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HALLADOR ENERGY COMPANY

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Price as of June 26, 2015: **$8.15** (HNRG: NASDAQ), Market Cap: **$236 million; Debt: $292 million** at Libor (0.77%) plus 3.5% and capped at 5%, Non-operating cash (est.) $5 million, **EV: $531 million**, EBITDA (est.): $110; EV/EBITDA: 4.8 Debt/Shs: $10; EBITDA/Sh: $3.8; Pre-Tax Op. Inc. Coal/Shs.: $2.34. Pay-down of all debt possible at the end of five years. Insider Ownership **58.4%**

EV/Pre-tax owner-earnings ($531/$84.5)**: 6.3xs** **Main Subsidiary:** **http://www.sunrisecoal.com/**
Company: **http://www.halladorenergy.com/**

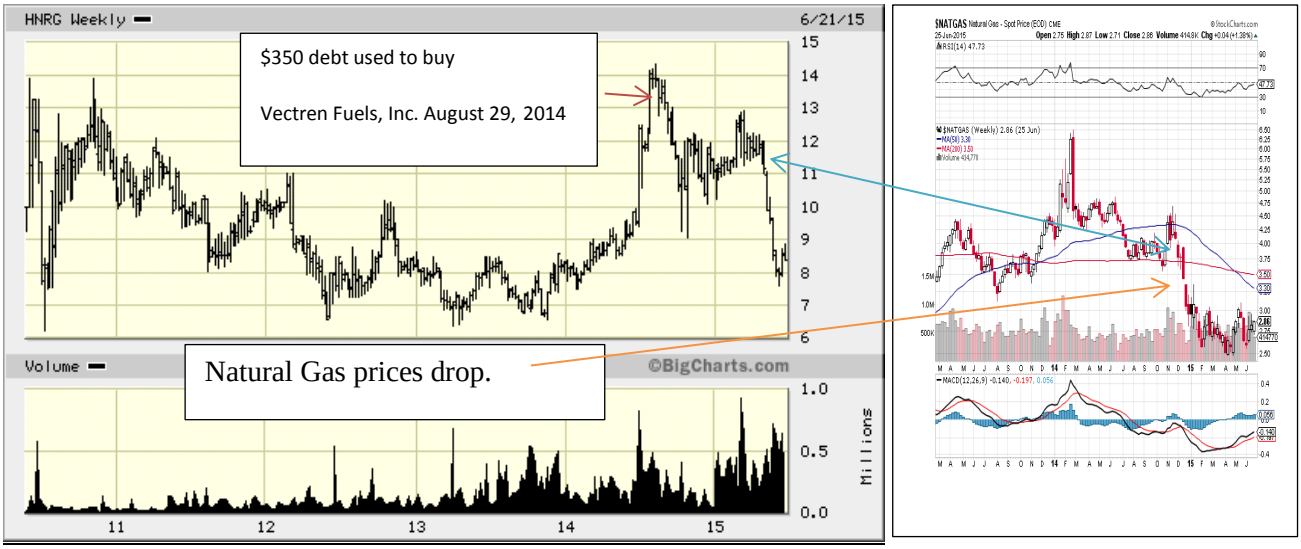
Bulldog Mine 3 mils. Capacity	Base Case	2016	2017	Bulldog 2018
Tons in mils.	9.0	9.5	10.0	12.5
Sale Price/ton	$44.68	$44.00	$43.00	$45
Cash cost/ton	$30.00	$28.50	$27.00	$27.00
Margin/ton	*$14.68*	*$15.50*	*$16.00*	*$18.00*
MCX/Ton @$4	-$4.00	-$4.50	-$5.00	-$5.50
Sust. Margin/ton	**$10.68**	**$11.00**	**$11.00**	**$12.50**
Avg. Ann. Debt Amt. mils.	$272.00	$220.00	$160.00	$250.00
Int. Cost: Libor + 3.5% and down	4.30%	4.00%	3.75%	5.00%
Int. Cost/Ton	**-$1.40**	**-$1.23**	**-$1.10**	**-$1.17**
Annual SG&A in mils.	$15	$15.00	$16.00	$17.00
SG&A/ton	**-$1.67**	**-$1.58**	**-$1.60**	**-$1.36**
Pre-tax Op inc./Ton	$7.62	$8.19	$8.31	$9.97
Avg. Tax Rate	*30%*	*35%*	*38%*	*40%*
Tax per ton	-$2.29	-$2.87	-$3.16	-$3.99
Net Inc. per ton	**$5.33**	**$5.32**	**$5.15**	**$5.98**
Coal op. Inc. mils.	$47.99	$50.58	$51.49	$74.79
Outstd. FD Shs. In mils.	29.0	29.3	29.5	30.0
Coal op. Inc. mils./shs	**$1.65**	**$1.73**	**$1.75**	**$2.49**
Multiple/Capital Cost	**8**	**9**	**10**	**10**
8 multiple/12% Equity Cost	$13.24	$15.56	$17.45	$24.93
Other Subs per share	$1.00	$1.00	$1.00	$2.00
Totals	**$14.24**	**$16.56**	**$18.45**	**$26.93**

Low natural gas prices and the panic in coal equities have investors overlooking a **growing, low-cost producer of Illinois Basin Thermal coal** with quality advantages operated by focused, owner-oriented management. **All of 2015 production** of 9.1 to 9.3 million tons **is priced at $44.68 and about 30% at $44 for 2016.** Management is focused on their recent acquisition to drive costs per ton below $30 and pay down their bank debt.

Their **2.73 debt-to-EBITDA is below** other debt-strapped competitors (Peabody 7-to-9xs). The company's cost structure is cheaper than 73% of total production in the Illinois Basin which is growing and taking market share from other coals. As shown in the table to the left, **management has an opportunity to increase cash flows through lowering cash costs** in their three mines. Cash flows will pay down debt.

If nothing improved or changed and management met their target of producing coal below $30 cash per tons, then equity value would increase by $8 to $10 per share over five years as debt was extinguished.

In other words, if enterprise value in a hated-coal-market today did not change in the next five years, the shift in value from debt being paid would accrue to equity holders. The share price of HNRG was $12 last August 2014 upon bankers lending $350 million on 65% of the Hallador's cash-flows. If at the end of five years all debt is paid, then how could the stock be worth **LESS THAN $12 on 100% of cash flows?** Yes, the future is unknown, but HNRG supplies to a **relatively stable (base-load power)and growing market demand for ILB coal with a low-cost advantage**. Excluding the value of HNRG's other subs. (say $1 to $1.50 per share), then HNRG seems undervalued even using a high cost of capital multiple of 8. CEO Brent Bilsland owns 3.2%. Insiders and management own 58.4% of the company. **More financial metrics are found on pages 18-19.**



Investors reacted: [Hallador-Energy-the-return-of-cheap-natural-gas-injects-uncertainty-into-this-coal-miner]

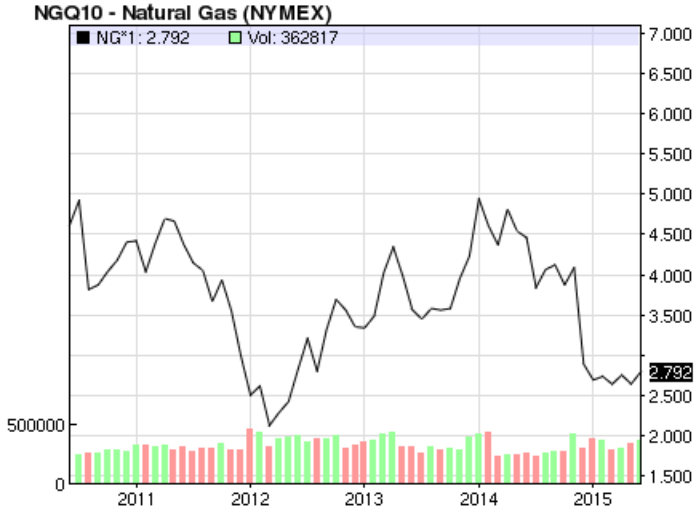
The uncertainty surrounding natural gas prices and the contracting of Hallador's coal for 2016 and 2017 presents opportunity. Much bad news--perpetually lower natural gas and coal prices--is embedded in the price and operational improvements may be overlooked. Management has acquired and is improving on its low-cost, unique coals to drive costs from a spike of $35 per ton in the 3rd quarter of 2014 when its large acquisition closed to below $30 per ton in 2015. Management seems to be intelligent allocators of their and shareholder's capital buy buying Vectren Fuels, Inc. (mines) near a trough in the coal cycle.

A Low Cost Illinois Basin ("ILB") Coal Producer in a Growing Market

Hallador (HNRG-NASDAQ) has made a **transformative transaction** by tripling the size of its production base in Indiana from one to three mines operated as a contiguous property and increasing its active reserve by 52% to 210 million tons (total reserves 265 million tons) while taking on a moderate amount of debt, 58% debt-to-total capital and about 2.73xs debt-to-ebitda. Many large coal producers struggle under much higher debt loads. The market, while in a panic over coal and lower natural gas prices, may be missing **the improving trend in costs while HNRG rapidly pays down its debt. Hallador has unique, low-cost assets that can grow based upon its recent acquisition.** It is a low-cost producer of high-sulfur Illinois Basin coal—the number two low-cost producer of 9.4 MM tons at $29 cash cost per ton behind Foresight Energy's (FELP) production of 22 million tons at $22 cash costs per ton as of end-2014—that can produce at a **lower cost than 73% of the total market.** The demand for ILB coal is projected to increase by 56% over the next twelve years or an average of 6.7 MM tons per year[1] and HNRG is well positioned to meet the growing demand profitably. **Any investor in HNRG must understand the Illinois Basin coal market so read footnote 2.**

Hallador sells 85% of its output to Indiana utilities (8 major, high-credit quality companies) which scrub/neutralize the sulfuric emissions with EPA-mandated scrubbers. 15% of production goes to the southeastern market of Florida. All 9.341 million tones are contracted at a price of $44.68 for 2015 and, as

of now, 3.4 million contracted at $44.03 for 2016 (See table on page 10). **The investor uncertainty is high now with natural gas priced between $2.50 and $3.00.**



Hallador's customers solidly dispatch when the prices of natural gas are above $3.00 Mbtu. When below $2.50 Mbtu, utilities are uncertain what their burn needs are (utilities typically switch to gas to meet peak power when rates are attractive). Contracts have base tonnages with min/max provisions. At year-end 2014, Hallador projected 9.4 million tons of production but in the first quarter management estimated 9.1 million tons as customers opted for less tonnage. I estimate a 500,000 ton swing in tons produced changes earnings per share by 10 cents.

One problem with production has been transportation problems with railroads. 2014 was an unusual year for rails because of high demand. Since the collapse of oil prices, traffic has slowed and now railroads have been investing heavily in their infrastructure to solve their problems. Management believes there will be less transport problems going forward.

Will natural gas prices stay below $3.00? No one knows http://marcelluscoalition.org/wp-content/uploads/2014/03/Morning-Star_EnergyObserverFebruary2014.pdf but Hallador's higher cost competitors both in the Illinois Basin and elsewhere will not be able to produce long-term or compete at lower coal prices.

RISKS

The risk for HNRG is its Debt of $292 million, but that risk is receding each month as debt is paid-down. The market is focused immediately on the uncertainty of coal demand but in the long-run higher cost coal producers and natural gas producers will struggle to maintain production—prices should stabilize. HNRG is a spread business between prices sold and cash costs. Management's focus is on costs to generate cash flows to pay down debt.

Improving Costs

The company had $35 cash costs in the 3rd quarter of 2014 right after the Aug. 29, 2014 Vectren Fuels' Oaktown Mine Complex was acquired and management expects to have costs below $30 for 2015. There is considerable opportunity to increase profits from lower cash costs produced per ton of coal. In 2012,

Hallador produced near full capacity at its Carlisle mine at an average of $26.53 per ton while one of its indirect input costs, WTIC oil averaged 95 dollars per barrel. In 2013, its cost rose to $29/ton when a lower grade coal seam was developed. Remember that coal mining is not like a manufacturing business; geology has an effect on production costs. Cash costs spiked to $35 per ton because of rail shipment problems, recent acquisition integration costs, and low mine-recovery. Cash costs fell to $29.61 per ton in the 4th quarter. Management expects costs to average below $30 in 2015. **There is also significant room to lower costs further. The Oaktown mines have costs per ton in the low-to-mid-$20s range** while the higher costs at the Carlisle mine can be lowered by reconfiguring extraction to a more concentrated area of the mine. HNRG adds 24 cents per share of earnings for each dollar saved below $30 per ton cash cost.

More importantly, cash-flow will go primarily to debt pay-down.

Upon close of the Vectren Fuels transaction at end of August 2014, the company had $350 million of debt and the enterprise value was $659 million when trading at $11 per share. Cash from operations in the 4th quarter of 2014 was $30 million plus a one-time cash receipt from its Savoy Energy investment. Debt was reduced by $39 million to $311 million or by **$1.34** per share. Annualized Ebitda was $113 million for a debt-to-ebitda ratio of 2.75xs. Then in the first quarter of 2014, operating cash was $22 million of which $14.4 million was used to pay-down bank debt or **$0.50** per share. As of this May, $58 million of debt or $2.00 per share in debt has been paid down to $292 million. Management plans to have debt paid down to $250 million by end-2015 or by another **$1.42** per share. In other words, about $3.26 per share of debt ($100 million) paid down over 16 months—that is a $75 million annual run rate. By year-end, if there are no cost improvements, EV will be $496 on about $110 of EBITDA or a 4.5xs multiple. Capex is expected to be 38 million, but let's round up to $40 million or 7xs EV/(EBIDA – capex)—a more attractive price than most companies in the coal industry.

Hallador's debt covenant steps down to 2.75 allowable leverage by end of 2015, but the company would be on track to be at 2.25-to-2.5 times leverage.

Valuation Assumptions

The company has been on a $75 million annual-run-rate on debt pay-down, but assume management pays down $60 million per year, so all the bank debt would be paid close to year-end 2019. That is about $2.06 per share per year of debt pay-down. As the enterprise value shifts from debt to equity—if nothing changes—then today's $8.50 stock price should be $16.50 in early 2020. Over five years, that is a 14% CAGR.

Or another way to approach what Hallador may be worth is that **<u>it can't be worth less than</u> what a consortium of banks was willing to lend, $350 million in bank debt or $18.00 per share of enterprise value on 65% of the company's cash-flows** ($350 million in bank debt divided by $350 million debt plus $190 million of equity).[2] If the company executes on its plan, the price should **not be less than $18 on**

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[2] After all it was Ben Graham, who wrote in his book "Intelligent Investor**": *"An equity share representing the entire business cannot be less safe and less valuable than bonds having a claim to only a part thereof."*** And, in his book, "Security Analysis" Ben wrote: *"There are instances where an equity share may be considered sound because it enjoys a margin of safety as large as that of a good bond. This will occur, for example, when a company has outstanding only equity shares that under depression conditions are selling for less than the amount of the bonds that could safely be issued against its property and earning power. In such instances the investor can obtain the margin of safety associated with a bond, plus all the chances of larger income and principal appreciation inherent in an equity share."*

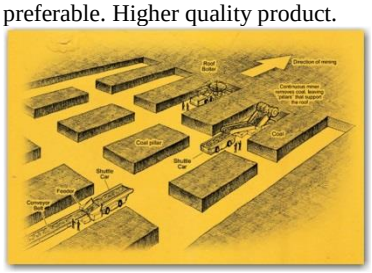
100% of cash flows. Of course, future cash flows may be impaired if there are major changes in the market or Hallador's operations, but it is a sign-post, nonetheless.

Mining may be a simple business: Develop reserves, mine the product, and deliver it to customers, but capital allocation in what price to pay for properties and operational skill to develop high safety/low cost operations are difficult to execute consistently.

Utilities need stable, low-cost supply to run their base-load power generation while coal companies like Hallador need long-term stable supply contracts to secure their investment in coal mining. Hallador's three mines produce high-sulfur coal which is more commercially viable and environmentally acceptable because of costly installed scrubbers that utilities put in due to EPA edict (See footnote 1, ILB Primer).

Operations and Subsidiaries on the next page…….

Hallador Energy Company[3]

Sunrise Coal LLC	**SavoyEnergy, LP**	**Sunrise Energy, LLC**	**Summit River Terminal**
http://sunrisecoal.com/ (A wholly-owned subsidiary and KEY asset) serving the electric power generation industry. Indiana's 2nd largest and 2nd lowest-cost coal producer. The company is focused on developing coal reserves in the **Illinois Basin**. These cornerstone assets are unique because they are low-cost. $100 mm tons of Illinois Basin ("ILB") production has a higher cost structure. Only Foresight Energy has a lower cost. The market is estimated to grow 6 million tons per year. Mines are near customers. 10 mm tons + capacity.	(40%) Michigan oil and gas producer 40% equity interest in Savoy Energy, L.P., a private oil and gas exploration company that has an interest in Michigan's Trenton-Black River play and operates multiple wells averaging approximately 875 barrels per day [bpd] of oil production. http://savoyenergy.info/index.html **Per share value: $1.00?** This sub. Could be worth much more depending upon the future market for oil & gas. Not material for a valuation of HNRG.	(50%) equity interest in, a private gas exploration company with operations in Indiana in the same vicinity as the Carlisle mine. On the balance sheet for $4.86mm cost or $0.17 per share. Approx. $250,000 in net income or less than 1 cent per share. *Not material yet.*	A wholly-owned subsidiary is a multi-commodity trans loading facility at mile point 743.8 on the Indiana bank of the Ohio River. http://summitterminal.com/ 
Oaktown Mine Complex 142 MM tons reserves  6.5 MM tons annual capacity.	**Bulldog Mine** 55 MM tons reserves. Anticipated permit 2015. Anticipated capacity 3.0 MM tons annually. **Similar in mining to the Carlisle Mine.** The mine is targeting <.20 Chlorine vs. ILB average of .22. Lower is preferable. Higher quality product. 	**Ace in the Hole Mine.** 3.2 MM tons reserves. 0.3 MM tons of capacity annually. 	**Carlisle Mine** 65 MM tons reserves and 3.2 MM tons of capacity of high sulfur coal. The largest contributor to revenue and earnings (before Oaktown Mine Complex purchased for $311 MM from Vectren Fuels, Inc.) has been the Carlisle underground coal mine located in western Indiana, about 30 miles south of Terre Haute. 

Total mining capacity is **10 million tons annually** (6.5MM Oaktown Complex + 0.3 MM Ace + Carlisle Mine 3.2 MM). This excludes the Bulldog Mine which won't be brought online until customers are contracted to be supplied. **Potential for 13 million tons.**

[3] Hallador is a Spanish word that means **finder or discoverer or one who leads the way.** Hallador Energy Company was founded as a Colorado corporation in July 1951 under the name of Kimbark Oil and Gas Company. In December 1989, Kimbark merged with Hallador Exploration Company, a California company founded in 1985, to become Hallador Energy Company. Hallador entered into a joint venture with **Sunrise Coal, LLC** in April 2006. With this venture, Hallador's primary focus changed from oil and gas production to coal production.

A MAJOR CHANGE in late 2014

Sunrise Coal, LLC purchased Vectren Fuels, Inc. on August 29, 2014 for $311 million.

		Before	AFTER	Change
Production Capacity	MM tons annually	3.3	10 +	**3x**
Total Reserves	MM tons	193	265	37%
Active Reserves*	MM tons	138	210	52%***
Bank Debt	($MM)	16 MM	$350**	

*Active Reserves are distinguished from total reserves because the difference, **inactive reserves require $150 million capex for the Bulldog mine and wouldn't be feasible until certain conditions are met.** Management will pre-sell production.

** As of 4/1/15, Bank Debt was $291 MM.

*** War Eagle became part of Oaktown II active res.

Vectren Fuels, Inc. headquartered in Evansville, Indiana, owned three underground coal mines in southwestern Indiana, including the Oaktown 1 and Oaktown 2 mines in Oaktown, Indiana, and the Prosperity Mine located in Petersburg, Indiana. **The Prosperity Mine was idled** on August 29, 2014. The two underground mines located near Oaktown, Indiana are **seven miles south of our Carlisle underground mine. Oaktown 2 is contiguous to our Carlisle mine and War Eagle reserve.**[4] Thus, we intend to mine part of Oaktown 2's reserve from our Carlisle portal and all of our War Eagle reserve from the Oaktown 2 portal (as noted later in the Reserve Table).

Railroad Legend: CSX - CSX Railroad, INRD - Indiana Rail Road, ISRR - Indiana Southern Railroad, and NS - Norfolk Southern Railway

[4] The contiguous nature of the mines will be important for lowering operating costs!

Low-cost structure provides a competitive advantage to meet growing demand

Based on the company's own estimates and Energy Ventures analysis, about 87 million tons out of a total market of 118 tons have a weighted average cost structure 19% higher than Hallador's. Foresight Energy (FELP) has twenty-two tons production at $22 per ton cash cost vs. Hallador's 9.4 tons at $29 to $30 per ton cash cost. Felp and Hallador have costs lower than 73% of the total 118 million tons produced annually. Also, with the Summit river terminal, Hallador's transportation infrastructure will improve and help to grow market share. Hallador is already supplying 15% of its coal to Florida utilities and that may increase.

The Oaktown Mine Complex, War Eagle and Carlisle form a 230 million-ton contiguous reserve position which is critical for low cost extraction and continuity of supply.[5]

Sunrise Coal's only competitor with a lower cost structure: Foresight Energy, Inc. (FELP) More of Felp's coal moves to the international market while HNRG's goes to Indiana.

Lowest Cost Producer (selling mostly to the export market) **FELP** **Operating Metrics**

	Three Months Ended		
	March 31, 2015	**March 31, 2014**	**December 31, 2014**
	(In Thousands, Except Per Ton Data)		
Produced tons sold	5,101	4,706	5,775
Purchased tons sold	—	—	115
Total tons sold	5,101	4,706	5,890
Tons produced	6,608	5,059	5,691
Coal sales realization per ton sold [(1)]	$ 46.84	$ 51.58	$ 50.94
Cash cost per ton sold [(2)]	**$ 21.68**	**$ 19.75**	**$ 21.96**
Netback to mine realization per ton sold [(3)]	$ 37.55	$ 39.13	$ 40.52

[5] SUN RISE ASSETS **Highly Efficient in the Illinois Basin**

Sunrise Coal, Indiana's second largest coal producer, is focused on safely and efficiently mining high-quality bituminous coal from the Illinois Basin. Our current operations include:

- Carlisle Mine, Indiana – Sunrise's flagship underground mine with 65 million tons in coal reserves.
- Oaktown Mine, Indiana: An underground coal complex with 165 million tons in reserves located along the Indiana-Illinois boarder.
  - Oaktown I (65MM tons)
  - Oaktown II (100MM tons, including the original Oaktown II mine and the War Eagle reserve)
- Bulldog Reserve, Vermilion County, Illinois – A developing underground mine with 55 million tons in reserves, expected to be operational in 2015-2016 time-frame.
- Ace in the Hole Mine, Indiana – A surface mine operation with 3.5MM tons of exceptionally low-sulfur, low-mercury coal which can be shipped directly or blended with Sunrise's other coals.

(1) - Coal sales realization per ton sold is defined as coal sales divided by total tons sold.

(2) - Cash cost per ton sold is defined as cost of coal produced (excluding depreciation, depletion and amortization) divided by produced tons sold.

(3) - Netback to mine realization per ton sold is defined as coal sales less transportation expense divided by tons sold.

Contracting Uncertainty

Currently, the volatility of the natural gas price around $2.70 creates uncertainty for Hallador's customers. When the ratio of natural gas prices to coal prices is approximately 1.5 or lower per million Btu, a typical gas-fired combined-cycle plant has lower generating costs than a typical coal-fitted plant. The EIA noted in its Annual Energy Outlook 2015, **http://www.eia.gov/forecasts/aeo/pdf/0383(2015).pdf** and

US-Coal-Prices-by-Region And markets/**natural-gas**.aspx

Product Advantage:

Sunrise Carlisle Facility

At the Sunrise Carlisle Mine, our surface and underground operations work in tandem to yield more than 3 million tons of coal annually. Using the **Room & Pillar method**, miners safely and efficiently extract coal from beneath the surface.

Explore surface operations, such as the wash plant, the mine entrance, and coal load-out, using the image below. To get an inside glimpse of the Carlisle underground operations, view an **underground mining video and learn about modern mining methods.**

Quality

Compared to other **Illinois Basin** coal products, **Sunrise produces coal with high BTUs and very low chlorine levels — less than 1%.** Also, combined with the Oaktown Mine Complex, Sunrise can mix and match product specifications to better serve its utility customers. The larger production base provides more security for its customers' supply needs. In other words, Hallador is in a better position to gain market share and expand into the Southeastern U.S. (Florida).

Carlisle Mine

Efficient Transportation

Efficiency is required both underground and above ground at the **Sunrise Carlisle Mine.** Once coal is extracted and sent to the surface for washing, it is ready for shipment. **Tour the Carlisle facility**

Express Rail Car Loading

The Carlisle Mine is located on the **CSX Railroad** mainline (Chicago/Nashville/Birmingham/Jacksonville corridor) and possesses running rights to the **Indiana Rail Road (INRD).** A Kanawha batch weigh load-out system accommodates two 105-car trains on a double-rail loop. A coal train can typically be loaded in roughly four hours. Sunrise can guarantee quality specifications are consistently met by using twin heavy media wash plants (1,000 tph). An independent third party operates the automatic sampler to ensure integrity of all samples.

Who are Sunrise Coal customers?

Sunrise sells to utility customers mainly in the mid-west and southeastern US regions. Customers have included Indianapolis Power & Light, Hoosier Energy, Duke Energy, NIPSCO and Santee Cooper, Richmond Power and Light, Jacksonville Electric Authority.

Sunrise Coal Contracts

Sunrise Coal, LLC sells coal to the following customers: Duke Energy Corporation (NYSE:DUK), Hoosier Energy, an electric cooperative, Indianapolis Power & Light Company (IPL), a wholly-owned subsidiary of The AES Corporation (NYSE:AES), Northern Indiana Public Service Co. (NIPSCO), a wholly-owned subsidiary of NiSource Inc. (NYSE:NI) and Vectren Corporation (NYSE:VVC). We also deliver coal to three Florida utilities. We believe these Florida sales are an indication of the trend of ILB coal replacing CAPP coal that has traditionally supplied the southeast markets.

The table below illustrates the status of our current coal contracts:

Period	Priced Tons	Average Price/Ton	Committed Unpriced Tons	Total Tons
2015	9,341,000	$ 44.68		9,341,000
2016	3,369,000	44.03	1,000,000	4,369,000
2017	1,450,000	44.39	1,480,000	2,930,000
2018	-		2,480,000	2,480,000
2019	-		2,480,000	2,480,000
2020	-		2,480,000	2,480,000
2021	-		2,480,000	2,480,000
2022	-		2,480,000	2,480,000
2023	-		2,000,000	2,000,000
2024	-		1,000,000	1,000,000
Total	14,160,000		17,880,000	32,040,000

Subsidiaries

Savoy Energy Oil & Gas: Trenton-Black River Oil & Gas (Hallador 40% equity Interest)

Savoy holds 136,000 gross acres (68,000 net) in the Tr Trenton-Black River play in southern Michigan. These Trenton Black River (TBR) operated oil properties comprise about 95% of Savoy's assets. During 2014 Savoy drilled 21 gross wells in the TBR of which 6 were dry, 12 were successful, and 3 are still being evaluated. During 2013, Savoy drilled 30 gross wells in this play of which 13 were dry and 17 were successful. Drilling locations in this play are identified based on the evaluation of extensive 3-D seismic shoots. Savoy operates their own wells and their working interest averages between 30 and 60% and their net revenue interest averages between 25 and 48%. Savoy's net daily oil production currently averages 875 barrels. Savoy has an interest in 112 gross wells (41 net).

Hallador's 45% ownership was decreased to 40% on October 1, 2014 due to the **exercise of options by Savoy's management.**

On the balance sheet for $13,896 FY 2014 and **$14,033** on Mar. 31st, 2015 ($0.48 per share).

Year	Oil Production (Net daily avg. in barrels)	SEC PV10 Proportionate to Hallador's ownership
2014	$875	$34MM or **$1.17 per HNRG Share**
2013	$1,100	$91MM or $3.14 per HNRG Share
2012	$910	$35MM
2011	$805	$44MM
2010	$655	$15MM
2009	$195	$6MM

Savoy Energy is focused on identifying abandoned oil and gas assets, which are then brought online through recompletion and work-over activities. This is accomplished through a meticulous process of evaluations, applications of modern well technologies and stringent management controls. This process allows the company to increase its asset base and cash flow, while significantly reducing the cost of initial drilling, and takes away the risk of traditional exploration projects. Savoy Energy's financial structure allows it to minimize the high overhead of traditional E&P companies.

Management also explored the sale of its share in Savoy, which was worth $14 million at the end of Q1 2014, prior to 2014's crude price collapse, but did not receive any attractive offers. Management's goal was to sell a high-priced asset (oil-based) and buy unwanted assets (coal properties). Right now, Hallador's management has tabled the selling of Savoy Energy[6] and is content to develop the asset. Management's attempt to sell this asset during the oil boom shows rational capital allocation skills[7]. Thus, Hallador's proportionate share in this asset may be worth **$1+ per share** or $3 to $4 per share depending upon growth and future oil and gas prices.

[6] In 2014, Savoy engaged Energy Spectrum Advisors Inc. (ESA) to market its Trenton-Black River oil properties located in southeast Michigan. No acceptable offers were received. Marketing efforts are on hold until oil prices recover Savoy made a $12 million cash distribution in early October 2014; our share was $**4.9 million; such amount was applied toward our bank debt as required under the new credit agreement.**

[7] **Q: Is This the Right Time to Sell Oil**? A: Our Savoy subsidiary has experienced dramatic growth in the last five years. Oil production has grown from 195 bbl/day in 2009 to 1,100 bbl/day in 2013, of which we own 45%. Accordingly, our proportionate share of their PV10 has grown from $6 million to $91 million over the same time period. With oil prices greater than $100 per barrel, we feel now is a good time to monetize assets that are popular and purchase coal assets while they are unpopular. Source Hallador's 2013 Annual Letter to Shareholders.

Summit River Terminal

In 2013, Halladlor created a new subsidiary by purchasing for **$2.8 million ($0.10 per share)**, Summit Terminal, Multi-Commodity Trans Loading Facility. $500,000 was spent on SG&A for this facility. Over 17 acres of open storage is available on site. The terminal is at mile point 743.8 on the Indiana bank of the Ohio River near the William Natcher Bridge between Rockport and Grandview, Indiana. Currently, the dock will handle third party commodities**. The long-term plan will be to ship coal through the dock.** The terminal is in close proximity to the NS railroad, the CSX railroad and American Electric Power's Rockport generating power plant. Improvements are currently being made, and Hallador does not expect revenue from this asset until 2015.

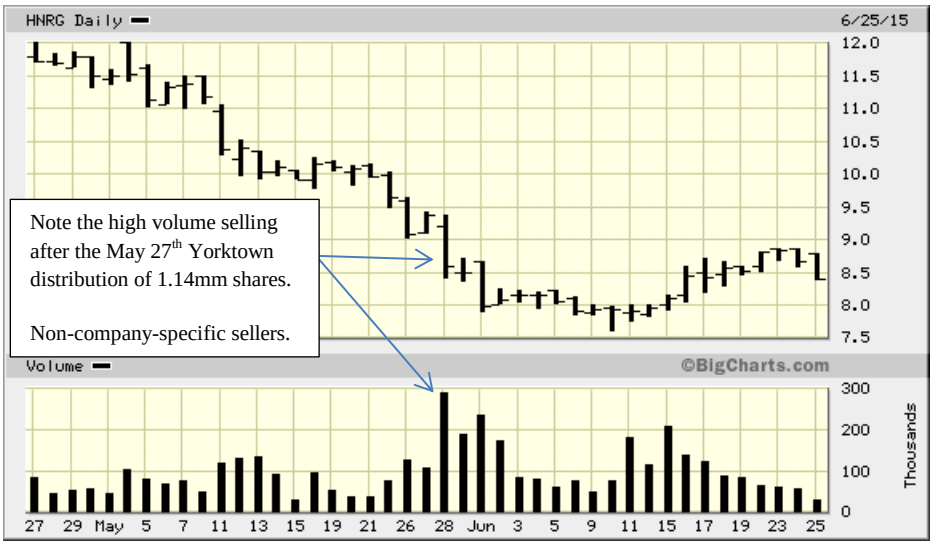
Sunrise Energy

Hallador has a 50% equity 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 coal-bed methane gas reserves on or near our underground coal reserves. They use the successful efforts method of accounting. This investment is not material since I estimate it is on the balance sheet for about **$0.167 per share at cost** and $0.01 on a net income basis. **Not material.**

Share Structure

Management owns **18.1 million shares or 62.5%** of the outstanding shares. Management eats their own cooking.

As of May 29, 2015, **Yorktown, the General Partner and the LLC** beneficially own 8,544,904 shares of Common Stock of the Company, representing 29.4**%** of the issued and outstanding shares of Common Stock of the Company. All calculations made herein are made in accordance with Rule 13d-3(d) of the Securities Exchange Act of 1934, as amended, and based on 29,043,000 shares of the Common Stock of the Company issued and outstanding as of May 7, 2015. (c) As of June 25**, 2015, Yorktown distributed in-kind, on a pro rata basis and for no additional consideration, in accordance with its limited partnership agreement, an aggregate of 1,145,823 shares of Common Stock of the Company**, to its limited and general partners (the "Distribution").



BRENT K. BILSLAND became CEO on January 24, 2014 and has been President and director since September 2009. He has been President of Sunrise Coal, LLC, the primary operating subsidiary, since July 31, 2006. He also has a personal investment in us and owns **985,368 shares of our stock or 3.4%** and has 300,000 RSUs which will lapse/vest equally over three years annually in December. Stock-based compensation expense for 2014 was $3.2 million and for 2013 was $2.2 million. For 2015, **based on existing RSUs outstanding, stock-based compensation expense will be $3.3 million which is included in the $15 million in SG&A estimated for 2015.**

Restricted Stock Units

At December 31, 2014 we had 1,042,000 Restricted Stock Units (RSUs) outstanding and 1,257,900 available for future issuance. The outstanding RSUs have a value of $13 million based on the March 4, 2015 closing stock price of $12.67. On February 1, 2014 we granted 920,000 RSUs to key employees of which 720,000 vest equally over four years and 200,000 over two years. Our stock price on grant date was $7.66. On April 1, 2014, we granted 171,000 RSUs and our stock price was $8.54. On September 2, 2014 we granted 99,000 RSUs and our stock price was $13.56. On three other occasions in 2014, we granted a total of 5,500 RSUs; our stock price on those dates ranged from $11.39 to $14.06. All RSUs granted in 2014, other than those on February 1, cliff vest over three years. In July 2013, we granted 4,000 RSUs with cliff vesting of three years; our stock price on grant date was $8.14. We expect 407,000 RSUs to vest during 2015 under our current vesting schedule.

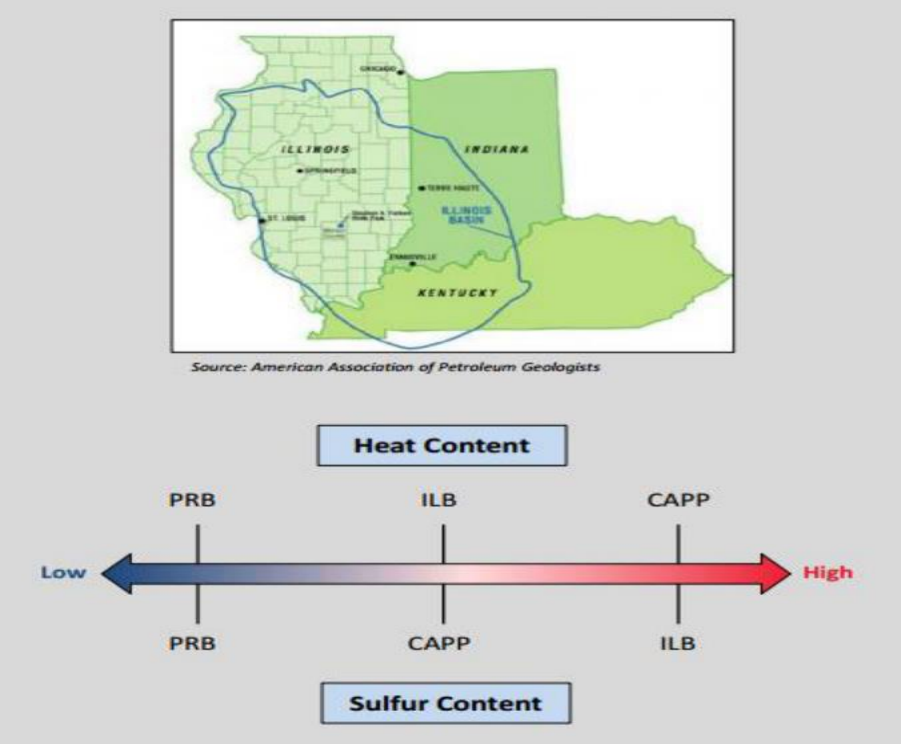
During 2014 and 2013, there were 310,000 and 315,500 RSUs that vested, respectively. On the vesting dates the shares had a value of $3.1 million for 2014 and $2.3 million for 2013. Under our RSU plan participants are allowed to relinquish shares to pay for their required minimum statutory income taxes.

A Great Philosophy

Board members who are willing and able to have a sizable portion, or in some case a substantial portion, of their personal net worth invested in us tend to be conscientious directors. In other words, our directors' interests are closely aligned with our shareholders' interests. If our stock increases, our directors' benefit directly and so do our other shareholders.

APPENDIX: General Background on Coal

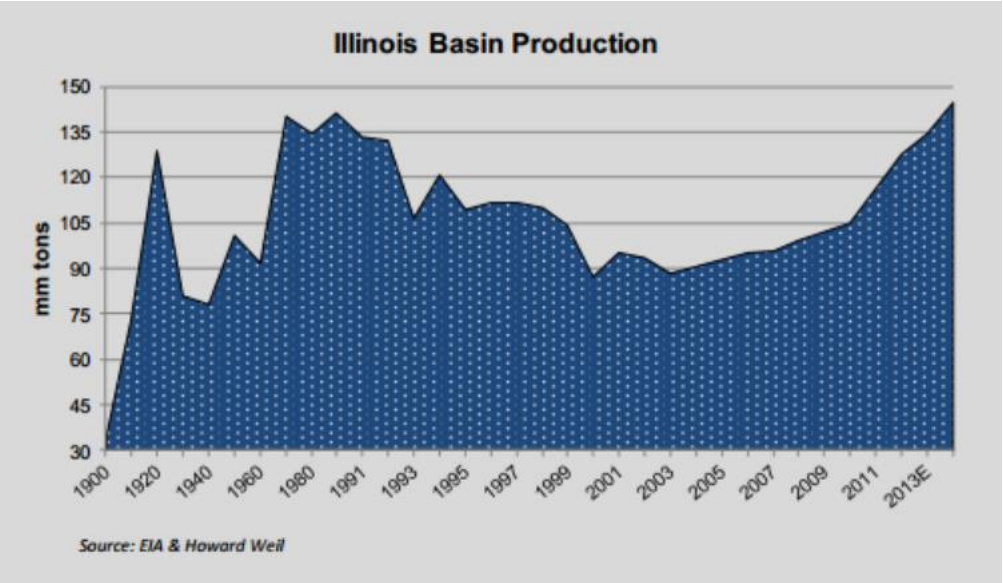
Given **that coal is used to provide base load power**, its demand is much **more consistent** than demand for natural gas, which is more expensive on an energy equivalent basis, and often used in "peakers" to fuel gas-fired power plants in particularly hot or cold weather.



There are 3 primary coal producing regions in the US: Powder River Basin (PRB) in Wyoming, Appalachia (CAPP) along the East Coast, and **the IL Basin (ILB).** Appalachian coal has been produced for decades, and is depleted to the point where costs/ton are in the $50-60 range. With Big Sandy coal prices at $53, only the lowest cost producers can continue to profitably produce coal there. The PRB is mostly cheap to mine surface variety coal, but transportation costs and low heat content (8400 BTU vs 12,000 BTU in other regions), make it far less attractive than Eastern coal. The chart above illustrates that IL Coal is highest in sulfur content, but has high heat content which utilities prefer.

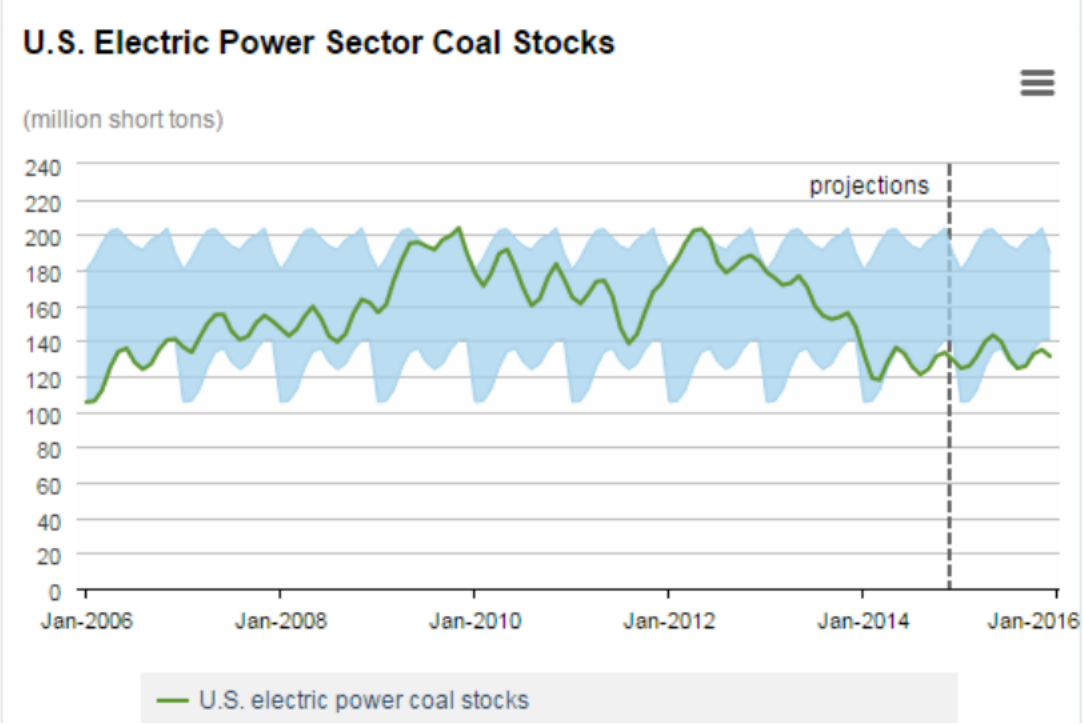
The regulatory history of coal and its future appear difficult in the aggregate. In 1990, the EPA passed the Clean Air Act, which limited sulfur content in coal-fired power production, and demand for ILB coal dropped dramatically. At the time, aggregate ILB coal production was 141mm tons, and fell to 88mm by the year 2000.

Instead of buying sulfur credits, utilities eventually choose a different route in order to continue to burn high sulfur content ILB coal. The development of scrubber technology became widespread around the turn of the century, and given that 1) utilities could add the cost of scrubbers to its rate base (effectively charge customers more to offset the cost of them), and 2) scrubbed sulfur could then be sold as a by-product, ultimately made high sulfur/high heat rate coal the most desirable in the market. Today roughly 60% of US coal plants have installed scrubbers, and needless to say, it's the scrubber-less older plants that are being phased out of the US power industry.

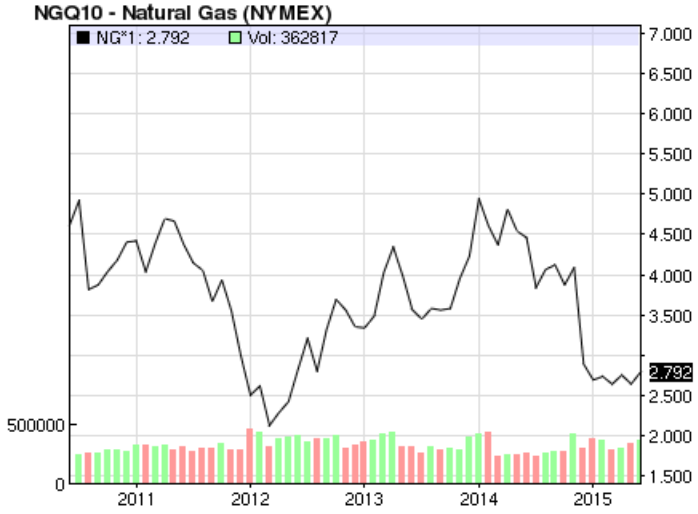


This chart above shows an estimate of demand for ILB coal heading toward 151mm tons by 2016 from 143mm this year. Below is an illustration of ILB production and its recent increases. Management forecasts that ILB coal demand will range between 140-145mm tons this year, about flat with 2014. This is actually quite remarkable in light of the fact that 1) a warmer winter this year is dampening demand for coal, 2) rail constraints have made it difficult to get coal delivered, and 3) gas prices are now sub $3.

While weather can have a big influence on demand, generally I view it as noise if one can look out beyond a couple of quarters. Last winter's cold temperatures surprised a few utilities who were caught a little short coal stocks. As of Nov 2014, power sector coal stocks are 18% below the 5 year average at 133mm tons. As of Nov 2014, power sector coal stocks are 18% below the 5 year average at 133mm tons.



Sometimes extremely low natural gas prices induce coal to gas switching; generally 1 ton of coal produces the same amount of power as 25mcf of gas. So, at $3 gas, that is the equivalent of $75/ton coal. ARLP by the way sold coal at an average price of $56 in the third quarter 2014. The negative of course is that coal produces 2000 lb of CO2 per ton, while gas produces 1100 CO2.



Recently the EPA has proposed cutting emissions by 30% by 2030, compared to 2005 levels. These rules, if passed, will take years to implement at best. It is clearly a risk however, that higher carbon emitting coal power plants will continue to close. While there are some technologies being developed to sequester carbon (from burning coal), it's too early to really gauge how these will play out.

Logistically speaking, ILB coal is the cheapest to deliver compared to PRB or CAPP coal. There are numerous rivers and train capacity from IL to the Northeast or power demand regions in the South.

Long-Term View

It's hard to paint a terribly bullish long term case for coal, but I don't see coal plants entirely being Phased-out either. Since the last peak in 2006, overall electricity demand has grown by around 0.1% per year, and coal based power production fallen by 3.1%/year. ILB coal pricing on the other hand, has grown by 5%/year, as its market share has continued to grow. 2015 will see 7 GWs of coal plant capacity, and 2016 will see 16 GWs of capacity taken off the grid. **But scrubbed capacity will again, continue to expand through 2016 before it levels out.**

Over the next 10 years, the IEA forecasts 13% of US coal plant capacity will disappear. While long-term forecasts will certainly be wrong, directionally **it appears that ILB coal will continue to replace App coal**, and in by 2024, could be producing between **175-200mm+ tons per year, meaningfully higher than today.** Even going out to 2035, the IEA forecasts that coal will represent 34% of US power generation (compared to 39% last year).

Financial Data on the next two pages:

Hallador's Financial Summary (in $000's)	2009	2010	2011	2012	2013	Transition 2014	1st. Qtr. 2015
Current Assets	30,269	26,232	48,876	34,863	40,170	84,409	86,524
LT and Other Assets	134,821	160,423	183,552	194,344	219,029	495,176	490,012
Total Assets	**165,090**	**186,655**	**232,428**	**229,207**	**259,199**	**579,585**	**576,536**
Current Liabilities (excludes bank debt)	10,593	9,501	15,596	11,046	10,357	28,105	29,029
Bank Debt	37,500	27,500	17500	11400	16000	306,345	267,908
Deferred Income Taxes	1,699	17,435	31,100	35,884	43,304	41,581	43,577
Other Liabilities	6,671	5,495	7,239	8,868	7,418	13,679	14,953
Current Portion of bank debt							24,063
Total Liabilities	56,463	59,931	71,435	67,198	77,079	389,710	379,530
Total Equity	**108,627**	**126,724**	**160,993**	**162,009**	**182,120**	**189,875**	**197,006**
Weighted Shares Outstanding							
Basic	24,017	27,790	28,135	28,331	28,595	28,776	28,962
Diluted	24,441	28,571	28,694	28,843	28,906	28,776	28,962
Book Value Per Share	4.52	4.56	5.72	5.72	6.37	6.60	6.80
Dividends per share		0.12	0.14	0.8	0.12	0.16	0.04
Net Income	20,185	22,375	35,809	23,807	22,423	10,219	7,591
Basic EPS	$0.84	$0.81	$1.27	$0.84	$0.78	$0.34	$0.25
Diluted EPS	$0.83	$0.78	$1.25	$0.83	$0.78	$0.34	$0.25
EBITDA	$44,834	$50,373	$72,124	$51,599	$49,730	$49,022	$27,797
Operating Cash Flow	45,220	45,545	60,720	37,042	27,181	55,866	21,963
Capex, Excl. Vectren	44,220	35,629	32,995	26,209	34,228	25,835	8,250
Maint. Capex							6,685
Curr. Assets/Curr. Liabilities	2.86	2.76	3.13	3.16	3.88	3.00	2.98
Working Capital per Share							
Ebitda-MCX ("Pre-tax Owner Earnings)	$614	$14,744	$39,129	$25,390	$15,502	$23,187	$21,112
Annualized							$84,448
Per Share							$3
Int. exp. 5% cap 270 mil. Bk debt/sh.							-$0.68
Pre-tax after interest expense/sh.							$2.24
Post tax at 30% rate							$1.57
8 multiple (Historical mkt. mult. 10)							$12.53
Subs: $1 added to 8 multiple							$13.50

$(000s)	1st 2012	2nd 2012	3rd 2012	4th 2012
Tons Sold in 000s	701	743	810	752
Coals Sales	29,620	32,487	36,152	33,111
Avg. P/Ton	$42.25	$43.72	$44.63	$44.03
Wash plant recovery in %				72%
Operating costs	18,433	18,816	20,745	21,745
Avg. cost/ton	$26.30	$25.32	$25.61	$28.92
Margin	11,187	13,671	15,407	11,366
Margin/Ton	*$15.96*	*$18.40*	*$19.02*	*$15.11*
Capex	2,372	1,857	4,993	16,987
MCX				
MCX/Ton				
Sustainable Margin/Ton				

$(000s)	1st 2013	2nd 2013	3rd 2013	4th 2013
Tons Sold in 000s	840	774	817	757
Coals Sales	33,995	34,149	34,985	34,307
Avg. P/Ton	$40.47	$44.12	$42.82	$45.32
Wash plant recovery in %	74%	70.90%	68%	63%
Operating costs	20,745	22,508	23,800	24,202
Avg. cost/ton	$24.70	$29.08	$29.13	$31.97
Margin	13,250	11,641	11,185	10,105
Margin/Ton	*$15.77*	*$15.04*	*$13.69*	*$13.35*
Capex	4,993	6,174	8,780	7,834
MCX		2,727	5,638	2,721
MCX/Ton		$3.52	$6.90	$3.59
Sustainable Margin/Ton		$11.52	$6.79	$9.75

$(000s)	1st 2014	2nd 2014	3rd 2014	4th 2014	1st 2015
Tons Sold in 000s	776	847	1,500	2,275	2,146
Coals Sales	33,016	36,130	64,764	99,992	97,072
Avg. P/Ton	$42.55	$42.66	$43.18	$43.95	$45.23
Wash plant recovery in %	66%	68%	64%	67%	67%
Operating costs	23,005	26,209	52,957	67,367	66,152
Avg. cost/ton	$29.65	$30.94	$35.30	$29.61	$30.83
Margin	10,011	9,921	11,807	32,625	30,920
Margin/Ton	*$12.90*	*$11.71*	*$7.87*	*$14.34*	*$14.41*
Capex	2,936	6,190	5,200	11,509	8,250
MCX	2,650	3,974	4,756	11,162	6,685
MCX/Ton	$3.41	$4.69	$3.17	$4.91	$3.12
Sustainable Margin/Ton	$9.49	$7.02	$4.70	$9.43	$11.29

Questions: call 203-622-1422 or email: aldridge56@aol.com