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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of

The Securities Exchange Act of 1934

For the fiscal year ended June 30, 1979, Commission File Number 1-6367

RANCHERS EXPLORATION AND DEVELOPMENT CORPORATION
(Exact name of registrant as specified in its charter)

New Mexico	85-0118535
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1776 Montano Rd., NW - P. O. Box 6217
Albuquerque, New Mexico — 87107
(Address of principal executive offices) — (zip code)

Registrant's telephone number, including area code: (505) 344-3542

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each Exchange on which registered
Common Stock ($.50 par value)	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

5-3/4% convertible subordinated debentures due 1989
(Title of Class)

As of June 30, 1979, the registrant had outstanding 1,408,504 shares of its Common Stock, not including 133,724 shares held in the treasury of the Company.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

ITEM 1. BUSINESS

General

Ranchers Exploration and Development Corporation was incorporated in New Mexico in 1954. The Company acquired and developed its first producing mine in 1964 and since that time has been active in minerals exploration and production, primarily in uranium and copper.

The Company owns or operates several uranium mines located in New Mexico and Utah, and receives uranium royalties from properties owned by the Company or in which it holds a royalty interest but which are operated by others. The Company's principal producing uranium mine is the Johnny M Mine near Grants, New Mexico, jointly owned with HNG Oil Company. The Company also owns the Small Fry Mine near Moab, Utah, at which uranium ore has been mined and stockpiled pending completion of milling arrangements. In addition, the Company produces cathode copper at its Bluebird Mine near Miami, Arizona. The Company is also engaged in extensive uranium exploration, primarily through a joint project with Chaco Energy Company, a subsidiary of Texas Utilities Company; and is test mining a gold prospect in Alaska and a silver prospect in Utah.

The following table illustrates the relative importance of various aspects of the Company's business from which it derived its income for the fiscal year ended June 30, 1979, and for the preceding four fiscal years:

PRODUCT SUMMARY 1975-1979

	1979	1978	1977	1976	1975
NET SALES					
Uranium sales to unaffiliated customers	$ 24,789,267	$ 21,464,130	$ 4,561,682	$ 277,832	$ - -
Copper sales to unaffiliated customers	9,125,191	8,654,520	11,939,311	11,985,277	15,236,414
Other sales to unaffiliated customers	3,079,124	2,389,388	1,783,421	1,960,489	1,476,757
TOTAL SALES	$ 36,993,582	$ 32,508,038	$ 18,284,414	$ 14,223,598	$ 16,713,171
OPERATING PROFIT (LOSS)					
Uranium	$ 5,816,818	$ 7,026,463	$ 477,291	$ - -	$ - -
Copper	167,626	(399,424)	859,865	1,743,256	3,910,183
Other	776,800	390,555	207,438	167,142	138,405
TOTAL OPERATING PROFIT	$ 6,761,244	$ 7,017,594	$ 1,544,594	$ 1,910,398	$ 4,048,588
OTHER INCOME					
Uranium royalties	$ 1,704,088	$ 1,829,397	$ 2,744,191	$ 1,796,714	$ 1,135,786
Interest and other	799,384	107,061	132,325	157,249	485,611
TOTAL OTHER INCOME	$ 2,503,472	$ 1,936,458	$ 2,876,516	$ 1,953,963	$ 1,621,397
OTHER DEDUCTIONS					
Exploration, conservation & maintenance of mining properties	$ 1,479,221	$ 1,160,093	$ 846,858	$ 812,729	$ 822,319
Administrative and general expense	1,463,930	1,362,185	851,007	968,808	946,607
Interest expense	292,723	764,788	432,526	407,151	385,574
TOTAL OTHER DEDUCTIONS	$ 3,235,874	$ 3,287,066	$ 2,130,391	$ 2,188,688	$ 2,154,500
INCOME BEFORE INCOME TAXES	$ 6,028,842	$ 5,666,986	$ 2,290,719	$ 1,675,673	$ 3,515,485
IDENTIFIABLE ASSETS					
Uranium	$ 10,126,231	$ 17,230,368	$ 9,840,023	$ 5,048,637	$ 1,521,612
Copper	5,099,600	5,513,995	6,814,474	7,624,088	6,898,315
Other	622,934	280,846	498,082	946,221	549,424
	15,848,765	23,025,209	17,152,579	13,618,946	8,969,351
General corporate assets	16,500,195	7,067,195	7,467,103	6,219,113	7,999,582
Assets of Tungsten Queen Mine held for disposition (see Note C)	7,682,436	7,683,089	7,685,849	7,702,846	7,742,475
TOTAL ASSETS	$ 40,031,396	$ 37,775,493	$ 32,305,531	$ 27,540,905	$ 24,711,408
DEPRECIATION, DEPLETION & AMORTIZATION					
Uranium	$ 3,585,940	$ 3,097,735	$ - -	$ - -	$ - -
Copper	970,264	1,166,815	1,007,935	924,451	1,046,063
Other	30,736	642,893	109,751	165,023	144,911
General corporate assets	119,947	157,369	144,259	136,030	108,494
CAPITAL EXPENDITURES					
Uranium	$ 149,413	$ 8,058,417	$ 984,175	$ 384,762	$ - -
Copper	258,496	692,113	370,607	1,993,685	455,979
Other	15,500	48,551	19,953	52,730	284,740
General corporate assets	74,053	409,057	65,122	836,225	208,412

Uranium royalties

The Company receives most of its royalties from uranium ores mined from certain of its properties located in the Ambrosia Lake District near Grants, New Mexico, and leased by the Company to Kerr-McGee Corporation. The leases covering the properties continue in effect so long as mining operations are conducted on such properties. The Company also receives a 2% royalty interest from uranium ores mined from certain other properties in the Ambrosia Lake District which are owned by others.

The Company has recently agreed to settle a longstanding dispute with one of the leaseholders regarding one of the mine properties which has not provided significant royalty income in recent years. The effect of this settlement, if approved by the lessees' board of directors, will be to increase royalty income from the particular mine property. In addition, the Company will receive, in four installments during the fiscal year ending June 30, 1980, cash payments totalling over $1.3 million. These payments constitute an agreed settlement of additional royalties due the Company for production during the five years preceding April 1, 1979.

The Company's other principal lessee from which royalties are received has been delivering uranium production under relatively low priced sales contracts, a factor which has caused royalties to be substantially less than they would be if production were being delivered at current market prices. This situation is being discussed with the lessee and other royalty holders who also receive royalties from the same properties. The Company cannot predict the outcome of such discussions, but believes that they may ultimately result in higher royalties.

The Company does not have current independent or verified ore reserve estimates for any of such properties. The Company has no reason to believe, however, that the royalties which it will receive during the next several years will materially decrease from the range of royalties received during the last five fiscal years and believes that royalties in 1980 will exceed those received in 1979, in part for the reasons discussed above.

Uranium mining

The Company and HNG Oil Company ("HNG"), a subsidiary of Houston Natural Gas Corporation, each own an undivided 50% interest in a uranium mining lease and unpatented mining claims covering about 960 acres (Section 7 and the east one-half of Section 18) located near San Mateo, New Mexico, and known as the "Johnny M Mine".

The mining claims, covering approximately 320 acres, were acquired from United Nuclear Corporation, as of June 15, 1972, for a purchase price of $575,000. United Nuclear also reserved a royalty equal to $.20 per pound of U_3O_8 contained in ore or water mined or removed from the property. The claims are also subject to a royalty in favor of third parties equal to $.08 per pound of U_3O_8.

The lease covering the balance of the property was granted by the Santa Fe Pacific Railroad Company, as lessor, and has a primary term of ten years from October 10, 1971. The lease will be automatically renewed for additional successive three-year terms if ore is being produced in commercial quantities at the end of any term. The Lessor receives a production royalty, the percentage of which is on a sliding scale ranging from 11.5% to 16.5% with the actual percentage to be determined according to the "mine value per dry ton" as defined in the lease.

The joint ownership of such properties by the Company and HNG results from an earlier joint exploration venture conducted by the Company, Houston Natural Gas Corporation, and Combustion Engineering, Inc. HNG is the successor to the latter parties, each of whom owned 25% of the venture, with the Company being the operator and owning the other 50%. The costs of developing and operating the mine are to be shared equally by the Company and HNG. The Company is the operator for the venture pursuant to the terms of a joint operating agreement entered into between the Company and HNG.

The Company and HNG have entered into a toll milling contract with Kerr-McGee Corporation under which ore mined from the Johnny M Mine is being converted into U_3O_8 in concentrate. The terms of the contract provide milling capacity through 1985 and should be adequate for the foreseeable output of the mine.

The processing charge to the Company and HNG for having their ore toll milled is determined using a base price per ton of ore and is adjusted based upon chemical consumption in processing, increased material and labor costs, and changes in the national economy based upon generally recognized statistics. In addition, the Company and HNG may be required to pay their pro-rata share of reclamation expenses incurred by Kerr-McGee with respect to mill tailings, which payments, if any, are not at present considered likely to be material in amount.

The Johnny M Mine deposits are located at a depth of about 1,400 feet below the surface, and mining is accomplished by underground methods. The deposits on Section 7 were originally estimated to contain approximately 350,000 tons of ore at an average grade of about .50% U_3O_8, or a total of about 3.5 million pounds of contained U_3O_8; the east one-half of Section 18 was originally estimated to contain approximately 320,000 tons of ore at an average grade of about .29% U_3O_8, or a total of about 1.8 million pounds of contained U_3O_8. About 95% of the U_3O_8 contained in ore mined is recovered in toll milling and returned to the Company and HNG in the form of U_3O_8 concentrate, which is the product sold.

Experience to date indicates that the ore in the mine is sometimes discontinuous and difficult to follow, and ground conditions in the mine are also worse than originally anticipated. These factors, which have been compounded by a shortage of skilled personnel in the area, result in reduced productivity and considerable dilution of ore with waste. The net effect is that the grade of ore mined is substantially lower than originally anticipated and costs of production are higher. In addition, more tons of ore must be mined to produce a given quantity of U_3O_8 in concentrate, although there should not be a significant reduction in the total pounds of U_3O_8 in concentrate which will be produced from the mine.

During the year ended June 30, 1979, the mine produced about 141,000 tons of ore at an average grade of about .24% U_3O_8, or about 675,000 pounds of U_3O_8 contained in ore. At June 30, 1979, the mine was estimated to contain about 3.3 million pounds of U_3O_8 in ore, which the Company anticipates mining at about the same grade as the ore produced in 1979. The Company also hopes to increase ore production in the year ending June 30, 1980 so that production of U_3O_8 in concentrate will reach or exceed approximately 750,000 pounds annually.

Production from the Johnny M Mine was originally committed to Gulf Oil Corporation ("Gulf Oil") under a 1972 sales agreement, and Gulf Oil had agreed to resell the first 2,998,000 pounds of U_3O_8 in

concentrates produced from the mine to Gulf States Utilities Company ("Gulf States"). The sales agreement was the subject of extensive litigation among Gulf Oil (and its affiliate, General Atomic Company), the Company and HNG, and the litigation was finally settled during the year ended June 30, 1979. The litigation had been previously settled as to the 2,998,000 pounds to be delivered to Gulf States, and a description of the sales arrangements under which such production is being delivered to Gulf States is set forth herein under the caption "Marketing". With respect to the balance of the mine production and settlement of the litigation with Gulf Oil and General Atomic, the terms of the settlement provide, among other things, for (i) termination of the original sales agreement with Gulf Oil referred to above, and (ii) payment by the Company and HNG to General Atomic for each pound of U_3O_8 in excess of the first 2,998,000 pounds produced from ore mined from the Johnny M Mine, sold and paid for up to a maximum of 10,000,000 such pounds. The payment provided for by the agreement is a base price which is adjusted upwards or downwards on a cumulative basis by an amount equal to 50% of the deviation of the cost of production and the price received for U_3O_8 from specified amounts. At a cost of production of $23.00, and a price of $43.00 per pound U_3O_8, the price to be paid to General Atomic would be $10.00 per pound for the first 2,002,000 pounds over the initial 2,998,000 pounds so produced, sold and paid for and $8.00 per pound for each such additional pound up to a maximum of 5,000,000 additional pounds. As the amount of the payment is dependent upon future production, production costs and the market price of uranium, neither the precise amount of the payment per pound nor the total number of pounds which will be produced and sold can now be determined.

See "Marketing" for a description of sales arrangements for the production as to which General Atomic is entitled to receive payments.

The Company and Chaco Energy Company ("Chaco"), a subsidiary of Texas Utilities Company, each own an undivided 50% interest in a lease covering a property known as the Hope Mine. During the fiscal year ended June 30, 1979, production totaled approximately 63,000 tons of ore at an average grade of about .16% U_3O_8 or about 196,000 pounds of contained U_3O_8. Both the Company and Chaco have committed their shares of Hope production to United Nuclear Corporation. Production is being sold in the form of ore. It now appears that mining operations at the Hope will be completed prior to December 31, 1979, unless additional ore reserves are developed.

The Company also owns unpatented lode mining claims, known as the Small Fry Mine, near Moab, Utah. Drilling on this property by the Company and others has delineated about 375,000 tons of uranium-bearing material at an average in place grade of approximately .115% U_3O_8 or about 868,000 pounds of contained U_3O_8. Until August, 1978, the Company was mining and stockpiling material from the deposit; and at August 31, 1978, approximately 163,000 tons at a grade of about .08% U_3O_8 had been mined and placed into stockpile. The Company believes this will be about the average grade mined for the entire deposit, although some of the tonnage contained in the deposit may not be recoverable because of normal mine dilution and because some material may be required to be left in support pillars. Production was obtained by underground mining methods and access to the mine workings is by direct entry through an adit which declines slightly from the portal. The Company has not yet made milling arrangements for stockpiled material, and it will probably be necessary to make such arrangements before sales commitments can be made or mining operations resumed. In addition, the Company cannot determine the extent to which pounds of U_3O_8 contained in material mined will be recovered or returned to the Company until milling arrangements have been finalized.

Uranium mill tailings processing

On October 1, 1976, the Company exercised an option to acquire two deposits of old uranium mill tailings from Foote Mineral Company, a subsidiary of Newmont Mining Corporation. One deposit was located near Naturita, Colorado and the other is located near Durango, Colorado, and is estimated to contain about 1.4 million tons of material at a grade of about .04% U_3O_8 and 0.34% V_2O_5 (uranium and vanadium minerals respectively). The production operations at Naturita have now been completed.

The Company originally planned to move the Naturita solvent extraction processing plant and the equipment in use there to Durango, where it would have been used to reprocess the Durango tailings deposit, beginning in mid or late 1979. Delays and, in the opinion of the Company, unreasonable requirements imposed by governmental agencies in connection with obtaining an operating license for the Durango project resulted in a decision by the Company, in December 1978, to suspend further efforts to obtain an operating license at Durango, at least for the present time. However, in late 1978, the Uranium Mill Tailings Radiation Control Act of 1978 was signed into law by President Carter. This legislation provides, among other things, for the acquisition and disposal of old deposits of uranium mill tailings situated primarily in the Western United States, including specifically the deposit at Durango. Under the legislation, it appears that the State of Colorado, with 90% federal funding, could purchase the tailings from the Company and that the Company (and any other interested parties) would be given an opportunity to reprocess the tailings as part of the overall project for permanent disposal of the material. Final regulations and procedures for implementation of such legislation have not yet been adopted, however, and there are not at present any federal or state funds budgeted for the project. The Company cannot determine when and if such funding will be available, and there are uncertainties concerning other provisions of the legislation. However, it is possible that the Company might proceed with the Durango project at some future date and could then make use of the Naturita plant if it were not previously disposed of. No attempt has been made to determine the resale value of the processing plant, but, as it was designed to be movable, the Company believes that it will ultimately recover, either through use or resale, a substantial portion of its unamortized value.

Exploration

During the fiscal year ending June 30, 1979, the Company conducted exploration primarily through ventures with other companies.

The Company now manages three ventures for mineral exploration with other companies as follows:

1. In October, 1974, the Company entered into a project for uranium exploration with Texas Utilities Fuel Company ("TUFCO") a subsidiary of Texas Utilities Company. TUFCO has assigned its interests in the project to Chaco Energy Company ("Chaco"), a wholly-owned subsidiary. Subject to certain limitations, land acquisition expenses are shared equally and, commencing October 1, 1977, exploration expenses are contributed 85% by Chaco and 15% by the Company. During the fiscal year ended June 30, 1979, expenditures for exploration totaled about $1.297 million, including property rental expense, acquisition costs and related items of expense. Expenditures during the one-year period which began October 1, 1979, are scheduled to be about $1.25 million. This venture will conclude its present exploration activities at September 30, 1980.

Each party owns an undivided 50% of the working interest in properties held pursuant to this venture. With respect to properties on which exploration has delineated commercially mineable uranium ore reserves which are to be exploited, each party pays 50% of the mine development and operating expenses and is entitled to receive 50% of the mine production. Subject to certain limitations, Chaco may elect to acquire 80% of the Company's share of any production on the same terms and conditions as the Company disposes of the other 20% of its share to third parties.

2. On May 20, 1974, the Company entered into a joint venture agreement with Urangesellschaft MBH & Co., KG ("UG"), a West German company, for the exploration for, and the development of, uranium. Each party originally owned an undivided 50% working interest in the properties held under this venture, which concluded its active phase at the end of calendar year 1976; and exploration costs were contributed 10% by the Company and 90% by UG. However, as a result of exploration expenses contributed by the Company during 1978, the UG working interest has been reduced to approximately 11%, and the Company's has been increased to approximately 89%. No determination has yet been made with respect to any further revision of the working interests resulting from exploration expenses incurred by the Company in 1979.

The UG venture originally provided for total exploration and related expenditures of approximately $3 million to be contributed 10% by the Company and 90% by UG. This amount was substantially expended by the end of calendar year 1976 as noted above. The venture agreement does not provide for additional exploration programs after such amount has been expended. It cannot now be determined to what extent, if any, additional exploration will be conducted on properties subject to the UG venture or, in the event additional exploration is conducted, the percentage of the cost which will be borne by the Company or the percentage of the undivided working interest which will be retained by the Company. Similarly, the Company cannot now determine the percentage of development and operating expenses it would bear with respect to production operations for a venture property on which exploration delineates commercially mineable reserves, or the percentage of production which the Company would be entitled to receive. In the event that the Company and UG do not agree upon further exploration programs, including apportionment of costs, each party will continue to own its undivided interest in venture properties until such properties have been abandoned or otherwise disposed of.

3. In January, 1974, the Company entered into a venture agreement with Frontier Resources, Inc. and Marline Oil Company for gold exploration and development. The active phase of this venture concluded during the fiscal year ended June 30, 1976, and the only properties now held by the venture are leased patented and unpatented mining claims located in Alaska. The Company owns an undivided 55% of the working interest in the venture properties, and the other two parties own the other 45%. In accordance with the terms of the venture agreement, all subsequent expenditures under this venture will be contributed 55% by the Company and 45% by the other two parties. Any production that may be obtained will be shared in the same proportion. However, Frontier and Marline elected not to participate in the test mining program the Company conducted during the summer of 1979 and will each receive only 9% of the net profits of such program, if any, after such time as the Company has recovered the cost of the program, including any capital investment. This pilot program, which was concluded in September, 1979, involved processing about 40,000 yards of gold-bearing gravels which should result in the recovery of about 700 ounces of gold. Results of the program are being evaluated to determine mining costs and the reliability of ore grade estimates

resulting from the exploration conducted in 1974 and 1975. If the results of this analysis are positive and if the price of gold holds at recent levels in excess of $350 per ounce, a full-scale mining operation would be conducted at these properties during the summer of 1980.

In addition to exploration conducted under the above ventures, the Company and HNG Oil Company have been drilling on a section of land which corners the Johnny M Mine properties. See "Uranium Mining". The property is held pursuant to a lease that is similar to the lease covering Section 7 of the Johnny M Mine, and, on the basis of surface drilling to date, the Company estimates that the property contains approximately 428,000 tons of uranium mineralization in place at an average grade of about .14% U_3O_8, or about 1.1 million pounds of contained U_3O_8. Drilling will continue to determine the extent of this deposit, but it now appears that the uranium mineralization encountered may be sufficient to justify commerical operations.

The Company also leases a property known as the Escalante Silver Mine, which is located in southwestern Utah. The property consists of patented and unpatented lode mining claims and two leases granted by the State of Utah. The Company's lease is for a term expiring in 1992, subject to rights of renewal if there is production, and requires an advance royalty payment of $96,000 annually. Advance royalties are a credit against production royalties, which are to be paid at the rate of 8% of the net smelter returns, as defined in the lease. The Company and the lessor have recently agreed, however, to an arrangement whereby the royalty rate will be at 6% for a substantial part of mine production if (i) the Company delivers 5,000 shares of Common Stock to the lessor on or before June 1, 1980 and (ii) commits, on or before September 1, 1982, to place the property into commercial production. A third party holds a 3% royalty interest in the mine properties; and the lessor also holds a 10% carried net profits interest, as defined in the lease, in the mine. Neither of these interests are payable until the Company has recovered its investment in the property. A substantial amount of exploration and development work has been performed on this property over the past 20 years by several major mining companies. The Company estimates that the property contains approximately 1.8 million tons of silver mineralization at an average grade slightly in excess of 10 troy ounces per ton. The grade varies throughout the deposit, and the Company has commenced a pilot mining project to verify mineralization and grade, determine estimated cost of mining and obtain bulk samples for metallurgical work. The mine will produce large volumes of water, and the pilot project should also answer the question of how easily the water can be handled and the cost of doing so.

Copper Mining

The Company is now producing cathode copper (containing in excess of 99.95% copper) at its Bluebird Copper Mine, an open-pit operation located near Miami, Arizona. The Bluebird Copper Mine consists of several groups of patented and unpatented lode mining claims and millsites covering approximately 400 acres, all of which are owned by the Company.

The Company produces its cathode copper through the use of heap leaching and a Solvent Extraction-Electrowinning process which operates in three steps. In the first step, an organic mixture attracts and concentrates the copper contained in leach solutions produced by heap leaching. The organic mixture containing the copper is then separated from the leach solution and mixed with a high-strength sulfuric acid solution which strips the copper from the organic mixture. The acid solution containing the concentrated copper then flows

directly into the electrowinning plant where it is circulated through cells containing thin copper starting sheets. Electric current is passed through the copper-bearing solution, causing copper to be deposited on the copper starting sheets. These sheets gradually thicken to form cathodes weighing approximately 150 pounds.

The Company estimates that at July 1, 1979, the Bluebird deposit contained approximately 60 million tons of oxide copper mineralization at an average grade of about .50% copper. During the fiscal year ended June 30, 1979, the Company produced nearly 9.9 million pounds of copper. However, ore mining operations at Bluebird had been curtailed from October, 1977 through January, 1979, in order to reduce or eliminate losses resulting from the then low price of copper. During the curtailment of mining operations removal of overburden and some related mining of ore continued as well as production from ores previously mined and placed in leach heaps. Copper prices have since improved and the Company resumed full mining operations in February, 1979 and expects to reach full production late in 1979.

Tungsten mine

The Company's Tungsten Queen Mine properties, located near Henderson, North Carolina, cover approximately 1,700 acres. Of this amount, the Company has leased the minerals underlying 231 acres and owns in fee the minerals underlying approximately 1,500 acres.

The Company has constructed a concentrating mill at the property having a feed capacity of approximately 600 tons of ore per day. Principal buildings on the property are the main office building at the site (containing approximately 6,000 square feet), the hoist house, and the mill building.

The Tungsten Queen is an underground tungsten mine with the principal vein structure extending to a depth in excess of 1,700 feet below the surface. The principal tungsten mineral in the mine is huebnerite (a manganese tungsten oxide) associated with iron sulphide along with minor amounts of a lead/silver sulphide.

Tungsten mineralization at the property is disseminated throughout the principal vein structure and is estimated to total approximately one million tons at an average grade of .50% WO_3. In August, 1971, mining and milling operations were halted and the operation placed on a standby basis as a result of a substantial decline in the market price of tungsten. The current market price is considerably higher than prices received by the Company while the mine was in operation, and the Company continues to review various alternatives for the mine and mill facilities.

Marketing

Pursuant to an agreement entered into on September 30, 1976, in settlement of certain litigation, the Company and HNG have agreed to sell to Gulf States Utilities Company ("Gulf States") approximately three million pounds of uranium concentrate to be produced from ores to be mined from the Johnny M Mine. The terms of the agreement provide for a minimum price of $27.55 per pound of U_3O_8 delivered, and the pricing provisions contain a formula whereby such price will be increased to some degree by reason of inflation in the economy occurring after July, 1976, and further increased by an amount equal to slightly less than 45% of any increases in the market price of uranium over $40 per pound after calendar year 1976. The agreement also provides that the Company and HNG will not be required to deliver in the event

that uranium from the Johnny M Mine cannot be produced economically. Approximately 1.8 million pounds of U_3O_8 had been delivered pursuant to this agreement through June 30, 1979. The average price per pound sold pursuant to this agreement during the fiscal year ended June 30, 1979, was $32.39 and such sales to Gulf States accounted for approximately $12,231,000 of the Company's gross income during that year. The Company estimates that production from the Johnny M Mine will be committed to the fulfillment of this agreement through 1980.

The Company and HNG are currently conducting negotiations with respect to the sale of another two million pounds of U_3O_8 (approximately) which should ultimately be produced from the Johnny M Mine.

The Company estimates that all production from the Johnny M Mine, following fulfillment of the agreement with Gulf States discussed above, will, based upon present reserve estimates, be committed to this agreement and that deliveries will be made at the rate of approximately 600,000 to 750,000 pounds per year during the calendar years 1981 through 1983.

The entire production of U_3O_8 from the Naturita property (see the subcaption "Uranium mill tailings processing" above) was committed to Virginia Electric and Power Company, which accounted for approximately $9,600,000 of the Company's gross income for the fiscal year ended June 30, 1979.

The Company's cathode copper produced at the Bluebird Copper Mine has not been certified for delivery to the New York Commodity Exchange and, depending upon market conditions, will sell at slight premiums or discounts from the Exchange's base quotation. The principle use of the Company's cathode copper is by brass mills for copper tubing fabrication. Recently sales have been made to various customers, with the unit price to be based on the New York Commodity Exchange quotation for the month of delivery, and as hedge sales in the commodities futures market. As of September 19, 1979, the Company had contracted to deliver approximately 3,600 tons of copper through May, 1980 at an average price of approximately $.91 per pound, f.o.b. point of delivery.

During the fiscal year ended June 30, 1979, sales of cathode copper to Cerro Sales Corporation (the only customer for the Company's cathode copper which accounted for in excess of 10% of the Company's gross income during such fiscal year) amounted to approximately $4,674,000.

Competition

The Company competes with substantially larger producers in the sale of its copper production and with both smaller and larger producers in the sale of its uranium production. The Company does not believe that it is a material factor in either market, and the price it receives for such production depends to a great extent upon market conditions over which it has no control.

Inasmuch as the Company does not independently own a processing mill for uranium-bearing ores, the principal area of competition in connection with uranium production is in obtaining toll milling capacity so that uranium-bearing ores can be processed into a uranium concentrate commonly called "yellowcake." Although uranium-bearing ores are generally marketable as such, they are not fungible and their marketability is limited. Yellowcake is generally considered fungible and has a very broad market.

With respect to the acquisition of mineral interests and exploration activities, which in terms of continuing growth and success may be the most important area of the Company's activities, the Company competes with numerous persons and companies, many of which are substantially larger than the Company and have considerably greater resources. The Company believes that it has improved its competitive position in minerals exploration by entering into ventures with other parties. See the subcaption "Exploration" above.

Environmental regulation

On June 13, 1979, the United States Environmental Protection Agency (the "EPA") issued a finding of violation and order alleging that the Company's operations at the Bluebird Copper Mine resulted in the discharge of a pollutant (industrial wastewater) into a stream from two unauthorized points on December 18, 1978. The order states that the Company must apply for a National Pollutant Discharge Elimination System ("NPDES") permit to discharge industrial wastes. The order also requires the Company to provide information as to the location of facilities and discharge points at the mine, to describe the existing treatment, if any, and disposal of wastewater, to provide information on past discharges, if any, and to report and monitor any future discharges. The Company is contesting the jurisdiction of the EPA to issue the finding and order and cannot now determine when or how the matter will ultimately be resolved. However, if the Company is required to obtain the NPDES permit, it may be subject to certain quantitative limits on various contaminants contained in mine waters and possibly in run-off waters and might have to initiate water treatment programs and take additional measures with respect to water containment.

The EPA has also attempted to require the Company to obtain a NPDES permit in order to discharge mine waters from the Johnny M Mine into a nearby arroyo. Should the EPA prevail in its attempt, the Company might be required to implement additional water treatment programs or to expand those already in use. The Company is contesting the issuance of the proposed permit but cannot determine when or how the matter will ultimately be resolved.

The Company is unable at this time to estimate the capital or operating costs of any such improvements or programs which may be required to be implemented at the Bluebird Copper Mine or the Johnny M Mine.

Employees

As of June 30, 1979, the Company and its subsidiaries employed approximately 350 persons. Of this number, approximately 40 are employed as office, administrative or exploration personnel at the home office and others are employed as follows: 55 at the Bluebird Copper Mine, 216 at the Johnny M Mine, 28 at the Hope Mine and two by Ran-Con Corporation. The remainder are employed in connection with exploration, evaluation or maintenance of various mineral properties.

Management

The executive officers and the directors of the Company are as follows:

Name	Age	Position
Maxie L. Anderson	45	President and Director
John E. Motica	54	Senior Vice President, Geology and Director

Name	Age	Position
Herbert M. Campbell II	35	Vice President and Secretary
Leland O. Erdahl	50	Vice President, Finance
David K. Hogan	40	Vice President, Engineering
Paul A. Matthews	55	Vice President, Operations
Marvin K. Kaiser	38	Treasurer
Frank Coolbaugh	70	Director (Consultant to the mining industry; Chairman of Peabody Coal Company)
Edward E. Monteith, Jr.	57	Director (Chief executive officer and manager of Thomson-Monteith, a partnership formed to engage in oil and gas exploration and production)
Edward McL. Tittmann	73	Director (Consultant to the mining industry)
P. S. Cross	57	Director (Vice-President, Kerr Addison Mines Limited, a company engaged in mineral exploration and development)
Robert M. Haldeman	62	Director (President, Minerec Corporation, a producer of chemical flotation reagents and other specialty chemicals used in ore processing)

With respect to the executive officers of the Company, the following information is presented as to their background and experience:

Maxie L. Anderson - President - Mr. Anderson was elected to the Company's board of directors in 1957, became manager of the Company in 1962, and assumed his present position in 1963. Mr. Anderson has in excess of 20 years of experience in the mining industry, beginning with exploration for uranium near the Arctic Circle in 1953. He has been active in uranium exploration in New Mexico since 1955, when he began acquiring properties for Anderson Development Company, later a part of Kerr-McGee Corporation. Mr. Anderson holds a BS degree in industrial engineering from the University of North Dakota, 1956.

John E. Motica, Senior Vice-President, Geology. Mr. Motica joined the Company as Vice-President, Geology in 1967, and has headed its exploration and mineral property evaluation program since that time. He directed the joint exploration venture which discovered the Section 7 uranium deposit in the Ambrosia Lake district in 1968 and became Senior Vice-President, Geology, in May, 1974. He was elected to the Board of Directors in November, 1975.

Prior to joining the Company, Mr. Motica served as chief geologist with Union Carbide's Colorado Plateau Operations from 1954-1967. This position involved direction of the company's exploration activities for uranium-vanadium in the Plateau area. Mr. Motica holds an Engineer of Mines degree from Colorado School of Mines, 1948.

Paul A. Matthews, Vice-President, Operations - Mr. Matthews returned to the Company in September, 1974 after serving as mine manager at Kerramerican's operations at Blue Hill, Maine since 1971. In 1971 he was general manager of Ranchers' Tungsten Queen Mine. Previously he served with Braden Copper (Chile), Craigmont Mines, Kaiser Steel, Denison Mines and United Nuclear-Homestake Partners. He holds a BS degree in mining engineering, Missouri School of Mines (1950) and is responsible for all mining and development operations of the Company.

Leland O. Erdahl, Vice-President, Finance - The Company's chief financial officer, Mr. Erdahl joined the Company in 1970 following service with the Atomic Energy Commission and United Nuclear Corporation. From 1957-65, he served in the Grand Junction, Colorado office of the AEC, first as an auditor and later as supervisor of divisions involved in auditing, negotiating, and administering uranium procurement contracts. In 1965, he became chief, Audit Planning and Program Branch, AEC Headquarters, Germantown, Maryland, leaving in 1967 to join United Nuclear in Santa Fe, New Mexico as manager, Finance and Administration, Mining and Milling Division. Mr. Erdahl holds a BS degree in business from the College of Santa Fe, 1970 and is a Certified Public Accountant.

David K. Hogan, Vice-President, Engineering - Mr. Hogan joined the Company in 1968 as mine and plant engineer at the Bluebird Mine, subsequently serving as general manager of the Big Mike Mine, chief engineer, and manager of engineering and construction. He was previously employed by Phelps Dodge Corporation, Inspiration Consolidated Copper Company and Bechtel Corporation. He holds a BS degree in mining engineering from the University of Arizona (1962) and is responsible for all engineering projects undertaken by the Company. He assumed his present position in May, 1974.

Marvin K. Kaiser, Treasurer - A Certified Public Accountant, Mr. Kaiser is primarily responsible for the Company's accounting operations, including the preparation of financial statements and income tax reporting. He is also involved in coordinating sales and shipments of products, inventory controls, budgeting and planning. Mr. Kaiser joined the Company in 1969 as controller and assumed his present position in May, 1974. He served as chief accountant and production control manager for the Envirco Division of Becton-Dickinson & Co. from 1967-69 and as a staff accountant with Ernst & Ernst from 1963-67. Mr. Kaiser holds a BS degree in accounting from Southern Illinois University, 1963.

Herbert M. Campbell II, Vice-President and Secretary - Mr. Campbell serves as the Company's chief in-house counsel and, as such, directs the preparation and administration of all legal matters involving the Company, including assignment and coordination of work performed by the Company's general counsel. Mr. Campbell joined the Company as a staff attorney in 1967, became secretary in 1968 and assumed his present position in May, 1974. He received his Juris Doctor degree from the University of New Mexico School of Law in 1967. He is a member of the New Mexico State Bar.

ITEM 2. SUMMARY OF OPERATIONS

Management's discussion and analysis

The Company's gross income increased from $34,444,496 for the year ended June 30, 1978 to $39,497,054 for the year ended June 30, 1979. Net income increased from $3,916,986 to $4,328,842 for the same periods. The principal reason for the increase in gross income was the increase of $3,649,330 in sales of U_3O_8 and vanadium from operations at the Company's Durita project for the reprocessing of old uranium mill tailings. Sales of copper and sales of ore from Hope Mine production also increased ($470,671 and $1,335,471, respectively) and for the first time the Company experienced significant income from interest on investments ($657,925). The increase in copper revenue was the direct result of increased prices as total production declined during 1979. The increased Hope Mine revenues resulted from an increase in production and from higher grade ore. These increases were offset in part by declines in uranium royalties ($125,309 less in 1979), in sales of U_3O_8 from Johnny M Mine production ($77,307 less in 1979) and in revenues from the Company's mine contracting subsidiary ($763,460 less in 1979). The increase in net income resulted primarily from increased production and higher grade ore at the Hope Mine (an increase of approximately $1,070,000, pre-tax, in 1979), a net profit on sales of copper after a loss on copper operations in the 1978 period (a profit of $167,626, pre-tax, in 1979 as against a loss of $399,424, pre-tax, in 1978) and a combination of lower interest expense and significant interest income in 1979 ($365,202 interest income net of interest expense, pre-tax, in 1979 as against $689,076 interest expense net of interest income in 1978). Profitability of the Johnny M Mine operations decreased in 1979 (a decrease of $2,190,987, pre-tax) because the mine produced 27% fewer pounds of U_3O_8 in concentrate as the result of constraints stemming from an accident at the mine and delay in bringing one ore body into production on schedule. As a high percentage of mine costs are fixed, the lower production resulted in increased unit production costs. Total revenues, however, were only slightly less than for the 1978 period as the result of 1979 sales of concentrate produced in 1978.

Exploration and related expenses increased in 1979, primarily as the result of increased expenditures by the Company on properties held jointly by the Company and a West German company (see the subcaption "Exploration"). The increase in administrative and general expenses in 1979 was principally the result of the effects of inflation, higher salaries to officers and employees and increased professional fees and expenses incurred in connection with litigation.

The Company's gross income increased from $21,160,930 for the fiscal year ended June 30, 1977 to $34,444,496 for the year ended June 30, 1978. Net income increased from $1,490,719 to $3,916,986 for the same periods. The principal reasons for the increase in gross income were the increase of more than $8 million in the period due to

greater production at the Johnny M Mine and the commencement of operations at the Company's Durita project for the reprocessing of old uranium mill tailings, which added nearly $9 million to gross income. Offsetting these increases were declines in copper sales from the Bluebird Mine (about $4.7 million less in 1978) and uranium royalties (about $800,000 less in 1978) received primarily from Kerr-McGee Corporation. Bluebird sales were less because of lower copper production and lower market prices for copper. In this regard, as discussed below under the caption "Copper Mining," the lower copper prices resulted in a curtailment of production at the Bluebird Mine for most of the year. The Kerr-McGee royalties were lower primarily because of lower prices received by Kerr-McGee from sales of uranium. With respect to net income, the Bluebird Mine lost about $250,000 (pre-tax) in 1978 compared to a profit of over $1 million (pre-tax) in 1977. The Johnny M approached its productive capacity in 1978 and earned over $5 million (pre-tax), compared to about $500,000 (pre-tax) in 1977. Also, in 1978, the Durita operation contributed about $2 million to net income.

Exploration and related expenses increased over $500,000 in 1978, principally because the Company increased its level of activity. Interest expense was greater in 1978 because of increased borrowings incurred in financing the Durita uranium mill tailings project. Administrative and general expense was also greater in 1978 principally as the result of higher costs in three areas: (i) professional fees and expenses incurred in connection with litigation; (ii) increased salaries, bonuses and related benefits to officers and employees; and (iii) aircraft expense.

All of the Company's operations experience changes in costs from time to time due to changing conditions encountered in mining operations. As an example, if the grade of ore being mined is lower for a particular period, the unit cost of production may be higher even though there is not a material increase in the overall costs of operation. If the fixed costs of an operation (such as the Bluebird Mine) are substantial, the unit costs will vary widely depending on the units of production for the period. Moreover, it may sometimes be desirable, as in the case of the Bluebird, to mine higher cost material when the market price is up and lower cost material when market price is down. In an underground mine, such as the Johnny M Mine, there is less flexibility because plans cannot be easily adjusted. Accordingly, costs will vary depending on the tonnage and grade of ore mined in any particular area of the mine.

All of the Company's operations have incurred increased costs for labor and materials resulting from inflation.

The following table, which is also contained at page 6 of the Company's Annual Report to Shareholders for the fiscal year, sets forth a summary of the Company's operations for the fiscal year ended June 30, 1979 and for the preceding nine fiscal years:

Summary of Operations / 1979-1970

(000 omitted except for per share amounts)

	1979	1978	1977	1976	1975	1974	1973	1972	1971*	1970*
Income:										
Net Sales	$36,994	$32,508	$18,284	$14,224	$16,713	$19,190	$ 9,777	$ 9,343	$15,193	$11,040
Uranium Royalties	1,704	1,829	2,744	1,797	1,136	526	818	746	724	611
Interest and Other	799	107	133	157	485	73	43	121	158	276
	39,497	34,444	21,161	16,178	18,334	19,789	10,628	10,210	16,075	11,927
Deductions from Income:										
Cost of Products Sold	30,232	25,490	16,740	12,313	12,665	14,655	8,614	7,993	13,388	8,371
Exploration, Conservation and Maintenance of Mining Properties	1,479	1,160	847	813	822	445	257	332	448	364
Administrative and General Expenses	1,464	1,362	851	969	947	742	552	522	575	417
Interest Expense	293	765	432	407	385	429	184	223	562	304
	33,468	28,777	18,870	14,502	14,819	16,271	9,607	9,070	14,973	9,456
Income from Operations before Applicable Income Taxes	6,029	5,667	2,291	1,676	3,515	3,518	1,021	1,140	1,102	2,471
Income Taxes	1,700	1,750	800	699	1,126	900	236	81	171	694
Income before Extraordinary Item	4,329	3,917	1,491	977	2,389	2,618	785	1,059	931	1,777
Extraordinary Income (Loss) Net of Applicable Income Taxes	—	—	—	—	—	—	—	13	141	(195)
NET INCOME	$ 4,329	$ 3,917	$ 1,491	$ 977	$ 2,389	$ 2,618	$ 785	$ 1,072	$ 1,072	$ 1,582
Net Income per Common Share:										
Primary	$3.01	$2.72	$1.03	$ .69	$1.64	$1.73	$ .52	$ .71	$ .70	$1.06
Assuming Full Dilution	$2.91	$2.62	$1.01	$ .69	$1.59	$1.67	$ .52	$ .70	$ .70	$1.02
Average Shares Outstanding	1,439	1,440	1,447	1,417	1,460	1,512	1,512	1,518	1,530	1,497

*Restated

ITEM 3. PROPERTIES

The Company's headquarters and executive offices are located on a parcel of land containing approximately ten acres in Albuquerque, New Mexico, which the Company owns in fee and on which it has constructed three modern office buildings containing a total of approximately 18,000 square feet of office space.

The Company's principal mineral properties, including properties held in joint ventures, are described in "ITEM 1. BUSINESS" above. The Company also holds numerous other mineral properties in Idaho, Colorado, Utah, New Mexico and Nevada through various leases and unpatented mining claims, both on its own behalf and through joint ventures. Although several of such properties are known to contain significant quantities of mineralization, they are not considered material to the Company's operations at the present time. Encouraging results from further exploration or increases in the market prices of certain metals could make such properties considerably more important in the future.

ITEM 4. PARENTS AND SUBSIDIARIES

The Company has three subsidiaries, all of which are wholly-owned: The Territorial Corporation, which is inactive; Ran-Con Corporation; and Durita Development Corporation. Both Territorial and Ran-Con have been organized under the laws of the State of New Mexico, and Durita is a Colorado corporation. Financial statements of Ran-Con and Durita are included in the consolidated financial statements of the Company.

ITEM 5. LEGAL PROCEEDINGS

A description of legal proceedings relating to the Johnny M Mine which were settled during the fiscal year is contained in "ITEM 1. BUSINESS" under the caption "Uranium Mining" at page 4 of this report. See also ITEM 1 under the caption "Environmental Regulation" at page 10 of this report.

During the year ended June 30, 1974 the Company has a deficiency notice in the amount of $1,068,190, representing additional federal income taxes asssessed, including interest, for the years ended June 30, 1965 through June 30, 1971. The Company filed claim for refund of amounts paid or such greater amount as may be finally determined. The Internal Revenue Service refused to honor this claim, and in May, 1976 the Company filed suit in the United States District Court for the District of New Mexico to recover the payment.

The suit was tried and on July 24, 1978 a judgment was entered by the Court providing for the recovery by the Company from the United States of assessed tax, penalty and interest in the total amount of $901,697,59 plus statutory interest thereon. The United States is appealing the decision.

During the year ended June 30, 1976, the Company received a deficiency notice in the amount of $630,856 representing additional federal income taxes assessed for the years ended June 30, 1972 through June 30, 1974. On June 11, 1976 the Company filed a petition with the United States Tax Court requesting adjustment of the deficiency notice. The matter is pending and involves issues common to the United States District Court litigation.

While the outcome of these matters is uncertain, the Company is of the opinion that the ultimate deficiency, if any, will not have a materially-adverse effect on the consolidated financial position or results of operations of the Company. Provision has been made in 1978 and prior years in the deferred income tax accounts for the effect of possible adjustments, some of which are in the nature of timing differences.

ITEM 6. INCREASES AND DECREASES IN OUTSTANDING EQUITY SECURITIES

1. Common Stock ($.50 par value)

The amount of Common Stock outstanding at June 30, 1978 was 1,431,954 shares and at June 30, 1979 was 1,408,504 shares. The net decrease in the amount of 23,450 shares is the result of the following transactions: (i) during the period December 3, 1978 through June 6, 1979, the Company repurchased 24,700 shares of its outstanding stock in normal market transactions for an aggregate cash consideration of $357,642; and (ii) during the fiscal year, 1,250 shares previously held in the treasury of the Company were issued pursuant to the exercise of two stock options by employees in June, 1977 and in June 1978.

2. 5-3/4% Convertible Subordinated Debentures due 1989.

The principal amount of such debentures outstanding decreased during the year and was $1,876,000 at June 30, 1978 and $1,639,000 at June 30, 1979. The decrease in the amount of $237,000 was the result of the repurchase by the Company in open market transactions of such debentures during the period July 5, 1978 through June 18, 1979 for an aggregate cash consideration of $210,895 plus accrued interest.

ITEM 9. APPROXIMATE NUMBER OF EQUITY SECURITY HOLDERS

As of September 27, 1979 the approximate number of holders of record of each class of equity securities of the Registrant was as follows:

Title of Class	Number of Recordholders
Common Stock ($0.50 par value)	Approx. 1,500
5-3/4% Convertible Subordinated Debentures due 1989	Approx. 130

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITYHOLDERS

On November 17, 1978, at the Company's Annual Meeting of Shareholders, the shareholders of the Company approved an option granted to Robert M. Haldeman, a director of the Company to purchase 5,000 shares of the Company's Common Stock at a price of $12.00 per share. The option was granted on November 4, 1977 at an option price equal to the market value of the stock on the date of grant. The vote by which such option was approved was 1,071,080 shares for and 12,611 against.

ITEM 11. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Article XI of the by-laws of the Company sets forth certain indemnifications from the Company to officers, directors or other employees. A description of this by-law is contained in the Company's Form 10-K Annual Report for the fiscal year ended June 30, 1972 filed with the Commission, and such description is incorporated herein by reference.

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ITEM 12. FINANCIAL STATEMENTS AND EXHIBITS FILED

A. Financial Statements: See page 19 hereof entitled "ITEM 13 (a) (1) Financial Statements and Schedules."*

B. Exhibits:

1. Venture Agreement dated as of January 9, 1974 between and among the Company, Marline Oil Company and Frontier Resources, Inc.**
2. Agreement dated May 20, 1974 between the Company and Urangesellschaft MBH & Co., KG.**
3. Co-Tenancy Agreement dated October 1, 1974 between the Company and Texas Utilities Fuel Company.**
4. Joint Sales Agreement dated as of May 26, 1972 between and among the Company, HNG Oil Company and Gulf Oil Corporation.**
5. Uranium Mining Lease and Agreement dated as of October 10, 1971 between the Company as Lessee and the Santa Fe Pacific Railroad Company as Lessor.**
6. Joint Operating Agreement dated as of April 1, 1972 between the Company and HNG Oil Company.**
7. Sales Agreement dated September 30, 1976 between the Company, HNG Oil Company and Gulf States Utilities Company.**

8. Payment Agreement dated as of March 5, 1979 between General Atomic Company, the Company and HNG Oil Company.
9. Uranium Ore Toll Milling Contract dated December 20, 1978 between the Company, HNG Oil Company and Kerr-McGee Nuclear Corporation.
10. Option to Robert M. Haldeman

*The Company's annual report to its shareholders for the fiscal year ended June 30, 1979 will be submitted by amendment to this Form 10-K. Pages 24 through 32 of such annual report to shareholders, containing the financial statements incorporated by reference under Item 13(a)(1) at page 18 of this Form 10-K, will be incorporated herein by reference.

**Exhibits 1,2 and 3 above were filed as Exhibits 2, 3 and 4 respectively to the Company's Form 10-K Annual Report filed with the Securities and Exchange Commission for the fiscal year ended June 30, 1974 and are incorporated herein by reference. Exhibits 4 and 5 were filed as Exhibits 4 and 5 to the Form 10-K filed for the fiscal year ended June 30, 1972 and are incorporated herein by reference. Exhibit 6 was filed as Exhibit 6 to the Form 10-K filed for the fiscal year ended June 30, 1973 and is incorporated herein by reference. Exhibit 7 was filed as Exhibit 7 to the Form 10-K filed for the fiscal year ended June 30, 1976 and is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RANCHERS EXPLORATION AND
DEVELOPMENT CORPORATION

By /S/ HERBERT M. CAMPBELL II
Herbert M. Campbell II
Vice President and Secretary

Date: 9/27/79

FORM 10-K--ITEM 2 (a) (1)

FINANCIAL STATEMENTS AND SCHEDULES

RANCHERS EXPLORATION AND DEVELOPMENT CORPORATION AND SUBSIDIARIES

The following consolidated financial statements of the registrant and its subsidiaries, included in the annual report of the registrant to its stockholders for the year ended June 30, 1979, are incorporated herein by reference:

Consolidated Balance Sheets--June 30, 1979 and June 30, 1978

Statements of Consolidated Income--Years ended June 30, 1979 and June 30, 1978

Statements of Consolidated Stockholders' Equity--Years ended June 30, 1979 and June 30, 1978

Statements of Changes in Consolidated Financial Position--Years ended June 30, 1979 and June 30, 1978

Notes to consolidated financial statements

The following financial information for the years 1979 and 1978 is submitted herewith:

Additional notes to consolidated financial statements

Schedule III--Investments in, equity in earnings of, and dividends received from affiliates and other persons

Schedule V--Property, plant and equipment

Schedule VI--Accumulated depreciation, depletion and amortization of property, plant and equipment

Schedule IX--Bonds, mortgages and similar debt

Schedule XIII--Capital shares

Schedule XVI--Supplementary income statement information

All other schedules (Nos. I, II, IV, VII, VIII, X, XI, XII, XIV, XV, XVII, XVIII AND XIX) for which provision is made in the applicable regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

Individual financial statements of the registrant have been omitted as the registrant is primarily an operating company and all the subsidiaries included in the consolidated financial statements filed, in the aggregate, do not have minority equity interests and/or indebtedness to any person other than the registrant or its consolidated subsidiaries in amounts which together exceed five percent of the total assets as shown by the most recent year end consolidated balance sheet.

REPORT OF INDEPENDENT ACCOUNTANTS

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, 1979 and 1978, and the related statements of consolidated income, stockholders' equity and changes in consolidated financial position for the years then ended included in the annual report to stockholders of Ranchers Exploration and Development Corporation for the year ended June 30, 1979, and the additional notes to consolidated financial statements and the schedules listed in the index on the preceding page. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained more fully in Note C to the consolidated financial statements, the Company has suspended operations at its Tungsten Queen Mine. The carrying amount of property, plant and equipment at June 30, 1979 is $7,682,436. The ultimate realization of the Company's investment in the mine is dependent upon future economic conditions which will permit recovery through the means discussed in Note C.

In our opinion, subject to the ultimate realization of the investment in the Tungsten Queen Mine as described in the preceding paragraph, the financial statements referred to above present fairly the consolidated financial position of Ranchers Exploration and Development Corporation and subsidiaries at June 30, 1979 and 1978, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. Further, it is our opinion, which is qualified as explained above, that the additional notes to consolidated financial statements and schedules referred to above present fairly the information set forth therein in compliance with the applicable accounting regulations of the Securities and Exchange Commission.

Ernst & Whinney

ERNST & WHINNEY

Albuquerque, New Mexico
August 2, 1979

ADDITIONAL NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RANCHERS EXPLORATION AND DEVELOPMENT CORPORATION AND SUBSIDIARIES

NOTE N--ADDITIONAL INVENTORY INFORMATION

Inventories used in the computation of cost of products sold, priced on the basis stated in Note A to the financial statements were as follows:

June 30, 1977	$2,595,632
June 30, 1978	2,185,915
June 30, 1979	476,638

NOTE O--ADDITIONAL STOCK OPTION INFORMATION

Stock options outstanding and becoming exercisable during the years ended June 30, 1979 and June 30, 1978, were as follows:

Options	Number of Shares	Option Price Per Share	Option Price Total	Corresponding Market Price Per Share	Corresponding Market Price Total
Outstanding at:					
June 30, 1978	68,600	$ 9.13-$18.25	$884,253	$ 9.13-$18.25	$884,253
June 30, 1979	57,450	9.13- 21.75	758,013	9.13- 21.75	758,013
Became exercisable:					
During 1978	13,812	9.13- 18.25	178,965	12.00- 20.00	223,259
During 1979	10,834	10.00- 20.25	150,845	12.38- 22.13	187,433
Exercised:					
During 1978	7,000	10.00	70,000	12.38- 19.50	106,575
During 1979	1,250	10.00- 12.25	14,188	16.50- 21.38	24,281

The number of unoptioned shares available for the granting of options under the option plans is 87,150 shares at June 30, 1979 and 91,616 shares at June 30, 1978.

The excess of cost over selling price of treasury shares sold to satisfy stock options is charged to retained earnings. The excess of selling price over cost of treasury shares sold to satisfy stock options is credited to capital in excess of par value. When unissued stock is sold, the amount in excess of par is credited to capital in excess of par value. No charges to income have been made, or will be made, in connection with options.

NOTE P--EXECUTIVE INCENTIVE PLAN

The Company has an executive incentive plan administered by the Executive Committee of the Board of Directors. Basically, the plan allows the Executive Committee to accrue up to 5% of income before income taxes as an incentive to be paid to certain key employees. Any amounts accrued are payable to the employees in four equal semi-annual installments. If a participating employee leaves the Company's employment, any unpaid installments are forfeited by him and are restored to earnings of the Company. Amounts charged to expense for the plan were as follows:

Year ended June 30, 1979	$313,792
Year ended June 30, 1978	285,545

NOTE Q--INCOME TAXES

State income taxes are not separately stated since the amount is less than 5% of the total expense.

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

ADDITIONAL NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RANCHERS EXPLORATION AND DEVELOPMENT CORPORATION AND SUBSIDIARIES

NOTE Q--INCOME TAXES (CONTINUED)

	1979	1978
Provisions for depreciation of equipment at Tungsten Queen Mine (mine temporarily closed - on standby) deducted for tax purposes only	$ 42,833	$ 235,048
Amortization of development costs expensed for tax purposes in prior year (credit)	(936,553)	(814,766)
Restoration of deferred income taxes upon utilization of prior year net operating loss carryforward	1,494,134	1,914,234
Deferred minimum tax resulting from utilization of net operating loss	(245,125)	(286,997)
Investment tax credit	552,639	(229,495)
Provision for minimum tax	(87,774)	(177,767)
Other	(20,154)	259,743
	$ 800,000	$ 900,000

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 were as follows:

	1979	1978
Federal tax expense at statutory rate	$ 2,773,267	$ 2,720,153
Statutory depletion in excess of cost depletion	(1,411,153)	(1,451,104)
Provision for minimum tax	265,654	284,727
State income tax less federal tax benefit	79,365	156,318
Investment tax credit	(48,289)	(229,495)
Other	41,156	269,401
	$ 1,700,000	$ 1,750,000

NOTE R--OTHER LIABILITIES

Other current liabilities are composed of the following:

	1979	1978
Accrued interest payable	$ 58,151	$ 117,642
Accrued state and local taxes	217,555	170,356
Accrued royalties	5,220	499,678
Accrued executive incentive	133,173	214,070
Accrued reclamation expense	325,000	--
Accrued net profit interest	595,900	--
Other miscellaneous liabilities	234,109	89,646
	$1,569,108	$1,091,392

NOTE S--LONG TERM DEBT

Interest expense applicable to long-term debt for the years ended June 30, 1979 and 1978 was $292,723 and $764,788, respectively.

Maturities of long-term debt for the five years succeeding June 30, 1979 are as follows:

1980	$ 59,393
1981	120,393
1982	177,893
1983	177,893
1984	119,198

SCHEDULE III—INVESTMENTS IN, EQUITY IN EARNINGS OF, AND DIVIDENDS RECEIVED FROM AFFILIATES AND OTHER PERSONS

RANCHERS EXPLORATION AND DEVELOPMENT CORPORATION AND SUBSIDIARIES

COL. A	COL. B		COL. C		COL. D		COL. E		COL. F
	BALANCE AT BEGINNING OF PERIOD		ADDITIONS		DEDUCTIONS		BALANCE AT END OF PERIOD		
NAME OF ISSUER AND DESCRIPTION OF INVESTMENT	(1) Number of Shares or Units. Principal Amount of Bonds and Notes	(2) Amount in Dollars	(1) Equity Taken Up in Earnings (Losses) of Affiliates and Other persons for the Period	(2) Other Additional Capital Contributed	(1) Distribution of Earnings By Persons in Which Earnings (Losses) Were Taken Up	(2) Other	(1) Number of Shares or Units. Principal Amount of Bonds and Notes	(2) Amount in Dollars	Dividends Received During the Period from Investments Not Accounted for by the Equity Method
YEAR ENDED JUNE 30, 1979									
Ranchers-HNG Joint Project	50%	$4,454,599	$ 3,166,195	$ --	$(4,347,118)		50%	$3,273,676	
Ranchers-DuPont Joint Project	82.705	3,507	(234,405)	205,000	--		100	(25,898)	
Ranchers-Chaco Limestone Proj.	50	420,176	(1,736,215)	1,347,500	--		50	31,461	
Ranchers-UG Venture	10	(58,990)	(477,910)	540,000	--		88.88	3,100	
Ranchers-TUFCO Joint Project	10	8,088	(212,198)	240,814	--		10	36,704	
Ranchers-Frontier-Marline	55	31,863	(175,106)	184,750	--		55	41,507	
		$4,859,243	$ 330,361	$2,518,064	$(4,347,118)			$3,360,550	
YEAR ENDED JUNE 30, 1978									
Ranchers-HNG Joint Project	50%	$4,841,452	$5,260,241	$ --	$(5,647,094)		50%	$4,454,599	
Ranchers-DuPont Joint Project	82.705	42,195	(221,273)	182,585	--		82.705	3,507	
Ranchers-Chaco Limestone Proj.	50	831,573	66,974	--	(478,371)		50	420,176	
Ranchers-UG Venture	10	34,333	(270,823)	177,500	--		10	(58,990)	
Ranchers-TUFCO Joint Project	10	25,872	(303,892)	286,108	--		10	8,088	
Ranchers-Frontier-Marline	55	34,793	(49,680)	46,750	--		55	31,863	
		$5,810,218	$4,481,547	$ 692,943	$(6,125,465)			$4,859,243	

Note--All investments are in unincorporated joint ventures. Amounts in these columns represent registrant's contribution percentage.

SCHEDULE V—PROPERTY, PLANT, AND EQUIPMENT

RANCHERS EXPLORATION AND DEVELOPMENT CORPORATION AND SUBSIDIARIES

COL. A	COL. B	COL. C	COL. D	COL. E	COL. F
CLASSIFICATION	Balance at Beginning of Period	Additions at Cost	Retirements or Sales	Other Changes—Debit and/or Credit*—Describe	Balance at Close of Period
		(Note 1)			
YEAR ENDED JUNE 30, 1979					
Land	$ 513,338	$ --	$ --	$ --	$ 513,338
Buildings and equipment	25,983,368	497,462	641,874	--	25,838,956
Mineral interests, mining claims, leases and permits	1,841,737	--	177,014	--	1,664,723
Deferred intangible mining and development costs	5,582,155	--	260,808	--	5,321,347
	$33,920,598	$ 497,462	$1,079,696	$ --	$33,338,364
		(Note 2)		(Note 3)	
YEAR ENDED JUNE 30, 1978					
Land	$ 138,732	$ 339,255	$ --	$ 35,351	$ 513,338
Buildings and equipment	16,292,702	8,805,148	93,400	978,918	25,983,368
Construction in progress	1,014,269	--	--	(1,014,269)	--
Mineral interests, mining claims, leases and permits	1,778,002	63,735	--	--	1,841,737
Deferred intangible mining and development costs	5,715,481	--	133,326	--	5,582,155
	$24,939,186	$9,208,138	$ 226,726	$ --	$33,920,598

SCHEDULE V—PROPERTY, PLANT, AND EQUIPMENT (CONTINUED)

RANCHERS EXPLORATION AND DEVELOPMENT CORPORATION AND SUBSIDIARIES

COL. A	COL. B	COL. C	COL. D	COL. E	COL. F
CLASSIFICATION	Balance at Beginning of Period	Additions at Cost	Retirements or Sales	Other Changes—Debit and/or Credit*—Describe	Balance at Clos of Period

Note 1--Additions to property, plant and equipment for the year ended June 30, 1979, include purchases of equipment by Durita Development Corporation of approximately $149,000. Also, additions include purchases of equipment of approximately $74,000 at the Albuquerque office, $259,000 at the Bluebird Mine, and $16,000 by another subsidiary.

Note 2--Additions to property, plant and equipment for the year ended June 30, 1978, include purchases of land, equipment, and mineral interests by Durita Development Corporation of approximately $339,000, $7,995,000, and $64,000, respectively. Also, additions include purchases of equipment of approximately $70,000 at the Albuquerque office, $687,000 at the Bluebird Mine, $5,000 at the Big Mike Mine, and $49,000 by another subsidiary.

Note 3--Other changes include a reclassification of $27,000 from buildings and equipment and $9,000 from construction in progress to land for the Tungsten Queen Mine, and reclassifications of construction in progress to buildings and equipment of approximately $21,000 at the Bluebird Mine, and $984,000 by Durita Development Corporation.

SCHEDULE VI—ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

RANCHERS EXPLORATION AND DEVELOPMENT CORPORATION AND SUBSIDIARIES

COL. A	COL. B	COL. C	COL. D	COL. E	COL. F
DESCRIPTION	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Retirements	Other Changes—Add (Deduct)—Describe	Balance at End of Period
YEAR ENDED JUNE 30, 1979					
Buildings and equipment	$12,174,577	$4,598,093	$460,056	$ --	$16,312,614
Mineral interests, mining claims leases and permits	527,212	79,481	177,014	--	429,679
Deferred intangible mining and development costs	1,460,538	29,313	260,808	--	1,229,043
	$14,162,327	$4,706,887	$897,878	$ --	$17,971,336
YEAR ENDED JUNE 30, 1978					
Buildings and equipment	$ 7,365,608	$4,889,909	$ 80,940	$ --	$12,174,577
Mineral interests, mining claims, leases and permits	496,742	30,470	--	--	527,212
Deferred intangible mining and development costs	1,449,431	144,433	133,326	--	1,460,538
	$ 9,311,781	$5,064,812	$214,266	$ --	$14,162,327

SCHEDULE IX—BONDS, MORTGAGES AND SIMILAR DEBT

RANCHERS EXPLORATION AND DEVELOPMENT CORPORATION AND SUBSIDIARIES

COL. A	COL. B	COL. C	COL. D		COL. E	COL. F	COL. G	COL. H	
NAME OF ISSUER AND TITLE OF EACH ISSUE	Amount Authorized by Indenture	Amount Issued and Not Retired or Cancelled	AMOUNT INCLUDED IN COLUMN C, WHICH IS		Amount Included in Sum Extended Under Caption "Bonds, Mortgages and Similar Debt" in Related Balance Sheet	Amount in Sinking and Other Special Funds of Issuer Thereof	Amount Pledged by Issuer Thereof	AMOUNT HELD BY AFFILIATES FOR WHICH STATEMENTS ARE FILED HEREWITH	
			(1) Held by or for Account of Issuer Thereof	(2) Not Held by or for Account of Issuer Thereof				(1) Persons Included in Consolidated Statement	(2) Others
June 30, 1979									
Ranchers Exploration and Development Corporation 5-3/4% Convertible Subordinated Debentures due 1989	$3,000,000	$1,815,000	$176,000	$1,639,000	$1,639,000	$ --	$ --	$ --	$ --

Note--Debentures amounting to $1,185,000 purchased by the Corporation were cancelled to meet sinking fund requirements as follows:

January 15, 1979	$118,500
January 15, 1978	118,500
January 15, 1977	118,500
January 15, 1976	118,500
January 15, 1975	118,500
January 15, 1974	118,500
January 15, 1973	118,500
January 15, 1972	118,500
January 15, 1971	118,500
January 15, 1970	118,500

SCHEDULE XIII—CAPITAL SHARES

RANCHERS EXPLORATION AND DEVELOPMENT CORPORATION AND SUBSIDIARIES (NOTE 3)

COL. A	COL. B	COL. C	COL. D		COL. E (Note 1)		COL. F		COL. G (Note 2)	
NAME OF ISSUER AND TITLE OF ISSUE	Number of Shares Authorized by Charter	Number of Shares Issued and Not Retired or Cancelled	Number of Shares Included in Column C Which Are		Shares Issued or Outstanding as Shown on or Included in Related Balance Sheet Under Caption "Capital Shares"		Number of Shares Held by Affiliates for Which Statements are Filed Herewith		Number of Shares Reserved for Options, Warrants, Conversions and Other Rights	
			(1) Held by or for Account of Issuer Thereof	(2) Not Held by or for Account of Issuer Thereof	(1) Number	(2) Amount at Which Shown	(1) Persons Included in Consolidated Statements	(2) Others	(1) Directors, Officers and Employees	(2) Others
June 30, 1979										
Ranchers Exploration and Development Corporation Common Stock	4,000,000	1,542,228	133,724	1,408,504	1,542,228	$771,114	--	--	144,600	66,330

Note 1--Includes shares in treasury.

Note 2--See Notes I and O on stock options and Note F regarding conversion of debentures.

Note 3--The information applicable to the consolidated subsidiaries has been omitted as they are wholly-owned and the answers to Column G would be "none".

SCHEDULE XVI—SUPPLEMENTARY INCOME STATEMENT INFORMATION

RANCHERS EXPLORATION AND DEVELOPMENT CORPORATION AND SUBSIDIARIES

COL. A	COL. B	
ITEM	Charged to Costs and Expenses	
	Year Ended June 30	
	1979	1978
1. Maintenance and repairs	$2,212,902	$2,325,988
2. Depreciation, depletion and amortization of property, plant and equipment	4,706,887	5,064,812
3. Taxes, other than income taxes		
Arizona privilege tax	159,937	187,622
Property taxes	293,214	290,097
Payroll taxes	279,056	211,524
Other taxes and fees	713,882	686,412
	1,446,089	1,375,655
4. Rents (principally equipment)	406,539	453,979
5. Royalties	1,106,687	1,607,124

Amounts for amortization of intangible assets and for advertising costs are omitted since such amounts are less than 1% of total sales and revenues.