HALLADOR PETROLEUM CO
Form 10QSB
November 22, 2004

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, 2004

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 19, 2004: 7,093,150

PART I - FINANCIAL INFORMATION

Consolidated Balance Sheet
(in thousands)

	September 30, 2004
ASSETS	
Current assets:	
Cash and cash equivalents	$23,321
Oil and gas operator bonds	250

Accounts receivable-	
Oil and gas sales	1,064
Well operations	207
Note receivable-E&B Resources	3,538
Total current assets	28,380
Oil and gas properties, at cost (successful efforts):	
Unproved properties	298
Proved properties	2,144
Less - accumulated depreciation, depletion, amortization and impairment	(1,732)
	710
Investment in Catalytic Solutions	150
Other assets	67
	$29,307
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable and accrued liabilities	$ 644
Oil and gas sales payable	624
Income taxes payable	1,300
Key employee bonus plan	285
Bonuses, and stock options payable	3,004
Total current liabilities	5,857
Minority interest	9,477
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
Additional paid-in capital	18,061
Accumulated deficit	(4,159)
	13,973
	$29,307

See accompanying notes.

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

	Nine months ended September 30, 2004	Nine months ended September 30, 2003	Three months ended September 30, 2004	Three months ended September 30, 2003
Revenue:				

Oil	$ 172	$ 126	$ 65	$ 43
Gas	490	567	163	172
Interest and other	18	67	8	6
	680	760	236	221
Costs and expenses:				
Lease operating	138	165	56	29
Exploration costs	167	136	27	73
Depreciation, depletion and amortization	33	175	9	55
General and administrative	621	606	175	181
	959	1,082	267	338
Loss from continuing operations before minority interest	(279)	(322)	(31)	(117)
Minority interest	84	97	9	35
Loss from continuing operations	(195)	(225)	(22)	(82)
Income from discontinued operations net of minority interest of $607, $432, $236 and $145	1,414	1,007	552	340
Gain on sale of discontinued operations, net of taxes of $1,300 and net of minority interest of $3,907	9,117		9,117	
Cumulative effect of change in accounting principle net of minority interest of $54		(127)		
Net income	$10,336	$ 655	$9,647	$ 258
Income (loss) per share-basic				
Continuing operations	$ (.03)	$ (.03)	$	$ (.01)
Discontinued operations	.20	.14	.07	.05
Gain on sale of discontinued operations	1.29		1.29	
Change in accounting principle		(.02)		
Net earnings per share	$ 1.46	$ .09	$ 1.36	$ .04
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, 2004	2003
Net cash provided by operating activities	$ 2,210	$ 2,893
Cash flows from investing activities:		
Proceeds from sale of property	18,111	
Properties	(245)	(945)
Other	(74)	(91)
Net cash provided by (used in) investing activities	17,792	(1,036)
Cash flows from financing activites:		
Debt retirement		(251)
Cash calls from joint interest owners		967
Net cash from financing activities		716
Net increase in cash and cash equivalents	20,002	2,573
Cash and cash equivalents, beginning of period	3,319	1,647
Cash and cash equivalents, end of period	$23,321	$ 4,220

See accompanying notes.

Notes to Financial Statements

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 2003 Form 10-KSB. This quarterly report should be read in conjunction with that annual report.

3. In July 2001, the FASB issued SFAS 143, Accounting for Asset Retirement Obligations. SFAS 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset and is effective for fiscal years beginning after June 15, 2002. We adopted SFAS 143 on January 1, 2003 and increased our liability for asset retirement obligations by $264,000 (using an 8% discount rate) and recorded a cumulative effect of change in accounting principle of $181,000. One October 1, 2003 we changed our estimate and increased our liability by an additional $300,000. All but $7,000 of this liability relates to the South Cuyama field, which was sold on September 30, 2004 as described below.

4. 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. The pro forma effect on our net income was not material for any of the periods presented. No grants were issued during the 2004 and 2003 periods.

5. On August 10, 2004, we 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 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. Closing occurred on September 30, 2004, with an effective date of June 1, 2004. We recorded a pre-tax gain of approximately $14.3 million. The estimated tax of $1.3 million due on the gain on sale is less than the statutory rate due to the utilization of NOLs, statutory depletion carryforwards and the 30% minority interest.

   On October 8, 2004 we purchased back 749,723 outstanding employee stock options at a price equal to $2.80 per share minus the exercise price of each option for a total amount of $1,305,000. The options were cancelled and are available for reissuance and no options remain outstanding. The $1,305,000 was accrued for as of September 30, 2004.

   In addition to the stock options which were purchased, bonuses of approximately $1,544,000 were paid in early October and were accrued for as of September 30, 2004. Additionally, the Key Employee Bonus Plan was paid out.

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

For background information for the readers of this Form 10-QSB, on July 21, 1997, Yorktown Energy Partners II and affiliates (Yorktown) invested $5,025,000 in Hallador Petroleum, LLP (the "Partnership"), a newly formed limited liability limited partnership. We are the general partner and received a 70% interest in the partnership in return for contributing our net assets, and Yorktown, representing the limited partners, received a 30% interest for its $5,025,000 cash contribution. As general partner, we consolidate the activity of the partnership and present the 30% limited partners' interest as a minority interest.

Due to the sale of the South Cuyama field and the adjacent exploration areas, the joint board of directors of Hallador Petroleum Company and the Executive Committee of the Partnership, voted to terminate the partnership effective October 1, 2004. Currently, the Partnership's assets consist of cash, the $3.5 million note receivable, oil and gas properties in New Mexico and Texas, and other miscellaneous assets. On October 1, 2004, the joint board of directors of Hallador Petroleum Company, and the Executive Committee of the Partnership, valued the oil and gas properties in New Mexico and Texas and the other miscellaneous assets at $4 million. No later than the first quarter 2005, we plan to distribute a substantial amount of cash to each of the general and limited partners.

We now plan to concentrate our oil and gas activity in the Rocky Mountain region.

The Board of Directors plan to meet in January 2005, to discuss liquidity options for our shareholders. Ideas on the table include, stock buybacks and/or one-time cash dividends.

RESULTS OF OPERATIONS

YEAR-TO-DATE COMPARISON

The table below provides sales data and average prices for the periods.

	2004			2003		
	Sales Volume	Average Price	Revenue	Sales Volume	Average Price	Revenue
Oil - barrels						
San Juan-New Mexico*	5,048	$23.13	$117,000	4,587	$17.00	$78,000
Krueger-Texas	769	37.08	28,000	1,088	30.35	33,000
Other	752	35.93	27,000	542	28.14	15,000
Gas - mcf						
San Juan-New Mexico	53,517	5.15	276,000	42,750	4.54	194,000
Krueger-Texas	34,385	5.87	202,000	47,299	5.82	275,000
Other	2,502	5.05	12,000	15,659	6.28	98,000

* NGLs

Oil revenue increased primarily due to higher prices. Gas revenue decreased due to lower production offset by slightly higher prices. Two gas wells included in the "Other" category in the table above for 2003 were subsequently plugged and abandoned.

DD&A decreased due to higher reserve estimates for the Krueger wells during 2004 compared to 2003.

The table below shows lease operating expenses (LOE) for our two primary fields.

	2004	2003
San Juan-New Mexico	$ 93,000	$ 86,000
Krueger-Texas	27,000	26,000
Other	18,000	53,000
	$138,000	$165,000

QUARTER-TO-DATE COMPARISON

The table below provides sales data and average prices for the periods.

	2004			2003		
	Sales Volume	Average Price	Revenue	Sales Volume	Average Price	Revenue
Oil - barrels						
San Juan-New Mexico*	1,610	$26.98	$ 43,000	1,714	$17.42	$30,000
Krueger-Texas	192	41.67	8,000	319	29.22	9,000
Other	352	38.95	14,000	174	25.86	4,000
Gas - mcf						
San Juan-New Mexico	18,565	5.49	102,000	16,817	4.44	75,000
Krueger-Texas	9,089	6.18	56,000	13,860	5.28	73,000
Other	1,018	5.27	5,000	3,777	6.28	24,000

*NGLs

The explanations above for the year-to-date comparisons also apply to the quarter-to-date comparisons.

DD&A decreased due to higher reserve estimates for the Krueger wells during 2004 compared to 2003.

The table below shows lease operating expenses (LOE) for our two primary fields.

	2004	2003
San Juan-New Mexico	$ 30,000	$ 8,000
Krueger-Texas	9,000	10,000
Other	17,000	11,000
	$ 56,000	$ 29,000

LIQUIDITY AND CAPITAL RESOURCES

Due to the large amount of cash on hand, liquidity is not a concern at the present time.

We have no bank debt, no special purpose entities and no off-balance sheet arrangements nor did we enter into any related party transactions.

THE FOLLOWING DISCUSSION UPDATES THE MD&A CONTAINED IN ITEM 6 OF THE 2003 FORM 10-KSB AND THE TWO DISCUSSIONS SHOULD BE READ TOGETHER.

PROSPECT DEVELOPMENT AND EXPLORATION ACTIVITY

San Juan - New Mexico

We have made offers to buyout our joint interest partners. If all of the offers were accepted, our obligation would be approximately $10 million. Most of the partners have indicated that they are not interested, but we are negotiating with a few partners, and could be purchasing an additional $2 million of working interest.

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 significant 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. Exhibit

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 19, 2004

By:/S/ VICTOR P. STABIO
CEO and CFO
Signing on behalf of registrant
and as principal financial officer.