



RANCHERS

Annual Report • Year Ended June 30, 1983

Refining with Fire

The glowing molds of silver and slag shown on the cover of the 1983 Annual Report contain the product of one of the country's most modern and efficient silver mining operations — the Company's Escalante Mine in southwest Utah. But the refining step pictured is itself ancient, tracing back to primitive metallurgists who lived thousands of years ago.

No one knows for certain when gold and silver metallurgy began. Some scholars believe it started more than 6,000 years ago on the Black Sea coast in what is now Bulgaria. One of the first written accounts of precious metal refining comes from Agatharachides, a Greek who visited Egypt in about 170 B.C. He reported that gold ore was refined in porous clay vessels containing such fluxing and reducing agents as lead, salt, tin and barley bran. The vessels were tightly sealed with mud and fired in a kiln for five days, causing the gold to collect in the center of the container, while the slag adhered to the walls.

Antecedent: However, the direct antecedent of the silver refining process employed at the Escalante was work done on the Witwatersrand — the South African gold belt — nearly a century ago. There, as at the Escalante, ore was treated with cyanide solutions to dissolve the metal, which was then precipitated from the solution with zinc shavings, melted in reverberatory furnaces and poured into molds.

Today at the Escalante, zinc dust is used as a precipitant, but otherwise the refining process is much the same as that used on the Rand. The zinc dust simply causes the silver to drop out of the solution. The blackish, mudlike precipitate is then dried and leached with sulfuric acid to remove most of the zinc and copper.

This raises the silver content to about 85 percent, but still leaves significant amounts of copper, lead, zinc and silica.

The purpose of fire refining — the final step at the Escalante — is to remove most of these remaining impurities by converting the dry precipitate to dore, an alloy containing about 95 percent silver. The conversion takes place in a small gas-fired furnace where the precipitate and fluxes are heated to about 2,100 degrees F. The fluxes combine with impurities to form a

We're transferring the impurities to a glasslike slag that can either be poured off or broken off.

readily-removable molten mixture.

Chemistry: Although considerable chemistry is involved, the principle behind fire refining is straightforward: "We're basically transferring the impurities from the precipi-



Slag and Silver Buttons

tate into a glasslike slag that can either be poured off from the heavier molten silver or broken off after the metal and the slag cool," says Randy Scheffel, the Company's chief metallurgist.

The process requires a specific recipe:

8 parts silica sand

8 parts soda ash

15 parts borax

100 parts dry silver precipitate

These ingredients are mixed in a cement mixer for a few minutes and then shoveled into the furnace. Each firing produces about 12,000 troy ounces of silver, later reduced to approximately 11,000 ounces of 99.9 percent silver in a commercial refinery.

"There's nothing at all proprietary about our refining formula," says Scheffel. "In fact I was surprised recently to find our exact recipe in a book published in 1920. However, every one of the ingredients does have a precise function in the refining process.

Silica: "The silica, an acidic flux, takes up most of the zinc, separating it from the silver. Borax reduces the melting point of the silica and solubilizes and entraps copper, lead, zinc and other bases.

"Soda ash helps neutralize the acidic slag so that oxygen becomes tied up with the base metals in the form of oxides. The soda ash also has some temperature-lowering ability and makes for a more fusible mixture — one that melts uniformly at a lower temperature."

Most of the separation of impurities from the silver occurs in the furnace itself, where the silver flows to the bottom of the mortar-lined firebox. The slag overlies the silver — preventing it from volatilizing and escaping up the furnace stack.

Slag Flows: When the furnace is tilted, the slag flows out first, filling the first few molds. About 75 percent of the slag drains off before the layer of molten silver is reached.

Final separation of the slag and silver occurs in the cone-shaped molds. Here the heavy silver, with a specific gravity of 10.5 — about four times that of the slag — settles in the bottom of the mold, while the lighter slag accumulates on top.

After cooling, the mold is tipped over and the glassy layer of slag separated from the silver "button"

Continued on page 28

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, 1983 came principally from uranium royalties and the sale of silver, uranium, clay, volcanic rock, copper and gold. Two new subsidiaries were acquired late in the year, Kentucky-Tennessee Clay Company and Colorado Aggregate Company. Headquarters of the Company are at 1776 Montano Road NW, Albuquerque, New Mexico 87107.

Financial Highlights

Ranchers Exploration and Development Corporation

For the year ended June 30	1983	1982	1981	1980	1979*
Gross income	3,644,575	3,423,367	3,183,520	7,102,353	\$39,497,054
Income from continuing operations before income taxes	3,050,000	350,000	1,250,000	2,300,000	1,700,000
Income from continuing operations	6,594,575	3,073,367	3,933,520	4,802,353	4,328,842
Provision for income taxes	—	—	—	—	—
Income (loss) from discontinued operations less applicable income tax benefits	—	(525,902)	—	—	—
Net income (loss)	6,594,575	(525,902)	3,933,520	4,802,353	4,328,842
Income (loss) per common share	2.13	(.17)	1.27	1.63	1.50
Dividends per share	—	—	—	—	—
Capital expenditures	609,068	18,294,746	8,891,581	497,462	—
Depreciation and amortization	7,667,178	2,619,562	2,335,077	1,376,732	4,706,887
Working capital	878,097	14,277,509	9,367,527	27,115,000	13,485,606
Total assets	98,982,120	66,076,308	57,985,355	47,288,085	40,031,396
Long-term debt	25,381,080	770,926	884,555	996,283	1,817,876
Shareholders' equity	42,128,082	36,727,711	38,126,178	34,470,482	28,224,111
Book value per share	13.65	11.95	12.42	11.44	10.02
Number of employees	500	250	350	400	350

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

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refined in porous clay vessels containing such fluxing agents as lead, salt, tin and bran. The vessels were tightly sealed with mud and fired in a furnace for five days, causing the gold to collect in the center of the container while the slag adhered to the walls.

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Ranchers Exploration and Development Corporation

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Ranchers Exploration and Development Corporation

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Financial Highlights

For the year ended June 30	1983	1982	1981	1980	1979*
Gross income	\$52,823,531	\$38,904,898	\$32,913,320	\$32,561,623	\$39,497,054
Income from continuing operations before income taxes	9,644,575	3,423,367	5,183,520	7,102,353	6,028,842
Income taxes	3,050,000	350,000	1,250,000	2,300,000	1,700,000
Income from continuing operations	6,594,575	3,073,367	3,933,520	4,802,353	4,328,842
Provision for loss on discontinued operation, less applicable income tax benefits	—	3,599,269	—	—	—
Net income (loss)	6,594,575	(525,902)	3,933,520	4,802,353	4,328,842
Income (loss) per common share					
Income from continuing operations	2.13	.99	1.27	1.63	1.50
Loss on discontinued operation	—	(1.16)	—	—	—
Net income (loss)	2.13	(.17)	1.27	1.63	1.50
Dividends per share	.4168	.2866	.264	.225	.10
Capital expenditures	30,948,468	18,609,068	18,294,746	8,891,581	497,462
Depreciation, depletion and amortization	7,667,178	2,619,562	2,335,077	1,376,732	4,706,887
At year end					
Working capital	19,878,097	14,277,509	9,367,527	12,145,098	13,485,606
Total assets	98,982,120	66,076,308	57,985,355	47,288,085	40,031,396
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*Restated to reflect 2 for 1 stock split declared February 1980.

The year ended June 30, 1983 was a period of record profitability for the Company. But, perhaps most importantly, it was a year of change that will have a lasting effect on the future course of the Company.

At the end of the year, on June 27, the Company lost its chief executive officer of the past 21 years, Maxie L. Anderson, in a ballooning accident in West Germany. He was a courageous innovator in the mining industry, and his leadership will be sorely missed. However, he left a legacy of an experienced and determined management staff, a loyal cadre of employees, and a Company with earnings and financial strength unsurpassed in its 29-year-history.

Financial resources of the Company were further strengthened in July of the new fiscal year with the completion of an offering of 495,000 shares of common stock at \$34.125 per share. The net proceeds of \$15,500,000 were used to retire a portion of the indebtedness incurred in acquisition of Kentucky-Tennessee Clay Company, purchased during the latter part of the 1983 fiscal year.

Earnings: Earnings for the year were \$2.13 per share, exceeding by 31 percent the previous record earnings of \$1.63 per share in 1980. A year ago the Company earned \$.99 per share from continuing operations, but posted an overall loss of \$.17 per share as the result of writing off \$1.16 per share on its discontinued tungsten operations.

Revenues also increased sharply for the year, totaling \$52,823,531, an increase of 36 percent over the \$38,904,898 of a year ago. With greater emphasis on precious metals production, the revenue mix also began to shift rather markedly, with sales of silver from the Escalante Mine totaling \$21,745,584 — about 40 percent of all revenues — compared to \$8,300,562 in the prior year when milling operations were first initiated.

The Company produced no uranium during the year, but continued to benefit significantly from earlier sales contracts filled with purchased uranium concentrate. Sales of this material amounted to \$15,970,212, compared to \$15,762,095 a year ago. Copper sales fell to \$2,198,539 from \$8,668,338 a year ago as the Bluebird Mine was placed on standby in October 1982 after nearly two decades of operation. It does not appear that copper or uranium mining will return to historic levels of profitability in the immediate future, making the Company's switch to precious metals most timely. The

Company will, however, continue to receive uranium royalties and to sell purchased uranium, although sales in 1984 will be less than half those of the year just ended.

Acquisitions: Revenues and profits began to be influenced late in the 1983 fiscal year by the two acquisitions made during the year by the Company — Colorado Aggregate Company and Kentucky-Tennessee Clay Company. The acquisition of Colorado Aggregate, a producer of volcanic rock for use in landscaping and gas barbecue grills, was effective January 1, 1983, and

the company contributed sales of \$3,787,178 and pre-tax profits of \$1,576,414 during the last half of the fiscal year. This business is seasonal, with total annual sales expected to range between \$4 and \$5 million. The Company gained control of Kentucky-Tennessee Clay in early April, and sales during the final quarter of the year amounted to \$3,809,889; pre-tax profits were \$669,530.

The Company's revenues and earnings for 1983 thus reflect two important trends: (1) greater reliance on the production of precious metals and (2) broadening of the base of the Company to include industrial minerals. Your management believes that this combination, supplemented by sale of uranium, presents exceptional opportunities for profit and return on investment. The Company plans to steadily increase its production of precious metals, financing a portion of this growth with its stable base in industrial minerals.

Pleased: Management continues to be very pleased with the acquisition of the clay and aggregate companies. They were selected carefully on the basis of high profitability, good market share, and long-term reserves. Kentucky-Tennessee Clay, which recorded a net profit of \$2.75 million on sales of \$13.8 million in 1982, has approximately half of the ball clay market in the United States. Foreign sales average 12 to 15 percent of total revenues, and it appears there may be room for growth in this area. If this is the case and if the company's sales expand with recovery of the general economy, then Kentucky-Tennessee Clay should not only grow, but should provide a continuing source of funds to help finance growth in the precious metals sector.

The operations of Colorado Aggregate should have much the same effect. Annual sales are expected to be about \$4.5 million; pre-tax profits about \$1.6 million.

Report to Shareholders

Leland O. Erdahl



Two Important Trends in 1983: Precious Metals & Industrial Minerals

New uses of aggregate product, plus growth resulting from recovery of the economy, should permit some expansion of the business, making it one of the Company's most profitable enterprises.

The performance of the Escalante Mine in 1983 was most gratifying, providing management with evidence that the Company has made a sound entry into precious metals production. The mine was targeted to produce 2,150,000 ounces of silver during the year, but actually produced 2,265,923 ounces. At the end of the year, the mill, originally designed to handle 500 tons of ore per day, was processing 800 tons per day and appears capable of handling 750 tons per day on a regular basis. The end-slashing method of mining continues to work very well, and in all respects both the mine and mill are operating near optimum levels of productivity.

Borrowing: An innovative borrowing technique, in which loans to finance construction and development of the mine are denominated in silver instead of dollars, was implemented during the year and has helped to reduce interest costs by about 65 percent. Interest costs are now running about \$.35 per ounce compared to more than \$1 per ounce before the new financing was put in place.

Silver sales were aided materially during the year by a recovery in silver prices. Prices slumped to about \$5 per ounce early in the fiscal year, but ended the year in the \$12 to \$15 range. Using forward sales, the Company sold its production during the year at an average price of \$9.85 per ounce vs. \$8.26 last year. As of August 31, 1983, the Company had made forward sales of about a million ounces at an average price in excess of \$12 per ounce. Production for the new fiscal year is expected to total about 2.3 million ounces and, barring a significant change in prices, should result in sales of about \$25 million for the year.

Changes in the world economic, business and political climate cause management to remain optimistic about the long-term outlook for precious metals. The ever-expanding electronics industry is leading to greater use of silver and gold, while political unrest, inflation, and the threats posed by oil shortages and debt-heavy national economies dictate a continuing need for precious metals as security hedges.

A major portion of the Company's exploration resources is being devoted to this business opportunity. Recipient of much attention in the year just ended and in the one underway is the Revenue-Virginus Mine near Ouray, Colorado. To date, the Company has done more than 25,000 feet of drilling and about 3,500 feet of underground drifting and cross cutting on the prospect. Management remains cautiously optimistic that suffi-

cient silver reserves will be delineated to sustain a mining operation of reasonable size, and has decided to continue development activities until April 1984. A pilot mining operation will also be instituted about midway through the fiscal year. Surface drilling is also continuing on a nearby silver prospect, where results to date have been encouraging.

Gold Placers: The Company is continuing to drill its Alaskan gold placers, where about 4,700 ounces of gold were expected to be produced in the 1983 summer season, and is evaluating other properties in Alaska and several western states. Venture partners are being sought for two Company prospects: the Mystic gold properties near Phoenix, Arizona, and the Yellow Pine gold-antimony property in Idaho. American Copper and Nickel Company, Inc., completed some 2,000 feet of drilling on the Mystic property during 1983, but withdrew from a joint venture after failing to find evidence of the type of deposit it was seeking.

The Company conducted no exploration for uranium during 1983, but remains interested in securing proven reserves of the metal. Management feels that production from selected properties and from sales of purchased uranium will continue to offer opportunities for profit. The Company is also interested in acquiring additional industrial minerals operations where marketing outlets are already in place, but plans no exploration for these minerals.

Management looks forward to 1984 with enthusiasm. It should be a year of many opportunities. The Company, having emerged from the recession with additional operating experience and greater financial strength than many of its competitors in the mining industry, is in position to capitalize on these opportunities. Exploration will be stepped up, and attention will be given to suitable new acquisitions.

Profits should remain strong during the year, equaling or exceeding those of the year just past if silver prices hold in the \$11 to \$12 range and the clay and aggregate companies perform as projected. Output at the Escalante could increase a bit, and profits will be aided by a reduction in interest expense. Uranium sales will decline, but should be offset by other opportunities in this area, as well as by full-year contributions from the industrial minerals segment. All in all, the Company should have a very good year in 1984.

September 15, 1983

Leland O. Erdahl

Leland O. Erdahl
President and Chief Executive Officer

Management Remains Optimistic About the Long-Term Outlook For Precious Metals

General: The Company's net income from continuing operations for the year ended June 30, 1983 was \$6,594,575, an increase of 115 percent from that reported June 30, 1982 and 68 percent more than the earnings reported June 30, 1981. Earnings per share from continuing operations were \$2.13 (\$.14, \$.44, \$.77 and \$.78 by quarters), compared to \$.99 in 1982 and \$1.27 in 1981.

Revenues for the year increased 36 percent over the prior year and 60 percent over two years ago. These increases resulted principally from sales of silver from the Escalante Silver Mine, which began production in October 1981 and reached full capacity during the year ended June 30, 1983. Uranium sales increased during 1982, partially offsetting lower revenues from uranium royalties, cop-

per sales and metal futures transactions in 1981. Gold sales from the Company's Alaskan placer operation also increased in both 1983 and 1982. Fiscal year 1983 also includes sales from the Company's subsidiaries, Colorado Aggregate Company of New Mexico (formed in January 1983) and Kentucky-Tennessee Clay Company (controlling interest acquired in April 1983).

Silver: The Escalante mine and mill began producing silver in October 1981 and reached operational status in April 1982. Sales of refined silver for the year ended June 30, 1983 were in excess of 2.1 million troy ounces at an average price of \$9.85 per ounce. The mine operated at near capacity, producing about 2.2 million troy ounces of silver compared to about 1.1 million troy ounces in the year ended June 30, 1982. This increase in production, coupled with somewhat higher unit sales prices, increased revenues during the year by about \$13.5 million to \$21.7 million. Gross profit (income before interest and income taxes) was approximately \$6.4 million, compared to less than \$.5 million in the preceding fiscal year when the mine was still in the start-up phase for the first nine months of the year. Total non-cash charges (depreciation, depletion and amortization) increased substantially in 1983 and 1982, primarily because of increased production as the Company amortizes most costs on a units-of-production method.

Uranium: Sales of uranium increased to about \$16 million as the Company delivered approximately 414,000 pounds of purchased uranium at an average sales price of \$38.50 per pound. Deliveries in the year ended June 30, 1982 included about 232,000 pounds of

uranium produced at the Johnny M Mine and about 163,000 pounds of purchased uranium; total revenues were \$15.1 million. In the year ended June 30, 1981, approximately 325,000 pounds of uranium produced at the Johnny M Mine were sold for about \$11.7 million. Production from the Johnny M ceased in March 1982 as a result of the exhaustion of ore reserves at which time

the Company began filling delivery commitments with uranium purchased in the open market. The pretax profits from these sales increased to about \$5.7 million in the year ended June 30, 1983 from about \$2.4 million and \$2.3 million in 1982 and 1981, respectively. The increase in profit margin in 1983 resulted primarily from the lower cost of purchasing uranium rather than producing

uranium. The Company expects to deliver about 45,000 pounds of uranium concentrates in the quarter ending September 30, 1983 and about 124,000 pounds in the first half of calendar 1984. Selling prices are expected to average approximately \$42 per pound. Commitments have been completed to purchase all required material, and the Company expects to realize a gross profit of approximately \$3.2 million (\$19 per pound) on these deliveries.

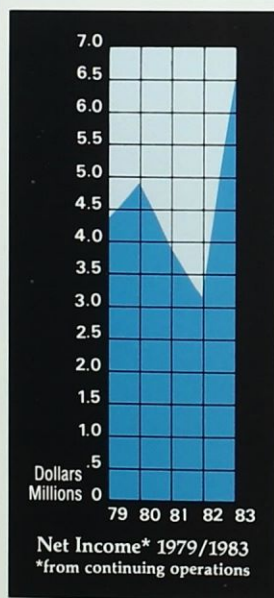
Upon expiration of existing uranium sales contracts, the Company expects its earnings from the sales of uranium concentrates to decline substantially or cease entirely.

Gold: Gold sales increased to about \$2.5 million in the year ended June 30, 1983 from about \$1.8 million in 1982 and \$1.4 million in 1981, primarily as a result of increased production in 1983 (6,100 troy ounces compared to 5,100 and 3,100 in 1982 and 1981, respectively). Although costs decreased slightly in 1983 as a result of the higher production, selling prices also declined, resulting in about a breakeven for the operation during all three years.

Copper: Copper sales declined to approximately \$2.2 million in fiscal year 1983, compared to \$8.7 million in 1982 and \$12.3 million in 1981, primarily because the Bluebird Mine was placed on standby status in October 1982. In 1983 production totaled about 3.1 million pounds compared to almost 11.4 million pounds and 13.6 million pounds in 1982 and 1981, respectively. Operating profits at the Bluebird Mine declined to about \$.3 million from \$1.4 million in 1982 when mining operations were discontinued, thus reducing operating costs significantly as

Management's Discussion and Analysis

Escalante Silver Sales Help Increase Net Income by 115%, Revenues by 36%



production came from leach heaps containing ore mined in prior years, and \$.9 million in 1981, when the mine was fully operational and selling prices were substantially higher.

Industrial Minerals: In fiscal year 1983, the Company formed a new subsidiary, Colorado Aggregate Company of New Mexico (CAC), which acquired the assets of an existing scoria operation in Colorado and New Mexico effective January 1, 1983. Revenues from

CAC from January 1 to June 30, 1983 totaled about \$3.8 million, with a gross margin of about \$1.6 million. Because of the seasonality of product sales (briquettes for gas barbecue grills and landscape gravel), these results will represent most of the annual sales and profits.

Also, as of April 7, 1983, the Company acquired more than 80 percent of the outstanding shares of Common Stock of Kentucky-Tennessee Clay Company (K-T) and in June 1983 acquired the remaining equity interest. The total cost of this acquisition approximated \$26.1 million or about \$9.9 million in excess of K-T's net book value. This excess has been allocated primarily to property, plant and equipment and will be amortized over the expected useful lives of the assets. Revenues from K-T for the period April 7, 1983 through June 30, 1983 totaled in excess of \$3.8 million, with a gross margin of about \$.7 million from the sale of about 95,000 tons of clay products.

Other Revenue and Deductions from Revenue: Uranium royalties, which are the subject of litigation between the Company and the operator of most of the royalty properties, declined again in fiscal year 1983. The litigation relates to the method of royalty calculation. The Company cannot predict the outcome of this litigation, but believes that it could ultimately result in receipt of higher royalties. Using the operator's calculation, the royalties declined in 1983 primarily as a result of lower overall production from the royalty properties.

Interest and other income declined to about \$1.5 million in fiscal year 1983 from \$2.0 million and \$1.7 million in 1982 and 1981, respectively. Interest income increased in fiscal year 1983 as a result of increased cash investments, but other income declined from that of 1982 when mining equipment used at the Bluebird Mine was sold for a pretax gain of about \$1.3 million.

The Company reported no gains on metal futures transactions in fiscal year 1983, compared to a gain of about \$.5 million in 1982 and about \$2.2 million in 1981. The gains during 1982 and 1981 resulted from the Company's decision to repurchase forward contracts used to

hedge future output at the Escalante Mine. These forward positions were closed before the mine opened because of an unusual opportunity to realize a substantial profit in an extremely volatile silver market. The Company continues to utilize forward sales to hedge its silver production; however, the results of these transactions are included in revenues from the sale of silver.

Exploration and property maintenance costs increased about 65 percent from the year ended June 30, 1982

when exploration activity and resultant expenditures were greatly reduced because of lower metal prices and about 5 percent from the year ended June 30, 1981. The increased expenditures in 1983 were primarily a result of increased activity at certain precious metal properties.

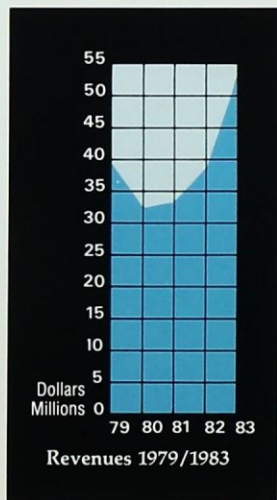
Interest expense in fiscal year 1983 increased to about \$2.8 million from \$1.1 million in 1982 and \$.2 million in 1981. The substantial increases in 1983 and 1982 over 1981 resulted primarily from interest associated with a production payment to finance the Escalante Mine. Prior to April 1982, all interest associated with this financing was capitalized in accordance with Financial Accounting Standards Board Statement No. 34. Interest was further increased in 1983 by borrowing of funds to finance the acquisition of both CAC assets and K-T. To reduce

future interest expense, the Company in 1983 borrowed silver at much lower interest rates than the existing prime rate and sold the borrowed metal for cash that was used to prepay the production payment. As of June 30, 1983 approximately 1,405,000 troy ounces were borrowed under these arrangements. The Company has already commenced repayment of borrowed silver with mine production, although maturities of the silver borrowing do not begin until September 1983 and run through October 1986. The borrowed metal has been sold at an average price of about \$10 per troy ounce (or about \$14.2 million). The silver borrowing arrangement, in comparison to the production payment financing arrangement, results in a substantial reduction of the

interest expense attributable to the Escalante project financing.

General and administrative expenses in fiscal year 1983 increased by 22 percent over the preceding year and 39 percent over 1981. Although a portion of this increase was due to inflation, another contributing factor was the expansion of the Company's staff in connection with increased efforts to acquire additional operations along with other expenses associated with this effort.

Escalante Financing, Purchase of Clay, Aggregate Companies Increase 1983 Interest Expense



Management's Discussion and Analysis

Continued from page 5

Financial Position/Liquidity: Primarily as a result of the excellent results at the Escalante Mine during the year, the Company's working capital increased by just over \$5.6 million, resulting in the highest available working capital in the Company's history. However, as a result of the increase in current income tax liabilities and the current portion of long-term debt (both in connection with the two acquisitions made in 1983), the Company's current ratio was about 3.3 to 1 at June 30, 1983 compared to 5.7 to 1 and 3.1 to 1 at June 30, 1982 and 1981, respectively.

The increase in the current portion of long-term debt was in connection with the formation of CAC and the related acquisition of assets for approximately \$5.5 million. Of this sum, \$4.0 million was borrowed and is payable to a bank in quarterly installments of \$200,000, plus interest.

The increase in current tax liability resulted primarily from the Company's acquisition of K-T. The cost of purchasing the outstanding stock approximated \$26.1 million, of which \$22.0 million was borrowed from a bank with payment due January 31, 1985. On July 22, 1983, the Company completed the sale of 495,000 shares of its Common Stock through a public offering. Proceeds from the sale, after deducting expenses, were about \$15.5 million and on July 25, these funds were used to reduce the bank loan balance to \$6 million, further improving the Company's already strong financial position.

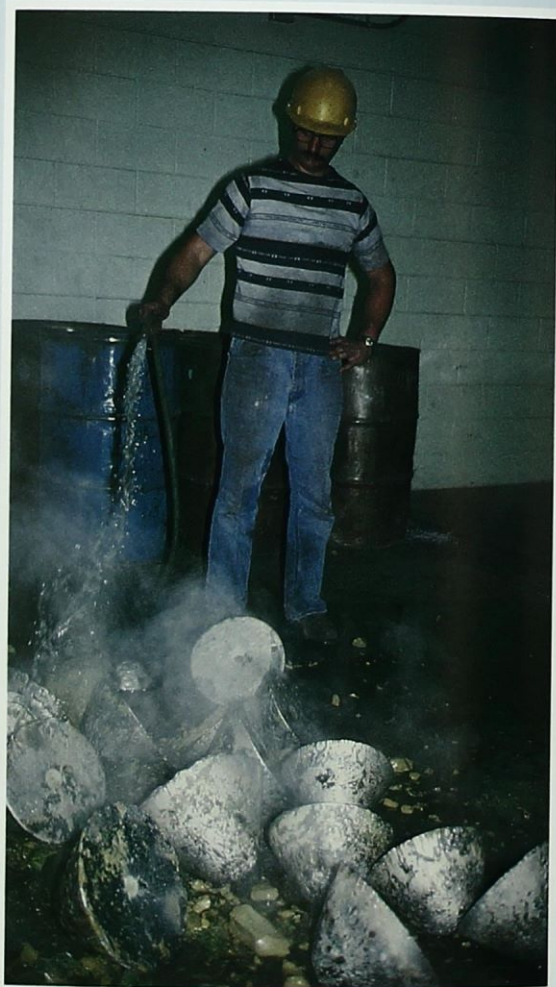
The Company has existing commitments for the purchase of uranium and for capital construction projects at its various operations, which the Company anticipates will be financed from its internal cash flow. The Company has also established various lines of credit for cash or silver borrowings to provide funds for working capital requirements (if needed) and for maintaining the Company's hedging position for sale of future metal production.

Impact of Inflation and Commodity Prices:

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 the Company's acquisitions.

A substantial portion of the Company's revenues is derived from the sale of commodities, the prices of which are subject to world-wide supply and demand. The Company cannot significantly affect the market prices for these products. The prices of gold and silver may change dramatically in short periods of time, hav-

ing a significant effect on revenues and profits of the Company. 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 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.



Washing Silver Buttons

Borrowing Bullion

In fiscal year 1983, the Company reduced its annual interest payments at the Escalante Mine by about 65 percent by capitalizing on the singular circumstances surrounding the holding of precious metals.

Holders of precious metals are often seeking a hedge against inflation. The value of their holdings increases with the inflationary rise in the cost of goods and services.

Pay a Price: But, the metal holders pay a price for this inflation insurance. The metal, whether ingots, warehouse receipts or some other form, reposes in safekeeping without drawing interest. There is no "real rate of return" above the rate of inflation. Refiners and others with metal inventories have the same problem.

About two years ago, the Company's management began to study whether these stores of metal — particularly silver — could be tapped in a way that would lower interest on loans obtained to finance construction and development of the Escalante Mine. The Company had borrowed \$19.8 million for the project at prime rates that brought annual interest payments to about \$2.5 million annually.

Real Rates: The idea that evolved was that silver might be borrowed at the historical real interest rates of two to three percent and then sold to raise funds that would be used to repay the bank loans bearing the prime rate of 15 percent or so. The silver would be repaid from production at the Escalante.

"We knew that gold could be borrowed for periods of several years," says Lee Erdahl, the Company's president and chief executive officer, "but no one had apparently ever borrowed silver, at least not for the four years that we required.

Volatile: "Silver prices have been volatile in recent years, and

lenders of silver were naturally reluctant to obligate their holdings so that they could not react to sharp fluctuations in the price of the metal. Persuading owners of silver to make long-term loans was our most difficult job," says Erdahl.

"We did this by borrowing from banks and refiners who had silver to lend regardless of the lending period, by taking prospective lenders to the Escalante so they could assure themselves that the silver would be repaid, and by borrowing the silver at a time when prices were moderate — \$10 an ounce or so. Even people who never plan to sell their metal have second thoughts when prices rise precipitously!"

No one had apparently ever borrowed silver for the four years that we required.

The Company didn't start pushing the metal borrowing concept vigorously until late summer and early fall of 1982. "Borrowing doesn't make sense unless you can sell the borrowed metal at more than the cash cost of production at the mine," says Erdahl, "and until September, silver prices were barely above our cash cost of about \$6 per ounce."

However, once prices began to rise, Senior Vice Presidents Herb Campbell and Marv Kaiser began to shuttle to and from New York with increasing frequency, primarily to discuss lines of credit with the Company's bankers. Letters of credit based on these lines serve as collateral for the loans of silver, protecting the lenders in event of default on the loans.

First Silver: The first loan of silver — 300,000 ounces — was obtained in mid-November from a refinery. While metal could have been conveyed to the Company, warehouse receipts were actually transferred. The interest rate was 2-7/8 percent, computed on the daily fair market value of the silver.

Thereafter, the Company moved with dispatch, borrowing 200,000 ounces in late November, 400,000 ounces in December and 700,000 ounces in January and February, 1983. Peak borrowing amounted to 1.6 million ounces.

"We began to repay the silver in March," says Marv Kaiser, "and by June 30 had repaid 200,000 ounces. We're repaying at the rate of about 40,000 ounces per month — 20 percent of our production.

Interest Cut: "The entire borrowing has been executed without a hitch. We reduced our interest expense to about \$600,000 annually, and saved \$1.75 million for the fiscal year, presuming our interest rate on the bank loan had remained at 15 percent. This amounted to a savings of 65 percent," Kaiser notes.

"Where we were previously paying more than \$1 in interest per ounce of production, we are now paying about \$.35. This reduces our cash cost for producing an ounce of silver from about \$6 to \$5!"

Just as important, the Company has hedged its interest cost at a very low level and obtained several other subtle advantages. "If silver prices were to fall below our cost of production, we could buy metal on the open market to replace the silver we borrowed and sold at higher prices," Kaiser says. "Should the price of silver rise, thus increasing the amount of interest to be paid, we would be sheltered by the fact that our remaining production could be sold at greater profit!"

Risk: Are there any risks to this type of borrowing? "You have to be certain that you can replace the borrowed silver," says Erdahl. "Fortunately, the Escalante is an exceptional producer. And we took the additional precautions of taking out business interruption insurance and amassing a large stockpile of ore on the surface. Given all of these steps, we think the silver borrowing is quite safe. It's an approach we'll consider seriously on any future precious metal operation!"

The Company's operations in fiscal year 1983 again centered at the Escalante Silver Mine where production more than doubled over 1982 when the mine and mill were still in the startup phase. Other activities included operation of a small placer gold mine in Alaska and closure of the Bluebird copper mine early in the fiscal year. The Company also maintained a substantial precious metals exploration and development effort throughout the year, with much of the activity concentrated at the Revenue-Virginus Mine, an underground silver property in Colorado. The year was capped by the acquisition of Kentucky-Tennessee Clay Company and Colorado Aggregate Company.

Escalante Silver: Operations at the Escalante Silver Mine exceeded all expectations, with the mine becoming one of the major low-cost silver producers in the country. Located in extreme southwest Utah some 40 miles west of Cedar City, the Escalante complex consists of an underground mine and a mill where ore is crushed, ground and treated with sodium cyanide to produce a precipitate that is refined to form dore' silver. The mine produced about 350,000 tons of ore during the year; 279,205 tons were milled to produce 2,265,923 ounces of silver. Production goal for the year was 2.15 million ounces.

Entrance to the mine is through a decline, and this easy access, combined with good ground conditions, has permitted complete mechanization of the mine. As a result, mine production in 1983 averaged 39 tons per man shift for the underground work force, with production including 349,583 tons of ore and 110,484 tons of waste. Horizontal development during the year totaled 8,204 feet, including 474 feet of decline. The decline has been driven approximately 3,550 feet and now extends some 480 feet below the portal.

End-Slashing: The ore deposit is being mined by end-slashing, a variation of vertical crater retreat mining that involves mining a section of vein between two tunnels 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 top tunnel into the lower one. Explosives are placed in 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 bottom tunnel where it is scooped up by front-end loaders and transported by truck to a stockpile on the surface. The ore mined in 1983 contained about 9.3 ounces of silver per ton; the 150,000-ton stockpile, which includes lower grade ore from the early stages of mine development, averages about 7.5 ounces of silver per ton.

The underground flow of water in the mine ranged from 18,500 to 20,000 gallons per minute, somewhat less than in the prior year. The pumping rate is now about 18,500 gallons per minute, and there is some indication that the increased pumping rates — up to 40,000 gallons per minute — that had been expected as operations reach

lower levels in the mine, may not materialize. This would have a beneficial effect on power costs, which were further reduced in 1983 by a surplus of hydroelectric power in western states.

The mill operated above nominal capacity throughout the year, averaging 794 tons of ore per day in the second half and 764 tons per day for the entire year. Ball and semi-autogenous grinding mills will be equipped with larger electric motors in the course of the 1984 fiscal year to help insure that production is maintained at or above the nominal capacity of 750 tons per day. Mill recovery — the amount of silver recovered from the ore — ran an excellent 81.4 percent during the year. This means that about eight of the approximately 10 ounces of silver in the average ton of ore were recovered. Recovery edged up to 82.6 percent during the

first months of the 1984 fiscal year, helped by a new underflow system that is recovering about 2,000 ounces of silver per month from the mine's tailings pond.

Extensive underground and surface drilling are being conducted at the mine in an effort to extend ore reserves. There is some expectation that the underground diamond drilling, which totaled 26,706 feet in the year just ended, could add as much ore in the new year as is mined. Surface exploration included not only drilling in the area of the mine, but reconnaissance and mapping of

Operations

Silver Production Exceeds Goal; Clay, Aggregate Companies Acquired



Drilling Blast Holes at the Escalante Mine

properties well outside the mine proper.

Golden Eagle Mine

The Company has for the past four seasons — from late May to mid-September — operated a small placer gold mine, the Golden Eagle, some 150 miles southeast of Fairbanks, Alaska. Operations are limited by weather conditions and water supply. In the season that ended in September 1982, 6,100 ounces of gold were recovered; goal for the 1983 season is about 4,700 ounces. The result of extensive drilling on the properties in the season just ended will determine the extent of operations on the properties next season. The Company is also evaluating other gold-bearing prospects in Alaska, with a view toward ultimately expanding its operations in the state.

Bluebird Mine

The Company placed its Bluebird copper mine on standby in October 1982, ending some two decades of operations because of low copper prices. The mine still contains substantial low-grade copper mineralization, but the copper cannot be recovered until copper prices rise significantly above present levels of about 75 cents per

pound. Production during the 1983 fiscal year totaled 3,148,077 pounds.

Revenue-Virginus Mine

The Revenue-Virginus Mine, the Company's best prospect for immediate addition of new precious metal ore reserves, was again the site of a major drilling and development effort during the fiscal year. Activities included some 14,000 feet of underground drilling and the driving of some 3,100 feet of drift (tunnel). As of June 30, 1983, some 65,500 feet of drilling, 3,300 feet of drifting and 12,000 feet of rehabilitation had been done on the property at a cost of about \$4.5 million.

Located near Ouray in southwest Colorado, the Revenue-Virginus was a prolific silver producer in the late 1800s and early 1900s. In the past fiscal year, the Company's development and drilling activity was confined largely to an area 550 feet below the main entry

to the mine. At this juncture, a 2,500-foot drift has been excavated to serve as a platform for drilling above and below the level. Drilling has extended downward some 650 feet through a section thought to have good reserve

Continued on page 10



*Loading Furnace
with Silver Precipitate*



Loaded Ore Truck at the Escalante Mine

Operations (Continued from page 9)

potential. High grade silver veins have been intersected, but the erratic nature of deposition has required that drill hole spacing be much closer than had been planned. The Company has thus decided to extend the drilling program through April of 1984. A test mining program of four or five months duration will also be conducted. Drilling is continuing on another part of the property, with encouraging results to date.

Exploration

The Company also accelerated its search for precious metals in other areas, concentrating primarily on gold and silver properties in the western United States. Some 11,250 feet of drilling was conducted on properties in Idaho, Arizona and Nevada and, in addition, approximately 100 gold and silver properties were examined in the field during the year. Information was also evaluated on another 450 prospects, and research was conducted on more than 5,000 gold and silver occurrences to select favorable targets. At year-end, the Company held approximately 39,000 acres of silver and gold mining claims and leases.

Properties of specific interest during the year were the Mystic gold properties near Phoenix, Arizona, and the Stibnite gold-antimony property near Yellow Pine, Idaho. Eight holes — some 2,350 feet — were completed at the Mystic I property by American Copper and Nickel Company (ACNC), a subsidiary of INCO, under terms of a joint venture agreement. While two of the holes intercepted ore grade gold mineralization that confirmed a zone of previously-drilled mineralization, ACNC elected to withdraw from the exploration program without further expenditure of funds. Only a small portion of the 22,876-acre Mystic properties has been drilled, and the Company continues to believe they have excellent exploration potential.

Eleven holes were completed to further evaluate the potential for gold at the Stibnite property. Studies are continuing on the geologic, metallurgical and economic

aspects of the deposit.

In addition to the Mystic properties, the Company continued to hold two other properties under terms of the Ranchers Gold and Silver Exploration Program formed in 1980 with private investors. The Golden Grizzly is a gold-copper property near Cooke City, Montana that could be mined through an open pit should gold prices increase above present levels. The Adelaide Crown, a gold-silver property in central Nevada, will require additional drilling to determine whether a commercial deposit is present.

Volcanic Rock

Effective January 1, 1983, a subsidiary of the Company, Colorado Aggregate Company of New Mexico (CAC), acquired the business and assets of Colorado

Aggregate Company, a subsidiary of Petroleum Corporation of America. During the last half of the fiscal year, CAC sold approximately 32,000 tons of volcanic rock, principally scoria, for use in landscaping and gas barbecue grills.

Scoria for use as briquettes is mined, crushed, screened and bagged at the Mesita Mine some 50 miles southeast of Alamosa, Colorado. Much of the scoria used in landscaping is mined, crushed and screened at San Antonio Mountain in northern New Mexico and trucked to Blanca, Colorado for bagging and shipping by truck or rail. The principal customers for the briquettes are manufacturers of gas barbecue grills, located principally in the eastern United States. Landscapers and distributors of landscaping materials

located in the United States east of the continental divide and in eastern Canada are the main customers for the scoria used in landscaping.

CAC's business is seasonal, with about three-fourths of all sales falling in the first half of the calendar year. Annual sales should approach 45,000 tons, although recovery of the general economy and an increase in exports could expand volume somewhat. Reserves are extensive, and the mining is elementary, consisting of

Approximately 100 Gold & Silver Properties Were Examined in the Field during the Year.



Drilling at the Revenue-Virginus Mine

removal of the material from open pits with front-end loaders.

Ball Clay

The Company completed acquisition of Kentucky-Tennessee Clay Company (K-T) in the last quarter of the fiscal year and is operating the firm as a subsidiary. K-T mines and ships a complete line of ball clays and has about half the market for this product in the United States. Ball clays are readily molded plastic clays that fire to a light buff color and are easily vitrified (form a glassy surface impervious to most common liquids). The clays are primarily used for such items as pottery, dinnerware, wall tile, electrical insulators, sanitaryware, refractories and abrasives.

K-T can mine, process and blend approximately 30 different grades of clay. Through many years of experience — the company was formed in 1927 — K-T has acquired a high degree of expertise that enables it to meet customer requirements on short notice. The marketing of the clays is directed from the company's headquarters in Mayfield, Kentucky, in cooperation with its

sales office in Alliance, Ohio. All marketing personnel are trained in ceramic engineering or related fields. Exports, primarily to Canada and Mexico, account for about 15 percent of sales.

The ball clay is mined from shallow open pits after drilling and removal of overburden. The clays are mined either by dragline or power shovel, loaded into trucks and hauled to a plant for further processing. Processing consists of shredding the clay, classifying it by grade, hammer or roll milling, drying, and storing at the plant site. The clay can then be shipped in bulk or blended and bagged to meet specific requirements. In some cases, the clay is mixed with water and shipped to customers in slurry form in tanker trucks or rail cars.

K-T mines clay at several locations in western Kentucky and Tennessee and in northwestern Mississippi. Processing plants are located in Mayfield, Kentucky; Gleason and Whitlock, Tennessee; and Crenshaw, Mississippi. K-T has sufficient reserves of the various kinds of clays to last in excess of 20 years at the current rate of production — about 400,000 tons of clay annually.



Bagging Ball Clay

Bagging Scoria Briquettes



The Art of Acquisition

Opportunity doesn't always knock. Sometimes it rings, as it did when Marv Kaiser, the Company's Senior Vice President and Treasurer, answered the phone on a fall day in late September 1982.

"I think we have a deal you might be interested in," Bob Bishop, Vice President at Texas Commerce Bank, Houston, told Kaiser. "It's a scoria operation — Colorado Aggregate — owned by Petroleum Corporation of America."

Bishop went on to say that PCA, which had owned Colorado Aggregate for about a year, had decided to concentrate on the oil and gas business. Bishop, whose bank held a \$4 million note on the property, recommended that Kaiser contact PCA president Gary Draizen.

Homework: "Bishop had done his homework carefully," Kaiser later recalled. "The property was in the right place, was about the right size, and industrial minerals is a business we had already decided to enter. We were keenly interested in the property right from the start."

The volcanic rock produced by Colorado Aggregate is used mainly for landscaping and as briquettes for gas barbecue grills. Operations are located in southern Colorado and northern New Mexico.

Hearing from Bishop of Ranchers' possible interest in acquiring Colorado Aggregate, Draizen wrote to the Company in October 1982, enclosing an information package on the company. This information was passed on to Ranchers' acquisition team, a nine-member group organized early in the year.

The group lost no time evaluating the prospect. Properties were visited, operations reviewed, and reserves confirmed. By early December, Kaiser was again talking to Bishop, this time about terms and conditions of financing the acquisition.

Looked Good: "Everything about the prospect looked good," says Kaiser, "but we were concerned about marketing the product. It involved salesmen, manufacturers' representatives and literally hundreds of customers. In producing and selling copper, uranium, gold and silver, we had had only a few customers and had dealt with most of them directly!"

Opportunities Call, Appear on Computer Printouts

Despite this concern, the making of a deal progressed apace. Bishop arrived for negotiations the second week in December, and soon had a revised financing package ready for review. In final form, it called for the Company to acquire the assets of Colorado Aggregate for \$5.5 million, including assumption of the bank note. The transaction became effective on January 1, 1983.



Stripping overburden from clay deposit with dragline

Everything about the deal, from start to finish, was relatively straightforward. "It once again revealed the value of having good contacts and relationships with members of the banking community," says Kaiser. "When an attractive proposition comes along, they remember you."

If the Colorado Aggregate opportunity came calling in the classical manner, the Company's other acquisition opportunity of 1983 was of a sharply contrasting type. It didn't ring or knock; it appeared on a computer printout.

"When the Board of Directors decided that the Company should diversify into the industrial minerals business, we organized our management acquisition team and began a systematic review of industrial minerals companies," says Lee Erdahl, Chief Executive Officer. "Using the government's Standard Industrial Codes, we obtained a computer list of all public companies of interest.

"Then we screened the list against four criteria we had developed. We were seeking a publicly-held company worth between \$1 and \$50 million, one that had an after-tax return of eight percent on sales, a current assets-liabilities ratio of no less than 2 to 1, and total debt of not more than 25 percent of total assets.

Few Passed: Not surprisingly, only a very few companies passed this test. Kentucky-Tennessee Clay Company, of Mayfield, Kentucky, was one of the few.

The acquisition team then developed another screening tool — a detailed questionnaire that would, Erdahl says, "have told us more about each prospective company than they knew about themselves had every question been answered.

"Then we sent for all of the public documents on the four or five companies still of interest and searched the literature to see what was known about each one, its prospects, and the outlook for its line of business. We analyzed all of this information and eliminated all the names on our list except one — Kentucky-Tennessee Clay Company.

"There was no other prospect that compared with K-T," says Erdahl. "It was highly profitable, had half the U.S. ball clay market, and had little or no debt.

"The only problem was that K-T

didn't want to be acquired. We met with K-T representatives in September 1982, and received a friendly, but firm 'no' to our expression of interest in the company. We were interested only in a friendly merger, so it looked like the deal was off even before it got underway."

Ranchers management continued to maintain contact with K-T directors, setting up a meeting in Mayfield in January with four of them and Malcolm Boaz, head of the First National Bank of Mayfield, trustee for the largest block of K-T stock. It didn't appear, however, that the meeting would lead to much.

But, before the meeting could be held, Louisville Cement Company made a hostile tender offer of \$123 for each share of K-T. K-T countered with an offer of its own: \$140 per share for 25 percent of the company's shares. This was soon topped by the Medusa Cement subsidiary of Crane Company, which offered \$140 per share for all of K-T's shares. Louisville Cement immediately increased its offer to \$148 per share. At this point — February 1983 —

K-T's management invited Ranchers into the competition.

Lee Erdahl remembers thinking at the time that the affair had taken on the aspects of a poker game. "People were anteing up and raising, and you couldn't tell whether they were serious or just bluffing!"

The Deadlock Was Broken When The Company Offered \$175 In Cash Per Share.

K-T opened up its books for inspection, "and we became more convinced than ever that the company was a good buy," says Erdahl. "We immediately offered \$155 in cash per share or \$115 in cash, plus .08 ounce of gold, a combination worth a bit more than \$155 per share.

"The gold created quite a stir; we took \$600,000 worth to Mayfield and Paris, Tennessee and displayed it at the banks. School students and many others showed up to see it. We spent a lot of time with shareholders in Mayfield and Paris, where

K-T had many shareholders. We got to know and like the people there, and they got to know us!"

Unimpressed by this outburst of neighborliness, Louisville Cement raised its offer to \$160 per share. Ranchers matched it with an offer of \$160 cash or \$120, plus .10 ounce of gold. Louisville Cement raised its bid to \$166 per share, followed immediately by a Ranchers offer of \$168 in cash or \$128 in cash, plus .10 ounce of gold. Louisville Cement countered with an offer of \$172 per share, only to be matched the next day by a Ranchers offer of \$172 per share in cash or \$132 in cash, plus .10 ounce of gold.

The deadlock persisted for a few days. It was broken when the Company offered \$175 in cash per share or \$135 in cash and .10 ounce of gold. This tender was accepted by the First National Bank and a Mayfield brokerage firm representing a block of shares, bringing Ranchers interest in K-T to a controlling 50.6 percent. By June 30, the Company had acquired all of K-T's 147,641 shares.



Crushing Volcanic Rock



Mining Clay in Tennessee

Ball Clay

Some 50 million years ago when the Gulf of Mexico was merely an embayment, a long arm of water extended far up through the continent into what is today Western Kentucky and Tennessee. There, clay sediments were deposited before the bay began its slow retreat to the sea. The clays, technically known as hydrous aluminum silicates, had been formed elsewhere by the gradual decay of such rocks as granite and gneiss, then washed into the sea for later deposition. The deposits in Kentucky and Tennessee, the richest and most extensive in the United States, are among some 13,000 acres of property owned or leased by the Company's new subsidiary, Kentucky-Tennessee Clay Company. Clays have been used by man for thousands of years — Egyptian paintings of 3,500 B.C. depict the use of wheels to make clay pottery — but the term "ball clay" is thought to date back only some 300 years to the clay mines of Devon and Cornwall, England. There, the English miners removed the moist, plastic clay with spades, hand-molding the material into basketball-size spheres for easy handling and carrying. The term ball clay is now the generic name for dark, plastic clays that, when fired in a kiln, turn a light buff or white color and produce a high strength product. The K-T clays — which come in some 30 different grades — are typically overlain with sand and lignite (the dark material in the adjoining photo). These layers are stripped away with scrapers and draglines (such as the one pictured) and the clay loaded into trucks. This moist material — it typically contains about 23 percent water — is transported to a plant, where it is shredded, hammered or rolled into a powder, and then shipped to customers for conversion into hundreds of products ranging from sanitaryware to potter's clay to tile used in heat shields for spacecraft.

Ranchers
Exploration and Development Corporation
and Subsidiaries
Consolidated Balance Sheets
June 30, 1983 and June 30, 1982

Assets	1983	1982
Current Assets		
Cash	\$ 1,845,996	\$ 849,540
Certificates of deposit and short-term investments, at cost which approximates market	<u>16,986,538</u>	<u>10,073,836</u>
	18,832,534	10,923,376
Trade accounts receivable (less allowance of \$187,000 in 1983)	3,024,717	1,080,711
Claim for refund of federal income taxes		1,580,844
Inventories — Note B	4,457,669	2,045,131
Prepaid expenses	<u>1,960,939</u>	<u>1,712,249</u>
TOTAL CURRENT ASSETS	28,275,859	17,342,311
Property, Plant and Equipment, at cost — Note F		
Land	3,632,636	1,735,994
Buildings and equipment	50,786,134	39,172,035
Mineral interests, mining claims, leases and permits	8,595,316	897,224
Deferred intangible mining and development costs	<u>12,672,338</u>	<u>11,834,751</u>
	75,686,424	53,640,004
Allowances for depreciation, depletion and amortization	<u>11,373,332</u>	<u>10,099,815</u>
	64,313,092	43,540,189
Idle Facilities — Note C	2,764,650	2,498,676
Other Assets — Note D	<u>3,628,519</u>	<u>2,695,132</u>
	<u>\$98,982,120</u>	<u>\$66,076,308</u>

See notes to consolidated financial statements.

Ranchers
Exploration and Development Corporation
and Subsidiaries
Consolidated Balance Sheets
June 30, 1983 and June 30, 1982

	1983	1982
Liabilities and Stockholders' Equity		
Current Liabilities		
Trade accounts payable	\$ 1,768,106	\$ 1,246,712
Federal and state income taxes	3,260,571	331,219
Dividends payable	410,790	171,818
Accrued expenses (1983 — \$1,679,685; 1982 — \$836,796) and other liabilities	2,079,501	1,201,465
Current portion of long-term debt	<u>878,794</u>	<u>113,588</u>
TOTAL CURRENT LIABILITIES	8,397,762	3,064,802
Reserve for Mine Reclamation	902,565	
Long-Term Debt — Note F	25,581,080	770,926
Deferred Income Taxes — Note E	7,792,347	5,642,347
Proceeds From Sale of Future Production — Note G	14,180,284	19,870,522
Stockholders' Equity — Notes F and I		
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	6,662,016	6,636,674
Retained earnings	<u>34,547,500</u>	<u>29,239,210</u>
	42,812,650	37,479,018
Less cost of Common Stock in treasury:		
1983 — 119,998 shares; 1982 — 132,598 shares	684,568	751,307
	<u>42,128,082</u>	<u>36,727,711</u>
	<u>\$98,982,120</u>	<u>\$66,076,308</u>

Ranchers
Exploration and Development Corporation
and Subsidiaries

Statements of Consolidated Income
Years Ended June 30, 1983,
June 30, 1982 and June 30, 1981

Revenue:	1983	1982	1981
Net sales	\$50,033,525	\$34,559,491	\$26,447,921
Uranium royalties	1,294,415	1,787,438	2,492,878
Gain on metal futures contracts		525,439	2,232,807
Interest and other	<u>1,495,591</u>	<u>2,032,530</u>	<u>1,739,714</u>
	52,823,531	38,904,898	32,913,320
Deductions from revenue:			
Cost of products sold	35,618,449	30,740,350	23,692,400
Exploration, conservation and maintenance of mining properties	1,279,367	775,675	1,347,997
Interest expense	2,764,440	1,093,927	165,607
Administrative and general expense	<u>3,516,700</u>	<u>2,871,579</u>	<u>2,523,796</u>
	<u>43,178,956</u>	<u>35,481,531</u>	<u>27,729,800</u>
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	9,644,575	3,423,367	5,183,520
Income taxes — Note E:			
Current	900,000	300,000	598,000
Deferred	<u>2,150,000</u>	<u>50,000</u>	<u>652,000</u>
	<u>3,050,000</u>	<u>350,000</u>	<u>1,250,000</u>
INCOME FROM CONTINUING OPERATIONS	6,594,575	3,073,367	3,933,520
Provision for loss on discontinued operation, less applicable income tax benefits — Note C		<u>3,599,269</u>	
NET INCOME (LOSS)	<u>\$ 6,594,575</u>	<u>\$ (525,902)</u>	<u>\$ 3,933,520</u>
Income (loss) per common share:			
Income from continuing operations	\$2.13	\$.99	\$1.27
Loss on discontinued operation		<u>(1.16)</u>	
NET INCOME (LOSS)	<u>\$2.13</u>	<u>\$ (.17)</u>	<u>\$1.27</u>
Weighted average number of common shares outstanding	3,102,296	3,095,152	3,091,150

See notes to consolidated financial statements.

Ranchers
Exploration and Development Corporation
and Subsidiaries

Statements of Consolidated
Stockholders' Equity
Years Ended June 30, 1983,
June 30, 1982 and June 30, 1981

Common Stock	1983	1982	1981
BALANCE AT BEGINNING AND 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	\$ 6,636,674	\$ 6,616,389	\$ 6,393,599
Proceeds in excess of cost of treasury shares sold under stock option plan	<u>25,342</u>	<u>20,285</u>	<u>222,790</u>
BALANCE AT END OF YEAR	<u>\$ 6,662,016</u>	<u>\$ 6,636,674</u>	<u>\$ 6,616,389</u>
Retained Earnings			
Balance at beginning of year	\$29,239,210	\$30,643,603	\$27,514,690
Net income (loss) for the year	6,594,575	(525,902)	3,933,520
Dividends declared (1983 — \$.4168 per share; 1982 — \$.2866 per share; 1981 — \$.264 per share):			
Cash	(150,777)	(131,347)	(598,452)
Gold and silver	<u>(1,135,508)</u>	<u>(747,144)</u>	<u>(206,155)</u>
BALANCE AT END OF YEAR	<u>\$34,547,500</u>	<u>\$29,239,210</u>	<u>\$30,643,603</u>
Treasury Stock			
Balance at beginning of year	\$ 751,307	\$ 736,948	\$ 1,040,941
Shares purchased for treasury (1983 — 400 shares; 1982 — 3,500 shares)	6,919	52,776	
Shares sold under option plan (1983 — 13,000 shares; 1982 — 7,100 shares; 1981 — 56,182 shares)	<u>(73,658)</u>	<u>(38,417)</u>	<u>(303,993)</u>
BALANCE AT END OF YEAR	<u>\$ 684,568</u>	<u>\$ 751,307</u>	<u>\$ 736,948</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, 1983,
June 30, 1982 and June 30, 1981

Source of Funds	1983	1982	1981
Income from continuing operations	\$ 6,594,575	\$ 3,073,367	\$ 3,933,520
Add charges not requiring working capital:			
Provision for depreciation, depletion and amortization	7,667,178	2,619,562	2,335,077
Provision for deferred income taxes	<u>2,150,000</u>	<u>50,000</u>	<u>652,000</u>
FUNDS FROM CONTINUING OPERATIONS	16,411,753	5,742,929	6,920,597
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		<u>6,765,342</u>	
FUNDS USED BY PROVISION FOR LOSS ON DISCONTINUED OPERATION		<u>(113,580)</u>	
TOTAL FROM OPERATIONS	16,411,753	5,629,349	6,920,597
Proceeds from sale of future production		14,137,171	5,733,351
Addition to reclamation reserve	66,565		
Increase in long-term debt	22,000,000		
Decrease in other assets	143,742	3,310,539	3,095,217
Proceeds from treasury stock	99,000	58,702	526,783
Carrying amount of property, plant and equipment disposals	<u>1,165,284</u>	<u>1,606,432</u>	<u>131,792</u>
TOTAL	39,886,344	24,742,193	16,407,740
Application of Funds			
Decrease in long-term debt	463,420	113,629	111,728
Additions to property, plant and equipment	3,782,268	18,609,068	18,294,746
Purchase of Common Stock for treasury	6,919	52,776	
Dividends declared	1,286,285	878,491	804,607
Decrease in proceeds from sale of future production	5,690,238		
Purchase of Colorado Aggregate Company assets:			
Property, plant and equipment and other assets purchased	4,251,200		
Long-term debt assumed	<u>(3,268,474)</u>		
Purchase of Kentucky-Tennessee Clay Company:			
Property, plant, equipment and other assets purchased	22,915,000		
Long-term debt and other liabilities assumed	<u>(841,100)</u>		
TOTAL	<u>34,285,756</u>	<u>19,653,964</u>	<u>19,211,081</u>
Increase (Decrease) in Working Capital	<u>\$ 5,600,588</u>	<u>\$ 5,088,229</u>	<u>\$ (2,803,341)</u>

See notes to consolidated financial statements.

Statements of Changes in Consolidated Financial Position (Continued)

Changes in Components of Working Capital	1983	1982	1981
Increase (decrease) in current assets:			
Cash, certificates of deposit and short-term investments	\$ 7,909,158	\$ 5,117,262	\$ (5,940,335)
Trade accounts receivable	1,944,006	(192,889)	93,441
Claim for refund of federal income taxes	(1,580,844)	138,706	1,442,138
Inventories	2,412,538	(765,369)	1,434,883
Prepaid expenses	<u>248,690</u>	<u>(513,950)</u>	<u>934,483</u>
	10,933,548	3,783,760	(2,035,390)
Increase (decrease) in current liabilities:			
Note payable		(325,000)	325,000
Trade accounts payable	521,394	(981,307)	43,468
Federal and state income taxes	2,929,352	(101,101)	432,320
Dividends payable	238,972	(63,349)	46,798
Other liabilities	878,036	161,636	157,677
Current portion of long-term debt	<u>765,206</u>	<u>4,652</u>	<u>(237,312)</u>
	5,332,960	(1,304,469)	767,951
Increase (Decrease) in Working Capital	<u>\$ 5,600,588</u>	<u>\$ 5,088,229</u>	<u>\$ (2,803,341)</u>

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements
June 30, 1983

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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 15-40 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. Such revisions occurred in 1983 and, as a result, net income was reduced by approximately \$524,000 (\$.17 per share), for the year ended June 30, 1983. Idle facilities are carried at the lower of cost less allowance for depreciation, depletion and amortization or net realizable value. Provisions for depreciation, depletion and amortization are not made while operations are suspended.

Reclamation of Mining Areas: Minimum standards for mine reclamation have been established by various governmental agencies which affect the operations of the

Company. A reserve for mine reclamation is provided for future costs of restoring abandoned and currently disturbed mining areas. The amount of the reserve is based upon estimates of cost to comply with existing reclamation standards.

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. Investment tax credits are accounted for by the use of the flow-through method.

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 period and, when dilutive, additional shares assuming the exercise of stock options.

Reclassifications: Certain items for 1982 have been reclassified to conform to the 1983 presentation.

NOTE B — INVENTORIES

Inventories consist of the following:

	June 30	
	1983	1982
Finished mineral products	\$ 911,341	\$ 529,672
Minerals in stockpiles	3,282,850	1,253,674
Supplies	283,478	261,785
	<u>\$4,457,669</u>	<u>\$2,045,131</u>

NOTE C — IDLE FACILITIES

The Company's Board of Directors adopted a plan of disposal during the year ended June 30, 1982 for the Tungsten Queen Mine and mill complex located near Henderson, North Carolina. The plan provides for the 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 assets remaining at June 30, 1983 are recorded in the balance sheet at \$808,650, 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 October 1982, the Company suspended operations at the Bluebird Copper Mine and placed the property on a standby basis. The carrying value of usable

assets and mineral interests at June 30, 1983 is \$422,261. The Company has also suspended operations at two uranium operations with a total carrying amount of \$1,533,739 and \$1,578,676 at June 30, 1983 and 1982, respectively. Management is of the opinion that the costs will be recovered through 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 \$641,286 and \$2,234,415 at June 30, 1983 and 1982, respectively. 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 \$2,057,565 and \$339,461 at June 30, 1983 and 1982, respectively.

NOTE E — INCOME TAXES

Investment tax credits of \$34,266, \$233,254 and \$367,867 were used to reduce the 1983, 1982, and 1981 respective provisions for income taxes.

At June 30, 1983, the Company has unused investment tax credit carryforwards for financial reporting and income tax purposes of approximately \$2,300,000, which, if not utilized, will expire in 1989 through 1998.

The current and deferred components of the income tax provision are as follows:

	Year Ended June 30		
	1983	1982	1981
Current tax expense:			
Federal	\$ 700,000	\$300,000	\$548,000
State	200,000		50,000
TOTAL	<u>\$ 900,000</u>	<u>\$300,000</u>	<u>\$598,000</u>
Deferred tax expense:			
Federal	\$2,070,000	\$ 20,000	\$552,000
State	80,000	30,000	100,000
TOTAL	<u>\$2,150,000</u>	<u>\$ 50,000</u>	<u>\$652,000</u>

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:

	1983	1982	1981
Federal tax expense at statutory rate	46%	46%	46%
Statutory depletion in excess of cost depletion	(17)	(43)	(22)
State income tax less federal tax benefit	2	1	2
Investment tax credit	(1)	(7)	(7)
Provision for minimum tax	2	13	5
	<u>32%</u>	<u>10%</u>	<u>24%</u>

Components of deferred income tax expense resulted from use of the following:

	Year Ended June 30		
	1983	1982	1981
Unrealized gains (amortization) on hedging transactions		\$ (702,788)	\$ (175,996)
Development costs deducted for income tax purposes, deferred for financial reporting purposes	\$1,258,039	1,795,880	1,564,894
Amortization of development costs expensed for tax purposes in prior years	(633,957)	(892,757)	(552,122)
Deferred minimum tax resulting from utilization of net operating loss			(130,618)
Investment tax credit	1,444,343	(233,254)	(24,422)
Provision for minimum tax	(357,622)	(1,971)	(123,924)
Loss on disposal of property	392,773		
Other	46,424	84,890	94,188
	<u>\$2,150,000</u>	<u>\$ 50,000</u>	<u>\$ 652,000</u>

NOTE F — LONG-TERM DEBT AND LINES OF CREDIT

Long-term debt consists of the following:

	June 30	
	1983	1982
Term loan from commercial bank maturing January 31, 1985 with interest payable monthly	\$22,000,000	
Note payable to commercial bank, payable in quarterly installments of \$200,000, plus interest	3,586,667	
Contract payable in annual installments of \$102,574, including interest at 9%, secured by land carried at \$1,622,472	698,081	\$734,546
Other	175,126	149,988
	<u>26,459,874</u>	<u>884,514</u>
Less portion classified as current liability	<u>878,794</u>	<u>113,588</u>
	<u>\$25,581,080</u>	<u>\$770,926</u>

The term loan bears interest through January 31, 1984 at any of the following rates, at the Company's option, (i) the bank's prime rate; (ii) 3/4% over the London Interbank Offered Rate ("LIBOR"), or (iii) 1% over the effective dealer bid rate (adjusted for reserve require-

ments and assessments by the Federal Deposit Insurance Corporation) for certificates of deposit of the bank of as yet undetermined maturities, and thereafter through maturity at any of the following rates, at the Company's option (i) 1/8% over the prime rate; (ii) 1% over LIBOR, or (iii) 1-1/4% over the certificate of deposit rate. The Company has agreed to certain restrictions including those relating to a maximum \$2,000,000 limitation on dividends in any fiscal year, maintenance of minimum working capital and net worth levels, and a maximum limitation of other borrowings.

The note payable carries interest at the bank's prime rate plus 1/4% to December 31, 1984 and at the prime rate plus 1-1/4% from December 31, 1984 to December 31, 1987. Assets totaling approximately \$5.6 million are pledged as security on the note.

In May 1983, the Company's wholly-owned subsidiary, REDCO Silver, Inc. ("REDCO"), entered into a credit arrangement with a group of commercial banks whereby the banks have agreed to provide the letters of credit to secure silver borrowings described in Note G. REDCO has secured its obligations to the banks through a production payment arrangement with respect to silver production at the Escalante Silver Mine. The maximum aggregate commitment of the banks to REDCO under the credit arrangement is \$20 million for either letters of credit or cash advances or a combination thereof. At June 30, 1983, letters of credit amounting to \$13,900,000 have been issued. REDCO pays a commitment fee of 3/4 of 1% per annum on the unused portion of such commitment, which declines as described below, and a fee of 3/4 of 1% per annum on the total amount of letters of credit outstanding from time to time. In the event cash advances are made through this arrangement, they will bear interest at the banks' prime rate plus 3/4 of 1% through June 30, 1984, and at such prime rate plus 7/8 of 1% for the period July 1, 1984 until termination of the commitment. The aggregate commitment of the banks declines over the term of the arrangement in equal monthly reductions over four years.

In addition, the Company had lines of credit available from commercial banks totaling \$40,500,000 at June 30, 1983. The lines are unsecured, are payable upon demand, bear interest at the bank's prime rate, and expire within one year. There have been no significant amounts borrowed on these lines, although letters of credit totaling \$5,000,000 at June 30, 1983 have been issued in connection with metal borrowings described in Note G.

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 totaling \$19,870,522. During the year ended June 30, 1983, the Company made arrangements under which it repaid the outstanding balance of the production payment financing. In order to accomplish this, the Company borrowed silver at interest rates much lower than the existing prime rate, and sold the borrowed metal for cash which was used to prepay the outstanding balance of the production payment. As of June 30, 1983, a total of approximately 1,405,000 troy ounces was outstanding under these arrangements. This metal has been sold for a total of approximately \$14,180,000 which is classified as proceeds from sale of future production. The silver borrowed is scheduled to be repaid during the period September 1983 through October 1986.

NOTE H — LEASES

Total rent expense for all leases approximated \$185,000, \$187,000 and \$307,000 for the years ended June 30, 1983,

1982, and 1981.

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

NOTE I — STOCK OPTIONS

At June 30, 1983, 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, 10,800 were covered by options outstanding and 38,450 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 Plan		Other		Total Shares
	Shares	Price	Shares	Price	
Outstanding July 1, 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
Year ended June 30, 1983:					
Granted	3,000	16.00	13,000	16.00-32.50	16,000
Cancelled			(1,000)	16.00	(1,000)
Exercised			(13,000)	6.00-8.63	(13,000)
Outstanding June 30, 1983	10,800	8.25-24.50	22,000	8.25-32.50	32,800
Exercisable June 30, 1983	7,800	8.25-24.50	10,000	8.25-8.88	17,800

NOTE J — 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, previously the Chairman and Chief Executive Officer of the Company. Maxie L. Anderson was also previously Vice-President of Anderson Development Corporation. The payments by the Company to Anderson Development Corporation during the fiscal year ended June 30, 1981 amounted to \$1,558,593.

In connection with the termination of the mining con-

tract, the Company purchased equipment for \$650,000 on contract. The final contract payment was made December 15, 1981.

A director of the Company is the president and principal shareholder of Escalante Silver Mines Company, Inc. ("Escalante") from which the Company leases the Escalante Silver Mine. The term of the lease extends until December 1992, and the Company has the right to extend the lease for three successive ten year periods. During the year ended June 30, 1983, Escalante received advance royalties of \$96,000 and production royalties of \$899,665 plus 15,151 ounces of silver for such period, including a credit of \$344,480 for advance royalties previously paid. In addition to these payments, Escalante will receive 10% of the net profit from the operation commencing

at such time as the Company has recovered its investment in the project. This director has served as a consultant to the Company during the year ended June 30, 1983 in connection with its operations at the Escalante Silver Mine. The consulting fee is \$2,000 per month plus

out-of-pocket expenses. Total payments of \$26,735 were made for the year ended June 30, 1983. The lease and consulting agreement were entered into before this individual became a member of the Company's Board of Directors.

NOTE K — BUSINESS SEGMENTS AND MAJOR CUSTOMERS

	Year Ended June 30		
	1983	1982	1981
Net sales to unaffiliated customers			
Silver	\$21,745,584	\$ 8,300,562	
Uranium	15,970,212	15,762,095	\$12,678,944
Gold	2,522,123	1,828,496	1,370,217
Copper	2,198,539	8,668,338	12,323,890
Scoria	3,787,178		
Clay	3,809,889		
Other			74,870
TOTAL SALES	\$50,033,525	\$34,559,491	\$26,447,921
Operating profit (loss):			
Silver	\$ 6,434,351	\$ 438,838	
Uranium	5,656,170	2,362,744	\$ 2,459,225
Gold	(66,753)	(82,282)	58,368
Copper	264,482	1,328,340	467,705
Scoria	1,576,414		
Clay	669,530		
Other	(119,118)	(228,499)	(229,777)
TOTAL OPERATING PROFIT	\$14,415,076	\$ 3,819,141	\$ 2,755,521
Other income:			
Uranium royalties	\$ 1,294,415	\$ 1,787,438	\$ 2,492,878
Gain on metal futures contracts		525,439	2,232,807
Interest and other	1,495,591	2,032,530	1,739,714
TOTAL OTHER INCOME	\$ 2,790,006	\$ 4,345,407	\$ 6,465,399
Other deductions:			
Exploration, conservation and maintenance of mining properties	\$ 1,279,367	\$ 775,675	\$ 1,347,997
Interest expense	2,764,440	1,093,927	165,607
Administrative and general expense	3,516,700	2,871,579	2,523,796
TOTAL OTHER DEDUCTIONS	\$ 7,560,507	\$ 4,741,181	\$ 4,037,400
INCOME BEFORE INCOME TAXES	\$ 9,644,575	\$ 3,423,367	\$ 5,183,520

Continued next page

	June 30		
	1983	1982	1981
IDENTIFIABLE ASSETS			
Uranium (Idle facilities: 1983 — \$1,533,739; 1982 — \$1,578,676; 1981 — \$1,593,332)	\$ 2,479,309	\$ 4,824,125	\$ 8,381,628
Copper (Idle facilities: 1983 — \$422,261)	481,610	1,559,228	4,894,529
Silver	37,876,555	39,157,001	21,578,508
Gold	1,160,780	1,316,618	2,864,981
Scoria	5,245,980		
Clay	25,604,737		
Other	48,121	334,386	526,430
	72,897,092	47,191,358	38,246,076
General corporate assets	25,276,378	17,964,950	12,053,937
Assets of Tungsten Queen Mine held for disposition (see Note C)	808,650	920,000	7,685,342
	<u>\$98,982,120</u>	<u>\$66,076,308</u>	<u>\$57,985,355</u>
CAPITAL EXPENDITURES			
Copper	\$ 15,900		\$ 995,162
Silver	3,353,884	\$18,370,436	15,359,308
Gold	192,908	96,157	14,554
Scoria	15,179		
Clay	12,852		
Other		7,154	113,525
General corporate assets	191,545	135,321	1,812,197
	<u>\$ 3,782,268</u>	<u>\$18,609,068</u>	<u>\$18,294,746</u>
DEPRECIATION, DEPLETION AND AMORTIZATION			
Uranium		\$ 39,280	\$ 76,804
Copper	\$ 469,011	426,555	1,089,583
Silver	5,548,817	1,217,054	284,752
Gold	325,934	474,889	511,553
Scoria	182,906		
Clay	678,252		
Other	30,657	41,762	29,795
General corporate assets	431,601	420,022	342,590
	<u>\$ 7,667,178</u>	<u>\$ 2,619,562</u>	<u>\$ 2,335,077</u>

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.

For the year ended June 30, 1983 the Company had sales to one major customer: uranium — \$15,970,212.

For the year ended June 30, 1982 the Company had sales to two major customers as follows: uranium — \$15,149,748 and copper — \$4,345,779.

For the year ended June 30, 1981 the Company had sales to four major customers as follows: uranium — \$6,388,793 and \$5,273,713; copper — \$3,481,441 and \$3,342,575.

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

The following is a summary of unaudited quarterly results of operations for the years ended June 30, 1983 and 1982:

	1983 Quarter Ended			
	September 30	December 31	March 31	June 30
Net sales	\$10,258,827	\$9,417,837	\$13,274,122	\$17,082,739
Other income	562,900	1,083,557	606,706	536,843
Gross profit	1,913,944	2,592,174	4,877,262	5,031,696
Income before income taxes	655,670	1,915,074	3,625,488	3,448,343
Net income	<u>\$ 425,670</u>	<u>\$1,374,074</u>	<u>\$ 2,396,488</u>	<u>\$ 2,398,343</u>
Net income per common share	<u>\$.14</u>	<u>\$.44</u>	<u>\$.77</u>	<u>\$.78</u>
	1982 Quarter Ended			
	September 30	December 31	March 31	June 30
Net sales	\$ 7,206,826	\$8,805,175	\$10,439,687	\$ 8,107,803
Other income	1,077,740	700,455	738,603	1,828,609
Gross profit	1,107,598	1,131,063	653,691	926,789
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>

NOTE M — BUSINESS COMBINATIONS

As of April 7, 1983, the Company had acquired more than 80% of the outstanding shares of Common Stock, par value \$5.00 per share, of Kentucky-Tennessee Clay Company, and in June 1983 the Company acquired the remaining equity interest. Kentucky-Tennessee mines ball clay that is used to produce pottery, dinnerware, wall tile, electrical insulators, and sanitaryware. The total cost of this acquisition approximated \$26,100,000 and was accounted for as a purchase. Results of operations from April 7, 1983 are included with the operating results of the Company. Pro forma results of operations assuming completion of this acquisition as well as the sale of additional shares of Common Stock (as described in Note N) on July 1, 1981, follow:

Effective January 1, 1983, the Company acquired assets and assumed certain liabilities of Colorado Aggregate Company, which mines and sells volcanic rock products. The total cost of this acquisition approximated \$5,500,000 and was accounted for as a purchase. Operations for the six months ended June 30, 1983 are included with the operating results of the Company. The pro forma results of operations assuming this acquisition had occurred on July 1, 1981 are not readily determinable.

NOTE N — SUBSEQUENT EVENT

On July 22, 1983, the Company completed the sale of 495,000 shares of its Common Stock through a public offering. Proceeds from this offering, amounting to \$15,882,075 before deduction of related expenses estimated at \$330,000, were used to reduce the \$22,000,000 term loan outstanding at June 30, 1983 (see Note F). The pro forma results of operations assuming the shares had been issued on July 1, 1981 are included in Note M.

	Year Ended June 30	
	1983	1982
Revenue	\$82,870,180	\$53,287,097
Income from continuing operations	7,832,332	4,778,186
Per share	2.18	1.33
Net income	7,832,332	1,188,917
Per share	2.18	.33

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, 1983 and 1982, 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, 1983. 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.

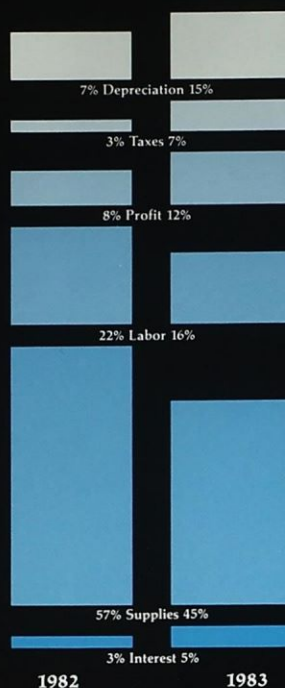
In our opinion, the financial statements referred to above present fairly the consolidated financial position of Ranchers Exploration and Development Corporation and subsidiaries at June 30, 1983 and 1982, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended June 30, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney

Denver, Colorado
August 5, 1983

Continued from Inside Cover
with a hammer. After further cleaning with an air chisel, the buttons are shipped off-site for final refining. The slag is recycled in the mill's grinding circuit to recover any beads of silver entrapped in the slag.

"More than 99.5 percent of the silver in the precipitate ultimately ends up in the dore," says Scheffel. "And that's a very satisfactory rate of recovery!"



Distribution of Income

The Company's gross revenues totaled \$52,823,531. This income was used in the following manner: \$23,755,926 or 45% went to suppliers for the various goods and services needed to conduct the Company's business.

\$8,309,149 or 16% was spent on labor, including social security and insurance for the Company's approximately 500 employees.

\$7,667,178 or 15% was provided for depreciation, amortization, and depletion of property, plant, and equipment.

\$3,732,263 or 7% was paid in federal, state, and local taxes.

\$2,764,440 or 5% was paid to various financial institutions for interest on borrowed funds.

These expenditures totaled \$46,228,956, leaving a net profit of \$6,594,575 on continuing operations, or 12 percent of the gross revenues for the year. This amounted to \$2.13 per share on the 3,102,296 shares of common stock (weighted average outstanding) held by the Company's 1200 stockholders of record.

Stock Information

The Company had 3,086,269 shares of common stock outstanding as of June 30, 1983. High and low prices of the stock by quarter during the last two fiscal years:

1982		
Quarter	High	Low
First	\$53.75	\$38.50
Second	43.87	26.25
Third	29.25	12.50
Fourth	17.25	11.00
1983		
First	\$28.75	\$11.75
Second	33.62	24.00
Third	42.37	31.75
Fourth	38.37	32.37

The Company effected a 3 for 2 split of its Common Stock in the form of a 50 percent stock dividend, with a record date of September 30, 1983 and an issue date of October 14, 1983.

Dividends were paid in silver or gold during each quarter of the 1983 fiscal year (see back cover). A dividend in silver has been declared for the first quarter of the 1984 fiscal year; record date: September 30, 1983; distribution date: November 10, 1983. The dividend will be paid at the rate of .01 troy ounces of silver per share (\$1.188 per share cash equivalent) for a minimum of 500 shares. Holders of lesser amounts will receive cash.

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 10, 1983, 2 p.m.,
at the Company offices.

Management

Leland O. Erdahl, formerly President and Chief Operating Officer of the Company, became President and Chief Executive Officer in July 1983 following the death of Maxie L. Anderson and was also named to the Board of Directors. Paul A. Matthews, formerly Vice President, Operations, was promoted to Senior Vice President, Operations, in May 1983 and James M. Rosel, formerly Assistant Vice Secretary and Assistant Secretary, was promoted to Secretary, in November 1982. Michael L. Anderson, son of Maxie Anderson, and Richard L. Dunlap, Jr., a former Chairman of the Board of Kentucky-Tennessee Clay Company and an attorney in Paris, Tennessee with the firm of Dunlap, Dunlap, Hessing and Ventimiglia, were elected to the Board of Directors in August 1983. Richard J. Stoehr, mining consultant and a former officer and director of Homestake Mining Company, joined the Board in January 1983.

Directors

MICHAEL L. ANDERSON
Project Manager, Rancho Caballero Development Company

SAMUEL S. ARENTZ
President, Escalante Silver Mines Company, Inc.

FRANK COOLBAUGH
Chairman, Peabody Coal Company

RICHARD L. DUNLAP, Jr.
Senior Partner, Dunlap, Dunlap, Hessing & Ventimiglia

LELAND O. ERDAHL
President and Chief Executive Officer, Ranchers Exploration and Development Corporation

ROBERT M. HALDEMAN
General Manager, Sociedad Minera Pudahuel Limitada

EDWARD E. MONTEITH
Chairman and Chief Executive Officer, Thomson-Monteith

JOHN E. MOTICA
Manager, Special Projects, Ranchers Exploration and Development Corporation

RICHARD J. STOEHR
Mining Consultant

EDWARD McL. TITTMANN
Mining Consultant

Executive Officers

LELAND O. ERDAHL
President and Chief Executive Officer

HERBERT M. CAMPBELL II
Senior Vice President

MARVIN K. KAISER
Senior Vice President and Treasurer

PAUL A. MATTHEWS
Senior Vice President, Operations

DAVID K. HOGAN
Vice President, Engineering

JAMES M. ROSEL
Secretary

Officers

DAVID C. FITCH
Manager of Exploration and Assistant Vice President

PEGGY M. McDONOUGH
Assistant Secretary

RICHARD W. RICE
Assistant Treasurer

RANDOLPH E. SCHEFFEL
Assistant Vice President

Kentucky-Tennessee Clay Company

RALPH E. RHODES
President

RODGER L. RANDOLPH
Secretary-Treasurer



Maxie L. Anderson

1934-1983

Maxie L. Anderson, who was killed with his co-pilot Don Ida in a balloon accident in West Germany on June 27, 1983, had been associated with the Company since its earliest days. He joined the Board of Directors in 1957, was named Manager of the Company in 1962 and became President and Chief Executive Officer in 1963. He was named Chairman of the Board and Chief Executive Officer in 1980.

He began his association with the mining industry in 1953 by prospecting for uranium near the Arctic Circle. He came to New Mexico in 1955, where he began acquiring uranium properties in the Ambrosia Lake area for Anderson Development Corporation. He received his BS degree in industrial engineering from the University of North Dakota in 1956.

Mr. Anderson was one of the world's foremost gas balloonists, having covered about 15,000 miles in the course of some 500 hours aloft. He was one of three men who made the first transatlantic balloon flight in 1978 in the Double Eagle II, and he made the first crossing of the North American Continent with his son Kris in 1980 in the Kitty Hawk balloon. He had made three attempts to fly around-the-world in a balloon named the Jules Verne, and at the time of his death, at age 48, was planning a fourth attempt in 1984.



Assistant Treasurer Dick Rice with 13,000 ounces of silver dividend bars, about 17 percent of the 76,008 ounces of silver paid in dividends by the Company in fiscal year 1983

Silver & Gold Dividends

The Company continued to pay quarterly dividends in gold and silver in fiscal year 1983, making three payments in silver and one in gold. Value of the metal at the time of dividend declaration was \$920,940.13. Cash — a total of \$131,081.80 — was paid for fractional numbers of shares and to shareholders holding insufficient shares to qualify for the dividends in metal. Payments by quarter: first, 21,589 ounces of silver paid at the rate of .00833 troy ounces per share with five ounces paid for 600 shares and one ounce for each additional 120 shares; dollar value, \$144,818.30; additional cash, \$26,999.80; second, 27,223 ounces of silver paid at the

rate of .01 troy ounces per share with five ounces paid for 500 shares and one ounce for each additional 100 shares; dollar value, \$170,143.07; additional cash, \$22,748.74; third, 547.255 ounces of gold paid at the rate of .00625 grams per share with 2.5 grams paid for each 400 shares or one ounce for each 4,977 shares; dollar value, \$223,875.48; additional cash, \$29,815.83; fourth, 27,196 ounces of silver paid at the rate of .01 troy ounces per share with five ounces per 500 shares and one ounce for each additional 100 shares; dollar value, \$382,103.28; additional cash, \$51,517.51.