



More consolidation in the Illinois Basin?

By John T. Hanou, President, Hanou Energy Consulting, LLC

A month or so ago, Hanou Energy provided a summary of the consolidation that has taken place in the Illinois coal basin. Mr. Hanou also suggested some other possibilities of mergers and acquisitions. Now that Hanou Energy's *Illinois Basin Coal Supply, Demand and Price Forecast* have been published, Hanou's research suggests another more likely consolidation and/or acquisition possibility may present itself in the near future.

American Patriot Holding's White Stallion Coal affiliate is on a fast-track merger and acquisition mode in southern Indiana.

Headed up by Steve Chancellor, Chancellor is the chairman of the American Patriot Group, the parent company of AmeriQual Group LLC, which supplies Meals, Ready-to-Eat (also known as MREs) to the U.S. Department of Defense and numerous other companies in multiple sectors. Previously, he was the president, CEO, and chairman of Black Beauty Coal Co., before he sold his remaining interest in the company to Peabody Energy in April 2003. Mr. Chancellor has close ties to and is a staunch supporter of the Republican Party.

American Patriot Group's "Holdings" affiliate operates under White Stallion Coal, LLC which was formed on April, 4, 2012 in Evansville, Indiana. The company was 50% controlled by Patriot Coal and 50% controlled by American Patriot; however, it is believed that with the Patriot bankruptcy, Patriot has sold out its share to Mr. Chancellor.

Prior to his selling out to Peabody, Chancellor had tremendous success with his running of Black Beauty. It appears the entrepreneur is trying to recreate the magic that he had during the 70s, 80s and 90s.

- White Stallion has the proposed Mustang mine near Terre Haute, Indiana in what is known as the AMAX South Field of the Chinook mine in Vigo County, Indiana. Total reserves are estimated around 11 million tons in the Indiana III and IV seams. Production plans are on hold until a market can develop.
- They have hired Mark Sebree as senior VP of operations. Mark is a highly qualified mining engineer who worked for AMAX Coal and Peabody Energy for many years.
- To expand his holdings, in early 2016 Chancellor's White Stallion entity purchased privately owned Vigo Coal Company for an undisclosed sum.
 - The acquisition of Vigo provides them with a strong base and a ready market with Vigo's relationship with Alcoa. During 2016 Vigo will ship about 1.2 million tons of its Liberty mine coal into Alcoa's Warrick operations.
 - Vigo has two standalone projects (Vigo Sunna and Captain Daviess) that are or will soon be permitted that White Stallion can open up on.
 - Hanou Energy believes Chancellor may wield some political muscle with Duke Energy to place Vigo's Friendsville coal into the Gibson power plant. The mine is only a few miles away from the plant and has the ability to receive Gibson's coal ash for disposal. The 1.2 million tons per year Friendsville mine was idled in Q1 2016 after Alcoa shut in its Warrick smelter.

There are many other acquisition and mining opportunities available for White Stallion to expand upon.

- Chancellor has close ties to Thomas Franks who controls Eagle River Coal in Illinois. Perhaps this 0.7 million tons per year mine will be incorporated into the White Stallion umbrella of operations.
- JMP/RWE – Blackhawk/Triad's Augusta surface and Log Creek surface and underground mines in southern Indiana are logical candidates for takeover by White Stallion.
 - Blackhawk recently closed its Freelandville mine complex and may be looking at exiting the Illinois Basin. Taking over the Blackhawk Indiana mining assets would provide White Stallion with an easy way to grow the company.





- Blackhawk's two surface mines produced 1.0 million tons in 2015. The underground mine opened in Q1 2016 and will likely produce around 0.4 million tons per year when full production is obtained.
- Sun Energy is a small, privately owned coal producer in southern Indiana who has been struggling recently. The company produced 0.2 million tons in 2015 and hopes to open on another reserve in the next couple years.
- Hanou Energy believes Peabody's current financial condition; White Stallion could make an offer to take over some or all of Peabody's southern Indiana mines, reserves and assets, including the Francisco underground, the Somerville surface, Somerville North surface/prep and the Wild Boar surface mines as well as the Yankeetown Dock on the Ohio River.
- As specialists with small scale mining, White Stallion could easily take over the United Minerals (UMI) southern Indiana operations that were closed by Peabody when Peabody bought out UMI's 25% interest at the end of 2015.
 - With Vigo's Alcoa connections and relationship, the company could use this leverage to open up the proposed UMI Seven Hills mine in Warrick County, Indiana where Alcoa controls the meat of the reserve.
 - UMI was planning to open up the High Point surface mine in 2016. White Stallion could easily step in to fill UMI's shoes.
- Finally, Blankenberger Brothers hope to open the Opportunity deep mine in southern Indiana; however, they have the problem on where to wash the coal as Hallador/Sunrise is unlikely to allow Blankenberger to use their Prosperity prep plant located a short distance away.
 - If White Stallion picks up any of the above properties, the company could easily truck the Opportunity coal to one of the other prep plants currently controlled by Peabody or Blackhawk.

While considered long shots, other acquisition possibilities include White Stallion taking over some of the smaller Western Kentucky coal producers, namely Rhino's Pennyrile/Riveredge operations, West Kentucky Minerals and/or Paringa/Hartshorne's proposed Buck Creek mine. Also, Peabody's southeastern Illinois operations might make sense.

All told, the rest of 2016 should be an interesting time for Illinois Basin coal producers.

Hanou Energy recently updated its strategic study on the Illinois Basin. Available now, Hanou's *Illinois Basin Coal Supply, Demand and Price Trends 2016–2035* study is regarded as the best analysis of the basin available. Hanou Energy Consulting, LLC is owned and operated by John T. Hanou. Mr. Hanou can be reached by phone at 410-279-3818 or via email jthanou@hanouenergy.com. His website is <http://www.hanouenergy.com>.

