**Ramaco Resources, Inc.(Q2 2017 Earnings)**

**August 16, 2017**

**Corporate Speakers:**

- Michael Windisch; Ramaco Resources; CAO
- Randy Atkins; Ramaco Resources; Executive Chairman
- Mike Bauersachs; Ramaco Resources; President and CEO
- Marc Solochek; Ramaco Resources; CFO

**Participants:**

- Jeremy Sussman; Clarsons Platou Securities, Inc.; Analyst
- David Gagliano; BMO Capital Markets; Analyst
- Curt Woodworth; Credit Suisse; Analyst

**PRESENTATION**

Operator: Welcome to the Ramaco Resources Second Quarter 2017 Earnings conference call.

(Operator Instructions)

As a reminder, this conference is being recorded.

I would now like to hand the floor over to Michael Windisch, Chief Accounting Officer. Please go ahead, sir.

Michael Windisch: On behalf of Ramaco Resources, I would like to welcome all of your to our second quarter earnings 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 start, 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 statement 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 statement, 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 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 actual results to differ materially from those contained in any forward-looking statement.

With that said, I'd like to introduce Randy Atkins, our executive chairman.

Randy Atkins: Again, on behalf of all of us at Ramaco Resources, I want to thank everyone for joining us here today. We're now basically six months beyond our IPO. Every month we continue to transition from being a development company and into a fully functioning coal production and marketing operation.

We've achieved a number of milestones this quarter, which we will talk about today, and we are on the cusp of several more.

First, I'd like to address several marketing highlights and a few metrics. We have approximately 280,000 uncommitted tons to place for the balance of '17. As we stated in our press release, we expect our total production for '17 to be approximately 720,000 tons. But we will also be selling about 120,000 additional tons this year of primarily high quality, low vol tons purchased from third parties. These tons are primarily for export.

Through June, sales from both our own production as well as purchased tons was approximately 184,000 tons. These were sold at an average sale price of about $111 per ton, which works out to an FOB mine price of $91. Of this $184,000 figure, roughly 75,000 tons was purchased coal. That purchased coal sold at an average of $163 per ton or $145 FOB mine.

As I said, we hope to sell at least 50,000 additional purchased tons in the second half. We also have about 338,000 tons of additional committed tons for the balance of the year at a gross average sale price of $90 per ton or slightly less than $70 FOB mine. About half of these tons were sold at an artificially low price in connection with our washing arrangement with a competitor, which goes away at year end, which we have discussed previously.

Domestically, from a marketing perspective, we have been invited to participate in all of the 2018 RFQs. In the past weeks, we have either visited or had serious dialogue with every major North American steel or coke producer. We are similarly active overseas. We believe that looking forward to 2018, although we will be placing substantial tons in North American markets, the majority of our tons will be sold as export.

Presently, we are in the middle of sales negotiations, so we're not going to comment on any directional pricing expectations. But we would note, somewhat anecdotally, that at least internationally there has been some firming in prices over the past few weeks. The tea leaves from China seem to indicate that their steel business remains very healthy. China also seems to be continuing to close some older induction furnaces. If these were replaced with blast furnaces, this would potentially create some net coal demand.

Domestically, our steel sector also continues to show strength. So generally, we are very encouraged with the state of the overall markets. Also, very importantly, as we ramp up production, we continue to feel that Ramaco will be one of the lowest cost producers in the United States.

Mike will comment in a few moments on some of our operating detail, but I want to note just a few milestones.

As we previously announced, we received a final mine permit for our Berwind complex this quarter. We are now in a pre-mining phase with development production slated to commence in November. Our Elk Creek prep plant is now projected to be operational in late September, and as I mentioned, due to the delay in both receiving the Berwind permit and completion of the Elk Creek plant, our '17 production estimates are now approximately 720,000 tons.

But also stated, we hope to additionally sell a total of 120,000 tons of mostly high quality, low vol coal purchased in calendar '17. Most of this will, again, go to the export markets. We think that this arrangement bodes well for the future growth of our trading business in 2018.

Our mining cost estimates at Elk Creek are still expected to be in line with previous guidance of roughly in the low $50 per ton average once our mines are fully operational. And as we have stated before, we do not expect Ramaco to report meaningful financial results until we are in both full production as well as full marketing mode in 2018.

Marc Solochek, our CFO, will follow Mike with some remarks on our first quarter financial results, but again, I just wanted to give a few highlights.

We continue to maintain a very strong liquidity position and had roughly $53 million in cash and short term securities at the end of June. Our CapEx estimates for the balance of the year show us spending about another $29 million.

In sum, we believe that you're going to find the second half of 2017, you will find Ramaco completing the transition from development to a full operating mode. Now, at this time, I'd like to turn it over to my partner Mike Bauersachs to provide some operating detail.

Mike Bauersachs: We definitely have some very positive developments, milestones and updates to discuss during this call. The geologic conditions that we are encountering and the productivities we're experiencing are very exciting. Once the Elk Creek preparation plant is online, coupled with unleashing our mines for full production, we anticipate that we will meet, and hopefully exceed, our expected results.

With the above being said, let me preface everything for the second quarter, and for the third quarter for that matter, by reminding everyone that we are indeed in development mode. In many cases, we have purposefully limited staffing and delayed equipment deployment to align our production with stockpile space, coal sales, and the ultimate start up of our Elk Creek preparation plant.

Although we are in development mode, that does not mean that we are not experiencing any increasing number of employee hours. Our current number of employees is 113. We anticipate that headcount to rise to 187 employees by the end of the third quarter and 213 by years end.

Our non fatal days lost rate continues to be zero. We believe that says a lot about our operational execution to date to not have incurred a loss time accident while initiating production, alongside interaction with our sizable infrastructure build out. One of the key positions that we've hired in the second quarter is a vice president of administration, legal and environmental.

Our addition of Dan Zaluski will allow us to address more administrative and legal tasks internally rather than through consultants. Let me provide an update on our operations. One major change that we made during the second quarter was to switch our Alma Mine from a contract mining operation to a company mine.

In some respects this mine is still in transition for a couple more weeks. There are a number of things that impacted this decision, but perhaps the most critical was the fact that we wanted to address some adverse mining condition related issues more quickly. Once in control of the section, we have gone at great lengths to address areas where problems existed.

These efforts in the ongoing transition have negatively impacted our productivity and costs for this mine during the second quarter. Some of these impacts were mitigated by encountering bigger coal seams than initially expected. We believe that the measures we have taken will create a safer work environment and set a strong positive signal to federal and state officials relative to our commitment to safety.

This is a mine that, unlike a normal life cycle for mines is central Appalachia should operate for 20 years. It is important to establish a firm foundation on which to operate. An additional consideration in converting to a company mine was the fact that we wanted to alter the operations mining techniques and install super section, which the contractor was not required to do.

This is a necessary and planned enhancement as the mining section migrates to an area where conditions are anticipated to be a good fit for this technique. As well as coinciding with the start up of our preparation plan. Once our transition and capital enhancements are implemented we believe that this mine will become one of the most productive, low cost, metallurgical mines in central Appalachia.

Speaking of productivity, we have been pleased by the development mining productivity that we are experiencing at the new Eagle Peak Mine. The feet of advance had exceeded our plans and expectations, routinely coming in at over 300 feet per ship in the last couple of weeks.

This combined with the favorable mining conditions we are currently experiencing point to a mine that will likely match or improve upon the plan Alma Mine cost structure. During the next week or so we will have a fully staffed Eagle Mine with all of the equipment necessary to operate as a super section.

During our third quarter, this mine is expected to intersect the area where the Eagle seam and number two gas seam will be mined together. We expect the total minable height to regularly be in the 12 foot range once that occurs.

Looking perceptively, I thought that it would be a good idea to highlight that start up of our surface mine at Elk Creek. First of all, I'd like to welcome Toby Edwards, our new vice president of surface mining to our team. Toby brings decades of experience in the type of mining that we will be conducting.

We completed the access road to our surface mine in mid-July. Our first hourly surfaced position was filled on July 19th; we expect sporadic production to begin from the surface mine during the week of August 28th, we project about 17,000 clean tons to be produced in September. And our high wall miner is scheduled to begin production in October.

We remain confident that everything will be in place for our surface mine to run as projected in 2018 as well as contribute just shy of 150,000 tons during 2017. While we still plan to start up our Elk Creek plant in the third quarter, it now looks like the start up will be towards the end of September.

The primary delay relates to the completion of the thickener which is in essence, a pool formed out of concrete. The time that is taken to stabilize the foundation for the thickener is the key cause for the delay. Let me emphasize that there are no issues with components or time sensitive steel fabrications.

I'll also note that we have mitigated the impact by permitting a series of onsite raw coal stockpiles to help us manage inventories, especially during the next few months. Fortunately, stock pile permit work was completed long ago in case we experienced some sort of delay. It is likely that we will have more than 150,000 raw tons in a series of stockpiles when a plant is commissioned.

We project being able to decrease our stockpiles to a more normalized level by the end of the fourth quarter. On a related topic, all of our rail work that will serve the plant has been completed and our general contractor is de-mobilized all of its equipment. CSX has approved the work and we look forward to shipping our first train from the 150 car unit train load out early in the fourth quarter.

Moving to our Berwind development, as we recently announced, we received our mining permit at the end of June. We broke ground on the new base immediately after the Fourth of July holiday. All of the major capital equipment for this mine has been procured and we anticipate being in development production mode in November.

This mine will have an extended development time frame as we migrate from the scene where our face up is located up to more prolific Pocahontas number four scene. As we have done with our Elk Creek build out, we have placed picture updates on our website so you can view our progress during the next few months.

Our active deep mine sections companywide produced approximately 74,000 clean tons during the second quarter. Our temporary second section in the Alma Mine became active in May. We currently have three active sections, although none were fully staffed or fully capitalized from an equipment standpoint during the second quarter.

We now anticipate production of 195,000 tons in the third quarter and 395,000 tons in the fourth quarter. This points to anticipated total 2017 production of 720,000 tons down from our prior guidance. We’ve not entered into new coal sales arrangements for our Elk Creek coal. We have approximately 338,000 remaining committed tons for 2017 and an average FOB mine price of slightly less that $70 per ton.

We expect to produce and to sell an additional 280,000 tons prior to the end of the year. We shipped our first train in June under a contract entered into earlier in the year. Due to rail and vessel issues we did not ship an additional train until August 1st. We anticipate an additional shipment before month’s end.

We continue to sell tons to a nearby producer who also washes and ships tons for us to our customers. Obviously, we look forward to eliminating the added costs of trucking raw coal long distances, as well as third party washing costs. As we think about the current marketplace, we believe that our uncommitted times available in the fourth quarter could be well timed and placed into an improved marketplace.

We remain optimistic that the remaining uncommitted times can be placed into the market in a margin that is significantly greater than our base load tons. At this point, our outlook for third party purchase coal for all of 2017 is 120,000 tons. We shipped 39,637 purchase tons in the second quarter.

Currently most of this revenue is generated from high quality, low volatile coal that we are purchasing for resale for third parties. These tons are all being washed and shipped out of our Knox Creek wash plant. All of the coal generated from our near town Berwind development production. Estimated at 14,000 tons during 2017 is expected to be washed and shipped out of Knox Creek.

Let me also note, that we terminated our coal washing arrangement early in the third quarter. Alongside washing lower volumes of purchase coal, we're also able to make improvements to the plan. Like other metallurgical coal producers we have and will be focusing on 2018 solicitations, we find that we are encountering a receptive audience among our potential customers.

We are in the mist of bidding for 2018 business. In support of our efforts, it has been helpful to provide property visits to numerous customers so they can become more comfortable with our ability to perform. As those investors and analysts who visited Elk Creek during the second quarter can attest, visually seen, deployment of capital and the developments in process, as well as exposure to our operational advantages is a powerful tool.

Let me also add, that our domestic customers appear to be gaining strength from better pricing and demand. The latest earning releases from both domestic and international steal producers have been very positive. Our guidance relative to capital to expenditures is expected to be between 65 and 70 million in 2017.

The significant spending range relates to whether we were able to move some development work forward from 2018 in to 2017. The slight increase in capital also relates to the purchase of equipment and other assets from our contract miner as well as some timely equipment purchases at a substantial discount to market.

One of the most common questions that I've received from investors and analyst relates to whether the Trump administration is making a difference. The Trump Administration's Section 232 action, assuming that some sort of action is ultimately taken, will like strengthen the domestic market place for steel producers.

We are of the mind, taking into account what could be some adverse international reactions, that almost all of the possible actions being reviewed will have an overall positive impact on US metallurgical coal demand.

Additionally, I believe that most of you have seen the recent press release from the Department of the Interior, relative to the crayfish issue that caused a significant delay in the issuance of our Berwind permit, as well as some important permits at Elk Creek. Indeed, I can confirm that the Department of Interior officials worked with us to reach a mutually acceptable resolution of the issue with the US Fish and Wildlife.

The new EPA director's decision to repeal the waters of the United States initiative which we believe was regulatory over reach is also likely to have a substantial positive impact on mining in Central Appalachia. From a forward looking stand point, we are hopeful that new head of [Emsure] will have the same pragmatic approach that we have witnessed from the new administrations environmental regulatory approach for reaching an appropriate balance, allowing mining activities to proceed, while maintaining strong, legal, and regulatory standards.

Hopefully, this will also resolve in Emsure taking a fresh look at their efficiency and rule making. Most importantly, this new official will inherit a slow moving bureaucracy that needs to act more quickly. We believe that mining operations can be conducted safely and efficiently, while losing some regulatory constraints that hamper productivity, and that inordinately increase costs. In summary, it does appear that the Trump Administration is beginning to make a positive difference for the coal sector.

I would also like to mention that we are diligently working to provide a more timely quarterly release and corresponding conference call. We are implementing a new accounting system in the third quarter that should be fully operational in the fourth quarter. This will speed up our financial close and allow for more efficient communication with our share holders. Ideally we want to be one of the first to report earnings.

In summary, Ramaco is close to unleashing the full impact of its capital deployment and hiring efforts. Today, we have not been in a position to allow our minds to run at their planned potential. The majority of these barriers will be removed prior to the fourth quarter. More importantly, our vision for 2018 becomes clearer by the day and we anticipate having all the key building blocks in place by year's end.

Thank you for your interest in Ramaco Resources, and I will now ask Mark Solochek to provide some comments relative to our second quarter financial results.

Mark Solochek: Thank you Mike. I is much as we had no act of operations in the first half of 2016, I will not bore you with quarter to quarter comparisons. Rather, I will hit some of the financial highlights of the second quarter of the 2017, but before I do, I encourage you to read our 10Q and our 2016 10K.

You get more detail about insights in to Ramaco Resources. Now, to the highlights and most of these as – would be expected relayed to the highlights that Mike has just talked about in operations.

As noted we completed some unanticipated development in the Alma mine that enable to start up of a second section in that mine. We did this to increase on the production and to avoid some geological issues. We capitalized $378 thousand of cost of this extension as development expense. It's all ready starting to pay dividends as Alma production increased significantly in June over prior months.

Also, we extended our development to various seams at the Eagle Mine towards the point where the eagle and the number two gas seams merge. This area forms economically advantage reserve that we are focusing on exploiting. We've spent over a million dollars in the second quarter developing the inter-workings of the Eagle Mine. After accounting for Eagle inventory buildup and some sales revenue, we capitalized about $600,000 of additional development expense for the Eagle Mine.

In the second quarter we had total capital expenditures of $26 million. We invested a little over $7 million in a preparation plant, leaving about $5 million to complete it. We also spent $4.6 million to purchase the auto mining equipment and infrastructure equipment from our contactor. And we spent $900,000, not a whole lot of money, to finish the Elk Creek rail line, which is now ready to operate.

Our balance sheet remains strong with excellent liquidity. We had approximately $53 million in cash and investments at June 30th, which we believe will be more than enough to complete our planned production ramp up and capital, build up, while meeting operating cash in each this year.

Ramaco Resources did report a loss of $3.5 million or nine cents per share for the quarter end of June 30th. This compares with a net loss of $600,000 or three cents per share of last year. During the second quarter we sold 91,050 tons in and average realization of $109 per ton. Our cost of mine coal was approximately 74 dollars per ton in the second quarter, that's nine dollars or 11% improvement over the first quarter.

We believe this cost improvement will continue with addition of fully staffed super spectrum at both the Eagle and Alma Mines. With Eagle Mine rapidly moving to the duals seems that Mike spoke about earlier, we remain confident that our mines will have one of the lowest cost structure in the metallurgical industry, with our projection of cost in the $50 plus range.

It's important to note that although the cost was $74 a ton, almost $18 of that is transportation cost, which will be avoided – which most of which will be avoided when the up prep plant is up and operational.

Our SGNA in the quarter was $2.2 million, which was up from $1.7 million in the first quarter on a normalize basis. This reflects the continuing growth of our organization as our business grows. We still expect that our normalize [NA] will run about $12 million per year when we are fully staffed.

Other operating costs which represent non mine specific engineering and other general development type operating expenses ran $1.4 million in the second quarter. We would expect these costs to drop as our mine-development in all our properties proceeds to operational mines. Those are the financial highlights for the quarter. And with that, I'll turn the call back over to Randy.

Randy Atkins: Thank you, Marc. This completes our formal remarks for the quarter.

And at this time I would like to field to questions from the analysts or investor community that are out there.

## QUESTIONS AND ANSWERS

Operator: (Operator Instructions)

Our first question comes from the line of Jeremy Sussman with Clarksons.

Jeremy Sussman: Congratulations on getting the Berwind permit. I wanted to focus on that for a second. Sounds like that mine is going to begin producing in Q4 which, obviously, brings some high quality tonnage to the market. How should we think about the ramp profile? Both volume and costs of Berwind.

Mike Bauersachs: Volume as I referenced will start out kind of slowly in the Pocahontas number three scene actually versus the Pocahontas four scene. We'll be in a development mode in that mine where we'll actually be driving what is more like a tunnel mine, Jeremy, to the point where we ramp up to the more prolific number four scene.

So during that period of time, we will probably see slightly elevated costs coming from that mine because some of the work will be rehabilitation work. That being said, we'll generate a substantial -- a reasonable number of tons during that time period to offset our cost structure which will be very high quality, low sulfur, low volatile coal.

We like the thought of blending that coal with some of our purchased coal, creating kind of similar revenues to some of the things that we'd experienced on the purchase coal side. So what you will see is instead of coal mine, it'll run at -- or a section for example that would run two or 300,000 tons a year, we'll be mining more at 125,000 ton a year rate as we begin to ramp up to what will ultimately be a coal mine that'll more like eight or 900,000 tons a year after we reach the Pocahontas four scene.

So still, we believe healthy margins. We will indeed have trucking costs that will impact those margins. But we expected the -- ultimately the recoveries in this coal mine to be superior to any that we have which will help lower the trucking costs.

Jeremy Sussman: If I could follow up more conceptually. You noted that you've been invited to the table for all of the domestic steel mill negotiations, and understanding that you have to be sensitive on pricing, I guess. Can you just give us a sense of maybe how those discussions are going particularly given that, obviously, Ramaco is a new entrant to the market.

Mike Bauersachs: Yes, I think it is important to qualify everything and that we are a new entrant. We have done as many things as we possibly can to make sure our potential customers with our ability to perform both quality wise and production wise. And that entails sending barrel samples and all those sort of things to these customers and making sure that they know that we can perform.

I think we've done a very good job of that. We are just please to have [Joe Zul] representing our coal end of that marketplace and each of these requests for proposal that we've been reviewing have been on and will been on. And I think the receptions been very good.

Randy Atkins: Jeremy, this is Randy. I'll add one other remark which is how quickly we forget. But less than a year, year and a half ago, a lot of these suppliers were in some level of distress. And I think our customers remember that and it basically accepted us perhaps a little more willingly than they might in a stronger market. So we're very encouraged on that.

Jeremy Sussman: That's great color. Thanks.

Operator: Our next question comes from the line of David Gagliano with BMO Capital Markets.

David Gagliano: I very much appreciate the extra details provided in the commentary. One thing I just would like to suggest before I clarify something. If possible, as you go through the review on the earnings release process, if you could include tables and information like this in the earnings release, it would be extremely, extremely helpful on our side.

I just want to make sure I got my numbers right. It sounds like full year 720,000 of production plus 120,000 of purchased, I believe that's what was said. So 840,000 in total, and then in the first half it was 184,000 which implies 656,000 in the second half of total production plus purchased. Is that correct?

Randy Atkins: It is, and I think one thing to remember, David, of course, is that we weren't really going to ramp production until we had the Elk Creek prep plant online. So that's going to be a September occurrence for us. So that's when we really start to push tons out.

Mike Bauersachs: There's lots of things contributing to that, David, and some of them even relates to better recoveries from the Elk Creek plant kicking in, versus, as you can imagine, sometimes these recoveries that you have from third party washing agreements don't necessarily meet with what you think the recovery should be, and the surface mine will make a big impact in the third and fourth quarters, primarily in the fourth quarters, the high wall miner comes online.

David Gagliano: Okay, so then 656,000 of which I believe 50,000 is purchased, is that right? I'm backing into that numbers?

Randy Atkins: For the second half.

David Gagliano: Fifty thousand, second half, okay. So run rate, exit rate for the second half is 1.2 million times annualized. Obviously, that's -- seems like heavily loaded this fourth quarter. So it's probably a higher exit rate in the fourth quarter verse that 1.2 million.

So one my questions is, does Ramaco feel like they're still on pace for roughly 2.8 million tons of production in 2018, given that we've got the Alma plant, the first surface mine starting in the fourth quarter. I believe when we were down there, there was a second surface mine that's likely to be developed in 2018. I guess the short question is what's the outlook for 2018 productions at this point?

Mike Bauersachs: Yes, I think the range that we would give you would be between 2.2 and 2.8 million times at this point. The real question becomes will we go ahead and put a second surface mine in? We haven't answered that question yet. Some of that relates to being able to effectively segregate and market those coals in the way that we think they should be marketed.

In particular, there'll be some very low ash, high quality coals there. We'll hit a tipping point here in the next quarter or so when we'll make that decision. We feel very confident about the 2.2 million tons of so for sure. That'll include also bringing on a number two gas seam deep mine that will add to the production profile at Elk Creek which we expect to be a very good coal mine.

That phase by the way is actually in process, we've gone ahead moved up that face up to make sure that we can react to market changes if indeed they come quicker. That was originally a 2018 budgeted item. So I would give you that wide range, there Dave. I wish I could tell you exactly what we were going to do with surface mine, but it is -- we are still up in the air on that.

David Gagliano: Okay, no. That's helpful, thanks. And then, the 2.2 to 2.8, I believe, is it 400,000 tons, is that second surface mine? So 2.2 would be 2.6 if the second surface mine came on, is that correct?

Mike Bauersachs: Yes roughly I mean it could have a slightly bigger impact, but roughly 400,000 or 500,000 tons.

David Gagliano: Okay, all right that's helpful. Then just the last question for me. The commentary -- production costs at the mine $74 a ton in the second quarter and then I believe what was said was $18 per ton of that is cost that effectively go away when the prep plant is operational. Are there any offsetting increases or is it simply 74 minus 18 moving forward?

Mike Bauersachs: Yes, I mean we will have a small amount of trucking on site that will be fairly minor as compared with the on road trucking a lot bigger trucks, we'll have better cycle times, we'll have better recoveries, you know all of things I think contribute to providing a guide from where we are today to where we will be.

The other thing of course that I alluded to that's contributed to the cost really has been some bed costs that we've experienced really dealing with some over and under mining issues in the Alma Mine.

We by the way, expect those to totally go away in the next couple of weeks as we migrate to another -- to an area in the mine that we'll actually be in for six, seven, eight years that has no over under mining issues. So that will also provide better productivities. We also believe that fully staffing and fully capitalizing these coal mines will lead to much greater productivities which of course will help our cost structure.

I also, of course referenced that we will have preparation plant costs, our own costs that will of course go the other way on costs, but we obviously have to [wash] the coal. So -- we still --

David Gagliano: Okay that's helpful.

Mike Bauersachs: We still believe in the 50's, Dave, all in when everything is fully operational. The only other negative will be is that we will be trucking refuse to the impoundment during the fourth quarter until our belt line is fully in place, which will mean really as I kind of referenced, everything in place in 2018, just some slight additional costs until we get that belt line in place.

David Gagliano: Got it all right, thank you very much, helpful.

Operator: Thank you and our next question comes from the line Curt Woodworth with Credit Suisse.

Curt Woodworth: Yes, good morning.

Mike Bauersachs: Good morning, Curt.

Curt Woodworth: Can you comment on sort of the production ramps at Berwind? Do you have an estimate for how much volume you think you'll do in 2018?

Mike Bauersachs: Yes and it again, this development, this development in that coal mine will be extended. I mean it's a -- it is a plus minus 16 month kind of development more or less than a shorter term development. We still anticipate plus minus 125,000, 150,000 tons next year coming out of that coal mine.

Some of the production time that we'll be in there will be rehabilitation efforts due to some old works as we continue to migrate towards that point where we ramp up. What will happened though almost immediately is we hit that Pocahontas #4 seam is the thickness will double, the productivities will get much better and as we hit 2019, you begin to see the full effect of all that. Adding an additional section in there and being in -- essence coal is twice a thick.

We do think that it's very high quality coal, we got about .65 sulfur and stuff so we hope to offset a lot of the development costs by being able to sell that coal at a very good number.

Curt Woodworth: Okay and then just given that the strength of the market and the fact that you're high wall surface mining operations are extremely cost competitive, I guess what -- why would you not look to sort of accelerate development of the second high wall and surface mine in this type of market?

Mike Bauersachs: Yes, there are number of things we think about. I alluded to some of it earlier. Some of it is do we feel like we can do that job justice from being able to segregate some of the very high quality coals? Do we feel like we can properly blend some of those coals on the clean and [raw] side of the plant?

I'll also say that those tons are precious being permitted and having basically a 20-year mine plan for one mine and it's just kind of a difficult decision -- we'll also have capital that we'll have to deploy and we're just not quite at the point where we're ready to do that. The marketplace will have something to do with it. How things go with the first surface mine will have things that will impact our decision and there're just so many different things right now I just -- I can just tell you, we've not made that final decision.

Curt Woodworth: Okay, okay, understood. And then just with respect to the domestic Met Coal Contracting Cycle, a lot of the steel companies seem to be out early to try to put to bed 2018. Can you just comment on where you stand in the qualification process with the [metals], do you feel like you're fully qualified with most of them? Are they still doing testing and what's your sense of timing on when you think the domestic steel contracts will be completed and do you feel like you're still in a pretty good position with respect to the qualification process?

Mike Bauersachs: Yes, good, excellent question. You're absolutely right, we've been surprised by how early everyone has come out. We have -- I believe that we are qualified with a number of the guys that have come out early. We actually have a couple of people visiting the property here in the next couple weeks, which will be important for us. Obviously having a good -- having a good flavor for the development work and that fact it'll absolutely be done on time for 2018 is powerful when we're dealing with our customers, but to see it firsthand is important.

That being said, we are in the process of continuing to send out samples to customers as we work our way through the process. We feel like that we'll have everything in place by the time they make decisions. The way things have been going, I think you'll see decisions made in the third quarter for virtually everyone. Domestically they've all kind of jumped out there early.

But we've had a very good reception, a lot of the coals that we're shipping are similar to the guys around us so they're familiar with the coals too and they've been very receptive to adding us to the whole process. That being said, I think our expectation is that while we'll have a substantial amount of domestic business that the majority will still be export business.

Curt Woodworth: Okay.

Mike Bauersachs: And, Curt, I think this year probably based on the experience of a lot of the domestic deal companies had, who waited until the latter part of the year and probably wished they'd bought a little bit earlier in '16. So we see a little bit of that going on.

Curt Woodworth: Yes, okay, all right thank you very much guys, appreciate it.

Operator: Thank you and that concludes our question and answer session for today. I'd like to turn the conference back over to management for any closing remarks.

Mike Bauersachs: We appreciate everybody being on line today and we'll look forward to chatting with you again in three months.

Operator: Thank you. Ladies and gentlemen thank you for your participation in today's conference. This does conclude the program and you may now disconnect. Everyone have a great day.