THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

METC.OQ - Q1 2018 Ramaco Resources Inc Earnings Call

EVENT DATE/TIME: MAY 16, 2018 / 1:00PM GMT

CORPORATE PARTICIPANTS

Marc R. Solochek *Ramaco Resources, Inc. - CFO*

Michael D. Bauersachs *Ramaco Resources, Inc. - President, CEO & Director*

Michael P. Windisch *Ramaco Resources, Inc. - CAO*

Randall W. Atkins *Ramaco Resources, Inc. - Executive Chairman*

CONFERENCE CALL PARTICIPANTS

David Francis Gagliano *BMO Capital Markets Equity Research - Co-Head of Metals and Mining Research and Metals and Mining Analyst*

Jeremy Ryan Sussman *Clarksons Platou Securities, Inc., Research Division - Analyst*

Mark Andrew Levin *Seaport Global Securities LLC, Research Division - MD & Senior Analyst*

Nicholas Linnane *Unigestion SA - Investment Manager*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Ramaco Resources, Inc. First Quarter 2018 Earnings Conference Call. (Operator Instructions) I would now like to introduce your host for today's conference, Mr. Michael Windisch, Chief Accounting Officer of Ramaco Resources. Sir, you may begin.

Michael P. Windisch - *Ramaco Resources, Inc. - CAO*

Thank you, Jimmy. On behalf of Ramaco Resources, I would like to welcome all of you to our first quarter earnings conference call.

With me this morning is Randy Atkins, our Executive Chairman; Mike Bauersachs, our President and CEO; and Marc Solochek, our Chief Financial Officer.

Before we begin, I would like to share our normal cautionary statement regarding forward-looking statements. Certain statements discussed on today's call constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements represent Ramaco's expectations or beliefs concerning future events, and it is possible that the results discussed will not be achieved. These forward-looking statements are subject to risks, uncertainties and other factors, many of which are outside of Ramaco's control, which could cause actual results to differ materially from the results discussed in the forward-looking statements.

Any forward-looking statements speaks only as of the date on which it is made, and except as required by law, Ramaco does not undertake any obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. New factors emerge from time to time, and it is not possible for Ramaco to predict all such factors. When considering these forward-looking statements, you should keep in mind the risk factors and other cautionary statements found in the company's filings with the Securities and Exchange Commission, including our annual report on Form 10-K and our Form 10-Q. The risk factors and other factors noted in the company's SEC filings could cause its actual results to differ materially from those contained in any forward-looking statements.

With that said, I'd like to hand the call over to Randy Atkins, our Chairman.

Randall W. Atkins - *Ramaco Resources, Inc. - Executive Chairman*

Thanks, Mike. As always, I'd like to thank everyone for joining us today for our call on our first quarter results. As you're aware, Q1 is the first quarter that we have reported a profit. That is a milestone we're very proud of, and it has been a long time coming.

From here, we hope to grow continuously and in one direction. We made some strong overall progress this quarter on our sales, operations and finances. We hope to continue this momentum into the balance of the year and indeed we're optimistic we will have a very strong year. Let me start by giving some financial milestones.

We more than doubled revenue this quarter to roughly $56 million. Our net income swang from a $2.6 million loss to income of $5.3 million. On a per-share basis, that was a $0.20 shift from a $0.07 loss to $0.13 of earnings. Our adjusted EBITDA for the quarter grew substantially to $9.2 million from a loss of $330,000 in December.

In candour, we could have done better. Mike will provide you some details in a moment. In brief, we had logistic issues with the 2 rails that serve us. We also had some unexpected geological issues at our surface mine at Elk Creek. This resulted in lower surface production levels and a correspondingly higher cost due to the lower volumes. Both railroads that serve us were either delinquent or very delinquent in providing timely delivery of our coal company to our customers. The railroads, of course, are not just a Ramaco issue, but unfortunately, their performance had an impact on us. If it gets corrected, as they contend it will, we will hopefully see a rebound. Time will tell.

Operationally though, each of our 5 mines are performing quite well with the exception of our surface thermal operations at Elk. All of our deep operations are performing both on track and at budget. Our core deep met production, which I'm sure you realize is ultimately what is critical to our long-term profitability. I would now like to turn to a few marketing and sales update since our last call.

We have now committed roughly 1.7 million tons of our own production and 440,000 tons of purchased coal through our Elk Creek operations -- pardon me, through our Knox Creek operations. Breaking this down, we committed 1.1 million of domestic tons last fall at an average price of roughly $78. The balance of our remaining tons for 2018 are for export. Committed export tons have averaged about $109 for 250,000 tons of fixed-price contracts. An additional 390,000 tons have been priced against the index. At today's index pricing those tons would be above the $109 fixed-price level.

Looking forward, we only have about 200,000 tons of uncommitted tons, which are low vol from our Berwind mine. We look forward to placing those into the export market at very competitive pricing.

In looking at sales for the quarter, we averaged about $91 per ton on our company produced coal and had a $26 margin. Our purchase coal averaged about $99 per ton and achieved $11 margins.

In terms of a forward view on the macro environment, we remain encouraged. We saw some seasonal weakness in international pricing this quarter. But we also see some structural strength, which we hope would lead us to some price stabilization or even strengthening over the next several months. A few signpost we're looking at are that steel inventories are down 20% from their peak. Similarly, even though steel margins are off 40% from their peak, they're almost 300% above their 5-year average. Met inventory levels remain below normal, certainly overseas, and we're seeing domestic steel purchase interest well in advance of the annual RFPs for 2019. The opening of the Granite City furnace and the anticipated bump from tariffs should continue to push domestic interest.

Some recent M&A activity on Australia gives us this reason to feel that some of the smart money continues to expect long-term strength in met pricing. You don't place $4 billion of forward high purchase multiple bets buying into the met space unless you're comfortable the market has headed north.

The consolidation in Asia may also cause some buyers to seek a diversity in their supply mix, which might see higher levels of U.S. coal gets placed internationally.

Closer to home, the Alpha, Contura re-merger should create a more concentrated domestic market. We were already not seeing any relative supply rebound in the U.S., and I think this combination will probably continue that trend. On pricing, we also think the merger may be a good thing since Contura was basically marketing all of Alpha's export tons. Now that Contura is no longer simply a sales agent, we believe they may be motivated to get better pricing since they own the coal.

So all of the above leads us to continue to harbor some optimism for the balance of '18 and moving into '19.

Our challenge here at Ramaco as well as our opportunity will be to continue to execute on the ground, meaningfully grow our production and maintain a low-cost, high free cash flow discipline.

With that, I'm now going to turn the floor over to Mike to provide a deeper dive into our operational performance for the quarter.

Michael D. Bauersachs - *Ramaco Resources, Inc. - President, CEO & Director*

Thank you, Randy. First of all, we're pleased to have a substantial swing to first quarter profitability. This is the first quarterly profit for our company's short history. Typically, the first quarter in the coal industry, for those with substantial weather exposure, is the low watermark for the year from an operational standpoint. Our expectations for Ramaco Resources are no different. In 2018's first quarter, our deep mines at Elk Creek achieved their projected production and productivity expectations, and generally hit their cost structures. This performance continues to validate that we have some of the best metallurgical deep mines in The United States from geological and cost perspectives. The Elk Creek preparation plant became fully operational on February 16. A picture of the Elk Creek plant and facilities is included in our investor presentation.

The new #2 gas mine, our third deep mine at Elk Creek, is now fully operational and we're seeing good productivity and production growth as it ramps up.

I've also included a slide that illustrates the overall production growth. We've proven our ability to execute on developing new deep mines. Additionally, our sales products are being widely accepted in the marketplace. Our coal qualities have proven to be better than expected. During the next round of contracting, we expect to see quality price increases.

Unfortunately, we faced struggles in the first quarter on the cost and volume front at our Elk Creek surface mine. Simply put, the issues at our surface mine were responsible for the entire increase in our cash cost per ton on a linked-quarter basis and overshadow the really good performance by our deep mines.

The Elk Creek surface mine faced poor weather including large amounts of precipitation in the first quarter. We also experienced regulatory delays in obtaining certification for an internal haul road. With that said, the largest issues at our surface mine have been geologic. We encountered a number of areas that were previously mined. Mostly these were old auger works, which predated present reporting laws. This unmapped mining was not evident in our advanced planning. These operational challenges increased our mining ratios and decreased the number of days that our Highwall Miner was able to operate. This negatively impacted our overall production and costs.

We've initiated a number of steps to address the surface mine issues. Our current focus is on cost. We've trimmed the workforce and eliminated a second shift of Highwall Miner production. For the remainder of this year, we assume our surface mine will have higher mining ratios and that curtailment of Highwall Miner production will continue. Our cost structure adjustments will take effect in coming quarters.

Fortunately, loss surface tons have a high proportion of steam tons in the sales mix. So the decrease in EBITDA is somewhat muted.

Our overall costs were also negatively impacted by weather-related issues that impacted our on-site trucking logistics and haulage velocity. These tucking delays reduced the number of tons that we were able to process, ship and sell in the first quarter. We continued to have elevated inventories on site at Elk Creek in the first quarter, caused in part by the coal haulage velocity problem just mentioned. The preparation plant is now operating at its designed volumes, and we expect to make good headway in reducing inventory levels as we advance into the second half of the year. I will refer you to the slide illustrating the increases in the plant feed rate to normalized levels.

The Alma Mine actually had the best productivity of all of our deep mines in the first quarter with tons per employee hour exceeding 4. The primary section at Alma is operating in optimal conditions, and we anticipate that it will remain highly productive for the remainder of 2018.

We're operating 2 sections in this mine. The #2 section, which operates 1 shift per day was previously budgeted to be idled in April. This section will now continue to operate for the full calendar year to partially offset surface mine difficulties.

At the Eagle Mine, the seam height reached 18 feet for a portion of the quarter. While this was a good problem to encounter, it was challenging from a productivity standpoint. Fortunately, we saw the clean ton per foot value override the slightly lower productivity and exceed our projections. The seam height has since been to a more manageable and still very good 12 feet. The tons per employee hour at this mine still exceeded 4 for the quarter.

A roof fall at our Eagle Mine will slightly lower May production, but the mine has now resumed production and is at -- operating at normal levels.

The new No. 2 gas mine has now migrated from development mining in the first quarter to being fully operational in May. This mine will account for a large portion of our anticipated production increase for the second quarter. We continue to project that this deep mine will have the same high productivity as our other deep mines at Elk Creek.

The Berwind mine remained in development during the entire first quarter producing only nominal amounts of coal. In April, as projected, we successfully advanced into an abandoned adjacent mine. While encountering a bit more water than expected, the rehabilitation and ceiling project is progressing well and should be completed soon. This mine is still in the higher cost development production phase in the Pocahontas No. 3 Seam and will continue to negatively impact our costs until reaching the Pocahontas No. 4 Seam in late 2019. We continue to believe that Berwind will have a large impact on our production profile going forward. We remain one of the only companies who is focused on bringing on substantial low volatile production. As is the case with the No. 2 gas mine, we expect the Berwind Mine to contribute to our production growth throughout the year. Depending on a number of factors, it is possible that we will place an additional production section into operation at Berwind sometime this year.

It is no secret that the Eastern railroads have struggled to keep up with demand. The unseasonably cold weather at coal terminals impacted railcar availability and in turn shipments, especially export shipments. We missed our projected shipment levels in the first quarter at Elk Creek, partially due to CSX rail issues. I've included an Elk Creek trains per month slide in our presentation. We expect the second quarter to be much better for CSX shipments, hopefully hitting our normalized levels.

At Knox Creek, we're serviced by the Norfolk Southern. While the majority of our coal sales from Knox Creek are trucked to the end-user, we have a good amount of rail exposure. The situation on the NS is much worse than on the CSX. Wait times out of Lambert’s Point are currently about 1 month. While we were able to ship 2 partial cargoes totaling approximately 21,000 tons in the first quarter, a shipment was originally planned for early April is now just loading.

Rail issues alone have delayed this shipment by about 6 weeks, that seems likely we will lose an export shipment planned for May.

The NS is operating fewer crews, railcars and power to move railcars at a time when many coal producers are trying to export greater volumes given the stronger market conditions. It's now pretty clear that the railroads took on more business than they could reasonably service. We understand that both railroads are attempting to address their performance issues, but it appears that the deficiencies will continue into the second and possibly third quarter of 2018.

We've included a slide illustrating the elevated inventories at Knox Creek resulting from these rail delays.

Going forward, we're addressing the challenges that we face during the first quarter. We've added capital expenditures to pave the main haul road at Elk Creek. While better weather has aided our trucking efficiencies, paving the road will prevent slippage during the winter months and periods of wet weather. We will also have better travel conditions for our employees. The project will also improve safety and environmental conditions on the site. We also recently acquired the assets of a contractor at Elk Creek and employed some of their people. We acquired a substantial amount of equipment and expect a payback on this purchase to be less than 1 year, compared to the continued use of the contractor. The above capital additions and a few smaller expenditures will result in an increase in our 2018 CapEx. We currently project to spend between $29 million and $34 million on capital for the year.

Cumulatively, for the quarter, the deep mines operated at the low end of our prior cost guidance of $58 to $61 per ton. When adding our surface tons to the mix, it pushed our costs outside of the guidance for the quarter with the remaining negative variance being in coal preparation. We expect continued improvement in our overall cost structure throughout the year. The cost improvement is bolstered by the positive impact of the completion and full operation of the Elk Creek plant, coupled with our new haul road CapEx. These variables should address the feed rate deficit that the plant suffered from in the first quarter.

We're also considering moving up development of additional deep mine production. Fortunately, our substantial reserve base at Elk Creek provides us with multiple opportunities to boost production at good cost if we choose to change production mix.

From a development standpoint, one of the largest reserve bases that we have is in the (inaudible) Tunnel Seam. This high volatile A coal is the best quality seam on the property. While the seam is thinner than our current deep mines, it can be accessed just slightly below drainage near the Elk Creek plant and has a very consistent seam height.

By belting coal directly to the plant, we can eliminate trucking costs and keep feed on the plant. High-volatile A coal is commanding a premium in today's marketplace, so it's likely that we will open this mine in 2019, earlier than initially planned.

In summary, unlike most of our competitors, we plan to continue to bring on new production throughout the next few years. Production increases are expected in the second and third quarters. For the full year, we remain confident that our deep mines at Elk Creek will operate within our prior volume and cost guidance. At this point, with about 5 months of experience, it is difficult to project our surface mine volumes. Through April, we have mined 54,000 clean tons. While we expect improvement in mining ratios and highwall miner days worked, it is also difficult to project full year surface mine costs.

Based on current experience, relative to volume, our overall production is expected to be 200,000 tons lower than previous guidance. From a cost perspective, it is difficult to provide near-term guidance until we see the impact of our cost reductions and mine plan revisions. While the first quarter had its challenges, it is at this point likely the best guide for costs. Ultimately, we expect cost to migrate downward from this level, hopefully reaching our prior guidance. We believe that the first quarter provides us with a good foundation for the remainder of our work in 2018, and we look forward to seeing constant improvement throughout the year.

Thank you, and I will be glad to respond to questions after we have completed our prepared remarks. I will now ask Marc Solochek to provide a summary of some of the accounting and financial metrics for the quarter.

Marc R. Solochek - *Ramaco Resources, Inc. - CFO*

Thank you, Mike. I have just some brief remarks this morning that compare the highlights from our first quarter of 2018 to the December 31, 2017, quarter.

The nature of our company has changed so dramatically that year-over-year comparisons are not meaningful. For the first quarter of 2018, Ramaco Resources reported net income of $5.3 million, $0.13 per share, on revenue of $56 million. Adjusted EBITDA for the first quarter was $9.2 million. This compares favorably to the fourth quarter of 2017 where we had a net loss of $2.6 million or negative $0.07 per share and negative adjusted EBITDA of $328,000. We realized the cash margin on company coal sales of over $26 per ton, more than double the fourth quarter's roughly $12 per ton. Our cash margin on third-party purchased coal sales increased from $7 per ton in the fourth quarter of last year to over $11 per ton this quarter.

In the first quarter, we recognized income tax expense of $743,000. Only $35,000 of this expense is currently payable and not until 2019. We anticipate that this year our effective tax rate will be about 12.6% and our effective income tax paid rate will be less than 1%. Total income taxes paid for 2018 is expected to be less than $400,000. Capital expenditures were roughly $13 million in the first quarter of 2018, primarily for mine development.

The company had $7.3 million in cash at March 31st. In the first quarter of 2018, we added $6 million in short-term borrowings to manage our growing accounts receivable balances, which grew from $7.2 million at December 31 to $23.5 million at March 31. We anticipate a major growth in receivables to continue as our sales continue to grow, especially given repayment terms in the export arena that can extend to 45 days or more. To respond to this, we're in the process of obtaining a larger working capital facility to ensure greater cash management flexibility in the future.

With that I'm going to turn the call back to Randy.

Randall W. Atkins - *Ramaco Resources, Inc. - Executive Chairman*

Okay. Thanks, Marc. We'd now like to take any questions that any of you all might have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Jeremy Sussman with Clarkson.

Jeremy Ryan Sussman - *Clarksons Platou Securities, Inc., Research Division - Analyst*

Congrats on posting your first quarterly profit. That's certainly an important milestone for any junior miner transitioning from a developer to a producer. So congrats on that front.

Randall W. Atkins - *Ramaco Resources, Inc. - Executive Chairman*

Thanks, Jimmy.

Michael D. Bauersachs - *Ramaco Resources, Inc. - President, CEO & Director*

Yes. Thanks, Jim.

Jeremy Ryan Sussman - *Clarksons Platou Securities, Inc., Research Division - Analyst*

I guess, one thing I picked up in the prepared remarks, I think you noted that your coal quality's actually been a little bit better than expected. Maybe can you elaborate on this a bit? Sort of what type of mix can we expect towards year-end as your low-vol Berwind mine ramps up? Or kind of how we should think about that -- those comments?

Michael D. Bauersachs - *Ramaco Resources, Inc. - President, CEO & Director*

Yes. I think on the highwall side, Jeremy, what we basically found is that we really don't have a highwall B coal. I mean it is a much better product overall as we've seen now a great deal of history on the mine. So we expect going forward to have a highwall A and have highwall AB product. And I think that will translate into higher realizations going forward from what we experienced this year. Without having that experience upfront, it was difficult to place these coals in the marketplace. And, obviously, we've placed some of these coals assuming that we would have more or less a highwall B coal plus the other categories. Our low-vol coal is actually very good coal. We expect it to trade at a slight discount for low-volatile coals. But believe that especially as we migrate to the No. 4 seam, that is going to be a very strong coal superior to a lot of the stuff that we see in other Pocahontas 3 Seams, for example, the (inaudible) mine. So I think the comment related more or less, Jeremy, to the high-vol coals than the low-vol coals.

Jeremy Ryan Sussman - *Clarksons Platou Securities, Inc., Research Division - Analyst*

Got you. Now that's very helpful. And maybe shifting gears, maybe a little early there to be bringing this up. But given you just posted your first profit, I know going back to sort of the beginnings of Ramaco, you'd noted that sort of the medium- to long-term capital return strategy was the payout dividends from free cash flow. I guess, as the year progresses and earnings ramp up, ultimately, is there any change to that? I guess, how should we think about how you all are thinking about kind of returning cash to shareholders down the road?

Randall W. Atkins - *Ramaco Resources, Inc. - Executive Chairman*

Yes. I think -- Jeremy, this is Randy. I think as we've said all along, we're going to review that towards the latter part of the year, sort of see where we're in terms of cash generation and make a decision at that time. Basically our uses for capital are either use it in the business or return it back to our shareholders. So that comment that we made earlier has not changed and I would say probably sometime into the early part of the fourth quarter we'll be making a call on that.

Operator

And our next question comes from David Gagliano with BMO Capital Markets.

David Francis Gagliano - *BMO Capital Markets Equity Research - Co-Head of Metals and Mining Research and Metals and Mining Analyst*

I just wanted to ask a couple of questions. First of all, if you could just drill down on these previously unknown mined out areas. Can you quantify the future expected production from the surface mines that will be impacted? And then in terms of internally what specifically is being done to mitigate the risk of this type of unexpected discovery happening again in the future? That's my first question.

Michael D. Bauersachs - *Ramaco Resources, Inc. - President, CEO & Director*

Yes. Sure, David, I'll try to address that. What we're doing in the future, of course, is we're redoing our mine plans. We're going to do some additional exploration as we go forward. It's -- that's really a combination of some of these old works that we've encountered and some slightly higher ratios that weren't necessarily directed related to that. So as we move into other spectrums of seams, we expect absolute improvement because we don't expect to see some of these auger works and things that surprised us this quarter. I think, and fortunately for this year, you can see we felt compelled to change guidance. We think in the near term we're going to continue to have elevated ratios from what we've projected. I do think you'll see the production increase. And at this point, we're still -- or just still early enough in the experience. It's really hard to pinpoint it exactly. But, overall, if we were to look at how the impact could be, if you just look at the production that we've had to date, I mean, we could be down plus/minus 300,000 tons from a mine that should produce twice that much. So I think over the long term though, we feel pretty confident that the surface mine will meet its expectations and reduce the cost structure. So that's why you kind of saw us on guidance talk about the near term. But in the long term, we expect that mine to be very successful. So...

Randall W. Atkins - *Ramaco Resources, Inc. - Executive Chairman*

And, David, we're also studying how we may be able to add some more tons for this year, probably for more deep mines. And I think the other thing that I would point it out to everybody, the surface mines are, of course, an important component, but they're not our high-margin business, and they are a distinct minority of our overall production slate. So not that, that ameliorates anything, but I would like to point out that.

David Francis Gagliano - *BMO Capital Markets Equity Research - Co-Head of Metals and Mining Research and Metals and Mining Analyst*

Okay, that's helpful. And it actually ties into my next question, which is stepping back for a second. And you -- clearly, this is a longer term development story, 2020 and beyond. But you've also touched on a lot of different potential changes in the mine plan longer term. And maybe it's a little bit early, but 2020 is only 18 months away. So I wanted to just rattle off the assumptions we're making for 5 key assets by 2020. And if you can just tell us where we should be thinking about change or what we should be thinking about changing on each of these? So for example, Elk Creek underground by 2020 were something 1.3 million tons, highwall Elk Creek 700,000 tons, surface at Elk Creek 600,000 tons, Berwind of 900,000 tons and RAM No. 1 of 500,000 tons. So those are kind of the assumptions. That adds up to 4 million tons, which I think is the -- again, the sort of the bigger picture driver here. How should we be thinking about each of those? Specifically, where should we change those numbers and what should they be changed to at this point?

Michael D. Bauersachs - *Ramaco Resources, Inc. - President, CEO & Director*

Yes, sure. I think, Dave, based on what we're seeing, we likely will not have 2 surface mines at Elk Creek. I think you'll see our Elk Creek surface production be more like 500,000 tons would be what I would -- and that would include half Highwall Miner and half surface. I do think that you'll see us at Elk Creek still migrate towards about that 2.2 million to 2.4-million ton level. But I think you'll see us fill that gap with deep mines. We are excited about the (inaudible) Tunnel Mine. When we see a $15, $20 premium for high-vol A coals, I mean, this is absolutely our best coal on the property. It's a [105, 106] reflectance type coal. I think that you'll see us insert that in place of some of the other production that you might have seen from a surface mine. So at Elk Creek, I would say that, that's kind of where we're headed. I think what you'll see at our Berwind property is somewhere around 800,000 tons as we migrate from [19 to 20] as we hit the Pocahontas No. 4 Seam. We would have the ability there to continue some of the Pocahontas 3 production. At this point, I would say, I would not put that in your projections at this point. I would keep that at about 1,800,000. Our RAM Mine up in Pennsylvania, your number's correct. We remain hung up in the permit queue in Pennsylvania. We still think it's a good operation. And we still think your timing is probably correct for that go in, assuming that we work our way through all of the -- all the permit related stuff. So hopefully that helps. I'll also say, we continue to look at some of the other assets that we have in our portfolio. We're absolutely focused on hitting that 4 million ton level. We think that even Elk Creek could produce more tons if we can ship some of it on alternate railroad. So lots of different things in progress. But hopefully that kind of helps for the things that we think are pretty certain at this point.

Randall W. Atkins - *Ramaco Resources, Inc. - Executive Chairman*

And, Dave, I'll -- this is Randy. I'll also echo that, as we said when we first started, we have been pretty good about being opportunistic about looking at potential adjacent reserves and other reserve opportunities down in certainly the Southern West Virginia area. We have a number of things we're looking at. I would not be shocked by the time we get out to 2020 and beyond, that we potentially have some other reserve areas that we might be looking at.

David Francis Gagliano - *BMO Capital Markets Equity Research - Co-Head of Metals and Mining Research and Metals and Mining Analyst*

Okay, that's helpful. So just one quick clarification on those comments. Did you say, Elk Creek in total, underground highwall and surface, did you say 2.2 million to 2.4 million tons? Was that what you were flagging for 2020?

Michael D. Bauersachs - *Ramaco Resources, Inc. - President, CEO & Director*

Yes, that's correct. And one of the real positive things, Dave, from the quarter, seeing that feed rate go up on the plant was a huge relief for us. I mean, we're seeing the ability now to ship more of those deep tons. So it's really clicking at the prep plant. We're really happy about that. So it gives me more confidence to tell you that we could put more deep production through it.

Operator

And our next question comes from Mark Levin with Seaport Global.

Mark Andrew Levin - *Seaport Global Securities LLC, Research Division - MD & Senior Analyst*

As Jeremy said, congrats on your first profitable quarter. Fantastic. Just a couple of questions maybe dovetailing on what David was just asking. Not so much around production, but may be around cost. And, Michael, I think you alluded to some of the uncertainties going forward. Do you feel less confident, more confident in that sort of upper -- mid- to upper 50s type long-term cash cost expectation based on the way things are evolving? How would you sort of characterize where your head is around that number?

Michael D. Bauersachs - *Ramaco Resources, Inc. - President, CEO & Director*

Yes. I think at Elk Creek, we really believe that we'll migrate back to this prior guidance, 58, 61 or 62. We do think that the -- one way or the other, I mean, we will get our costs, I think, back in line. I wouldn't call it mid- to low 50s, but I would certainly believe that the combination of all production could be back in and around that prior guidance, Mark.

Mark Andrew Levin - *Seaport Global Securities LLC, Research Division - MD & Senior Analyst*

Got it, got it, got it.

Michael D. Bauersachs - *Ramaco Resources, Inc. - President, CEO & Director*

Even with a really negative quarter, I mean, with surface production costs extremely elevated, we still held the cost in total around $65 with Berwind's cost contributing, of course, to that number too, because we're in a much thinner seam that we'll ultimately migrate to. So I think we'll be back there. It's hard for me to tell you exactly when, Mark, just because we're continuing to really work hard and figure out what we need to change surface mines.

Mark Andrew Levin - *Seaport Global Securities LLC, Research Division - MD & Senior Analyst*

Got it, got it. And then around CapEx, I think you raised the CapEx and you alluded to why this haulage road and the reasons around it. I know it's incredibly early. But when you look out to like 2019 and what your capital needs might be, flat with '18 seems like a reasonable assumption? Would it be lower, higher? What's the way maybe to think about '19 CapEx?

Michael D. Bauersachs - *Ramaco Resources, Inc. - President, CEO & Director*

No, I think you could actually look at '19 to be lower. I mean, our CapEx at that point will be focused on probably developing a new deep mine. At least 1 new deep mine at Elk Creek and continuing to do a few things down around our Berwind property. So I think you'll see us return to that more like that plus/minus 20 million ton level -- $20 million level, I'm sorry, than where we will be this year. I think we felt like it was important to go ahead and deploy the capital in the road to get us to a point where we can keep constant feed on our plant. And we think it'll have long-term benefits for us from a cost perspective. So that really is the main reason for the increase. But I think you'll see most of our development projects are behind this. So...

Randall W. Atkins - *Ramaco Resources, Inc. - Executive Chairman*

And, Mark, I think I'd also point out that going forward our CapEx is either going to come out of cash on cash flow. So we pretty much funded everything moving forward into our overall plan.

Mark Andrew Levin - *Seaport Global Securities LLC, Research Division - MD & Senior Analyst*

Great. That was certainly on my mind. I wanted to ask that as well. Just with regard to pricing for a second, you mentioned looking a lot more like an A and not like a B. When you look at sort of prices, U.S. high-vol A prices and how you're selling coal into the export market, what are you seeing? Are you getting 5%, 10% discount? Are you getting something more or less than that? How would you kind of characterize how the product is pricing?

Michael D. Bauersachs - *Ramaco Resources, Inc. - President, CEO & Director*

I think our product is pricing very competitively. It's pretty darn close to the index. I don't want to give away too much in terms of what we're pricing on individual grades. But we're highly competitive right there at the index. There is a slight discount in each case. What I think you'll see for us, again, talking about this AB coal versus B is that, over time people are really appreciating the AB product. And of course, a lot of people don't want to pay for the A. So I really feel like it's sort of in that midpoint and that over time we're going to do much better with that product.

Randall W. Atkins - *Ramaco Resources, Inc. - Executive Chairman*

Mark, and I'd also say, we still have a little bit of the newbie syndrome here, in the sense that being the first time out of the gate, some of the buyers over there have said RA we love your coal, we might take a slight haircut, but come back to us next time and we probably won't. So that's kind of...

Mark Andrew Levin - *Seaport Global Securities LLC, Research Division - MD & Senior Analyst*

Okay, great. No, that makes sense. And then last question, just more of -- I mean, for our purposes, the Berwind mine, what is a reasonable production number out of that mine? What do you think you can get out of it this year? And then what do you think the incremental would be, I guess, '19 over '18?

Michael D. Bauersachs - *Ramaco Resources, Inc. - President, CEO & Director*

Yes, good question. I think you'll see us -- and I'm going to give you a little bit of range on it because we're still debating about including an actual production section in the No. 3 seam, which could kick in sort of in the second half of the year. So you should see us between 200,000 and 275,000 tons coming out of that mine this year, with the 75,000 tons or so being that additional production. If we have 2 sections in there next year, you could see us in the 350,000 ton- to 400,000-ton range next year. What you'll see then as we migrate to the end of 2019 and ramp up into the 4 seam, you will, over the course of a quarter or so, see that production go to more or less 800,000 tons, just because really the 4 seam's about (inaudible).

Operator

And our final question in the queue is from Nick Linnane from Unigestion.

Nicholas Linnane - *Unigestion SA - Investment Manager*

One was already covered. But you made one comment on the surface mining that it impacts the profitability less than the tons just because of the high thermal content of the lost previously mined tons. Is that just a reference to the fact that the surface mining was always planned to have a higher thermal content than the underground mines? Or are you saying that the tons that have been mined before, specifically, tended to be the thermal part?

Michael D. Bauersachs - *Ramaco Resources, Inc. - President, CEO & Director*

Well, I'll answer it 2 ways. There -- on a surface mine, especially around the edges, a lot of that coal has become oxidized and it's lost its fluidity. And we always anticipated having a portion of our production certainly less than half, somewhere around 30% or 40% that might have been -- that would have been thermal coal. So losing those tons, of course, don't bother us as much. What you found in areas where we've seen previous mining that have been surprises have the same problem, and those tons would get converted to thermal tons too because of oxidation and really the inability to ship them directly and that sort of thing. But we've always felt like we would have a portion of thermal tons on the surface mine. Really shooting for a high proportion of metallurgical tons from the Highwall Miner component of the mine. So hopefully that answers your question.

Nicholas Linnane - *Unigestion SA - Investment Manager*

So the Highwall Mine part is accessing areas that haven't been mined before. Is that what you're probably saying?

Michael D. Bauersachs - *Ramaco Resources, Inc. - President, CEO & Director*

That's -- yes, that's correct. We will create basically a pit that will have an open face into the Highwall Miner portion of the property. And the Highwall Miner works a lot like a deep mine does or an auger does, in that you need really a clean face and everything. You would have removed any thermal coal and basically be in a situation just like you would be in a deep mine, where there is no oxidation or any of that. So...

Randall W. Atkins - *Ramaco Resources, Inc. - Executive Chairman*

Yes. Nick, for simplicity, obviously, the Highwall is more of a met quality and the surface operation is more of a thermal quality.

Operator

And I'm showing no further questions in the queue at this time. I'd like to turn the call back over to Randy Atkins for any closing remarks.

Randall W. Atkins - *Ramaco Resources, Inc. - Executive Chairman*

Right. Well, listen, we very much appreciate everybody being on the call today. As I said, we're very excited about our first quarterly profit. It's been a long time coming. And we appreciate all the excellent questions everyone has posed. so thank you very much, and we look forward to visiting the next time. Thank you.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude your program, and you may all disconnect. Everyone, have a great day.