

HALLADOR ENERGY CO  
Form 10-Q  
November 06, 2013

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended: September 30, 2013

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

Commission file number: 001-3473

“COAL KEEPS YOUR LIGHTS ON”

“COAL KEEPS YOUR LIGHTS ON”

HALLADOR ENERGY COMPANY  
(www.halladorenergy.com)

Colorado  
(State of incorporation)

84-1014610  
(IRS Employer Identification No.)

1660 Lincoln Street, Suite 2700, Denver, Colorado  
(Address of principal executive offices)

80264-2701  
(Zip Code)

Issuer's telephone number: 303.839.5504

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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Non-accelerated filer (do not check if a small reporting company)       Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

On November 5, 2013 we had 28,618,000 shares outstanding.

## PART I - Financial Information

## ITEM 1. FINANCIAL STATEMENTS

Consolidated Balance Sheet  
(in thousands, except per share data)

|                                                                                                              | September<br>30, 2013 | December<br>31, 2012 |
|--------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
| <b>ASSETS</b>                                                                                                |                       |                      |
| Current assets:                                                                                              |                       |                      |
| Cash and cash equivalents                                                                                    | \$13,713              | \$21,888             |
| Accounts receivable                                                                                          | 9,904                 | 8,127                |
| Prepaid income taxes                                                                                         | 3,591                 |                      |
| Coal inventory                                                                                               | 4,086                 | 2,342                |
| Parts and supply inventory                                                                                   | 2,645                 | 2,264                |
| Other                                                                                                        | 403                   | 242                  |
| Total current assets                                                                                         | 34,342                | 34,863               |
| Coal properties, at cost:                                                                                    |                       |                      |
| Land and mineral rights                                                                                      | 23,315                | 22,705               |
| Buildings and equipment                                                                                      | 144,304               | 131,566              |
| Mine development                                                                                             | 81,998                | 71,046               |
|                                                                                                              | 249,617               | 225,317              |
| Less - accumulated DD&A                                                                                      | (72,418 )             | (58,479 )            |
|                                                                                                              | 177,199               | 166,838              |
| Investment in Savoy                                                                                          | 15,401                | 12,230               |
| Investment in Sunrise Energy                                                                                 | 4,488                 | 3,969                |
| Other assets (Note 6)                                                                                        | 15,191                | 11,307               |
|                                                                                                              | \$246,621             | \$229,207            |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                  |                       |                      |
| Current liabilities:                                                                                         |                       |                      |
| Accounts payable and accrued liabilities                                                                     | \$10,111              | \$9,386              |
| Income taxes                                                                                                 |                       | 1,660                |
| Total current liabilities                                                                                    | 10,111                | 11,046               |
| Long-term liabilities:                                                                                       |                       |                      |
| Bank debt                                                                                                    | 11,400                | 11,400               |
| Deferred income taxes                                                                                        | 40,778                | 35,884               |
| Asset retirement obligations                                                                                 | 2,709                 | 2,573                |
| Other                                                                                                        | 1,926                 | 6,295                |
| Total long-term liabilities                                                                                  | 56,813                | 56,152               |
| Total liabilities                                                                                            | 66,924                | 67,198               |
| Commitments and contingencies                                                                                |                       |                      |
| Stockholders' equity:                                                                                        |                       |                      |
| Preferred Stock, \$.10 par value, 10,000 shares authorized; none issued                                      |                       |                      |
| Common stock, \$.01 par value, 100,000 shares authorized; 28,618 and 28,529 shares outstanding, respectively | 286                   | 285                  |
| Additional paid-in capital                                                                                   | 87,924                | 86,576               |
| Retained earnings                                                                                            | 91,264                | 75,118               |
| Accumulated other comprehensive income                                                                       | 223                   | 30                   |
| Total stockholders' equity                                                                                   | 179,697               | 162,009              |
|                                                                                                              | \$246,621             | \$229,207            |

See accompanying notes.

Consolidated Statement of Comprehensive Income  
(in thousands, except per share data)

|                                      | Nine months ended<br>September 30, |           | Three months ended<br>September 30, |           |
|--------------------------------------|------------------------------------|-----------|-------------------------------------|-----------|
|                                      | 2013                               | 2012      | 2013                                | 2012      |
| Revenue:                             |                                    |           |                                     |           |
| Coal sales                           | \$ 103,129                         | \$ 98,259 | \$ 34,985                           | \$ 36,152 |
| Equity income - Savoy                | 4,495                              | 2,999     | 2,048                               | 501       |
| Equity income - Sunrise Energy       | 519                                | 49        | 172                                 | 17        |
| Liability extinguishment (Note 9)    | 4,300                              |           |                                     |           |
| Other (Note 6)                       | 3,615                              | 4,938     | 455                                 | 444       |
|                                      | 116,058                            | 106,245   | 37,660                              | 37,114    |
| Costs and expenses:                  |                                    |           |                                     |           |
| Operating costs and expenses         | 68,959                             | 57,994    | 23,407                              | 20,745    |
| DD&A                                 | 13,982                             | 11,895    | 4,772                               | 4,145     |
| Coal exploration costs               | 1,725                              | 1,900     | 739                                 | 778       |
| SG&A                                 | 5,586                              | 5,607     | 1,936                               | 1,947     |
| Interest                             | 1,131                              | 757       | 308                                 | 229       |
|                                      | 91,383                             | 78,153    | 31,162                              | 27,844    |
| Income before income taxes           | 24,675                             | 28,092    | 6,498                               | 9,270     |
| Less income taxes:                   |                                    |           |                                     |           |
| Current                              | 1,297                              | 5,607     | (609)                               | 1,731     |
| Deferred                             | 4,915                              | 3,684     | 2,277                               | 1,349     |
|                                      | 6,212                              | 9,291     | 1,668                               | 3,080     |
| Net income (1) (2)                   | \$ 18,463                          | \$ 18,801 | \$ 4,830                            | \$ 6,190  |
| Net income per share:                |                                    |           |                                     |           |
| Basic                                | \$ 0.65                            | \$ 0.66   | \$ 0.17                             | \$ 0.22   |
| Diluted                              | \$ 0.64                            | \$ 0.65   | \$ 0.17                             | \$ 0.22   |
| Weighted average shares outstanding: |                                    |           |                                     |           |
| Basic                                | 28,580                             | 28,316    | 28,607                              | 28,324    |
| Diluted                              | 28,851                             | 28,791    | 28,838                              | 28,760    |

(1) There is no material difference between net income and comprehensive income.

(2) See MD&A – page 19, for pro-forma amounts excluding the \$4.3 million in liability extinguishment.

See accompanying notes.

Consolidated Condensed Statement of Cash Flows  
(in thousands)

|                                                | Nine months ended<br>September 30, |           |
|------------------------------------------------|------------------------------------|-----------|
|                                                | 2013                               | 2012      |
| Operating activities:                          |                                    |           |
| Cash provided by operating activities          | \$20,310                           | \$29,552  |
| Investing activities:                          |                                    |           |
| Capital expenditures for coal properties       | (23,558 )                          | (9,222 )  |
| Ohio River Terminal                            | (2,866 )                           |           |
| Purchase of marketable securities              |                                    | (1,291 )  |
| Other                                          | 256                                | (423 )    |
| Cash used in investing activities              | (26,168 )                          | (10,936 ) |
| Financing activities:                          |                                    |           |
| Payments to bank                               |                                    | (7,500 )  |
| Dividends                                      | (2,317 )                           | (18,721 ) |
| Other                                          |                                    | 276       |
| Cash used in financing activities              | (2,317 )                           | (25,945 ) |
| Decrease in cash and cash equivalents          | (8,175 )                           | (7,329 )  |
| Cash and cash equivalents, beginning of period | 21,888                             | 37,542    |
| Cash and cash equivalents, end of period       | \$13,713                           | \$30,213  |

See accompanying notes.

Consolidated Statement of Stockholders' Equity  
(in thousands)

|                             | Shares | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | AOCI* | Total     |
|-----------------------------|--------|-----------------|----------------------------------|----------------------|-------|-----------|
| Balance, January 1, 2013    | 28,529 | \$285           | \$86,576                         | \$75,118             | \$30  | \$162,009 |
| Stock-based compensation    | 13     |                 | 1,724                            |                      |       | 1,724     |
| Other                       | 76     | 1               | (376 )                           |                      | 193   | (182 )    |
| Dividends                   |        |                 |                                  | (2,317 )             |       | (2,317 )  |
| Net income                  |        |                 |                                  | 18,463               |       | 18,463    |
| Balance, September 30, 2013 | 28,618 | \$286           | \$87,924                         | \$91,264             | \$223 | \$179,697 |

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\*Accumulated Other Comprehensive Income

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) General Business

The interim financial data is unaudited; however, in our opinion, it includes all adjustments, consisting only of normal recurring adjustments necessary for a fair statement of the results for the interim periods. The financial statements included herein have been prepared pursuant to the SEC's rules and regulations; accordingly, certain information and footnote disclosures normally included in GAAP financial statements have been condensed or omitted.

The results of operations and cash flows for the nine months ended September 30, 2013 are not necessarily indicative of the results to be expected for future quarters or for the year ending December 31, 2013. To maintain consistency and comparability, certain 2012 amounts have been reclassified to conform to the 2013 presentation.

Our organization and business, the accounting policies we follow and other information, are contained in the notes to our consolidated financial statements filed as part of our 2012 Form 10-K. This quarterly report should be read in conjunction with such 10-K.

The consolidated financial statements include the accounts of Hallador Energy Company (the Company) and its wholly-owned subsidiary Sunrise Coal, LLC (Sunrise). All significant intercompany accounts and transactions have been eliminated. We are engaged in the production of steam coal from mines located in western Indiana. We own a 45% equity interest in Savoy Energy, L.P., a private oil and gas company which has operations in Michigan and a 50% interest in Sunrise Energy, LLC, a private entity engaged in natgas operations in the same vicinity as our coal mines.

(2) Bill and Hold

Early in 2012 two of our customers advised us that their coal stockpiles were increasing and asked us to consider storing their coal on our property. In April 2012 we entered into a storage agreement with one customer to store 250,000 tons for a minimum of one year and up to a maximum of two years. In June 2012 we entered into a similar storage agreement with the second customer. During the 2013 second quarter we increased the storage agreement by 50,000 tons for both customers. We continue to sell the coal as contracted to these customers. The risks and rewards of ownership pass from us to them as coal is placed into segregated storage. We are paid a nominal storage fee in addition to our contracted price at the time the coal is placed in storage. During the nine months ended September 30, 2013, 145,000 tons were placed in storage for the first customer and nil for the second customer. We have recognized \$7.3 million in revenue from these "bill and hold" arrangements for the nine months ended September 30, 2013. No tons were placed in storage during the 2013 third quarter. As of September 30, 2013, we have in storage 300,000 tons for the first customer and 250,000 tons for the second. There were no changes in payment terms with our customers and, as of October 31, 2013, all receivables outstanding from these two customers at September 30, 2013 had been collected.

(3) Bank Debt

During October 2012, Sunrise, our wholly-owned subsidiary, entered into a new credit agreement (the "Credit Agreement") with PNC Bank, as administrative agent, and the lenders named therein. The Credit Agreement replaces the previous credit agreement we had with PNC. Closing costs on this new facility were about \$1.5 million which were deferred and are being amortized over five years. Outstanding debt at September 30, 2013 was \$11.4 million.



The Credit Agreement provides for a \$165 million senior secured revolving credit facility. The facility matures in five years. The facility is collateralized by substantially all of Sunrise's assets and we are the guarantor. We will draw on the facility as needed for development of our new projects in Illinois and Indiana.

All borrowings under the Credit Agreement bear interest, at LIBOR plus 2% if the leverage ratio is less than 1.5X (which currently it is), LIBOR plus 2.5% if the leverage ratio is over 1.5 but less than 2X and at LIBOR plus 3% if the leverage ratio is over 2X. The maximum leverage ratio is 2.75X. The leverage ratio is equal to funded debt/EBITDA. The annual commitment fee is 50 BPS but falls to 37.5 BPS if we borrow more than 33% of the facility. The maximum that we can currently borrow is an additional \$120 million due to our current covenants. The Credit Agreement also imposes certain other customary restrictions and covenants as well as certain milestones we must meet in order to draw down the full amount.

(4) Investment in Savoy

We own a 45% interest in Savoy Energy, L.P., a private company engaged in the oil and gas business primarily in the state of Michigan. Savoy uses the successful efforts method of accounting. We account for our interest using the equity method of accounting.

Below (in thousands) to the 100% is a condensed balance sheet at September 30, 2013, and a condensed statement of operations for the nine months ended September 30, 2013 and 2012.

Condensed Balance Sheet

|                             | 2013     |
|-----------------------------|----------|
| Current assets              | \$25,651 |
| Oil and gas properties, net | 24,156   |
|                             | \$49,807 |
| Total liabilities           | \$14,354 |
| Partners' capital           | 35,453   |
|                             | \$49,807 |

Condensed Statement of Operations

|            | 2013      | 2012      |
|------------|-----------|-----------|
| Revenue    | \$29,444  | \$24,585  |
| Expenses   | (19,471 ) | (17,931 ) |
| Net income | \$9,973   | \$6,654   |

(5) Investment in Sunrise Energy

We own a 50% interest in Sunrise Energy, LLC which owns gas reserves and gathering equipment with plans to develop and operate such reserves. Sunrise Energy also plans to develop and explore for coal-bed methane gas reserves on or near our underground coal reserves. They use the successful efforts method of accounting. We account for our interest using the equity method of accounting.

Below (in thousands) to the 100% is a condensed balance sheet at September 30, 2013, and a condensed statement of operations for the nine months ended September 30, 2013 and 2012.

Condensed Balance Sheet

|                             | 2013    |
|-----------------------------|---------|
| Current assets              | \$2,849 |
| Oil and gas properties, net | 6,777   |
|                             | \$9,626 |
| Total liabilities           | \$661   |
| Members' capital            | 8,965   |
|                             | \$9,626 |

Condensed Statement of Operations

|            | 2013     | 2012     |
|------------|----------|----------|
| Revenue    | \$ 2,551 | \$ 1,671 |
| Expenses   | (1,513 ) | (1,573 ) |
| Net income | \$ 1,038 | \$ 98    |

## (6) Other Long-Term Assets and Other Income

|                                                                              | September 30,<br>2013 | December 31,<br>2012 |
|------------------------------------------------------------------------------|-----------------------|----------------------|
| Long-term assets:                                                            |                       |                      |
| Advance coal royalties                                                       | \$ 3,936              | \$ 3,324             |
| Deferred financing costs, net                                                | 1,270                 | 1,494                |
| Marketable equity securities available for sale, at fair value (restricted)* | 3,601                 | 3,548                |
| Ohio River Terminal (see Note 8)                                             | 2,881                 |                      |
| Miscellaneous                                                                | 3,503                 | 2,941                |
|                                                                              | \$ 15,191             | \$ 11,307            |

\*Held by Sunrise Indemnity, Inc., our wholly-owned captive insurance company.

|                      | Nine months ended<br>September 30, |          |
|----------------------|------------------------------------|----------|
|                      | 2013                               | 2012     |
| Other income:        |                                    |          |
| MSHA reimbursements* | \$ 2,053                           | \$ 4,236 |
| Coal storage fees    | 964                                | 127      |
| Miscellaneous        | 598                                | 575      |
|                      | \$ 3,615                           | \$ 4,938 |

\*See "MSHA Reimbursements" on page 16.

## (7) Self Insurance

We continue to self-insure on about \$110 million (historical cost) of our underground mining equipment. We feel comfortable with this decision as such equipment is allocated among four mining units spread over 12 miles.

## (8) Ohio River Terminal

On May 31, 2013 we purchased for \$2.8 million a multi-commodity truck/barge terminal. Over 17 acres of secured area is available. The terminal is at mile point 743.8 on the Indiana bank of the Ohio River near the William Natcher Bridge between Rockport and Grandview, Indiana. Currently the dock will handle third party commodities. In the long term, we plan to ship coal through the dock. The terminal is in close proximity to the NS railroad, the CSX railroad and American Electric Power's Rockport generating power plant. We do not expect revenue from this asset until late 2014.

(9) Liability Extinguishment

During the 2013 second quarter we concluded that an approximate \$4.3 million liability we recorded during 2006 upon the purchase of Sunrise relating to a terminated coal contract was no longer required. The amount had no effect on cash flows.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders  
Hallador Energy Company  
Denver, Colorado

We have reviewed the accompanying condensed consolidated balance sheet of Hallador Energy Company and subsidiaries (the "Company") as of September 30, 2013 and the related condensed consolidated statements of comprehensive income, cash flows, and stockholders' equity for the three and nine month periods ended September 30, 2013 and September 30, 2012. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2012, and the related consolidated statements of comprehensive income, cash flows, and stockholders' equity for the year then ended (not presented herein); and in our report dated March 6, 2013, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2012, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

/s/ EKS&H LLLP

November 5, 2013  
Denver, Colorado

## ITEM 2. MD&A

THE FOLLOWING DISCUSSION UPDATES THE MD&A SECTION OF OUR 2012 FORM 10-K AND SHOULD BE READ IN CONJUNCTION THEREWITH.

Our consolidated financial statements should be read in conjunction with this discussion.

### Overview

The largest portion of our business is devoted to coal mining in the state of Indiana through Sunrise Coal, LLC (a wholly-owned subsidiary) serving the electric power generation industry. We also own a 45% equity interest in Savoy Energy, L.P., a private oil and gas exploration company with operations in Michigan and a 50% interest in Sunrise Energy, LLC, a private gas exploration company with operations in Indiana. We account for our investments in Savoy and Sunrise Energy using the equity method.

Our largest contributor to revenue and earnings is the Carlisle underground coal mine located in western Indiana, about 30 miles south of Terre Haute. Over 81% of our coal sales are to customers with large scrubbed coal-fired power plants in the state of Indiana. Our mines and coal reserves are strategically located in close proximity to our primary customers, which reduces transportation costs and thus provides us with a competitive advantage with respect to those customers; our closest customer's plant is 13 miles away and the farthest Indiana customer is 100 miles away. We have access to our primary customers directly through either the CSX Corporation (NYSE: CSX) or through the Indiana Rail Road, majority owned by the CSX.

Our customers have made or announced plans to make significant investments in pollution control equipment at their plants. Due to these large investments none of these plants are scheduled for retirement; thus we expect to be supplying these plants for many years. It is not economical for the smaller, older, less efficient power plants to install scrubbers and other pollution control devices; accordingly, those type plants most likely will be retired in the coming years.

### Headwinds and Tailwinds Affecting Our Company

#### Headwinds

1. Competition from low-priced natgas/mild winters and summers
2. The Obama's administration dislike of burning coal to generate cheap and reliable electricity
3. Onerous environmental regulations and overzealous mislead environmentalists
4. Competition from new mines opening in the Illinois Basin
5. Slow economy

## Tailwinds

1. Major shift in utilities replacing Central Appalachia (CAAP) coal with Illinois Basin (ILB) coal
2. More power plants are installing scrubbers enabling them to burn high-sulfur coal
3. Our coal can compete with natgas down to \$2.75/Mcf
4. Coal is the fastest growing fuel worldwide

For 2013 we will continue to focus on maintaining our low cost structure and leasing and permitting new reserves.

We see an increasing demand for coal produced in the ILB in the future. Demand for coal produced in the ILB is expected to grow at a rate faster than overall U.S. coal demand due to ILB coal having higher heating content than Powder River Basin (PRB) and lower cost structure than CAAP coal. Many utilities are scrubbing to meet emission requirements beyond just sulfur compliance, even utilities that burn exclusively PRB. Once scrubbed, those utilities are usually capable of burning ILB coal. It is this trend of new scrubber installations coupled with rising CAAP cost structure that is leading to increased switching from CAAP coal to ILB coal. Some fuel switching will also occur from PRB to ILB in newly scrubbed utilities located near ILB coal supply.

The table below illustrates the backlog of our current coal contracts:

| Period               | Contracted<br>Tons | Average<br>Price |
|----------------------|--------------------|------------------|
| Last quarter of 2013 | 825,000            | \$43.99          |
| Year 2014            | 3,145,000          | 42.96            |
| Year 2015            | 1,200,000          | 41.40            |
| Year 2016            | 338,000            | 40.57            |

## Current Projects

All of our underground coal reserves are high sulfur (4.5 - 6#) with a BTU content in the 11,500 range. As discussed below, the Ace surface mine is low sulfur (1.5#) with a BTU content of 11,400. We have no met coal reserves, only steam (thermal) coal reserves. Below is a discussion of our current projects preceded by a table of our coal reserves.

## Reserve Table - Controlled Tons (in millions):

|                               | Annual<br>Capacity | Year-End Reserves |                  |       |        |                  |       |
|-------------------------------|--------------------|-------------------|------------------|-------|--------|------------------|-------|
|                               |                    | Proven            | 2012<br>Probable | Total | Proven | 2011<br>Probable | Total |
| Carlisle (assigned)           | 3.4                | 34.2              | 9.3              | 43.5  | 36.0   | 10               | 46.0  |
| Ace-in-the-Hole<br>(assigned) | 0.5                | 3.1               |                  | 3.1   |        |                  |       |
| Bulldog (unassigned)          |                    | 19.5              | 16.1             | 35.6  | 16.3   | 16               | 32.3  |
| Russellville (unassigned)     |                    | 15.5              | 13.9             | 29.4  |        |                  |       |
| Total                         | 3.9                | 72.3              | 39.3             | 111.6 | 52.3   | 26               | 78.3  |
| Assigned                      |                    |                   |                  | 46.6  |        |                  | 46.0  |
| Unassigned                    |                    |                   |                  | 65.0  |        |                  | 32.3  |
|                               |                    |                   |                  | 111.6 |        |                  | 78.3  |

## Active Reserve (assigned) - Carlisle Mine (underground)

Our coal reserves at December 31, 2012 assigned to the Carlisle Mine were 43.5 million tons compared to beginning of year reserves of 46 million tons. Primarily through the execution of new leases, our reserve additions of 1.2 million tons replaced 40% of our 2012 production of 3 million tons. We reduced our reserves by 700,000 tons due to revised mining plans. The mine is located near the town of Carlisle, Indiana in Sullivan County and became operational in January 2007. The coal is accessed with a slope to a depth of 340'. The coal is mined in the Indiana Coal V seam which is highly volatile bituminous coal and is the most economically significant coal in Indiana. The Indiana V seam has been extensively mined by underground and surface methods in the general area. The coal thickness in the project area is 4' to 7'.

The mine has several advantages as listed below:

- SO<sub>2</sub> - Historically, Carlisle has guaranteed a 6# SO<sub>2</sub> product; however, with the addition of the Ace-in-the-Hole Mine we can blend lower sulfur coal with Carlisle coal and guarantee a mid-sulfur product which should command a higher price and increase our customer base. Few mines in the ILB have the ability to offer their customers various ranges of SO<sub>2</sub>. Carlisle has supplied coal to 11 different power plants.
- Chlorine - Our reserves have lower chlorine (<0.10%) than average ILB reserves of 0.22%. Much of the ILB's new production is located in Illinois and possesses chlorine content in excess of .30%. The relatively low chlorine content of our reserves is attractive to buyers given their desire to limit the corrosive effects of chlorine in their power plants.
- Transportation - Carlisle has a double 100 rail car loop facility and a four-hour certified batch load-out facility connected to the CSX railroad. The Indiana Rail Road (INRD) also has limited running rights on the CSX to our mine. Dual rail access gives us a freight advantage to more customers. Long term, the CSX anticipates our coal being shipped to southeast markets via their railroad. We sell our coal FOB the mine and substantially all of our coal is transported by rail. However, on occasion we have shipped to three power plants via truck.





New Mine (assigned) - Ace-in-the-Hole Mine (Ace) (surface)

In November 2012 we purchased for \$6 million permitted fee coal reserves, coal leases and surface properties near Clay City, Indiana in Clay County. The Ace mine is 42 road miles northeast of the Carlisle Mine. We control 3.1 million tons of proven coal reserves of which we own 1.2 million tons in fee. We will mine two primary seams of low sulfur coal which make up 2.9 million of the 3.1 million tons controlled. Both of the primary seams are low sulfur (2# SO<sub>2</sub>). Mine development began in late December 2012 and we began shipping coal in late August 2013. We truck low sulfur coal from Ace to Carlisle to blend with Carlisle's high sulfur coal. Many utilities in the southeastern U.S. have scrubbers with lower sulfur limits (4# SO<sub>2</sub>) which cannot accept the higher sulfur contents of the ILB (6# SO<sub>2</sub>). Blending Carlisle coal to a lower sulfur specification will enable us to market Carlisle coal to more customers. We currently have a contract at Carlisle which requires us to blend coal from Ace to meet sulfur specifications. We also expect to ship low sulfur coal from Ace direct to unscrubbed customers that require low sulfur (2# SO<sub>2</sub>). We expect the maximum capacity of Ace to be 500,000 tons annually. Ace currently has 20% of its capacity contracted for 2013 and 2014. We have invested \$18 million in minerals, land, equipment and development as of September 30, 2013 and we anticipate investing an additional \$1 million in equipment and development for the remainder of 2013.

During the third quarter we sold 17,000 high sulfur and 17,000 low sulfur tons from Ace. These sales which approximated \$1.4 million were recorded as a reduction to the property accounts as the Ace mine was in the development stage. We expect the Ace mine to transition to the production stage in November.

New Reserve (unassigned) - Bulldog Mine (underground)

We have leased roughly 19,300 acres in Vermillion County, Illinois near the village of Allerton. Based on our reserve estimates we currently control 35.6 million tons of coal reserves. A considerable amount of our leased acres has yet to receive any exploratory drilling, thus we anticipate our controlled reserves to grow as we continue drilling in 2013. The permitting process was started in the summer of 2011 and we filed the formal permit with the state of Illinois and the appropriate Federal regulators during June 2012. We currently expect to receive an approved mining permit in the first or second quarter of 2014.

Full-scale mine development will not commence until we have a sales commitment.

New Reserve (unassigned) - Russellville (underground)

We have leased roughly 11,000 acres in Lawrence County, Illinois near the village of Russellville. Based on our reserve estimates we currently control 29.4 million tons of coal reserves. The permitting process will start this fall and we anticipate filing the formal permit with the appropriate regulators during the second quarter of 2014. This reserve is located about 20 miles southwest of the Carlisle Mine. Our initial testing indicates that this reserve's minability and coal quality is very similar to the Carlisle reserve.

Unassigned reserves represent coal reserves that would require new mineshafts, mining equipment, and plant facilities before operations could begin on the property. The primary reason for this distinction is to inform investors which coal reserves will require substantial capital expenditures before production can begin.

## Ohio River Terminal

On May 31, 2013 we purchased for \$2.8 million a multi-commodity truck/barge terminal. Over 17 acres of secured area is available. The terminal is at mile point 743.8 on the Indiana bank of the Ohio River near the William Natcher Bridge between Rockport and Grandview, Indiana. Currently the dock will handle third party commodities. In the long term, we plan to ship coal through the dock. The terminal is in close proximity to the NS railroad, the CSX railroad and American Electric Power's Rockport generating power plant. We do not expect revenue from this asset until late 2014.

## MSHA Reimbursements

Some of our coal contracts allow us to pass on certain costs incurred resulting from changes in costs to comply with mandates issued by MSHA or other government agencies. We do not recognize any revenue until customers have notified us that they accept the charges.

We submitted our incurred costs for 2010 in September 2011 for \$4.2 million. One of the customers agreed with our analysis and paid \$2.3 million in February 2012 and the other agreed with our analysis in May 2012. Accordingly, \$2.3 million was recorded in the first quarter and the other \$1.9 million was recorded in the second quarter of 2012.

We submitted our incurred costs for 2011 in October 2012 for \$4.2 million. One of the customers agreed with our analysis, paid \$2 million in February 2013 and was recorded in the first quarter. We are in discussions with the other customer. We expect to submit our 2012 costs by December 31, 2013.

## Liquidity and Capital Resources

We do not anticipate any liquidity issues in the foreseeable future. We plan to fund future projects through a combination of draws from our revolver and cash from operations.

We have no material off-balance sheet arrangements.

## Capital Expenditures (capex)

For the first nine months of 2013 our capex was about \$23.5 million allocated as follows:

|                                   | in 000's |
|-----------------------------------|----------|
| Carlisle - maintenance capex      | \$11,881 |
| Carlisle - expansion/improvements | 2,782    |
| Carlisle - land and minerals      | 333      |
| Ace - mine development            | 4,262    |
| Ace - surface equipment           | 4,733    |
| Ace - land and minerals           | 102      |
| Other projects                    | 208      |
| Items accrued for but not paid    | (743 )   |
| Capex per the Cash Flow Statement | \$23,558 |

For the remainder of the year we expect maintenance capex for Carlisle to be \$2.5 million. For the Ace surface mine we expect capex to be \$1 million and we expect maintenance capex to be \$100 thousand. Capex for the Ohio River Terminal is expected to be \$100 thousand.

#### Inauguration of Regular Dividends

On April 5, 2013 our Board of Directors approved the adoption of a regular quarterly dividend policy and authorized a dividend of \$.04, paid on May 15, 2013. In addition to the August \$.04 dividend, on October 15, our Board authorized a \$.04 dividend payable November 15, 2013. In the past we only declared special dividends.

#### Results of Operations

Quarterly coal sales, cost and margin data (in 000's):

|                   | 4th 2012  | 1st 2013  | 2nd 2013  | 3rd 2013  | T4Qs*      |
|-------------------|-----------|-----------|-----------|-----------|------------|
| Tons sold         | 752       | 840       | 774       | 817       | 3,183      |
| Coal sales        | \$ 33,111 | \$ 33,995 | \$ 34,149 | \$ 34,985 | \$ 136,240 |
| Average price/ton | 44.03     | 40.47     | 44.12     | 42.82     | 42.80      |
| Operating costs   | 21,745    | 23,290    | 22,262    | 23,407    | 90,704     |
| Average cost/ton  | 28.92     | 27.73     | 28.76     | 28.65     | 28.50      |
| Margin            | 11,366    | 10,705    | 11,887    | 11,578    | 45,536     |
| Margin/ton        | 15.11     | 12.74     | 15.36     | 14.17     | 14.31      |
| Capex             | 16,987    | 8,604     | 6,174     | 8,780     | 40,545     |
|                   | 4th 2011  | 1st 2012  | 2nd 2012  | 3rd 2012  | T4Qs*      |
| Tons sold         | 921       | 701       | 743       | 810       | 3,175      |
| Coal sales        | \$ 37,723 | \$ 29,620 | \$ 32,487 | \$ 36,152 | \$ 135,982 |
| Average price/ton | 40.96     | 42.25     | 43.72     | 44.63     | 42.83      |
| Operating costs   | 21,129    | 18,433    | 18,816    | 20,745    | 79,123     |
| Average cost/ton  | 22.94     | 26.30     | 25.32     | 25.61     | 24.92      |
| Margin            | 16,594    | 11,187    | 13,671    | 15,407    | 56,859     |
| Margin/ton        | 18.02     | 15.96     | 18.40     | 19.02     | 17.91      |
| Capex             | 15,970    | 2,372     | 1,857     | 4,993     | 25,192     |

\*T4Qs= trailing four quarters.

Capex in the fourth quarter of 2012 includes \$9 million for the purchase of the Ace surface mine and another \$4 million for land at Bulldog and Carlisle. Capex in the fourth quarter of 2011 includes \$9 million for the purchase of land for Bulldog.

#### First Nine Months 2013 vs. 2012

For the first nine months of 2013, we sold 2,431,000 tons at an average price of \$42.42/ton. For the first nine months of 2012, we sold 2,255,000 tons at an average price of \$43.57/ton. The lower average price is due to the mix of our various contracts. We expect our coal sales for the last quarter of 2013 to be circa 825 thousand tons with an average price of \$43.99/ton as set forth in the table on page 13.



Operating costs and expenses averaged \$28.37/ton in 2013 compared to \$25.72 in 2012. The increase was due primarily to poor mining conditions in the months of January, February, April and May. Additionally, costs increased due to below normal wash plant recovery (60-63%) in the months of May and August. We anticipate wash plant recovery's remaining in the upper 60s in the 4th quarter 2013, before returning to our historical recovery of 72%. Thus, we expect costs to average \$27-\$28/ton for the remainder of 2013.

Our Indiana employees totaled 374 at September 30, 2013 compared to 327 at September 30, 2012. Part of the employee increase (19) was due to the opening of the new Ace-in-the-Hole Mine in January of this year.

Three Months Ended September 30, 2013 vs. 2012

For the third quarter of 2013, we sold 817,000 tons at an average price of \$42.82/ton. For the third quarter of 2012, we sold 810,000 tons at an average price of \$44.63/ton.

Operating costs and expenses averaged \$28.65/ton in 2013 compared to \$25.61 in 2012. The higher costs are discussed above.

We expect our margins for the remainder of the year to be in the \$16-\$17/ton range.

Other Analyses of Results of Operations

Savoy's activity is discussed below.

The increase in equity income from Sunrise Energy was due to higher natgas prices.

The increase in DD&A was due to additions to coal properties.

Income Taxes

For the remainder of 2013 we expect our effective tax rate to be 25%. We estimate that 25% of such rate will be for taxes currently due. The decrease in the 2013 effective rate compared to the 2012 rate was due to percentage depletion for income tax purposes in excess of basis. We anticipate our effective tax rate going forward to remain in the mid-20s.

Net Income

During the 2013 second quarter we concluded that an approximate \$4.3 million liability we recorded during 2006 upon the purchase of Sunrise relating to a terminated coal contract was no longer required. The amount had no effect on cash flows.

The table below reflects net income and net income per share excluding the \$4.3 million for the nine months ended September 30, 2013:

|                                                                                                |          |
|------------------------------------------------------------------------------------------------|----------|
| Net income excluding the \$4.3 million liability extinguishment                                | \$15,281 |
| Net income per share excluding the \$4.3 million liability extinguishment<br>Basic and diluted | \$0.53   |

#### 45% Ownership in Savoy

Savoy operates almost exclusively in Michigan. They have an interest in the Trenton-Black River Play in southern Michigan. They hold 200,000 gross acres (about 100,000 net) in Hillsdale and Lenawee counties. Drilling locations in this play are identified based on the evaluation of extensive 3-D seismic shoots. Savoy operates their own wells and their working interest averages between 40% and 50% and their net revenue interest averages between 34% and 42%. Savoy's net daily oil production currently averages about 1,100 barrels of oil. Oil and liquids make up 98% of their oil and gas revenue.

The first nine months of 2013 may or may not be indicative for all of 2013 due to (i) the uncertainty of the outcome of Savoy's drilling activity; (ii) the extent of their seismic activity (G&G costs) and (iii) the sustainability of these high oil prices. Current oil prices are in excess of \$95/barrel. Savoy does not have any oil price hedges in place.

The table below illustrates the growth in Savoy (to the 100%) comparing the first nine months of 2013 to 2012 (financial statement data in thousands):

|                                               | 2013     | 2012     |
|-----------------------------------------------|----------|----------|
| Revenue:                                      |          |          |
| Oil                                           | \$24,081 | \$19,730 |
| NGLs (natural gas liquids)                    | 658      | 679      |
| Natgas                                        | 549      | 267      |
| Contract drilling                             | 3,168    | 3,552    |
| Other                                         | 988      | 357      |
| Total revenue                                 | 29,444   | 24,585   |
| Costs and expenses:                           |          |          |
| LOE (lease operating expenses)                | 4,060    | 3,451    |
| Contract drilling costs                       | 2,296    | 2,578    |
| DD&A (depreciation, depletion & amortization) | 4,634    | 2,843    |
| G&G (geological and geophysical) costs        | 2,278    | 2,689    |
| Dry hole costs                                | 1,408    | 2,527    |
| Impairment of unproved properties             | 3,472    | 2,950    |
| Other exploration costs                       | 275      | 195      |
| G&A (general & administrative)                | 1,048    | 698      |
| Total expenses                                | 19,471   | 17,931   |
| Net income                                    | \$9,973  | \$6,654  |

The information below is not in thousands:

|                                               |         |         |
|-----------------------------------------------|---------|---------|
| Oil production – barrels                      | 253,070 | 218,350 |
| NGLs production – barrels                     | 17,357  | 13,995  |
| Natgas production – Mcf                       | 156,328 | 97,240  |
| Average oil prices/barrel for the nine months | \$95.18 | \$90.36 |
| Average NGL prices/barrel for the nine months | \$37.90 | \$48.52 |
| Average natgas prices/Mcf for the nine months | \$3.52  | \$2.75  |

#### New Accounting Pronouncements

None of the recent FASB pronouncements will have any material effect on us.

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Smaller reporting companies are not required to provide the information required by this item.



#### ITEM 4T. CONTROLS AND PROCEDURES

##### Disclosure Controls

We maintain a system of disclosure controls and procedures that are designed for the purposes of ensuring that information required to be disclosed in our SEC reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our CEO and CFO as appropriate to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our CEO and CFO concluded that our disclosure controls and procedures are effective for the purposes discussed above.

There has been no change in our internal control over financial reporting during the quarter ended September 30, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

#### PART II - Other Information

#### ITEM 4. MINE SAFETY DISCLOSURE

See Exhibit 95 to this Form 10-Q for a listing of our mine safety violations.

#### ITEM 5. OTHER INFORMATION

##### 2014 Annual Meeting

Our annual shareholders' meeting is scheduled for Thursday morning, April 24, 2014 in New York City at a yet to be determined location near mid-town Manhattan.

##### Yorktown Distribution

As previously disclosed, Yorktown Energy Partners and its affiliated partnerships (Yorktown) have made eight distributions to their numerous partners totaling 6 million (750,000 per distribution) shares since May 2011. In the past these distributions were made soon after we filed our Form 10-Qs and Form 10-Ks. Currently they own 9.7 million shares of our stock representing about 34% of total shares outstanding.

We have been informed by Yorktown that they have not made any determination as to the disposition of their remaining Hallador stock. While we do not know Yorktown's ultimate strategy to realize the value of their Hallador investment for their partners, we expect that over time such distributions will improve our liquidity and float.

If and when we are advised of another Yorktown distribution, we will timely report such on a Form 8-K.

ITEM 6. EXHIBITS

- 15 Letter Regarding Unaudited Interim Financial Information
- 31 SOX 302 Certifications
- 32 SOX 906 Certification
- 101 Interactive Files

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HALLADOR ENERGY COMPANY

Date: November 5, 2013

/s/W. Anderson Bishop  
W. Anderson Bishop, CFO and CAO

