

HALLADOR PETROLEUM CO
Form 10KSB
April 16, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549**

FORM 10-KSB

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: **December 31, 2006**

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 0-14731

HALLADOR PETROLEUM COMPANY

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)

Issuer's telephone number: 303.839.5504

Fax: 303.832.3013

Securities registered under Section 12(b) of the Exchange Act: NONE

Securities registered under Section 12(g) of the Exchange Act: Common Stock, \$.01 par value

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

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

Our revenue for the year ended December 31, 2006 was about \$2.5 million.

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At April 16, 2007, we had 12,168,135 shares outstanding and the aggregate market value of such shares held by non-affiliates was about \$4.7 million based on a closing price of \$2.50.

DOCUMENTS INCORPORATED BY REFERENCE: NONE

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ITEM 1. DESCRIPTION OF BUSINESS

General Development of Business

Hallador Petroleum Company (Hallador), a Colorado corporation, was organized by our predecessor in 1949.

We have concluded to deemphasize our oil and gas operations and concentrate our future efforts in the coal business.

With that in mind, the following events have occurred:

In early January 2006, we signed a letter of intent with Sunrise Coal, LLC (Sunrise) to effect a reorganization/merger between Hallador and Sunrise, a private company not affiliated with the Yorktown group of companies.

During the first quarter of 2006, we loaned Sunrise \$7 million in order for Sunrise to begin development of their second coal mine (the "Carlisle mine"). Their first mine, Howesville, began producing coal in November 2005. Both mines are located in western Indiana. During the second quarter of 2006, Sunrise entered into a \$30 million line-of-credit with two Indiana banks, and our \$7 million was repaid. We are a guarantor of this line of credit.

On May 1, 2006, Sunrise informed us that they intend to shut down the Howesville mine effective June 10, 2006.

Due to the shut down of the Howesville mine, all of our previous agreements with Sunrise were voided, and on July 31, 2006, we entered into a joint venture with Sunrise to develop the Carlisle mine. Sunrise contributed all of their assets for a 40% interest and we agreed to a \$20.5 million funding commitment and guaranteed the line of credit for a 60% interest. We expect the full \$20.5 million to be expended by the first half of 2007. Through approximately 88% of the JV's cash flow we are to receive \$20.5 million plus interest at 10%. Thereafter, cash flow will be distributed 60% to us and 40% to the original Sunrise members. On July 31, 2006 (date of acquisition), we began consolidating the Sunrise joint venture. Because, at the date of acquisition, the original Sunrise members had not contributed capital in excess of accumulated losses (resulting primarily from the Howesville mine closure), we have reflected Sunrise's entire losses for the period since the acquisition. When Sunrise's accumulated earnings exceed its prior losses, we will reflect the original members' minority interest in the results of operations.

The equipment, valued at about \$10 million, that was being used at the Howesville mine was moved to the Carlisle mine. At the time we filed our September 30, 2006 Form 10-QSB, Sunrise had reached a preliminary agreement with the utility customer regarding the cancellation of the Howesville coal contract. Based on the preliminary agreement, we recorded a liability of approximately \$4 million. To date terms for a settlement agreement have not been reached and a settlement agreement has not been executed.

Carlisle Mine

We sell all of our coal to producers of electric power. Currently, we have only one mine (Carlisle) and two mid-west electric utility customers. The Carlisle mine is located in western Indiana and was in the development stage through January 31, 2007. First commercial production began February 5, 2007 and we expect to sell 760,000 tons for the rest of 2007 at an average price of \$27.95 FOB (freight on board) the mine.

We are talking to other coal purchasers about additional contracts, and if coal prices continue to rise, we believe coal production could peak at about 3 million tons per year in five or six years. Recoverable reserves that are presently leased are about 32 million tons.

Our coal operations have about 90 employees, and is running three, eight-hour shifts to develop and mine the Carlisle reserves. The number of employees during the mining phase will depend on the number of tons of coal being mined. The Carlisle mine is non-union.

The Coal Industry

Coal is a combustible, sedimentary, organic rock formed from vegetation that has been consolidated between other rock strata and altered by the combined effects of pressure and heat over millions of years. The degree of change undergone by coal as it matures from peat to anthracite significantly affects its physical and chemical properties. Initially, peat is converted into lignite, a relatively soft material, that can range in color from dark black to various shades of brown. The continuing effects of temperature and pressure causes lignite to transform into sub-bituminous coal. Lignite and sub-bituminous coal are typically softer, friable materials characterized by high moisture levels and low carbon content. Because of their carbon content, lignite and sub-bituminous coal generally produce less energy than bituminous, or hard coal, formed by continuing chemical and physical changes. Under the right conditions, continuing organic maturity can result in anthracite, a hard black rock with a high carbon and energy content and a low level of moisture. According to the World Coal Institute, sub-bituminous and bituminous coal comprise approximately 82% of the global coal reserves.

Coal Mining Methods

The geological characteristics of coal reserves largely determine the coal mining method employed. There are two primary methods of mining coal: surface mining and underground mining. The Carlisle mine is an underground mine, and is operated using room-and-pillar mining.

Room-and-pillar mining is effective for small blocks of thin coal seams. In room-and-pillar mining, we cut a network of rooms into the coal seam, leaving a series of pillars of coal to support the roof of the mine. We use continuous mining equipment to cut the coal from the mining face and shuttle cars to transport the coal to a conveyor belt for further transportation to the surface. The pillars generated as part of this mining method can constitute up to 50% of the total coal in a seam.

Coal Preparation

Coal extracted from Carlisle contains impurities, such as rock and dirt, and comes in a variety of different-sized fragments. We use a coal preparation plant located near the mine or connected to the mine by a conveyor. These coal preparation plants allow us to treat the coal we extract from those mines to ensure a consistent quality and to enhance its suitability for particular end-users.

Transportation

We ship our coal FOB the mine. The electric utilities are currently using trucks to transport the coal. Rail and trucks will be used in the future.

Sales, Marketing and Customers

Coal prices are influenced by a number of factors and vary dramatically by region. As a result of these regional characteristics, prices of coal by product type within a given major coal producing region tend to be relatively

consistent with each other. The price of coal within a region is influenced by market conditions, mine operating costs, coal quality, transportation costs involved in moving coal from the mine to the point of use and the costs of alternative fuels. In addition to supply and demand factors, the price of coal at the mine is influenced by geologic characteristics such as seam thickness, overburden ratios and depth of underground reserves.

In addition to the cost of mine operations, the price of coal is also a function of quality characteristics such as heat value, sulfur, ash and moisture content. Higher carbon and lower ash content generally result in higher prices, and higher sulfur and higher ash content generally result in lower prices.

Competition

The coal industry is intensely competitive. The most important factors on which we compete are coal quality, transportation costs from the mine to the customer and the reliability of supply. Our principal domestic competitor is Peabody Energy Corp. All of our competitors are larger than us, have greater financial resources, and have larger reserve bases than we do. We are probably one of the smallest public coal companies in the United States.

Additionally, coal competes with other fuels, such as nuclear energy, natural gas, hydropower, and petroleum for steam and electrical power generation. Costs and other factors, such as safety and environmental considerations, relating to these alternative fuels affect the overall demand for coal as a fuel.

Environmental Matters

Our operations, like operations of other coal companies, are subject to regulation, primarily by federal and state authorities, on matters such as the discharge of materials into the environment; employee health and safety; mine permits and other licensing requirements; reclamation and restoration activities involving our mining properties; management of materials generated by mining operations; surface subsidence from underground mining; water pollution; air quality standards; protection of wetlands; endangered plant and wildlife protection; limitations on land use; storage of petroleum products; and substances that are regarded as hazardous under applicable laws including electrical equipment containing polychlorinated biphenyls, which we refer to as PCBs.

Additionally, the electric generation industry is subject to extensive regulation regarding the environmental impact of its power generation activities, which could affect demand for our coal. The possibility exists that new legislation or regulations may be adopted or that the enforcement of existing laws could become more stringent, either of which may have a significant impact on our mining operations or our customers' ability to use coal and may require us or our customers to significantly change operations or to incur substantial costs.

While it is not possible to quantify the expenditures we incur to maintain compliance with all applicable federal and state laws, those costs have been and are expected to continue to be significant. Federal and state mining laws and regulations require us to obtain surety bonds to guarantee performance or payment of certain long-term obligations, including mine closure and reclamation costs, federal and state workers' compensation benefits, coal leases and other miscellaneous obligations. Compliance with these laws has substantially increased the cost of coal mining for all domestic coal producers.

Carlisle is a new mine and will be operated in compliance with all local, state, and federal regulations. Since Carlisle is new, the Company has no old mine properties to reclaim, other than the Howesville mine, which also was a new mine and operated for only eight months before it was closed.

Oil and Gas

With regards to our oil and gas business:

1. On December 31, 2005, we acquired a 32% interest in Savoy Energy LLP, a private company engaged in the oil and gas business primarily in the State of Michigan. A value of \$6.1 million was assigned for this investment. We account for our interest in Savoy using the equity method of accounting.

We operate oil and natural gas properties for our own account and for the account of others. We also review and evaluate producing oil and natural gas properties, companies, or other entities, which meet certain guidelines for acquisition purposes. Occasionally, we engage in the trading and acquisition of non-producing oil and gas mineral leases and fee-simple minerals.

Markets

Our products are sold to various purchasers in the geographic area of the properties. Natural gas, after processing, is distributed through pipelines. Oil and natural gas liquids (NGLs) are distributed through pipelines or hauled by trucks. The principal uses for oil and natural gas are heating, manufacturing, power, and transportation.

Competition

The oil and gas industry is highly competitive. We encounter competition from major and independent oil companies in acquiring economically desirable producing properties, drilling prospects, and even the equipment and labor needed to drill, operate and maintain our properties. Competition is intense with respect to the acquisition of producing and partially developed properties. We compete with companies having financial resources and technical staffs significantly larger than our own. We do not own any refining or retail outlets and have minimal control over the prices of our products. Generally, higher costs, fees and taxes assessed at the producer level cannot be passed on to our customers.

We also face competition from imported products as well as alternative sources of energy such as coal, nuclear, hydro-electric power, and a growing trend toward solar. We could incur delays or curtailments of the purchase of our available production. We may also encounter increasing costs of production and transportation while sale prices remain stable or decline. Any of these competitive factors could have an adverse effect on our operating results.

Environmental and Other Regulations

Our operations are affected in varying degrees by federal, state, regional and local laws and regulations, including, but not limited to, laws governing allowable rates of production, well spacing, air emissions, water discharges, endangered species, marketing, prices and taxes. We are further affected by changes in such laws and by constantly changing administrative regulations.

Most natural gas pricing is presently deregulated and the remaining regulation has no material impact on our prices. We cannot predict the long-term impact of future natural gas price regulation or deregulation.

We are subject to various federal, state, regional and local laws and regulations relating to discharge of materials into, and protection of, the environment. These laws and regulations may, among other things, impose liability on the owner or the lessee for the cost of pollution clean-up resulting from operations, subject the owner or lessee to liability for pollution damages, require suspension or cessation of operations in affected areas or impose restrictions on injection into subsurface aquifers that may contaminate groundwater. Such regulation has increased the resources

required in, and costs associated with, planning, designing, drilling, installing, operating and abandoning our oil and natural gas wells and other facilities.

We have and will continue to make expenditures to comply with these requirements, which we believe are necessary business costs. Although environmental requirements do have a substantial impact upon the energy industry, generally these requirements do not appear to affect us any differently or to any greater or lesser extent than other companies.

Although we are not fully insured against all environmental and other risks, we maintain insurance coverage, which we believe, is customary in the industry.

During 2006, the cost to comply with these recurring environmental regulations were not significant to our continuing operations and are not expected to be in the foreseeable future.

To the extent these environmental expenditures reduce funds available for increasing our reserves of oil and natural gas, future operations could be adversely impacted. Despite the fact that all of our competitors have to comply with similar regulations, many are much larger and have greater resources with which to deal with these regulations.

Other

We have no significant patents, trademarks, licenses, franchises or concessions.

The oil business is not generally seasonal in nature; although unusual weather extremes for extended periods may increase or decrease demand. Natural gas prices tend to increase in the fall and winter months and to decrease in the spring and summer.

Other than the coal employees, in Denver we have four full-time employees and two part-time employees. When needed we also engage consulting petroleum engineers, environmental professionals, geologists, geophysicists, landmen, accountants and attorneys on a fee basis.

Our office is located at 1660 Lincoln Street, Suite 2700, Denver, Colorado 80264, phone 303.839.5504, fax 303.832.3013. Sunrise Coal, LLC is located at 6641 S. St. Rd. 46, Terre Haute, IN 47802, phone 812.894.3480, fax 812.894.3665. Terre Haute is approximately 70 miles west of Indianapolis. We have no website.

ITEM 2. DESCRIPTION OF PROPERTY

Coal Operations

The current project area is located near the town of Carlisle in Sullivan County, Indiana. The Carlisle mine is an underground mine which became operational in January 2007; during 2006 the mine was under development. The coal is accessed with a slope to a depth of 340'. The coal is mined in the Indiana Coal V seam which is high volatile B bituminous coal.

Current mine plans indicates 11,000 acres of mineable coal greater than 4' thickness in the project area. Of the 11,000 acres, 8,000 are currently under lease to Sunrise Coal, LLC. The Indiana V seam has been extensively mined by underground and surface methods in the general area and is the most economically significant coal in Indiana.

Findings are based on generally accepted engineering principles and professional experience in the mining industry. All judgments are based on the facts that are available at this time.

Sunrise Coal, LLC currently has approximately 3,575 acres under an approved Indiana permit.

Coal Reserve Estimates

The Mine Reserve estimate for the 8,000 leased acres was made utilizing Carlson mining 2007 (software developed by Carlson Software). To convert volumes of coal to an in-place tonnage, a weight of 80 pounds/cubic foot was used. To convert to product tonnage, a 55% mine recovery and an average of 79% washed recovery (coal only recovery, no out-of-seam dilution included) were used.

Example: In-place tonnage x 55% x 79% = product tonnage.

Standards set forth by the United States Geological Survey were used to place areas of the mine reserves into the Proven (measured) and Probable (indicated) categories. Under these standards, coal within 1,320' of a data point is considered to be Proven, and coal within 1,320' to 3,960' is placed in the Probable category. All reserves are stated as a final salable product.

ADDITIONAL DISCLOSURES

1. The Carlisle mine currently has road frontage on State Highway 58, and is adjacent to the CSX railroad. Design plans are being completed for a 100 car loop facility, and construction is planned to be completed in 2007. Currently, coal is being trucked from the Carlisle mine.
2. Currently only the Indiana V seam is planned to be mined, and all of the controlled tonnage is leased to Sunrise Coal. Most leases have unlimited terms once mining has begun, and yearly payments or earned royalties are kept current. Mineable coal thickness used is greater than four feet. The current Carlisle mine plan is broken into four areas - North Main - South Main - West Main - 2 South Main. Approximately 73% of the total mine plan is currently under lease ("controlled"). It is believed that all additional property that would be required to access all lease areas can be obtained but, if some properties cannot be leased, some modification of the current mine plan would be required. All coal should be mined within the terms of the leases. Leasing programs are continuing by Sunrise Coal staff.
3. Mine construction began in 2006 and the first coal sales were in February 2007.
4. The Carlisle mine has a dual use slope for the main coal conveyor, the moving of supplies and personnel without a hoist. There are two 8' diameter shafts at the base of the slope for mine ventilation. The slope is 18' wide with concrete and steel arch construction. All underground mining equipment is powered with electricity and underground compliant diesel.
5. Current production capabilities are 1,200,000 tons per year. Additional equipment is planned to increase production to 2 million tons per year by 2009. Total reserves in the current mine plan (both controlled and uncontrolled) indicates approximately 22 years production at 2 million tons per year. The mine plan is a basic room and pillar mine using a synchronized continuous miner section with no retreat mining. Plans are for 60'x80' pillars with 18' entries for our mains, and 60'x60' pillars with 20' entries in the rooms.
6. The Carlisle mine has been in production since January 2007. The North main is currently being developed toward the first panel.
7. Quality specifications for saleable product are 13-16% moisture; 10,900-11,400 BTU; 8-10% ash; and 5-6.5 LB SO₂.

8. The Carlisle mine has a 400 tons/hour raw feed wash plant that was moved from our Howesville mine, which was closed in June 2006, and reconstructed at the Carlisle mine. The wash plant is modular in construction and was designed and constructed on site so that capacity could be doubled if sales dictate.

9. Mine dilution is assumed to be from 6% to 10% depending on seam height.

10. Proven (measured) reserves are 17.4 million tons and probable (indicated) reserves are 14.5 million tons.

Oil and Gas Operations

Our primary operating property is in the San Juan Basin, located in the northwest corner of New Mexico.

We hold our working interests in oil and natural gas properties either through recordable assignments, leases, or contractual arrangements such as operating agreements. Consistent with industry practices, we do not make a detailed examination of title when we acquire undeveloped acreage. Title to such properties is examined by legal counsel prior to commencement of drilling operations. This method of title examination is consistent with industry practices.

In the acquisition and operation of oil and natural gas properties, burdens such as royalty, overriding royalty, liens incident to operating agreements, liens by taxing authorities, as well as other burdens and minor encumbrances are customarily created. We believe that no such burdens materially affect the value or use of our properties.

Savoy's oil and gas properties are located primarily in the State of Michigan. Savoy's condensed financial statements are presented in Note 7 to our financial statements and Savoy's condensed oil and gas reserve information is presented in Note 8 to our financial statements.

Proved Oil and Gas Reserves

Information concerning our reserve estimates is set forth in Note 8 to the consolidated financial statements. Our reserve estimates were prepared by Edwin James, a sole-proprietor consulting petroleum engineer. Savoy's reserve estimates were prepared by Netherland, Sewell & Associates and Mr. James. All of our and Savoy's reserves are located onshore.

Sales and Price Data

See Item 6 - MD&A

Producing Wells

As of April 16, 2007, we had a working interest in 32 gross (3 net) gas wells.

Leasehold Interests

The following table sets forth our gross and net acres of undeveloped oil and gas leases as of April 2, 2007:

| | Gross | Net |
|--------------|---------|--------|
| Kentucky | 82,141 | 15,053 |
| Montana | 54,070 | 44,512 |
| North Dakota | 720 | 120 |
| Wyoming | 42,404 | 33,747 |
| Other | 238 | 169 |
| Total | 179,573 | 93,601 |

Drilling Activity - Continuing Operations

During 2005, we drilled two development gas wells, the Horton 1C and the Horton 1D, located in the San Juan Basin. We have about a 6% WI in each well.

There was no drilling activity during 2006 and there has been no drilling activity since the beginning of 2007.

ITEM 3. LEGAL PROCEEDINGS: None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS: None

PART II**ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock is traded on the OTC Bulletin Board under the symbol "HPCO". The following table sets forth the high and low sales price for the periods indicated:

| | High | Low |
|------------------------------------|---------|---------|
| 2007 | | |
| (January 1 through April 16, 2007) | \$ 3.00 | \$ 2.25 |
| 2006 | | |
| First quarter | 4.10 | 3.10 |
| Second quarter | 5.00 | 3.90 |
| Third quarter | 4.25 | 3.25 |
| Fourth quarter | 3.45 | 3.00 |
| 2005 | | |
| First quarter | 2.15 | 2.10 |
| Second quarter | 3.40 | 1.75 |
| Third quarter | 8.00 | 2.06 |
| Fourth quarter | 3.99 | 2.00 |

During the last two years no dividends were paid. We have no present intention to pay any dividends in the foreseeable future.

At April 2, 2007 there were 387 holders of record of our common stock and the last recorded sales price was \$2.50.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Overview

Our consolidated financial statements should be read in conjunction with this discussion. Our primary operating property is the Carlisle coal mine located in western Indiana of which we own a 60% interest. We also have oil and gas reserves in the San Juan Basin, located in the northwest corner of New Mexico, and we have a 32% equity interest in Savoy Energy, LLC, an oil and gas company which has operations in Michigan.

Our coal properties comprise over 70% of our total assets. The Carlisle mine was in the development stage through January 31, 2007. Commercial coal production began February 5, 2007.

We have concluded to deemphasize our oil and gas operations and concentrate our future efforts in the coal business.

With that in mind, the following events have occurred:

In early January 2006, we signed a Letter of Intent with Sunrise Coal, LLC (Sunrise) with the intent to effect a reorganization/merger between Hallador and Sunrise a private company not affiliated with the Yorktown group of companies.

During the first quarter of 2006, we loaned Sunrise \$7 million in order for Sunrise to begin development of their second coal mine (the "Carlisle mine"). Their first mine, Howesville, began producing coal in November 2005. Both mines are located in western Indiana. During the second quarter of 2006, Sunrise entered into a \$30 million line-of-credit with two Indiana banks, and our \$7 million was repaid. We are the guarantor of this line of credit.

May 1, 2006, Sunrise informed us that they intend to shut down the Howesville mine effective June 10, 2006.

Due to the shut down of the Howesville mine, all of our previous agreements with Sunrise were voided, and on July 31, 2006, we entered into a joint venture with Sunrise to develop the Carlisle mine. Sunrise contributed all of their assets for a 40% interest and we agreed to a \$20.5 million funding commitment and guaranteed the line of credit for a 60% interest. We expect the full \$20.5 million to be expended by the first half of 2007. Through approximately 88% of the JVs cash flow we are to receive \$20.5 million plus interest at 10%. Thereafter, cash flow will be distributed 60% to us and 40% to the original Sunrise members. On July 31, 2006 (date of acquisition), we began consolidating the Sunrise joint venture. Because, at the date of acquisition, the original Sunrise members had not contributed capital in excess of accumulated losses (resulting primarily from the Howesville mine closure), we have reflected Sunrise's entire losses for the period since the acquisition. When Sunrise's accumulated earnings exceed its prior losses, we will reflect the original members' minority interest in the results of operations.

The equipment, valued at about \$10 million, that was being used at the Howesville mine was moved to the Carlisle mine. At the time we filed our September 30, 2006 Form 10-QSB, Sunrise had reached a preliminary agreement with the utility customer regarding the cancellation of the Howesville coal contract. Based on the preliminary agreement, we recorded a liability of approximately \$4 million. To date terms for a settlement agreement have not been reached and a settlement agreement has not been executed.

What follows is a discussion of our oil and gas assets.

San Juan Basin

This gas field is located in the northwest corner of New Mexico in San Juan County. We have an interest in 28 wells and are the operator. These wells have long-lived reserves. Our WI in this field ranges from 5%-15% with NRIs between 5%-13%. At December 31, 2006, our net book value in this prospect was about \$600,000. We assigned proved developed gas reserves to this field of about 1 BCF to our interest with a PV10 value of about \$2.3 million.

New Albany Shale Gas Lease Play

In early May, we sold for about \$3.3 million all of our interest in our Albany Shale Gas Lease Play, located in Kentucky, to Approach Oil and Gas Inc. (Approach), a private company based in Fort Worth, Texas. Approach is controlled by the Yorktown group of companies. We recognized a gain of about \$360,000.

Under our agreement with Approach, sixty days after three exploratory gas wells are drilled, we have the option to purchase a 1/3 working interest in the project by paying 1/3 of the land costs expended by Approach. We are carried on the drilling of the three wells. Drilling began in December 2006. Our 1/3 of the land costs would be about \$1.4 million.

In mid-October, we sold one-half of our rights under this option for \$500,000 to an unaffiliated third party. If we jointly elect to exercise the option, the third party will owe us an additional \$500,000. We would then owe one-half of our share of the land costs which would be about \$700,000 (one-half of the \$1.4 million discussed above). Our net ownership in the project would then be 1/6th.

For accounting purposes we deferred the \$500,000 gain as of December 31, 2006 pending the decision to exercise the option. In April 2007, we jointly exercised the option. We will be responsible for our share of completion costs of the three wells and any future drilling and development costs.

COALition Energy LLC (CELLC)

During the fourth quarter of 2006, we relinquished our interest in CELLC, and CELLC relinquished its interest in the Sunrise joint venture and any finder's fee due them. In addition, we wrote off our entire investment.

Liquidity and Capital Resources

Upon completion of our \$20.5 million commitment to Sunrise estimated to be completed during the first half of 2007 and our commitments for the Kentucky prospect, we expect to have about \$1.6 million cash. We may be required to raise additional capital to fund future cash calls for mine development and expansion. There can be no assurances that we will be able to raise additional capital on terms which would be acceptable to us.

As discussed above, we have entered into significant related party transactions with the Yorktown group of companies. Yorktown and its affiliates currently own about 54% of our common stock and represents one of the five seats on our board.

Results Of Continuing Operations

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

| | Sales Volume | 2006 Average Price | Revenue | Sales Volume | 2005 Average Price | Revenue |
|-------------|-----------------|--------------------------|-----------|-----------------|--------------------------|-----------|
| Gas-mcf | | | | | | |
| San Juan | 63,700 | \$9.82 | \$625,500 | 62,515 | \$10.81 | \$675,800 |
| Other | 30,920 | 7.16 | 221,400 | 41,000 | 8.20 | 336,200 |
| Oil-barrels | | | | | | |
| San Juan | 72 | 59.17 | 4,260 | 110 | 49.09 | 5,400 |
| Other | 1,315 | 61.98 | 81,500 | 1,565 | 54.31 | 85,000 |

Revenue decreased due to lower prices. San Juan natural gas is sold at an index price that is set at the first of every month and remains in effect for the entire month. Our San Juan April 2007 price is about \$6.26 per MCF.

LOE remained about the same comparing 2006 to 2005.

Interest income increased due to higher rates and more cash available for investment. In the future interest income will decrease due to the Sunrise funding and a reduction of our cash balances.

G&A increased by about \$900,000 due primarily to stock option expense of \$460,000, employee bonuses and higher salaries of \$220,000, higher accounting fees of \$70,000, increased travel of \$17,000, higher franchise taxes in New Mexico of \$25,000, and late fees to Minerals Management Services for properties held 20 years ago of \$20,000. The increase in accounting fees relate primarily to the Sunrise transaction.

Sunrise's G&A relates to coal operations which were in the start up phase during 2006.

Interest expense relates solely to the debt connected with the Sunrise acquisition.

The income tax benefit of \$118,000 primarily is a result of reflecting the 2005 current tax provision in excess of taxes paid.

Critical Accounting Policies and Estimates

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our financial statements.

Successful Efforts Method of Accounting

We account for our exploration and development activities utilizing the successful efforts method of accounting. Under this method, costs of productive exploratory wells, development dry holes and productive wells and undeveloped leases are capitalized. Oil and gas lease acquisition costs are also capitalized. Exploration costs, including personnel costs, certain geological and geophysical expenses and delay rentals for oil and gas leases, are charged to expense as incurred. Exploratory drilling costs are initially capitalized, but charged to expense if and when

the well is determined not to have found reserves in commercial quantities. The sale of a partial interest in a proved property is accounted for as a cost recovery and no gain or loss is recognized as long as this treatment does not significantly affect the unit-of-production amortization rate. A gain or loss is recognized for all other sales of producing properties.

The application of the successful efforts method of accounting requires managerial judgment to determine the proper classification of wells designated as developmental or exploratory which will ultimately determine the proper accounting treatment of the costs incurred. The results from a drilling operation can take considerable time to analyze and the determination that commercial reserves have been discovered requires both judgment and industry experience. Wells may be completed that are assumed to be productive and actually deliver oil and gas in quantities insufficient to be economic, which may result in the abandonment of the wells at a later date. Wells are drilled that have targeted geologic structures that are both developmental and exploratory in nature and an allocation of costs is required to properly account for the results. The evaluation of oil and gas leasehold acquisition costs requires managerial judgment to estimate the fair value of these costs with reference to drilling activity in a given area. Drilling activities in an area by other companies may also effectively condemn leasehold positions.

The successful efforts method of accounting can have a significant impact on the operational results reported when we enter a new exploratory area in hopes of finding an oil and gas field that will be the focus of future development drilling activity. The initial exploratory wells may be unsuccessful and will be expensed. Seismic costs can be substantial which will result in additional exploration expenses when incurred.

Reserve Estimates

Our estimates of oil and gas reserves, by necessity, are projections based on geologic and engineering data, and there are uncertainties inherent in the interpretation of such data as well as the projection of future rates of production and the timing of development expenditures. Reserve engineering is a subjective process of estimating underground accumulations of oil and gas that are difficult to measure. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation and judgment. Estimates of economically recoverable oil and gas reserves and future net cash flows necessarily depend upon a number of variable factors and assumptions, such as historical production from the area compared with production from other producing areas, the assumed effects of regulations by governmental agencies and assumptions governing future oil and gas prices, future operating costs, severance taxes, development costs and workover costs, all of which may in fact vary considerably from actual results. The future drilling costs associated with reserves assigned to proved undeveloped locations may ultimately increase to an extent that these reserves may be later determined to be uneconomic. For these reasons, estimates of the economically recoverable quantities of oil and gas attributable to any particular group of properties, classifications of such reserves based on risk of recovery, and estimates of the future net cash flows expected therefrom may vary substantially. Any significant variance in the assumptions could materially affect the estimated quantity and value of the reserves, which could affect the carrying value of our oil and gas properties and/or the rate of depletion of the oil and gas properties. Actual production, revenues and expenditures with respect to our reserves will likely vary from estimates, and such variances may be material.

Impairment of Developed Oil and Gas Properties

We review our oil and gas properties for impairment whenever events and circumstances indicate a decline in the recoverability of their carrying value. We estimate the expected future cash flows of our oil and gas properties and compare such future cash flows to the carrying amount of our oil and gas properties to determine if the carrying amount is recoverable. If the carrying amount exceeds the estimated undiscounted future cash flows, we will adjust the carrying amount of the oil and gas properties to their fair value. The factors used to determine fair value include, but are not limited to, estimates of proved reserves, future commodity pricing, future production estimates, anticipated

capital expenditures, and a discount rate commensurate with the risk associated with realizing the expected cash flows projected.

Impairment of Unproved Oil and Gas Properties

We periodically assess individually significant unproved oil and gas properties for impairment, on a project-by-project basis. Our assessment of the results of exploration activities, commodity price outlooks, planned future sales or expiration of all or a portion of such projects impact the amount and timing of impairment provisions.

Equity Method of Accounting for Investment

We account for our interest in Savoy using the equity method of accounting.

Asset retirement obligations

At the time they are incurred, legal obligations associated with the retirement of long-lived assets are reflected at their estimated fair value, with a corresponding charge to asset retirement obligation assets. Obligations are typically incurred when we commence development of underground mines, and include reclamation of support facilities, refuse areas and slurry ponds.

Obligations are reflected at the present value of their discounted cash flows. We reflect accretion of the obligations for the period from the date they are incurred through the date they are extinguished. The asset retirement obligation assets are amortized using the units-of-production method over estimated recoverable (proved and probable) reserves.

Our asset retirement obligations (ARO) arise from the federal Surface Mining Control and Reclamation Act of 1977 (SMCRA) and similar state statutes. SMCRA and states require that mines be reclaimed to their previous condition in accordance with specific standards and approved reclamation plans, as outlined in mining permits. Activities include reclamation of pit and support acreage at surface mines, sealing portals at underground mines, and reclamation of refuse areas and slurry ponds.

We assess our ARO at least annually, and reflect revisions for permit changes, as granted by state authorities, for revisions to the estimated reclamation costs, and for revisions to the timing of those costs.

Income Taxes

We provide for deferred income taxes on the difference between the tax basis of an asset or liability and its carrying amount in our financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes". This difference will result in taxable income or deductions in future years when the reported amount of the asset or liability is recovered or settled, respectively. Considerable judgment is required in determining when these events may occur and whether recovery of an asset is more likely than not. Additionally, our federal and state income tax returns are generally not filed before the consolidated financial statements are prepared, therefore we estimate the tax basis of our assets and liabilities at the end of each period as well as the effects of tax rate changes, tax credits, and net operating and capital loss carryforwards and carrybacks. Adjustments related to differences between the estimates we used and actual amounts we reported are recorded in the period in which we file our income tax returns. These adjustments and changes in our estimates of asset recovery could have an impact on our results of operations.

New Accounting Pronouncements

None of the FASB pronouncements issued during the last two years had, or will have, any material effect on us.

ITEM 7. FINANCIAL STATEMENTS

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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**REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders
Hallador Petroleum Company
Denver, Colorado

We have audited the consolidated balance sheet of Hallador Petroleum Company and Subsidiaries as of December 31, 2006 and the consolidated statements of operations, cash flows and stockholders' equity for the years ended December 31, 2006 and 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial condition of Hallador Petroleum Company and Subsidiaries, as of December 31, 2006 and the results of their operations and their cash flows for the years ended December 31, 2006 and 2005, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the Company has changed its accounting method for stock-based compensation by adopting SFAS No. 123 (R) "Share-Based Payment" effective January 1, 2006.

/s/ Ehrhardt Keefe Steiner & Hottman PC

April 16, 2007
Denver, Colorado

Consolidated Balance Sheet

December 31, 2006

(in thousands)

ASSETS

Current assets:

| | |
|---------------------------|---------|
| Cash and cash equivalents | \$7,206 |
| Accounts receivable- | |
| Oil and gas sales | 945 |
| Well operations | 159 |
| Income taxes | 350 |
| Other | 59 |
| Prepaid expenses | 63 |
| Total current assets | 8,782 |

Coal properties, at cost:

| | |
|--|--------|
| | 46,046 |
| Less - accumulated depreciation, depletion, and amortization | (413) |
| | 45,633 |

Oil and gas properties, at cost (successful efforts):

| | |
|---|---------|
| Unproved properties | 295 |
| Proved properties | 2,413 |
| Less - accumulated depreciation, depletion, amortization and impairment | (1,828) |
| | 880 |

Other assets:

| | |
|--------------------------|----------|
| Investment in Savoy | 6,049 |
| Advance royalties - coal | 183 |
| Other assets | 296 |
| Total other assets | 6,528 |
| Total assets | \$61,823 |

Consolidated Balance Sheet

December 31, 2006

(in thousands, except share and per share data)

LIABILITIES AND STOCKHOLDERS' EQUITY

| | |
|--|---------|
| Current liabilities: | |
| Current portion of long-term debt | \$1,718 |
| Accounts payable and accrued liabilities | 2,044 |
| Oil and gas sales payable | 973 |
| Deferred gain | 500 |
| Asset retirement obligations | 286 |
| Current portion of contract termination obligation | 92 |
| Total current liabilities | 5,613 |
| Long-term liabilities: | |
| Long-term debt | 23,500 |
| Asset retirement obligations | 626 |
| Long-term portion of contract termination obligation | 3,905 |
| Total long-term liabilities | 28,031 |
| Total liabilities | 33,644 |

Commitments and Contingencies (Note 5)

Stockholders' equity :

| | |
|---|----------|
| Preferred stock, \$.10 par value; 10,000,000 shares authorized; none issued | 121 |
| Common stock, \$.01 par value; 100,000,000 shares authorized, 12,168,135 shares issued | 31,623 |
| Additional paid-in capital | (3,565) |
| Accumulated deficit | 28,179 |
| Total stockholders' equity | \$61,823 |
| Total liabilities and stockholders' equity | |

See accompanying notes.

Consolidated Statement of Operations

(in thousands, except per share data)

| | Years ended December 31, | |
|---|--------------------------|----------|
| | 2006 | 2005 |
| Revenue: | | |
| Gas | \$ 847 | \$ 1,012 |
| Oil | 86 | 90 |
| Equity income - Savoy | 353 | |
| Interest | 804 | 544 |
| Prospect sale | 378 | - |
| | 2,468 | 1,646 |
| Costs and expenses: | | |
| Lease operating | 242 | 227 |
| Impairment of unproved properties | - | 183 |
| Exploration expenses | 107 | 57 |
| Depreciation, depletion and amortization | 56 | 43 |
| G&A | 1,497 | 612 |
| G&A - coal operations | 438 | |
| Aborted reorganization/merger costs | 137 | |
| Interest | 695 | |
| Equity loss-CELLC | 223 | 103 |
| Other | 15 | 114 |
| | 3,410 | 1,339 |
| Income (loss) before income taxes | (942) | 307 |
| Income tax-(expense) benefit | 118 | (145) |
| Net income (loss) | \$ (824) | \$ 162 |
| Net income (loss) per share, basic | \$ (.07) | \$.02 |
| Weighted average shares outstanding - basic | 11,715 | 7,155 |

See accompanying notes.

Consolidated Statement of Cash Flows
(in thousands)

| | Years ended December 31, | |
|--|--------------------------|---------|
| | 2006 | 2005 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ (824) | \$ 162 |
| Equity loss of CELLC | 223 | 103 |
| Equity income of Savoy | (353) | |
| Gain on prospect sale | (378) | |
| Depreciation, depletion, and amortization | 56 | 43 |
| Accretion of asset retirement obligations | 15 | |
| Accretion of contract termination obligation | 32 | |
| Settlement of asset retirement obligations | (329) | |
| Stock-based compensation | 460 | |
| Discontinued operations | | (407) |
| Minority interest | | 66 |
| Impairment of undeveloped properties | | 183 |
| Change in current assets and liabilities: | | |
| Accounts receivable | 985 | (1,197) |
| Prepaid expenses | (63) | |
| Advance royalties | (41) | |
| Accounts payable and accrued liabilities | (1,301) | 1,235 |
| Income taxes payable | (558) | (92) |
| Other | (22) | 10 |
| Net cash provided by (used for) operating activities | (2,098) | 106 |
| Cash flows from investing activities: | | |
| Capital expenditures for coal properties | (10,215) | |
| Capital expenditures for oil and gas properties | (432) | (4,696) |
| Proceeds from property sale (Cuyama) | | 3,538 |
| Proceeds from prospect sale | 3,423 | 1,616 |
| Proceeds from option - deferred gain | 500 | |
| Investment in COALition | | (326) |
| Investment in Savoy | (22) | (4,205) |
| Distribution from Savoy | 518 | |
| Investment in Sunrise, net of acquired cash of \$1,892 | (5,895) | |
| Acquisition of Hallador Petroleum, LLP minority interest | | (1,200) |
| Decrease in bonds | | 252 |
| Other assets | (14) | (35) |
| Net cash used for investing activities | (12,137) | (5,056) |

See accompanying notes.

Consolidated Statement of Cash Flows

(in thousands)

(continued)

| | Years ended December 31, | |
|--|--------------------------|-----------|
| | 2006 | 2005 |
| Cash flows from financing activities: | | |
| Proceeds from bank debt | 2,180 | |
| Distributions to limited partners of Hallador Petroleum, LLP | | (6,881) |
| Common stock sale to Yorktown Energy VI. L.P. | 7,000 | 4,165 |
| Net cash provided by (used for) financing activities | 9,180 | (2,716) |
| Net decrease in cash and cash equivalents | (5,055) | (7,666) |
| Cash and cash equivalents, beginning of year | 12,261 | 19,927 |
| Cash and cash equivalents, end of year | \$ 7,206 | \$ 12,261 |
| | | |
| Cash paid for interest (net of amount capitalized) | \$ 695 | |
| Cash paid for income taxes | \$ 439 | \$ 225 |

See accompanying notes.

Statement of Stockholders' Equity
(In thousands)

| | Common Stock | Additional Paid In Capital | Accumulated Deficit | Total |
|--|--------------|----------------------------------|------------------------|-----------|
| Balance December 31, 2004 | \$ 71 | \$ 18,061 | \$ (4,625) | \$ 13,507 |
| Stock sale to Yorktown (a related party) (1,893,169 shares) | 19 | 6,133 | | 6,152 |
| Retirement of Hallador Petroleum, LLP minority interest | | | 1,722 | 1,722 |
| Net income | -- | -- | 162 | 162 |
| Balance December 31, 2005 | 90 | 24,194 | (2,741) | 21,543 |
| Stock sale to Yorktown (a related party) (3,181,816 shares) | 31 | 6,969 | | 7,000 |
| Stock-based compensation | | 460 | | 460 |
| Net loss | -- | -- | (824) | (824) |
| Balance December 31, 2006 | \$ 121 | \$ 31,623 | \$ (3,565) | \$ 28,179 |

See accompanying notes.

Notes to Consolidated Financial Statements

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

The accompanying consolidated financial statements include the accounts of Hallador Petroleum Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated. We are engaged in the production of coal from a shallow underground mine located in western Indiana, and to a lesser extent, in the exploration, development, and production of oil and natural gas in the Rocky Mountain region. Segment disclosures are reflected on the face of the consolidated financial statements. We also own a 32% equity interest in Savoy Energy, LLC, a private oil and gas company which has operations in Michigan.

As discussed in Item 6. (MD&A), we have entered into significant related party transactions with the Yorktown group of companies. Yorktown and its affiliates currently own about 54% of our common stock and represents one of the five seats on our board.

We have concluded to deemphasize our oil and gas operations and concentrate our future efforts in the coal business.

Reclassification

Certain amounts in the 2005 Statement of Operations have been reclassified to conform with the classifications in the current year's statement with no effect on previously-reported net income.

Coal Properties

Consolidation

The consolidated financial statements include the accounts of Hallador Petroleum Company (the Company) and its majority-owned subsidiary Sunrise Coal, LLC (Sunrise).

Inventories

Coal and supplies inventories are valued at the lower of average cost or market. Coal inventory costs include labor, supplies, equipment costs and overhead. We have no coal production and related inventories as of and for the year ended December 31, 2006. Our first coal sales commenced in February 2007.

Advance royalties

Rights to develop leased coal lands may require payments of advance royalties. When those advance royalties may be recouped through future production, the payments are reflected as current or long-term assets, depending on the expected recovery period. As coal is produced, the payments are statutorily amortized and reflected as cost of coal sales in the consolidated statements of operations.

Property, plant and equipment

Property, plant and equipment are recorded at cost. Interest costs applicable to major asset additions are capitalized during the construction period. Expenditures that extend the useful lives of existing property, plant and equipment or increase the productivity of the assets are capitalized. The cost of maintenance and repairs that do not extend the useful lives or increase the productivity of the assets are expensed as incurred. Property, plant and equipment are depreciated using the units-of-production method over the estimated recoverable reserves.

If facts and circumstances suggest that a long-lived asset may be impaired, the carrying value is reviewed for recoverability. If this review indicates that the carrying value of the asset will not be recoverable through estimated undiscounted future net cash flows related to the asset over its remaining life, then an impairment loss is recognized by reducing the carrying value of the asset to its estimated fair value.

For the period from July 31, 2006 (date of Sunrise acquisition) through December 31, 2006, we capitalized \$403,000 of interest.

Deferred mine development

Costs of developing new coal mines, including asset retirement obligation assets, or significantly expanding the capacity of existing mines, are capitalized and amortized using the units-of-production method over estimated recoverable (proved and probable) reserves.

Coal land and mineral rights

Certain of our coal reserves were obtained through leases. The cost of those leases is capitalized and will be depleted using the units-of-production method over estimated recoverable (proved and probable) reserves.

Asset retirement obligations

At the time they are incurred, legal obligations associated with the retirement of long-lived assets are reflected at their estimated fair value, with a corresponding charge to asset retirement obligation assets. Obligations are typically incurred when we commence development of underground mines, and include reclamation of support facilities, refuse areas and slurry ponds.

Obligations are reflected at the present value of their discounted cash flows. We reflect accretion of the obligations for the period from the date they are incurred through the date they are extinguished. The asset retirement obligation assets are amortized using the units-of-production method over estimated recoverable (proved and probable) reserves.

Our asset retirement obligations (ARO) arise from the federal Surface Mining Control and Reclamation Act of 1977 (SMCRA) and similar state statutes. SMCRA and states require that mines be reclaimed to their previous condition in accordance with specific standards and approved reclamation plans, as outlined in mining permits. Activities include reclamation of pit and support acreage at surface mines, sealing portals at underground mines, and reclamation of refuse areas and slurry ponds.

We assess our ARO at least annually, and reflect revisions for permit changes, as granted by state authorities, for revisions to the estimated reclamation costs, and for revisions to the timing of those costs.

The following table reflects the changes to our ARO:

| | | |
|---|----|-------|
| Balance, January 1, 2006 | \$ | 10 |
| Additions incurred in connection with Sunrise acquisition | | 1,204 |
| Accretion | | 15 |
| Settlements | | (329) |
| Revisions to previous estimates | | 12 |
| Balance, December 31, 2006 | \$ | 912 |
| | | |
| Current | \$ | 286 |
| Long-term | | 626 |
| | \$ | 912 |

Oil and Gas Properties

We account for our oil and gas activities using the successful efforts method of accounting. Under the successful efforts method, the costs of successful wells, development dry holes and productive leases are capitalized and amortized on a units-of-production basis over the remaining life of the related reserves. Exploratory dry hole costs and other exploratory costs, including geological and geophysical costs, and delay rentals are expensed as incurred. Cost centers for amortization purposes are determined on a field-by-field basis. Unproved properties with significant acquisition costs are periodically assessed for impairment in value, with any impairment charged to expense.

Our ARO for our oil and gas properties are not material.

The carrying value of each field is assessed for impairment on a quarterly basis. If estimated future undiscounted net revenues are less than the recorded amounts, an impairment charge is recorded based on the estimated fair value of the field.

Major Customers

During 2006 and 2005, the San Juan Basin's gas and NGL production was purchased by Coral Energy Resources, LP and Williams Energy Services.

Statement of Cash Flows

Cash equivalents include investments, which includes mutual funds, with maturities when purchased of three months or less.

Income Taxes

Income taxes are provided based on the liability method of accounting pursuant to SFAS 109, Accounting for Income Taxes. The provision for income taxes is based on pretax financial taxable income. Deferred tax assets and liabilities are recognized for the future expected tax consequences of temporary differences between income tax and financial reporting and principally relate to differences in the tax basis of assets and liabilities and their reported amounts, using enacted tax rates in effect for the year in which differences are expected to reverse. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recognized.

Earnings per Share

We follow the provisions of SFAS 128, Earnings Per Share. Basic earnings per share are computed based on the weighted average number of common shares outstanding. Diluted earnings per share are computed based on the weighted average number of common shares outstanding adjusted for the incremental shares attributed to outstanding stock options. Diluted earnings per share for the year ended December 31, 2006 excludes 750,000 shares issuable for outstanding stock options as their effect was antidilutive.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

Revenue Recognition

We recognize oil and natural gas revenue from our interest in producing wells as natural gas and oil is produced and sold from those wells using the entitlement method.

Concentration of Credit Risk

Our revenues are derived principally from uncollateralized sales to two customers in the oil and gas industry. The concentration of credit risk in a single industry affects our overall exposure to credit risk because customers may be similarly affected by changes in economic and other conditions.

Long-term Contract

The Carlisle mine, our primary asset, was under development during 2006 and first sales occurred in February 2007. A large portion of our current production capacity is contracted with a public utility for several years. The coal is contracted at market prices that were in effect July 1, 2005. We are talking to other coal purchasers about additional contracts, and if coal prices continue to rise, we believe coal production could peak at about 3 million tons per year in five or six years. Recoverable reserves that are presently leased are about 32 million tons.

Transportation

Currently, we depend on truck transportation to deliver coal to our customers. During 2007, we will use both truck and rail transportation. Disruption of these services due to weather, mechanical issues, strikes, lockouts, bottlenecks and other events may have a temporary adverse impact on shipments and, consequently, to coal sales.

Stock Based Compensation

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS 123R, using the modified prospective transition method and therefore have not restated prior periods' results. Future amortization of transitional stock based compensation expense is as follows: \$460,000 (2007) and \$115,000 (2008).

We estimated the fair value of the option grant using the Black-Scholes option-pricing model, using the following assumptions: (i) risk free interest rate of 4.24%; (ii) expected life of 10 years; (iii) expected volatility of 120%; and (iv) expected default rate of 5%, and (v) no dividend yield. The average fair value of options granted during 2005 was \$2.15. At December 31, 2006, our 750,000 outstanding stock options had a remaining contractual maturity of nine

years and an aggregate intrinsic value of about \$563,000. At December 31, 2006, 250,000 stock options were vested and exercisable with an aggregate intrinsic value of approximately \$188,000. Pro forma loss for the year ended December 31, 2005 would have been \$183,000 or \$(0.03) per share.

The total compensation expense related to this plan was \$460,000 for the year ended December 31, 2006. The impact on earnings per share for the year ended December 31, 2006 was \$(.04) per share.

No options were granted during 2006.

New Accounting Pronouncements

None of the FASB pronouncements issued during the last two years had, or will have, any material effect on us.

(2) NEW ALBANY SHALE GAS LEASE PLAY

In early May, we sold for about \$3.3 million all of our interest in our Albany Shale Gas Lease Play, located in Kentucky, to Approach Oil and Gas Inc. (Approach), a private company based in Fort Worth, Texas. Approach is controlled by the Yorktown group of companies. We recognized a gain of about \$360,000.

Under our agreement with Approach, sixty days after three exploratory gas wells are drilled, we have the option to purchase a 1/3 working interest in the project by paying 1/3 of the land costs expended by Approach. We are carried on the drilling of the three wells. Drilling began in December 2006. Our 1/3 of the land costs would be about \$1.4 million.

In mid-October, we sold one-half of our rights under this option for \$500,000 to an unaffiliated third party. If we jointly elect to exercise the option, the third party will owe us an additional \$500,000. We would then owe one-half of our share of the land costs which would be about \$700,000 (one-half of the \$1.4 million discussed above). Our net ownership in the project would then be 1/6th.

For accounting purposes we deferred the \$500,000 gain pending the decision to exercise the option. In April 2007, we jointly exercised the option. We will be responsible for our share of completion costs of the three wells and any future drilling and development costs.

(3) INCOME TAXES (in thousands)

The (benefit) provision for income taxes is comprised of the following:

| | 2006 | 2005 |
|-----------|----------|--------|
| Current : | | |
| Federal | \$ (116) | \$ 415 |
| State | (2) | 189 |
| | (118) | 604 |
| Deferred: | | |
| Federal | | (297) |
| State | | (162) |
| | - | (459) |
| | \$ (118) | \$ 145 |

Our income tax is different than the expected amount computed using the applicable federal and state statutory income tax rates. The reasons for and effects of such differences are as follows:

| | 2006 | 2005 |
|--|----------|--------|
| Expected amount | \$ (320) | \$ 115 |
| State income taxes, net of federal benefit | (31) | 16 |
| Permanent items | 110 | |
| Change in valuation allowance and other | 123 | 14 |
| | \$ (118) | \$ 145 |

The deferred tax assets and liabilities resulting from temporary differences between book and tax basis are comprised of the following:

| | 2006 |
|---|--------|
| Current deferred tax assets: | |
| Deferred gain from prospect sales | \$ 187 |
| Long -term deferred tax assets: | |
| Federal net operating loss carryforwards | 1,313 |
| Alternative minimum tax credit carryforwards | 70 |
| Oil and gas properties | 30 |
| Stock-based compensation | 61 |
| Valuation allowance | (342) |
| Net long-term deferred tax assets | 1,132 |
| Long-term deferred tax liabilities: | |
| Investment in Savoy | 120 |
| Investment in Sunrise Coal | 1,199 |
| Total long-term deferred liabilities | 1,319 |
| Long-term deferred liabilities in excess of long-term deferred assets | (187) |
| Net | \$ 0 |

At December 31, 2006, we had federal net operating loss carryforwards of approximately \$3.5 million. These NOLs will expire in 2026.

(4) STOCK OPTIONS AND BONUS PLANS

Stock Option Plan

In April 2005, we granted 750,000 options at an exercise price of \$2.25 based on a March 2005 private transaction between one of our shareholders and a third party. These options vest at 1/3 per year for the next three years and expire in April 2015. There are no more options available for issuance. During 2006 and 2005 no options were exercised and none were granted during 2006.

(5) SUNRISE COAL ACQUISITION

As discussed in the first quarter Form 10-QSB, Sunrise informed us of their intention to shut down the Howesville mine, which they did. As a result, all of our previous agreements with Sunrise were voided.

On July 31, 2006 we entered into a joint venture with Sunrise. The original Sunrise members retained a 40% interest in the venture, and we agreed to contribute capital of \$20.5 million for a 60% interest.

We expect the entire \$20.5 million to be expended by the first half of 2007. Through approximately 88% of the JV's cash flow, we will receive \$20.5 million plus interest at 10%. Thereafter, cash flow will be distributed 60% to us, and 40% to the original Sunrise members.

As a result of these developments, we have expensed about \$137,000 in legal fees, which were previously deferred pending closing of the reorganization/merger with Sunrise.

On July 31, 2006 (date of acquisition), we began consolidating the Sunrise joint venture. Because, at the date of acquisition, the original Sunrise members had not contributed capital in excess of accumulated losses (resulting primarily from the Howesville mine closure), we have reflected Sunrise's entire losses for the period since acquisition. When Sunrise's accumulated earnings exceed its prior losses, we will reflect the original members' minority interest in the results of operations.

The following table summarizes the costs and allocations of the above acquisition which are preliminary and subject to finalization:

| | |
|----------------------------------|----------|
| Acquisition costs: | |
| Cash consideration | \$ 7,500 |
| Direct acquisition costs | 308 |
| | \$ 7,808 |
| Allocation of acquisition costs: | |
| Current assets | \$ 1,892 |
| Coal properties | 35,400 |
| Other assets | 192 |
| Liabilities assumed | (29,676) |
| | \$ 7,808 |

Included in liabilities assumed is the estimated present value of the contract termination obligation with the utility who was to purchase the coal from the Howesville mine. The purchase price is subject to modification for certain items, including the contract termination obligation, and, consequently, may change.

Pro Forma Results of Operations (Unaudited)

The following table reflects the unaudited pro forma consolidated results of operations for the years ended December 31, 2006 and 2005 as though the Sunrise and Savoy acquisitions had occurred on January 1, 2005. The unaudited pro forma results have been prepared for comparative purposes only and may not be indicative of future results.

| | Year ended December 31, | |
|---|-------------------------|-----------|
| | 2006 | 2005 |
| Revenue | \$ 2,468 | \$3,057 |
| Net loss | \$(11,640)* | \$(2,153) |
| Net loss per basic share | \$(0.96) | \$(0.18) |
| Weighted average basic shares outstanding | 12,168 | 12,168 |

* Included in the net loss for 2006 is an impairment charge of approximately \$5 million relating to the closing of the Howesville mine.

(6) NOTES PAYABLE

On April 19, 2006, Sunrise entered into a new \$30,000,000 facility with Old National Bank. The Line of Credit under the facility has a maturity of July 28, 2007. Thereafter, the Line of Credit balance converts to a Term Loan that has a maturity of July 28, 2012. The Line of Credit bears interest at LIBOR plus 3.55% (9.20% at December 31, 2006), and the Term Loan bears interest at 8.50%. Monthly interest-only payments are required through the term of the Line of Credit. Thereafter, the Term loan requires amortizing payments through maturity.

The loan is secured by all of Sunrise's real and personal property, guaranteed by Sunrise and Hallador, and requires Sunrise to comply with certain covenants.

Sunrise also has two letters of credit related to the Howesville and Carlisle mines totaling \$2,083,000 which reduce the available borrowings under the \$30,000,000 credit facility.

Aggregate contractual maturities of debt are \$1,718 in 2007, \$4,379 in 2008, \$4,766 in 2009, \$5,187 in 2010, \$5,646 in 2011; and \$3,522 in 2012.

(7) EQUITY INVESTMENT IN SAVOY

On December 31, 2005, we acquired a 32% interest in Savoy Energy LLP, a private company engaged in the oil and gas business primarily in the State of Michigan. A value of \$6.1 million was assigned for this investment. We account for our interest in Savoy using the equity method of accounting. We account for our interest in Savoy using the equity method of accounting.

Below (in thousands) are: (i) a condensed balance sheet at December 31, 2006, and (ii) a condensed statement of operations for the year ended December 31, 2006.

Condensed Balance Sheet

| | | |
|-------------------|----|--------|
| Current assets | \$ | 10,360 |
| PP&E, net | | 10,702 |
| | \$ | 21,062 |
| | | |
| Total liabilities | \$ | 5,974 |
| Partners capital | | 15,088 |
| | \$ | 21,062 |

Condensed Statement Of Operations

| | | |
|--------------|----|---------|
| Revenue | \$ | 6,775 |
| Gain on sale | | 73 |
| | | 6,848 |
| | | |
| Expenses | | (5,348) |
| Net income | \$ | 1,500 |

No equity income was recorded for 2005 as closing occurred on December 31, 2005.

The difference between the purchase price and our pro rata share of the equity of Savoy was amortized based on Savoy's units of production rate using proved reserves. Such amount was \$127,000 for 2006.

(8) RESERVE DATA (UNAUDITED)

Our reserve estimates for the years ended December 31, 2006 and 2005 were prepared by Edwin James, a sole-proprietor consulting petroleum engineer, based on data we supplied. Savoy's reserve estimates were prepared by Netherland, Sewell & Associates. Be cautious that there are many uncertainties inherent in estimating proved reserve quantities and in projecting future production rates.

Proved reserves are the estimated quantities of oil and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are those reserves expected to be recovered through existing wells with existing equipment and operating methods.

Analysis of Changes in Proved Developed Reserves *
(in thousands)

| | Oil (BBLs) | Gas (MCF) |
|---|---------------|--------------|
| Balance at December 31, 2004 | 3 | 1,433 |
| Revisions of previous estimates | (1) | (41) |
| Discoveries | - | 112 |
| Production | (2) | (104) |
| Balance at December 31, 2005 ⁽¹⁾ | 0 | 1,400 |
| Revisions of previous estimates | - | (182) |
| Production | - | (128) |
| Balance at December 31, 2006 | 0 | 1,090 |

*We have no significant proved undeveloped reserves.

Equity interest (32%) in Savoy's Reserves:

| | | |
|--------------------|----|-----|
| Proved developed | 43 | 572 |
| Proved undeveloped | 39 | 527 |

(1) Our oil reserves are not material.

The following table (in thousands) sets forth a standardized measure of the discounted future net cash flows attributable to our proved developed reserves (hereinafter referred to as "SMOG"). Future cash inflows were computed using December 31, 2006 and 2005 gas prices of \$7.53 and \$8.69, respectively. Future production costs represent the estimated future expenditures to be incurred in producing the reserves, assuming continuation of economic conditions existing at year-end. Discounting the annual net cash inflows at 10% illustrates the impact of timing on these future cash inflows.

| | 2006 | 2005 |
|--|----------|-----------|
| Future gas revenue | \$ 8,400 | \$ 12,350 |
| Future cash outflows - production and abandonment costs | (3,300) | (3,600) |
| Future income taxes | (2,000) | (3,500) |
| Future net cash flows | 3,100 | 5,250 |
| 10% discount factor | (1,600) | (2,450) |
| SMOG | \$ 1,500 | \$ 2,800 |
| Equity interest (32%) in Savoy (About 50% relates to proved undeveloped reserves) | \$ 3,600 | \$ 4,400 |

The following table (in thousands) summarizes the principal factors comprising the changes in SMOG:

| | 2006 | 2005 |
|---|----------|----------|
| SMOG, beginning of year | \$ 2,800 | \$ 1,800 |
| Sales of oil and gas, net of production costs | (700) | (875) |
| Net changes in prices and production costs | (1,230) | 2,160 |
| Revisions | (400) | (165) |
| Discoveries | | 450 |
| Change in income taxes | 750 | (750) |
| Accretion of discount | 280 | 180 |
| SMOG, end of year | \$ 1,500 | \$ 2,800 |

ITEM 8. ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 8A. 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 has been no change in our internal control over financial reporting during the quarter ended December 31, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 8B. OTHER INFORMATION

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS, CONTROL PERSONS AND CORPORATE GOVERNANCE; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

CORTLANDT S. DIETLER, 85, has been one of our directors since November 1995. From April 1995 to October 1999 he was CEO of TransMontaigne Inc. and was Chairman of the Board from October 1999 until its sale to Morgan Stanley in September 2006. He also serves as a director of Forest Oil Corporation, Cimarex Energy Company, Nytis Exploration Company and Ellora Energy Inc.

DAVID HARDIE, 56 is the Chairman of the Board and has served as a director since July 1989. He is the President of Hallador Investment Advisors Inc., which manages Hallador Equity Fund, Hallador Fixed Income Fund, Hallador Alternative Assets Fund and Hallador Balance Fund; he also is a General Partner of Hallador Venture Partners LLC, the General Partner of Hallador Venture Fund II & III. Mr. Hardie is and serves as a director and partner of other private entities that are owned by members of his family and is also a director of Sunrise Coal, LLC. Mr. Hardie is a graduate of California Polytechnic University, San Luis Obispo and Harvard Business School, OPM.

STEVEN HARDIE, 53 has been a director since 1994. He and David Hardie are brothers. For the last 23 years he has been an investor in common stock and private equity. He is the Vice-President of Hallador Investment Advisors, which manages Hallador Equity Fund, Hallador Fixed Income Fund, Hallador Alternative Assets Fund and Hallador Balance Fund. He also serves as a director and partner of other private entities that are owned by members of his family.

BRYAN H. LAWRENCE, 63, has been one of our directors since November 1995. He is a founder and senior manager of Yorktown Partners LLC which manages investment partnerships formerly affiliated with Dillon, Read & Co. Inc., an investment-banking firm (Dillon Read). He had been employed with Dillon, Read since 1966, serving most recently as a Managing Director until the merger of Dillon Read with SBC Warburg in September 1997. He also serves as a Director of TransMontaigne, Inc., Crosstex Energy, Inc. and Crosstex Energy, L.P. (each a United States public company), Winstar Resources Ltd. (a Canadian Public Company) and certain non-public companies in the energy industry in which Yorktown partnership holds equity interests, one of which is Sunrise Coal, LLC. Mr. Lawrence is a graduate of Hamilton College and has a MBA from Columbia University.

VICTOR P. STABIO, 59 is our President, CEO, CFO and a director. He joined us in March 1991 as our President and CEO and has been active in the oil and gas business for the past 31 years. Mr. Stabio is a director of Sunrise Coal, LLC.

BRENT K. BILSLAND, 33, has been President and a director of Sunrise Coal, LLC since July 31, 2006 and has been a member in Sunrise since 2005. Previously, Mr. Bilsland was Vice President of Knapper Corporation, a family owned farming business from 1998 to 2004. Mr. Bilsland is a graduate of Butler University located in Indianapolis, Indiana. Mr. Bilsland is a 4% owner of Sunrise Coal, LLC and is not a shareholder of Hallador Petroleum Company.

We do not pay our directors or reimburse expenses incurred by them while sitting on our board.

Our Code of Ethics is filed as Exhibit 14 to this Form 10-KSB.

ITEM 10. EXECUTIVE COMPENSATION**SUMMARY COMPENSATION TABLE**

| Name and Principal Position | Year | Salary | Bonus | Stock Awards | Option Awards | Non-Equity Incentive Plan Compensation | Nonqualified Deferred Compensation | All Other Compensation | Total |
|-----------------------------|------|-----------|----------|--------------|---------------|--|------------------------------------|------------------------|-----------|
| (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) | (i) | (j) |
| Victor P. Stabio, CEO | 2006 | \$140,000 | \$50,000 | \$0 | \$245,000 | \$0 | \$0 | \$0 | \$435,000 |

In April 2005, we granted 750,000 options at an exercise price of \$2.25 per share to our employees of which 400,000 were issued to Mr. Stabio. No options were exercised during 2006 and 2005. At December 31, 2006, Mr. Stabio's in-the-money value of his options was about \$300,000.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

| Name | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Option Awards | | | Stock Awards | | | |
|-----------------------|---|---|---|-----------------------|----------------------|--|--|--|--|
| | | | Equity Incentive Plan Awards Number of Securities Underlying Unexercised Unearned Options (#) | Option Exercise Price | Option Exercise Date | Number of Shares of Stock That Have not Vested | Market Value of Shares of Stock That Have not Vested | Equity Incentive Plan Awards Number of Unearned Shares, Units or Rights That Have not Vested | Equity Incentive Plan Awards Market or Payout Value of Unearned Shares, Units or Rights That Have not Vested |
| (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) | (i) | (j) |
| Victor P. Stabio, CEO | 266,666 | 133,334 | | \$2.25 | | | | | |

EQUITY COMPENSATION PLAN INFORMATION

| Plan Category | Number of Securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|--|---|---|---|
| | (a) | (b) | (c) |
| Equity compensation plans approved by security holders | 750,000 | \$2.25 | 0 |
| Equity compensation plans not approved by security holders | 0 | 0 | 0 |

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table is as of April 16, 2007.

| Name | No. Shares ⁽¹⁾ | % of Class ⁽¹⁾ |
|--|---------------------------|---------------------------|
| David Hardie and Steven Hardie as Nominee for Hardie Family Members ⁽²⁾ | 3,550,370 | 29 |
| Victor P. Stabio ⁽⁶⁾ | 341,603 | 3 |
| Cortlandt S. Dietler ⁽³⁾ | 100,000 | 1 |
| Bryan H. Lawrence ⁽⁴⁾ | 6,607,166 | 54 |
| Lubar & Associates ⁽⁵⁾ | 686,566 | 6 |
| All directors and executive officer as a group | 10,332,473 | 85 |

⁽¹⁾ Based on total outstanding shares of 12,168,135. Beneficial ownership of certain shares has been, or is being, specifically disclaimed by certain directors in ownership reports filed with the SEC.

- (2) The Hardie family business address is 3000 S Street, Suite 200, Sacramento, California, 95816.
- (3) Mr. Dietler's address is P. O. Box 5660, Denver, Colorado 80217. All shares are held by Pinnacle Engine Company LLC, wholly owned by Mr. Dietler.

- (4) Mr. Lawrence's address is 410 Park Avenue, 19th Floor, New York, NY 10022. Mr. Lawrence owns 50,000 shares directly, and the remainder is held by Yorktown Energy Partners VI, L.P., an affiliate.
- (5) Lubar & Associates address is 700 North Water Street, Suite 1200, Milwaukee, WI 53202.
- (6) Includes 266,666 options exercisable within sixty days of April 16, 2007.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Our Audit Committee consists of all board members other than Mr. Stabio. Our Compensation Committee consists of Messrs. David and Steven Hardie and Mr. Lawrence. We have no nominating committee. None of our committees have charters.

We do not have an audit committee financial expert serving on our audit committee. We believe that the additional costs to recruit a financial expert exceed the benefits, if any.

We had one board meetings and four audit committee meetings during 2006 and all members attended at least 75% of the meetings.

As discussed in Item 6. (MD&A), we have entered into significant related party transactions with the Yorktown group of companies. Yorktown and its affiliates currently own about 54% of our common stock and represents one of the five seats on our board.

ITEM 13. EXHIBITS

(a) Exhibits

- 3.1 Restated Articles of Incorporation of Kimbark Oil and Gas Company, effective September 24, 1987 ⁽¹⁾
- 3.2 Articles of Amendment to Restated Articles of Incorporation of Kimbark Oil & Gas Company, effective December 14, 1989, to effect change of name to Hallador Petroleum Company and to change the par value and number of authorized shares of common stock ⁽¹⁾
- 3.3 Amendment to Articles of Incorporation dated December 31, 1990 to effect the one-for-ten reverse stock split ⁽²⁾
- 3.4 By-laws of Hallador Petroleum Company, effective November 9, 1993 ⁽⁴⁾
- 10.1 Composite Agreement and Plan of Merger dated as of July 17, 1989, as amended as of August 24, 1989, among Kimbark Oil & Gas Company, KOG Acquisition, Inc., Hallador Exploration Company and Harco Investors, with Exhibits A, B, C and D ⁽¹⁾
- 10.2 Hallador Petroleum Company 1993 Stock Option Plan ^{*(5)}
- 10.3 First Amendment to the 1993 Stock Option Plan ^{*(5)}
- 10.4 Stock Purchase Agreement with Yorktown dated November 15, 1995 ⁽⁶⁾
- 10.5 Hallador Petroleum, LLP Agreement ⁽⁶⁾
- 10.6 Subscription Agreement - by and between Hallador Petroleum Company and Yorktown Energy Partners VI, L.P, dated December 20, 2005.⁽⁷⁾
- 10.7 Purchase and Sale Agreement dated December 31, 2005 between Hallador Petroleum Company, as Purchase and Yorktown Energy Partners II, L.P., as Seller relating to the purchase and sale of limited partnership interests in Savoy Energy Limited Partnership ⁽⁸⁾
- 10.8 Letter of Intent dated January 5, 2006 between Hallador Petroleum Company and Sunrise Coal, LLC ⁽⁹⁾
- 10.9 Subscription Agreement - by and between Hallador Petroleum Company and Yorktown Energy Partners VI, L.P., et al dated February 22, 2006. ⁽¹⁰⁾
- 10.10 Subscription Agreement - by and between Hallador Petroleum Company and Hallador Alternative Assets Fund LLC dated February 14, 2006. ⁽¹¹⁾
- 10.11 Subscription Agreement - by and between Hallador Petroleum Company and Tecovas Partners V LP dated February 14, 2006. ⁽¹¹⁾
- 10.12 Subscription Agreement - by and between Hallador Petroleum Company and Lubar Equity Fund LLC dated February 14, 2006. ⁽¹¹⁾
- 10.13 Subscription Agreement - by and between Hallador Petroleum Company and Murchison Capital Partners LP dated February 14, 2006. ⁽¹¹⁾
- 10.14 Continuing Guaranty, dated April 19, 2006, by Hallador Petroleum Company in favor of Old National Bank ⁽¹²⁾
- 10.15 Collateral Assignment of Hallador Master Purchase/Sale Agreement, dated April 19, 2006, among Hallador Petroleum Company, Hallador Petroleum, LLLP, and Hallador Production Company and Old National Bank ⁽¹²⁾
- 10.16 Reimbursement Agreement, dated April 19, 2006, between Hallador Petroleum Company and Sunrise Coal, LLC ⁽¹²⁾
- 10.17 Membership Interest Purchase Agreement dated July 31, 2006 by and between Hallador Petroleum Company and Sunrise Coal, LLC. ⁽¹³⁾
- 14. Code Of Ethics For Senior Financial Officers. ⁽¹⁴⁾
- 21.1 List of Subsidiaries ⁽²⁾
- 31 SOX 302 Certification ⁽¹⁴⁾
- 32 SOX 906 Certification ⁽¹⁴⁾

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- | | |
|--|--|
| (1) Incorporated by reference (IBR) to the 1989 Form 10-K. | (8) IBR to Form 8-K dated January 3, 2006 |
| (2) IBR to the 1990 Form 10-K. | (9). IBR to Form 8-K dated January 6, 2006 |
| (3) IBR to the 1992 Form 10-KSB. | (10) IBR to Form 8-K dated February 27, 2006 |
| (4) IBR to the 1993 Form 10-KSB. | (11) IBR to the 2005 Form 10-KSB. |
| (5) IBR to the 1995 Form 10-KSB | (12) IBR to Form 8-K dated April 25, 2006 |
| (6) IBR to the 1997 Form 10-KSB. | (13) IBR to Form 8-K dated August 1, 2006. |
| (7) IBR to Form 8-K dated December 31, 2005. | (14) Filed herewith. |

* Management contracts or compensatory plans.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The fees incurred for 2006 and 2005 were:

| | 2006 | 2005 |
|--------------------|------------|------------|
| Audit Fees | \$ 130,000 | \$ 100,500 |
| Audit related fees | 40,000 | |
| Tax fees | 32,000 | 21,500 |
| Total fees | \$ 202,000 | \$ 122,000 |

Audit related fees consist of fees paid related to the Sunrise Coal, LLC acquisition audit and related SEC filings.

Pre-approval Policy

In 2003 the Audit Committee adopted a formal policy concerning approval of audit and non-audit services to be provided by Ehrhardt Keefe Steiner & Hottman PC (EKSH). The policy requires that all services EKSH provides to us be pre-approved by the Committee. The Committee approved all services provided by EKSH during 2006 and 2005.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HALLADOR PETROLEUM COMPANY

Dated: April 16, 2007

BY: /S/ VICTOR P. STABIO
VICTOR P. STABIO, CEO

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| | | |
|--|----------------------------|----------------|
| /S/ DAVID HARDIE DAVID HARDIE | Chairman | April 16, 2007 |
| /S/ VICTOR P. STABIO VICTOR P. STABIO | CEO, CFO, CAO and Director | April 16, 2007 |
| /S/ BRYAN LAWRENCE BRYAN LAWRENCE | Director | April 16, 2007 |