

RANCHERS



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RANCHERS EXPLORATION AND DEVELOPMENT CORPORATION
1966 ANNUAL REPORT



Copper leaching at the Bluebird Mine occurs in these cement and tar lined basins. Three successive stages of heap operation are shown: construction (background), leaching (center), and drying out of exhausted heaps prior to laying down of new ore (foreground).

"... Your management views the outlook for 1966 with optimism. The year should be one of continued growth and steadily rising profits."

—1965 Annual Report

TO OUR SHAREHOLDERS:

The 1966 fiscal year was a most successful one for the Company with all growth and profit objectives met or exceeded.

Most notable developments:

Net earnings per share increased by 56 percent over those of 1965, making the year the most profitable in Company history.

The first full year of production at the Bluebird Copper Mine was completed, production and operating efficiency continued to improve, and reserves were extended.

Uranium royalties remained at a high level and the commercial uranium market began to develop at an unexpectedly rapid rate.

The Company consolidated its position in the minerals extraction and processing industry by disposing of General Programmed Teaching Company and by forming a joint venture with United Nuclear Corporation for possible development of a copper ore body near Safford, Arizona.

Each of these developments contributed to the year's success; however, the steady progress made at the Bluebird Mine was the most significant and satisfying development of the year. The Mine produced in excess of 3,000 tons of copper, and copper sales accounted for a sizable portion of the Company's income. A drilling program proved an additional seven-million tons of ore, extending the life of the property six to eight years.

Uranium royalties declined slightly, but the sudden growth of the commercial uranium market — 16 nuclear power stations ordered in the first six months of 1966 compared to nine in all of 1965 — made the year a key one for this segment of the Company's business.

The sale of GPTC, with the provision that Ranchers share in any net profits during the next three years, relieved the Company of its only unprofitable operation and enabled management to focus its efforts on mining and minerals processing.

PROFITS

Earnings reached new highs despite a low first quarter when copper operations had not yet attained peak efficiency and General Programmed Teaching Company's losses were high. Net earnings per share were \$.86 for the year; by quarters: \$.07, \$.33, \$.27, and \$.19. Previous high net per share earnings were \$.84 in 1961 when uranium royalties exceeded \$1-million. Net earnings per share in 1965 were \$.55.

Net income was \$514,311, an increase of 56 percent over the \$328,148 earned in 1965. Gross income was a record \$2,819,057, which represented an increase of 32 percent over the \$2,006,121 of 1965. Copper sales accounted for more than 70 percent of the gross and totaled \$2,106,274 for the year, compared to approximately \$1,040,245 in 1965. Uranium royalties were \$696,215, compared to \$789,101 in 1965.

FINANCIAL HIGHLIGHTS

	1966	1965
GROSS INCOME	\$2,819,057	\$2,006,121
NET EARNINGS	\$ 514,311	\$ 328,148
EARNINGS PER SHARE	\$.86	\$.55
STOCKHOLDERS' EQUITY	\$1,707,934	\$1,213,935
EQUITY PER SHARE	\$ 2.86	\$ 2.02

OUTLOOK

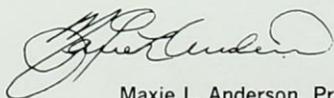
Developments during the year just ended provide a sound basis for further progress in 1967. Profits are again expected to increase significantly, but the extent of increase will be determined to some degree by exploration costs and other expansion expenditures.

The Safford copper property is now being thoroughly evaluated, and a decision whether to proceed with its development will probably be made in August. Development would involve capital expenditures of about \$3-million in the next two years. Meanwhile, exploration for copper and other minerals is continuing at other locations.

Consistently higher production — in excess of 20,000 pounds of copper per day — is expected at the Bluebird Mine during 1967. Demand for copper should remain strong, and there is a good possibility of a price increase because of the disparity between domestic and foreign prices.

The increased reserves and continued strong demand for copper have prompted a decision to change operations at the Bluebird. The change, requiring capital expenditures of \$1.5-million, will involve installation of a system to produce electrolytic cathode copper or some other copper product of higher purity — and profitability — than the cement copper now produced. Construction will begin in December.

The renewed interest in uranium is expected to continue, and it now appears that the country is on the threshold of a second uranium boom comparable to that of the 1950's. The Company will take a more active role in exploration during the year, acquiring new properties and drilling current holdings which merit further exploration. Royalties should increase and, in combination with greater copper sales, form the basis for another successful year.



Maxie L. Anderson, President



Motor scraper emerges from main pit at the Bluebird Mine with 25 tons of copper oxide ore to be dumped on new heap. In the background, a tractor push-loads another scraper while a third one waits. Each scraper can haul 100 loads per day.



Aerial view shows main pit, left center, and other features of the Bluebird Copper Mine near Miami, Arizona. Ore is moved from the open pit to heap areas, right side of photo, for leaching. Leaching solution passes through the heaps and is then pumped to the precipitation plant, center foreground, where cement copper is produced. The open pit and waste dumps of Inspiration Consolidated Copper Company are in the background.

COPPER

The first full year of production at the Bluebird Mine was completed successfully despite unfavorable weather which hampered operations in the third quarter. Production averaged approximately 18,000 pounds of copper per day, and 1.4-million tons of ore were ripped and moved into heaps. An additional 300,000 tons of overburden were removed, bringing the mining rate for the year to 5,450 tons daily.

Some 12,180 feet of rotary drilling on the Ford ore body northwest of the main pit proved an additional seven million tons of ore. Although of lower grade than the .69 percent ore in the main pit, the new reserves are of commercial quality and will extend the life of the property six to eight years. Reserves now stand at about 13-million tons, nearly two and one-half times the amount known when the Mine was purchased. This total does not include the 2.2-million tons mined since operations began in August 1964, or one mineralized area which remains to be drilled.

Studies now being completed indicate that the new reserves and the continued strong demand for copper make it economical to change the operation of the mine to produce a more profitable product than cement copper. A decision on the type of new system to be installed will not be reached until late October, but alternatives are:

- A cone precipitating unit which would produce a higher grade of copper cement more efficiently.
- A solvent extraction unit which would purify and concentrate solutions from the heaps and feed them into an electrowinning circuit to produce electrolytic quality copper cathodes.
- A vat system, which would replace the heaps, providing closer controls, higher copper recovery, and a high grade solution which could be fed into an electrowinning circuit to produce electrolytic quality copper cathodes.
- A combination of vat leaching, solvent extraction and a circuit which would produce some other form of copper oxide or sulfate. Heaps, instead of vats, might also be used with this combination.

Installation of the cone precipitating unit, which would involve only a relatively small

capital outlay, is regarded as a temporary measure, leading to installation of one of the other systems. The change-over to a new system, beginning sometime in December, will not interfere with production, which is expected to exceed 20,000 pounds daily during the year.

URANIUM

The Company's uranium properties in north-west New Mexico continue to be a major source of U.S. production, providing approximately 20 percent of the nation's annual output of U_3O_8 . Reserves stand in excess of 19-million tons with a U_3O_8 content ranging from .15 to .30 percent. Mined by Kerr McGee Corporation and United Nuclear Corporation, the reserves will last in excess of 20 years at the present production rates of less than 1-million tons yearly.

In addition to these known reserves, which constitute a sizable portion of the country's known, indicated, and inferred ore reserves of 61,600,000 tons, the Company also has large indicated reserves adjacent to currently producing properties. Drilling on these properties and on other extensive holdings which merit further exploration could extend company reserves considerably. The Company also plans to acquire additional properties during the year, and will, in general, increase its uranium exploration activities.

The country is moving rapidly into a period of higher uranium production requirements — the highest such requirements in the history of the Company. Since February 1965, electric utilities have bought or committed to buy 25 nuclear power stations with a capacity of 21,366 Megawatts of electricity (Mwe). Approximately 13,500 Mwe of that total, including a TVA station of 2,200 Mwe, came in the first six months of 1966 when nuclear power accounted for 50 percent of the capacity of all new power plants ordered. Triggered by the announcement that nuclear power could generate electricity for four mills or less per kilowatt-hour as compared to 4.7 mills or above for other fuels, the recent surge of orders is in contrast to the lull during 1964 when no nuclear power plants were ordered.

By the end of 1970 when deliveries of U_3O_8 to the AEC terminate, the U.S. should have a nuclear power station output of at least 10,000 Mwe, requiring 6,600 tons of U_3O_8 annually. This requirement, plus a foreign market of about 4,900 tons, compares favorably with the present AEC requirement of approximately 8,000 tons a year. Cumulative U.S. requirements through 1980 are projected at 170,000 tons, somewhat in excess of current U.S. reserves of 145,000 tons. Thus it not only appears that there will be no measurable interruption in production when AEC deliveries end, but that exploration for uranium must be increased to meet eventual requirements.

EXPLORATION AND DEVELOPMENT

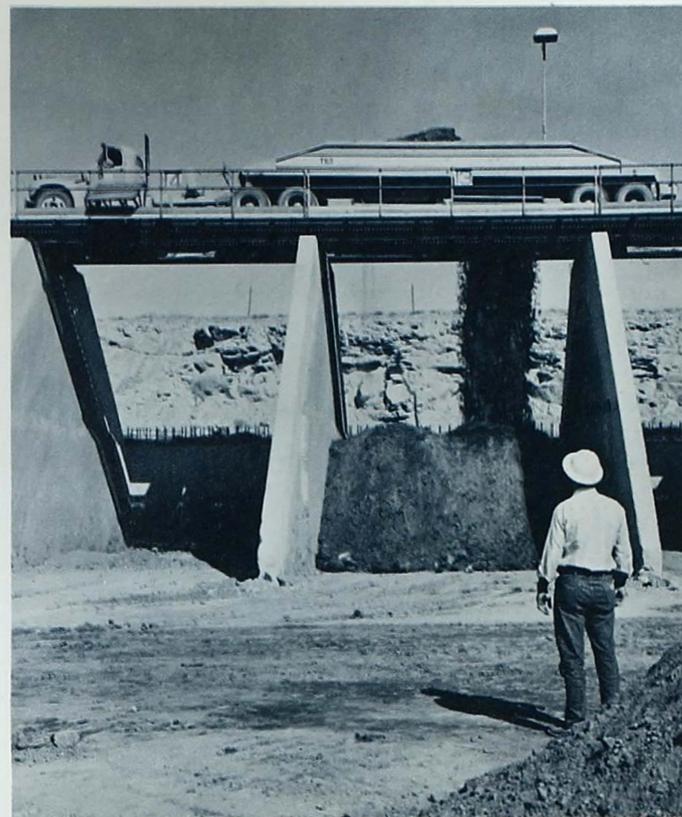
The Company investigated a number of copper properties in New Mexico, Arizona, and Utah during the year, and at least two of the prospects are still being evaluated. However, only the Safford, Arizona, property has been explored extensively.

Approximately 6,600 feet of rotary drilling had been completed on the Safford property by August 1. This was in addition to 59,000 feet of core drilling previously done by United Nuclear Corporation, which also sank a 290-foot vertical shaft and drove several exploration drifts.

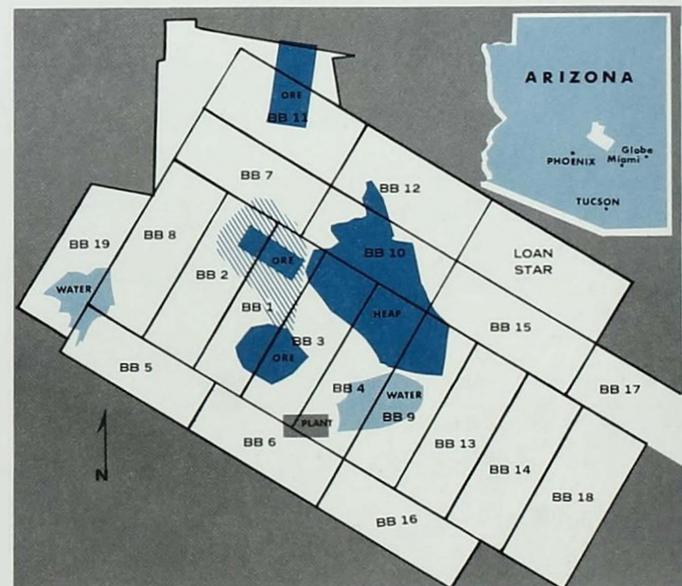
Drilling has confirmed the presence of a sizable, low-grade ore body, but additional metallurgical studies are needed to determine if the property can be mined economically. A joint venture between Ranchers and United Nuclear has been formed to develop the property if an economical operation appears possible. Ranchers would operate the mine and own 65 percent of the investment; United Nuclear would own the remaining 35 percent.

BERYLLIUM

The Company's investment in Utah beryllium properties remained unchanged during the year. A federal district court decision on six representative claims in dispute between Ranchers and the Anaconda Company since 1963 was against Ranchers' position. Unaffected by the decision was the Company's large block of claims near the disputed area.



Uranium ore from Ranchers' Section 33 Mine at Ambrosia Lake, New Mexico, pours from bottom-dump trailer into storage bins at the Kerr McGee mill where it is crushed and fed into leaching and solvent extraction circuits to produce U_3O_8 .



Map of Bluebird claim group shows location of ore bodies, heap area, water reservoirs, and plant site. Shaded area indicates reserves added in 1966.

RANCHERS EXPLORATION AND DEVELOPMENT CORPORATION
ASSETS / BALANCE SHEET / JUNE 30, 1966 AND JUNE 30, 1965

	<i>1966</i>	<i>1965</i>
CURRENT ASSETS		
Cash	\$ 609,849	\$ 426,075
Short-term investments at cost (approximately market)	248,350	-0-
Trade accounts receivable	191,384	178,584
Recoverable federal income taxes	7,750	177,000
Inventories - Note A	479,618	313,185
Prepaid expenses and miscellaneous receivables	<u>10,925</u>	<u>11,634</u>
TOTAL CURRENT ASSETS	\$1,547,876	\$1,106,478
 PROPERTY, PLANT AND EQUIPMENT - on the basis of cost		
Land (\$2,500) and buildings	\$ 41,661	\$ 41,661
Equipment and furniture	509,737	402,865
Aircraft	63,535	37,500
Mining claims, leases and permits	<u>716,597</u>	<u>565,865</u>
	\$1,331,530	\$1,047,891
 Less accumulated depreciation and depletion	 <u>395,851</u>	 <u>234,186</u>
	\$ 935,679	\$ 813,705
	<u>\$2,483,555</u>	<u>\$1,920,183</u>

RANCHERS EXPLORATION AND DEVELOPMENT CORPORATION

LIABILITIES AND STOCKHOLDERS EQUITY / BALANCE SHEET / JUNE 30, 1966 AND JUNE 30, 1965

	<i>1966</i>	<i>1965</i>
CURRENT LIABILITIES		
Trade accounts payable	\$ 161,955	\$ 129,314
Accrued royalties payable	41,291	15,018
Federal and state income taxes - Note B	121,400	4,300
Current portion of long-term debt	100,000	160,000
Other liabilities	<u>9,875</u>	<u>6,616</u>
TOTAL CURRENT LIABILITIES	\$ 434,521	\$ 315,248
LONG-TERM DEBT - Note C		
	\$ 100,000	\$ 300,000
Less amount due within one year	<u>100,000</u>	<u>160,000</u>
	\$ -0-	\$ 140,000
DEFERRED FEDERAL AND STATE INCOME TAXES		
- Note B	\$ 341,100	\$ 251,000
STOCKHOLDERS' EQUITY		
Common Stock - par value \$.50 a share:		
Authorized 1,00,000 shares		
Issued 625,378 shares, including		
shares in treasury	\$ 312,686	\$ 312,686
Capital in excess of par value	226,400	226,400
Retained earnings	<u>1,324,950</u>	<u>815,221</u>
	\$1,864,036	\$1,354,307
Less cost of Common Stock in treasury		
— 28,203 shares in 1966 and 25,443		
shares in 1965	156,102	140,372
	<u>\$1,707,934</u>	<u>\$1,213,935</u>
	<u>\$2,483,555</u>	<u>\$1,920,183</u>

See notes to financial statements

RANCHERS EXPLORATION AND DEVELOPMENT CORPORATION

STATEMENT OF INCOME AND RETAINED EARNINGS / JUNE 30, 1966 AND JUNE 30, 1965

	1966	1965
Income:		
Net sales - copper	\$1,964,415	\$ 909,642
- teaching programs	147,850	301,195
Royalties (uranium)	696,215	789,101
Interest and other	10,577	6,183
	<u>\$2,819,057</u>	<u>\$2,006,121</u>
Deductions from income:		
Cost of sales - copper	\$1,595,299	\$ 775,306
- teaching programs	120,320	463,185
Exploration, conservation and maintenance of mining properties	60,635	102,085
Administrative and general expenses	245,076	274,276
Selling and promotional expenses	62,961	49,116
Lease abandonments	-0-	18,122
	<u>\$2,084,291</u>	<u>\$1,682,090</u>
INCOME BEFORE TAXES ON INCOME	\$ 734,766	\$ 324,031
Federal and state income taxes - Note B:		
Currently payable (recoverable)	\$ 130,355	(\$ 177,000)
Deferred	90,100	172,883
	<u>\$ 220,455</u>	<u>(\$ 4,117)</u>
NET INCOME	\$ 514,311	\$ 328,148
Retained earnings at beginning of year	815,221	491,573
	<u>\$1,329,532</u>	<u>\$ 819,721</u>
Less excess of cost of treasury shares sold over cash received	4,582	4,500
RETAINED EARNINGS AT END OF YEAR	<u>\$1,324,950</u>	<u>\$ 815,221</u>
Provisions for depreciation and depletion charged to costs and expenses	\$ 213,023	\$ 163,386

See notes to financial statements

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1966**

Note A - Inventories

Inventories are stated at cost (principally average cost) which is lower than market and consist of the following:

	June 30,	
	<u>1966</u>	<u>1965</u>
Mining operations:		
Copper ore in leaching heaps	\$373,350	\$248,660
Finished copper cement	84,821	31,248
Supplies	21,447	9,863
	<u>\$479,618</u>	<u>\$289,771</u>
Teaching programs	-0-	23,414
	<u>\$479,618</u>	<u>\$313,185</u>

Note B - Federal and State Income Taxes

The Corporation deducts all current mining and development costs for income tax purposes while certain of such costs have been deferred on the books for financial reporting purposes and are being amortized over the production units (metal) benefited by such expenditures. Income taxes deferred, as a result of currently deducting such mining and development costs, have been charged to income of the current year.

Federal income tax returns of the Corporation have been examined by the Internal Revenue Service through June 30, 1965 and proposed adjustments have been agreed upon and settled.

Note C - Long-Term Debt

The amount due at June 30, 1966 is payable in quarterly installments of \$40,000 plus interest at six per cent. The loan agreement provides, among other things, that the Corporation will apply all sums borrowed to costs of acquisition and development of copper mining properties located in Gila County, Arizona, that upon demand by the bank the Corporation will mortgage and assign uranium royalty interests to the bank, and that the Corporation will maintain net working capital in excess of \$100,000.

Note D - Stock Options

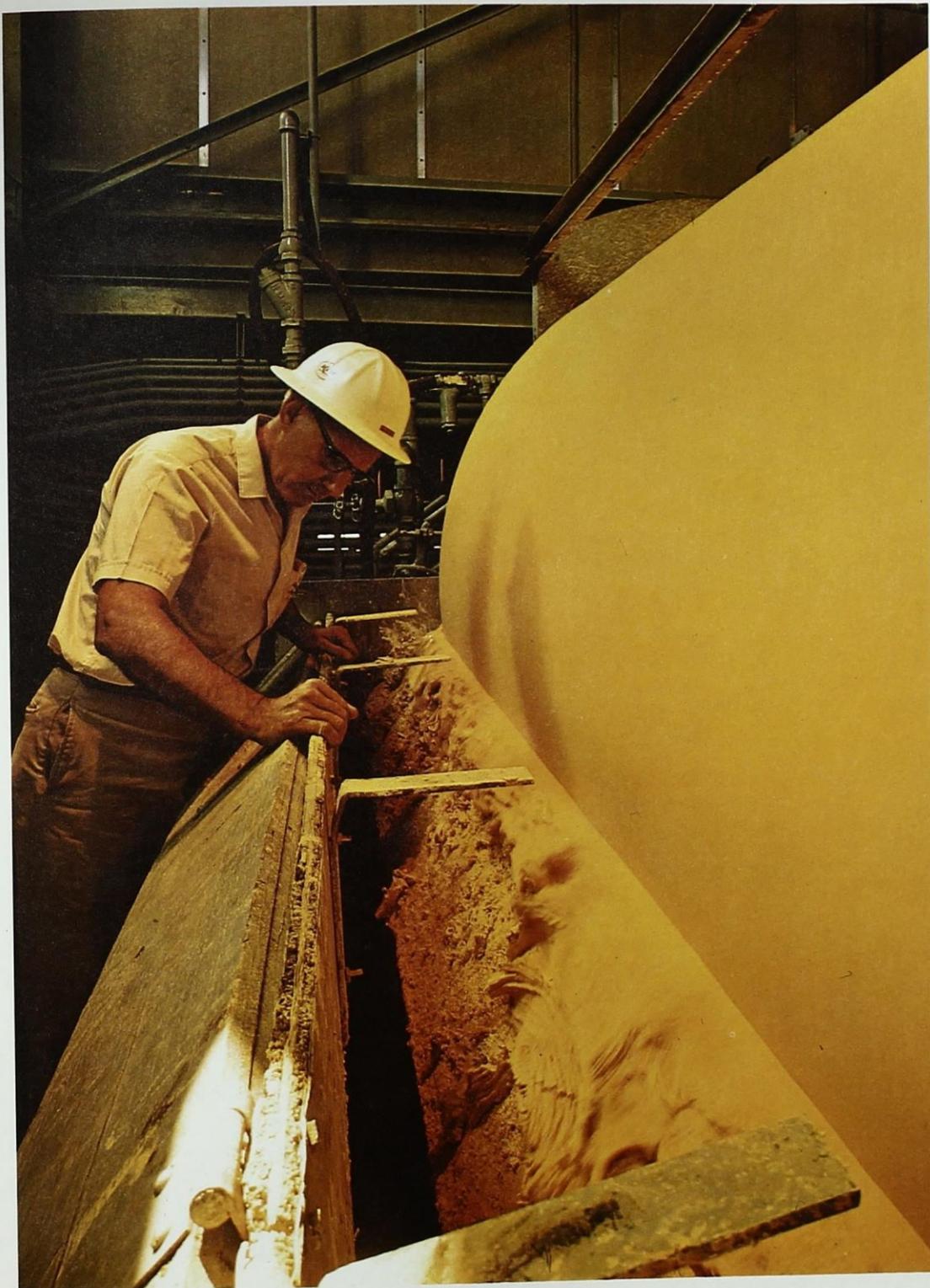
Stock options have been granted to certain directors, officers, and employees to purchase Common Stock of the Corporation at prices not less than 95% of market value of the shares at the date the options were granted. A summary of stock options follows:

Date Granted	Date Exercisable	Number of Shares	Date Granted	
			Option Price	Market Value
1962	1962-1968	15,000	\$5.12	\$5.37
1962	1962-1967	5,000	4.87	5.12
1963	1964-1966	5,000	3.50	3.50
1963	1963-1967	4,000	3.00	3.00
1965	1965-1970	3,000	5.00	5.00
1965	1965-1970	2,000	4.75	4.75
		<u>34,000</u>		

Options exercised
during year
ended
June 30, 1966 2,000 3.00

Options
outstanding at
June 30, 1966 32,000

The market value of options exercised during the year was \$4.75 a share for 1,000 shares and \$6.25 a share for 1,000 shares.



Uranium oxide (yellowcake) drawn out of solution by vacuum operated drum filters like this one is the end product of the Kerr McGee mill at Ambrosia Lake. After being scraped from the filters, the U_3O_8 is dried, packed, and shipped to an enrichment plant in Missouri.



Cement copper in foreground is piled up to dry after being washed from precipitation cells. Crane equipped with electromagnet is used to charge cells with burned tin cans, bailing wire and other forms of iron suitable for precipitation.

AUDITOR'S REPORT

Board of Directors
Ranchers Exploration and
Development Corporation
Albuquerque, New Mexico

We have examined the balance sheet of Ranchers Exploration and Development Corporation as of June 30, 1966, and the related statement of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously made a similar examination for the preceding year.

In our opinion, the accompanying balance sheet and statement of income and retained earnings present fairly the financial position of Ranchers Exploration and Development Corporation as of June 30, 1966, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Ernst & Ernst

Certified Public Accountants

Albuquerque, New Mexico
July 29, 1966

OFFICERS

Maxie L. Anderson, President
Vada M. Johnson, Secretary
Arthur Miller, Assistant to President

TRANSFER AGENT

Republic National Bank
Trust Department
Dallas, Texas

GENERAL OFFICES

4204 Coal Avenue, SE
Albuquerque, New Mexico

The 1966 Annual Report

Editor
James E. Mitchell

Design
Mary Garriott

Cover
Gene Garriott

Artist Garriott's cover painting shows the push-loading of a motor scraper against a backdrop of the southwestern states where the Company's mining and mineral processing operations are centered. The yellow and blue colors used throughout are representative of uranium and copper, chief sources of Company income. The original painting was cross-lighted during photography to give added depth and texture.

Photography
Dick Kent Photography
Albuquerque

Printing
The McLeod Printing Company
Albuquerque

BOARD OF DIRECTORS

Robert V. Sibert, Beverly Hills, California, President, Pearson-Sibert Oil Company of Texas. Associated with the oil industry since 1932, Mr. Sibert organized Pearson-Sibert Oil Company in 1940 and has served as its president since that time. Principal holdings of the independent oil company are in Scurry County, Texas. Mr. Sibert, who was named to the Ranchers board in 1962, is a member of the Board of Directors of A. F. Gilmore Company, Los Angeles, and a director of the Gilmore Commercial Savings Bank, Los Angeles. He is a 1928 graduate of the University of Iowa.



Adrian Berryhill, Grants, New Mexico, President, Berryhill Enterprises. Mr. Berryhill is a prominent businessman and rancher with extensive holdings in New Mexico, Colorado, and Arizona. He was one of several New Mexico landowners who pooled mineral resources in 1954 to form Ranchers Exploration and Development Corporation. With the exception of a brief interim in 1963, he has served on the Board of Directors since that time, and was president of the Company from 1958-1960. He also served one year as vice president.



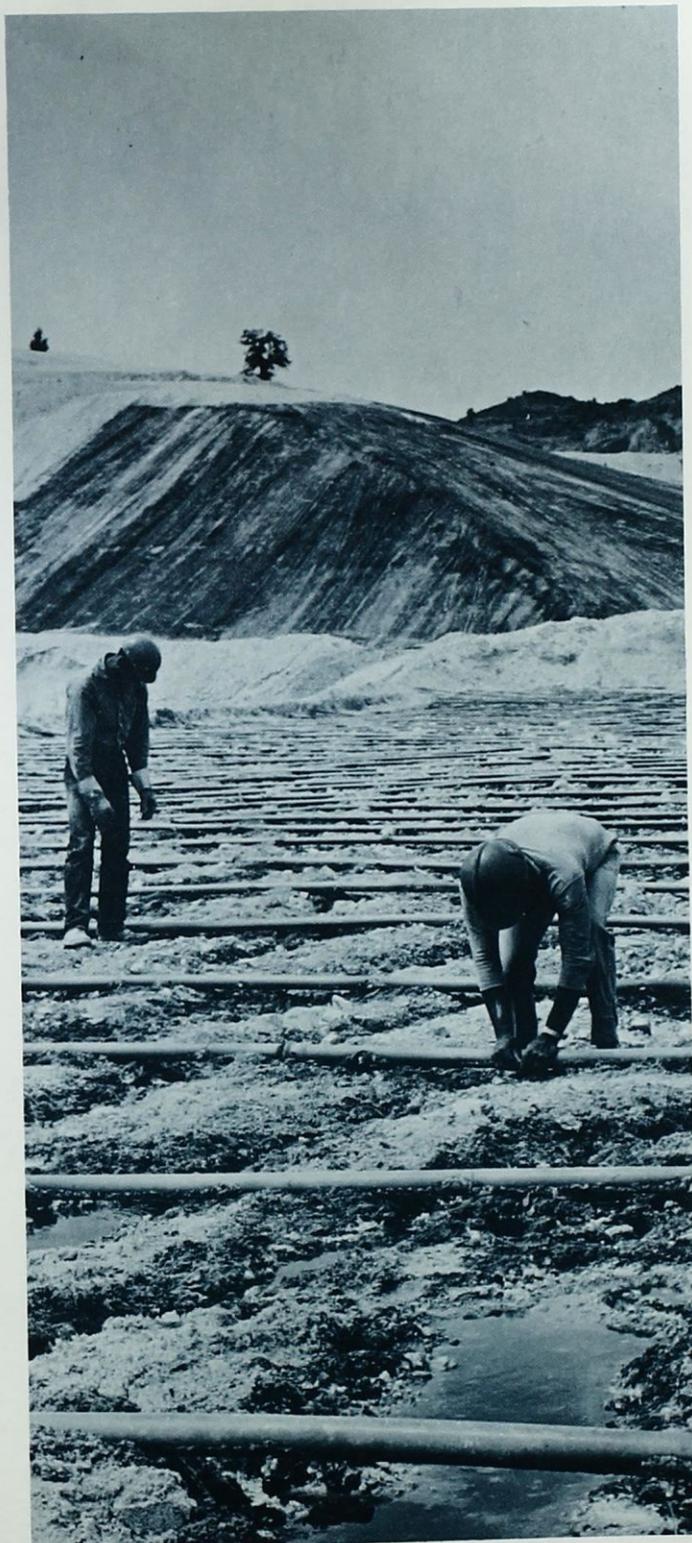
Edward E. Monteith, Jr., Dallas, Texas, Executive Vice President, Republic National Bank. Mr. Monteith joined the Bank in 1947 as a petroleum engineer and subsequently served as an assistant vice president, vice president, and senior vice president before assuming his present position as executive vice president and head of the petroleum and minerals department in 1964. Named to the Ranchers board in 1962, he is also a member of the Board of Directors of Kirby Petroleum Company. He holds three B. S. degrees in engineering from Texas A&M University (1943, 1947).



Floyd M. Slattery, Hardin, Montana, Vice President and General Manager, Campbell Farming Corporation. After engaging in private business for several years, Mr. Slattery joined Campbell Farming Corporation in 1936, and assumed his present position in 1946. The Corporation has large farm and ranch holdings in New Mexico and Montana, and its 40,000 acres under tillage near Hardin is the largest privately owned wheat farm in the world. Mr. Slattery is also a vice president and trustee of the Campbell Family Foundation, Albuquerque. He was named to the Ranchers board in 1962.



Maxie L. Anderson, Albuquerque, President, Ranchers Exploration and Development Corporation. Mr. Anderson was named to the Ranchers Board of Directors in 1957 and became chief executive officer of the Company in 1962. He is also president of Maxiell Corporation, a trucking company chiefly engaged in hauling uranium ore at Ambrosia Lake, New Mexico, and a vice president of Anderson Development Corporation, Houston, Texas. He holds a B. S. degree in industrial engineering from the University of North Dakota (1956).



Needle valves in the plastic lines which supply leaching solution to copper ore heaps require careful adjustment to insure proper distribution of the liquid.

