HALLADOR PETROLEUM CO
Form 10QSB
November 14, 2005

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

FORM 10-QSB

[x] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2005

OR

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

Commission File Number 0-14731

HALLADOR PETROLEUM COMPANY
(Exact name of registrant as specified in its charter)

Colorado	84-1014610
(State of incorporation)	(I.R.S. Employer Identification No.)

1660 Lincoln Street, Suite 2700, Denver, Colorado 80264-2701
(Address of principal executive offices)

303-839-5504 FAX: 303-832-3013
(Issuer's telephone numbers)

Check whether the issuer (1) filed all reports required by Section 13 or 15(d) of the Securities Exchange Act during the past 12 months, and (2) has been subject to such filing requirements for the past 90 days: Yes [X] No [ ]

Shares outstanding as of November 14, 2005: 7,093,150

PART I - FINANCIAL INFORMATION

Consolidated Balance Sheet
(in thousands)

	September 30, 2005	December 31, 2004*
ASSETS		
Current assets:		

Cash and cash equivalents	$11,539	$19,927
Oil and gas operator bonds		252
Accounts receivable-		
Oil and gas sales	921	573
Well operations	839	117
E&B account receivable		230
E&B - note receivable		3,569
Total current assets	13,299	24,668
Oil and gas properties, at cost (successful efforts):		
Unproved properties	3,555	220
Proved properties	2,301	2,155
Less-accumulated depreciation, depletion, amortization and impairment	(1,764)	(1,740)
	4,092	635
Investment in Catalytic Solutions	150	150
Investment in CELLC	271	
Other assets	76	67
	$17,888	$25,520
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 995	$ 642
Oil and gas sales payable	1,205	922
Income taxes payable	494	300
Partnership options payable		407
Total current liabilities	2,694	2,271
Minority interest		9,742
Stockholders' equity:		
Preferred stock, $.10 par value; 10,000,000 shares authorized; none issued		
Common stock, $ .01 par value; 100,000,000 shares authorized, 7,093,150 shares issued	71	71
Additional paid-in capital	18,061	18,061
Accumulated deficit	(2,938)	(4,625)
	15,194	13,507
	$17,888	$25,520

*Derived from the Form 10-KSB.

See accompanying notes.

Consolidated Statement of Operations
(in thousands)

Nine months ended Three months ended

	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004
Revenue:	$ 521	$ 490	$ 188	$ 163
Natural gas liquids	146	116	57	44
Oil	73	56	28	21
Interest	414	18	132	8
	1,154	680	405	236
Costs and expenses:				
Lease operating	157	138	58	56
Delay rentals	38	100		27
Impairment of unproved properties	183	67	169	
Equity loss in CELLC	55		30	
Depreciation, depletion and amortization	30	33	11	9
General and administrative	411	621	116	175
	874	959	384	267
Income (loss) from continuing operations before minority interest	280	(279)	21	(31)
Minority interest	(84)	84	(6)	9
Income (loss) from continuing operations before taxes	196	(195)	15	(22)
Income tax-current	(90)		(6)	
Income (loss) from continuing operations	106	(195)	9	(22)
Income (loss) from discontinued operations net of minority interest of $(18), $607 $(18) and $236	(30)	1,414	(30)	552
Gain (loss) on sale of discontinued operations, net of taxes of $1,300 and net of minority interest of $3907 for 2004 and $116 and $140 in additional taxes for 2005	(116)	9,117	(140)	9,117
Net income (loss)	$ (40)	$10,336	$ (161)	$9,647
Net income (loss) per share - basic				
Continuing operations	$ .02	$ (.03)	$	$
Discontinued operations		.20		0.07
Gain (loss) on sale of discontinued operations	(.02)	1.29	(.02)	1.29
	$ 0	$ 1.46	$ (.02)	$ 1.36
Weighted average shares outstanding-basic	7,093	7,093	7,093	7,093

See accompanying notes.

Consolidated Statement of Cash Flows
(in thousands)

	Nine months ended September 30, 2005	2004
Net cash provided by operating activities:	$ 264	$ 2,210
Cash flows from investing activities:		
E&B note receivable	3,538	
Proceeds from sale of property		18,111
Properties	(3,614)	(245)
Investment in COALition	(326)	
Decrease in bonds	252	
Other	(14)	(74)
Net cash (used in) provided by investing activities	(164)	17,792
Cash flows from financing activities:		
Repurchase of partnership options	(407)	
Distribution to limited partners	(8,081)	
Net cash used in financing activities	(8,488)	
Net (decrease) increase in cash and cash equivalents	(8,388)	20,002
Cash and cash equivalents, beginning of period	19,927	3,319
Cash and cash equivalents, end of period	$11,539	$23,321

See accompanying notes.

1. 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.

2. Our organization and business, the accounting policies we follow and other information are contained in the notes to our financial statements filed as part of our 2004 Form 10-KSB. This quarterly report should be read in conjunction with that annual report.

3. On April 15, 2005, we issued 750,000 ten-year options to employees at an exercise price of $2.25. The exercise price was based on the sales price of a March 2005 private stock transaction beween one of our shareholders and a third party. These options vest at 1/3 per year over the next three years. There are no more options available for

issuance.

As allowed in SFAS 123, Accounting for Stock-Based Compensation, we continue to apply APB 25, Accounting for Stock Issued to Employees, and related interpretations in recording compensation related to our plan. Had compensation costs for the plan been determined consistent with SFAS 123, we would have estimated the fair value of the option grant using the Black-Scholes option-pricing model, using the following assumptions for the 2005 grants: (i) risk free interest rate of 4.24%; (ii) expected life of 10 years; (iii) expected volatility of 120%; and (iv) no dividend yield. The average fair value of options granted during 2005 was $2.15. Pro forma net loss for the three and nine month periods ended September 30, 2005 would have been $241,000 and $200,000 or $(0.03) per share, respectively. Pro forma results for 2004 were immaterial.

4. On August 10, 2004, Hallador Petroleum LLP (the "Partnership") entered into an agreement with E&B Natural Resources Management Corporation (a private company) to sell all of our interest in the South Cuyama field and adjacent exploration areas, all located in Santa Barbara County, California, for $23 million; consisting of $19.5 million in cash and an interest bearing (3.5%) note of $3.5 million due on September 30, 2005 which has since been paid. Closing occurred on September 30, 2004 and we recorded a pre-tax gain of about $14 million. Results from the South Cuyama field have been presented as discontinued operations in the accompanying Consolidated Statement of Operations. Revenue and expenses before the minority interest were about $7 million and $5 million, respectively for the nine months ended September 30, 2004.

   Due to the sale, the joint board of directors of Hallador Petroleum Company and the Executive Committee of the Partnership, voted to discontinue new partnership operations effective October 1, 2004. On May 6, 2005 we made a cash distribution of about $5.2 million to the limited partners. During the third quarter 2005, Hallador Petroleum Company purchased the limited partners interest in the Partnership for about $1.2 million and made a final cash distribution to the limited partners of $1.6 million. After the cash payments to the limited partners, about $1.7 million remained in the minority interest account and was recorded as a reduction in our accumulated deficit account. For accounting purposes the Partnership no longer exists, and as a result, there is no longer a minority interest caption on our balance sheet.

   Upon filing the Federal and State returns in September for December 31, 2004, we determined that we under estimated the taxes due on the sale by about $116,000 and accrued for such in the third quarter of 2005.

5. In late March 2005, we invested $325,000 for a 29% interest in a newly formed entity called COALition Energy, LLC (CELLC). CELLC was formed to pursue coal investments. To date CELLC has not commenced significant operations. We account for this investment using the equity method of accounting.

   Four of our directors, David Hardie, Steven Hardie, Cortlandt Dietler, and Victor Stabio, who is also our CEO and CFO, acquired, at the same proportionate cost, and on the same terms as us, membership interests of 3.09%, 3.09%, 4.64%, and 3.09%, respectively, based on personal investments of $33,333, $33,333, $50,000 and $33,334, respectively, in CELLC. Some of our directors are also directors of CELLC. An affiliate of Yorktown Energy Partners II, acquired a 20% interest in CELLC for about $225,000. Yorktown Energy Partners II., L.P. owns about 32% of our common stock.

6. In late August 2005, we were sued for about $2.1 million by an employee of one of our vendors. The employee was injured in an accident in 2003 and did not file a lawsuit against us until 2005. We have discussed the matter with our insurance company and our maximum exposure is about $100,000.

HALLADOR PETROLEUM COMPANY
Management's Discussion and Analysis of Plan of Operation

RESULTS OF OPERATIONS

Overview

The following discussion updates the MD&A section of our 2004 Form 10-KSB which was filed on April 15, 2005 and should be read in conjunction thereto.

Potential Acquisition

We are in negotiations whereby we would issue 1,893,000 shares of our common stock valued at $2.20 per share to Yorktown Energy Partners VI., L.P. The proceeds of this stock sale will be used to purchase a 32% interest in a private Michigan oil and gas exploration company from Yorktown Energy Partners II, L.P. Yorktown Energy Partners II, L.P. owns about 32% of our common stock.

Albany Shale Gas Lease Play

Since June 30, 2005 we have invested about $2.7 million in this wildcat gas play located in Western Kentucky, of which $586,000 was after September 30, 2005 . To date we have leased about 61,000 acres. Over 80% of the acreage is held under five-year leases with the right to extend for another five years by paying $2 per acre per year. We hope to sell the unproved acreage and retain some sort of interest.

Montana

We are evaluating two lease plays in central Montana. To date no funds have been committed.

North Dakota

As disclosed in the 2004 Form 10-KSB, in February 2005 we invested $1.3 million in a 2,500 acre oil development prospect in McKenzie County, North Dakota, located on the mid-western Montana border. On April 25, 2005 we purchased additional acres for $111,000. On October 12, 2005, we purchased additional acreage for $195,000. We have a 37.5% WI (.328 NRI), Kodiak Oil and Gas, the operator also has a 37.5% WI, the remaining 25% is owned by others. Kodiak is headquartered in Denver and its stock trades on the TSX Venture Exchange under the symbol KOG. We hope to drill the first oil well the first half of 2006, at a cost of about $2.5 million to the 100%. This is a horizontal play so a vertical well is drilled to 8,000 feet and then two horizontal laterals are drilled at distance of 4,000 - 6,000 feet in opposite directions. Headington Oil Company is a major operator in this area on the Montana side and Burlington Resources is a major operator on the North Dakota side. Depending on the success of the first well, our total commitment could be an additional $2 million to the 100%.

San Juan Basin

Two more development gas wells were drilled in September 2005 and are awaiting completion. Due to the shortage of manpower and equipment these wells will not be placed on production until mid November 2005. The costs were about $1 million each to the 100% and we have a .056 WI (.047 NRI) in each of these wells.

Coal

As disclosed in the 2004 Form 10-KSB, in late March 2005, we invested $325,000 for a 29% interest in a newly formed entity called COALition Energy, LLC (CELLC). To date, CELLC has not commenced significant operations. Some of our directors and officers also invested in CELLC. See Note 5 to the Financial Statements for further information.

Liquidity and Capital Resources

Cash and cash to be provided from operations are expected to enable us to meet our obligations as they become due during the next several years.

We have no bank debt, no special purpose entities and no off-balance sheet arrangements.

Litigation

In late August 2005, we were sued for about $2.1 million by an employee of one of our vendors. The employee was injured in an accident in 2003 and did not file a lawsuit against us until 2005. We have discussed the matter with our insurance company and our maximum exposure is about $100,000.

Results Of Continuing Operations

The tables below (in thousands) provides sales data and average prices for the period.

Year-to-date Comparison

	2005			2004		
	Sales Volume	Average Price	Revenue	Sales Volume	Average Price	Revenue
Gas-mcf						
San Juan	47	$ 6.53	$307	54	$ 5.11	$276
Other	31	6.90	214	37	5.78	214
NGLs-barrels						

San Juan	4.6	31.74	146	5.1	22.75	116
Oil-barrels						
Other	1.4	52.14	73	1.5	37.33	56

Quarter-to-date Comparison

	2005			2004		
	Sales Volume	Average Price	Revenue	Sales Volume	Average Price	Revenue
Gas-mcf						
San Juan	15	$ 7.40	$111	18	$ 5.61	$101
Other	10	7.70	77	10	6.20	62
NGLs-barrels						
San Juan	1.5	38.00	57	1.7	25.88	44
Oil-barrels						
Other	.47	59.57	28	.51	41.17	21

Revenue increased due to higher prices. The higher prices more than offset the decline in production as indicated above. San Juan natural gas is sold at an index price that is set at the first of every month and remains in effect for the entire month. Our San Juan November 2005 gas price is about $11.52 per MCF. During the first ten days of November, daily posted San Juan gas prices have fallen to $7.52 per MCF. If prices stay at this level, our December price could be about $4 per MCF less than our November price.

Interest income increased due to investing the proceeds from the sale that occurred in September 2004 and interest income earned on the $3.5 million note due September 30, 2005 which was paid.

During the third quarter, we decided to impair our investments in certain Wyoming lease plays.

General and administrative expenses declined due to the termination of two employees after the California property sale, and salary reductions in the Denver office. Victor P. Stabio's salary was reduced 26% and certain other employees' salaries were reduced 10%.

Upon filing the Federal and State returns in September for December 31, 2004, we determined that we under estimated the taxes due on the sale by about $116,000 and accrued for such in the third quarter of 2005.

ITEM 3. CONTROLS AND PROCEDURES

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 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 of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our CEO, who is also our CFO, concluded that our disclosure controls and procedures are effective for the purposes discussed above. There have been no changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation.

PART II-OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

31 -- SOX 302 Certification

32 -- SOX 906 Certification

Signature

In accordance with the requirements of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HALLADOR PETROLEUM COMPANY

Dated: November 14, 2005

By:/S/VICTOR P. STABIO
CEO and CFO

Signing on behalf of registrant
and as principal financial officer.