

CLOUD PEAK ENERGY INC.

Form 10-Q

October 28, 2016

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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

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: 001-34547

## Cloud Peak Energy Inc.

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**26-3088162**

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

**505 S. Gillette Ave., Gillette, Wyoming**

(Address of principal executive offices)

**82716**

(Zip Code)

**(307) 687-6000**

(Registrant's telephone number, including area code)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large  
accelerated filer

Accelerated  
filer

Non-accelerated filer  
(Do not check if a smaller reporting  
company)

Smaller reporting  
company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Number of shares outstanding of Cloud Peak Energy Inc. s common stock, as of the latest practicable date: Common stock, \$0.01 par value per share, 61,455,684 shares outstanding as of October 19, 2016.

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**CLOUD PEAK ENERGY INC.**

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Unless the context indicates otherwise, the terms "Cloud Peak Energy," "the Company," "we," "us," and "our" refer to Cloud Peak Energy Inc. ("CPE") and its subsidiaries.

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****CLOUD PEAK ENERGY INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF  
OPERATIONS AND COMPREHENSIVE INCOME**

(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue	\$ 217,073	\$ 301,673	\$ 572,510	\$ 863,374
<b>Costs and expenses</b>				
Cost of product sold (exclusive of depreciation and depletion, amortization, and accretion)	164,287	248,500	469,938	735,258
Depreciation and depletion	23,460	7,896	23,052	51,742
Amortization of port access rights		928		2,783
Accretion	1,065	3,070	5,641	9,960
(Gain) loss on derivative financial instruments	1,068	10,235	(5,257)	17,781
Selling, general and administrative expenses	11,161	12,983	38,187	36,743
Impairments	312		4,499	33,355
Debt restructuring costs	4,499		4,499	
Other operating costs	360	603	814	1,121
Total costs and expenses	206,212	284,215	541,373	888,743
Operating income (loss)	10,861	17,458	31,137	(25,369)
<b>Other income (expense)</b>				
Interest income	46	37	116	137
Interest expense	(13,032)	(10,985)	(35,371)	(36,274)
Other, net	(165)	253	(760)	158
Total other income (expense)	(13,151)	(10,695)	(36,015)	(35,979)
Income (loss) before income tax provision and earnings from unconsolidated affiliates	(2,290)	6,763	(4,878)	(61,348)
Income tax benefit (expense)	647	2,205	3,226	12,350
Income (loss) from unconsolidated affiliates, net of tax	59	(95)	(1,018)	294
Net income (loss)	(1,584)	8,873	(2,670)	(48,704)
<b>Other comprehensive income (loss)</b>				
Postretirement medical plan amortization of prior service costs	(1,872)	313	(3,381)	939
Postretirement medical plan change			42,851	
Income tax on postretirement medical and pension changes	(831)	(116)	(2,776)	(347)
Other comprehensive income (loss)	(2,703)	197	36,694	592
Total comprehensive income (loss)	\$ (4,287)	\$ 9,070	\$ 34,024	\$ (48,112)
<b>Income (loss) per common share:</b>				

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Basic	\$	(0.03)	\$	0.15	\$	(0.04)	\$	(0.80)
Diluted	\$	(0.03)	\$	0.14	\$	(0.04)	\$	(0.80)
Weighted-average shares outstanding - basic		61,365		61,074		61,285		61,013
Weighted-average shares outstanding - diluted		61,365		61,351		61,285		61,013

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

Table of Contents**CLOUD PEAK ENERGY INC.****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands)

	September 30, 2016	December 31, 2015
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 90,301	\$ 89,313
Accounts receivable	43,347	43,248
Due from related parties	79	160
Inventories, net	72,996	76,763
Income tax receivable	1,040	8,659
Other prepaid and deferred charges	16,758	25,945
Other assets	2,086	98
Total current assets	226,607	244,186
<b>Noncurrent assets</b>		
Property, plant and equipment, net	1,439,474	1,488,371
Goodwill	2,280	2,280
Other assets	58,558	67,323
Total assets	\$ 1,726,919	\$ 1,802,160
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 26,335	\$ 44,385
Royalties and production taxes	69,160	74,054
Accrued expenses	42,950	42,317
Other liabilities	2,139	2,133
Total current liabilities	140,584	162,889
<b>Noncurrent liabilities</b>		
Senior notes	492,308	491,160
Asset retirement obligations, net of current portion	102,579	151,755
Accumulated postretirement medical benefit obligation, net of current portion	20,876	60,845
Royalties and production taxes	27,708	34,680
Other liabilities	15,550	12,950
Total liabilities	799,605	914,279
Commitments and Contingencies (Note 10)		
<b>Equity</b>		
Common stock (\$0.01 par value; 200,000 shares authorized; 61,933 and 61,647 shares issued and 61,456 and 61,170 outstanding as of September 30, 2016 and December 31, 2015, respectively)	615	612
Treasury stock, at cost (477 shares as of both September 30, 2016 and December 31, 2015)	(6,498)	(6,498)
Additional paid-in capital	580,280	574,874
Retained earnings	329,174	331,844
Accumulated other comprehensive income (loss)	23,743	(12,951)
Total equity	927,314	887,881
Total liabilities and equity	\$ 1,726,919	\$ 1,802,160

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



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## CLOUD PEAK ENERGY INC.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Nine Months Ended September 30,	
	2016	2015
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ (2,670)	\$ (48,704)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and depletion	23,052	51,742
Amortization of port access rights		2,783
Accretion	5,641	9,960
Impairments	4,499	33,355
Loss (income) from unconsolidated affiliates, net of tax	1,018	(294)
Distributions of income from unconsolidated affiliates	1,500	
Deferred income taxes	(2,775)	(10,115)
Equity-based compensation expense	9,250	4,819
(Gain) loss on derivative financial instruments	(5,257)	17,781
Cash received (paid) on derivative financial instrument settlements	(3,195)	(1,618)
Premium payments on derivative financial instruments		(5,813)
Non-cash interest expense related to the bank amendment and refinancing	1,254	
Net periodic postretirement benefit costs	(423)	6,072
Non-cash logistic agreements expense	24,500	
Three year amendment of logistics contracts	(15,000)	
Other	1,918	1,953
Changes in operating assets and liabilities:		
Accounts receivable	(2,925)	25,614
Inventories, net	3,853	4,300
Due to or from related parties	81	(3,925)
Other assets	16,774	(10,875)
Accounts payable and accrued expenses	(23,717)	(14,191)
Asset retirement obligations	(1,048)	(780)
Net cash provided by (used in) operating activities	36,330	62,064
<b>Investing activities</b>		
Purchases of property, plant and equipment	(30,148)	(28,125)
Cash paid for capitalized interest	(1,272)	(404)
Investment in development projects	(1,500)	(1,526)
Investment in unconsolidated affiliates		(5,383)
Payment of restricted cash		(6,500)
Insurance proceeds	2,826	
Other	46	185
Net cash provided by (used in) investing activities	(30,048)	(41,753)
<b>Financing activities</b>		
Principal payments on federal coal leases		(63,970)
Payment of deferred financing costs	(3,581)	(342)
Other	(1,713)	(1,225)
Net cash provided by (used in) financing activities	(5,294)	(65,537)

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Net increase (decrease) in cash and cash equivalents	988	(45,226)
Cash and cash equivalents at beginning of period	89,313	168,745
Cash and cash equivalents at end of period	\$ 90,301	\$ 123,519
<b>Supplemental cash flow disclosures:</b>		
Interest paid	\$ 28,287	\$ 32,827
Income taxes paid (refunded)	\$ (8,247)	\$ 10,123
<b>Supplemental non-cash investing and financing activities:</b>		
Capital expenditures included in accounts payable	\$ 1,794	\$ 6,401
Assets acquired under capital leases	\$ 115	\$

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

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**CLOUD PEAK ENERGY INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Organization and Business**

We are one of the largest producers of coal in the United States of America ( U.S. ) and the Powder River Basin ( PRB ), based on our 2015 coal sales. We operate some of the safest mines in the coal industry. According to the most current Mine Safety and Health Administration ( MSHA ) data, we have one of the lowest employee all injury incident rates among the largest U.S. coal producing companies.

We currently operate solely in the PRB, the lowest cost region of the major coal producing regions in the U.S., where we own and operate three surface coal mines: the Antelope Mine, the Cordero Rojo Mine, and the Spring Creek Mine.

Our Antelope Mine and Cordero Rojo Mine are located in Wyoming and our Spring Creek Mine is located in Montana. Our mines produce subbituminous thermal coal with low sulfur content, and we sell our coal primarily to domestic electric utilities. Thermal coal is primarily consumed by electric utilities and industrial consumers as fuel for electricity generation. In 2015, the coal we produced generated approximately 3% of the electricity produced in the U.S. We do not produce any metallurgical coal.

In addition, we have two development projects. The Youngs Creek project, an undeveloped surface mine project in the Northern PRB region, is located in Wyoming, approximately 13 miles north of Sheridan, Wyoming, seven miles south of our Spring Creek Mine and seven miles from the mainline railroad, contiguous with the Wyoming-Montana state line. We have not been able to classify the Youngs Creek project mineral rights as proven and probable reserves as they remain subject to further exploration and evaluation based on market conditions. We also have an option to lease agreement and a corresponding exploration agreement with the Crow Tribe of Indians (the Big Metal project ). The Big Metal project is located on the Crow Indian Reservation in southeast Montana and is near the Youngs Creek project. We are in the process of evaluating development options for the Youngs Creek project and the Big Metal project and believe that their proximity to the Spring Creek Mine represents an opportunity to optimize our mine developments in the Northern PRB. For purposes of this report, the term Northern PRB refers to the area within the PRB that lies within Montana and the northern part of Sheridan County, Wyoming.

In 2015, we amended agreements with Westshore Terminals Limited Partnership ( Westshore ) and Burlington Northern Santa Fe Railway ( BNSF ) providing for reduced quarterly take-or-pay payments from 2016 through 2018. We meet regularly with Westshore and BNSF to discuss market conditions, potential shipments, and the terms for such shipments, if any. The recent increase in seaborne thermal coal pricing has enabled us to begin contracting export shipments for delivery between November 2016 and February 2017. Shipments will directly offset the amended take-or-pay obligations on a ton-for-ton basis.

***Principles of Consolidation***

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The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ( U.S. GAAP ). In accordance with U.S. GAAP for interim financial statements, these unaudited condensed consolidated financial statements do not include certain information and footnote disclosures that are required to be included in annual financial statements prepared in conformity with U.S. GAAP. The year-end unaudited condensed consolidated balance sheet data was derived from audited consolidated financial statements. Accordingly, these unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of December 31, 2015 and 2014, and for each of the three years ended December 31, 2015, included in our Annual Report on Form 10-K for the year ended December 31, 2015 ( 2015 Form 10-K ). In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, which are of a normal and recurring nature, necessary to a fair statement of our financial position as of September 30, 2016, and the results of our operations, comprehensive income, and cash flows for the nine months ended September 30, 2016 and 2015, in conformity with U.S. GAAP. Our results of operations for the three and nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for future quarters or for the year ended December 31, 2016.

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**CLOUD PEAK ENERGY INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The preparation of our unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires our 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 revenue and expenses during the reporting periods. Significant estimates in these unaudited condensed consolidated financial statements include: assumptions about the amount and timing of future cash flows and related discount rates used in determining asset retirement obligations ( AROs ) and in testing long-lived assets and goodwill for impairment; the fair value of derivative financial instruments; the calculation of mineral reserves; equity-based compensation expense; workers' compensation claims; reserves for contingencies and litigation; useful lives of long-lived assets; postretirement employee benefit obligations; the recognition and measurement of income tax benefits and related deferred tax asset valuation allowances; and allowances for inventory obsolescence and net realizable value. Actual results could differ materially from those estimates.

Certain immaterial amounts in prior years have been reclassified to conform to the 2016 presentation. Due to the tabular presentation of rounded amounts, certain tables reflect insignificant rounding differences.

**2. Accounting Policies and Standards Update**

***Recently Issued Accounting Pronouncements***

From time to time, the Financial Accounting Standards Board ( FASB ) or other standard setting bodies issue new accounting pronouncements. Updates to the FASB Accounting Standards Codification are communicated through issuance of an Accounting Standards Update ( ASU ). Unless otherwise discussed, we believe that the impact of recently issued guidance, whether adopted or to be adopted in the future, is not expected to be material to our consolidated financial statements upon adoption.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments ( ASU 2016-15 ), which standardizes cash flow statement classification of certain transactions, including cash payments for debt prepayment or extinguishment, proceeds from insurance claim settlements, and distributions received from equity method investments. The new guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. We are considering the impact the adoption of ASU 2016-15 may have on our presentation of cash flows.

In March 2016, the FASB issued ASU 2016-09, Improvements to Share Based Payment Accounting ( ASU 2016-09 ), which simplifies the accounting for stock-based compensation transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The new guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. We are considering the impact the adoption of ASU 2016-09 may have on our results of operations, financial condition, and cash flows.

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In February 2016, the FASB issued ASU 2016-02, Leases ( ASU 2016-02 ), which would require the lessee to recognize the assets and liabilities on all leases that may have not been recognized in the past. The new guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. We are considering the impact the adoption of ASU 2016-02 may have on our results of operations, financial condition, and cash flows.

From May 2014 through May 2016, the FASB issued several ASUs related to Revenue from Contracts with Customers. These ASUs are intended to provide greater insight into both revenue that has been recognized and revenue that is expected to be recognized in the future from existing contracts. The new guidance is effective for interim and annual periods beginning after December 15, 2017, although entities may adopt one year earlier if they choose. We are considering the impact the adoption of the new revenue recognition ASUs may have on our results of operations, financial condition, and cash flows.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements - Going Concern ( ASU 2014-15 ), which would require disclosure of uncertainties about an entity's ability to continue as a going concern. The new

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guidance is effective for the annual period ending after December 15, 2016 and for interim periods thereafter. Early application is permitted. We plan to adopt ASU 2014-15 beginning December 31, 2016.

**3. Inventories, Net**

*Inventories, net* consisted of the following (in thousands):

	September 30, 2016	December 31, 2015
Materials and supplies	\$ 71,968	\$ 74,353
Less: Obsolescence allowance	(1,075)	(988)
Material and supplies, net	70,893	73,365
Coal inventory	2,103	3,398
Inventories, net	\$ 72,996	\$ 76,763

**4. Fair Value of Financial Instruments**

We use a three-level fair value hierarchy that categorizes assets and liabilities measured at fair value based on the observability of the inputs utilized in the valuation. The levels of the hierarchy, as defined below, give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

- Level 1 is defined as observable inputs such as quoted prices in active markets for identical assets. Our Level 1 assets include money market funds.

- Level 2 is defined as observable inputs other than Level 1 prices. These include quoted prices for similar assets or liabilities in an active market, quoted prices for identical assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Our Level 2 assets and liabilities include derivative financial instruments with fair values derived from quoted prices in over-the-counter markets or from prices received from direct broker quotes.

- Level 3 is defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. We had no Level 3 financial instruments as of September 30, 2016 or December 31, 2015.

The tables below set forth, by level, our financial assets and liabilities that are recorded at fair value in the accompanying unaudited condensed consolidated balance sheets (in thousands):

Description	Fair Value as of September 30, 2016			Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Money market funds (1)	\$ 14,040	\$	\$	\$ 14,040
<b>Liabilities</b>				
Derivative financial instruments	\$	\$ 2,282	\$	\$ 2,282



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## CLOUD PEAK ENERGY INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Description	Fair Value as of December 31, 2015			Total
	Level 1	Level 2		
<b>Assets</b>				
Money market funds (1)	\$ 41,285	\$	\$	41,285
<b>Liabilities</b>				
Derivative financial instruments	\$	\$ 10,734	\$	10,734

(1) Included in *Cash and cash equivalents* in the unaudited condensed consolidated balance sheets along with \$76.3 million and \$48.0 million of demand deposits as of September 30, 2016 and December 31, 2015, respectively.

We did not have any transfers between levels during the nine months ended September 30, 2016. Our policy is to value all transfers between levels using the beginning of period valuation.

**5. Derivative Financial Instruments***Coal Contracts*

We use derivative financial instruments to help manage our exposure to market changes in coal prices. To manage our exposure in the international markets, we have international coal forward contracts linked to forward Newcastle coal prices. We use domestic coal futures contracts referenced to the 8800 Btu coal price sold from the PRB, as quoted on the Chicago Mercantile Exchange ( CME ), to help manage our exposure to market changes in domestic coal prices.

Under the international coal forward contracts, if the monthly average index price is lower than the contract price, we receive the difference, and if the monthly average index price is higher than the contract price, we pay the difference. For our 2016 positions, we have executed offsetting contracts to lock in the amount we expect to receive each month.

Under the domestic coal futures contracts, if the monthly average index price is higher than the contract price, we receive the difference, and if the monthly average index price is lower than the contract price, we pay the difference. Amounts due to us or to the CME as a result of changes in the market price of our open domestic coal futures contracts and to fulfill margin requirements are received or paid through our brokerage bank on a daily basis; therefore, there is no asset or liability on the unaudited condensed consolidated balance sheets.

As of September 30, 2016, we held positions that are expected to settle in 2016 (in thousands, except per ton amounts):

	<b>2016</b>	
<b>International Coal Forward Contracts</b>		
Notional amount (tons)		66
Net asset position	\$	1,775
Weighted-average per ton	\$	100.13
<b>Domestic Coal Futures Contracts</b>		
Notional amount (tons)		20
Weighted-average per ton	\$	14.70

***WTI Derivatives***

We use derivative financial instruments, such as collars and swaps, to help manage our exposure to market changes in diesel fuel prices. The derivatives are indexed to the West Texas Intermediate ( WTI ) crude oil price as quoted on the New York Mercantile Exchange. As such, the nature of the derivatives does not directly offset market changes to our diesel costs.

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Under a collar agreement, we pay the difference between the monthly average index price and a floor price if the index price is below the floor, and we receive the difference between the ceiling price and the monthly average index price if the index price is above the ceiling price. No amounts are paid or received if the index price is between the floor and ceiling prices. While we would not receive the full benefit of price decreases beyond the floor price, the collars mitigate the risk of crude oil price increases and thereby increased diesel costs that would otherwise have a negative impact on our cash flow. We used collar agreements to fix a portion of our forecasted diesel costs for 2016.

Under a swap agreement, if the monthly average index price is higher than the swap price, we receive the difference and if the monthly average index price is lower than the swap price, we pay the difference. We used swap agreements to fix a portion of our forecasted diesel costs for 2016 and all our forecasted diesel costs for 2017.

As of September 30, 2016, we were fully hedged for 2016 and 2017 and held the following WTI derivative financial instruments:

Settlement Period	Floor		Ceiling		Swaps	
	Notional Amount (barrels in thousands)	Weighted-Average per Barrel	Notional Amount (barrels in thousands)	Weighted-Average per Barrel	Notional Amount (barrels in thousands)	Weighted-Average per Barrel
2016 collar positions	85	\$ 55.90	85	\$ 74.10		
2016 swap positions		\$		\$	85	\$ 64.83
2017 swap positions		\$		\$	636	\$ 55.00
Total	85	\$ 55.90	85	\$ 74.10	721	\$ 56.16

***Offsetting and Balance Sheet Presentation***

	Gross Amounts Recognized		September 30, 2016 Gross Amounts Offset in the Consolidated Balance Sheet		Net Amounts Presented in the Consolidated Balance Sheet	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
International coal forward contracts	\$ 1,775	\$	\$ (1,775)	\$ 1,775	\$	\$ 1,775
WTI derivative financial instruments		(4,057)				(4,057)
Total	\$ 1,775	\$ (4,057)	\$ (1,775)	\$ 1,775	\$	\$ (2,282)

	Gross Amounts Recognized	December 31, 2015 Gross Amounts Offset in the Consolidated Balance	Net Amounts Presented in the Consolidated Balance
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	Assets		Liabilities		Sheet		Assets		Sheet		Liabilities	
International coal forward contracts	\$	7,462	\$	(398)	\$	(7,462)	\$	7,462	\$		\$	7,064
WTI derivative financial instruments				(17,798)								(17,798)
Total	\$	7,462	\$	(18,196)	\$	(7,462)	\$	7,462	\$		\$	(10,734)

Net amounts of derivative liabilities are included in *Accrued expenses* in the unaudited condensed consolidated balance sheets. There were no cash collateral requirements as of September 30, 2016 or December 31, 2015.

Table of Contents**CLOUD PEAK ENERGY INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***Derivative Gains and Losses*

(Gain) loss on derivative financial instruments recognized in the unaudited condensed consolidated statement of operations and comprehensive income were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
International coal forward contracts	\$ (4)	\$ (1,153)	\$ (54)	\$ (5,999)
International coal put options		(4,039)		5,155
Domestic coal futures contracts	(58)	(564)	(55)	4,095
WTI derivative financial instruments	1,130	11,500	(5,148)	8,875
U.S. On-Highway Diesel derivative financial instruments		4,491		5,656
Net derivative financial instruments loss (gain)	\$ 1,068	\$ 10,235	\$ (5,257)	\$ 17,781

See Note 4 for a discussion related to the fair value of derivative financial instruments.

**6. Impairments***Goodwill*

During the second quarter of 2015, due to the weak domestic coal market outlook, especially as it related to 8400 Btu coal, coupled with our decision to reduce annual production at the Cordero Rojo Mine, we performed a goodwill impairment assessment. We determined that the carrying amount of the Cordero Rojo Mine exceeded its estimated fair value. The implied fair value of the related goodwill, which related to an acquisition completed in 1997, was \$0 requiring a \$33.4 million impairment charge related to our Owned and Operated Mines segment, which is reflected in the nine months ended September 30, 2015. The remaining \$2.3 million balance in goodwill relates to our other mines in the Owned and Operated Mines segment.

*Long-Lived Assets*

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Due to lower planned production estimates as well as continued weak coal prices, management completed an impairment analysis with respect to each of the mines in our Owned and Operated Mines segment during the second quarter of 2016. Although the impairment analysis did not indicate any impairment, if the prices of coal continue to remain depressed or if reserves become uneconomic for mining in the future, the long-lived assets in our Owned and Operated Mines segment are at risk for future impairments. Management is also evaluating certain idled equipment to determine if the associated costs are recoverable during the life of the mine but presently believes that all costs are recoverable. During the nine months ended September 30, 2016, we recorded impairments of \$2.5 million in the Owned and Operated Mines segment, primarily for engineering costs related to the Overland Conveyor project at our Antelope Mine and \$2.0 million related to a shovel that we no longer expect to use because of declining production that is part of Other.

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Senior notes consisted of the following (in thousands):

	<b>September 30, 2016</b>			
	<b>Principal</b>	<b>Unamortized Discount and Debt Issuance Costs</b>	<b>Carrying Value</b>	<b>Fair Value (1)</b>
8.50% senior notes due 2019	\$ 300,000	\$ (4,009)	\$ 295,991	\$ 246,000
6.375% senior notes due 2024	200,000	(3,683)	196,317	104,500
Total senior notes	\$ 500,000	\$ (7,692)	\$ 492,308	\$ 350,500

	<b>December 31, 2015</b>			
	<b>Principal</b>	<b>Unamortized Discount and Debt Issuance Costs</b>	<b>Carrying Value</b>	<b>Fair Value (1)</b>
8.50% senior notes due 2019	\$ 300,000	\$ (4,785)	\$ 295,215	\$ 151,500
6.375% senior notes due 2024	200,000	(4,055)	195,945	61,000
Total senior notes	\$ 500,000	\$ (8,840)	\$ 491,160	\$ 212,500

(1) The fair value of the senior notes was based on observable market inputs, which are considered Level 2 in the fair value hierarchy.

**Subsequent Event**

On October 17, 2016, our direct and indirect wholly-owned subsidiaries, CPE Resources and Cloud Peak Energy Finance Corp. (collectively, the Issuers), completed offers to exchange (the Exchange Offers) up to \$400 million aggregate principal amount of their outstanding 8.50% Senior Notes due 2019 (the 2019 Notes) and 6.375% Senior Notes due 2024 (the 2024 Notes), together with the 2019 Notes, the Old Notes) for new secured 12.00% Second Lien Notes due 2021 to be issued by the Issuers (the New Secured Notes) and, in some cases, cash consideration, subject to the terms and conditions of the Exchange Offers. The primary purposes of the Exchange Offers were to extend the maturity of the 2019 Notes to November 2021, to reduce leverage by capturing the trading discounts on the Old Notes and to further our ongoing efforts to provide sufficient liquidity to manage through depressed industry conditions and better position the capital structure to help facilitate a future extension of the Credit Agreement or new bank facility or other line of credit before the Credit Agreement terminates in February 2019.

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Holders of \$237.9 million aggregate principal amount of the 2019 Notes and \$143.6 million aggregate principal amount of the 2024 Notes tendered such notes pursuant to the Exchange Offers. On October 17, 2016, the Issuers accepted for exchange all such Old Notes validly tendered, issued \$290.4 million aggregate principal amount of New Secured Notes, and made cash payments of \$26.0 million in the aggregate (including \$7.7 million in accrued and unpaid interest) to tendering holders of the Old Notes. The transaction resulted in recognition of \$4.5 million in expenses for the three months ended September 30, 2016. Upon completion of the Exchange Offers, \$62.1 million aggregate principal amount of the 2019 Notes and \$56.4 million aggregate principal amount of the 2024 Notes remain outstanding.

The exchanges of the Old Notes for the New Secured Notes were accounted for as a troubled debt restructuring. As the future cash flows of the New Secured Notes were greater than the carrying amount of the Old Notes, no gain was recognized. The amount of extinguished debt will be amortized over the remaining life of the New Secured Notes using the effective interest method and recognized as a reduction of interest expense. As a result, our reported interest expense will be significantly less than the contractual cash interest payments throughout the term of the New Secured Notes. Our current tax attributes are expected to offset any cash tax impacts from the Exchange Offers.



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The following tables reflect the impact the Exchange Offers had on our *Senior notes*:

	September 30, 2016 Carrying Value	Exchanges	Deferred Gain on Forgiven Debt	Cash Premium Paid	Post- transaction Adjusted Carrying Value
8.5% senior notes due 2019	\$ 295,991	\$ (199,703)	\$ (35,024)	\$	\$ 61,264
6.375% senior notes due 2024	196,317	(90,663)	(50,284)		55,370
12.0% second lien senior notes due 2021		290,366	85,308	(18,335)	357,339
Total senior notes	\$ 492,308	\$	\$	\$ (18,335)	\$ 473,973

	Post- transaction Adjusted Carrying Value	Unamortized Debt Issuance Costs and Cash Premium Paid	Unamortized Deferred Gain on Forgiven Debt	Post- transaction Principal Balance
8.5% senior notes due 2019	\$ 61,264	\$ 830	\$	\$ 62,094
6.375% senior notes due 2024	55,370	1,039		56,409
12.0% second lien senior notes due 2021	357,339	18,335	(85,308)	290,366
Total senior notes	\$ 473,973	\$ 20,204	\$ (85,308)	\$ 408,869

**8. Asset Retirement Obligations**

Changes in the carrying amount of our asset retirement obligations were as follows (in thousands):

	2016	2015
Balance as of January 1,	\$ 153,155	\$ 217,312
Accretion expense	5,641	9,960
Revisions to estimated future reclamation cash flows	(53,769)	(57,631)
Payments	(1,048)	(780)
Balance as of September 30,	103,979	168,861
Less: current portion	(1,400)	(1,071)
Asset retirement obligation, net of current portion	\$ 102,579	\$ 167,790

Revisions to estimated future reclamation cash flows reflect our regular updates to our estimated costs of closure activities throughout the lives of the respective mines and reflect changes in estimates of closure volumes, disturbed acreages, the timing of the reclamation activities, and third-party unit costs as of September 30, 2016 and 2015.

Revisions during the nine months ended September 30, 2016 related to our Antelope Mine, Cordero Rojo Mine and Spring Creek Mine were \$ 24.9 million, \$20.8 million, and \$8.1 million, respectively. These downward revisions were primarily due to extending each of the mine's lives due to lower expected annual production rates, as well as updated equipment and fuel cost guidance issued by the State of Wyoming. Reductions to asset retirement obligations resulting from such revisions generally result in a corresponding reduction to the related asset retirement costs in *Property, plant and equipment, net*, however, if the decrease to the asset retirement obligation exceeds the carrying amount of the related asset retirement costs, the resulting non-cash credit will reduce *Depreciation and depletion* on the unaudited condensed consolidated statements of operations and comprehensive income. As of September 30, 2016, these revisions reduced the related asset by \$17.5 million. *Depreciation and depletion* was reduced by \$36.3 million for the nine months ended September 30, 2016.

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Downward revisions during the nine months ended September 30, 2015 related to our Antelope Mine, Cordero Rojo Mine, and Spring Creek Mine were \$1.7 million, \$44.0 million, and \$11.9 million, respectively. These revisions reduced the related asset by \$40.8 million as of September 30, 2015. *Depreciation and depletion* was reduced by \$16.8 million for the nine months ended September 30, 2015.

**9. Other Obligations***Capital Equipment Lease Obligations*

From time to time, we enter into capital leases on equipment under various lease schedules, which are subject to a master lease agreement, and are pre-payable at our option. Our capital equipment lease obligations are included in *Other liabilities*. Future payments for these obligations are as follows (in thousands):

<b>Year Ended December 31,</b>		
2016	\$	586
2017		2,318
2018		2,234
2019		1,677
2020		878
Total		7,693
Less: interest		357
Total principal payments		7,336
Less: current portion		2,139
Capital equipment lease obligations, net of current portion	\$	5,197

*Accounts Receivable Securitization Program*

As of September 30, 2016, we had \$29.5 million of available receivable sale capacity under the Accounts Receivable Securitization Program (the A/R Securitization Program). There were no borrowings outstanding under the A/R Securitization Program as of September 30, 2016 or December 31, 2015.

*Senior Secured Revolving Credit Facility*

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On February 21, 2014, Cloud Peak Energy Resources LLC entered into a five-year Credit Agreement with PNC Bank, National Association, as administrative agent, and a syndicate of lenders, which was amended on September 5, 2014 and September 9, 2016 (as amended, the Credit Agreement ). The Credit Agreement provides us with a senior secured revolving credit facility with a capacity of up to \$400 million that can be used to borrow funds or obtain letters of credit. The borrowing capacity under the Credit Agreement is reduced by the undrawn face amount of letters of credit issued and outstanding, which may be up to \$250 million at any time.

The September 9, 2016 Second Amendment to the Credit Agreement (the Second Amendment ) replaced the quarterly EBITDA-based financial covenants that previously required us to (a) maintain defined minimum levels of interest coverage and (b) comply with a maximum net secured debt leverage ratio. These financial covenants were replaced with a new monthly minimum liquidity covenant that requires us to maintain liquidity, as defined in the Credit Agreement, of not less than \$125 million as of the last day of each month. The Second Amendment reduced the maximum borrowing capacity under the Credit Agreement to \$400 million, from the previous maximum capacity of \$500 million. It also revised the permitted debt covenant and permitted lien covenant to allow the issuance of second lien debt in an amount up to \$350 million. Additionally, it revised various negative covenants and baskets that would apply to, among other things, the incurrence of debt, making investments, asset dispositions and restricted payments. Lastly, it established a requirement for deposit account control agreements with the administrative agent for certain of our deposit accounts. The Second Amendment did not change the maturity of the Credit Agreement, which remains February 21, 2019.

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Loans under the Credit Agreement bear interest at the London Interbank Offered Rate ( LIBOR ) plus an applicable margin of 3.50%. We pay the lenders a commitment fee of 0.50% per year on the unused amount of the Credit Agreement. Letters of credit issued under the Credit Agreement, unless drawn upon, will incur a per annum fee from the date at which they are issued of 3.50%. Letters of credit that are drawn upon may be converted to loans at our request, subject to the conditions to borrowing set forth in the Credit Agreement. In addition, in connection with the issuance of a letter of credit, we are required to pay the issuing bank a fronting fee of 0.125% per annum.

As of September 30, 2016, we had no borrowings and the undrawn face amount of letters of credit outstanding under the Credit Agreement was \$71.3 million. As of December 31, 2015, there were no borrowings or letters of credit outstanding under the Credit Agreement. We were in compliance with the covenants contained in the Credit Agreement as of September 30, 2016 and December 31, 2015.

***Liquidity***

Our aggregate availability for borrowing under the Credit Agreement and the A/R Securitization Program was approximately \$358.2 million as of September 30, 2016. Our total liquidity, which includes cash and cash equivalents and amounts available under both our Credit Agreement and the A/R Securitization Program, was \$448.5 million as of September 30, 2016.

***Debt Issuance Costs***

Debt issuance costs of \$1.3 million related to the decrease in the Credit Agreement's borrowing capacity were written off in the three and nine months ended September 30, 2016. Debt issuance costs of \$3.6 million were incurred in connection with the Second Amendment. These costs were deferred and are being amortized to *Interest expense* over the remaining term of the Credit Agreement. There were \$8.6 million and \$8.3 million of unamortized debt issuance costs as of September 30, 2016 and December 31, 2015, respectively, related to the A/R Securitization Program and the Credit Agreement included in noncurrent *Other assets*.

**10. Commitments and Contingencies**

*Commitments**Purchase Commitments*

We had outstanding purchase commitments consisting of the following (in thousands):

	September 30, 2016	December 31, 2015
<b>Capital Commitments</b>		
Equipment	\$ 4,423	\$ 10,226
Land (1)	\$	\$ 23,678
<b>Supplies and Services</b>		
Coal purchase commitments	\$ 846	\$
Transportation agreements (2)(3)	\$ 528,670	\$ 549,053

(1) This land transaction was completed during the three months ended September 30, 2016. The contract was modified to reduce the number of acres and related total payment to \$11.5 million.

(2) Includes undiscounted port take-or-pay commitments through the remaining term of the agreement in 2024. Reflects the 2016-2018 amendment entered in the fourth quarter of 2015. Assumes we do not ship any export tons, and does not include throughput or other charges based on any actual shipments.

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(3) Includes undiscounted rail take-or-pay commitments, if we exercise our contractual buyout option in 2019, which requires one year's notice plus a lump sum payment. Reflects the 2016-2018 amendment entered in the fourth quarter of 2015. Assumes we do not ship any export tons, and does not include transportation or other charges based on any actual shipments. The full term of the agreement continues through 2024. Assuming we did not exercise our buyout option in 2019 and did not meet minimum shipment requirements, we would owe additional take-or-pay amounts through the remaining term of the agreement.

*Contingencies*

*Litigation*

*WildEarth Guardians and Northern Plains Resource Council's Regulatory Challenge to OSM's Approval Process for Mine Plans*

*Background* On February 27, 2013, WildEarth Guardians ( WildEarth ) filed a complaint in the United States District Court for the District of Colorado ( Colorado District Court ) challenging the federal Office of Surface Mining's ( OSM ) approvals of mine plans for seven different coal mines located in four different states. The challenged approvals included two that were issued to subsidiaries of Cloud Peak Energy: one for the Cordero Rojo Mine in Wyoming and one for the Spring Creek Mine in Montana.

On February 7, 2014, the Colorado District Court severed the claims in WildEarth's complaint and transferred all the claims pertaining to non-Colorado mines to the federal district courts for the states in which the mines were located. Pursuant to this order, the challenge to Cordero Rojo's mine plan approval (along with challenges to two other OSM approvals) was transferred to the United States District Court in Wyoming ( Wyoming District Court ) and the challenge to Spring Creek's mine plan approval was transferred to the United States District Court for the District of Montana ( Montana District Court ). On February 14, 2014, WildEarth voluntarily dismissed the case pending in the Wyoming District Court, thereby concluding its challenge to OSM's approval of the Cordero Rojo mine plan. WildEarth has continued to pursue its challenges to mine plan approvals pending in district courts in Colorado, New Mexico, and Montana.

On March 14, 2014, WildEarth amended its complaint in the Montana District Court to reflect the transfer order from the Colorado District Court. WildEarth has asked the Montana District Court to vacate OSM's 2012 approval of the Spring Creek mine plan and enjoin mining operations at the Spring Creek Mine until OSM undertakes additional environmental analysis and related public process requested by WildEarth.

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On August 14, 2014, Northern Plains Resource Council and the Western Organization of Resource Councils (collectively Northern Plains ) filed a complaint in the Montana District Court challenging the same OSM approval of Spring Creek s mine plan. Northern Plains, like WildEarth, requested that the Montana District Court vacate OSM s 2012 approval of the Spring Creek mine plan and enjoin mining operations at the Spring Creek Mine until OSM undertakes the additional analysis requested by Northern Plains.

*Intervention by Cloud Peak Energy and Others* By orders dated May 30, 2014, May 9, 2014, and April 28, 2014, the Montana District Court granted intervention to the State of Montana, the National Mining Association, and Spring Creek Coal LLC, a 100% owned subsidiary of Cloud Peak Energy, respectively. Each of these parties intervened on the side of OSM.

*Current Schedule* On October 28, 2014, the Montana District Court consolidated the WildEarth and Northern Plains cases and set a briefing schedule for resolution of all of WildEarth s and Northern Plains claims through motions for summary judgment. Plaintiffs filed their opening briefs on December 8, 2014, and under a revised schedule, briefing by all parties was completed on May 7, 2015. The Montana District Court held an oral argument on July 31, 2015 before a Magistrate Judge in Billings, Montana. At the conclusion of the oral argument, the Magistrate Judge ordered the parties to negotiate and attempt to resolve this dispute by agreement of the parties. In October 2015, the parties jointly submitted a status report to the Montana District Court stating they were unable to reach a settlement. On October 23, 2015, the Magistrate Judge issued her findings and recommendations to the District Court Judge. In this order, the Magistrate found



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that OSM had failed to follow the procedural requirements of the National Environmental Policy Act by failing to provide notice to the public when the agency had completed its environmental analysis and by failing to explain how OSM concluded that its approval of the 2012 mining plan would have no significant environmental impacts. Based on these findings, the Magistrate further recommended that OSM be directed to prepare a supplemental environmental analysis within 180 days from the date the Montana District Court issues a final judgment. Under the Magistrate's recommendation, mining at the Spring Creek mine would proceed unabated during the time OSM is undertaking its supplemental analysis. The mining plan for the Spring Creek Mine would not be vacated unless OSM failed to complete its supplemental analysis within 180 days.

On November 6, 2015, Spring Creek Coal, the National Mining Association and the State of Montana filed objections to the Magistrate's findings and recommendations. The federal defendants filed limited objections on that same day. WildEarth and Northern Plains filed responses to these objections on November 17, 2015 and November 20, 2015, respectively. On January 21, 2016, the Montana District Court issued an order adopting most of the Magistrate's findings and recommendations, but provided OSM 240 days (rather than 180 days) to prepare a supplemental environmental analysis. Under the Montana District Court's order, mining at the Spring Creek mine would proceed unabated during the time OSM is undertaking its supplemental analysis and OSM was ordered to submit monthly status reports informing the court and the parties of OSM's progress in preparing the analysis. The mining plan for the Spring Creek Mine would not be vacated unless OSM fails to complete its supplemental analysis within 240 days. The order provides that OSM may request and obtain additional time to prepare its analysis for good cause. On June 27, 2016, the Montana District Court granted a joint motion by Plaintiff Northern Plains and OSM to extend the compliance deadline from 240 days to 256 days. On October 3, 2016, OSM notified the Montana District Court that OSM had completed its supplemental environmental analysis and issued a new decision on October 3, 2016 re-approving the 2012 mine plan for the Spring Creek Mine. OSM's decision and accompanying environmental assessment satisfies the Court's January 21, 2016 remedy order. On October 19, 2016, the Court found that OSM had complied with the Court's January 21, 2016 remedy order and entered a final judgment in the case.

*Administrative Appeals of the BLM's Approval of the Potential West Antelope II South Lease Modification*

*Background* On September 5, 2014, WildEarth filed an appeal with the Interior Board of Land Appeals (IBLA) challenging the BLM's August 15, 2014 decision to approve Antelope Coal LLC's proposed modification of Antelope Coal's West Antelope II South (WAIISouth) lease. Antelope Coal is a 100% owned subsidiary of Cloud Peak Energy. On September 12, 2014, Powder River Basin Resource Council and Sierra Club (collectively PRBRC) filed an appeal with the IBLA challenging this same BLM decision. The BLM's decision that is the subject of both appeals approves the proposed amendment of WAIISouth lease. If the lease modification is entered into, it would add approximately 15.8 million tons of coal underlying nearly 857 surface acres. WildEarth and PRBRC have asked the IBLA to vacate the proposed WAIISouth lease modification and direct the BLM to prepare additional environmental analysis on the impacts of the lease modification.

*Intervention by Cloud Peak Energy and State of Wyoming* On September 24, 2014 and October 6, 2014, Antelope Coal and the State of Wyoming, respectively, moved to intervene in the WildEarth and PRBRC appeals as respondents to defend the BLM's lease modification decision. The IBLA granted these intervention motions.

*Current Schedule.* WildEarth filed its Statement of Reasons (opening brief) on October 6, 2014, and PRBRC filed its Statement of Reasons on October 10, 2014. The BLM filed its Answer (opposition brief) on January 12, 2015 and moved for the two appeals to be consolidated. Antelope Coal and State of Wyoming filed their respective Answers on January 20, 2015. Briefing has been completed in both appeals. On September 2, 2016, WildEarth filed a Notice of Supplemental Authority indicating that decisions in three unrelated IBLA appeals call into question whether BLM's decision record approving the WAI South LBM was signed by the appropriate BLM official. In response to a September 12, 2016 Show Cause Order from the IBLA, BLM filed a response brief on September 26, 2016 representing that the High Plains District Manager had properly signed the decision record approving the WAI South LBM. Antelope Coal and the State of Wyoming filed briefs in support of BLM's response on September 27, 2016 and September 30, 2016 respectively. The parties are awaiting a decision from the IBLA. We believe the WildEarth and PRBRC appeals challenging the BLM's West Antelope II South lease modification decision are without merit. Nevertheless, if the plaintiff's claims are successful, the timing and ability of Cloud Peak Energy to lease and mine the coal underlying the applicable surface acres would be materially adversely impacted. We are unable to estimate a loss or range of loss for this contingency because (1) the challenge does not

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seek monetary relief, (2) the nature of the relief sought is to require the regulatory agency to address alleged deficiencies in complying with applicable regulatory and legal requirements and (3) even if the challenges are successful in whole or in part, the IBLA has broad discretion in determining the nature of the relief ultimately granted.

*WildEarth Guardians Regulatory Challenge to OSM's Approval Process for Antelope Mine Plan*

*Background* On September 15, 2015, WildEarth filed a complaint in the Colorado District Court challenging the Department of Interior's and Office of Surface Mining Reclamation and Enforcement's (collectively, OSM) approvals of mine plans for four different coal mines, one of which is located in Colorado and three of which are located in Wyoming. The challenged approvals included one mine plan modification that was issued to Antelope Coal LLC, a subsidiary of Cloud Peak Energy, for the Antelope Mine in Wyoming. The plaintiff seeks to vacate existing, required regulatory approvals and to enjoin mining operations at Antelope Mine.

*Intervention by Cloud Peak Energy and Others* The State of Wyoming and all the operators of the mines whose mine plans are being challenged have moved to intervene as Defendants to defend the challenged mine plans. The prospective intervenors filed their motions on the following dates: State of Wyoming (November 12, 2015), Antelope Coal LLC (November 13, 2015), New Mexico Coal Resources, LLC (November 16, 2015), Bowie Resources, LLC (November 24, 2015), Thunder Basin Coal, L.L.C. (December 4, 2015).

*Current Schedule* On November 25, 2015, the OSM filed a motion to sever WildEarth's complaint and transfer those claims against the two Wyoming mines (Antelope and Black Thunder) to the District of Wyoming and the New Mexico mine (El Segundo) to the District of New Mexico. Each of the prospective intervenors filed conditional responses in support of OSM's transfer motion. On January 7, 2016, WildEarth filed its opposition to OSM's transfer motion. On January 29, 2016, WildEarth and OSM filed a Joint Motion to Stay all proceedings for 60 days in order for the parties to pursue settlement discussions. On February 1, 2016, the prospective intervenors filed a proposed response to the stay motion in which they asked the Colorado District Court to grant (1) the pending intervention motions, and (2) the pending motion to sever transfer, before staying the portion of the case that remained in the District of Colorado. On February 3, 2016, WildEarth and OSM filed separate reply briefs in support of their stay motion. On February 16, 2016, the court granted the motion to stay the case for 60 days, and on February 18, 2016, the court granted the pending motions to intervene by Antelope, the State of Wyoming, and the other coal producers. The stay expired on April 1, 2016 after the parties were unable to reach a voluntary settlement and OSM filed its reply brief in support of its motion to sever and transfer on April 11, 2016. On June 17, 2016, the Colorado District Court granted OSM's motion to sever and transfer WildEarth's claims against the Antelope and Black Thunder mine plans to the District of Wyoming and the El Segundo mine plan to the District of New Mexico. The challenges against the

Antelope and Black Thunder mine plans, which are docketed as separate cases, have both been assigned to Judge Johnson of the District of Wyoming. On October 7, 2016, BLM filed its administrative record for the case challenging the Antelope mine plan. On October 21, 2016, WildEarth filed a motion to supplement the administrative record with three administrative documents prepared by other federal agencies. OSM has until November 4, 2016 to file its opposition brief and WildEarth has until November 11, 2016 to file its reply brief. After briefing is completed, the Court will either order OSM to supplement the administrative record with one or more of the three documents requested by WildEarth, or will deny the motion in its entirety. WildEarth's opening merits brief will be due 45 days after either (a) an amended administrative record is filed by OSM, or (b) the Court denies WildEarth's motion to supplement. Opposition briefs by OSM and Antelope Coal would be due 45 days after WildEarth's opening merits brief is filed.

We believe WildEarth's challenge is without merit. Nevertheless, if WildEarth's claims against OSM's approval of the Antelope mine plan modification are successful, any court order granting the requested relief could have a material adverse impact on our shipments, financial results and liquidity, and could result in claims from third parties if we are unable to meet our commitments under pre-existing commercial agreements as a result of any required reductions or modifications to our mining activities. We are unable to estimate a loss or range of loss for this contingency because (1) the challenge does not seek monetary relief, (2) the nature of the relief sought is to require the regulatory agency to address alleged deficiencies in complying with applicable regulatory and legal requirements and (3) even if the challenges are successful in whole or in part, the court has broad discretion in determining the nature of the relief ultimately granted.

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*Other Legal Proceedings*

We are involved in other legal proceedings arising in the ordinary course of business and may become involved in additional proceedings from time to time. We believe that there are no other legal proceedings pending that are likely to have a material adverse effect on our consolidated financial condition, results of operations or cash flows. Nevertheless, we cannot predict the impact of future developments affecting our claims and lawsuits, and any resolution of a claim or lawsuit or an accrual within a particular fiscal period may materially and adversely impact our results of operations for that period. In addition to claims and lawsuits against us, our LBAs, lease by modifications, permits, and other industry regulatory processes and approvals, including those applicable to the utility and coal logistics and transportation industries, may also continue to be subject to legal challenges that could materially and adversely impact our mining operations, results and liquidity. These regulatory challenges may seek to vacate prior regulatory decisions and authorizations that are legally required for some or all of our current or planned mining activities. If we are required to reduce or modify our mining activities as a result of these challenges, the impact could have a material adverse effect on our shipments, financial results and liquidity, and could result in claims from third parties if we are unable to meet our commitments under pre-existing commercial agreements as a result of any such required reductions or modifications to our mining activities.

*Tax Contingencies*

Our income tax calculations are based on application of the respective U.S. federal or state tax laws. Our tax filings, however, are subject to audit by the respective tax authorities. Accordingly, we recognize tax benefits when it is more likely than not a position will be upheld by the tax authorities. To the extent the final tax liabilities are different from the amounts originally accrued, the increases or decreases are recorded as income tax expense.

Several non-income based production tax audits related to federal and state royalties and severance taxes are currently in progress. The financial statements reflect our best estimate of taxes and related interest and penalties due for potential adjustments that may result from the resolution of such tax audits. From time to time, we receive audit assessments and engage in settlement discussions with applicable tax authorities, which may result in adjustments to our estimates of taxes and related interest and penalties.

*Concentrations of Risk and Major Customers*

For the nine months ended September 30, 2016, there was one customer that represented 10% or more of consolidated revenue. For the nine months ended September 30, 2015, there was no single customer that represented 10% or more of consolidated revenue. We generally do not require collateral or other security on accounts receivable because our customers are comprised primarily of investment grade electric utilities.

The credit risk is controlled through credit approvals and monitoring procedures.

*Guarantees and Off-Balance Sheet Risk*

In the normal course of business, we are party to guarantees and financial instruments with off-balance sheet risk, such as bank letters of credit, performance or surety bonds and indemnities, which are not reflected on the unaudited condensed consolidated balance sheets. In our past experience, virtually no claims have been made against these financial instruments. Management does not expect any material losses to result from these guarantees or off-balance sheet instruments.

U.S. federal and state laws require we secure certain of our obligations to reclaim lands used for mining and to secure coal lease obligations. We currently use self-bonding to secure performance of certain obligations in Wyoming. Self-bonding has allowed us to use the strength of our financial positions as security rather than obtaining a traditional surety bond. Specific bond and/or letter of credit amounts may change over time, depending on the activity at the respective site and any specific requirements by federal or state laws. As of September 30, 2016, we were self-bonded for \$190 million and had \$448.9 million of reclamation bonds backed by collateral of \$71.3 million in the form of letters of credit under our Credit Agreement used for mining, secure coal lease obligations, and for other operating requirements. We have received approval from the Land Quality Division of the Wyoming Department of Environmental Quality to lower the total bonding

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requirements by \$154 million. Although we currently expect to be able to achieve our goal of exiting self-bonding by January 2017, the timing of its completion is dependent on the State of Wyoming's processing and approval of our applications, and is therefore, uncertain.

**11. Postretirement Medical Plan**

We maintain an unfunded postretirement medical plan to provide certain postretirement medical benefits to eligible employees. Net periodic postretirement benefit costs included the following components (in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	2016	2015	2016	2015
Service cost	\$ 269	\$ 1,229	\$ 1,956	\$ 3,687		
Interest cost	185	482	1,002	1,446		
Amortization of prior service cost (credit)	(1,872)	313	(3,381)	939		
Net periodic benefit cost (credit)	\$ (1,418)	\$ 2,024	\$ (423)	\$ 6,072		

In April 2016, we communicated a change in our Retiree Medical Plan to employees that becomes effective January 1, 2017. Changes include a decrease in the number of active employees that are eligible for the plan as well as moving to a defined contribution plan away from a defined benefit plan. These plan changes reduced our accumulated postretirement benefit obligation by \$47.7 million during the second quarter of 2016. The plan changes eliminated the old prior service cost base and established a new negative prior service cost base of approximately \$41.1 million, which will be amortized to income over 4.2 years.

**12. Income Taxes**

As of September 30, 2016 and December 31, 2015, we had deferred tax assets principally arising from: ARO, alternative minimum tax credits, pension and postretirement benefits, contract rights, and net operating loss carry-forwards for income tax purposes multiplied by an expected rate of 37%. As management cannot determine that it is more likely than not that we will realize the benefit of the deferred tax assets, a valuation allowance equal to the net deferred tax asset has been established at September 30, 2016 and December 31, 2015. The difference between our effective tax rate and the statutory rate is due to the impact of percentage depletion, income tax in the states in which we do business, changes in our valuation allowance and the impact of out of period adjustments. In addition, the adjustments to ARO and the retiree medical plan, while incurring a loss during the period, substantially impacted our effective rate for 2016. Our effective tax rate for the three months ended September 30, 2016 was 28.3%. Our effective tax rate for the nine months ended September 30, 2016 was 66.1%.

As of September 30, 2016 and December 31, 2015, we had no material unrecognized tax benefits. There was no change in the amount of unrecognized tax benefits as a result of tax positions taken during the year or in prior periods or due to settlements with taxing authorities or lapses of applicable statutes of limitations. We are open to federal and state tax audits until the applicable statutes of limitations expire.



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## CLOUD PEAK ENERGY INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**13. Accumulated Other Comprehensive Income (Loss)**

The changes in *Accumulated other comprehensive income (loss)* ( AOCI ) related to our postretirement medical plan by component, net of tax are as follows (in thousands):

	Nine Months Ended September 30,	
	2016	2015
Beginning balance, January 1,	\$ (12,951)	\$ (11,299)
Other comprehensive income (loss) before reclassifications	26,996	
Amounts reclassified from accumulated other comprehensive income (loss)	9,698	591
Net current period other comprehensive income (loss)	36,694	591
Ending balance, September 30,	\$ 23,743	\$ (10,707)

The reclassifications out of AOCI are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
<b>Postretirement Medical Plan (1)</b>				
Amortization of prior service costs (credits) included in Cost of product sold (2)	\$ (1,566)	\$ 264	\$ (2,828)	\$ 792
Amortization of prior service costs (credits) included in Selling, general and administrative expenses (2)	(306)	49	(553)	147
Postretirement medical plan changes			42,851	
Total before tax	(1,872)	313	39,470	939
Tax expense (benefit)	(831)	(116)	(2,776)	(347)
Amounts reclassified from AOCI	\$ (2,703)	\$ 197	\$ 36,694	\$ 592

(1) See Note 11 for the components of our net periodic postretirement benefit costs.

(2) Presented on the unaudited condensed consolidated statements of operations and comprehensive income.

**14. Earnings (Loss) per Share**

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Dilutive potential shares of common stock may include restricted stock and units, options, and performance units issued under our Long Term Incentive Plan ( LTIP ). We apply the treasury stock method to determine dilution from restricted stock and units, options, and performance units.

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The following table summarizes the calculation of diluted earnings (loss) per share (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Numerator for calculation of diluted earnings (loss) per share:				
Net income (loss)	\$ (1,584)	\$ 8,873	\$ (2,670)	\$ (48,704)
Denominator for basic income (loss) per share weighted-average shares outstanding	61,365	61,074	61,285	61,013
Dilutive effect of stock equivalents		277		
Denominator for diluted earnings (loss) per share	61,365	61,351	61,285	61,013
Diluted earnings (loss) per share	\$ (0.03)	\$ 0.14	\$ (0.04)	\$ (0.80)

For the periods presented, the following items were excluded from the diluted earnings (loss) per share calculation because they were anti-dilutive (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Anti-dilutive stock equivalents	2,286	2,165	2,804	2,071

**15. Segment Information**

We have two reportable segments; our Owned and Operated Mines segment and our Logistics and Related Activities segment.

Our Owned and Operated Mines segment is characterized by the predominant focus on thermal coal production where the sale occurs at the mine site and where title and risk of loss generally pass to the customer at that point. This segment includes our Antelope Mine, Cordero Rojo Mine, and Spring Creek Mine. Sales in this segment are primarily to domestic electric utilities, although a portion may be made to our Logistics and Related Activities segment. Sales between reportable segments are priced based on prevailing market prices for arms length transactions. Our mines utilize surface mining extraction processes and are all located in the PRB. The gains and losses resulting from our domestic coal futures contracts and WTI derivative financial instruments are reported within this segment.

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Our Logistics and Related Activities segment is characterized by the services we provide to our international and certain of our domestic customers where we deliver coal to the customer at a terminal or the customer's plant or other delivery point, remote from our mine site. Services provided include the purchase of coal from third parties or from our Owned and Operated Mines segment, at market prices, as well as the contracting and coordination of the transportation and other handling services from third-party operators, which are typically rail and terminal companies. Title and risk of loss are retained by the Logistics and Related Activities segment through the transportation and delivery process. Title and risk of loss pass to the customer in accordance with the contract and typically occur at a vessel loading terminal, a vessel unloading terminal or an end use facility. Risk associated with rail and terminal take-or-pay agreements is also borne by the Logistics and Related Activities segment. The gains and losses resulting from our international coal forward contracts and international coal put options are reported within this segment. Amortization related to port access rights prior to the fourth quarter 2015 impairment and the amended port and rail take-or-pay agreements are also included in this segment. Losses associated with our investment in the Gateway Pacific Terminal are included in our Logistics and Related Activities segment.

Our business activities that are not considered operating segments are included in Other although they are not required to be included in this footnote. They are provided for reconciliation purposes and include *Selling, general and administrative expenses* ( SG&A ) as well as results relating to broker activity.

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Eliminations represent the purchase and sale of coal between reportable segments and the associated elimination of intercompany profit or loss in inventory and are provided for reconciliation purposes.

Segment results for the three and nine months ended September 30, 2015 have been retrospectively revised to reflect our new measure of segment profitability first presented in our 2015 Form 10-K.

EBITDA represents net income (loss) before: (1) interest income (expense) net, (2) income tax provision, (3) depreciation and depletion, and (4) amortization. Adjusted EBITDA represents EBITDA as further adjusted for accretion, which represents non-cash increases in asset retirement obligation liabilities resulting from the passage of time, and specifically identified items that management believes do not directly reflect our core operations. For the periods presented herein, the specifically identified items are: (1) adjustments to exclude non-cash impairment charges, (2) adjustments for derivative financial instruments, excluding fair value mark-to-market gains or losses and including cash amounts received or paid, and (3) adjustments to exclude debt restructuring costs. We enter into certain derivative financial instruments such as put options that require the payment of premiums at contract inception. The reduction in the premium value over time is reflected in the mark-to-market gains or losses. Our calculation of Adjusted EBITDA does not include premiums paid for derivative financial instruments; either at contract inception, as these payments pertain to future settlement periods, or in the period of contract settlement, as the payment occurred in a preceding period.

***Adjusted EBITDA***

The following table reconciles segment Adjusted EBITDA to *Net income (loss)* (in thousands):

	<b>Three Months Ended September 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Adjusted EBITDA</b>		
Owned and Operated Mines	\$ 55,971	\$ 68,648
Logistics and Related Activities	(6,024)	(17,717)
Other	(9,305)	(11,673)
Eliminations	(38)	(237)
	40,604	39,021
<b>Adjustments to Net income</b>		
Depreciation and depletion	(23,460)	(7,896)
Amortization of port access rights		(928)
Accretion	(1,065)	(3,070)
Impairments	(312)	
Debt restructuring costs	(4,499)	
Derivative financial instruments:		
Exclusion of fair value mark-to-market gains (losses) (1)	\$ (1,068)	\$ (10,235)

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Inclusion of cash amounts paid (received) (2)	555	724
Total derivative financial instruments	(513)	(9,511)
Interest expense, net	(12,986)	(10,948)
Income tax benefit (expense)	647	2,205
Net income (loss)	\$ (1,584)	\$ 8,873

- 
- (1) Fair value mark-to-market (gains) losses reflected on the Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income.
  - (2) Cash amounts received and paid reflected within operating cash flows in the Unaudited Condensed Consolidated Statements of Cash Flows.

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	Nine Months Ended September 30,	
	2016	2015
<b>Adjusted EBITDA</b>		
Owned and Operated Mines	\$ 92,004	\$ 153,002
Logistics and Related Activities	(20,325)	(32,079)
Other(1)	(12,930)	(30,488)
Eliminations	(151)	(1,349)
	58,598	89,086
<b>Adjustments to Net income</b>		
Depreciation and depletion	(23,052)	(51,742)
Amortization of port access rights		(2,783)
Accretion	(5,641)	(9,960)
Impairments	(4,499)	(33,355)
Debt restructuring costs	(4,499)	
Derivative financial instruments:		
Exclusion of fair value mark-to-market gains (losses) (2)	\$ 5,257	\$ (17,781)
Inclusion of cash amounts paid (received) (3)(4)	3,195	1,618
Total derivative financial instruments	8,452	(16,164)
Interest expense, net	(35,255)	(36,137)
Income tax benefit (expense)	3,226	12,350
Net income (loss)	\$ (2,670)	\$ (48,704)

- (1) Includes \$24,349 and \$5,318 of sales contract buyouts for the nine months ended September 30, 2016 and 2015, respectively.
- (2) Fair value mark-to-market (gains) losses reflected on the Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income.
- (3) Cash amounts received and paid reflected within operating cash flows in the Unaudited Condensed Consolidated Statements of Cash Flow.
- (4) Excludes premiums paid at option contract inception of \$5,813 during the nine months ended September 30, 2015, for original settlement dates in subsequent periods.

**Revenue**

The following table presents *Revenue* (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Owned and Operated Mines	\$ 212,010	\$ 265,657	\$ 531,278	\$ 733,735

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Logistics and Related Activities	3,375	44,772	20,594	162,802
Other	2,514	2,176	26,131	8,626
Eliminations	(826)	(10,931)	(5,493)	(41,789)
Consolidated	\$ 217,073	\$ 301,673	\$ 572,510	\$ 863,374



Table of Contents**CLOUD PEAK ENERGY INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***Capital Expenditures*

The following table presents purchases of property, plant and equipment, investment in development projects, and capital expenditures included in *Property, plant and equipment, net, Other assets, and Accounts payable* (in thousands):

	Nine Months Ended September 30,			
	2016		2015	
Owned and Operated Mines	\$	31,800	\$	32,854
Logistics and Related Activities				
Other		1,758		3,198
Consolidated	\$	33,558	\$	36,052

**16. Equity-Based Compensation**

Our LTIP permits awards to our employees and eligible non-employee directors, which we generally grant in the first quarter of each year. The LTIP allows for the issuance of equity-based compensation in the form of restricted stock, restricted stock units, options, stock appreciation rights, dividend equivalent rights, performance awards, and share awards. At our 2016 annual meeting, shareholders approved an additional 1.6 million shares available for issuance under the LTIP. As of September 30, 2016, approximately 1.7 million shares were available for grant, depending on the actual performance and vesting of outstanding awards.

Generally, each form of equity-based compensation awarded to eligible employees cliff vests on the third anniversary of the grant date, subject to meeting any applicable performance criteria for the award. However, the awards will pro-rata vest sooner if an employee terminates employment with or stops providing services to us because of death, disability, redundancy or retirement (as such terms are defined in the award agreement or the LTIP, as applicable), or if an employee subject to an employment agreement is terminated by us for any reason other than for cause or leaves for good reason (as such terms are defined in the relevant employment agreement). In addition, the awards will fully vest if an employee is terminated without cause (or leaves for good reason, if the employee is subject to an employment agreement) within two years after a change in control (as such term is defined in the LTIP) occurs.

*Restricted Stock Units*

We have granted restricted stock units under the LTIP to eligible employees and non-employee directors. The restricted stock units granted to our directors generally vest upon their resignation or retirement (except for a removal for cause) or upon certain events constituting a change in control (as such term is defined in the award agreement). They will pro-rata vest if a director resigns or retires within one year of the date of

grant.

A summary of restricted stock unit award activity is as follows (in thousands, except per share amounts):

	Number		Weighted-Average Grant-Date Fair Value (per share)
Non-vested units as of January 1, 2016	732	\$	11.61
Granted	1,999	\$	1.96
Forfeited	(230)	\$	2.94
Vested	(149)	\$	14.52
Non-vested units as of September 30, 2016	2,352	\$	4.07

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As of September 30, 2016, unrecognized compensation cost related to restricted stock awards was \$3.8 million, which will be recognized over a weighted-average period of 1.9 years prior to vesting.

***Performance Share Units***

Performance share units represent the right to receive a number of shares of common stock (or the equivalent cash value thereof) based on the achievement of targeted performance levels related to pre-established total stockholder return goals over a three-year period, and pay out may range from 0% to 200% of the targeted share number.

In previous years, the performance-based units were settled in shares of common stock and the grant date fair value of the awards was calculated using a Monte Carlo simulation and amortized over the performance period. The 2016 grants are expected to be settled in cash and therefore, will be accounted for as a liability and marked to market on a quarterly basis.

The weighted-average grant date fair values of the performance share units granted during the nine months ended September 30, 2016 and the year ended December 31, 2015 were \$1.95 and \$9.66 per share, respectively. As of September 30, 2016, \$20.3 million of unrecognized compensation cost, which represents the unvested portion of the fair market value of performance share units granted, is expected to be recognized over a weighted-average vesting period of 2.3 years.

A summary of performance share unit award activity is as follows (in thousands, except per share amounts):

	Number		Weighted-Average Grant-Date Fair Value (per share)
Non-vested units as of January 1, 2016	911	\$	14.57
Granted	2,493	\$	1.95
Forfeited	(268)	\$	3.43
Canceled	(99)	\$	20.24
Vested	(74)	\$	20.24
Non-vested units as of September 30, 2016	2,963	\$	4.63

**17. Supplemental Guarantor/Non-Guarantor Financial Information**

In accordance with the indentures governing the senior notes outstanding at September 30, 2016, CPE Inc. and certain of our 100% owned U.S. subsidiaries (the Guarantor Subsidiaries ) have fully and unconditionally guaranteed the senior notes on a joint and several basis. These guarantees of either series of senior notes are subject to release in the following customary circumstances:

- a sale or other disposition (including by way of consolidation or merger or otherwise) of the Guarantor Subsidiaries or the sale or disposition of all or substantially all the assets of the Guarantor Subsidiaries (other than to CPE Inc. or a Restricted Subsidiary (as defined in the applicable indenture) of CPE Inc.) otherwise permitted by the applicable indenture,
- a disposition of the majority of the capital stock of a Guarantor Subsidiary to a third person otherwise permitted by the applicable indenture, after which the applicable Guarantor Subsidiary is no longer a Restricted Subsidiary,
- upon a liquidation or dissolution of a Guarantor Subsidiary so long as no default under the applicable indenture occurs as a result thereof,
- the designation in accordance with the applicable indenture of the Guarantor Subsidiaries as an Unrestricted Subsidiary or the Guarantor Subsidiaries otherwise ceases to be a Restricted Subsidiary of CPE Inc. in accordance with the applicable indenture,

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**CLOUD PEAK ENERGY INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

- defeasance or discharge of such series of senior notes; or
- the release, other than the discharge through payment by the Guarantor Subsidiaries, of all other guarantees by such Restricted Subsidiary of Debt (as defined in the applicable indenture) of either issuer of the senior notes or (in the case of the indenture for the 2024 Notes) the debt of another Guarantor Subsidiary under the Credit Agreement.

This note does not reflect the effects of the Exchange Offers, which were completed after quarter-end on October 17, 2016 and are described further in Note 7.

The following historical financial statement information is provided for CPE Inc. and the Guarantor/Non-Guarantor Subsidiaries:

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## CLOUD PEAK ENERGY INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Supplemental Condensed Consolidating Statement of Operations and Comprehensive Income

(in thousands)

Three Months Ended September 30, 2016

	Parent Guarantor (CPE Inc.)	Issuing Company (CPE Resources)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	\$ 2,438	\$	\$ 217,073	\$	\$ (2,438)	217,073
<b>Costs and expenses</b>						
Cost of product sold (exclusive of depreciation and depletion, amortization, and accretion)		22	164,265			164,287
Depreciation and depletion		285	23,175			23,460
Accretion			1,065			1,065
(Gain) loss on derivative financial instruments			1,068			1,068
Selling, general and administrative expenses		13,599			(2,438)	11,161
Impairments			312			312
Debt restructuring costs		4,499				4,499
Other operating costs			360			360
Total costs and expenses		18,405	190,245		(2,438)	206,212
Operating income (loss)	2,438	(18,405)	26,828			10,861
<b>Other income (expense)</b>						
Interest income	26	20				46
Interest expense	(22)	(12,718)	(173)	(119)		(13,032)
Other, net		(29)	(165)	29		(165)
Total other income (expense)	4	(12,727)	(338)	(90)		(13,151)
Income (loss) before income tax provision and earnings from unconsolidated affiliates	2,442	(31,132)	26,490	(90)		(2,290)
Income tax benefit (expense)	(185)		832			647
Income (loss) from unconsolidated affiliates, net of tax		6	53			59
Income (loss) from consolidated affiliates, net of tax	(3,841)	27,285	(91)		(23,353)	
Net income (loss)	(1,584)	(3,841)	27,284	(90)	(23,353)	(1,584)
<b>Other comprehensive income (loss)</b>						
Postretirement medical plan amortization of prior service	(1,872)	(1,872)	(1,872)		3,744	(1,872)

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cost									
Income tax on postretirement medical plan and pension changes	(831)	(831)	(831)			1,662		(831)	
Other comprehensive income (loss)	(2,703)	(2,703)	(2,703)			5,406		(2,703)	
Total comprehensive income (loss)	\$ (4,287)	\$ (6,544)	\$ 24,581	\$ (90)	\$ (17,947)			\$ (4,287)	

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## CLOUD PEAK ENERGY INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Supplemental Condensed Consolidating Statement of Operations and Comprehensive Income

(in thousands)

	Three Months Ended September 30, 2015					
	Parent Guarantor (CPE Inc.)	Issuing Company (CPE Resources)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	\$ 1,327	\$	\$ 301,673	\$	\$ (1,327)	301,673
<b>Costs and expenses</b>						
Cost of product sold (exclusive of depreciation and depletion, amortization, and accretion)		(1)	248,500			248,500
Depreciation and depletion		530	7,366			7,896
Amortization of port access rights			928			928
Accretion			3,070			3,070
(Gain) loss on derivative financial instruments			10,235			10,235
Selling, general and administrative expenses		14,310			(1,327)	12,983
Other operating costs			603			603
Total costs and expenses		14,839	270,702		(1,327)	284,215
Operating income (loss)	1,327	(14,839)	30,971			17,458
<b>Other income (expense)</b>						
Interest income		37				37
Interest expense		(10,785)	(113)	(87)		(10,985)
Other, net		(41)	252	41		253
Total other income (expense)		(10,789)	139	(46)		(10,695)
Income (loss) before income tax provision and earnings from unconsolidated affiliates	1,327	(25,628)	31,110	(46)		6,763
Income tax benefit (expense)	111	3,578	(1,495)	11		2,205
Income (loss) from unconsolidated affiliates, net of tax		8	(103)			(95)
Income (loss) from consolidated affiliates, net of tax	7,435	29,476	(35)		(36,876)	
Net income (loss)	8,873	7,434	29,477	(35)	(36,876)	8,873
<b>Other comprehensive income (loss)</b>						
Postretirement medical plan amortization of prior service cost	313	313	313		(626)	313



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Income tax on postretirement medical plan and pension changes	(116)	(116)	(116)	232	(116)
Other comprehensive income (loss)	197	197	197	(394)	197
Total comprehensive income (loss)	\$ 9,070	\$ 7,631	\$ 29,674	\$ (35)	\$ (37,270)

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## CLOUD PEAK ENERGY INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Supplemental Condensed Consolidating Statement of Operations and Comprehensive Income

(in thousands)

	Nine Months Ended September 30, 2016					
	Parent Guarantor (CPE Inc.)	Issuing Company (CPE Resources)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	\$ 6,581	\$	\$ 572,510	\$	\$ (6,581)	572,510
<b>Costs and expenses</b>						
Cost of product sold (exclusive of depreciation and depletion, amortization, and accretion)		120	469,818			469,938
Depreciation and depletion		948	22,104			23,052
Accretion			5,641			5,641
(Gain) loss on derivative financial instruments			(5,257)			(5,257)
Selling, general and administrative expenses		44,768			(6,581)	38,187
Impairments		2,048	2,451			4,499
Debt restructuring costs		4,499				4,499
Other operating costs			814			814
Total costs and expenses		52,383	495,571		(6,581)	541,373
Operating income (loss)	6,581	(52,383)	76,939			31,137
<b>Other income (expense)</b>						
Interest income	27	89				116
Interest expense	(245)	(34,517)	(318)	(291)		(35,371)
Other, net		(112)	(760)	112		(760)
Total other income (expense)	(218)	(34,540)	(1,078)	(179)		(36,015)
Income (loss) before income tax provision and earnings from unconsolidated affiliates	6,363	(86,923)	75,861	(179)		(4,878)
Income tax benefit (expense)	451		2,775			3,226
Income (loss) from unconsolidated affiliates, net of tax		16	(1,034)			(1,018)
Income (loss) from consolidated affiliates, net of tax	(9,484)	77,423	(179)		(67,760)	
Net income (loss)	(2,670)	(9,484)	77,423	(179)	(67,760)	(2,670)
<b>Other comprehensive income (loss)</b>						
Postretirement medical plan amortization of prior service cost	(3,381)	(3,381)	(3,381)		6,762	(3,381)

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Postretirement medical plan change	42,851	42,851	42,851	(85,702)	42,851
Income tax on postretirement medical plan and pension changes	(2,776)	(2,776)	(2,776)	5,552	(2,776)
Other comprehensive income (loss)	36,694	36,694	36,694	(73,388)	36,694
Total comprehensive income (loss)	\$ 34,024	\$ 27,210	\$ 114,117	\$ (179)	\$ (141,148)
				\$	\$ 34,024

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## CLOUD PEAK ENERGY INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Supplemental Condensed Consolidating Statement of Operations and Comprehensive Income

(in thousands)

	Nine Months Ended September 30, 2015					
	Parent Guarantor (CPE Inc.)	Issuing Company (CPE Resources)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	\$ 5,602	\$	\$ 863,374	\$	\$ (5,602)	863,374
<b>Costs and expenses</b>						
Cost of product sold (exclusive of depreciation and depletion, amortization, and accretion)		17	735,242			735,258
Depreciation and depletion		1,822	49,920			51,742
Amortization of port access rights			2,783			2,783
Accretion			9,960			9,960
(Gain) loss on derivative financial instruments			17,781			17,781
Selling, general and administrative expenses		42,346			(5,602)	36,743
Impairments			33,355			33,355
Other operating costs			1,121			1,121
Total costs and expenses		44,184	850,161		(5,602)	888,743
Operating income (loss)	5,602	(44,184)	13,213			(25,369)
<b>Other income (expense)</b>						
Interest income		137				137
Interest expense		(32,855)	(3,162)	(258)		(36,274)
Other, net		(172)	159	172		158
Total other income (expense)		(32,890)	(3,003)	(86)		(35,979)
Income (loss) before income tax provision and earnings from unconsolidated affiliates	5,602	(77,074)	10,210	(86)		(61,348)
Income tax benefit (expense)	112	7,133	5,088	17		12,350
Income (loss) from unconsolidated affiliates, net of tax		7	287			294
Income (loss) from consolidated affiliates, net of tax	(54,418)	15,515	(69)		38,972	
Net income (loss)	(48,704)	(54,419)	15,516	(69)	38,972	(48,704)
<b>Other comprehensive income (loss)</b>						
Postretirement medical plan amortization of prior service cost	939	939	939		(1,878)	939
Income tax on postretirement medical plan and pension changes	(347)	(347)	(347)		694	(347)
Other comprehensive income (loss)	592	592	592		(1,184)	592

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Total comprehensive income (loss)	\$	(48,112)	\$	(53,827)	\$	16,108	\$	(69)	\$	37,788	\$	(48,112)
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## CLOUD PEAK ENERGY INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Supplemental Condensed Consolidating Balance Sheet

(in thousands)

September 30, 2016

	Parent Guarantor (CPE Inc.)	Issuing Company (CPE Resources)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>						
<b>Current assets</b>						
Cash and cash equivalents	\$	\$ 89,931	\$ 370	\$	\$	\$ 90,301
Accounts receivable			423	42,924		43,347
Due from related parties			604,464		(604,385)	79
Inventories, net		121	72,875			72,996
Income tax receivable	1,040					1,040
Other prepaid and deferred charges	477		16,281			16,758
Other assets	68		2,018			2,086
Total current assets	1,585	90,052	696,431	42,924	(604,385)	226,607
<b>Noncurrent assets</b>						
Property, plant and equipment, net		3,114	1,436,360			1,439,474
Goodwill			2,280			2,280
Other assets	991,601	1,912,922	55,585		(2,901,550)	58,558
Total assets	\$ 993,186	\$ 2,006,089	\$ 2,190,656	\$ 42,924	\$ (3,505,936)	\$ 1,726,919
<b>LIABILITIES AND MEMBER S EQUITY</b>						
<b>Current liabilities</b>						
Accounts payable	\$	\$ 5,386	\$ 20,920	\$ 29	\$	\$ 26,335
Royalties and production taxes			69,160			69,160
Accrued expenses	2,622	7,969	32,359			42,950
Due to related parties	59,106	508,872		36,407	(604,385)	
Other liabilities			2,139			2,139
Total current liabilities	61,728	522,227	124,578	36,436	(604,385)	140,584
<b>Noncurrent liabilities</b>						
Senior notes		492,308				492,308
Asset retirement obligations, net of current portion			102,579			102,579
Accumulated postretirement medical benefit obligation, net of current portion			20,876			20,876
Royalties and production taxes			27,708			27,708
Other liabilities	4,144		11,406			15,550
Total liabilities	65,872	1,014,535	287,147	36,436	(604,385)	799,605
Commitments and Contingencies (Note 10)						

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Total equity	927,314	991,554	1,903,509	6,488	(2,901,551)	927,314
Total liabilities and equity	\$ 993,186	\$ 2,006,089	\$ 2,190,656	\$ 42,924	\$ (3,505,936)	\$ 1,726,919

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## CLOUD PEAK ENERGY INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Supplemental Condensed Consolidating Balance Sheet

(in thousands)

December 31, 2015

	Parent Guarantor (CPE Inc.)	Issuing Company (CPE Resources)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>						
<b>Current assets</b>						
Cash and cash equivalents	\$	\$ 87,054	\$ 2,259	\$	\$	\$ 89,313
Accounts receivable			4,327	38,921		43,248
Due from related parties			595,742		(595,582)	160
Inventories, net		6,659	70,104			76,763
Income tax receivable	8,659					8,659
Other prepaid and deferred charges	291	47	25,607			25,945
Other assets			98			98
Total current assets	8,950	93,760	698,137	38,921	(595,582)	244,186
<b>Noncurrent assets</b>						
Property, plant and equipment, net		5,035	1,483,336			1,488,371
Goodwill			2,280			2,280
Other assets	956,296	1,844,033	64,401		(2,797,407)	67,323
Total assets	\$ 965,246	\$ 1,942,827	\$ 2,248,154	\$ 38,921	\$ (3,392,988)	\$ 1,802,160
<b>LIABILITIES AND MEMBER S EQUITY</b>						
<b>Current liabilities</b>						
Accounts payable	\$	\$ 2,228	\$ 42,145	\$ 12	\$	\$ 44,385
Royalties and production taxes			74,054			74,054
Accrued expenses	2,296	5,420	34,601			42,317
Due to related parties	75,068	487,772		32,742	(595,582)	
Other liabilities			2,133			2,133
Total current liabilities	77,364	495,420	152,933	32,754	(595,582)	162,889
<b>Noncurrent liabilities</b>						
Senior notes		491,160				491,160
Asset retirement obligations, net of current portion			151,755			151,755
Accumulated postretirement medical benefit obligation, net of current portion			60,845			60,845
Royalties and production taxes			34,680			34,680
Other liabilities			12,950			12,950



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Total liabilities	77,364	986,580	413,162	32,754	(595,581)	914,279
Commitments and Contingencies (Note 10)						
Total equity	887,881	956,248	1,834,992	6,167	(2,797,407)	887,881
Total liabilities and equity	\$ 965,246	\$ 1,942,827	\$ 2,248,154	\$ 38,921	\$ (3,392,988)	\$ 1,802,160

Table of Contents**CLOUD PEAK ENERGY INC.****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****Supplemental Condensed Consolidating Statement of Cash Flows**

(in thousands)

Nine Months Ended September 30, 2016

	Parent Guarantor (CPE Inc.)	Issuing Company (CPE Resources)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	\$	\$ 8,185	\$ 28,145	\$	\$	\$ 36,330
<b>Investing activities</b>						
Purchases of property, plant and equipment		(1,727)	(28,421)			(30,148)
Cash paid for capitalized interest			(1,272)			(1,272)
Investment in development projects			(1,500)			(1,500)
Insurance proceeds			2,826			2,826
Other			46			46
Net cash provided by (used in) investing activities		(1,727)	(28,321)			(30,048)
<b>Financing activities</b>						
Payment of deferred financing costs		(3,581)				(3,581)
Other			(1,713)			(1,713)
Net cash provided by (used in) financing activities		(3,581)	(1,713)			(5,294)
Net increase (decrease) in cash and cash equivalents		2,877	(1,889)			988
Cash and cash equivalents at beginning of period		87,054	2,259			89,313
Cash and cash equivalents at the end of period	\$	\$ 89,931	\$ 370	\$	\$	\$ 90,301

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## CLOUD PEAK ENERGY INC.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Supplemental Condensed Consolidating Statement of Cash Flows

(in thousands)

Nine Months Ended September 30, 2015

	Parent Guarantor (CPE Inc.)	Issuing Company (CPE Resources)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	\$	\$ (43,653)	\$ 105,717	\$	\$	\$ 62,064
<b>Investing activities</b>						
Purchases of property, plant and equipment		(2,827)	(25,298)			(28,125)
Cash paid for capitalized interest			(404)			(404)
Investment in development projects			(1,526)			(1,526)
Investment in unconsolidated affiliates			(5,383)			(5,383)
Payment of restricted cash			(6,500)			(6,500)
Other		5	180			185
Net cash provided by (used in) investing activities		(2,822)	(38,931)			(41,753)
<b>Financing activities</b>						
Principal payments of federal coal leases			(63,970)			(63,970)
Payment of deferred financing costs		(2)	(339)			(342)
Other			(1,225)			(1,225)
Net cash provided by (used in) financing activities		(2)	(65,534)			(65,537)
Net increase (decrease) in cash and cash equivalents		(46,477)	1,252			(45,226)
Cash and cash equivalents at beginning of period		167,532	1,213			168,745
Cash and cash equivalents at the end of period	\$	\$ 121,055	\$ 2,465	\$	\$	\$ 123,519

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**CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS**

This report contains forward-looking statements that involve substantial risks and uncertainties. You can identify these statements by forward-looking words such as anticipate, believe, could, estimate, expect, intend, may, plan, potential, should, will, would. You should read statements that contain these words carefully because they discuss our current plans, strategies, prospects, and expectations concerning our business, operating results, financial condition, and other similar matters. While we believe that these forward-looking statements are reasonable as and when made, there may be events in the future that we are not able to predict accurately or control, and there can be no assurance that future developments affecting our business will be those that we anticipate. Additionally, all statements concerning our expectations regarding future operating results are based on current forecasts for our existing operations and do not include the potential impact of any future acquisitions. The factors listed under Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2015 (our 2015 Form 10-K) and Item 1A of Part II of this report, as well as any other cautionary language in this report, describe the known material risks, uncertainties, and events that may cause our actual results to differ materially and adversely from the expectations we describe in our forward-looking statements. Additional factors or events that may emerge from time to time, or those that we currently deem to be immaterial, could cause our actual results to differ, and it is not possible for us to predict all of them. You are cautioned not to place undue reliance on the forward-looking statements contained herein. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by law. The following factors are among those that may cause actual results to differ materially and adversely from our forward-looking statements:

- the timing and extent of any recovery of the currently depressed coal industry, domestically and internationally, and the impact of ongoing or further depressed industry conditions on our financial performance, liquidity and financial covenant compliance;
- the prices we receive for our coal and logistics services, our ability to effectively execute our forward sales strategy, and changes in utility purchasing patterns resulting in decreased long term purchases of coal;
- timing of reductions or increases in customer coal inventories;
- our ability to renew sales contracts on favorable terms and to resolve customer requests for reductions or deferrals and respond to cancellations of their committed volumes on terms that preserve the amount and timing of our forecasted economic value;
- the impact of increasingly variable and less predictable demand for thermal coal based on natural gas prices, summer cooling demand, winter heating demand, economic growth rates and other factors that impact overall demand for electricity;

- our ability to efficiently and safely conduct our mining operations and to adjust our planned production levels to respond to market conditions and effectively manage the costs of our operations;
- competition with other producers of coal and with traders and re-sellers of coal, including the current oversupply of thermal coal in the marketplace, the impacts of currency exchange rate fluctuations and the strong U.S. dollar, and government environmental, energy and tax policies and regulations that make foreign coal producers more competitive for international transactions;
- the impact of coal industry bankruptcies on our competitive position relative to other companies who may emerge from bankruptcy with potentially reduced leverage and operating costs;
- competition with natural gas, wind, solar and other non-coal energy resources, which may continue to increase as a result of low domestic natural gas prices and due to environmental, energy and tax policies, regulations, subsidies and other government actions that encourage or mandate use of alternative energy sources;
- coal-fired power plant capacity and utilization, including the impact of climate change and other environmental regulations and initiatives, energy policies, political pressures, NGO activities, international treaties or agreements

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and other factors that may cause domestic and international electric utilities to continue to phase out or close existing coal-fired power plants, reduce or eliminate construction of any new coal-fired power plants, or reduce consumption of coal from the PRB;

- the failure of economic, commercially available carbon capture technology to be developed and adopted by utilities in a timely manner;
- the impact of keep coal in the ground campaigns and other well-funded, anti-coal initiatives by environmental activist groups and others targeting substantially all aspects of our industry;
- our ability to offset declining U.S. demand for coal and achieve longer term growth in our business through our logistics revenue and export sales, including the significant impact of Chinese and Indian thermal coal import demand on overall seaborne coal prices;
- railroad, export terminal and other transportation performance, costs and availability, including the availability of sufficient and reliable rail capacity to transport PRB coal, the development of future export terminal capacity and our ability to access capacity on commercially reasonable terms;
- the impact of our substantial rail and terminal take-or-pay commitments and other contractual obligations if we do not meet our required export shipment obligations;
- weather conditions and weather-related damage that impact our mining operations, our customers, or transportation infrastructure;
- operational, geological, equipment, permit, labor, weather-related and other risks inherent in surface coal mining;
- future development or operating costs for our development projects;
- our ability to successfully acquire coal and appropriate land access rights at economic prices and in a timely manner and our ability to effectively resolve issues with conflicting mineral development that may impact our mine

plans;

- the impact of asset impairment charges if required as a result of challenging industry conditions or other factors;
- our plans and objectives for future operations and the development of additional coal reserves, including risks associated with acquisitions;
- the impact of current and future environmental, health, safety, endangered species and other laws, regulations, treaties, executive orders, court decisions or governmental policies, or changes in interpretations thereof and third-party regulatory challenges, including additional requirements, uncertainties, costs, liabilities or restrictions adversely affecting the use, demand or price for coal, our mining operations or the logistics, transportation, or terminal industries;
- the impact of required regulatory processes and approvals to lease coal and obtain permits for coal mining operations or to transport coal to domestic and foreign customers, including third-party legal challenges to regulatory approvals that are required for some or all of our current or planned mining activities and the recent moratorium on federal coal leasing or other unfavorable regulatory changes to the LBA and coal permitting processes;
- any increases in rates or changes in regulatory interpretations or assessment methodologies with respect to royalties or severance and production taxes and the potential impact of associated interest and penalties, including the impact of recently finalized federal royalty rule changes for non-arm's length sales;
- inaccurately estimating the costs or timing of our reclamation and mine closure obligations and our assumptions underlying reclamation and mine closure obligations;

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- our ability to obtain required surety bonds and provide any associated collateral on commercially reasonable terms;
  
- availability, disruptions in delivery or increases in pricing from third-party vendors of raw materials, capital equipment and consumables which are necessary for our operations, such as explosives, petroleum-based fuel, tires, steel, and rubber;
  
- our assumptions concerning coal reserve estimates;
  
- our relationships with, and other conditions affecting, our customers (including our largest customers who account for a significant portion of our total revenue) and other counterparties, including economic conditions and the credit performance and credit risks associated with our customers and other counterparties, such as traders, brokers, and lenders under our Credit Agreement (as defined below) and financial institutions with whom we maintain accounts or enter hedging arrangements;
  
- the results of our hedging programs for domestic and international coal sales and diesel fuel costs and changes in the fair value of derivative financial instruments that are not accounted for as a hedge;
  
- the terms and restrictions of our indebtedness;
  
- liquidity constraints, access to capital and credit markets and availability and costs of credit, surety bonds, letters of credit, and insurance, including risks resulting from the cost or unavailability of financing due to debt and equity capital and credit market conditions for the coal sector or in general, changes in our credit rating, our compliance with the covenants in our debt agreements, the increasing credit pressures on our industry due to depressed conditions, or any demands for increased collateral by our surety bond providers;
  
- volatility and decline in the price of our common stock, including the impact of any delisting of our stock from the New York Stock Exchange if we fail to meet the minimum average closing price listing standard;
  
- our liquidity, results of operations, and financial condition generally, including amounts of working capital that are available;



- litigation and other contingencies;
- the authority of federal and state regulatory authorities to order any of our mines to be temporarily or permanently closed under certain circumstances; and
- other risk factors or cautionary language described from time to time in the reports and registration statements we file with the Securities and Exchange Commission, including those in Item 1A - Risk Factors in our 2015 Form 10-K and any updates thereto in our Forms 10-Q and Forms 8-K, including Item 1A of Part II of this report.

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

**Explanatory Note**

This Item 2 may contain forward-looking statements that involve substantial risks and uncertainties. When considering these forward-looking statements, you should keep in mind the cautionary statements in this report and our other Securities and Exchange Commission ( SEC ) filings, including the Risk Factors in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015 ( 2015 Form 10-K ) and Item 1A of Part II of this report. Please see Cautionary Notice Regarding Forward-Looking Statements in Item 1 above.

This Item 2 is intended to help the reader understand our results of operations and financial condition. This discussion should be read in conjunction with our unaudited condensed consolidated financial statements in Item 1 of this report and our other SEC filings, including our audited consolidated financial statements in Item 8 of our 2015 Form 10-K.

**Overview**

We are one of the largest producers of coal in the United States of America ( U.S. ) and the Powder River Basin ( PRB ), based on our 2015 coal sales. We operate some of the safest mines in the coal industry. According to the most current Mine Safety and Health Administration ( MSHA ) data, we have one of the lowest employee all injury incident rates among the largest U.S. coal producing companies. We currently operate solely in the PRB, the lowest cost region of the major coal producing regions in the U.S., where we own and operate three surface coal mines: the Antelope Mine, the Cordero Rojo Mine, and the Spring Creek Mine.

Our Antelope Mine and Cordero Rojo Mine are located in Wyoming and our Spring Creek Mine is located in Montana. Our mines produce subbituminous thermal coal with low sulfur content, and we sell our coal primarily to domestic electric utilities. Thermal coal is primarily consumed by electric utilities and industrial consumers as fuel for electricity generation. In 2015, the coal we produced generated approximately 3% of the electricity produced in the U.S. We do not produce any metallurgical coal. As of December 31, 2015, we controlled approximately 1.1 billion tons of proven and probable reserves.

In addition, we have two development projects. The Youngs Creek project, an undeveloped surface mine project in the Northern PRB region, is located in Wyoming, approximately 13 miles north of Sheridan, Wyoming, seven miles south of our Spring Creek Mine and seven miles from the mainline railroad, contiguous with the Wyoming-Montana state line. We have not been able to classify the Youngs Creek project mineral rights as proven and probable reserves as they remain subject to further exploration and evaluation based on market conditions. We also have an option to lease agreement and a corresponding exploration agreement with the Crow Tribe of Indians (the Big Metal project ). The Big Metal project is located on the Crow Indian Reservation in southeast Montana and is near the Youngs Creek project. We are in the process of evaluating development options for the Youngs Creek project and the Big Metal project and believe that their proximity to the Spring Creek Mine represents an opportunity to optimize our mine developments in the Northern PRB. For purposes of this report, the term Northern PRB refers to the area within the PRB that lies within Montana and the northern part of Sheridan County, Wyoming.

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In 2015, we amended agreements with Westshore Terminals Limited Partnership ( Westshore ) and Burlington Northern Santa Fe Railway ( BNSF ) providing for reduced quarterly take-or-pay payments from 2016 through 2018. We meet regularly with Westshore and BNSF to discuss market conditions, potential shipments, and the terms for such shipments. The recent increase in seaborne thermal coal pricing has enabled us to begin contracting export shipments for delivery between November 2016 and February 2017. Shipments will directly offset the amended take-or-pay obligations on a ton-for-ton basis.

### **Segment Information**

Our reportable segments include Owned and Operated Mines and Logistics and Related Activities. For a discussion of these segments, please see Note 15 of Notes to Unaudited Condensed Consolidated Financial Statements in Item 1.

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**Core Business Operations**

Our key business drivers include the following:

- the volume of coal sold by our Owned and Operated Mines segment;
- the price for which we sell our coal;
- the costs of mining, including labor, repairs and maintenance, fuel, explosives, depreciation of capital equipment, and depletion of coal leases;
- capital expenditures to acquire property, plant and equipment;
- the volume of deliveries coordinated by our Logistics and Related Activities segment to customer contracted destinations;
- the revenue we receive for our logistics services;
- the costs for logistics services, rail and port charges for coal sales made on a delivered basis, including demurrage and any take-or-pay charges; and
- the results of our derivative financial instruments.

The volume of coal that we sell in any given year is driven by global and domestic demand for coal-generated electric power. Demand for coal-generated electric power may be affected by many factors including weather patterns, natural gas prices, railroad performance, the availability of coal-fired and alternative generating capacity and utilization, environmental and legal challenges, political and regulatory factors, energy policies, international and domestic economic conditions, currency exchange rate fluctuations, and other factors discussed in this Item 2 and in our 2015 Form 10-K.

The price at which we sell our coal is a function of the demand for coal relative to the supply. We typically seek to enter into multi-year contracts with our customers, which helps mitigate the risks associated with any short-term imbalance in supply and demand. We typically seek to enter each year with expected production effectively fully sold. This strategy helps us run our mines at predictable production rates, which improves control of operating costs. In recent years, our business has become more variable and less predictable.

As is common in the PRB, coal seams at our existing mines naturally deepen, resulting in additional overburden to be removed at additional cost. We have experienced increased operating costs for longer haul distances, maintenance and supplies, and employee wages and salaries. We use derivative financial instruments to help manage our exposure to diesel fuel prices.

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

The volume of coal sold on a delivered basis is influenced by international and domestic market conditions. Coal sold on a delivered basis to customer contracted destinations, including sales to Asian customers, involves us arranging and paying for logistics services, which can include rail, rail car hire, and port charges, including any demurrage incurred and other costs. These logistics costs are affected by volume, various scheduling considerations, and negotiated rates for rail and port services. We have exposure to take-or-pay obligations for our rail and port committed capacities.

We entered into coal forward and futures contracts that are scheduled to settle at various dates through 2016 to hedge a portion of our export and domestic coal sales prices. We have also entered into WTI derivative financial instruments to hedge our diesel fuel costs.

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**Current Considerations**

*Owned and Operated Mines Segment*

Strong summer electricity demand and increased natural gas prices caused many of our customers to operate their coal units at full capacity. This increase in consumption resulted in customers drawing down their inventories and focusing on taking their contracted coal this year.

Shipments improved during the third quarter, as expected, with our shipments being 44% higher than the prior quarter. However, year-to-date shipments remain 26% lower than 2015 through due to the very slow first half of 2016. Preliminary data from MSHA indicates that the third quarter and year-to-date coal production in the U.S. was down 19% and 24%, respectively, compared to the same periods in 2015. Through July 2016, electric generation was down 1.6% year-over-year but has steadily increased during the third quarter of 2016.

*Logistics and Related Activities Segment*

The recent increase of seaborne thermal coal pricing has enabled us to begin contracting export shipments. We have scheduled approximately one million tons of exports for delivery between November 2016 and February 2017. Shipments will directly offset the amended take-or-pay obligations on a ton-for-ton basis.

*Potential for Asset Impairments*

The carrying value of our mineral properties, equipment, and other long-lived assets are sensitive to declines in domestic and international coal prices. These assets are at risk of impairment if prices remain at current levels for an extended period of time or do not recover as anticipated, or if regulatory changes adversely impact coal-fired electricity generation. The cash flow model that we use to assess impairment includes numerous assumptions, such as our current estimates of forecast coal production, market outlook on forward commodity prices, operating and development costs, and discount rates. All inputs to the cash flow model must be evaluated at each date of estimate. Forward commodity prices in mid-October 2016 have increased slightly subsequent to the test for impairment as of June 30, 2016. If forward prices remain at these levels, or further decline, we have long-lived assets at risk for impairment. The actual amount of impairment incurred, if any, for our properties will depend on a variety of factors including, but not limited to, subsequent forward price curve changes, the additional risk-adjusted value of proven and probable reserves, weighted-average cost of capital, operating cost estimates and future capital expenditure estimates.

**Environmental and Other Regulatory Matters**

Federal, state and local authorities regulate the U.S. coal mining industry with respect to various matters, including air quality standards, water pollution, plant and wildlife protection, the discharge of materials into the environment and the effects of mining on surface and groundwater

quality and availability. These laws and regulations have had, and will continue to have, a significant adverse effect on our production costs and our competitive position relative to certain other sources of electricity generation. Future laws, regulations or orders, including those relating to global climate change, may cause coal to become a less attractive fuel source, thereby further reducing coal's share of the market for fuels and other energy sources used to generate electricity. For example, on June 29, 2016, President Barack Obama, Canadian Prime Minister Justin Trudeau, and Mexican President Enrique Peña Nieto made a trilateral energy and climate announcement during the North American Leadership Summit in Ottawa, which included the North American Climate, Clean Energy, and Environment Partnership Action Plan. This Plan includes goals, such as striving to achieve 50% clean power generation by 2025 for North America, and reducing black carbon (soot). At this time, we cannot predict what steps, if any, these countries will take towards meeting these goals. If this Plan results in additional regulations of our business, or results in policies favoring other forms of energy, then our business could be adversely impacted. See "Climate Change Regulatory Environment" below and Part I Item I. Business Environmental and Other Regulatory Matters in our 2015 Form 10-K for additional climate disclosures.

In August 2015, the EPA issued its final CPP rules that establish carbon pollution standards for power plants, called CO<sub>2</sub> emission performance rates. The EPA expects each state to develop implementation plans for power plants in its state to meet the individual state targets established in the CPP. The EPA has given states the option to develop compliance plans for annual rate-based reductions (pounds per megawatt hour) or mass-based tonnage limits for CO<sub>2</sub>. The EPA also proposed

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a federal compliance plan to implement the CPP in the event that an approvable state plan is not submitted to the EPA. Judicial challenges have been filed. On February 9, 2016, the U.S. Supreme Court granted a stay of the implementation of the CPP before the United States Court of Appeals for the District of Columbia ( Circuit Court ) issued a final decision. By its terms, this stay will remain in effect throughout the pendency of the appeals process including at the Circuit Court and the Supreme Court if any certiorari petition is granted. The stay suspends the rule, including the requirement that states submit their initial plans by September 2016. The Supreme Court's stay applies only to EPA's regulations for CO2 emissions from existing power plants and will not affect EPA's standards for new power plants. It is not yet clear how either the Circuit Court or the Supreme Court will rule on the legality of the CPP. If the rules were upheld at the conclusion of this appellate process and are implemented in their current form, then demand for coal will likely be further decreased, potentially significantly, and adversely impact our business.

During the stay, the EPA has continued to move forward with certain aspects of the program. For example, on June 16, 2016, the EPA published a proposed rule outlining certain design details for the optional Clean Energy Incentive Program ( CEIP ), which would reward early investments in renewable energy generation and demand-side energy efficiency measures that generate carbon-free megawatt hours or reduce end-use energy demand during 2020 and/or 2021. Once finalized, EPA intends these design elements to help guide states and tribes that choose to participate in the CEIP should the CPP become effective at the conclusion of the various legal challenges. State participation in the program would be optional. If the CPP is upheld and states decide to participate in the CEIP, then it could create a competitive advantage for other forms of energy used for electric generation relative to our business.

On January 15, 2016, the Secretary of the DOI announced a moratorium on the issuance of new leases for coal resources on federally-owned lands in order to allow for a comprehensive review of the federal coal programs. The terms of this moratorium preclude the BLM from accepting new applications for thermal coal sales or modifying existing leases subject to certain exceptions. This moratorium could adversely impact members of the coal industry, including our company.

On July 1, 2016 the U.S. Department of the Interior published the final Consolidated Federal Oil & Gas and Federal & Indian Coal Valuation Reform Rule. This rule was developed by the Office of Natural Resources Revenue to significantly change the manner in which non-arm's length sales of natural resources from federal lands are valued for royalty purposes by mandating a net-back calculation from the first third-party sale and introducing a default rule that will require substantial judgment. The new rule eliminates the benchmarks which have been consistently and successfully utilized by the energy industry since the late 1980's to ensure that the royalty amount paid is based on the value of the coal severed. We are analyzing the impacts of the new rule on our current operations and future business decisions.

Federal and state laws require us to obtain surety bonds or post letters of credit to secure performance or payment of certain long-term obligations, such as mine closure or reclamation costs. We currently use self-bonding to secure performance of certain obligations in Wyoming. Self-bonding allows us to use the strength of our financial position as security rather than obtaining a traditional surety bond. As of September 30, 2016, we have self-bonded \$190 million in the State of Wyoming. The Land Quality Division of the Wyoming Department of Environmental Quality (the Wyoming DEQ) periodically re-evaluates the amount of the security required, our performance, and our eligibility for self-bonding. There can be no assurance that the Wyoming DEQ will continue to qualify us for self-bonding. Additionally, in August 2016 the Office of Surface Mining Reclamation and Enforcement ( OSMRE ) issued a Policy Advisory discouraging state regulatory authorities from approving self-bonding arrangements. The Policy Advisory indicated that the OSMRE would begin more closely reviewing instances in which states accept self-bonds for mining operations. In the same month, the OSMRE also announced that it was beginning the rulemaking process to strengthen regulations on self-bonding. To the extent we are unable to maintain our current level of self-bonding due to changes in legislation, regulations, or their interpretation by state agencies, or in our financial condition, we may be required to obtain surety bonds at commercial terms, which could cause our costs to increase and could have a material adverse effect on our liquidity and financial condition.



We are proactively addressing the ongoing regulatory uncertainties regarding self-bonding programs in Wyoming by seeking to voluntarily transition away from self-bonding. During the second quarter, we submitted applications to the Wyoming DEQ to reduce the bonding amount by incorporating recently issued equipment cost guidelines, completed reclamation, updated reclamation plans, and lower fuel price assumptions. We have since received approval to lower the total bonding requirement by \$154 million. We have also reallocated our surety underwriters to position the portfolio to those that we believe are supportive of the coal industry. As of September 30, 2016, we have \$448.9 million of reclamation bonds with these underwriters backed by collateral of 15%, or \$71.3 million, in the form of letters of credit under our Credit Agreement. Although we currently expect to be able to achieve our goal of exiting self-bonding by January 2017, the timing

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of its completion is dependent on the State of Wyoming's processing and approval of our applications, and is therefore, uncertain.

**Adjusted EBITDA and Adjusted EPS**

EBITDA, Adjusted EBITDA and Adjusted EPS are intended to provide additional information only and do not have any standard meaning prescribed by accounting principles generally accepted in the United States of America ( U.S. GAAP ). A quantitative reconciliation of historical *Net income (loss)* to Adjusted EBITDA, and EPS (as defined below) to Adjusted EPS is found in the tables below.

EBITDA represents net income (loss) before: (1) interest income (expense), net, (2) income tax provision, (3) depreciation and depletion, and (4) amortization. Adjusted EBITDA represents EBITDA as further adjusted for accretion, which represents non-cash increases in asset retirement obligation liabilities resulting from the passage of time, and specifically identified items that management believes do not directly reflect our core operations. For the periods presented herein, the specifically identified items are: (1) adjustments to exclude non-cash impairment charges, (2) adjustments for derivative financial instruments, excluding fair value mark-to-market gains or losses and including cash amounts received or paid, and (3) adjustments to exclude debt restructuring costs. We enter into certain derivative financial instruments, such as put options, that require the payment of premiums at contract inception. The reduction in the premium value over time is reflected in the mark-to-market gains or losses. Our calculation of Adjusted EBITDA does not include premiums paid for derivative financial instruments; either at contract inception, as these payments pertain to future settlement periods, or in the period of contract settlement, as the payment occurred in a preceding period.

Adjusted EPS represents diluted earnings (loss) per common share ( EPS ) adjusted to exclude (i) the estimated per share impact of the same specifically identified non-core items used to calculate Adjusted EBITDA as described above and (ii) the cash and non-cash interest expense associated with the early retirement of debt and refinancing transactions. All items are adjusted at the statutory tax rate of approximately 37% and exclude the impact of any valuation allowance.

Because not all companies use identical calculations, our presentations of Adjusted EBITDA and Adjusted EPS may not be comparable to other similarly titled measures of other companies. Moreover, our presentation of Adjusted EBITDA is different than EBITDA as defined in our debt financing agreements. We recognize that using Adjusted EBITDA and Adjusted EPS as performance measures has inherent limitations as compared to net income (loss), EPS, or other U.S. GAAP financial measures, as these non-GAAP measures exclude certain items, including items that are recurring in nature, which may be meaningful to investors. As a result of the exclusions, Adjusted EBITDA and Adjusted EPS should not be considered in isolation and do not purport to be alternatives to net income (loss), EPS, or other U.S. GAAP financial measures as a measure of our operating performance. See Part II Item 6 Selected Financial Data of our 2015 Form 10-K for additional information regarding Adjusted EBITDA and Adjusted EPS and their limitations compared to U.S. GAAP financial measures.

A quantitative reconciliation for each of the periods presented of *Net income (loss)* to Adjusted EBITDA and EPS to Adjusted EPS is found within this Item 2.



Table of Contents**Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015****Summary**

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

	Three Months Ended September 30,		Amount	Change	
	2016	2015		Amount	Percent
Total tons sold	17.1	20.8		(3.7)	(17.8)
Total revenue	\$ 217.1	\$ 301.7	\$	(84.6)	(28.0)
Net income (loss)	\$ (1.6)	\$ 8.9	\$	(10.5)	(118.0)
Diluted EPS	\$ (0.03)	\$ 0.14	\$	(0.17)	(121.4)
Adjusted EBITDA (1)	\$ 40.6	\$ 39.0	\$	1.6	4.1
Adjusted EPS (1)	\$ 0.06	\$ 0.24	\$	(0.18)	(75.0)

(1) Non-GAAP measure; please see definition above and reconciliation below.

**Adjusted EBITDA and Adjusted EPS**

The following tables present a reconciliation of *Net income (loss)* to Adjusted EBITDA, Diluted earnings (loss) per common share to Adjusted EPS, and Segment Adjusted EBITDA to *Net income (loss)* (in millions, except per share amounts):

**Adjusted EBITDA**

	Three Months Ended September 30,	
	2016	2015
Net income (loss)	\$ (1.6)	\$ 8.9
Interest expense	13.0	11.0
Income tax (benefit) expense	(0.6)	(2.2)
Depreciation and depletion	23.5	7.9
Amortization of port access rights		0.9
EBITDA	34.2	26.4
Accretion	1.1	3.1
Derivative financial instruments:		
Exclusion of fair value mark-to-market losses (gains) (1)	\$ 1.1	\$ 10.2
Inclusion of cash amounts received (paid) (2)	(0.6)	(0.7)

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Total derivative financial instruments		0.5		9.5
Impairments		0.3		
Debt restructuring costs		4.5		
Adjusted EBITDA	\$	40.6	\$	39.0

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

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

Table of Contents*Adjusted EBITDA by Segment*

	Three Months Ended September 30,	
	2016	2015
<b>Owned and Operated Mines</b>		
Adjusted EBITDA	\$ 56.0	\$ 68.6
Depreciation and depletion	(23.2)	(7.4)
Accretion	(0.9)	(2.9)
Derivative financial instruments:		
Exclusion of fair value mark-to-market gains (losses)	\$ (1.1)	\$ (10.9)
Inclusion of cash amounts (received) paid	2.3	3.5
Total derivative financial instruments	1.2	(7.4)
Impairments	(0.3)	
Other	0.3	(0.2)
Operating income (loss)	33.1	50.7
<b>Logistics and Related Activities</b>		
Adjusted EBITDA	(6.0)	(17.7)
Amortization of port access rights		(0.9)
Derivative financial instruments:		
Exclusion of fair value mark-to-market gains (losses)		0.7
Inclusion of cash amounts (received) paid	(1.8)	(2.8)
Total derivative financial instruments	(1.8)	(2.1)
Other		0.1
Operating income (loss)	(7.8)	(20.6)
<b>Other</b>		
Adjusted EBITDA	(9.3)	(11.7)
Depreciation and depletion	(0.3)	(0.5)
Accretion	(0.2)	(0.1)
Debt restructuring costs	(4.5)	
Other	(0.1)	(0.0)
Operating income (loss)	(14.4)	(12.3)
<b>Eliminations</b>		
Adjusted EBITDA		(0.2)
Operating loss		(0.2)
Consolidated operating income (loss)	10.9	17.5
Interest expense	(13.0)	(11.0)
Other, net	(0.2)	0.3
Income tax (expense) benefit	0.6	2.2
Income (loss) from unconsolidated affiliates, net of tax	0.1	(0.1)
Net income (loss)	\$ (1.6)	\$ 8.9

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*Adjusted EPS*

	Three Months Ended September 30,	
	2016	2015
Diluted earnings (loss) per common share	\$ (0.03)	\$ 0.14
Derivative financial instruments:		
Exclusion of fair value mark-to-market losses (gains)	\$ 0.02	\$ 0.17
Inclusion of cash amounts received (paid)	(0.01)	(0.01)
Total derivative financial instruments	0.01	0.16
Exclusion of non-cash interest for deferred finance fee write-off	0.02	
Impairments	0.01	
Debt restructuring costs	0.07	
Tax impact of adjustments	(0.02)	(0.06)
Adjusted EPS	\$ 0.06	\$ 0.24
Weighted-average dilutive shares outstanding (in millions)	61.4	61.4

*Results of Operations*

*Revenue*

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

	Three Months Ended September 30,				Change	
	2016	2015	Amount	Percent		
<b>Owned and Operated Mines</b>						
Realized price per ton sold	\$ 12.33	\$ 12.62	\$ (0.29)	(2.3)		
Tons sold	17.0	20.8	(3.8)	(18.3)		
Coal revenue	\$ 209.1	\$ 262.0	\$ (52.9)	(20.2)		
Other revenue	\$ 2.9	\$ 3.6	\$ (0.7)	(19.4)		
<b>Logistics and Related Activities</b>						
Total tons delivered	0.1	1.4	(1.3)	(92.9)		
Asian export tons		0.9	(0.9)	(100.0)		
Revenue	\$ 3.4	\$ 44.8	\$ (41.4)	(92.4)		
<b>Other</b>						
Revenue	\$ 2.5	\$ 2.2	\$ 0.3	13.6		
<b>Eliminations of Intersegment Sales</b>						
Revenue	\$ (0.8)	\$ (10.9)	\$ 10.1	92.7		
<b>Total Consolidated</b>						
Revenue	\$ 217.1	\$ 301.7	\$ (84.6)	(28.0)		





Table of Contents*Owned and Operated Mines Segment*

The following table shows volume and price related changes to coal revenue for the three months ended September 30, 2016 compared to the three months ended September 30, 2015 (in millions):

Three months ended September 30, 2015	\$	262.0
Changes associated with volumes		(48.1)
Changes associated with prices		(4.8)
Three months ended September 30, 2016	\$	209.1

Revenue decreased for the three months ended September 30, 2016 compared to the same period in 2015 primarily due to fewer tons sold. Volumes decreased as a result of lower natural gas prices and higher customer stockpiles. Realized prices for the three months ended September 30, 2016 also decreased revenue compared to the same period in 2015 as the domestic coal market continues to be depressed.

*Logistics and Related Activities Segment*

Revenue decreased for the three months ended September 30, 2016 compared to the same period in 2015 as a result of continued weak international prices for seaborne thermal coal and our suspension of international shipments during the three months ended September 30, 2016.

*Other*

Revenue for Other includes buyouts of customer coal contracts of \$1.6 million and \$1.0 million for the three months ended September 30, 2016 and 2015, respectively. See Risk Factors in Item 1A of Part II of this report.

*Cost of Product Sold*

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

2016	Three Months Ended September 30,		Amount	Change	Percent
	2016	2015			

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<b>Owned and Operated Mines</b>					
Average cost per ton sold	\$	8.95	\$	9.15	\$ (0.20) (2.2)
Cost of product sold (produced coal)		151.7		190.0	(38.3) (20.2)
Other cost of product sold		1.5		3.2	(1.7) (53.1)
<b>Logistics and Related Activities</b>					
Cost of product sold		11.2		65.2	(54.0) (82.8)
<b>Other</b>					
Cost of product sold		0.7		0.9	(0.2) (22.2)
<b>Eliminations of Intersegment Sales</b>					
Cost of product sold		(0.8)		(10.8)	10.0 92.6
<b>Total Consolidated</b>					
Cost of product sold	\$	164.3	\$	248.5	\$ (84.2) (33.9)

*Owned and Operated Mines Segment*

Cost of product sold decreased primarily as a result of fewer tons of coal sold in the three months ended September 30, 2016 as compared to the same period in 2015, which resulted in lower direct operating costs. We saw significant decreases in production taxes and royalties, repairs and maintenance, outside services and diesel costs. Repairs and maintenance decreased as a result of lower equipment hours, condition monitoring, and in-house repairs completed at our rebuild center. Outside services also decreased as a result of performing more work in-house rather than using contractors.

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The average cost per ton sold decreased primarily as a result of the lower direct operating costs.

*Logistics and Related Activities Segment*

Cost of product sold decreased in the three months ended September 30, 2016 as compared to the same period in 2015 due to our suspension of international shipments during the three months ended September 30, 2016.

*Operating Income (Loss)*

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

	Three Months Ended September 30,		Amount	Change	
	2016	2015			Percent
<b>Owned and Operated Mines</b>					
Operating income (loss)	\$ 33.1	\$ 50.7	\$ (17.6)	(34.7)	
<b>Logistics and Related Activities</b>					
Operating income (loss)	(7.8)	(20.6)	12.8	62.1	
<b>Other</b>					
Operating income (loss)	(14.4)	(12.3)	(2.1)	(17.1)	
<b>Eliminations of Intersegment Sales</b>					
Operating income (loss)		(0.2)	0.2	100.0	
<b>Total Consolidated</b>					
Operating income (loss)	\$ 10.9	\$ 17.5	\$ (6.6)	(37.7)	

*Owned and Operated Mines Segment*

In addition to the revenue and cost of product sold factors previously discussed, operating income decreased due to a \$16.8 million reduction to reclamation asset depreciation seen in the three months ended September 30, 2015 related to the decrease in the ARO liability at the Cordero Rojo Mine. Partially offsetting the increased *Depreciation and depletion* were lower mark-to-market losses of \$9.9 million on our derivative financial instruments.

*Logistics and Related Activities Segment*

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In addition to the revenue and cost of product sold factors previously discussed, the operating loss decreased due to decreased amortization, partially offset by fewer derivative gains during the three months ended September 30, 2016 as compared to the same period in 2015.

### *Other*

The increase to operating loss for Other during the three months ended September 30, 2016 as compared to the same period in 2015 is primarily due to *Debt restructuring* of \$4.5 million, partially offset by decreased *Selling, general and administrative expenses* ( SG&A ).

### *Other Income (Expense)*

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

	Three Months Ended September 30,				Change	
	2016	2015	Amount		Amount	Percent
Other income (expense)	\$ (13.2)	\$ (10.7)	\$ (2.5)		(2.5)	(23.4)

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Other expense for the three months ended September 30, 2016 as compared to the same period in 2015 increased primarily as a result of the write-off of \$1.3 million in deferred financing costs related to the decrease in the Credit Agreement's borrowing capacity.

*Income Tax Provision*

As of September 30, 2016 and December 31, 2015, we had deferred tax assets principally arising from: ARO, alternative minimum tax credits, pension and postretirement benefits, contract rights and net operating loss carry-forwards for income tax purposes multiplied by an expected rate of 37%. As management cannot determine that it is more likely than not that we will realize the benefit of the deferred tax assets, a valuation allowance equal to the net deferred tax asset has been established at September 30, 2016 and December 31, 2015. The difference between our effective tax rate and the statutory rate is due primarily to the impact of percentage depletion, income tax in the states in which we do business, changes in our valuation allowance and the impact of out of period adjustments. In addition, our effective tax rate of 66.1% for the nine months ended September 30, 2016 is materially impacted by the intraperiod tax allocation required as a result of the adjustments to ARO and the retiree medical plan while incurring a loss for that period. Our effective tax rate for the three months ended September 30, 2016 was 28.3%.

**Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015***Summary*

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

	Nine Months Ended September 30,		Amount	Change	
	2016	2015		Amount	Percent
Total tons sold	41.9	56.6		(14.7)	(26.0)
Total revenue	\$ 572.5	\$ 863.4	\$	(290.9)	(33.7)
Net income (loss)	\$ (2.7)	\$ (48.7)	\$	46.0	94.5
Diluted EPS	\$ (0.04)	\$ (0.80)	\$	0.76	95.0
Adjusted EBITDA (1)	\$ 58.6	\$ 89.1	\$	(30.5)	(34.2)
Adjusted EPS (1)	\$ (0.01)	\$ (0.29)	\$	0.28	96.6

(1) Non-GAAP measure; please see definition in Adjusted EBITDA and Adjusted EPS section above and reconciliation below.



Table of Contents**Adjusted EBITDA and Adjusted EPS**

The following tables present a reconciliation of *Net income (loss)* to Adjusted EBITDA, Diluted earnings (loss) per common share to Adjusted EPS, and Segment Adjusted EBITDA to *Net income (loss)* (in millions, except per share amounts):

*Adjusted EBITDA*

	Nine Months Ended September 30,	
	2016	2015
Net income (loss)	\$ (2.7)	\$ (48.7)
Interest income	(0.1)	(0.1)
Interest expense	35.4	36.3
Income tax (benefit) expense	(3.2)	(12.4)
Depreciation and depletion	23.1	51.7
Amortization of port access rights		2.8
EBITDA	52.4	29.6
Accretion	5.6	10.0
Derivative financial instruments:		
Exclusion of fair value mark-to-market losses (gains) (1)	\$ (5.3)	\$ 17.8
Inclusion of cash amounts received (paid) (2)(3)	(3.2)	(1.6)
Total derivative financial instruments	(8.5)	16.2
Impairments	4.5	33.4
Debt restructuring costs	4.5	
Adjusted EBITDA	\$ 58.6	\$ 89.1

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

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

(3) Excludes premiums paid at option contract inception of \$5.8 during the nine months ended September 30, 2015, for original settlement dates in subsequent periods.

Table of Contents*Adjusted EBITDA by Segment*

	2016	Nine Months Ended September 30,	2015
<b>Owned and Operated Mines</b>			
Adjusted EBITDA	\$	92.0	\$ 153.0
Depreciation and depletion		(22.1)	(49.9)
Accretion		(5.2)	(9.5)
Derivative financial instruments:			
Exclusion of fair value mark-to-market gains (losses)	\$ 5.2	\$	(13.0)
Inclusion of cash amounts (received) paid	8.5		11.8
Total derivative financial instruments		13.7	(1.2)
Impairments		(2.5)	(33.4)
Other		0.9	(0.1)
Operating income (loss)		76.8	58.9
<b>Logistics and Related Activities</b>			
Adjusted EBITDA		(20.3)	(32.1)
Amortization of port access rights			(2.8)
Derivative financial instruments:			
Exclusion of fair value mark-to-market gains (losses)	0.1		(4.8)
Inclusion of cash amounts (received) paid (1)	(5.3)		(10.2)
Total derivative financial instruments		(5.2)	(15.0)
Other		1.6	0.1
Operating income (loss)		(23.9)	(49.8)
<b>Corporate and Other</b>			
Adjusted EBITDA(2)		(12.9)	(30.5)
Depreciation and depletion		(0.9)	(1.8)
Accretion		(0.5)	(0.4)
Impairment		(2.0)	
Debt restructuring costs		(4.5)	
Other		(0.8)	(0.4)
Operating income (loss)		(21.6)	(33.1)
<b>Eliminations</b>			
Adjusted EBITDA		(0.2)	(1.3)
Operating loss		(0.2)	(1.3)
Consolidated operating income (loss)		31.1	(25.4)
Interest income		0.1	0.1
Interest expense		(35.4)	(36.3)
Other, net		(0.8)	0.2
Income tax (expense) benefit		3.2	12.4
Income (loss) from unconsolidated affiliates, net of tax		(1.0)	0.3
Net income (loss)	\$	(2.7)	\$ (48.7)

(1) Excludes premiums at option contract inception of \$5.8, related to our Logistics and Related Activities segment, during the nine months ended September 30, 2015, for settlement dates in subsequent periods.



(2) Includes \$24.3 and \$5.3 of sales contract buyouts for the nine months ended September 30, 2016 and 2015, respectively.

Table of Contents*Adjusted EPS*

	2016		Nine Months Ended September 30,		2015	
Diluted earnings (loss) per common share	\$		(0.04)	\$		(0.80)
<b>Derivative financial instruments:</b>						
Exclusion of fair value mark-to-market losses (gains)	\$	(0.09)		\$	0.29	
Inclusion of cash amounts received (paid) (1)		(0.05)			(0.03)	
Total derivative financial instruments			(0.14)			0.26
Exclusion of non-cash interest for deferred finance fee write-off			0.02			
Impairments			0.07			0.55
Debt restructuring costs			0.07			
Tax impact of adjustments						(0.30)
Adjusted EPS	\$		(0.01)	\$		(0.29)
Weighted-average dilutive shares outstanding (in millions)			61.3			61.0

(1) Excludes per share impact of premiums paid at option contract inception of \$0.10 during the nine months ended September 30, 2015, for original settlement dates in subsequent periods.

**Results of Operations***Revenue*

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

	2016		Nine Months Ended September 30,		2015		Change	
					Amount		Percent	
<b>Owned and Operated Mines</b>								
Realized price per ton sold	\$	12.50	\$	12.81	\$	(0.31)		(2.4)
Tons sold		41.7		56.4		(14.7)		(26.1)
Coal revenue	\$	522.0	\$	722.9	\$	(200.9)		(27.8)
Other revenue	\$	9.3	\$	10.8	\$	(1.5)		(13.9)
<b>Logistics and Related Activities</b>								
Total tons delivered		0.4		4.5		(4.1)		(91.1)
Asian export tons		0.2		3.3		(3.1)		(93.9)
Revenue	\$	20.6	\$	162.8	\$	(142.2)		(87.3)
<b>Other</b>								

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Revenue	\$	26.1	\$	8.6	\$	17.5	*
<b>Eliminations of Intersegment Sales</b>							
Revenue	\$	(5.5)	\$	(41.7)	\$	36.2	86.8
<b>Total Consolidated</b>							
Revenue	\$	572.5	\$	863.4	\$	(290.9)	(33.7)

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\* Not meaningful.

Table of Contents*Owned and Operated Mines Segment*

The following table shows volume and price related changes to coal revenue for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 (in millions):

Nine months ended September 30, 2015	\$	722.9
Changes associated with volumes		(188.1)
Changes associated with prices		(12.8)
Nine months ended September 30, 2016	\$	522.0

Revenue decreased for the nine months ended September 30, 2016 compared to the same period in 2015 primarily due to fewer tons sold. Volumes decreased as a result of the mild winter weather, low natural gas prices, and higher customer stockpiles. Realized prices for the nine months ended September 30, 2016 decreased compared to the same period in 2015 as the domestic coal market continues to be depressed.

*Logistics and Related Activities Segment*

Revenue decreased for the nine months ended September 30, 2016 compared to the same period in 2015 due to significantly lower international shipments as a result of continued weak international prices for seaborne thermal coal. While we had three vessels carry over from 2015 into the first quarter of 2016, there were no international shipments during either the second or third quarters of 2016.

*Other*

Revenue for Other includes buyouts of customer coal contracts of \$24.3 million for the nine months ended September 30, 2016 compared to \$5.3 million for the same period in 2015. See *Risk Factors* in Item 1A of Part II of this report.

*Cost of Product Sold*

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

2016	Nine Months Ended September 30,		Amount	Change	
	2015				Percent

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<b>Owned and Operated Mines</b>						
Average cost per ton sold	\$	10.07	\$	9.90	\$ 0.17	1.7
Cost of product sold (produced coal)	\$	420.4	\$	558.9	\$ (138.5)	(24.8)
Other cost of product sold		8.8		9.1	(0.3)	(3.3)
<b>Logistics and Related Activities</b>						
Cost of product sold		44.5		205.0	(160.5)	(78.3)
<b>Other</b>						
Cost of product sold		1.6		2.7	(1.1)	(40.7)
<b>Eliminations of Intersegment Sales</b>						
Cost of product sold		(5.4)		(40.4)	35.0	86.6
<b>Total Consolidated</b>						
Cost of product sold	\$	469.9	\$	735.3	\$ (265.4)	(36.1)

Table of Contents*Owned and Operated Mines Segment*

Cost of product sold decreased primarily as a result of fewer tons of coal sold in the nine months ended September 30, 2016 as compared to the same period in 2015, which resulted in lower direct operating costs. We saw significant decreases in production taxes and royalties, repairs and maintenance, diesel costs, outside services, and labor. Repairs and maintenance decreased as a result of lower equipment hours, condition monitoring, and in-house repairs completed at our rebuild center. Outside services also decreased as a result of performing more work in-house rather than using contractors. Our production costs increased compared to the prior year primarily due to the fewer tons sold. Other cost of product sold decreased in the nine months ended September 30, 2016 as compared to the same period in 2015 due to fewer tons sold.

*Logistics and Related Activities Segment*

Cost of product sold decreased in the nine months ended September 30, 2016 as compared to the same period in 2015 primarily due to a reduction in the volume of Asia tons delivered. While we had three vessels carry over from 2015 into the first quarter of 2016, there were no international shipments during either the second or third quarters of 2016.

*Operating Income (Loss)*

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

	Nine Months Ended September 30,		Amount	Change	Percent
	2016	2015			
<b>Owned and Operated Mines</b>					
Operating income (loss)	\$ 76.8	\$ 58.9	\$ 17.9		30.4
<b>Logistics and Related Activities</b>					
Operating income (loss)	(23.9)	(49.8)	25.9		52.0
<b>Other</b>					
Operating income (loss)	(21.6)	(33.1)	11.5		34.7
<b>Eliminations of Intersegment Sales</b>					
Operating income (loss)	(0.2)	(1.3)	1.1		84.6
<b>Total Consolidated</b>					
Operating income (loss)	\$ 31.1	\$ (25.4)	\$ 56.5		*

\* Not meaningful.

*Owned and Operated Mines Segment*

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In addition to the revenue and cost of product sold factors previously discussed, operating income increased due to a \$22.2 million reduction to reclamation asset depreciation seen in the nine months ended September 30, 2016 as compared to the same period in 2015 related to a decrease in the ARO liability at all three mine sites. Additionally, the nine months ended September 30, 2015 included a goodwill impairment charge of \$33.4 million compared to impairments of \$2.5 million in the same period in 2016. Finally, we recognized mark-to-market gains of \$5.2 million in the nine months ended September 30, 2016 as compared to losses of \$13.0 million for the same period in 2015.

### *Logistics and Related Activities Segment*

In addition to the revenue and cost of product sold factors previously discussed, the operating loss decreased due to fewer derivative losses and decreased amortization during the nine months ended September 30, 2016 as compared to the same period in 2015.

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In addition to the revenue factors previously discussed, the decrease in operating loss for the nine months ended September 30, 2016 as compared to the same period in 2015 was partially offset by *Debt restructuring* of \$4.5 million, an increase in SG&A costs of \$1.4 million due to higher stock compensation and bonus accrual expense and *Impairments* of \$2.0 million.

*Other Income (Expense)*

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

	Nine Months Ended September 30,		Amount	Change	Percent
	2016	2015			
Other income (expense)	\$ (36.0)	\$ (36.0)	\$		

Other expense for the nine months ended September 30, 2016 as compared to the same period in 2015 remained similar as lower imputed interest on our federal coal lease obligations was partially offset by increased amortization of deferred financing costs due to the write-off of \$1.3 million related to the decrease in the Credit Agreement's borrowing capacity.

*Income Tax Provision*

As of September 30, 2016 and December 31, 2015, we had deferred tax assets principally arising from: ARO, alternative minimum tax credits, pension and postretirement benefits, contract rights and net operating loss carry-forwards for income tax purposes multiplied by an expected rate of 37%. As management cannot determine that it is more likely than not that we will realize the benefit of the deferred tax assets, a valuation allowance equal to the net deferred tax asset has been established at September 30, 2016 and December 31, 2015. The difference between our effective tax rate and the statutory rate is due primarily to the impact of percentage depletion, income tax in the states in which we do business, changes in our valuation allowance and the impact of out of period adjustments. In addition, our effective tax rate for the nine months ended September 30, 2016 of 66.1% was materially impacted by intraperiod tax allocation required as a result of the adjustments to ARO and the retiree medical plan, while incurring a loss during the period.

**Liquidity and Capital Resources**



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	September 30, 2016	December 31, 2015
	(in millions)	
Cash and cash equivalents	\$ 90.3	\$ 89.3

In addition to our cash and cash equivalents, our primary sources of liquidity are cash from our operations and borrowing capacity under our Credit Agreement (as defined below) and Accounts Receivable Securitization Facility ( A/R Securitization Program ). We also have a capital leasing program for some of our capital equipment purchases. These programs provide flexibility and liquidity to our capital structure.

Cash balances depend on a number of factors, such as the volume of coal sold by our Owned and Operated Mines segment; the price for which we sell our coal; the costs of mining, including labor, repairs and maintenance, fuel and explosives; capital expenditures to acquire property, plant and equipment; the volume of deliveries coordinated by our Logistics and Related Activities segment to customer contracted destinations; the revenue we receive for our logistics services; demurrage and any take-or-pay charges; the results of our derivative financial instruments; coal-fired electricity demand, regulatory changes and energy policies impacting our business; and other risks and uncertainties, including those risk factors discussed in Item 1A in our 2015 Form 10-K and in Item 1A of Part II of this report. Ongoing depressed industry conditions and recent coal producer bankruptcy filings have resulted in increased credit pressures on the coal industry. Any credit demands by third parties or refusals by banks, surety bond providers, investors or others to extend, renew or refinance credit on commercially reasonable terms may adversely impact our business, financial condition, results of operations, cash flows and liquidity.

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Capital expenditures are necessary to keep our equipment fleets updated to maintain our mining productivity and competitive position and to add new equipment as necessary. Cash payments for capital expenditures (excluding capitalized interest) for the nine months ended September 30, 2016 and 2015 were \$30.1 million and \$28.1 million, respectively. Capital expenditures for the nine months ended September 30, 2016 include \$7.3 million for the dragline move from the Cordero Rojo Mine to the Antelope Mine, which was placed in service in the third quarter of 2016. Our anticipated capital expenditures are expected to be between \$30 million and \$40 million in 2016.

*Overview of Cash Transactions*

We started 2016 with \$89.3 million of unrestricted cash and cash equivalents. After capital expenditures and cash used in our operating activities, we concluded the nine months ended September 30, 2016 with cash and cash equivalents of \$90.3 million. The following table represents cash flows (in millions, except percentages):

	Nine Months Ended September 30,		Amount	Change	Percent
	2016	2015			
Beginning balance - cash and cash equivalents	\$ 89.3	\$ 168.7			
Net cash provided by (used in) operating activities	36.3	62.1	\$	(25.8)	(41.5)
Net cash provided by (used in) investing activities	(30.0)	(41.8)	\$	11.8	28.2
Net cash provided by (used in) financing activities	(5.3)	(65.5)	\$	60.2	91.9
Ending balance - cash and cash equivalents	\$ 90.3	\$ 123.5			

Net cash provided by operating activities decreased for the nine months ended September 30, 2016 as compared to the same period in 2015 primarily due to decreases in working capital of \$22.1 million, primarily due to lower Accounts receivable as a result of reduced sales. Net income (loss) adjusted for non-cash items decreased \$7.8 million.

The decrease in cash used in investing activities for the nine months ended September 30, 2016 as compared to the same period in 2015 was primarily related to a \$6.5 million payment of restricted cash in 2015, which was used to fund an escrow account associated with our Westshore capacity, and \$5.4 million payment in 2015 toward permitting expenses as a partner in Gateway Pacific Terminal. In addition, we received \$2.8 million in 2016 related to an insurance settlement on a flood at our Cordero Rojo Mine in 2014. These were partially offset by purchases of property, plant and equipment which increased by \$2.0 million in the nine months ended September 30, 2016 as compared to the same period in 2015.

The decrease in cash used in financing activities for the nine months ended September 30, 2016 as compared to the same period in 2015 was primarily due to payments of \$64.0 million made on the principal portion of our federal coal lease obligations in 2015, partially offset by the payment of debt issuance costs of \$3.6 million related to the Exchange

Offers (as defined below).

***Senior Secured Revolving Credit Facility***

On February 21, 2014, Cloud Peak Energy Resources LLC entered into a five year Credit Agreement with PNC Bank, National Association, as administrative agent, and a syndicate of lenders, which was amended on September 5, 2014 and September 9, 2016 (as amended, the Credit Agreement ). The Credit Agreement provides us with a senior secured revolving credit facility with a capacity of up to \$400 million that can be used to borrow funds or obtain letters of credit. The borrowing capacity under the Credit Agreement is reduced by the undrawn face amount of letters of credit issued and outstanding, which may be up to \$250 million at any time.

On September 9, 2016, we entered into a Second Amendment to the Credit Agreement (the Second Amendment ). The Second Amendment primarily replaced the quarterly EBITDA-based financial covenants that previously required us to (a) maintain defined minimum levels of interest coverage and (b) comply with a maximum net secured debt leverage ratio. These financial covenants were replaced with a new monthly minimum liquidity covenant that requires us to maintain liquidity, as defined in the Credit Agreement, of not less than \$125 million as of the last day of each month. The Second Amendment reduced the maximum borrowing capacity under the Credit Agreement to \$400 million, from the previous maximum capacity of \$500 million. It also revised the permitted debt covenant and permitted lien covenant to permit the

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issuance of second lien debt in an amount up to \$350 million. Additionally, it revised various negative covenants and baskets that would apply to, among other things, the incurrence of debt, making investments, asset dispositions and restricted payments. Lastly, it established a requirement for deposit account control agreements with the administrative agent for certain deposit accounts. The Second Amendment did not change the maturity of the Credit Agreement, which remains February 21, 2019.

Loans under the Credit Agreement bear interest at the London Interbank Offered Rate ( LIBOR ) plus an applicable margin of 3.50%. We pay the lenders a commitment fee of 0.50% per year on the unused amount of the Credit Agreement. Letters of credit issued under the Credit Agreement, unless drawn upon, will incur a per annum fee from the date at which they are issued of 3.50%. Letters of credit that are drawn upon may be converted to loans at our request, subject to the conditions to borrowing set forth in the Credit Agreement. In addition, in connection with the issuance of a letter of credit, we are required to pay the issuing bank a fronting fee of 0.125% per annum.

The Credit Agreement also contains other non-financial covenants, including covenants related to our ability to incur additional debt or take other corporate actions. In addition, there are customary events of default with customary grace periods and thresholds under the Credit Agreement. Our ability to access the available funds under the Credit Agreement may be prohibited in the event that we do not comply with the covenants or if we otherwise default on our obligations under the Credit Agreement.

Our obligations under the Credit Agreement are secured by substantially all of our assets and substantially all of the assets of certain of our subsidiaries, subject to certain permitted liens and customary exceptions for similar coal financings. Our obligations under the Credit Agreement are also supported by a guarantee by CPE Inc. and our domestic restricted subsidiaries.

Under the Credit Agreement, CPE Resources is permitted to make certain distributions to CPE Inc. to enable it to pay federal, state and local income and certain other taxes it incurs that are attributable to the business and operations of CPE Resources and its subsidiaries. In addition, as long as no default under the Credit Agreement exists, the subsidiaries of CPE Inc. also may make annual distributions to CPE Inc. to fund dividends or repurchases of CPE Inc.'s stock and additional distributions in accordance with certain distribution limits in the Credit Agreement. Finally, the subsidiaries of CPE Inc. may make loans to CPE Inc. subject to certain limitations in the Credit Agreement.

As of September 30, 2016, we had no borrowings and the undrawn face amount of letters of credit outstanding under the Credit Agreement was \$71.3 million. As of December 31, 2015, there were no borrowings or letters of credit outstanding under the Credit Agreement. We were in compliance with the covenants contained in the Credit Agreement as of September 30, 2016 and December 31, 2015.

***A/R Securitization Program***

Certain of our subsidiaries are parties to the A/R Securitization Program. In January 2013, we formed Cloud Peak Energy Receivables LLC, a special purpose, bankruptcy-remote wholly-owned subsidiary to purchase, subject to certain exclusions, in a true sale, trade receivables generated by certain of our subsidiaries without recourse (other than customary indemnification obligations for breaches of specific representations and warranties), and then transfer undivided interests in up to \$75 million of those accounts receivable to a financial institution for cash borrowings for our ultimate benefit. The total borrowings are limited by eligible accounts receivable, as defined under the terms of the A/R Securitization Program. The A/R Securitization Program will terminate on January 23, 2018. As of September 30, 2016, we had \$29.5 million of available receivable sale capacity under the A/R Securitization Program. There were no borrowings outstanding under the A/R

Securitization Program as of September 30, 2016 or December 31, 2015.

*Liquidity*

Our aggregate availability for borrowing under the Credit Agreement and the A/R Securitization Program was approximately \$358.2 million as of September 30, 2016. Our total liquidity, which includes cash and cash equivalents and amounts available under both our Credit Agreement and the A/R Securitization Program, was \$448.5 million as of September 30, 2016.

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

If we do not have sufficient resources from ongoing operations to satisfy our obligations or the timing of payments on our obligations does not coincide with cash inflows from operations, we may need to use our cash on hand or borrow under our line of credit. If the obligation is in excess of these amounts, we may need to seek additional borrowing sources or take other actions. Depending upon existing circumstances at the time, we may not be able to obtain additional funding on acceptable terms or at all. In addition, our existing debt instruments contain restrictive covenants, which may prohibit us from borrowing under our revolving Credit Agreement or pursuing certain alternatives to obtain additional funding.

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

***2019 Notes and 2024 Notes***

We refer to the senior notes due December 15, 2019 (the 2019 Notes ) and the senior notes due March 15, 2024 (the 2024 Notes ) collectively as the Senior Notes. The 2019 Notes and 2024 Notes bear interest at fixed annual rates of 8.50% and 6.375%, respectively. There are no mandatory redemption or sinking fund payments for the Senior Notes. Interest payments are due semi-annually on June 15 and December 15 for the 2019 Notes and semi-annually on March 15 and September 15 for the 2024 Notes. Subject to certain limitations, we may redeem the 2019 Notes by paying specified redemption prices in excess of their principal amount prior to December 15, 2017, or by paying their principal amount thereafter. We may redeem some or all of the 2024 Notes by paying specified redemption prices in excess of their principal amount, plus accrued and unpaid interest, if any, prior to March 15, 2022, or by paying their principal amount thereafter, plus accrued and unpaid interest, if any.

The Senior Notes are jointly and severally guaranteed by Cloud Peak Energy Inc. and all of our existing and future restricted subsidiaries that guarantee our debt under our Credit Agreement. Refer to Senior Secured Revolving Credit Facility . Substantially all of our consolidated subsidiaries, excluding Cloud Peak Energy Receivables LLC, are considered to be restricted subsidiaries and guarantee the Senior Notes.

The indentures governing the Senior Notes, among other things, limit our ability and the ability of our restricted subsidiaries to incur additional indebtedness and issue preferred equity; pay dividends or distributions; repurchase equity or repay subordinated indebtedness; make investments or certain other restricted payments; create liens; sell assets; enter into agreements that restrict dividends, distributions, or other payments from restricted subsidiaries; enter into transactions with affiliates; and consolidate, merge, or transfer all or substantially all of their assets and the assets of their restricted subsidiaries on a combined basis.

Upon the occurrence of certain transactions constituting a change in control as defined in the indentures, holders of our notes could require us to repurchase all outstanding notes at 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of repurchase.

*Exchange Offers*

On October 17, 2016, our direct and indirect wholly-owned subsidiaries, CPE Resources and Cloud Peak Energy Finance Corp. (collectively, the Issuers ) completed offers to exchange (the Exchange Offers ), up to \$400 million aggregate principal amount of their outstanding 2019 and 2014 Notes (collectively, the Old Notes ), for new secured 12.00% Second Lien Notes due 2021 to be issued by the Issuers (the New Secured Notes ) and, in some cases, cash consideration, subject to the terms and conditions of the Exchange Offers. The primary purposes of the Exchange Offers

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were to extend the maturity of the 2019 Notes to 2021, to reduce leverage by capturing the trading discounts on the Old Notes and to further our ongoing efforts to provide sufficient liquidity to manage through depressed industry conditions and better position the capital structure to help facilitate a future extension of the Credit Agreement or new bank facility or other line of credit before the Credit Agreement terminates in February 2019.

Holders of \$237.9 million aggregate principal amount of the 2019 Notes and \$143.6 million aggregate principal amount of the 2024 Notes tendered such notes pursuant to the Exchange Offers. On October 17, 2016, the Issuers accepted for exchange all such Old Notes validly tendered, issued \$290.4 million aggregate principal amount of New Secured Notes and made cash payments of \$26.0 million in the aggregate (including \$7.7 million in accrued and unpaid interest) to tendering holders of the Old Notes. The transaction resulted in recognition of \$4.5 million in expenses for the three months ended September 30, 2016. Upon completion of the Exchange Offers, \$62.1 million aggregate principal amount of the 2019 Notes and \$56.4 million aggregate principal amount of the 2024 Notes remain outstanding.

The exchanges of the Old Notes for the New Secured Notes were accounted for as a troubled debt restructuring. As the future cash flows of the New Secured Notes were greater than the carrying amount of the Old Notes, no gain was recognized. The amount of extinguished debt will be amortized over the remaining life of the New Secured Notes using the effective interest method and recognized as a reduction of interest expense. As a result, our reported interest expense will be significantly less than the contractual cash interest payments throughout the term of the New Secured Notes. Our current tax attributes are expected to offset any cash tax impacts from the Exchange Offers.

***Off-Balance Sheet Arrangements***

In the normal course of business, we are party to guarantees and financial instruments with off-balance sheet risk, such as bank letters of credit, performance or surety bonds and indemnities, which are not reflected on the Unaudited Condensed Consolidated Balance Sheets. These instruments are used to secure certain of our obligations to reclaim lands used for mining, secure coal lease obligations, and for other operating requirements. We are proactively addressing the ongoing regulatory uncertainties regarding self-bonding programs in Wyoming by seeking to voluntarily transition away from self-bonding. During the second quarter of 2016, we submitted applications to the Wyoming DEQ to reduce the bonding amount by incorporating recently issued equipment cost guidelines, completed reclamation, updated reclamation plans, and lower fuel price assumptions. We have since received approval to lower the total bonding requirements by \$154 million. This will reduce our self-bonding amount once processed by the State of Wyoming. We have also reallocated our surety underwriters to position the portfolio to those that we believe are supportive of the coal industry.

As of September 30, 2016, we were self-bonded for \$190 million and had \$448.9 million of reclamation bonds with these underwriters backed by collateral of 15%, or \$71.3 million, in the form of letters of credit under our Credit Agreement. The terms and conditions with the issuers of the surety bonds allow for collateral calls to mitigate their exposure. The amount of collateral that could be required would be based on the underlying bonded assets and their risks, our credit profile, and overall market conditions. Should further collateral for these obligations be called, this could utilize a significant portion of our existing liquidity. Although we currently expect to be able to achieve our goal of exiting self-bonding in January 2017, the timing of its completion is dependent on the State of Wyoming's processing and approval of our applications, and is therefore, uncertain.

**Climate Change Regulatory Environment**



Enactment of current, proposed, or future laws or regulations regarding emissions from the combustion of coal by the U.S. or some of its states or by other countries, or other actions to limit such emissions, like the creation of mandatory use requirements for renewable fuel sources, will likely result in electricity generators further switching from coal to other fuel sources. Public concern and the political environment may also continue to materially and adversely impact future coal demand and usage to generate electricity, regardless of applicable legal and regulatory requirements. Additionally, the creation and issuance of subsidies designed to encourage use of alternative energy sources could further decrease the demand for coal as an energy source. The potential financial impact on us as a result of these factors will depend upon the degree to which electricity generators diminish their reliance on coal as a fuel source as a result thereof. That, in turn, will depend on a number of factors, including the appeal and design of the subsidies being offered, the specific requirements imposed by any such laws or regulations such as mandating use by utilities of renewable fuel sources, the time periods over which those laws or regulations would be phased in and the state of any commercial development and deployment of carbon capture technologies, including storage, conversion, or other commercial use for captured carbon. In view of the significant

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uncertainty surrounding each of these factors, it is not possible for us to reasonably predict the impact that any such laws or regulations may have on our results of operations, financial condition, or cash flows, however, such impacts may be significant. See Item 1

Business Environmental and Other Regulatory Matters Global Climate Change and Item 1A Risk Factors of our 2015 Form 10-K for additional discussion regarding how climate change and other environmental regulatory matters may materially adversely impact our business.

**Critical Accounting Policies and Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts. These estimates and assumptions are based on information available as of the date of the financial statements. Accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end. The results of operations for the nine months ended September 30, 2016 are not necessarily indicative of results that can be expected for future quarters or the full year. Please refer to the section entitled Critical Accounting Policies and Estimates of Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2015 Form 10-K for a discussion of our critical accounting policies and estimates.

**Newly Adopted Accounting Standards and Recently Issued Accounting Pronouncements**

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

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

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

**Commodity Price Risk**

Historically, we have principally managed the commodity price risk for our coal contract portfolio through the use of long-term coal supply agreements of varying terms and durations. Market risk includes the potential for changes in the market value of our coal portfolio, which includes index sales, export pricing, and PRB derivative financial instruments. As of September 30, 2016, we had committed to sell approximately 61.0 million tons during 2016, of which 61.0 million tons are under fixed-price contracts. In addition, we entered into certain forward financial contracts linked to Newcastle coal prices to help manage our exposure to variability in future international coal prices. As of September 30, 2016, we held coal forward contracts for approximately 0.1 million tons which will settle in 2016, of which all have been fixed under offsetting contracts.

We also face price risk involving other commodities used in our production process, primarily diesel fuel. Based on our projections of our usage of diesel fuel for the next 12 months, and assuming that the average cost of diesel fuel increases by 10%, we would incur additional fuel costs of approximately \$4.4 million over the next 12 months. In addition, we use WTI derivative financial instruments to manage certain exposures to diesel fuel prices. If WTI decreases by 10%, we would incur additional costs of \$3.9 million. The terms of the program are disclosed in Note 5 to our Notes to Unaudited Condensed Consolidated Financial Statements in Item 1.

#### **Interest Rate Risk**

Our Credit Agreement, certain of our capital leases, and our A/R Securitization Program are subject to an adjustable interest rate. See Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources. We had no outstanding borrowings under our Credit Agreement or A/R Securitization Program as of September 30, 2016. If we borrow funds under the Credit Agreement or A/R Securitization Program, we may be subject to increased sensitivity to interest rate movements.

The \$7.3 million of borrowings under the capital leasing program are also subject to variable interest rates although any change to the rate would not have a significant impact on cash flow. Any future debt arrangements that we enter into may also have adjustable interest rates that may increase our sensitivity to interest rate movements.

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**Credit Risk**

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

When appropriate (as determined by our credit management function), we have taken steps to reduce our credit exposure to customers that do not meet our credit standards or whose credit has deteriorated. These steps include obtaining letters of credit and requiring prepayments for shipments. See Item 1A Risk Factors Risks Related to Our Business and Industry *We are exposed to counterparty risk with our customers, trading partners, financial institutions, and other parties with whom we conduct business.* in our 2015 Form 10-K.

**Item 4. Controls and Procedures.**

***Disclosure Controls and Procedures***

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934 (the Exchange Act ) is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to senior management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2016, and has concluded that such disclosure controls and procedures are effective at the reasonable assurance level.

***Internal Control over Financial Reporting***

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

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**PART II**

**OTHER INFORMATION**

**Item 1. Legal Proceedings.**

See Note 10 of Notes to Unaudited Condensed Consolidated Financial Statements in Part I, Item 1, of this report relating to certain legal proceedings, which information is incorporated by reference herein.

**Item 1A. Risk Factors.**

In addition to the other information set forth in this report, including the risk factors set forth below, you should carefully consider the additional risks and uncertainties described in Item 1A of our 2015 Form 10-K. The risks described herein and in our 2015 Form 10-K are not the only risks we may face. If any of those risk factors, as well as other risks and uncertainties that are not currently known to us or that we currently believe are not material, actually occur, our business, financial condition, results of operations, cash flows, and liquidity could be materially and adversely affected. In our judgment, other than as set forth below, there were no material changes in the risk factors as previously disclosed in Item 1A of our 2015 Form 10-K.

*Our Credit Agreement provides an important source of our overall liquidity. Because the Second Amendment did not change its February 2019 maturity, we will need to extend or replace the Credit Agreement before its maturity and may need to first address our significant obligations coming due in 2019 and thereafter. If we are unable to successfully extend or replace the Credit Agreement in a timely manner, our future financial condition and liquidity may be materially adversely affected.*

On September 9, 2016, CPE Resources entered into the Second Amendment (the *Second Amendment*) to our existing revolving credit agreement with PNC Bank, National Association, as administrative agent, and a syndicate of lenders (as amended, the *Credit Agreement*) which, among other things, replaced quarterly EBITDA-based financial covenants that previously required us to (a) maintain defined minimum levels of interest coverage and (b) comply with a maximum net secured debt leverage ratio, with a new monthly minimum liquidity covenant that requires us to maintain liquidity of not less than \$125 million as of the last day of each month. The Second Amendment also reduced the maximum borrowing capacity under the Credit Agreement to \$400 million from the previous maximum capacity of \$500 million.

The Second Amendment, however, did not change the maturity of the Credit Agreement, which remains February 21, 2019. As a result, we will need to extend or replace the Credit Agreement before its maturity to ensure we maintain sufficient liquidity for our business.

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On October 17, 2016, we completed the Exchange Offers for a substantial portion of the outstanding 2019 Notes and 2024 Notes. The 2019 Notes not tendered in the Exchange Offers continue to be due at their stated maturity in December 2019, which could negatively impact our ability to extend or replace our Credit Agreement prior to its February 2019 maturity.

Our ability to timely extend or replace our Credit Agreement in a sufficient amount, for a sufficient term and on commercially reasonable terms, or at all, may be adversely impacted by numerous other factors, including, for example, the remaining portion of the 2019 Notes, our ability to address our logistics take-or-pay exposure, our overall financial condition, results and financial projections, the amount and timing of our other obligations and liquidity needs, coal industry conditions in the U.S. and globally, investor sentiment toward the coal industry, the availability of credit and impact of anti-fossil fuel loan and investment restrictions imposed by traditional sources of credit and capital, general debt and capital markets conditions, U.S. and global economic conditions and other factors and circumstances existing at that time.

If we are unable to successfully extend or replace our Credit Agreement in a timely manner due to any of these or other factors, our future financial condition and liquidity may be materially adversely affected.

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*As a result of ongoing depressed coal demand and competition from low priced natural gas, we are receiving more requests from customers to renegotiate, defer or cancel committed purchases under existing agreements. If we are unable to resolve these customer requests on terms that preserve the amount and timing of our forecasted economic value, our anticipated cash flows, results and liquidity may be materially adversely impacted.*

From time to time in the ordinary course of our business, customers may seek to renegotiate the terms of our coal supply agreements to reallocate certain committed volumes into future time periods, reduce or cancel committed volumes or make other adjustments to our coal supply agreements. We address these requests on a case-by-case basis and seek to reach mutually agreed resolutions of these requested modifications as part of managing our long term customer relationships. As a result of ongoing depressed coal demand and competition from low priced natural gas, we are receiving more requests from customers to renegotiate, defer or cancel committed purchases under existing agreements. We continue to address these requests on a case-by-case basis. If we are unable to resolve these customer requests on terms that preserve the amount and timing of our forecasted economic value, our anticipated cash flows, results and liquidity may be materially adversely impacted.

*Demand for U.S. thermal coal has declined significantly in recent years and is increasingly subject to fluctuations due to summer cooling demand, winter heating demand, economic growth rates and other factors that impact demand for electricity. This has resulted in a reduction in long term sales, less visibility into future shipment volumes and increased fluctuations in shipments and associated financial results from period to period.*

As a result of regulatory, political and public pressures against using coal to generate electricity, increased competition with low-cost natural gas, increased competition with taxpayer subsidized solar and wind generation and other factors, demand for U.S. thermal coal has declined significantly in recent years, supporting a lower percentage of baseload electricity demand, and is increasingly subject to fluctuations due to summer cooling demand, winter heating demand, economic growth rates and other factors that impact demand for electricity. This has resulted in a reduction in long term sales of thermal coal, less visibility into future shipment volumes and increased fluctuations in shipments and associated financial results from period to period. Although we are seeking to adjust our business and cost structure to reflect lower and more variable demand for thermal coal and to address the adverse impact of these changing conditions on our financial performance, our business requires substantial fixed costs and long lead-time investment decisions and we may not be successful in adjusting to these changing conditions.

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

None.

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

None.

**Item 4. Mine Safety Disclosures.**

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

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

None.

**Item 6. *Exhibits.***

See Exhibit Index at page 63 of this report.



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**SIGNATURE**

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

CLOUD PEAK ENERGY INC.

Date: October 27, 2016

By:

/s/ HEATH A. HILL  
Heath A. Hill  
*Executive Vice President and Chief Financial Officer  
(Principal Financial Officer and Duly Authorized  
Officer)*

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**EXHIBIT INDEX**

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

<b>Exhibit Number</b>	<b>Description of Documents</b>
3.1	Amended and Restated Certificate of Incorporation of Cloud Peak Energy Inc. effective November 25, 2009 (incorporated by reference to Exhibit 3.1 to Cloud Peak Energy Inc. s Annual Report on Form 10-K filed on February 14, 2014 (File No. 001-34547))
3.2	Amended and Restated Bylaws of Cloud Peak Energy Inc., effective July 28, 2016 (incorporated by reference to Exhibit 3.2 to Cloud Peak Energy Inc. s Quarterly Report on Form 10-Q filed on July 28, 2016 (File No. 001-34547))
4.1	Indenture, dated October 17, 2016, among Cloud Peak Energy Resources LLC, Cloud Peak Energy Finance Corp., the guarantors party thereto and Wilmington Trust, National Association, as Trustee and Collateral Agent (incorporated by reference to Exhibit 4.1 to Cloud Peak Energy Inc. s Current Report on Form 8-K filed on October 17, 2016 (File No. 001-34547))
10.1	Second Amendment to Credit Agreement, dated September 9, 2016, between Cloud Peak Energy Resources LLC, the guarantors party thereto, the lenders party thereto and PNC Bank, National Association, as Administrative Agent (incorporated by reference to Exhibit 10.1 to Cloud Peak Energy Inc. s Current Report on Form 8-K filed on September 12, 2016 (File No. 001-34547))
10.2	Security Agreement, dated October 17, 2016, among Cloud Peak Energy Resources LLC, Cloud Peak Energy Finance Corp., the guarantors party thereto and Wilmington Trust, National Association, as Collateral Agent (incorporated by reference to Exhibit 10.1 to Cloud Peak Energy Inc. s Current Report on Form 8-K filed on October 17, 2016 (File No. 001-34547))
10.3	First Lien/Second Lien Intercreditor Agreement, dated October 17, 2016, among Cloud Peak Energy Resources LLC, Cloud Peak Energy Finance Corp., PNC Bank, National Association, as Senior Representative for the First Lien Credit Agreement Secured Parties and Wilmington Trust, National Association, as the Second Priority Representative for the Second Lien Indenture Secured Parties (incorporated by reference to Exhibit 10.2 to Cloud Peak Energy Inc. s Current Report on Form 8-K filed on October 17, 2016 (File No. 001-34547))
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
95.1*	Mine Safety Disclosure
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Label Linkbase Document
101.PRE*	XBRL Taxonomy Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Definition Document

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\* Filed or furnished herewith, as applicable