HALLADOR PETROLEUM CO
Form 10QSB
May 17, 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 March 31, 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 May 14, 2004: 7,093,150

PART I - FINANCIAL INFORMATION

Consolidated Balance Sheet
(in thousands)

	March 31, 2004	December 31, 2003*
ASSETS		
Current assets:		

Cash and cash equivalents	$ 4,214	$ 3,319
Accounts receivable-		
Oil and gas sales	995	1,019
Well operations	207	543
Total current assets	5,416	4,881
Oil and gas properties, at cost (successful efforts):		
Unproved properties	472	450
Proved properties	26,021	25,910
Less - accumulated depreciation, depletion, amortization and impairment	(19,989)	(19,749)
	6,504	6,611
Oil and gas operator bonds	216	216
California plug and abandonment deposits	291	291
Investment in Catalytic Solutions	150	164
Other assets	49	49
	$12,626	$12,212
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,142	$ 1,383
Oil and gas sales payable	558	598
Total current liabilities	1,700	1,981
Key employee bonus plan	266	253
Future site restoration	1,320	1,294
Minority interest	5,244	5,047
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	(14,036)	(14,495)
	4,096	3,637
	$12,626	$12,212

*Derived from the Form 10-KSB.

See accompanying notes.

Consolidated Statement of Operations
(in thousands)

	Three months ended March 31, 2004	2003
Revenue:		
Oil	$1,797	$2,103
Gas	464	348
Other	103	112
	2,364	2,563
Costs and expenses:		
Lease operating	1,122	1,237
Exploration costs	30	20
Depreciation, depletion and amortization	265	285
General and administrative	291	342
	1,708	1,884
Income before cumulative effect of change in accounting principle	656	679
Cumulative effect of change in change in accounting principle		(181)
Income before minority interest	656	498
Minority interest	(197)	(149)
Net income	$ 459	$ 349
Income per share - basic and diluted:		
Before cumulative effect of change in accounting principle	$ .06	$ .07
Cumulative effect of change in accounting principle		(.02)
Net income	$ .06	$ .05
Weighted average shares outstanding - basic	7,093	7,093
Weighted average shares outstanding - diluted	7,295	7,093

See accompanying notes.

Consolidated Statement of Cash Flows
(in thousands)

	Three months ended March 31, 2004	2003

Net cash provided by operating activities	$1,027	$1,245
Cash flows from investing activities:		
Properties	(132)	(87)
Net increase in cash and cash equivalents	895	1,158
Cash and cash equivalents, beginning of period	3,319	1,647
Cash and cash equivalents, end of period	$4,214	$2,805

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. For the three months ended March 31, 2004 and 2003, we recognized $26,000 and $18,000, respectively, of accretion on the liability as a component of depletion expense.

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. As discussed in previous filings, the SC Field was purchased from ARCO (Atlantic Richfield which is now part of BP p.l.c.) in May 1990. As part of the Purchase and Sale Agreement, ARCO agreed to indemnify us for certain environmental liabilities connected with their 40-year ownership of the field and gas plant ("ARCO Indemnity"). Part of the gas plant has not been operational during the past twenty-five years. There is evidence of asbestos in the non-operational part of the gas plant. It is our position, and the opinion of our legal counsel, that the ARCO Indemnity covers future abandonment and clean-up costs associated with this gas plant. We have had several discussions with BP regarding this matter and have retained a Los Angeles law firm to assert our rights under the ARCO Indemnity. BP

continues to deny any responsibility.

The costs to abandon and clean up the gas plant area and other oil and gas areas at the field will be significant. There is a chance, depending on the negotiations and legal proceedings with BP, that some or all of the costs could be borne by us. At this time we are unable to estimate what these costs could ultimately be but we expect that such costs could have a material adverse effect on our financial condition, results of operations and cash flows.

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.

	2004			2003		
	Sales Volume	Average Price	Revenue	Sales Volume	Average Price	Revenue
Oil - barrels						
South Cuyama field	52	$33.56	$1,745	65	$31.71	$2,061
Other	2	26.00	52	2	21.00	42
Gas - mcf						
South Cuyama field	56	5.46	306	21	5.81	122
San Juan-New Mexico	16	4.75	76	13	4.77	62
Other	15	5.47	82	27	6.07	164

Oil revenue decreased due to lower production although prices were slightly higher. Field production to the 100% for the 2004 and 2003 periods averaged 780 and 942 bopd, respectively. Current field production to the 100% is about 840 bopd. Gas revenue increased primarily due to higher production in the Field. Last year the gas was shut in for about half of the quarter due to gas quality issues with SOCAL as previously disclosed.

Current prices are about $39 for oil and $6 for gas.

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

	2004	2003
South Cuyama field:		
LOE excluding electricity	$ 767	$ 858
Electricity	312	320

	1,079	1,178
San Juan - New Mexico	28	26
Other	15	33
	$1,122	$1,237

CRUDE OIL PUT OPTIONS

Through mid February 2003, we had never entered into any commodity derivative agreements since acquiring the 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. Our net gain from these transactions was approximately $40,000.

On May 14, 2004, we purchased puts on 20,000 barrels of oil at $3.50 per barrel (a total of $70,000 with a strike price of $39 per barrel). These puts expire November 15, 2004. Depending on the price of oil, we may buy additional puts.

LIQUIDITY AND CAPITAL RESOURCES

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

We have no bank debt, no special purpose entities and no off-balance sheet arrangements nor did we enter into any related party transactions during the two years of 2003 and 2004.

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

SOUTH CUYAMA FIELD

As disclosed in the 2003 Form 10-KSB, Santa Barbara County has asked us to perform an endangered species survey before we commence drilling one of the six wildcats sites located outside the Field's boundaries (about 4 miles from the Field). We were planning to drill one of the wells this summer and the remaining five over the next two to three years. Due to delays in the survey, drilling of the first well has been postponed until sometime this fall.

SOCAL

The pipeline we use to sell our gas is owned by BP, but leased by SOCAL. There have been rumors that SOCAL will not renew the lease which comes up for renewal in May 2004. We have yet to be notified whether the lease was renewed. If SOCAL does not renew the lease, the line could switch from a carrier line to a proprietary line. If it becomes a proprietary line there is no guarantee that we will have an outlet to market our gas. This situation has no effect on our oil sales. Monthly gas sales, net to us, are about $100,000.

There are no other significant changes or developments to report from what we disclosed in the 2003 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.

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. Exhibits and Reports on Form 8-K

(a) Exhibits:

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: May 14, 2004 By: /S/VICTOR P. STABIO
CEO and CFO

Signing on behalf of registrant
and as principal financial officer.