

HALLADOR ENERGY CO  
Form 10-Q  
May 02, 2014

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: March 31, 2014

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 "larger accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  
 Non-accelerated filer (do not check if a small reporting company)  
 Accelerated filer  
 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 May 1, 2014 we had 28,771,000 shares outstanding.

## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

Consolidated Balance Sheet			
(in thousands, except share data)			
	March 31,		December 31,
	2014		2013
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 18,277		\$ 16,228
Marketable securities	1,621		
Accounts receivable	10,690		10,577
Prepaid income taxes	3,475		4,661
Coal inventory	6,405		4,778
Parts and supply inventory	2,726		2,826
Other	142		291
Total current assets	43,336		39,361
Coal properties, at cost:			
Land and mineral rights	26,382		26,476
Buildings and equipment	151,414		148,077
Mine development	85,462		85,333
	263,258		259,886
Less - accumulated DD&A	(82,472 )		(77,545 )
	180,786		182,341
Investment in Savoy	17,444		16,733
Investment in Sunrise Energy	4,662		4,573
Other assets (Note 5)	16,805		17,405
	\$ 263,033		\$ 260,413
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 9,945		\$ 10,357
Total current liabilities	9,945		10,357
Long-term liabilities:			
Bank debt	16,000		16,000
Deferred income taxes	43,248		43,304
Asset retirement obligations	5,367		5,290
Other	2,299		2,128
Total long-term liabilities	66,914		66,722
Total liabilities	76,859		77,079
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; 28,758 and 28,751 outstanding, respectively	287		287

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Additional paid-in capital	88,346	87,872
Retained earnings	97,128	94,796
Accumulated other comprehensive income	413	379
Total stockholders' equity	186,174	183,334
	\$ 263,033	\$ 260,413

See accompanying notes.

Consolidated Statement of Comprehensive Income  
For the three months ended March 31,  
(in thousands, except per share data)

	2014	2013
Revenue:		
Coal sales	\$33,016	\$33,995
Equity income – Savoy	2,379	1,084
Equity income - Sunrise Energy	89	122
Other income (Note 5)	283	2,461
	35,767	37,662
Costs and expenses:		
Operating costs and expenses	23,005	23,290
DD&A	4,959	4,560
Coal exploration costs	665	539
SG&A	1,971	1,976
Interest	465	376
	31,065	30,741
Income before income taxes	4,702	6,921
Less income taxes:		
Current	1,232	801
Deferred	(56)	652
	1,176	1,453
Net income*	\$3,526	\$5,468
Net income per share:		
Basic	\$0.12	\$0.19
Diluted	\$0.12	\$0.19
Weighted average shares outstanding:		
Basic	28,757	28,529
Diluted	28,916	28,751

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\*There is no material difference between net income and comprehensive income.

See accompanying notes.

Consolidated Statement of Cash Flows  
 For the three months ended March 31,  
 (in thousands)

	2014	2013
Operating activities:		
Cash provided by operating activities	\$6,179	\$6,333
Investing activities:		
Capital expenditures for coal properties	(2,936 )	(8,604 )
Marketable securities		(1,215 )
Cash used in investing activities	(2,936 )	(9,819 )
Financing activities:		
Dividends	(1,194 )	
Cash used in financing activities	(1,194 )	
Increase (decrease) in cash and cash equivalents	2,049	(3,486 )
Cash and cash equivalents, beginning of period	16,228	21,888
Cash and cash equivalents, end of period	\$18,277	\$18,402

See accompanying notes.

Consolidated Statement of Stockholders' Equity  
(in thousands)

	Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance January 1, 2014	28,751	\$287	\$87,872	\$94,796	\$ 379	\$183,334
Stock-based compensation			488			488
Dividends				(1,194 )		(1,194 )
Net income				3,526		3,526
Other	7		(14 )		34	20
Balance March 31, 2014	28,758	\$287	\$88,346	\$97,128	\$ 413	\$186,174

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 three months ended March 31, 2014 are not necessarily indicative of the results to be expected for future quarters or for the year ending December 31, 2014. To maintain consistency and comparability, certain 2013 amounts have been reclassified to conform to the 2014 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 2013 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 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 primarily in natgas operations in the same vicinity as the Carlisle mine.

(2) 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 March 31, 2014 was \$16 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 it currently 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. LIBOR was 16 BPS at March 31, 2014. 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 \$116 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.



## (3) 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 March 31, 2014 and a condensed statement of operations for the three months ended March 31, 2014 and 2013.

## Condensed Balance Sheet

	2014
Current assets	\$26,384
Oil and gas properties, net	29,054
	\$55,438
Total liabilities	\$14,676
Partners' capital	40,762
	\$55,438

## Condensed Statement of Operations

	2014	2013
Revenue	\$12,438	\$9,022
Expenses	(7,161 )	(6,618 )
Net income	\$5,277	\$2,404

Late last year Savoy engaged Energy Spectrum Advisors Inc. (ESA) to market its Trenton-Black River (TBR) oil properties located in southeast Michigan. ESA has offices in Dallas and Houston. Information was posted to the ESA website in early March 2014. Offers have been received and negotiations are pending. Savoy expects to receive additional offers during the week of May 5, 2014. If an offer is accepted, we will make a public disclosure.

## (4) 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 March 31, 2014 and a condensed statement of operations for the three months ended March 31, 2014 and 2013.

Condensed Balance Sheet

	2014
Current assets	\$3,319
Oil and gas properties, net	6,796
	\$10,115
Total liabilities	\$803
Members' capital	9,312
	\$10,115

Condensed Statement of Operations

	2014	2013
Revenue	\$782	\$812
Expenses	(605)	(568)
Net income	\$177	\$244

(5) Other Long-Term Assets and Other Income

	March 31, 2014	December 31, 2013
Long-term assets:		
Advance coal royalties	\$ 4,655	\$ 4,693
Deferred financing costs, net	1,120	1,195
Marketable equity securities available for sale, at fair value (restricted)*	2,353	3,889
Ohio River Terminal (see Note 7)	2,790	2,836
Other	5,887	4,792
	\$ 16,805	\$ 17,405

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

	Three months ended March 31,	
	2014	2013
Other income:		
MSHA reimbursements*	\$	\$2,053
Coal storage fees	63	232
Miscellaneous	220	176
	\$283	\$2,461

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\*See "MSHA Reimbursements" on page 17.

#### (6) Self Insurance

In late August 2010 we decided to terminate the property insurance on our underground mining equipment. Such equipment is allocated among five mining units spread out over 14 miles. The historical cost of such equipment is about \$109 million.

#### (7) 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 2015.

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 March 31, 2014 and the related condensed consolidated statements of comprehensive income, cash flows, and stockholders' equity for the three month periods ended March 31, 2014 and March 31, 2013. 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, 2013, 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 February 28, 2014, 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, 2013, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

/s/ EKS&H LLLP

May 2, 2014  
Denver, Colorado



## ITEM 2. MD&A

THE FOLLOWING DISCUSSION UPDATES THE MD&A SECTION OF OUR 2013 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. For 2014 over 90% 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.

We see an increasing demand for coal produced in the Illinois Basin (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 Central Appalachia (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.

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.

### Our Coal Contracts

We have close relationships with our customers: Duke Energy Corporation (NYSE:DUK), Hoosier Energy, an electric cooperative, and Indianapolis Power & Light Company, a wholly-owned subsidiary of The AES Corporation (NYSE:AES). We also deliver coal to an Orlando utility through an arrangement we have with an affiliate of JP Morgan. We believe these Florida sales are an indication of the trend of ILB coal replacing CAAP coal that has traditionally supplied the southeast markets.

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

Period	Contracted Tons	Average Price/Ton
Nine months ending December 31, 2014	2,758,000	\$42.01
2015	1,900,000	42.96
2016	689,000	40.93**

\*\*During 2013, to accommodate one of our major customers, we entered into three separate agreements that allowed them to defer 338,000 tons originally to be delivered in 2013 to sometime in 2016. Under the agreements they agreed to pay us an average of \$5.36/ton over the life of the deferral periods and we recognize the revenue accordingly; otherwise our average price/ton in 2016 would be \$43.57.

We expect to continue selling a significant portion of our coal under supply agreements with terms of one year or longer. Typically, customers enter into coal supply agreements to secure reliable sources of coal at predictable prices while we seek stable sources of revenue to support the investments required to open, expand and maintain, or improve productivity at the mines needed to supply these contracts. The terms of coal supply agreements result from competitive bidding and extensive negotiations with customers.

#### 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 Capacity	Year-End Reserves 2013			2012		
		Proven	Probable	Total	Proven	Probable	Total
Carlisle (assigned)	3.4	33.5	8.6	42.1	34.2	9.3	43.5
Ace in the Hole (assigned)	0.5	3.1		3.1	3.1		3.1
Bulldog (unassigned)		19.6	16.2	35.8	19.5	16.1	35.6
War Eagle (unassigned)		27.7	15.4	43.1	15.5	13.9	29.4
Total	3.9	83.9	40.2	124.1	72.3	39.3	111.6
Assigned				45.2			46.6
Unassigned				78.9			65.0
				124.1			111.6





Active Reserve (assigned) - Carlisle Mine (underground)

Our coal reserves at December 31, 2013 assigned to the Carlisle Mine were 42.1 million tons compared to beginning of year reserves of 43.5 million tons. Primarily through the execution of new leases, our reserve additions of 2.5 million tons replaced 80% of our 2013 production of 3.1 million tons. We reduced our reserves by 810,000 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 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 enables 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.

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 35.8 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 2014. 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 fourth quarter of 2014.

Full-scale mine development will not commence until we have a sales commitment. We estimate the costs to develop this mine to be \$150 million at full capacity of three million tons annually.

New Reserve (unassigned) – War Eagle Mine (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 43.1 million tons of coal reserves. 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.

We anticipate filing for a mining permit in late 2014. Full-scale mine development will not commence until we have a sales commitment. We estimate the costs to develop this mine to be \$150 million at full capacity of 3.3 million tons annually.

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 2015.

Liquidity and Capital Resources

Our capex budget for the remainder of 2014 is about \$12 million. At Carlisle we expect to spend \$9 million for maintenance capex and \$2.5 million for expansion capex. At Ace we estimate maintenance capex to be about \$500,000. Cash from operations should fund these expenditures. In addition, we have about \$100 million available under our bank line.

We have no material off-balance sheet arrangements.

## Capital Expenditures (capex)

For the 2014 first quarter our capex was about \$3 million allocated as follows (in 000's):

Carlisle - maintenance capex	\$2,650
Ace - surface equipment	766
Other projects	51
Items accrued for but not paid	(531)
Capex per the Cash Flow Statement	\$2,936

## Results of Operations

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

	2nd 2013	3rd 2013	4th 2013	1st 2014	T4Qs
Tons sold	774	817	757	776	3,124
Coal sales	\$34,149	\$34,985	\$34,307	\$33,016	\$136,457
Average price/ton	44.12	42.82	45.32	42.55	43.68
Wash recovery in %	70.90	68.00	63.20	65.60	
Operating costs	\$22,262	\$23,407	\$23,934	\$23,005	\$92,608
Average cost/ton	28.76	28.65	31.62	29.65	29.64
Margin	11,887	11,578	10,373	10,011	43,849
Margin/ton	15.36	14.17	13.70	12.90	14.04
Capex	6,174	8,780	7,834	2,936	25,724

	2nd 2012	3rd 2012	4th 2012	1st 2013	T4Qs
Tons sold	743	810	752	840	3,145
Coal sales	\$32,487	\$36,152	\$33,111	\$33,995	\$135,745
Average price/ton	43.72	44.63	44.03	40.47	43.16
Wash plant recovery in %	71.20	71.10	71.70	74.00	
Operating costs	\$18,816	\$20,745	\$21,745	\$23,290	\$84,596
Average cost/ton	25.32	25.61	28.91	27.73	26.90
Margin	13,671	15,407	11,366	10,705	51,149
Margin/ton	18.40	19.02	15.12	12.74	16.26
Capex	1,857	4,993	16,987	8,604	32,441

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Year	Tons	Average Sales Price/ton	Average Cost/ton	Margin/ton	Margin (in millions)
2012	3,006,000	\$43.70	\$26.53	\$17.17	\$51.6
2013	3,188,000	43.11	29.14	13.97	44.5
Nine months ending December 31, 2014*	2,758,000	42.01	29.00	13.01	35.9

\*Sales are contracted for 2014. Average cost per ton is an estimate.

The cold weather we experienced during the 2014 first quarter was both a blessing and curse. The coal burn was high but the freezing weather caused train delays and missed shipments. The missed shipments caused our stockpiles to increase which translates to more handling time to keep the coal from burning and the coal deteriorates the longer it sits resulting in lower wash plant recovery. We have limited space for our stockpiles so we had to cut production which lowers our productivity resulting in higher costs. The train delays and missed shipments continued during the month of April.

We expect to make up the missed shipments throughout the year. Until the train issues are corrected, our second quarter mining costs will most likely approximate first quarter costs. We continue to believe that our mining costs for the last half of 2014 will be \$28.50/ton or lower.

Three months ended March 31, 2014 vs. 2013

For the first quarter of 2014, we sold 776,000 tons at an average price of \$42.55/ton. For the first quarter of 2013, we sold 840,000 tons at an average price of \$40.47/ton. Our average price for the remainder of 2014, based on our contracts, will be \$42.01/ton. The higher average price for first quarter 2014 is due to the mix of our various contracts and corresponding prices. We expect our coal sales for the remainder of 2014 to be in the 2.7 million ton range as set forth in the table above.

Operating costs and expenses averaged \$29.65/ton in 2014 compared to \$27.73 in 2013. The cold weather as discussed above caused the increase. We expect such costs to average \$29.00/ton or less for the remainder of 2014.

Our Indiana employees totaled 379 at March 31, 2014 compared to 351 at March 31, 2013.

Savoy's activity is discussed below.

#### Earnings per Share

	2nd 2013	3rd 2013	4th 2013	1st 2014
Basic	\$ .29	\$ .17	\$ .16	\$ .12
Diluted	.28	.17	.16	.12
	2nd 2012	3rd 2012	4th 2012	1st 2013
Basic	\$.23	\$.22	\$.18	\$.19
Diluted	.23	.22	.17	.19



#### 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 2011 in October 2012 for \$3.7 million. \$2.1 million in reimbursements were recorded in the first quarter 2013 and \$1.6 million were recorded in the fourth quarter. Based on past experience we expect to collect the 2012 costs in 2014 and the 2013 costs in 2015.

#### Income Taxes

During 2013 our effective tax rate was 25%. For 2014, we are projecting an effective tax rate of 25% or slightly less. Based on our projections, we are forecasting a total federal and state tax obligation in excess of existing prepayments of \$3.5 million, resulting in additional outlays of cash for income taxes. In addition, we expect the tax consequences between income tax and financial reporting purposes to result in a reduction to the deferred tax liability with a corresponding deferred tax benefit.

#### 45% Ownership in Savoy

Late last year Savoy engaged Energy Spectrum Advisors Inc. (ESA) to market its Trenton-Black River (TBR) oil properties located in southeast Michigan. ESA has offices in Dallas and Houston. Information was posted to the ESA website in early March 2014. Offers have been received and negotiations are pending. Savoy expects to receive additional offers during the week of May 5. If an offer is accepted, we will make a public disclosure.

The table below illustrates the growth in Savoy (to the 100% - in other words not shown proportionate to our 45% interest) comparing the first quarter of 2014 to 2013; (financial statement data in thousands):

	2014	2013
Revenue:		
Oil	\$9,067	\$7,499
NGLs (natural gas liquids)	236	225
Natgas	347	134
Contract drilling	1,463	455
Other	1,325	709
Total revenue	12,438	9,022
Costs and expenses:		
LOE (lease operating expenses)	1,557	1,310
Contract drilling costs	1,064	776
DD&A (depreciation, depletion & amortization)	1,339	1,209
G&G (geological and geophysical costs)	1,183	1,203
Dry hole costs	787	554
Impairment of unproved properties	721	1,147
Other exploration costs	110	80
G&A (general & administrative)	400	339
Total expenses	7,161	6,618
Net income	\$5,277	\$2,404

The information below is not in thousands:

Oil production – barrels	98,670	83,000
Average oil prices/barrel	\$91.80	\$90.35

#### Critical Accounting Estimates and Significant Accounting Policies

We believe that the estimates of our coal reserves and our deferred tax assets and liability accounts are our only critical accounting estimates. The reserve estimates are used in the DD&A calculation, in our impairment test and in our internal cash flow projections. If these estimates turn out to be materially under or over-stated; our DD&A expense and impairment test may be affected. Furthermore, if our coal reserves are materially overstated, our liquidity and stock price could be adversely affected.

We have analyzed our filing positions in all of the federal and state jurisdictions where we are required to file income tax returns, as well as all open tax years in these jurisdictions. We identified our federal tax return and our Indiana state tax return as “major” tax jurisdictions. During 2012 the IRS completed an examination of our 2009 and 2010 federal tax returns and there were no significant adjustments. During 2012 the State of Indiana completed their examination of our 2008-2010 returns and no adjustments were proposed. We believe that our income tax filing positions and deductions will be sustained on audit and do not anticipate any adjustments that will result in a material change to our consolidated financial position.

#### Yorktown Distributions

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.

#### 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 4. 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 March 31, 2014 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 6. EXHIBITS

15	Letter Regarding Unaudited Interim Financial Information
31	SOX 302 Certifications
32	SOX 906 Certification
95	Mine Safety Disclosure
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: May 2, 2014

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