



# Ranchers

## 1978 ANNUAL REPORT



The subject of this year's Annual Report cover — the Durita uranium mill tailings project — marks one of the Company's swiftest and most successful efforts to bring a new mineral property on line. Typically, a new property requires seven to eight years from discovery to first production. From conception to initial production of yellowcake (cover), Durita required only a trifle more than two years.

The idea of leaching the approximately two million tons of mill tailings at Durango and Naturita, Colorado, to remove the remaining traces of uranium, originated at the Company late in 1975. It was felt that the absence of exploration and conventional mining and milling costs, coupled with the rise in uranium prices, might make recovery of a portion of the two million pounds of uranium an economical project. It also appeared that vanadium in the tailings could be recovered. Contact was made with Foote Mineral, owner of the tailings, and in March 1976, an option was signed giving the Company the right to evaluate the properties.

The evaluation began immediately, with 50 holes being drilled in the tailings piles to obtain samples and confirm tonnages. The late Ken Power was brought in from the Bluebird Mine to run leaching tests and make recommendations on how the material should be handled to obtain maximum recovery. He reported that leaching should remove 60 to 65 percent of the uranium in the tailings following an agglomeration step in which the material would be mixed with sulfuric acid. A conventional solvent extraction circuit would be used to recover the uranium and vanadium from the leaching solution.

Power's studies, which took several months to complete, were followed by a flurry of activity: acquisition of the properties from Foote in

## Durita Developments

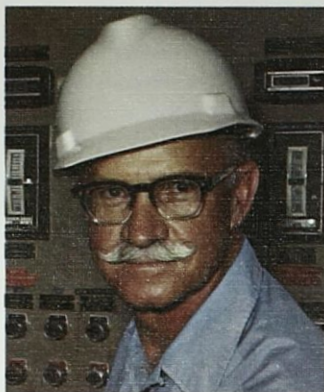


*Key personnel on the Durita project included, left to right, Richard McCormick, Plant Superintendent; David Hogan, Vice President, Engineering; Randolph Scheffel, Plant Manager; and Werner Nennecker, Project Engineer.*

October 1976, purchase of a plant site at Naturita in November, and sale of uranium production to Virginia Electric and Power Company in January 1977. Engineering also began in January under the direction of Vice President Dave Hogan, who was responsible for general management of the project. Immediate application was made to the Colorado Department of Health for a nuclear materials handling license, the license was received in late June, earthwork at the Naturita site began in July, and plant construction was started in August.

Ore preparation — loading, trucking, and agglomerating — began in November, with the material being hauled about 4½ miles to the new plant site. The first material went into the leaching tanks on November 5, leaching began on December 5, and the solvent extraction circuit began operating on the 12th. The first yellowcake was recovered on the 13th and the first vanadium on January 5, 1978. Design capacity for vanadium — some 4,400 pounds daily — was reached immediately, while uranium capacity — about 1,000 pounds daily — was reached on January 26. The project has operated smoothly since that time, with nearly 200,000 pounds of uranium oxide and 900,000 pounds of vanadium ( $V_2O_5$ ) being produced by June 30.

The Naturita phase of production will end early in 1979, when transport of the solvent extraction plant to Durango begins. This transfer will be completed in August and initial production at the new site should begin in September. Final production is projected for May 1982, at which time it is expected that about 1,000,000 pounds of uranium and 5,000,000 pounds of vanadium will have been produced at the two locations.



*Ken Power 1924-1978*

Ken Power, who made major contributions to the Company's application of hydrometallurgy at the Bluebird, Big Mike, and Old Reliable mines and more recently at the Durita project, died April 18, 1978, as result of an aortic aneurysm. He was 53 years of age. Mr. Power was widely recognized as an authority on leaching of copper oxide ores and the application of solvent extraction-electrowinning technology to the production of cathode copper. He joined the Company in 1968 as General Manager, Bluebird Mine, a title which he still held at the time of his death. He was also serving as Project Manager at the Durita operation. Before joining the Company, he served with Anaconda Company, Inspiration Consolidated Copper Company, and American Smelting and Refining Company. He held degrees in metallurgical engineering from the University of Arizona (1947, 1959).

#### *TRANSATLANTIC CROSSING*

The Company's president, Maxie Anderson, and two companions, Larry Newman and Ben Abruzzo, became the first persons to cross the Atlantic Ocean in a balloon when their craft, Double Eagle II, touched down at the village of Miserey, 50 miles west of Paris, at 7:49 p.m. on August 17. The flight had begun near Presque Isle, Maine, at 8:43 p.m. on August 11. Duration and distance of flight—137 hours and six minutes and 3,100 miles—are records for transatlantic balloon flights. The successful crossing followed an attempt in 1977 by Anderson and Abruzzo which ended near Iceland after a flight of some 2,950 miles. The Double Eagle II flight was the 18th Atlantic crossing attempt dating back to 1873. The Double Eagle II consisted of a 160,000 cubic-foot nylon envelope filled with helium and a 15x6½ x6-foot gondola containing pilot quarters and equipment.



## Ranchers

### 1978 ANNUAL REPORT

*Ranchers Exploration and Development Corporation  
General Offices / 1776 Montano Road, N.W. / Albuquerque, New Mexico 87197*

#### *TRANSFER AGENT & REGISTRAR*

*Republic National Bank of Dallas / Corporate Trust Department / Dallas, Texas 75221 / Manufacturers Hanover Trust Company / Corporate Trust Department / 40 Wall Street / New York, New York 10015*

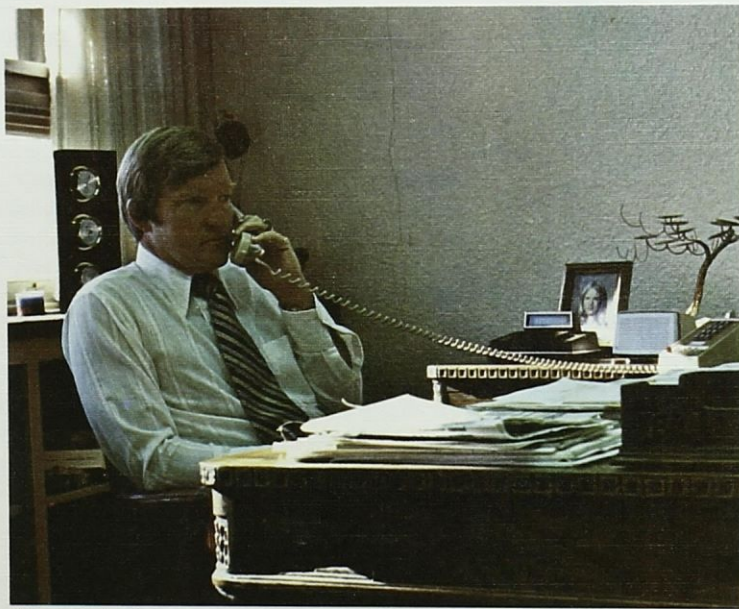
#### *THE 1978 ANNUAL REPORT*

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## President's Review & Preview

# 1978 A Record Year; More Growth in '79

The Company had an extremely good year in 1978. Earnings increased by 164 percent, rising to a record \$2.72 per share from \$1.03 a year ago, and, at year's end, the Company was in the best financial condition in its 24-year history. This places the Company in excellent position to grow further in 1979 and future years by maximizing returns from presently producing properties, by developing other mineral properties owned by the Company, or by acquiring or discovering new properties.



*Maxie L. Anderson*

One of the most satisfying aspects of 1978 was that the record results were achieved despite very challenging circumstances. Early in the year the Company was forced, because of low copper prices, to curtail operations at its Bluebird Mine, a major source of income and earnings for the Company since 1964. Normally, such an act would have had serious consequences, but the Company was able to proceed because of two capabilities developed through the years: exploration and technical innovation. The Johnny M uranium mine, an outgrowth of the Company's strong exploration program begun in the late 1960s, came into full production as the result of an outstanding effort by the Company's operations group and was the mainstay of earnings throughout the year. The Durita uranium mill tailings project, founded on the Company's expertise in hydrometallurgy, came on stream at mid-year, providing the closing kick that boosted earnings to record levels in the last half.

Durita, which reached optimum production levels well ahead of schedule, is a fitting successor to the Bluebird solvent extraction-electrowinning process, the Old Reliable Mine blast-and-in-situ-leaching project, and the expeditious mining and shipping of Big Mike Mine copper sulphides — unique efforts which have earned the Company a reputation for innovation in the mining industry. The Johnny M reveals just how important exploration is to a minerals company. Only by the discovery of such new mineral and energy resources can the Company achieve its goal of becoming a major mining company.

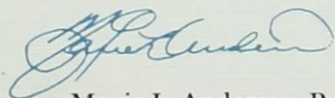
Aside from uranium exploration and the operations at Durita, Johnny M, and Bluebird, the Company's efforts in 1978 were concentrated at the Hope and Small Fry uranium mines. The Hope Mine, a small producer in northwest New Mexico, contributed only marginally to earnings. Mining and stockpiling of ore continued throughout the year at the Small Fry while attempts were made to arrange milling capacity for the ore. Mining was terminated in early August, with the stockpile

containing ore having an estimated uranium oxide content of about 285,000 pounds. Uranium royalties, which derive from properties mined by Kerr McGee in northwest New Mexico, declined by 33 percent during the year, but still totaled \$1,829,397. These royalties will remain a significant contributor to income in the future.

Fiscal 1979 looks like another very good year for the Company. Earnings should again increase, with the chief contributors to income being the Johnny M and Durita, where the first phase of operations at Naturita, Colorado, will probably end in April and the second phase at Durango will start in September, 1979. Management is working diligently on several approaches to milling the Small Fry ore, and success in these endeavors would have a substantial impact on earnings for the next several years. Operations at the Bluebird will not be accelerated until management is convinced that copper prices have stabilized above \$.70 per pound. The litigation with General Atomic over sale of production from the Johnny M will be heard in New Mexico State Court beginning on March 1, 1979.

The Company's uranium exploration program will probably be expanded during the year, with a new joint venture being formed to explore lands in Utah presently held with Urangesellschaft. Further work will be done on the Escalante silver prospect in southwest Utah, and a joint venture on the Yellow Pine antimony-gold property at Stibnite, Idaho, appears likely. In addition, it is quite possible that the Tungsten Queen Mine at Townsville, North Carolina, will be the object of further development during the year.

September 1, 1978



Maxie L. Anderson, President

## Highlights of 1978

- 1.** Earnings increased by 164 percent during the year, totalling a record \$2.72 per share, compared to \$1.03 per share in 1977. By quarters earnings were: \$.27, \$.56, \$.73, and \$1.16.
- 2.** The Johnny M Mine was the chief contributor to income and earnings; deliveries for the Company's account totaled 409,352 pounds of uranium oxide in ore, which was sold for \$12,308,474.
- 3.** The Durita uranium mill tailings project came on stream at mid-year and was an important factor in lifting earnings to record levels in the last two quarters of the year.
- 4.** Uranium royalties from properties in northwest New Mexico totaled \$1,829,397, a decline of 33 percent from 1977.
- 5.** Stockpiling of uranium ore continued throughout the year at the Small Fry Mine where 156,000 tons of ore are now available for milling.
- 6.** The Hope uranium mine contributed marginally to earnings during the year, producing 29,577 tons of ore for the Company's account.
- 7.** The Bluebird Mine produced 14,794,827 pounds of copper cathodes, a decline of 17 percent as the result of curtailment of operations caused by low copper prices.
- 8.** Uranium exploration was maintained at a high level throughout the year under terms of a joint venture with Chaco Energy.

## Management Discussion & Analysis

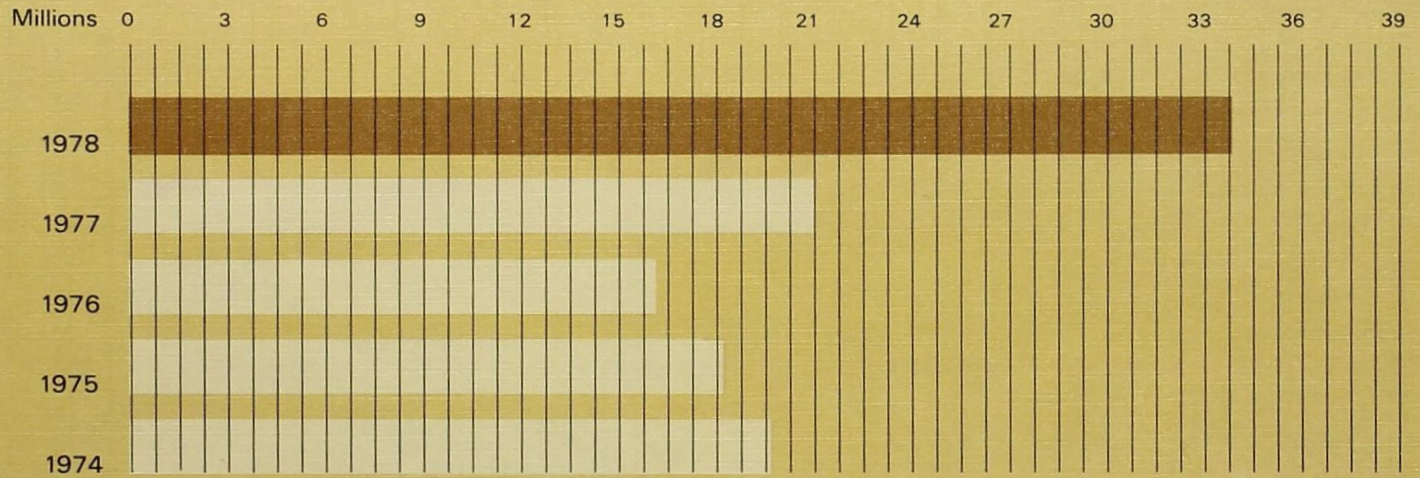
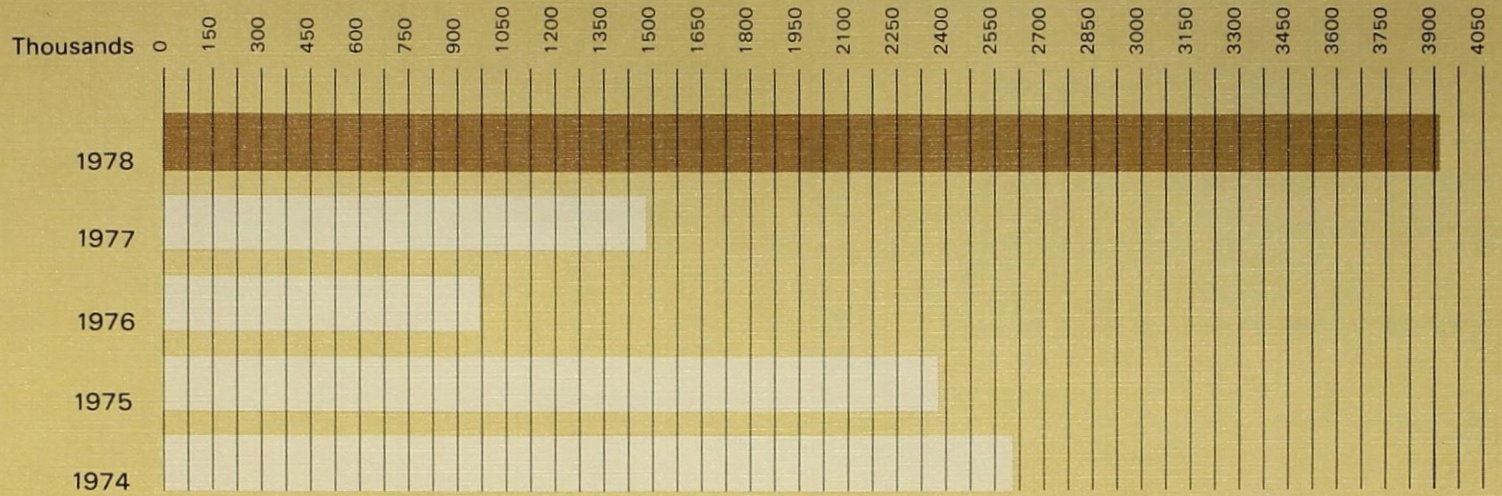
Income and earnings from uranium sales rose again in 1978, while copper revenues declined sharply. Net earnings totaled \$3,916,986; earnings per share were a record \$2.72 (\$2.62 diluted) compared to \$1.03 last year. Per share earnings totaled only \$.27 in the first quarter because of losses in the Company's copper operations, but increased to \$.56, \$.73, and \$1.16 in the final three quarters. Uranium sales and royalties accounted for all of the year's profits, compared to 75 percent in 1977. Copper operations lost about \$400,000 for the year. Gross income totaled \$34,444,496 vs. \$21,160,930 last year, an increase of 63 percent. Uranium sales accounted for \$21,464,130 of this amount, with the Johnny M, Durita, and Hope operations contributing \$12,308,474, \$7,406,079, and \$1,749,577, respectively. Copper sales were \$8,654,520, compared to \$11,939,311 in 1977. Vanadium sales were \$1,435,658. Uranium royalties fell 33 percent to \$1,829,397; Ran-Con mine contracting sales were \$952,775.

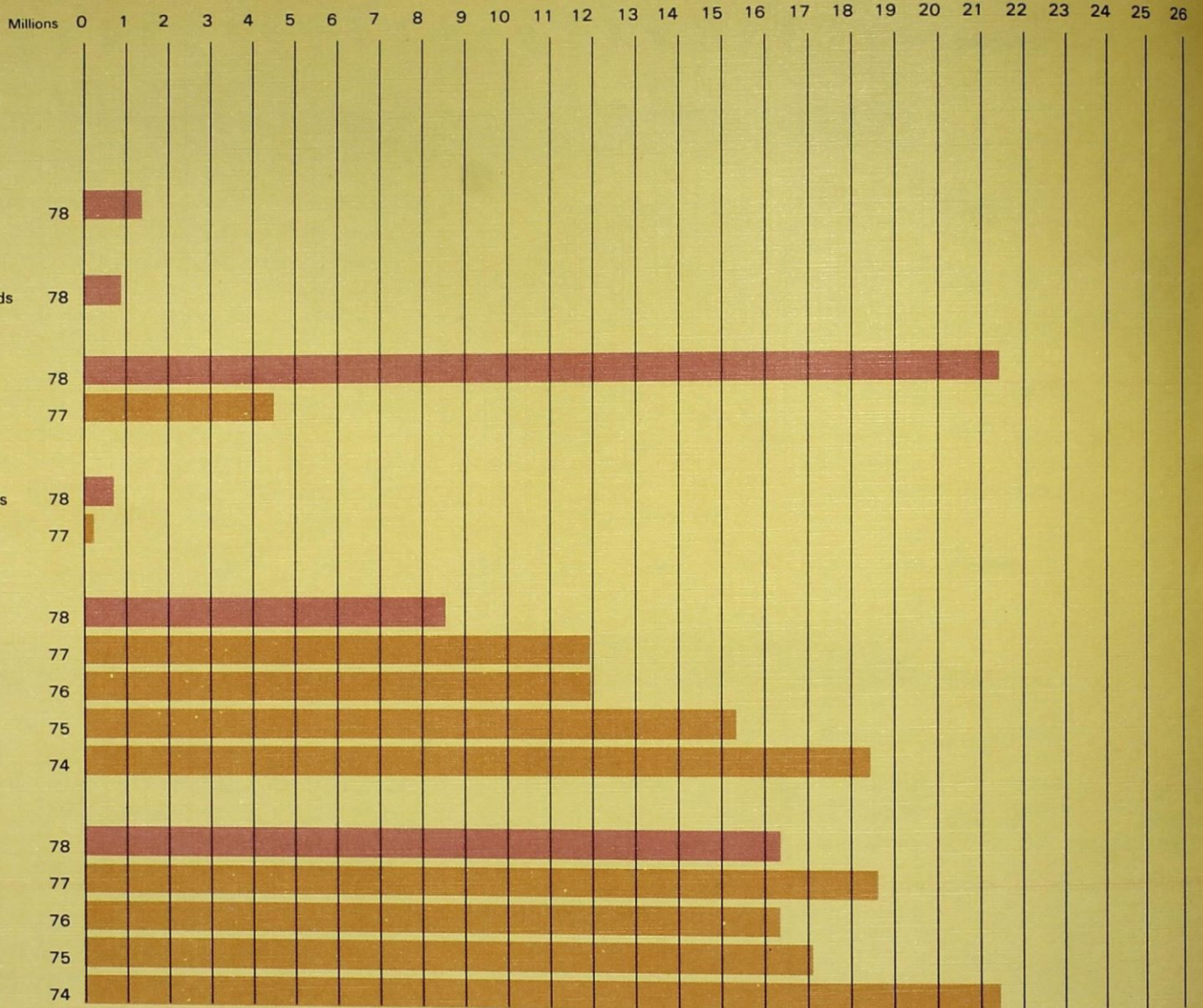
The ratio of current assets to current liabilities was 2.2 to 1 at year's end, a slight increase over 1977, and some \$4,000,000 in net property, plant, and equipment was added during the year. About \$2,500,000 in debt incurred in the course of Johnny M Mine operations was repaid to Chase Manhattan Bank and Gulf States Utilities. In addition, a \$4,000,000 loan from Virginia Electric and Power Company, was repaid through delivery of uranium oxide from the Durita project. The Company also won its suit with the Internal Revenue Service, which principally involved various depletion and depreciation allowances. The Company was awarded a judgment of \$900,000, plus interest. Because the judgment is subject to appeal, the estimated recoverable balance has been carried as a non-current asset as of June 30, 1978.

## Financial Highlights

	<i>Fiscal Year Ending June 30</i>	
	<i>1978</i>	<i>1977</i>
Gross Income	\$34,444,496	\$21,160,930
Income before Income Taxes	5,666,986	2,290,719
Income Taxes	1,750,000	800,000
Net Income	3,916,986	1,490,719
Net Income per Share		
Primary	2.72	1.03
Fully Diluted	2.62	1.01

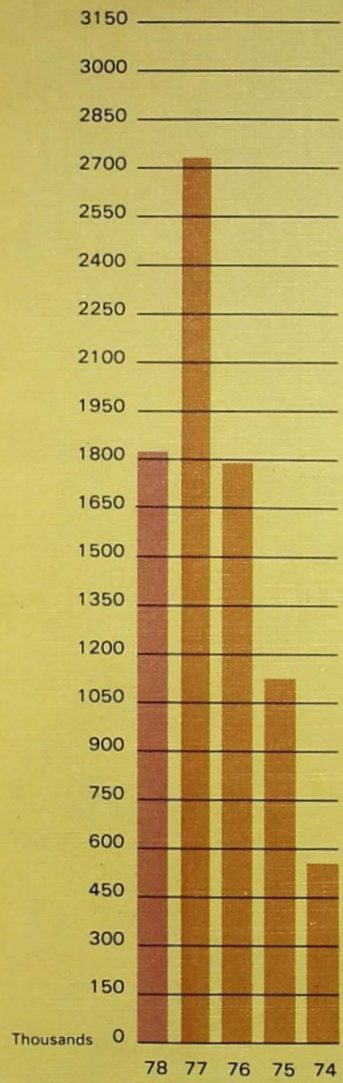
	<i>Three Months Ending June 30</i>	
	<i>1978</i>	<i>1977</i>
Gross Income	\$14,124,109	\$6,720,320
Income before Income Taxes	2,472,416	731,739
Income Taxes	790,000	325,000
Net Income	1,682,416	406,739
Net Income per Share		
Primary	1.16	.28
Fully Diluted	1.11	.27







# Product Summary / 1978-1974



URANIUM ROYALTIES  
1978/1974

	1978	1977	1976	1975	1974
<b>NET SALES</b>					
Uranium sales to unaffiliated customers	\$21,464,130	\$ 4,561,682	\$ 277,832	\$ —	\$ —
Copper sales to unaffiliated customers	8,654,520	11,939,311	11,985,277	15,236,414	18,504,086
Other sales to unaffiliated customers	2,389,388	1,783,421	1,960,489	1,476,757	686,078
<b>TOTAL SALES</b>	<b>\$32,508,038</b>	<b>\$18,284,414</b>	<b>\$14,223,598</b>	<b>\$16,713,171</b>	<b>\$19,190,164</b>
<b>OPERATING PROFIT (LOSS)</b>					
Uranium	\$ 7,026,463	\$ 477,291	\$ —	\$ —	\$ —
Copper	(399,424)	859,865	1,743,256	3,910,183	4,514,543
Other	390,555	207,438	167,142	138,405	20,422
<b>TOTAL OPERATING PROFIT</b>	<b>\$ 7,017,594</b>	<b>\$ 1,544,594</b>	<b>\$ 1,910,398</b>	<b>\$ 4,048,588</b>	<b>\$ 4,534,965</b>
<b>OTHER INCOME</b>					
Uranium royalties	\$ 1,829,397	\$ 2,744,191	\$ 1,796,714	\$ 1,135,786	\$ 525,762
Interest and other	107,061	132,325	157,249	485,611	73,540
<b>TOTAL OTHER INCOME</b>	<b>\$ 1,936,458</b>	<b>\$ 2,876,516</b>	<b>\$ 1,953,963</b>	<b>\$ 1,621,397</b>	<b>\$ 599,302</b>
<b>OTHER DEDUCTIONS</b>					
Exploration, conservation and maintenance of mining properties	\$ 1,160,093	\$ 846,858	\$ 812,729	\$ 822,319	\$ 444,940
Administrative and general expense	1,362,185	851,007	968,808	946,607	742,202
Interest expense	764,788	432,526	407,151	385,574	428,683
<b>TOTAL OTHER DEDUCTIONS</b>	<b>\$ 3,287,066</b>	<b>\$ 2,130,391</b>	<b>\$ 2,188,688</b>	<b>\$ 2,154,500</b>	<b>\$ 1,615,825</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>\$ 5,666,986</b>	<b>\$ 2,290,719</b>	<b>\$ 1,675,673</b>	<b>\$ 3,515,485</b>	<b>\$ 3,518,442</b>
<b>IDENTIFIABLE ASSETS</b>					
Uranium	\$17,230,368	\$ 9,840,023	\$ 5,048,637	\$ 1,521,612	\$ 607,580
Copper	5,513,995	6,814,474	7,624,088	6,898,315	9,471,499
Other	280,846	498,082	946,221	549,424	415,903
General corporate assets	23,025,209	17,152,579	13,618,946	8,969,351	10,494,982
Assets of Tungsten Queen Mine held for disposition (see Note C)	7,683,089	7,685,849	7,702,846	7,742,475	7,776,130
<b>TOTAL ASSETS</b>	<b>\$37,775,493</b>	<b>\$32,305,531</b>	<b>\$27,540,905</b>	<b>\$24,711,408</b>	<b>\$22,896,454</b>
<b>DEPRECIATION, DEPLETION AND AMORTIZATION</b>					
Uranium	\$ 3,097,735	\$ —	\$ —	\$ —	\$ —
Copper	1,166,815	1,007,935	924,451	1,046,063	1,390,179
Other	642,893	109,751	165,023	144,911	88,397
General corporate assets	157,369	144,259	136,030	108,494	70,829
<b>CAPITAL EXPENDITURES</b>					
Uranium	8,058,417	984,175	384,762	—	—
Copper	692,113	370,607	1,993,685	455,979	1,246,909
Other	48,551	19,953	52,730	284,740	82,851
General corporate assets	409,057	65,122	836,225	208,412	237,527

## Operations

### Uranium Production Increases; Copper Operations Curtailed

Revenues from the Company's uranium operation exceeded those from copper for the first time in 1978. This transition, which began in 1977, was accelerated by curtailment of operations at the Bluebird Mine because of low copper prices. Prices received averaged \$.54 per pound, compared to \$.60 last year. Production at the Bluebird totaled 14,794,827 pounds, a decline of 17 percent from the 17,916,207 produced a year ago. Mining was curtailed in October, 1977, with production during the remainder of the year coming from ore previously placed in leaching heaps. At year end, output was averaging about a million pounds per month. The Company also produced 1,576,008 pounds of cement copper at the Big Mike Mine, a leaching operation which will terminate in fiscal 1979.

The Company's uranium operations ran smoothly during the year, with the Johnny M Mine and Durita project contributing the bulk of production. The Johnny M, jointly owned with HNG Oil Company, produced 187,179 tons of ore and 924,973 pounds of uranium oxide, half being for the Company's account. Production came from two deposits on Section 7 near the main shaft and from the single deposit on Section 18. The Durita project reached full production in January, producing 197,692 pounds of uranium oxide and 896,414 pounds of vanadium ( $V_2O_5$ ) by year end. Mining of uranium ore continued at the Hope and Small Fry mines, with ore at the latter going into stockpile. The Hope, 50 percent owned by Chaco Energy, produced 29,577 tons of ore and 67,505 pounds of uranium oxide for the Company's account.



*Vanadium Circuit at Durita Project*



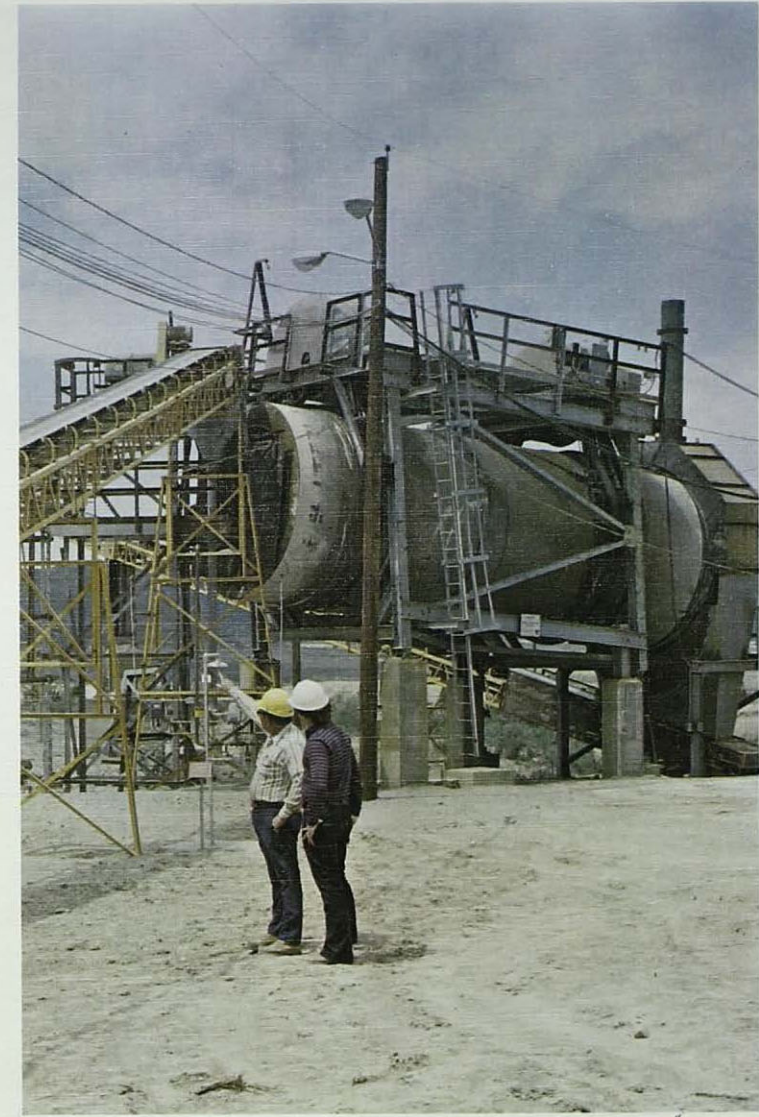
*Durita Yellowcake*



*Spreader-Conveyor in Operation*

### Tailings Technology

The novel project to recover uranium from mill tailings required development of two new pieces of equipment — a spreader-conveyor, left, and a large agglomerator, right. The spreader-conveyor is used to fill the leaching tanks (1000x400x20-feet) with tailings after they have been mixed with sulfuric acid in the agglomerator. The spreader-conveyor replaces conventional material handling equipment such as wide-track caterpillar tractors, which would have compacted the agglomerated tailings, reducing their permeability to leaching solutions. The conveyor consists essentially of a 36-inch-wide, 420-foot-long rubber-nylon belt capable of moving 150 tons of tailings per hour to a moveable tripper (center), where a 20-foot-long belt feeds the material into the tank. The tripper moves slowly back and forth across the tank, making a complete circuit every 40 hours while building a strip of tailings about five feet wide. The entire conveyor is then moved forward to the brink of the heap and a new circuit begun. The agglomerator — unusual because of its size (33 feet long, 12 feet inside diameter) — is a large rotating cylinder suspended and driven by cables. Tailings are conveyed into one end and emerge from the other after treatment with acid.



*Durita Agglomerator*



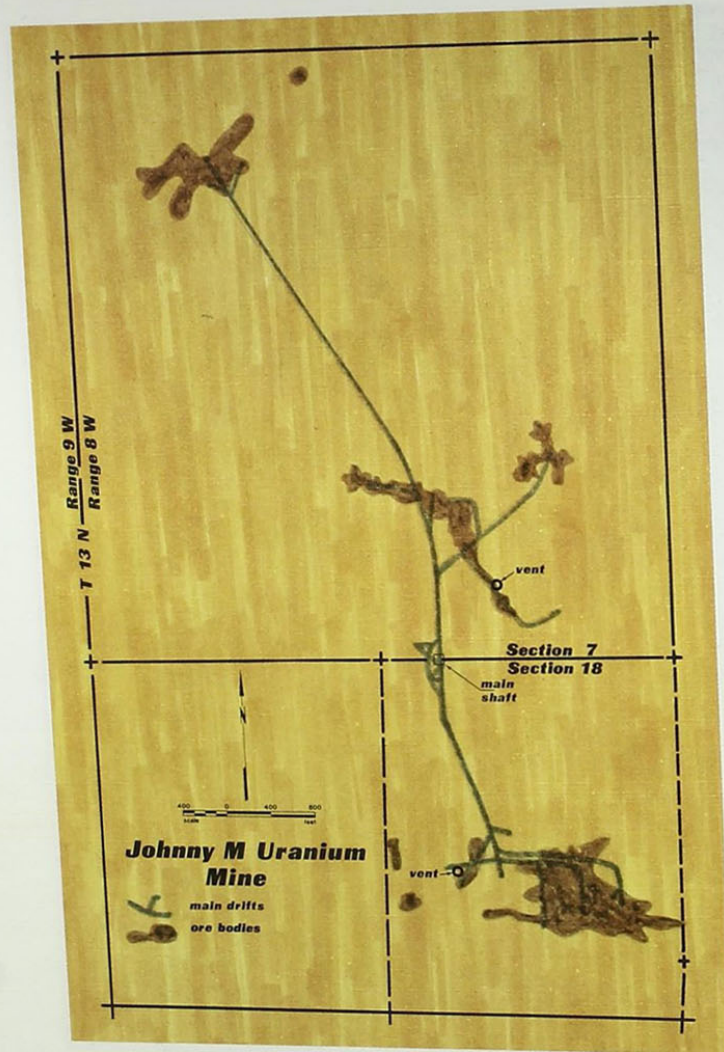
*Loading Scrapers with Ore in Bluebird Pit*

## Bluebird/Small Fry

The Company mined two properties in 1978 — the Bluebird and Small Fry mines — which did not contribute to profits during the year, but which are expected to make future contributions. At the Small Fry, near Moab, Utah, uranium ore was mined and placed in stockpile (right), which as of August 1, 1978 contained 156,000 tons of ore. About 58,000 tons of ore and 14,000 tons of waste were mined during the year, compared to 65,000 tons of ore and 5,000 tons of waste last year. Operations at the mine were begun late in 1975 and were terminated in August 1978; mining will be resumed when ore milling arrangements have been completed. Ore remaining to be mined totals an estimated 300,000 tons. Mining of copper ore at the Bluebird (left) was suspended on October 14, 1977, because of losses resulting from low copper prices. Stripping of overburden continued, as did production of copper from ore previously placed in leaching heaps. In the fourth quarter, some 2,700,000 tons of ore adjoining the Bluebird open pit were acquired from Inspiration Consolidated Copper Company and mining of this material began in May. Approximately 1,247,028 tons of ore and 4,058,230 tons of overburden were mined in 1978, compared to 3,000,000 tons of ore and 5,265,000 tons of waste in 1977.



*Uranium Ore Stockpile at Small Fry Mine*



*Johnny M Mine Layout*

## Drifting & Drilling

A major development at the Johnny M Mine in 1978 was the completion of the long drift to the northwest ore body on Section 7 (see map). The ore body, believed to contain about 40 percent of the reserves in the mine, lies about 3,500 feet north of the south-central ore body and approximately 4,800 feet from the main shaft. The drift to the deposit was begun in March 1976 and completed in April 1978. It measures 8x8-feet and was driven by two-man crews working two shifts per day and employing a standard drill-load-blast-mucking sequence to break and remove about 25,920 tons of rock. This muck was transported in rail cars to the shaft and hoisted to the surface. A key part of drifting is the cutting of stations in the side of the drift to accommodate underground drilling machines (right). Such long-hole rotary drills are used to better define ore reserves initially delineated by surface drilling, to search for ore where surface drilling is sparse or absent, and to dewater ore zones. The drills have a range of about 250 feet, and an expert operator can drill 600 to 1,000 feet of one-inch-diameter hole per shift. A typical drill pattern or "fan" consists of seven holes, starting at an elevation of 30 degrees and rising in increments of 5 to 15 degrees until the drill is pointed almost vertically. Fans can be drilled every 45 degrees through a complete circle, although drilling from a single station is normally limited to 180 degrees. At the Johnny M, stations are cut every 100 feet in the main drifts so that little ore in reach of the drill will be missed.



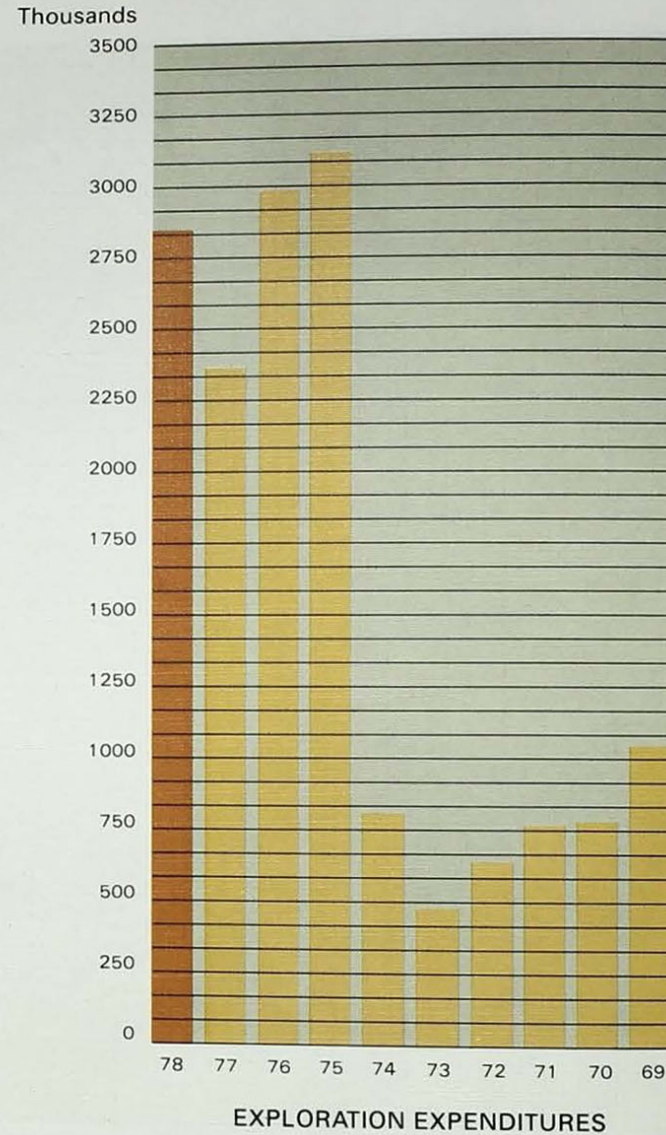
*Long Hole Drilling at the Johnny M*

## Exploration Uranium Venture Continues

The Company maintained its extensive uranium exploration program in 1978, drilling approximately 390,000 feet of hole, most under terms of a joint venture with Chaco Energy, a subsidiary of Texas Utilities. This compares with 344,000 feet drilled last year. Exploration drilling focused on acreage in northwest New Mexico, southern Colorado, and southern Utah. Several areas favorable for uranium deposition were further delineated, and additions were made to reserves at properties in northwest New Mexico and the Pitchfork Mine in southwest Colorado. The venture will continue at least through September 1979, during which time about \$3,000,000 will be available to finance exploration.

Considerable work was done during the year to organize a new joint venture to explore acreage in Utah and New Mexico acquired in a venture with Urangesellschaft, which terminated in 1976. It appears that a new venture will be formed to explore this acreage in 1979. A venture to develop the Yellow Pine antimony-gold property, Stibnite, Idaho, is also being negotiated.

Two other properties will also be the subjects of serious evaluation in 1979 — the Tungsten Queen Mine, Townsville, North Carolina, and the Escalante silver property in southwest Utah. Several companies have, or are, evaluating the tungsten mine, and the Company is now considering one proposal to reactivate the property. The Escalante, where some 20,000,000 ounces of silver have been delineated, is being re-evaluated in light of the recent rise in silver prices. A geothermal test well, drilled in partnership with Phillips Petroleum in Utah, was partially completed during the year and results of the test are being evaluated.



*Exploring for Uranium in Northwest New Mexico*

## Directors & Officers

*There was only one change in the Company's Board of Directors during 1978, Robert M. Haldeman being elected to succeed Roy Richards, president, Southwire Company, who resigned after serving on the Board since 1969. Brief biographies of Board members:*

**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**—President of Peabody Holding Company and Chairman of Peabody Coal Company, 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.

**Phil S. Cross**—Mr. Cross, who joined the Board in 1976, is Vice President, Kerr Addison Mines Limited, Toronto, and Chairman and Managing Director of Mogul of Ireland Limited. He was employed by International Mogul Mines Limited from 1962-76, serving as President and Chief Executive Officer from 1975-76. He is a Graduate Mining Engineer (BA, Science), University of Toronto, 1945.

**Robert M. Haldeman**—A mining and management consultant, Mr. Haldeman is also president of Minerec Corporation, a subsidiary of Anglo Company Limited which produces chemical flotation collectors for the mining industry. He has spent most of his professional career with Braden Cop-

per Company, Rancagua, Chile, a subsidiary of Kennecott Copper. He holds a mining engineering degree from the University of California, 1939.

**Edward E. Monteith, Jr.**—Mr. Monteith is the manager of a newly-formed partnership, Thomson-Monteith, which is engaged in oil and gas production and exploration. From 1964-78, he was executive vice president of Republic National Bank of Dallas. 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.

**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.



Board of Directors, left to right, John Motica, Phil Cross, Edward Monteith, Maxie Anderson, Frank Coolbaugh, Robert Haldeman, and Edward Tittmann.

## Assets

*Ranchers Exploration  
and Development Corporation  
and Subsidiaries*

*Consolidated Balance Sheets  
June 30, 1978 and June 30, 1977*

	1978	1977
<b>CURRENT ASSETS</b>		
Cash and certificates of deposit (1978—\$1,382,500; 1977— \$1,925,500)— Note F	\$ 3,263,878	\$ 3,074,043
Trade accounts receivable	2,896,190	2,522,761
Inventories— Note B	2,185,915	2,595,632
Prepaid expenses and other current assets	<u>649,429</u>	<u>870,995</u>
<b>TOTAL CURRENT ASSETS</b>	<b>8,995,412</b>	<b>9,063,431</b>
<b>PROPERTY, PLANT AND EQUIPMENT—</b>		
at cost— Note C		
Land	513,338	138,732
Buildings and equipment	25,983,368	16,292,702
Construction in progress	—	1,014,269
Mineral interests, mining claims, leases and permits— Note D	1,841,737	1,778,002
Deferred intangible mining and development costs	<u>5,582,155</u>	<u>5,715,481</u>
	33,920,598	24,939,186
Allowances for depreciation, depletion and amortization	<u>14,162,327</u>	<u>9,311,781</u>
	19,758,271	15,627,405
<b>OTHER ASSETS AND DEFERRED CHARGES</b>		
Investment in joint ventures— Note D	4,859,243	5,810,218
Unamortized debt expense	59,095	64,874
Claim for refund of federal income taxes— Note E	1,068,190	1,068,190
Marketable securities— at cost (market value \$710,500; gross unrealized gain \$154,064)	556,436	556,436
Other assets— Note B	<u>2,478,846</u>	<u>114,977</u>
	<u>9,021,810</u>	<u>7,614,695</u>
	<u>\$37,775,493</u>	<u>\$32,305,531</u>

See notes to consolidated financial statements



## Liabilities and Stockholders' Equity

*Ranchers Exploration  
and Development Corporation  
and Subsidiaries*

*Consolidated Balance Sheets  
June 30, 1978 and June 30, 1977*

	1978	1977
<b>CURRENT LIABILITIES</b>	<b>\$ 1,241,252</b>	<b>\$ 1,392,580</b>
Trade accounts payable	117,642	86,208
Accrued interest payable	—	1,860,673
Amount refundable to customer	802,312	—
Federal and state income taxes	973,750	308,805
Other liabilities	<u>995,393</u>	<u>842,378</u>
Current portion of long-term debt	4,130,349	4,490,644
<b>TOTAL CURRENT LIABILITIES</b>	<b>4,130,349</b>	<b>4,490,644</b>
<b>LONG-TERM DEBT — Note F</b>	<b>1,876,000</b>	<b>1,881,000</b>
5-3/4% convertible subordinated debentures due January 15, 1989	2,250,000	1,400,000
Notes payable		
Contracts payable for purchase of land and mineral interest costing \$686,180—less unamortized discount based on imputed interest rate of 8.5% (1978—\$9,935; 1977—\$19,275)	<u>342,133</u>	<u>110,314</u>
	4,468,133	3,391,314
	<u>995,393</u>	<u>842,378</u>
Less portion classified as current liability	3,472,740	2,548,936
	5,650,000	4,750,000
<b>DEFERRED FEDERAL INCOME TAXES — Note E</b>		
<b>STOCKHOLDERS' EQUITY — Notes F and I</b>		
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	5,530,053	5,521,473
Retained earnings	<u>19,326,582</u>	<u>15,409,596</u>
	25,627,749	21,702,183
Less cost of Common Stock in treasury (1978—110,274 shares; 1977—119,108 shares)	<u>1,105,345</u>	<u>1,186,232</u>
	<u>24,522,404</u>	<u>20,515,951</u>
	<u><b>\$37,775,493</b></u>	<u><b>\$32,305,531</b></u>

See notes to consolidated financial statements.

## Statements of Consolidated Income

*Ranchers Exploration  
and Development Corporation  
and Subsidiaries*

*Year Ended June 30, 1978  
and June 30, 1977*

## Statements of Consolidated Stockholders' Equity

*Ranchers Exploration  
and Development Corporation  
and Subsidiaries*

*Year Ended June 30, 1978  
and June 30, 1977*

	1978	1977
Income:		
Net sales	\$32,508,038	\$18,284,414
Uranium royalties	1,829,397	2,744,191
Interest and other	107,061	132,325
	<u>34,444,496</u>	<u>21,160,930</u>
Deductions from income:		
Cost of products sold	25,490,444	16,739,820
Exploration, conservation and maintenance of mining properties	1,160,093	846,858
Administrative and general expenses	1,362,185	851,007
Interest expense	764,788	432,526
	<u>28,777,510</u>	<u>18,870,211</u>
	<u>5,666,986</u>	<u>2,290,719</u>
	<b>INCOME BEFORE INCOME TAXES</b>	
Income taxes — Note E:		
Current	850,000	—
Deferred	900,000	800,000
	<u>1,750,000</u>	<u>800,000</u>
	<b>NET INCOME</b>	
	<u>\$ 3,916,986</u>	<u>\$ 1,490,719</u>
Net income per common share — Note G	<u>\$ 2.72</u>	<u>\$ 1.03</u>
Net income per common share — assuming full dilution — Note G	<u>\$ 2.62</u>	<u>\$ 1.01</u>
See notes to consolidated financial statements		
	<hr/>	<hr/>
COMMON STOCK	1978	1977
BALANCE AT BEGINNING AND END OF YEAR	<u>\$ 771,114</u>	<u>\$ 771,114</u>
CAPITAL IN EXCESS OF PAR VALUE		
Balance at beginning of year	\$ 5,521,473	\$ 5,511,635
Proceeds in excess of cost of treasury shares sold under stock option plan	8,580	9,838
	<u>5,530,053</u>	<u>5,521,473</u>
	<b>BALANCE AT END OF YEAR</b>	<b>\$ 5,530,053</b>
RETAINED EARNINGS		
Balance at beginning of year	\$15,409,596	\$13,918,877
Net income for the year	3,916,986	1,490,719
	<u>19,326,582</u>	<u>15,409,596</u>
	<b>BALANCE AT END OF YEAR</b>	<b>\$ 19,326,582</b>
TREASURY STOCK		
Balance at beginning of year	\$ 1,186,232	\$ 1,229,094
Shares sold under option plan — (1978 — 8,834 shares; 1977 — 5,300 shares)	(80,887)	(42,862)
	<u>1,105,345</u>	<u>1,186,232</u>
	<b>BALANCE AT END OF YEAR</b>	<b>\$ 1,105,345</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, 1978  
and June 30, 1977*

	1978	1977
<b>SOURCE OF FUNDS</b>		
Net income	\$ 3,916,986	\$ 1,490,719
Add charges to income not requiring working capital:		
Provision for depreciation, depletion and amortization	5,064,812	1,261,947
Amortization of debt expense	5,779	5,621
Provision for deferred income taxes	<u>900,000</u>	<u>800,000</u>
TOTAL FROM OPERATIONS	9,887,577	3,558,287
Increase in long-term debt	6,171,404	500,000
Proceeds from sale of treasury stock	89,467	52,700
Carrying amount of property, plant and equipment disposals	12,460	43,244
Decrease (increase) in investment in joint ventures	<u>950,975</u>	<u>(1,514,682)</u>
TOTAL	17,111,883	2,639,549
<b>APPLICATION OF FUNDS</b>		
Decrease in long-term debt	5,247,600	829,526
Additions to land	374,606	—
Additions to buildings and equipment	8,769,797	1,439,857
Additions to mineral interests, mining claims, leases and permits	63,735	—
Increase (decrease) in other assets—Note B	2,363,869	(473,462)
Reclassification of marketable securities	<u>—</u>	<u>556,436</u>
TOTAL	<u>16,819,607</u>	<u>2,352,357</u>
INCREASE IN WORKING CAPITAL	<u>\$ 292,276</u>	<u>\$ 287,192</u>
<b>CHANGE IN COMPONENTS OF WORKING CAPITAL</b>		
Increase (decrease) in current assets:		
Cash and certificates of deposit	\$ 189,835	\$ 1,531,900
Marketable securities	—	(556,436)
Trade accounts receivable	373,429	1,565,840
Inventories	(409,717)	117,656
Prepaid expenses and other current assets	<u>(221,566)</u>	<u>378,965</u>
	(68,019)	3,037,925
Increase (decrease) in current liabilities:		
Trade accounts payable	(151,328)	293,944
Accrued interest payable	31,434	20,470
Amount refundable to customer	(1,860,673)	1,860,673
Federal and state income taxes	802,312	—
Other liabilities	664,945	(112,504)
Current portion of long-term debt	<u>153,015</u>	<u>688,150</u>
	<u>(360,295)</u>	<u>2,750,733</u>
INCREASE IN WORKING CAPITAL	<u>\$ 292,276</u>	<u>\$ 287,192</u>

See notes to consolidated financial statements

## Notes to Consolidated Financial Statements

### NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Ranchers Exploration and Development Corporation is engaged primarily in mining and mineral processing. The accounting principles which materially affect the determination of consolidated financial position, changes in financial position, or results of operations are summarized below.

**Principles of Consolidation:** The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Upon consolidation, inter-company 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 future 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 Expense:** 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:

	1978	1977
Finished metals and metal products	\$1,752,301	\$ 362,547
Ore in leach heaps and stockpiles	252,525	2,068,302
Supplies	181,089	164,783
	<u>\$2,185,915</u>	<u>\$2,595,632</u>

The amount of \$2,363,871, representing the costs attributable to uranium ore held in stockpile inventory at the Small Fry Mine was classified as other non-current assets in 1978 since milling arrangements have not yet been made for processing the ore, and the timing of such arrangements is uncertain.

### 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, 1978, was \$7,683,089. 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:

	1978	1977
Current assets	\$1,286,433	\$ 499,749
Properties—net	6,032,802	7,920,039
<b>TOTAL ASSETS</b>	<b>7,319,235</b>	<b>8,419,788</b>
Current liabilities	1,105,825	630,403
Long-term debt	1,354,167	1,979,167
<b>TOTAL LIABILITIES</b>	<b>2,459,992</b>	<b>2,609,570</b>
<b>EQUITY IN NET ASSETS</b>	<b>\$4,859,243</b>	<b>\$5,810,218</b>

Included in the above balances are the Company's carrying amounts of property, plant and equipment, and intangible development costs aggregating \$873,290 and \$4,227,324 at June 30, 1978 and \$1,274,410 and \$6,407,618 at June 30, 1977, respectively, which represent its 50% share of the Ranchers-HNG Oil Company Joint Project. In addition to this carrying amount, the Company also has \$76,605 included in mineral interests relating to the Joint Project. This Joint Project was

formed to operate the Johnny M Uranium 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 litigation described in Note J, the bank has not converted the revolving credit to a term loan. The Joint Project has made twenty two monthly installments resulting in a balance of \$2,708,333 at June 30, 1978.

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.

#### 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 filed claim for refund of amounts paid or such greater amount as may be finally determined. The Internal Revenue Service refused to honor this claim, and the Company filed suit in the United States District Court to recover the payment. The Company has been awarded a judgment, which is subject to appeal by the Internal Revenue Service, to recover \$901,698 plus interest.

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. This case has not been docketed.

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 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, 1978 in the amount of \$944,113 all of which, upon utilization, would be credited to the deferred income tax accounts. The carryforwards expire in 1984.

The Company has investment tax credit carryforwards in the amount of \$783,968 expiring, if not used, in varying amounts to 1985. The entire amount of investment tax credit would be credited to the deferred income tax accounts when utilized.

Investment tax credits of \$229,495 were used to reduce the 1978 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 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 75,921 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 102.708% beginning January 15, 1978 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 dividends amount to \$16,617,189 at June 30, 1978.

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:

	<u>1978</u>	<u>1977</u>
Amount borrowed under a \$2,500,000 line of credit—bearing interest at 1/2% above local prime interest rate, payable in monthly installments of \$50,000 plus interest	\$1,350,000	\$ 900,000
Amount borrowed under a \$4,000,000 line of credit—bearing interest at 1/4% above local prime interest rate, payable in eight equal quarterly installments beginning March 31, 1979	900,000	—
10% note payable to utility Company, payable proratably over the period of delivery of 300,000 pounds of U <sub>3</sub> O <sub>8</sub>	—	500,000
	<u>\$2,250,000</u>	<u>\$1,400,000</u>

In connection with the \$4,000,000 line of credit, the Company is to maintain compensating balances in an average amount equal to at least 10% of outstanding loans and, in addition, 10% of the commitment through December 31, 1978. After December 31, 1978, the Com-

pany must maintain compensating balances equal to at least 20% of outstanding loans.

#### 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 \$453,979 in 1978 and \$231,388 in 1977.

The future minimum rental commitments under non-cancellable equipment leases, with a related party, totaled \$100,056 at June 30, 1978 (see Note K). These commitments for future fiscal years are as follows: June 30, 1979—\$47,603; June 30, 1980—\$37,901; and June 30, 1981—\$14,552.

#### NOTE I—STOCK OPTIONS

At June 30, 1978, 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, 26,600 were covered by options outstanding and 41,616 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, 1978.

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
	Shares	Price	Shares	Price	
Outstanding July 1, 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
Year ended June 30, 1978					
Granted	1,000	17.63 —	9,000	12.00-17.25	10,000
Cancelled	(500)	10.00 —	(4,200)	10.00 —	(4,700)
Exercised	—	— —	(7,000)	10.00 —	(7,000)
Outstanding June 30, 1978	26,600	9.13-18.25	42,000	9.13-18.25	68,600
Exercisable June 30, 1978	18,633	9.13-18.25	18,700	9.13-18.25	37,333

1,834 shares exercised during the year ended June 30, 1977 were issued in 1978.

#### 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<sub>3</sub>O<sub>8</sub>). 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<sub>3</sub>O<sub>8</sub> 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. The Company and HNG have also alleged that the agreement, and the conduct of Gulf and General Atomic, are in violation of the New Mexico restraint of trade statutes and have asked the Court to declare the agreement void.

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.

The terms of settlement with Gulf States Utilities pro-

vide 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 which may be produced from the mine over and above the approximate three million pounds of  $U_3O_8$ . 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 the event Gulf States exercises such options. The litigation with General Atomic is continuing with respect to production from the mine properties in excess of approximately three million pounds. Trial of the suit is scheduled to begin in October, 1978.

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—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 replacement 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, 1978, amounted to \$1,607,309 (1977—\$2,246,358) including \$1,327,074 (1977—\$1,891,883) of reimbursable costs, \$190,065 (1977—\$176,486) of rental charges for equipment, and \$90,170 (1977—\$177,989) constituting percentages of certain costs as described above.

#### NOTE L—SUMMARY OF QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of unaudited quarterly results of operations for the years ended June 30, 1978 and 1977:

	1978			
	Quarter Ended			
	September 30	December 31	March 31	June 30
Net sales and other income	\$5,281,985	\$7,332,638	\$7,705,764	\$14,124,109
Income before income taxes	463,119	1,131,075	1,600,376	2,472,416
Net income	388,119	806,075	1,040,376	1,682,416
Net income per common share:				
Primary	\$ .27	\$ .56	\$ .73	\$ 1.16
Fully diluted	\$ .27	\$ .54	\$ .70	\$ 1.11
	1977			
	Quarter Ended			
	September 30	December 31	March 31	June 30
Net sales and other income	\$3,590,251	\$6,154,937	\$4,695,422	\$6,720,320
Income before income taxes	463,804	393,867	701,309	731,739
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

Notes Continued on Page 28

**NOTE M—BUSINESS SEGMENTS AND MAJOR CUSTOMERS**

Financial data concerning the Company's business segments for 1978 and 1977 presented on page 7 of this report are included herein by reference.

Operating profit is total revenue less operating expenses, excluding interest, general corporate expenses, and exploration, conservation and maintenance of properties. Identifiable assets by industry include assets directly

identified with those operations. General corporate assets consist primarily of cash, marketable securities, and other investments.

The Company has investments in joint ventures involved in domestic exploration for gold and uranium.

In 1978 the Company had sales to three major customers as follows; uranium—\$12,308,474 and \$7,406,079; copper—\$4,713,069. In 1977 sales to major customers were copper—\$9,053,580 and \$2,640,976; uranium—\$3,777,518.

*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 small quantities of cement copper at its Big Mike Mine near Winnemucca, Nevada. The Company also owns or 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, and the Hope Mine, also near Grants and jointly owned with Chaco Energy Company. The Company also owns the Small Fry Mine near Moab, Utah, at which uranium ore has been mined and stockpiled pending completion of milling arrangements. In addition, the Company is presently producing uranium and vanadium through reprocessing of old mill tailings at Naturita, Colorado, and plans to reprocess a similar but larger deposit at Durango, Colorado, following completion of operations at Naturita. The Company is engaged in extensive uranium exploration, primarily through a joint project with Chaco Energy, a subsidiary of Texas Utilities. The Company also 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.

Quarter	1978		1977	
	High	Low	High	Low
First	\$20.00	\$14.00	\$21.50	\$14.75
Second	14.875	11.25	18.875	14.375
Third	17.625	12.00	19.25	15.625
Fourth	21.50	15.625	21.875	18.00

## Summary of Operations 1978/1974

Income:	1978	1977	1976	1975	1974
Net Sales and Royalties	\$34,337,435	\$21,028,605	\$16,020,312	\$17,848,957	\$19,715,926
Interest and Other	107,061	132,325	157,249	384,813	62,690
Gain of Repurchase of Debentures	—	—	—	100,798	10,850
	<u>34,444,496</u>	<u>21,160,930</u>	<u>16,177,561</u>	<u>18,334,568</u>	<u>19,789,466</u>
Deductions from Income:					
Cost of Products Sold	25,490,444	16,739,820	12,313,200	12,664,583	14,655,199
Exploration, Conservation and Maintenance of Mining Properties	1,160,093	846,858	812,729	822,319	444,940
Administrative and General Expenses	1,362,185	851,007	968,808	946,607	742,202
Interest, Principally on Long-term Debt	764,788	432,526	407,151	385,574	428,683
	<u>28,777,510</u>	<u>18,870,211</u>	<u>14,501,888</u>	<u>14,819,083</u>	<u>16,271,024</u>
Income from Operations before Applicable Income Taxes	5,666,986	2,290,719	1,675,673	3,515,485	3,518,442
Federal Income Taxes:					
Currently Payable	850,000	—	(1,569)	161,237	205,000
Deferred	900,000	800,000	700,000	965,000	695,000
	<u>1,750,000</u>	<u>800,000</u>	<u>698,431</u>	<u>1,126,237</u>	<u>900,000</u>
<b>NET INCOME</b>	<b>\$3,916,986</b>	<b>\$ 1,490,719</b>	<b>\$ 977,242</b>	<b>\$ 2,389,248</b>	<b>\$ 2,618,442</b>
Average shares outstanding	1,440,790	1,447,713	1,417,820	1,460,670	1,512,162
Net income per common share	<u>\$2.72</u>	<u>\$1.03</u>	<u>\$ .69</u>	<u>\$1.64</u>	<u>\$1.73</u>
Net income per common share assuming dilution*	<u>\$2.62</u>	<u>\$1.01</u>	<u>\$ .69</u>	<u>\$1.59</u>	<u>\$1.67</u>

\*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.



## 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, 1978 and 1977, 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, 1978, is \$7,683,089. 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.

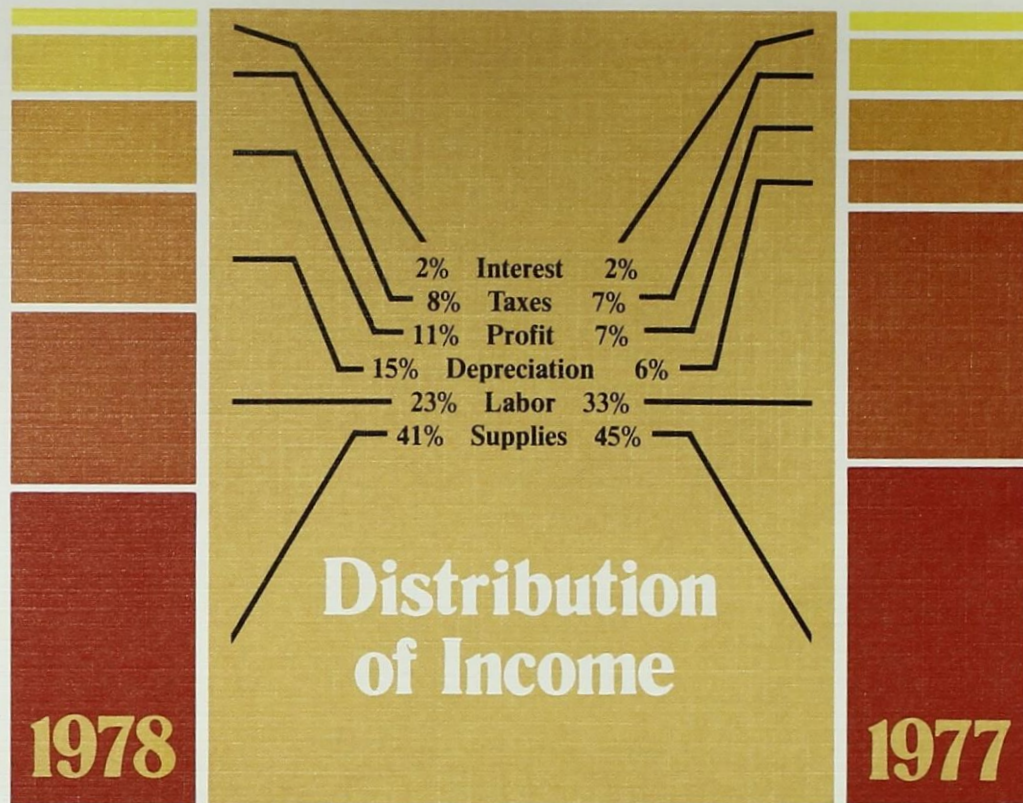
As explained in Note J to the consolidated financial statements, the Company is engaged in litigation, the outcome of which is not determinable at this time.

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, 1978 and 1977, 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  
July 31, 1978



The Company's gross income totaled \$34,444,496 in 1978. This income was used in the following manner:

\$13,992,113, or 41 percent, went to suppliers for the various goods and services needed to conduct the Company's business.

\$7,789,170, or 23 percent, was spent on labor, including social security and insurance for the Company's approximately 400 employees.

\$2,916,627, or 8 percent, was paid in federal, state, and local taxes.

\$5,064,812, or 15 percent, was provided for depreciation, amortization, and depletion of property, plant, and equipment.

\$764,788, or 2 percent, was paid in interest. These expenditures totaled \$30,527,510, leaving a net profit of \$3,916,986, or 11 percent of the gross income for the year. This amounted to \$2.72 per share on the 1,440,790 shares of common stock held by the Company's approximately 1550 stockholders of record. No dividends were paid during the year.

*Leaching Copper Ore at the Bluebird Mine*



## **A New Use For Old Metallurgy**

Leaching — one of man's oldest techniques for extracting metal from ore — found a new application in the Company's operations in 1978, being employed in the uranium mill tailings project. The Company has used leaching extensively in its copper operations through the years, but the tailings project marks the first time the Company has used the technique to recover uranium.

As practiced by the Company, leaching typically involves percolating sulfuric acid solutions through large ore heaps. The acid dissolves the

desired metal, causing it to flow in solution to a collection point at the bottom of heaps. This simple technique has a long history, although its exact origin has been lost in antiquity. An early use was in the famed Rio Tinto copper deposits in Spain during the fifteenth century where copper sulphate solutions were produced. Leaching was later used widely in South America to produce cement copper from oxide ores.

When the Company brought the Bluebird Mine into production in 1964, heap leaching was chosen as an economical means of extracting

the copper from the oxide ore. The ore was simply placed in heaps — today standing as high as 180 feet above ground level — and the sulfuric acid applied across the top surface by pipes containing small needle valves (above). The same technique was later employed at the Old Reliable and Big Mike mines. To recover uranium, only a very weak solution (.5%) of acid is applied to the tailings heaps; this concentration is sufficient to flush the uranium from the tailings, which have previously been mixed with acid during agglomeration.