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EDITED TRANSCRIPT

HNRG - HALLADOR INVESTOR CALL FOR THE VECTREN FUELS
ACQUISITION

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Hallador Investor Call for the Vectren Fuels Acquisition.

At this time all participants are in a listen-only mode. Later we will conduct a question-and-answer session and instructions will be given at that time.

(Operator Instructions).

As a reminder, today's conference is being recorded.

I would now like to turn the call over to Suzie Jaworowski.

Suzanne Jaworowski - *Hallador Energy Company - Communications Director - Sunrise Coal*

Thank you so much. Welcome, everyone, to the Hallador Energy Company Investor Relations Call.

Before we get started in the content of the conversation, I'd like to read our forward-looking statement.

This presentation contains forward-looking statements. That is statements related to future, not past, events. In this context, forward-looking statements often address our expected future business and financial performance and often contain words such as expects, anticipates, intends, plans, believes, seeks or will.

Forward-looking statements, by their nature, address matters that are, to different degrees, uncertain. For us, particular uncertainties arise from changes in the demand for our coal by domestic electric generation industry from legislation and regulations relating to the Clean Air Act and other environmental initiatives from operational, geological, permit, labor and weather related factors.

From fluctuations in the amount of cash we generate from operation and from numerous other matters of national, regional and global scale, including those of political, economic, business, competitive or regulatory nature.

These uncertainties may cause our actual results to be materially different than those expressed in our forward-looking statements.



We do not undertake to update our forward-looking statements whether as a result of new information, future events or otherwise, except as may be required by law.

Now I'd like to introduce our participants in today's presentation. Victor Stabio, Hallador Energy, Chairman of the Board, Brent Bilsland, Hallador Energy, President and CEO, Andy Bishop, Hallador Energy, Chief Financial Officer and Treasurer, Larry Martin, Sunrise Coal, Chief Financial Officer.

Our agenda will focus on the Vectren acquisition. Within that, Mr. Bilsland will be talking about an update on the closing. He'll cover the financing, the benefits of the acquisition, will review the Sunrise Coal assets and take a look at a map with the 230-million ton complex.

He'll review the thickness of the reserves, the sales and cost structure, look at our familiar customers, and finally go through integration timeline. At the end, we'll have time for question and answer.

Now I'd like to turn it over to Brent Bilsland.

Brent Bilsland - Hallador Energy Company - President, CEO

Thank you, Suzie.

Thank you all for joining our call today. We are very excited to explain our purchase of Vectren Fuels Inc. The transaction was completed last Friday, August the 29th. The closing price was \$320 million.

There'll be a balance sheet adjustment to occur within 90 days of closing to through up for coal inventories, parts inventory, and working capital adjustments.

One of unique attributes of this stock purchase is that we received zero employees as Vectren Fuels had utilized contract miners, which were terminated with the completion of this transaction.

Therefore, Sunrise conducted its own job fair and hiring process. All employees were able to receive new employee orientation prior to closing. Thus, coal production was able to commence on Tuesday, September the 2nd.

Moving on to financing, to finance the purchase, we established the new \$425 million credit facility. Our bank group was comprised of 17 participant banks that was led by PNC Bank.

The facility consists of \$175 million of term debt, which is fully hedged at 5% for five years. Additionally, we set up a \$250 million operating line of credit, of which we've hedged \$100 million of that operating line at 5%. The hedge will step down over five years.

Today, we have borrowed \$350 million against our \$425 million facility, \$320 million of which was paid to Vectren, \$30 million went to pay bank fees, contractor termination and pay down existing debt.

Moving on to Slide 7. An acquisition benefits, this purchase diversifies our mining production. We got a lot of flag through the years of being a single portal risk. And now, we are -- now, we'll have three portals here with Oaktown 1, Oaktown 2 and Carlisle. We also have one surface mine in Ace-in-the-Hole.

Back to Oaktown 1, Carlisle and Oaktown 2, this acquisition creates a 230 million ton contiguous reserve position, which we will demonstrate in greater detail on Slide 10.

It also increases our customer base. All our customers are 100% investment grade, 100% scrub and 100% baseload plant as we will show on Slide 13.



Our contract position is enhanced. We have now 25% of our production committed through 2023. That's not all priced, but it is all committed, and we're happy to have an acre tenant.

This transition also makes Sunrise the second largest Indiana coal producer, and we think that is a great benefit for our customers and able to give them a larger new competitor in the state of Indiana.

Moving to Slide 8. And I'm not sure here we're having some technical difficulties. So I think we're advancing. But on Slide 8, it's basically a map of our coal assets and their locations in Indiana and Illinois.

The orange bullets identify the locations of the acquired reserve mine -- the acquired Vectren mine. The light blue bullets show the locations of Sunrise original coal assets. And the orange number beneath each of the mine or reserve name shows the amount of identified reserves associated with each mine.

Of note, our built out reserve permit application has been complete and is progressing through the hearing process in Illinois. We anticipate this approved -- receiving an approved permit in the late first quarter of 2015.

Moving on to Slide 9. The map on Slide 9 -- the map on Page 9 shows Sunrise's coal mine and War Eagle reserves in connection with Vectren's Oaktown 1 and Oaktown 2 mines prior to the transaction. The point to focus on is Carlisle, Oaktown 2 and War Eagle is one large contiguous reserve. All these reserves add up, including -- if you add in Oaktown 1 as well to 230 million tons, we'll display on the next slide how we intend to reallocate reserves among the various mines.

On Slide 10, 230-million ton complex has been created. Basically, we're going to mine an additional 8 million tons of the original Oaktown 2 reserve from the Carlisle portal. And on Slide 10, you'll see a white dotted line cutting across the brown coal reserve to show the former Oaktown 2 boundary.

Additionally, Oaktown 2 will gain 78 million tons of reserve from our War Eagle reserve. The dotted white line cutting across the orange colored reserve shows the former War Eagle boundary.

This ability to merge the Oaktown 2 and War Eagle reserve was a big driver in our decision to purchase the Vectren assets. Instead of investing \$150 million at War Eagle to develop 3 million tons of new production, we invested roughly twice that amount for 6.4 million tons of production and added 95 million tons to our reserve base.

Moving on to Slide 11. This slide shows the difference in sequence between what we acquired in our existing reserves.

The Oaktown reserves on average are a foot thicker than our Carlisle and War Eagle reserves. We expect this to lead to a cost structure that is equal to or less than our traditional cost structure at Carlisle.

The chart also shows the capacity of each mine and where we expect to end up on an annual basis. Basically, Oaktown 2 is already a 3.2 million tons of capacity. We'll talk later here about how we intend to ramp up Oaktown 2 to 3.2 million tons of capacity. And Carlisle is already producing at 3 million tons of capacity.

Our Ace-in-the-Hole mine typically produces 250,000 tons, and we use that coal kind of as a sweetener to blend down sulfur at Carlisle, but it also can go to Oaktown 1 and 2 as well, if necessary.

Moving on to Slide 12, sales and cost structure. 2014, we have roughly 4 million tons remaining and priced to be shipped at \$42.60.

In '15, we have 9 million tons currently committed, 9 million tons priced at \$44.45. '16, we have 41 million -- or excuse me, 4.1 million tons committed, 3.1 million of which are priced at an average price of \$43.40.

In 2017, we have 2.9 million tons committed, of which 1.5 million tons are priced at an average price of \$44.39.



Historically, Carlisle's cost structure has been less than \$30 cash cost. And as we explained on the slide beforehand, we see no reason why the Oaktown complex shouldn't be added below that number.

Moving on to Slide 13. Some of the great attributes to this transaction is that we maintain a very familiar customer base. And this slide shows the overlap of Vectren's customers and our customers, some that were a little unique to Sunrise and some that were a little unique to Vectren.

Basically, we're maintaining our current customer base by adding the Vectren Culley and Warrick plants. We had shipped to Brown in the past, but we had not shipped any coal to Culley and Warrick. So we're glad to have them as our longest term customer with some of those contracts extending out to 2023.

And lastly, we're going to run through our integration timeline on Slide 14. Basically, we're able -- I spoke earlier we're able to get orientation completed with our employees -- our new employees before the transaction was completed on August 29th. We idle production once the -- Prosperity once the transaction was complete. New employees reported to work at the various mines on September 2nd and production did commence.

Right now, we are removing one unit of underground equipment from Prosperity and our intent to move that equipment and people to Oaktown 2 as a third unit of production there. Currently, it has two. Oaktown 1 currently has three units. Oaktown 2 currently has two units. And we want to ramp that up to three units of production.

The remaining two units of equipment at Prosperity will also be moved to Oaktown. One unit will go into Oaktown 1. The other unit will go into Oaktown 2. These basically will become backup units.

This is kind of the setup that we have at Carlisle where we run four units of production and the fifth unit as a backup unit. That way, if we have a fall in the unit in the mine and we shut that unit down to clean up the fall, we can route our production employees to the backup, to the idle unit of equipment and be a more consistent producer. It's worked really well for us at Carlisle, and we hope to replicate that at Oaktown.

The remaining contracts at Prosperity we intend to load out existing inventory, coal inventory. And we expect to ship or transfer the balance of those contracts to be supplied out of the Oaktown complex. We've had met with all our customers concerning that, and, you know, several have already agreed to that transition. All those customers are already currently taking coal from the Oaktown complex.

So idling Prosperity is creating some transportation issues, which we're working through now, and I think we've got a pretty good game plan to make that work for all of our customers.

So anyhow, we expect with -- as you can see on the timetable here, we expect this equipment and manpower to get shifted from Prosperity to Oaktown in the September, October, November, December time frame. And, you know, we kind of expect our cost to be a little unpredictable in that time period, and we think come January of '15, things should settle down, and we should be back to business as normal, so.

That's my closing comments on that. Now, we're going to open it up to question and answers from the audience.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions).

The first question comes from Mark Levin from BB&T Capital Markets.



Mark Levin - *BB&T Capital Markets - Analyst*

Hey, Brent, congratulations on the transaction. A couple of questions. The first has to do with sort of the timeline for cost reductions. I think you referenced getting these assets, cost structure, you know, somewhat consistent with what you have at Carlisle. Is that a one-year process, a two-year process? Is that -- I mean, how quickly do you think you can get there? And then what are the hurdles to achieving that?

Brent Bilisland - *Hallador Energy Company - President, CEO*

Well, I mean, you know, one of the blessings we have here is that, you know, it's business as usual at Carlisle, it's business really as usual at Oaktown with the five units that are already there now, you know.

95% percent of the employees that were there before are there now and so we -- there's just not a lot of change there.

The big change is moving three units of equipment from Prosperity up to Oaktown, and we've got, you know, added headcount, moving that equipment. Part of that will be part-time work, loading out existing inventory there. You know, part of that will be part-time work. But then most of those guys that are -- and gals that are moving the equipment will become long-term employees at Oaktown.

And so the question is, you know, what's the time frame for getting that equipment moved out and how quickly can we get that on production? And we really think we can get that third and final production unit at Oaktown 2, moved and in place, by the end of September. It's kind of the time frame we're looking for, you know.

And then we're going to have some added cost moving the rest of the equipment, so our cost should be, you know, slightly elevated in that fourth quarter. But we think first quarter of 2015, you know, things were hurt back to our normal cost structure.

Mark Levin - *BB&T Capital Markets - Analyst*

And by that, you mean the combined entity could have a, well, a cost structure or cash cost structure in the, you know, upper 20s, low 30s? Is that fair? As early as '15? Early '15?

Brent Bilisland - *Hallador Energy Company - President, CEO*

Yes, that's our belief.

Mark Levin - *BB&T Capital Markets - Analyst*

Wow. Okay. And then secondly, Brent, just a little bit off topic, the IPO contract, how difficult or not difficult for that matter will it be to replace those tons of the contract?

Brent Bilisland - *Hallador Energy Company - President, CEO*

Well, we have a contract approved 2015. So that remains in place, and they're going to operate through that timeframe and into '16. You know, that contract today represents about 14% of our production. So, you know, we hate to lose the customer.

That being said, we have several customers that had gotten in trouble inventory-wise and really haven't been buying much coal from us here in the past year or two, and, you know, we expect them to come back in full force, and in fact -- and quite frankly, they've already met with us and expressed that same desire. So we, you know, we hate to lose the plant, but at the end of the day, we feel very comfortable that we can replace those tons.

Mark Levin - *BB&T Capital Markets - Analyst*

Okay. And then one last question then I'll let someone ask. CapEx, I know it's early in going to the budgeting process yet. But when you think about '15 and '16, you know, how, you know, on a CapEx per ton basis or on a, you know, absolute basis, how should we think about it? Is it \$4 a ton of CapEx? Is it -- I mean, how -- what is the combined entity looked like from that perspective?

Larry Martin - *Hallador Energy Company - CFO - Sunrise Coal*

Yes, this Larry Martin, CFO of Sunrise. We feel we're in between in the \$4 to \$5 range per ton for -- maintenance CapEx going forward for the Oaktown and Carlisle mine.

Mark Levin - *BB&T Capital Markets - Analyst*

All right, great. Thanks, guys. Congratulations on the transaction.

Brent Bilsland - *Hallador Energy Company - President, CEO*

Thank you.

Operator

(Operator Instructions).

The next question comes from Lucas Pipes from Brean Capital.

Lucas Pipes - *Brean Capital - Analyst*

Good afternoon, everybody, and congrats on the closing of the deal and thanks for hosting the call.

Brent Bilsland - *Hallador Energy Company - President, CEO*

Thanks, Lucas.

Lucas Pipes - *Brean Capital - Analyst*

My first question is kind of on the pro forma production level. You mentioned you would kind of be ramping up through the end of this year and then into early 2015. And I just wanted kind of on a pro forma basis, when those changes are executed, where do you see annual production levels?

Brent Bilsland - *Hallador Energy Company - President, CEO*

Well, I think, you know, I think, you know, we're kind of referring to Carlisle and Oaktown 1 and 2 as the complex. And part of the reason for that is, you know, they're both on the CSX. Both rails are like 6.5 miles apart. So we think we'll be in a position to where -- we think we'll be in a position of where we can, you know, deliver Oaktown contracts against Carlisle and vice versa. And that gives us a lot of -- it affords us a lot of flexibility.



I think for next year, we're hoping to be in that 9.5 million tons sold, you know, give or take. Some of our contracts have some options. But that's kind of where we're looking to be, you know, give or take 0.25 million tons. But, you know, 9.5 is our target.

Lucas Pipes - *Brean Capital - Analyst*

That's helpful. And you mentioned some of the synergies in terms of moving equipment from Prosperity. What would other synergies should we be thinking of? And two, to what extent do you think costs could actually come down at Carlisle, for example? I know in the past it had a little bit of wash plant issues. Could those be lessons going forward with sharing some other infrastructure?

Brent Bilisland - *Hallador Energy Company - President, CEO*

I think this year -- I mean, one of the things that's really hampered Carlisle is, you know, Carlisle is originally designed to be a two-unit coal mine. So the footprint there is quite small. You know, we added wash plants, we changed our slope bell, and we've added units underground. But in our inventory -- amount of inventory we can hold is somewhat limited at that facility.

And so if you look at this year, you know, we haven't really worked maybe two Saturdays the entire year. So we haven't really been able to get Carlisle running wide open all year because of lack of train service.

In August, that seems to have alleviated itself and the inventory level at Carlisle and the Oaktown complex both are in very comfortable ranges. But kind of circling back, this is a big deal to us. Instead of loading 27 trains a month at Carlisle, we're going to load 70 trains a month at the complex.

And what we can -- what we think we can do with most of our customers is we can be able to see these trains coming in the queue from the CSX and the Indiana Railroad and place them at the mine that has the correct quality and has, you know, if Carlisle is running out of inventory room, we can dump Oaktown trains into it.

Oaktown has a lot more property and can hold much higher inventory levels than what -- you know, maybe three times the amount of what we can hold at Carlisle. So we think, you know, having that capacity allows us to operate our underground mines more efficiently for cost.

Now on the recovery basis, we have certainly the last year, you know, traditionally, our recovery has been up in the 72% range. And we've had a whole host of reasons of why it's been more in, like, the 67% range, 68% range.

And we are working to improve that part of it is geology we have been in areas of the mine that are lower recovery. But we think long term we can get those numbers up not only at Carlisle but also at Oaktown.

I'm not sure -- did I answer your question?

Lucas Pipes - *Brean Capital - Analyst*

Yes, that was very helpful. I appreciate that. And just the last question for now, a little bit unrelated, but could you maybe update us on Savoy Energy and what you intend to do with that asset going forward?

Brent Bilisland - *Hallador Energy Company - President, CEO*

Well, I think that, you know, we put it up for sale and the original buyer of that transaction hasn't come to fruition, so we continue to negotiate with some new interested parties and continue to work on what is the best way to monetize that asset. And, you know, we're very happy with Savoy. It's doing well. And so we're not going to give it away.

We want to make sure we maximize the full value in it. So all I can really tell you to that front is that we are working on it and we're very happy with the result that it continues to supply the company.

Lucas Pipes - Brean Capital - Analyst

Any sort of rough guidance in terms of what could be an efficient way to monetize that?

Brent Bilisland - Hallador Energy Company - President, CEO

I think for now, because we are considering a couple of different options, I think we'll just have to table at, Lucas, and -- but I can tell you that we do continue to work on that, and we're happy with the results, and we're just trying to figure out what is the -- what maximizes the value to our shareholders.

Lucas Pipes - Brean Capital - Analyst

Great. Well, again, congratulations and keep up the good work.

Brent Bilisland - Hallador Energy Company - President, CEO

All right. Thank you.

Operator

(Operator Instructions).

The next question comes from Paul Sonz from Paul D. Sonz Partners.

Paul Sonz - Paul D. Sonz Partners - Analyst

Good afternoon. I had one question. On the reserves at War Eagle, how -- do you need to do permitting to access those reserves or is it within your permitted area?

Brent Bilisland - Hallador Energy Company - President, CEO

No, we'll have to do a shallow area permit underground in both Indiana and in Illinois. That being said, that's a much, much easier permit to achieve because you have virtually no surface effects. So there's just - especially in Indiana.

There's just not much to that. In fact, if we wanted to go off the Oaktown 2 property line and into War Eagle today, you know, we could do that in a small way through a - what's called an incidental boundary, which you can typically get those within 30 days. So we're very comfortable that we can -- we don't see -- we don't perceive permitting issues, which is why I think you're getting at, Paul...

Paul Sonz - Paul D. Sonz Partners - Analyst

Yes.



Brent Bilisland - Hallador Energy Company - President, CEO

...we think it becomes very reasonably easy thing to do.

Paul Sonz - Paul D. Sonz Partners - Analyst

When do you expect that you'll be able to increase your production there? And I see you talked about 9.5 million tons for '15. Do you have anything you want to talk about in terms of increased production for '16?

Brent Bilisland - Hallador Energy Company - President, CEO

Well, I mean, I think, again, 9.5 million kind of going to be the number for us here for the next couple of years until, you know, until we get Bulldog mine on or something like that.

Paul Sonz - Paul D. Sonz Partners - Analyst

Okay. All right, thank you.

Brent Bilisland - Hallador Energy Company - President, CEO

And that's pretty good growth. We just went from 3.2 million last year to, you know, in '13. We're going to be at 9.5 million in '15. So this point for now and, you know, we - again, the next big project for us on our horizon is the Bulldog project and, you know, permitting-wise there, it's moving forward nicely.

Paul Sonz - Paul D. Sonz Partners - Analyst

Great. Thank you very much.

Brent Bilisland - Hallador Energy Company - President, CEO

Thank you.

Operator

(Operator Instructions).

Our next question is a follow-up from Lucas Pipes.

Lucas Pipes - Brean Capital - Analyst

Hey. Thanks for taking my follow-up.

And then on Prosperity, you idled the mine, I believe, last week. Kind of what's the plan for that property going forward? Do you just contend to keep it idle until market conditions improve or do you foresee it being idle for an extended period of time given the higher cost there? Kind of if you could update us on your thinking on Prosperity, that would be much appreciated.



Brent Bilisland - Hallador Energy Company - President, CEO

Well, we do see that being idle for an extended period of time. And, you know, we're going to evaluate what is the best purpose of those assets going forward, and we got a couple of ideas, but they're going to take a little time to make happen.

Lucas Pipes - Brean Capital - Analyst

Okay. Great. Thank you.

Brent Bilisland - Hallador Energy Company - President, CEO

Thank you, Lucas.

Operator

The next question comes from [Christopher Cote] from SNL Energy.

Christopher Cote - SNL Energy - Analyst

Hi. I just had a quick clarification about the comment you made about not bringing any employees over. I may have misunderstood. In the acquisition, there were no employees brought over [what's happening], include anyone?

Brent Bilisland - Hallador Energy Company - President, CEO

Well, Vectren utilized two contract mining companies. And those contract mining companies, you know, issued -- those employees were terminated or the contract miner was terminated as part of the agreement. So Sunrise held its own job fair and hired just new hire employees of which...

Christopher Cote - SNL Energy - Analyst

Okay.

Brent Bilisland - Hallador Energy Company - President, CEO

...98% of which were formerly employees for the contract miner.

Christopher Cote - SNL Energy - Analyst

Okay. Okay.

Brent Bilisland - Hallador Energy Company - President, CEO

So...



Larry Martin - Hallador Energy Company - CFO - Sunrise Coal

Vectren Fuels only had four employees of their own, and they exempted those from the purchase.

Christopher Cote - SNL Energy - Analyst

Okay. Okay. Thank you.

Brent Bilisland - Hallador Energy Company - President, CEO

Yes. I mean, it's a little bit unique in that regard and -- but that's how it happened.

Christopher Cote - SNL Energy - Analyst

Okay. Thank you very much.

Brent Bilisland - Hallador Energy Company - President, CEO

Thank you, Christopher.

Operator

Our next is a follow-up from Mark Levin from BB&T Capital Markets.

Mark Levin - BB&T Capital Markets - Analyst

Yes. Just the last question, I'm sort of running through the numbers here as this goes on. To the extent you guys generate, I would say, a reasonable amount of free cash flow in '16, probably it could be a lot of free cash flow, Brent, is the number one priority debt -- I mean, how do you kind of think about debt paydown versus, you know, other potential uses of cash? What's the balance? And what's the optimal capital structure for the company?

Brent Bilisland - Hallador Energy Company - President, CEO

We don't like debt. So, you know, our board is paying down debt as quickly as possible. And, you know, so -- and that's kind of what we did in the past, you know? We're taking credit facilities to expand the mine to buy other assets, and we paid it down as quickly as we could.

And when we see something we like, we're not afraid to go out and take on a lot of debt to do that, you know? We sit here now at three times, you know, roughly 3 times debt to EBITDA and we, you know, we want to get that down as quickly as possible and -- but if something interesting comes along, we're not afraid to go buy it. And -- but, you know, we've got our belly full at the moment.

Mark Levin - BB&T Capital Markets - Analyst

Yes.

Brent Bilisland - Hallador Energy Company - President, CEO

We might do some small, you know, reserve acquisition, but I don't see us going out and buying another company any time in the next month or two.

Mark Levin - BB&T Capital Markets - Analyst

And how different when you think about Bulldog, you know, let's assume all goes well and you end up with all the permits or the final permit that you need, getting a contract for those tons, what's your degree of confidence that there's a real logical buyer out there for those tons?

Brent Bilisland - Hallador Energy Company - President, CEO

We do think there's a couple of logical buyers. I mean, the Florida market seems to be prime to take that quality of coal, you know. Now, I want to give away all that, but, you know, that coal probably is going to go north and east in Indiana. I mean, that's kind of some of the rail -- transportation advantage that it has if you kind of look at who's north and scrubbing their plants, and you could probably piece all that together.

But, you know, we definitely see some buyers for that coal. It's just been very difficult to have any conversations with them because permit and certainty with the new surface development in Illinois and because it does take a considerable amount of time to reach the complete stage -- the completeness stage in Illinois, which is why it was a big deal to us when our permit was being complete.

Because once you're being complete in Illinois, there is a set timetable that they have to, you know, start having public hearings and that sort of thing and push, you know, the cost has started once you've reached that stage, which is why we feel so much more comfortable that we're going to receive our permit and, you know, it's really not a question of If we receive our permit. It's always been a question of When we receive our permit.

I mean, coal mining in Illinois is still very legal to do. And the rules are set on what you can and cannot do. And, you know, we intend to abide by the rules. And so that being said, it was a long and painful process to get a permit being complete. We can -- we've now checked that box, and we're moving forward.

And now we see more of a Hey, the finish line is coming. Now we can go out and begin to have conversations with customers about Hey, you know, this is the time frame that we're going to be developing this mine, you know, interested mine coal. And, you know, we'll start having those conversations later this year.

Mark Levin - BB&T Capital Markets - Analyst

Great. Appreciate it. Thanks again.

Brent Bilisland - Hallador Energy Company - President, CEO

That doesn't mean we're going to find a buyer for the coal. But at least we can start having this conversation.

Mark Levin - BB&T Capital Markets - Analyst

Absolutely. Absolutely. Thank you, Brent.

Brent Bilisland - Hallador Energy Company - President, CEO

Thank you.

Operator

(Operator Instructions).

The next question is a follow-up from Paul Sonz.

Paul Sonz - *Paul D. Sonz Partners - Analyst*

Hi. I forgot to ask, what is your estimated -- what do you think your estimated tax bill -- not bill but your tax rate is going to be for next year? What should we use?

Andy Bishop - *Hallador Energy Company - CFO, Treasurer*

With Hallador, CFO, Andy Bishop.

Paul, we're working on some tax planning strategy as we speak but somewhere between 25% and 32%.

Paul Sonz - *Paul D. Sonz Partners - Analyst*

Okay. Great. Thank you.

Operator

The next question is a follow-up from Lucas Pipes.

Brent Bilisland - *Hallador Energy Company - President, CEO*

Lucas, you just don't want to be outdone, I can tell. You're going to get the most questions.

Lucas Pipes - *Brean Capital - Analyst*

It's just another quick follow-up on just the broader market environment. And I wondered what your views on kind of production growth within the Illinois Basin from some of your competitors, some of them bringing on big longwalls and then also the PRB has lost chair in Illinois Basin from what I can tell. What's your view on kind of those two factors going forward?

Brent Bilisland - *Hallador Energy Company - President, CEO*

You saved the easy question for the end. You know, basically, the Illinois longwalls have ramped up production. I don't think there's any secret. A lot of that has displaced into operation. You know, there's an issue out there of, you know, some of the big longwalls have some export contracts that will begin to roll off and those tons will come back to compete domestically. So that's probably the biggest headwind I see.

That being said, a lot of the longwalls in Illinois and I think, you know, I question whether the permits may hamper their future growth. Not that they won't happen but it may slow it down. Illinois is a tough state to get a permit in, for sure. And, you know, that being said, it does happen. It just takes time.



You know, Indiana is a little different market. Indiana production I think 73% or something like that of Indiana production stays in the state of Indiana. You know, the other 28% or whatever that is, you know, half of that goes to the southeast and the other half goes to the River Market.

So, you know, I think the River Market and the southeast definitely competes with the longwalls. I don't think Indiana, you know, you're not really seeing longwalls coal come to the state of Indiana, and there's multiple reasons for that.

Chlorine is the biggie. You know, the Indiana utilities are used to the shower of coals of Indiana, which are much lower chlorine content. And, you know, it's no secret the longwalls are very high chlorine. And to some people, that's a big issue for and some it isn't, and it's really customer by customer.

So, again, I mean, we don't tend to -- we don't really see ourselves as, you know, going head to head with the longwalls of Illinois. That's not our number one competition. I mean, typically, the utilities are going to buy hard chlorine coal. They're going to buy from Cline. They're going to buy from White Oak.

The ones that want low chlorine coal, you know, they really like Indiana, and it really just comes down to transportation. And we know, you know, we spent a lot of time -- the last two years, we spent an enormous amount of time going around West Kentucky, going around Indiana and looking at reserves in Illinois, and we are very confident that we have purchased the best, the lowest cost underground reserve in the state of Indiana. And, you know, I think it's lower cost than anything I've seen in West Kentucky.

Illinois had some reserves that were challenging on cost, but they don't have market. You know, that's what makes us special is we have a very large, very low-cost production stream many, many years in the states that still have a very good market. And our market is actually growing because we continue to ship a greater percentage of our coal out of state each and every year.

Lucas Pipes - *Brean Capital - Analyst*

Great. That's...

Brent Bilisland - *Hallador Energy Company - President, CEO*

The other thing -- one of the other things that's unique about the Oaktown complex is we're extremely low mercury, which is very unusual for the Illinois Basin. And we have customers coming to us now saying Hey, you know, we're interested in this because it helps us meet our new mass requirement because the mercury content of the Oaktown coal is about 1/3 of what it is when you go even in Southern Indiana. So, say, Prosperity. I mean, Prosperity is much higher mercury content.

So that's just one of the other things that makes this coal a little bit special. And we are ecstatic with the purchase and, you know, quite frankly, the Vectren people were a tremendous source with in the transaction and have been very helpful and, you know, one thing that was unique is that we become one of their largest suppliers for a very long period of time. So they wanted to see us be successful, and we think we will be. And so my hat's off to the Vectren people.

Lucas Pipes - *Brean Capital - Analyst*

And PRB is competition, not a factor and maybe takes on that.



Brent Bilisland - Hallador Energy Company - President, CEO

I don't think I've ever gone head to head with a PRB business. I mean, utilities have burn PRB, by and large, are going to burn PRB, you know, and the utility for that can hook up to a one-line hall to the UP or the BN. I kind of take, you know, most of those guys are already on PRB and going to say on PRB.

I think a lot of the market has been lost, you know, as those plants running out of inventory and running less, you know, more than -- you know, I don't think it's Cline coal going into a PRB plant. That might happen to us on -- to a small degree, some blending places.

But that's, by and large, what's happening in rail service. It's been very difficult for the first seven months of this year. And I think that's put a lot of pressure, especially on the PRB plants that, you know, their inventory is getting down to, you know, here some places down to ten days of burn. You start de-rating these plants, and that means some Illinois Basin power plants running harder.

And, you know, kind of to circle back to one of the questions we had about Harding Street and losing that plant, you know, that plant going away, you know, we had another utility in here saying Yes, I wouldn't be too upset about that because, you know, we currently have a plant that's burning 7 million tons that is capable of burning 11.

And we think that as, you know, the Harding Streets of the world closed, that moves all the other coal plants in the state of Indiana lower on the cost curve. The gas plants will be higher on the cost curve.

I mean, coal in Indiana is delivering in the plants right around \$2 per million. So it's very difficult for gas to compete and that's, you know, that's what ITL intends to do. They're going to shut down a coal plant and build a gas plant. The question is, will a gas plant run? You know, our theory is not very often, which means this state is going to burn the same amount of coal. It's just going to be at different plants.

Lucas Pipes - Brean Capital - Analyst

Great. Really appreciate you taking my follow-up questions.

Operator

At this time, I am showing no further question. I would now like to turn the call back over to Brent Bilisland for closing remarks.

Brent Bilisland - Hallador Energy Company - President, CEO

Well, I thank you all for taking the time to listen to what we have to say. Again, we're thrilled with our purchase. And we work very diligently at getting our cost structure low and maximizing value for our shareholders.

I do want to say in the future, we will be having quarterly investor relations calls after each of our quarterly filing.

So, you know, we look forward to communicating you through this avenue. Hopefully, we'll get better at the slideshow. But anyhow, thank you all for calling in.

Operator

Ladies and gentlemen, that does conclude the conference for today. Again, thank you for your participation. You may all disconnect. Have a good day.



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