

HALLADOR ENERGY CO
Form 10-Q
November 04, 2016

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
^x 1934

For the quarterly period ended: September 30, 2016

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.)

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

| | |
|--|--|
| <input type="checkbox"/> Large accelerated filer | <input type="checkbox"/> Accelerated filer |
| <input type="checkbox"/> Non-accelerated filer | <input type="checkbox"/> Smaller reporting company |

(do not check if a small 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

As of November 3, 2016, we had 29,268,053 shares outstanding.

PART I - FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****Consolidated Balance Sheet**

(in thousands, except per share data)

| | September 30, 2016 | December 31, 2015 |
|---|-----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 12,818 | \$ 15,930 |
| Marketable securities | 1,702 | 1,343 |
| Accounts receivable | 19,106 | 16,675 |
| Prepaid income taxes | 3,481 | 5,312 |
| Coal inventory | 13,268 | 14,915 |
| Parts and supply inventory | 9,983 | 11,255 |
| Other | 3,121 | 1,185 |
| Total current assets | 63,479 | 66,615 |
| Coal properties, at cost: | | |
| Land and mineral rights | 126,454 | 116,209 |
| Buildings and equipment | 352,845 | 347,963 |
| Mine development | 136,675 | 131,027 |
| Total coal properties, at cost | 615,974 | 595,199 |
| Less - accumulated DD&A | (175,983) | (149,964) |
| | 439,991 | 445,235 |
| Investment in Savoy | 10,520 | 12,365 |
| Investment in Sunrise Energy | 4,482 | 4,747 |
| Other assets (Note 5) | 21,611 | 11,416 |
| Total assets | \$ 540,083 | \$ 540,378 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of bank debt, net | \$ 26,609 | \$ 24,856 |
| Accounts payable and accrued liabilities | 16,725 | 26,184 |
| Total current liabilities | 43,334 | 51,040 |
| Long-term liabilities: | | |
| Bank debt, net | 206,037 | 219,502 |
| Deferred income taxes | 52,186 | 49,033 |
| Asset retirement obligations | 12,995 | 12,231 |
| Other | 3,308 | 1,752 |
| Total long-term liabilities | 274,526 | 282,518 |

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| | | |
|--|------------|------------|
| Total liabilities | 317,860 | 333,558 |
| 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; 29,268 and 29,251 shares outstanding, respectively | 292 | 292 |
| Additional paid-in capital | 94,194 | 92,275 |
| Retained earnings | 127,081 | 114,341 |
| Accumulated other comprehensive income (loss) | 656 | (88) |
| Total stockholders' equity | 222,223 | 206,820 |
| Total liabilities and stockholders' equity | \$ 540,083 | \$ 540,378 |

See accompanying notes.

Consolidated Statement of Comprehensive Income

(in thousands, except per share data)

| | Nine Months Ended | | Three Months Ended | |
|---------------------------------------|-------------------|-----------|--------------------|----------|
| | September 30, | | September 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Revenue: | | | | |
| Coal sales | \$207,429 | \$273,728 | \$65,360 | \$81,332 |
| Equity income (loss) - Savoy | (42) | (110) | 26 | (93) |
| Equity income (loss) - Sunrise Energy | (264) | 24 | (106) | 21 |
| MSHA reimbursement | 1,753 | | | |
| Other income | 1,340 | 1,625 | 487 | 753 |
| Total revenue | 210,216 | 275,267 | 65,767 | 82,013 |
| Costs and expenses: | | | | |
| Operating costs and expenses | 142,114 | 191,427 | 46,940 | 56,995 |
| DD&A | 26,180 | 32,756 | 7,942 | 10,648 |
| Exploration and permitting costs | 1,168 | 1,581 | 354 | 381 |
| SG&A | 8,076 | 9,427 | 2,585 | 3,003 |
| Interest ⁽¹⁾ | 13,458 | 13,955 | 2,861 | 5,176 |
| Total costs and expenses | 190,996 | 249,146 | 60,682 | 76,203 |
| Income before income taxes | 19,220 | 26,121 | 5,085 | 5,810 |
| Less income taxes: | | | | |
| Current | (270) | 1,231 | | 680 |
| Deferred | 3,153 | 5,302 | 763 | (14) |
| Total income taxes | 2,883 | 6,533 | 763 | 666 |
| Net income ⁽²⁾ | \$16,337 | \$19,588 | \$4,322 | \$5,144 |
| Net income per share: | | | | |
| Basic and diluted | \$.54 | \$.65 | \$.14 | \$.17 |
| Weighted average shares outstanding: | | | | |
| Basic and diluted | 29,251 | 29,011 | 29,252 | 29,044 |

⁽¹⁾Interest expense for first nine months of 2016 and 2015 includes \$793 and \$1,858 respectively, for the net change in the estimated fair value of our interest rate swaps. Such amounts were \$(955) and \$1,251 for Q3 2016 and 2015,

respectively.

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

See accompanying notes.

3

Consolidated Condensed Statement of Cash Flows

For the nine months ended September 30,

(in thousands)

| | 2016 | 2015 |
|--|----------|----------|
| Operating activities: | | |
| Cash provided by operating activities | \$43,691 | \$76,573 |
| Investing activities: | | |
| Purchase of Freelandville assets | (18,000) | |
| Capital expenditures | (11,810) | (27,109) |
| Other | 186 | 478 |
| Cash used in investing activities | (29,624) | (26,631) |
| Financing activities: | | |
| Bank borrowings | 15,000 | |
| Debt issuance cost | (2,090) | |
| Payments on bank debt | (26,492) | (40,312) |
| Dividends | (3,597) | (3,596) |
| Cash used in financing activities | (17,179) | (43,908) |
| Increase (decrease) in cash and cash equivalents | (3,112) | 6,034 |
| Cash and cash equivalents, beginning of period | 15,930 | 13,469 |
| Cash and cash equivalents, end of period | \$12,818 | \$19,503 |

See accompanying notes.

Consolidated Statement of Stockholders' Equity

(in thousands)

| | Shares | Common Stock | Additional Paid-in Capital | Retained Earnings | AOCI* | Total |
|---------------------------------|--------|-----------------|----------------------------------|----------------------|----------|------------|
| Balance, January 1, 2016 | 29,251 | \$ 292 | \$ 92,275 | \$ 114,341 | \$ (88) | \$ 206,820 |
| Stock-based compensation | | | 1,822 | | | 1,822 |
| Stock issued on vesting of RSUs | 2 | | | | | |
| Taxes paid on vesting of RSUs | (1) | | (3) | | | (3) |
| Dividends | | | | (3,597) | | (3,597) |
| Net income | | | | 16,337 | | 16,337 |
| Other | 16 | | 100 | | 744 | 844 |
| Balance, September 30, 2016 | 29,268 | \$ 292 | \$ 94,194 | \$ 127,081 | \$ 656 | \$ 222,223 |

*Accumulated Other Comprehensive Income (Loss)

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, 2016 are not necessarily indicative of the results to be expected for future quarters or for the year ending December 31, 2016. To maintain consistency and comparability, certain 2015 amounts have been reclassified to conform to the 2016 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 2015 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) and Sunrise's wholly-owned subsidiaries. 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 40% 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 oil and gas operations in the same vicinity as the Carlisle Mine.

Change in Estimate for Computing Depreciation

At the beginning of Q1 2016, we changed from the straight-line method to the units-of-production method in computing the depreciation for certain underground mining equipment. This change in estimate reduced our DD&A expense for the nine months and three months ended September 30, 2016 by \$6.6 million and \$3.1 million, respectively. As disclosed last year, we significantly curtailed the production at the Carlisle Mine. This change better reflects the usage of our underground mining equipment especially since Carlisle had limited production during the first nine months of 2016.

(2) Bank Debt

On March 18, 2016, we executed an amendment to our credit agreement with PNC, as administrative agent for our lenders. The primary purpose of the amendment was to increase liquidity and maintain compliance through the maturity of the agreement in August 2019. The revolver was reduced from \$250 million to \$200 million and the term loan remains the same. Our debt at September 30, 2016 was \$238 million (term-\$110, revolver-\$128). In addition, a maximum annual capex of \$30 million was included.

Bank fees and other costs incurred in connection with the initial facility and the amendment were \$9.1 million, which were deferred and are being amortized over five years. The credit facility is collateralized by substantially all of Sunrise's assets and we are the guarantor.

The amended credit facility increased the maximum leverage ratio (total funded debt/ trailing 12 months EBITDA) from 2.75X to those listed below:

| Fiscal Periods Ended/Ending | Ratio |
|---|-------|
| September 30, 2016 through March 31, 2017 | 4.50X |
| June 30, 2017 through March 31, 2018 | 4.25X |
| June 30, 2018 and September 30, 2018 | 4.00X |
| December 31, 2018 | 3.75X |
| March 31, 2019 and June 30, 2019 | 3.50X |

The fixed charge coverage ratio was changed to the debt service coverage ratio and requires a minimum of 1.25X through the maturity of the credit facility. The amendment defines the debt service coverage as trailing 12 months EBITDA/annual debt service. As of September 30, 2016, we had additional borrowing capacity of \$72 million.

At September 30, 2016, our maximum leverage ratio was 3.02X and our debt service coverage ratio was 2.06X. Therefore, we were in compliance with those two ratios.

The interest rate on the facility ranges from LIBOR plus 2.25% to LIBOR plus 4%, depending on our maximum leverage ratio. At September 30, 2016, we were paying LIBOR at .53% plus 3.50% for a total interest rate of 4.03%.

New accounting rules for 2016 require that our debt issuance costs be presented as a direct reduction from the related debt rather than as an asset. Our December 31, 2015 balance sheet was changed to reflect the new rule.

Debt less debt issuance cost at September 30, and December 31, are presented below (in thousands):

| | 2016 | 2015 |
|-------------------------|-----------|-----------|
| Current debt | \$28,438 | \$26,250 |
| Less debt issuance cost | (1,829) | (1,394) |
| Net current portion | \$26,609 | \$24,856 |
| Long-term debt | \$209,542 | \$223,220 |
| Less debt issuance cost | (3,505) | (3,718) |
| Net long-term portion | \$206,037 | \$219,502 |

(3) Equity Investment in Savoy

We own a 40% 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.

On November 3, 2016 Lubar Equity Fund, LLC acquired a 25% interest in Savoy for \$9.5 million in cash. Accordingly, our ownership interest was reduced from 40% to 30.6%. At closing, Savoy made a cash distribution of \$4.4 million of which our share was \$1.8 million and per our credit agreement will be applied to our bank debt. Mr.

Lubar, one of our directors, is affiliated with Lubar Equity Fund, LLC.

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

Condensed Balance Sheet

| | |
|------------------------------|----------|
| | 2016 |
| Current assets | \$8,776 |
| Oil and gas properties, net | 19,429 |
| Other | 997 |
| Totals assets | \$29,202 |
| | |
| Total liabilities | \$3,847 |
| Partners' capital | 25,355 |
| Total liabilities and equity | \$29,202 |

Condensed
Statement of
Operations

| | | |
|----------|----------|----------|
| | 2016 | 2015 |
| Revenue | \$7,900 | \$10,887 |
| Expenses | (8,005) | (11,156) |
| Net loss | \$(105) | \$(269) |

(4) Equity 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 oil, gas and 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, and a condensed statement of operations for the nine months ended September 30.

Condensed Balance Sheet

| | |
|------------------------------|---------|
| | 2016 |
| Current assets | \$2,080 |
| Oil and gas properties, net | 7,646 |
| Totals assets | \$9,726 |
| Total liabilities | \$773 |
| Members' capital | 8,953 |
| Total liabilities and equity | \$9,726 |

Condensed Statement of Operations

| | | |
|-------------------|---------|---------|
| | 2016 | 2015 |
| Revenue | \$1,293 | \$1,773 |
| Expenses | (1,822) | (1,725) |
| Net income (loss) | \$(529) | \$48 |

(5) Other Long-Term Assets (in thousands)

| | | |
|--|-----------------------|----------------------|
| | September 30, 2016 | December 31, 2015 |
| Long-term assets: | | |
| Advanced coal royalties | \$ 10,617 | \$ 6,563 |
| Marketable equity securities available for sale, at fair value (restricted)* | 1,985 | 1,763 |
| Purchased coal contract – See Note 9 | 6,407 | |
| Other | 2,602 | 3,090 |
| Total long-term assets | \$ 21,611 | \$ 11,416 |

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

(6) Self-Insurance

We self-insure our underground mining equipment. Such equipment is allocated among 10 mining units spread out over 20 miles. The historical cost of such equipment is about \$255 million.

8

(7) Net Income per Share

We compute net income per share using the two-class method, which is an allocation formula that determines net income per share for common stock and participating securities, which for us are our outstanding RSUs.

The following table sets forth the computation of net income per share for the nine and three months ended September 30 (in thousands):

| | Nine Months Ended | | Three Months Ended | |
|---|-------------------|-----------|--------------------|----------|
| | 2016 | 2015 | 2016 | 2015 |
| Numerator: | | | | |
| Net income | \$ 16,337 | \$ 19,588 | \$ 4,322 | \$ 5,144 |
| Less earnings allocated to RSUs | (429) | (595) | (115) | (155) |
| Net income allocated to common shareholders | \$ 15,908 | \$ 18,993 | \$ 4,207 | \$ 4,989 |

(8) Asset Realization

As disclosed last year, we significantly curtailed the production at the Carlisle Mine and had a reduction in work force. Consequently, we conducted a review of those assets for recoverability and determined that no impairment charge was necessary. In conducting such review, we assumed: (i) that natural gas prices will start to increase in late 2017; (ii) Carlisle production will increase in 2018-2019, and (iii) sometime in 2020, the Carlisle Mine will return to its normal production capacity of 3.3 million tons per year. The Carlisle assets had an aggregate carrying value of \$134 million at September 30, 2016. If, in later quarters, we reduce our estimate of the future net cash flows attributable to the Carlisle Mine, it may result in future impairment of such assets and such charges could be significant.

(9) Freelandville Purchase

On March 22, 2016, we completed the purchase of the Freelandville coal reserves and coal sales agreement for \$18 million. These reserves totaled 14.2 million tons of fee and leased coal and will be mined from our Oaktown 1 portal. This purchase also allows Sunrise access to another 1.6 million tons of our own leased reserves that were previously inaccessible. The purchased coal sales agreement totaled 1,435,000 tons (can be adjusted +/- 6,700 tons monthly). The purchase price allocation for the acquisition was as follows (in thousands):

Purchased coal contract \$6,407

| | |
|---------------------------|----------|
| Advanced coal royalties | 1,690 |
| Mineral rights and leases | 9,903 |
| Total | \$18,000 |

(10) Income Taxes

Our effective tax rate (ETR) for the first nine months of 2016 was 15% compared to 25% for the first nine months of 2015. Assuming no changes in our expected results of operations, we expect our ETR for the last three months of 2016 and for the year 2017 to be about the same as the first nine months of 2016. Our ETR differs from the statutory rate due primarily to statutory depletion in excess of tax basis, which is a permanent difference.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

Hallador Energy Company

Denver, Colorado

We have reviewed the accompanying consolidated condensed balance sheet of Hallador Energy Company and subsidiaries (the "Company") as of September 30, 2016, the related consolidated condensed statements of comprehensive income for the nine and three month periods ended September 30, 2016 and 2015, and cash flows for the nine-month periods ended September 30, 2016 and 2015, respectively, and the statement of stockholders' equity for the nine-month period ended September 30, 2016. 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, 2015, 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 11, 2016, 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, 2015, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

/s/ EKS&H LLLP

November 4, 2016

Denver, Colorado

10

ITEM 2. MD&A

The following discussion updates the MD&A section of our 2015 Form 10-K and should be read in conjunction therewith.

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

Our Coal Contracts

On March 22, 2016, we completed the purchase of certain underground coal reserves and a coal sales agreement associated with Triad Mining, LLC's (Triad) Freelandville mining complex for \$18 million. Triad is a wholly-owned subsidiary of Blackhawk Mining, LLC based in Lexington, Kentucky. The Freelandville complex is located in Sullivan and Knox Counties, Indiana. As part of the transaction, we purchased 14.2 million tons of proven coal reserves and associated advanced royalties in addition to rights under a coal sales agreement that extends through 2017. See Note 9 to our financial statements.

The table below (in thousands, except prices) shows our contracted tons. Some of our contracts contain language that allow our customers to increase or decrease tonnages throughout the year. The table represents the minimum and maximum tonnages we could deliver under existing contracts. In some cases, our customers are required to purchase their additional tonnage needs from us. We fully anticipate making additional sales.

| Year | Minimum Tons To Be Sold | | | Maximum Tons to Be Sold | | | Estimated Prices @ Minimum Tons |
|-----------------------------|-------------------------|--------------------|---------------|-------------------------|--------------------|---------------|--|
| | Priced Tons | (Unpriced) Tons | Total Tons | Priced Tons | (Unpriced) Tons | Total Tons | |
| 2016 (last three months) | 1,732 | | 1,732 | 1,739 | | 1,739 | \$ 42.80 |
| 2017 | 4,914 | | 4,914 | 5,520 | | 5,520 | 43.67 |
| 2018 | 1,949 | 810 | 2,759 | 2,791 | 1,210 | 4,001 | 44.76 |
| 2019 | 1,689 | 1,620 | 3,309 | 2,131 | 2,420 | 4,551 | 45.21 |
| 2020 | 1,000 | 2,009 | 3,009 | 1,000 | 3,001 | 4,001 | 48.58 |
| 2021 | | 2,009 | 2,009 | | 3,001 | 3,001 | |
| 2022 | | 2,009 | 2,009 | | 3,001 | 3,001 | |
| 2023 | | 1,620 | 1,620 | | 2,420 | 2,420 | |
| 2024 | | 810 | 810 | | 1,210 | 1,210 | |

| | | | | | |
|--------|--------|--------|--------|--------|--------|
| 11,284 | 10,887 | 22,171 | 13,181 | 16,263 | 29,444 |
|--------|--------|--------|--------|--------|--------|

Unpriced tons are firm commitments, meaning we are required to ship and our customer is required to receive said tons through the duration of the contract. The contracts provide mechanisms for establishing a market-based price. As set forth in the table above, we have 11-16 million tons committed but unpriced through 2024.

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.

Asset Realization

See Note 8 to our financial statements.

Liquidity and Capital Resources

As set forth in our Statement of Cash Flows, cash provided by operations was \$44 million that includes a non-recurring \$1.8 million cash distribution from Savoy. This amount was adequate to fund our capital expenditures for coal properties, our debt service requirements and our dividend. Our capex budget for the next three months is \$5 million, of which \$3 million is for maintenance capex. Cash from operations for the next twelve months should fund our capital expenditures, debt service and dividend.

Other than our surety bonds for reclamation, we have no material off-balance sheet arrangements. Our surety bonds total \$24 million in the event we are not able to perform.

Capital Expenditures (capex)

For the first nine months, capex for 2016 was \$11.8 million allocated as follows (in thousands):

| | |
|-----------------------------------|----------|
| Oaktown – investment | \$5,664 |
| Oaktown – maintenance capex | 4,950 |
| Other projects | 1,196 |
| Capex per the Cash Flow Statement | \$11,810 |

Results of Operations

Oaktown's cash costs for Q3 2016 were \$29.57/ton. We see Oaktown's costs ranging from \$28 to \$30 for the remainder of 2016. Going forward we expect our SG&A to be \$11 million annually and costs associated with Prosperity and Carlisle to be \$10 million annually.

Quarterly coal sales and cost data (in thousands, except per ton and percentage data):

| | 4 th 2015 | 1 st 2016 | 2 nd 2016 | 3 rd 2016 | T4Qs |
|--------------------------|----------------------|----------------------|----------------------|----------------------|-----------|
| Tons sold | 1,432 | 1,629 | 1,464 | 1,485 | 6,010 |
| Coal sales | \$65,762 | \$75,795 | \$66,274 | \$65,360 | \$273,191 |
| Average price/ton | 45.92 | 46.53 | 45.27 | 44.01 | 45.46 |
| Wash plant recovery in % | 64 | 65 | 63 | 68 | |
| Operating costs | 46,470 | 49,777 | 45,397 | 46,940 | 188,584 |
| Average cost/ton | 32.45 | 30.56 | 31.01 | 31.61 | 31.38 |
| Margin | 19,292 | 26,018 | 20,877 | 18,420 | 84,607 |
| Margin/ton | 13.47 | 15.97 | 14.26 | 12.40 | 14.08 |
| Capex | 4,058 | 6,053 | 1,822 | 3,935 | 15,868 |
| Maintenance capex | 1,047 | 2,984 | 904 | 1,709 | 6,644 |
| Maintenance capex/ton | .73 | 1.83 | .62 | 1.15 | 1.11 |

| | 4 th 2014 | 1 st 2015 | 2 nd 2015 | 3 rd 2015 | T4Qs |
|--------------------------|----------------------|----------------------|----------------------|----------------------|-----------|
| Tons sold | 2,275 | 2,146 | 2,078 | 1,791 | 8,290 |
| Coal sales | \$99,992 | \$97,073 | \$95,323 | \$81,332 | \$373,720 |
| Average price/ton | 43.95 | 45.23 | 45.87 | 45.41 | 45.08 |
| Wash plant recovery in % | 67 | 67 | 69 | 69 | |
| Operating costs | 68,002 | 66,152 | 68,280 | 56,995 | 259,429 |
| Average cost/ton | 29.89 | 30.83 | 32.86 | 31.82 | 31.29 |
| Margin | 31,990 | 30,921 | 27,043 | 24,337 | 114,291 |
| Margin/ton | 14.06 | 14.40 | 13.01 | 13.59 | 13.78 |
| Capex | 11,509 | 8,250 | 14,789 | 4,070 | 38,618 |
| Maintenance capex | 11,162 | 6,685 | 13,323 | 1,816 | 32,986 |
| Maintenance capex/ton | 4.91 | 3.12 | 6.41 | 1.01 | 3.98 |

First Nine Months 2016 v. 2015

For 2016, we sold 4,578,000 tons at an average price of \$45.31/ton. For 2015, we sold 6,015,000 tons at an average price of \$45.51/ton.

Operating costs and expenses averaged \$31.04/ton in 2016 compared to \$31.82 in 2015. Our Indiana employees totaled 737 at September 30, 2016 compared to 736 at September 30, 2015.

SG&A costs were higher in 2015 due to amortization of RSUs and accruals of bonuses related to our Vectren Fuels acquisition in 2014. SG&A as a percentage of coal revenue increased, however, from 3.4% to 3.9% for the first nine months of 2016 due to lower sales volumes in 2016.

At the beginning of Q1 2016, we changed from the straight-line method to the units-of-production method in computing the depreciation for certain underground mining equipment. This change in estimate reduced our DD&A expense for the nine months and three months ended September 30, 2016 by \$6.6 million and \$3.1 million, respectively. As disclosed last year, we significantly curtailed the production at the Carlisle Mine. This change better reflects the usage of our underground mining equipment especially since Carlisle had limited production during the first nine months of 2016.

Third Quarter 2016 v. 2015

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For the third quarter of 2016, we sold 1,485,000 tons at an average price of \$44.01/ton. For the third quarter of 2015, we sold 1,791,000 tons at an average price of \$45.41/ton.

Operating costs and expenses averaged \$31.61/ton in 2016 compared to \$31.82 in 2015.

As mentioned above, SG&A costs were higher in 2015 due to amortization of RSUs and accruals of bonuses related to our Vectren Fuels acquisition in 2014. SG&A as a percentage of coal revenue increased, however, from 3.7% to 4.0% for the 3 months ending September 30, 2016 due to lower sales volumes in 2016.

Earnings per Share

| | 4 th 2015 | 1 st 2016 | 2 nd 2016 | 3 rd 2016 |
|-------------------|----------------------|----------------------|----------------------|----------------------|
| Basic and diluted | \$.02 | \$.21 | \$.19 | \$.14 |

| | 4 th 2014 | 1 st 2015 | 2 nd 2015 | 3 rd 2015 |
|-------------------|----------------------|----------------------|----------------------|----------------------|
| Basic and diluted | \$.31 | \$.25 | \$.23 | \$.17 |

Income Taxes

Our effective tax rate (ETR) for the first nine months of 2016 was 15% compared to 25% for first nine months of 2015. Assuming no changes in our expected results of operations, we expect our ETR for the last three months of 2016 and for the year 2017 to be about the same as first nine months of 2016. Our ETR differs from the statutory rate due primarily to statutory depletion in excess of tax basis, which is a permanent difference.

MSHA Reimbursements

Some of our legacy coal contracts allow us to pass on to our customers 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 our 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 of 2013. We submitted our incurred costs for 2012 in June 2015 and received \$1.75 million from one of our customers in June 2016. We expect to receive a similar amount from another customer during Q4 2016. As stated above we do not record such reimbursements as revenue until they have been agreed to by our customers.

Such reimbursable costs for 2013, 2014 and 2015 are not expected to be material.

Critical Accounting Estimates

We believe that the estimates of our coal reserves, our deferred tax accounts, and the estimates used in our impairment analysis are our only critical accounting estimates. The reserve estimates are used in the DD&A calculation 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.

We account for business combinations using the purchase method of accounting. The purchase method requires us to determine the fair value of all acquired assets, including identifiable intangible assets and all assumed liabilities. The total cost of acquisitions is allocated to the underlying identifiable net assets, based on their respective estimated fair

values. Determining the fair value of assets acquired and liabilities assumed requires management's judgment and the utilization of independent valuation experts, and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates and asset lives, among other items. The fair value of our interest rate swaps is determined using a discounted future cash flow model based on the key assumption of anticipated future interest rates.

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.

New Accounting Pronouncements

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

Yorktown Distributions

As previously disclosed, Yorktown Energy Partners and its affiliated partnerships (Yorktown) have made 13 distributions to their numerous partners totaling 8.75 million 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 6.45 million shares of our stock representing about 22.07% of total shares outstanding. Yorktown's last distribution was in August 2016.

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 increase our liquidity and float.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

No material change from the disclosure in our 2015 Form 10-K.

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 have been no changes to our internal control over financial reporting during the quarter ended September 30, 2016 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 4. MINE SAFETY DISCLOSURE

As a testament to our commitment to mine safety, in October 2016, our mine rescue team competed in and won the 2016 Nationwide Mine Rescue Skills Championship contest in Madisonville, Kentucky. Thirteen teams from five different states competed in the competition. The Nationwide Skills Championship is divided into seven skills competitions and a written test. Refer to www.halladorenergy.com for a link to more information regarding this

prestigious award.

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 Report
- 101 Interactive Files

15

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 4, 2016 /s/ Lawrence D. Martin
Lawrence D. Martin, CFO and CAO