

HALLADOR PETROLEUM CO  
Form 8-K/A  
March 17, 2006

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 8-K/A**

(amendment no. 1)

**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934**

Date of report (Date of earliest event reported) **March 16, 2006**  
**December 31, 2005**

**HALLADOR PETROLEUM COMPANY**

(Exact Name of Registrant as specified in Charter)

**Colorado**  
(State or Other Jurisdiction  
of Incorporation)

**0-19260**  
(Commission File Number)

**84-1014610**  
(IRS Employer  
Identification No.)

**1660 Lincoln Street, Suite 2700, Denver, Colorado**  
(Address of Principal Executive Offices)

**80264-2701**  
(Zip Code)

Registrant's telephone number, including area code: **303-839-5504**

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2):

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**Explanatory Note**

This Current Report on Form 8-K/A is filed as an amendment (Amendment No.1) to the Current Report on Form 8-K filed by Hallador Petroleum Company on January 3, 2006 to provide the financial statements and pro forma financial information required pursuant to Item 9.01 (a) and (b) of Form 8-K.

**Item 9.01 - Financial Statements and Exhibits**

**(a) Financial Statements of Business Acquired**

**FINANCIAL STATEMENTS FOR SAVOY ENERGY, L.P.**

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**SAVOY ENERGY, L.P.**

**(A Limited Partnership)**

**Organization Profile**

**State of Formation**

Michigan

**Business Location**

Traverse City, Michigan

**Partners**

|                                   |   |                 |
|-----------------------------------|---|-----------------|
| Savoy Exploration, Inc.           | - | General Partner |
| Yorktown Energy Partners II, L.P. |   | Limited Partner |
| UBS Warburg                       | - | Limited Partner |
| Lexington Partners IV, L.P.       |   | Limited Partner |
| Thomas C. Pangborn                | - | Limited Partner |
| William T. Sperry                 | - | Limited Partner |
| Cheryl A. DeYoung                 | - | Limited Partner |
| Allen C. Modroo                   | - | Limited Partner |
| Jack P. Rokos                     | - | Limited Partner |

**Independent Auditors' Report**

To the Partners

Savoy Energy, L.P.

(A Limited Partnership)

Traverse City, Michigan

We have audited the accompanying balance sheets of Savoy Energy, L.P. (A Limited Partnership) as of December 31, 2004 and 2003, and the related statements of operations, partners' capital, and cash flows for the years then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Savoy Energy, L.P. as of December 31, 2004 and 2003, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Weber, Curtin & Pahssen, LLC

April 22, 2005

## SAVOY ENERGY, L.P.

(A Limited Partnership)

## Balance Sheets

|                                                                                                                                                                                        | September 30, 2005<br>(Unaudited) | 2004                 | December 31,<br>2003 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|----------------------|----------------------|
| <b>Assets</b>                                                                                                                                                                          |                                   |                      |                      |
| <b>Current Assets</b>                                                                                                                                                                  |                                   |                      |                      |
| Cash and cash equivalents (Note 1)                                                                                                                                                     | \$ 3,931,635                      | \$ 5,008,787         | \$ 6,425,867         |
| Receivables: (Note 1)                                                                                                                                                                  |                                   |                      |                      |
| Net revenue                                                                                                                                                                            | 677,884                           | 287,765              | 542,688              |
| Joint interest owners                                                                                                                                                                  | 2,288,373                         | 1,107,999            | 231,522              |
| Oil and gas equipment inventory (Note 1)                                                                                                                                               | 1,140,335                         | 1,016,664            | 811,775              |
| Prepaid expenses                                                                                                                                                                       | 19,423                            | 43,266               | 50,534               |
| <b>Total Current Assets</b>                                                                                                                                                            | <b>8,057,650</b>                  | <b>7,464,481</b>     | <b>8,062,386</b>     |
| <b>Oil and Gas Properties (Notes 1 and 6)</b>                                                                                                                                          |                                   |                      |                      |
| Proved properties                                                                                                                                                                      | 9,686,827                         | 8,014,763            | 7,422,261            |
| Unproved properties                                                                                                                                                                    | 1,485,239                         | 1,164,047            | 1,232,565            |
|                                                                                                                                                                                        | 11,172,066                        | 9,178,810            | 8,654,826            |
| Less - accumulated depreciation, depletion, amortization                                                                                                                               | 4,504,038                         | 3,731,489            | 2,610,767            |
| <b>Net Oil and Gas Properties</b>                                                                                                                                                      | <b>6,668,028</b>                  | <b>5,447,321</b>     | <b>6,044,059</b>     |
| <b>Other Assets</b>                                                                                                                                                                    |                                   |                      |                      |
| Office furniture and equipment, less accumulated depreciation of \$113,104 at September 30, 2005, (Unaudited) \$60,885 at December 31, 2004 and \$63,404 at December 31, 2003 (Note 1) | 30,024                            | 39,546               | 29,491               |
| Drilling equipment, less accumulated depreciation of \$741,772 at September 30, 2005 (Unaudited) and \$320,766 at December 31, 2004 (Notes 1 and 4)                                    | 1,824,357                         | 2,245,363            |                      |
| Cash bonds (Note 5)                                                                                                                                                                    | 50,000                            | 50,000               | 50,000               |
| <b>Total Other Assets</b>                                                                                                                                                              | <b>1,904,381</b>                  | <b>2,334,909</b>     | <b>79,491</b>        |
| <b>Total Assets</b>                                                                                                                                                                    | <b>\$ 16,630,059</b>              | <b>\$ 15,246,711</b> | <b>\$ 14,185,936</b> |
| <b>Liabilities and Partners' Capital</b>                                                                                                                                               |                                   |                      |                      |
| <b>Current liabilities</b>                                                                                                                                                             |                                   |                      |                      |
| Accounts payable:                                                                                                                                                                      |                                   |                      |                      |
| Trade                                                                                                                                                                                  | \$ 2,132,234                      | 1,725,868            | \$ 363,828           |
| Revenue distribution                                                                                                                                                                   | 881,786                           | 574,975              | 746,710              |
| General partner (Note 2)                                                                                                                                                               | 53,722                            | 133,135              | 112,408              |
| Accrued distributions                                                                                                                                                                  |                                   |                      | 328,530              |
| Current maturities of long-term debt (Note 4)                                                                                                                                          | 424,719                           | 405,680              |                      |
| <b>Total Current Liabilities</b>                                                                                                                                                       | <b>3,492,461</b>                  | <b>2,839,658</b>     | <b>1,551,476</b>     |
| <b>Asset Retirement Obligation (Note 6)</b>                                                                                                                                            | <b>334,214</b>                    | <b>290,042</b>       | <b>206,833</b>       |
| <b>Long-Term Debt, less current maturities (Note 4)</b>                                                                                                                                | <b>1,344,079</b>                  | <b>1,675,463</b>     |                      |
| <b>Total Liabilities</b>                                                                                                                                                               | <b>5,170,754</b>                  | <b>4,805,163</b>     | <b>1,758,309</b>     |
| <b>Commitments and Contingencies (Note 5)</b>                                                                                                                                          |                                   |                      |                      |

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| <b>Partners' Capital (Note 5)</b>                                       |                      |                      |                      |
|-------------------------------------------------------------------------|----------------------|----------------------|----------------------|
| General partner                                                         | 5,084,021            | 4,610,194            | 5,534,833            |
| Limited partners                                                        | 7,709,026            | 7,132,878            | 8,152,733            |
|                                                                         | 12,793,047           | 11,743,072           | 13,687,566           |
| Less capital contributions receivable from limited partners<br>(Note 1) | 1,333,742            | 1,301,524            | 1,259,939            |
| <b>Total Partners' Capital</b>                                          | <b>11,459,305</b>    | <b>10,441,548</b>    | <b>12,427,627</b>    |
| <b>Total Liabilities and Partners' Capital</b>                          | <b>\$ 16,630,059</b> | <b>\$ 15,246,711</b> | <b>\$ 14,185,936</b> |

See accompanying notes to financial statements.

## SAVOY ENERGY, L.P.

(A Limited Partnership)

## Statements of Operations

|                                          | Nine Months Ended<br>September 30, |                     | Year Ended<br>December 31, |                      |
|------------------------------------------|------------------------------------|---------------------|----------------------------|----------------------|
|                                          | 2005<br>(Unaudited)                | 2004<br>(Unaudited) | 2004                       | 2003                 |
| <b>NET REVENUES (Note 1)</b>             |                                    |                     |                            |                      |
| Oil and gas                              | \$ 2,561,646                       | \$ 2,723,498        | \$ 3,381,414               | \$ 4,213,853         |
| Overhead and management fees             | 95,526                             | 35,367              | 70,971                     | 70,010               |
| Other                                    | 1,330,057                          | 251,502             | 511,232                    | 244,057              |
| <b>Total Net Revenues</b>                | <b>3,987,229</b>                   | <b>3,010,367</b>    | <b>3,963,617</b>           | <b>4,527,920</b>     |
| <b>Expenses (Note 2)</b>                 |                                    |                     |                            |                      |
| Oil and gas operations                   |                                    |                     |                            |                      |
| Lease operating costs                    | 609,394                            | 568,332             | 695,378                    | 1,484,749            |
| Depreciation, depletion and amortization | 1,199,850                          | 1,047,251           | 2,198,387                  | 1,198,390            |
| Severance taxes                          | 156,757                            | 151,261             | 190,756                    | 259,697              |
| Other                                    | 18,644                             | 22,109              | 59,171                     | 63,156               |
| <b>Total Oil and Gas Operations</b>      | <b>1,984,645</b>                   | <b>1,788,953</b>    | <b>3,143,692</b>           | <b>3,005,992</b>     |
| Exploration:                             |                                    |                     |                            |                      |
| Dry hole costs                           | 343,766                            | 833,715             | 910,935                    | 1,637,027            |
| Geological and geophysical               | 16,654                             | 503,601             | 537,631                    | 203,860              |
| Impairments and expired lease costs      | 50,142                             | 58,800              | 419,336                    | 511,003              |
| Carrying undeveloped properties          | 95,876                             | 80,296              | 120,800                    | 172,211              |
| Other                                    | 68,411                             | 66,442              | 91,656                     | 96,618               |
| <b>Total Exploration</b>                 | <b>574,849</b>                     | <b>1,542,854</b>    | <b>2,080,358</b>           | <b>2,620,719</b>     |
| General and Administrative               |                                    |                     |                            |                      |
| Administrative services                  | 250,084                            | 313,252             | 462,631                    | 665,652              |
| Professional fees                        | 49,866                             | 78,842              | 110,400                    | 152,618              |
| Office expense                           | 31,979                             | 35,332              | 70,991                     | 69,859               |
| Rent                                     | 52,065                             | 48,614              | 64,985                     | 64,976               |
| Dues, subscriptions and licenses         | 13,814                             | 12,391              | 13,092                     | 15,809               |
| Travel and entertainment                 | 4,616                              | 8,541               | 12,355                     | 20,339               |
| Depreciation and amortization            | 3,861                              | 4,190               | 5,587                      | 759                  |
| Other                                    | 2,233                              | 1,740               | 2,780                      | 1,369                |
| <b>Total General and Administrative</b>  | <b>408,518</b>                     | <b>502,902</b>      | <b>742,821</b>             | <b>991,381</b>       |
| <b>Total Expenses</b>                    | <b>2,968,012</b>                   | <b>3,834,709</b>    | <b>5,966,871</b>           | <b>6,618,092</b>     |
| <b>Net Revenues Less Expenses</b>        | <b>1,019,217</b>                   | <b>(824,342)</b>    | <b>(2,003,254)</b>         | <b>(2,090,172)</b>   |
| <b>Other Income (Expense)</b>            |                                    |                     |                            |                      |
| Gain on sale of proved properties        | 7,523                              | 10,000              | 10,000                     | 19,287,045           |
| Interest, net                            | (8,983)                            | 11,514              | 7,175                      | 1,391,547            |
| <b>Total Other Income (Expense), Net</b> | <b>(1,460)</b>                     | <b>21,514</b>       | <b>17,175</b>              | <b>20,678,592</b>    |
| <b>Net Income (Loss)</b>                 | <b>\$ 1,017,757</b>                | <b>\$ (802,828)</b> | <b>\$ (1,986,079)</b>      | <b>\$ 18,588,420</b> |

See accompanying notes to financial statements.





## SAVOY ENERGY, L.P.

(A Limited Partnership)

## Statements of Partners' Capital

|                                                                                                                               | General<br>Partner | Limited<br>Partners | Capital<br>Contributions<br>Receivable | Total         |
|-------------------------------------------------------------------------------------------------------------------------------|--------------------|---------------------|----------------------------------------|---------------|
| <b>Balances, at January 1, 2003</b>                                                                                           | \$ 7,254,105       | \$ 11,433,086       | \$ (3,490,170)                         | \$ 15,197,021 |
| <b>Add (Deduct)</b>                                                                                                           |                    |                     |                                        |               |
| Net income for the year                                                                                                       | 8,654,025          | 9,934,395           |                                        | 18,588,420    |
| Partners' capital contributions                                                                                               |                    | 954,139             |                                        | 954,139       |
| Accrued interest on capital contributions<br>receivable from limited partners                                                 |                    | 87,839              | (87,839)                               |               |
| Partners' cash distributions                                                                                                  | (10,373,297)       | (11,938,656)        |                                        | (22,311,953)  |
| Repayment of accrued interest on<br>non-recourse notes by limited partners                                                    |                    | (1,363,931)         | 1,363,931                              |               |
| Repayment of principal on non-recourse<br>notes by limited partners                                                           |                    | (954,139)           | 954,139                                |               |
| <b>Balances, at December 31, 2003</b>                                                                                         | 5,534,833          | 8,152,733           | (1,259,939)                            | 12,427,627    |
| <b>Add (Deduct)</b>                                                                                                           |                    |                     |                                        |               |
| Net loss for the year                                                                                                         | (924,639)          | (1,061,440)         |                                        | (1,986,079)   |
| Accrued interest on capital<br>contributions receivable from limited<br>partners                                              |                    | 41,585              | (41,585)                               |               |
| <b>Balances, at December 31, 2004</b>                                                                                         | 4,610,194          | 7,132,878           | (1,301,524)                            | 10,441,548    |
| <b>Unaudited</b>                                                                                                              |                    |                     |                                        |               |
| <b>Add (Deduct)</b>                                                                                                           |                    |                     |                                        |               |
| Net income for the nine months ended<br>September 30, 2005                                                                    | 473,827            | 543,930             |                                        | 1,017,757     |
| Accrued interest on capital contributions<br>receivable from limited partners for the<br>nine months ended September 30, 2005 |                    | 32,218              | (32,218)                               |               |
| <b>Balances, at September 30, 2005<br/>(Unaudited)</b>                                                                        | \$ 5,084,021       | \$ 7,709,026        | \$ (1,333,742)                         | \$ 11,459,305 |

See accompanying notes to financial statements.

## SAVOY ENERGY, L.P.

(A Limited Partnership)

## Statements of Cash Flows)

|                                                                                                              | Nine Months Ended<br>September 30, |                     | Year Ended<br>December 31 |                     |
|--------------------------------------------------------------------------------------------------------------|------------------------------------|---------------------|---------------------------|---------------------|
|                                                                                                              | 2005<br>(Unaudited)                | 2004<br>(Unaudited) | 2004                      | 2003                |
| <b>Operating Activities:</b>                                                                                 |                                    |                     |                           |                     |
| Net income (loss)                                                                                            | \$ 1,017,757                       | \$ (802,828)        | \$ (1,986,079)            | \$ 18,588,420       |
| Adjustments to reconcile net income (loss) to net cash and cash equivalents provided by operating activities |                                    |                     |                           |                     |
| Depreciation, depletion and amortization                                                                     | 1,203,711                          | 1,051,441           | 2,203,974                 | 1,199,149           |
| Accretion of discount on asset retirement obligation                                                         | 10,287                             | 7,757               | 10,342                    | 8,456               |
| Gain on sale of proved properties                                                                            | (7,523)                            | (10,000)            | (10,000)                  | (19,287,045)        |
| Impairments and expired lease costs                                                                          | 50,142                             | 58,800              | 419,336                   | 511,003             |
| Changes in operating assets and liabilities that provided (used) cash:                                       |                                    |                     |                           |                     |
| (Increase) decrease in:                                                                                      |                                    |                     |                           |                     |
| Receivables                                                                                                  | (1,570,493)                        | (1,971)             | (621,554)                 | 1,140,094           |
| Oil and gas equipment inventory                                                                              | (123,671)                          | (109,232)           | (204,889)                 | (139,388)           |
| Prepaid expenses                                                                                             | 23,843                             | 21,527              | 7,268                     | (6,584)             |
| Increase (decrease) in:                                                                                      |                                    |                     |                           |                     |
| Accounts payable                                                                                             | 633,764                            | 410,005             | 1,211,032                 | (1,353,109)         |
| Accrued distributions                                                                                        |                                    | (328,530)           | (328,530)                 | 328,530             |
| <b>Net Cash Provided by Operating Activities</b>                                                             | <b>1,237,817</b>                   | <b>296,969</b>      | <b>700,900</b>            | <b>989,526</b>      |
| <b>Investing Activities</b>                                                                                  |                                    |                     |                           |                     |
| Proceeds from sale of proved properties                                                                      | 18,760                             | 10,000              | 10,000                    | 30,000,000          |
| Additions to oil and gas properties                                                                          | (2,021,384)                        | (447,310)           | (1,620,409)               | (3,209,149)         |
| Additions to office and drilling equipment                                                                   |                                    | (2,572,118)         | (2,588,714)               | (13,963)            |
| <b>Net Cash Provided by (Used in) Investing Activities</b>                                                   | <b>(2,002,624)</b>                 | <b>(3,009,428)</b>  | <b>(4,199,123)</b>        | <b>26,776,888</b>   |
| <b>Financing Activities</b>                                                                                  |                                    |                     |                           |                     |
| Proceeds from long-term debt                                                                                 |                                    | 2,300,000           | 2,300,000                 |                     |
| Repayments of long-term debt                                                                                 | (312,345)                          | (112,824)           | (218,857)                 |                     |
| Partners' cash contributions                                                                                 |                                    |                     |                           | 954,139             |
| Partners' cash distributions                                                                                 |                                    |                     |                           | (22,311,953)        |
| <b>Net Cash Provided by (Used in) Financing Activities</b>                                                   | <b>(312,345)</b>                   | <b>2,187,176</b>    | <b>2,081,143</b>          | <b>(21,357,814)</b> |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>                                                  | <b>(1,077,152)</b>                 | <b>(525,283)</b>    | <b>(1,417,080)</b>        | <b>6,408,600</b>    |
| <b>Cash and Cash Equivalents, at the beginning of the year</b>                                               | <b>5,008,787</b>                   | <b>6,425,867</b>    | <b>6,425,867</b>          | <b>17,267</b>       |
| <b>Cash and Cash Equivalents, at the end of the year</b>                                                     | <b>\$ 3,931,635</b>                | <b>\$ 5,900,584</b> | <b>\$ 5,008,787</b>       | <b>\$ 6,425,867</b> |
| <b>Supplemental Disclosures of Cash Flow Information</b>                                                     |                                    |                     |                           |                     |

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|                                                                                  |    |        |    |        |    |        |    |        |
|----------------------------------------------------------------------------------|----|--------|----|--------|----|--------|----|--------|
| Cash paid for interest                                                           | \$ | 79,263 | \$ | 17,697 | \$ | 42,165 | \$ | 2,243  |
| <b>Supplemental Schedule of<br/>Non-cash Financing Activities</b>                |    |        |    |        |    |        |    |        |
| Accrued interest on capital<br>contributions receivable from limited<br>partners | \$ | 32,218 | \$ | 31,188 | \$ | 41,585 | \$ | 87,839 |

See accompanying notes to financial statements.

**SAVOY ENERGY, L.P.**

**(A Limited Partnership)**

**Notes to Financial Statements**

**1. Nature of Business and Significant Accounting Policies**

***Nature of Business***

Savoy Energy, L.P. (the Partnership) is a Michigan limited partnership that acquires, explores and develops oil and gas properties and operates producing oil and gas wells primarily in Michigan. The price of crude oil and natural gas is generally determined by world markets. The Partnership bills joint interest owners for their share of well operating costs, and acquires a lien on the joint owner's interest if the costs are not paid.

Net oil and gas revenues of \$1,879,695 and \$2,365,080 for the nine months ended September 30, 2005 and 2004 (unaudited), respectively, and \$3,155,868 and \$3,452,318 for the years ended December 31, 2004 and 2003, respectively, were derived from two major customers. No other customers exceeded 10% of net oil and gas revenues for these periods. Related net revenue receivables from these major customers amount to \$393,860, \$197,383 and \$1,208,486 at September 30, 2005 (unaudited), December 31, 2004 and 2003, respectively.

***Interim Financial Information***

The unaudited financial statements as of September 30, 2005 and nine months ended September 30, 2005 and 2004, respectively, include, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary to present fairly the Partnership's financial position, results of operations and cash flows. Operating results for the nine months ended September 30, 2005 and 2004, respectively, are not necessarily indicative of the results that may be expected for the years ended December 31, 2005 and 2004.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

***Cash and Cash Equivalents***

For purposes of the statement of cash flows, the Partnership considers all cash accounts which are not subject to withdrawal restrictions or penalties to be cash or cash equivalents.

In the normal course of business, the Company has deposits in accounts at major financial institutions that exceed the \$100,000 limit of FDIC insurance. Management evaluates the financial institutions in which the Company deposits its funds and assesses the level of risk associated with each institution. Management believes that the Company is not

exposed to any significant credit risk associated with its cash.

***Oil and Gas Equipment Inventory***

Oil and gas equipment inventories, consisting primarily of tubular goods and oil field materials, are stated at the lower of cost or market based upon the specific identification method.

***Successful Efforts Method of Accounting for Oil and Gas Properties***

The Partnership uses the successful efforts method of accounting for oil and gas producing activities. Costs incurred to acquire mineral interests in oil and gas properties; to drill and equip exploratory wells that find proved reserves; and to drill and equip development wells are capitalized. The Partnership expenses costs of drilling exploratory wells such as geological and geophysical costs, and costs of carrying and retaining unproved properties that do not find proved reserves. The provision for depreciation, depletion, and amortization of oil and gas properties is calculated on a well-by-well basis using the unit-of-production method. Maintenance and repairs are charged to expense as incurred; renewals and betterments are capitalized to the appropriate property and equipment accounts.

Unproved oil and gas properties that are individually significant are periodically assessed for impairment of value, and a loss is recognized at the time of impairment by providing an impairment allowance. Other unproved properties are amortized based on the Partnership's experience of successful drilling and average holding period. Capitalized costs of producing oil and gas properties, after considering estimated dismantlement and abandonment costs and estimated salvage values, are depreciated and depleted by the unit-of-production method. Support equipment and other property and equipment are carried at cost and depreciated over their estimated useful lives.

On the sale or retirement of an interest in a proved property, the cost and related accumulated depreciation, depletion, and amortization are eliminated from the property accounts, and the resulting gain or loss is recognized.

On the sale of an entire interest in an unproved property, a gain or loss on the sale is recognized, taking into consideration the amount of any recorded impairment if the property had been assessed individually. If a partial interest in an unproved property is sold, the amount received is treated as a reduction of the cost of the interest retained.

***Revenue Recognition***

Oil and natural gas revenues are recorded using the sales method, whereby the Partnership recognizes oil and natural gas revenue based on the amount of oil and gas sold to purchasers.





The following summarizes the Partnership's revenue by product sold:

|               | Nine Months Ended<br>September 30, |           |    | Year Ended<br>December 31, |      |           |    |           |
|---------------|------------------------------------|-----------|----|----------------------------|------|-----------|----|-----------|
|               | 2005                               | 2004      |    | 2004                       | 2003 |           |    |           |
|               | (Unaudited)                        |           |    |                            |      |           |    |           |
| Oil revenue   | \$                                 | 1,061,213 | \$ | 694,146                    | \$   | 1,045,208 | \$ | 1,505,890 |
| Gas revenue   |                                    | 1,445,482 |    | 1,962,754                  |      | 2,280,599 |    | 2,516,661 |
| Other liquids |                                    | 54,951    |    | 66,598                     |      | 55,607    |    | 191,302   |
| <b>Total</b>  | \$                                 | 2,561,646 | \$ | 2,723,498                  | \$   | 3,381,414 | \$ | 4,213,853 |

#### *Long-Lived Assets*

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset and long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

#### *Office Furniture and Equipment, Drilling Equipment and Depreciation*

Office furniture, equipment, and drilling equipment are recorded at cost. Depreciation is computed over the estimated useful life of the assets using accelerated methods for both financial reporting and income tax purposes.

#### *Capital Contributions Receivable*

Upon formation of the Partnership and pursuant to the Partnership and contribution agreements, the general partner, Savoy Exploration, Inc., contributed substantially all of its operating assets, net of related operating liabilities, for its interest in Savoy Energy, L.P., and the limited partners contributed cash and notes receivable for their interest. Interest accrued on the notes receivable is recorded as an addition to the carrying amount of the receivable and as additional contributed capital of the limited partners.

#### *Federal Income Tax*

The federal income tax on Partnership activities is not reflected in the financial statements since the income tax liability is the responsibility of the individual partners.

- 2. Related Party Transactions** In 2005 (unaudited), 2004 and 2003, the general partner incurred expenses on behalf of the Partnership for salaries and wages, payroll taxes, retirement plan contributions, health insurance, key man life insurance, other payroll related costs, and office rent. Those expenses amounted to \$472,510 and \$520,017 for the nine months ended September 30, 2005 and 2004 (unaudited), respectively, and \$774,490 and \$1,005,578 for the years ended December 31, 2004 and 2003,



respectively. Of these amounts, \$250,084 and \$313,252 for the nine months ended September 30, 2005 and 2004 (unaudited) and \$462,631 and \$665,652 for the years ended December 31, 2004 and 2003, respectively, are classified as general and administrative expenses. In addition, \$117,626 and \$109,556 for the nine months ended September 30, 2005 and 2004 (unaudited) and \$156,467 and \$160,977 for the years ended December 31, 2004 and 2003, respectively, are classified as exploration costs. The remaining \$104,800 and \$97,209 for the nine months ended September 30, 2005 and 2004 (unaudited) and \$155,392 and \$178,949 for the years ended December 31, 2004 and 2003, respectively, are for production costs of which a portion was charged to joint owners. The accounts payable to the general partner reported on the balance sheets relate to the reimbursement of these expenses.

- 3. Line-of-Credit** The Partnership has a \$3,000,000 unsecured line-of-credit agreement with a bank which expires on August 1, 2005 and which bears interest at .5% below the prime rate. As of September 30, 2005 (unaudited), December 31, 2004 and 2003, the Partnership has no outstanding borrowings under this line-of-credit.
- 4. Long-Term Debt** Long-term debt consists of a note payable to a bank, payable at \$43,500 monthly, including interest at .5% below the prime rate, which results in a rate of 5.1% at December 31, 2004. The note is collateralized by drilling equipment. The final payment is due July 1, 2009.

Annual principal maturities on the long-term debt are summarized as follows. For the interim periods, the amounts presented represent payments due in the next twelve months.

| Year Ending | September 30,<br>2005<br>(Unaudited) | December 31,<br>2004 |
|-------------|--------------------------------------|----------------------|
| 2005        | \$ 424,719                           | \$ 405,680           |
| 2006        | 451,503                              | 431,263              |
| 2007        | 479,976                              | 458,459              |
| 2008        | 412,600                              | 487,370              |
| 2009        |                                      | 298,371              |
| Total       | \$ 1,768,798                         | \$ 2,081,143         |

## 5. Commitments and Contingencies

### *Lease Commitments*

The Partnership leases its office from an unrelated party under a one-year lease with annual options to renew for a total of five years. The leases automatically renew unless the Partnership gives the landlord written notice ninety days prior to the expiration of the lease. Minimum future lease payments are as follows. For the interim periods, the amounts presented represent payments due in the next twelve months.

| Year Ending | September 30,<br>2005<br>(Unaudited) | December 31,<br>2004 |
|-------------|--------------------------------------|----------------------|
| 2005        | \$                                   | \$ 65,440            |
| 2006        | 27,400                               | 10,960               |
| Total       | \$ 27,400                            | \$ 76,400            |

Total rent expense included in the statements of operations amount to \$49,000 and \$47,570 for the nine months ended September 30, 2005 and 2004 (unaudited), respectively, and \$63,530 and \$61,680 for the years ended December 31, 2004 and 2003, respectively.

### *Partner Redemptions and Distributions*

The Partnership agreement provides that at any time on or after September 19, 2000, and on each anniversary of the closing date thereafter, the Partnership shall offer to redeem all or a portion of the interests of the partners at a price and on terms and conditions established by unanimous consent of the executive committee. The redemptions will be based on the availability of cash in excess of the anticipated needs of the Partnership for future operations, giving due consideration to the anticipated remaining term of the Partnership.

The Partnership agreement provides for quarterly distributions to the partners based on their respective share of Partnership federal taxable income. Additional distributions to the partners are at the discretion of the executive committee.

### *Performance Bond*

The Partnership is required by the Michigan Department of Natural Resources to file a performance bond as security on State owned land that is leased for oil and gas exploratory efforts. The amount of the bond is dependent upon the acres of land leased or intended to be leased. The Partnership's \$50,000 performance bond enables the Partnership to lease unlimited acreage from the State.

### *Environmental Matters*

The Partnership is subject to various federal and state laws and regulations regarding environmental matters. The most significant laws and regulations concern contamination of well sites. The Partnership is not presently aware of



contamination at any of its sites which would require significant costs for clean up.

- 6. Asset Retirement Obligation** On January 1, 2003, the Partnership adopted Statement of Financial Accounting Standard No. 143, Accounting for Asset Retirement Obligations ( SFAS 143 ). SFAS 143 requires entities to recognize a liability for the present value of all legal obligations associated with the retirement of tangible long-lived assets and to capitalize an equal amount as part of the cost of the related oil and gas properties.

The adoption of SFAS 143 required the Partnership to record a non-cash expense of \$38,542 as a cumulative effect of change in accounting principle for 2003, as well as a non-current liability and an addition to oil and gas properties of \$206,833. The following table summarizes the Partnership's asset retirement obligation transactions as if SFAS 143 had been applied during all periods presented.

|                                                             | Nine Months<br>Ended<br>September 30,<br>2005<br>(Unaudited) | 2004       | Year Ended<br>December 31,<br>2003 |
|-------------------------------------------------------------|--------------------------------------------------------------|------------|------------------------------------|
| Asset retirement obligation, at the beginning of the period | \$ 290,042                                                   | \$ 206,833 | \$ 169,116                         |
| Additions related to new properties                         | 33,885                                                       | 72,867     | 29,261                             |
| Accretion expense                                           | 10,287                                                       | 10,342     | 8,456                              |
| Asset retirement obligation, at the end of the period       | \$ 334,214                                                   | \$ 290,042 | \$ 206,833                         |

- 7. Supplemental Information on Oil and Gas Producing Activities (Unaudited)** The following information is presented in accordance with Statement of Financial Accounting Standards No. 69, Disclosure About Oil and Gas Producing Activities:

***Costs Incurred in Oil and Gas Exploration and Development Activities***

The following costs were incurred in oil and gas exploration and development activities:

|                            | Year Ended December 31,<br>2004 | 2003       |
|----------------------------|---------------------------------|------------|
| Property acquisition costs | \$ 616,293                      | \$ 373,552 |
| Exploration costs          | 541,750                         | 1,318,802  |
| Development costs          | 462,366                         | 1,516,795  |

*Estimated Proved Oil and Gas Reserves*

The following reflects total proved and proved developed oil and gas reserves at December 31, 2004, 2003 and 2002, and changes therein for the years ended December 31, 2004 and 2003. Proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Prices and costs to estimate those reserves are constant as of December 31, 2004 and 2003.

Proved developed oil and gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped oil and gas reserves are reserves that are expected to be recovered from new wells on drilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

Reserve estimates are subject to numerous uncertainties inherent in the estimation of quantities of proved reserves and in the projection of future rates of production and the timing of development expenditures. The accuracy of such estimates is a function of the quality of available data and of engineering and geological interpretation and judgment. Estimates of economically recoverable reserves and of future net cash flows expected therefrom prepared by different engineers or by the same engineers at different times may vary substantially. Results of subsequent drilling, testing and production may cause either upward or downward revisions of previous estimates. Further, the volumes considered to be commercially recoverable fluctuate with changes in commodity prices and operating costs. Any significant revision of reserve estimates could materially adversely affect our financial condition and results of operations.

|                                 | Oil (bbl)   | Gas (mcf)    |
|---------------------------------|-------------|--------------|
| Balance, at December 31, 2002   | 1,144,093   | 12,236,930   |
| Production                      | (211,718)   | (1,903,241)  |
| Sales of minerals in-place      | (1,014,155) | (10,625,985) |
| Revisions of previous estimates | 196,537     | 1,535,664    |
| Balance, at December 31, 2003   | 114,757     | 1,243,368    |
| Production                      | (26,809)    | (448,165)    |
| Revisions of previous estimates | (5,299)     | 31,223       |
| Balance, at December 31, 2004   | 82,649      | 826,426      |

*Standardized Measure of Discounted Future Net Cash Flows*

Estimated discounted future net cash flows and changes therein were determined in accordance with Statement of Financial Accounting Standards (SFAS) No. 69, Disclosures about Oil and Gas Producing Activities. Certain information concerning the assumptions used in computing the valuation of proved reserves and their inherent limitations are discussed below. Such information is essential for a proper understanding and assessment of the date presented.

Future cash inflows are computed by applying year-end prices of oil and gas relating to proved reserves to the year-end quantities of those reserves. Future price changes are considered only to the extent provided by contractual arrangements, including hedging contracts in existence at year end.

The assumptions used to compute estimated future net revenues do not necessarily reflect expectations of actual revenue or costs, or their present worth. In addition, variations from the expected production rate also could result directly or indirectly from factors outside the Company's control, such as unintentional delays in development, changes in prices or regulatory controls. The reserve valuation further assumes that all reserves will be disposed of by production. However, if reserves are sold in-place, additional economic considerations could also affect the amount of cash eventually realized.

Future development and production costs are computed by estimating the expenditures to be incurred in developing and producing the proved reserves at the end of the year, based on year-end costs and assuming continuation of existing economic conditions.

Because Savoy Energy, L.P. is a partnership, income taxes are the responsibility of the partners and, consequently, are not considered in standardized measure of discounted future net cash flows. Estimates of future general and administrative expense, and interest expense, have not been considered.

The timing of future net cash flows from proved reserves are discounted at an annual rate of 10%.

|                                                          | December 31, |              |
|----------------------------------------------------------|--------------|--------------|
|                                                          | 2004         | 2003         |
| Future cash flows                                        | \$ 8,908,290 | \$ 9,799,186 |
| Future production costs                                  | (3,294,349)  | (3,474,631)  |
| Future net cash flows                                    | 5,613,941    | 6,324,555    |
| 10% annual discount for estimated timing of cash flows   | (1,190,646)  | (1,216,269)  |
| Standardized measure of discounted future net cash flows | \$ 4,423,295 | \$ 5,108,286 |





Changes in the Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Reserves  
An analysis of the changes in the standardized measure of discounted future net cash flows during each of the last two years is as follows:

|                                                                                                             | Year Ending<br>December 31, |               |
|-------------------------------------------------------------------------------------------------------------|-----------------------------|---------------|
|                                                                                                             | 2004                        | 2003          |
| Standardized measure of discounted future net cash flows relating to proved reserves, beginning of the year | \$ 5,108,286                | \$ 38,648,374 |
| Sales and transfers of oil and gas produced                                                                 | (2,495,280)                 | (2,469,407)   |
| Net increase (decrease) in prices and production costs                                                      | 1,443,396                   | (1,616,385)   |
| Sales of reserves in-place                                                                                  |                             | (33,232,800)  |
| Revisions in previous quantity estimates                                                                    | (1,959)                     | 2,392,685     |
| Accretion of discount                                                                                       | 510,829                     | 3,864,837     |
| Changes in rates of production and other                                                                    | (141,977)                   | (2,479,018)   |
| Standardized measure of discounted future net cash flows relating to proved reserves, end of the year       | \$ 4,423,295                | \$ 5,108,286  |

The computation of the standardized measure of discounted future net cash flows relating to proved reserves at December 31, 2004 and 2003 was based on year-end prices of \$40.79 and \$29.70 for oil and \$6.70 and \$5.14 for gas, respectively.

**(b) Unaudited Pro Forma Financial Information**

The unaudited pro forma financial statements as of and for the nine months ended September 30, 2005, and for the year ended December 31, 2004, are below and give effect to the acquisition of Savoy Energy Limited Partnership ("Savoy") by Hallador Petroleum Company ("Hallador").

On December 30, 2005, Hallador Petroleum Company (Hallador) entered into an agreement to purchase a 32% interest in Savoy Energy Limited Partnership (Savoy) from Yorktown Energy Partners II, L.P. (Yorktown, an institutional investor) for \$4,165,000.

On December 20, 2005, through a private placement, Hallador sold 1,893,169 shares of its common stock to Yorktown for \$2.20 per share. The cash proceeds of \$4,165,000 were used to acquire the 32% interest in Savoy from Yorktown.

The unaudited pro forma consolidated balance sheet was prepared as though the transaction had occurred on September 30, 2005, and includes the following:

The acquisition of the 32% interest in Savoy from Yorktown; and

The sale of Hallador common stock to Yorktown.

The unaudited pro forma consolidated statement of operations for the nine months ended September 30, 2005, and for the year ended December 31, 2004, includes the following transactions as if they had occurred as of the beginning of the respective periods:

The acquisition of the 32% interest in Savoy from Yorktown; and

The sale of Hallador common stock to Yorktown.

Adjustments for these transactions are reflected in the notes to the unaudited pro forma financial statements. You should read the unaudited pro forma financial statements and accompanying notes along with the historical financial statements included in Hallador's previous filings with the Securities and Exchange Commission, and the audited and unaudited Savoy financial statements included above.

The information presented under the heading "Savoy Pro Forma Adjustments" reflects a 32% share of Savoy's results of operations for the nine months ended September 30, 2005 and the year ended December 31, 2004. There are no Savoy results of operations reflected in Hallador's

historical results of operations.

The pro forma statements of operations were derived by adjusting the historical financial statements of Hallador. The adjustments were based on currently available information. The actual adjustments, therefore, may differ from the pro forma adjustments. We believe, however, that the adjustments provide a reasonable basis for presenting the significant effects of the transactions described above. The unaudited pro forma financial statements do not purport to present Hallador's results of operations had the acquisition or the other transaction actually been completed as of the dates indicated. Moreover, the statements do not project our financial position or results of operations for any future date or period.

## HALLADOR PETROLEUM COMPANY

## Unaudited Pro Forma Consolidated Balance Sheet

As of September 30, 2005

(in thousands, except per share information)

|                                                                                       | Hallador<br>Petroleum<br>Company(g) | Savoy Pro<br>Forma<br>Adjustments | Pro Forma |
|---------------------------------------------------------------------------------------|-------------------------------------|-----------------------------------|-----------|
| <b>ASSETS</b>                                                                         |                                     |                                   |           |
| Current assets                                                                        |                                     |                                   |           |
| Cash and cash equivalents                                                             | \$ 11,539                           | \$ 4,165(b)                       | \$ 11,539 |
| Accounts receivable-                                                                  |                                     | (4,165)(a)                        |           |
| Oil and gas sales                                                                     | 921                                 |                                   | 921       |
| Well operations                                                                       | 839                                 |                                   | 839       |
| Total current assets                                                                  | 13,299                              | 0                                 | 13,299    |
| Oil and gas properties, at cost (successful efforts):                                 |                                     |                                   |           |
| Unproved properties                                                                   | 3,555                               |                                   | 3,555     |
| Proved properties                                                                     | 2,301                               |                                   | 2,301     |
| Less - accumulated depreciation, depletion, amortization and impairment               | (1,764)                             |                                   | (1,764)   |
|                                                                                       | 4,092                               | 0                                 | 4,092     |
| Other assets:                                                                         |                                     |                                   |           |
| Investments                                                                           |                                     |                                   |           |
| Savoy Energy, L.P.                                                                    |                                     | 4,165(a)                          | 4,165     |
| Catalytic Solutions                                                                   | 150                                 |                                   | 150       |
| CELLC                                                                                 | 271                                 |                                   | 271       |
| Other assets                                                                          | 76                                  |                                   | 76        |
| Total other assets                                                                    | 497                                 | 4,165                             | 4,662     |
| Total assets                                                                          | 17,888                              | 4,165                             | 22,053    |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                           |                                     |                                   |           |
| Current liabilities                                                                   |                                     |                                   |           |
| Accounts payable and accrued liabilities                                              | \$ 995                              | \$                                | \$ 995    |
| Oil and gas sales payable                                                             | 1,205                               |                                   | 1,205     |
| Income taxes payable                                                                  | 494                                 |                                   | 494       |
| Total current liabilities                                                             | 2,694                               | 0                                 | 2,694     |
| Stockholders' equity                                                                  |                                     |                                   |           |
| Preferred stock, \$.10 par value; 10,000,000 shares authorized, none issued           |                                     |                                   |           |
| Common stock, \$.01 par value; 100,000,000 shares authorized, 7,093,150 shares issued | 71                                  | 19(b)                             | 90        |
| Additional paid-in capital                                                            | 18,061                              | 4,146(b)                          | 22,207    |
| Accumulated deficit                                                                   | (2,938)                             |                                   | (2,938)   |
| Total shareholders' equity                                                            | 15,194                              | 4,165                             | 19,359    |
| Total liabilities and shareholders' equity                                            | \$ 17,888                           | \$ 4,165                          | \$ 22,053 |

See accompanying notes to financial statements.



## HALLADOR PETROLEUM COMPANY

**Unaudited Pro Forma Consolidated Statement of Operations**

For the Nine Months Ended September 30, 2005

(in thousands, except per share information)

|                                                                             | <b>Hallador<br/>Petroleum<br/>Company<br/>(g)</b> | <b>Savoy Pro<br/>Forma<br/>Adjustments</b> | <b>Pro Forma</b> |
|-----------------------------------------------------------------------------|---------------------------------------------------|--------------------------------------------|------------------|
| <b>REVENUE</b>                                                              |                                                   |                                            |                  |
| Gas                                                                         | \$ 521                                            | \$                                         | \$ 521           |
| Natural gas liquids                                                         | 146                                               |                                            | 146              |
| Oil                                                                         | 73                                                |                                            | 73               |
| Interest                                                                    | 414                                               |                                            | 414              |
| Total revenue                                                               | 1,154                                             | 0                                          | 1,154            |
| <b>Costs and expenses:</b>                                                  |                                                   |                                            |                  |
| Lease operating                                                             | 157                                               |                                            | 157              |
| Delay rentals                                                               | 38                                                |                                            | 38               |
| Impairment of unproved properties                                           | 183                                               |                                            | 183              |
| Equity in loss of Savoy Energy, L.P.                                        |                                                   | (326)(c)<br>47(d)                          | (279)            |
| Equity in loss of CELLC                                                     | 55                                                |                                            | 55               |
| Depreciation, depletion and amortization                                    | 30                                                |                                            | 30               |
| General and administrative                                                  | 411                                               |                                            | 411              |
|                                                                             | 874                                               | (279)                                      | 595              |
| Income from continuing operations before minority interest and income taxes | 280                                               | 279                                        | 559              |
| Minority interest                                                           | (84)                                              |                                            | (84)             |
| Income from continuing operations before income taxes                       | 196                                               | 279                                        | 475              |
| Income taxes - current                                                      | (90)                                              | (128)(f)                                   | (218)            |
| Income from continuing operations                                           | \$ 106                                            | \$ 151                                     | \$ 257           |
| Income from continuing operations per share-basic                           | \$ .02                                            | \$ .01                                     | \$ 0.03          |
| Weighted average shares outstanding-basic                                   | 7,093                                             | 1,893(e)                                   | 8,986            |

See accompanying notes to financial statements.

HALLADOR PETROLEUM COMPANY

**Unaudited Pro Forma Consolidated Statement of Operations**

For the Year Ended December 31, 2004

(in thousands, except per share information)

|                                                          | Hallador<br>Petroleum<br>Company(g) | Savoy Pro<br>Forma<br>Adjustments | Pro Forma |
|----------------------------------------------------------|-------------------------------------|-----------------------------------|-----------|
| <b>REVENUE</b>                                           |                                     |                                   |           |
| Gas                                                      | \$ 656                              | \$                                | \$ 656    |
| Natural gas liquids                                      | 166                                 |                                   | 166       |
| Oil                                                      | 83                                  |                                   | 83        |
| Interest                                                 | 167                                 |                                   | 167       |
| Total revenue                                            | 1,072                               | 0                                 | 1,072     |
| Costs and expenses:                                      |                                     |                                   |           |
| Lease operating                                          | 149                                 |                                   | 149       |
| Delay rentals                                            | 102                                 |                                   | 102       |
| Impairment of unproved properties                        | 144                                 |                                   | 144       |
| Equity in loss of Savoy Energy, L.P.                     |                                     | 636(c)                            | 712       |
|                                                          |                                     | 76(d)                             |           |
| Depreciation, depletion and amortization                 | 42                                  |                                   | 42        |
| General and administrative                               | 852                                 |                                   | 852       |
|                                                          | 1,289                               | 712                               | 2,001     |
| Loss from continuing operations before minority interest | (217)                               | (712)                             | (929)     |
| Minority interest                                        | 65                                  |                                   | 65        |
| Loss from continuing operations                          | \$ (152)                            | \$ (712)                          | \$ (864)  |
| Loss from continuing operations per share-basic          | \$ (.02)                            | \$ (.08)                          | \$ (.10)  |
| Weighted average shares outstanding-basic                | 7,093                               | 1,893(e)                          | 8,986     |

See accompanying notes to financial statements.



## HALLADOR PETROLEUM COMPANY

## Notes to Unaudited Pro Forma Financial Statements

|     |                                                                                                                                                                                                                                                                                                                                                                                            |    |           |
|-----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|-----------|
| (a) | Cash paid in connection with the acquisition of 32% equity interest in Savoy Energy, L.P.                                                                                                                                                                                                                                                                                                  | \$ | 4,165     |
| (b) | Sale of common stock to Yorktown Energy Partners VI, L.P. in a private placement                                                                                                                                                                                                                                                                                                           |    |           |
|     | Shares                                                                                                                                                                                                                                                                                                                                                                                     |    | 1,893,169 |
|     | Price per share                                                                                                                                                                                                                                                                                                                                                                            |    | 2.20      |
|     | Proceeds from private placement                                                                                                                                                                                                                                                                                                                                                            | \$ | 4,165     |
| (c) | Equity in loss of Savoy Energy, L.P.:                                                                                                                                                                                                                                                                                                                                                      |    |           |
|     | For the nine months ended September 30, 2005 as reported in item 9.01 (a)                                                                                                                                                                                                                                                                                                                  | \$ | 1,018     |
|     | Hallador Petroleum Company's percentage of equity interest                                                                                                                                                                                                                                                                                                                                 |    | 32%       |
|     | Hallador Petroleum Company's equity in loss of Savoy Energy, L.P.                                                                                                                                                                                                                                                                                                                          | \$ | 326       |
|     | For the year ended December 31, 2004 as reported in item 9.01 (a)                                                                                                                                                                                                                                                                                                                          | \$ | (1,986)   |
|     | Hallador Petroleum Company's percentage of equity interest                                                                                                                                                                                                                                                                                                                                 |    | 32%       |
|     | Hallador Petroleum Company's equity in loss of Savoy Energy, L.P.                                                                                                                                                                                                                                                                                                                          | \$ | (636)     |
| (d) | Hallador Petroleum Company's purchase price exceeded its pro rata share of the equity of Savoy Energy, L.P. The excess cost was attributed to Savoy Energy, L.P.'s oil and gas properties. The adjustment reflects the depreciation, depletion and amortization of the excess based on Savoy Energy, L.P.'s weighted average units of production rate during the respective periods below. |    |           |
|     | Hallador Petroleum Company purchase price                                                                                                                                                                                                                                                                                                                                                  | \$ | 4,165     |
|     | Equity of Savoy Energy, L.P. as of January 1, 2004                                                                                                                                                                                                                                                                                                                                         |    | 12,428    |
|     | Hallador Petroleum Company's percentage of equity interest                                                                                                                                                                                                                                                                                                                                 |    | 32%       |
|     | Pro rata share of the equity of Savoy Energy, L.P.                                                                                                                                                                                                                                                                                                                                         |    | 3,977     |
|     | Excess cost                                                                                                                                                                                                                                                                                                                                                                                |    | 188       |
|     | Weighted average units of production rate                                                                                                                                                                                                                                                                                                                                                  |    | 25%       |
|     | Amortization of excess cost                                                                                                                                                                                                                                                                                                                                                                |    | 47        |
|     | Hallador Petroleum Company purchase price                                                                                                                                                                                                                                                                                                                                                  | \$ | 4,165     |
|     | Equity of Savoy Energy, L.P. as of January 1, 2004                                                                                                                                                                                                                                                                                                                                         |    | 12,428    |
|     | Hallador Petroleum Company's percentage of equity interest                                                                                                                                                                                                                                                                                                                                 |    | 32%       |
|     | Pro rata share of the equity of Savoy Energy, L.P.                                                                                                                                                                                                                                                                                                                                         |    | 3,977     |
|     | Excess cost                                                                                                                                                                                                                                                                                                                                                                                |    | 188       |
|     | Weighted average units of production rate                                                                                                                                                                                                                                                                                                                                                  |    | 41%       |
|     | Amortization of excess cost                                                                                                                                                                                                                                                                                                                                                                |    | 76        |
| (e) | The weighted average shares outstanding reflect the impact of the shares issued to Yorktown Energy Partners VI, L.P., proceeds of which were used to acquire the 32% equity interest in Savoy Energy, L.P.                                                                                                                                                                                 |    |           |
| (f) | Provision for income taxes based on annual effective tax rate of 35% applied to income from continuing operations.                                                                                                                                                                                                                                                                         |    |           |
| (g) | Reflects the financial position and results of operations for Hallador Petroleum Company as reported in its periodic reports on Form 10-QSB and Form 10-KSB for the periods ended September 30, 2005 and December 31, 2004, respectively.                                                                                                                                                  |    |           |

**(c) Shell Company Transactions: None**

**(d) Exhibits -**

10.1 PURCHASE AND SALE AGREEMENT dated effective as of December 31, 2005 between Hallador Petroleum Company, as Purchaser and Yorktown Energy Partners II, L.P., as Seller relating to the purchase and sale of limited partnership interests in Savoy Energy Limited Partnership - Incorporated by reference to the Form 8-K filed on January 3, 2006. (1)

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(1) Incorporated by reference to Form 8-K filed January 3, 2006.

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 hereunto duly authorized.

HALLADOR PETROLEUM COMPANY

Date: March 16, 2006

By: /S/ VICTOR P. STABIO  
Victor P. Stabio  
Chief Executive Officer  
and President