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KAISER COAL CORPORATION AND SUBSIDIARIES CONSOLIDATED

FINANCIAL STATEMENTS JUNE 30, 1986 AND 1985.

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DIVISION OF
OIL, GAS & MINING

**KAISER COAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS**

JUNE 30, 1986 AND 1985

(UNAUDITED)

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**KAISER
COAL**

July 28, 1986

Officer's Certificate

To the best of my knowledge, the accompanying unaudited consolidated financial statements of Kaiser Coal Corporation and Subsidiaries present fairly the financial position of the Companies at June 30, 1986 and 1985, and the results of their operations and the changes in their financial position for the periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis.



W. Wesley Emerson
Vice President, Finance

WWE/lap:3

Kaiser Coal Corporation and Subsidiaries
Consolidated Balance Sheets
June 30, 1986 and 1985
(Amounts in Thousands)
(Unaudited)

<u>ASSETS</u>	<u>1986</u>	<u>1985</u>
Current Assets:		
Cash	\$ 1,762	\$ 1,064
Accounts Receivable-Trade (Note 6)	7,880	9,041
Accounts Receivable-Affiliate	333	333
Inventories	11,458	6,549
Mine Development-Current (Note 2)	11,708	4,346
Other	3,862	4,495
Total Current Assets	37,003	25,828
Property, Plant and Equipment - Net (Notes 2, 4 & 5)	322,787	316,577
Water Rights and Other Assets	15,628	12,985
Mine Development-Long Term (Note 2)	9,173	
Total Assets	\$384,591	\$355,390
<u>LIABILITIES AND STOCKHOLDER'S EQUITY</u>		
Current Liabilities:		
Accounts Payable	\$ 7,111	\$ 5,614
Accrued Salaries and Benefits	4,693	4,908
Short-Term Debt - Chase (Note 6)	10,000	
Current Portion of Long Term Debt (Note 5)	1,738	512
Current Portion of Long Term Debt- Chase (Note 5)	6,000	6,000
Other	3,238	3,462
Total Current Liabilities	22,780	20,496
Long Term Debt (Note 5)	11,003	2,362
Long Term Debt-Chase (Note 5)	48,000	54,000
Accrued Medical, Black Lung, Workers' Compensation and Other Benefits	20,994	20,115
Total Liabilities	112,777	96,973
Stockholder's Equity:		
Common Stock, \$1 Par Value, 10,000 Shares Authorized, 1,000 Shares Issued and Outstanding	1	1
Paid in Capital	255,786	255,786
Retained Earnings	16,027	2,630
Total Stockholder's Equity	271,814	258,417
Total Liabilities and Stockholder's Equity	\$384,591	\$355,390

See notes to consolidated financial statements.

Handwritten note: Total Assets - 384,591

Kaiser Coal Corporation and Subsidiaries
Consolidated Statements of Operations
and Retained Earnings
For The Three Months Ended June 30, 1986 and 1985
(Amounts in Thousands)
(Unaudited)

	<u>1986</u>	<u>1985</u>
Revenues from Coal Sales	\$24,474	\$19,817
Cost of Sales	<u>16,276</u>	<u>15,499</u>
Gross Profit	<u>8,198</u>	<u>4,318</u>
Operating Expenses:		
Perma Mining Management and Brokerage Fees (Note 8)	1,225	1,085
SPS Royalties	97	91
Other	<u>1,127</u>	<u>501</u>
Total Operating Expenses	<u>2,449</u>	<u>1,677</u>
Operating Profit	<u>5,749</u>	<u>2,641</u>
Other Expenses (Income):		
Interest Expense	1,847	1,890
Kaiser Steel Management Fee (Note 8)	297	269
Other	<u>(53)</u>	<u>65</u>
Total Other Expenses	<u>2,091</u>	<u>2,224</u>
Net Income	3,658	417
Retained Earnings - Beginning of Period	<u>12,369</u>	<u>2,213</u>
Retained Earnings - End of Period	<u>\$16,027</u>	<u>\$ 2,630</u>

See notes to consolidated financial statements.

Kaiser Industrial Corporation and Subsidiaries
Consolidated Statements of Changes in Financial Position
For the Three Months Ended June 30, 1986 and 1985
(Amounts in Thousands)
(Unaudited)

	<u>1986</u>	<u>1985</u>
Sources of Working Capital:		
Net Income Before Cumulative Effect of Accounting Changes	\$3,658	\$ 417
Add - Expenses not using working capital: Depreciation and Depletion	<u>1,424</u>	<u>1,181</u>
Working Capital Provided by Operations	5,082	1,598
Other Sources of Working Capital:		
Additions to Long Term Debt - Net		309
Increase (Decrease) in Other Liabilities	<u>14</u>	<u>(503)</u>
	<u>5,096</u>	<u>1,404</u>
Uses of Working Capital:		
Additions to Property, Plant and Equipment - Net	873	41
Advances to Parent		(5)
Additions to Mine Development Costs- Long Term	842	
Additions to Water Rights and Other Assets	535	1,728
Payment and Current Maturities of Long Term Debt	<u>1,847</u>	
	<u>4,097</u>	<u>1,764</u>
Increase (Decrease) in Working Capital	<u>\$ 999</u>	<u>\$ (360)</u>
Changes in Components of Working Capital		
Increase (Decrease) in Current Assets:		
Cash	\$ 637	\$ 1,064
Accounts Receivable	910	(1,302)
Inventories	(68)	1,281
Mine Development Costs - Current	2,914	1,200
Other	<u>748</u>	<u>2,002</u>
Increase in Current Assets	<u>5,141</u>	<u>4,245</u>
Increase (Decrease) in Current Liabilities:		
Accounts Payable	(1,635)	2,626
Accrued Salaries and Benefits	(592)	(147)
Short Term Debt - Chase	5,800	
Current Portion Long Term Debt	(68)	97
Current Portion Long Term Debt - Chase		
Other	<u>637</u>	<u>2,029</u>
Decrease in Current Liabilities	<u>4,142</u>	<u>4,605</u>
Increase (Decrease) in Working Capital	<u>\$ 999</u>	<u>\$ (360)</u>

See notes to consolidated financial statements.

Kaiser Coal Corporation and Subsidiaries
Consolidated Statements of Operations
and Retained Earnings
For The Six Months Ended June 30, 1986 and 1985
(Amounts in Thousands)
(Unaudited)

	<u>1986</u>	<u>1985</u>
Revenues from Coal Sales	\$50,090	\$39,624
Cost of Sales	<u>34,302</u>	<u>34,526</u>
Gross Profit	<u>15,788</u>	<u>5,098</u>
Operating Expenses:		
Perma Mining Management and Brokerage Fees (Note 8)	2,506	2,465
SPS Royalties	222	203
Other	<u>1,925</u>	<u>968</u>
Total Operating Expenses	<u>4,653</u>	<u>3,636</u>
Operating Profit	<u>11,135</u>	<u>1,462</u>
Other Expenses (Income):		
Interest Expense	3,808	1,975
Kaiser Steel Management Fee (Note 8)	600	505
Other	<u>(88)</u>	<u>93</u>
Total Other Expenses	<u>4,320</u>	<u>2,573</u>
Net Income (Loss) before Cumulative Effect of Accounting Changes	6,815	(1,111)
Cumulative Effect on Prior Years of Accounting Changes (Note 2)	<u> </u>	<u>3,741</u>
Net Income	6,815	2,630
Retained Earnings - Beginning of Period	<u>9,212</u>	<u> </u>
Retained Earnings - End of Period	<u>\$16,027</u>	<u>\$ 2,630</u>

See notes to consolidated financial statements.

Kaiser Coal Corporation and Subsidiaries
Consolidated Statements of Changes in Financial Position
For the Six Months Ended June 30, 1986 and 1985
(Amounts in Thousands)
(Unaudited)

	<u>1986</u>	<u>1985</u>
Sources of Working Capital:		
Net Income (Loss) Before Cumulative Effect of Accounting Changes	\$ 6,815	\$(1,111)
Add - Expenses not using working capital: Depreciation and Depletion	<u>2,889</u>	<u>3,997</u>
Working Capital Provided by Operations	9,704	2,886
Other Sources of Working Capital:		
Cumulative Effect of Accounting Changes		3,741
Additions to Long Term Debt - Net		54,433
Decrease in Water Rights and Other Assets	8	450
Increase (Decrease) in Other Liabilities	<u>360</u>	<u>(761)</u>
	<u>10,072</u>	<u>60,749</u>
Uses of Working Capital:		
Additions to Property, Plant and Equipment - Net	1,924	1,023
Advances to Parent - Net		351
Dividend to Parent		60,000
Additions to Mine Development Costs- Long Term	3,030	
Payment and Current Maturities of Long Term Debt	<u>3,489</u>	
	<u>8,443</u>	<u>61,374</u>
Increase (Decrease) in Working Capital	<u>\$ 1,629</u>	<u>\$ (625)</u>
Changes in Components of Working Capital		
Increase (Decrease) in Current Assets:		
Cash	\$ 1,503	\$ 1,064
Accounts Receivable	(2,925)	(831)
Inventories	3,337	4,097
Mine Development Costs - Current	4,543	4,343
Other	<u>2,471</u>	<u>3,550</u>
Increase in Current Assets	<u>8,929</u>	<u>12,223</u>
Increase (Decrease) in Current Liabilities:		
Accounts Payable	(3,487)	3,490
Accrued Salaries and Benefits	(193)	798
Short Term Debt - Chase	10,000	
Current Portion Long Term Debt	(78)	(1)
Current Portion Long Term Debt - Chase		6,000
Other	<u>1,058</u>	<u>2,561</u>
Increase in Current Liabilities	<u>7,300</u>	<u>12,848</u>
Increase (Decrease) in Working Capital	<u>\$ 1,629</u>	<u>\$ (625)</u>

See notes to consolidated financial statements.

Kaiser Coal Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 1986
(Unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation - On April 2, 1985, Kaiser Steel Corporation ("Kaiser Steel") transferred its Utah and New Mexico coal properties to Kaiser Coal Corporation ("Kaiser Coal"), a wholly-owned subsidiary which had been formed on January 7, 1985. The facilities and equipment of the operating mines in Utah and New Mexico were in turn transferred to two subsidiaries of Kaiser Coal, Kaiser Coal Corporation of Sunnyside and Kaiser Coal Corporation of York Canyon. All of the transfers were recorded at the book values of the assets at December 31, 1984 and the related divisional equity was capitalized as paid in capital. The book values reflect the fair valuing of the assets and liabilities as of December 31, 1983 as part of a quasi-reorganization and subsequent merger of Kaiser Steel Corporation and Kaiser Acquisition Corporation which was accounted for as a purchase. These financial statements give effect to the transfers as if they had taken place on January 1, 1985.

Principles of Consolidation - The consolidated financial statements include the accounts of Kaiser Coal and its wholly-owned subsidiaries. Intercompany transactions and accounts have been eliminated. There were no sales to affiliated entities during the three months or six months ended June 30, 1986 and 1985.

Inventories - Inventories are carried at the lower of last-in, first-out (LIFO) cost or market.

Property, Plant and Equipment - Coal properties, water rights, machinery, equipment, buildings and structures are recorded at cost and depreciated over their estimated lives on a units-of-production basis. Depletion of coal properties is calculated based on a units-of-production method. Both depreciation and depletion are included in cost of sale in the accompanying statements of operations and retained earnings.

Accrued Medical, Black Lung, Workers' Compensation and Other Benefits - The estimated liability to both active and retired Kaiser Steel Coal Group employees who have vested interests in Kaiser Steel Corporation's medical benefits plan has been recorded in the balance sheet. An accrual has been made for amounts expected to be paid to employees in the form of black lung benefits and for amounts expected to be paid in worker's compensation benefits or insurance premiums, and for amounts expected to be paid for other benefits.

Income Taxes - Kaiser Coal is included in the consolidated income tax return of Kaiser Steel. No provisions for current or deferred income taxes have been made in the consolidated financial statements because of the operating losses of the consolidated group and the inability to carryback any of the consolidated group's losses to prior years. Future utilizations of financial statement net operating loss carryforwards will be credited to paid-in capital in accordance with the accounting rules applicable to quasi-reorganizations.

Pension and Profit-Sharing Plan - Kaiser Coal employees are included in Kaiser Steel's pension and profit-sharing plans which cover substantially all employees. Contributions to the defined benefit pension plan are actuarially determined to include amounts necessary to provide for current employee service and the funding of prior service liabilities over periods of up to 40 years. Kaiser Steel also maintains a salaried employee's Savings and Profit-Sharing Plan. Contributions to the plan are based in part on earnings. Contributions to these plans are recorded as expenses (Note 7).

Reclassifications - Certain reclassifications have been made to amounts for the periods ended June 30, 1985 to conform to the current report format.

2. Changes in Accounting Principles

During 1985 Kaiser Coal changed its method of accounting for certain coal mine inventories and development costs to more closely associate costs with revenues. Prior to 1985, all costs associated with the generation of pit inventories at the York Canyon surface mine and all costs associated with the development of submain entries and longwall panels at underground mines were expensed as such costs were incurred. Pit inventories are now recognized as the coal is uncovered and the costs of generating pit inventories are allocated to the coal expected to be removed based upon engineering data. The costs incurred during the development of submain entries and longwall panels to expose unmined reserves are now capitalized as mine development costs and allocated to cost of sales as produced on a units-of-production method based upon coal expected to be recovered as determined by engineering data. These costs are segregated between current and long term portions based upon engineering studies which estimate tons of coal to be mined during the next twelve months.

As a result of the changes in accounting principles, the income before the cumulative effect on prior years of the accounting changes was increased \$9,955,000 for the six months ended June 30, 1986 and \$5,094,000 for the three months ended June 30, 1986. In addition, the cumulative effect on prior years of the accounting changes increased net income for the six months ended June 30, 1985 by \$3.7 million.

Commencing during the second quarter of 1985, Kaiser Coal extended the estimated useful lives of certain coal mine equipment based upon historical data and engineering studies. The effect of this change was to increase net income by \$1,432,000 and \$994,000 respectively in the three months ended June 30, 1986, and 1985, and by \$3,032,000 and \$994,000 respectively in the six months ended June 30, 1986 and 1985.

3. Inventories

Inventories consist of the following at June 30:

	(thousands)	
	<u>1986</u>	<u>1985</u>
Parts and supplies	\$ 3,138	\$ 1,737
Semi-finished and finished products	<u>8,320</u>	<u>4,812</u>
	<u>\$11,458</u>	<u>\$ 6,549</u>

4. Property, Plant and Equipment

Property, plant and equipment consists of the following at June 30:

	(thousands)	
	<u>1986</u>	<u>1985</u>
Coal Reserves, Land and Land Development	\$254,360	\$253,920
Machinery and Equipment	72,210	70,425
Buildings and Structures	11,036	3,036
Construction in Progress	<u>3,278</u>	<u>1,496</u>
Total	340,884	328,877
Less Accumulated Depreciation and Depletion	<u>18,097</u>	<u>12,300</u>
Property, Plant and Equipment, Net	<u>\$322,787</u>	<u>\$316,577</u>

5. Long-Term Debt

Long-term debt consists of various notes bearing interest from 10.00% to 14.00% collateralized by property, plant and equipment and due at various dates in 1986 through 1995.

Long-term debt also includes an \$8.9 million note related to the December, 1985 purchase of a coal mine and a separate coal preparation plant from U.S. Steel Mining Co., Inc. The note is payable in equal quarterly principal installments of \$222,500 with interest accruing at the rate of prime plus one percent. In the event that U.S. Steel terminates a related coal supply contract prior to December 30, 1988 any unpaid quarterly principal payments from the date of termination until December 30, 1988 shall be deemed as paid. The loan agreement contains various financial and other covenants similar to The Chase Manhattan Bank, N.A. ("Chase") debt agreement detailed below.

Long-term debt - Chase consists of amounts due under a \$60 million long-term credit agreement with Chase dated March 28, 1985. The loan is payable over ten years in quarterly installments of \$1.5 million; however, under certain conditions, based on coal shipments and defined cash flows, the quarterly payment may be reduced to \$750,000. The difference between the actual payment and \$1.5 million must be made up in subsequent quarters. The loan bears interest at 1.5% above the bank's prime commercial lending rate or the CD rate plus 3.5%. The loan is collateralized by the common stock of Kaiser Coal and its operating subsidiaries, substantially all of Kaiser Coal and its operating subsidiaries' property, plant and equipment, coal reserves, and assignment of all coal sales contracts.

The Chase loan agreement contains various financial and other covenants relating to Kaiser Coal, including covenants pertaining to working capital and capital expenditures. Payment of dividends to Kaiser Steel is dependent upon meeting certain cash flow requirements as specified in the loan agreement.

Expected principal payments on all notes for future years are as follows at June 30, 1986:

	(thousands)
1986	\$ 4,285
1987	7,650
1988	7,849
1989	8,436
1990	6,930
1991	6,931
Subsequent years	24,660
	<u>\$66,741</u>

6. Short-Term Debt

On January 31, 1986 Kaiser Coal entered into a one-year \$6,000,000 working capital loan with Chase. The loan is collateralized by accounts receivable from sales of coal. Draws, repayments and redraws must be made in multiples of \$120,000 and interest accrues on the loan at prime plus 1.5% on any outstanding balance.

On May 16, 1986, Kaiser Coal borrowed an additional \$4,000,000 on a demand basis from Chase. The note bears interest at prime plus 1.5%, is due May 1, 1987 and is collateralized on a pari passu basis with the Chase \$60,000,000 loan (Note 5) pledging the common stock of Kaiser Coal and its operating subsidiaries' property, plant and equipment, coal reserves and assignment of coal sales contracts. Repayments of the loan can be made in amounts of \$120,000 or greater.

7. Commitments and Contingencies

Certain mining equipment is leased under operating lease agreements.

Minimum payments under these agreements, which expire in 1986 through 1992, are as follows:

	(thousands)
1986	\$ 1,918
1987	3,706
1988	4,080
1989	3,969
1990	2,579
1991	908
Thereafter	702
	<u>\$17,862</u>

Rent expense for the six months ended June 30, 1986 and 1985 was \$1,957,000 and \$480,000 respectively and for the three months ended June 30, 1986 and 1985 was \$1,029,000 and \$220,000 respectively.

Kaiser Coal also leases certain coal properties which require advance minimum royalty payments of \$1,410,000 each year through 2004. The advance minimum royalty payments are credited against production royalties of 4% of gross coal sales from the properties, once production begins. Until production begins, these advance minimum royalty payments are recorded as other assets.

Kaiser Steel has substantial unfunded pension liabilities. Under the requirements of ERISA, Kaiser Coal as a subsidiary of Kaiser Steel, may be liable for a portion of the unfunded liabilities of the consolidated group should Kaiser Steel at some future date be unable to meet its obligations.

8. Transactions with Related Parties

On March 28, 1985, Kaiser Coal entered into a coal brokerage agreement with Perma Mining Corporation ("Perma Mining"), an affiliate of Kaiser Steel's parent company, to market its coal. Perma Mining receives 3% of gross coal sales as its brokerage fee. Management Services Agreements were executed on March 28, 1985 by Perma Mining and each of Kaiser Coal's operating subsidiaries - Kaiser Coal Corporation of York Canyon and Kaiser Coal Corporation of Sunnyside. Perma Mining receives 2% of gross coal sales as its management fee. Each of the three agreements provide for an initial term of 15 years.

Kaiser Coal pays Kaiser Steel for management services performed by the parent company. The fee charged is based upon one percent of planned coal sales.

Prior to the merger, described in Note 1, the Perma Group, an affiliate of Kaiser Steel's parent, entered into an agreement with Southwestern Public Service Company ("SPS") pursuant to which SPS expected to enter into a long-term supply contract for the purchase of coal beginning in 1990. This agreement was subsequently contributed to Kaiser Steel as part of an exchange of assets in April, 1985. During 1985, SPS's Notice of Intent to construct the power generating facility which would have used the coal supplied under the agreement was denied. Under the initial agreement, SPS received a one percent overriding royalty on coal sales from the New Mexico coal reserves and, had an option to acquire a ten percent interest in the coal properties located in New Mexico and Colorado (owned by Kaiser Steel) for \$10 million. In the six months ended June 30, 1985, royalties of \$203,000 were paid to SPS. In the six months ended June 30, 1986 royalties of \$222,000 have been accrued, but have not been paid.

During the three months ended June 30, 1986, Kaiser Steel entered into a new agreement with SPS which provides for SPS to receive a 1.25% royalty on sales of coal from certain Kaiser Coal properties in New Mexico together with a 1% royalty on other properties Kaiser Coal may acquire in the future. In return, SPS has agreed to negotiate with Kaiser

Coal for the purchase of its "spot coal" needs at all SPS facilities and the coal supply requirements of its Nichols Generating Station located in Amarillo, Texas. Additionally, SPS has provided Kaiser Coal with an agreement similar to a first right of refusal to supply SPS's coal requirements for its next 500 megawatts of coal generating capacity to be owned or constructed by SPS within the next 14 years. Finally, the new agreement terminates SPS's option to purchase 10% interest in the New Mexico and Colorado coal properties.

In January, 1986, Kaiser Steel and Kaiser Coal entered into an agreement with Association Southern Investment Company ("ASIC"), a subsidiary of Southern California Edison, under which Kaiser Steel has an option to sell certain real property in San Bernadino County, California, to ASIC. If this option is exercised and ASIC acquires the property, ASIC has the right to exchange such property for a percentage interest in Kaiser Coal's New Mexico coal properties and Kaiser Steel's Colorado coal properties equal to \$15 million divided by the appraised fair market value of the coal properties.

9. Major Customers

During the six months ended June 30, 1986 sales to three unaffiliated customers amounted to \$10,212,000 \$10,051,000 and \$4,199,000 or 20%, 20% and 8%, respectively, of coal revenues.

SUPPLEMENTAL CONSOLIDATING INFORMATION

KAISER COAL CORPORATION
 SUPPLEMENTAL CONSOLIDATING BALANCE SHEET (UNAUDITED)
 JUNE 30, 1986
 (AMOUNTS IN THOUSANDS)

	KAISER COAL CORP.	KAISER COAL OF UTAH	KAISER COAL OF SUNNYSIDE	KAISER COAL OF NEW MEXICO	KAISER COAL OF YORK CANYON	CONSOLIDATING ELIMINATIONS	CONSOLIDATED
ASSETS							
Current Assets							
Cash	1,319	1	1	1	440		1,762
Accounts Receivable-Trade	7,846		6	17	11		7,880
-Affiliate	333						333
Inventories-Net			1,584		9,874		11,458
Mine Development-Current			6,099		5,609		11,708
Other	1,035	290	733		1,804		3,862
Total Current Assets	10,533	291	8,423	18	17,738		37,003
Property, Plant & Equipment-Net	9,000	68,522	18,639	182,756	43,870		322,787
Water Rights & Other		11,258		4,370			15,628
Mine Development-Long Term			5,039		4,134		9,173
Investment in Subs.-at Equity	334,681	27,602		42,268		(404,551)	
TOTAL	354,214	107,673	32,101	229,412	65,742	(404,551)	384,591
LIABILITIES AND STOCKHOLDER'S EQUITY							
Current Liabilities							
Accounts Payable	761		3,695		2,655		7,111
Accrued Salaries & Benefits			1,370		3,323		4,693
Short Term Debt-Chase	10,000						10,000
Current Portion of Long Term Debt-Chase	6,000						6,000
Current Portion of Long Term Debt	890	50	9		789		1,738
Other	1,133	73	1,359		673		3,238
Total Current Liabilities	18,784	123	6,433		7,440		32,780
Long Term Debt-Chase	48,000						48,000
Long Term Debt	7,787	1,169	23		2,024		11,003
Accrued Medical, Black Lung & Workers' Compensation Benefits			6,029		14,965		20,994
Due To (From) Affiliates	7,829	1,300	(7,986)	(188)	(955)		
Total Liabilities	82,400	2,592	4,499	(188)	23,474		112,777
STOCKHOLDERS'S EQUITY							
Common Stock	1	1		1		(2)	1
Paid in Capital	255,786	91,768	14,258	218,892	31,567	(356,485)	255,786
Retained Earnings	16,027	13,312	13,344	10,707	10,701	(48,064)	16,027
TOTAL STOCKHOLDER'S EQUITY	271,814	105,081	27,602	229,600	42,268	(404,551)	271,814
TOTAL	354,214	107,673	32,101	229,412	65,742	(404,551)	384,591

KAISER COAL CORPORATION
 SUPPLEMENTAL CONSOLIDATING STATEMENT OF INCOME AND RETAINED EARNINGS (UNAUDITED)
 FOR THE SIX MONTHS ENDED JUNE 30, 1986
 (AMOUNTS IN THOUSANDS)

	KAISER COAL CORP.	KAISER COAL OF UTAH	KAISER COAL OF SUNNYSIDE	KAISER COAL OF NEW MEXICO	KAISER COAL OF YORK CANYON	CONSOLIDATING ELIMINATIONS	CONSOLIDATED
COAL SALES	50,090						50,090
CONTRACT MINER REVENUE			25,270		23,067	(48,337)	
TOTAL	50,090		25,270		23,067	(48,337)	50,090
COST OF SALES	48,337		16,943		17,359	(48,337)	34,302
GROSS PROFIT	1,753		8,327		5,708		15,788
OPERATING EXPENSES							
PERMA MINING MGMT. & BRKG. FEES	1,503		524		479		2,506
SPS ROYALTIES					222		222
OTHER	320		793		812		1,925
TOTAL OPERATING EXPENSES	1,823		1,317		1,513		4,653
OPERATING PROFIT	(70)		7,010		4,195		11,135
OTHER EXPENSES							
INTEREST	3,564	14	57		173		3,808
KSC MANAGEMENT			258		342		600
OTHER	(42)		(29)	(17)			(88)
TOTAL OTHER EXPENSES	3,522	14	286	(17)	515		4,320
NET INCOME (LOSS) BEFORE EQUITY IN EARNINGS OF SUBSIDIARIES	(3,592)	(14)	6,724	17	3,680		6,815
EQUITY IN EARNINGS OF SUBSIDIARIES	10,407	6,724		3,680		(20,811)	
NET INCOME	6,815	6,710	6,724	3,697	3,680	(20,811)	6,815
RETAINED EARNINGS-BEGINNING OF PERIOD	9,212	6,602	6,620	7,010	7,021	(27,253)	9,212
RETAINED EARNINGS-END OF PERIOD	16,027	13,312	13,344	10,707	10,701	(48,064)	16,027

KAISER COAL CORPORATION
 SUPPLEMENTAL CONSOLIDATING STATEMENT OF CHANGES IN FINANCIAL POSITION (UNAUDITED)
 FOR THE SIX MONTHS ENDED JUNE 30, 1986
 (AMOUNTS IN THOUSANDS)

	KAISER COAL CORP.	KAISER COAL OF UTAH	KAISER COAL OF SUNNYSIDE	KAISER COAL OF NEW MEXICO	KAISER COAL OF YORK CANYON	CONSOLIDATING ELIMINATIONS	CONSOLIDATED
SOURCES OF WORKING CAPITAL:							
NET INCOME (LOSS) BEFORE EQUITY IN EARNINGS OF SUBSIDIARIES	(3,592)	(14)	6,724	17	3,680		6,815
PLUS - NONCASH CHARGES (CREDITS) TO INCOME:							
EQUITY IN EARNINGS OF SUBSIDIARIES	10,407	6,724		3,680		(20,811)	2,889
DEPRECIATION & DEPLETION			1,455		1,434		2,889
WORKING CAPITAL PROVIDED BY OPERATIONS	6,815	6,710	8,179	3,697	5,114	(20,811)	9,704
OTHER SOURCES:							
DECREASE (INCREASE) IN WATER RIGHTS & OTHER ASSETS		(501)	334	(35)	210		8
INCREASE IN OTHER LIABILITIES			(58)		418		360
ADDITIONS (REDUCTIONS) IN DUE TO (FROM) AFFILIATES	(3,797)	164	(3,303)	(329)	7,265		
TOTAL SOURCES	3,018	6,373	5,152	3,333	13,007	(20,811)	10,072
USES OF WORKING CAPITAL:							
ADDITIONS TO PROPERTY, PLANT & EQUIP.-NET		(361)	395	(331)	2,221		1,924
ADDITIONS TO MINE DEVELOPMENT COSTS-LONG TERM			1,585		1,445		3,030
PAYMENTS & CURRENT MATURITIES OF LONG TERM DEBT	3,223	55	14		197		3,489
INCREASE IN INVESTMENT IN-SUBSIDIARIES AT EQUITY	10,407	6,724		3,680		(20,811)	
TOTAL USES	13,630	6,418	1,994	3,349	3,863	(20,811)	8,443
INCREASE (DECREASE) IN WORKING CAPITAL	(10,612)	(45)	3,158	(16)	9,144		1,629
CHANGES IN COMPONENTS OF WORKING CAPITAL:							
INCREASE (DECREASE) IN CURRENT ASSETS							
CASH	1,085		(11)		429		1,503
ACCOUNTS RECEIVABLE	(2,921)		5	(16)	7		(2,925)
INVENTORIES			304		3,033		3,337
MINE DEVELOPMENT COSTS-CURRENT			1,810		2,733		4,543
OTHER	845		426		1,200		2,471
TOTAL	(991)		2,534	(16)	7,402		8,929
INCREASE (DECREASE) IN CURRENT LIABILITIES							
ACCOUNTS PAYABLE	(467)		(529)		(2,491)		(3,487)
ACCRUED SALARIES & BENEFITS			(693)		500		(193)
SHORT TERM DEBT-CHASE	10,000						10,000
CURRENT PORTION OF LONG TERM DEBT-CHASE			9		(87)		(78)
CURRENT PORTION OF LONG TERM DEBT		45	589		336		1,058
OTHER	88						
TOTAL	9,621	45	(624)		(1,742)		7,300
INCREASE (DECREASE) IN WORKING CAPITAL	(10,612)	(45)	3,158	(16)	9,144		1,629