HALLADOR PETROLEUM CO
Form 10QSB
May 20, 2003

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 March 31, 2003

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 May 14, 2003: 7,093,150

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PART I - FINANCIAL INFORMATION

Consolidated Balance Sheet
(in thousands)

	March 31, 2003	December 31, 2002*

ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,805	$ 1,647
Fair value of crude oil put options (cost $83)	140	
Accounts receivable-		
Oil and gas sales	848	680
Well operations	193	146
Total current assets	3,986	2,473
Oil and gas properties, at cost (successful efforts):		
Unproved properties	249	247
Proved properties	25,212	25,058
Less - accumulated depreciation, depletion and amortization	(19,089)	(18,836)
	6,372	6,469
Oil and gas operator bonds	417	417
Investment in Catalytic Solutions	164	164
Other assets	37	38
	$10,976	$ 9,561
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 686	$ 527
Oil and gas sales payable	650	185
Total current liabilities	1,336	712
Bank debt	244	251
Key employee bonus plan	227	209
Future site restoration-South Cuyama Field	935	653
Minority interest	4,912	4,763
Commitments and contingencies		
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	(14,810)	(15,159)
	3,322	2,973
	$10,976	$ 9,561

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*Derived from the Form 10-KSB.

See accompanying notes.

Consolidated Statement of Operations
(in thousands)

	Three months ended March 31, 2003	2002
Revenue:		
Oil	$2,103	$1,322
Gas	348	257
Unrealized gain on crude oil put options	57	
Interest and other	55	8
	2,563	1,587
Costs and expenses:		
Lease operating	1,237	1,075
Exploration costs	20	19
Depreciation, depletion and amortization	285	692
General and administrative	342	231
	1,884	2,017
Income (loss) before cumulative effect of change in accounting principle	679	(430)
Cumulative effect of change in accounting principle	(181)	
Income (loss) before minority interest	498	(430)
Minority interest	(149)	129
Net income (loss)	$ 349	$ (301)
Income (loss) per share - basic and diluted:		
Before cumulative effect of change in accounting principal	$ .07	$ (.04)
Cumulative effect of change in accounting principle	(.02)	
Net income (loss)	$ .05	$ (.04)
Weighted average shares outstanding - basic	7,093	7,093

See accompanying notes.

Consolidated Statement of Cash Flows
(in thousands)

	Three months ended March 31, 2003	2002

Net cash provided by operating activities	$1,245	$ 121
Cash flows from investing activities:		
Properties	(86)	(379)
Other assets	(1)	37
Net cash used in investing activities	(87)	(342)
Net increase (decrease)in cash and cash equivalents	1,158	(221)
Cash and cash equivalents, beginning of period	1,647	2,078
Cash and cash equivalents, end of period	$ 2,805	$1,857

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 2002 Form 10-KSB. This quarterly report should be read in conjunction with that annual report.

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3. In July 2001, the Financial Accounting Standards Board approved for issuance SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 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 No. 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. For the three months ended March 31, 2003, we recognized $18,000 of accretion on the liability as a component of depletion expense.

   The following sets forth the pro forma effect on net earnings and earnings per share for the three months ended March 31, 2002 as if SFAS No. 143 had been adopted on January 1, 2002:

	Three months ended March 31, 2002 (In thousands, except per share data)
Net loss:	
As reported	$(301)
Pro forma	(329)

Basic and diluted net loss per share:	
As reported	(.04)
Pro forma	(.05)

If SFAS No. 143 had been adopted as of January 1, 2002, the pro forma asset retirement obligation at that date would have been $850,000.

4. As allowed in Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," we continue to apply Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees," and related interpretations in recording compensation related to our plan. The supplemental disclosures required by SFAS No. 123, as amended in SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," related to our stock option plan are presented below.

   Under SFAS No. 123, compensation cost would be recognized for the fair value of the employee's option rights. The fair value of each option was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions for option grants made in 2002 (there were no grants issued in the first quarter of 2003):

	2002
Expected option life	10 years
Volatility	120%
Risk-free interest rate	4.14%

   Had compensation cost for our stock based compensation plan been based upon the fair value at the grant dates for awards under the plan consistent with the method of SFAS No. 123 using the Black Scholes model, our net income and earnings per share would have been recorded as the pro forma amounts indicated below for the three months ended March 31, 2003 and 2002 (in thousands, except per share data):

	2003	2002
Net income (loss):		
As reported	$ 349	$(301)
Pro forma	337	(317)
Basic and diluted net income (loss) per share:		
As reported	.05	(.04)
Pro forma	.05	(.04)

5. Through mid February 2003, we had never entered into any commodity derivative agreements since acquiring the SC Field. During mid February 2003 oil prices in the field reached a level of about $36 per barrel. For the first time we purchased puts on 23,000 barrels of oil for the month of June 2003 (strike price of $29.00 per barrel) and 16,500 barrels of oil for the month of July 2003 (average strike price of $30.48 per barrel). Our total investment was $83,000. At March 31, 2003 the fair value of these puts was $140,000. During the second quarter we sold the puts for $122,000. Our net gain from this transaction was $39,000. For accounting purposes we realized a gain of $57,000 in the first quarter and in the second quarter

we will recognize a loss of $18,000.

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

RESULTS OF OPERATIONS

YEAR-TO-DATE COMPARISON

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

	2003			2002		
	Sales Volume	Average Price	Revenue	Sales Volume	Average Price	Revenue
Oil - barrels						
South Cuyama field	65	$31.71	$2,061	70	$18.29	$1,280
Other	2	21.00	42	3	14.00	42
Gas - mcf						
South Cuyama field	21	5.81	122	27	2.41	65
San Juan - New Mexico	13	4.77	62	13	1.46	19
Other	27	6.07	164	73	2.37	173

Oil and gas revenue increased due to higher prices offset by lower production as set forth in the table above. Oil and gas production in the South Cuyama field declined due to the natural depletion of the field which is over 50 years old. Decrease in other gas production was due to the significant production decline in our South Texas - Bonus field. As previously disclosed, we took an impairment charge of $840,000 in the second quarter of 2002 for this field.

Current prices for the South Cuyama field are about $26.00 for oil and $5.38 for gas and San Juan gas is about $4.00.

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

	2003	2002
South Cuyama field:		
LOE excluding electricity	$ 858	$ 688
Electricity	320	319
	1,178	1,007
San Juan - New Mexico	26	16
Other	33	52
Total	$1,237	$1,075

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LOE in the field increased due to higher operating expenses relating to the new equipment we had to install in the first quarter of 2003 in order to remove CO2 from our gas stream. Furthermore, when oil prices are high, we perform more repair and maintenance in the field compared to when prices are low (see the table above for 2003 and 2002 average oil prices.)

The increase in G&A was due to higher 2002 audit and tax fees -$35,000, accruals for 2003 audit and tax fees - $15,000, higher employee costs - $40,000, and other minor increases of $21,000.

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DD&A decreased due to higher reserve estimates at March 31, 2003 compared to March 31, 2002. The increase in reserves was due to higher oil prices.

LIQUIDITY AND CAPITAL RESOURCES

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

Bank Debt

The SC Field, our principal asset, is pledged to U. S. Bank National Association under a $2,200,000 revolving line of credit which was renewed on March 31, 2002. At March 31, 2003 we owed $244,000 under this line. On April 28, 2003 the loan was paid off.

THE FOLLOWING DISCUSSION UPDATES THE MD&A CONTAINED IN ITEM 6 OF THE 2002 FORM 10-KSB AND THE TWO DISCUSSIONS SHOULD BE READ TOGETHER.

PROSPECT DEVELOPMENT AND EXPLORATION ACTIVITY

South Cuyama Field

Based on the results of our 3-D project we have identified four wildcat sites located outside the field boundaries. Also, we have identified six developmental drilling opportunities within the boundaries of the field. We plan to drill one wildcat and two to three development locations before the end of 2003.

San Juan Basin - New Mexico

Two successful development gas wells were drilled during April. We expect to assign proved developed reserves of at least 1 BCF per well. Our net revenue interest in these wells is about 5%. Three more development gas wells are planned within the next four months.

Crude Oil Put Options

Through mid February 2003, we had never entered into any commodity derivative agreements since acquiring the SC Field. During mid February 2003 oil prices in the field reached a level of about $36 per barrel. For the first time we purchased puts on 23,000 barrels of oil for the month of June 2003 (strike price of $29.00 per barrel) and 16,500 barrels of oil for the month of July 2003 (average strike price of $30.48 per barrel). Our total investment was $83,000. At March 31, 2003 the fair value of these puts was $140,000. During the second quarter we sold the puts for $122,000. Our net gain from this transaction was $39,000. For accounting purposes we realized a gain of $57,000 in the first quarter and in the second quarter we will recognize a loss of $18,000.

SFAS No. 143 - "Accounting for Asset Retirement Obligations"

In July 2001, the Financial Accounting Standards Board approved for issuance SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 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 No. 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. For the three months ended March 31, 2003, we recognized $18,000 of accretion on the liability as a component of depletion expense.

There are no other significant changes or developments to report from what we disclosed in the 2002 Form 10-KSB.

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.

Within the 90-day period prior to the filing of 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 5. Other information.

On Thursday, June 19, 2003 at 9:30 MDT at our offices, we are holding a "Informational Meeting" for all shareholders. This meeting is intended to provide our shareholders with an overview of our activities and operations. It will also provide a forum for any questions you may have. If you plan to attend, please contact Rebecca Palumbo at 800.839.5506.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

99 - SOX 906 Certification

(b) No reports on Form 8-k were filed during the quarter.

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: May 20, 2003

By: /S/VICTOR P. STABIO
Chief Executive Officer and
Chief Financial Officer

Signing on behalf of registrant
and as principal financial officer.

CERTIFICATION

I, Victor P. Stabio, certify that:

1. I have reviewed the quarterly report on Form 10-QSB of Hallador Petroleum Company;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and I have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report my conclusion about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls, which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 20, 2003

/S/Victor P. Stabio
Chief Executive Officer and Chief Financial Officer