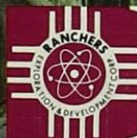




GARRIN

1976  
**Ranchers**  
ANNUAL REPORT





## The Cover Commemorates a Change

The cover of the 1976 Annual Report, showing the colorful, yellowcake-coated drum filters at Kerr McGee's uranium mill in Ambrosia Lake, New Mexico, illustrates an important change which occurred in your Company's operations during the year. For two decades, the Company's earnings from uranium have come from royalties on properties mined by Kerr McGee and others in the Ambrosia Lake area. In June, however, the Company began shipping its own ore to the mill. This token shipment of about 13,000 tons from the Johnny M Mine was the start of uranium production from several properties which should eventually translate into revenues exceeding those from copper, the other metal produced by the Company.

Milling is the first step in refining the Johnny M ore, which will be used to help fuel the nuclear power reactors now providing about eight percent of the country's electric generating capacity. At the Kerr McGee mill—the nation's largest with present intake of about 6,000 tons of ore per day—the ore first goes through a series of crushing and grinding steps, then is leached with sulfuric acid to place the uranium in solution. The solute uranium is then concentrated in a solvent extraction circuit, precipitated with

ammonium, then pumped into the slowly-revolving, three-stage drum filters shown on the cover and at left. There it is further concentrated and purified, then conveyed to ovens for drying. Now a powder containing 88 to 89 percent uranium oxide ( $U_3O_8$ ), the so-called yellowcake is loaded into 55 gallon drums and shipped to plants in Oklahoma or Illinois for processing.

During subsequent treatment, the yellowcake is converted into a gas—uranium hexafluoride ( $UF_6$ )—and transported to a gaseous diffusion plant for enrichment. Natural uranium contains 140 atoms of U-238 to each atom of U-235—the atom which is split, or fissioned, in a reactor to produce heat and thus power—so the proportion of U-235 must be increased or a reaction cannot be started or sustained. Once enriched, the  $UF_6$  is converted to uranium oxide, which is pressed into pellets and fitted into zirconium tubes to form fuel rods running the length of the reactor core. The ensuing nuclear reaction results in a powerful, although controlled, release of energy. If, for example, all the atoms in a pound of U-235 were fissioned, the energy released would be equivalent to that from burning 3-million pounds of coal—enough to fill 47 rail-cars, each loaded with 32 tons.



# 1976 Ranchers ANNUAL REPORT

## Ranchers Exploration and Development Corporation

General Offices / 1776 Montano Road, NW / Albuquerque, New Mexico 87107

### TRANSFER AGENT & REGISTRAR

Republic Bank of Dallas / Corporate Trust Department / Dallas, Texas 75221

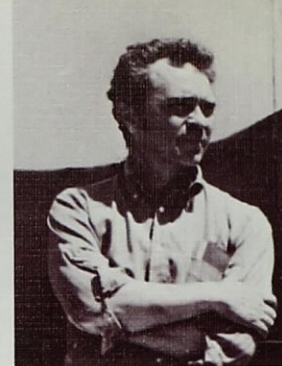
Manufacturers Hanover Trust Company / Corporate Trust Department / 40 Wall Street / New York, New York 10015

### THE 1976 ANNUAL REPORT

/ Design and Layout—Mary Garriott / Paintings—Gene Garriott

/ Typography—Reay's Typographic, Inc. / Color Separations—Southwest

Color Separations / Printing—The McLeod Printing Company



Gene  
Garriott

*The 1976 Annual Report features the work of Albuquerque Artist Gene Garriott, a frequent contributor to the Report in the past 14 years. During that span he has painted six covers, as well as numerous sketches which have appeared inside the Report. His wife, Mary, has served as art director of the Report since 1963.*

*A native westerner who spent his youth in half a dozen towns in Nevada and California where his father was a telegrapher on the Western Pacific Railroad, Garriott is noted for his realistic depiction of western scenes. His works in oil, casein, and acrylic hang in galleries and private collections throughout the area.*

*A self-described "working artist," Garriott considers the 1976 Annual Report paintings, which he began in May and completed in August, as something of an exception to his regular work as a commercial illustrator. "What makes the work interesting is getting to go on location, where the research for each painting can be done first hand," he says. "Of course, the remote locations are the kind I grew up in, so I feel right at home."*

*The Report paintings, which are in acrylic, will hang in the Company's new Geology and Engineering Building, and in other offices of the Company.*

## Review & Preview '76 A Most Difficult Year But A Better '77 Seems Assured

Fiscal year 1976 was expected to be a most difficult time for the Company, and it was. Earnings were expected to decline significantly, and they did, dropping to \$.69 per share from \$1.64 in 1975. It was apparent a year ago that copper prices would be extremely depressed during 1976, and they were, with the Company selling its production for an average of \$.64 per pound, compared to \$.87 per pound the previous year. It was also apparent that uranium prices were rising, and the Company hoped to capitalize on this strength with sale of production from its Small Fry Mine. Management also anticipated that the Johnny M Mine would begin significant production during the year. Neither of these events occurred. Johnny M production, the subject of continuing litigation with General Atomic Company, was nominal, while production at the Small Fry was stockpiled until milling arrangements could be made.

Earnings did, however, begin to recover in the fourth quarter, as copper prices improved and uranium royalties increased, and it now seems likely that this recovery will continue into 1977. The extent of recovery will, however, depend on success in resolving the production and legal problems at the Johnny M and in negotiating satisfactory milling agreements for production at the Small Fry and the Hope Mine, another uranium producer now being developed jointly with Texas Utilities Fuel Company.

The low copper prices in 1976 tended to conceal the fact that the Company's Bluebird Mine had an exceptional year, producing more than 16 million pounds of copper cathodes, a new Mine record. Prices have increased in recent months, and this should not only improve profits at the Bluebird in 1977, but should permit the Company to bring its two small copper leaching operations, the Old Reliable and Big Mike mines, back on line by mid-year.



*At the Hope Mine, left to right, Dave Imrie, project superintendent; Jerrel Stallard, project manager, and Maxie Anderson.*

Uranium royalties should again be strong in 1977, although unlikely to equal the 1976 total, which was boosted by an unusually strong fourth quarter. The royalties reflect the higher prices which Kerr McGee received for uranium mined from the Company's properties in northwest New Mexico.

The Company expects to begin sale of production during FY 1977 from the Small Fry and Hope properties. A substantial amount of stockpiled ore is ready for shipment from the Small Fry, which is being mined at the rate of about 5,000 tons per month. Mining of the Hope property is expected to begin in January, with output eventually totaling about 6,000 tons per month.

The Company has also acquired an option to purchase some 2-million tons of uranium mill tailings in southwestern Colorado from Foote Mineral Company, and plans to begin leaching a portion of them late in the fiscal year in an effort to remove the 850,000 pounds of uranium now thought to be recoverable. The Company is negotiating with a utility for purchase of the recovered uranium, with the purchaser to make an advance payment which will be used to finance the cost of the project. The project is expected to continue for about five years. The Company was scheduled to begin production at the Johnny M Mine early in calendar year 1976, but a shortage of experienced miners, difficulties in vent shaft construction, and other problems delayed the startup. Mine development is continuing, and it appears that significant production will begin late in the calendar year, placing the Mine approximately a year behind schedule. The litigation with General Atomic over the 1972 ore purchase agreement (see Note K, Page 27) remains unresolved. At issue in the case is uranium oxide ( $U_3O_8$ ) which was sold to Gulf Oil, a parent company of General Atomic, for about \$8 per pound. Because of conditions unforeseen at the time the agreement was made, the Company and its partner in the Mine, HNG Oil Company, are unable to make deliveries at the prices provided in the agreement.

An important development in the dispute occurred in September 1976, when the Company and HNG reached an agreement with Gulf States Utilities, Beaumont, Texas, covering 3-million pounds of  $U_3O_8$  to be produced from the Johnny M ore. Gulf States, a customer of General Atomic, had acquired the

*(Continued on Page 4)*

## Highlights of 1976

1. Earnings were \$.69 per share, a decline of 58 percent from the \$1.64 per share earned in 1975.
2. Copper production at the Bluebird Mine exceeded 16-million pounds of cathodes, a new production record.
3. Uranium royalties totaled about \$1.8-million, a new high and an increase of 58 percent over 1975.
4. Development of the Johnny M Mine continued throughout the year, with the mine producing a small amount of uranium late in the year.
5. Uranium ore reserves were added at the Hope Mine, a shaft was sunk, and preparations made to begin production of uranium early in 1977.
6. The Small Fry Mine was brought on line in late 1975, and uranium ore is being stockpiled.
7. Options on uranium mill tailings at Durango and Naturita, Colorado, were acquired and tests begun on the material to determine whether the remaining uranium can be recovered.
8. The Company's uranium exploration ventures remained active throughout the year and new ore reserves were added.

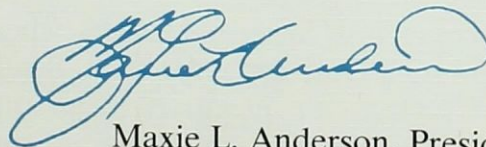
(Continued from Page 3)

right to an assignment of General Atomic's cause of action against the Company and HNG to the extent of 3-million pounds of  $U_3O_8$ . As a result of the new agreement, Gulf States will pay a minimum price of \$27.55 per pound of  $U_3O_8$  delivered, plus escalation to reflect the effect of inflation occurring after July 1976. In addition the price will be further increased after calendar year 1976 by an amount equal to about 45 percent of any increase in the market price of  $U_3O_8$  above \$40 per pound. The contract also specifies that the Company and HNG will not be required to deliver uranium from the Mine cannot be produced economically.

The Company and its partner have also granted Gulf States certain options to purchase any material in excess of 3-million pounds which may be produced from the Mine. These options, which essentially provide for deliveries to Gulf States at a predetermined market price, are contingent, however, on the outcome of the litigation with General Atomic. This litigation is expected to continue with respect to Mine production in excess of 3-million pounds, and the Company is unable at this time to predict its outcome.

Management is optimistic about the Company's prospects in 1977. Earnings are not likely to improve during the first quarter, but should begin to increase thereafter. Every effort will be made to resolve the Johnny M litigation, either through settlement or an early trial, and to bring the Mine into full production. The other new uranium projects should exert a positive influence on earnings before the year is out, with uranium royalties and profits from copper operations sustaining the Company in the meantime. The aggressive search for uranium, which resulted in expansion of reserves in 1976, will continue.

September 30, 1976



Maxie L. Anderson, President

## Financial Highlights

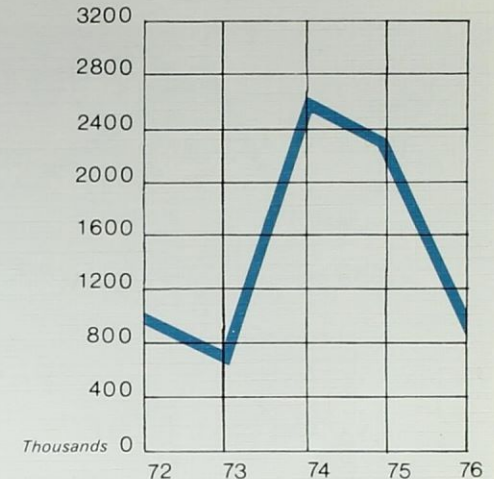
	1976	1975
Gross Income	\$16,177,561	\$18,334,568
Net Income before Income Taxes		
Taxes	1,675,673	3,515,485
Income Taxes	698,431	1,126,237
Net Income	977,242	2,389,248
Net Income per Share	.69	1.64
Net Income per Share Fully Diluted	.69	1.59
Retained Earnings	13,918,877	12,941,635
Stockholders' Equity	18,972,532	17,995,290
Average Shares Outstanding	1,417,820	1,460,670

## Earnings Decline in Copper Prices Reduces Earnings Despite Sharp Increase in Uranium Royalties

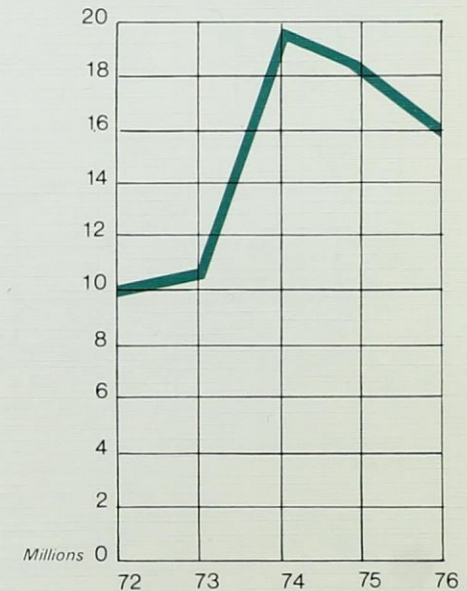
Affected by copper prices which were depressed throughout the year, the Company's earnings dropped sharply in 1976, reaching their lowest level since 1973. Earnings were \$.69 per share, a decline of 58 percent from the \$1.64 per share of a year ago. Virtually all of the earnings came in the first and last quarters of the year, when copper prices were somewhat higher than in the intervening quarters. Earnings by quarter were: \$.30, \$.10, minus \$.02, and \$.31. Net income for the year was \$977,242, compared to \$2,389,248 in 1975. Gross income totaled \$16,177,561, a decline of 12 percent from the 1975 gross of \$18,334,568. Copper sales were the major source of income, totaling \$11,974,803, or 74 percent of the gross. This amount was 21 percent less than in 1975, as copper prices declined to an average of \$.64, compared to \$.87 a year earlier. The Company sold 18,689,356 pounds of copper during the year, an increase of 17 percent over the 15,977,714 pounds sold in 1975. The 1976 sales included 888,697 pounds of copper from inventory at the Old Reliable Mine and 1,034,483 pounds of purchased starter sheets at the Bluebird Mine.

Other major sources of income during the year were uranium royalties, which totaled \$1,796,714, and contract sales of Kop-Ran Development Corporation, the Company's mining contractor subsidiary, which were \$1,959,386. Royalties were up substantially for the year, increasing by 58 percent over the \$1,135,786 received last year. Other gross income included \$277,832 in uranium oxide sales, \$146,808 in interest, and \$22,018 in miscellaneous income.

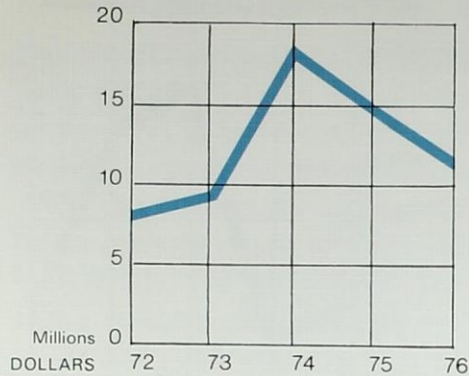
At year's end, the Company's ratio of current assets to current liabilities was 3.5 to 1, compared to 5.5 to 1 at the end of the previous year. The decline was primarily the result of heavy cash expenditures made during 1976 to bring new mines into production and to purchase new equipment for the Bluebird Mine.



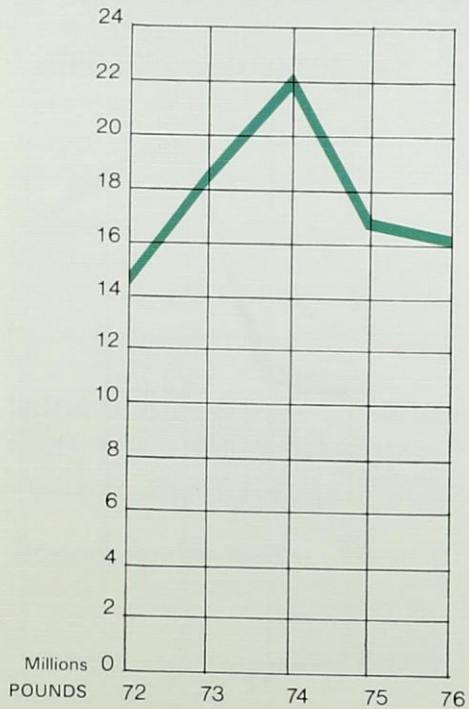
**Net Income 1972/1976**



**Gross Income 1972/1976**



Copper Sales 1972/1976



Copper Production 1972/1976

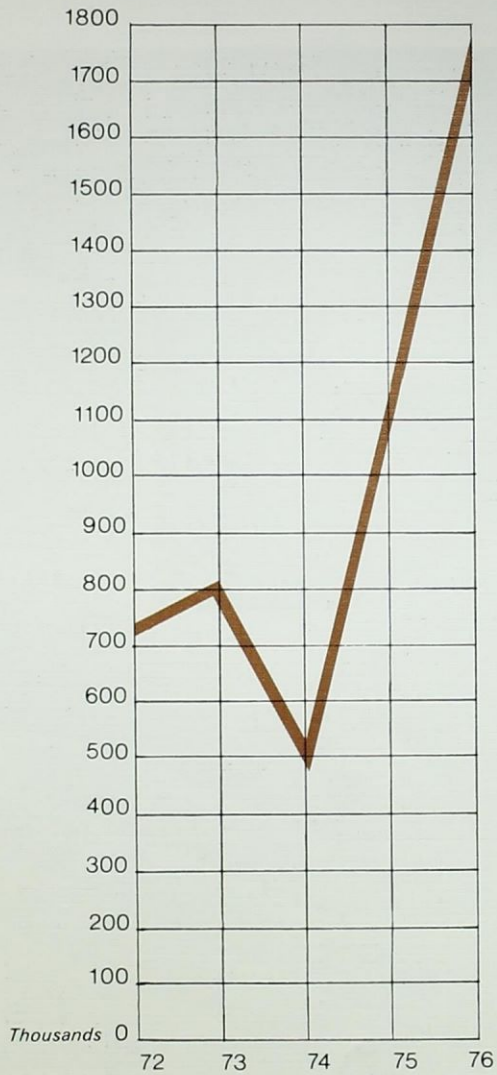
# Five Year Product Summary 1976/1972

(Dollars in Thousands)

	1976		1975		1974		1973		1972	
Sales	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Copper	\$11,985	75	\$15,236	86	\$18,504	94	\$ 9,690	92	\$ 8,287	82
Uranium Royalties	1,797	11	1,136	6	526	3	818	8	746	8
Other Metals	279	2	50	—	205	1	17	—	948	9
Contract Services	1,960	12	1,427	8	481	2	60	—	108	1
<b>TOTAL</b>	<u>\$16,021</u>	<u>100%</u>	<u>\$17,849</u>	<u>100%</u>	<u>\$19,716</u>	<u>100%</u>	<u>\$10,585</u>	<u>100%</u>	<u>\$10,089</u>	<u>100%</u>
<b>Sources of Earnings</b>										
Copper	\$ 1,743	47	\$ 3,909	75	\$ 4,515	89	\$ 1,449	73	\$ 1,798	86
Uranium Royalties	1,797	48	1,136	22	526	10	818	41	746	35
Other Metals	(169)	(5)	(124)	(2)	(76)	(1)	(218)	(11)	(484)	(23)
Contract Services	336	10	263	5	96	2	(77)	(3)	36	2
<b>TOTAL</b>	<u>3,707</u>	<u>100</u>	<u>5,184</u>	<u>100</u>	<u>5,061</u>	<u>100</u>	<u>1,972</u>	<u>100</u>	<u>2,096</u>	<u>100</u>
<b>Exploration, Conservation and Maintenance of Mining Properties</b>	(813)		(822)		(445)		(257)		(332)	
<b>Other Income and Expense, Net*</b>	(1,219)		(847)		(1,098)		(694)		(624)	
<b>Income Taxes</b>	(698)		(1,126)		(900)		(236)		(81)	
<b>Income before Extraordinary Items</b>	<u>\$ 977</u>		<u>\$ 2,389</u>		<u>\$ 2,618</u>		<u>\$ 785</u>		<u>\$ 1,059</u>	

\* Includes interest income and other income, and unallocated administrative and interest expense.





**Uranium Royalties 1972/1976**

# Five Year Summary of Operations

	1976	1975	1974	1973	1972
<b>Income</b>					
Net Sales	\$16,020,312	\$17,848,957	\$19,715,926	\$10,585,125	\$10,088,701
Interest and Other	157,249	384,813	62,690	43,164	121,541
Gain on Repurchase of Debentures	—	100,798	10,850	—	—
	<u>16,177,561</u>	<u>18,334,568</u>	<u>19,789,466</u>	<u>10,628,289</u>	<u>10,210,242</u>
<b>Deductions from Income:</b>					
Cost of Products Sold	12,313,200	12,664,583	14,655,199	8,614,116	7,993,071
Exploration, Conservation and Maintenance of Mining Properties	812,729	822,319	444,940	198,700	331,903
Administrative and General Expenses	968,808	946,607	742,202	552,214	522,448
Interest, Principally on Long-term Debt	407,151	385,574	428,683	184,023	223,256
Lease Abandonment and Other	—	—	—	58,200	—
	<u>14,501,888</u>	<u>14,819,083</u>	<u>16,271,024</u>	<u>9,607,253</u>	<u>9,070,678</u>
<b>Income from operations</b>					
Before Applicable Income Taxes	1,675,673	3,515,485	3,518,442	1,021,036	1,139,564
<b>Federal Income Taxes:</b>					
Currently Payable	(1,569)	161,237	205,000	25,000	30,799
Deferred	700,000	965,000	695,000	211,200	50,000
	<u>698,431</u>	<u>1,126,237</u>	<u>900,000</u>	<u>236,200</u>	<u>80,799</u>
<b>Income before Extraordinary Items</b>	<u>977,242</u>	<u>2,389,248</u>	<u>2,618,442</u>	<u>784,836</u>	<u>1,058,765</u>
<b>Extraordinary Items</b>					
NET INCOME	<u>\$ 977,242</u>	<u>\$ 2,389,248</u>	<u>\$ 2,618,442</u>	<u>\$ 784,836</u>	<u>\$ 1,071,771</u>
<b>Average Shares Outstanding</b>	<u>1,417,820</u>	<u>1,460,670</u>	<u>1,512,162</u>	<u>1,512,912</u>	<u>1,518,820</u>
<b>Earnings per Common Share:</b>					
Income before Extraordinary Items	\$ .69	\$1.64	\$1.73	\$ .52	\$ .70
Extraordinary Items	—	—	—	—	.01
	<u>\$ .69</u>	<u>\$1.64</u>	<u>\$1.73</u>	<u>\$ .52</u>	<u>\$ .71</u>
<b>Earnings per Common Share assuming full dilution*:</b>					
Income before Extraordinary Items	\$ .69	\$1.59	\$1.67	\$ .52	\$ .69
Extraordinary Items	—	—	—	—	.01
<b>TOTAL</b>	<u>\$ .69</u>	<u>\$1.59</u>	<u>\$1.67</u>	<u>\$ .52</u>	<u>\$ .70</u>

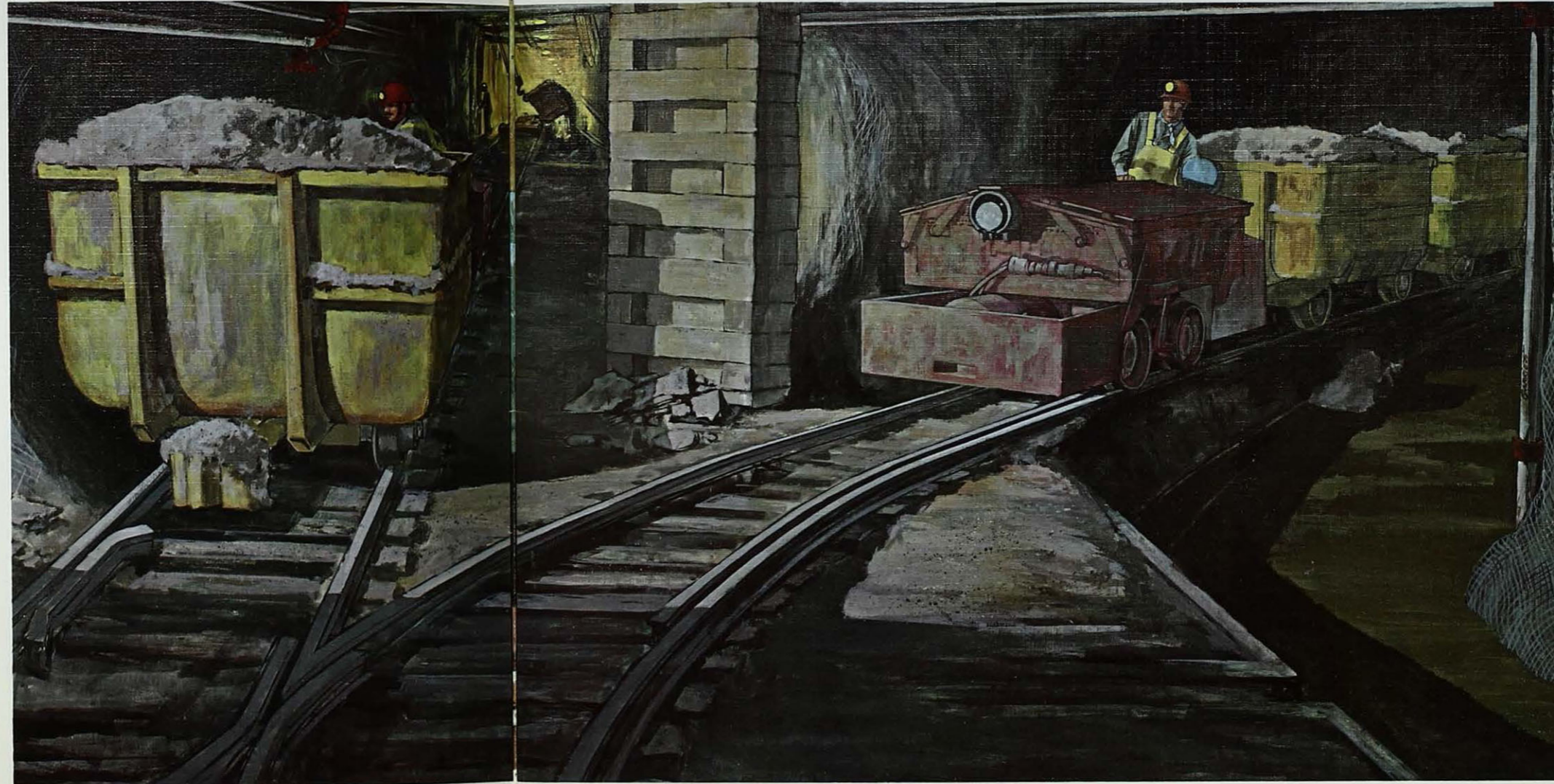
\*Earnings per share of common stock have been computed on the basis of the weighted average number of shares outstanding during each year, and when dilutive, additional shares assuming the exercise of stock options. The computation of fully diluted earnings per share assumes the conversion of all outstanding convertible debentures at the beginning of the year as well as the exercise, when dilutive, of all stock options.

## Operations Bluebird Output Increases, Work Proceeds on Three Uranium Projects

The Company's operations in 1976 centered at the Bluebird copper mine and at three uranium properties—the Johnny M, Small Fry, and Hope mines. Even though profits declined, operations at the Bluebird, near Miami, Arizona, were quite successful, the Mine producing a record total of 16,431,184 pounds of cathodes, including 4,674,032 in the fourth quarter, an increase of eight percent over 1975 production. A significantly higher grade of ore—.58% copper vs .48% in 1975—was a factor in increasing output. About 3.9-million tons of ore and 4.9-million tons of waste were mined during the year, compared to 4.7-million tons of ore and 5.9-million tons of waste in 1975.

Operations at the Johnny M, located in Ambrosia Lake (N.M.) and jointly owned with HNG Oil Company, were confined almost exclusively to development, with only about 16,000 tons of low-grade ore being produced. Footage advance during the year included some 5,800 feet of track drift and 5,400 feet of stope development. Four stopes—mining areas—were established in the south half of Section 7, and by year end, development drifts were nearing the ore bodies on Section 18, the other property comprising the Mine. Stope development to date indicates that ore deposition is erratic, and this, combined with the shortage of experienced miners which has already delayed the project, is expected to make mining more difficult and expensive. A 600-ton-per-day operation is projected.

Rehabilitation of the Small Fry Mine, near Moab, Utah, was completed early in the fiscal year, and production began on November 1, 1975. Production, which totaled more than 35,000 tons of ore as of September 1, 1976, is being stockpiled at the rate of about 250 tons per working day. A shaft was sunk at the Hope Mine, near Ambrosia Lake, and production should begin in January 1977. The Company also acquired two million tons of uranium mill tailings in southwestern Colorado and began tests to determine if a portion of the remaining uranium can be recovered.

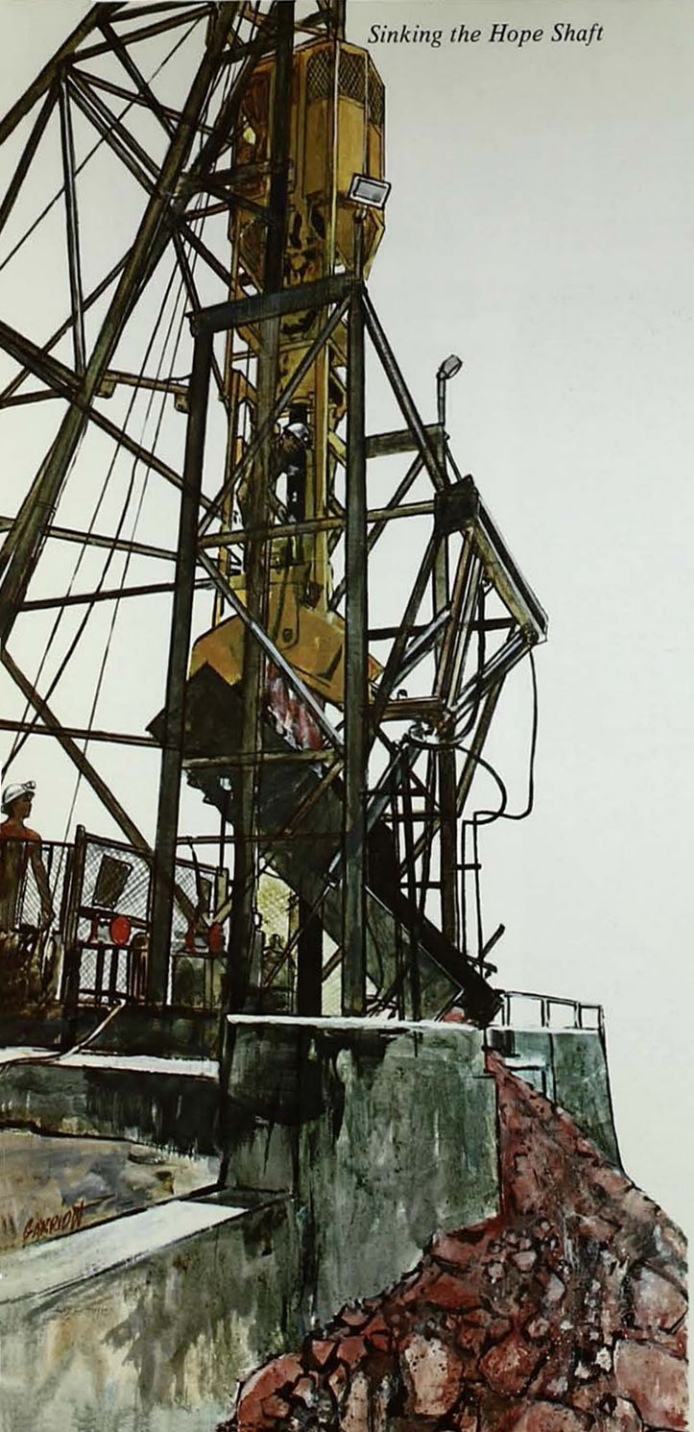


## Underground at the Johnny M

The Johnny M Mine continued to be the scene of a major developmental effort in 1976, as crews worked around the clock to bring the new uranium property on stream. In the scene at left, waste and ore are being transported in five-ton rail cars to the dump area (left background), where it will be hoisted some 1,400 feet to the surface. Immediate targets for the miners are Section 7 ore deposits lying about 1,300 and 2,000 feet north of the main shaft, and Section 18 deposits about 1,700 feet south of the shaft. Footage is being advanced in drifts and stopes by two-man crews, employing a drill-load-blast-mucking sequence. In this sequence, 25 to 32 blast holes are drilled in the drift face and loaded with several sticks of explosives, which are detonated, loosening about 32 tons (9x9x6-feet) of rock. Any loose rock hanging from the roof and walls is then removed—barred down—and roof bolts or wire mesh installed to prevent spalling. An over-shot mucking machine, capable of moving about one-half ton of muck per throw, is then advanced on a temporary track and used to throw the muck—loose, wet sandstone containing a few boulders—into the rail cars. After mucking is completed, permanent track and air and water lines are advanced, and a new round of drilling begun. An experienced crew will advance a 9x9-foot drift about six feet per shift.

## Developing new ore in old locations

Motivated by the recent rise in uranium prices, many mining companies have begun searching in a number of new places for ore. The Company, as the accompanying pictures illustrate, has taken a slightly different tack on two occasions, developing uranium in a couple of old, familiar locations. The painting at left shows shaft sinking going forward at the Hope Mine, where drilling in 1975 and 1976 confirmed existence of commercial deposits in Todilto Limestone near Grants, New Mexico. The Todilto Limestone, an ancient marine sediment, was the first uranium-bearing formation worked in New Mexico, and the Hope property lies only six miles from the original Todilto discovery, made at Haystack Mountain in 1950. However, the thin, relatively small Todilto deposits have been largely forgotten in recent years, with attention focusing on larger sandstone deposits. Shaft sinking began at the Hope in April, 1976, and the eight-foot-diameter hole was bottomed at 465-feet in September. The shaft was sunk with a unique, self-contained clam (see picture) developed by the Company. Air-powered jaws on the bottom of the clam bite into broken rock on the floor of the shaft, hoisting it to the surface without use of a standard sinking bucket. The picture at right shows the search for uranium in another old location—the tailings piles left from previous uranium milling operations at Durango, Colorado. The Durango tailings, plus those at Naturita, Colorado, total about 2-million tons of material containing about 1.7-million pounds of uranium. Thorough sampling with a Becker drill (right), followed by metallurgical testing, indicates that it may be possible to place the tailings in heaps, leach them with acid, and recover about half of the uranium.



Drilling at Durango

## The Small Fry Mine

The increased demand for uranium has brought new life to the picturesque Small Fry Mine, which the Company placed in production in late 1975 after the property had lain idle for a number of years. Located in the Big Indian mining district some 30 miles southeast of Moab, Utah, the Small Fry was discovered in the early 1950s and mined for several years. But the low grade of its ore—.10 to .12%  $U_3O_8$ —caused production to be discontinued after only 68,000 tons of ore had been removed. Anticipating a rise in uranium prices, the Company acquired an option on the property in 1974 and began extending reserves, which now stand at about 370,000 tons of ore containing approximately 868,000 pounds of  $U_3O_8$ . Reserves surround the old workings, with the present dimensions of the deposit measuring about 1,000 by 1,200 feet. Access is through a 600-foot-long decline, collared in the colorful red siltstones and clays of the Cutler formation (see picture). Production is from ore layers averaging six to 10 feet thick in the Mossback formation. Good continuity of ore, absence of water, and good haulage ways permit a highly mechanized operation. The Mine is now operating at the planned rate of production, with the ore being mined and stockpiled by a contractor employing a crew of 10.





## Truckin' at the Bluebird

Use of 120-ton-capacity trucks to transport waste was an important new innovation at the Bluebird copper mine in 1976. The four trucks, which are 17

feet high, 35 feet long, and weigh 85 tons, are being counted on to hold down mining costs at the Bluebird as haulage distances and lifts increase. On long hauls of approximately a mile or more, the trucks are expected to be about 25 percent cheaper to operate than the bottom-load scrapers (see picture) which have previously been used to carry waste and are still used to transport ore to heaps for leaching. The method used at the Bluebird to

load the trucks is unique, with the 50-ton-capacity scrapers rumbling over a steel bridge to dump their loads directly into the trucks. Typically, the scrapers would dump onto a conveyor, which would then load the trucks. This intermediate step has been eliminated at the Bluebird, with some saving of time and money. It takes about 1½ minutes to dump two scraper loads into a truck, which then rolls away to the dump at about nine mph. Dumping takes another 1½ minutes, with the truck then returning to the bridge for another load. A maximum of 2,300 tons an hour has been hauled using the new four-truck system.



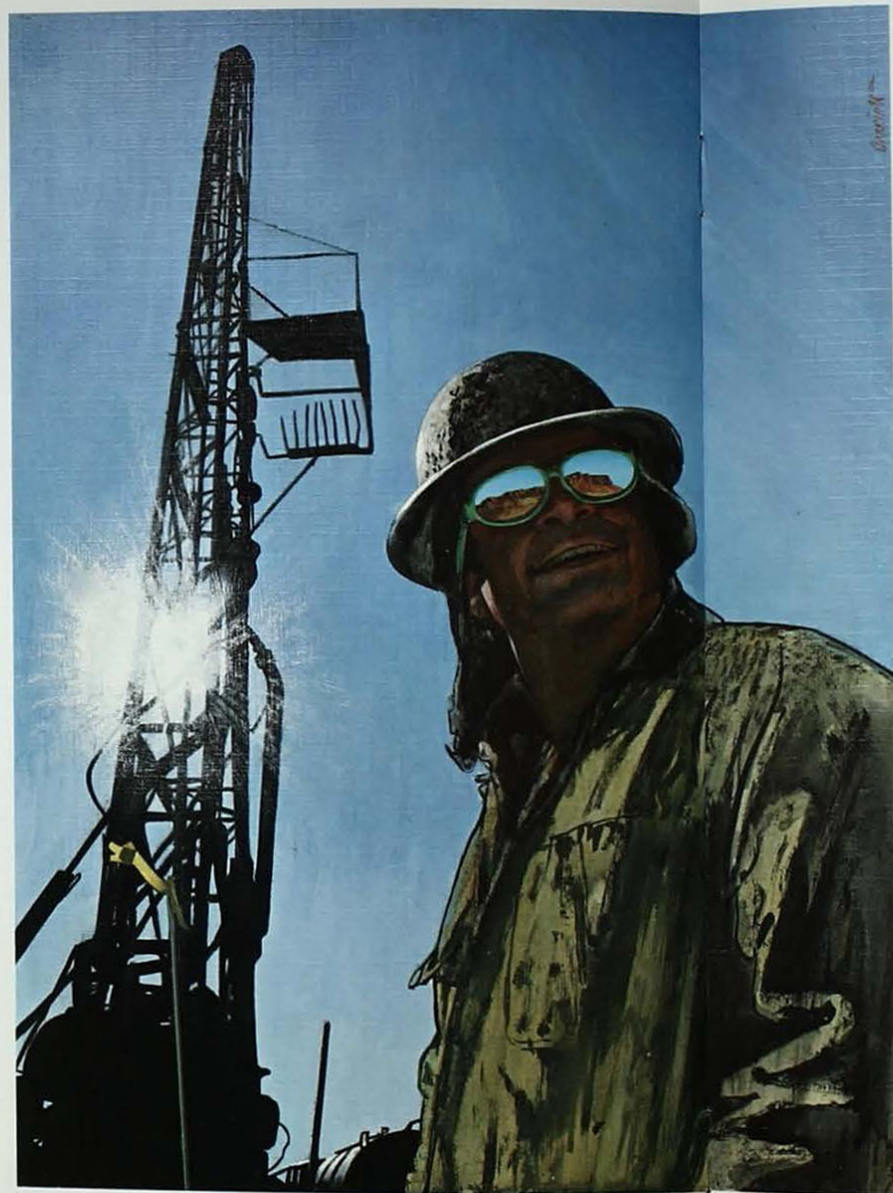
## Exploration & Development Uranium Search Continues, Reserves Added at Small Fry and Hope Mines

The Company expanded its search for uranium during 1976, operating two joint exploration ventures, as well as drilling for its own account at the Small Fry Mine. Drilling totaled approximately 420,000 feet of hole, including 35,000 feet at the Small Fry, where reserves were extended and are now estimated to exceed 800,000 pounds of  $U_3O_8$ .

The joint venture with Urangesellschaft focused on properties in southeast Utah and northeast Arizona. Low-grade mineralization was intersected during the course of some 104,000 feet of drilling, but no deposits were discovered. The venture, which began in June 1974 with total funding of about \$3-million, will terminate at the end of the current calendar year, unless extended.

The Texas Utilities Fuel Company (TUFCO) venture drilled 280,000 feet of hole in 1976, concentrating on properties in northwest New Mexico, northern Wyoming and southwest Colorado. Much of the drilling centered at the Hope Mine, where in place reserves were increased to about 224,000 tons of ore containing 826,000 pounds of  $U_3O_8$ . When leased in 1975, the property contained known reserves of about 200,000 pounds of  $U_3O_8$ . Limited reserves were also added at the nearby Faith Mine and at the Pitchfork Mine in southwest Colorado. The venture, which was to have terminated in September 1977, was extended for another year, and funding for that year increased to \$2.5-million from the present annual expenditure level of \$1-million.

The Company also concluded its evaluation of Alaskan gold placers during the year. Drilling results indicate that the placers contain several million yards of reserves, but because of the decline in gold prices, a decision has been made to hold the properties for future development. The Company also leased the Escalante silver property in southwest Utah and conducted preliminary geologic and mine planning studies during the year.



Driller

## Exploring for Uranium

The Company had its most active year of uranium exploration during 1976, drilling 1,011 holes totaling more than 400,000 feet. Up to seven rotary drill rigs were in operation at times, with exploration being conducted at several different locations. Most of the drilling was conducted by contractors, primarily employing three and four-man crews, and frequently operating two, eight-hour shifts per day. A rig is operated by the driller, who handles the controls which raise and lower the tri-cone bit and control its rotation speed and penetration rate. Helpers handle drilling mud and other materials and assist (right) in adding the 20-foot lengths of stem-pipe to the drill string as drilling progresses. A rig bores a five-inch-diameter hole, drilling up to 100 feet or more per hour in relatively soft rock, but drilling only a few feet an hour when hard formations are encountered. The average hole drilled by the Company in 1976 was 400 feet deep, but several holes reached depths of more than 2,200 feet. Such deep holes cost up to \$15,000 apiece in areas where drilling is difficult, making selection of an efficient drill crew an important part of the exploration effort.



## A Day of Drilling

The scene at right shows drilling as it was progressing on the Hope lease north of Grants, New Mexico in February 1976. Two rotary rigs were in action, and a probe unit (center) was logging the drill holes as they were completed to determine the presence of uranium. At this juncture, the rigs were drilling out one of the three ore deposits lying 400 to 600 feet below the surface of the property. Some 100 holes, 50 feet apart, were drilled throughout the area, gradually tracing out a deposit measuring approximately 500 x 500 feet. Each hole was logged by slowly lowering an instrumented probe—an elongated Geiger or scintillation counter—down the hole, counting the radioactivity in each layer, and automatically recording it on a chart in the logging unit. Logs indicate that the deposit in this area contains approximately 81,000 tons of ore, with a grade of about .21%  $U_3O_8$ . If all the ore were recovered and all the uranium extracted, it would total some 340,000 pounds of  $U_3O_8$  worth about \$40 per pound at current prices. The other two deposits on the 267-acre lease lie to the southeast of this scene. The mesa at the top of the picture is about 400 feet high and is the site of the now-depleted Blue Peak Mine, one of the early producers in the area.



# Management

## John E. Motica Named to Board of Directors

John E. Motica, the Company's Senior Vice President, Geology, was named to the Board of Directors in 1976, replacing J. B. Mudd, who resigned. Robert V. Sibert, a member of the Board since 1962, has announced that he will not be a nominee for re-election at the annual stockholders meeting in November. The Company is most appreciative of Mr. Sibert's service to the Company during his 14 years on the Board. Brief biographies of Board members:

**Robert V. Sibert**—Mr. Sibert is president of Pearson-Sibert Oil Co. of Texas, a firm which he formed in 1949 after first entering the oil business in 1936. He is also chairman of the board of A. F. Gilmore Company, owner of the Farmers Market in Los Angeles. A native of Iowa, he holds a BS degree in commerce from the University of Iowa, 1928. He resides in Beverly Hills, California.

**Maxie L. Anderson**—Mr. Anderson was elected to the Ranchers' Board in 1957, became manager of the Company in 1962, and assumed his present position as president in 1963. He has been active in the uranium mining industry since 1955, when he began acquiring properties in the Ambrosia Lake area for Anderson Development Corporation. He holds a BS degree in industrial engineering from the University of North Dakota, 1956.

**Frank Coolbaugh**—A mining consultant and president of Coolbaugh Mining Corporation. Mr. Coolbaugh was formerly chief executive officer and chairman of the board of American Metal Climax, Inc. (AMAX). He has been a member of the Ranchers and Newmont Mining Corporation boards since 1968. He is a graduate of Colorado School of Mines and resides in Golden, Colorado.

**Edward E. Monteith, Jr.**—Mr. Monteith is executive vice president and head of the petroleum and minerals department, Republic National Bank of

Dallas, a position he has held since 1964. He joined the Bank in 1947, and served as senior vice president from 1962-64. He holds BS degrees in engineering, petroleum engineering and mechanical engineering (1943, 1947) from Texas A&M University. He joined the Ranchers' Board in 1962.

**John E. Motica**—Mr. Motica joined the Company in 1967, and has headed its exploration and mineral property evaluation program since that time. Prior to joining the Company he served as chief geologist with Union Carbide's Colorado Plateau Operations from 1954-67, making significant contributions to development of the Uravan Mineral Belt. A native of Wyoming, he holds an Engineer of Mines degree, Colorado School of Mines, 1948.

**Roy Richards**—Mr. Richards is the founder and president of Southwire Company, a major manufacturer of wire, rod and cable for the electrical industry. A graduate of Georgia Tech, with a BS degree in mechanical engineering, 1935. Mr. Richards resides in Carrollton, Georgia. He joined the Ranchers' Board in 1969.

**Edward McL. Tittmann**—Mr. Tittmann is the former chairman of the board and chief executive officer of American Smelting and Refining Company (ASARCO), a position he held from 1963 until his retirement in 1971. He holds a BS degree in mining and metallurgical engineering from MIT. A resident of Reno, Nevada, he joined the Ranchers' Board in 1971.

**Officers**—Maxie L. Anderson, President / John E. Motica, Senior Vice President, Geology / Leland O. Erdahl, Vice President, Finance / David K. Hogan, Vice President, Engineering / Paul A. Matthews, Vice President, Operations / Herbert M. Campbell II, Vice President and Secretary / Marvin K. Kaiser, Treasurer.



Left to right: Leland Erdahl, Vice President, Finance, and Board of Directors Members John Motica, Edward Monteith, Jr., Maxie Anderson,

Robert Sibert, Frank Coolbaugh, and Edward McL. Tittmann (standing). Not shown: Roy Richards.



# Assets

RANCHERS EXPLORATION  
AND DEVELOPMENT CORPORATION  
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
JUNE 30, 1976 AND JUNE 30, 1975

	1976	1975
<b>CURRENT ASSETS</b>		
Cash and certificates of deposit (1976 - \$746,500; 1975 - \$4,835,000)	\$ 1,542,143	\$ 5,087,494
Marketable securities - at cost (market value \$796,000; gross unrealized gain - \$239,564)	556,436	—
Trade accounts receivable	956,921	257,364
Inventories - Note B	2,477,976	2,600,399
Prepaid expenses and other current assets	492,030	427,983
TOTAL CURRENT ASSETS	<u>6,025,506</u>	<u>8,373,240</u>
<b>PROPERTY, PLANT AND EQUIPMENT - at cost - Note C</b>		
Land	138,732	138,732
Buildings and equipment	16,005,144	13,729,189
Construction in progress - estimated additional costs to complete at June 30, 1976 - \$40,000	30,095	14,528
Mineral interests, mining claims, leases and permits - Note D	1,778,002	1,214,222
Deferred intangible mining and development costs	5,715,481	5,606,472
	<u>23,667,454</u>	<u>20,703,143</u>
Allowances for depreciation, depletion and amortization	8,174,715	7,185,044
	<u>15,492,739</u>	<u>13,518,099</u>
<b>OTHER ASSETS AND DEFERRED CHARGES</b>		
Investment in joint ventures - Note D	4,295,536	1,559,105
Unamortized debt expense	70,495	76,116
Claim for refund of federal income taxes - Note E	1,068,190	1,068,190
Other assets	588,439	116,658
	<u>6,022,660</u>	<u>2,820,069</u>
	<u>\$27,540,905</u>	<u>\$24,711,408</u>

See notes to consolidated financial statements

## Liabilities and Stockholders' Equity

RANCHERS EXPLORATION  
AND DEVELOPMENT CORPORATION  
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
JUNE 30, 1976 AND JUNE 30, 1975

	1976	1975
<b>CURRENT LIABILITIES</b>		
Notes payable to bank	\$ —	\$ 105,000
Trade accounts payable	1,098,636	895,552
Accrued interest payable	65,738	48,893
Federal income taxes - Note E	—	180,000
Other liabilities	421,309	302,016
Current portion of long-term debt	154,228	4,228
<b>TOTAL CURRENT LIABILITIES</b>	<u>1,739,911</u>	<u>1,535,689</u>
<b>LONG-TERM DEBT - Note F</b>		
5¾ % convertible subordinated debentures due January 15, 1989	1,881,000	1,881,000
Note payable to bank	900,000	—
Contracts payable for purchase of land and mineral interest costing \$646,925 - less unamortized discount based on imputed interest rate of 8.5% (1976 - \$32,126; 1975 - \$15,464)	251,690	22,580
	<u>3,032,690</u>	<u>1,903,580</u>
Less portion classified as current liability	154,228	4,228
	<u>2,878,462</u>	<u>1,899,352</u>
<b>DEFERRED FEDERAL INCOME TAXES - Note E</b>	3,950,000	3,250,000
<b>MINORITY INTEREST IN SUBSIDIARY - represented by twenty percent of capital stock - Note G</b>	—	31,077
<b>STOCKHOLDERS' EQUITY - Notes F and J</b>		
Common Stock - par value \$.50 a share Shares authorized - 4,000,000	771,114	771,114
Shares issued - 1,542,228 including shares in treasury	5,511,635	5,511,635
Capital in excess of par value	13,918,877	12,941,635
Retained earnings	<u>20,201,626</u>	<u>19,224,384</u>
Less cost of Common Stock in treasury - 124,408 shares	1,229,094	1,229,094
	<u>18,972,532</u>	<u>17,995,290</u>
<b>LEASES, COMMITMENTS AND LITIGATION - Notes I and K</b>	<u>\$27,540,905</u>	<u>\$24,711,408</u>

See notes to consolidated financial statements

## Statements of Consolidated Income

RANCHERS EXPLORATION  
AND DEVELOPMENT CORPORATION  
AND SUBSIDIARIES

YEAR ENDED JUNE 30, 1976  
AND JUNE 30, 1975

	1976	1975
<b>Income</b>		
Net sales	\$14,223,598	\$16,713,171
Uranium royalties	1,796,714	1,135,786
Interest and other	157,249	384,813
Gain on repurchase of debentures	—	100,798
	<u>16,177,561</u>	<u>18,334,568</u>
<b>Deductions from income</b>		
Cost of products sold	12,313,200	12,664,583
Exploration, conservation and maintenance of mining properties	812,729	822,319
Administrative and general expenses	968,808	946,607
Interest expense	407,151	385,574
	<u>14,501,888</u>	<u>14,819,083</u>
	1,675,673	3,515,485
	<b>INCOME BEFORE INCOME TAXES</b>	
Federal income taxes (credit) - Note E		
Currently payable	(1,569)	161,237
Deferred	700,000	965,000
	<u>698,431</u>	<u>1,126,237</u>
	<b>NET INCOME</b>	
	<u>\$ 977,242</u>	<u>\$ 2,389,248</u>
Net Income per common share-- Note H	<u>\$ .69</u>	<u>\$ 1.64</u>
Net Income per common share - assuming full dilution - Note H	<u>\$ .69</u>	<u>\$ 1.59</u>

See notes to consolidated financial statements

## Statements of Consolidated Stockholders' Equity

RANCHERS EXPLORATION  
AND DEVELOPMENT CORPORATION  
AND SUBSIDIARIES

YEAR ENDED JUNE 30, 1976  
AND JUNE 30, 1975

	1976	1975
<b>COMMON STOCK</b>		
BALANCE AT BEGINNING AND END OF YEAR	\$ 771,114	\$ 771,114
<b>CAPITAL IN EXCESS OF PAR VALUE</b>		
BALANCE AT BEGINNING AND END OF YEAR	<u>\$ 5,511,635</u>	<u>\$ 5,511,635</u>
<b>RETAINED EARNINGS</b>		
Balance at beginning of year	\$12,941,635	\$10,552,387
Net income for the year	977,242	2,389,248
	<u>\$13,918,877</u>	<u>\$12,941,635</u>
	<b>BALANCE AT END OF YEAR</b>	
<b>TREASURY STOCK</b>		
Balance at beginning of year	\$ 1,229,094	\$ 401,983
Purchase of shares for treasury - 91,500 shares	—	827,111
	<u>\$ 1,229,094</u>	<u>\$ 1,229,094</u>
	<b>BALANCE AT END OF YEAR</b>	

See notes to consolidated financial statements

# Statements of Changes in Consolidated Financial Position

RANCHERS EXPLORATION  
AND DEVELOPMENT CORPORATION  
AND SUBSIDIARIES

YEAR ENDED JUNE 30, 1976  
AND JUNE 30, 1975

	1976	1975
<b>ADDITIONS</b>		
Net income	\$ 977,242	\$ 2,389,248
Add charges to income not requiring working capital:		
Provision for depreciation, depletion and amortization	1,225,504	1,299,468
Amortization of debt expense	5,621	24,102
Provision for deferred income taxes	700,000	965,000
Income applicable to minority interest	—	19,757
TOTAL FROM OPERATIONS	<u>2,908,367</u>	<u>4,697,575</u>
Increase in long-term debt	1,033,338	—
Carrying amount of property, plant and equipment disposals	67,258	48,887
TOTAL	<u>4,008,963</u>	<u>4,746,462</u>
<b>DEDUCTIONS</b>		
Decrease in long-term debt	54,228	411,015
Additions to buildings and equipment	2,582,640	949,131
Additions to mineral interests, mining claims, leases and permits	563,780	—
Additions to deferred intangible mining and development costs	120,982	—
Increase (decrease) in other assets	471,781	(18,303)
Cost of common stock purchased for treasury	—	827,111
Decrease in minority interest - Note G	31,077	—
Increase in investment in joint ventures	2,736,431	900,425
TOTAL	<u>6,560,919</u>	<u>3,069,379</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$ (2,551,956)</u>	<u>\$ 1,667,083</u>
	<b>1976</b>	<b>1975</b>
<b>CHANGE IN COMPONENTS OF WORKING CAPITAL</b>		
Increase (decrease) in current assets:		
Cash	\$ (3,545,351)	\$ 3,085,346
Marketable securities	556,436	—
Trade accounts receivable	699,557	(1,576,932)
Inventories	(122,423)	677,121
Prepaid expenses and other current assets	64,047	100,261
Deposits with brokers for copper futures contracts	—	(929,638)
	<u>(2,347,734)</u>	<u>1,356,158</u>
Increase (decrease) in current liabilities:		
Notes payable to bank	(105,000)	105,000
Trade accounts payable	203,084	(350,643)
Accrued interest payable	16,845	(7,993)
Federal income taxes	(180,000)	(50,000)
Other liabilities	119,293	(4,728)
Current portion of long-term debt	150,000	(12,561)
	<u>204,222</u>	<u>(320,925)</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$ (2,551,956)</u>	<u>\$ 1,677,083</u>

See notes to consolidated financial statements

## Notes to Consolidated Financial Statements /

JUNE 30, 1976 AND JUNE 30, 1975

**Note A—Summary of Significant Accounting Policies**  
**Principles of Consolidation**—The consolidated financial statements include the accounts of the Company and its subsidiaries which are wholly-owned at June 30, 1976 (see Note G). Upon consolidation, intercompany accounts and transactions have been eliminated.

**Inventories**—Inventories are stated at the lower of cost (principally average cost) or market. The Company hedges sales of part of its production of cathode copper through the sale of futures contracts. As these contracts are repurchased and replaced with physical sales contracts, the resulting differences are included in inventory. These amounts are then charged (or credited) to income when delivery is made under the sales contracts.

**Property, Depreciation, Amortization, and Depletion**—The costs of maintaining and repairing property are charged to operations. The costs of additions and betterments are added to property accounts. The costs of units of property, plant and equipment retired or replaced are credited to property accounts and the corresponding allowances for depreciation, depletion, or amortization are removed. Any differences between amounts received and net carrying amounts of the disposals are generally reflected in operations. Provisions for depreciation, depletion, and amortization are computed using straight-line, declining-balance and units-of-production methods, at rates believed sufficient to amortize the cost of the asset over its useful life (buildings 30-40 years; machinery and equipment 3-15 years), which is the shorter of the asset's physical life or the economic life of the mine. These rates are subject to periodic review and are revised when deemed necessary to assure that the cost of the respective assets will be written off over their useful lives.

**Exploration Expenses**—Costs incurred in the search for new mining properties are charged against earnings when incurred.

**Development Costs**—Development costs to bring new mineral properties into production and for major programs of a special nature at existing mines are capitalized and amortized using the units-of-production method commencing when production begins.

**Income Taxes**—Deferred income taxes are provided for the effect of allowable deductions for depreciation and mine development costs in excess of amounts charged against earnings in the financial statements. Operating loss carryforwards and investment tax credit carryforwards are considered in the determination of such deferred taxes. Investment tax credits are accounted for by use of the flow-through method.

**Note B—Inventories**  
 Inventories consist of the following:

	June 30	
	1976	1975
Finished metals and metal products	\$1,244,044	\$1,676,225
Ore in leach heaps and stockpiles	1,116,440	717,591
Supplies	117,492	299,918
Income incurred in cancellation of futures contracts replaced with physical sales contracts	—	(93,335)
	\$2,477,976	\$2,600,399

**Note C—Tungsten Queen Mine**  
 Due to the substantial decline in the market price of tungsten, the Company suspended operations at its Tungsten Queen Mine in August 1971. The carrying amount of property, plant and equipment at the mine at June 30, 1976, was \$7,702,846. The current market price of tungsten is considerably higher than those prices received while the mine was in operation. Although it is management's opinion that the investment will ultimately be recovered through future operations or disposition of the property, the timing of any such operations or disposition remains indefinite. Until such time as plans have been finalized to re-open or dispose of the mine, all such property, plant and equipment will be maintained in a standby condition. The cost of maintenance should not be material.

**Note D—Investment in Joint Ventures.**  
 Included in the balance shown as investment in joint ventures is the Company's carrying amount of property, plant, equipment and intangible development costs aggregating \$3,864,730 which represents its 50% share of the Ranchers-HNG Oil Company Joint Project. In addition to this carrying amount, the Company also has \$92,871 included in mineral interests relating to the Joint Project. This Joint Project was formed to develop and operate the Johnny M Mine (uranium) located in McKinley County, New Mexico. On February 12, 1973, the Joint Project entered into a credit agreement with a commer-

cial bank in order to provide a portion of the funds to finance the development and equipping of the mine. The credit agreement provides for an initial revolving credit loan to be made by the bank in an aggregate principal amount not to exceed \$5,000,000 prior to September 30, 1976. At that date, the total balance due under the revolving credit loan is to be converted to a term loan which is repayable in forty-eight equal monthly installments. The annual rate of interest is one percent above 114% of the bank's prime commercial rate in effect, provided that over the full course of the revolving credit loan and term loan, the total interest paid on the individual loan does not exceed 8.75%.

All property, plant and equipment and proceeds derived from sale of production of the Johnny M Mine are pledged as collateral on the loans, with no recourse by the bank to respective participants in the Joint Project upon completion of the mine. As of June 30, 1976, the Joint Project had borrowed the full \$5,000,000 under this agreement. The Company's investment in the Joint Project includes only the contributions made to the Joint Project by the Company.

**Note E—Federal Income Taxes**  
 During the year ended June 30, 1974, the Company paid a deficiency notice in the amount of \$1,068,190, representing additional federal income taxes assessed, including interest, for the years ended June 30, 1965 through June 30, 1971. The Company has filed claim for refund of amounts paid or such greater amount as may be finally determined. The Internal Revenue Service has refused to honor this claim, and the Company has filed suit in the United States District Court to recover the payment.

During the year ended June 30, 1976, the Company received a deficiency notice in the amount of \$630,856 representing additional federal income taxes assessed for the years ended June 30, 1972 through June 30, 1974. On June 11, 1976, the Company filed a petition with the United States Tax Court requesting adjustment of the deficiency notice.

While the outcome of this litigation is uncertain, management is of the opinion that the ultimate deficiency, if any, will not have a materially adverse effect on the consolidated financial position or results of operations of the Company. Provision has been made in 1976 and prior years in the deferred income tax accounts for the effect of possible adjustments, some of which are in the nature of timing differences.

The Company has net operating loss carryforwards all of which, upon utilization, would be credited to the deferred income tax accounts. The expiration of net operating loss carryforwards is \$1,153,232 in 1977, \$1,301,744 in 1978, \$95,987 in 1979 and \$1,954,375 in 1981.

The Company also has investment tax credit carryforwards in the amount of \$468,668 expiring, if not used, in varying amounts to 1983. The entire amount of investment tax credit would be credited to the deferred income tax accounts when utilized.

Investment tax credits of \$220,236 for 1976 and \$63,351 for 1975 have been used to reduce the provision for income taxes.

#### Note F—Long-Term Debt

The debentures, which bear interest at the rate of 5¾%, are convertible into one share of common stock for each \$24.71 of principal amount, and are subordinated to all outstanding or subsequently incurred senior indebtedness. There are 76,123 shares of the Company's common stock reserved for such conversion. The debentures are redeemable, at the option of the Company, in whole or in part at redemption prices ranging downward from 103.384% beginning January 15, 1976 to 100% beginning January 15, 1988. The indenture provides for an annual sinking fund payment in the amount of \$118,500, which can be reduced by the principal amount of debentures purchased by the Company. The indenture, among other things, provides limitations upon payment of cash dividends and the amount of common stock the Company can purchase for treasury. Retained earnings not restricted for payment of cash dividends amount to \$11,209,484 at June 30, 1976.

Debt expense incurred in connection with registration and sale of the debentures is being amortized over the life of the outstanding debentures.

During the year the Company obtained a line of credit in the amount of \$2,500,000 which will be drawn as needed. At June 30, 1976, \$900,000 had been drawn on this line of credit. The line of credit bears interest at ½% above the local prime interest rate and is to be repaid in eighteen monthly payments beginning August 1, 1977.

#### Note G—Subsidiary Stock Redemption

As of June 30, 1976, the Company's subsidiary, KOP-RAN Development Corporation, redeemed the 20% minority interest in exchange for equipment and cash.

#### Note H—Earnings Per Share

Earnings per share of common stock have been computed on the basis of the weighted average number of shares outstanding during each year and, when dilutive, additional shares assuming the exercise of stock options. The computation of fully diluted earnings per share assumes the conversion of all outstanding convertible debentures at the beginning of the year as well as the exercise, when dilutive, of all stock options.

#### Note I—Leases and Commitments

Total rental expense for all leases amounted to \$291,245 in 1976 and \$372,602 in 1975.

The future minimum rental commitments under noncancellable equipment leases with a related party totaled \$84,691 at June 30, 1976 (see Note L). These commitments are for the fiscal year ending June 30, 1977.

#### Note J—Stock Options

At June 30, 1976, 72,550 shares of common stock were reserved for issuance to certain officers and employees under the Company's stock option plans for key employees. Of the 72,550

shares reserved for options, 29,250 were covered by options outstanding and 43,300 were available for future grant. Options may be granted at prices not less than market value at date of grant, become exercisable principally in two or more equal annual installments following dates of grant, and expire five years from date of grant. The plans provide that individual options cannot be exercised while any option previously granted at a higher price is outstanding.

In addition, 50,000 shares are reserved for issuance pursuant to a stock option purchase plan for salaried employees (except officers). No options have been granted under this plan at June 30, 1976.

In addition, the Company has granted other options, principally to directors, not under the stock option plans, which are priced at fair market value on the date of the grant and become exercisable principally in five equal annual installments following dates of grant, and expire five years from the date of grant.

Option transactions are summarized as follows:

	Stock Option Plans		Other		Total Shares
	Shares	Price	Shares	Price	
Outstanding July 1, 1974	12,000	9.88-20.00	54,250	9.88-19.00	66,250
Year ended June 30, 1975					
Granted	17,300	9.13-10.00	31,000	9.13-10.00	48,300
Cancelled	(6,350)	10.25-20.00	(29,500)	11.50-19.00	(35,850)
Outstanding June 30, 1975	22,950	9.13-12.25	55,750	9.13-12.75	78,700
Year ended June 30, 1976					
Granted	7,700	13.38-13.88	—	—	7,700
Cancelled	(1,400)	9.88-10.00	(7,000)	9.88	(8,400)
Outstanding June 30, 1976	29,250	9.13-13.88	48,750	9.88-12.75	78,000
Exercisable June 30, 1976	9,948	9.13-12.75	16,834	9.13-12.75	26,782

There were no options exercised during the periods shown.

#### Note K—Litigation

The Company and the joint owner of the Johnny M Mine, HNG Oil Company (HNG), are engaged in litigation with General Atomic Company.

The litigation arose as a result of a joint sales agreement made in 1972 between the Company and HNG with Gulf Oil Corporation, subsequently assigned by Gulf to General Atomic. The agreement provided for sale to Gulf of the production of the Johnny M Mine at a price of about \$8.00 per pound of uran-

ium oxide ( $U_3O_8$ ). The agreement provides for delivery of a minimum of five million pounds, with provision for an increase in such quantity (to a maximum of ten million pounds) depending on the existence of additional ore reserves and the cost at which they could be produced.

Because of conditions unforeseen at the time the agreement was made, the Company and HNG are unable to make deliveries of  $U_3O_8$  at the price provided for in the agreement. General Atomic has brought suit against the Company and

HNG asking the court to determine the obligations of the parties involved and the validity of the agreement. The Company and HNG have filed a counterclaim, denying their duty to perform under the agreement and asserting that their liability, if any, to General Atomic for failure to deliver is limited to a maximum of 120% of the contract price pursuant to a specific limitation of liability provision contained in the sales agreement.

Pursuant to an agreement reached between General Atomic and its customer, Gulf States Utilities, Gulf States acquired the right to an assignment of General Atomic's cause of action to the extent of approximately three million pounds of uranium. As a result of this arrangement, the Company and HNG were able to reach settlement with Gulf States Utilities of the litigation as to about three million pounds on September 30, 1976. Although General Atomic has not yet formally assigned the cause of action to Gulf States Utilities with respect to such three million pounds, the Company may terminate the settlement agreement in event General Atomic fails to do so. The terms of settlement with Gulf States Utilities provide for a minimum price of \$27.55 per pound of  $U_3O_8$  delivered, and the pricing provisions contain a formula whereby such price will be increased to some degree by reason of inflation in the economy occurring after July 1976 and further increased by an amount equal to slightly less than 45 percent of any increases in the market price of uranium over \$40 per pound after calendar year 1976. The contract also contains provisions whereby the Company and HNG will not be required to deliver in the event uranium from the Johnny M Mine cannot be produced economically. The Company and HNG have also granted Gulf States certain options to purchase any material over and above the approximately three million pounds of  $U_3O_8$  which may be produced from the Mine. These options are contingent, however, on the outcome of the Company's litigation with General Atomic, and essentially provide for deliveries to Gulf States at a predetermined market price in event Gulf States exercises such options. The litigation with General Atomic is expected to continue with respect to production from the mine properties in excess of approximately three million pounds. The litigation has not yet been tried, and because of the complex nature of the issues involved in the law suit, the Company's legal counsel is unable to predict the outcome of the litigation.

The Company and HNG are also engaged in litigation with Fernandez Company, the owner of the surface on which the Johnny M Mine properties are located. Fernandez Company is seeking a royalty equal to approximately two percent of the ore value with respect to Johnny M production, primarily as compensation for surface damage. Fernandez Company's claim is based upon its interpretation of two separate agreements which it entered into with third parties prior to the Company's acquisition of the properties, which was made subject to the dispute. The Company is vigorously contesting the claims of Fernandez Company. The case is in the preliminary stages of discovery and counsel for the Company cannot yet predict the outcome of this litigation.

#### Note L—Related Party Transactions

Mining operations at the Company's Bluebird Copper Mine, Miami, Arizona, are being performed by Anderson Development Corporation pursuant to a mining contract with the Company. Anderson Development Corporation is wholly-owned by Carl Anderson, a principal shareholder of the Company and the father of Maxie L. Anderson, President and Chief Executive Officer of the Company. Maxie L. Anderson is also Vice President of Anderson Development Corporation. Under the terms of the contract, Anderson Development Corporation receives as payments for its services the sum of (i) its actual direct field costs, (ii) the cost of replacement or renewal of tires on equipment furnished by it, (iii) rental charges for machinery and equipment furnished by it and (iv) 10% of the sum of the cost of direct operating labor and payments under (iii) above. Total payments by the Company to Anderson Development Corporation for the fiscal year ended June 30, 1976, amounted to \$1,733,434 (1975—\$1,842,186) including \$1,394,147 (1975—\$1,387,316) of reimbursable costs, \$168,858 (1975—\$288,662) of rental charges for equipment, and \$170,429 (1975—\$166,208) constituting 10% of certain costs as described above.

The following table shows the high and low prices of the Company's stock by quarter during the last two fiscal years.

Quarter	1975		1976	
	High	Low	High	Low
First	\$12.63	\$8.25	\$18.38	\$12.38
Second	10.75	7.25	17.50	12.63
Third	11.50	7.75	18.13	15.00
Fourth	18.63	9.13	22.25	13.63

## Auditor's Report

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

We have examined the consolidated balance sheets of Ranchers Exploration and Development Corporation and subsidiaries as of June 30, 1976 and June 30, 1975, and the related statements of consolidated income, stockholders' equity and changes in consolidated financial position for the years then ended. Our examinations were 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.

As explained more fully in Note C to the consolidated financial statements, the Company has suspended operations at its Tungsten Queen Mine. The carrying amount of property, plant and equipment at June 30, 1976, is \$7,702,846. The ultimate realization of the Company's investment in the mine is dependent upon future economic conditions which will permit recovery through the means discussed in Note C.

As explained in Note K to the consolidated financial statements, the Company is engaged in litigation, the outcome of which is not determinable at this time.

In our opinion, subject to the ultimate realization of the investment in the Tungsten Queen Mine and to the effects, if any, of the ultimate resolution of the litigation, as described in the preceding two paragraphs, the financial statements referred to above present fairly the consolidated financial position of Ranchers Exploration and Development Corporation and subsidiaries at June 30, 1976 and June 30, 1975, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

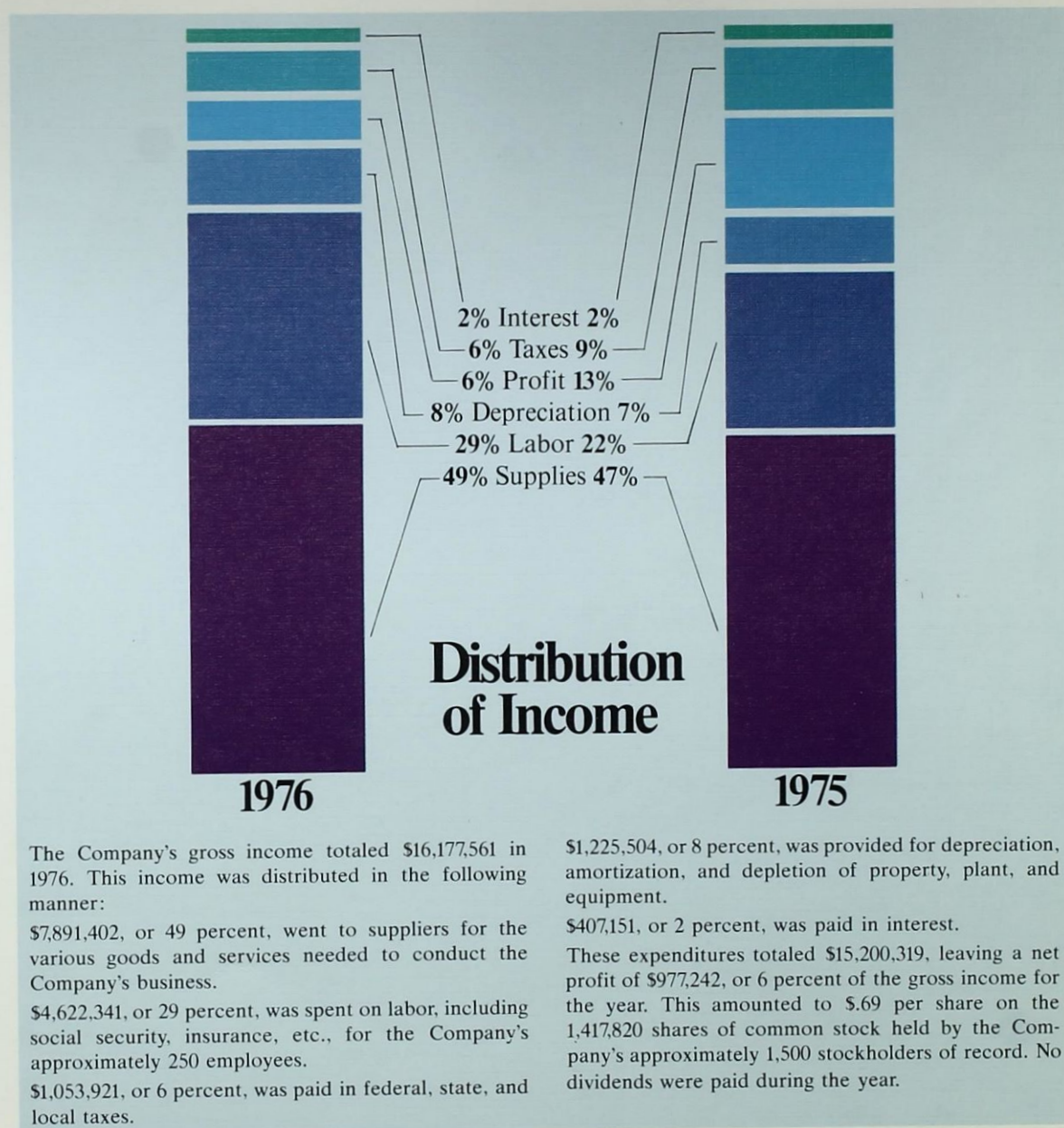
*Ernst & Ernst*  
Albuquerque, New Mexico

August 2, 1976, except as to Note K  
as to which the date is September 30, 1976

## Management Discussion and Analysis

The decrease in revenues and net income for the fiscal year 1976 from revenues and net income received during the fiscal years 1974 and 1975 is primarily due to the substantially lower prices received by the Company from the sale of its copper (1976, \$.64 per pound; 1975, \$.87 per pound; 1974, \$.76 per pound). Some decrease in unit production costs was obtained during the year through higher production. Higher uranium royalties (see Five Year Product Summary) helped offset lower copper prices, although the Company does not expect that the 1976 royalty total will be equaled in 1977. Royalties in 1974 were substantially lower as a result of a prolonged strike at Kerr-McGee Corporation's New Mexico uranium operations, from which most of such royalties are received.

Ranchers common stock is listed on the American Stock Exchange (symbol RAN). The Company produces cathode copper at its Bluebird Mine near Miami, Arizona, and is presently developing a uranium mine near Grants, New Mexico, pursuant to a 50-50 joint venture with a subsidiary of Houston Natural Gas Corporation. Another uranium mine near Grants is being developed pursuant to a 50-50 joint venture with Texas Utilities Fuel Company (a subsidiary of Texas Utilities Company); Ranchers also independently owns and is presently mining and stockpiling uranium ore from its Small Fry Mine near Moab, Utah.







## Bluebird Cathodes are Bigger & Better

Cathode copper, like that shown above, emerged from the solvent extraction-electrowinning plant at the Bluebird Mine at a record rate in 1976. The plant, which was originally designed for output of about 30,000 pounds per day, produced approximately 45,000 pounds daily in 1976, bringing total production since the plant went into operation in March 1968 to about 108-million pounds. The plant, the first to produce cathodes by solvent extraction-electrowinning on a commercial basis, also operated with exceptional efficiency during the year. Power costs were cut about five percent as

plant operators, aided principally by installation of new anode insulators, increased current efficiency in the plant from 75% to nearly 95% (The 3'x3½" cathodes are grown by passing direct current through a concentrated copper solution, reducing copper ions to metallic copper on thin starter sheets.) The increased efficiency also permitted a switch from a four-day cathode growth cycle to a six-day cycle, reducing the number of cathodes grown per week from 3,360 to 2,240, but increasing their weight from 100 pounds to 150 to 180 pounds. This in turn cut manpower and starter sheet requirements.

