



# **Ranchers**

**Annual Report Year Ended June 30, 1981**



## Modern Mining

The cover of the 1981 Annual Report showing about 10 ounces of Alaskan placer gold, plus other photos scattered throughout the Report, helps to illustrate what modern mining is all about: efficient movement and treatment of tons of materials to recover a few ounces or pounds of metal.

Recovery of the 10 ounces of gold, a few flakes still clinging to the quartz that was the original host rock some 65 million years ago, required the movement and processing of about 625 tons of gravel. That's 1,250,000 pounds of material. Such bulk can only be handled efficiently by modern earthmoving equipment and the effort is only made worthwhile by gold prices of at least \$400 per ounce — factors which explain why the placers, though known since the turn of the century, haven't previously been worked on a large scale.

Gold is not infrequently associated with other metals, and such is the case in the ore sample on this page, taken from the Company's Golden Grizzly mine prospect near Cooke City, Montana. The brassy flecks are pyrite, while the iridescent blue-violet areas are bornite, a copper mineral. The gold, scarcely visible, occurs between grain boundaries in the rock. The deposit contains reserves averaging about .15 ounce of gold per ton and 1.17 percent copper. The ore is near the surface, so the deposit could be mined from an open pit with earthmoving equipment.

Examples of silver ore from the Escalante and Revenue-Virginus mines appear on Page 12 and 14, respectively, of the Report. The Escalante ore shows dark-colored silver sulphide and white quartz which migrated, while in solution, into a volcanic host rock. In the sample from the Revenue-Virginus, the fine-grained, dusty-gray material is tetrahedrite, a mixture of copper, silver and antimony, while the large, bright crystals are galena,

a lead mineral which also carries silver values.

In both of the mines, a ton of ore averages 10 to 12 troy ounces of silver. Such ore can be mined very efficiently at the Escalante where a decline tunnel permits use of heavy equipment to haul ore broken by vertical crater retreat, a new mining method in the U.S. The Revenue-Virginus, an old mine less accessible to heavy equipment, will be much more labor intensive when placed in operation.

Precious metals such as gold and silver occur, of course, in very limited quantities — quantities measured in ounces. The other metals which the Company produces — copper and uranium — occur in greater concentrations and are measured in pounds or tons. But mining them still requires the handling of great quantities of materials.

For example, the cathode copper pictured on Page 8 and produced at the Company's Bluebird Mine, was extracted from ore averaging about .50 percent copper — 10 pounds to the ton. When heaps of the ore are leached and the resulting liquid pumped to a refining plant, about half the copper is ultimately recovered. Thus a ton of ore will produce about five pounds of refined copper. Fortunately, the use of heavy equipment in the open pit has permitted millions of tons of ore and waste to be moved each year.

Uranium oxide ( $U_3O_8$ ) concentrate, pictured on Page 16, requires the handling of as much, or more, ore for each pound of production. The ore in the Company's Johnny M Mine has a grade of about .20 percent, or four pounds of  $U_3O_8$  per ton. Here again, only efficient blasting, mucking, and hauling of the ore sustains the operation. This is typical of modern mines, which, by and large, contain less metal, fewer men, and more machines than any time in history.



Gold-Copper Ore from Golden Grizzly

# Ranchers Exploration and Development Corporation

## Financial Highlights

<i>For the year ended June 30</i>	1981	1980	1979*	1978*	1977*
Gross income	\$32,913,320	\$32,561,623	\$39,497,054	\$34,444,496	\$21,160,930
Income before income taxes	5,183,520	7,102,353	6,028,842	5,666,986	2,290,719
Income taxes	<u>1,250,000</u>	<u>2,300,000</u>	<u>1,700,000</u>	<u>1,750,000</u>	<u>800,000</u>
Net income	3,933,520	4,802,353	4,328,842	3,916,986	1,490,719
Net income per common share	1.27	1.63	1.50	1.36	.52
Dividends per share	.264	.225	.10	—	—
Capital expenditures	19,120,765	8,891,581	497,462	9,208,138	1,439,857
Depreciation, depletion and amortization	2,260,518	1,376,732	4,706,887	5,064,812	1,261,947
<i>At year end</i>					
Working capital	8,466,949	12,145,098	13,485,606	4,865,063	4,572,787
Total assets	57,985,355	47,288,085	40,031,396	37,775,493	32,305,531
Long-term debt	884,555	996,283	1,817,876	3,472,740	2,548,936
Shareholders' equity	38,126,178	34,470,482	28,224,111	24,522,404	20,515,951
Book value per share	12.42	11.44	10.02	8.57	7.21
Number of employees	350	400	350	400	375

\*Restated to reflect 2 for 1 stock split declared February 1980

### Description of Company

Ranchers Exploration and Development Corporation is a diversified mining company whose shares are traded on the American Stock Exchange (Symbol RAN). The Company produces uranium, copper, and gold, and will begin producing silver from its Escalante Mine in the current fiscal year which began July 1. The Company also receives substantial uranium royalties from properties mined by other companies. Headquarters of the Company are at 1776 Montano Road NW, Albuquerque, New Mexico; principal operations are located in New Mexico, Arizona, Utah, and Alaska.

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## Report to Shareholders

Nineteen-eighty-one was a year in which the Company made excellent progress in becoming a significant producer of precious metals. This effort, which is going relatively smoothly despite very erratic metal prices, will be largely completed early in the current fiscal year when the Escalante silver mine comes on stream. Further drilling during the year at the Revenue-Virginus Mine should also determine whether the Company has a second major reserve of silver.

Lower metal futures profits and uranium royalties, greater exploration expense, and generally higher operational costs as the result of inflation combined to reduce earnings to \$1.27 per share from \$1.63 in 1980. Revenues remained about the same — \$32,913,320 vs. \$32,561,623 a year ago. Earnings would have been lower except that the Company continued to benefit significantly from contracts for delivery of uranium concentrates at prices well above those presently prevailing and from high-priced silver futures positions closed out when the market declined in 1981. The Company also sold about a third of its copper production at \$1 per pound, helping to cushion Bluebird Mine operations when prices subsequently fell to approximately \$.75 per pound.

The sale of uranium concentrates from the Johnny M Mine under long term contracts to Gulf States Utilities and Taiwan Power Company proved exceptionally fortuitous. At a time when many mining companies were closing mines and showing large losses on uranium operations, the Johnny M continued to run smoothly, producing a pre-tax profit of \$2,327,367 for the Company's account. The mine will probably close late in the current fiscal year, but sales commitments through 1984 will continue to be filled either from inventories or purchased concentrates. These favorable contracts, which can be satisfied through delivery of uranium purchased at the much lower prices prevailing today, should continue to be highly profitable for the Company through 1984.

The Company realized pre-tax profits of \$2,232,807 from closeout of silver futures positions taken when sil-



ver prices rose in 1980. Unrealized pre-tax profits of about \$500,000 also have been carried forward into the current fiscal year. The Company has obtained substantial lines of credit to permit it to make forward sales of silver production when prices increase, as management anticipates.

The Company showed a pre-tax gain of \$859,575 at its Bluebird copper mine during the year, but this was largely the result of reduced operating costs which stemmed from a decision to halt the stripping of overburden from the deposit. Given present copper prices and those expected in the foreseeable future, the Company feels that it is no longer practical to remove overburden required to mine the ore from the open pit. Instead, the Company proposes to fracture and leach the ore in place and pump recovered solutions to the existing solvent extraction-electrowinning plant for treatment as in the past. This change is now under study, and management is cautiously optimistic, given past leaching experience, that it can be effected economically. Production from present leaching heaps would continue throughout the remainder of the current fiscal year; production from the new system would likely not commence in volume until 1983 or 1984.

The Company completed recovery of leaching solutions from the Old Reliable Mine during 1980 and closed this small copper operation. The Hope Mine, a small uranium producer, was also closed during the fiscal year when it became uneconomical to mine the remaining geologic reserves.

The Company made excellent progress at the Escalante silver mine during the year. Barring further deterioration of silver prices, this mine should become the Company's leading metal producer when in full production. Initially, silver bullion will be produced at an annual rate of about 1.5 million ounces, but the mine and mill are capable of producing at least two million ounces yearly, and the Company expects ultimately to increase production to this level.

First production of bullion from the mill is expected in October with capacity reached shortly thereafter if there are no major startup problems. Initial feed will come from a surface stockpile of about 106,000 tons of broken ore averaging in excess of seven ounces of silver per ton.

Drilling at the Escalante during the past year has been very successful and is continuing in a newly-discovered extension of the primary vein. The Company now estimates that the mine contains in place reserves of about 32 million ounces of silver and is optimistic that this quantity will increase as additional drilling is conducted. The average grade of ore which will be mined, after normal mine dilution, should be about 12 ounces of silver per ton, although reserves in the newly-discovered area could increase this grade somewhat. Higher silver prices could also increase the quantity of recoverable silver by making it economic to mine and process additional lower grade material. More than 80 percent of the silver contained in ores mined will be recovered in milling, and sold as bullion.

Rehabilitation and evaluation of the Revenue-Virginus Mine continued throughout the year. Drilling to date has been confined to the periphery of the property and has largely confirmed geologic conditions and ore grade projected for those areas. Areas expected to contain major reserves will not be drilled until well into the fiscal year.

The Company-managed gold and silver exploration program was active throughout the year, with drilling conducted primarily on four properties. The most inter-

esting of these prospects — the Mystic property near Phoenix, Arizona — contains extensive gold mineralization, but requires a great deal more exploration before it can be determined if the property contains a minable deposit. Plans for further work on the properties are being evaluated, although it is not likely that a major program will be undertaken until precious metal prices improve.

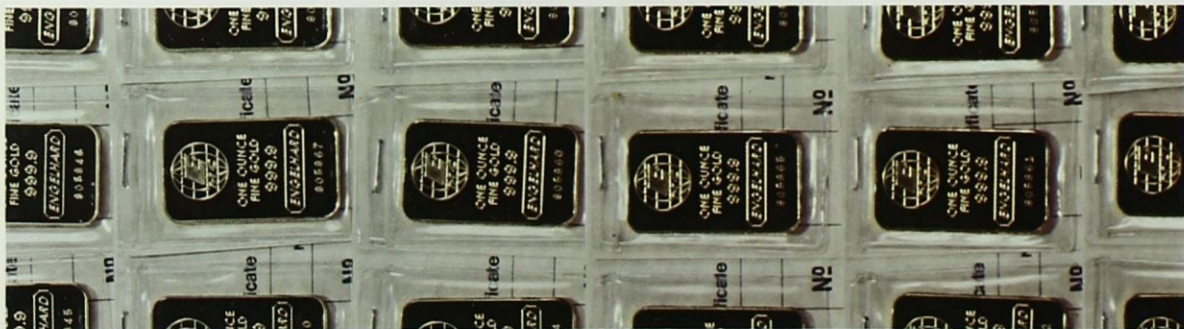
Metal prices are also the key to continued operation of the Company's gold placers in Alaska where an estimated 4,000 to 5,000 ounces of gold will be recovered in a sluicing operation which will end in September. These properties are the source of metal for the gold dividend which the Company paid in the final quarter of Fiscal Year 1981 and which it will continue to pay in the current year. If gold remains at the \$400-per-ounce level, the properties will probably not be operated next summer in order to conserve reserves until prices improve.

Management looks forward to 1982 with enthusiasm and expects a progressive and profitable year for the Company. Gold and silver prices are expected to move upward during the fiscal year and, if so, the Company's revenues and earnings should match or slightly exceed those of the year just past. A substantial rise in silver prices would put the Escalante Mine off to a fine start and pave the way for an increase in earnings late in the year and in Fiscal Year 1983.

September 11, 1981

John E. Motica  
President and Chief Operating Officer

Maxie L. Anderson  
Chairman and Chief Executive Officer



# Management Discussion & Analysis

## Operations

The Company's net income for the fiscal year ended June 30, 1981 was \$3,933,520, a decline of 18 percent from the record earnings of \$4,802,353 reported in the prior year. Earnings per share were \$1.27 (\$.34, \$.25, \$.31, and \$.37 by quarters), compared to the record \$1.63 in 1980. Revenues rose slightly to \$32,913,320, compared to \$32,561,623 in the prior year, with sales of uranium and gold increasing and uranium royalties, gains on metal futures transactions, and other income declining.

## Uranium Mining

Profitability of the Johnny M Mine improved significantly over the prior year. The mine produced 341,940 pounds of uranium oxide ( $U_3O_8$ ) in ore for the Company's account; 325,343 pounds were sold for \$11,664,506, or \$35.85 per pound. In 1980 the mine produced 292,859 pounds of  $U_3O_8$  in ore for the Company's account, and 266,926 pounds were sold for \$8,793,297 or \$32.94 per pound. Pretax profit for 1981 was \$2,327,367 or \$7.15 per pound compared to \$779,972 or \$2.92 per pound in the prior year. The 17 percent increase in production, which greatly enhanced profitability, resulted primarily from mining a higher grade ore — .213%  $U_3O_8$  compared to .182%  $U_3O_8$  in the prior year. The increase in selling price was the result of making deliveries under a contract with a foreign utility company at increased prices.

The Hope Mine, a small uranium producer which was closed after year end because economic reserves were exhausted, operated profitably during the year. The Company's share of production totaled 23,935 tons of ore containing 55,314 pounds of  $U_3O_8$ , compared to 17,916 tons containing 46,770 pounds in the prior year. Sales of ore produced from the property totaled \$1,014,438 or \$21.33 per pound, compared to \$1,255,958 or \$28.69 per pound in the prior year. Profit for 1981 was about \$8.30 per pound, down slightly from the previous year.

## Copper Mining

The Company's copper operations showed a slight improvement in profitability over the prior year. At the Bluebird Mine, production increased 12 percent from 12,189,249 pounds of copper in the prior year to 13,598,470 pounds in 1981. Sales from the Bluebird declined approximately six percent because of lower copper prices, as well as a slight decrease in the number of pounds sold. The Old Reliable Mine, which was closed during

the year, had sales of \$1,255,557, compared to \$378,452 in the prior year and operated at a loss during both periods.

The pretax gains from metals futures transactions amounted to \$2,232,807 for the year, compared to \$3,565,373 in the prior year. As of June 30, 1981, the Company had an unrealized gain of about \$500,000 which carried forward into fiscal year 1982.

## Uranium Royalties

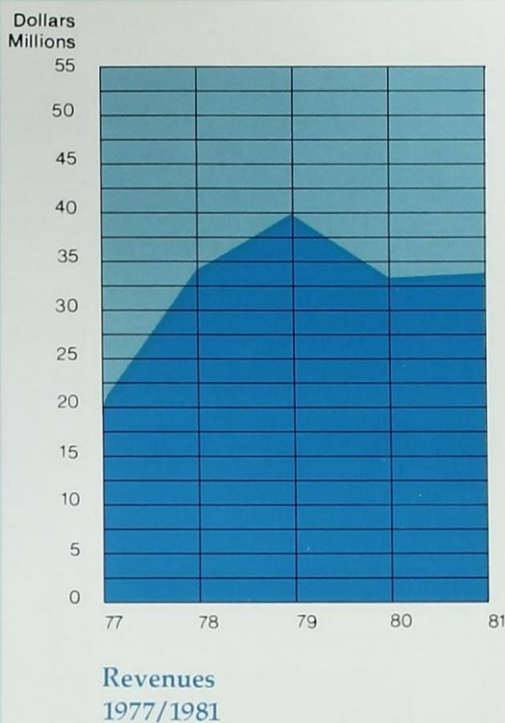
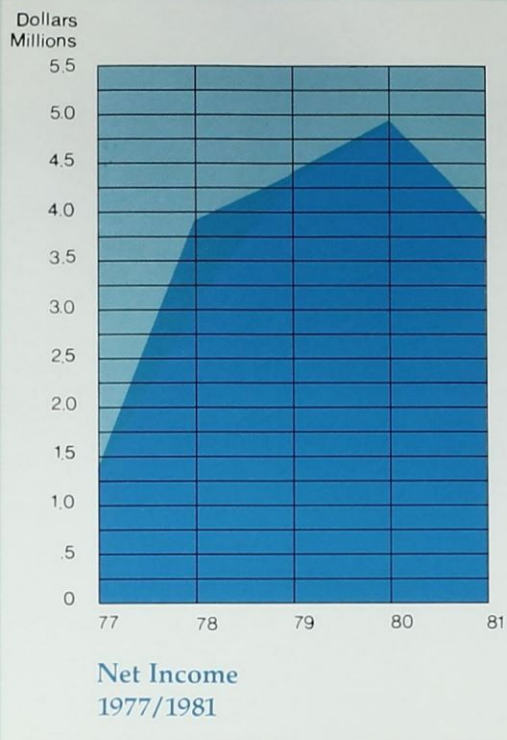
Uranium royalties declined to \$2,492,878 in 1981 from \$3,577,682 in the previous year, which included a one-time payment of \$1,351,929 in settlement of litigation. Interest and other income also declined from the previous year as a result of the Company's increasing cash investment in the development and equipping of the Escalante silver mine.

Exploration and property maintenance costs increased from the prior year by about 27 percent, primarily because the Company increased expenditures in its search for precious metal, particularly through its interest in the 1980 Gold-Silver Exploration Program partnership. The Company's general and administrative expenses increased about 32 percent over the prior year because of expansion of the Company's facilities and staff and as a result of somewhat increased costs caused by inflation. The Company's interest expense of \$326,447 for 1981 has been capitalized in accordance with Financial Accounting Standards Board Statement #34, whereas in the prior year the expense of \$91,963 was charged to operations. The application of FASB #34 will result in additional charges to operations in future periods when the related assets are depreciated for financial statement purposes.

## Financial Strength/Liquidity

The Company maintained its strong financial position in 1981 despite substantial requirements for funds to develop and equip the Escalante silver mine. As of June 30, 1981, the Company's current ratio was almost 3-to-1 as compared to 4.4-to-1 in 1980 and 1979. Of the approximately \$19 million expended on the Escalante Project as of June 30, 1981, about \$13 million came from internal sources, either cash on hand or cash flow from other operations. The balance of about \$6 million was obtained through a production payment financing agreement which may also provide up to an additional \$13 million in order to complete the project. Based on the project cost

*(continued next page)*



estimates, this agreement should provide all necessary funds required to complete the project. In addition to the production payment agreement, the Company has available to it various commercial bank credit lines totaling \$44 million as of June 30, 1981. These lines are available to provide funds for working capital requirements, including funds required for maintaining the Company's hedge position of future metal production. The lines are unsecured and bear interest at the prime rate.

### Impact of Inflation

All of the Company's operations have incurred increased labor and materials costs resulting from inflation. The Company is continually seeking ways to cope with the impact of inflation such as securing alternate energy sources and improving labor productivity through improved mining techniques such as the vertical crater

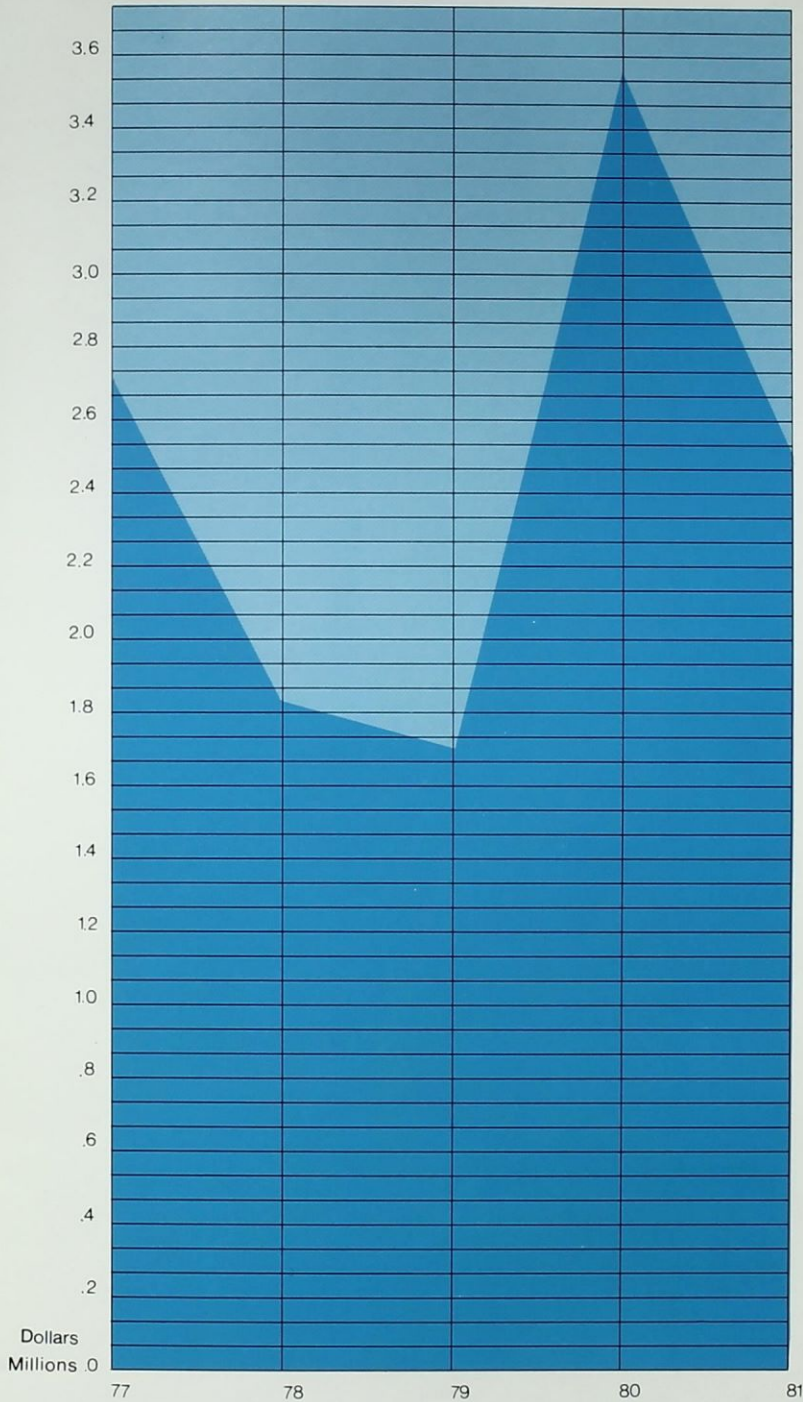
retreat method being used at the Escalante Mine. Because the Company's products are commodities subject to worldwide supply and demand conditions, the Company cannot exert a substantial influence over the price it receives from the sale of its products. The prices of certain minerals such as gold and silver do appear to become adjusted for the effect of inflation over periods of time; however, the prices of commodities tend to change dramatically in short periods of time. Thus, the Company utilizes a hedging program to mitigate the effect of these changes on earnings. Although the present outlook indicates a somewhat lower rate of inflation in the near term, the Company continues to attempt to protect itself against the possibility of accelerating inflation in the intermediate term. Other of the Company's plans for the future are reported on in the text of this report.

## Summary of Operations

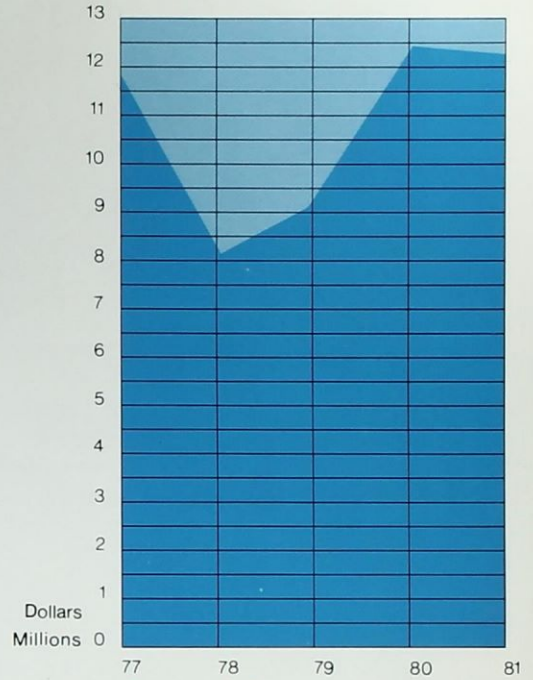
Year ended June 30	(000 omitted except for per share amounts)				
	<u>1981</u>	<u>1980</u>	<u>1979*</u>	<u>1978*</u>	<u>1977*</u>
Income:					
Net Sales	\$26,448	\$23,251	\$36,994	\$32,508	\$18,284
Uranium Royalties	2,493	3,578	1,704	1,829	2,744
Gain on Metal Futures Contracts	2,233	3,565	—	—	—
Interest and Other	1,739	2,167	799	107	133
	<u>32,913</u>	<u>32,561</u>	<u>39,497</u>	<u>34,444</u>	<u>21,161</u>
Deductions from Income:					
Cost of Products Sold	23,692	22,346	30,232	25,490	16,740
Exploration, Conservation and Maintenance of Mining Properties	1,513	1,102	1,479	1,160	847
Administrative and General Expenses	2,524	1,919	1,464	1,362	851
Interest Expense	—	92	293	765	432
	<u>27,729</u>	<u>25,459</u>	<u>33,468</u>	<u>28,777</u>	<u>18,870</u>
Income from Operations before Applicable Income Taxes	5,184	7,102	6,029	5,667	2,291
Income Taxes	1,250	2,300	1,700	1,750	800
NET INCOME	<u>\$ 3,934</u>	<u>\$ 4,802</u>	<u>\$ 4,329</u>	<u>\$ 3,917</u>	<u>\$ 1,491</u>
Net Income per Common Share	<u>\$1.27</u>	<u>\$1.63</u>	<u>\$1.50</u>	<u>\$1.36</u>	<u>\$ .52</u>
Average Shares Outstanding	3,091	2,946	2,879	2,880	2,894

\*Restated to reflect the 2-for-1 stock split, effected in the form of a stock dividend, paid on March 14, 1980 to stockholders of record on February 22, 1980.

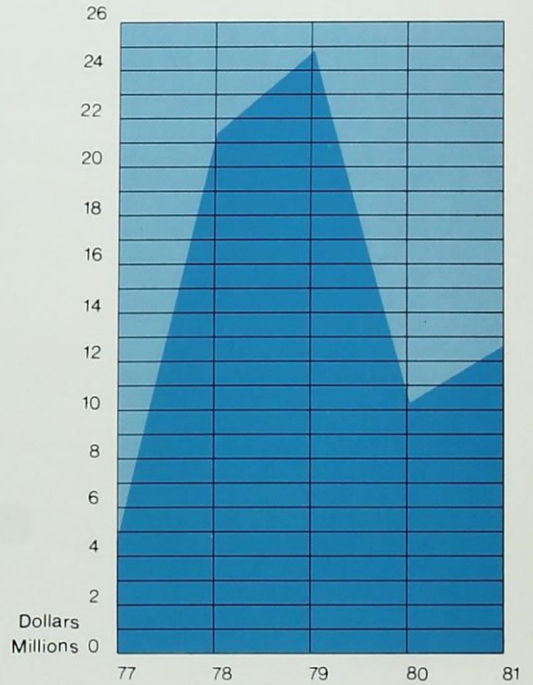




Uranium Royalties  
1977/1981



Copper Sales  
1977/1981



Uranium Sales  
1977/1981

## Copper

Copper production increased in 1981 at the Company's principal producer, the Bluebird Mine, where output totaled 13,598,470 pounds of cathodes, compared to 12,189,249 pounds in 1980. Other production during 1981 came from the Old Reliable Mine, an in-place leaching operation which was closed early in the year after production of 424,603 pounds of cement copper. The mine produced 1,850,057 pounds last year.

The Bluebird Mine, located near Miami, Arizona, is a leaching operation where low grade oxide copper ore is mined from an open pit. The ore is hauled to heaps where sulfuric acid is applied to dissolve the copper, producing a copper-bearing solution which is treated by solvent extraction-electrowinning to produce copper cathodes. Because of an increasing ratio of overburden to ore and continuing low copper prices, which averaged \$.91 per pound vs. \$.94 a year ago, a decision was made in December 1980 to halt stripping of overburden from the deposit. Mining of ore was terminated in July 1981, and construction of leaching heaps ceased. Some 2.8 million tons of ore and 2.3 million tons of waste were mined during the year, compared to 4.1 million tons of ore and 3.9 million tons of waste in 1980.

Production is expected to continue throughout much of the present fiscal year from heaps constructed before mining was terminated. For the future, the Company is considering an in-place leaching approach in which ore remaining in the deposit would be broken by hydraulic fracturing, leached with sulfuric acid, and the copper-bearing liquid collected in boreholes and pumped to the present solvent extraction-electrowinning plant for cathode production.

The deposit still contains an estimated 65 million tons of ore averaging .53 percent copper; the Company feels that by using its extensive experience in copper leaching a system can be devised which could lead to recovery of a worthwhile portion of this reserve. A pilot operation would be required, and volume production would probably not occur before 1983 or 1984. The project would draw on leaching experience at the Bluebird, as well as knowledge gained from the in-place leaching operations at the Old Reliable and Big Mike mines.

The Bluebird was placed in operation in 1963, and has since produced about 48 million tons of ore and 200 million pounds of copper. The mine was the first to leach copper oxide ore on a large scale and the first to produce cathodes on a commercial basis by solvent extraction-electrowinning.



*Cathode Copper*



*Heap Construction at Bluebird Mine*

## Gold

The Company expanded operations at its Alaskan gold placers during the four-month season which began in May and ended in September 1981. For that period, the Company expects to produce between 4,000 and 5,000 ounces of gold from 300,000 cubic yards of gravel, compared to 3,055 ounces recovered from 250,000 cubic yards a year ago. The gold is recovered by feeding gravel into sluice boxes, where it is washed and the gold separated by gravity.

The placer properties are located about 150 miles southeast of Fairbanks in a remote area which is not readily accessible until late spring or after early fall. The 22-man crew got an early start on the project this spring, with supplies and equipment arriving in March and processing of gravel beginning at the end of May, about a month earlier than last year. The placers were drilled extensively by the Company in 1974 and 1975 and several million cubic yards of reserves delineated. Operations to date have been confined to an area of about 1.3 million cubic yards containing gold values averaging about \$6 per yard at gold prices of \$400 per ounce. Several million yards of additional reserves are present in the general area and are being evaluated for possible mining next year if gold prices warrant continuation of the project.

The Company greatly increased its exploration for gold and silver in 1981, primarily under terms of the Ranchers Gold and Silver Exploration Program formed with private investors. The Company directed the program and retained a 60 percent interest. Approximately \$3.7 million was spent during the year, with attention focused on four properties: Cutler Creek, near Ouray, Colorado; Mystic, northwest of Phoenix, Arizona; Golden Grizzly, near Cooke City, Montana; and Adelaide Crown, southeast of Winnemucca, Nevada. The latter three prospects have been retained for further study and possible development. Plans for financing additional exploration are being evaluated. The Golden Grizzly has been thoroughly drilled, indicating an open pit deposit of about 453,000 tons of ore containing .15 ounce of gold per ton and 1.17 percent copper. Drilling and surface sampling at the Mystic indicate high-grade gold in a number of targets widely distributed over the property. Much additional drilling is required to fully evaluate the prospect. Drilling on the Adelaide Crown indicates low grade gold and silver mineralization. The Company is also presently considering acquisition of two small gold properties in California.



*Placer Gold*



*Gold Sluicing Operation in Alaska*

## Silver

Production of silver is scheduled to begin at the Escalante Mine in southwest Utah in October 1981, where a new mill is in the final stages of construction and testing. When in full production, the mine and mill complex will be one of the largest primary silver producers in the country, capable of producing at least 1.5 million ounces of silver bullion annually. Full production should be reached before the end of the current fiscal year. Cost of bringing the property into production will be about \$30 million, including \$17 million for the mill, tailings dam, and ancillary facilities.

The mill will have an initial capacity of 500 to 600 tons of ore per day and will be operated seven days per week. Output could, however, be increased to 750 tons per day with only minor modifications to the plant, thus bringing production to more than 2 million ounces annually, presuming mill recovery of about 80 percent. The mill consists basically of ore crushing and grinding equipment and leaching tanks to treat the ground ore with sodium cyanide to produce silver precipitates, which are treated on site to produce bullion.

Initial feed for the mill will come from 133,000 tons of ore — about a year's supply — stockpiled on the surface or broken and ready for transport from underground. The ore averages about seven ounces per ton, compared to the mine average of 10 to 12 ounces per ton. The mine will initially produce 700 tons per day, five days per week. Progress to date in the mine has been exceptional, with the new vertical crater retreat mining technique working well and mining personnel proving to be very productive. Mining costs have been near initial estimates, and the mine is making slightly less water than expected. Access to the mine is through a 4,700-foot decline, now about half completed. Mine reserves stand at about 2.5 million tons of ore, with excellent potential for additional ore.

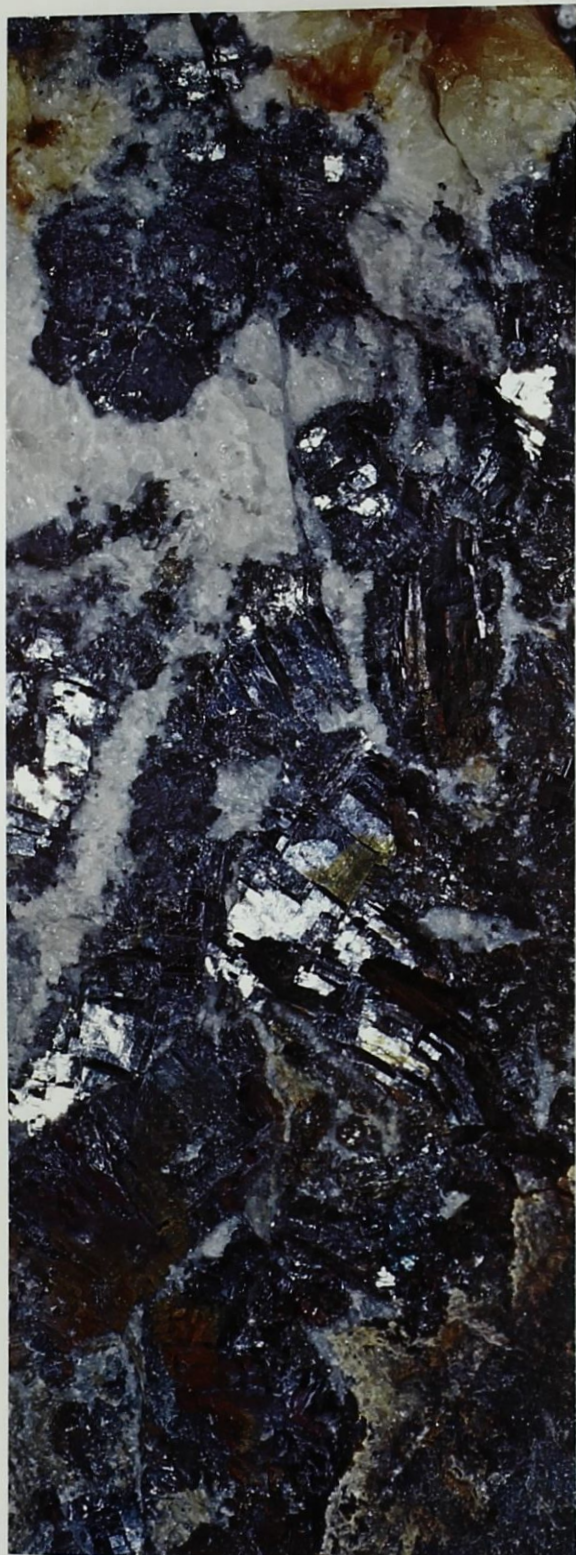
The Company's other major silver property, the Revenue-Virginus Mine near Ouray, Colorado, was the site of extensive rehabilitation during the year in an effort to reach workings believed to contain about a million tons of ore averaging approximately 10 ounces of silver and two percent lead per ton. Work centered on repair of the 7,600-foot access tunnel and clearing of the 350-foot main shaft leading to the areas of interest. Drilling, expected to continue throughout the current fiscal year, has to date confirmed the presence of narrow, high-grade veins on the periphery of the property.



Silver Ore, Escalante Mine



Drilling Blast Holes in Decline at the Escalante Mine.



*Silver-Lead Ore, Revenue-Virginius Mine*

## Revenue-Virginius Mine

The Revenue-Virginius Mine was discovered high in the San Juan Mountains of southwestern Colorado in 1876 and for the next 30 years was one of the state's legendary producers of silver. A fire ultimately led to its closing in 1906. The recent rise in silver prices has led to renewed interest in the property, believed to still contain a significant amount of silver and lead ore in a downward extension of the Virginius vein. It also contains minor amounts of gold, copper, and zinc.

The Virginius lode was apparently discovered in 1876 by either William Evans or William Feland, who located and recorded the first claim and drove the first tunnel into the vein on an outcrop about 12,600 feet above sea level. The first shipment from the vein came in the Spring of 1877 when 21 tons of ore averaging 350 ounces of silver per ton were shipped to the Pueblo smelter — the work of four men toiling through the winter of 1876-77. Production rose through the years, being brought to the surface through a shaft which connected to a tunnel emerging from the mountainside at 12,400-foot elevation.

Until steam-powered hoisting equipment was installed in 1883, hand winches were used to lift ore and waste. Later, to cut hoisting and water pumping expenses, the 7,600-foot Revenue tunnel was driven into the mountain, intersecting the vein some 1800 feet below the original mine entrance. Completed in 1895, it is the portal used to enter the mine today. The tunnel permitted mine production to be increased further, and capacity of the nearby Revenue mill was doubled to 350 tons of ore daily; mine and mill employed a total of 300 men. Fifty tons of concentrates left the mill daily. Production eventually reached more than 500 tons of ore daily from the Virginius and other mines using the Revenue tunnel.

Peak employment — in all mines and mill — ultimately reached 700 men in 1897. However, silver prices sank thereafter to \$.54 per ounce and the mining and milling complex went into decline, closing in the early 1900s after a brief flurry of gold mining activity. During its colorful history, the mine produced an estimated \$11 to \$15 million in silver at a time when mining methods were primitive and silver prices rarely exceeded \$1 per ounce. The Company obtained a lease on the property — 76 claims totaling about 1,500 acres — in December 1979.



*Core Drilling Underground at the Revenue-Virginius Mine*

## Uranium

The Company's uranium operations ran satisfactorily in 1981, with production at the Johnny M and Hope mines in northwest New Mexico up about 17 percent over 1980. The Company's share of production from the two mines totaled 397,254 pounds of uranium oxide ( $U_3O_8$ ), compared to 339,629 pounds a year ago.

The Johnny M, jointly owned with HNG Oil Company, produced 341,940 pounds of  $U_3O_8$  for the Company's account, an increase of 17 percent over the 292,859 pounds produced in 1980. Ore production remained steady throughout the year, the Company's share totaling 80,219 tons, compared to 80,443 tons last year. The increase in  $U_3O_8$  production stemmed from the somewhat higher grade of ore mined during the year — .21 percent  $U_3O_8$  vs. .18 percent  $U_3O_8$  in 1980.

Production from the Johnny M is being delivered to Gulf States Utilities and Taiwan Power Company under contracts negotiated before the recent steady decline in the price of  $U_3O_8$ , now about \$23.50 per pound. These contract prices will permit the mine to continue operation until reserves are exhausted, probably sometime in calendar year 1982, unless additional commercial reserves are discovered. Remaining commitments under the contracts will be filled through 1984 from the Company's inventories or from purchases of  $U_3O_8$ .

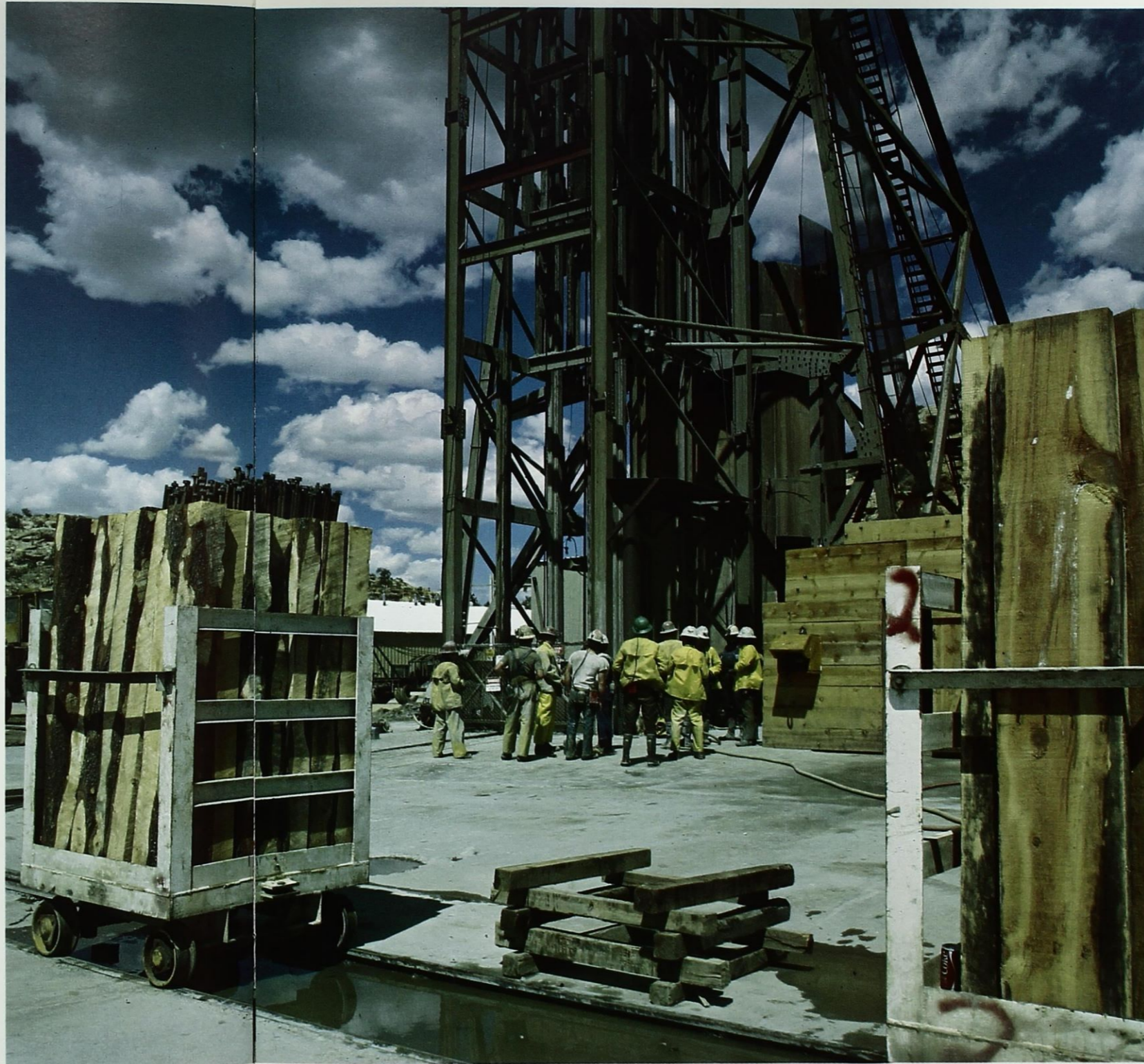
The Hope Mine, a small producer jointly owned with Chaco Energy and in production since 1977, was closed in June 1981 after reserves were depleted. The mine produced 55,314 pounds of  $U_3O_8$  in ore for the Company's account during the year, compared to 46,770 pounds in 1980. The Company's share of ore production totaled 23,935 tons vs. 17,915 tons last year.

The Company terminated exploration for uranium during the year after drilling 36,450 feet at the Johnny M and 65,980 feet at other sites in New Mexico and Colorado under terms of a joint venture with Chaco Energy. No exploration drilling is planned in the current fiscal year, the first time since the mid-1960s that the Company has not had an active uranium exploration program.

Uranium royalties, based on production from Company properties in northwest New Mexico mined by Kerr McGee, were \$2,492,878, compared to \$3,577,682 last year when the total included a one-time payment of about \$1.35 million in settlement of litigation with United Nuclear. A suit filed by the Company in June 1980 in U.S. District Court requesting interpretation of royalty provisions applicable to Kerr McGee's operation should come to trial early in 1982.



*Drums of Uranium Concentrate*



*Shift Change at the Johnny M Mine*

## Assets

### Ranchers Exploration and Development Corporation and Subsidiaries Consolidated Balance Sheets / June 30, 1981 and June 30, 1980

	1981	1980
ASSETS		
CURRENT ASSETS		
Cash	\$ 2,072,538	\$ 1,027,767
Certificates of deposit and short-term investments, at cost which approximates market	<u>3,733,576</u>	<u>10,718,682</u>
	5,806,114	11,746,449
Trade accounts receivable	1,273,600	1,180,159
Claim for refund of federal income taxes—Note E	1,442,138	—
Inventories—Note B	2,810,500	1,375,617
Deposits with brokers for metal futures contracts	306,622	320,352
Prepaid expenses and other current assets	<u>1,197,246</u>	<u>1,123,841</u>
TOTAL CURRENT ASSETS	12,836,220	15,746,418
PROPERTY, PLANT AND EQUIPMENT— at cost		
Land—Note F	1,735,994	1,734,627
Buildings and equipment	19,542,171	15,534,928
Construction in progress—Note L	10,144,762	—
Mineral interests, mining claims, leases and permits	758,168	866,117
Deferred intangible mining and development costs	<u>8,932,443</u>	<u>5,640,973</u>
	41,113,538	23,776,645
Allowances for depreciation, depletion and amortization	<u>11,070,501</u>	<u>10,586,336</u>
	30,043,037	13,190,309
IDLE FACILITIES—Note C		
Tungsten Queen Mine	7,685,342	7,682,436
Other	<u>1,593,332</u>	<u>1,720,511</u>
	9,278,674	9,402,947
OTHER ASSETS		
Investment in joint ventures and limited partnership—Note D	3,098,722	4,970,018
Claim for refund of federal income taxes—Note E	—	1,068,190
Other assets—Note B	<u>2,728,702</u>	<u>2,910,203</u>
	5,827,424	8,948,411
	<u>\$57,985,355</u>	<u>\$47,288,085</u>

*See notes to consolidated financial statements.*

## Liabilities and Stockholders' Equity

### Ranchers Exploration and Development Corporation and Subsidiaries Consolidated Balance Sheets / June 30, 1981 and June 30, 1980

	1981	1980
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Note payable for purchase of equipment—Note K	\$ 325,000	\$ —
Trade accounts payable	2,228,019	2,184,551
Federal and state income taxes	432,320	—
Dividends payable	235,167	188,369
Other liabilities	1,039,829	882,152
Current portion of long-term debt	<u>108,936</u>	<u>346,248</u>
TOTAL CURRENT LIABILITIES	4,369,271	3,601,320
LONG-TERM DEBT—Note F		
Contracts payable for purchase of land carried at \$1,622,472	993,491	1,342,531
Less portion classified as current liability	<u>108,936</u>	<u>346,248</u>
	884,555	996,283
DEFERRED FEDERAL INCOME TAXES—Note E	8,872,000	8,220,000
PROCEEDS FROM SALE OF FUTURE PRODUCTION—Note G	5,733,351	—
STOCKHOLDERS' EQUITY—Note J		
Common Stock—par value \$.50 a share, authorized 4,000,000 shares, issued 3,206,267 including shares in treasury	1,603,134	1,603,134
Capital in excess of par value	6,616,389	6,393,599
Retained earnings	<u>30,643,603</u>	<u>27,514,690</u>
	38,863,126	35,511,423
Less cost of Common Stock in treasury (1981—136,198 shares; 1980—192,380 shares)	<u>736,948</u>	<u>1,040,941</u>
	38,126,178	34,470,482
COMMITMENTS—Note G	<u>57,985,355</u>	<u>547,288,085</u>

See notes to consolidated financial statements.



## Statements of Consolidated Income

### Ranchers Exploration and Development Corporation and Subsidiaries Years Ended June 30, 1981, June 30, 1980 and June 30, 1979

	1981	1980	1979
Income:			
Net sales	\$26,447,921	\$23,250,894	\$36,993,582
Uranium royalties	2,492,878	3,577,682	1,704,088
Gain on metal futures contracts—Note M	2,232,807	3,565,373	—
Interest and other	<u>1,739,714</u>	<u>2,167,674</u>	<u>799,384</u>
	32,913,320	32,561,623	39,497,054
Deductions from income:			
Cost of products sold	23,692,400	22,346,065	30,232,338
Exploration, conservation and maintenance of mining properties	1,513,604	1,194,049	1,771,944
Administrative and general expenses	<u>2,523,796</u>	<u>1,919,156</u>	<u>1,463,930</u>
	<u>27,729,800</u>	<u>25,459,270</u>	<u>33,468,212</u>
INCOME BEFORE INCOME TAXES	5,183,520	7,102,353	6,028,842
Income taxes—Note E:			
Current	598,000	530,000	900,000
Deferred	<u>652,000</u>	<u>1,770,000</u>	<u>800,000</u>
	<u>1,250,000</u>	<u>2,300,000</u>	<u>1,700,000</u>
NET INCOME	<u>\$ 3,933,520</u>	<u>\$ 4,802,353</u>	<u>\$ 4,328,842</u>
Net income per common share—Note H	<u>\$1.27</u>	<u>\$1.63</u>	<u>\$1.50</u>
Weighted average number of common shares outstanding	3,091,150	2,945,828	2,878,502

*See notes to consolidated financial statements*

## Statements of Consolidated Stockholders' Equity

### Ranchers Exploration and Development Corporation and Subsidiaries Years Ended June 30, 1981, June 30, 1980 and June 30, 1979

	1981	1980	1979
<b>COMMON STOCK</b>			
Balance at beginning of year	\$ 1,603,134	\$ 771,114	\$ 771,114
Conversion of 5-3/4% debentures—81,079 shares	—	40,540	—
Stock split—1,582,960 shares	—	791,480	—
BALANCE AT END OF YEAR	<u>\$ 1,603,134</u>	<u>\$ 1,603,134</u>	<u>\$ 771,114</u>
<b>CAPITAL IN EXCESS OF PAR VALUE</b>			
Balance at beginning of year	\$ 6,393,599	\$ 5,530,899	\$ 5,530,053
Excess of conversion price over par value on shares issued on conversion of debentures	—	1,424,419	—
Excess of market value over cost of treasury shares issued for amendment to a royalty agreement and services rendered	—	224,123	—
Transferred to capital stock for par value of shares issued for stock split	—	(791,480)	—
Proceeds in excess of cost of treasury shares sold under stock option plan	222,790	5,638	846
BALANCE AT END OF YEAR	<u>\$ 6,616,389</u>	<u>\$ 6,393,599</u>	<u>\$ 5,530,899</u>
<b>RETAINED EARNINGS</b>			
Balance at beginning of year	\$27,514,690	\$23,371,743	\$19,326,582
Net income for the year	3,933,520	4,802,353	4,328,842
Dividends declared—1981 - \$.264 per share; 1980 - \$.225 per share; 1979 - \$.10 per share:			
Cash	(598,452)	(659,406)	(283,681)
Gold	(206,155)	—	—
BALANCE AT END OF YEAR	<u>\$30,643,603</u>	<u>\$27,514,690</u>	<u>\$23,371,743</u>
<b>TREASURY STOCK</b>			
Balance at beginning of year	\$ 1,040,941	\$ 1,449,645	\$ 1,105,345
Shares purchased for treasury — 1980—400 shares; 1979—24,700 shares	—	6,087	357,642
Shares issued for amendment to a royalty agreement and services rendered—20,400 shares	—	(117,577)	—
Stock split—1980—106,907 shares	—	—	—
Shares sold under option plan—1981—56,182 shares; 1980—28,251 shares; 1979—1,250 shares	(303,993)	(297,214)	(13,342)
BALANCE AT END OF YEAR	<u>\$ 736,948</u>	<u>\$ 1,040,941</u>	<u>\$ 1,449,645</u>

See notes to consolidated financial statements.

## Statements of Changes in Consolidated Financial Position

### Ranchers Exploration and Development Corporation and Subsidiaries Years Ended June 30, 1981, June 30, 1980 and June 30, 1979

	1981	1980	1979
<b>SOURCE OF FUNDS</b>			
Net income	\$ 3,933,520	\$ 4,802,353	\$ 4,328,842
Add charges to income not requiring working capital:			
Provision for depreciation, depletion and amortization	2,260,518	1,376,732	4,706,887
Amortization of debt expense	—	7,858	12,364
Provision for deferred income taxes	652,000	1,770,000	800,000
TOTAL FROM OPERATIONS	6,846,038	7,956,943	9,848,093
Proceeds from sale of future production	5,733,351	—	—
Capital stock issued on conversion of debentures	—	1,503,832	—
Issue of treasury stock for amendment to a royalty agreement and services rendered	—	341,700	—
Decrease in other assets	1,249,691	253,680	—
Proceeds from sale of treasury stock	526,783	302,852	14,188
Carrying amount of property, plant and equipment disposals	131,792	288,620	181,818
Decrease in investment in joint ventures	1,871,296	—	1,498,693
TOTAL	16,358,951	10,647,627	11,542,792
<b>APPLICATION OF FUNDS</b>			
Decrease in long-term debt	111,728	821,593	1,654,864
Increase in investment in joint ventures and limited partnership	—	1,609,468	—
Additions to land	1,367	1,256,639	—
Additions to buildings and equipment	4,802,488	3,601,927	497,462
Additions to construction in progress	10,144,762	—	—
Increase in other assets	—	—	128,600
Additions to deferred intangible mining and development costs	4,172,148	4,033,015	—
Purchase of common stock for treasury	—	6,087	357,642
Dividends declared	804,607	659,406	283,681
TOTAL	20,037,100	11,988,135	2,922,249
INCREASE (DECREASE) IN WORKING CAPITAL	\$ (3,678,149)	\$ (1,340,508)	\$ 8,620,543
<b>CHANGE IN COMPONENTS OF WORKING CAPITAL</b>			
Increase (decrease) in current assets:			
Cash, certificates of deposit and short-term investments	\$ (5,940,335)	\$ (826,464)	\$ 9,309,035
Trade accounts receivable	93,441	(1,865,177)	149,146
Inventories	1,434,883	898,979	(1,709,277)
Claim for refund of federal income taxes	1,442,138	—	—
Deposits with brokers for metal futures contracts	(13,730)	320,352	—
Prepaid expenses and other current assets	73,405	193,713	280,699
	(2,910,198)	(1,278,597)	8,029,603
Increase (decrease) in current liabilities:			
Note payable	325,000	—	—
Trade accounts payable	43,468	1,111,855	(168,556)
Federal and state income taxes	432,320	(838,212)	35,900
Other liabilities	157,677	(498,587)	477,716
Dividends payable	46,798	—	—
Current portion of long-term debt	(237,312)	286,855	(936,000)
	767,951	61,911	(590,940)
INCREASE (DECREASE) IN WORKING CAPITAL	\$ (3,678,149)	\$ (1,340,508)	\$ 8,620,543

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 is 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 may hedge a portion of its future production of metals through the sale of futures contracts. When these contracts are repurchased and replaced with physical sales contracts covering metal to be produced by the Company, the resulting profit (or loss) is included in inventory. These amounts are then credited (or charged) to income when delivery is made under the contracts.

*Metal Futures Contracts:* The Company also enters into transactions in addition to those described under inventories above. When these metal futures contracts are closed through receipt or delivery of metal or by entering into an offsetting contract, the resulting profit (or loss) is included in income.

*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 reflected in operations. Provisions for depreciation, depletion and amortization are computed using either the straight-line, declining-balance or 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 development 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 and certain unrealized metal futures contracts gains. 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:

	1981	1980
Finished metals and metal products	\$1,420,814	\$1,113,297
Ore in stockpiles	1,070,122	—
Supplies	319,564	262,320
	<u>\$2,810,500</u>	<u>\$1,375,617</u>

Uranium ore held in stockpile inventory at the Small Fry Mine in the amount of \$2,492,472 at June 30, 1981 and 1980 is included in other non-current assets since milling arrangements have not yet been made for processing the ore, and the timing of such arrangements is uncertain.

### NOTE C—IDLE FACILITIES

Idle facilities are carried at cost less allowances for depreciation, depletion and amortization. Provisions for depreciation, depletion and amortization are not made while operations are suspended.

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, 1981, was \$7,685,342. 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.

The Company has suspended operations at two other locations with a carrying amount of \$1,593,332 at June 30, 1981 and \$1,720,511 at June 30, 1980. Management is of the opinion that the costs will be recovered through sale of ore stockpiled and future operation or sale of the properties.

#### NOTE D—INVESTMENT IN JOINT VENTURES AND LIMITED PARTNERSHIP

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

	1981	1980
Current assets	\$ 848,282	\$1,667,715
Properties - net	<u>2,970,390</u>	<u>4,187,434</u>
<b>TOTAL ASSETS</b>	<b>3,818,672</b>	<b>5,855,149</b>
Current liabilities	<u>719,950</u>	<u>885,131</u>
<b>EQUITY IN NET ASSETS</b>	<b><u>\$3,098,722</u></b>	<b><u>\$4,970,018</u></b>

#### 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 of \$901,698, plus interest, for the years ended June 30, 1965 through June 30, 1971. The Company filed claims 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 payments. The Company has been awarded a judgment to recover \$901,698 plus interest. The Internal Revenue Service appealed certain portions of the Court's decision to the United States Circuit Court of Appeals and the case was heard on March 11, 1980. On November 21, 1980, the Court of Appeals upheld the District Court decision. The refund will be received in the near future. Accordingly, this receivable has been included in current assets at June 30, 1981; approximately \$276,000 (\$.09 per share), after income taxes, was recorded as interest on the refund in the current year due to the Company's change in estimate as to the amount to be recovered.

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 yet been scheduled for trial.

During the year ended June 30, 1979, the Company received a deficiency notice in the amount of \$755,553 representing additional Arizona income taxes assessed for the years ended June 30, 1974 through June 30, 1977. On February 6, 1979 the Company filed a protest to the deficiency notice. A hearing was held with the Arizona Department of Revenue in which the Company's position was upheld. The Arizona Department of Revenue has appealed the Hearing Officer's decision and no date for hearing the appeal has been set.

While the outcome of the above tax issues is uncertain, management is of the opinion that the ultimate deficien-

cy, 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 utilized net operating losses of \$1,155,954, \$440,084 and \$3,049,535 and investment tax credit carry-forwards in the amounts of \$343,445, \$26,789 and \$552,639 in 1981, 1980 and 1979, respectively, all of which reduced the deferred income tax provisions.

Investment tax credits of \$367,867, \$250,955 and \$48,289 were used to reduce the 1981, 1980 and 1979 respective provisions for income taxes.

The Company has unused investment tax credits for income tax purposes in the amount of \$1,169,078 expiring as follows: 1990 - \$34,775; 1991 - \$218,495; 1992 - \$50,824; 1993 - \$525,769; 1994 - \$47,583; and 1995 - \$291,632.

The reasons for the difference between total tax expense and the amount computed by applying the statutory federal income tax rate of 46% to income before income taxes are as follows:

	1981	1980	1979
Federal tax expense at statutory rate	46%	46%	46%
Statutory depletion in excess of cost depletion	(21)	(13)	(23)
Provision for minimum tax	—	—	4
State income tax less federal tax benefit	2	2	1
Investment tax credit	(3)	(3)	—
	<u>24%</u>	<u>32%</u>	<u>28%</u>

The components of deferred income tax expense resulted from use of the following:

	1981	1980	1979
Unrealized gains on hedging transactions	\$ (175,996)	\$ 927,908	\$ —
Development costs deducted for income tax purposes, deferred for financial reporting purposes	1,033,155	1,657,035	—
Amortization of development costs expensed for tax purposes in prior years	(552,122)	(330,359)	(936,553)
Restoration of deferred income taxes upon utilization of prior year net operating loss carryforward	531,739	213,755	1,494,134
Deferred minimum tax resulting from utilization of net operating loss	(130,618)	(130,618)	(245,125)
Investment tax credit (recapture)	(24,422)	(227,161)	552,639
Provision for minimum tax	(123,924)	(295,719)	(87,774)
Other	94,188	(44,841)	22,679
	<u>\$ 652,000</u>	<u>\$1,770,000</u>	<u>\$ 800,000</u>

## NOTE F—LONG-TERM DEBT AND LINES OF CREDIT

Land contracts payable consist of the following:

	1981	1980
9% contract payable in annual installments of \$102,574, including interest, through 1993; secured by land	\$ 768,000	\$1,043,000
Other	225,491	299,531
	<u>\$ 993,491</u>	<u>\$1,342,531</u>

At June 30, 1981, the Company had lines of credit available from commercial banks totaling \$44,000,000. The lines are unsecured, are payable on demand, bear interest at the banks' prime rate and expire in 1982. There have been no amounts borrowed on these lines during the year.

## NOTE G—PROCEEDS FROM SALE OF FUTURE PRODUCTION

In December 1980, REDCO Silver, Inc., a wholly-owned subsidiary, entered into a silver production payment agreement whereby REDCO Silver could receive advances of up to \$19,000,000 for use in developing and equipping the Escalante Silver Mine in Southwest Utah with an additional \$4,000,000 available for interest. As of June 30, 1981, the total advances received were \$5,733,351, with the remainder of the funds available through June 30, 1982. Repayment is scheduled to be made monthly beginning not later than July 1, 1982, from a portion of mine production; there is no penalty for repayment of advances prior to the scheduled dates. The interest rate on outstanding amounts varies with the prime rate; the repayment period is expected to be five years. The parent company has entered into an agreement to guarantee the repayment of the advances until the mine and mill are operating at specified levels at which time the guarantee is terminated.

As of June 30, 1981, payments on construction of the milling facilities amounted to \$10,144,762 with a remain-

ing cost to complete of approximately \$9,000,000.

## NOTE H—EARNINGS 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.

As of February 22, 1980, the Company declared a 2 for 1 stock split effected in the form of a stock dividend. All per share amounts reflect the stock split.

Net income per share of common stock for 1980 and 1979 would have been \$1.59 and \$1.43 had the 5-3/4% convertible debentures due January 15, 1989 been converted on July 1, 1979 and July 1, 1978, respectively.

## NOTE I—LEASES

Total rent expense for all leases amounted to \$307,111 in 1981, \$402,975 in 1980 and \$406,539 in 1979.

The future minimum rental commitments under noncancellable equipment leases are not material.

## NOTE J—STOCK OPTIONS

At June 30, 1981, 49,350 shares of common stock were reserved for issuance to certain officers and employees under the Company's stock option plan for key employees. Of the 49,350 shares reserved for options, 8,900 were covered by options outstanding and 40,450 were available for future grant. Options may be granted at prices not less than market value at date of grant. Effective February 20, 1981, the qualified stock option plan for key employees was amended to provide that all outstanding qualified options became exercisable at that date.

The Company has also granted other options, principally to directors, not under the stock option plan, which are priced at fair market value on the date of the grant and become exercisable principally in two 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, 1979	51,300	\$4.56-10.88	63,600	\$4.56-9.13	114,900
Year ended June 30, 1980					
Granted	27,800	8.25-24.38	12,000	8.25-8.88	39,800
Cancelled	(900)	8.88-10.88	(5,000)	4.56-5.00	(5,900)
Exercised	(30,868)	4.56-10.88	(24,600)	5.00-8.19	(55,468)
Outstanding June 30, 1980	47,332	6.31-24.38	46,000	6.00-9.13	93,332
Year ended June 30, 1981					
Granted	7,500	24.50	—	—	7,500
Cancelled	(1,750)	8.25	—	—	(1,750)
Exercised	(44,182)	6.31-24.50	(12,000)	6.00-9.13	(56,182)
Outstanding June 30, 1981	8,900	6.87-24.50	34,000	6.00-9.13	42,900
Exercisable June 30, 1981	8,900	6.87-24.50	19,500	6.00-9.13	28,400

## NOTE K—RELATED PARTY TRANSACTIONS

Mining operations at the Company's Bluebird Copper Mine, in Arizona, were performed by Anderson Development Corporation pursuant to a mining contract which was terminated on December 31, 1980. Anderson Development Corporation is wholly-owned by Carl Anderson, a principal shareholder of the Company and the father of Maxie L. Anderson, Chairman and Chief Executive Officer of the Company. Maxie L. Anderson is also vice-president of Anderson Development Corporation. The payments by the Company to Anderson Development Corporation for the fiscal year ended June 30, 1981, amounted to \$1,558,593 (1980 - \$2,266,954; 1979 - \$1,330,680) including \$1,461,656 (1980 - \$2,054,230; 1979 - \$1,215,268) of reimbursable costs, \$64,598 (1980 - \$79,136; 1979 - \$29,566) of rental charges for equipment, and \$32,339 (1980 - \$133,588; 1979 - \$85,846) constituting percentages of certain costs.

In connection with the termination of the mining contract, the Company purchased equipment for \$650,000 on contract. The contract is payable in quarterly installments of \$162,500, plus interest of 12%, through December 15, 1981.

## NOTE N—BUSINESS SEGMENTS AND MAJOR CUSTOMERS

	1981	1980	1979
<b>NET SALES TO UNAFFILIATED CUSTOMERS</b>			
Uranium	\$12,678,944	\$10,435,849	\$24,789,267
Copper	12,323,890	12,403,064	9,125,191
Gold	1,370,217	306,363	—
Other	74,870	105,618	3,079,124
<b>TOTAL SALES</b>	<b>\$26,447,921</b>	<b>\$23,250,894</b>	<b>\$36,993,582</b>
<b>OPERATING PROFIT (LOSS)</b>			
Uranium	\$ 2,459,225	\$ 944,056	\$ 5,816,818
Copper	467,705	106,757	167,626
Gold	58,368	76,905	—
Other	(229,777)	(222,889)	776,800
<b>TOTAL OPERATING PROFIT</b>	<b>\$ 2,755,521</b>	<b>\$ 904,829</b>	<b>\$ 6,761,244</b>
<b>OTHER INCOME</b>			
Uranium royalties	\$ 2,492,878	\$ 3,577,682	\$ 1,704,088
Gain on metal futures contracts	2,232,807	3,565,373	—
Interest and other	1,739,714	2,167,674	799,384
<b>TOTAL OTHER INCOME</b>	<b>\$ 6,465,399</b>	<b>\$ 9,310,729</b>	<b>\$ 2,503,472</b>
<b>OTHER DEDUCTIONS</b>			
Exploration, conservation and maintenance of mining properties	\$ 1,513,804	\$ 1,194,049	\$ 1,771,944
Administrative and general expense	2,523,796	1,919,156	1,463,930
<b>TOTAL OTHER DEDUCTIONS</b>	<b>\$ 4,037,400</b>	<b>\$ 3,113,205</b>	<b>\$ 3,235,874</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>\$ 5,183,520</b>	<b>\$ 7,102,353</b>	<b>\$ 6,028,842</b>
<b>IDENTIFIABLE ASSETS</b>			
Uranium (Idle facilities—1981—\$1,593,332; 1980—\$1,720,511)	\$ 8,381,828	\$ 9,417,781	\$10,126,231
Copper	4,894,529	4,968,549	5,099,600
Silver	21,578,508	5,432,463	—
Gold	2,864,981	2,183,062	—
Other	526,430	466,833	622,934
	38,246,076	22,468,488	15,848,765
General corporate assets	12,053,937	17,137,161	16,500,195
Assets of Tungsten Queen Mine held for disposition (see Note C)	7,685,342	7,682,436	7,682,436
	<b>\$57,985,355</b>	<b>\$47,288,085</b>	<b>\$40,031,396</b>

(continued next page)

## NOTE L—ACCOUNTING CHANGE

Effective July 1, 1980, the Company changed its method of accounting for interest costs to comply with Financial Accounting Standards Board Statement No. 34 ("Statement No. 34"). The Company previously followed the policy of expensing interest costs as incurred. As a result of the change, interest costs incurred during fiscal year 1981 of \$326,447 have been capitalized as part of mining facilities construction in progress. This accounting change increased net income for fiscal year 1981 by \$176,281 (\$.06 per share). The prior year's financial statements have not been restated because Statement No. 34 prohibits retroactive application.

## NOTE M—METAL FUTURES CONTRACTS

As of June 30, 1981, the Company has open metals futures contracts with an unrealized gain of approximately \$500,000 based on the Company's contract prices and market prices at June 30, 1981. Final realization of this amount is not assured because the Company may fulfill these contracts by: 1) delivering production from one or more of its mines; 2) delivering purchased metals against forward sales contracts; or 3) entering into offsetting contracts.

	1981	1980	1979
<b>DEPRECIATION, DEPLETION AND AMORTIZATION</b>			
Uranium	\$ 76,804	\$ 132,353	\$ 3,585,940
Copper	1,089,583	1,029,786	970,264
Silver	284,752	71,227	—
Gold	436,994	4,819	—
Other	29,795	22,823	30,736
General corporate assets	342,590	115,724	119,947
<b>CAPITAL EXPENDITURES</b>			
Uranium	—	119,259	149,413
Copper	995,162	944,416	258,496
Silver	15,359,308	5,203,891	—
Gold	839,207	2,087,071	—
Other	113,525	10,889	15,500
General corporate assets	1,812,197	526,455	74,053

Operating profit is net sales less cost of products sold. 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, silver, and uranium. (See Note D)

In 1981 the Company had sales to four major customers

as follows: uranium—\$6,388,793 and \$5,275,713; copper—\$3,481,441 and \$3,342,575.

In 1980 the Company had sales to three major customers as follows: uranium—\$8,793,297; copper—\$6,757,711 and \$5,282,134.

In 1979 the Company had sales to three major customers as follows: uranium—\$12,231,167 and \$9,601,714; copper—\$4,673,594.

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

The following is a summary of unaudited quarterly results of operations for the years ended June 30, 1981 and 1980:

	1981			
	Quarter Ended			
	September 30	December 31	March 31	June 30
Net sales and other income	\$8,685,890	\$9,863,388	\$7,665,438	\$6,698,604
Income before income taxes	1,441,661	1,028,689	1,267,556	1,445,614
Net income	1,036,661	783,689	947,556	1,165,614
Net income per common share	<u>\$ .34</u>	<u>\$ .25</u>	<u>\$ .31</u>	<u>\$ .37</u>
	1980			
	Quarter Ended			
	September 30	December 31	March 31	June 30
Net sales and other income	\$8,081,327	\$7,264,223	\$7,827,139	\$9,388,934
Income before income taxes	1,619,306	1,347,614	1,317,110	2,818,323
Net income	1,139,306	927,614	917,110	1,818,323
Net income per common share	<u>\$ .40</u>	<u>\$ .31</u>	<u>\$ .31</u>	<u>\$ .61</u>

In the quarter ended September 30, 1979, the Company settled long-standing litigation with United Nuclear Corporation (UNC) over royalties from Company properties mined by UNC in the amount of \$1,351,929.

Gains on metal futures contracts in the amount of \$1,145,407 and \$2,419,966 were realized in the quarters ended March 31 and June 30, 1980 respectively.



### Report of Ernst & Whinney Independent Auditors

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

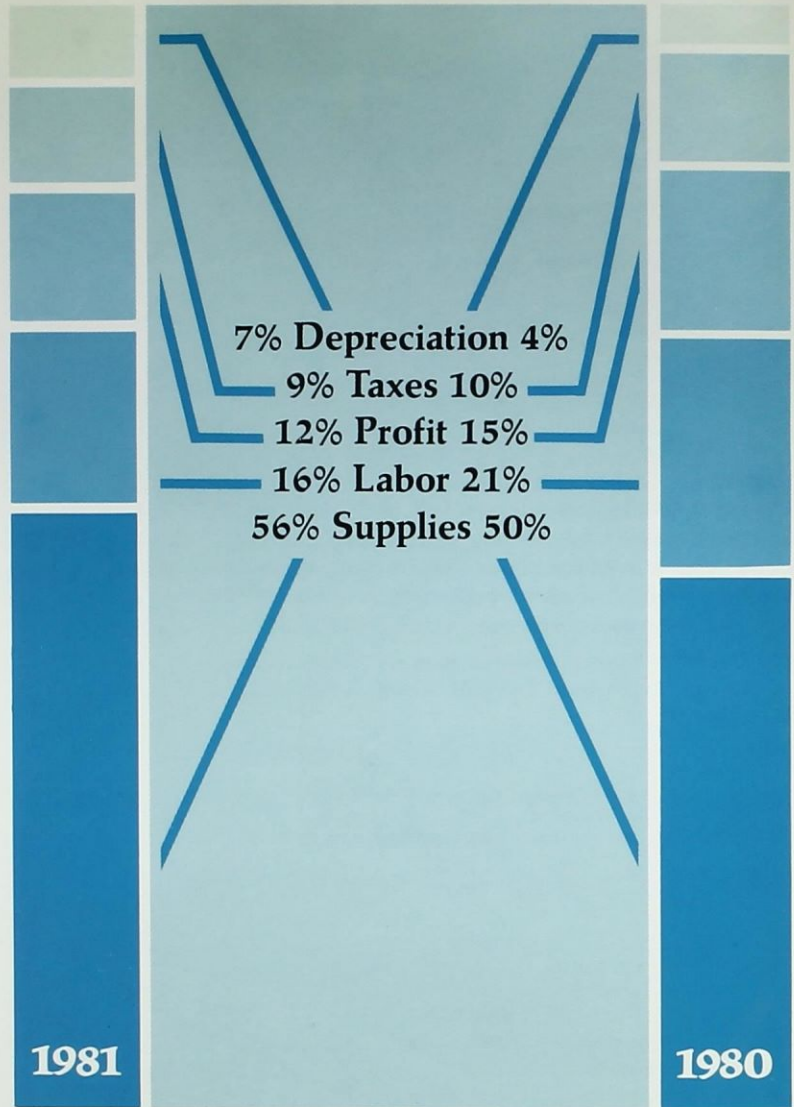
We have examined the consolidated balance sheets of Ranchers Exploration and Development Corporation and subsidiaries as of June 30, 1981 and 1980, and the related statements of consolidated income, stockholders' equity and changes in consolidated financial position for each of the three years in the period ended June 30, 1981. 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, 1981, is \$7,685,342. 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.

In our opinion, subject to the ultimate realization of the investment in the Tungsten Queen Mine, as described in the preceding paragraph, the financial statements referred to above present fairly the consolidated financial position of Ranchers Exploration and Development Corporation and subsidiaries at June 30, 1981 and 1980, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended June 30, 1981, in conformity with generally accepted accounting principles consistently applied during the period except for the change, with which we concur, in the method of accounting for interest costs as described in Note L to the financial statements.

*Ernst & Whinney*

Albuquerque, New Mexico  
August 11, 1981



## Distribution of Income

The Company's gross revenues totaled \$32,913,320 in 1981. This income was used in the following manner:

\$18,284,773, or 56 percent, went to suppliers for the various goods and services needed to conduct the Company's business.

\$5,366,461, or 16 percent, was spent on labor, including social security and insurance for the Company's approximately 350 employees.

\$3,068,048, or nine percent, was

paid in federal, state, and local taxes.

\$2,260,518, or seven percent, was provided for depreciation, amortization, and depletion of property, plant, and equipment.

These expenditures totaled \$28,979,800, leaving a net profit of \$3,933,520, or 12 percent of the revenues for the year. This amounted to \$1.27 per share on the 3,091,150 shares of common stock held by the Company's approximately 1,450 stockholders of record.

## Management

### Directors

**Maxie L. Anderson**  
Chairman and Chief Executive Officer, Ranchers  
Exploration and Development Corporation

**Frank Coolbaugh**  
President, Peabody Holding Company  
and Chairman of Peabody Coal Company

**Phil S. Cross**  
Vice President, Kerr Addison Mines Ltd.

**Robert M. Haldeman**  
Executive Director, Minerec Corporation  
and General Manager, Sociedad Minera  
Pudahuel Limitada

**Edward E. Monteith**  
Managing Partner, Thomson-Monteith

**John E. Motica**  
President and Chief Operating Officer, Ranchers  
Exploration and Development Corporation

**Edward McL. Tittmann**  
Mining Consultant

### Executive Officers

**Maxie L. Anderson**  
Chairman and Chief Executive Officer

**John E. Motica**  
President and Chief Operating Officer

**Leland O. Erdahl**  
Executive Vice President

**Herbert M. Campbell II**  
Senior Vice President and Secretary

**Marvin K. Kaiser**  
Senior Vice President and Treasurer

**David K. Hogan**  
Vice President, Engineering

**Paul A. Matthews**  
Vice President, Operations

## Stock Information

The Company had 3,070,069 shares of common stock outstanding as of June 30, 1981. High and low prices of the stock by quarter during the last two fiscal years:

	1980	
Quarter	High	Low
First	\$11.06	\$ 7.38
Second	14.50	7.63
Third	29.50	14.38
Fourth	23.25	15.00
	1981	
First	\$42.75	\$22.00
Second	41.75	28.62
Third	48.75	28.87
Fourth	65.00	44.00

Both years have been adjusted to reflect a 2 for 1 stock split effected in February 1980 in the form of a 100 percent stock dividend. Cash dividends were paid in the first three quarters of Fiscal Year 1981 at the rate of \$.0625 per share and paid in gold in the fourth quarter at the rate of .005 grams per share on amounts of 500 shares or more and in cash at the rate of \$.0766 per share on amounts of less than 500 shares. The dividend has been increased by 25 percent for the first quarter of Fiscal Year 1982 and will be paid in gold at the rate of .00625 grams per share on amounts of 400 shares or more and in cash to lesser share amounts at the rate of \$.0827 per share.

**Transfer Agent and Registrar:** Republic National Bank of Dallas, Corporate Trust Department, Dallas Texas 85221. Additional information about the Company may be obtained from Marvin K. Kaiser, Senior Vice President and Treasurer; Phone: 505-344-3542. Address: Post Office Box 6217, Albuquerque, New Mexico 87197.

**Form 10-K is available on request.**

**Annual shareholders meeting:** November 6, 1981, 10 a.m. at the Company offices.

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### THE 1981 ANNUAL REPORT

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(Page 11, David K. Hogan)

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## Gold & Silver

Gold and silver, a pair of noble metals in which the Company has acquired a significant stake, have been much in the news of late, primarily because they are perceived as a shelter in time of worldwide inflation. This interest in the metals as a storehouse of value has tended to obscure their other uses which stem from truly remarkable physical characteristics.

Silver, while less favored than gold as a hedge against inflation, has become one of the world's most versatile and useful metals, with consumption in recent years far outstripping new mine production. It is the best conductor of heat and electricity of all metals, and thus widely used in circuits, contact points, and heating elements, and is the most reflective metal, much sought for tableware, jewelry, mirrors, and the heliostats used in modern solar energy systems.

But it is in photography that silver really shines, for silver halides are among the most light-sensitive chemicals known. Silver gives film its high speed, permitting correct exposures even in dim light. TV cassettes also use silver, and could become an important new market for the metal.

Gold is an equally remarkable metal, but its premium price limits industrial use. A good deal of gold's usefulness can be traced to its malleability, which permits it to be shaped into intricate pieces of jewelry, formed into dental inlays, or beaten into translucent sheets a fraction of a millimeter thick. A single ounce can be drawn into a wire 50 miles long. Gold also conducts electricity well and is exceedingly stable, unaffected by tarnish, corrosion or ordinary acids.

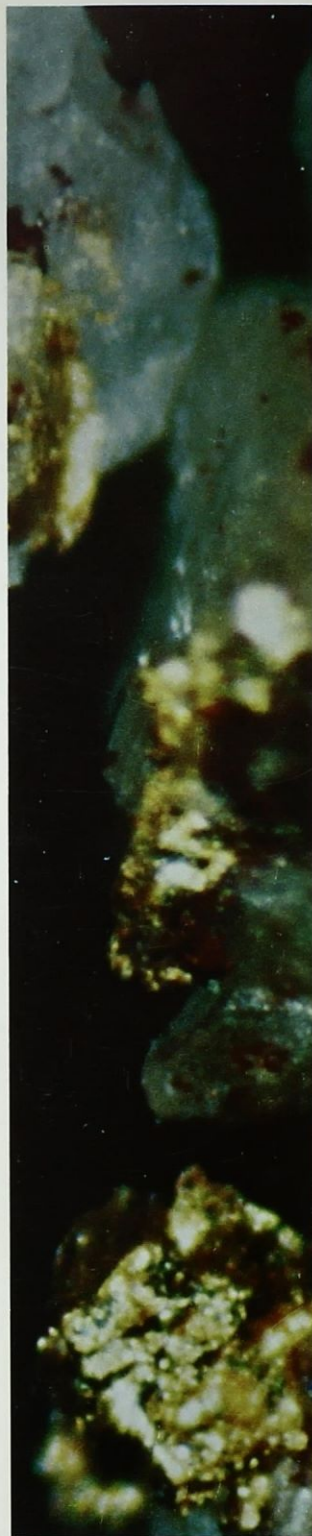
Gold has been known and used for at least 6,000 years. The washing of gold ores, as the Company is now doing in Alaska, is depicted, for example, on Egyptian monuments of the 1st Dynasty some 5,000 years ago. The famous Greek legend of the

Golden Fleece appears to be based on an expedition in about 1,200 B.C. to seize gold recovered from sands washed across sheepskins. (Today, the Company uses Astro-turf for exactly the same purpose.)

While desired for both beauty and utility, gold and silver would not be so valuable were it not for their scarcity. Throughout history, man has produced some three billion troy ounces of gold (a cube 50 feet on a side) and 35 billion ounces of silver. This approximates the ratio in which the two metals occur in the earth's crust, where gold, such as in the adjacent greatly magnified sample, is 10 times as rare as silver and 10,000 times as rare as naturally occurring copper.

The value of gold is largely determined by three factors: (1) how much inflation, warfare, and general unrest there is in the world, (2) how governments handle their official gold holdings, estimated at about 1,900 tons in the USSR and 35,000 tons in the Free World and associated monetary funds; and (3) how much gold the two principal producers, South Africa and the USSR, mine and sell each year — 675 tons for South Africa in 1980, about 300 tons for the USSR. Industrial consumption has a good deal less impact on prices.

Such is not the case with silver, where Free World consumption (five-year average of some 440 million ounces, including coinage) has far surpassed new mine production averaging about 260 million ounces. This imbalance has helped to force prices upward, bringing supply and demand into better balance. But this may be only a temporary state because silver is largely (75 to 80 percent) a by-product of copper, lead, and zinc mining, making silver production relatively inelastic. Only a few mines, such as the Company's Escalante, are primary silver producers and able to raise output on relatively short notice if demand and higher prices merit.



*Gold Ore, Mystic Prospect (200X)*