

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

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: March 31, 2020

OR

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

Commission file number:001-34743

"COAL KEEPS YOUR LIGHTS ON"



"COAL KEEPS YOUR LIGHTS ON"

**HALLADOR ENERGY COMPANY**

(www.halladorenergy.com)

Colorado  
(State of incorporation)

84-1014610  
(IRS Employer  
Identification No.)

1183 East Canvasback Drive, Terre Haute, Indiana  
(Address of principal executive offices)

47802  
(Zip Code)

Registrant's telephone number: 303.839.5504

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulations S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common Shares, \$.01 par value	HNRG	Nasdaq

As of May 11, 2020, we had 30,419,967 shares outstanding.



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**PART I - FINANCIAL INFORMATION**  
**ITEM 1. FINANCIAL STATEMENTS**

Hallador Energy Company  
**Condensed Consolidated Balance Sheets**  
(in thousands, except per share data)  
(unaudited)

	March 31, 2020	December 31, 2019
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 7,918	\$ 8,799
Restricted cash (Note 12)	4,734	4,512
Certificates of deposit	—	245
Accounts receivable	12,703	25,580
Prepaid income taxes	981	1,562
Inventory (Note 3)	37,410	28,297
Parts and supplies, net of allowance of \$274	10,886	11,775
Prepaid expenses	1,519	1,678
Total current assets	<u>76,151</u>	<u>82,448</u>
<b>Property, plant and equipment, at cost:</b>		
Land and mineral rights	114,994	114,722
Buildings and equipment	358,488	351,614
Mine development	86,165	84,160
Total property, plant and equipment, at cost	559,647	550,496
Less - accumulated DD&A	<u>(231,370)</u>	<u>(220,780)</u>
Total property, plant and equipment, net	328,277	329,716
Investment in Sunrise Energy (Note 15)	3,306	3,139
Other long-term assets (Note 4)	7,955	10,324
<b>Total Assets</b>	<u>\$ 415,689</u>	<u>\$ 425,627</u>
<b>LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Current portion of bank debt, net (Note 5)	\$ 34,882	\$ 33,044
Accounts payable and accrued liabilities (Note 6)	<u>38,247</u>	<u>31,800</u>
Total current liabilities	<u>73,129</u>	<u>64,844</u>
<b>Long-term liabilities:</b>		
Bank debt, net (Note 5)	127,123	140,594
Deferred income taxes	3,233	4,619
Asset retirement obligations (ARO)	15,993	15,694
Other	<u>5,258</u>	<u>4,346</u>
Total long-term liabilities	<u>151,607</u>	<u>165,253</u>
Total liabilities	<u>224,736</u>	<u>230,097</u>
<b>Redeemable noncontrolling interests (Note 2)</b>	<u>4,000</u>	<u>4,000</u>
<b>Stockholders' equity:</b>		
Preferred stock, \$.10 par value, 10,000 shares authorized; none issued	—	—
Common stock, \$.01 par value, 100,000 shares authorized; 30,420 and 30,245 outstanding, respectively	304	304
Additional paid-in capital	102,534	102,215
Retained earnings	<u>84,115</u>	<u>89,011</u>
Total stockholders' equity	<u>186,953</u>	<u>191,530</u>
<b>Total liabilities, redeemable noncontrolling interests, and stockholders' equity</b>	<u>\$ 415,689</u>	<u>\$ 425,627</u>

See accompanying notes.

Hallador Energy Company  
**Condensed Consolidated Statements of Income (Loss)**  
 For the Three Months Ended March 31,  
**(in thousands, except per share data)**  
 (unaudited)

	2020	2019
<b>REVENUE:</b>		
Coal sales	\$ 61,932	\$ 85,235
Other operating income (Note 8)	606	4,078
Total revenue	<u>62,538</u>	<u>89,313</u>
<b>COSTS AND EXPENSES:</b>		
Operating costs and expenses	48,469	62,419
DD&A	10,627	11,738
ARO accretion	333	309
Exploration costs	253	280
SG&A	2,978	2,984
Interest <sup>(1)</sup>	5,714	4,619
Total costs and expenses	<u>68,374</u>	<u>82,349</u>
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	<u>(5,836)</u>	<u>6,964</u>
<b>INCOME TAX EXPENSE (BENEFIT) (NOTE 9):</b>		
Current	(524)	(229)
Deferred	(1,652)	193
Total income tax expense (benefit)	<u>(2,176)</u>	<u>(36)</u>
<b>NET INCOME (LOSS)</b>	<u>\$ (3,660)</u>	<u>\$ 7,000</u>
<b>NET INCOME (LOSS) PER SHARE (NOTE 13):</b>		
Basic and diluted	\$ (0.12)	\$ 0.23
<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>		
Basic and diluted	30,420	30,245
(1) Bank interest	\$ 2,654	\$ 3,012
Non-cash interest:		
Change in interest rate swap valuation	2,593	1,013
Amortization of debt issuance costs	467	543
Other	—	51
Total non-cash interest	<u>3,060</u>	<u>1,607</u>
Total interest	<u>\$ 5,714</u>	<u>\$ 4,619</u>

See accompanying notes.

Hallador Energy Company  
**Condensed Consolidated Statements of Cash Flows**  
For the Three Months Ended March 31,  
(in thousands)  
(unaudited)

	2020	2019
<b>OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (3,660)	\$ 7,000
Deferred income taxes	(1,652)	193
Equity (income) loss – Sunrise Energy	(55)	34
DD&A	10,627	11,738
Unrealized gain on marketable securities	(14)	(303)
Gain on sale of royalty interests in oil properties	—	(2,500)
Change in fair value of interest rate swaps	2,593	1,013
Change in fair value of fuel hedge	1,311	—
Amortization and write off of deferred financing costs	467	543
Accretion of ARO	333	309
Stock-based compensation	319	494
Change in current assets and liabilities:		
Accounts receivable	12,885	2,823
Inventory	(9,113)	(2,674)
Parts and supplies	889	(1,084)
Prepaid income taxes	581	1,340
Prepaid expenses	159	1,701
Accounts payable and accrued liabilities	(1,691)	2,325
Other	2,277	(2,105)
Cash provided by operating activities	<u>\$ 16,256</u>	<u>\$ 20,847</u>
<b>INVESTING ACTIVITIES:</b>		
Investment in Sunrise Energy	(112)	—
Capital expenditures	(6,022)	(8,840)
Proceeds from sale of royalty interests in oil properties	—	2,500
Proceeds from sale of marketable securities	2,310	—
Proceeds from maturities of certificates of deposit	245	—
Cash used in investing activities	<u>(3,579)</u>	<u>(6,340)</u>
<b>FINANCING ACTIVITIES:</b>		
Payments on bank debt	(12,100)	(20,013)
Dividends	(1,236)	(1,241)
Cash used in financing activities	<u>(13,336)</u>	<u>(21,254)</u>
Decrease in cash, cash equivalents, and restricted cash	(659)	(6,747)
Cash, cash equivalents, and restricted cash, beginning of period	13,311	20,094
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 12,652</u>	<u>\$ 13,347</u>
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH CONSIST OF THE FOLLOWING:</b>		
Cash and cash equivalents	\$ 7,918	\$ 8,690
Restricted cash	4,734	4,657
	<u>\$ 12,652</u>	<u>\$ 13,347</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash paid for interest	\$ 2,707	\$ 3,058
Cash received from income taxes	1,105	1,569
<b>SUPPLEMENTAL NON-CASH FLOW INFORMATION:</b>		
Capital expenditures included in accounts payable and prepaid expense	\$ 3,516	\$ 3,250
Right-of-use assets acquired by operating lease	—	426

See accompanying notes.



Hallador Energy Company  
**Condensed Consolidated Statements of Stockholders' Equity**  
(in thousands)  
(unaudited)

	Common Stock Issued		Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
	Shares	Amount			
Balance, December 31, 2018	30,245	\$ 302	\$ 100,742	\$ 153,830	\$ 254,874
Stock-based compensation	—	—	494	—	494
Dividends	—	—	—	(1,241)	(1,241)
Net income	—	—	—	7,000	7,000
Balance, March 31, 2019	30,245	\$ 302	\$ 101,236	\$ 159,589	\$ 261,127
Balance, December 31, 2019	30,420	\$ 304	\$ 102,215	\$ 89,011	\$ 191,530
Stock-based compensation	—	—	319	—	319
Dividends	—	—	—	(1,236)	(1,236)
Net loss	—	—	—	(3,660)	(3,660)
Balance, March 31, 2020	30,420	\$ 304	\$ 102,534	\$ 84,115	\$ 186,953

See accompanying notes.



Hallador Energy Company  
**Notes to Condensed Consolidated Financial Statements**  
(unaudited)

**(1) GENERAL BUSINESS**

The interim financial data is unaudited; however, in our opinion, it includes all adjustments, consisting only of normal recurring adjustments necessary for a fair statement of the results for the interim periods. The condensed consolidated financial statements included herein have been prepared pursuant to the SEC's rules and regulations; accordingly, certain information and footnote disclosures normally included in GAAP financial statements have been condensed or omitted.

The results of operations and cash flows for the three months ended March 31, 2020, are not necessarily indicative of the results to be expected for future quarters or for the year ending December 31, 2020.

Our organization and business, the accounting policies we follow, and other information are contained in the notes to our condensed consolidated financial statements filed as part of our 2019 Form 10-K. This quarterly report should be read in conjunction with such 10-K.

The condensed consolidated financial statements include the accounts of Hallador Energy Company (hereinafter known as "we, us, or our") and its wholly-owned subsidiaries Sunrise Coal, LLC (Sunrise) and Hourglass Sands, LLC (Hourglass), and Sunrise's wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. Sunrise is engaged in the production of steam coal from mines located in western Indiana.

**New Accounting Standards Issued and Adopted**

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820), Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13). The amendments in this update modify the disclosure requirements for fair value measurements. For public business entities, the standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. We adopted ASU 2018-13 effective January 1, 2020. Adoption of ASU 2018-13 did not have a material impact on the Company's condensed consolidated financial statements.

**(2) LONG-LIVED ASSET IMPAIRMENTS**

**Carlisle Mine**

We recorded an impairment of \$65.7 million as of December 31, 2019 due to our decision to idle the Carlisle Mine during Q4 2019. The impairment included buildings, land, rail, mine development, equipment, and advanced royalties. Buildings, land, and rail were impaired to their estimated salvage value. The remaining salvage value of land and buildings at the Carlisle Mine is estimated at \$1.8 million as of March 31, 2020 and December 31, 2019.

Subsequent to year end during late Q1 2020, we determined that it was economically prudent to permanently close the Carlisle Mine. Equipment totaling \$23 million is being redeployed and will be utilized at the Oaktown mines. No additional impairment costs were recorded during Q1 2020 as a result of the decision to close the Carlisle Mine. We anticipate exit and disposal costs to close the mine to be \$3.0 million, which will be recorded as current period costs in Q1 and Q2 of 2020. The exit and disposal costs during Q1 2020 were \$0.5 million.

## Bulldog Reserves

As a result of the Carlisle Mine impairment, we determined that an impairment of the Bulldog Reserves was also necessary. With the closure of the Carlisle Mine, it became apparent that the likelihood of construction and opening of Bulldog was reduced. Based on our review, we recorded an impairment of \$9.2 million as of December 31, 2019, which included land and advanced royalties, and was a complete impairment of all assets.

## Hourglass Sands

We recorded an impairment of \$2.9 million as of December 31, 2019, due to softness in the pricing of the frac sand market. The impairment included inventory, land, mine development, buildings and equipment and was determined using a market approach. The remaining fair market value of inventory, equipment, and buildings at Hourglass Sands is \$1.9 million as of March 31, 2020 and December 31, 2019.

### (3) INVENTORY

Inventory is valued at lower of average cost or net realizable value (NRV). As of March 31, 2020, and December 31, 2019, coal inventory includes NRV adjustments of \$1.1 million and \$2.0 million, respectively.

### (4) OTHER LONG-TERM ASSETS (in thousands)

	March 31, 2020	December 31, 2019
Advanced coal royalties	\$ 6,060	\$ 6,105
Marketable equity securities available for sale, at fair value (restricted)*	—	2,296
Other	1,895	1,923
Total other assets	<u>\$ 7,955</u>	<u>\$ 10,324</u>

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

### (5) BANK DEBT

On April 15, we executed an amendment to our credit agreement with PNC, administrative agent for our lenders. The primary purpose of the amendment was to modify the allowable leverage ratio over the term of the loan to increase available liquidity. As a result of the amendment, our maximum annual capital expenditures are limited to \$30 million for 2020, and our dividend is suspended until our leverage ratio falls below 2.0X.

Our bank debt at March 31, 2020 was \$168 million. Bank debt is comprised of term debt (\$96 million as of March 31, 2020) and a \$120 million revolver (\$72 million borrowed as of March 31, 2020). The term debt amortization concludes with a final payment in March 2023. The revolver matures September 2023. Our debt is recorded at cost, which approximates fair value due to the variable interest rates in the agreement and is collateralized primarily by our assets.

## Liquidity

As of March 31, 2020, under the new leverage ratio, we had additional borrowing capacity of \$47.5 million and total liquidity of \$55.4 million. Liquidity consists of our additional borrowing capacity and cash and cash equivalents. Prior to the amendment, our additional borrowing capacity was \$4.2 million.

## Fees

Unamortized bank fees and other costs incurred in connection with the initial facility and subsequent amendments totaled \$7.2 million as of our amendment in September 2019. These costs were deferred and are being amortized over the term of the loan. Unamortized costs as of March 31, 2020, and December 31, 2019, were \$6.0 million and \$6.5 million, respectively. Additional costs incurred with the April 15 amendment total approximately \$1.9 million.



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

	March 31, 2020	December 31, 2019
Current bank debt	\$ 36,750	\$ 34,912
Less unamortized debt issuance cost	(1,868)	(1,868)
Net current portion	<u>\$ 34,882</u>	<u>\$ 33,044</u>
Long-term bank debt	\$ 131,300	\$ 145,238
Less unamortized debt issuance cost	(4,177)	(4,644)
Net long-term portion	<u>\$ 127,123</u>	<u>\$ 140,594</u>
Total bank debt	\$ 168,050	\$ 180,150
Less total unamortized debt issuance cost	(6,045)	(6,512)
Net bank debt	<u>\$ 162,005</u>	<u>\$ 173,638</u>

### Covenants

The credit facility includes a Maximum Leverage Ratio (consolidated funded debt / trailing twelve months adjusted EBITDA), calculated as of the end of each fiscal quarter for the trailing twelve months, not to exceed the amounts below:

Fiscal Periods Ending	Ratio
March 31, 2020 and June 30, 2020	4.00 to 1.00
September 30, 2020 and December 31, 2020	3.50 to 1.00
March 31, 2021 and June 30, 2021	3.25 to 1.00
September 30, 2021 and December 31, 2021	3.00 to 1.00
March 31, 2022 and each fiscal quarter thereafter	2.50 to 1.00

As of March 31, 2020, our Leverage Ratio of 2.93 was in compliance with the requirements of the credit agreement.

The credit facility also requires a Minimum Debt Service Coverage Ratio (consolidated adjusted EBITDA / annual debt service) calculated as of the end of each fiscal quarter for the trailing twelve months of 1.05 to 1.00 through December 31, 2021, at which time it increases to 1.25 to 1.00 through the maturity of the credit facility.

As of March 31, 2020, our Debt Service Coverage Ratio of 1.48 was in compliance with the requirements of the credit agreement.

### Rate

The interest rate on the facility ranges from LIBOR plus 2.75% to LIBOR plus 4.00%, depending on our Leverage Ratio, with a LIBOR floor of 0.50%. We entered into swap agreements to fix the LIBOR component of the interest rate at 2.92% on the declining term loan balance and on \$53 million of the revolver. At March 31, 2020, we are paying LIBOR at the swap rate of 2.92% plus 3.50% for a total interest rate of 6.42%. As a condition of the amendment, effective April 15, 2020, we are paying LIBOR at the swap rate of 2.92% plus 4.00% for a total interest rate of 6.92% until such time we submit our quarterly compliance certificate. At such time, our rate will drop back to LIBOR at the swap rate of 2.92% plus 3.50% for a total interest rate of 6.42%.

**(6) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (in thousands)**

	March 31, 2020	December 31, 2019
Accounts payable	\$ 20,584	\$ 16,115
Accrued property taxes	3,183	2,835
Accrued payroll	2,373	2,151
Workers' compensation reserve	3,898	3,446
Group health insurance	2,400	2,500
Other	5,809	4,753
Total accounts payable and accrued liabilities	<u>\$ 38,247</u>	<u>\$ 31,800</u>

**(7) REVENUE****Revenue from Contracts with Customers**

We account for a contract with a customer when the parties have approved the contract and are committed to performing their respective obligations, the rights of each party are identified, payment terms are identified, the contract has commercial substance, and collectability of consideration is probable. We recognize revenue when we satisfy a performance obligation by transferring control of a good or service to a customer.

Our revenue is derived from sales to customers of coal produced at our facilities. Our customers typically purchase coal directly from our mine sites or our Princeton Loop, where the sale occurs and where title, risk of loss, and control pass to the customer at that point. Our customers arrange for and bear the costs of transporting their coal from our mines to their plants or other specified discharge points. Nearly all our customers are domestic utility companies. Our coal sales agreements with our customers are fixed-priced, or include price re-openers, fixed-volume supply contracts. Price re-opener and index provisions may allow either party to commence a renegotiation of the contract price at a pre-determined time. Price re-opener provisions require us to negotiate a new price, sometimes within specified ranges of prices. The terms of our coal sales agreements result from competitive bidding and extensive negotiations with customers. Consequently, the terms of these contracts vary by customer.

Coal sales agreements will typically contain coal quality specifications, including BTUs, ash, moisture, and sulfur content among other qualities. Price adjustments are made and billed in the month the coal sale was recognized based on quality standards that are specified in the coal sales agreement and can result in either increases or decreases in the value of the coal shipped.

**Disaggregation of Revenue**

Revenue is disaggregated by primary geographic markets, as we believe this best depicts how the nature, amount, timing, and uncertainty of our revenue and cash flows are affected by economic factors. 78% and 72% of our coal revenue for the three months ended March 31, 2020, and March 31, 2019, respectively, was sold to customers in the State of Indiana with the remainder sold to customers in Florida, Georgia, North Carolina, Kentucky, Tennessee, and South Carolina.

**Performance Obligations**

A performance obligation is a promise in a contract with a customer to provide distinct goods or services. Performance obligations are the unit of account for purposes of applying the revenue recognition standard and therefore determine when and how revenue is recognized. In most of our contracts, the customer contracts with us to provide coal that meets certain quality criteria. We consider each ton of coal a separate performance obligation and allocate the transaction price based on the base price per the contract, increased or decreased for quality adjustments.

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We recognize revenue at a point in time, as the customer does not have control over the asset at any point during the fulfillment of the contract. For substantially all of our customers, this is supported by the fact that title and risk of loss transfer to the customer upon loading of the truck or railcar at the mine. This is also the point at which physical possession of the coal transfers to the customer, as well as the right to receive substantially all benefits and the risk of loss in ownership of the coal.

We have remaining performance obligations relating to fixed priced contracts of approximately \$508 million, which represent the average fixed prices on our committed contracts as of March 31, 2020. We expect to recognize approximately 74% of this revenue through 2021, with the remainder recognized thereafter.

We have remaining performance obligations relating to contracts with price reopeners of approximately \$266 million, which represents our estimate of the expected re-opener price on committed contracts as of March 31, 2020. We expect to recognize all of this revenue beginning in 2021.

The tons used to determine the remaining performance obligations are subject to adjustment in instances of force majeure and exercise of customer options to either take additional tons or reduce tonnage if such option exists in the customer contract.

### **Contract Balances**

Under ASC 606, the timing of when a performance obligation is satisfied can affect the presentation of accounts receivable, contract assets, and contract liabilities. The main distinction between accounts receivable and contract assets is whether consideration is conditional on something other than the passage of time. A receivable is an entity's right to consideration that is unconditional. Under the typical payment terms of our contracts with customers, the customer pays us a base price for the coal, increased or decreased for any quality adjustments. Amounts billed and due are recorded as trade accounts receivable and included in accounts receivable in our condensed consolidated balance sheets. We do not currently have any contracts in place where we would transfer coal in advance of knowing the final price of the coal sold, and thus do not have any contract assets recorded. Contract liabilities arise when consideration is received in advance of performance. This deferred revenue is included in accounts payable and accrued liabilities in our condensed consolidated balance sheets when consideration is received, and revenue is not recognized until the performance obligation is satisfied. We are rarely paid in advance of performance and do not currently have any deferred revenue recorded in our condensed consolidated balance sheets.

### **(8) OTHER OPERATING INCOME (in thousands)**

	Three Months Ended	
	March 31,	
	2020	2019
Equity income (loss) - Sunrise Energy	\$ 55	\$ (34)
MSHA reimbursements	100	150
Gain on sale of royalty interests in oil properties	—	2,500
Miscellaneous	451	1,462
	<u>\$ 606</u>	<u>\$ 4,078</u>

### **(9) INCOME TAXES**

For the three months ended March 31, 2020, the Company utilized a discrete period method to calculate taxes, as it does not believe the annual effective tax rate method represents a reliable estimate given the current uncertainty surrounding COVID-19. Our effective tax rate for the three months ended March 31, 2020, and 2019 was ~37% and ~0%, respectively. Historically, our actual effective tax rates have differed from the statutory effective rate primarily due to the benefit received from statutory percentage depletion in excess of tax basis. The deduction for statutory percentage depletion does not necessarily change proportionately to changes in income (loss) before income taxes.

On March 27, 2020, President Trump signed into U.S. federal law the CARES Act, which is aimed at providing emergency assistance and health care for individuals, families, and businesses affected by the COVID-19 pandemic



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and generally supporting the U.S. economy. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit (“AMT”) refunds, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property. In particular, the CARES Act, (i) eliminates the 80% of taxable income limitation by allowing corporate entities to fully utilize NOLs to offset taxable income in 2018, 2019 or 2020, (ii) increases the net interest expense deduction limit to 50% of adjusted taxable income from 30% for tax years beginning January 1, 2019 and 2020 and (iv) allows taxpayers with AMT credits to claim a refund in 2020 for the entire amount of the credit instead of recovering the credit through refunds over a period of years, as originally enacted by the Tax Cuts and Jobs Act in 2017. The Company has completed its review of the different aspects of the CARES Act and has recorded an additional \$0.5 million to prepaid income taxes for the quarter ended March 31, 2020.

**(10) STOCK COMPENSATION PLANS**

Non-vested grants at December 31, 2019	488,500
Granted – share price on grant date was \$0.98	30,000
Vested – average weighted share price on vesting date was	—
Forfeited	(6,500)
Non-vested grants at March 31, 2020	<u>512,000</u>

No shares vested during the three months ended March 31, 2020.

For the three months ended March 31, 2020, and 2019, our stock-based compensation was \$0.3 million and \$0.5 million, respectively.

Non-vested RSU grants will vest as follows:

<u>Vesting Year</u>	<u>RSUs Vesting</u>
2020	176,250
2021	311,750
2022	24,000
	<u>512,000</u>

The outstanding RSUs have a value of \$0.35 million based on the May 8, 2020, closing stock price of \$0.69.

At May 8, 2020, we had 1,360,348 RSUs available for future issuance.

**(11) LEASES**

We have operating leases for office space and processing facilities with remaining lease terms ranging from less than one year to approximately five years. As most of the leases do not provide an implicit rate, we calculated the right-of-use assets and lease liabilities using our secured incremental borrowing rate at the lease commencement date. We currently do not have any finance leases outstanding.

Information related to leases was as follows (in thousands):

	<u>Three Months Ended</u>	
	<u>March 31,</u>	
	<u>2020</u>	<u>2019</u>
Operating lease information:		
Operating cash outflows from operating leases	\$ 87	\$ 79
Weighted average remaining lease term in years	3.92	4.26
Weighted average discount rate	6.0 %	6.0 %



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Future minimum lease payments under non-cancellable leases as of March 31, 2020 were as follows:

Year	Amount (In thousands)
2020	\$ 148
2021	201
2022	206
2023	174
2024	59
Total minimum lease payments	\$ 788
Less imputed interest	(65)
<b>Total operating lease liability</b>	<b>\$ 723</b>
As reflected on balance sheet:	
Other long-term liabilities	\$ 723

At March 31, 2020, and December 31, 2019, respectively, we had approximately \$723,000 and \$800,000, right-of-use operating lease assets recorded within "buildings and equipment" on the condensed consolidated balance sheets.

#### (12) SELF-INSURANCE

We self-insure our underground mining equipment. Such equipment is allocated among seven mining units dispersed over ten miles. The historical cost of such equipment was approximately \$271 million and \$273 million as of March 31, 2020, and December 31, 2019, respectively.

Restricted cash of \$4.7 million and \$4.5 million as of March 31, 2020, and December 31, 2019, respectively, represents cash held and controlled by a third party and is restricted for future workers' compensation claim payments.

#### (13) NET INCOME (LOSS) PER SHARE

We compute net income (loss) per share using the two-class method, which is an allocation formula that determines net income (loss) per share for common stock and participating securities, which for us are our outstanding RSUs.

The following table sets forth the computation of net income(loss) allocated to common shareholders (in thousands):

	Three Months Ended March 31,	
	2020	2019
Numerator:		
Net income (loss)	\$ (3,660)	\$ 7,000
Less loss (earnings) allocated to RSUs	59	(180)
Net income (loss) allocated to common shareholders	\$ (3,601)	\$ 6,820

**(14) FAIR VALUE MEASUREMENTS**

We account for certain assets and liabilities at fair value. The hierarchy below lists three levels of fair value based on the extent to which inputs used in measuring fair value are observable in the market. We categorize each of our fair value measurements in one of these three levels based on the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. We consider active markets as those in which transactions for the assets or liabilities occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Our marketable securities are Level 1 instruments.

Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability. We have no Level 2 instruments.

Level 3: Measured based on prices or valuation models that require inputs that are both significant to the fair value measurement and less observable from objective sources (i.e., supported by little or no market activity). Our Level 3 instruments are comprised of fuel hedges and interest rate swaps. The fair values of our hedges and swaps were estimated using discounted cash flow calculations based upon forward fuel prices and interest-rate yield curves. The notional values of our two interest rate swaps were \$53 million and \$58 million as of March 31, 2020, both with maturities of May 2022. Fuel hedges include 2,160 gallons of diesel fuel that are subject to pricing fluctuations with a minimum of \$1.79/gallon and a maximum of \$2.40/gallon through December 2021. Although we utilize third-party broker quotes to assess the reasonableness of our prices and valuation, we do not have sufficient corroborating market evidence to support classifying these assets and liabilities as Level 2.

The following table summarizes our financial assets and liabilities measured on a recurring basis at fair value at March 31, 2020 and December 31, 2019 by respective level of the fair value hierarchy (in thousands):

	Level 1	Level 2	Level 3	Total
<b>December 31, 2019</b>				
Assets:				
Fuel hedge	\$ —	\$ —	\$ 25	\$ 25
Marketable securities - restricted	2,296	—	—	2,296
	<u>\$ 2,296</u>	<u>\$ —</u>	<u>\$ 25</u>	<u>\$ 2,321</u>
Liabilities:				
Interest rate swaps	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,825</u>	<u>\$ 3,825</u>
<b>March 31, 2020</b>				
Liabilities:				
Fuel hedge	—	—	1,286	1,286
Interest rate swaps	—	—	6,418	6,418
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 7,704</u>	<u>\$ 7,704</u>

The table below highlights the change in fair value of the fuel hedges and interest rate swaps which are based on a discounted future cash flow model (in thousands):

Ending balance, December 31, 2019	\$ (3,800)
Change in estimated fair value	(3,904)
Ending balance, March 31, 2020*	<u>\$ (7,704)</u>

\*Recorded in accounts payable and accrued liabilities and other liabilities in the Balance Sheet to these Condensed Consolidated Financial Statements.

**(15) EQUITY METHOD INVESTMENTS**

We own a 50% interest in Sunrise Energy, LLC, which owns gas reserves and gathering equipment with plans to develop and operate such reserves. Sunrise Energy also plans to develop and explore for oil, gas, and coal-bed methane gas reserves on or near our underground coal reserves. The carrying value of the investment included in our condensed consolidated balance sheets as of March 31, 2020, and December 31, 2019, was \$3.3 million and \$3.1 million, respectively.

**(16) SUBSEQUENT EVENTS**

On April 16, 2020, we entered into a promissory note evidencing an unsecured loan in the amount of \$10 million made to the Company under the Paycheck Protection Program (the "Loan"). The Paycheck Protection Program (or "PPP") was established under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") and is administered by the U.S. Small Business Administration. The Loan to the Company is being made through First Financial Bank, N.A. (the "Lender").

The interest rate on the Loan is 1.00%. Beginning seven months from the date of the Loan, the Company is required to make 24 monthly payments of principal and interest. The promissory note evidencing the Loan contains customary events of default relating to, among other things, payment defaults, making materially false and misleading representations to the SBA or Lender, or breaching the terms of the Loan Documents. The occurrence of an event of default may result in the repayment of all amounts outstanding, collection of all amounts owing from the Company, or filing suit and obtaining a judgment against the Company.

Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of loan granted under the PPP. Such forgiveness will be determined, subject to limitations, based on the use of loan proceeds for payment of payroll costs and any covered payments of mortgage interest, rent, and utilities. In the event the PPP Loan, or any portion thereof, is forgiven pursuant to the PPP, the amount forgiven is applied to outstanding principal. The Company intends to use all proceeds from the PPP Loan to maintain payroll and make lease, mortgage interest, and utility payments.



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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders  
Hallador Energy Company

**RESULTS OF REVIEW OF INTERIM CONDENSED FINANCIAL STATEMENTS**

We have reviewed the condensed consolidated balance sheets of Hallador Energy Company (the "Company") and subsidiaries as of March 31, 2020 and 2019, and the related condensed consolidated statements of income (loss), the condensed consolidated statements of cash flows and the condensed consolidated statements of stockholders' equity for the three-month periods ended March 31, 2020 and 2019, and the related notes (collectively referred to as the "interim financial statements"). Based on our reviews, we are not aware of any material modifications that should be made to the interim financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

**BASIS FOR REVIEW RESULTS**

These interim financial statements are the responsibility of the Company's management. We conducted our reviews in accordance with the standards of the Public Company Oversight Board (United States) ("PCAOB"). We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ Plante & Moran, PLLC

Denver, Colorado  
May 11, 2020



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

**THE FOLLOWING DISCUSSION UPDATES THE MD&A SECTION OF OUR 2019 FORM 10-K AND SHOULD BE READ IN CONJUNCTION THEREWITH.**

Our condensed consolidated financial statements should also be read in conjunction with this discussion. The following analysis includes a discussion of metrics on a per ton basis derived from the condensed consolidated financial statements, which are considered non-GAAP measurements.

**IMPACT OF COVID-19**

COVID-19 has had a significant impact on our customers, which is, in turn, delaying our sales. The Midwest Independent System Operator (MISO), the regional system operator 78% of our customers sell power to, is estimating a 10% decline in power demand for 2020. The State of Indiana, where our operations are located, issued a shelter in place order from March 24, 2020, to May 4, 2020. The State deemed our operations necessary and essential, and we were allowed to operate. However, several of our customers have had difficulty accepting contracted minimum shipments. This has caused our inventory levels to rise and our sales to decline. We expect more shipment delays in the second quarter.

1. Duration – Though we are encouraged by the State of Indiana largely reopening for business on May 4, 2020, it is unknown how quickly power demand will return.
2. Sale Delays – We believe most of our shipments will be made up later in the year. However, these shipment delays increase our coal inventory and postpone our revenue. We have worked diligently to increase our liquidity to allow for expected future shipment delays. We are currently developing an agreement with one customer to store their coal inventory on our property.
3. Production – To date, our operations have performed well considering the additional burdens of operating while working to comply with CDC health and safety guidelines. However, we may experience production interruptions should a significant number of our employees or our supplier's employees become infected with COVID-19.

**OVERVIEW**

**I. Q1 2020 Net Loss of \$3.7 Million, (\$0.12) Per Share**

- a. As stated, the severe impacts of COVID-19 have caused unexpected shipment delays in Q1, resulting in lower sales, decreased production, and higher costs per ton.
  - i. Additionally, the idling and permanent closure of the Carlisle Mine contributed to increased operating costs per ton.
  - ii. The events experienced in Q1 increased our costs \$2.43/ton over Q1 2019 for all mines. We believe these events are temporary and thus anticipate our cost structure at our operating Oaktown mines continuing at our historical sub \$30/ton cost structure for the remainder of the year.
- b. Net income was reduced by \$3.9 million in non-cash interest rate swap and fuel hedge adjustments.

## II. Solid Sales Position Through 2022

COVID-19 has created a lot of uncertainty in the world, but we are comforted by our strong sales position through 2022.

Year	Contracted tons (millions)*	Estimated Priced per ton
2020 (Q2 – Q4)	5.0	\$ 40.25
2021	5.1	\$ 39.65
2022	5.3	\$ 40.25
	<u>15.4</u>	

\* Contracted tons are subject to adjustment due to the exercise of customer options to either take additional tons or reduce tonnage if such options exist in the customer contract.

## III. Amended Credit Facility To Improve Liquidity

a. In an effort to improve liquidity, on April 15, we executed an amendment to our credit agreement with PNC, administrative agent for our lenders. The amendment modified our leverage ratios, as disclosed in Note 5 to our condensed consolidated financial statements. The new leverage ratios provided us additional liquidity as the economic uncertainty of the next few months and quarters has the potential to dramatically reduce our liquidity.

a. As a result of the amendment, our maximum annual capital expenditures are limited to \$30 million for 2020, and our dividend is suspended until our leverage ratio falls below 2.0X.

## IV. Paycheck Protection Program

a. Due to economic uncertainty as a result of COVID-19, on April 16, 2020, we entered into a promissory note evidencing an unsecured loan in the amount of \$10 million made to the Company under the Paycheck Protection Program (the "Loan").

i. As noted previously, uncertainty was created as a result of unexpected sales delays due to the impacts of COVID-19.

1. March and April sales were 30% lower than expected.

b. Prior to the COVID-19 pandemic taking root in the United States, we idled and permanently closed the Carlisle Mine resulting in a reduction in force in Q1 2020.

i. Based on the terms of the loan, factoring in the reduction in force prior to our application, we expect a portion of the loan to be forgiven following a successful audit by the Small Business Administration sometime after June 30, 2020.

## LONG-LIVED ASSET IMPAIRMENT REVIEW

See Note 2 to our condensed consolidated financial statements.

## LIQUIDITY AND CAPITAL RESOURCES

### I. Cash Provided By Operations

- a. As set forth in our condensed consolidated statements of cash flows, cash provided by operations was \$16.3 million and \$20.8 million for the three months ended March 31, 2020, and 2019, respectively.
  - i. Operating margins from coal decreased during the first three months of 2020 by \$9.4 million when compared to the first three months of 2019 due a combination of increased costs as a result of lower production and lower tons sold.
    - i. Our operating margins were \$8.91 per ton in Q1 2020 compared to \$10.78 in Q1 2019. Q1 2019 was an exceptional quarter, where we produced over 2.2 million tons of coal compared to 1.7 million tons this year.
    - ii. Due to the effects of COVID-19, we also experienced lower demand in Q1 2020, resulting in sales of 1.5 million tons compared to sales in Q1 2019 of 2.1 million tons.
  - ii. The combination of the lower margins offset by changes in working capital items contributed substantially to our decrease in cash from operations compared to 2019.
    - i. The most significant changes to the working capital items were an increase in inventory of \$9.1 million and a decrease in accounts receivable of \$12.9 million, a result of a decrease in customer demand due in large part to the effects of COVID-19.
- b. Our projected capex budget for the remainder of 2020 is \$14 million, of which approximately \$7.0 million is for maintenance capex.
- c. Cash provided by operations for the remainder of the year is expected to fund our maintenance capital expenditures and debt service.
- d. As we continue to monitor the effects of COVID-19, we continue to pro-actively manage costs and capital expenditures to ensure adequate liquidity until there is more of a sense of economic certainty in the markets in which we operate.

### II. Material Off-Balance Sheet Arrangements

- a. Other than our surety bonds for reclamation, we have no material off-balance sheet arrangements. In the event we are not able to perform reclamation, which is presented as asset retirement obligations (ARO) in our accompanying condensed consolidated balance sheets, we have surety bonds totaling \$27 million to pay for ARO.

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**CAPITAL EXPENDITURES (capex)**

For the three months of 2020, capex was \$6.0 million allocated as follows (in millions):

Oaktown – maintenance capex	\$	3.5
Oaktown – investment		2.4
Other		0.1
Capex per the Condensed Consolidated Statements of Cash Flows	<u>\$</u>	<u>6.0</u>

Quarterly coal sales and cost data (in thousands, except per ton and percentage data) are provided below. Per ton calculations below are based on tons sold.

All Mines	2nd 2019	3rd 2019	4th 2019	1st 2020	T4Qs
Tons produced	2,003	1,891	2,122	1,701	7,717
Tons sold	1,807	2,118	2,015	1,526	7,466
Coal sales	\$ 71,113	\$ 82,883	\$ 78,205	\$ 61,932	\$ 294,133
Average price/ton	\$ 39.35	\$ 39.13	\$ 38.81	\$ 40.58	\$ 39.40
Wash plant recovery in %	71 %	70 %	74 %	74 %	
Operating costs	\$ 53,915	\$ 71,372	\$ 60,082	\$ 48,334	\$ 233,703
Average cost/ton	\$ 29.84	\$ 33.70	\$ 29.82	\$ 31.67	\$ 31.30
Margin	\$ 17,198	\$ 11,511	\$ 18,123	\$ 13,598	\$ 60,430
Margin/ton	\$ 9.52	\$ 5.43	\$ 8.99	\$ 8.91	\$ 8.09
Capex	\$ 9,448	\$ 8,981	\$ 8,264	\$ 5,999	\$ 32,692
Maintenance capex	\$ 6,164	\$ 5,537	\$ 4,115	\$ 3,470	\$ 19,286
Maintenance capex/ton	\$ 3.41	\$ 2.61	\$ 2.04	\$ 2.27	\$ 2.58

All Mines	2nd 2018	3rd 2018	4th 2018	1st 2019	T4Qs
Tons produced	1,983	1,713	1,938	2,205	7,839
Tons sold	1,477	1,962	2,219	2,130	7,788
Coal sales	\$ 56,922	\$ 79,055	\$ 89,019	\$ 85,235	\$ 310,231
Average price/ton	\$ 38.54	\$ 40.29	\$ 40.12	\$ 40.02	\$ 39.83
Wash plant recovery in %	73 %	72 %	68 %	73	
Operating costs	\$ 38,809	\$ 60,132	\$ 69,364	\$ 62,271	\$ 230,576
Average cost/ton	\$ 26.28	\$ 30.65	\$ 31.26	\$ 29.24	\$ 29.61
Margin	\$ 18,113	\$ 18,923	\$ 19,655	\$ 22,964	\$ 79,655
Margin/ton	\$ 12.26	\$ 9.64	\$ 8.86	\$ 10.78	\$ 10.23
Capex	\$ 7,784	\$ 5,856	\$ 8,996	\$ 8,840	\$ 31,476
Maintenance capex	\$ 5,058	\$ 4,639	\$ 7,186	\$ 6,672	\$ 23,555
Maintenance capex/ton	\$ 3.42	\$ 2.36	\$ 3.24	\$ 3.13	\$ 3.02

**2020 vs. 2019**

For Q1 2020, we sold 1,526 tons at an average price of \$40.58/ton. For Q1 2019, we sold 2,130 tons at an average price of \$40.02/ton. The increase in average price per ton was expected and is the result of our changing contract mix caused by the expiration of contracts and acquisition of new contracts.

Operating costs for all of our active coal mines averaged \$31.67/ton and \$29.24/ton for the three months ended March 31, 2020 and 2019, respectively. Oaktown costs over that same period were \$29.92 and \$27.17, respectively. The higher costs are a result of lower than expected production during the quarter due to the effects of COVID-19 and due to the costs associated with the closure of the Carlisle Mine in February. For the remainder of 2020, we expect operating costs for our operating Oaktown mines to be \$29-\$30/ton.

We expect operating costs associated with the idled Prosperity mine to be \$0.8 million for the remainder of 2020. Prosperity operating costs were \$0.3 million during the three months ended March 31, 2020.





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We expect operating, exit, and disposal costs associated with the closed Carlisle mine to be \$3.0 million for the remainder of 2020, of which approximately \$2.25 million relates to exit and disposal costs. We estimate that we incurred approximately \$0.5 million of exit and disposal costs in Q1 2020.

Other income decreased \$3.5 million in the first three months of 2020 when compared to 2019. The largest contributor to this decrease was the income from the sale of overriding royalty interests in certain oil-producing properties for \$2.5 million in Q1 2019. Other items contributing to the decrease relate to the sale of scrap metal and other non-producing assets in 2019.

DD&A decreased \$1.1 million in the three first months of 2020 when compared to 2019. A portion of our assets are depreciated based on raw production, which has decreased in 2020, thus as production decreases, so does our DD&A.

We expect SG&A for the remainder of 2020 to be \$9 million.

Interest expense increased approximately \$1.1 million in the first three months of 2020 when compared to 2019. The change in estimated fair value of our interest rate swap agreement resulted in additional non-cash expense of \$1.6 million in 2020 when compared to 2019. The remaining decrease of \$0.5 million is a result of lower interest rates due to our amended credit agreement in September 2019.

Our Sunrise Coal employees and contractors totaled 695 at March 31, 2020, compared to 899 at March 31, 2019, and 907 at December 31, 2019. The decrease in our headcount was due primarily to the closure of the Carlisle Mine in February 2020.

### **EARNINGS (LOSS) PER SHARE**

	<u>2nd 2019</u>	<u>3rd 2019</u>	<u>4th 2019</u>	<u>1st 2020</u>
Basic and diluted	\$ (.11)	\$ (.12)	\$ (1.95)	\$ (0.12)

  

	<u>2nd 2018</u>	<u>3rd 2018</u>	<u>4th 2018</u>	<u>1st 2019</u>
Basic and diluted	\$ —	\$ .09	\$ .09	\$ .23

### **INCOME TAXES**

Our effective tax rate (ETR) is estimated at ~37% and ~0% for the three months ended March 31, 2020, and 2019, respectively. For the three months ended March 31, 2020, the Company utilized a discrete period method to calculate taxes, as it does not believe the annual effective tax rate method represents a reliable estimate given the current uncertainty surrounding COVID-19. Our ETR differs from the statutory rate due primarily to statutory depletion in excess of tax basis, which is a permanent difference. The deduction for statutory percentage depletion does not necessarily change proportionately to changes in income (loss) before income taxes.

### **MSHA REIMBURSEMENTS**

Some of our legacy coal contracts allow us to pass on to our customers certain costs incurred resulting from changes in costs to comply with mandates issued by MSHA or other government agencies. After applying the provisions of ASU 2014-09, as of March 31, 2020, we do not consider unreimbursed costs from our customers related to these compliance matters to be material and have constrained such amounts and will recognize them when they can be estimated with reasonable certainty.

### **RESTRICTED STOCK GRANTS**

See "Item 1. Financial Statements - Note 10. Stock Compensation Plans" for a discussion of RSUs.

## **CRITICAL ACCOUNTING ESTIMATES**

We believe that the estimates of our coal reserves, our interest rate swaps, our deferred tax accounts, and the estimates used in our impairment analysis are our critical accounting estimates.

The reserve estimates are used in the DD&A calculation and our internal cash flow projections. If these estimates turn out to be materially under or over-stated, our DD&A expense and impairment test may be affected.

The fair value of our interest rate swaps is determined using a discounted future cash flow model based on the key assumption of anticipated future interest rates and related credit adjustment considerations.

We have analyzed our filing positions in all of the federal and state jurisdictions where we are required to file income tax returns, as well as all open tax years in these jurisdictions. We identified our federal tax return and our Indiana state tax return as "major" tax jurisdictions. We believe that our income tax filing positions and deductions would be sustained on audit and do not anticipate any adjustments that will result in a material change to our consolidated financial position.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

No material changes from the disclosure in our 2019 Form 10-K.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **DISCLOSURE CONTROLS**

We maintain a system of disclosure controls and procedures that are designed for the purpose of ensuring that information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our CEO, CFO, and CAO 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, CFO, and CAO of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our CEO, CFO, and CAO concluded that our disclosure controls and procedures are effective for the purposes discussed above.

There have been no changes to our internal control over financial reporting during the quarter ended March 31, 2020, that materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

## **PART II - OTHER INFORMATION**

### **ITEM 1A. RISK FACTORS**

Our activities have been and will continue to be adversely affected by the global outbreak of the novel coronavirus (COVID-19), which may prevent us from meeting our targeted production levels, negatively impact our customers' demand for coal and their ability to honor or renew contracts, adversely affect the health and welfare of Company personnel, prevent our vendors and contractors from performing normal and contracted activities, and negatively affect our liquidity and results of operations.

The recent outbreak of COVID-19, which was first detected in Wuhan, China in December 2019 and declared a pandemic by the World Health Organization in March 2020, could have a material and adverse effect on our business, financial condition, and results of operations. The outbreak has resulted and may continue to result in disruptions to economic and industrial activity worldwide.

In addition to the potential impact on coal demand and volatility in coal prices, COVID-19 may result in disruptions or restrictions on our employees' ability to operate our coal mines in the ordinary course of business, which would restrict our production capacity. Similarly, we cannot predict how, if at all, the outbreak will affect our suppliers' ability to provide the mining materials and equipment we require. If our production capacity or our ability to meet our supply needs is affected, our business and our financial results could be materially and adversely affected. Finally, the COVID-19 pandemic has substantially affected national and international financial markets, which could affect our ability to obtain financing for our business, severely limiting liquidity and credit availability.

The COVID-19 pandemic may also have the effect of heightening many of the other risks described in Item 1A, "Risk Factors" of our annual report on Form 10-K for the year ended December 31, 2019, including, but not limited to, those relating to coal prices; economic and market conditions; decreases in coal consumption; disruptions in the availability of mining and other industrial supplies; changes in purchasing patterns of our customers and their effects on our coal supply agreements; our ability to obtain financing and insurance upon favorable terms; among others.

The extent to which COVID-19 will impact our business and our financial results will depend on future developments, which are highly uncertain and cannot be predicted. Such developments may include the geographic spread of the virus, the severity of the disease, the duration of the outbreak, the actions that may be taken by various governmental authorities in response to the outbreak, and the impact on the U.S. or global economy. As a result, at the time of this filing, it is impossible to predict the overall impact of COVID-19 on our business, liquidity, capital resources, and financial results.

### **ITEM 4. MINE SAFETY DISCLOSURES**

Safety is a core value at for us and our subsidiaries. As such, we have dedicated a great deal of time, energy, and resources to creating a culture of safety. We are proud of the mine rescue team at Sunrise Coal, who placed 2nd overall in the National Mine Rescue contest held in Lexington, Kentucky in September 2019. We would also like to recognize Willie Hamilton, who finished second in the nation on pre-shift and Steve Earle, who was first in Indiana on bench.

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

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**ITEM 6. EXHIBITS**

<a href="#">10.1</a>	<a href="#">Second Amendment To The Third Amended And Restated Credit Agreement dated April 15, 2020</a>
<a href="#">10.2</a>	<a href="#">US SBA Loan (PPP) dated April 16, 2020</a>
<a href="#">15.1</a>	<a href="#">Letter Regarding Unaudited Interim Financial Information – Plante Moran</a>
<a href="#">31.1</a>	<a href="#">SOX 302 Certification</a>
<a href="#">31.2</a>	<a href="#">SOX 302 Certification</a>
<a href="#">31.3</a>	<a href="#">SOX 302 Certification</a>
<a href="#">32</a>	<a href="#">SOX 906 Certification</a>
<a href="#">95</a>	<a href="#">Mine Safety Disclosures</a>
<a href="#">101</a>	<a href="#">Interactive Files</a>



**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**HALLADOR ENERGY COMPANY**

Date: May 11, 2020

/S/ LAWRENCE D. MARTIN

Lawrence D. Martin, CFO

Date: May 11, 2020

/S/ R. TODD DAVIS

R. Todd Davis, CAO

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**Section 2: EX-10.1 (EX-10.1)**

**EXHIBIT 10.1**

**THIRD AMENDMENT TO THE THIRD AMENDED AND RESTATED CREDIT AGREEMENT AND WAIVER**

This **THIRD AMENDMENT TO THE THIRD AMENDED AND RESTATED CREDIT AGREEMENT AND WAIVER** (this "Amendment"), dated as of April 15, 2020, by and among **HALLADOR ENERGY COMPANY** (the "Borrower"), the Guarantors party hereto, the lenders listed on the signature pages hereof (the "Lenders") and **PNC BANK, NATIONAL ASSOCIATION**, a national banking association, as administrative agent for the Lenders (the "Administrative Agent") under the Credit Agreement referred to below:

**WITNESSETH:**

WHEREAS, the Borrower, the Lender and the Administrative Agent entered into the Third Amended and Restated Credit Agreement dated as of May 21, 2018, as amended by that certain First Amendment to the Third Amended and Restated Credit Agreement dated as of March 26, 2019, as further amended by that certain Second Amendment to Third Amended and Restated Credit Agreement dated as of September 30, 2019 (and as may be further amended, restated, modified or supplemented, the "Credit Agreement"), pursuant to which the Lenders have extended credit to the Borrower;

WHEREAS, an Event of Default exists under the Credit Agreement because the Borrower obtained a PPP Loan (as defined in the Credit Agreement after giving effect to this Amendment) on or about April 15, 2020 in violation of Section 8.2.1 of the Credit Agreement (the "Known Existing Default");

WHEREAS, the Borrower has requested that certain amendments be made as set forth in more detail herein and that the Known Existing Default be waived; and

WHEREAS, capitalized terms not otherwise defined herein shall have the meanings assigned thereto in the Credit Agreement.

NOW, THEREFORE, in consideration of their mutual covenants and agreements hereafter set forth, and intending to be legally bound, the parties hereto agree as follows:

## **ARTICLE I**

**Section 1.1**      Amendments to Credit Agreement. The Credit Agreement (other than the Schedules and Exhibits thereto and the Schedules to the Security Agreement, except to the extent as delivered to the Administrative Agent simultaneously with this Amendment) is hereby amended to reflect the modifications set forth in the Credit Agreement attached as Annex A hereto.

## **ARTICLE II**

**Section 2.1**      No Other Amendments. Except as amended hereby, the terms and provisions of the Credit Agreement remain unchanged, are and shall remain in full force and effect unless and until modified or amended in writing in accordance with their terms, and are hereby ratified and confirmed. Except as expressly provided herein, this Amendment shall not constitute an amendment, waiver, consent or release with respect to any provision of any Loan Document, a waiver of any Potential Default or Event of Default under any Loan Document, or a waiver or release of any of the Lenders' or Administrative Agent's rights and remedies (all of which are hereby reserved).

**Section 2.2**      Waiver of Known Existing Default. Administrative Agent and the Lenders hereby waive the Known Existing Default. This waiver shall be effective only for the specific defaults comprising



the Known Existing Defaults, and in no event shall this waiver be deemed to be a waiver of enforcement of Administrative Agent's or any Lender's rights with respect to any other Potential Defaults or Events of Default now existing or hereafter arising.

**Section 2.3**      Representations and Warranties. The Borrower hereby represents and warrants to the Lenders and the Administrative Agent that, except for the occurrence of the Known Existing Default, the representations and warranties set forth in Article 6 of the Credit Agreement, are true and correct in all material respects on and as of the date hereof (except for any representation or warranty which was expressly limited to an earlier date, in which case such representation and warranty shall be true and correct in all material respects on and as of such date), and that no Event of Default, or Potential Default, has occurred or is continuing or exists on or as of the date hereof.

**Section 2.4**      Conditions to Effectiveness. This Amendment shall become effective upon execution and delivery to the Administrative Agent hereof by the Borrower, all of the Lenders and the Administrative Agent and the satisfaction of the following conditions precedents:

(a)      Amendment. The Administrative Agent shall have received an executed counterpart of this Amendment from all Lenders, duly executed by a responsible officer of the Loan Parties.

(b)      Officer's Certificate. The representations and warranties of the Loan Parties contained in Section 6 of the Credit Agreement including as amended by the modifications and additional representations and warranties of this Amendment, and of each Loan Party in each of the other Loan Documents shall be true and accurate in all material respects on and as of the date hereof with the same effect as though such representations and warranties had been made on and as of such date (except representations and warranties which relate solely to an earlier date or time, which representations and warranties shall be true and correct in all material respects on and as of the specific dates or times referred to therein), and each of the Loan Parties shall have performed and complied with all covenants and conditions hereof and thereof, no Event of Default or Potential Default shall have occurred and be continuing or shall exist; and there shall be delivered to the Administrative Agent for the benefit of each Lender a certificate of the Borrower dated the date hereof and signed by the Chief Executive Officer, President, or Chief Financial Officer of the Borrower to each such effect.

(c)      Insurance. Evidence that adequate insurance, including flood insurance, if applicable, required to be maintained under the Credit Agreement is in full force and effect, with additional insured, mortgagee and lender loss payable special endorsements attached thereto in form and substance satisfactory to the Administrative Agent and its counsel naming the Administrative Agent as additional insured, mortgagee and lender loss payee.

(d)      Secretary's Certificate. There shall be delivered to the Administrative Agent for the benefit of each Lender a certificate dated the date hereof and signed by the Secretary or an Assistant Secretary of each of the Loan Parties, certifying as appropriate as to:

(i)      *all action taken by each Loan Party in connection with this Amendment and the other Loan Documents;*

(ii)      *the names of the officer or officers authorized to sign this Amendment and the other Loan Documents and the true signatures of such officer or officers and specifying the Authorized Officers permitted to act on behalf of each Loan Party for purposes of this Amendment and the true signatures of such officers, on which the Administrative Agent and each Lender may conclusively rely; and*

(iii)      *copies of its organizational documents, including its certificate of incorporation and bylaws, certificate of limited partnership and limited partnership agreement or limited liability company certificate and operating agreement, as the case may be, as in effect on the date hereof and, in the case of the*





*certificate of incorporation of the Borrower, certified by the appropriate state official where such document is filed in a state office (or, in the event that no change has been made to such organizational documents previously delivered to the Administrative Agent, so certified by the Secretary or Assistant Secretary of such Loan Party), together with certificates from the appropriate state officials as to the continued existence and good standing of the Borrower in the state of its formation and the state of its principal place of business.*

(e) No Defaults under Other Obligations. No default under any note, credit agreement or other document relating to existing Indebtedness of any of the Loan Parties shall occur as a result of this Amendment.

(f) No Actions or Proceedings. No action, proceeding, investigation, regulation or legislation shall have been instituted, threatened or proposed before any court, governmental agency or legislative body to enjoin, restrain or prohibit, or to obtain damages in respect of, this Amendment, the other Loan Documents or the consummation of the transactions contemplated hereby or thereby or which, in the Administrative Agent's sole discretion, would make it inadvisable to consummate the transactions contemplated by this Amendment or any of the other Loan Documents.

(g) Consents. All material consents required to effectuate the transactions contemplated by this Amendment and the other Loan Documents and shall have been obtained.

(h) Confirmation of Guaranty. Each of the Guarantors confirms that they have read and understand the Amendment. In order to induce the Lenders, the Administrative Agent and the other Agents to enter into the Amendment, each of the Guarantors: (i) consents to the Amendment and the transactions contemplated thereby; (ii) ratifies and confirms each of the Loan Documents to which it is a party; (iii) ratifies, agrees and confirms that it has been a Guarantor and a Loan Party at all times since it became a Guarantor and a Loan Party and from and after the date hereof, each Guarantor shall continue to be a Guarantor and a Loan Party in accordance with the terms of the Loan Documents, as the same may be amended in connection with the Amendment and the transactions contemplated thereby; and (iv) hereby ratifies and confirms its obligations under each of the Loan Documents (including all exhibits and schedules thereto), as the same may be amended in connection with the Amendment and the transactions contemplated thereby, by signing below as indicated and hereby acknowledges and agrees that nothing contained in any of such Loan Documents is intended to create, nor shall it constitute an interruption, suspension of continuity, satisfaction, discharge of prior duties, novation or termination of the indebtedness, loans, liabilities, expenses, guaranty or obligations of any of the Loan Parties under the Credit Agreement or any other such Loan Document.

(i) Legal Details. All legal details and proceedings in connection with the transactions contemplated by this Amendment and the other Loan Documents shall be in form and substance satisfactory to the Administrative Agent and counsel for the Administrative Agent, and the Administrative Agent shall have received all such other counterpart originals or certified or other copies of such documents and proceedings in connection with such transactions, in form and substance satisfactory to the Administrative Agent and its counsel, as the Administrative Agent or its counsel may reasonably request. Without limiting the generality of the foregoing, the Loan Parties and Lenders hereby (i) agree that, for all purposes of this Amendment, electronic images of this Amendment or any other Loan Documents (in each case, including with respect to any signature pages thereto) shall have the same legal effect, validity and enforceability as any paper original, and (ii) waive any argument, defense or right to contest the validity or enforceability of the Amendment or any other Loan Documents based solely on the lack of paper original copies of such Amendment and Loan Documents, including with respect to any signature pages thereto.

(j) Fees. The Borrower shall have paid all fees, costs and expenses for which the Administrative Agent and the Lenders are entitled to be paid or reimbursed in accordance with the fee letter

dated March 25, 2020, between the Borrower and the Administrative Agent, including but not limited to the fees and expenses of the Administrative Agent's legal counsel.

**Section 2.5**      Miscellaneous.

(a)      This Amendment shall become effective as provided in Section 2.4.

(b)      The Credit Agreement, as amended by this Amendment, is in all respects ratified, approved and confirmed, and shall, as so amended, remain in full force and effect. From and after the date that the amendments herein described take effect, all reference to the "Agreement" in the Credit Agreement and in the other Loan Documents, shall be deemed to be references to the Credit Agreement as amended by this Amendment.

(c)      This Amendment shall be deemed to be a contract under the laws of the Commonwealth of Pennsylvania, and for all purposes shall be governed by, construed and enforced in accordance with the laws of said Commonwealth.

(d)      Except as amended hereby, all of the terms and conditions of the Credit Agreement and the other Loan Documents shall remain in full force and effect. Borrower, the other Loan Parties, each Lender, and Administrative Agent acknowledge and agree that this Amendment is not intended to constitute, nor does it constitute, a novation, interruption, suspension of continuity, satisfaction, discharge or termination of the obligations, loans, liabilities, or indebtedness under the Credit Agreement or the other Loan Documents.

(e)      This Amendment may be executed in any number of counterparts by the different parties hereto on separate counterparts. Each of which, when so executed, shall be deemed an original, but all such counterparts shall constitute but one in the same instrument.

**[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]**



**[SIGNATURE PAGE TO THIRD AMENDMENT TO THIRD AMENDED AND RESTATED  
CREDIT AGREEMENT AND WAIVER]**

IN WITNESS WHEREOF, the parties hereto, by their officers thereunto duly authorized, have executed this Amendment as of the day and year first above written.

**BORROWER:**

**HALLADOR ENERGY COMPANY**

By: /S/LAWRENCE D. MARTIN

Name: Lawrence D. Martin

Title: Chief Financial Officer

**GUARANTORS:**

**SUNRISE COAL, LLC**

By: /S/LAWRENCE D. MARTIN

Name: Lawrence D. Martin

Title: President

**SUMMIT TERMINAL, LLC**

By: /S/LAWRENCE D. MARTIN

Name: Lawrence D. Martin

Title: Vice President

**SUNRISE LAND HOLDINGS, LLC**

By: /S/LAWRENCE D. MARTIN

Name: Lawrence D. Martin

Title: President

**SUNRISE ADMINISTRATIVE SERVICES, LLC**

By: /S/LAWRENCE D. MARTIN

Name: Lawrence D. Martin

Title: President



**[SIGNATURE PAGE TO THIRD AMENDMENT TO THIRD AMENDED AND RESTATED  
CREDIT AGREEMENT AND WAIVER]**

**SYCAMORE COAL, INC.**

By: S/LAWRENCE D. MARTIN

Name: Lawrence D. Martin

Title: President

**EDWARDSPORT CONSTRUCTION COMPANY, LLC**

By: S/LAWRENCE D. MARTIN

Name: Lawrence D. Martin

Title: President

**GIBSON COUNTY LOGISTICS, LLC**

By: S/LAWRENCE D. MARTIN

Name: Lawrence D. Martin

Title: President

**SFI COAL SALES, LLC**

By: S/LAWRENCE D. MARTIN

Name: Lawrence D. Martin

Title: President

**OAKTOWN FUELS MINE NO. 1, LLC**

By: S/LAWRENCE D. MARTIN

Name: Lawrence D. Martin

Title: President

**OAKTOWN FUELS MINE NO. 2, LLC**

By: S/LAWRENCE D. MARTIN

Name: Lawrence D. Martin

Title: President



**[SIGNATURE PAGE TO THIRD AMENDMENT TO THIRD AMENDED AND RESTATED  
CREDIT AGREEMENT AND WAIVER]**

**PROSPERITY MINE, LLC**

By: S/LAWRENCE D. MARTIN

Name: Lawrence D. Martin

Title: President

**RAILPOINT SOLUTIONS, LLC**

By: S/HEATHER L. TRYON

Name: Heather L. Tryon

Title: Manager



**[SIGNATURE PAGE TO THIRD AMENDMENT TO THIRD AMENDED AND RESTATED  
CREDIT AGREEMENT AND WAIVER]**

**PNC BANK, NATIONAL ASSOCIATION**, individually and as  
Administrative Agent\_

By: S/KYLE HELFRICH

Name: Kyle Helfrich

Title: Vice President



**[SIGNATURE PAGE TO THIRD AMENDMENT TO THIRD AMENDED AND RESTATED  
CREDIT AGREEMENT AND WAIVER]**

**THE HUNTINGTON NATIONAL BANK**

By: S/PHIL ANDRESON

Name: Phil Andreson

Title: Vice President





**[SIGNATURE PAGE TO THIRD AMENDMENT TO THIRD AMENDED AND RESTATED  
CREDIT AGREEMENT AND WAIVER]**

**UMB BANK, N.A.**

By: /S/ DAVID WALTERS

Name: David Walters

Title: SVP



**[SIGNATURE PAGE TO THIRD AMENDMENT TO THIRD AMENDED AND RESTATED  
CREDIT AGREEMENT AND WAIVER]**

**KEYBANK NATIONAL ASSOCIATION**

By: S/CHRISTOPHER A. SUSOTT

Name: Christopher A. Susott

Title: SVP



**[SIGNATURE PAGE TO THIRD AMENDMENT TO THIRD AMENDED AND RESTATED  
CREDIT AGREEMENT AND WAIVER]**

**OLD NATIONAL BANK**

By: S/DANIEL G. GMELICH

Name: Daniel G. Gmelich

Title: SVP



**[SIGNATURE PAGE TO THIRD AMENDMENT TO THIRD AMENDED AND RESTATED  
CREDIT AGREEMENT AND WAIVER]**

**FIRST HORIZON BANK**

By: /S/SHARON SHIPLEY

Name: Sharon Shipley

Title: Senior Vice President



**[SIGNATURE PAGE TO THIRD AMENDMENT TO THIRD AMENDED AND RESTATED  
CREDIT AGREEMENT AND WAIVER]**

**FIRST FINANCIAL BANK, N.A.**

By: /S/DAN LAUGHNER

Name: Dan Laughner

Title: Vice President



**[SIGNATURE PAGE TO THIRD AMENDMENT TO THIRD AMENDED AND RESTATED  
CREDIT AGREEMENT AND WAIVER]**

**CHEMICAL BANK**, a division of TCF National Bank

By: S/ ROBERT ROSATI

Name: Robert Rosati

Title: Senior Vice President



**[SIGNATURE PAGE TO THIRD AMENDMENT TO THIRD AMENDED AND RESTATED  
CREDIT AGREEMENT AND WAIVER]**

**FIRST MERCHANTS BANK**

By: S/ ADAM TREIBIC

Name: Adam Treibic

Title: Vice President



[SIGNATURE PAGE TO THIRD AMENDMENT TO THIRD AMENDED AND RESTATED  
CREDIT AGREEMENT AND WAIVER]

**IROQUOIS FEDERAL SAVINGS & LOAN  
ASSOCIATION**

By: S/THOMAS J. CHAMBERLAIN

Name: Thomas J. Chamberlain

Title: Executive Vice President and Chief Lending Officer

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**Section 3: EX-10.2 (EX-10.2)**

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DocuSign Envelope ID: 816A6944-2A86-40D5-8A2C-5D9161CF89EC

**Exhibit 10.2**



U.S. Small Business  
Administration

**NOTE**

SBA Loan #	70216270-04
SBA Loan Name	Hallador Energy Company
Date	04/16/20
Loan Amount	\$ 10,000,000.00
Interest Rate	The interest rate is 1.00% per year.
Borrower	Hallador Energy Company
Operating Company	
Lender	First Financial Bank, N.A.



1) PROMISE TO PAY:

In return for the Loan, Borrower promises to pay to the order of Lender the amount of

TEN MILLION Dollars, interest on the unpaid principal balance, and all other amounts required by this Note.

2) DEFINITIONS:

"Collateral" means any property taken as security for payment of this Note or any guarantee of this Note. "Guarantor" means each person or entity that signs a guarantee of payment of this Note.

"Loan" means the loan evidenced by this Note.

"Loan Documents" means the documents related to this loan signed by Borrower, any Guarantor, or anyone who pledges collateral.

"SBA" means the Small Business Administration, an Agency of the United States of America.

3) PAYMENT TERMS:

Borrower must make all payments at the place Lender Designates. The payment terms for this Note are:

a) Maturity: This Note will mature in 2 years from the date of this Note ("Maturity Date").

b) Repayment Terms:

The interest rate is 1.00% per year. Interest shall accrue commencing with the date of this Note ("Note Date") and shall be computed on the outstanding principal on a 365/365 basis.

No principal or interest payments shall be due for the first six (6) months of this Note, however, interest will continue to accrue during this period. Commencing on the seventh (7th) month anniversary of the Note Date and continuing on the same day of each month thereafter, Borrower shall make a monthly principal payment on the outstanding principal balance (after application of any loan forgiveness) in an amount that shall fully amortize the outstanding principal balance of the Loan by the Maturity Date. Accrued interest shall be due and payable with each monthly principal payment. Lender will apply each installment payment first to pay interest accrued to the day Lender received the payment, then to bring principal current, and apply any remaining balance to reduce principal. The Note is payable in full on the Maturity Date without further demand or action of the Lender.

Loan Prepayment: Borrower may prepay this Note at any time without penalty.

c) Paycheck Protection Program: The Loan is being made by Lender to Borrower pursuant to the Paycheck Protection Program ("PPP"), which is part of the Coronavirus Aid, Relief, and Economic Security Act ("Act"), and the provisions of the Act and the rules, regulations, and guidance applicable to loans under the PPP, as amended from time to time ("Rules"), are incorporated herein by reference. If a conflict exists between the terms of the Loan Documents and the Act or Rules, the Act or Rules will control and the terms of the Loan Documents will be amended by the effect and operation of the Act or Rules so that the legal effect of the Loan Documents conforms to the provisions of the Act and Rules, and the Loan Documents as amended shall remain in full force and effect in accordance with the Act and Rules. If all or part of any term of the Loan Documents is disallowed or impermissible under the Act or Rules, such term shall be deemed to be stricken from the Loan Documents, and the Loan Documents as amended shall remain in full force and effect in accordance with the Act and Rules. Borrower represents and warrants that it will use the Loan proceeds in compliance with the Act and Rules and only for permissible costs and expenses under the Act and Rules. Borrower represents and warrants that all representations, authorizations, and certifications made by Borrower in its application for the Loan under the PPP are true, accurate, and correct as of the date hereof.

d) Loan Forgiveness: All or part of the Loan may be forgiven if Borrower satisfies and complies with the terms and conditions for loan forgiveness under the Act and Rules. All loan forgiveness amounts must be calculated in accordance with the Act and Rules. Borrower agrees to submit to Lender verifying documentation for loan forgiveness in accordance with the Act and Rules. All such verifying documents shall be true and accurate in all material respects. No loan forgiveness will be available absent submission of the required verifying documentation. Borrower agrees to submit all verifying documentation to Lender no later than ninety (90) days from disbursement of the Loan, unless such a requirement is contrary to law or regulation, in which case which case Borrower shall submit all verifying

documentation to Lender no later than thirty (30) days after Lender's request.

- e) No Lender Fees: Notwithstanding any terms to the contrary, Lender shall not collect any fees or costs from Borrower relating to this Loan.



- f) No Collateral or Guarantee: Notwithstanding any term to the contrary, no collateral and no personal guarantee is required in connection with the Loan.
  - g) Non-Recourse. Lender and SBA shall have no recourse against any individual shareholder, member or partner of Borrower for non-payment of the Loan, except to the extent that such shareholder, member, or partner uses the loan proceeds for an unauthorized purpose.
  - h) Assignability: Borrower may not assign its rights in or delegate its duties under this Note without the prior written consent of Lender. Lender may assign its rights in or delegate its duties under this Note at any time without the consent of or notice to Borrower.
  - i) Interpretation: The terms of this Section 3 shall control over any terms in this Note.
  - j) Additional Documentation: At the request of Lender, Borrower agrees to promptly re-execute this Note and any other Loan Document if the Loan was closed using a copy and/or to execute a replacement note and other Loan Documents as Lender may deem necessary or appropriate, in its sole discretion, to comply with the Act or Rules.
  - k) Borrower Certifications: Borrower further represents, warrants, and certifies to Lender (a) Borrower acknowledges that if Borrower defaults on the Loan, SBA may be required to pay Lender under the SBA Guarantee under the PPP, and SBA may then seek recovery on the Loan (to the extent any balance remains after loan forgiveness), (b) Borrower will keep books and records in a manner satisfactory to Lender, furnish financial statements as requested by Lender, and allow Lender and SBA to inspect and audit books, records and papers relating to Borrower's financial or business condition, (c) if the Borrower is other than an individual, the Borrower and the individual signing on behalf of the Borrower, represents and warrants that the individual signing on behalf of the Borrower has authority to act on behalf of the Borrower and has been duly and properly authorized to sign this Note on behalf of the Borrower; and (d) Borrower will not, without Lender's consent, changes its ownership structure, make any distribution of company assets that would adversely affect its financial condition, or transfer (including pledging) or dispose of any assets, except in the ordinary course of business.
- 3) DEFAULT:
- Borrower is in default under this Note if Borrower does not make a payment when due under this Note, or if Borrower or Operating Company:
- a) Fails to do anything required by this Note and other Loan Documents;
  - b) Defaults on any other loan with Lender;
  - c) Does not preserve, or account to Lender's satisfaction for, any of the Collateral or its proceeds;
  - d) Does not disclose, or anyone acting on their behalf does not disclose, any material fact to Lender or SBA;
  - e) Makes, or anyone acting on their behalf makes, a materially false or misleading representation to Lender or SBA;
  - f) Defaults on any loan or agreement with another creditor, if Lender believes the default may materially affect Borrower's ability to pay this Note;
  - g) Fails to pay any taxes when due;
  - h) Becomes the subject of a proceeding under any bankruptcy or insolvency law;

- i) Has a receiver or liquidator appointed for any part of their business or property;
- j) Makes an assignment for the benefit of creditors;
- k) Has any adverse change in financial condition or business operation that Lender believes may materially affect Borrower's ability to pay this Note;



- l) Reorganizes, merges, consolidates, or otherwise changes ownership or business structure without Lender's prior written consent; or
- m) Becomes the subject of a civil or criminal action that Lender believes may materially affect Borrower's ability to pay this Note.

4) LENDER'S RIGHTS IF THERE IS A DEFAULT:

Without notice or demand and without giving up any of its rights, Lender may:

- a. Require immediate payment of all amounts owing under this Note;
- b. Collect all amounts owing from any Borrower or Guarantor;
- c. File suit and obtain judgment;
- d. Take possession of any Collateral; or
- e. Sell, lease, or otherwise dispose of, any Collateral at public or private sale, with or without advertisement.

5) LENDER'S GENERAL POWERS:

Without notice and without Borrower's consent, Lender may:

- a. Bid on or buy the Collateral at its sale or the sale of another lienholder, at any price it chooses;
- b. Incur expenses to collect amounts due under this Note, enforce the terms of this Note or any other Loan Document, and preserve or dispose of the Collateral. Among other things, the expenses may include payments for property taxes, prior liens, insurance, appraisals, environmental remediation costs, and reasonable attorney's fees and costs. If Lender incurs such expenses, it may demand immediate repayment from Borrower or add the expenses to the principal balance;
- c. Release anyone obligated to pay this Note;
- d. Compromise, release, renew, extend or substitute any of the Collateral; and
- e. Take any action necessary to protect the Collateral or collect amounts owing on this Note.

6) WHEN FEDERAL LAW APPLIES:

When SBA is the holder, this Note will be interpreted and enforced under federal law, including SBA regulations. Lender or SBA may use state or local procedures for filing papers, recording documents, giving notice, foreclosing liens, and other purposes. By using such procedures, SBA does not waive any federal immunity from state or local control, penalty, tax, or liability. As to this Note, Borrower may not claim or assert against SBA any local or state law to deny any obligation, defeat any claim of SBA, or preempt federal law.

8) SUCCESSORS AND ASSIGNS:

Under this Note, Borrower and Operating Company include the successors of each, and Lender includes its successors and assigns.

9) GENERAL PROVISIONS:

- a) All individuals and entities signing this Note are jointly and severally liable.
- b) Borrower waives all suretyship defenses.
- c) Borrower must sign all documents necessary at any time to comply with the Loan Documents and to enable Lender to acquire, perfect, or maintain Lender's liens on Collateral.
- d) Lender may exercise any of its rights separately or together, as many times and in any order it chooses. Lender may delay or forgo enforcing any of its rights without giving up any of them.
- e) Borrower may not use an oral statement of Lender or SBA to contradict or alter the written terms of this Note.

f) If any part of this Note is unenforceable, all other parts remain in effect.



- g) To the extent allowed by law, Borrower waives all demands and notices in connection with this Note, including presentment, demand, protest, and notice of dishonor. Borrower also waives any defenses based upon any claim that Lender did not obtain any guarantee; did not obtain, perfect, or maintain a lien upon Collateral; impaired Collateral; or did not obtain the fair market value of Collateral at a sale.

10) STATE SPECIFIC PROVISIONS: N/A

11) BORROWER'S NAME(S) AND SIGNATURE(S):

By signing below, each individual or entity becomes obliged under this Note as Borrower.

BORROWER: HALLADOR ENERGY COMPANY

BY: /S/LAWRENCE D. MARTIN  
Lawrence D Martin  
CFO

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## Section 4: EX-15.1 (EX-15.1)

### Exhibit 15.1

#### LETTER REGARDING UNAUDITED INTERIM FINANCIAL INFORMATION

Hallador Energy Company

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited interim financial information of Hallador Energy Company for the periods ended March 31, 2020 and 2019, as indicated in our report dated May 11, 2020. Because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Form 10-Q for the quarter ended March 31, 2020, is incorporated by reference in Registration Statement Nos. 333-163431 and 333-171778 of Hallador Energy Company on Form S-8.

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

/s/ Plante & Moran, PLLC

Denver, Colorado  
May 11, 2020



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## Section 5: EX-31.1 (EX-31.1)

### Exhibit 31.1

#### CERTIFICATION

I, Brent K. Bilsland, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hallador Energy Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 11, 2020

/s/ BRENT K. BILSLAND  
Brent K. Bilsland, Chairman, President and CEO

## Section 6: EX-31.2 (EX-31.2)

### Exhibit 31.2

#### CERTIFICATION

I, Lawrence D. Martin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hallador Energy Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 11, 2020

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

## Section 7: EX-31.3 (EX-31.3)

### Exhibit 31.3

#### CERTIFICATION

I, R. Todd Davis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hallador Energy Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 11, 2020

/S/R. TODD DAVIS  
R. Todd Davis, CAO

## Section 8: EX-32 (EX-32)

### Exhibit 32

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

In connection with this Quarterly Report (the "Report"), of Hallador Energy Company (the "Company"), on Form 10-Q for the period ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof the undersigned, in the capacities and date indicated below, each hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

May 11, 2020

By: /S/BRENT K. BILSLAND  
Brent K. Bilsland, Chairman, President and CEO

By: /S/LAWRENCE D. MARTIN  
Lawrence D. Martin, CFO

/S/R. TODD DAVIS  
R. Todd Davis, CAO

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## Section 9: EX-95 (EX-95)

### Exhibit 95 Mine Safety Disclosures

Our principles at Sunrise Coal, LLC are safety, honesty, and compliance. We firmly believe that these values compose a dedicated workforce and with that, come high production. The core to this is our strong training programs that include accident prevention, workplace inspection and examination, emergency response and compliance. We work with the Federal and State regulatory agencies to help eliminate safety and health hazards from our workplace and increase safety and compliance awareness throughout the mining industry.

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

The disclosures listed below are provided pursuant to the Dodd-Frank Act. We believe that the following disclosures comply with the requirements of the Dodd-Frank Act; however, it is possible that future SEC rule making may require disclosures to be filed in a different format than the following.

The table that follows outline required disclosures and citations/orders issued to us by MSHA during the 1<sup>st</sup> Quarter 2020. The citations and orders outlined below may differ from MSHA's data retrieval system due to timing, special assessed citations, and other factors.

Definitions:

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

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

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

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

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

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

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

*MSHA Federal Mine ID#'s:*

*(12-02349 – Carlisle Mine) (12-02465 – Carlisle Preparation Plant) (12-02460 – Ace in the Hole Mine)*

*(12-02394 – Oaktown Fuels No. 1) (12-02418 – Oaktown Fuels No. 2) (12-02462 – Oaktown Fuels Preparation Plant)*

*(12-02249 – Prosperity Mine)*



1st Quarter 2020

Mine ID#	Section 104(a) Citations	Section 104(b) Orders	Section 104(d) Citations/Orders	Section 107(a) Orders	Section 110(b)(2) Violations	Proposed MSHA Assessments (In thousands)
12-02349	0	0	0	0	0	\$ 0.35
12-02465	0	0	0	0	0	\$ 0.00
12-02460	0	0	0	0	0	\$ 0.25
12-02394	8	0	0	0	0	\$ 14.20
12-02418	8	0	0	0	0	\$ 7.50
12-02462	1	0	0	0	0	\$ 0.70
12-02249	0	0	0	0	0	\$ 0.00

Mine ID#	Section 104(e) Notice Yes/No	Section 104(e) POV Yes/No	Mining Related Fatalities	Legal Actions Pending	Legal Actions Initiated	Legal Actions Resolved
12-02349	No	No	0	0	0	0
12-02465	No	No	0	0	0	0
12-02460	No	No	0	0	0	0
12-02394	No	No	0	0	0	0
12-02418	No	No	0	0	0	0
12-02462	No	No	0	0	0	0
12-02249	No	No	0	0	0	0

Mine ID#	Contest of Citations/Orders	Contest of Penalties	Complaints of Compensation	Complaints of Discharge/Discrimination	Applications of Temp. Relief	Appeals of Decisions/Orders
12-02349	0	0	0	0	0	0
12-02465	0	0	0	0	0	0
12-02460	0	0	0	0	0	0
12-02394	2	0	0	1	0	0
12-02418	1	0	0	0	0	0
12-02462	0	0	0	0	0	0
12-02249	0	0	0	0	0	0

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