

# Final Transcript

Q2 2024 Ramaco Resources, Inc. Earnings Call

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## Corporate Participants

Randall Atkins *Ramaco Resources, Inc. – Founder, Chairman, Chief Executive Officer*

Chris Blanchard *Ramaco Resources, Inc. – EVP, Mine Planning & Development*

Jason Fann *Ramaco Resources, Inc. – Chief Commercial Officer*

Jeremy Sussman *Ramaco Resources, Inc. – Chief Financial Officer*

## Conference Call Participants

Nathan Martin *The Benchmark Company — Analyst*

Lucas Pipes *B. Riley Securities — Analyst*

Presentation

Presentation

Operator

Good day and welcome to the Ramaco Resources Second Quarter 2024 Results Conference Call.

*[Operator instructions]*

I would now like to turn the conference over to Jeremy Sussman, Chief Financial Officer. Please go ahead.

**Jeremy R. Sussman — Chief Financial Officer**

Thank you. On behalf of Ramaco Resources, I'd like to welcome all of you to our second quarter 2024 earnings conference call. With me this morning is Randy Atkins, our Chairman and CEO; Chris Blanchard, our EVP for Mine Planning and Development; and Jason Fannin, our Chief Commercial Officer.

Before we start, I'd like to share our normal cautionary statement. Certain items 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 concerning future events. These 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 these 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 statements whether as a result of new information, future events or otherwise. I'd also like to remind you that you can find a reconciliation of the

non-GAAP financial measures that we plan to discuss today in our press release, which can be viewed on our website [www.ramacoresources.com](http://www.ramacoresources.com).

Lastly, I'd of course encourage everyone on this call to go on to our website and download today's investor presentation. With that said let, me introduce our Chairman and CEO, Randy Atkins.

**Randall W. Atkins — Founder, Chairman, and Chief Executive Officer**

Thanks Jeremy. Good morning to everyone and thanks for joining the call.

As we had hoped, our second quarter results were much better than our first, both on operations and financially. This improvement came in spite of the continued softness in the global coal pricing. Last quarter, we saw US met coal indices dropped by 15% and they're now down 25% since the start of the year. We also made some solid progress this quarter on our REE project in Wyoming, which I will mention later.

Turning first to our met coal operations, importantly, we had record production. This was up about 7% to 900,000 tons in the second quarter. And this increase was largely due to a combination of better productivity, geology and labor availability. As a result of the stronger production and more tons, our cash cost declined 8% or by roughly \$10, to \$108 per ton in the second quarter.

Looking forward, both operational and financial results should continue to improve throughout the year as our growth projects come online. In a nutshell, we're expecting to ramp to a year-end run rate in excess of five million tons on both production and sales with costs hopefully at or below the \$100 per ton cash cost range.

Let me take a moment and walk through our four current production growth projects for this year. All of these remain on track and on budget. Two growth initiatives relate to our high-vol production at Elk Creek, and two

relate to our low-vol production at Berwind and Maben. At Elk Creek, we are adding the Ram Number 3 surface highwall mine and a third section at the third section at the Stonecoal Alma mine. Combined they will increase our overall '24 production by roughly 600,000 high-vol tons on an annualized basis. Both of these mines had already begun to ramp up as of this June.

At Berwind's main mine, we are adding a third section starting in the fourth quarter. This should add roughly 300,000 tons of low-vol production on an annualized basis. Importantly, costs at all four of these new four mines are anticipated to be roughly \$90 to \$95 per ton on a combined basis. Finally, we expect the prep plant at our Maben complex to be fully operational this fall. While this won't add to our overall '24 production, it should meaningfully reduce our current trucking cost at Maben by approximately \$40 per ton.

If you step back and look at the impact of these growth projects, again we see a lot of operating parallels between this year and last. In 2023 our second half was much stronger than the first, where we essentially went from being a three million to four million ton per year production company. In the first half of '24 we remained at this four million ton run rate but we also invested in the growth initiatives I mentioned. Again, we should exit the year at a five million ton run rate on both production and sales.

And turning to the met coal markets both the U.S. and global met coal indices have continued to fall meaningfully throughout the year. This drop has of course negatively impacted our price realizations across the board. The biggest reason was simply muted overall global economic and steel demand. This was coupled with China's slower internal growth and overproduction of steel and a corresponding dumping of the steel in the world markets. It's tough to expect strong met coal pricing when the world is awash in cheap steel. Unfortunately we've seen the highest level of Chinese steel exports in a number of years. This is continuing to hurt both pricing and demand in our traditional European and U.S. markets.

Looking to the second half of the year we hope these markets will move higher. We have unfortunately recently seen a number of high-profile mine incidents this year. This has impacted global production and should lead to more muted supply in the second half. Also, at this point, both Indian elections and their monsoon season is almost behind us. Next month we anticipate Indian demand should accelerate. And lastly, we possibly will see the start to see some worldwide tariffs and other restrictions placed on Chinese steel exports. Indeed, Chile became the first this morning to impose a steel tariff on China. These types of tariffs could boost our traditional markets but given the political nature of any curtailments we will have to wait and see.

And looking ahead, it's too early to really handicap the 2025 domestic sale negotiations. I would like to point out however, that we entered this year from somewhat of a unique positive sales position. Before we have even engaged in the 2025 domestic tenders, we have already committed 1.25 million tons for next year from primarily multiyear export index-linked contracts. Currently these contracts would have an average netback price of roughly \$150 per ton against fixed prices and current curve indexes. That puts us in a nice strategic position as we decide how to move forward. I might add that today we have less than 250,000 tons left to place for calendar '24. Most of this is our higher quality low-vol and mid-vol blends that we are frankly shepherding to sell in the fourth quarter hopefully into a healthier pricing environment.

Switching gears to our critical minerals front, we continue to make strong progress in terms of the development of the Brook Mine in Wyoming. You'll recall that our project is unique because we are focused on extracting rare earth from unconventional coal and carbon concentrated deposits not radioactive hard minerals like others. We're currently advancing on the chemical, metallurgical and mineralogical testing of our cores, and once we get the results this fall, our consultant Weir International will update our previous exploration target report.

Importantly, we're also on track to complete our techno-economic analysis of the overall commercial aspects of the opportunity later this year. As we announced yesterday, we will be working with the Fluor Corporation on

this, who we've also worked with in the past. As an aside, the development of a rare earth mine requires a tremendous amount of upfront testing in a number of disciplines far beyond that of a typical coal mine. In our case, this involves a large amount of core drilling and chemical testing to develop a geospatial mapping of where best to locate the highest concentrations of REEs, as well as the best techniques to surgically mine and remove the ores. Indeed, we're now working with NETL on developing some novel AI assessment techniques to improve on our recoveries. We're also spending a great deal of effort to determine the optimal processing technique for our slate of heavy and medium magnetic rare earths as well as critical minerals.

As I mentioned, we recently brought the Fluor Corporation on board as our senior technical adviser to help coordinate preparing our techno-economic analysis. Fluor will also assist with the design and engineering of our demonstration facility, which we hope to begin construction on by mid-year 2025. We still have an immense amount of testing and planning to complete but we're optimistic that starting with our demonstration facility that we'll be in a position to start commercial operation. We'll of course continue to provide granular updates on our rare earth activity as the year progresses.

Also, one personal highlight from each year is hosting the Ramaco Research Rodeo in Wyoming, which is what we call the R3. We believe this may be one of the leading research conferences focused on coal-to-products research, rare earth element exploration, artificial intelligence and critical minerals. We hold it out in Sheridan, Wyoming, while the real Sheridan rodeo goes on every night of that week.

Last month was our fourth annual R3 conference. We hosted it again in partnership with an affiliate of the International Energy Agency in Paris. It brought together several congressional leaders in the energy space, leadership from the Department of Energy, as well as leading scientists from around the world. We even had the FBI speak on counterintelligence in the carbon research space. Frankly, the R3 gives us an opportunity to keep a

leading edge in the newest technologies and development of coal-based products as well as rare earths, and we hope to be discussing some new developments on all these fronts later this year.

So in summary, we had a much stronger second quarter both operationally and financially, despite dealing with a much lower pricing environment. We know we can't control price, but we try to control our production and cash costs. And as the markets continue to remain generally weak, we'll try and continue to operate with a combination of aggression, agility and prudence. In the second half, we look forward to executing on our twin fronts of growing our met coal production and reducing our mine costs, and we'll also continue to advance the commercial development of our Brook Mine.

So with that, I'd like to turn the floor over to the rest of our team to discuss finances, operations, and markets, and we'll start with Jeremy to give us a rundown on financial metrics.

**Jeremy R. Sussman — Chief Financial Officer**

Thank you, Randy. As you noted, second quarter 2024 results were meaningfully better than the first quarter 2024 results, both operationally and financially. This was despite US indices declining roughly 15% sequentially.

To get into specifics, Q2 adjusted EBITDA was \$29 million compared to \$24 million in Q1. Second quarter net income of \$5.5 million was more than double first quarter levels, which amounted to Class 8 diluted EPS of \$0.08 for Q2. The primary reason for the increase in both EBITDA and EPS was the \$10 per quarter-over-quarter improvement in cash costs to \$108 per ton on the back of stronger production.

Second quarter production was a record 901,000 tons, up 7% compared with the first quarter due to a combination of better productivity, geology and labor availability. Quarterly sales volume of 915,000 tons was

down slightly from 929,000 tons in Q1. The decline was due to modest transportation constraints in June, which have largely since been alleviated.

The realized price of \$143 per ton during Q2 was down 8% from \$155 per ton in the first quarter, reflecting both weaker market conditions and lower index pricing. I'd point out that our decline in realized pricing was less dramatic than the decline in indices, thanks to our strong domestic book of fixed price business.

Looking ahead, we anticipate third quarter shipments of 900,000 to 1.05 million tons. We also expect sales will increase in Q4 and that we'll exit the year above a 5 million ton per annum sales run rate. As Randy noted, we anticipate adding almost 1 million tons of annualized production compared to the first half of 2024 run rates before year-end.

Overall, mine costs in the third quarter are expected to remain in the same range as compared to the second quarter. Due to the additional tonnage coming online, we will expect to exit the year at or below the \$100 per ton cash cost range. We are maintaining all full year 2024 guidance with the exception of production and sales. In the current pricing environment, production and sales guidance is being reduced by 200,000 tons at the midpoint to between 3.8 million to 4.2 million tons and 4.0 million to 4.4 million tons respectively. Specifically, we are proactively reducing higher cost production at each of our complexes with the exception of Maben. Importantly, this move should have minimal impact to overall earnings in the current pricing environment.

I'll make two other brief comments regarding 2024 guidance. First, you may notice that our committed tonnage level fell off a couple of hundred thousand tons compared to our Q1 earnings release. This is due to proactively working with our customers and agreeing to defer some business into early 2025. Second, in the current environment our book tax rate will likely be towards the high end of the 20% to 25% range, though our cash taxes should be minimal.



Moving to the balance sheet, our liquidity on June 30 of \$71 million was up 14% year-on-year. Furthermore, in July, we paid off the remaining \$7 million in acquisition debt related to the \$30 million purchase of Maben Coal LLC. We've now retired all \$75 million of acquisition debt since 2022 related to both our Maben and Ramaco Coal acquisitions. I'm proud to say that as of today the only remaining material term debt is the \$35 million, 9% unsecured notes due in 2026, and any amounts drawn on the revolver that are used for working capital purposes.

As of Q2, our net debt to trailing 12-month EBITDA was less than 0.4 times, which illustrates our continued commitment to maintaining a conservative balance sheet. In addition, the Board has maintained our quarterly Class A common stock cash dividend of \$0.1375 per share for the third quarter of 2024. The Board also declared the quarterly Class B cash dividend of \$0.2246 per share, which of course is driven mostly by our sales volume and to a lesser extent our realized price.

With that said, I would now like to turn the call over to our EVP for Mine Planning and Development, Chris Blanchard.

**Chris Blanchard — EVP, Mine Planning and Development**

Thank you Jeremy, and to everyone who joined us this morning. As Randy summarized, we had a significant turnaround in the operations during the second quarter. The bulk of the improvement was at our underground operations which frankly had lagged our expectations the last several months. Overall, we saw improvements of slightly over 5% in clean tons per foot quarter-over-quarter underground as our Eagle mine and one of our Stonecoal sections managed to mine through some lower coal conditions and return to more normalized mining conditions.

We've also seen modest improvements in the labor market in the Southern West Virginia area. This allowed us to start the third section of our Stonecoal mine late in the quarter and also helped to fill a number of vacancies at all of the other mines. This hiring and stabilization of the workforce directly led to achieving 80 more production shifts during the second quarter compared to the first. The combination of all of these positive factors culminated in overall June cash costs below the \$100 per ton threshold for the first time in 2024.

Regarding the labor market, it remains very tight. There are insufficient experienced coal miners available in Southern West Virginia and Southwest Virginia to fill all the open positions of both our mines and those of our competitors. Although the turnover rates have moderated throughout the year, they are above the levels we want and higher than our historical averages. Hiring training and retaining highly skilled miners remains challenging and is a daily focus of the operations.

Moving into the third quarter, following the traditional vacation period around the 4th of July, the June momentum has continued. While there are obviously less available shifts to work in July due to the idle periods, we have seen continued modest improvements in average coal heights and feet per shift and the other operational metrics for the legacy mines and plants to start the third quarter. We're guiding to flattish costs in quarter three versus quarter two due to the vacation period and the ramp-up period at our Stonecoal 3 surface mine -- I'm sorry, our Ram Number 3 surface mine in the third section at our Stonecoal mine. Three of our four discussed growth and optimization projects made strides in the second quarter and are now ahead of schedule. At Elk Creek, the third section at Stonecoal started in May ahead of projections and is ramping according to our expectations. We expect this section to be fully staffed by the end of the summer and due to its projected geology to have advantaged cash costs compared to the other operating sections at Elk Creek. This section should add an additional 300,000 annual clean tons at what we expect will be cost below \$100 a ton.

Similarly our Ram Number 3 surface mine started in June. More importantly though, we have been able to start the Ram Number 3 highwall miner spread almost two months earlier than we projected, with the first coal cut in the last week. We're particularly excited about Ram Number 3 as it projects to have better geology and lower ratio than our Ram Number 1 surface mine. Once the highwall miner spread is fully operational the production rate from the combined surface mine will be approximately 350,000 clean tons per year, with produced coal cost at or near \$90 per ton.

Finally, the labor market for highly qualified surface miners has not been as challenging as on the underground side, so the ramp-up period for this mine will be much shorter and the cash cost will be normalized before the end of the third quarter.

On the low vol side, the construction of the new Maben plant is well underway. All geotechnical work and foundations were completed during the second quarter. The first few pieces of steel were set in the last days of June as well. Plant re-erection is in full swing. We are now projecting completion of the plant early in the fourth quarter of the year rather than in the last days of the year with the attendant cost savings that I'll further discuss.

In the intermediate term at Maben, having the plant on site will open up the possibilities of additional underground low vol production in our high-quality Sool, Beckley, Fire Creek, and Pocahontas reserves at Maben. The more immediate fundamental benefit is the raw coal transportation cost reduction. Our Maben surface mine and the highwall miner is currently amongst Ramaco's lowest cash cost of production before the burden of hauling this coal to our Berwind facilities for washing and shipment. Depending on the actual recoveries that we see for the mine, the raw coal transport cost can make up 30% to 40% of their total cash costs and up to or exceeding \$40 per clean ton of their final produced costs. As the start-up date of the Maben plant has become closer and becomes more certain, we will start stockpiling coal on the Maben property and not transporting it to

Berwind, so that we can claw some of these trucking savings back even on tons produced prior to the plant's completion.

Our final expansion projects at the Berwind P4 mine. Ventilation and infrastructure work is underway underground and on the surface in advance of starting the third operating super section. This work will continue throughout the third quarter with an anticipated start-up and ramp period for the section in the fourth quarter. Our projections have this section providing approximately 300,000 clean tons per year of low-cost low-vol coal. The start-up of this section and the incremental raw coal will be processed will coincide with the completion of the Maben plant and an elimination of a similar volume of coal being trucked into the Berwind complex. Additionally, during 2025, we expect to further ramp the Berwind mine to its ultimate capacity of four operating super sections.

Finally, while our overall cash costs have declined significantly, we are extremely focused on a couple of mines in a couple of sections where the cash costs remain elevated and are not currently compatible with market conditions. All options at these sections are on the table including redeploying equipment and manpower to other mines which have better geology if we do not see continued improvement. As always, we will be aggressively agile at the operations level to respond to the financial and market conditions as they exist.

For some additional discussion and detail on the markets and sales position, I'd now like to turn the call over to our Chief Commercial Officer, Jason Fannin. Jason?

**Jason Fannin — Chief Commercial Officer**

Thanks Chris and good morning everyone. I will share what we are seeing in the markets and our current and forward sales outlook.

Although global coking coal markets have weakened from a pricing standpoint, volumes are still well supported. Let me start with an overall global macro recap of the various markets where we sell. We are continuing to see the usual robust inquiries from the Pacific Basin for U.S. coking coals. Atlantic demand remains muted, though we are now starting to see positive momentum for spot deliveries in the region.

Integrated mills and coke batteries in the U.S. continue to run strong, despite a decline in finished steel prices. We think this is due to their continued positive profit margins as well as cost advantages for blast furnaces relative to electric arc furnaces. These cost advantages are likely to grow over time as increased power demand and higher electricity prices eat into EAF profitability. We therefore believe demand for U.S. coking coal is likely to remain strong for the foreseeable future. We also continue to expect a moderate rebound in Europe in the back half of 2024 and more so in 2025.

Western Europe is clearly a mature market continuing with carbon pricing and the relentless pursuit of decarbonization. By this, we are intrigued by the situation in Eastern Europe with a potential post-war rebuild scenario and result in increase in raw materials demand. The situation in Brazil also looks promising, as steel import tariffs will provide the impetus for higher steel production and follow-on increases in coking coal demand in the coming months.

In the Pacific, we are likely to see a seasonal rebound in demand from India and China in the back half of the year. The outlook for Indian steel production growth continues to look very favorable and we anticipate long-term seaborne coking coal demand to increase materially as a result. From a supply standpoint, we were reminded how fragile supply chains really are with the recent fires at Grosvenor and Longview. There tend to be no upside surprises when it comes to supply and we view the long-term supply versus demand backdrop as bullish.

As Randy mentioned, we have a small open position remaining for 2024 amounting to around only 250,000 tons. Given the near-term weak pricing environment, we will opportunistically time and place these unsold volumes in the market to align with the expected seasonal price correction.

Looking ahead to 2025, as we begin the 2025 domestic sales negotiations, our already committed volume of 1.25 million tons puts us in a unique sales position compared to previous years when we were fully uncommitted for the next year at this point in time. Ramaco's sales book is now well-positioned with specific long-term partners who place incremental premium on Ramaco's position as one of the largest producers of low-ash, low-sulfur coking coals in the U.S. across all grades — low-vol, mid-vol, and high-vol. As production in the U.S. coal industry has increased in recent years, a lot of the incremental and new volumes have been on the higher end in terms of ash content, and perhaps more importantly, sulfur content.

Turning to the current pricing environment. Metallurgical index values have continued to soften as seasonal influences impact markets at this time of year. There's also been a deterioration in steel maker profit margins as global steel prices have fallen, mostly due to increased exports of Chinese steel.

Meanwhile, metallurgical coal demand remains robust from an annual global seaborne volume standpoint. Import demand from India and China continue to grow on an annual basis. Indian first half imports increased 17% year-over-year, while China's seaborne imports increased 22% year-over-year. Prices have fallen however, due to Asian end users inability to profitably pay higher prices for raw material feedstocks like coking coal.

As of August 6, the US East Coast index values were \$208 per ton for low-vol, \$203 per ton for high-vol A, and \$181 per tonne for high-vol B, while Australian premium low-vol sits at about \$215 per ton. As prices in Asia have declined, US relativities compared to Australian premium low-vol have rebounded back to historical averages.

This suggests we are nearing a near-term price floor for US coking coals. We also believe current US index pricing netbacks are below fully loaded costs for many marginal US coking coal operations today. Clearly, that situation cannot continue. The U.S. low-vol market is currently much tighter than index pricing is suggesting. We see demand continuing to outpace supply in the US low-vol and mid-vol segments where Ramaco is positioned for continued growth as we continue to ramp production at Berwind and at Maben.

In the high-vol segment, as mentioned earlier, most of the incremental growth from our peers in the US has been either higher ash or higher sulfur or both. Production growth in these less desirable quality buckets ensures sustained future demand for Ramaco's higher quality, low-ash and low-sulfur high-vol from Elk Creek.

Looking ahead, we are very comfortable with our current order book and forward production expectations. We will be very selective where we place our few remaining 2024 volumes in order to achieve the highest netbacks possible. We look forward to the coming domestic contract negotiations as well as the opportunities in 2025 to be selective in placing incremental volumes for those customers who see value in our low ash and low sulfur supply.

I'd now like to return the call to the operator for the Q&A portion of the call. Operator?

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## Questions and Answers

**Operator**

*[Operator instructions]*

The first question comes from Nathan Martin with Benchmark Company. Please go ahead.

**Nathan Martin — Analyst, The Benchmark Company**

Thanks, operator. Good morning, guys. Congrats on the progress in the quarter, especially on the cost side. First maybe just something I noticed in the presentation, Slide 9, where you guys break out your production outlook, on the medium-term production outlook it looks like maybe an improvement regarding your expectations for low-vol production versus last quarter. Can we get a few more details on that update?

**Jeremy R. Sussman — Chief Financial Officer**

Yeah Nate, it's Jeremy. I'll start and then maybe turn it to Chris. So I think as Jason noted obviously in the current environment we think low-vol is extremely tight. So what we've done is we've effectively put the Maben underground expansion into our official medium-term outlook. So at the end of the day in addition to what we're producing now that's over one million tons of underground production which effectively takes us to more than 50-50 in terms of low-vol, mid-vol versus high-vol.

**Randall W. Atkins — Founder, Chairman, and Chief Executive Officer**

And also that includes the fourth section of Berwind that we would be putting on.

**Nathan Martin — Analyst, The Benchmark Company**

When would that, remind me guys, that Maben underground expansion likely get moving forward I guess?

**Randall W. Atkins — Founder, Chairman, and Chief Executive Officer**



We've got the optionality to frankly start that next year. The main gating issue for that was the prep plant. And of course we move forward opportunistically last summer or this summer with the purchase of a idled prep plant that we moved up to Maben and have installed it, and frankly, as I mentioned it will hopefully start operations sometime late fall. So, that's really what gated us. And then, of course, we'll look at our budgeting for next year and move accordingly, but we can certainly start putting in section by section it will ultimately probably be a four-section mine.

**Chris Blanchard — EVP, Mine Planning and Development**

Maybe much is 1.5 million tons but obviously market conditions will dictate that.

**Nathan Martin — Analyst, The Benchmark Company**

Okay. Thank you. And maybe just sticking with the Maben prep plant for a second, just something else I noticed — you broke out in your cash flow statement a separate line item for that prep plant expense. And then I also saw a footnote in your CapEx guidance is that it excludes \$3 million for the purchase of that prep plant. So I just want to make sure how we should think about all-in CapEx number for the full year for 2024.

**Jeremy R. Sussman — Chief Financial Officer**

Yeah. Hey, Nate, its Jeremy. So very good question. So we did break that out so you all for transparency can see what we're spending on Maben. \$3 million within the cash flow statement is for the purchase price. So when you look at our full year guidance of \$53 million to \$63 million it effectively excludes that \$3 million for the purchase price, but it includes the rest of the spend on Maben, a little bit more than half of which has already taken place. So if you think about our full year CapEx outlook call it at the \$60 million range excluding the \$3 million or so for the purchase price. About \$40 million of that is maintenance about \$20 million of that is growth, so obviously

when you look at the first half spend of call it \$40 million less the \$3 million so \$37 million, frankly, that implies a lot lower spend in the second half. And the reality is that's because when you look at our three or four major growth projects this year the vast majority of that spend has already taken place. So I do think that's something you guys can look forward to in the second half of the year especially in the fourth quarter.

**Nathan Martin — Analyst, The Benchmark Company**

Yeah. Okay. Perfect, Jeremy, that helps. And I saw that mention in your release to hopefully things come back down a little bit in the fourth quarter. I guess, sticking with CapEx but shifting over to the Brook Mine. Obviously saw the release I guess two days ago bringing on a couple of new partners. What kind of CapEx do you guys expect to be involved in the design and build of that refining and processing plant that you're going to be doing with Fluor? Will all that spending be responsibility? I think you mentioned the target started in middle of next year. How long could that possibly take the build as well?

**Randall W. Atkins — Founder, Chairman, and Chief Executive Officer**

Yeah. I mean, our spend frankly out of the Brook Mine has been really very modest. I think we've spent since inception just a couple of million out there to really get everything moved into position. And as far as the design build, as I said, we're going through testing and essentially trying to get the various variables nailed down which will inform essentially how we would design the processing facility to deal with the specific minerals involved and their chemistry.

I think in terms of spend for the planning for the design of that I would think of it in terms of several hundred thousand dollars. That's about where we're going to be. And in terms of what the cost for the overall demonstration facility will be, I really don't want to get over our skis now in terms of giving you a number. We'll certainly provide it as soon as we've got the design metrics around it, so we can give you really an informed

concept. But remember, the demonstration facility is like an advanced pilot. It's not a pure pilot plant in the sense that we intend to frankly, start selling products from the demonstration facility. So, this will be a revenue-producing plant, as soon as we open it.

And we'll expect to probably start doing construction, certainly site work on that, sometime around the middle of part of next year, once the weather permits out in Wyoming. And in terms of the timing, I'd probably earmark nine months to a year of normal construction, assuming no weather-related issues out there and that's the time frame. So it's probably a 2025 start and a 2026 completion.

**Nathan Martin — Analyst, The Benchmark Company**

Very helpful, Randy. Thanks for those thoughts. Then, maybe just one more. I appreciate you guys don't really want to call specifics on the domestic contracting season for '25 as we're still early on there. But any initial thoughts at least directionally on what you think maybe demand from met coal could look like from domestic steel producers, next year versus this year? And I also noticed that Jeremy, maybe this is what you referenced in your prepared remarks, that your domestic tonnage committed in price for 2024 has crept down again, to I think 1.3 million tons now. With some of that what was getting deferred into 2025?

**Randall W. Atkins — Founder, Chairman, and Chief Executive Officer**

Yeah, Nate this is Randy. I'm going to just tee up one brief comment and then turn it over to Jason. But the demand side, we haven't really seen a real falloff on the demand. The US steel producers are still enjoying pretty good margins, despite the fact that the prices are down. So the demand side has not really been the problem. The problem has been, as I mentioned in my remarks, that we've really seen this sort of flood of Chinese steel hitting virtually every market and that has impacted steel companies' ability to frankly raise their prices. And

when you've got low steel prices, you're going to have unfortunately low coking coal prices. So it's really more of a peculiar supply derived situation, based on the Chinese peculiarities, if you call it that. But Jason, pick it up and refine on that comment.

**Jason Fannin — Chief Commercial Officer**

Sure. Thanks, Randy. Nate, yeah obviously we're in ongoing discussions with some customers now so we won't get into specifics. But yeah, as Randy mentioned, certainly hot-rolled spot prices are down globally. Still in the US, they're still the highest in the world. The margins here are still outsized compared to our seaborne customers, serving centers obviously at low inventory points at a low point in the market, which would seem odd. As they come back in those spot steel prices are going to move back up.

And frankly, Randy referenced the flood of Chinese steel exports, which we probably haven't seen this level in almost 10 years. But protectionism's working. It's working here. It's working in other areas, and they could probably see more of that. But I think one key aspect in terms of, you asked about coking coal demand here in North America next year versus this year, you're not seeing anybody slow down even given where hot rolled is at, and I think that says a lot.

And then in terms of the tonnage you mentioned there that Jeremy had commented on earlier, we had one North American customer that has an extended force majeure status and rather than lose those volumes we work with them and deferred some into 2025 which worked out for the best for both of us as our customer, which is that committed change you see there.

**Nathan Martin — Analyst, The Benchmark Company**

Very helpful, guys. I appreciate all the comments at time. And best of luck in second half.

**Randall W. Atkins — Founder, Chairman, and Chief Executive Officer**

Thanks, Nate.

**Operator**

The next question is from Lucas Pipes with B. Riley Securities. Please go ahead.

**Lucas Pipes — Analyst, B. Riley**

Thank you very much, operator. Good morning, everyone. Good job on the cost side. I wanted to ask on the cadence for the second half if you could maybe provide a little bit of color for Q3 and Q4. Q3 I always remember minor vacations can have an impact. So I wondered if you could maybe speak to that? And Chris you mentioned in your prepared remarks that some mines have an unacceptable level on the cost side today. What sort of tonnage are we talking about? Is that another 200,000 tons? Is it more? And how quickly could you redeploy manpower, equipment, et cetera if you decided to move things around? Thank you very much.

**Chris Blanchard — EVP, Mine Planning and Development**

All right, Lucas I'll try and I'll tackle the first one first a little bit on the cadence of the cost. And right now in the second half we're expecting cash costs to be roughly the same in Q3 versus Q4 as we still have Ram Number 3 and Stonecoal 3 in the ramp process. So low 100s perhaps, but then Q4 pushing to 100 or a little bit below as those mines are fully operational and we also get the Maben cost savings. So at the low end of the guidance, we could see it move down significantly on the cost side but that's sort of where we're guiding to on the costs.

And then as far as the number of tons that are unacceptable, it's probably in the 200,000 to 300,000 annual ton range. And those could be redeployed relatively quickly within the third quarter I would say. We'll continue to

monitor. We have had some improvement and that's what we saw in June costs and continuing into July, but coal mining can change day to day. So we are monitoring them extremely closely and we have a couple of places that we can move to get our costs continuing to move lower as they need to.

**Lucas Pipes — Analyst, B. Riley**

That's very helpful. Chris, if you expand this across the industry, how many tons would you say are in that bucket in the US and maybe you have a global view as well?

**Chris Blanchard — EVP, Mine Planning and Development**

I would guess in the US, if you exclude the big long-haul operators, it's probably 25% of the remaining production is in that questionable and unsustainable range at these prices. Globally, that's probably...I'm a little out over my ski tips to opine on that but maybe Jeremy or Jason has an opinion.

**Jason Fannin — Chief Commercial Officer**

My quick comment on the global side — Lucas, it's Jason — you can always look at the forward cost curve and see where that starts to trail off at. And I think that tends to suggest where most folks think that marginal ton lays, I don't know where it is actually 26, 27 at this point since we're focused on 25 right now. But I think that's always a good indicator. Obviously, folks that are above that are on the edge there.

**Randall W. Atkins — Founder, Chairman, and Chief Executive Officer**

And I think the good and the bad news, as we see some of these producers have to contract, needless to say that opens up some opportunities for us on the labor side because where we operate down in the Southern Appalachian area is always a tight labor market. And to the extent that we see breaks in the action from some of our peers, we're delighted to pick up new people and deploy them because we've got situations where frankly

our production has been impacted and hindered by inability to obtain full labor. So it's kind of a double-edged sword.

**Lucas Pipes — Analyst, B. Riley**

That's very helpful, thank you for all that perspective. Randy, in terms of the demonstration processing facility, what product are you currently targeting out of that facility? Would appreciate your thoughts on that. Thank you.

**Randall W. Atkins — Founder, Chairman, and Chief Executive Officer**

Sure, so as you probably recall from our earlier disclosures on the overall product blend of our various REEs and critical minerals, we've got call it eight rare earths, which are the heavy and medium rare earth, magnetic rare earths. And then we've got two very valuable critical minerals which aren't really categorized as rare earths: germanium and gallium. And so those would be the end products that we would ultimately be aiming to frankly create oxides for, which would be able to be separated and sold on an individual basis.

As we start a demonstration facility, we'll probably deal with a concentrate which will have probably most, if not all of those, combined in one concentrate. And then as we go further up the food chain, if you will, in terms of processing, then we'll separate those out, which obviously, the farther you go up the food chain, the higher the value you receive for being able to sell separated refined elements.

**Lucas Pipes — Analyst, B. Riley**

That's helpful. So first step here would be to demonstrate a concentrate and then, where is the market for that concentrate today, either in terms of location or price for bucket? Is there a benchmark?

**Randall W. Atkins — Founder, Chairman, and Chief Executive Officer**

Yeah, I would say the prices in the rare earth business in general are sort of opaque basket, because there's such dominance by China in the pricing and production process. And frankly, China engineers both in a manner to try to mute and/or eliminate any other production outside of China. So, you can't necessarily always believe the prices that you perhaps would get off of normal benchmarks.

But the easy way if you want to start thinking about it as an analyst would be to simply take the breakout prices of each individual element and apply that into a basket concentrate, which we, I think, provided you some slides on in some of our earlier presentations on the rare earths, which gives you a notion of what percentage of each one of these we have in our overall mix at least as far as our last exploration target is concerned.

**Jeremy R. Sussman — Chief Financial Officer**

You can see that on slide 13.

**Randall W. Atkins — Founder, Chairman, and Chief Executive Officer**

Okay. And I might add that those numbers will probably change around when we do our further update this fall, because we've got pretty significant amounts of additional data that will be going into this new revision. So expect for those numbers to move around. And of course, we hope they'll move in a positive direction. But we won't comment on that until we actually get all the data collected.

**Lucas Pipes — Analyst, B. Riley**

Thank you, Randy. Thank you, everyone for your comments and best of luck.

**Randall W. Atkins — Founder, Chairman, and Chief Executive Officer**

Thanks Lucas.



**Operator**

This concludes our question-and-answer session. I would like to turn the conference back over to Randall Atkins, Chairman and CEO.

**Randall Atkins — Founder, Chairman, and Chief Executive Officer**

Again, I'd just like to thank everybody for being on the call today and we look forward to catching up with everybody in several months. Take care and have a great day.

**Operator**

The conference has now concluded. Thank you for attending today's presentation.