

The background of the top section features a close-up of a pile of dark, irregular coal pieces on the left. On the right, a financial candlestick chart is visible, overlaid with a prominent red line graph that trends downwards from left to right. The chart includes horizontal dashed lines representing percentage levels: 78.60%, 61.81%, and 50.00%. Text labels on the chart include 'indexes - day, 5', 'indexes - day, 12', and 'indexes - day, 200'.

COAL RISK Update

APRIL, 2016

FORESIGHT ENERGY: Anomalous Productivity Levels and Financial Instability

Contents

Disclaimer	2
Foresight Energy	3
Anomalous Productivity Levels	3
Deer Run Mine	5
Investor Risks	4
Conclusion	6
Endnotes	7
Acknowledgements	7



FORESIGHT ENERGY: Anomalous Productivity Levels and Financial Instability

Disclaimer

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Foresight Energy

Foresight Energy LP (Foresight) is a U.S. coal mining company formed in 2006 by Chris Cline.¹ The company completed its IPO in June 2014, and in April 2015 Murray Energy Corporation, the largest privately-owned U.S. coal company,² acquired a 34% voting stake in Foresight.³

FORESIGHT ENERGY MINES

MINE	MSHA ID	STATE	TYPE	STATUS	STATUS AS OF	NUMBER OF SIGNIFICANT & SUBSTANTIAL VIOLATIONS ISSUED IN LAST 12 MONTHS ⁴
MC#1 MINE	1103189	IL	UNDERGROUND	ACTIVE	05/17/2010	58
MACH #1 MINE	1103141	IL	UNDERGROUND	ACTIVE	09/01/2006	94
SHAY #14	1100726	IL	UNDERGROUND	ACTIVE	10/12/2009	40
DEER RUN MINE	1103182	IL	UNDERGROUND	NON-PRODUCING	01/26/2016	7

Anomalous Productivity Levels

According to a March 2015 SNL Energy study, an average of 4.51 tons of coal is produced per employee-hour at underground mines in the Illinois Basin, where Foresight operates its four underground mines.⁵

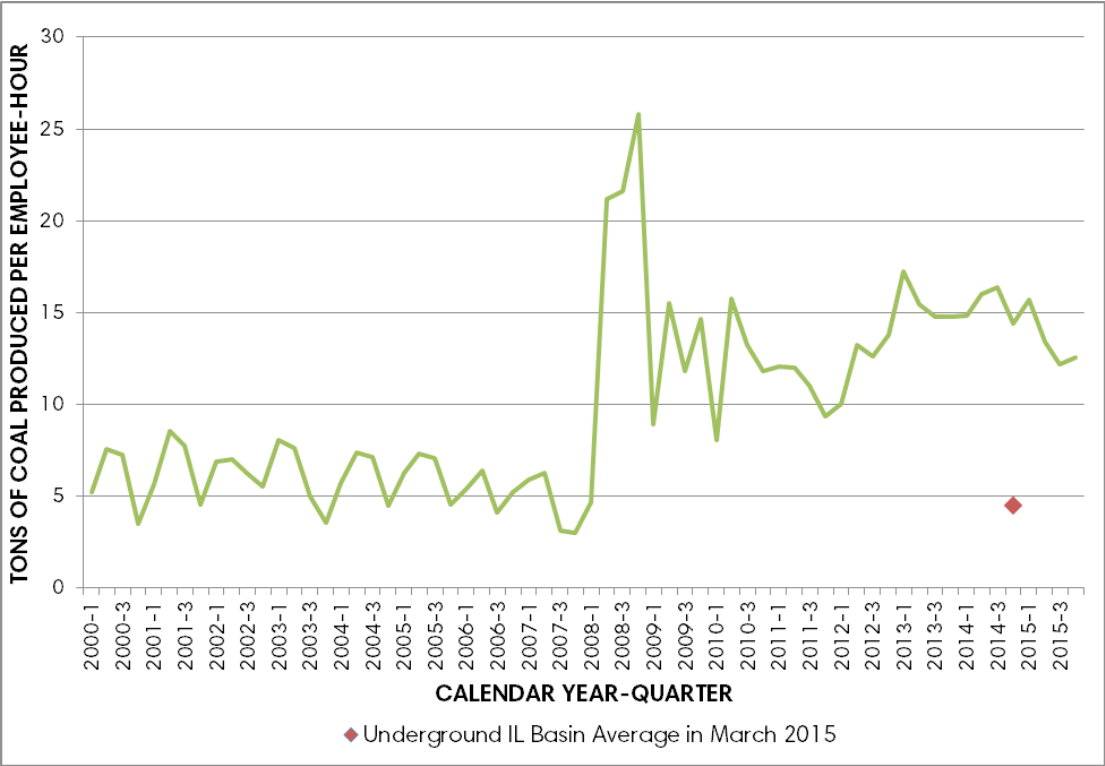
Since 2008, Foresight's productivity levels – measured in tons of coal produced per employee-hour – have increased to an average of 15.37 tons per hour in 2014, and 13.55 tons per hour in 2015.⁶ That is, last year Foresight's coal mines were 300% more productive than the average of comparable mines.

Coal mining companies can face operational tradeoffs between productivity and worker safety. Other factors that may contribute to variations in productivity include the technology, geology, or operational efficiency of the mine.

However, Foresight's high levels of mine productivity are anomalous, and could be associated with greater safety risks at the company's mines. In light of the company's recent mine fires and its current financial difficulties (see pg 6), investors would benefit from greater disclosure about the company's safety practices and performance.

“Last year Foresight’s coal mines were 300% more productive than the average of comparable mines.”

FORESIGHT ENERGY MINE PRODUCTIVITY



The graph above demonstrates that before 2008, Foresight’s mines show somewhat regular cyclical patterns of productivity. The following graph shows that a shift occurs around 2008: a dip in total employee hours coincides with an increase in coal mined. This marks the beginning of an overall upward trend in productivity.

TOTAL COAL PRODUCTION AND EMPLOYEE HOURS AT FORESIGHT MINES

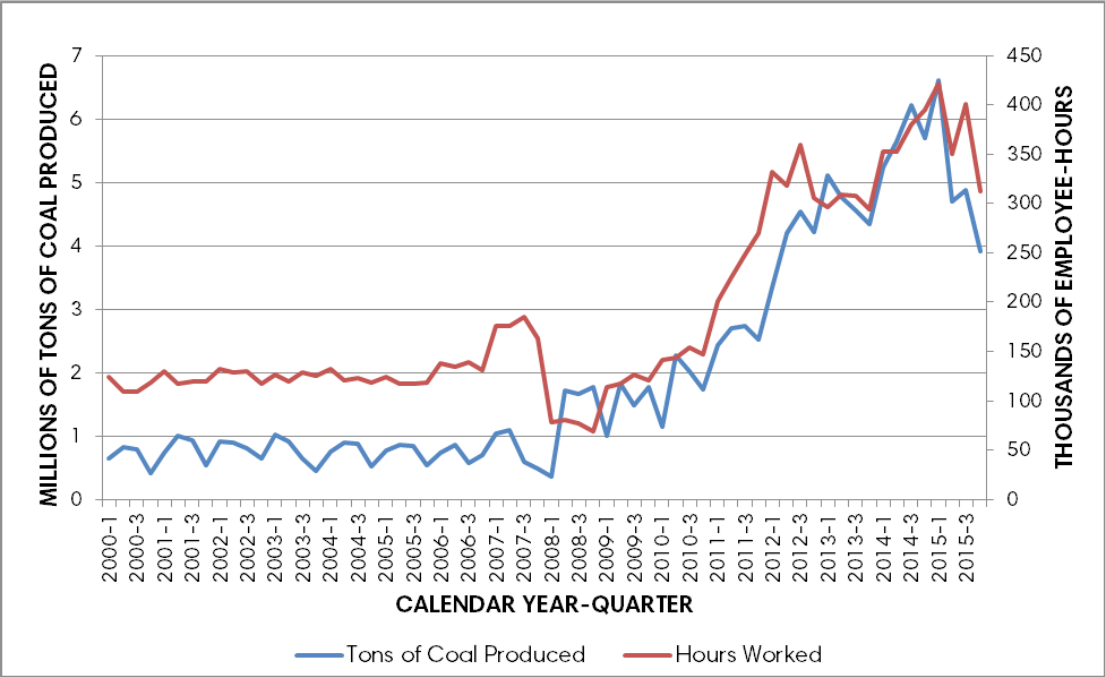




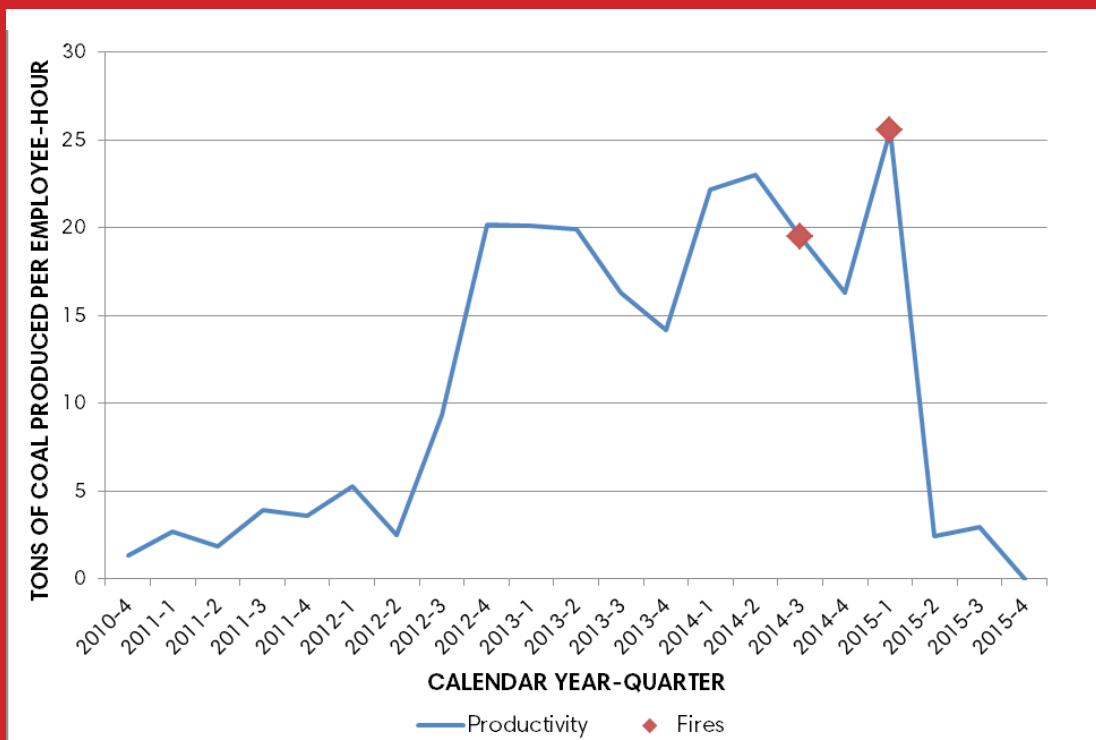
PHOTO: LISA SALINAS

Deer Run Mine

Foresight's Deer Run Mine, long touted by the company as one of its most productive,⁷ is facing hard times. A fire occurred at the mine in July 2014, just after productivity levels reached what was then an all-time high in the second quarter of that year. This fire caused the mine to shut down for about a month, costing the company \$2.6 million.⁸

Another fire occurred at Deer Run in March 2015, just as productivity levels reached another record high. The mine remains indefinitely closed due to this combustion event, because Foresight's efforts to put out the fire have thus far been unsuccessful.⁹ At the same time, however, Foresight is applying for a permit to expand the subsurface footprint of the mine by nearly 8,000 acres.¹⁰

PRODUCTIVITY AT FORESIGHT'S DEER RUN MINE



Investor Risks

With the coal industry in decline, many investors and banks are pulling financing out of coal mining.¹¹ Foresight's current financial difficulties began in December 2015, when a court ruled that Murray's purchase of a stake in Foresight indicated a change in control, and thus allowed bondholders to demand early repayment of over \$600 million. The ruling also means that Foresight has already defaulted on multiple of its credit agreements.¹² Over the past few months Foresight has extended deadlines again and again in efforts to negotiate debt repayment with its creditors.¹³

In the meantime, rating agencies such as Moody's have downgraded Foresight stock to junk status.¹⁴ In its 2015 annual report filed in March 2016, Foresight warned investors that it may have to file for Chapter 11 bankruptcy, and that equity holders "would be entitled to little or no recovery."¹⁵

While the Deer Run Mine fire burns on, Foresight is applying for a permit to expand the mine's subsurface footprint by nearly 8,000 acres.



PHOTO: LISA SALINAS

Conclusion

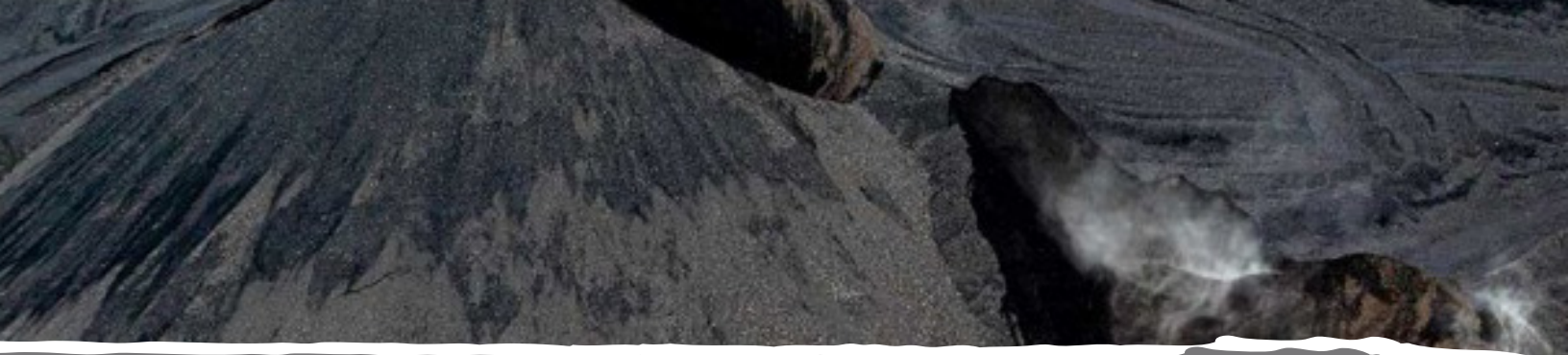
Facing depressed coal prices and decreased demand for coal, the U.S. coal industry is struggling at large. Foresight has been considered a company able to survive the slump because of its low-cost production.¹⁶ Now, additional problems for Foresight include inextinguishable fires, tense negotiations with creditors, and financial difficulties. In light of the company's anomalous productivity levels and the potential links with safety, Foresight's investors would benefit from additional transparency.



PHOTO: ANDREW HARRER/BLOOMBERG

Acknowledgments

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PHOTO: ANDREW HARRER / BLOOMBERG

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