

Section 1: 10-Q (FORM 10-Q)

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: June 30, 2017

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)

Registrant'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 Regulations 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of August 7, 2017, we had 29,763,449 shares outstanding.

TABLE OF CONTENTS

<u>PART I - FINANCIAL INFORMATION</u>	3
<u>ITEM 1. FINANCIAL STATEMENTS</u>	3
<u>Consolidated Balance Sheets</u>	3
<u>Consolidated Statements of Comprehensive Income</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	5
<u>Consolidated Statement of Stockholders' Equity</u>	6
<u>Notes to Consolidated Financial Statements</u>	7
<u>Report of Independent Registered Public Accounting Firm</u>	12
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	13
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	16
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	17
<u>PART II - OTHER INFORMATION</u>	17
<u>ITEM 4. MINE SAFETY DISCLOSURES</u>	17
<u>ITEM 6. EXHIBITS</u>	17

PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

Hallador Energy Company
Consolidated Balance Sheets
(in thousands)
(unaudited)

	June 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10,079	\$ 9,788
Restricted cash (Note 5)	3,320	2,817
Certificates of deposit	3,436	7,315
Marketable securities	1,852	1,763
Accounts receivable	17,105	22,307
Coal inventory	22,788	10,100
Parts and supply inventory	10,441	10,091
Purchased coal contracts	4,480	8,922
Prepaid expenses	11,170	9,647
Total current assets	<u>84,671</u>	<u>82,750</u>
Coal properties, at cost:		
Land and mineral rights	126,682	126,303
Buildings and equipment	346,052	339,999
Mine development	131,944	126,037
Total coal properties, at cost	604,678	592,339
Less - accumulated DD&A	<u>(187,159)</u>	<u>(169,579)</u>
Total coal properties, net	417,519	422,760
Investment in Savoy (Note 3)	7,833	7,577
Investment in Sunrise Energy (Note 3)	4,124	4,122
Other assets (Note 4)	13,772	14,114
Total assets	<u>\$ 527,919</u>	<u>\$ 531,323</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of bank debt, net	\$ 33,171	\$ 28,796
Accounts payable and accrued liabilities	19,904	19,773
Total current liabilities	<u>53,075</u>	<u>48,569</u>
Long-term liabilities:		
Bank debt, net	188,359	204,944
Deferred income taxes	44,783	45,174
Asset retirement obligations (ARO)	13,480	13,260
Other	2,808	2,486
Total long-term liabilities	<u>249,430</u>	<u>265,864</u>
Total liabilities	<u>302,505</u>	<u>314,433</u>
Stockholders' equity:		
Preferred stock, \$.10 par value, 10,000 shares authorized; none issued	-	-
Common stock, \$.01 par value, 100,000 shares authorized; 29,763 and 29,413 shares outstanding, respectively	297	294
Additional paid-in capital	96,915	93,816
Retained earnings	127,446	122,052
Accumulated other comprehensive income	756	728
Total stockholders' equity	<u>225,414</u>	<u>216,890</u>
Total liabilities and stockholders' equity	<u>\$ 527,919</u>	<u>\$ 531,323</u>

See accompanying notes

Hallador Energy Company
Consolidated Statements of Comprehensive Income
(in thousands, except per share data)
(unaudited)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2017	2016	2017	2016
Revenue:				
Coal sales	\$ 125,384	\$ 142,069	\$ 62,829	\$ 66,274
Equity income (loss) - Savoy	256	(68)	44	257
Equity income (loss) - Sunrise Energy	2	(158)	(17)	(83)
MSHA reimbursement	1,636	1,753	1,250	1,753
Other income	587	853	206	363
Total revenue	127,865	144,449	64,312	68,564
Costs and expenses:				
Operating costs and expenses	83,771	95,174	44,079	45,397
DD&A	18,804	18,238	9,101	9,056
ARO accretion	421	504	214	249
Coal exploration costs	414	814	275	395
SG&A	9,236	5,491	6,578	2,729
Interest ⁽¹⁾	6,433	10,093	3,342	4,503
Total costs and expenses	119,079	130,314	63,589	62,329
Income before income taxes	8,786	14,135	723	6,235
Less income taxes:				
Current	1,374	-	1,357	(768)
Deferred	(391)	2,120	(1,023)	1,150
Total income taxes	983	2,120	334	382
Net income ⁽²⁾	\$ 7,803	\$ 12,015	\$ 389	\$ 5,853
Net income per share (Note 6):				
Basic and diluted	\$ 0.25	\$ 0.40	\$ 0.01	\$ 0.19
Weighted average shares outstanding:				
Basic and diluted	29,458	29,251	29,503	29,251

(1) Interest expense for the first six months of 2017 and 2016 includes \$(440) and \$1,748, respectively, for the net change in the estimated fair value of our interest rate swaps. Such amounts were \$(20) and \$249 for Q2 2017 and 2016, respectively.

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

See accompanying notes.

Hallador Energy Company
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Six Months Ended June 30,	
	2017	2016
Operating activities:		
Cash provided by operating activities	\$ 23,458	\$ 30,389
Investing activities:		
Capital expenditures ⁽¹⁾	(11,855)	(7,875)
Proceeds from sale of equipment	343	-
Proceeds from maturities of certificates of deposit	3,879	-
Purchase of Freelandville assets	-	(18,000)
Other	-	186
Cash used in investing activities	(7,633)	(25,689)
Financing activities:		
Payments on bank debt	(13,125)	(14,929)
Bank borrowings	-	15,000
Debt issuance costs	-	(2,090)
Dividends	(2,409)	(2,394)
Cash used in financing activities	(15,534)	(4,413)
Increase in cash and cash equivalents	291	287
Cash and cash equivalents, beginning of period	9,788	15,930
Cash and cash equivalents, end of period	<u>\$ 10,079</u>	<u>\$ 16,217</u>

(1) We acquired \$1.5 million in capital equipment in Q2 2017 that was prepaid in a prior period.

See accompanying notes.

Hallador Energy Company
Consolidated Statement of Stockholders' Equity
(in thousands)
(unaudited)

	<u>Shares</u>	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>AOCI*</u>	<u>Total</u>
Balance January 1, 2017	29,413	\$ 294	\$ 93,816	\$ 122,052	\$ 728	\$ 216,890
Stock-based compensation	-	-	5,391	-	-	5,391
Stock issued on vesting of RSUs	644	3	-	-	-	3
Taxes paid on vesting of RSUs	(294)	-	(2,292)	-	-	(2,292)
Dividends	-	-	-	(2,409)	-	(2,409)
Net income	-	-	-	7,803	-	7,803
Other	-	-	-	-	28	28
Balance, June 30, 2017	<u>29,763</u>	<u>\$ 297</u>	<u>\$ 96,915</u>	<u>\$ 127,446</u>	<u>\$ 756</u>	<u>\$ 225,414</u>

*Accumulated Other Comprehensive Income

See accompanying notes.

Hallador Energy Company
Notes to Consolidated Financial Statements
(unaudited)

(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 six months ended June 30, 2017 are not necessarily indicative of the results to be expected for future quarters or for the year ending December 31, 2017. To maintain consistency and comparability, certain 2016 amounts have been reclassified to conform to the 2017 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 2016 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.

New Accounting Standards Issued and Adopted

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory ("ASU 2015-11"). ASU 2015-11 simplifies the subsequent measurement of inventory. It replaces the current lower of cost or market test with the lower of cost or net realizable value test. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The new standard was applied prospectively and is effective for annual reporting periods beginning after December 15, 2016 and interim periods within those annual periods, with early adoption permitted. The adoption of ASU 2015-11 did not have a material impact on our consolidated financial statements.

New Accounting Standards Issued and Not Yet Adopted

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." ASU 2014-09 is a comprehensive revenue recognition standard that will supersede nearly all existing revenue recognition guidance under current U.S. GAAP and replace it with a principle-based approach for determining revenue recognition. ASU 2014-09 will require that companies recognize revenue based on the value of transferred goods or services as they occur in the contract. The ASU also will require additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted only in annual reporting periods beginning after December 15, 2016, including interim periods therein. Entities will be able to transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. The Company's primary source of revenue is from the sale of coal through both short-term and long-term contracts with utility companies whereby revenue is currently recognized when risk of loss has passed to the customer. Upon adoption of this new standard, the Company believes that the timing of revenue recognition related to our coal sales will remain consistent with our current practice. The Company is currently evaluating other revenue streams to determine the potential impact related to the adoption of the standard, as well as potential disclosures required by the standard. Because we do not anticipate a change in our pattern of revenue recognition, we anticipate that neither method will have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) ("ASU 2016-02"). ASU 2016-02 increases transparency and comparability among organizations by requiring lessees to record right-to-use assets and corresponding lease liabilities on the balance sheet and disclosing key information about lease arrangements. The new guidance will classify leases as either finance or operating (similar to current standard's "capital" or "operating" classification), with classification affecting the pattern of income recognition in the statement of income. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. We are currently in the process of accumulating all contractual lease arrangements in order to determine the impact on our financial statements and do not believe we have significant amounts of off-balance sheet leases; accordingly, we do not expect the adoption of ASU 2016-02 to have a material impact on our consolidated financial statements.

(2) Bank Debt

On March 18, 2016, we executed an amendment to our credit agreement with PNC, as administrative agent for our lenders, for the primary purpose of increasing liquidity and maintaining 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 June 30, 2017, was \$225 million (term-\$88 million, revolver-\$137 million). As of June 30, 2017, we had additional borrowing capacity of \$63 million and total liquidity of \$79 million.

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 (Sunrise total funded debt/ trailing 12 months adjusted EBITDA) to those listed below:

Fiscal Periods Ending	Ratio
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 amended credit facility also requires a debt service coverage ratio minimum of 1.25X through the maturity of the credit facility. The amendment defines the debt service coverage as Sunrise's trailing 12 months adjusted EBITDA/annual debt service.

At June 30, 2017, our maximum leverage ratio was 2.76, and our debt service coverage ratio was 2.15. 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 leverage ratio. We entered into swap agreements to fix the LIBOR component of the interest rate to achieve an effective fixed rate of ~5% on the original term loan balance and on \$100 million of the revolver. The revolver swap steps down 10% each quarter which commenced on March 31, 2016.

At June 30, 2017, we were paying LIBOR at 1.04% plus 3.50% for a total interest rate of 4.54%.

Bank debt less debt issuance costs are presented below (in thousands):

	June 30, 2017	December 31, 2016
Current debt	\$ 35,000	\$ 30,625
Less debt issuance cost	(1,829)	(1,829)
Net current portion	<u>\$ 33,171</u>	<u>\$ 28,796</u>
Long-term debt	\$ 190,492	\$ 207,992
Less debt issuance cost	(2,133)	(3,048)
Net long-term portion	<u>\$ 188,359</u>	<u>\$ 204,944</u>

(3) Equity Method Investments

We own a 30.6% interest in Savoy Energy, L.P., a private company engaged in the oil and gas business primarily in the State of Michigan.

We also 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.

(4) Other Assets (in thousands)

	June 30, 2017	December 31, 2016
Other assets:		
Advanced coal royalties	\$ 9,228	\$ 9,296
Marketable equity securities available for sale, at fair value (restricted)*	1,968	2,036
Other	2,576	2,782
Total other assets	<u>\$ 13,772</u>	<u>\$ 14,114</u>

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

(5) Self-Insurance

We self-insure our underground mining equipment. Such equipment is allocated among ten mining units spread out over 18 miles. The historical cost of such equipment is approximately \$253 million.

Restricted cash of \$3.3 million represents cash held and controlled by a third party and is restricted for future workers' compensation claim payments.

(6) 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 allocated to common shareholders for the six and three months ended June 30 (in thousands):

	Six Months Ended		Three Months Ended	
	2017	2016	2017	2016
Numerator:				
Net income	\$ 7,803	\$ 12,015	\$ 389	\$ 5,853
Less earnings allocated to RSUs	(304)	(315)	(16)	(157)
Net income allocated to common shareholders	<u>\$ 7,499</u>	<u>\$ 11,700</u>	<u>\$ 373</u>	<u>\$ 5,696</u>

(7) Asset Impairment Review

In December 2016, the deterioration of the North End of the Carlisle Mine (the North End), coupled with lower coal prices led us to determine that the North End could no longer be mined safely and profitably. The sealing of the North End was completed in March 2017.

With the Carlisle Mine remaining in hot idle status, we conducted a review of the Carlisle Mine assets as of June 30, 2017, based on estimated future net cash flows, and determined that no impairment was necessary.

The Carlisle Mine assets had an aggregate net carrying value of \$113 million at June 30, 2017. If in future periods, 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. None of our other assets are considered impaired.

(8) Income Taxes

Our effective tax rate (ETR) for 2017 was estimated at 11% and 15% for the six months ended June 30, 2017 and 2016, respectively. Assuming no changes in our expected results of operations, we expect our ETR for the remainder of 2017 to be about the same as the first six months of 2017. Our ETR differs from the statutory rate due primarily to statutory depletion in excess of tax basis, which is a permanent difference.

(9) Restricted Stock Units (RSUs)

Non-vested grants at December 31, 2016	733,000
Vested - April 1, 2017 –share price on vesting date was \$8.54	(149,500)
Granted – May 16, 2017 – share price on grant date was \$7.74	495,000
Vested – May 16, 2017 –share price on vesting date was \$7.74	(495,000)
Granted - June 1, 2017 - share price on grant date was \$7.49	70,000
Granted- June 6, 2017 – share price on grant date was \$8.23	645,000
Forfeited	(6,500)
Non-vested grants at June 30, 2017 ⁽¹⁾	<u>1,292,000</u>

(1) Following is the vesting schedule of RSUs.

<u>Vesting Year</u>	<u>RSUs Vesting</u>
2017	346,000
2018	178,250
2019	375,250
2020	231,250
2021	161,250
	<u>1,292,000</u>

On May 25, 2017, the Hallador Energy Company 2008 Restricted Stock Unit Plan (the Plan) was amended and restated to extend the term of the Plan to May 25, 2027 and add 1,000,000 shares to the Plan.

At June 30, 2017, we had 1,236,866 RSUs available for future issuance.

On the vesting dates above, the shares that vested had a value of \$5.1 million for the six months ended June 30, 2017. Under our RSU plan, participants are allowed to relinquish shares to pay for their required statutory income taxes.

For the six months ended June 30, 2017 and 2016, our stock based compensation was \$5.4 million and \$1.2 million, respectively. For the three months ended June 30, 2017 and 2016, our stock based compensation was \$4.6 million and \$.6 million, respectively.

The outstanding RSUs have a value of \$8.55 million based on the August 7, 2017 closing stock price of \$6.62.

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 balance sheet of Hallador Energy Company and subsidiaries (the "Company") as of June 30, 2017, the related consolidated statements of comprehensive income for the six and three-month periods ended June 30, 2017 and 2016, the consolidated statements of cash flows for the six-month periods ended June 30, 2017 and 2016, and the consolidated statement of stockholders' equity for the six-month period ended June 30, 2017. 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 referred to above 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, 2016, 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 10, 2017, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2016, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

/s/ EKS&H LLLP

August 8, 2017

Denver, Colorado

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE FOLLOWING DISCUSSION UPDATES THE MD&A SECTION OF OUR 2016 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

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.

	Minimum Tons To Be Sold			Maximum Tons To Be Sold			Estimated
	Priced Tons	Unpriced Tons	Total Tons	Priced Tons	Unpriced Tons	Total Tons	Prices @ Minimum Tons
2017 (last six months)	3,093	-	3,093	3,218	-	3,218	\$ 41.38
2018	2,904	-	2,904	3,405	-	3,405	43.04
2019	2,499	810	3,309	3,341	1,210	4,551	43.72
2020	1,810	1,199	3,009	2,210	1,791	4,001	45.57
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	
	<u>10,306</u>	<u>8,457</u>	<u>18,763</u>	<u>12,174</u>	<u>12,633</u>	<u>24,807</u>	

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 8-13 million tons committed but unpriced through 2024. We currently have a minimum of 6.2 million tons contracted for 2017, of which 3.1 million were sold during the first six months of 2017; we project total contracted tons for 2017 to range from 6.3 to 6.6 million.

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 Impairment Review

See Note 7 to our financial statements.

Liquidity and Capital Resources

As set forth in our Statement of Cash Flows, cash provided by operations was \$23 million in 2017 and \$30 million in 2016. The decrease is primarily the result of our increase in coal inventory, which we anticipate normalizing in the second half of the year. Our capex budget for the next six months is \$21 million, of which \$11 million is for maintenance capex. Cash provided by operations for the next six months should fund our maintenance capital expenditures, debt service, and dividend.

Other than our surety bonds for reclamation, we have no material off-balance sheet arrangements. Our surety bonds covering reclamation total \$25 million in the event we are not able to perform.

Capital Expenditures (capex)

For the first six months, capex for 2017 was \$13.4 million, including \$1.5 million of non-cash acquisitions, allocated as follows (in millions):

Oaktown – investment	\$	5.9
Oaktown – maintenance capex		7.2
Other projects		0.3
Capex per the Cash Flow Statement	\$	<u>13.4</u>

Results of Operations

Oaktown's cash costs were \$24.73/ton and \$26.30/ton for the six months and three months ended June 30, 2017, respectively. We see Oaktown's costs ranging from \$26 to \$28 for the remainder of 2017. We expect SG&A for the remainder of 2017 to be \$5 million and cash costs associated with Prosperity and Carlisle for the remainder of 2017 to be \$3.5 million.

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

	3 rd 2016	4 th 2016	1 st 2017	2 nd 2017	T4Qs
Tons sold	1,485	1,739	1,555	1,548	6,327
Coal sales	\$ 65,360	\$ 71,495	\$ 62,555	\$ 62,829	\$ 262,239
Average price/ton	\$ 44.01	\$ 41.11	\$ 40.23	\$ 40.59	\$ 41.45
Wash plant recovery in %	68%	67%	67%	61%	
Operating costs	\$ 46,940	\$ 50,663	\$ 39,692	\$ 44,079	\$ 181,374
Average cost/ton	\$ 31.61	\$ 29.13	\$ 25.53	\$ 28.47	\$ 28.67
Margin	\$ 18,420	\$ 20,832	\$ 22,863	\$ 18,750	\$ 80,865
Margin/ton	\$ 12.40	\$ 11.98	\$ 14.70	\$ 12.11	\$ 12.78
Capex	\$ 3,935	\$ 8,022	\$ 3,093	\$ 10,260	\$ 25,310
Maintenance capex	\$ 1,709	\$ 5,301	\$ 836	\$ 6,581	\$ 14,427
Maintenance capex/ton	\$ 1.15	\$ 3.05	\$.54	\$ 4.25	\$ 2.28

	3 rd 2015	4 th 2015	1 st 2016	2 nd 2016	T4Qs
Tons sold	1,791	1,432	1,629	1,464	6,316
Coal sales	\$ 81,332	\$ 65,762	\$ 75,795	\$ 66,274	\$ 289,163
Average price/ton	\$ 45.41	\$ 45.92	\$ 46.53	\$ 45.27	\$ 45.78
Wash plant recovery in %	69%	64%	65%	63%	
Operating costs	\$ 56,995	\$ 46,470	\$ 49,777	\$ 45,397	\$ 198,639
Average cost/ton	\$ 31.82	\$ 32.45	\$ 30.56	\$ 31.01	\$ 31.45
Margin	\$ 24,337	\$ 19,292	\$ 26,018	\$ 20,877	\$ 90,524
Margin/ton	\$ 13.59	\$ 13.47	\$ 15.97	\$ 14.26	\$ 14.33
Capex	\$ 4,070	\$ 4,058	\$ 6,053	\$ 1,822	\$ 16,003
Maintenance capex	\$ 1,816	\$ 1,047	\$ 2,984	\$ 904	\$ 6,751
Maintenance capex/ton	\$ 1.01	\$ 0.73	\$ 1.83	\$.62	\$ 1.07

The increase in maintenance capex/ton for 2Q 2017 is the result of our maintenance program normalizing costs back to our traditional \$3-\$4 per ton range.

2017 v. 2016 (first six months)

For 2017, we sold 3,103,000 tons at an average price of \$40.41/ton. For 2016, we sold 3,093,000 tons at an average price of \$45.93/ton. The decrease in average price per ton is the result of our contract mix, expiration of contracts, and acquisition of other contracts.

Operating costs and expenses averaged \$27.00/ton (\$24.73/ton at our operating Oaktown mines) in 2017 and \$30.77/ton (\$28.07 at Oaktown) in 2016. This ~\$2-3 reduction in cost was due to two primary factors. First, we made a conscious effort to produce more tons in the first six weeks of the first quarter, in anticipation of stronger market demand. Secondly, we added new haulage equipment to some of the units at the Oaktown mines; those units are seeing production increases of ~30%. Both of these factors combined, led to a 20% increase in production over our 2016 average production. Late in Q3, we anticipate the arrival of additional haulage equipment and the implementation of a new elevator at Oaktown 1. Both investments will contribute to maintaining our low-cost structure.

SG&A expenses are \$3.7 million higher in 2017 than in 2016 due primarily to a stock bonus of \$3.8 million awarded to three executives as reported in our 8-K filed May 17, 2017.

Our Sunrise Coal employees totaled 717 at June 30, 2017 compared to 710 at June 30, 2016.

2017 v. 2016 (second quarter)

For 2017, we sold 1,548,000 tons at an average price of \$40.59/ton. For 2016, we sold 1,464,000 tons at an average price of \$45.27/ton. The decrease in average price per ton is the result of our contract mix, expiration of contracts, and acquisition of other contracts.

Operating costs and expenses averaged \$28.47/ton (\$26.30/ton at our operating Oaktown mines) in 2017 and \$31.01/ton (\$28.29 at Oaktown) in 2016.

SG&A expenses are \$3.8 million higher in 2017 than in 2016 due primarily to a stock bonus of \$3.8 million awarded to three executives as reported in our 8-K filed May 17, 2017.

Earnings (loss) per Share

	3 rd 2016	4 th 2016	1 st 2017	2 nd 2017
Basic and diluted	\$.14	\$ (.13)	\$.25	\$.01
	3 rd 2015	4 th 2015	1 st 2016	2 nd 2016
Basic and diluted	\$.17	\$.02	\$.21	\$.19

Income Taxes

Our effective tax rate (ETR) for 2017 was estimated at 11% and 15% for the six months ended June 30, 2017 and 2016, respectively. Assuming no changes in our expected results of operations, we expect our ETR for the remainder of 2017 to be about the same as the first six months. 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 2012 in June 2015 and received \$1.75 million from one of our customers in June 2016. We received an additional payment of \$1.25 million in Q2 2017 for 2012 costs. As stated above we do not record such reimbursements as revenue until they have been agreed to by our customers.

Incurred costs for 2013 – 2016 will be submitted in 2017. 2013 costs are expected to be between \$2 million and \$2.7 million. Such reimbursable costs for 2014 through 2016 are not expected to be material.

Restricted Stock Grants

On May 16, 2017, the Board authorized the grant and immediate vesting of 495,000 RSUs to our executives as reported in our 8-K filed May 17, 2017. On May 16, 2017, the grant and vesting date of those RSUs, the shares were valued at \$7.74 per share based upon the closing price on that date.

Under our RSU plan, the participants are allowed to relinquish shares to pay for their required statutory income taxes. Of the 495,000 RSUs granted, 230,057 shares were relinquished back to the Company as consideration for the income taxes due.

As part of our executive Four-Year Compensation Plan, on June 6, 2017, the Board authorized the grant of 645,000 RSUs to our executives as reported in our 8-K filed June 9, 2017. The shares were valued at \$5.3 million based upon \$8.23 per share, the closing stock price on the date of grant. These RSUs vest over four years, with the first vesting date on December 16, 2018.

For the six months ended June 30, 2017 and 2016, our stock based compensation was \$5.4 million and \$1.2 million, respectively. For the three months ended June 30, 2017 and 2016, our stock based compensation was \$4.6 million and \$.6 million, respectively.

Critical Accounting Estimates

We believe that the estimates of our coal reserves, our deferred tax accounts, our business acquisitions, 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.

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. 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

See "Item 1. Financial Statements - Note 1. General Business" for a discussion of new accounting standards.

Yorktown Distributions

Yorktown Energy Partners and its affiliated partnerships (Yorktown) own approximately 18.3% of our total shares outstanding as of June 30, 2017. Yorktown has made 14 distributions to their numerous partners since May 2011. Yorktown last distributed shares in November 2016.

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 2016 Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls

We maintain a system of disclosure controls and procedures that are designed for the purpose 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 June 30, 2017 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 4. MINE SAFETY DISCLOSURES

See Exhibit 95 to this Form 10-Q for a listing of our mine safety violations.

ITEM 6. EXHIBITS

10	Retention Plan
15	Letter Regarding Unaudited Interim Financial Information
31	SOX 302 Certifications
32	SOX 906 Certification
95	Mine Safety Report
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: August 8, 2017

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

18

[\(Back To Top\)](#)

Section 2: EX-10 (EXHIBIT 10)

Exhibit 10

HALLADOR ENERGY COMPANY FOUR-YEAR PLAN

Capitalized terms used and not otherwise defined herein are defined for purposes of this Four-Year Plan as follows:

"Cause" means:

(i) The Covered Person's willful and continued material failure to perform the reasonable duties and responsibilities of his or her position after the Corporation has provided the Covered Person with a written demand for performance that describes the basis for the Corporation's belief that the Covered Person has not substantially performed his or her duties and the Covered Person has not corrected the failure within thirty (30) days of the written demand;

(ii) Any act of personal dishonesty taken by the Covered Person in connection with his or her responsibilities as an employee of the Corporation and intended to result in his or her substantial personal enrichment;

(iii) The Covered Person's conviction of, or plea of nolo contendere to, a felony that the Board reasonably believes has had or will have a material detrimental effect on the Corporation's reputation or business; or

(iv) The Covered Person's breach of any fiduciary duty owed to the Corporation by the Covered Person that has a material detrimental effect on the Corporation's reputation or business.

"Change of Control" means any Change of Control or ownership of the Corporation which occurs by reason of one or more of the following events:

(i) the acquisition by any person or group of related persons (as determined pursuant to section 13(d)(3) of the 1934 Act) of beneficial ownership of securities of the Corporation representing fifty percent (50%) or more of the total number of votes that may be cast for the election of Board members, or

(ii) stockholder approval of (A) any agreement for a merger or consolidation in which the Corporation will not survive as an independent corporation or other entity, or (B) any sale, exchange or other disposition of all or substantially all of the Corporation's assets, including, without limitation, the sale, exchange or other disposition of the equity securities or assets of Sunrise Coal, LLC.

Notwithstanding anything herein to the contrary, with respect to any amounts that constitute

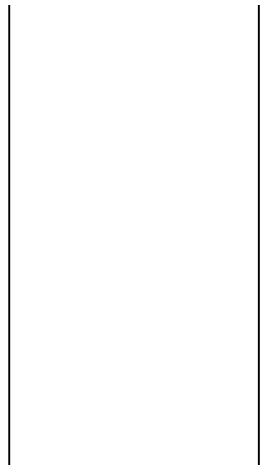
Definitions

nonqualified deferred compensation under Code Section 409A and that would be payable in connection with a Change of Control, to the extent required to avoid accelerated or additional taxation under such section, no Change of Control will be deemed to have occurred unless such Change of Control also constitutes a change in the ownership or effective control of the Corporation or a change in the ownership of a substantial portion of the Corporation's assets within the meaning of Code Section 409A (a)(2)(A)(v).

"Closing" means the closing date of a transaction that results in a Change of Control, as set forth in the definitive agreement governing such transaction.

"Covered Person" means the Corporation's Chief Executive Officer and President, Corporate Secretary and Chairman of the Board, and Chief Financial Officer.

"Good Reason" means the occurrence of one or more of the following without the Covered Person's written consent:



(i) A fifteen percent (15%) or more reduction in the Covered Person's total annual cash compensation opportunity (base salary and target bonus opportunity collectively), which the parties agree is a material reduction, as compared to the Covered Person's total annual cash compensation opportunity immediately prior to the Closing;

(ii) A change in the Covered Person's principal work location resulting in a new one-way commute that is more than fifty (50) miles greater than the Covered Person's one-way commute prior to the change in the Covered Person's principal work location, regardless of whether the Covered Person receives an offer of relocation benefits; or

(iii) A material reduction in the Covered Person's authority, duties and/or responsibilities as compared to the Covered Person's authority, duties and/or responsibilities in effect immediately prior to the Closing (for example, but not by way of limitation, this determination will include an analysis of whether the Covered Person maintains at least the same level, scope and type of duties and responsibilities with respect to the management, strategy, operations and business of the combined entity resulting from such transaction, taking the Corporation, any acquirer and their respective parent corporations, subsidiaries and other affiliates, together as a whole).

With respect to any termination for Good Reason, the Covered Person shall give the Corporation written notice, which shall identify with reasonable specificity the grounds for the Covered Person's resignation, and provide the Corporation a period of thirty (30) days from the day such notice is given to cure the alleged grounds for termination for Good Reason contained in the notice. A termination will not be for Good Reason if such notice is given by the Covered Person to the Corporation more than ninety (90) days after the occurrence of the event that the Covered Person alleges is Good Reason for her or her termination.

"Payment Date" means the date on which the Corporation pays the Retention Bonus to the Covered Persons, which shall be on the date of the Closing.

"RSU Plan" means that certain Amended and Restated 2008 Restricted Stock Unit Plan as adopted by the Corporation in May 2017.

"Section 409A" means Section 409A of the Internal Revenue Code of 1986, as amended, and the final regulations and any guidance promulgated thereunder; and be it

Each of the Covered Persons, along with other employees of the Corporation as determined by the Compensation Committee of the Board, shall be eligible to participate in this Four-Year Plan, provided that such Covered Person is employed by the Corporation on the Effective Date, and is not excluded from this Four-Year Plan as provided below.

Each Covered Person who remains employed with the Corporation upon a Change of Control through the Closing shall receive a retention bonus under this Four-Year Plan (the "Retention Bonus") and, provided that the conditions for payment of any Retention Bonus set forth in this Four-Year Plan are satisfied, one-hundred percent (100%) of the Retention Bonus, as specified with respect to each Covered Person in Schedule 1 attached hereto, shall be paid in a lump-sum payment on the Payment Date.

If, prior to the date of a Change of Control, a Covered Person (i) voluntarily terminates his or her employment, or (ii) is terminated for Cause, he or she will not receive a Retention Bonus, and any funds that would have been utilized for such Covered Person's Retention Bonus will revert to the Corporation and will not be reallocated to any other Covered Person.

Definitions

Participation in Four-Year Plan
--

Retention Bonus Eligibility and Payment Date

Ineligibility to Receive Retention Bonuses

In the event that, following an announcement by the Corporation of a transaction that would result in a Change of Control, but prior to the Closing relating to such announced Change of Control, a Covered Person's employment with the Corporation is terminated without Cause or the Covered Person terminates his or her employment with the Corporation for Good Reason, such Covered Person shall be eligible to receive the Retention Bonus that he or she would otherwise have been entitled to receive had he or she remained employed with the Corporation through the Closing.

**Termination
Without Cause or
Termination for
Good Reason**

This Four-Year Plan shall provide benefits to each Covered Person and his or her respective heirs, representatives, successors, and assigns, and will be binding on all successors and assigns of the Corporation and any acquirer of the Corporation.

**Benefits to
Covered Persons
and Their Heirs**

Participation in this Four-Year Plan will not provide any guarantee or promise of employment or continued service of any Covered Person or any employee of the Corporation or its subsidiaries with the Corporation or any of its subsidiaries, and the Corporation shall retain the right, and its subsidiaries shall retain the right, to terminate the employment of any Covered Person or any other employee of the Corporation or its subsidiaries, as applicable, at any time.

**No Guarantee of
Continued
Service**

The Corporation will withhold from any payments under this Four-Year Plan (including to a beneficiary or estate) any amount required to satisfy all applicable federal, state, local, or foreign income, employment, and other tax withholding obligations.

Withholding

It is intended that Retention Bonuses under this Four-Year Plan meet the short-term deferral exception under Section 409A (accordingly, notwithstanding anything herein to the contrary, no payments to be made hereunder shall be made later than the fifteenth (15th) day of the third (3rd) month following the taxable year in which the Change of Control is effectuated or otherwise in which the payment right vests) and, if not exempt, the Retention Bonuses payable pursuant to this Four-Year Plan are intended to comply with Section 409A, to the extent the requirements of Section 409A are applicable hereto. The provisions of this Four-Year Plan shall be construed and administered in a manner consistent with that intention.

Section 409A

If payment of any amount under this Four-Year Plan that is subject to Section 409A at the time specified therein would subject such amount to any additional tax under Section 409A, the payment of such amount shall be postponed to the earliest commencement date on which the payment of such amount could be made without incurring such additional tax. In addition, to the extent that any guidance issued under Section 409A would result in the Covered Person being subject to the payment of interest or any additional tax under Section 409A, the Corporation shall, to the extent reasonably possible and as allowed by applicable treasury regulations, amend this Four-Year Plan in order to avoid the imposition of any such interest or additional tax under Section 409A, which amendment shall have the minimum economic effect necessary and be reasonably determined in good faith by the Corporation.

**409A Payment
Adjustments**

Notwithstanding the foregoing, the Corporation makes no representations that the payments and benefits provided under this Four-Year Plan comply with Section 409A and in no event will the Corporation be liable or be required to reimburse a Covered Person for all or any portion of any taxes, penalties, interest or other expenses that may be imposed on or incurred by him or her as a result of the Four-Year Plan being subject to Section 409A.

**No
Representation
Regarding 409A**

If a Covered Person is deemed to be a “specified employee” within the meaning of that term under Code Section 409A(a)(2)(B), then with regard to any payment or the provisions of any benefit that is required to be delayed pursuant to such Code Section 409A(a)(2)(B), such payment or benefit shall not be made or provided prior to the earlier of:

(i) the expiration of the six (6) month period measured from the date of the Covered Person’s “separation from service” (as such term is defined in Treasury Regulation Section 1.409A-1(h)), or

(ii) the date of the Covered Person’s death (the “Delay Period”),

and all payments and benefits delayed pursuant to the foregoing (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) shall be paid to a Covered Person in a lump sum within ten (10) days following the expiration of the Delay Period.

No provision of this Four-Year Plan will require the Corporation, for the purpose of satisfying any obligations under this Four-Year Plan, to purchase assets or place any assets in a trust or other entity to which contributions are made or otherwise to segregate any assets, nor will the Corporation maintain separate bank accounts, books, records or other evidence of the existence of a segregated or separately maintained or administered fund for such purposes.

Nothing contained in this Four-Year Plan and no action taken pursuant to the provisions of this Four-Year Plan will create or be construed to create a trust of any kind.

No property that may be acquired or invested by the Corporation in connection with this Four-Year Plan will be deemed security for the obligations to the Covered Persons hereunder, but will be, and continue for all purposes to be, part of the general funds of the Corporation, and Covered Persons will have no rights under this Four-Year Plan other than as unsecured general creditors of the Corporation.

This Four-Year Plan is intended to be a “bonus program” as defined under U.S. Department of Labor Regulation Section 2510.3-2(c) and will be construed and administered in accordance with such intention.

All questions concerning the construction, validation, and interpretation of this Four-Year Plan will be governed by the laws of the State of Colorado without regard to its conflict of laws provisions.

The Corporation reserves the right to amend or terminate this Four-Year Plan at any time; provided, however, that (i) any such amendment or termination shall be made in writing and approved by resolution of the Compensation Committee or the Board, and (ii) following the Effective Date, the Corporation may not, without a Covered Person’s written consent, amend or terminate this Four-Year Plan in any way that (x) prevents the Covered Person from becoming eligible for his or her Retention Bonus under this Four-Year Plan, or (y) reduces the amount of Retention Bonuses payable, or potentially payable to a Covered Person under this Four-Year Plan.

Under this Four-Year Plan effective January 1, 2018, the salaries (the “Four-Year Plan Annual Base Salary”) of the Covered Persons shall be as specified with respect to each such Covered Person in Schedule 1 attached hereto.

If a Change of Control occurs before January 1, 2018, for purposes of calculating the Retention Bonuses in Schedule 1, the Four-Year Plan Annual Base Salaries shall be as set forth immediately above.

**409A Delay
Payments**

No Trust Assets

No Trust

**No Property Will
Constitute
Security**

Bonus Program

Choice of Law

Amendment

**Four-Year Plan
Annual Base
Salaries**

**Change of
Control Salaries**

As promptly as practical after the adoption of this Four-Year Plan, the Covered Persons shall be granted restricted stock units in accordance with the RSU Plan and pursuant to award agreements under said RSU Plan approved by the Compensation Committee as specified with respect to each such Covered Person in Schedule 1 attached hereto.

**Four-Year Plan
Restricted Stock
Units**

Such restricted stock units shall vest in amounts and at times as set forth in Schedule 1 attached hereto and in accordance with the terms of the RSU Plan and applicable award agreement with respect thereto, which includes full vesting on a Change of Control as defined therein, on the event of death of the holder of restricted stock units, and on such other terms as set forth in the RSU Plan and applicable award agreements with respect thereto.

The Covered Persons shall be entitled to annual and performance bonuses in amounts as the Compensation Committee shall determine in its discretion but not less than the amounts as specified with respect to each such Covered Person in Schedule 1 attached hereto, payable within 30 days after the end of each fiscal year, provided that such persons are continuing in the services of the Corporation through the fiscal year in respect of which bonuses are paid.

**Four-Year Plan
Bonuses**

Upon a Change of Control of the Corporation, in accordance with terms of this Four-Year Plan, the Chief Executive Officer shall grant additional bonuses in an aggregate amount of \$3,000,000 (subject to all applicable withholding for income, employment and other withholding tax purposes) to be divided up, in the Chief Executive Officer's sole discretion, between:

(i) the Covered Persons in order to compensate such Covered Persons for services performed prior to the Change of Control; provided that such persons are eligible to receive bonuses under this Four-Year Plan and shall have served continually as employees of the Corporation through the Change of Control; and

**Four-Year Plan
Additional
Bonuses to
Employees**

(ii) those employees of the Corporation and its subsidiaries other than the Covered Persons whom the Chief Executive Officer determines in his sole discretion shall be granted cash bonuses to compensation such persons for services performed prior to the Change of Control.

One-hundred percent (100%) of the additional bonuses as described above shall be paid in lump-sum payments to the Covered Persons and the other employees receiving additional bonuses, on the date of the Closing.

Schedule 1

The Covered Person's total compensation under the Four-Year Plan shall be as follows:

Covered Person Title	Four-Year Plan Annual Base Salary
President and Chief Executive Officer	\$385,000 per year, plus 6 weeks of base salary to be paid in December of each year
Chief Financial Officer	\$231,000 per year, plus 4 weeks of base salary to be paid in December of each year
Chairman of the Board and Corporate Secretary	\$225,000 per year, plus 4 weeks of base salary to be paid in December of each year

	Retention Bonus Amount
President and Chief Executive Officer	<p>The greater of: (a) the sum of: (i) the product of (A) such executive officer's/key person's Four-Year Plan Annual Base Salary, multiplied by (B) four(4), minus (ii) the amount of such executive officer's/key person's Four-Year Plan Annual Base Salary already paid to such executive officer/key person, if any; or (b) an amount equal to such executive officer's/key person's Four-Year Plan Annual Base Salary for one year</p> <p>PLUS if the Closing occurs in 2017, then in addition to the amount determined pursuant to the foregoing, any amount of such executive officer's/key person's base salary for 2017 that has not been paid to such executive officer/key person as of the Closing</p>
Chief Financial Officer	<p>The greater of: (a) the sum of: (i) the product of (A) such executive officer's/key person's Four-Year Plan Annual Base Salary, multiplied by (B) four(4), minus (ii) the amount of such executive officer's/key person's Four-Year Plan Annual Base Salary already paid to such executive officer/key person, if any; or (b) an amount equal to such executive officer's/key person's Four-Year Plan Annual Base Salary for one year</p> <p>PLUS if the Closing occurs in 2017, then in addition to the amount determined pursuant to the foregoing, any amount of such executive officer's/key person's base salary for 2017 that has not been paid to such executive officer/key person as of the Closing</p>
Chairman of the Board and Corporate Secretary	<p>The greater of: (a) the sum of: (i) the product of (A) such executive officer's/key person's Four-Year Plan Annual Base Salary, multiplied by (B) four (4), minus (ii) the amount of such executive officer's/key person's Four-Year Plan Annual Base Salary already paid to such executive officer/key person, if any; or (b) an amount equal to such executive officer's/key person's Four-Year Plan Annual Base Salary for one year</p> <p>PLUS if the Closing occurs in 2017, then in addition to the amount determined pursuant to the foregoing, any amount of such executive officer's/key person's base salary for 2017 that has not been paid to such executive officer/key person as of the Closing</p>

	Restricted Stock Units
President and Chief Executive Officer	A total of 275,000 restricted stock units, which shall vest in the amount of 68,750 restricted stock units on December 16 th of each of 2018, 2019, 2020 and 2021 or otherwise in accordance with the terms of the RSU Plan and the applicable award agreement
Chief Financial Officer	A total of 150,000 restricted stock units, which shall vest in the amount of 37,500 restricted stock units on December 16 th of each of 2018, 2019, 2020 and 2021 or otherwise in accordance with the terms of the RSU Plan and the applicable award agreement
Chairman of the Board and Corporate Secretary	A total of 220,000 restricted stock units, which shall vest in the amount of 55,000 restricted stock units on December 16 th of each of 2018, 2019, 2020 and 2021 or otherwise in accordance with the terms of the RSU Plan and the applicable award agreement

[\(Back To Top\)](#)

Section 3: EX-15 (EXHIBIT 15)

Exhibit 15 Letter Regarding Unaudited Interim Financial Information

Hallador Energy Company

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited interim financial information of Hallador Energy Company for the periods ended June 30, 2017, and 2016, as indicated in our report dated August 8, 2017. Because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Form 10-Q for the quarter ended June 30, 2017, is incorporated by reference in Registration Statement Nos. 333-163431 and 333-171778 of Hallador Energy Company on Form S-8.

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

/s/ EKS&H LLLP
August 8, 2017

Denver, Colorado

[\(Back To Top\)](#)

Section 4: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

CERTIFICATION

I, Brent K. Bilisland, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hallador Energy Company;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 8, 2017

/s/ Brent K. Bilsland
Brent K. Bilsland, President and CEO

[\(Back To Top\)](#)

Section 5: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

CERTIFICATION

I, Lawrence D. Martin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hallador Energy Company;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - e) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - f) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - g) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - h) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

- c) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information;

and

- d) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 8, 2017

/s/ Lawrence D. Martin
Lawrence D. Martin, CFO

[\(Back To Top\)](#)

Section 6: EX-32 (EXHIBIT 32)

Exhibit 32

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Quarterly Report (the "Report"), of Hallador Energy Company (the "Company"), on Form 10-Q for the period ended June 30, 2017, as filed with the Securities and Exchange Commission on the date hereof the undersigned, in the capacities and date indicated below, each hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 8, 2017

By: /s/ Brent K. Bilsland
Brent K. Bilsland, President and CEO

By: /s/ Lawrence D. Martin
Lawrence D. Martin, CFO

[\(Back To Top\)](#)

Section 7: EX-95 (EXHIBIT 95)

Exhibit 95 Mine Safety Disclosures

Our principles are safety, honesty, and compliance. We firmly believe that these values compose a dedicated workforce and with that, come high production. The core to this is our strong training programs that include accident prevention, workplace inspection and examination, emergency response, and compliance. We work with the Federal and State regulatory agencies to help eliminate safety and health hazards from our workplace and increase safety and compliance awareness throughout the mining industry. Sunrise has not had a fatality since its establishment in 2005.

Sunrise is regulated by MSHA under the Federal Mine Safety and Health Act of 1977 ("Mine Act"). MSHA inspects our mines on a regular basis and issues various citations and orders when it believes a violation has occurred under the Mine Act. We present information below regarding certain violations, which MSHA has issued with respect to our mines. While assessing this information please consider that the number and cost of violations will vary depending on the MSHA inspector and can be contested and appealed, and in that process, are often reduced in severity and amount, and are sometimes dismissed. We are currently contesting four MSHA citations.

Sunrise has not been issued written notice from MSHA of a pattern of, or the potential to have a pattern of, violations of mandatory

health or safety standards that are of such a nature as could significantly and substantially cause and effect health or safety standards under section 104(e) of the Mine Act.

The table that follows outlines citations and orders issued to us by MSHA during the first six months of 2017. The citations and orders outlined below may differ from MSHA`s data retrieval system due to timing, special assessed citations, and other factors.

Definitions:

Section 104(a) Significant and Substantial Citations "S&S": An alleged violation of a mining safety or health standard or regulation where there exists a reasonable likelihood that the hazard outlined will result in an injury or illness of a serious nature.

Section 104(b) Orders: Failure to abate a 104(a) citation within the period of time prescribed by MSHA. The result of which is an order of immediate withdraw of non-essential persons from the affected area until MSHA determines the violation has been corrected.

Section 104(d) Citations and Orders: An alleged unwarrantable failure to comply with mandatory health and safety standards.

Section 107(a) Orders: An order of withdraw for situations where MSHA has determined that an imminent danger exists.

Section 110(b) (2) Violations: An alleged flagrant violation issued by MSHA under section 110(b) (2) of the Mine Act.

Pattern or Potential Pattern of Violations: A pattern of violations of mandatory health or safety standards that are of such a nature as could have significantly and substantially contributed to the cause and effect of coal mine health or safety hazards under section 104(e) of the Mine Act or a potential to have such a pattern.

Contest of Citations, Orders, or Proposed Penalties: A contest proceeding may be filed with the Commission by the operator or miners/miner`s representative to challenge the issuance or penalty of a citation or order issued by MSHA.

Carlisle Mine

	Section 104(a) Citations	Section 104(b) Citations	Section 104(d) Citations/Orders	Section 107(a) Orders	Section 110(b)(2) Violations	Proposed MSHA Assessments (In thousands)
January	2	0	0	0	0	\$ 1.35
February	1	0	0	0	0	0.40
March	1	0	0	0	0	0.35
April	0	0	0	0	0	0.10
May	0	0	0	0	0	0.35
June	0	0	0	0	0	0.00
Totals	4	0	0	0	0	\$ 2.55

Carlisle Preparation Plant

	Section 104(a) Citations	Section 104(b) Citations	Section 104(d) Citations/Orders	Section 107(a) Orders	Section 110(b)(2) Violations	Proposed MSHA Assessments (In thousands)
January	0	0	0	0	0	\$ 0.00
February	1	0	0	0	0	0.20
March	0	0	0	0	0	0.00
April	0	0	0	0	0	0.00
May	0	0	0	0	0	0.00
June	0	0	0	0	0	0.00
Totals	1	0	0	0	0	\$ 0.20

Oaktown Fuels No. 1

	Section 104(a) Citations	Section 104(b) Citations	Section 104(d) Citations/Orders	Section 107(a) Orders	Section 110(b)(2) Violations	Proposed MSHA Assessments (In thousands)
January	1	0	0	0	0	\$ 4.05
February	2	0	0	0	0	2.85
March	2	0	0	0	0	3.10
April	3	0	0	0	0	3.40
May	5	0	0	0	0	10.60
June	3	0	0	0	0	1.65
Totals	16	0	0	0	0	\$ 25.65

Oaktown Fuels No. 2

	<u>Section 104(a) Citations</u>	<u>Section 104(b) Citations</u>	<u>Section 104(d) Citations/Orders</u>	<u>Section 107(a) Orders</u>	<u>Section 110(b)(2) Violations</u>	<u>Proposed MSHA Assessments (In thousands)</u>
January	2	0	0	0	0	\$ 4.65
February	4	0	0	0	0	5.80
March	2	0	0	0	0	3.00
April	0	0	0	0	0	0.35
May	1	0	0	0	0	3.40
June	1	0	0	0	0	1.25
Totals	<u>10</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>\$ 18.45</u>

Oaktown Fuels Preparation Plant

	<u>Section 104(a) Citations</u>	<u>Section 104(b) Citations</u>	<u>Section 104(d) Citations/Orders</u>	<u>Section 107(a) Orders</u>	<u>Section 110(b)(2) Violations</u>	<u>Proposed MSHA Assessments (In thousands)</u>
January	0	0	0	0	0	\$ 0.00
February	0	0	0	0	0	0.00
March	0	0	0	0	0	0.00
April	0	0	0	0	0	0.00
May	1	0	0	0	0	0.85
June	0	0	0	0	0	0.30
Totals	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>\$ 1.15</u>

Ace in the Hole Mine: None

Prosperity Mine: None

[\(Back To Top\)](#)