Ranchers

1977 ANNUAL REPORT

Uranium Exploration
Begins Second Decade

The Company's search for uranium—illustrated by Mary Garriott's colorful cover painting of a drill crew in action in southwestern Colorado—entered its second decade in 1977. The exploration effort got underway in 1967 when John E. Motica, then chief geologist for Union Carbide's Colorado Plateau Operations, was employed to direct the exploration program. Since then the Company has participated in four joint exploration ventures, spent some $11-million in funds, drilled more than two-million feet of hole, and discovered uranium worth more than $300-million at current prices.

The worldwide search for uranium is perhaps the most exciting quest for a mineral since gold was discovered at Sutter's Mill in 1848. Fueled by uranium oxide (U_3O_8) prices which have soared from about $8 per pound in 1972 to approximately $43 per pound today, uranium exploration in the U.S. totaled some 34-million feet of surface drilling in 1976, more than triple the nine-million feet drilled in 1956 at the height of the first uranium boom triggered by the Atomic Energy Commission's buying program.

The rising U_3O_8 price reflects to some extent the risk inherent in uranium exploration. Few, if any, economic minerals are so hard to find.

"Looking at the rate at which discoveries are being made, one would have to conclude that uranium is perhaps the most difficult of all minerals to find, with the possible exception of diamonds," says Dave Fitch, the Company's chief uranium exploration geologist.

Motica, Senior Vice President, Geology, agrees. "One can drill within 30 to 50 feet of a uranium ore body and never know it's there," he says. "Frequently, there is no low-grade halo around an ore body, so you don't know ore is present unless you drill right through it."

The deposits tend to be narrow and highly irregular in shape, making discovery an uncertain affair. It has been noted, for example, that an exploration program, employing drill holes one mile apart, could have been drilled across the Ambrosia Lake district in northwest New Mexico—the country's prime uranium production district—without ever intersecting ore. Fitch further points out that in the Big Indian District in Utah, another major production area, it could take as many as 500 drill holes to make the first ore intercept of a 50-million pound district located in a 15 x 15-mile area.

And the search for uranium isn't getting any easier. Government statistics show that about half as much uranium ore is being found today per foot of drilling as was discovered 10 years ago.

Fitch gives a number of reasons why the quest has grown more difficult.

"Exploration costs have increased tremendously in the last five years," he says, "and environmental restrictions have made access to potential uranium-bearing acreage more difficult and resulted in withdrawal of thousands of acres from mining usage. In addition, competition has also increased greatly, making it difficult to obtain favorable acreage. And, finally, the most favorable acreage—that closest to known, relatively shallow deposits—has already been extensively tested, forcing exploration of deeper-lying strata, or moves to entirely new, less-well-understood depositional environments."

(continued on back cover)

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Ranchers Exploration and Development Corporation
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Review & Preview

1977 A Challenging Year; Sets Stage For A Better '78

Fiscal year 1977 was perhaps the most challenging 12 months the Company has experienced since its incorporation in 1954. The major objective for the year was to increase earnings despite falling copper prices and the cost of bringing new uranium properties on line. This goal was accomplished, with earnings rising approximately 49 percent to $1.03 per share, compared to $.69 per share a year ago, and very satisfactory progress was made in bringing the uranium properties into production. In fact, the performance in 1977 should set the stage for a very good year in 1978, when the Company's transition from a copper producer to primarily a producer of uranium will be largely completed.

Management's greatest effort in 1977 focused on bringing the Johnny M uranium mine into profitable operation, a goal which was finally achieved in the final quarter of the fiscal year. The erratic nature of ore deposition in the mine has increased costs and made mining very difficult. It appears, however, that sufficient mining areas are now open to permit preliminary production goals to be met.

A key development in bringing the mine up to a profitable level of operation was partial settlement of litigation (see Note J, Page 30) over the 1972 agreement with General Atomic Company to purchase U_3O_8 production from the mine at a price of about $8 per pound. The partial settlement, which occurred in September 1976, was reached with Gulf States Utilities and covered three-million pounds of U_3O_8 to be produced from the mine. Gulf States, a customer of General Atomic, had acquired a right to an assignment of General Atomic's cause of action against the Company and its partner in the mine, HNG Oil Company, to the extent of the three-million pounds of U_3O_8. As a result of the new agreement, Gulf States is paying approximately $29 per pound of U_3O_8 delivered. Litigation with General Atomic over mine production in excess of three-million pounds is continuing, and the Company is hopeful that the matter will come to trial within the next year.

The Company also made important progress in 1977 on three other new uranium projects—the Hope and Small Fry mines, and the Durita uranium mill tailings treatment project. The Hope Mine was brought on stream in the third quarter, but has yet to reach its projected level of operation. The Small Fry Mine produced steadily throughout the year, with the ore going into stockpile. The Durita project, at Durango and Naturita, Colorado, got underway late in the year and is now progressing at full speed.

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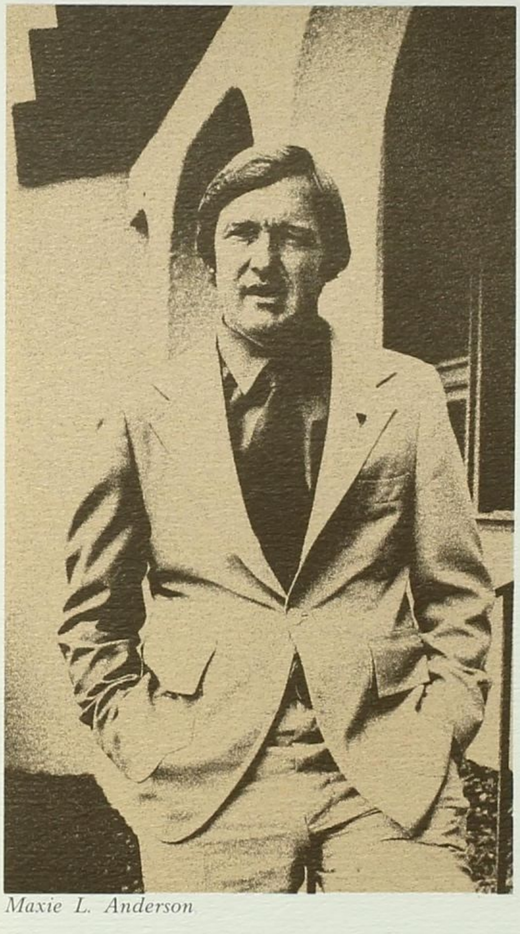

Maxie L. Anderson

Highlights of 1977

1. Earnings were $1.03 per share, an increase of 49 percent over the $.69 per share earned in 1976.

2. The Company made its first significant sales of uranium, receiving $4,562,000 for 176,498 pounds of production.

3. A portion of litigation over production from the Johnny M uranium mine was settled early in the year, and the Mine brought to a profitable level of operation in the fourth quarter.

4. The Hope uranium mine was placed in production in the third quarter, and an agreement was reached with United Nuclear Corporation to purchase the ore.

5. Production continued throughout the year at the Small Fry Mine, with the uranium ore being placed in stockpile pending completion of milling arrangements.

6. Preliminary engineering was completed on the Durita uranium tailings project, and work began at the Naturita site in June.

7. Uranium royalties reached record levels, exceeding royalties from a year ago by 53 percent.

8. Uranium exploration continued throughout the year, with one joint venture being completed and another one expanded.

9. The Bluebird copper mine operated at peak efficiency during the year, producing 9 percent more copper than in 1976.

10. Ran-Con Corporation, the Company's mine contractor subsidiary, had a very profitable year as the result of work on uranium projects in New Mexico.

(continued from page 2)

Two other aspects of the Company's uranium operations in 1977—royalties and exploration—also deserve mention. The royalties, from properties located in northwest New Mexico in the Ambrosia Lake district and mined by Kerr-McGee, shot up to a record $2.74-million, far exceeding the previous record total of about $1.8-million received last year. Exploration continued throughout the year, with reserves being added at several properties. One joint venture ended during the year and another was expanded. Such ventures represent the Company's best opportunity to increase its reserves of this mineral whose value has approximately quintupled in the last four years and whose long-range future looks extremely promising.

The Company's mining contractor subsidiary, Ran-Con Corporation, also benefited greatly during the year from the expansion in uranium mining underway in the Grants (N.M.) Mineral Belt. Ran-Con contributions to parent company earnings were about $.10 per share, nearly twice that of 1976.

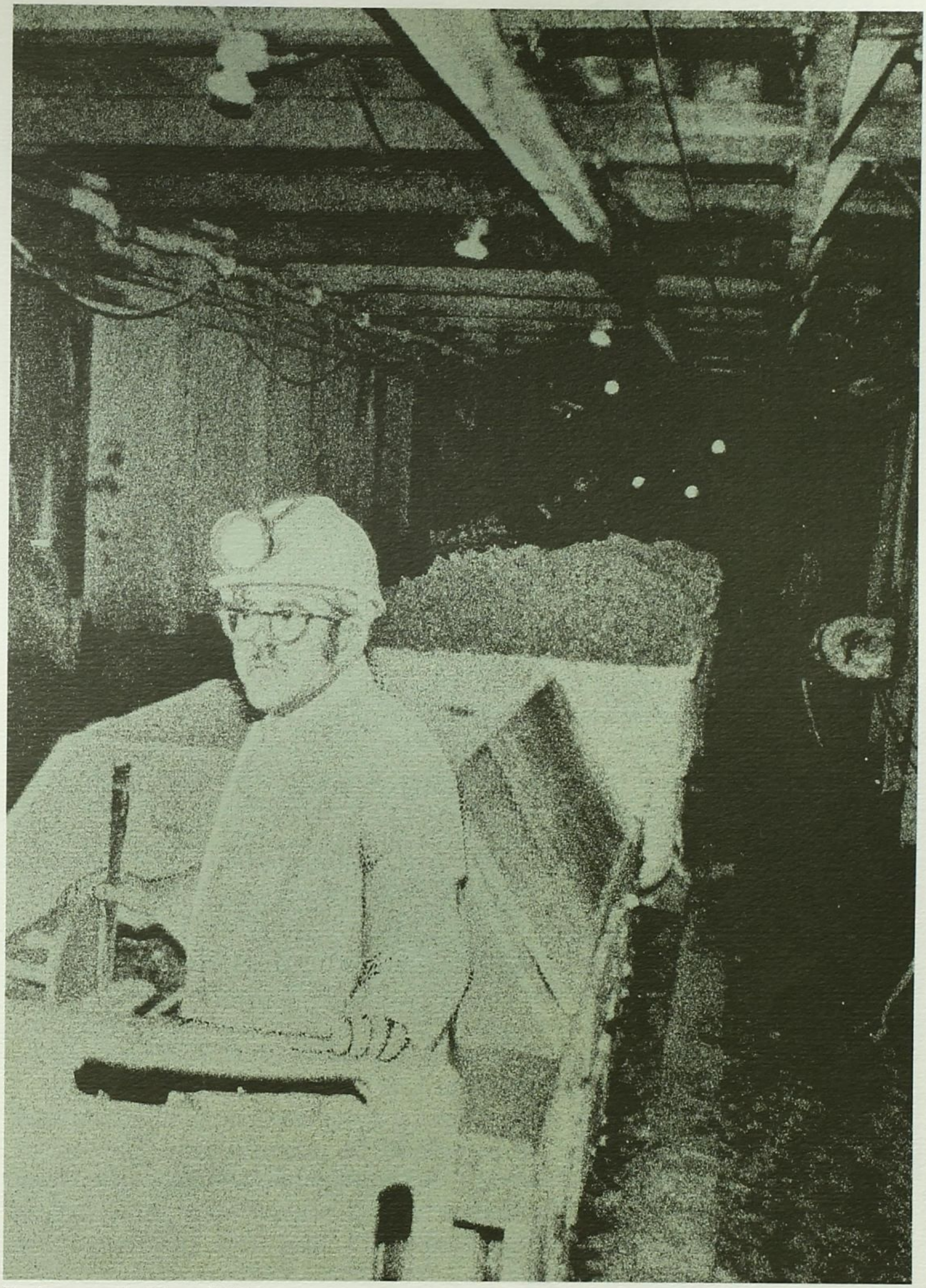
The Bluebird copper mine had another exceptionally productive year in 1977, but copper prices were so depressed that the mine profitability was drastically reduced. The solvent extraction-electrowinning plant at the mine produced nearly 18-million pounds of cathodes during the year—an average of about 49,000 pounds per day, a remarkable achievement when one considers that the plant was designed to produce only 28,000 pounds per day.

It is extremely difficult to estimate precisely how the Company will fare in 1978. The goal will be to exceed the $1.73 per share earned by the Company in 1974, the best year of earnings to date. Whether this is achieved will depend largely on continued increases in production at the Johnny M Mine and successful completion of milling arrangements for the Small Fry ore. It now appears that Johnny M production is in an upward trend and should substantially exceed 50,000 pounds of U_3O_8 per month during the year. Small Fry milling arrangements have taken much longer than expected; however, with some $8-million worth of uranium already in stockpile and a rather low investment in the mine, the milling problem is seen primarily as one of maximizing profits. Uranium royalties should again be strong, but are unlikely to reach their 1977 level.

The Hope Mine and Durita project will probably make only nominal contributions to earnings during 1978, although Durita should progress to the stage that it will rival the Johnny M as a contributor to earnings in 1979. Bluebird copper operations are expected to contribute little, if anything, to earnings, unless copper prices improve significantly, an event which seems quite unlikely at this juncture. However, the increase in profits from uranium should make this loss of income considerably less painful than in 1977.

September 1, 1977

Maxie L. Anderson, President



Hauling ore at the Johnny M Mine

Management Discussion & Analysis

Uranium Royalties & Sales Lift Earnings Despite Low Copper Prices

Reflecting the positive influence of uranium royalties and sales, the Company's earnings rose 49 percent in 1977, totaling $1.03 per share, compared to $.69 per share last year. By quarters, per share earnings were $.25, $.20, $.30, and $.28. Net income for the year was $1,490,719 vs. $977,242 in 1976.

Gross income was $21,160,930, up 31 percent from the $16,177,561 received a year ago. Included in the gross were copper sales of $11,939,311, uranium sales of $4,561,682, uranium royalties of $2,744,191, contract services by Ran-Con Corporation of $1,490,920, tungsten sales of $292,501, and interest and miscellaneous income of $132,325. Copper sales constituted 56 percent of the gross, uranium sales 22 percent, uranium royalties 13 percent, and contract services 7 percent. ($766,353 in Ran-Con sales were for services provided to the parent company and do not appear as gross income.)

Uranium sales and royalties were the most profitable aspect of the Company business during the year, serving as the source of about 75 percent of earnings before taking into consideration the effect of such costs as income taxes, interest, exploration, and administrative and general expenses. Virtually all of the earnings from uranium sales came in the final quarter of the year and were derived from production at the Johnny M Mine.

Copper was a source of only 20 percent of the earnings during the year, depressed prices having cut severely into the profitability of this portion of the Company's operations. The Company sold 20,055,101 pounds of copper during the year, an increase of 7 percent over the 18,689,356 pounds sold last year. The total included 2,138,894 pounds of copper from inventory, the remainder coming from production at the Bluebird Mine. Some 791,811 pounds of copper produced at the Big Mike Mine were placed in inventory. Copper prices were the lowest in several years, the Company receiving an average of $.60 per pound, compared to $.64 last year.

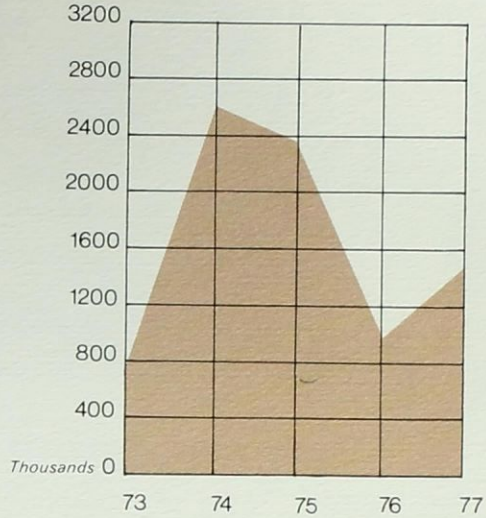
At year's end, the Company's ratio of current assets to current liabilities was 2 to 1, compared to 3.5 to 1 at the end of the previous year. The decline was primarily the result of continuing developmental expense at the Hope and Johnny M mines and at the Durita tailings project, although a shift of marketable securities from current assets to a long-term investment was another factor in the ratio change.

Financial Highlights

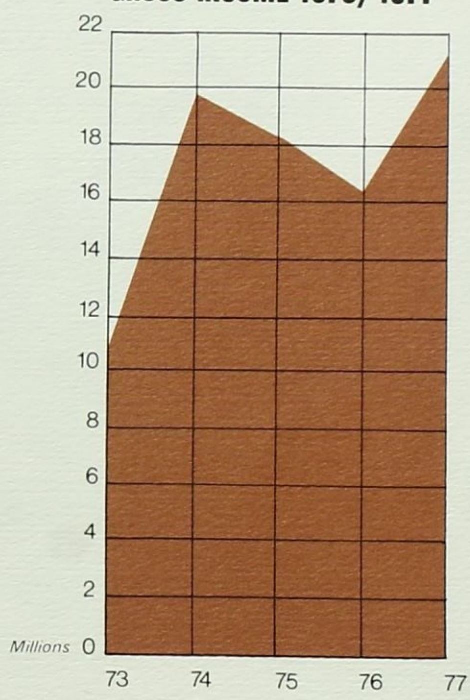
	Fiscal Year Ending June 30	
	1977	*1976*
Gross Income	$21,160,930	$16,177,561
Net Income before Income Taxes	2,290,719	1,675,673
Income Taxes	800,000	698,431
Net Income	1,490,719	977,242
Net Income per Share		
Primary	1.03	.69
Fully Diluted	1.01	.69

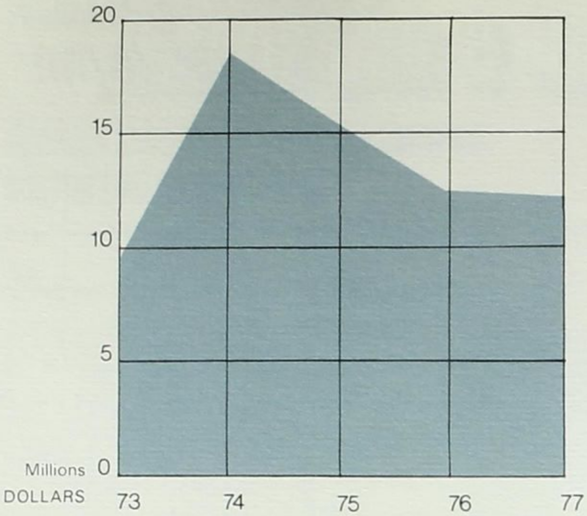
	Three Months Ending June 30	
	1977	*1976*
Gross Income	$6,720,320	$5,285,275
Net Income before Income Taxes	731,739	957,319
Income Taxes	325,000	518,431
Net Income	406,739	438,888
Net Income per Share		
Primary	.28	.31
Fully Diluted	.27	.31

NET INCOME 1973/1977

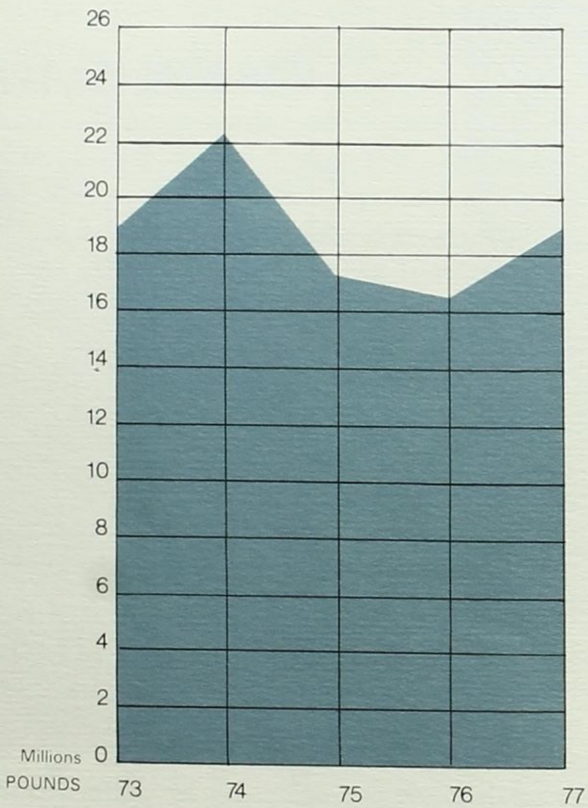


GROSS INCOME 1973/1977

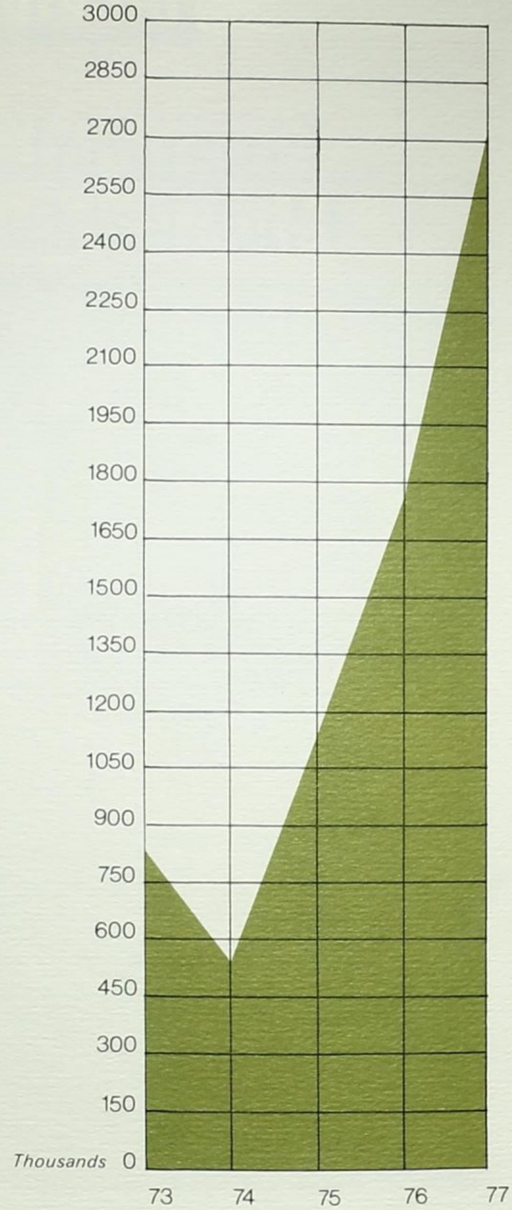




COPPER SALES 1973/1977



COPPER PRODUCTION 1973/1977



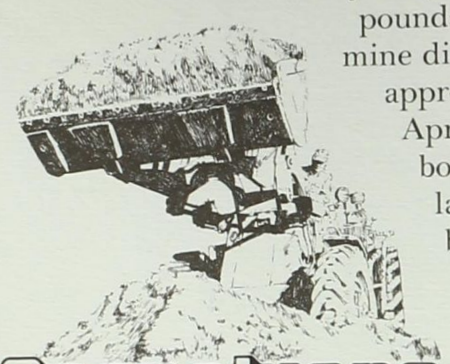
URANIUM ROYALTIES 1973/1977

1977/1973 Product Summary

(Dollars in Thousands)	1977 Amount	%	1976 Amount	%	1975 Amount	%	1974 Amount	%	1973 Amount	%
Sales:										
Copper	$11,939	57	$11,985	75	$15,236	86	$18,504	94	$ 9,690	92
Uranium	4,562	22	—	—	—	—	—	—	—	—
Uranium Royalties	2,744	13	1,797	11	1,136	6	526	3	818	8
Other Metals	293	1	279	2	50	—	205	1	17	—
Contract Services	1,491	7	1,960	12	1,427	8	481	2	60	—
Total	$21,029	100%	$16,021	100%	$17,849	100%	$19,716	100%	$10,585	100%
Sources of Earnings:										
Copper	$ 861	20	$ 1,743	47	$ 3,909	75	$ 4,515	89	$ 1,449	73
Uranium	477	11	—	—	—	—	—	—	—	—
Uranium Royalties	2,744	64	1,797	48	1,136	22	526	10	818	41
Other Metals	(37)	—	(169)	(5)	(124)	(2)	(76)	(1)	(218)	(11)
Contract Services	244	5	336	10	263	5	96	2	(77)	(3)
Total	4,289	100%	3,707	100%	5,184	100%	5,061	100%	1,972	100%
Exploration, Conservation and Maintenance of Mining Properties	(847)		(813)		(822)		(445)		(257)	
Other Income and Expense, Net*	(1,151)		(1,219)		(847)		(1,098)		(694)	
Income Taxes	(800)		(698)		(1,126)		(900)		(236)	
Net Income	$ 1,491		$ 977		$ 2,389		$ 2,618		$ 785	

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

The Company continued to expand its uranium operations in 1977, bringing the Johnny M Mine to a profitable level of operation in the final quarter, starting production at the Hope Mine in the third quarter, and maintaining a steady level of output at the Small Fry Mine throughout the year. On-site work was also begun at the Durita tailings project late in the year.



Operations

Uranium Output Increases At Johnny M, Hope & Small Fry Mines

Shipments from the Johnny M, located in northwest New Mexico and jointly owned with HNG Oil Company, totaled 282,962 pounds of contained U_3O_8 during the year, but the mine did not reach a profitable level of production—approximately 45,000 pounds per month—until April. By year's end, development of the two ore bodies in the south half of Section 7 had been largely completed, with most of the ore defined by original surface drilling having been opened up for mining. The number of mining areas—stopes—was doubled during the year, and mining is now underway in eight stopes. Major progress was also made on the drift to the large ore body in the northwest part of the Section. This deposit is approximately 4,800 feet from the main shaft, and the drift should reach the first stoping area in mid-November. In the southern part of the mine on Section 18, development is continuing, with four stoping areas open and significant production about to begin for the first time. It appears that the mine's projected level of operation—some 600 tons of ore per day—can be maintained in 1978, and that the mine will operate profitably.

The Small Fry Mine, near Moab, Utah, operated smoothly during 1977, with production of approximately 250 tons of ore per working day going into a stockpile, which as of July 1, 1977 contained about 100,000 tons of ore with a U_3O_8 content of about two pounds per ton. The Company is continuing to negotiate milling arrangements for the ore. The Hope Mine, a small producer near Grants, New Mexico, was brought on stream in February, but has yet to reach the breakeven point. The grade of ore in the Mine has been lower to date than expected, forcing mining to be increasingly selective.

The Company's Bluebird copper mine near Miami, Arizona, had by far its best year of production in 1977, producing 17,916,207 pounds of copper cathodes, an increase of 9 percent over last year's record output of 16,431,184 pounds. Despite operating at peak efficiency, the mine was less profitable in 1977 than in 1976 because of lower copper prices and will probably operate at a loss in 1978 unless prices improve.

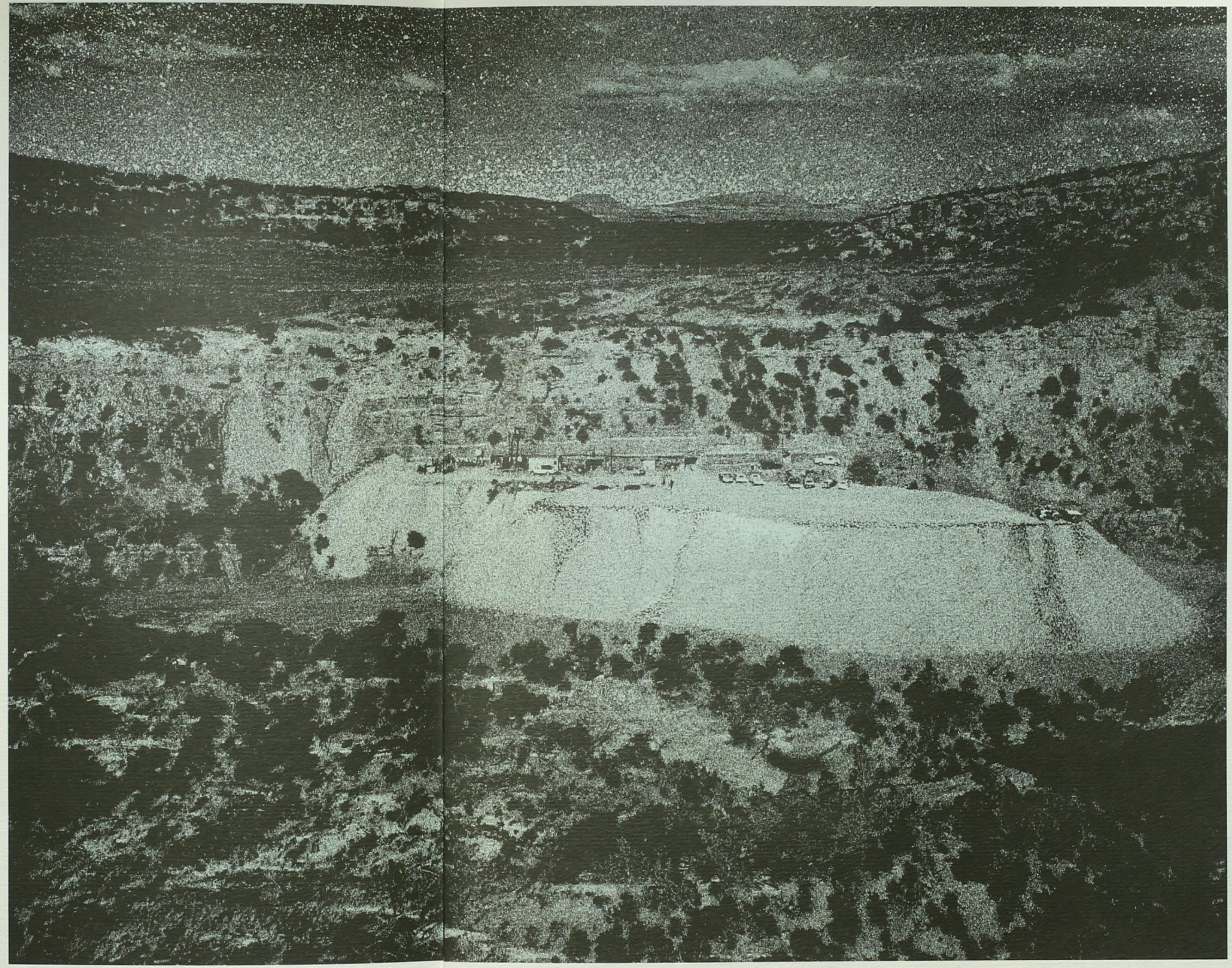
Building Leaching Heaps at the Bluebird Mine

Mining Methods

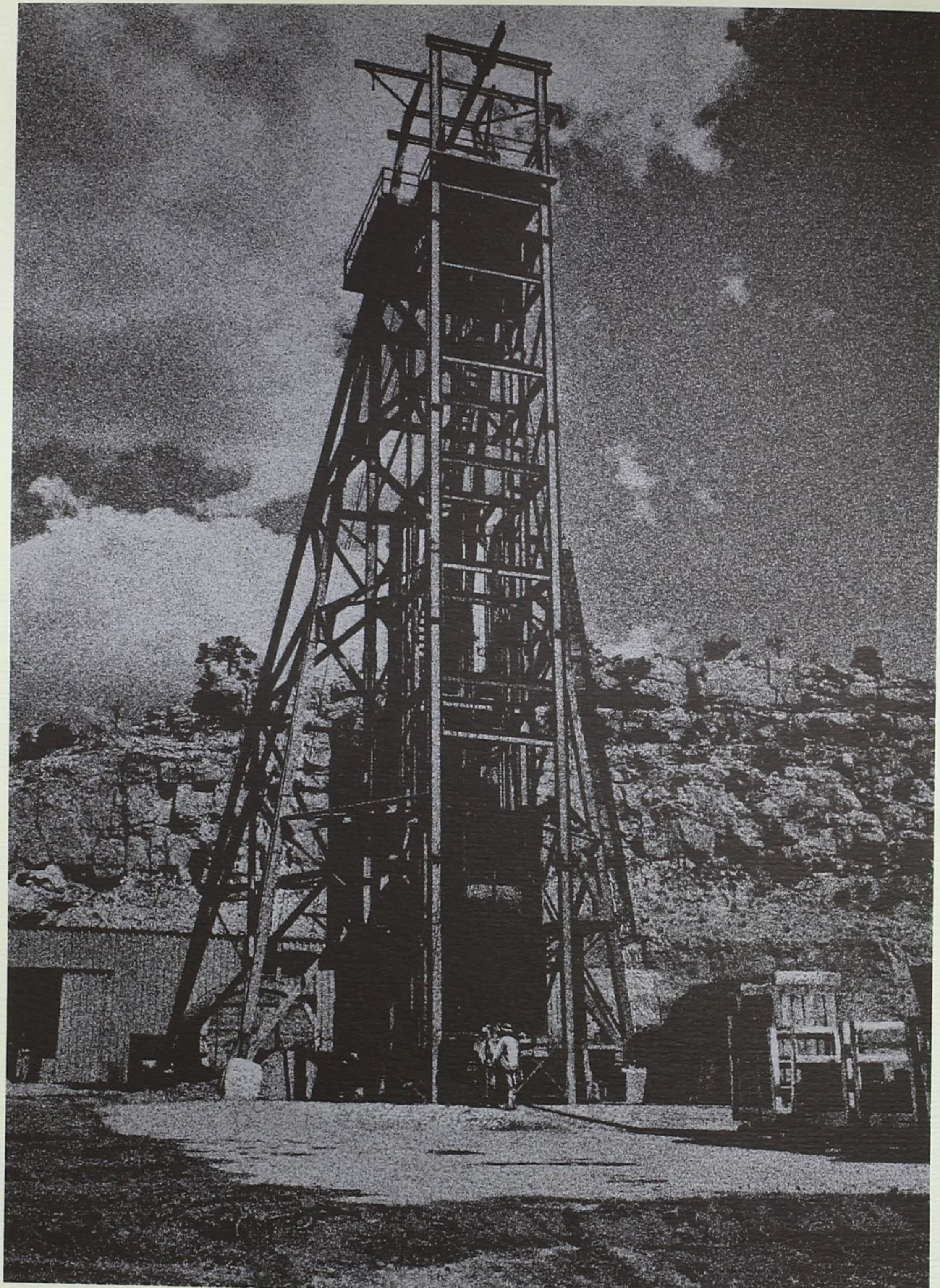
The Company operated three underground mines—Johnny M, Small Fry, and Hope—during 1977, using a conventional drilling, blasting, and mucking sequence to remove ore and waste. The material is hoisted up shafts to the surface at the Johnny M and Hope; at the Small Fry, where access is through a 600-foot-long decline, ore is hauled to the portal in rubber-tired vehicles and dumped into a stockpile (at right) adjoining the mine entrance.

About 60,000 tons of ore, 11,500 tons of low grade material, and 24,500 tons of waste were mined at the Johnny M during the year. The ore is trucked to the Kerr-McGee mill for processing into yellow-cake. At the Small Fry, approximately 65,000 tons of ore and 5,000 tons of waste were mined. The Hope Mine was in the development phase during much of the year, with the shaft being completed in the first quarter and production beginning in February. During the remainder of the fiscal year, some 18,500 tons of ore and 8,000 tons of waste were mined. The ore has been sold to United Nuclear, which is processing it at a nearby mill.

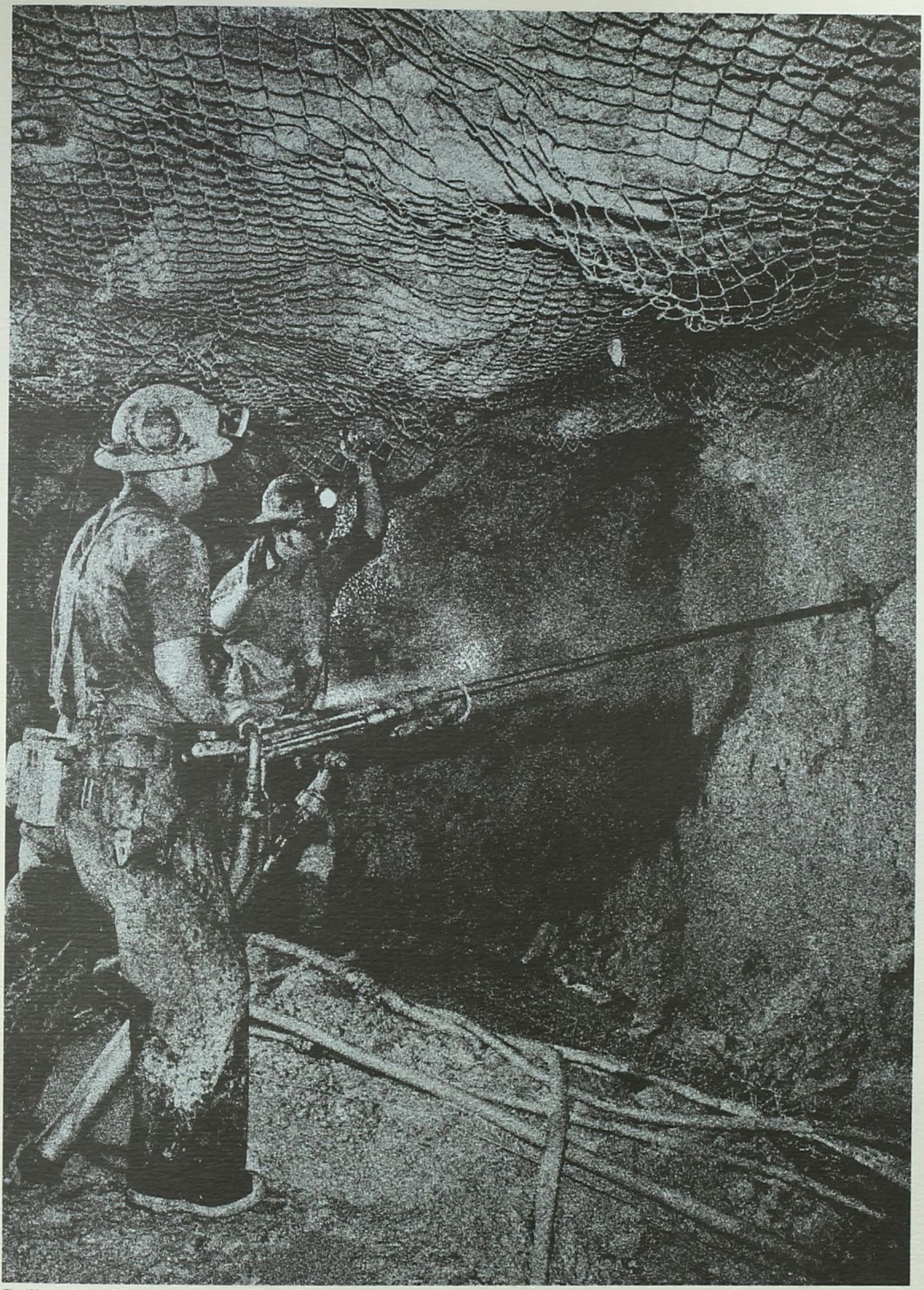
At the Company's only major surface operation, —the Bluebird Mine—copper ore and waste are broken with large, tractor-mounted rippers and then transported to ore heaps (Page 11) or waste dumps in bottom-load scrapers or trucks. In 1977, approximately 3,000,000 tons of ore and 5,265,000 tons of waste were mined, compared to 3,900,000 tons of ore and 4,900,000 tons of waste in 1976. Grade of ore was .79 percent copper, compared to .58 percent last year.



Small Fry Mine & Ore Stockpile



Headframe at the Johnny M Mine



Drilling Blast Holes at the Hope Mine

The Company's newest uranium recovery project is proceeding apace near Naturita, Colorado, where Durita Development Corporation, a wholly-owned subsidiary, has begun preparation of a site to treat approximately 630,000 tons of old uranium mill tailings. An additional 1,460,000 tons of tailings at Durango, Colorado, will be treated in a second phase of the project. Production is scheduled to begin at Naturita in early 1978 and at Durango in mid-1979. The approximately two-million tons of tailings, left from milling operations at the two sites from 1943-63, contain about two-million pounds of uranium. Tests indicate that at least 65 percent of this amount can be recovered, plus a substantial quantity of vanadium.

Some $750,000 worth of earthwork (above) began at the Naturita site in July, 1977, and will be completed in November. The work includes construction of three clay-lined leaching tanks, each measuring 400 x 1000 x 20-feet, 25 acres of clay-lined evaporation ponds, four plastic-lined solution collection ponds, and a plastic-lined water storage reservoir. Construction of a materials processing facility has also begun. It will consist basically of bins, conveyors, dryer, crusher, and an agglomerator for preliminary treatment of the material before it is placed in the leaching tanks for treatment with sulfuric acid.

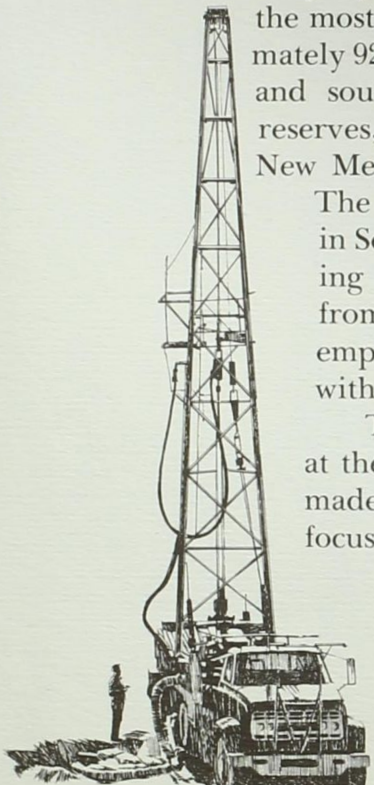
Hauling of the tailings to the Naturita site will begin in November and continue throughout most of 1978. The material will be dried and crushed before being conveyed to the agglomerator—a 33-foot-long, 12-foot-diameter rubber-lined rotating cylinder, where the sand-like particles will be sprayed with sulfuric acid to insure that they are thoroughly exposed to the leaching fluid. The material will emerge from this preliminary treatment as small pellets, or prill, which will then be moved to the treatment tanks. Sulfuric acid trickled onto the surface of tailings heaps will leach out the uranium, which will be recovered from solution in a conventional solvent extraction circuit.

The uranium will emerge from the solvent extraction plant as a uranium oxide slurry, which will be transported in tank trucks to a conversion plant in Oklahoma for further processing. The vanadium will be precipitated from the solvent extraction solution, further refined and dried on-site, and sold in powder form. The Naturita plant is projected to produce about 1,100 pounds of U_3O_8 and 4,300 pounds of vanadium daily. Production, which is not expected to reach maximum levels until mid-1978, will continue for an estimated 16 months from time of start-up. The plant will be moved to the Durango site in about mid-1979, with production beginning there later in the year and continuing for approximately 32 months. Following completion of operations, both sites will be covered and vegetation re-established.

Exploration

Uranium Search Continues Throughout Year; Texas Utilities Venture Expanded

The Company maintained its extensive uranium exploration program in 1977, increasing reserves in the vicinity of several known deposits, and further delineating new areas favorable for uranium deposition. Drilling totaled approximately 344,000 feet, compared to 420,000 feet in 1976.



The Company's joint venture with Texas Utilities Fuel Company was the most active during the year, exploring portions of approximately 92,000 acres in northwest New Mexico, northern Wyoming, and southwestern Colorado. Some additions were made to reserves, principally at the Hope and Faith mines in northwest New Mexico, and the Pitchfork Mine in southwest Colorado. The venture, which was originally scheduled to terminate in September, 1977, was extended for another year, and funding for the additional year was increased to $2.5-million from the initial annual expenditure of $1-million. The major emphasis of the venture is presently on wildcat exploration, with a view toward discovery of new uranium districts.

The joint venture with Urangesellschaft was concluded at the end of calendar year 1976 without a discovery being made. The venture was begun in mid-1974, and drilling focused on approximately 320,000 acres in southeast Utah and northern New Mexico. Areas favorable for uranium deposition were delineated on some of the acreage, and the Company is now formulating plans to further explore portions of the property.

No exploration or development was conducted during the year at the several other mineral properties which the Company controls. Alaskan gold placers, known to contain several million yards of reserves, are being held pending further appreciation in gold prices. Further work at the Escalante silver property in southwest Utah awaits similar price action. The Company is continuing to evaluate the possibility of reactivating its Tungsten Queen Mine near Townsville, North Carolina, because of the sharp increase in tungsten prices. Several companies have indicated that they would like to acquire an interest in the property, which has been on standby since mid-1971 because of a serious decline in tungsten prices at that time.

Drilling Crew in Action

Officers & Directors

There were two changes in the Company's Board of Directors in 1977. Robert V. Sibert, President, Pearson-Sibert Oil Company of Texas, retired from the Board in November, 1976, and was succeeded by Phil S. Cross, Vice President, Kerr Addison Mines Limited, Toronto, Canada. Roy Richards, President, Southwire Company, resigned at the end of the fiscal year because of the time demands of his company; no successor has yet been named.

There were no changes in the Company's top management staff during the year, but there were two upper level management promotions. David C. Fitch was named Chief Geologist, Uranium, and Walter R. Ashwill was named Chief Mining Geologist. Mr. Fitch joined the Company in 1967 and most recently served as a District Geologist. Mr. Ashwill joined the Company in 1968 and was a Senior Geologist at the time of his promotion.

Brief biographies of the Company's officers are as follows:

Maxie L. Anderson, President—Mr. Anderson was elected to the Company's Board of Directors in 1957, became manager of the Company in 1962, and assumed his present position in 1963. He holds a BS degree in industrial engineering from the University of North Dakota, 1956. He has been active in uranium exploration and development since 1953.

Herbert M. Campbell II, Vice President and Secretary—Mr. Campbell serves as the Company's chief counsel. He joined the Company as a staff attorney in 1967, was named Secretary in 1968, and assumed his present position in 1974. He did his undergraduate work at the Air Force Academy, and received his degree in law from the University of New Mexico in 1967. He is a member of the New Mexico State Bar.

Leland O. Erdahl, Vice President, Finance—Mr. Erdahl serves as the Company's chief financial officer, having joined the Company in 1970 following service with the Atomic Energy Commission and United Nuclear Corporation, where he was Manager, Finance and Administration, Mining and Milling Division. He holds a BS degree in business from the College of Santa Fe, 1970, and is a Certified Public Accountant.

David K. Hogan, Vice President, Engineering—Mr. Hogan joined the Company in 1968 as mine and plant engineer at the Bluebird Mine and subsequently served as chief engineer and manager of engineering and construction before being named to his present position in 1974. He holds a BS degree in mining engineering from the University of Arizona, 1962.

Marvin K. Kaiser, Treasurer—Mr. Kaiser joined the Company as Controller in 1969, following service with Ernst & Ernst and Becton-Dickinson & Co. He was named Assistant Secretary and Treasurer in 1972 and assumed his present position in 1974. He holds a BS degree in accounting from Southern Illinois University, 1963, and is a Certified Public Accountant.

Paul A. Matthews, Vice President, Operations—Mr. Matthews was general manager of the Company's Tungsten Queen Mine in 1971 and then served as mine manager of Kerr-American's operations at Blue Hill, Maine, from 1971-1974, when he returned to the Company in his present capacity. He holds a BS degree in mining engineering from Missouri School of Mines, 1950.

John E. Motica, Senior Vice President, Geology—Mr. Motica joined the Company in his present capacity in 1967 and has headed its exploration and mineral property evaluation program since that time. He served as chief geologist with Union Carbide's Colorado Plateau Operations from 1954-67. He holds an Engineer of Mines degree from Colorado School of Mines, 1948.

Directors—*Maxie L. Anderson,* President, Ranchers Exploration & Development Corporation / *Frank Coolbaugh,* Mining Consultant / *Phil S. Cross,* Vice President, Kerr Addison Mines Limited / *Edward E. Monteith, Jr.,* Executive Vice President, Republic National Bank, Dallas, Texas / *John E. Motica,* Senior Vice President, Geology, Ranchers Exploration & Development Corporation / *Edward McL. Tittmann,* Mining Consultant.

1977/1973 Summary of Operations

Income:	1977	1976	1975	1974	1973
Net Sales	$21,028,605	$16,020,312	$17,848,957	$19,715,926	$10,585,125
Interest and Other	132,325	157,249	384,813	62,690	43,164
Gain on Repurchase of Debentures	–	–	100,798	10,850	–
	21,160,930	16,177,561	18,334,568	19,789,466	10,628,289
Deductions from Income:					
Cost of Products Sold	16,739,820	12,313,200	12,664,583	14,655,199	8,614,116
Exploration, Conservation and Maintenance of Mining Properties	846,858	812,729	822,319	444,940	198,700
Administrative and General Expenses	851,007	968,808	946,607	742,202	552,214
Interest, Principally on Long-term Debt	432,526	407,151	385,574	428,683	184,023
Lease Abandonment and Other	–	–	–	–	58,200
	18,870,211	14,501,888	14,819,083	16,271,024	9,607,253
Income from Operations before Applicable Income Taxes	2,290,719	1,675,673	3,515,485	3,518,442	1,021,036
Federal Income Taxes:					
Currently Payable	–	(1,569)	161,237	205,000	25,000
Deferred	800,000	700,000	965,000	695,000	211,200
	800,000	698,431	1,126,237	900,000	236,200
NET INCOME	$ 1,490,719	$ 977,242	$ 2,389,248	$ 2,618,442	$ 784,836
Average shares outstanding	1,447,713	1,417,820	1,460,670	1,512,162	1,512,912
Net income per common share	$1.03	$ .69	$1.64	$1.73	$ .52
Net income per common share assuming dilution*	$1.01	$ .69	$1.59	$1.67	$ .52

*Net income per share of common stock has 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 net income 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.

Assets

Ranchers Exploration and Development Corporation and Subsidiaries
Consolidated Balance Sheets / June 30, 1977 and June 30, 1976

	1977	1976
CURRENT ASSETS		
Cash and certificates of deposit (1977—$1,925,500; 1976—$746,500)	$ 3,074,043	$ 1,542,143
Marketable securities—at cost (market value $796,000)	—	556,436
Trade accounts receivable	2,522,761	956,921
Inventories—Note B	2,595,632	2,477,976
Prepaid expenses and other current assets	870,995	492,030
TOTAL CURRENT ASSETS	9,063,431	6,025,506
PROPERTY, PLANT AND EQUIPMENT—at cost— Note C		
Land	138,732	138,732
Buildings and equipment	16,292,702	16,005,144
Construction in progress—estimated additional costs to complete at June 30, 1977—$135,000	1,014,269	30,095
Mineral interests, mining claims, leases and permits—Note D	1,778,002	1,778,002
Deferred intangible mining and development costs	5,715,481	5,715,481
	24,939,186	23,667,454
Allowances for depreciation, depletion and amortization	9,311,781	8,174,715
	15,627,405	15,492,739
OTHER ASSETS AND DEFERRED CHARGES		
Investment in joint ventures—Note D	5,810,218	4,295,536
Unamortized debt expense	64,874	70,495
Claim for refund of federal income taxes—Note E	1,068,190	1,068,190
Marketable securities—at cost (market value $626,500; gross unrealized gain $70,064)	556,436	—
Other assets	114,977	588,439
	7,614,695	6,022,660
	$32,305,531	$27,540,905

See notes to consolidated financial statements

Liabilities and Stockholders' Equity

Ranchers Exploration and Development Corporation and Subsidiaries
Consolidated Balance Sheets / June 30, 1977 and June 30, 1976

	1977	1976
CURRENT LIABILITIES		
Trade accounts payable	$ 1,392,580	$ 1,098,636
Accrued interest payable	86,208	65,738
Amount refundable to customer—Note J	1,860,673	85,228
Other liabilities	308,805	336,081
Current portion of long-term debt	842,378	154,228
TOTAL CURRENT LIABILITIES	4,490,644	1,739,911
LONG-TERM DEBT—Note F		
5¾% convertible subordinated debentures due January 15, 1989	1,881,000	1,881,000
Notes payable	1,400,000	900,000
Contracts payable for purchase of land and mineral interest costing $346,925—less unamortized discount based on imputed interest rate of 8.5% (1977—$19,275; 1976—$32,126)	110,314	251,690
	3,391,314	3,032,690
Less portion classified as current liability	842,378	154,228
	2,548,936	2,878,462
DEFERRED FEDERAL INCOME TAXES—Note E	4,750,000	3,950,000
STOCKHOLDERS' EQUITY—Notes F and I		
Common Stock—par value $.50 a share—authorized 4,000,000 shares, issued 1,542,228 shares including shares in treasury	771,114	771,114
Capital in excess of par value	5,521,473	5,511,635
Retained earnings	15,409,596	13,918,877
	21,702,183	20,201,626
Less cost of Common Stock in treasury (1977—119,108 shares; 1976—124,408 shares)	1,186,232	1,229,094
	20,515,951	18,972,532
	$32,305,531	$27,540,905

See notes to consolidated financial statements

Statements of Consolidated Income

Ranchers Exploration and Development Corporation and Subsidiaries
Year Ended June 30, 1977 and June 30, 1976

	1977	1976
Income:		
Net sales	$18,284,414	$14,223,598
Uranium royalties	2,744,191	1,796,714
Interest and other	132,325	157,249
	21,160,930	16,177,561
Deductions from income:		
Cost of products sold	16,739,820	12,313,200
Exploration, conservation and maintenance of mining properties	846,858	812,729
Administrative and general expenses	851,007	968,808
Interest expense	432,526	407,151
	18,870,211	14,501,888
INCOME BEFORE INCOME TAXES	2,290,719	1,675,673
Income taxes (credit)—Note E:		
Current	—	(1,569)
Deferred	800,000	700,000
	800,000	698,431
NET INCOME	$ 1,490,719	$ 977,242
Net income per common share—Note G	$ 1.03	$ .69
Net income per common share—assuming full dilution—Note G	$ 1.01	$ .69

See notes to consolidated financial statements

Statements of Consolidated Stockholders' Equity

Ranchers Exploration and Development Corporation and Subsidiaries
Year Ended June 30, 1977 and June 30, 1976

COMMON STOCK		
BALANCE AT BEGINNING AND END OF YEAR	$ 771,114	$ 771,114
CAPITAL IN EXCESS OF PAR VALUE		
Balance at beginning of year	$ 5,511,635	$ 5,511,635
Proceeds in excess of cost of treasury shares sold under stock option plan	9,838	—
BALANCE AT END OF YEAR	$ 5,521,473	$ 5,511,635
RETAINED EARNINGS		
Balance at beginning of year	$13,918,877	$12,941,635
Net income for the year	1,490,719	977,242
BALANCE AT END OF YEAR	$15,409,596	$13,918,877
TREASURY STOCK		
Balance at beginning of year	$ 1,229,094	$ 1,229,094
Shares sold under option plan—5,300 shares	(42,862)	—
BALANCE AT END OF YEAR	$ 1,186,232	$ 1,229,094

See notes to consolidated financial statements

Statements of Changes in Consolidated Financial Position

Ranchers Exploration and Development Corporation and Subsidiaries
Year Ended June 30, 1977 and June 30, 1976

	1977	1976
SOURCE OF FUNDS		
Net income	$ 1,490,719	$ 977,242
Add charges to income not requiring working capital:		
Provision for depreciation, depletion and amortization	1,261,947	1,225,504
Amortization of debt expense	5,621	5,621
Provision for deferred income taxes	800,000	700,000
TOTAL FROM OPERATIONS	3,558,287	2,908,367
Increase in long-term debt	500,000	1,033,338
Decrease (increase) in other assets	473,462	(471,781)
Proceeds from sale of treasury stock	52,700	—
Carrying amount of property, plant and equipment disposals	43,244	67,258
TOTAL	4,627,693	3,537,182
APPLICATION OF FUNDS		
Decrease in long-term debt	829,526	54,228
Additions to buildings and equipment	1,439,857	2,582,640
Additions to mineral interests, mining claims, leases and permits	—	563,780
Additions to deferred intangible mining and development costs	—	120,982
Reclassification of marketable securities	556,436	—
Decrease in minority interest	—	31,077
Increase in investment in joint ventures	1,514,682	2,736,431
TOTAL	4,340,501	6,089,138
INCREASE (DECREASE) IN WORKING CAPITAL	$ 287,192	$ (2,551,956)
CHANGE IN COMPONENTS OF WORKING CAPITAL		
Increase (decrease) in current assets:		
Cash and certificates of deposit	$ 1,531,900	$ (3,545,351)
Marketable securities	(556,436)	556,436
Trade accounts receivable	1,565,840	699,557
Inventories	117,656	(122,423)
Prepaid expenses and other current assets	378,965	64,047
	3,037,925	(2,347,734)
Increase (decrease) in current liabilities:		
Notes payable to bank	—	(105,000)
Trade accounts payable	293,944	203,084
Accrued interest payable	20,470	16,845
Amount refundable to customer	1,860,673	85,228
Federal income taxes	—	(180,000)
Other liabilities	(112,504)	34,065
Current portion of long-term debt	688,150	150,000
	2,750,733	204,222
INCREASE (DECREASE) IN WORKING CAPITAL	$ 287,192	$ (2,551,956)

See notes to consolidated financial statements

Notes to Consolidated Financial Statements

June 30, 1977 and June 30, 1976

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Upon consolidation, intercompany accounts and transactions have been eliminated. The Company's portion of sales and operating expenses arising from joint ventures are included in income and deductions from income of the Company.

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 cost 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:

	1977	1976
Finished metals and metal products	$ 362,547	$1,244,044
Ore in leach heaps and stockpiles	2,068,302	1,116,440
Supplies	164,783	117,492
	$2,595,632	$2,477,976

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, 1977, was $7,685,849. 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

The following is a summary of the components of the Company's equity in net assets of the joint ventures in which it has investments:

	1977	1976
Current assets	$ 499,749	$ 671,856
Properties—net	7,920,039	6,746,137
Other assets	—	2,791
TOTAL ASSETS	8,419,788	7,420,784
Current liabilities	630,403	625,248
Long-term debt	1,979,167	2,500,000
TOTAL LIABILITIES	2,609,570	3,125,248
EQUITY IN NET ASSETS	$5,810,218	$4,295,536

Included in the above balances are the Company's carrying amounts of property, plant and equipment, and intangible development costs aggregating $1,274,410 and $6,407,618 at June 30, 1977, and $997,361 and $5,520,140 at June 30, 1976, respectively, which represent its 50% share of the Ranchers-HNG Oil Company Joint Project. In addition to these carrying amounts, the Company also had $92,871 included in mineral interests relating to the Joint Project. This Joint Project was formed to operate the Johnny M Mine in McKinley County, New Mexico.

The Joint Project entered into a credit agreement with a commercial 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 was to be converted to a term loan to be repaid in forty-eight equal monthly installments.

Due to the litigation described in Note J, the bank has not converted the revolving credit to a term loan. The Joint Project has made ten monthly installments resulting in a balance of $3,958,333 at June 30, 1977.

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.

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 1977 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 at June 30, 1977 in the amount of $3,833,533, all of which, upon utilization, would be credited to the deferred income tax accounts. The expiration of net operating loss carryforwards is $1,160,666 in 1978, $135,013 in 1979, $131,333 in 1980 and $2,406,521 in 1983.

The Company also has investment tax credit carryforwards in the amount of $633,973 expiring, if not used, in varying amounts to 1984. The entire amount of investment tax credit would be credited to the deferred income tax accounts when utilized.

Investment tax credits of $220,236 were used to reduce the 1976 provision for income taxes.

The significant difference in income taxes provided on pre-tax accounting income and income taxes that would be required at the statutory rate results from depletion allowable on copper and uranium sales and on royalties received from uranium properties.

NOTE F—LONG-TERM DEBT

The debentures 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 103.046% beginning January 15, 1977 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 $12,700,203 at June 30, 1977.

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

Detail of notes payable follows:

Amount borrowed under a $2,500,000 line of credit—bearing interest at ½% above local prime interest rate, payable in eighteen monthly installments beginning August 1, 1977	$ 900,000
10% note payable to utility company, payable pro-ratably over the delivery of 300,000 pounds of U_3O_8	500,000
	$1,400,000

NOTE G—NET INCOME PER SHARE

Net income per share of common stock has 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 net income per share assuming full dilution 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 H—LEASES AND COMMITMENTS

Total rental expense for all leases amounted to $231,388 in 1977 and $291,245 in 1976.

The future minimum rental commitments under noncancellable equipment leases with a related party totaled $168,076 at June 30, 1977 (see Note L). These commitments for future fiscal years are as follows: June 30, 1978—$68,020; June 30, 1979—$47,603; June 30, 1980—$37,901 and June 30, 1981—$14,552.

NOTE I—STOCK OPTIONS

At June 30, 1977, 68,216 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 68,216 shares reserved for options, 26,100 were covered by options outstanding and 42,116 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, 1977.

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 three or more 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	Price	Shares	Price	Shares
Outstanding July 1, 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
Year ended June 30, 1977					
Granted	3,150	15.75-18.25	10,200	16.38-18.25	13,350
Cancelled	(1,966)	9.13-13.88	(11,950)	9.88-12.75	(13,916)
Exercised	(4,334)	9.88-13.38	(2,800)	10.00 —	(7,134)
Outstanding June 30, 1977	26,100	9.13-18.25	44,200	9.13-18.25	70,300
Exercisable June 30, 1977	13,537	9.13-13.88	15,484	9.13-12.75	29,021

At June 30, 1977 1,834 shares exercised during the year then ended were not yet issued pending receipt of certificates.

NOTE J—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 uranium 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 the 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. General Atomic has not yet formally assigned the cause of action to Gulf States Utilities with respect to such three million pounds, and the Company is evaluating the courses of action which may be available in the event General Atomic fails to do so. Pending such formal assignment, Gulf States has been paying approximately \$40 per pound of U_3O_8 delivered up to a maximum of 400,000 pounds. The difference between the approximate \$40 per pound price and the contract price is being accrued and will be repaid to Gulf States in six equal monthly installments following formal assignment by General Atomic. 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 approximate 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 pre-determined market price in the 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 lawsuit, 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 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 K—SUMMARY OF QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of unaudited quarterly results of operations for the year ended June 30, 1977:

	Quarter Ended			
	September 30	December 31	March 31	June 30
Net sales	\$2,991,488	\$5,548,093	\$3,671,672	\$6,073,161
Gross profit	471,670	246,146	174,852	651,926
Net income	358,804	298,867	426,309	406,739
Net income per common share:				
Primary	\$ .25	\$ .20	\$ .30	\$ .28
Fully diluted	\$ .25	\$ .20	\$ .29	\$ .27

NOTE L—RELATED PARTY TRANSACTIONS

Mining operations at the Company's Bluebird Copper Mine, 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 replace-

(continued from page 31)

ment or renewal of tires on equipment furnished by it, (iii) rental charges for machinery and equipment furnished by it, and (iv) 7% of the cost of direct operating labor (limited to a maximum of $100,000 in any calendar year), plus 10% of the payments under (iii) above. The payments by the Company to Anderson Development Corporation for the fiscal year ended June 30, 1977, amounted to $2,246,358 (1976—$1,733,434) including $1,891,883 (1976—$1,394,147) of reimbursable costs, $176,486 (1976—$168,858) of rental charges for equipment, and $177,989 (1976—$170,429) constituting percentages of certain costs as described above.

Description of Company

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 producing and inventorying small quantities of cement copper at its Big Mike Mine near Winnemucca, Nevada. The Company also operates several uranium mines located in New Mexico and Utah, and receives uranium royalties from properties owned by the Company or in which it holds a royalty interest but which are operated by others. The Company's principal producing uranium mines are the Johnny M Mine near Grants, New Mexico, jointly owned with HNG Oil Company; the Hope Mine, also near Grants and jointly owned with Chaco Energy Company; and the Small Fry Mine near Moab, Utah, at which uranium ore is being mined and stockpiled pending completion of milling arrangements. In addition, the Company is presently constructing facilities to produce uranium through reprocessing of old mill tailings at Naturita and Durango, Colorado, with production expected to begin in late 1977 or early 1978 at the Naturita site. The Company is engaged in extensive uranium exploration, primarily through a joint project with Texas Utilities, and owns a construction subsidiary, Ran-Con Corporation, which performs contract mine development work for third parties.

Stock Prices

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

	1976		1977	
Quarter	High	Low	High	Low
First	$18.38	$12.38	$21.50	$14.75
Second	17.50	12.63	18.875	14.375
Third	18.13	15.00	19.25	15.625
Fourth	22.25	13.63	21.875	18.00

Report of Ernst & Ernst, Independent Auditors

Stockholders 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, 1977 and June 30, 1976, 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, 1977, is $7,685,849. 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.

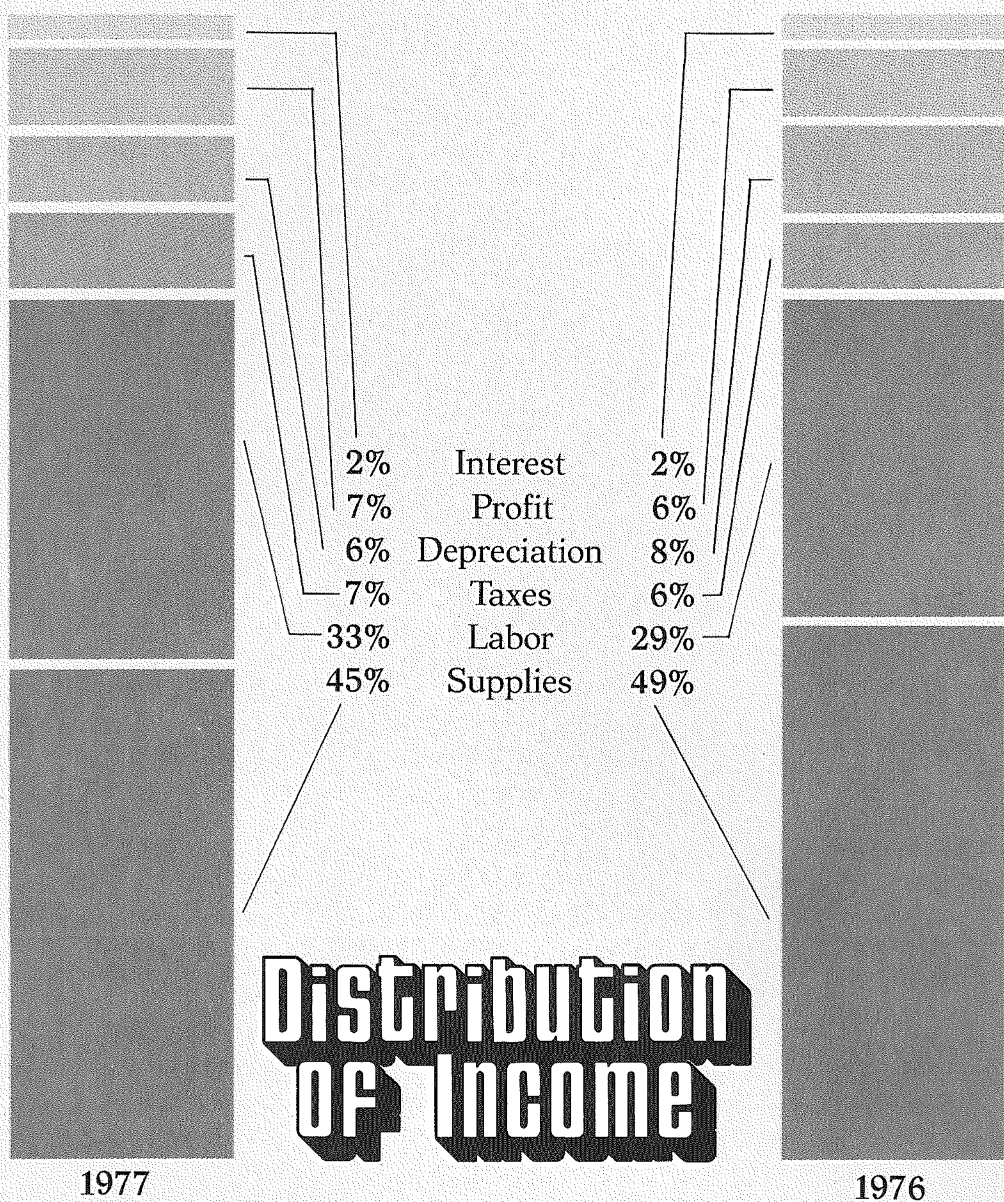
As explained in Note J to the consolidated financial statements, the Company is engaged in litigation, the outcome of which is not determinable at this time.

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, 1977 and June 30, 1976, 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

E&E

Albuquerque, New Mexico
August 1, 1977



The Company's gross income totaled $21,160,930 in 1977. This income was used in the following manner:

$9,431,605, or 45 percent, went to suppliers for the various goods and services needed to conduct the Company's business.

$7,087,861, or 33 percent, was spent on labor, including social security and insurance for the Company's approximately 400 employees.

$1,456,272, or 7 percent, was paid in federal, state, and local taxes.

$1,261,947, or 6 percent, was provided for depreciation, amortization, and depletion of property, plant, and equipment.

$432,526, or 2 percent, was paid in interest.

These expenditures totaled $19,670,211, leaving a net profit of $1,490,719, or 7 percent of the gross income for the year. This amounted to $1.03 per share on the 1,447,713 shares of common stock held by the Company's approximately 1,650 stockholders of record. No dividends were paid during the year.

(continued from inside front cover)

Uranium Search Continues

Despite these obstacles, both Fitch and Motica remain optimistic about the likelihood of new discoveries.

"We're cautiously optimistic about making new discoveries," says Motica, who is well into his third decade of uranium exploration with a number of discoveries to his credit. "There have been no major breakthroughs in uranium exploration techniques and discovery is still largely a matter of randomly drilling favorable host rocks. But we have made progress in recognizing these favorable depositional environments and in evaluating drill hole data."

Fitch feels that major new discoveries in the U.S. may well come from new depositional environments, as they have in Canada and Australia, where pre-Cambrian rocks have been the source of rich discoveries.

"Approximately 95 percent of the U.S. reserves of U_3O_8 are in sandstone deposits of relatively recent geologic age," says Fitch, "but the U.S. has large amounts of the much older pre-Cambrian rocks, and we would expect that eventually they will yield commercial quantities of uranium. The recent discovery in Australia of uranium in shallow deposits of caliche—an unusual host for uranium—is also intriguing and could lead to similar discoveries in the U.S.

"A mixture of experience, persistence and good fortune will be required to make these discoveries. It's a combination we're counting on as we begin our second decade of exploration."