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Ranchers Annual Report Year Ended June 30, 1982



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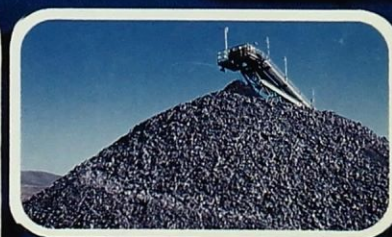


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Silver for Shareholders

When we create the cover for the Annual Report each year, we try to select a photogenic subject that can be combined with text to give shareholders a behind-the-scenes look at Company operations. We include the usual facts, figures and charts found in all annual reports, but we feel it is the story behind these basic ingredients that helps the shareholder truly understand his investment.

The cover story of the 1982 Annual Report does this nicely, we think. An artistic arrangement of silver dividend bars, the cover focuses on one of the Company's unique features — payment of dividends in hard metal rather than in paper. The inserts of mining and milling scenes at the Escalante Mine remind one how and where the silver was produced. Elsewhere in the report, we tell shareholders when and how the new Escalante mill was built and how production from the mine, and from other Company properties, is sold. And we try to emphasize the role our employees have played in these endeavors. All this information, we feel, provides shareholders considerable insight into how the Company operates.



Dick Rice

The payment of dividends in silver and gold (see rear cover) is unique to the Company. No one else, to our knowledge, is paying a dividend in metal, although distributions in kind, usually upon liquidation of a company, have occurred. The idea of paying such a dividend came from shareholders themselves. "In about mid-1979 when it became apparent that much of the Company's future lay in production of precious metals, we began to receive inquiries from shareholders asking whether the Company could distribute future production to shareholders," says President Lee Erdahl, an early advocate of the metal dividend policy and one who did much to push it through to fruition. "We were learning that many shareholders preferred precious metal to paper currency. We began to analyze our dividend policy in that light."

The tax consequences of such a policy were carefully considered. "It appeared that metal distributed from our own production inventory would not be deemed to have been sold," Erdahl says. "The Company would therefore not have received taxable income and would not be taxed on the metal distributed. The tax savings could thus be a means of increasing the value of the dividend with no adverse effect on the cash or financial position of the Company."

After further deliberation, the first dividend — in gold — was paid

*Escalante Cover Photos —
Ball and SAG Mills, Silver Refining Furnace,
Crushed Ore Stockpile.*

on July 15, 1981. A second gold dividend was paid on November 6, 1981, followed by payment of silver dividends on February 16, 1982; May 11, 1982; and August 11, 1982.

Much of the implementation of the dividend payment was to fall on the shoulders of an apprehensive Dick Rice, the Company's Assistant Treasurer, whose years of experience as a Certified Public Accountant alerted him to the possible difficulties and dozens of details attendant on what appeared to be a simple proposal: determine the amount of dividend each shareholder should receive and pay it to him in metal instead of cash. For the Company, valuation of the metal dividend and the cash equivalent portion would be established by the fair market value on the declaration date. The taxable value of the dividend for the recipient would be the fair market



value of the metal on the payment date.

"We were immediately faced with a number of basic decisions," says Rice. "There clearly had to be a minimum share level where it would be more economical to pay in cash than in metal.

"For gold, we decided that the 2½ gram bar would be the smallest, and for silver, a one ounce bar. For the first gold dividend, which had a cash equivalent of \$0.0766 per share, this meant a 2½ gram bar for the holder of 500 shares, with payment

Continued on Page 27

Ranchers Exploration and Development Corporation

Ranchers is a diversified mining company whose shares are traded on the American Stock Exchange (Symbol RAN). Revenues in the year ended June 30, 1982 came primarily from uranium royalties and the sale of uranium, silver, gold, and copper. Headquarters of the Company are at 1776 Montano Road NW, Albuquerque, New Mexico.

Financial Highlights

<i>For the year ended June 30</i>	1982	1981*	1980	1979**	1978**
Gross income	\$38,904,898	\$32,913,320	\$32,561,623	\$39,497,054	\$34,444,496
Income from continuing operations before income taxes	3,423,367	5,183,520	7,102,353	6,028,842	5,666,986
Income taxes	350,000	1,250,000	2,300,000	1,700,000	1,750,000
Income from continuing operations	3,073,367	3,933,520	4,802,353	4,328,842	3,916,986
Provision for loss on discontinued operation, less applicable income tax benefits	3,599,269	—	—	—	—
Net income (loss)	(525,902)	3,933,520	4,802,353	4,328,842	3,916,986
Income (loss) per common share					
Income from continuing operations	.99	1.27	1.63	1.50	1.36
Loss on discontinued operation	(1.16)	—	—	—	—
Net income (loss)	(.17)	1.27	1.63	1.50	1.36
Dividends per share	.2866	.264	.225	.10	—
Capital expenditures	18,609,068	18,294,746	8,891,581	497,462	9,208,138
Depreciation, depletion and amortization	2,619,562	2,335,077	1,376,732	4,706,887	5,064,812
<i>At year end</i>					
Working capital	14,995,101	9,367,527	12,145,098	13,485,606	4,865,063
Total assets	66,076,308	57,985,355	47,288,085	40,031,396	37,775,493
Long-term debt	770,926	884,555	996,283	1,817,876	3,472,740
Shareholders' equity	36,727,711	38,126,178	34,470,482	28,224,111	24,522,404
Book value per share	11.95	12.42	11.44	10.02	8.57
Number of employees	250	350	400	350	400

*Certain items for 1981 have been reclassified to conform to the 1982 presentation.

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

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Report to Shareholders

The year ended June 30, 1982 was a period of exceptionally low metal prices, yet the Company emerged from the year in excellent condition, ready to resume its growth when metal prices — and the economy — return to a more normal state. In the Escalante mine and mill complex, where silver production began in October 1981, the Company should have one of the country's most profitable silver producers when prices recover.

Revenues for the year rose 18 percent to \$38,904,898, compared to \$32,913,320 a year earlier, as increased uranium sales and commencement of silver sales more than offset a decline in copper sales. Income from continuing operations was \$3,073,367, or \$9.99 per share, vs. \$3,933,520 and \$1.27 per share a year ago. However, the Company elected to write down its investment in the Tungsten Queen Mine, idle since 1971, and this produced a loss on discontinued operations of \$1.16 per share.

The Tungsten Queen was carried on the Company's books as an idle facility worth about \$7.7 million. However, the continuing depressed price of tungsten, the sale of tungsten from the national defense stockpile, and the weak state of the general economy prompted a decision to write down the investment and reduce the cost of maintaining the property. The after-tax effect of the action is to reduce stockholders' equity by approximately \$3.6 million.

Contrary to the general trend in the mining industry, the Company ended the year in sound financial condition. The ratio of current assets to current liabilities stood at 6 to 1 at year end, and the Company had no short term borrowings and only very minor long term debt. Successful operation of the Escalante complex permitted the \$20 million production payment used to fund the project to be shifted to a non-recourse status.

With the startup of the Escalante mill, the Company largely completed its transition during the year from mining of copper and uranium to mining of precious metals. The Johnny M uranium mine, in production since 1975, was closed in March when reserves were exhausted, and the Bluebird Mine, where the Company

has produced copper since 1963, continued to wind down as low prices made operations unprofitable.

The Company has completed a study of in-place leaching of the remaining 50 million tons of reserves at the Bluebird and has concluded that the technique will not permit economical recovery of the approximately 500,000,000 pounds of contained copper at today's prices. Production will continue from existing leaching heaps for a few months, at which time the mine will be placed on standby.

The Company's uranium operations were highly profitable during the year and will remain so into 1984 as existing sales contracts continue in force. The contracts permit purchase of uranium oxide on the open market at prices averaging about \$20 per pound and delivery of the material at approximately \$40 per pound. As of September 1982, about 500,000 pounds remained to be delivered through the first half of 1984.

The Company expects that the 1983 fiscal year will be a good one. Sales should increase and earnings per share are expected to exceed the \$9.99 received from continuing operations in 1982. Silver

and uranium sales will constitute the bulk of revenues, with copper and gold sales and uranium royalties making up the remainder. Uranium sales will be the most profitable segment of business by a substantial margin, unless silver prices improve markedly.

Uranium royalty income is expected to decline somewhat, particularly in view of continued weakness in the uranium market. In any event, royalties will be subject to the results of litigation between the Company and Kerr McGee relating to the proper method of determining royalties, on both past and future production. The suit was filed by the Company in 1980 in United States District Court for New Mexico. The first phase of the litigation involving interpretation of documents relating to the method of royalty payments will come to trial in October 1982. The second phase of the suit will depend upon the results of the first and will relate primarily to computation of the amount of royalties that should have been paid.

The Escalante silver mine and mill performed very



Maxie Anderson (left), Leland Erdahl

well in 1982 and should do even better in 1983. The new mill was brought into production on schedule, and during the span from October 1, 1981 to October 1, 1982 should produce approximately 1,600,000 ounces of silver. The mine itself has proved to be a very efficient operation, averaging more than 700 tons of ore per day (5-day week) during the 12-month span. The end-slashing technique, a variation of vertical crater retreat mining, has proved to be a very satisfactory method of mining the property.

Production goal for the Escalante in 1983 will be approximately 2,150,000 ounces of silver. The increase in milling to a target rate of 750 tons of ore per day began in late July and will result in processing of about 258,000 tons of ore during the fiscal year. Some 150,000 tons were milled during fiscal year 1982. As production rises, the Escalante should become one of the country's premier silver producers.

The Company will continue to operate its Alaskan placers, where free gold is being recovered in a sluicing operation that lasts about four months each year. Production goal is about 5,000 ounces of gold each season.

Much of the Company's effort in the current fiscal year will go into further investigation and development of precious metal properties. The Company has three properties — Revenue-Virginus silver mine near Ouray, Colorado; Yellow Pine gold and antimony property in Idaho; and the Mystic gold claims near Phoenix, Arizona — that appear quite promising.

Rehabilitation and drilling of the Revenue-Virginus property have been underway since 1980. Based on sampling data and projections by prior owners, the mine appears to contain about a million tons of mineralization averaging some 10 ounces of silver and two percent lead per ton. The mine has potential for approximately doubling these geologic reserves, depending on the results from drilling the Telluride Conglomerate, a geologic structure that has been a prolific producer in other mines in the area.

Negotiations have begun with another natural resources company to form a joint venture to complete development of the property. It is estimated that development will cost a total of about \$7 million, exclusive of milling facilities, which may be available from other operators in the area. If such facilities are available and drilling results continue to be favorable, the property could be brought on line as early as the spring of 1984 if metal prices warrant. Production goal would be about 650,000 ounces of silver annually.

Geologic mapping and surface sampling of the Mystic property continue to be very encouraging, and the Company is considering a joint venture for the property that would permit it to be explored further and placed in operation if sufficient reserves of gold ore are developed. Drilling of the Yellow Pine property has indicated gold mineralization in both oxide and sulfide ores. The

Company's present goal is to determine the extent of the sulfide ore at depth — indications are that it extends more than 850 feet in some areas — and to expand the tonnage of oxide ore to the point that an operation can be justified. The Company is presently determining whether the project would require a joint venture.

The Company is interested in acquiring additional precious metal properties as well as properties containing other minerals. Work is also underway to acquire uranium reserves that would permit production of low-cost uranium to fill future sales contracts. The Company feels that the market for uranium fuel will ultimately recover and that production of uranium can again be a profitable line of

business. The Company retains its interest in uranium mill tailings at Durango, Colorado, but is awaiting developments under federal mill tailings legislation before taking any action regarding this potentially valuable asset.

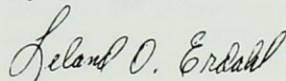
Much of the Company's future rests on the prices of precious metals. The Company expects some improvement in silver prices in the present calendar year and in 1983, when prices are expected to trend somewhat higher. The 1982 price has been below the cost of production for most producers, with the result that output was curtailed. Recovery of the world economy in 1983 should increase the consumption of silver and force prices upward.

Peru, a major silver producer, has shown some signs of withholding metal from the market, and the U.S. General Services Administration has suspended its plans to sell silver from the nation's strategic stockpile. Russia continues to consume about twice as much silver as it produces and is making up its shortfall in the world markets.

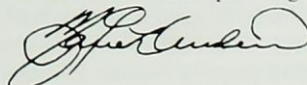
All of these factors, plus the possible resumption of a high level of inflation stemming from federal deficits, lead the Company to believe the price of silver, and gold as well, will move upward, perhaps significantly, in the year ahead. Such price action would result in a year of solid profitability for the Company.

Sale of the Company, which was under consideration during much of the past fiscal year, is not being actively pursued at this time because of the weak condition of the economy and the depressed price for precious metals and for the stock of the Company.

September 15, 1982



Leland O. Erdahl
President and Chief Operating Officer



Maxie L. Anderson
Chairman and Chief Executive Officer

Much of the Company's effort in the current fiscal year will go into further investigations and development of precious metal properties.

Management's Discussion and Analysis

The Company's net income from continuing operations for the year ended June 30, 1982 was \$3,073,367, a decline of 22% from that reported June 30, 1981 and 36% less than the record earnings reported June 30, 1980. Earnings per share from continuing operations were \$.99 (\$.33, \$.24, \$.20 and \$.22 by quarters), compared to \$1.27 and \$1.63 in the two prior years. Revenues increased 18% over the prior year and 20% over two years ago. The increase resulted principally from commencement of the sale of silver from the Escalante Silver Mine, which began production during the fiscal year. Uranium sales increased during the year, partially offsetting lower revenues from uranium royalties, copper sales and metal futures transactions.

Uranium

A total of 232,099 pounds of uranium oxide (U_3O_8) produced at the Johnny M Mine was sold for \$8,941,533. In 1981, 325,343 pounds were sold for \$11,664,506 and in 1980, 266,926 pounds were sold for \$8,793,297. The decrease in sales in 1982 resulted because ore reserves were exhausted and the mine was closed in March 1982. The pretax profit from the Johnny M in 1982 was \$255,890, compared to \$2,327,367 in 1981 and \$779,972 in 1980. Pretax profits were higher in 1981 because of better sales prices and lower production costs achieved by mining higher grade ore; the relatively low 1982 pretax profits resulted from higher production costs associated with closing the mine, increased amortization rates that resulted because final production was less than originally projected, and because of payments to General Atomic Company, which shared in profits pursuant to a 1979 settlement of litigation concerning the mine.

Total uranium sales increased for the year because, in addition to sale of Johnny M Mine output, the Company also purchased uranium concentrates in the open market to fulfill delivery commitments of U_3O_8 to a foreign utility. A total of 163,383 pounds of U_3O_8 was purchased and delivered for \$6,208,216 (\$38 per pound), resulting in a pretax profit of \$2,402,440. In the year ending June 30, 1983, the Company expects to deliver about 400,000 pounds of purchased uranium at per-pound margins approximating those of 1982.

Uranium royalties, which are the subject of litigation between the Company and the operator of the royalty properties, declined again in 1982. The litigation relates to the method of royalty calculation. Using the operator's calculation, the royalties declined in 1982 because of lower uranium selling prices, lower grade of ore mined and lower overall production from the royalty properties. The higher royalties for 1980 were primarily the result of a one-time payment of about \$1.35 million received in settlement of litigation with another lessee of the properties.

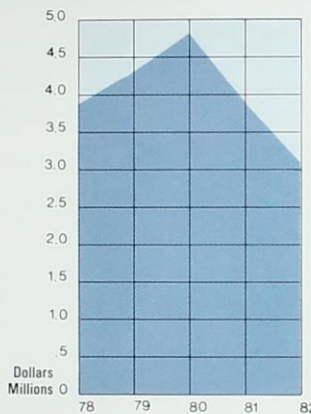
Silver Mining

The Escalante mine and mill began producing silver in October 1981 and became operational in April 1982. Prior to April 1, costs in excess of revenues were capitalized in accordance with the Company's accounting policy for new properties. Sales of refined silver for the year were slightly in excess of one million troy ounces at an average price of \$8.11 per ounce. In the last quarter of the year, 509,196 ounces were sold at an average price of \$8.08 per ounce. The mine produced a profit of about \$400,000 in the quarter before giving effect to some \$890,000 in interest expense incurred in connection with a production payment.

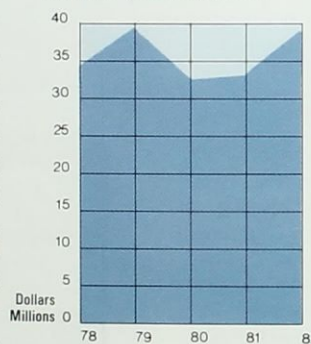
The mining and milling complex is currently operating at an increased rate of production that should yield approximately 2.2 million ounces of silver during the fiscal year ending June 30, 1983; the unit cost of production is expected to decrease at the higher production rate. The Company is also evaluating other methods of financing in order to reduce interest expense which, combined with fluctuations in the price of silver, will have a major impact on the future profitability of the Escalante operation.

Copper Mining

Copper sales declined in 1982 to approximately \$8.7 million, compared to \$12.3 million in 1981 and \$12.4 million in 1980. Operating profits at the Bluebird Mine were approximately \$1.4 million in 1982, compared to about \$860,000 in 1981 and a breakeven in 1980. Total sales decreased because of both lower production and lower selling prices. However, profitability increased because mining operations were discontinued, thus reducing operating costs significantly. Production came



Net Income*1978/1982



Revenues 1978/1982

*from continuing operations

from leach heaps containing ore mined in prior years. Production is declining, however, as these heaps are depleted, and it is expected that production from the mine will be discontinued late in 1982 because market conditions do not justify the resumption of normal mining operations. Operating profits are also likely to decline until production ends.

Other

The Company recorded gains on metals futures contracts of about \$525,000 in 1982, compared to some \$2.2 million in 1981 and \$3.6 million in 1980. The decline was a result of fewer transactions in which the Company repurchased forward sales contracts at a profit. The Company is now utilizing such forward sales as a method of hedging its silver production, and the results of these transactions are attributed to production.

Interest and other income increased in 1982, although interest income itself decreased by about \$750,000 because of loss of interest on funds used to develop and construct the Escalante Mine. However, the sale of mining equipment used at the Bluebird Mine resulted in a pretax gain of about \$1.1 million, increasing total revenue for this category to \$2,032,530, compared to \$1,739,714 in the prior year.

Exploration and property maintenance costs declined 42% from 1981 and 30% from 1980 because exploration was greatly curtailed as a result of lower metals prices.

Interest expense increased significantly in 1982 because of the production payment used to finance development and construction at the Escalante Mine. Interest costs in connection with the project were capitalized through March 1982 in accordance with Financial Accounting Standards Board Statement No. 34.

General and administrative expenses increased 14% in 1982, compared to a 32% increase in 1981. The 1982 increase stemmed primarily from inflation and from professional service expense incurred in connection with evaluating possible sale of the Company.

Financial Strength/Liquidity

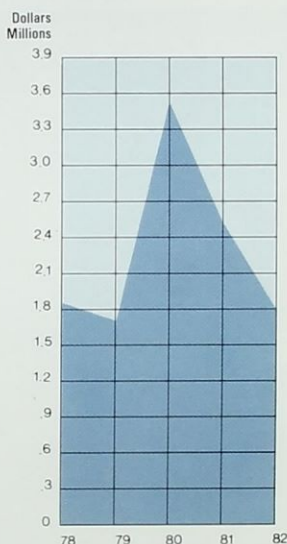
The Company's strong financial position was further improved in 1982, with the current ratio of assets to liabilities rising to almost 6 to 1, compared to 3 to 1 in 1981 and 4.4 to 1 in 1980. During the year, an additional \$14 million was obtained through a production payment financing arrangement in order to complete development and construction of the Escalante mine and mill.

As of June 30, 1982, the Company had satisfied certain requirements in the financing agreements pertaining to completion of the mine and mill, thus converting to a non-recourse status the Company's obligation to repay the entire \$19.8 million received under terms of a production payment. In addition, the financing arrangement has been modified to permit payment of interest only through December 31, 1983. For the year ending June 30, 1983, and thereafter, the Company expects to generate cash flow through the sale of purchased uranium to a foreign utility, as previously described, and from silver produced at the Escalante Mine, assuming the market price for silver does not drop below the \$7-per-ounce range for any significant period of time. The Company has also established various lines of credit to provide funds for working capital requirements (if needed) and for maintaining the Company's hedging position for sale of future metal production.

Impact of Inflation

Material and labor costs at all of the Company's operations have increased because of inflation. In addition, inflation has had, and will continue to have, an effect on interest rates, materially affecting the Company because of financing obtained in connection with development and construction of the Escalante mine and mill.

Because the Company's products are commodities subject to worldwide supply and demand, the Company cannot significantly affect the market prices for these products. Although the prices of certain metals such as gold and silver appear to adjust for the effect of inflation over longer periods of time, the prices of these commodities may change dramatically in short periods of time. Accordingly, the Company often hedges production to mitigate the effects of inflation on profit margins by taking advantage of what appear to be attractive selling prices at a point in time in comparison to anticipated costs of production. The Company continues to seek ways of coping with the impact of inflation, such as improving its mining methods as has been accomplished at the Escalante Mine, and through use of innovative techniques to reduce financing costs. On balance, however, the market prices for products produced by the Company have a much greater impact on the Company's financial condition than does inflation.



**Uranium Royalties
1978/1982**

Operations: *Producing the Product*

Operations were concentrated at the Escalante Mine, where a new mill was placed in production

Operations during the 1982 fiscal year were concentrated at the Escalante Mine, where a new processing mill was placed in production in the first quarter of the year. Rehabilitation and drilling continued at the Revenue-Virginus Mine, with encouraging results, and the Johnny M Mine was closed in March after reserves of uranium were exhausted. Copper production is continuing at the Bluebird Mine, but no mining was done on the property in 1982 and it will be placed on standby this year. A small-scale gold sluicing operation was also conducted at the Alaskan Placers during the summer season just ended.

Operations proceeded extremely well at the Escalante Mine. The 500-ton-per-day mill came on line without unusual difficulty and is now handling approximately 750 tons of ore per day. Recovery of silver from the ore is running about as projected — 80% or slightly better. About 150,000 tons of ore were processed and 1,100,000 ounces of silver were recovered in the year ended June 30, 1982. Production target in the current year is 2,150,000 ounces of silver, which will require the processing of an estimated 258,000 tons of ore.

End-slashing, a variation of vertical crater retreat mining, has proved to be a very efficient method of mining the Escalante deposit. The modified mining method is perhaps 10% less expensive than the standard VCR technique. Much of the cost-savings results from reduced powder usage, which is now running about one

pound per ton of ore or one-third the amount required for the standard technique.

End-slashing (see drawing next page) essentially involves mining a section of the vein between two tunnels — the drill sublevel and the undercut — that have been driven, one above the other, on the vein. Large-diameter blast holes are drilled across the width of the vein from the drill sublevel into the undercut. Powder is placed in



Molten Silver

the holes and blasting begins at one end of a mining area, proceeding over a period of days to the other end as 1,200 to 1,500-ton slabs are sliced off the end of the vein. The broken ore falls into the undercut where it is scooped up by front-end loaders and dumped into 20-ton trucks for transport to the surface. Mining proceeds along the length of the vein on a given level until all the ore, except support pillars, is removed, and then progresses to the next level, where the procedure is repeated. The vein extends from the surface to a depth of about 800 feet; mining will progress gradually downward

over the length of the vein until the limit of economic reserves is reached. Present reserves are expected to sustain operations for at least 10 years.

Good ground conditions and easy access to workings through a decline permit total mechanization of the mine. As a result, ore production is averaging about 20 tons per man shift, quite high for an underground mine. Two shifts are operated each day, five days per week. Some 35 to 40 persons are employed in the mine itself, about half of the labor force in the entire mining, milling, refining complex. Labor costs are approximately 25 percent of all costs at the complex.

About 144,000 tons of development and production ore were mined at the Escalante during the fiscal year.

and 91,000 tons of waste. Horizontal development — haulageways, undercuts, etc. — totaled 9,100 feet during the year. The decline was driven another 965 feet, to its present length of 3,152 feet and now extends some 420 feet below the surface.

The underground flow of water in the mine has been about as expected. Some 21,000 gallons per minute are now being pumped to the surface, where most of it eventually flows back into the underground reservoir that is the source of irrigation water for local farmers. The pumping rate for the mine could ultimately increase to 40,000 gallons per minute as the lower levels of the vein are mined, although means of reducing water inflow and resulting pumping costs will be investigated.

The Escalante, which consists of approximately 12,000 acres of mining claims and leases, is located about 40 miles west of Cedar City in extreme southwest Utah. In addition to the main vein, the property contains several other structures that have not yet been tested, but are known to contain silver mineralization. Drilling on the property during the fiscal year included 20,000 feet on the surface and 15,000 feet underground.

Revenue-Virginus Mine

The Revenue-Virginus Mine, near Ouray, Colorado, was the site of drilling and rehabilitation activity throughout the fiscal year. Drilling on the property included about 6,000 feet on the surface and another 4,600 feet underground. Drill results to date have been consistent with prior reserve estimates of about a million tons of mineralization containing 10 ounces of silver and 2% lead per ton.

The Revenue-Virginus was a prolific silver producer in the late 1800s and early 1900s, but has been mined

only sporadically since then. The Company has rehabilitated a shaft to a depth of 700 feet below the main entry level in preparation for further drilling of the property this year. A full mining station has been cut at the 550-foot level and development of a 2,500-foot drift (tunnel) has commenced. The drift will serve as a platform for drilling above and below the level. Drilling will extend downward some 650 feet through a section thought to have good reserve potential. Drilling should be completed by the end of the fiscal year. Drilling is continuing on the surface within a short distance of the entry tunnel. Targets are shallow deposits that might permit immediate production from the property.

If underground drilling is successful, plans call for placing the property in production in the spring of 1984, assuming milling capacity is available in the area. A 250-ton-per-day mining operation is projected.

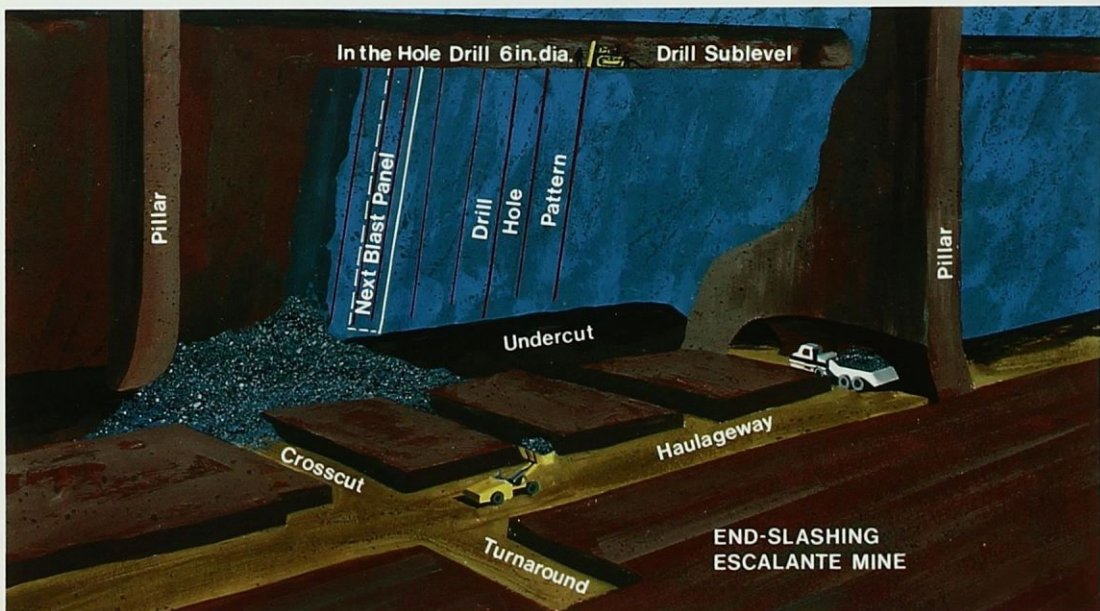
Gold Placers

The Company again conducted a sluicing operation at its gold placers located about 150 miles southeast of Fairbanks, Alaska. Gold production for the short summer season ending in September 1982 was projected to be between 4,300 and 5,200 ounces; production in the prior season was 5,091 ounces.

The gold is recovered by feeding gravel into sluice boxes, where it is washed and the gold separated by gravity. Some 250,000 to 300,000 cubic yards of gravel are washed each year, depending on availability of water in the area. The mine area is remote and accessible to work crews only from May to September each year.

The placers were drilled extensively by the Company in 1974 and 1975 and several million cubic yards of gold-bearing gravels were delineated. Operations to

Continued on Next Page



Operations: *Producing the Product* (Continued)

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.

Bluebird Mine

The Bluebird Mine, near Miami, Arizona, where the Company has produced copper since 1963, remained in operation throughout the year, but is now in the final stages of closure because of low copper prices. The mine produced 11,353,354 pounds of cathodes during the year, compared to 13,598,470 pounds in the prior fiscal year. Some 2,400,000 pounds of production is expected early in the current fiscal year before leaching acid supplies are exhausted and the mine placed on standby, probably in October or November.

The Bluebird is a leaching operation where low grade oxide copper ore is mined from an open pit. The ore is placed in heaps where sulfuric acid is applied to dissolve the copper, producing a solution that is treated by solvent extraction-electrowinning to produce copper cathodes. Because of mounting costs and low copper prices, mining of ore was terminated in July 1981 and construction of leaching heaps ceased. Production since that time has come from continued leaching and reworking of existing heaps.

The deposit still contains approximately 50 million tons of material averaging about 10 pounds of copper per ton. The Company conducted studies during the year to determine if a portion of the copper could be recovered by in-place leaching, and concluded that it could not be done economically at current copper prices.

During nearly 20 years of operation, the mine produced about 48 million tons of ore and more than 200 million pounds of copper. It was the first large scale copper oxide leaching operation and the first to produce cathodes on a commercial basis by solvent extraction-electrowinning.

Johnny M Mine

The Company closed its Johnny M Mine, located near Grants, New Mexico, in March after reserves were

exhausted. The mine had produced uranium since 1975, with ore being processed at the nearby Kerr McGee mill. Production during the year totaled 214,798 pounds of uranium oxide for the Company's account, compared to 341,940 pounds in 1981. The mine was owned jointly with HNG Oil Company, a subsidiary of Houston Natural Gas Corporation.

Exploration

The Company maintained an active exploration program during the year, primarily in the area of precious metals. Only a nominal amount of drilling was done for uranium, the first time since the mid-1960s that the Company did not conduct an active uranium exploration program.

Aside from work done at the Escalante and Revenue-Virginus mines, drilling was confined primarily to three properties — Golden Grizzly, near Cooke City, Montana; Adelaide Crown, southeast of Winnemucca, Nevada; and Mystic, northwest of Phoenix, Arizona. All are held under terms of the Ranchers Gold and Silver Exploration Program formed in 1980 with private investors. The Golden Grizzly is a gold and copper deposit that may be mineable by open pit methods, while the Adelaide Crown contains low grade gold and silver mineralization. The Mystic

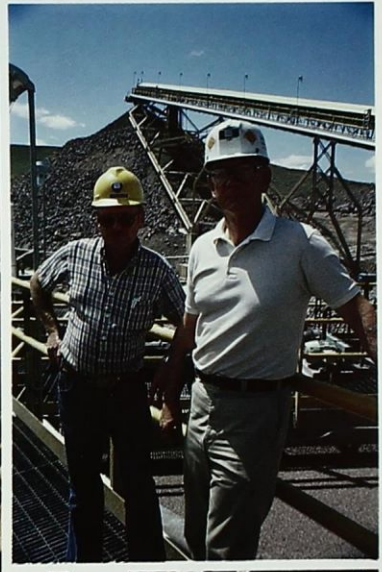


Silver Buttons

contains gold mineralization.

Of the three prospects, the Mystic is of primary interest. Gold mineralization occurs over a very wide area of the property and is of high grade in some areas. Results of drilling and surface sampling during the year were promising, and the Company is actively seeking a joint venture partner to assist with further exploration.

Further drilling has also been conducted by the Company at its Yellow Pine property at Stibnite, Idaho. Gold-bearing sulfide and oxide ores are being tested, with the goal of determining the extent of the sulfides at depth and of expanding oxide reserves to a point of justifying a gold recovery operation. If drilling results are sufficiently promising, the Company will decide whether a joint venture should be formed to place the property in production.



Mines & Men (clockwise): Ore truck emerging from the Escalante Mine; Dean Van Dyk, left, Escalante Mill Superintendent; Ed Hahne, General Manager; drum filters in the

mill; Revenue-Virginus Mine workings; Paul Matthews, Vice President, Operations; gold sluicing operation in Alaska. Center: ball and SAG mills at the Escalante.

Escalante Mill On Time-On Target

On August 29, 1981, the new ore processing mill at the Escalante silver mine commenced operation. A month and a half later, on October 15, the first "button" of bullion was poured.

The conical button, containing about 50 pounds of silver, marked the completion of an approximately \$20 million construction project — largest in Company history — that had begun 16 months earlier with Board of Directors approval.

On-site construction actually took only 12 months, two less than projected in the original budget, and the mill has run smoothly almost from the start. The initial milling target of 500 tons of ore per day was reached on a regular basis by November 1, 1981 and output has since been increased to 750 tons per day.

Works Well: "Probably less than one mineral processing mill in 10 is built so quickly and works so well right from the start," says Dave Hogan, the Company's Vice President of Engineering and the man who headed up the construction effort. "We owe a lot of credit to the engineering and contracting firms that worked on the project. They developed a real sense of urgency about the project, and really busted their backs for us."

At the peak of construction in July and August of 1981, some 150 workers were employed on the project. Work continued seven days a week, two shifts a day during that stretch. The Company itself had a handful of key men engaged on the project nearly full time — Hogan; Mark Welch, Chief Engineer; Werner Nennecker, Assistant Vice President; Randy Scheffel, Assistant Vice President and Chief Metallurgist; Dean Van Dyk, Mill Superintendent; Jerrel Stallard, Manager of Development; and Dave Nussear, Corporate Purchasing and Transportation Manager, who handled procurement and expediting.

On-Site: Actual work on-site began on September 2, 1980, following final Board approval a month earlier. That decision had itself been preceded by a mine pilot program and dewatering test, limited equipment procurement and various engineering and design studies extending back to December of 1979.

An early task was mill site excavation — removing up to 30 feet of soil in places to reach the bedrock needed to anchor mill buildings and equipment. Approximately 50,000 tons of dirt were moved in this oper-



Probably less than one mineral processing mill in 10 is built so quickly and works so well right from the start. Dave Hogan

ation, which was completed in December of 1980.

Another earth-moving effort, construction of a canal, as well as a pumping station and short pipeline, was begun in October so it would be ready to handle up to 50,000 gallons of water per minute from the mine. The canal, five miles long, five feet deep, and 15 feet wide at the bottom, carries the water to the south of the mine, where it filters back into the underground reservoir, replenishing the water supply for farmers in the area. A 14-mile-long canal, built several years ago, is also used to carry water to the north of the mine and out of the water basin.

By the start of 1981, the heavily reinforced foundation for the grinding mills had been laid out, the crusher building had been started, and the administration-warehouse-maintenance building complex and laboratory were underway. Activity accelerated further in the spring, with the administration building being completed and accepted for occupancy in June.

Also begun in this time frame were installation of the mill's thickener and leach tanks, construction of the bullion room and preparation of the site for the tailings dam and holding pond.

Processing equipment — everything from small pumps to the large drum filters and grinding mills that form the heart of the processing circuit — also began to arrive in June. The fact that the equipment was on time — the ball and semi-autogenous mills had lead times of 48 weeks — was attributable in large measure to the efforts of Nussear and Nennecker.

Software: Nennecker developed computer software that processed data on the timing and sequence of various construction events — concrete pouring, pipe installation, soil grading, etc. — to permit optimum scheduling of labor and equipment procurement.

"The software not only allowed contractors to know when they could switch crews from a job to a more critical one," says Nennecker, "but it permitted the computer to keep track of a thousand pieces of equipment, telling us when each piece was needed and when it had been promised. When these two dates came within two weeks of each other, the item appeared on an 'exception report.' That was a signal for Dave Nussear or me to get on the phone to the supplier. Dave frequently spent up to 10 hours a day on the phone. The system worked extremely well; we never had a

major slip while it was in operation."

Crusher: The first ore was fed to the crusher on August 13, 1981, and the mill began full-scale operations two weeks later when ore began working its way through the entire processing circuit.

The \$15 million worth of processing and refining equipment in the Escalante complex exists for a single reason: to remove approximately 1,999 pounds of waste from 2,000 pounds (a ton) of ore in order to recover about eight ounces of silver. Ore at the Escalante contains about 10 troy ounces (approximately 14 regular ounces) of silver per ton. But only 80 to 85 percent of these ounces are recovered because the milling process is not 100% efficient.



Randy Scheffel

To recover the silver, the ore is first crushed to pieces averaging about six inches in size and then fed into a SAG mill — a rapidly rotating cylinder 16-1/2 feet in diameter and five feet wide. Here, the rocks strike four-inch steel grinding balls and impact against themselves (hence the term 'semi-autogenous' or SAG), reducing the ore to the size of sand grains. A ball mill further reduces the ore to the coarseness of talcum powder.

Sodium cyanide, lime and water are introduced into the SAG mill,

Equipment in the Escalante complex exists for a single reason: to remove 1,999 pounds of waste from 2,000 pounds of ore to recover 8 ounces of silver.



Werner Nennecker (left), Mark Welch

where the cyanide solubilizes the silver minerals exposed by the grinding process. About 70 percent of the recoverable silver immediately goes into solution, passing through a thickener and clarifiers on its way to the precipitation circuit.

It is the economic necessity of recovering a portion of the as-yet-unsolubilized silver that leads to much of the additional equipment in the mill. This solid material, in slurry form, is sent to a thickener where the percent of solids is doubled by settling.

The silver-containing solids are next pumped into a series of six leach tanks where impellers mix the slurry and inject air to help the cyanide leachant attack the silver still bound up in the particles of ore. Output from these tanks is fed through rotating drum filters, where silver-bearing fluids are separated from the solids, which are pumped to the tailings pond. The solutions are sent to the precipitation circuit or recycled to the milling circuit.

In the precipitation circuit, the silver-bearing solution is filtered and its oxygen removed in a deaeration tower to facilitate precipitation. Zinc dust is then added to the solution, causing the silver to drop out as a precipitate.

The precipitate, a black, mud-like mass containing about 65 percent

silver, is run through a filter press to remove remaining liquid, then leached again with sulfuric acid to remove a substantial amount of unwanted copper. If this step is done carefully, the silver remains solid, is removed, mixed with appropriate fluxes and melted in a gas-fired furnace to separate most of the remaining impurities. The resulting silver dore' is about 95% pure and is sent to a commercial refinery for final conversion to .999% pure silver.

"We're recovering 99.5% of the silver that goes into solution," says metallurgist Randy Scheffel. "Fifteen to 20% of the silver in the ore cannot be recovered because it cannot be solubilized regardless of the number of times the particles are circulated through the mill. We might be able to make a small improvement by grinding finer, but otherwise the mill is operating at maximum efficiency.

"We've had a minimum of problems during the first year of operation. The SAG mill operation required a lot of learning — operation is more of an art than a science — and we had difficulties with the cloth on the drum filters. However, these problems have been solved, and we are now producing 190,000 ounces of silver per month from ore containing 10.5 ounces per ton. That's approaching perfection for this mill!"

Operations: Pricing the Product

Next to efficient production of the product itself, no function of a mining company is more important — or more difficult — than pricing mine output. In a world commodity market made extremely volatile in recent years by high inflation and political upheaval, price protection through hedging (next page) or contracts is often the difference between profit and loss for the producer.

Today, the Company is one of the few profiting to any extent from the sale of uranium oxide (U_3O_8), a circumstance solely attributable to contracts signed two years ago when the price of uranium was approximately double the current sales price. An earlier contract with Virginia Electric Power Company (VEPCO) in 1977 permitted construction of a leaching-solvent extraction operation to remove U_3O_8 from uranium mill tailings at Naturita, Colorado. Without the protection of this contract to deliver uranium at prices well in excess of \$40 per pound, the project would never have been undertaken.

Contracting is not without its risks, of course. "You never want to get into a situation where you must produce at a loss," says Company president Leland Erdahl, who typically heads the Company's contract negotiating team; "you must allow for inflation or any unexpected change that can lead to an unacceptable increase in the cost of production.

"And you must constantly monitor the forces acting on product supply and demand and be ready to act when the market favors the seller. Our ability to react swiftly to a sales opportunity has permitted us to profit in volatile markets on several occasions."

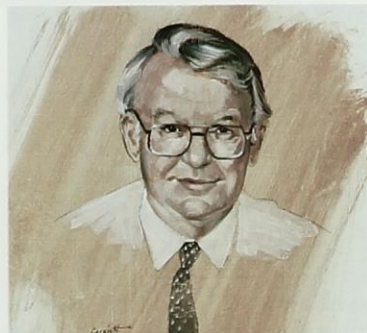
Ability to move quickly is nowhere better evidenced than in the Company's decision in mid-1979 to commit the remaining production from the Johnny M Mine to Taiwan

Profit Depends on Price as Well as Mine Productivity



Uranium Oxide Concentrate

Our ability to react swiftly to a sales opportunity has permitted us to profit in volatile markets on several occasions. Lee Erdahl



Power Company. " U_3O_8 prices began to rise fairly sharply in 1974, increasing from about \$7 per pound to more than \$43 per pound in 1978," says Erdahl. "However, by 1979 we felt that prices had probably reached their peak. Inventories were up, conservation measures

prompted by the energy crisis were beginning to have an impact, the Three Mile Island reactor accident had just occurred, and there was increasing concern about the financial condition of electric utilities.

"We monitored the supply and demand situation, and didn't like what we saw. We decided to move quickly to sell our remaining production of about a million pounds of U_3O_8 ."

Nuclear Exchange Company, a uranium brokerage firm, arranged a meeting with Taiwan Power in June of 1979. Taiwan Power was interested in assuring a certain supply of fuel for its nuclear plants, because, as Erdahl notes, "the cardinal sin for a utility is to run out of fuel." In addition, the cost of fuel is one of the minor expenses of operating a nuclear power plant.

"It's important to understand the needs of the buyer when negotiating a contract," says Erdahl. "In this case, certain supply was very important to the purchaser."

Erdahl lost no time following up on Taiwan Power's show of interest, flying to Taiwan in August, where he signed a letter of intent prior to completion of a sales contract. However, the price of U_3O_8 began to weaken before the contract could be drawn, necessitating further negotiations. Erdahl returned to Taiwan in October 1979 and signed the contract subject to approval of the Taiwan government.

"We cut and pasted the contract together on the spot," Erdahl recalls. "It called for deliveries in 1981-82-83 at 98% of the market price prevailing in those years, or a minimum price ranging from \$40 to \$42 per pound."

In May 1981, Erdahl returned to Taiwan to discuss modification of the contract; in August a revised contract was agreed upon. "Taiwan Power was interested in reducing the cost of uranium fuel, and we

wanted more flexibility in how we supplied the uranium," says Erdahl. "The original contract called for us to supply the U_3O_8 from the Johnny M Mine or any other property we had in production. However, it appeared that Johnny M reserves might not be sufficient to fill the contract and, while the contract could have been fulfilled from other properties, we wanted the flexibility to buy the material if that appeared to be the most economical approach.

"The upshot was that we agreed to reduce the price of uranium by about \$3 per pound while obtaining the right to purchase the amount specified in the contract on the open market," Erdahl says. "With the price of uranium sinking further than anyone really expected, we are in better position than we would have been had we been able to produce the uranium at the Johnny M, which was closed in March 1982. Of course, we are obligated to meet Taiwan Power's requirement of a certain supply of fuel."

Ability to move swiftly in arranging a sales contract is aided considerably by the experience of the Company's two-man legal staff, Herb Campbell, Senior Vice Presi-

dent and Secretary, and Jim Rosel, Assistant Vice President and Assistant Secretary. Both are veterans of the contracting wars.

"It's a matter of teamwork," says Campbell. "Our job is to reduce matters to legal form as quickly and efficiently as we reasonably can. We are primarily interested in preserving and concluding the business aspects of a transaction, not in producing a perfect legal document at the risk of losing the deal."

We are primarily interested in preserving and concluding the business aspects of a transaction, not in producing a perfect legal document at the risk of losing the deal.

Herb Campbell

"Over the years we've developed the ability to reduce difficult concepts, such as the advance borrowing and repayment provisions of the VEPCO contract, to workable terms quickly and reliably. We perform a service for the negotiating officers making the deal, and we are able to do so because we have developed a

thorough understanding of how operations in the field are conducted. This permits us to prepare a document that doesn't place unnecessary or impossible requirements on our people who must fulfill it"

Dovetailing the sales contract into the operating aspects of the business is well illustrated by the uranium mill tailings project, whose output was sold to VEPCO. "There were a lot of pieces to that puzzle," says Lee Erdahl. "We acquired the tailings from Foote Mineral, started a pilot operation and obtained the proper environmental and operating permits.

"Next, we contracted with VEPCO to buy the material and loan us the money to build the processing facility. Then we worked out an arrangement to produce a uranium product that could be transported, without further drying or packaging, directly to a plant for final processing. Finally, we arranged for treatment of a vanadium byproduct to produce a salable item.

"All of this was done," says Erdahl, "without knowing what the actual production would be since no one had previously leached uranium tailings and recovered the U_3O_8 by solvent extraction."

The VEPCO contract called for sales of uranium at the market price at the time of delivery or a minimum price of \$35 per pound escalated for inflation. The market price, about \$44 per pound, was ultimately used. On an investment of \$9 million, the Company netted about \$4.5 million before taxes in a period of 18 months.

Timing on the venture was nearly perfect. By the time deliveries were completed in June 1979, the price had declined to \$43 per pound and has since drifted down from there. Today's price of \$18 per pound represents a decline of more than 50% in just three years.

Erdahl expects the volatility of metal prices to continue.

"We see no abatement in price swings," he says, "and they may get even worse. We now have a world economy so that events everywhere are immediately felt in the marketplace. It's going to continue to require a lot of nimbleness to make a profit."



Jim Rosel (left), Herb Campbell

Operations: Pricing the Product (Continued)

Selling Silver Short

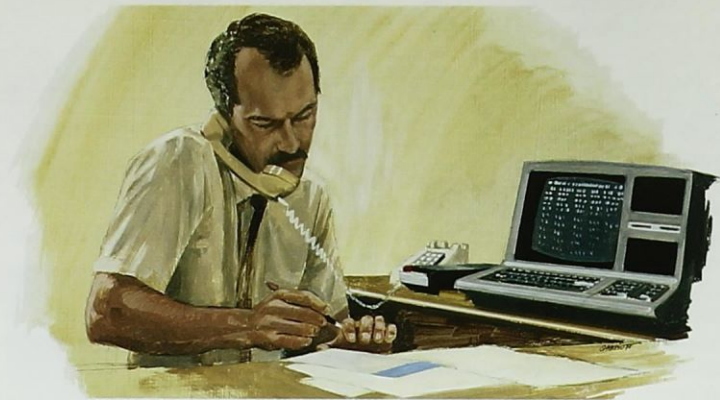
When the phone rings at 4:45 a.m. in Marv Kaiser's home in Albuquerque's North Valley, he soon knows what kind of day the Company is likely to have. As the Company's commodity trader (and Senior VP & Treasurer), he prices the Company's products in a series of complex transactions that impact profits as much as efficient production in mine, mill and refinery.

The pre-dawn phone call, and others that soon follow, tell Kaiser how the morning trading is unfolding on the London Metal Exchange (LME). As he drives the two miles through near-empty roads to the Ranchers' offices, he knows whether the world price of gold, silver and copper is rising, declining or is unchanged.

Strangely enough, a smart drop in prices, particularly in silver, may bring a smile to Kaiser's countenance, while an increase may bring a frown. He may know, for instance, that the Company is short — has committed for future delivery at today's prices — 500,000 ounces of silver and that a \$.01 rise in the futures price represents a debit, for bookkeeping purposes, of \$5,000.

Volatile: "Silver prices have been extraordinarily volatile in recent years," says Kaiser, "so we've had days when our position fluctuated by more than a million dollars. Fortunately, such swings have been mostly in our favor."

When Kaiser speaks of such movements, he is harking back to the so-called "Hunt" silver market of early 1980 when the price of silver on the New York Commodity Exchange (Comex) reached \$50.35 per ounce on January 18 before dropping to \$10.80 on March 27. It



Marv Kaiser

is difficult for non-traders to comprehend the magnitude of this decline of nearly \$40 per ounce, but some insight is provided by the fact that a short sale of a single 5,000-ounce contract on the Exchange at \$50.35 and repurchase of the contract at \$10.80 would have netted the purchaser about \$200,000 in just 71 days — all on a margin investment of \$3,750. The Company had the equivalent of 70 such contracts on the LME.

We were short at a time when prices were high, but we knew we would be long — have silver to deliver — at a time when prices might well be lower. Marv Kaiser

"It was classic, textbook hedging on our part," says Kaiser. "We had decided to bring the Escalante Mine into production, so we knew we would ultimately have silver to deliver against the short sales. We could sell, at the prevailing, highly profitable price, silver that we did not yet have. We were short at a time when prices were high, but we knew we would be long — have silver to deliver — at a time when prices might well be lower. It seemed only prudent to lock in our profits while we could.

"We sold the silver on the LME to either speculators betting that the price would go even higher or to consumers who wished to buy — go long — because they feared that prices would rise further. This is the classic function of a commodity exchange — to bring producer and consumer together. The speculators provide liquidity to the market.

"We had every reason to sell because our profits bordered on the unreal," says Kaiser. "We figured that our total cost of production at the Escalante would be less than \$10 per ounce, so the short sales at about \$30 per ounce represented pre-tax profits of \$20 or more per ounce. The worst thing that could happen to us would be for the price of silver to continue to rise, tying up our credit and costing us the difference between our selling price and the price we could have received had we waited to sell. However, we would have continued to profit on the unpriced portion of our future production as the price rose.

LME Sales: "In fact, the price did continue to rise after we started our sales on the LME," says Kaiser. "Our first transaction was on February 4 (1980) when we sold 20,000 ounces at \$35 per ounce. The price then rose above \$40 per ounce as we continued to sell. By February 21 we had sold 120,000 ounces at an average of \$38 per ounce.

"The anxiety index was really rising at this point," Kaiser recalls. "It didn't look as though the market would ever top out. We knew we could continue to roll our short contracts forward, but on the books we had a very healthy, temporary deficit. But we still had uncommitted future production, so we continued to sell and by March 10 had sold 240,000 ounces at an average price of \$35 per ounce.

"The price was softening somewhat, so we continued to sell; by March 25, we had committed 350,000 ounces at an average price of \$32 per ounce. We intended to sell another 150,000 ounces, but we never made it. The price began to fall precipitously, dropping within a week from \$24 per ounce to about \$12. In that week we repurchased our entire position of 350,000 ounces at an average price of less than \$15 per ounce. With mine production still nearly two years away, it seemed reasonable to take our profits and retire from the field.

"All in all," says Kaiser, "in about eight weeks we locked in a pre-tax gain of approximately \$6 million. The profit has stood us in good stead in bringing the Escalante on stream, but it was a real relief to end the episode."

Trading: While Kaiser does virtually all of the Company's commodity trading—approximately 700 trades in FY1982 — his actions reflect the collective opinion of the Company's senior management and the Board of Directors. "We operate within parameters set by the Board," says Kaiser, "with our overall strategy reflecting management's opinion of metal markets over the intermediate term — three to six months."

Board Chairman Max Anderson was instrumental in instituting the hedging practice at the Company. He began arranging for forward

sales of copper when the Company's Bluebird Mine went into production in the 1960s, a procedure that evolved into the full-fledged hedging practiced by the Company today. "With today's volatile commodity markets, the producer must hedge," says Anderson. "He has too much exposure otherwise.

"Our forward sales strategy for all products — gold, silver, copper — is guided by one overriding factor: the cost of production. Ideally, the strategy is to fix a price that



Our forward sales strategy for all products — gold, silver, copper — is guided by one overriding factor: the cost of production.

Max Anderson

allows a reasonable profit. Secondly, the objective is to protect against a price that is below the cost of production, for persistence of such a price must eventually lead to mine closure."

As Kaiser notes, markets on the commodity exchanges typically favor the forward seller (as opposed to the forward buyer) because futures prices are usually a few cents higher than today's cash prices. For

example, silver for delivery in December may be \$6.50, compared to \$6.35 a couple of months earlier. This difference, known as a contango, reflects, in theory, the cost of owning the material — interest, carrying charges, storage, etc. The metal producer has an advantage in selling forward because he may not, in fact, incur any of these costs; the metal may go directly from mine and mill to the metal user without loss of time or money.

Given this inducement, as well as the desire to protect profits, the producer is often a short seller, selling material he has not yet produced — at today's prices for delivery in the future.

Seller: As during the "Hunt" market, the Company was again a seller of silver during 1981-82, reflecting management's desire to fix prices at or above the cost production. The Company began selling silver on June 9, 1981 and was a consistent seller through mid-September, committing 350,000 ounces at an average price of \$9 per ounce. Announcement of General Services Administration sales from stockpile caused further price decreases, prompting the Company to continue selling, doubling its short position to 700,000 ounces in the first quarter of calendar year 1982, and ending the fiscal year on June 30 with forward sales commitments for about 800,000 ounces.

"We have considerably more production than that to sell," says Kaiser, "but it's unusual for a producer to make future sales of more than half of his expected output. Production may fall short, profits may be forfeited on future production if prices rise, and credit may be tied up if prices increase. However, the greater danger lies in not hedging if prices for future production can be fixed at a level that permits a reasonable return on investment."

Ranchers Exploration and Development Corporation and Subsidiaries
Consolidated Balance Sheets / June 30, 1982 and June 30, 1981

	1982	1981*
Assets		
Current Assets		
Cash	\$ 849,540	\$ 2,072,538
Certificates of deposit and short-term investments, at cost which approximates market	<u>10,073,836</u>	<u>3,733,576</u>
	10,923,376	5,806,114
Trade accounts receivable	1,080,711	1,273,600
Claim for refund of federal income taxes — Note E	1,580,844	1,442,138
Inventories — Note B	2,045,131	2,810,500
Prepaid expenses (1982—\$1,560,363; 1981—\$1,811,475) and other current assets	<u>2,429,841</u>	<u>2,404,446</u>
TOTAL CURRENT ASSETS	18,059,903	13,736,798
Property, Plant and Equipment — at cost		
Land — Note F	1,735,994	1,735,994
Buildings and equipment	39,172,035	19,542,171
Construction in progress		10,144,762
Mineral interests, mining claims, leases and permits	897,224	758,168
Deferred intangible mining and development costs	<u>11,834,751</u>	<u>8,031,865</u>
	53,640,004	40,212,960
Allowances for depreciation, depletion and amortization	<u>10,099,815</u>	<u>11,070,501</u>
	43,540,189	29,142,459
Idle Facilities — Note C	2,498,676	9,278,674
Other Assets — Note D	1,977,540	5,827,424
	<u>\$66,076,308</u>	<u>\$57,985,355</u>

*Certain items for 1981 have been reclassified to conform to the 1982 presentation.

See notes to consolidated financial statements.

Ranchers Exploration and Development Corporation and Subsidiaries
Consolidated Balance Sheets / June 30, 1982 and June 30, 1981

	1982	1981
Liabilities and Stockholders' Equity		
Current Liabilities		
Note payable — Note K		\$ 325,000
Trade accounts payable	\$ 1,246,712	2,228,019
Federal and state income taxes	331,219	432,320
Dividends payable	171,818	235,167
Other liabilities	1,201,465	1,039,829
Current portion of long-term debt	<u>113,588</u>	<u>108,936</u>
TOTAL CURRENT LIABILITIES	3,064,802	4,369,271
Long-Term Debt — Note F	770,926	884,555
Deferred Federal Income Taxes — Note E	5,642,347	8,872,000
Proceeds From Sale of Future Production — Note G	19,870,522	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	6,636,674	6,616,389
Retained earnings	<u>29,239,210</u>	<u>30,643,603</u>
	37,479,018	38,863,126
Less cost of Common Stock in treasury (1982 — 132,598 shares; 1981 — 136,198 shares)	<u>751,307</u>	<u>736,948</u>
	<u>36,727,711</u>	<u>38,126,178</u>
	<u>\$66,076,308</u>	<u>\$57,985,355</u>

Ranchers Exploration and Development Corporation and Subsidiaries
Statements of Consolidated Income
Years Ended June 30, 1982, June 30, 1981 and June 30, 1980

	1982	1981	1980
Revenue:			
Net sales	\$34,559,491	\$26,447,921	\$23,250,894
Uranium royalties	1,787,438	2,492,878	3,577,682
Gain on metal futures contracts	525,439	2,232,807	3,565,373
Interest and other	<u>2,032,530</u>	<u>1,739,714</u>	<u>2,167,674</u>
	38,904,898	32,913,320	32,561,623
Deductions from revenue:			
Cost of products sold	30,740,350	23,692,400	22,346,065
Exploration, conservation and maintenance of mining properties	775,675	1,347,997	1,102,086
Interest expense	1,093,927	165,607	91,963
Administrative and general expense	<u>2,871,579</u>	<u>2,523,796</u>	<u>1,919,156</u>
	35,481,531	27,729,800	25,459,270
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	3,423,367	5,183,520	7,102,353
Income taxes — Note E:			
Current	300,000	598,000	530,000
Deferred	<u>50,000</u>	<u>652,000</u>	<u>1,770,000</u>
	350,000	1,250,000	2,300,000
INCOME FROM CONTINUING OPERATIONS	3,073,367	3,933,520	4,802,353
Provision for loss on discontinued operation, less applicable income tax benefits — Note C	<u>3,599,269</u>		
NET INCOME (LOSS)	\$ (525,902)	<u>\$ 3,933,520</u>	<u>\$ 4,802,353</u>
Income (loss) per common share — Note H:			
Income from continuing operations	\$.99	\$1.27	\$1.63
Loss on discontinued operation	<u>(1.16)</u>		
NET INCOME (LOSS)	<u>\$(.17)</u>	<u>\$1.27</u>	<u>\$1.63</u>
Weighted average number of common shares outstanding	3,095,152	3,091,150	2,945,828

See notes to consolidated financial statements.

Ranchers Exploration and Development Corporation and Subsidiaries
Statements of Consolidated Stockholders' Equity
Years Ended June 30, 1982, June 30, 1981 and June 30, 1980

	1982	1981	1980
Common Stock			
Balance at beginning of year	\$ 1,603,134	\$ 1,603,134	\$ 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>\$ 1,603,134</u>
Capital in Excess of Par Value			
Balance at beginning of year	\$ 6,616,389	\$ 6,393,599	\$ 5,530,899
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 Common 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	20,285	222,790	5,638
BALANCE AT END OF YEAR	<u>\$ 6,636,674</u>	<u>\$ 6,616,389</u>	<u>\$ 6,393,599</u>
Retained Earnings			
Balance at beginning of year	\$30,643,603	\$27,514,690	\$23,371,743
Net income (loss) for the year	(525,902)	3,933,520	4,802,353
Dividends declared (1982 — \$.2866 per share; 1981 — \$.264 per share; 1980 — \$.225 per share):			
Cash	(131,347)	(598,452)	(659,406)
Gold and silver	(747,144)	(206,155)	
BALANCE AT END OF YEAR	<u>\$29,239,210</u>	<u>\$30,643,603</u>	<u>\$27,514,690</u>
Treasury Stock			
Balance at beginning of year	\$ 736,948	\$ 1,040,941	\$ 1,449,645
Shares purchased for treasury (1982 — 3,500 shares; 1980 — 400 shares)	52,776		6,087
Shares issued for amendment to a royalty agreement and services rendered — 20,400 shares			(117,577)
Stock split — 106,907 shares in 1980			
Shares sold under option plan (1982 — 7,100 shares; 1981 — 56,182 shares; 1980 — 28,251 shares)	(38,417)	(303,993)	(297,214)
BALANCE AT END OF YEAR	<u>\$ 751,307</u>	<u>\$ 736,948</u>	<u>\$ 1,040,941</u>

See notes to consolidated financial statements.

Ranchers Exploration and Development Corporation and Subsidiaries
Statements of Changes in Consolidated Financial Position
Years Ended June 30, 1982, June 30, 1981 and June 30, 1980

Source of Funds	1982	1981	1980
Income from continuing operations	\$ 3,073,367	\$ 3,933,520	\$ 4,802,353
Add charges not requiring working capital:			
Provision for depreciation, depletion and amortization	2,619,562	2,335,077	1,376,732
Amortization of debt expense			7,858
Provision for deferred income taxes	50,000	652,000	1,770,000
FUNDS FROM CONTINUING OPERATIONS	5,742,929	6,920,597	7,956,943
Provision for loss on discontinued operation	(3,599,269)		
Add deferred tax benefit not providing funds	(3,279,653)		
Less carrying amount of assets of discontinued operation	6,765,342		
FUNDS USED BY PROVISION FOR LOSS ON DISCONTINUED OPERATION	(113,580)		
TOTAL FROM OPERATIONS	5,629,349	6,920,597	7,956,943
Proceeds from sale of future production	14,137,171	5,733,351	
Common Stock issued on conversion			1,503,832
Issue of treasury stock for amendment to a royalty agreement and services rendered			341,700
Decrease in other assets	3,849,884	3,120,987	
Proceeds from treasury stock	58,702	526,783	302,852
Carrying amount of property, plant and equipment disposals	1,606,432	131,792	288,620
TOTAL	25,281,538	16,433,510	10,393,947
Application of Funds			
Decrease in long-term debt	113,629	111,728	821,593
Increase in other assets			1,355,788
Additions to land		1,367	1,256,639
Additions to buildings and equipment	14,731,623	4,802,488	3,601,927
Additions to construction in progress		10,144,762	
Additions to deferred intangible mining and development costs	3,877,445	3,346,129	4,033,015
Purchase of Common Stock for treasury	52,776		6,087
Dividends declared	878,491	804,607	659,406
TOTAL	19,653,964	19,211,081	11,734,455
Increase (Decrease) in Working Capital	\$ 5,627,574	\$ (2,777,571)	\$ (1,340,508)
Changes in Components of Working Capital			
Increase (decrease) in current assets:			
Cash, certificates of deposit and short-term investments	\$ 5,117,262	\$ (5,940,335)	\$ (826,464)
Trade accounts receivable	(192,889)	93,441	(1,865,177)
Claim for refund of federal income taxes	138,706	1,442,138	
Inventories	(765,369)	1,434,883	898,979
Prepaid expenses and other current assets	25,395	960,253	514,065
	4,323,105	(2,009,620)	(1,278,597)
Increase (decrease) in current liabilities:			
Note payable	(325,000)	325,000	
Trade accounts payable	(981,307)	43,468	1,111,855
Federal and state income taxes	(101,101)	432,320	(838,212)
Dividends payable	(63,349)	46,798	
Other liabilities	161,636	157,677	(498,587)
Current portion of long-term debt	4,652	(237,312)	286,855
	(1,304,469)	767,951	61,911
Increase (Decrease) in Working Capital	\$ 5,627,574	\$ (2,777,571)	\$ (1,340,508)

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, intercompany accounts and transactions have been eliminated. The Company's portion of sales and operating expenses arising from joint ventures is included in revenue and deductions from revenue of the Company.

Inventories: From time to time 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. Inventories are stated at the lower of cost (principally average cost) or market. The computation of market value includes adjustments for unrealized gains or losses on open futures contracts.

Metal Futures Contracts: The Company also enters into other futures 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. Idle facilities are car-

ried at cost less allowance for depreciation, depletion and amortization. Provisions for depreciation, depletion and amortization are not made while operations are suspended.

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. 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:

	1982	1981
Finished metals and metal products	\$ 529,672	\$1,420,814
Ore in stockpiles	1,253,674	1,070,122
Supplies	261,785	319,564
	<u>\$2,045,131</u>	<u>\$2,810,500</u>

Note C — Idle Facilities

The Company's board of directors has adopted a plan of disposal for the Tungsten Queen Mine and mill complex located near Henderson, North Carolina. The plan provides for disposal through a negotiated transaction, preferably with an entity already engaged in the natural resource industry and the Company may retain some form of nonoperating interest in the results of future operations. The Company intends to accomplish such disposal during the fiscal year ending June 30, 1983, although this period could be extended depending upon the nature and complexity of negotiations. A provision for loss of \$3,599,269, net of deferred tax benefits of \$3,279,653, was recorded on this discontinued operation and, at June 30, 1982, the remaining assets are recorded in the balance sheet at \$920,000, representing the value of movable assets and surface real estate, after deduction of incidental expenses which the Company expects to incur in connection with the disposal during the fiscal year ending June 30, 1983.

The Company has suspended operations at two uranium operations with a total carrying amount of \$1,578,676 at June 30, 1982 and \$1,593,332 at June 30, 1981. Management is of the opinion that the costs will be recovered through either future operation or sale of the properties.

Note D — Other Assets

Included in other assets is uranium ore held in stockpile inventory at the Small Fry Mine (operations suspended) in the amount of \$2,234,415 at June 30, 1982 and \$2,492,472 at June 30, 1981. There have been no milling arrangements made for processing the ore, and the timing of such arrangements is uncertain. The Company's investment in net assets of joint ventures and limited partnership interests are also included in the amounts of \$(378,131) and \$3,098,722 at June 30, 1982 and 1981, respectively.

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 claim for refund is included in current assets at June 30, 1982.

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.

While the outcome of the above tax issue 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.

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 appealed the Hearing Officer's decision and on April 14, 1982 concluded that the Company's position was correct

and cancelled this deficiency.

Investment tax credits of \$233,254, \$367,867 and \$250,955 were used to reduce the 1982, 1981 and 1980 respective provisions for income taxes.

At June 30, 1982, the Company has unused net operating loss and investment tax credit carryforwards for income tax purposes of approximately \$1,070,000 and \$3,500,000, respectively, which, if not utilized, will expire in 1989 through 1996. Of these amounts, approximately \$1,700,000 of the investment tax credit carryforwards have previously been utilized for financial reporting purposes through reduction of deferred income taxes.

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:

	1982	1981	1980
Federal tax expense at statutory rate	46%	46%	46%
Statutory depletion in excess of cost depletion	(43)	(22)	(13)
State income tax less federal tax benefit	1	2	2
Investment tax credit	(7)	(7)	(3)
Provision for minimum tax	13	5	
	<u>10%</u>	<u>24%</u>	<u>32%</u>

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

	1982	1981	1980
Unrealized gains (amortization) on hedging transactions	\$ (702,788)	\$ (175,996)	\$ 927,908
Development costs deducted for income tax purposes, deferred for financial reporting purposes	1,795,880	1,033,155	1,657,035
Amortization of development costs expensed for tax purposes in prior years	(892,757)	(552,122)	(330,359)
Restoration of deferred income taxes upon utilization of prior year net operating loss carryforward		531,739	213,755
Deferred minimum tax resulting from utilization of net operating loss		(130,618)	(130,618)
Investment tax credit	(233,254)	(24,422)	(227,161)
Provision for minimum tax	(1,971)	(123,924)	(295,719)
Other	84,890	94,188	(44,841)
	<u>\$ 50,000</u>	<u>\$ 652,000</u>	<u>\$ 1,770,000</u>

Note F — Long-Term Debt and Lines of Credit

Land contracts payable consist of the following:

	1982	1981
9% contract payable in annual installments of \$102,574, including interest, through 1993; secured by land carried at \$1,622,472	\$734,546	\$768,000
Other	149,968	225,491
	884,514	993,491
Less portion classified as current liability	113,588	108,936
	<u>\$770,926</u>	<u>\$884,555</u>

At June 30, 1982, the Company had lines of credit available from commercial banks totaling \$35,000,000. The lines are unsecured, are payable upon demand, bear interest at the banks' prime rate and expire in fiscal year 1983. There have been no significant 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, 1982, the Company had received advances totalling \$19,870,522. The original agreement provided for the repayment to begin July 1, 1982 from a portion of mine production. In June 1982, this agreement was amended to provide for the payment of interest only through December 31, 1983 and repayment of the advances beginning January 1, 1984, 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 approximately six years. The parent company originally guaranteed the repayment of the advances until the mine and mill were operating at specified levels. These levels have been met and the guarantee terminated on June 30, 1982.

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 two-for-one 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 would have been \$1.59 had the 1979 conversion of the 5-3/4% convertible debentures occurred on July 1, 1979.

Note I — Leases

Total rent expense for all leases amounted to \$186,589 in 1982, \$307,111 in 1981 and \$402,975 in 1980.

The future minimum rental commitments under non-cancellable equipment leases are not material.

Note J — Stock Options

At June 30, 1982, 49,250 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 49,250 shares reserved for options, 7,800 were covered by options outstanding and 41,450 were available for future grant. Options may be granted at prices not less than market value at date of grant. 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
	Shares	Price	Shares	Price	
Outstanding July 1, 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
Year ended June 30, 1982:					
Cancelled	(1,000)	9.13	(4,000)	9.13	(5,000)
Exercised	(100)	6.87	(7,000)	8.19-8.88	(7,100)
Outstanding June 30, 1982	7,800	8.25-24.50	23,000	6.00-8.88	30,800
Exercisable June 30, 1982	7,800	8.25-24.50	23,000	6.00-8.88	30,800

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 the Anderson Development Corporation. The payments by the Company to Anderson Development Corporation for the fiscal years ended June 30, 1981 and 1980 were \$1,558,593 and \$2,266,954.

In connection with the termination of the mining contract, the Company purchased equipment for \$650,000

Note M — Business Segments and Major Customers

on contract. The final contract payment was made December 15, 1981.

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 of \$326,447 in fiscal 1981 have been capitalized as part of property, plant and equipment. This accounting change increased net income for fiscal 1981 by \$176,281 (\$.06 per share). The 1980 financial statements have not been restated because Statement No. 34 prohibits retroactive application.

	Year Ended June 30		
	1982	1981	1980
NET SALES TO UNAFFILIATED CUSTOMERS			
Uranium	\$15,762,095	\$12,678,944	\$10,435,849
Copper	8,668,338	12,323,890	12,403,064
Gold	1,828,496	1,370,217	306,363
Silver	8,300,562		
Other		74,870	105,618
TOTAL SALES	\$34,559,491	\$26,447,921	\$23,250,894
OPERATING PROFIT (LOSS)			
Uranium	\$ 2,362,744	\$ 2,459,225	\$ 944,056
Copper	1,328,340	467,705	106,757
Gold	(82,282)	58,368	76,905
Silver	438,838		
Other	(228,499)	(229,777)	(222,889)
TOTAL OPERATING PROFIT	\$ 3,819,141	\$ 2,755,521	\$ 904,829
OTHER INCOME			
Uranium royalties	\$ 1,787,438	\$ 2,492,878	\$ 3,577,682
Gain on metal futures contracts	525,439	2,232,807	3,565,373
Interest and other	2,032,530	1,739,714	2,167,674
TOTAL OTHER INCOME	\$ 4,345,407	\$ 6,465,399	\$ 9,310,729
OTHER DEDUCTIONS			
Exploration, conservation and maintenance of mining properties	\$ 775,675	\$ 1,347,997	\$ 1,102,086
Interest expense	1,093,927	165,607	91,963
Administrative and general expense	2,871,579	2,523,796	1,919,156
TOTAL OTHER DEDUCTIONS	\$ 4,741,181	\$ 4,037,400	\$ 3,113,205
INCOME BEFORE INCOME TAXES	\$ 3,423,367	\$ 5,183,520	\$ 7,102,353
IDENTIFIABLE ASSETS			
Uranium (Idle facilities: 1982 — \$1,578,676; 1981 — \$1,593,332; 1980 — \$1,720,511)	\$ 4,824,125	\$ 8,381,628	\$ 9,417,781
Copper	1,559,228	4,894,529	4,968,549
Silver	39,157,001	21,578,508	5,432,463
Gold	1,316,618	2,864,981	2,183,062
Other	334,386	526,430	466,633
General corporate assets	47,191,358	38,246,076	22,468,488
Assets of Tungsten Queen Mine held for disposition (see Note C)	17,964,950	12,053,937	17,137,161
	920,000	7,685,342	7,682,436
	\$66,076,308	\$57,985,355	\$47,288,085

	1982	1981	1980
DEPRECIATION, DEPLETION AND AMORTIZATION			
Uranium	\$ 39,280	\$ 76,804	\$ 132,353
Copper	426,555	1,089,583	1,029,786
Silver	1,217,054	284,752	71,227
Gold	474,889	511,553	4,819
Other	41,762	29,795	22,823
General corporate assets	420,022	342,590	115,724
CAPITAL EXPENDITURES			
Uranium			119,259
Copper		995,162	944,416
Silver	18,370,436	15,359,308	5,203,691
Gold	96,157	14,554	2,087,071
Other	7,154	113,525	10,689
General corporate assets	135,321	1,812,197	526,455

Operating profit is net sales less cost of products sold. Identifiable assets by segment include assets directly identified with those operations. General corporate assets consist primarily of cash, marketable securities, and other investments.

In 1982 the Company had sales to two major customers as follows: uranium — \$15,149,748 and copper — \$4,345,779.

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.

Note N — Summary of Quarterly Results of Operations (Unaudited)

The following is a summary of unaudited quarterly results of operations for the years ended June 30, 1982 and 1981:

	1982			
	Quarter Ended			
	September 30	December 31	March 31	June 30
Net sales and other income	\$8,284,566	\$9,505,630	\$11,178,290	\$ 9,936,412
Income from continuing operations before income taxes	1,274,911	952,929	548,889	646,638
Income from continuing operations	1,014,911	767,929	593,889	696,638
Provision for loss on discontinued operation less applicable income tax benefits				3,599,269
Net income (loss)	<u>\$1,014,911</u>	<u>\$ 767,929</u>	<u>\$ 593,889</u>	<u>\$ (2,902,631)</u>
Net income (loss) per common share:				
Income from continuing operations	\$.33	\$.24	\$.20	\$.22
Loss on discontinued operation	—	—	—	(1.16)
	<u>\$.33</u>	<u>\$.24</u>	<u>\$.20</u>	<u>\$ (.94)</u>
	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	<u>\$1,036,661</u>	<u>\$ 783,689</u>	<u>\$ 947,556</u>	<u>\$1,165,614</u>
Net income per common share	<u>\$.34</u>	<u>\$.25</u>	<u>\$.31</u>	<u>\$.37</u>

Report of Ernst & Whinney Independent Auditors

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

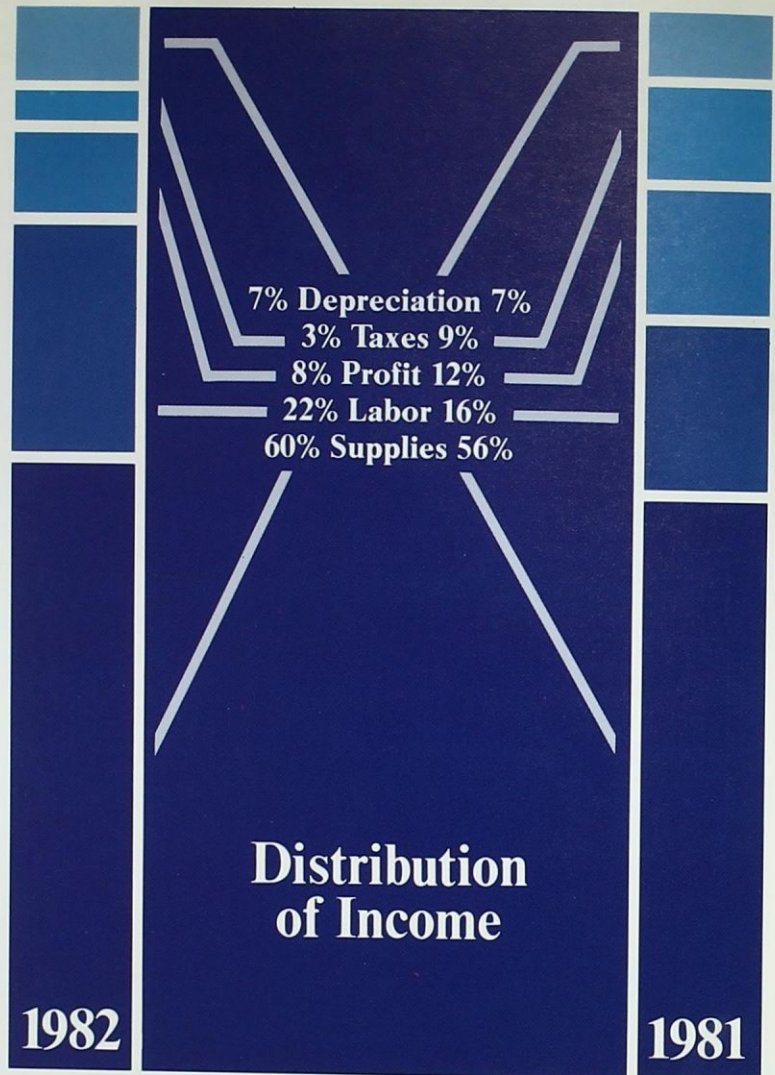
We have examined the consolidated balance sheets of Ranchers Exploration and Development Corporation and subsidiaries as of June 30, 1982 and 1981, and the related consolidated statements of income, stockholders' equity and changes in financial position for each of the three years in the period ended June 30, 1982. 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.

In our report dated August 11, 1981, our opinion on the 1981 financial statements was qualified as being subject to the ultimate realization of the Company's investment in the Tungsten Queen Mine. As explained in Note C, with the adoption of a formal plan for disposal of this segment of the Company's business, a provision for loss has been charged to operations in the current year as required by generally accepted accounting principles. Accordingly, the qualification contained in our previous report on the 1981 financial statements is no longer applicable and has been removed.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Ranchers Exploration and Development Corporation and subsidiaries at June 30, 1982 and 1981, 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, 1982, 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

Denver, Colorado
August 6, 1982



The Company's gross revenues totaled \$38,904,898. This income was used in the following manner: \$23,348,688, or 60% went to suppliers for the various goods and services needed to conduct the Company's business.

\$8,548,900, or 22%, was spent on labor, including social security and insurance for the Company's approximately 250 employees.

\$2,619,562, or 7%, was provided for depreciation, amortization, and depletion of property, plant, and equipment.

\$1,314,381, or three percent, was paid in federal, state, and local taxes.

These expenditures totaled \$35,831,531, leaving a net profit of \$3,073,367 on continuing operations, or eight percent of the gross revenues for the year. This amounted to \$5.99 per share on the 3,095,152 shares of common stock (weighted average outstanding) held by the Company's 1300 stockholders of record.

THE 1982 ANNUAL REPORT

Design and Layout — Mary Garriott

Portraits — Gene Garriott

Color Separations — Southwest Color

Separations

Typography — Reay's Typographic

Service, Inc.

Printing — The McLeod Printing Company

Stock Information

The Company had 3,073,669 shares of common stock outstanding as of June 30, 1982. High and low prices of the stock by quarter during the last two fiscal years:

Quarter	1981	
	High	Low
First	\$42.75	\$22.00
Second	41.75	28.62
Third	48.75	28.87
Fourth	65.00	44.00
	1982	
First	\$53.75	\$38.50
Second	43.87	26.25
Third	29.25	12.50
Fourth	17.25	11.00

Dividends were paid in gold in the first quarter of fiscal year 1982 at the rate of .00625 grams per share on holdings of 400 shares or more and in cash at the rate of \$.0827 per share on holdings of less than 400 shares. Dividends for the last three quarters of fiscal year 1982 were paid in silver at the rate of .00833 troy ounces per share on holdings of 600 shares or more. Cash was paid on holdings of less than 600 shares at the rate of \$.076 per share in the second quarter, \$.072 per share in third quarter and \$.0559 in the fourth quarter. The dividend for the first quarter of fiscal year 1983 will be paid in silver at the rate of .01 troy ounce per share on holdings of 500 shares or more, a 20% increase over the prior three quarters, with cash to be paid at the rate of \$.0625 per share to holdings of less than 500 shares.

Transfer Agent and Registrar:

RepublicBank 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 12, 1982, 10 a.m., at the Company offices.

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in cash to shareholders of less than 500 shares. The cutoff for silver dividends was 600 shares, for which a shareholder received a five ounce bar.

"We also decided," says Rice, "to pay in the highest denomination possible. This meant that on the first dividend we paid holders of 1,000 shares with a single five gram gold bar rather than with two 2½ gram bars. Fractional shares between numbers not divisible by 500 (by 120 in case of silver) received cash.

Decision: "Another basic decision was to pay the dividend, whether gold or silver, in an easily tradeable and recognizable form. For gold, we selected Engelhard bars and for silver, Johnson Matthey bars. Both are traded by coin and bullion dealers worldwide. We deliver to them gold from our Alaskan placers or silver from the Escalante, and they deliver the bars to our transfer and dividend disbursing agent, RepublicBank Dallas."

As Rice had anticipated, payment of the dividends has not been without its headaches, particularly in the early stages when the payout system was being perfected. The biggest problem in this day of institutional investing is that it isn't always easy to determine who the Company's shareholders are. Sometimes individual names appear on shareholder lists, but frequently the investor is represented by a bank, mutual fund, brokerage house or depository. Depositories, such as Depository Trust Company (Cede), serve as clearing-houses for brokers or nominees holding shareholder stock in unlisted or "street" name.

"Payment of the metal dividends to individual shareholders of record turned out to be fairly straightforward," says Rice. "RepublicBank provides us with a list of shareholders of record, with individuals and institutions listed separately. Each entry lists the number of shares held.

"The list of individuals goes into our computer and the quantities of metal to be distributed are determined and a check written for shares not divisible by the minimum share amount. A separate list, already prepared by the Bank, is used to write

checks for those shareholders holding less than the minimum shares required for the metal dividend.

"I hand-deliver the list of qualifying individuals to the Bank. There, in a large conference room, we use an assembly-line procedure involving eight to 10 employees to place bars and checks in the proper envelope for mailing. It usually takes us half a day to do this part of the mailing."

Roundabout: In the case of brokers or nominees, the procedure is more roundabout. "We mail a letter to the institution of record requesting information regarding the holding of Ranchers stock," says Rice. "We ask that the information on number of shares be given by customer account number or some other designation that will keep the shareholder's identity confidential, if that is desired.

"This information is fed into our computer, which determines by account number the amount of metal and cash to be paid to each account. The computer prepares a certificate bearing a unique redemption code number, which is then sent to the broker or nominee. The institution forwards the certificate to its customer or to RepublicBank. In either case, the Bank delivers the amount of metal printed on the face of the certificate. Cash for fractional share amounts is paid to the institution for credit to the customer's account."

System: "The certificate system has worked well," Rice says. "We've only had a handful of complaints, mostly from mutual funds. We've solved this problem by transferring the silver directly to an account maintained with the bar fabricator by the fund."

The distribution system has worked better with each successive payment. "Working out the lists for the first dividend cost me the better part of a week," says Rice. "I worked them out on 11-column accountant's work sheets; now we do the same work in two or three hours on the computer, with key-punching taking up most of the time. As far as we know, we have yet to lose any of the approximately 10,000 bars distributed to date (as of August 11, 1982)."

Management

Leland O. Erdahl, Executive Vice President of the Company, was named to the position of President and Chief Operating Officer in May, replacing John E. Motica, who resigned because of ill health. Mr. Motica remains with the Company as Manager, Special Projects and as a member of the Board of Directors. A new member, Samuel S. Arentz, was named to the Board in May. Mr. Arentz, a mining and metallurgical engineer who resides in Salt Lake City, Utah, is president of Escalante Silver Mines Company, Inc., lessor of the Escalante silver property.

Directors

Maxie L. Anderson

Chairman and Chief Executive Officer,

Ranchers Exploration and Development Corporation

Samuel S. Arentz

President, Escalante Silver Mines Company, Inc.

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 Pudaheul Limitada

Edward E. Monteith

Managing Partner, Thomson-Monteith

John E. Motica

Manager, Special Projects, Ranchers Exploration and Development Corporation

Edward McL. Tittmann

Mining Consultant

Executive Officers

Maxie L. Anderson

Chairman and Chief Executive Officer

Leland O. Erdahl

President and Chief Operating Officer

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

Officers

David C. Fitch

Manager of Exploration and Assistant Vice President

James M. Rosel

Assistant Vice President and Assistant Secretary

Werner G. Nennecker

Assistant Vice President

Randolph E. Scheffel

Assistant Vice President

Richard W. Rice

Assistant Treasurer



Left to Right: Marvin K. Kaiser, Herbert M. Campbell II, Maxie L. Anderson, Leland O. Erdahl, Paul A. Matthews, David K. Hogan; Front, John E. Motica.

