of related cash flows, discounted using a credit-adjusted, risk-free rate. Our asset retirement obligations also include estimates to reclaim gas wells in accordance with the Oil and Gas Board of Alabama. On at least an annual basis, we review our entire asset retirement obligation liability and make necessary adjustments for permit changes, the anticipated timing of mine closures, and revisions to cost estimates and productivity assumptions to reflect current experience. As changes in estimates occur, the carrying amount of the obligation and asset are revised to reflect the new estimate after applying the appropriate credit-adjusted, risk-free discount rate. For sites where there is no asset, expense or income is recognized for changes in estimates. If our assumptions differ from actual experience, or if changes in the regulatory environment occur, our actual cash expenditures and costs that we incur could be materially different than currently estimated. At December 31, 2020, we had recorded asset retirement obligation liabilities of \$61.9 million, including \$4.4 million reported as current.

### ***Income Taxes***

As a result of the acquisition of certain assets of Walter Energy, we have significant federal and state NOLs of approximately \$920.7 million and \$995.8 million, respectively, as of December 31, 2020.

We believe the utilization of these NOLs, subject to certain limitations, will significantly reduce the amount of federal and state income taxes payable by us for the foreseeable future as compared to what we would have had to pay at the statutory rates without these NOL benefits. Under Section 382 of the Code, these NOLs could be subject to annual limitations, further limitations, or elimination, as described below, if we were to undergo a subsequent ownership change in the future. To the extent we have taxable income in the future and can utilize these NOL carryforwards, subject to certain limitations, to reduce taxable income, our cash taxes will be significantly reduced in those future years. Notwithstanding the above, even if all of our regular U.S. federal income tax liability for a given year is reduced to zero by virtue of utilizing our NOLs, we may still be subject to state, local or other non-federal income taxes. See “Part I, Item 1A. Risk Factors—Risks Related to Our Business—We may be unable to generate sufficient taxable income from future operations, or other circumstances could arise, which may limit or eliminate our ability to utilize our significant tax NOLs or maintain our deferred tax assets.”

On September 18, 2017, the IRS issued to us a private letter ruling, which favorably resolved certain questions about our ability to qualify for an exception to the annual limitations under Section 382 of the Code on the utilization of NOLs to reduce taxable income. Based on such private letter ruling, we believe that there is no limitation on the utilization of our NOLs to shield our income from federal taxation. The private letter ruling was issued based on, among other things, certain facts and assumptions, as well as certain representations, statements and undertakings provided to the IRS by us. If any of these facts, assumptions, representations, statements or undertakings are, or become, incorrect, inaccurate or incomplete, the private letter ruling may be invalid and the conclusions reached therein could be jeopardized. If we were to undergo a subsequent ownership change, our ability to utilize our NOLs and other tax attributes could be subject to severe limitations.

GAAP requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. Deferred tax assets are required to be reduced by a valuation allowance if it is “more likely than not” that some portion or the entire deferred tax asset will not be realized. In our evaluation of the need for a valuation allowance on our deferred tax assets, we consider, among other things, all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, the overall business environment, our historical financial results, our industry's historically cyclical financial results, our cumulative three-year income or loss position and potential current and future tax planning strategies.

At December 31, 2017, the Company had a valuation allowance established against its deferred income tax assets, which represented a full valuation allowance against its net deferred income tax assets. As of December 31, 2018, after considering all relevant factors, the Company concluded that its deferred income tax assets were more likely than not to be

realized and released its valuation allowance against its net deferred income tax assets resulting in a \$225.8 million income tax benefit.

As of December 31, 2020, the Company considered all positive and negative evidence and concluded that our deferred income tax assets remain more likely than not to be realized and a valuation allowance was not required. Certain factors, could change or circumstances could arise that could further limit or eliminate the amount of the available NOLs to the Company, such as an ownership change or an adjustment by a tax authority. Also, certain circumstances, such as the COVID-19 pandemic and the unknown duration and overall impact on our operations, including our failing to generate sufficient future taxable income from operations, could limit our ability to fully utilize our deferred tax assets before expiration.

***Recently Adopted Accounting Standards***

See Note 2 of our consolidated financial statements for disclosures related to new accounting pronouncements.

## **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

### *Commodity Price Risk*

We are exposed to commodity price risk on sales of coal. We sell most of our met coal under contracts primarily with pricing terms of three months and volume terms of one to three years. Sales commitments in the met coal market are typically not long-term in nature, and we are, therefore, subject to fluctuations in market pricing.

We have exposure to price risk for supplies that are used directly or indirectly in the normal course of production, such as diesel fuel, steel, explosives and other items. We manage our risk for these items through strategic sourcing contracts in normal quantities with our suppliers. We historically have not entered into any derivative commodity instruments to manage the exposure to changing price risk for supplies.

### *Credit Risk*

Financial instruments that potentially subject us to a concentration of credit risk consist principally of trade receivables. We provide our products to customers based on an evaluation of the financial condition of our customers. In some instances, we require letters of credit, cash collateral or prepayments from our customers on or before shipment to mitigate the risk of loss. Exposure to losses on receivables is principally dependent on each customer's financial condition. We monitor the exposure to credit losses and maintain allowances for anticipated losses. For the years ended December 31, 2020 and 2019 we did not have any allowances for credit losses associated with our trade accounts receivables.

### *Interest Rate Risk*

Our Notes have a fixed rate of interest of 8.00% per annum and are payable semi-annually in arrears on May 1 and November 1 of each year.

Our ABL Facility bears an interest rate equal to LIBOR plus an applicable margin, which is based on the average availability of the commitments under the ABL Facility, ranging currently from 150 to 200 basis points. Any debt that we incur under the ABL Facility will expose us to interest rate risk. If interest rates increase significantly in the future, our exposure to interest rate risk will increase. As of December 31, 2020, assuming we had \$125.0 million outstanding under our ABL Facility, a 100 basis point increase or decrease in interest rates would increase or decrease our annual interest expense under the ABL Facility by approximately \$1.3 million. Furthermore, such interest rates under our ABL Facility are based upon benchmarks that are subject to potential change or elimination, including as a result of the announcement from the United Kingdom Financial Conduct Authority ("FCA"), which regulates LIBOR, that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021.

### *Impact of Inflation*

While inflation may impact our revenues and cost of sales, we believe the effects of inflation, if any, on our results of operations and financial condition have not been significant. However, there can be no assurance that our results of operations and financial condition will not be materially impacted by inflation in the future.

Except for the change in our long-term debt from a fixed rate obligation to include a variable rate obligation discussed above and the broader negative effects of the COVID-19 pandemic on the global economy and major financial markets, there have been no other material changes to our exposure from market risks.

## **Item 8. Financial Statements and Supplementary Data**

The information required by this item appears beginning on page F-1 following the signature pages of this Annual Report.

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

### **Item 9A. Controls and Procedures**

#### **Disclosure Controls and Procedures**

As required by Rule 13a-15(b) under the Exchange Act, our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) under the Exchange Act) as of December 31, 2020. Based on the evaluation of our disclosure controls and procedures as of December 31, 2020, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2020, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (2) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls over financial reporting will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

#### **Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities and Exchange Act of 1934, as amended). Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2020. In making this assessment, our management used the criteria established in Internal Control - Integrated Framework (2013) issued by the COSO. Our management has concluded that, as of December 31, 2020, our internal control over financial reporting is effective based on this assessment and these criteria.

Our independent registered public accounting firm, Ernst & Young LLP, has audited the effectiveness of our internal control over financial reporting, as stated in their attestation report included in this Annual Report on Form 10-K.

#### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Item 9B. Other Information**

None.

## **Part III**

### **Item 10. Directors, Executive Officers and Corporate Governance**

Information regarding our Code of Business Conduct and Ethics and Corporate Governance Guidelines for our principal executive officer and principal financial and accounting officer are described in “Item 1. Business” in this Annual Report. Pursuant to paragraph 3 of General Instruction G to Form 10-K, we incorporate by reference into this Item 10 the information to be disclosed in our definitive proxy statement, which is to be filed pursuant to Regulation 14A with the SEC within 120 days after the close of the year ended December 31, 2020.

### **Item 11. Executive Compensation**

Pursuant to paragraph 3 of General Instruction G to Form 10-K, we incorporate by reference into this Item 11 the information to be disclosed in our definitive proxy statement, which is to be filed pursuant to Regulation 14A with the SEC within 120 days after the close of the year ended December 31, 2020.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The equity compensation plan information as required by Item 201(d) of Regulation S-K is included in Part II, Item 5 of this Annual Report. Pursuant to paragraph 3 of General Instruction G to Form 10-K, we incorporate by reference into this Item 12 all other information to be disclosed in our definitive proxy statement, which is to be filed pursuant to Regulation 14A with the SEC within 120 days after the close of the year ended December 31, 2020.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

Pursuant to paragraph 3 of General Instruction G to Form 10-K, we incorporate by reference into this Item 13 the information to be disclosed in our definitive proxy statement, which is to be filed pursuant to Regulation 14A with the SEC within 120 days after the close of the year ended December 31, 2020.

### **Item 14. Principal Accounting Fees and Services**

Pursuant to paragraph 3 of General Instruction G to Form 10-K, we incorporate by reference into this Item 14 the information to be disclosed in our definitive proxy statement, which is to be filed pursuant to Regulation 14A with the SEC within 120 days after the close of the year ended December 31, 2020.



## Part IV

### Item 15. Exhibits and Financial Statement Schedules

#### (a) (1) Financial Statements

Our consolidated financial statements are included in this Annual Report beginning on page F-1.

#### (a) (2) Financial Statement Schedules

All schedules have been omitted because they are either not applicable, not required or the information called for therein appears in the consolidated financial statements or notes thereto.

#### (a) (3) Exhibits

Exhibit Number	Description
<u>2.1#</u>	Amended and Restated Asset Purchase Agreement, dated as of March 31, 2016, by and among Warrior Met Coal, LLC and the other purchasers party thereto, as buyers, and Walter Energy, Inc. and certain subsidiaries of Walter Energy, Inc., as sellers (incorporated by reference to Exhibit 2.1 to the Registrant's Registration Statement on Form S-1 (File No. 333-216499) filed with the Commission on March 7, 2017).
<u>2.2</u>	Form of Certificate of Conversion of Warrior Met Coal, LLC (incorporated by reference to Exhibit 2.2 to the Registrant's Amendment No. 2 to the Registration Statement on Form S-1 (File No. 333-216499) filed with the Commission on April 3, 2017).
<u>3.1</u>	Certificate of Incorporation of Warrior Met Coal, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-8 (File No. 333-217389) filed with the Commission on April 19, 2017).
<u>3.2</u>	Bylaws of Warrior Met Coal, Inc. (incorporated by reference to Exhibit 3.2 to the Registrant's Registration Statement on Form S-8 (File No. 333-217389) filed with the Commission on April 19, 2017).
<u>3.3</u>	Certificate of Designations of Series A Junior Participating Preferred Stock of Warrior Met Coal, Inc., as filed with the Secretary of State of the State of Delaware on February 14, 2020 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 001-38061) filed with the Commission on February 14, 2020).
<u>4.1</u>	Indenture, dated as of November 2, 2017, by and among Warrior Met Coal, Inc., the Subsidiary Guarantors party thereto from time to time and Wilmington Trust, National Association, as trustee and as priority lien collateral trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K (File No. 001-38061) filed with the Commission on November 6, 2017).
<u>4.2</u>	First Supplemental Indenture, dated as of March 1, 2018, among Warrior Met Coal, Inc., the Subsidiary Guarantors party thereto and Wilmington Trust, National Association, as trustee and as priority lien collateral trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K (File No. 001-38061) filed with the Commission on March 6, 2018).
<u>4.3</u>	Second Supplemental Indenture, dated as of March 2, 2018, among Warrior Met Coal, Inc. and Wilmington Trust, National Association, as trustee and as priority lien collateral trustee (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File No. 001-38061) filed with the Commission on March 6, 2018).
<u>4.4</u>	Specimen Certificate for shares of common stock, par value \$0.01 per share, of the Company (incorporated by reference to Exhibit 4.1 to the Registrant's Amendment No. 2 to the Registration Statement on Form S-1 (File No. 333-216499) filed with the Commission on April 3, 2017).

- 4.5 Rights Agreement, dated as of February 14, 2020, between Warrior Met Coal, Inc. and Computershare Trust Company, N.A., as rights agent (including the form of Certificate of Designations of Series A Junior Participating Preferred Stock attached thereto as Exhibit A, the form of Right Certificate attached thereto as Exhibit B and the Summary of Rights to Purchase Preferred Shares attached thereto as Exhibit C (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K (File No. 001-38061) filed with the Commission on February 14, 2020)).
- 4.6 Description of Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934.
- 10.1# Amended and Restated Asset-Based Revolving Credit Agreement, dated as of October 15, 2018, among Warrior Met Coal, Inc. and certain of its subsidiaries, as borrowers, the guarantors party thereto, Citibank, N.A., as administrative agent and collateral agent, each lender and letter of credit issuer party thereto and Citigroup Global Markets Inc. and Credit Suisse Securities (USA) LLC as joint lead arrangers and joint book runners (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-38061) filed with the Commission on October 16, 2018).
- 10.2 Intercreditor Agreement, dated as of November 2, 2017, among Citibank, N.A., initial ABL agent, Wilmington Trust National Association, as trustee and initial term agent, and each additional term debt agent from time to time party thereto (incorporated by reference to Exhibit 10.6 to the Registrant's Annual Report on Form 10-K (File No. 001-38061) filed with the Commission on February 14, 2018).
- 10.3 Registration Rights Agreement, dated as of April 19, 2017, among Warrior Met Coal, Inc. and certain of its equity holders party thereto (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-38061) filed with the Commission on August 3, 2017).
- 10.4† Warrior Met Coal, Inc. 2017 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K (File No. 001-38061) filed with the Commission on April 19, 2017).
- 10.5† Warrior Met Coal, LLC 2016 Equity Incentive Plan (incorporated by reference to Exhibit 10.11 to the Registrant's Amendment No. 1 to the Registration Statement on Form S-1 (File No. 333-216499) filed with the Commission on March 27, 2017).
- 10.6† Form of Director and Officer Indemnification Agreement (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-38061) filed with the Commission on April 19, 2017).
- 10.7† Employment Agreement, dated March 31, 2016 by and between Warrior Met Coal, LLC and Walter J. Scheller, III (incorporated by reference to Exhibit 10.7 to the Registrant's Registration Statement on Form S-1 (File No. 333-216499) filed with the Commission on March 7, 2017).
- 10.8† Employment Agreement, dated March 31, 2016 by and between Warrior Met Coal, LLC and Jack K. Richardson (incorporated by reference to Exhibit 10.9 to the Registrant's Registration Statement on Form S-1 (File No. 333-216499) filed with the Commission on March 7, 2017).
- 10.9† Employment Agreement, dated January 1, 2017, by and between Warrior Met Coal, LLC and Dale W. Boyles (incorporated by reference to Exhibit 10.10 to the Registrant's Registration Statement on Form S-1 (File No. 333-216499) filed with the Commission on March 7, 2017).
- 10.10† Employment Agreement, dated March 31, 2016, by and between Warrior Met Coal, LLC and Kelli K. Gant (incorporated by reference to Exhibit 10.15 to the Registrant's Annual Report on Form 10-K (File No. 001-38061) filed with the Commission on February 14, 2018).
- 10.11† Employment Agreement, dated March 31, 2016, by and between Warrior Met Coal, LLC and Brian M. Chopin (incorporated by reference to Exhibit 10.11 to the Registrant's Annual Report on Form 10-K (File No. 001-38061) filed with the Commission on February 19, 2020.)
- 10.12† Employment Agreement, dated March, by and between Warrior Met Coal, Inc. and Charles Lussier (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-38061) filed with the Commission on April 29, 2020.)
- 10.13† Employment Agreement, dated June 5, 2019, by Warrior Met Coal, Inc. and Phillip C. Monroe (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-38061) filed with the Commission on June 6, 2019).
- 10.14† Form of Warrior Met Coal, Inc. 2017 Equity Incentive Plan Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-38061) filed with the Commission on June 5, 2017).

- 10.15† Restricted Unit Award Agreement, dated March 31, 2016, by and between Warrior Met Coal, LLC and Walter J. Scheller, III (incorporated by reference to Exhibit 10.13 to the Registrant's Amendment No. 3 to the Registration Statement on Form S-1 (File No. 333-216499) filed with the Commission April 10, 2017).
- 10.16† Restricted Unit Award Agreement, dated April 20, 2016, by and between Warrior Met Coal, LLC and Jack K. Richardson (incorporated by reference to Exhibit 10.15 to the Registrant's Amendment No. 3 to the Registration Statement on Form S-1 (File No. 333-216499) filed with the Commission on April 10, 2017).
- 10.17† Restricted Unit Award Agreement, dated January 1, 2017, by and between Warrior Met Coal, LLC and Dale W. Boyles (incorporated by reference to Exhibit 10.16 to the Registrant's Amendment No. 3 to the Registration Statement on Form S-1 (File No. 333-216499) filed with the Commission on April 10, 2017).
- 10.18† Restricted Unit Award Agreement, dated March 31, 2016, by and between Warrior Met Coal, LLC and Stephen D. Williams (incorporated by reference to Exhibit 10.17 to the Registrant's Amendment No. 3 to the Registration Statement on Form S-1 (File No. 333-216499) filed with the Commission on April 10, 2017).
- 10.19† Restricted Unit Award Agreement, dated February 24, 2017, by and between Warrior Met Coal, LLC and Stephen D. Williams (incorporated by reference to Exhibit 10.18 to the Registrant's Amendment No. 3 to the Registration Statement on Form S-1 (File No. 333-216499) filed with the Commission on April 10, 2017).
- 10.20† Phantom Unit Award Agreement, dated March 31, 2016, by and between Warrior Met Coal, LLC and Stephen D. Williams (incorporated by reference to Exhibit 10.19 to the Registrant's Amendment No. 3 to the Registration Statement on Form S-1 (File No. 333-216499) filed with the Commission on April 10, 2017).
- 10.21† Restricted Unit Award Agreement, dated April 19, 2017, by and between Warrior Met Coal, Inc. and Stephen D. Williams (incorporated by reference to Exhibit 10.23 to the Registrant's Annual Report on Form 10-K (File No. 001-38061) filed with the commission on February 21, 2019).
- 10.22† Form of Restricted Unit Award Agreement (for non-employee directors), dated April 27, 2017 (incorporated by reference to Exhibit 10.24 to the Registrant's Annual Report on Form 10-K (File No. 001-38061) filed with the commission on February 21, 2019).
- 10.23† Form of Restricted Unit Award Agreement (for non-employee directors) (incorporated by reference to Exhibit 10.25 to the Registrant's Annual Report on Form 10-K (File No. 001-38061) filed with the commission on February 21, 2019).
- 10.24† Form of Warrior Met Coal, Inc. 2017 Equity Incentive Plan Restricted Stock Unit Award Agreement (Time-Based Vesting Award) (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-38061) filed with the Commission on May 2, 2018).
- 10.25† Form of Warrior Met Coal, Inc. 2017 Equity Incentive Plan Restricted Stock Unit Award Agreement (Performance-Based Vesting Award) (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-38061) filed with the Commission on May 2, 2018).
- 10.26† Form of Warrior Met Coal, Inc. 2017 Equity Plan Restricted Stock Unit Award Agreement (Performance-Based Vesting Award - 2019 Retention Grant) (incorporated by reference to Exhibit 10.26 to the Registrant's Annual Report on Form 10-K (File No. 001-38061) filed with the commission on February 21, 2020).
- 10.27† Form of Amendment to Restricted Stock Unit Award Agreements (for executive officers), effective January 1, 2020 (incorporated by reference to Exhibit 10.27 to the Registrant's Annual Report on Form 10-K (File No. 001-38061) filed with the commission on February 21, 2020).
- 10.28† Form of Warrior Met Coal, Inc. 2017 Equity Plan Restricted Stock Unit Award Agreement (Time-Based Vesting Award - Revised) (incorporated by reference to Exhibit 10.26 to the Registrant's Annual Report on Form 10-K (File No. 001-38061) filed with the commission on February 21, 2020).
- 10.29† Form of Warrior Met Coal, Inc. 2017 Equity Plan Restricted Stock Unit Award Agreement (Performance-Based Vesting Award - Revised)(incorporated by reference to Exhibit 10.26 to the Registrant's Annual Report on Form 10-K (File No. 001-38061) filed with the commission on February 21, 2020).
- 21.1\* List of Subsidiaries of the Company.
- 23.1\* Consent of Ernst & Young LLP.
- 23.2\* Consent of Marshall Miller & Associates, Inc.
- 23.3\* Consent of Stantec Consulting Services, Inc.
- 23.4\* Consent of McGehee Engineering Corp.

- 31.1\* Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended.
- 31.2\* Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended.
- 32.1\*\* Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18. U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 95\* Mine Safety Disclosures Pursuant to Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K (17 CFR 299.104)
- 101INS\* XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
- 101.SCH\* Inline XBRL Taxonomy Extension Schema Document
- 101.CAL\* Inline XBRL Taxonomy Extension Calculation LinkBase Document
- 101.DEF\* Inline XBRL Taxonomy Extension Definition LinkBase Document
- 101.LAB\* Inline XBRL Taxonomy Extension Label LinkBase Document
- 101.PRE\* Inline XBRL Taxonomy Extension Presentation LinkBase Document
- 104\* Cover Page Interactive Data File (formatted Inline XBRL and included in the Interactive Data Files submitted under Exhibit 101).

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\* Filed herewith.

\*\* Furnished herewith.

† Management contract, compensatory plan or arrangement.

# The schedules to this agreement have been omitted for this filing pursuant to Item 601(b)(2) of Regulation S-K. The Company will furnish copies of such schedules to the SEC upon request.

#### **Item 16. Form 10-K Summary**

None.

## SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) 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.

### Warrior Met Coal, Inc.

By: /s/ Dale W. Boyles  
Dale W. Boyles  
Chief Financial Officer (on behalf of the registrant)

Date: February 24, 2021

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ Walter J. Scheller, III</u> Walter J. Scheller, III	Chief Executive Officer (Principal Executive Officer) and Director	February 24, 2021
<u>/s/ Dale W. Boyles</u> Dale W. Boyles	Chief Financial Officer (Principal Financial and Accounting Officer)	February 24, 2021
<u>/s/ Stephen D. Williams</u> Stephen D. Williams	Director	February 24, 2021
<u>/s/ Ana B. Amicarella</u> Ana B. Amicarella	Director	February 24, 2021
<u>/s/ J. Brett Harvey</u> J. Brett Harvey	Director	February 24, 2021
<u>/s/ Alan H. Schumacher</u> Alan H. Schumacher	Director	February 24, 2021
<u>/s/ Gareth Turner</u> Gareth Turner	Director	February 24, 2021

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## Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Warrior Met Coal, Inc.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Warrior Met Coal, Inc. (the Company) as of December 31, 2020 and 2019, the related consolidated statements of operations, changes in equity, and cash flows for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 24, 2021 expressed an unqualified opinion thereon.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosure to which it relates.

### ***Asset Retirement Obligation***

*Description of  
the Matter*

At December 31, 2020, the Company had recorded asset retirement obligations of approximately \$61.9 million for the estimated costs to reclaim surface lands and supporting infrastructure in accordance with applicable reclamation laws in the United States as defined by each mining permit. Changes in the asset retirement obligations are more fully described in Note 8 to the consolidated financial statements.

The calculation of reclamation obligations requires significant judgment due to the inherent complexity in estimating the amount and timing of future costs and determining an appropriate rate to discount these costs back to their present value.

Auditing the Company's asset retirement obligation involved a high degree of subjectivity as estimates underlying the determination of the obligation were based on assumptions unique to mining operations and subject to various laws and regulations governing the protection of the applicable environment, including estimates of disturbed acreage as determined from engineering data, estimates of future costs to reclaim the disturbed acreage and the timing and amount of related cash flows, which are discounted using a credit-adjusted, risk-free rate. Actual costs incurred in future periods could differ from amounts estimated and future changes to environmental laws and regulations could increase the extent of reclamation work required.

*How We  
Addressed the  
Matter in Our  
Audit*

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's process for evaluating the asset retirement obligations. For example, we tested controls over management's review of the assumptions described above.

To test the asset retirement obligations, our audit procedures included, among others, involving our specialist to assist us in evaluating the Company's reclamation cost estimates, including estimates of disturbed acreage, the scope of estimated reclamation activities against regulatory requirements, the associated future reclamation costs, and the timing of related cash flows, and the Company's reclamation methodology against industry practice. We also evaluated management's methodology for determining the credit adjusted risk-free rate used to discount the asset retirement obligation.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2016.

Birmingham, Alabama  
February 24, 2021



## **Report of Independent Registered Public Accounting Firm**

To the Stockholders and the Board of Directors of Warrior Met Coal, Inc.

### **Opinion on Internal Control over Financial Reporting**

We have audited Warrior Met Coal, Inc.'s internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Warrior Met Coal, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2020 and 2019, the related consolidated statements of operations, changes in equity, and cash flows for each of the three years in the period ended December 31, 2020, and the related notes and our report dated February 24, 2021 expressed an unqualified opinion thereon.

### **Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### **Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Birmingham, Alabama  
February 24, 2021

**WARRIOR MET COAL, INC.**  
**BALANCE SHEETS**  
(in thousands)

	December 31, 2020	December 31, 2019
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 211,916	\$ 193,383
Short-term investments	8,504	14,675
Trade accounts receivable	83,298	99,471
Other receivables	5,142	1,847
Income tax receivable	—	12,925
Inventories, net	118,713	97,901
Prepaid expenses and other	39,910	23,844
Total current assets	467,483	444,046
Mineral interests, net	100,855	110,130
Property, plant and equipment, net	637,108	606,200
Non-current income tax receivable	—	11,349
Deferred income taxes	174,372	154,297
Other long-term assets	14,118	18,242
Total assets	<u>\$ 1,393,936</u>	<u>\$ 1,344,264</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 59,110	\$ 46,436
Accrued expenses	86,108	65,755
Asset retirement obligations	4,354	2,623
Short-term financing lease obligations	14,385	10,146
Other current liabilities	6,361	3,992
Total current liabilities	170,318	128,952
Long-term debt	379,908	339,189
Asset retirement obligations	57,553	53,583
Black lung obligations	34,567	30,233
Financing lease obligations	24,091	25,528
Other long-term liabilities	2,258	1,197
Total liabilities	668,695	578,682
Stockholders' Equity:		
Common stock, \$0.01 par value per share (Authorized -140,000,000 shares, 53,408,040 issued and 51,186,199 outstanding as of December 31, 2020 and 53,293,449 issued and 51,071,608 outstanding as of December 31, 2019)	534	533
Preferred stock, \$0.01 par value per share (10,000,000 shares authorized, no shares issued and outstanding)	—	—
Treasury stock, at cost (2,221,841 shares as of December 31, 2020 and December 31, 2019)	(50,576)	(50,576)
Additional paid in capital	249,746	243,932
Retained earnings	525,537	571,693
Total stockholders' equity	725,241	765,582
Total liabilities and stockholders' equity	<u>\$ 1,393,936</u>	<u>\$ 1,344,264</u>

The accompanying notes are an integral part of these consolidated financial statements.

**WARRIOR MET COAL, INC.**  
**STATEMENTS OF OPERATIONS**  
(in thousands, except per share amounts)

	For the years ended December 31,		
	2020	2019	2018
<b>Revenues:</b>			
Sales	\$ 761,871	\$ 1,235,998	\$ 1,342,683
Other revenues	20,867	32,311	35,324
Total revenues	<u>782,738</u>	<u>1,268,309</u>	<u>1,378,007</u>
<b>Costs and expenses:</b>			
Cost of sales (exclusive of items shown separately below)	625,170	720,745	716,645
Cost of other revenues (exclusive of items shown separately below)	33,736	29,828	10,172
Depreciation and depletion	118,092	97,330	97,209
Selling, general and administrative	32,879	37,014	36,626
Transaction and other costs	—	—	9,068
Total costs and expenses	<u>809,877</u>	<u>884,917</u>	<u>869,720</u>
Operating (loss) income	(27,139)	383,392	508,287
Interest expense, net	(32,310)	(29,335)	(37,314)
Loss on early extinguishment of debt	—	(9,756)	—
Other income	3,544	22,815	—
(Loss) income before income taxes	(55,905)	367,116	470,973
Income tax (benefit) expense	(20,144)	65,417	(225,814)
Net (loss) income	<u>\$ (35,761)</u>	<u>\$ 301,699</u>	<u>\$ 696,787</u>
<b>Basic and diluted net (loss) income per share:</b>			
Net (loss) income per share—basic	<u>\$ (0.70)</u>	<u>\$ 5.87</u>	<u>\$ 13.19</u>
Net (loss) income per share—diluted	<u>\$ (0.70)</u>	<u>\$ 5.86</u>	<u>\$ 13.17</u>
Weighted average number of shares outstanding—basic	<u>51,168</u>	<u>51,363</u>	<u>52,812</u>
Weighted average number of shares outstanding— diluted	<u>51,168</u>	<u>51,493</u>	<u>52,918</u>
Dividends per share:	<u>\$ 0.20</u>	<u>\$ 4.61</u>	<u>\$ 6.73</u>

The accompanying notes are an integral part of these consolidated financial statements.

**WARRIOR MET COAL, INC.**  
**STATEMENTS OF CHANGES IN EQUITY**  
(in thousands)

	Common Stock	Preferred Stock	Treasury Stock	Additional Paid in Capital	Retained Earnings	Total Stockholders' Equity
<b>Balance at December 31, 2017</b>	<b>\$ 534</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 329,993</b>	<b>\$ 82,496</b>	<b>\$ 413,023</b>
Net income	—	—	—	—	696,787	696,787
Dividends paid (\$6.73 per share)	—	—	—	(91,122)	(269,513)	(360,635)
Stock compensation	—	—	—	6,405	—	6,405
Treasury stock purchase	—	—	(38,030)	—	—	(38,030)
Other	(1)	—	—	(5,449)	512	(4,938)
<b>Balance at December 31, 2018</b>	<b>\$ 533</b>	<b>\$ —</b>	<b>\$ (38,030)</b>	<b>\$ 239,827</b>	<b>\$ 510,282</b>	<b>\$ 712,612</b>
Net income	—	—	—	—	301,699	301,699
Dividends paid (\$4.61 per share)	—	—	—	—	(240,394)	(240,394)
Stock compensation	—	—	—	5,349	—	5,349
Treasury stock purchase	—	—	(12,546)	—	—	(12,546)
Other	—	—	—	(1,244)	106	(1,138)
<b>Balance at December 31, 2019</b>	<b>\$ 533</b>	<b>\$ —</b>	<b>\$ (50,576)</b>	<b>\$ 243,932</b>	<b>\$ 571,693</b>	<b>\$ 765,582</b>
Net loss	—	—	—	—	(35,761)	(35,761)
Dividends paid (\$0.20 per share)	—	—	—	—	(10,395)	(10,395)
Stock compensation	—	—	—	7,087	—	7,087
Other	1	—	—	(1,273)	—	(1,272)
<b>Balance at December 31, 2020</b>	<b>\$ 534</b>	<b>\$ —</b>	<b>\$ (50,576)</b>	<b>\$ 249,746</b>	<b>\$ 525,537</b>	<b>\$ 725,241</b>

The accompanying notes are an integral part of these consolidated financial statements.

**WARRIOR MET COAL, INC.**  
**STATEMENTS OF CASH FLOWS**  
(in thousands)

	For the years ended December 31,		
	2020	2019	2018
<b>OPERATING ACTIVITIES</b>			
Net (loss) income	\$ (35,761)	\$ 301,699	\$ 696,787
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and depletion	118,092	97,330	97,209
Deferred income tax (benefit) expense	(20,075)	68,483	(223,038)
Stock-based compensation expense	7,602	5,820	6,405
Amortization of debt issuance costs and debt discount, net	1,546	1,361	2,486
Accretion and valuation adjustment of ARO	2,631	(7,891)	(19,942)
Loss on early extinguishment of debt	—	9,756	—
Changes in operating assets and liabilities:			
Trade accounts receivable	16,173	38,928	(20,653)
Other receivables	(3,308)	(224)	3,872
Income tax receivable	24,274	21,795	(12,431)
Inventories	(13,465)	(30,491)	(1,812)
Prepaid expenses and other current assets	(16,066)	4,088	1,444
Accounts payable	15,361	13,409	5,060
Accrued expenses and other current liabilities	(3,936)	(17,317)	13,835
Non-current income tax receivable	—	—	17,945
Other	19,558	26,068	(7,771)
Net cash provided by operating activities	<u>112,626</u>	<u>532,814</u>	<u>559,396</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	(87,488)	(107,278)	(101,620)
Deferred mine development costs	(27,093)	(23,392)	(8,937)
Proceeds from sale of property, plant and equipment	159	3,127	2,928
Sale of short-term investments	14,733	17,501	—
Purchases of short-term investments	(8,500)	(24,171)	—
Net cash used in investing activities	<u>(108,189)</u>	<u>(134,213)</u>	<u>(107,629)</u>
<b>FINANCING ACTIVITIES</b>			
Dividends paid	(10,395)	(240,394)	(360,635)
Proceeds from issuance of debt	—	—	128,750
Borrowings under ABL Facility	70,000	—	—
Repayments under ABL Facility	(30,000)	—	—
Retirements of debt	—	(140,272)	(3,060)
Principal repayments of financing lease obligations	(14,237)	(17,273)	—
Debt issuance costs paid	—	—	(3,713)
Common shares repurchased	—	(12,546)	(38,030)
Other	(1,272)	(1,138)	(4,938)
Net cash provided by (used in) financing activities	<u>14,096</u>	<u>(411,623)</u>	<u>(281,626)</u>
Net increase (decrease) in cash and cash equivalents and restricted cash	18,533	(13,022)	170,141
Cash and cash equivalents and restricted cash at beginning of period	193,383	206,405	36,264
Cash and cash equivalents and restricted cash at end of period	<u>\$ 211,916</u>	<u>\$ 193,383</u>	<u>\$ 206,405</u>

The accompanying notes are an integral part of these consolidated financial statements.

**WARRIOR MET COAL, INC.**  
**STATEMENTS OF CASH FLOWS (CONTINUED)**  
**(in thousands)**

	For the years ended December 31,		
	2020	2019	2018
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>			
Interest paid, net of capitalized interest	\$ 30,523	\$ 33,544	\$ 30,237
Cash paid for income taxes	\$ 69	\$ 85	\$ 3
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>			
Financing leases - equipment	\$ 18,967	\$ 45,523	\$ 6,822

The accompanying notes are an integral part of these consolidated financial statements.

**WARRIOR MET COAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 1—Business and Basis of Presentation**

**Description of the Business**

Warrior Met Coal, Inc. (the "Company") is a U.S.-based, environmentally and socially minded supplier to the global steel industry. The Company is dedicated entirely to mining non-thermal metallurgical (met) coal used as a critical component of steel production by metal manufacturers in Europe, South America and Asia. The Company is a large-scale, low-cost producer and exporter of premium met coal, also known as hard-coking coal ("HCC"), operating highly efficient longwall operations in its underground mines based in Alabama. The HCC that the Company produces from the Blue Creek coal seam contains very low sulfur, has strong coking properties and is of a similar quality to coal referred to as the premium HCC produced in Australia. The Company also generates ancillary revenues from the sale of natural gas extracted as a byproduct from the underground coal mines and royalty revenues from leased properties.

**Basis of Presentation**

The accompanying consolidated financial statements include the accounts of Warrior Met Coal, Inc and its subsidiaries (the "Company"). All significant intercompany transactions and balances have been eliminated in consolidation.

**Impact of the COVID-19 Pandemic Upon our Financial Condition and Results of Operations**

The global steelmaking industry's demand for met coal is affected by pandemics, epidemics or other public health emergencies, such as the recent outbreak of the novel coronavirus ("COVID-19"), which has spread from China to many other countries including the United States. In March 2020, the World Health Organization ("WHO") declared COVID-19 a pandemic, and the President of the United States declared the COVID-19 outbreak a national emergency. The outbreak has resulted in governments around the world implementing stringent measures to help control the spread of the virus, including quarantines, "shelter in place" and "stay at home" orders, travel restrictions, business curtailments, school closures, and other measures. In addition, governments and central banks in several parts of the world have enacted fiscal and monetary stimulus measures to counteract the impacts of COVID-19.

The Company operates in a critical infrastructure industry, as defined by the U.S. Department of Homeland Security. As such, the Company continues to operate its mines in a safe manner under the guidelines issued by the Centers for Disease Control and Prevention and the Alabama State Health Department. In response to these measures and for the protection of employees, the Company has taken steps to ensure our employees remain safe. As of the filing of this Form 10-K, the Company has not had to idle or temporarily idle its mines.

Notwithstanding our continued operations, COVID-19 has had and may continue to have further negative impacts on our two operating mines, supply chain, transportation networks and customers, which may continue to compress our margins, and reduce demand for the met coal that we produce. The COVID-19 outbreak is a widespread public health crisis that is adversely affecting the economies and financial markets of many countries, including those of our customers, which are primarily located in Europe, South America and Asia. A prolonged economic downturn could adversely affect demand for our met coal and contribute to volatile supply and demand conditions affecting prices and volumes. The progression of COVID-19 could also negatively impact our business or results of operations through the temporary closure of one of our mines, customers or critical suppliers, or the McDuffie Coal Terminal at the Port of Mobile in Alabama, or a disruption to our rail and barge carriers, which would delay or prevent deliveries to our customers, among others.

In addition, the ability of our employees and our suppliers' and customers' employees to work may be significantly impacted by individuals contracting or being exposed to COVID-19, or as a result of the control measures noted above, which may significantly affect the demand for met coal. Our customers may be directly impacted by business curtailments or weak market conditions and may not be willing or able to fulfill their contractual obligations or open letters of credit. We may also experience delays in obtaining letters of credit or processing letter of credit payments due to the impacts of COVID-19 on foreign issuing and U.S. intermediary banks. Furthermore, the progression of, and global response to, the COVID-19 outbreak has begun to cause, and increases the risk of, further delays in construction activities and equipment deliveries related to our capital projects, including potential delays in obtaining permits from government agencies. The extent of such delays and other

**WARRIOR MET COAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

effects of COVID-19 on our capital projects, certain of which are outside of our control, is unknown, but they may impact or delay the timing of anticipated benefits of capital projects.

**Note 2—Summary of Significant Accounting Policies**

**Use of Estimates**

The Company prepares its financial statements in conformity with GAAP, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Due to the inherent uncertainty involved in making estimates, actual results could differ from those estimates.

**Concentrations of Credit Risk and Major Customers**

The Company's principal line of business is mining and marketing met coal to foreign steel producers. For the year ended December 31, 2020, approximately 97.3% of sales were derived from coal shipments to customers, located primarily in Europe, South America and Asia. At December 31, 2020 approximately 96.8% of trade receivables were related to these customers. For the year ended December 31, 2020, our geographic customer mix was 56% in Europe, 25% in South America and 19% in Asia.

During the year ended December 31, 2020, Xcoal Energy & Resources, Exiros BV Sucursal Uruguay, and Iskenderun Demir Ve Celik A.S. accounted for \$146.5 million, or 18.7%, \$117.7 million, or 15.0%, and \$89.1 million, or 11.4% of total revenues, respectively. During the year ended December 31, 2019, Xcoal Energy & Resources, Exiros BV Sucursal Uruguay, ArcelorMittal, and Thyssenkrupp Steel Europe AG accounted for \$276.2 million, or 22.3%, \$159.6 million, or 12.9%, \$128.2 million, or 10.4% and \$125.5 million, or 10.1% of total revenues, respectively. During the year ended December 31, 2018, Xcoal Energy & Resources, Exiros BV Sucursal Uruguay and Huettenwerke Krupp Mannesmann GmbH accounted for \$203.6 million, or 15.1%, \$148.5 million, or 11.0%, and \$141.3 million, or 10.5% of total revenues, respectively.

**Revenue Recognition**

Revenue is recognized when performance obligations under the terms of a contract with our customers are satisfied; for all contracts this occurs when control of the promised goods have been transferred to our customers. For coal shipments to domestic customers via rail, control is transferred when the railcar is loaded. For coal shipments to international customers via ocean vessel, control is transferred when the vessel is loaded at the Port of Mobile in Alabama. For natural gas sales, control is transferred when the gas has been transferred to the pipeline. Revenue is disaggregated between coal sales within the Company's mining segment and natural gas sales included in all other revenues, as disclosed in Note 20.

Our coal and gas sales generally include up to 45-day payment terms following the transfer of control of the goods to the customer. We typically do not include extended payment terms in our contracts with customers.

**Trade Accounts Receivable and Allowance for Credit Losses**

Trade accounts receivable represent customer obligations that are derived from revenue recognized from contracts with customers. Credit is extended based on an evaluation of the individual customer's financial condition. The Company maintains trade credit insurance on the majority of its customers and the geographic regions of coal shipments to these customers. In some instances, the Company requires letters of credit, cash collateral or prepayments from its customers on or before shipment to mitigate the risk of loss. These efforts have consistently resulted in the Company recognizing no historical credit losses. The Company also has never had to have a claim against its trade credit insurance policy.

In order to estimate the allowance for credit losses on trade accounts receivable, the Company utilizes an aging approach in which potential impairment is calculated based on how long a receivable has been outstanding (e.g., current, 1-31, 31-60, etc.). The Company calculates an expected credit loss rate based on the Company's historical credit loss rate, the risk characteristics of our customers, and the current metallurgical coal and steel market environments. As of December 31, 2020, the estimated allowance for credit losses was immaterial and did not have a material impact on the Company's financial statements.



**WARRIOR MET COAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**Shipping and Handling**

Costs incurred to transport coal to the point of sale at the Port of Mobile, Alabama, are included in cost of sales and the gross amounts billed to customers, if any, to cover shipping and handling to the ultimate/final destination are included in sales.

**Cash and Cash Equivalents**

Cash and cash equivalents include short-term deposits and highly liquid investments that have original maturities of three months or less when purchased and are stated at cost, which approximates fair value.

**Short-Term Investments**

Instruments with maturities greater than three months, but less than twelve months, are included in short-term investments. The Company purchases United States Treasury bills with maturities ranging from six to twelve months which are classified as held to maturity and are carried at amortized cost, which approximates fair value. The Company also purchases fixed income securities and certificates of deposits with varying maturities that are classified as available for sale and are carried at fair value. Securities classified as held to maturity securities are those securities that management has the intent and ability to hold to maturity.

As of December 31, 2020 and 2019, the Company's short-term investments of \$8.5 million and \$14.7 million, respectively, consisted of cash and fixed income securities. The short-term investments are posted as collateral for the self-insured black lung related claims asserted by or on behalf of former employees of Walter Energy, Inc. ("Walter Energy") and its subsidiaries, which were assumed by the Company and relate to periods prior to March 31, 2016.

**Inventories**

Inventories are valued at the lower of cost or net realizable value. Coal inventory costs include labor, supplies, equipment costs, operating overhead, freight, royalties, depreciation and depletion and other related costs. Coal inventories are valued using the first-in, first-out ("FIFO") inventory valuation method. The valuation of coal inventories is subject to estimates due to possible gains and losses resulting from inventory movements from the mine site to storage facilities, inherent inaccuracies in belt scales and aerial surveys used to measure quantities and fluctuations in moisture content. Periodic adjustments to coal tonnages on hand are made for an estimate of coal shortages and overages due to these inherent gains and losses, primarily based on historical results from aerial surveys and periodic coal pile clean-ups. Supplies inventories are valued using the average cost method of accounting. Management evaluates its supplies inventory in terms of excess and obsolete exposures which includes such factors as anticipated usage, inventory turnover, inventory levels and ultimate market value. A reserve for excess and obsolete supplies inventory is established and charged to cost of sales in the Statements of Operations.

**Deferred Longwall Move Expenses**

Direct costs, including labor and supplies, associated with moving longwall equipment and the related equipment refurbishment costs are deferred and included in prepaid expenses. These deferred costs are amortized on a units-of-production basis into cost of sales over the life of the subsequent panel of coal mined by the longwall equipment. See Note 4 for further disclosures related to deferred longwall move expenses.

**Advanced Mining Royalties**

Lease rights to coal reserves are often acquired in exchange for royalty payments. Advance mining royalties are advance payments made to lessors under terms of mineral lease agreements that are recoupable against future production royalties. These advance payments are deferred and charged to operations as the coal reserves are mined. Advance mining royalties are included in other long-term assets.

**WARRIOR MET COAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**Property, Plant and Equipment**

*Property, Plant and Equipment*

Property, plant and equipment are recorded at cost. Depreciation is recorded principally on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized on the straight-line method over the lesser of the useful life of the improvement or the remaining lease term. Estimated useful lives used in computing depreciation expense range from three to ten years for machinery and equipment, and from fifteen to thirty years for land improvements and buildings. Well life is used to estimate the useful life for gas properties and related development, and mine life is used for amortizing mine development costs. Gains and losses upon disposition are reflected in the Statements of Operations in the period of disposition. Maintenance and repair expenditures are charged to cost of sales as incurred.

*Deferred Mine Development*

Costs of developing new underground mines and certain underground expansion projects are capitalized. Underground development costs, which are costs incurred to make the coal physically accessible, may include construction permits and licenses, mine design, construction of access roads, main entries, airshafts, roof protection and other facilities. Mine development costs are amortized primarily on a units-of-production basis over the estimated reserve tons directly benefiting from the capital expenditures. Costs amortized during the production phase of a mine are capitalized into inventory and expensed to cost of sales as the coal is sold. Coal sales revenue related to incidental production during the development phase are recorded as sales with an offset to cost of sales based on the estimated cost per ton sold for the mine when the asset is in place for its intended use.

*Owned and Leased Mineral Interests*

Costs to obtain coal reserves and lease mineral rights are capitalized based on cost or the fair value at acquisition and depleted using the units-of-production method over the life of proven and probable reserves. Lease agreements are generally long-term in nature (original terms range from 10 to 50 years) and substantially all of the leases contain provisions that allow for automatic extension of the lease term provided certain requirements are met. Depletion expense was \$9.3 million, \$9.9 million, and \$9.6 million for the years ended December 31, 2020, December 31, 2019, and December 31, 2018, respectively, and is included in depreciation and depletion in the accompanying Statements of Operations.

*Asset Retirement Obligations*

The Company has certain asset retirement obligations primarily related to mine closing reclamation costs, perpetual water care costs and other costs associated with dismantling and removing facilities. Asset retirement obligations are determined for each mine using various estimates and assumptions, including estimates of disturbed acreage as determined from engineering data, estimates of future costs to reclaim the disturbed acreage and the timing of related cash flows, discounted using a credit-adjusted, risk-free rate. The Company's asset retirement obligations also include estimates to reclaim gas wells in accordance with the Oil and Gas Board of Alabama. On at least an annual basis, the Company reviews the entire asset retirement obligation liability and makes necessary adjustments for permit changes, the anticipated timing of mine closures, and revisions to cost estimates and productivity assumptions to reflect current experience. As changes in estimates occur, the carrying amount of the obligation and asset are revised to reflect the new estimate after applying the appropriate credit-adjusted, risk-free discount rate. The future costs of these obligations are accrued at the estimated fair value in the period in which they are incurred if a reasonable estimate of fair value can be made. The present value of the estimated asset retirement cost is capitalized as part of the carrying amount of the long-lived asset. For sites where there is no asset, expense or income is recognized for changes in estimates.

Capitalized asset retirement costs are amortized on a units-of-production basis over the estimated reserves. Accretion of the asset retirement obligation is recognized over time and generally will escalate over the life of the producing asset, typically as production declines. Accretion is included in cost of sales on the Statements of Operations.

Accrued mine closing costs, perpetual care costs and reclamation costs and other costs of dismantling and removing facilities are regularly reviewed by management and revised for changes in future estimated costs and regulatory requirements, as necessary. For ongoing operations, adjustments to the liability result in an adjustment to the corresponding asset. For some operations, adjustments to the liability are recognized as income or expense in the period the adjustment is recorded as no asset was recorded to offset the liability established during acquisition accounting related to the acquisition of certain assets of Walter

**WARRIOR MET COAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

Energy as the operations were idle at that time. Any difference between the recorded obligation and the actual cost of reclamation is recorded in profit or loss in the period the obligation is settled. See Note 8 for further disclosures related to asset retirement obligations.

*Impairment of Long-Lived Assets*

Property, plant and equipment and other long-lived assets are reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the book value of the asset may not be recoverable. The Company periodically evaluates whether events and circumstances have occurred that would indicate possible impairment. When impairment indicators exist, the Company uses an estimate of the future undiscounted cash flows of the related asset or asset group over the remaining life in measuring whether or not the asset values are recoverable. If the carrying amount of an asset or asset group exceeds its estimated future cash flows, impairment is recognized equal to the amount by which the carrying amount of the asset exceeds the fair value of the asset or asset group. Fair value is generally determined using market quotes, if available, or a discounted cash flow approach. The Company's estimate of future undiscounted cash flows is based on assumptions including long-term met coal pricing forecasts, anticipated production volumes and mine operating costs for the life of the mine or estimated useful life of the asset.

**Equity Award Compensation**

The Company accounts for equity award-based compensation to employees and non-employee/directors in accordance with ASC 718 requiring employee equity awards to be accounted for under the fair value method. The Company recognizes forfeitures as they occur. The Company recognizes compensation expense associated with equity awards for all awards made to employees as the requisite service, performance and market vesting conditions are met. For units granted containing only service and performance conditions, the fair value of the award is equal to the market price of the Company's common stock at the date of grant. For units granted containing only a market condition, the fair value of the award is determined utilizing a Monte Carlo simulation model which incorporates the total stockholder return hurdles set for each grant.

Compensation expense for equity awards with a service-only condition is recognized over the employee's requisite service period using a graded vesting method. For awards with a performance condition that affects vesting, the performance condition is not considered in determining the award's grant-date fair value; however, the performance conditions are considered when estimating the quantity of awards that are expected to vest. No compensation expense is recorded for awards with performance conditions until the performance condition is determined to be probable of achievement. For awards with a market condition that affects vesting, the market condition is considered in determining the award's grant-date fair value. Compensation expense for awards with a market condition is recognized straight-line over the derived or implied service period.

Compensation expense for equity awards is included in cost of sales (exclusive of items shown separately below) and selling, general and administrative in the accompanying Statements of Operations.

**Deferred Financing Costs**

The costs to obtain new debt financing or amend existing financing agreements are deferred and amortized to interest expense over the life of the related indebtedness or credit facility using the straight-line method. As of December 31, 2020 and December 31, 2019, there were \$2.7 million of unamortized origination fees related to the ABL Facility (as defined in Note 13) in other long-term assets on the accompanying Balance Sheet. As of December 31, 2020 and December 31, 2019 there were \$3.5 million and \$4.2 million, respectively, of unamortized deferred financing costs and debt discount, net, related to the Notes (as defined in Note 13), which is presented as a net deduction from the carrying amount of the debt recognized in the accompanying Balance Sheet.

**Income Taxes**

The Company records a tax provision for the expected tax effects of the reported results of operations. The provision for income taxes is determined using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax impact of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carryforwards. Deferred income tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets and liabilities are expected to be realized or settled. The Company records a valuation allowance to reduce deferred income tax assets to the

**WARRIOR MET COAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

amount that is believed more likely than not to be realized. When the Company concludes that all or part of the net deferred income tax assets are not realizable in the future, the Company makes an adjustment to the valuation allowance that is charged to earnings in the period that such determination was made.

The Company recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

### **Fair Value Measurements**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three level hierarchy has been established for valuing assets and liabilities based on how transparent (observable) the inputs are that are used to determine fair value, with the inputs considered most observable categorized as Level 1 and those that are the least observable categorized as Level 3. Hierarchy levels are defined as follows:

Level 1: Quoted prices in active markets for identical assets and liabilities.

Level 2: Observable inputs (other than Level 1 quoted prices), such as quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active for identical or similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity that are significant to determining the fair value of the assets or liabilities, including pricing models, discounted cash flow methodologies and similar techniques.

### **Leases**

The Company determines if an arrangement is a lease at inception. The Company has an accounting policy election that leases with an initial term of 12 months or less remain off its balance sheet and lease payments are recognized in the Statements of Operations on a straight-line basis over the lease term. A right-of-use asset represents the Company's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. Operating lease right-of-use assets and liabilities are recognized at the lease commencement date based on the present value of the lease payments over the lease term. For purpose of calculating such present values, lease payments include components that vary based on an index or rate, using the prevailing index or rate at the commencement date and exclude components that vary based upon other factors. For those leases that do not contain a readily determinable implicit rate, the Company uses its incremental borrowing rate at commencement to determine the present value of lease payments. Variable lease payments not included within lease contracts are expensed as incurred. The Company's leases may include options to extend or terminate the lease, and such options are reflected in the term when their exercise is reasonably certain. Lease expense is recognized on a straight-line basis over the lease term.

### **New Accounting Pronouncements**

The Company adopted Accounting Standards Update ("ASU") 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" as of January 1, 2020 using the modified retrospective approach. The ASU requires the use of an "expected loss" model for instruments measured at amortized cost, in which companies will be required to estimate the lifetime expected credit loss and record an allowance to offset the amortized cost basis, resulting in a net presentation of the amount expected to be collected on the financial asset. The adoption of the new standard did not have a material impact on the Company's financial statements, including accounting policies, processes and systems.

In December 2019, the Financial Accounting Standards Board ("FASB") issued ASU 2019-12, "Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes," which is intended to simplify various aspects related to accounting for income taxes. This ASU removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. The ASU is effective for fiscal years beginning after December 15, 2020. The Company expects to adopt the standard as of January 1, 2021 with no material impact to the Company's results of operations, financial condition, cash flows or financial statement presentation.

**WARRIOR MET COAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**Note 3—Inventories, net**

Inventories, net are summarized as follows (in thousands):

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Coal	\$ 86,272	\$ 69,064
Raw materials, parts, supplies and other, net	32,441	28,837
Total inventories, net	<u>\$ 118,713</u>	<u>\$ 97,901</u>

**Note 4—Prepaid Expenses and Other**

Prepaid expenses and other consisted of the following (in thousands):

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Deferred longwall move expenses	\$ 22,972	\$ 15,621
Prepaid insurance	3,832	3,631
Prepaid deposits	6,937	345
Other	6,169	4,247
Total prepaid expenses and other	<u>\$ 39,910</u>	<u>\$ 23,844</u>

**Note 5—Mineral Interests and Property, Plant and Equipment, net**

Mineral interests totaled \$144.2 million and \$144.2 million and the related accumulated depletion totaled \$43.4 million and \$34.1 million as of December 31, 2020 and December 31, 2019, respectively.

Property, plant and equipment are summarized as follows (in thousands):

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Land	\$ 71,886	\$ 72,267
Land improvements	18,024	18,026
Building and leasehold improvements	77,556	74,342
Mine development and infrastructure costs	29,893	13,315
Machinery and equipment	679,393	614,687
Financing lease right of use asset	56,528	44,996
Construction in progress	82,367	42,106
Total	<u>1,015,647</u>	<u>879,739</u>
Less: Accumulated depreciation	<u>(378,539)</u>	<u>(273,539)</u>
Property, plant and equipment, net	<u>\$ 637,108</u>	<u>\$ 606,200</u>

Depreciation and depletion expense was \$118.1 million, \$97.3 million, and \$97.2 million, for the years ended December 31, 2020 and December 31, 2019, and December 31, 2018, respectively.

**Note 6—Other Long-Term Assets**

Other long-term assets consisted of the following (in thousands):

**WARRIOR MET COAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Advance mining royalties	\$ 7,305	\$ 8,976
ABL Facility origination fees	2,667	2,723
Other	4,146	6,543
Total other long-term assets	<u>\$ 14,118</u>	<u>\$ 18,242</u>

**Note 7—Income Taxes**

On March 27, 2020, former President Trump signed and enacted into law the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"). The CARES Act, among other things, provides temporary relief from certain aspects of the Tax Cuts and Jobs Act of 2017 that had imposed limitations on the utilization of certain losses, interest expense deductions and alternative minimum tax ("AMT") credits. The CARES Act also provides opportunities for businesses to improve their cash flows by obtaining refunds for prior taxable years and reducing their income and deferring payroll tax liabilities for the current taxable year. Specifically, Section 2305 of the CARES Act accelerates the ability to receive refunds of remaining AMT credits for tax years 2019, 2020 and 2021. During the third quarter of 2020, the Company received approximately \$24.3 million for refunds of AMT credits. As of December 31, 2020, the Company had no current income tax receivable and no non-current income tax receivable for AMT credits.

**Income Tax (Benefit) Expense**

Income tax (benefit) expense consisted of the following (in thousands):

	<u>For the years ended December 31,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Current			
Federal	\$ (74)	\$ (3,151)	\$ (2,776)
State	5	85	—
	<u>(69)</u>	<u>(3,066)</u>	<u>(2,776)</u>
Deferred			
Federal	(16,731)	53,677	(176,141)
State	(3,344)	14,806	(46,897)
	<u>(20,075)</u>	<u>68,483</u>	<u>(223,038)</u>
Total	<u>\$ (20,144)</u>	<u>\$ 65,417</u>	<u>\$ (225,814)</u>

For the year ended December 31, 2020, we recognized an income tax benefit of \$20.1 million or an effective tax rate of 36.0%.

**WARRIOR MET COAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

Total income tax (benefit) expense differs from the expected tax (benefit) expense (computed by multiplying the U.S. federal statutory rate of 21% by (loss) income before income taxes) as a result of the following (in thousands):

	For the years ended December 31,		
	2020	2019	2018
(Loss) income before income tax (benefit) expense	\$ (55,905)	\$ 367,116	\$ 470,973
Tax (benefit) expense at statutory tax rate	(11,740)	77,094	98,904
Effect of:			
Depletion	(1,504)	(16,198)	(18,227)
Tax Cuts and Jobs Act impact	—	—	(2,775)
State and local income tax, net of federal effect	(2,637)	11,747	14,897
Valuation allowance on deferred tax assets	—	—	(312,493)
Non-deductible transaction costs	—	—	566
Impact of Walter Energy IRS Settlement <sup>(1)</sup>	—	(6,615)	—
IRC Section 451 marginal well credit	(3,977)	—	(4,964)
Other	(286)	(611)	(1,722)
Tax (benefit) expense recognized	\$ (20,144)	\$ 65,417	\$ (225,814)

(1) In the fourth quarter of 2019, an adjustment of \$6.6 million was recorded to recognize additional alternative minimum tax credits, general business credits and NOLs available to the Company in connection with a settlement agreement between Walter Energy and the Internal Revenue Service.

**Deferred Taxes**

Deferred income tax assets and liabilities reflect the effects of tax losses, credits, and the future income tax effects of temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates that apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Significant components of the Company's deferred income tax assets and liabilities were (in thousands):

	December 31, 2020	December 31, 2019
Deferred income tax assets:		
Net operating loss and credit carryforwards	\$ 253,756	\$ 215,805
Inventory	—	457
Asset retirement obligations	15,547	14,115
Black lung obligations	9,275	8,168
Accrued expenses	4,303	5,597
Other	3,614	3,649
Total deferred income tax assets	286,495	247,791
Deferred income tax liabilities:		
Inventory	(558)	—
Prepaid expenses	(10,470)	(8,514)
Property, plant and equipment	(98,637)	(82,539)
Other	(2,458)	(2,441)
Total deferred income tax liabilities	(112,123)	(93,494)
Net deferred income tax asset	\$ 174,372	\$ 154,297

The Company has federal net operating loss ("NOL") carryforwards of approximately \$920.7 million as of December 31, 2020, of which \$27.8 million are indefinite lived and the remainder expire predominantly in December 31, 2034 through December 31, 2036. The Company has state NOL carryforwards of approximately \$995.8 million, of which

**WARRIOR MET COAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

\$27.8 million are indefinite lived and the remainder expire predominantly in December 31, 2029 through December 31, 2031. The increase in the federal and state NOLs from the prior year was primarily driven by the Company applying a 100%, first-year bonus depreciation for certain qualified equipment for tax purposes as allowed under the Tax Cuts and Jobs Act combined with the current year net loss. In addition, the Company has approximately \$18.6 million of general business credits which begin to expire in December 31, 2027 and fully expire in December 31, 2040. The increase in the general business credits from the prior year is due to a \$4.0 million income tax benefit from the Internal Revenue Code ("IRC") Section 451 Marginal Well Credit. The Marginal Well Credit is a production-based tax credit that provides a credit for qualified natural gas production. The credit is phased out when natural gas prices exceed certain levels.

Under the IRC of 1986, as amended (the "Code"), a company is generally allowed a deduction for NOLs against its federal taxable income. A company's ability to deduct its NOLs and utilize certain other available tax attributes can be substantially constrained under the general annual limitation rules of Section 382 of the Code if it undergoes an "ownership change" as defined in Section 382 or if similar provisions of state law apply. While the Company does not believe an ownership change has occurred since April 1, 2016, because the rules under Section 382 are highly complex and actions of the Company's stockholders which are beyond its control or knowledge could impact whether an ownership change has occurred, the Company cannot give you any assurance that another Section 382 ownership change has not occurred or will not occur in the future. As a result of the Company qualifying for the aforementioned exception, were the Company to have undergone a subsequent ownership change prior to April 1, 2018, its NOLs would effectively be reduced to zero. An ownership change after such date would severely limit the Company's ability to utilize its NOLs and other tax attributes.

### **Rights Agreement**

On February 14, 2020, we adopted the Rights Agreement in an effort to prevent the imposition of significant limitations under Section 382 of the Code on our ability to utilize our current NOLs to reduce our future tax liabilities.

The Rights Agreement is intended to supplement the 382 Transfer Restrictions and is designed to serve the interests of all stockholders by preserving the availability of our NOLs and is similar to plans adopted by other companies with significant NOLs.

Pursuant to the Rights Agreement, one preferred stock purchase right (a "Right" or the "Rights") will be distributed to stockholders of the Company for each share of common stock of the Company outstanding as of the close of business on February 28, 2020. Initially, these Rights will not be exercisable and will trade with the shares of common stock. If the Rights become exercisable, each Right will initially entitle stockholders to buy one one-thousandth of a share of a newly created series of preferred stock designated as "Series A Junior Participating Preferred Stock" at an exercise price of \$31.00 per Right. While the Rights Agreement is in effect, any person or group that acquires beneficial ownership of 4.99% or more of the common stock or any existing stockholder who currently owns 5.00% or more of the common stock that acquires any additional shares of common stock (such person, group or existing stockholder, an "Acquiring Person") without approval from the Board would be subject to significant dilution in their ownership interest in the Company. In such an event, each Right will entitle its holder to buy, at the exercise price, common stock having a market value of two times the then current exercise price of the Right and the Rights held by such Acquiring Person will become void. The Rights Agreement also gives discretion to the Board to determine that someone is an Acquiring Person even if they do not own 4.99% or more of the common stock but do own 4.99% or more in value of the outstanding stock, as determined pursuant to Section 382 of the Code and the regulations promulgated thereunder. In addition, the Board has established procedures to consider requests to exempt certain acquisitions of the Company's securities from the Rights Agreement if the Board determines that doing so would not limit or impair the availability of the NOLs or is otherwise in the best interests of the Company. The Board may redeem the Rights for \$0.01 per Right at any time before any person or group triggers the Rights Agreement. The distribution of the Rights is not a taxable event for stockholders of the Company and will not affect the Company's financial condition or results of operations (including earnings per share).

The Rights will expire on the earliest of (i) the close of business on February 14, 2023, (ii) the close of business on the first anniversary of the date of entry into the Rights Agreement, if stockholder approval of the Rights Agreement has not been received by or on such date, (iii) the time at which the Rights are redeemed as provided in the Rights Agreement, (iv) the time at which the Rights are exchanged as provided in the Rights Agreement, (v) the time at which the Board determines that the NOLs are fully utilized or no longer available under Section 382 of the Code, (vi) the effective date of the repeal of Section 382 of the Code if the Board determines that the Rights Agreement is no longer necessary or desirable for the preservation of NOLs,



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**NOTES TO FINANCIAL STATEMENTS (Continued)**

or (vii) the closing of any merger or other acquisition transaction involving the Company pursuant to an agreement of the type described in the Rights Agreement.

**Valuation Allowance**

The Company periodically assesses whether it is more likely than not that it will generate sufficient taxable income to realize its deferred income tax assets. The Company establishes valuation allowances if it is not likely it will realize its deferred income tax assets. In making this determination, the Company considers all available positive and negative evidence and makes certain assumptions. The Company considers, among other things, all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, the overall business environment, its historical financial results, the industry's historically cyclical financial results, its cumulative three-year income or loss position and potential current and future tax planning strategies.

At December 31, 2017, the Company had a valuation allowance established against its deferred income tax assets, which represented a full valuation allowance against its net deferred income tax assets. As of December 31, 2018, after considering all relevant factors, the Company concluded that its deferred income tax assets were more likely than not to be realized and released its valuation allowance against its net deferred income tax assets resulting in a \$225.8 million income tax benefit.

As of December 31, 2020, the Company considered all positive and negative evidence and concluded that our deferred income tax assets remain more likely than not to be realized and a valuation allowance was not required. Certain factors, could change or circumstances could arise that could further limit or eliminate the amount of the available NOLs to the Company, such as an ownership change or an adjustment by a tax authority. Also, certain circumstances, such as the COVID-19 pandemic and the unknown duration and overall impact on our operations, including our failing to generate sufficient future taxable income from operations, could limit our ability to fully utilize our deferred tax assets before expiration.

The following table shows the balance of our valuation allowance and the associated activity during 2018:

	<b>December 31, 2018</b>
Beginning balance	\$ 312,493
Addition/(Reduction) - current tax expense/(benefit)	(86,679)
Release	\$ (225,814)
Ending balance	<u>\$ —</u>

**Uncertain Tax Positions**

The Company has filed income tax returns in the U.S. and in various state and local jurisdictions which are routinely examined by tax authorities in these jurisdictions. NOLs and carryforwards are subject to adjustments based on examination and the statute of limitations is currently open for all such loss and credit carryforwards. The Company had no unrecognized tax benefits or accruals for unrecognized tax benefits as of December 31, 2020 and 2019, respectively.

The Company did not record any interest or penalties associated with income taxes for years ended December 31, 2020, 2019 and 2018, respectively, but would record interest and penalties within income tax expense.

**Note 8—Asset Retirement Obligations**

Changes in the asset retirement obligations (“ARO”) were as follows (in thousands):

**WARRIOR MET COAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Balance at Beginning of Period	\$ 56,206	\$ 61,824
Accretion expense	3,004	3,169
Revisions to estimates	2,973	(7,825)
Obligations settled	(276)	(962)
Balance at End of Period	<u>\$ 61,907</u>	<u>\$ 56,206</u>

The portion of costs expected to be paid within a year as of December 31, 2020 is \$4.4 million. The portion of costs expected to be incurred beyond one year as of December 31, 2020 is \$57.6 million. There were no assets that were legally restricted for purposes of settling asset retirement obligations at December 31, 2020. Alabama's regulatory framework technically allows for self-bonding. However, as a practical matter, due to the onerous regulatory requirements for self-bonding, mining companies in Alabama utilize surety bonds, collateral bonds, or letters of credit to meet their financial assurance requirements. At December 31, 2020, the Company had outstanding surety bonds and letters of credit with parties for post-mining reclamation at all of its mining operations totaling \$40.8 million, and \$3.6 million for miscellaneous purposes.

For the year ended December 31, 2020 and December 31, 2019, the change to the liability was primarily attributable to the net impact of changes in discount rates and current estimates of the costs and scope of remaining reclamation work. For the years ended December 31, 2020 and December 31, 2019, \$0.4 million or \$0.01 per share and \$11.1 million or \$0.22 per share, respectively, of the adjustment to the liability was reflected as income in the period because there was no asset recorded to offset the adjustment to the respective liability. This portion of the liability relates to operations that were idle at the time of purchase accounting for the acquisition of certain assets of Walter Energy and no value was attributed to any asset as an offset for the asset retirement obligation.

**Note 9—Accrued Expenses**

Accrued expenses consisted of the following (in thousands):

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Accrued wages and employee benefits	\$ 25,539	\$ 38,680
Accrued operating expenses	46,285	14,014
Accrued royalties	3,484	3,304
Accrued freight	2,724	1,971
Accrued interest	4,981	4,635
Accrued non-income taxes	3,095	3,151
Total accrued expenses	<u>\$ 86,108</u>	<u>\$ 65,755</u>

**Note 10—Pneumoconiosis ("Black Lung") Obligations**

The Company is responsible for medical and disability benefits for black lung disease under the Federal Coal Mine Health and Safety Act of 1969, as amended. Beginning on April 1, 2016 through May 31, 2018, the Company was insured under a guaranteed cost insurance policy, through a third-party insurance carrier, for black lung claims raised by any employee subsequent to the acquisition of certain assets of Walter Energy. Beginning on June 1, 2018 through May 31, 2020, the Company had a deductible policy where the Company is responsible for the first \$0.5 million for each black lung claim. Since June 1, 2020, the Company has a deductible policy where the Company is responsible for the first \$1.0 million for each black lung claim.

In addition, in connection with the acquisition of certain assets of Walter Energy, the Company assumed all black lung liabilities of Walter Energy and its U.S. subsidiaries incurred prior to March 31, 2016, for which the Company is self-insured. Due to a limited operating history as a stand-alone company and as a result of being self-insured for these historical black lung claims, the Department of Labor required the Company to post \$17.0 million in the form of Treasury bills or surety bonds as collateral, in addition to maintaining a black lung trust acquired in the Walter Energy acquisition. We received a letter from the Department of Labor on February 21, 2020 under its new process for self-insurance renewals that would require us to increase

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**NOTES TO FINANCIAL STATEMENTS (Continued)**

the amount of collateral posted to \$39.8 million, but we have appealed such increase. As of December 31, 2020, the Company had \$17.0 million of surety bonds and \$8.5 million of collateral recognized as short term investments. As of December 31, 2019, the Company had \$17.0 million of surety bonds and \$14.5 million of collateral recognized as short term investments. There were also \$3.0 million and \$3.3 million of assets held in a black lung trust, which is offset against the long-term portion of the black lung obligations within the Balance Sheet as of December 31, 2020 and December 31, 2019, respectively. The estimated total black lung liabilities (net of black lung trust assets) were \$36.9 million as of December 31, 2020, of which \$2.4 million is classified in other current liabilities and the remainder of \$34.6 million is shown as a long-term liability in a separate line item in the Consolidated Balance Sheet. For the year ended December 31, 2019, the estimated black lung liabilities (net of the black lung trust assets) were \$32.5 million, of which \$2.3 million is classified in other current liabilities and \$30.2 million is displayed as a long-term liability in a separate line item in the Balance Sheet. Accretion of the black lung liabilities is included in cost of other revenues on the Statements of Operations. The Company performs an annual evaluation of its black lung liabilities at each balance sheet date. The calculation uses assumptions regarding rates of successful claims, discount factors, benefit increases and mortality rates, among others.

**Note 11—Employee Benefit Plans**

**Defined Contribution Plans**

The Company sponsors a defined contribution plan to assist its eligible employees in providing for retirements. Generally, under the terms of the plan, employees make voluntary contributions through payroll deductions and the Company makes matching contributions, as defined by the plan. Contributions to these defined contribution plans amounted to \$3.0 million for the year ended December 31, 2020, \$2.9 million for the year ended December 31, 2019 and \$3.1 million for the year ended December 31, 2018 accounted for in cost of sales and selling, general and administrative costs.

**Collective Bargaining Agreement**

In connection with the acquisition of certain assets of Walter Energy, the Company negotiated a new initial collective bargaining agreement (“CBA”) with the United Mine Workers of America (“UMWA”) (the “UMWA CBA”), which was ratified by UMWA’s members on February 16, 2016 and expires on March 31, 2021. Approximately 67.2% and 68.2% of the Company’s employees were represented by the UMWA as of December 31, 2020 and December 31, 2019, respectively.

**Note 12—Equity Award Plans**

**Warrior Met Coal, LLC 2016 Equity Incentive Plan**

The Company adopted the Warrior Met Coal, LLC 2016 Equity Incentive Plan (the “2016 Equity Plan”). Under the 2016 Equity Plan, employees, directors and officers of the Company were granted equity interests in Warrior Met Coal, LLC in the form of restricted shares and phantom shares.

The restricted shares have certain service-based, performance-based and market-based vesting conditions, including the occurrence of an initial public offering or a change in control as set forth in the 2016 Equity Plan and the applicable award agreements. As of December 31, 2020, 805,083 shares were issued, of which, approximately 30,199 have been forfeited, 722,663 have vested and 52,221 remain unvested. Upon effectiveness of the 2017 Equity Plan (defined below), no further awards were granted under the 2016 Equity Plan.

Restricted shares were issued proportionally as Tranche A, Tranche B and Tranche C shares. Tranche B and C shares fully vested in 2017.

As of December 31, 2020, 268,352 Tranche A shares were issued, of which, approximately 25,551 have been forfeited, 190,580 have vested and 52,221 remain unvested. The Tranche A shares have service and performance based vesting conditions and the awards vest in equal installments on each of the first five anniversaries of the grant date that occurs prior to an IPO and thereafter, subject to the employee’s continued employment or the director’s continued service with the Company. Vesting is conditioned and contingent upon at least 50% of the shares originally acquired in the acquisition of certain assets of Walter Energy having been disposed of to an independent third party, whether before or after an IPO. In the event of a change in control, any Tranche A shares that have not previously vested shall become fully vested at the time of such change in control, subject to the employee’s continued employment or the director’s continued service with the Company through the change in

**WARRIOR MET COAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

control date. During the second quarter of 2018, certain stockholders of the Company sold in two separate transactions an aggregate of 13,000,000 shares of the Company's common stock in public secondary offerings (see Note 17). In connection with the first of these secondary offerings, the performance based vesting condition was met resulting in approximately \$3.6 million of incremental stock compensation expense in 2018. The remaining awards shall vest over the remaining time based vesting conditions.

The Company recognized stock compensation expense of \$0.3 million for the year ended December 31, 2020 associated with the Tranche A shares. As of December 31, 2020, unrecognized compensation expense related to the 2016 Equity Plan amounted to approximately \$0.1 million.

Holders of phantom shares have the right to receive shares of the Company on the earlier of (i) a change in control as defined by the 2016 Equity Plan or (ii) the fifth anniversary of the grant date of the phantom share. The phantom shares are settled in the Company's shares. As of December 31, 2020, there were 43,580 phantom shares issued to a director of the Company, all of which were fully vested upon issuance.

**Warrior Met Coal, Inc. 2017 Equity Incentive Plan**

In connection with the Company's initial public offering, the Company adopted the Warrior Met Coal, Inc. 2017 Equity Incentive Plan (the "2017 Equity Plan"). Awards previously issued and outstanding under the 2016 Equity Plan will continue to be governed by the 2016 Equity Plan. However, no further awards will be granted under the 2016 Equity Plan.

Under the 2017 Equity Plan, directors, officers, employees, consultants and advisors and those of affiliated companies, as well as those who have accepted offers of employment or consultancy from the Company or the Company's affiliated companies, may be granted equity interest in Warrior Met Coal, Inc. in the form of stock options, stock appreciation rights, restricted stock, restricted stock units, stock bonus awards, and performance awards.

The total number of shares of common stock, including incentive stock options, available for grant of awards under the 2017 Equity Plan as of December 31, 2020 is 4,977,874. If any outstanding award expires, is canceled, forfeited, or settled in cash, the shares allocable to that award will again be available for grant under the 2017 Equity Plan.

As of December 31, 2020, the equity awards granted under the 2017 Equity Plan are comprised of common stock, restricted stock awards, and restricted stock unit awards. The Company recognized stock compensation expense of \$7.3 million for the year ended December 31, 2020 associated with awards granted under the 2017 Equity Plan. Unrecognized compensation expense related to the 2017 Equity Plan amounted to approximately \$3.5 million as of December 31, 2020.

A summary of activity related to restricted stock unit award grants under the 2017 Equity Incentive Plan during the year ended December 31, 2020 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2019	503,892	\$ 21.57
Granted	477,703	\$ 12.38
Canceled	(633)	\$ 22.21
Forfeited	(16,267)	\$ 18.42
Vested	(165,455)	\$ 26.04
Outstanding at December 31, 2020	<u>799,240</u>	

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**Note 13—Debt**

Debt consisted of the following (in thousands):

	December 31, 2020	December 31, 2019	Weighted Average Interest Rate at December 31, 2020	Final Maturity
Senior secured notes	\$ 343,435	\$ 343,435	8%	2024
ABL facility	40,000	—	4%	2023
Debt discount, net	(3,527)	(4,246)		
Total debt	379,908	339,189		
Less: current debt	—	—		
Total long-term debt	\$ 379,908	\$ 339,189		

The Company's minimum debt repayment schedule, excluding interest, as of December 31, 2020 is as follows (in thousands):

	Payments Due					
	2020	2021	2022	2023	2024	Thereafter
Senior secured notes	\$ —	\$ —	\$ —	\$ —	\$ 343,435	\$ —
ABL facility	—	—	—	40,000	—	—
Total	\$ —	\$ —	\$ —	\$ 40,000	\$ 343,435	\$ —

*ABL Facility*

On October 15, 2018, the Company entered into an Amended and Restated Asset-Based Revolving Credit Agreement, by and among the Company and certain of its subsidiaries, as borrowers, the guarantors party thereto, the lenders from time to time party thereto and Citibank, N.A, as administrative agent and collateral agent (in such capacities, the "Agent"), which amended and restated in its entirety the existing ABL Facility, and, among other things (i) increased the aggregate commitments available to be borrowed under the ABL Facility to \$125.0 million, (ii) extended the maturity date of the ABL Facility to October 15, 2023, (iii) decreased the applicable interest rate margins with respect to the loans and the applicable fees in connection with the issuance of letters of credit, and (iv) amended certain covenants and other terms and provisions.

On December 19, 2019, the Company entered into an Amendment No. 2 to the Amended and Restated Credit Agreement (the "Second Amendment"), which, among other things, amended the definitions of Fixed Charges and Fixed Charge Coverage Ratio in the Amended and Restated Credit Agreement to generally conform to the corresponding definitions in the Indenture (as defined below), solely for purposes of incurring unsecured debt based upon the Fixed Charge Coverage Ratio and added customary language in connections with the Qualified Financial Contract Stay Rules.

On July 20, 2020, we entered into an Amendment No. 3 to the Amended and Restated Credit Agreement (the "Third Amendment"), which among other things (i) clarified certain definitions related to the calculation of the borrowing base and (ii) decreased the aggregate commitments available to be borrowed under the ABL Facility to \$120.0 million on February 28, 2021.

Under the ABL Facility, up to \$10.0 million of the commitments may be used to incur swingline loans from Citibank and up to \$50.0 million of the commitments may be used to issue letters of credit. The ABL Facility will mature on October 15, 2023. As of December 31, 2020, the Company had an aggregate principal amount of \$40.0 million drawn under the ABL Facility and there were \$9.4 million of letters of credit issued and outstanding under the ABL Facility. At December 31, 2020, the Company had \$31.6 million of availability under the ABL Facility.

The ABL Facility contains customary covenants for asset-based credit agreements of this type, including among other things: (i) requirements to deliver financial statements, other reports and notices; (ii) restrictions on the existence or incurrence

**WARRIOR MET COAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

of certain indebtedness; (iii) restrictions on the existence or incurrence of certain liens; (iv) restrictions on making certain restricted payments; (v) restrictions on making certain investments; (vi) restrictions on certain mergers, consolidations and asset dispositions; (vii) restrictions on certain transactions with affiliates; and (viii) restrictions on modifications to certain indebtedness. Additionally, the ABL Facility contains a springing fixed charge coverage ratio of not less than 1.00 to 1.00, which ratio is tested if availability under the ABL Facility is less than a certain amount. As of December 31, 2020, the Company was not subject to this covenant. Subject to customary grace periods and notice requirements, the ABL Facility also contains customary events of default.

The Company was in compliance with all applicable covenants under the ABL Facility as of December 31, 2020.

*Senior Secured Notes*

On November 2, 2017, the Company consummated a private offering (the "Offering") of \$350.0 million aggregate principal amount of 8.00% Senior Secured Notes due 2024 to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), and to certain non-U.S. persons in transactions outside the United States in accordance with Regulation S under the Securities Act. The Company used the net proceeds of approximately \$340.0 million from the Offering, together with cash on hand of approximately \$260.0 million, to pay a special cash dividend of approximately \$600.0 million, or \$11.21 per share, to all of its stockholders on a pro rata basis (the "November Special Dividend").

On March 1, 2018, the Company issued \$125.0 million in aggregate principal amount of its 8.00% Senior Secured Notes due 2024 (the "New Notes") to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), and to certain non-U.S. persons in transactions outside the United States in accordance with Regulation S under the Securities Act ("Regulation S"). The New Notes were issued at 103.00% of the aggregate principal amount thereof, plus accrued interest from November 2, 2017. The New Notes were issued as "Additional Notes" under the indenture dated as of November 2, 2017 (the "Original Indenture") among the Company, the subsidiary guarantors party thereto and Wilmington Trust, National Association, as trustee (the "Trustee") and priority lien collateral trustee (the "Priority Lien Collateral Trustee"), as supplemented by the First Supplemental Indenture, dated as of March 1, 2018 (the "First Supplemental Indenture" and, the Original Indenture as supplemented thereby, the "Indenture"). The New Notes have not been and will not be registered under the Securities Act, and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act. The Company used the net proceeds of the offering of the New Notes, together with cash on hand of \$225.0 million, to pay a special dividend of approximately \$350.0 million, or \$6.53 per share, to all of its stockholders on a pro rata basis on April 20, 2018 (the "April Special Dividend").

In connection with the issuance of the New Notes, the Company incurred transaction costs of \$6.4 million for the year ended December 31, 2018, which consists of legal fees and structuring fees, and is included in transaction and other expenses in the Statements of Operations. In addition, the Company incurred debt issuance costs of approximately \$3.7 million, which consists of consent solicitation fees paid to holders of the Existing Notes (as defined below), and is included in long-term debt in the Balance Sheet.

The New Notes and the \$350.0 million in aggregate principal amount of the Company's existing 8.00% Senior Secured Notes due 2024 (the "Existing Notes" and, together with the New Notes, the "Notes"), rank *pari passu* in right of payment and constitute a single class of securities for all purposes under the Indenture, including, without limitation, waivers, amendments, redemptions, offers to purchase and collateral matters, and are fungible (except that the New Notes issued pursuant to Regulation S traded separately under different CUSIP/ISIN numbers until 40 days after the issue date, but thereafter any such holders may transfer their New Notes pursuant to Regulation S into the same CUSIP/ISIN numbers as the Existing Notes issued pursuant to Regulation S).

The Notes will mature on November 1, 2024 and interest is payable on May 1 and November 1 of each year, commencing May 1, 2018. The Notes are fully and unconditionally guaranteed on a joint and several basis by each of the Company's direct and indirect wholly-owned domestic restricted subsidiaries that are guarantors under the ABL Facility (subject to customary release provisions).

The Notes are redeemable at the Company's option, in whole or in part, from time to time, on or after November 1, 2020, at redemption prices specified in the indenture, plus accrued and unpaid interest, if any, to, but excluding the redemption date. The Company is also required to make offers to purchase the Notes (i) at a purchase price of 101.00% of the principal

**WARRIOR MET COAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

amount thereof in the event it experiences specific kinds of change of control triggering events, (ii) at a purchase price of 103.00% of the principal amount thereof prior to making certain restricted payments, and (iii) at a purchase price of 100.00% of the principal amount thereof in the event it makes certain asset sales or dispositions and does not reinvest the net proceeds therefrom or use such net proceeds to repay certain indebtedness, in each case, plus accrued and unpaid interest, if any, to, but excluding the date of purchase.

**Offer to Purchase the Notes**

On February 21, 2019, the Company commenced an offer to purchase (the “Restricted Payment Offer”), in cash, up to \$150,000,000 principal amount of its outstanding Notes, at a repurchase price of 103% of the aggregate principal amount of such Notes, plus accrued and unpaid interest with respect to such Notes to, but not including, the date of repurchase (the “Restricted Payment Repurchase Price”). Concurrently with, but separate from, the Restricted Payment Offer, the Company commenced a cash tender offer (the “Tender Offer” and, together with the Restricted Payment Offer, the “Offers”) to purchase up to \$150,000,000 principal amount of the Notes at a repurchase price of 104.25% of the aggregate principal amount of such Notes, plus accrued and unpaid interest to, but not including, the date of repurchase (the “TO Repurchase Price”). The Offers expired on March 22, 2019 (the “Expiration Date”).

***Restricted Payment Offer***

As of the Expiration Date, \$1,900,000 aggregate principal amount of the Notes were validly tendered and not validly withdrawn pursuant to the Restricted Payment Offer. Pursuant to the terms of the Restricted Payment Offer:

(1) an automatic pro ration factor of 31.5789% was applied to the \$1,900,000 aggregate principal amount of the Notes that were validly tendered and not validly withdrawn in the Restricted Payment Offer (rounded down to avoid the purchase of Notes in a principal amount other than in integrals of \$1,000), which resulted in \$599,000 aggregate principal amount of the Notes (the “RP Pro-Rated Tendered Notes”);

(2) the Company accepted all \$599,000 aggregate principal amount of the RP Pro-Rated Tendered Notes for payment of the Restricted Payment Repurchase Price in cash; and

(3) the remaining balance of \$1,301,000 aggregate principal amount of the Notes tendered that were not RP Pro-Rated Tendered Notes were not accepted for payment and were returned to the tendering holder of the Notes.

The Company consummated the Restricted Payment Offer on March 25, 2019.

Accordingly, pursuant to the terms of the Indenture, the Company was permitted to make one or more restricted payments in the form of special dividends to holders of the Company’s common stock and/or repurchases of the Company’s common stock in the aggregate amount of up to \$299,401,000 (the “RP Basket”) without having to make another offer to repurchase Notes. The Company used a portion of the RP Basket to pay the April 2019 Special Dividend (as defined below) and intends to use the remainder of the RP Basket to make repurchases under the New Stock Repurchase Program (as defined below).

***Tender Offer***

As of the Expiration Date, \$415,099,000 aggregate principal amount of the Notes were validly tendered and not validly withdrawn pursuant to the Tender Offer. Pursuant to the terms of the Tender Offer:

(1) an automatic pro ration factor of 31.5789% was applied to the \$415,099,000 aggregate principal amount of the Notes that were validly tendered and not validly withdrawn in the Tender Offer (rounded down to avoid the purchase of Notes in a principal amount other than in integrals of \$1,000), which resulted in \$130,966,000 aggregate principal amount of the Notes (the “TO Pro-Rated Tendered Notes”);

(2) the Company accepted all \$130,966,000 aggregate principal amount of the TO Pro-Rated Tendered Notes for payment of the TO Repurchase Price in cash; and

**WARRIOR MET COAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

(3) the remaining balance of \$284,133,000 aggregate principal amount of the Notes tendered that were not TO Pro-Rated Tendered Notes were not accepted for payment and were returned to the tendering holder of the Notes.

The Company consummated the Tender Offer on March 26, 2019.

In connection with the payments for the RP Pro-Rated Tendered Notes and the TO Pro-Rated Tendered Notes, the Company recognized a loss on early extinguishment of debt of \$9.8 million during the year ended December 31, 2019.

**Note 14—Leases**

The Company primarily enters into rental agreements for certain mining equipment that are for periods of 12 months or less, some of which include options to extend the leases. Leases that are for periods of 12 months or less are not recorded on the balance sheet in accordance with the Company's accounting policy election described in Note 2. The Company recognizes lease expense on these agreements on a straight-line basis over the lease term. Additionally, the Company has certain finance leases for mining equipment that expire over various contractual periods. These leases have remaining lease terms of one to five years and do not include an option to renew. Amortization expense for finance leases is included in depreciation and depletion expense.

Supplemental balance sheet information related to leases was as follows (in thousands):

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Finance lease right-of-use assets, net <sup>(1)</sup>	\$ 46,746	\$ 40,227
Finance lease liabilities		
Current	14,385	10,146
Noncurrent	24,091	25,528
Total finance lease liabilities	<u>\$ 38,476</u>	<u>\$ 35,674</u>
Weighted average remaining lease term - finance leases (in months)	42.9	44.7
Weighted average discount rate - finance leases <sup>(2)</sup>	5.77 %	6.02 %

(1) Finance lease right-of-use assets, recorded net of accumulated amortization of \$9.8 million and \$4.8 million, are included in property, plant and equipment, net in the Balance Sheets as of December 31, 2020 and December 31, 2019, respectively. See Note 5 for additional disclosure.

(2) When an implicit discount rate is not readily available in a lease, the Company uses its incremental borrowing rate based on information available at the commencement date when determining the present value of lease payments.

The components of lease expense were as follows (in thousands):

	<b>For the year ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Operating lease cost <sup>(1)</sup>	\$ 2,980	\$ 2,527
Finance lease cost:		
Amortization of leased assets	12,730	11,202
Interest on lease liabilities	1,988	1,761
Net lease cost	<u>\$ 17,698</u>	<u>\$ 15,490</u>

(1) Includes leases that are for periods of 12 months or less.



**WARRIOR MET COAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

Maturities of lease liabilities were as follows (in thousands):

	<b>Finance Leases<sup>(1)</sup></b>
2021	\$ 16,276
2022	12,555
2023	10,774
2024	2,557
2025	732
Thereafter	—
<b>Total</b>	<b>42,894</b>
Less: amount representing interest	(4,418)
<b>Present value of lease liabilities</b>	<b>\$ 38,476</b>

(1) Finance lease payments include \$1.6 million of future payments required under signed lease agreements that have not yet commenced.

Supplemental cash flow information related to leases was as follows (in thousands):

	<b>For the year ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	\$ 1,988	\$ 1,761
Financing cash flows from finance leases	\$ 14,237	\$ 17,273
Non-cash right-of-use assets obtained in exchange for lease obligations:		
Finance leases	\$ 18,967	\$ 45,523

As of December 31, 2020 the Company had additional commitments for finance leases, primarily for mining equipment, that have not yet commenced, of \$1.6 million. These finance leases will commence during fiscal year 2021 with lease terms between one to two years.

**Note 15—Related Party Transactions**

In connection with the acquisition of certain assets of Walter Energy, the Company acquired a 50% interest in Black Warrior Methane (“BWM”) and Black Warrior Transmission (“BWT”), which are accounted for under the proportionate consolidation method and equity method, respectively. The Company has granted the rights to produce and sell methane gas from its coal mines to BWM and BWT. The Company’s net investments in, advances to/from and equity in earnings or loss of BWT are not material to the Company. The Company supplied labor to BWM and incurred costs, including property and liability insurance, to support the joint venture. The Company charged the joint venture for such costs on a monthly basis, which were \$2.6 million for the year ended December 31, 2020, \$1.5 million for the year ended December 31, 2019, \$3.2 million for the year ended December 31, 2018.

**Note 16—Commitments and Contingencies**

**Environmental Matters**

The Company is subject to a wide variety of laws and regulations concerning the protection of the environment, both with respect to the construction and operation of its plants, mines and other facilities and with respect to remediating environmental conditions that may exist at its own and other properties.

The Company believes that it is in substantial compliance with federal, state and local environmental laws and regulations. The Company accrues for environmental expenses resulting from existing conditions that relate to past operations when the costs are probable and can be reasonably estimated. As of December 31, 2020 and December 31, 2019, there were no accruals for environmental matters other than asset retirement obligations for mine reclamation.

**WARRIOR MET COAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**Miscellaneous Litigation**

From time to time, the Company is party to a number of lawsuits arising in the ordinary course of their businesses. The Company records costs relating to these matters when a loss is probable and the amount can be reasonably estimated. The effect of the outcome of these matters on the Company's future results of operations cannot be predicted with certainty as any such effect depends on future results of operations and the amount and timing of the resolution of such matters. As of December 31, 2020 and December 31, 2019, there were no items accrued for miscellaneous litigation.

**Walter Canada Settlement Proceeds**

On July 15, 2015, Walter Energy and certain of its wholly owned U.S. subsidiaries, including Jim Walter Resources, Inc. ("JWR") filed voluntary petitions for relief under Chapter 11 of Title 11 of the U.S. Bankruptcy Code (the "Chapter 11 Cases") in the Northern District of Alabama, Southern Division. On December 7, 2015, Walter Energy Canada Holdings, Inc., Walter Canadian Coal Partnership and their Canadian affiliates (collectively "Walter Canada") applied for and were granted protection under the Companies' Creditors Arrangement Act (the "CCAA") pursuant to an Initial Order of the Supreme Court of British Columbia.

In connection with the Company's acquisition of certain core operating assets of Walter Energy, the Company acquired a receivable owed to Walter Energy by Walter Canada for certain shared services provided by Walter Energy to Walter Canada (the "Shared Services Claim") and a receivable for unpaid interest owed to Walter Energy from Walter Canada in respect of a promissory note (the "Hybrid Debt Claim"). Each of these claims were asserted by the Company in the Walter Canada CCAA proceedings. Walter Energy deemed these receivables to be uncollectable for the year ended December 31, 2015 and the Company did not assign any value to these receivables in acquisition accounting as collectability was deemed remote. In March 2020, the Company received approximately \$1.8 million in settlement proceeds for the Shared Services Claim and Hybrid Debt Claim and an additional \$1.7 million in the fourth quarter of 2020, which are reflected as other income in the Statements of Operations. These settlement proceeds are in addition to the \$22.8 million received in 2019 which are reflected as other income in the Statements of Operations. The collectability of additional amounts, if any, related to the Shared Services Claim and Hybrid Debt Claim depends on the outcome of, and the timing of any resolutions of, the Walter Canada CCAA proceedings and cannot be predicted with certainty.

**Commitments and Contingencies—Other**

The Company is party to various transportation and throughput agreements with rail and barge transportation providers and the Alabama State Port Authority. These agreements contain annual minimum tonnage guarantees with respect to coal transported from the mine sites to the Port of Mobile in Alabama, unloading of rail cars or barges, and the loading of vessels. If the Company does not meet its minimum throughput obligations, which are based on annual minimum amounts, it is required to pay the transportation providers or the Alabama State Port Authority a contractually specified amount per metric ton for the difference between the actual throughput and the minimum throughput requirement. At December 31, 2020 and December 31, 2019, the Company had no liability recorded for minimum throughput requirements.

**Royalty Obligations**

A substantial amount of the coal that the Company mines is produced from mineral reserves leased from third-party land owners. These leases convey mining rights to the Company in exchange for royalties to be paid to the land owner as either a fixed amount per ton or as a percentage of the sales price. Although coal leases have varying renewal terms and conditions, they generally last for the economic life of the reserves. Coal royalty expense was \$49.5 million, \$87.3 million, \$101.0 million, for the years ended December 31, 2020, December 31, 2019, and December 31, 2018, respectively.

**Note 17—Stockholders' Equity**

**New Stock Repurchase Program**

On March 26, 2019, the Board approved the Company's second stock repurchase program (the "New Stock Repurchase Program") that authorizes repurchases of up to an aggregate of \$70.0 million of the Company's outstanding common stock. The Company fully exhausted its previous stock repurchase program (the "First Stock Repurchase Program") of \$40.0 million of its outstanding common stock. The New Stock Repurchase Program does not require the Company to

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repurchase a specific number of shares or have an expiration date. The New Stock Repurchase Program may be suspended or discontinued by the Board at any time without prior notice.

Under the New Stock Repurchase Program, the Company may repurchase shares of its common stock from time to time, in amounts, at prices and at such times as the Company deems appropriate, subject to market and industry conditions, share price, regulatory requirements and other considerations as determined from time to time by the Company. The Company's repurchases may be executed using open market purchases or privately negotiated transactions in accordance with applicable securities laws and regulations, including Rule 10b-18 of the Exchange Act and repurchases may be executed pursuant to Rule 10b5-1 under the Exchange Act. Repurchases will be subject to limitations in the ABL Facility and the Indenture. The Company intends to fund repurchases under the New Stock Repurchase Program from cash on hand and/or other sources of liquidity.

During the year ended December 31, 2019, the Company repurchased 500,000 shares for approximately \$10.6 million, leaving \$58.8 million of share repurchases authorized under the New Stock Repurchase Program.

In light of the uncertainties resulting from COVID-19 and as a precautionary measure to preserve liquidity, the Company has temporarily suspended its New Stock Repurchase Program. The Company will continue to monitor its liquidity in light of the COVID-19 pandemic and will consider when to reinstate the program.

#### **First Stock Repurchase Program**

On May 2, 2018, the Board approved the First Stock Repurchase Program that authorized repurchases of up to an aggregate of \$40.0 million of the Company's outstanding common stock.

During the first quarter of 2019, the Company repurchased the remaining share repurchases authorized under the First Stock Repurchase Program for approximately \$1.9 million.

#### **Secondary Equity Offerings**

On May 10, 2018 certain stockholders of the Company sold 8,000,000 shares of the Company's common stock in a public secondary offering at a price to the underwriter of \$24.20 per share. The Company did not receive any of the proceeds from this offering. In connection with this offering, the Company repurchased 500,000 shares of common stock under the First Stock Repurchase Program, funded with cash on hand for the aggregate amount of \$12.1 million (the "Stock Repurchase"). The shares repurchased by the Company in the Stock Repurchase are reflected as Treasury Stock on the Balance Sheets.

On June 14, 2018, certain stockholders of the Company sold 5,000,000 shares of the Company's common stock in a public secondary offering at a price to the underwriter of \$28.35 per share. The Company did not receive any of the proceeds from the offering.

On August 8, 2018, certain stockholders of the Company sold 2,204,806 shares of the Company's common stock in a public secondary offering at a price to the underwriter of \$25.40 per share. The Company did not receive any of the proceeds from the offering.

We refer to these offerings herein collectively as the "Secondary Equity Offerings." In connection with the Secondary Equity Offerings, we incurred transaction costs of approximately \$2.7 million for the year December 31, 2018.

#### **Note 18—Fair Value of Financial Instruments**

The Company has no significant assets or other liabilities measured at fair value on a recurring basis as of December 31, 2020 or December 31, 2019. During the year ended December 31, 2020, there were no transfers between Level 1, Level 2 and Level 3. The Company uses quoted dealer prices for similar contracts in active over-the-counter markets for determining fair value of Level 2 liabilities.

The following methods and assumptions were used to estimate the fair value for which the fair value option was not elected:

**WARRIOR MET COAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

*Cash and cash equivalents, short-term investments, restricted cash, receivables and accounts payable*—The carrying amounts reported in the Balance Sheet approximate fair value due to the short-term nature of these assets and liabilities.

*Debt*—The Company's outstanding debt is carried at cost. As of December 31, 2020, the Company had \$40.0 million outstanding under the ABL Facility, with \$31.6 million available, net of \$9.4 million of letters of credit issued and outstanding at such time. The estimated fair value of the Notes is approximately \$352.5 million based upon observable market data (Level 2) and the carrying amount of the ABL Facility approximates fair value as these securities are not traded.

**Note 19—Net (Loss) Income per Share**

The computation of basic net (loss) income per share is based on the number of weighted average common shares outstanding during the period. The computation of diluted net (loss) income per share is based on the weighted average number of shares outstanding plus the incremental shares that would be outstanding assuming issuance of restricted stock. The number of incremental shares is calculated by applying the treasury stock method. Basic and diluted net (loss) income per share was calculated as follows (in thousands, except per share data):

	For the years ended December 31,		
	2020	2019	2018
<b>Numerator:</b>			
Net (loss) income	\$ (35,761)	\$ 301,699	\$ 696,787
<b>Denominator:</b>			
Weighted-average shares used to compute net (loss) income per share—basic	51,168	51,363	52,812
Dilutive restricted stock awards and units <sup>(1)</sup>	—	130	106
Weighted-average shares used to compute net (loss) income per share—diluted	51,168	51,493	52,918
<b>Net (loss) income per share—basic</b>	<u>\$ (0.70)</u>	<u>\$ 5.87</u>	<u>\$ 13.19</u>
<b>Net (loss) income per share—diluted</b>	<u>\$ (0.70)</u>	<u>\$ 5.86</u>	<u>\$ 13.17</u>

<sup>(1)</sup> In periods of net loss, the number of shares used to calculate diluted earnings per share is the same as basic earnings per share; therefore, the effect of dilutive securities is zero for such periods.

As of December 31, 2020, there were 281,588 restricted stock unit awards for which the service-based vesting conditions for these awards were not met as of the measurement date. As such, these awards were excluded from basic earnings per share.

As of December 31, 2020, there were 447,295 shares granted under the 2017 Equity Plan to employees, for which neither the service based nor performance based vesting conditions were met as of the measurement date. As such, these shares have been excluded from basic and diluted earnings per share.

As of December 31, 2020, there were 52,221 shares of common stock issued under the 2016 Equity Plan to certain directors and employees, for which the service based vesting conditions were not met as of the measurement date. As such, these awards were excluded from basic earnings per share.

As of December 31, 2020, there were 43,580 shares of common stock contingently issuable upon the settlement of a vested phantom unit award under the 2016 Equity Plan and 13,157 shares of common stock contingently issuable upon the settlement of a vested restricted stock unit award under the 2017 Equity Plan. The settlement date is the earlier of a change in control as described in the 2016 Equity Plan and 2017 Equity Plan or five years from the grant date. These awards are vested and as such have been included in the weighted-average shares used to compute basic and diluted net (loss) income per share.

**WARRIOR MET COAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**Dividends**

On May 17, 2017, the Board adopted the Dividend Policy of paying a quarterly cash dividend of \$0.05 per share. The Dividend Policy also states the following: In addition to the regular quarterly dividend and to the extent that the Company generates excess cash that is beyond the then current requirements of the business, the Board may consider returning all or a portion of such excess cash to stockholders through a special dividend or implementation of a stock repurchase program. Any future dividends or stock repurchases will be at the discretion of the Board and subject to consideration of a number of factors, including business and market conditions, future financial performance and other strategic investment opportunities. The Company will also seek to optimize its capital structure to improve returns to stockholders while allowing flexibility for the Company to pursue very selective strategic growth opportunities that can provide compelling stockholder returns.

The Company has paid a regular quarterly cash dividend of \$0.05 per share every quarter since the Board adopted the Dividend Policy. As of December 31, 2020, the Company has paid \$39.5 million of regular quarterly cash dividends under the Dividend Policy.

On April 3, 2018, the Board declared the April Special Dividend of approximately \$350.0 million, which was funded with the net proceeds from the offering of the New Notes due 2024, together with cash on hand of approximately \$225.0 million, and was paid on April 20, 2018 to stockholders of record as of the close of business on April 13, 2018.

On April 23, 2019, the Board declared a special cash dividend of \$4.41 per share (the "April 2019 Special Dividend"), totaling approximately \$230.0 million, which was paid on May 14, 2019 to stockholders of record as of the close of business on May 6, 2019.

**Note 20—Segment Information**

The Company identifies a business as an operating segment if: i) it engages in business activities from which it may earn revenues and incur expenses; ii) its operating results are regularly reviewed by the Chief Operating Decision Maker ("CODM"), who is the Company's Chief Executive Officer, to make decisions about resources to be allocated to the segment and assess its performance; and iii) it has available discrete financial information. The Company has determined that its two underground mining operations are its operating segments. The CODM reviews financial information at the operating segment level to allocate resources and to assess the operating results and financial performance for each operating segment. Operating segments are aggregated into a reportable segment if the operating segments have similar quantitative economic characteristics and if the operating segments are similar in the following qualitative characteristics: i) nature of products and services; ii) nature of production processes; iii) type or class of customer for their products and services; iv) methods used to distribute the products or provide services; and v) if applicable, the nature of the regulatory environment.

The Company has determined that the two operating segments are similar in both quantitative and qualitative characteristics and thus the two operating segments have been aggregated into one reportable segment. The Company has determined that its natural gas and royalty businesses and other unallocated activities did not meet the criteria in ASC 280 to be considered as operating or reportable segments. Therefore, the Company has included their results in an "all other" category as a reconciling item to consolidated amounts.

The Company does not allocate all of its assets, or its depreciation and depletion expense, selling, general and administrative expenses, other post-retirement benefits, transactions costs, restructuring costs, interest expense, reorganization items, net and income tax expense by segment.

The following tables include reconciliations of segment information to consolidated amounts (in thousands):

**WARRIOR MET COAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

	For the years ended December 31,		
	2020	2019	2018
<b>Revenues</b>			
Mining	\$ 761,871	\$ 1,235,998	\$ 1,342,683
All other	20,867	32,311	35,324
<b>Total revenues</b>	<u>\$ 782,738</u>	<u>\$ 1,268,309</u>	<u>\$ 1,378,007</u>

	For the years ended December 31,		
	2020	2019	2018
<b>Capital Expenditures</b>			
Mining	\$ 78,015	\$ 100,768	\$ 97,607
All other	9,473	6,510	4,013
<b>Total capital expenditures</b>	<u>\$ 87,488</u>	<u>\$ 107,278</u>	<u>\$ 101,620</u>

The Company evaluates the performance of its segment based on Segment Adjusted EBITDA, which is defined as net (loss) income adjusted for other revenues, cost of other revenues, depreciation and depletion, selling, general and administrative, other postretirement benefits, and certain transactions or adjustments that the CODM does not consider for the purposes of making decisions to allocate resources among segments or assessing segment performance. Segment Adjusted EBITDA does not represent and should not be considered as an alternative to cost of sales under GAAP and may not be comparable to other similarly titled measures used by other companies. Below is a reconciliation of Segment Adjusted EBITDA to net (loss) income, which is its most directly comparable financial measure calculated and presented in accordance with GAAP (in thousands):

	For the years ended December 31,		
	2020	2019	2018
<b>Segment Adjusted EBITDA</b>	\$ 136,701	\$ 515,253	\$ 626,038
Other revenues	20,867	32,311	35,324
Cost of other revenues	(33,736)	(29,828)	(10,172)
Depreciation and depletion	(118,092)	(97,330)	(97,209)
Selling, general and administrative	(32,879)	(37,014)	(36,626)
Transaction and other costs	—	—	(9,068)
Loss on early extinguishment of debt	—	(9,756)	—
Other income	3,544	22,815	—
Interest expense, net	(32,310)	(29,335)	(37,314)
Income tax (expense) benefit	20,144	(65,417)	225,814
<b>Net (loss) income</b>	<u>\$ (35,761)</u>	<u>\$ 301,699</u>	<u>\$ 696,787</u>

**Note 21—Subsequent Events**

**Regular Quarterly Dividend**

On February 18, 2021, the Board declared a regular quarterly cash dividend of \$0.05 per share, totaling \$2.6 million, which will be paid on March 8, 2021, to stockholders of record as of the close of business on March 1, 2021.

**WARRIOR MET COAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**Alabama House Bill**

On February 12, 2021, the Alabama Governor signed into law Alabama House Bill 170, now Act 2021-1 (“the Act”). The Act makes several changes to the state’s business tax structure. While the Company expects that the Act, in its entirety, will not adversely affect the Company, the Company is closely monitoring whether any provisions of the Act could adversely impact the Company. Among the provisions of the Act, is the repeal of the so-called corporate income tax “throwback rule.” That rule required all sales originating in Alabama and delivered to a jurisdiction where the seller was not subject to tax, to be included in the seller’s Alabama income tax base. Thus, prior to repeal of the throwback rule, the Company had to rely on its Alabama NOL carryforwards to shelter taxes imposed under such throwback rule. As a result of the now repealed throwback rule, effective January 1, 2021, all such sales should now be excluded from Alabama taxable income without the need to utilize Alabama NOLs. If it is determined that as a result of the repeal of the throwback rule it is more likely than not that the Company would not have sufficient taxable income to utilize the Company’s state deferred income tax assets, the Company may be required to establish a valuation allowance against such state deferred income tax assets.

**SUPPLEMENTAL SUMMARY QUARTERLY FINANCIAL INFORMATION (UNAUDITED)**  
(in thousands, except per share amounts)

Fiscal Year 2020	Quarter Ended			
	March 31	June 30	September 30	December 31
Total revenues	\$ 226,720	\$ 163,701	\$ 180,064	\$ 212,253
Gross profit <sup>(1)</sup>	\$ 67,645	\$ 25,282	\$ 21,630	\$ 9,275
Operating income (loss)	\$ 30,497	\$ (5,331)	\$ (14,527)	\$ (37,778)
Net income (loss) <sup>(2)</sup>	\$ 21,545	\$ (9,161)	\$ (14,434)	\$ (33,711)
Net income (loss) per share—basic <sup>(4)</sup>	\$ 0.42	\$ (0.18)	\$ (0.28)	\$ (0.66)
Net income (loss) per share—diluted <sup>(4)</sup>	\$ 0.42	\$ (0.18)	\$ (0.28)	\$ (0.66)

Fiscal Year 2019	Quarter Ended			
	March 31	June 30	September 30	December 31
Total revenues	\$ 378,290	\$ 397,613	\$ 287,506	\$ 204,901
Gross profit <sup>(1)</sup>	\$ 187,917	\$ 184,406	\$ 89,702	\$ 55,713
Operating income	\$ 156,779	\$ 147,945	\$ 54,599	\$ 24,071
Net income <sup>(3)</sup>	\$ 110,447	\$ 125,481	\$ 45,022	\$ 20,751
Net income per share—basic <sup>(4)</sup>	\$ 2.14	\$ 2.43	\$ 0.88	\$ 0.41
Net income per share—diluted <sup>(4)</sup>	\$ 2.14	\$ 2.43	\$ 0.87	\$ 0.41

<sup>(1)</sup> Represents total revenues less cost of sales (exclusive of items shown separately below) and cost of other revenues (exclusive of items shown separately below) for each respective period.

<sup>(2)</sup> Net income for the three months ended March 31, 2020 includes proceeds received for the Shared Services Claim and Hybrid Debt Claim of \$1.8 million. Net loss for the three months ended December 31, 2020 includes settlement proceeds of \$1.7 million related to other Walter Energy claims.

<sup>(3)</sup> Net income for the three months ended March 31, 2019 includes a loss on early extinguishment of debt of \$9.8 million. Net income includes proceeds received for the Shared Services Claim and Hybrid Debt Claim of \$17.5 million and \$5.3 million for the three months ended June 30, 2019 and September 30, 2019, respectively. Net income for the three months ended December 31, 2019 includes a change in ARO due to revisions to estimates of \$7.8 million which is discussed further in Note 8.

<sup>(4)</sup> The sum of quarterly amounts may not equal the annual amounts reported due to rounding. In addition, the sum of quarterly EPS amounts may be different than annual amounts as a result of the impact of variations in shares outstanding.



**CORPORATE HEADQUARTERS**

Warrior Met Coal, Inc.  
16243 Highway 216  
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Tel: 205.554.6150  
Web: [www.warriormetcoal.com](http://www.warriormetcoal.com)

**INVESTOR CONTACT**

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Brookwood, AL 35444  
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**BOARD OF DIRECTORS**

Stephen D. Williams - Chairman (4,5)

Ana B. Amicarella (1, 3, 4)

J. Brett Harvey - Lead Director (1, 2, 3)

Walter J. Scheller, III (4, 5)

Alan H. Schumacher (1, 2)

Gareth N. Turner (2, 3, 5)

**BOARD OF DIRECTORS COMMITTEES**

- 1 - Audit Committee
- 2 - Compensation Committee
- 3 - Nominating and Corporate Governance Committee
- 4 - Environmental, Health & Safety Committee
- 5 - Finance Committee

**ANNUAL MEETING**

The Annual Meeting of Shareholders of Warrior Met Coal, Inc. will be held Tuesday, April 27, 2021 at 9:00 am CST online via live webcast. Details regarding how to participate are more fully described in the company's proxy statement.

**FORM 10-K**

Additional copies of the company's Annual Report on Form 10-K for the year ended December 31, 2020 are available on the company's website, or without charge, by written request to:

Investor Relations  
Warrior Met Coal, Inc.  
16243 Highway 216  
Brookwood, AL 35444  
Tel: 205.554.6150  
Or by e-mail to: [investorrelations@warriormetcoal.com](mailto:investorrelations@warriormetcoal.com)

**COMMON STOCK**

New York Stock Exchange / Symbol: HCC

**TRANSFER AGENT AND REGISTRAR**

**Computershare**  
462 South 4th Street, Suite 1600  
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United States

P.O. Box 505000  
Louisville, KY 40233-5000  
United States  
Shareholder Services  
Tel: 1.800.736.3001  
[www.computershare.com](http://www.computershare.com)

**INDEPENDENT ACCOUNTANTS**

**Ernst & Young, LLP**  
1901 Sixth Avenue North, Suite 1200  
Birmingham, AL 35203

**OFFICERS OF THE CORPORATION**

**Walter J. Scheller, III**  
Chief Executive Officer

**Jack K. Richardson**  
Chief Operating Officer

**Dale W. Boyles**  
Chief Financial Officer

**Kelli K. Gant**  
Chief Administrative Officer and Corporate Secretary

**Charles Lussier**  
Chief Commercial Officer

**Brian M. Chopin**  
Chief Accounting Officer and Controller



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