RANCHERS EXPLORATION AND DEVELOPMENT CORPORATION

1970 ANNUAL REPORT

THE COVER of the 1970 Annual Report is a bas-relief by Gene Garriott showing Miners Alpheus Perry (front) and Charles Kearsey drilling blast holes in the vein at the Company's recently-opened Tungsten Queen Mine at Townsville, North Carolina.

The events leading up to this year's cover began in North Carolina's Piedmont province some 300-million years ago during that age known to geologists as the Paleozoic Era. During that time, a subterranean mass of molten granite began to thrust its way toward the surface. This mass solidified before reaching the surface and, as it cooled, voids formed in the area of contact between the granite and the rocks already present in the vicinity. In subsequent millions of years, this contact zone filled with molten quartz welling up from within the earth's crust. Dispersed throughout this quartz were veinlets of tungsten-bearing minerals.

During the millions of years which followed—while the earth was being populated with fish, reptiles and assorted mammals, including man—erosion removed several thousand feet of overlying soil and rock, exposing the quartz veins over an area several miles long. These tungsten-studded veins of quartz were first noted in 1901, but were soon forgotten, and not "re-discovered" until 1942.

The discovery was made by Joseph and Richard Hamme, two brothers searching for strategic minerals for use in World War II. They worked the vein until 1944, then sold the property to Haile Mines, Inc., which joined with General Electric Company in 1945 to form Tungsten Mining Corporation. Discovered at a time when the U.S. was consuming twice as much tungsten as it was producing, the deposit was regarded as a unique national resource, and soon became the largest producer of tungsten in the country.

The mine continued to prosper immediately after the war and during the early 1950's when the nation's defense stockpile was being amassed. But tungsten prices declined thereafter, and in 1958 the mine was closed, leaving thousands of tons of ore untouched and much of the area unexplored. The mine reopened in May 1960, but closed again in February 1963, when prices failed to improve.

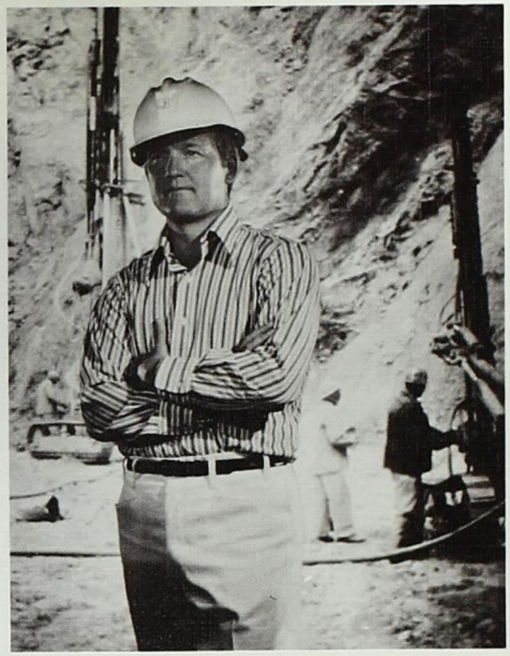
The mine and its 35 miles of underground workings soon filled with water and, with tungsten prices still depressed, it appeared that the property would remain closed indefinitely. Prices did, indeed, remain low for the next several years, but in late 1966, Ranchers' management observed that the outlook for tungsten seemed to be changing and began a study which was shortly to affect the Hamme Mine.

The study confirmed that the demand for the metal was increasing at an unexpected rate. The Company's geologists immediately began a systematic search of mining literature to identify promising tungsten deposits while they could still be secured at reasonable prices. Some 1,500 prospects were covered in this search during 1967, and a handful set aside for closer inspection. The most promising of these was the Hamme Mine at Townsville.

The Company acquired an option to purchase the property and spent most of 1968 pumping out the water—some 300-million gallons—and evaluating ore reserves. The results were reassuring, and in December the property was purchased and renamed the Tungsten Queen. Some 13 months later—after a period of intense activity which included repair and deepening of the main shaft, rehabilitation of production drifts and completion of engineering and metallurgical studies—ground was broken for a new processing mill. It was completed in August 1970.

In the meantime, tungsten prices had begun to rise, reaching a high of $70 to $80 per short ton unit (STU) in foreign markets. This differed markedly from the approximately $16 per STU (about $.80 per pound) received for tungsten concentrate when the mine closed in 1963 and was more than double the $33 per STU paid for concentrate when the Company began its timely study of the metal in 1966. Prices remain at a high level, and forward sales of anticipated production have permitted the Company to begin its newest operation under favorable economic circumstances.

TO OUR STOCKHOLDERS:



A successful fiscal year is one which combines a substantial rise in current earnings with the start of new operations which can lead to similar growth in the future. Your Company was fortunate to have just such a blend of present profitability and promising new projects in the year ending June 30, 1970. Highlights of that year:

☐ Net earnings rose to $1.12 per share (despite an extraordinary loss of $.13 per share), a gain of 129 percent over the $.49 per share earned last year.

☐ Production at the Bluebird Mine totaled about 10.5-million pounds of copper, an increase of 20 percent over 1969.

☐ The Big Mike copper property was acquired and placed in production.

☐ Construction was completed on a processing mill at the Tungsten Queen Mine, and the property brought on stream in August 1970.

☐ Exploration on the Section 7 uranium discovery in Ambrosia Lake increased estimated reserves to approximately 300,000 tons of ore containing 3.6-million pounds of U_3O_8.

☐ The Yellow Pine antimony property at Stibnite, Idaho, was leased and exploration begun.

☐ The Company's common stock was split two-for-one in March and listed on the American Stock Exchange in June.

These achievements made 1970 an outstanding year, but more important, they reflect the growing diversification and financial strength of the Company, its greater depth of management, and its ability to react quickly to an investment opportunity. It is these factors which will help to maintain a satisfactory rate of growth in the years ahead.

The Company expects another increase in earnings in 1971. Sale of sulphide copper from the Big Mike property will have an effect on first half earnings, although this will be partially offset by a heavy interest load; the Tungsten Queen should become a significant contributor to income in the second half; and copper production at the Bluebird Mine is expected to establish new records throughout the year.

The Yellow Pine property is under intensive study. The mine has considerable potential, but a decision whether to proceed with its development will probably not be made until well into the fiscal year. The development of two other Company properties — the Section 7 uranium deposits and the copper oxide remaining in the Big Mike pit — will not begin until the properties are more fully explored and milling and marketing arrangements investigated. Processing of the copper oxide, which will probably be leached and converted to cement copper, could begin late in calendar year 1971; development of Section 7 is not scheduled to start before the summer of 1972.

The Yellow Pine, Big Mike, and Section 7 properties provide the Company with considerable room for growth in the next several years. In addition, the Company is steadily expanding its exploration program, is considering additional joint ventures with other companies, and is placing greater emphasis on growth by acquisition. This program, aided by the momentum gained in 1970, should permit the Company to continue its progress in 1971 and the years following.

August 10, 1970

Maxie L. Anderson, President

EARNINGS

The Company experienced its most profitable year in 1970 as both gross and net income rose sharply above previous levels. Gross income totaled $11,926,694, an increase of 109 percent over the $5,712,473 received last year. Net income from operations was $1,871,028, a gain of 177 percent over the $676,305 earned a year ago. However, an extraordinary loss of $195,000 which was taken because of a decline in value of marketable securities held by the Company reduced net earnings to $1,676,028, an increase of 148 percent over the amount earned in 1969. Uranium royalties, a traditional source of Company income, declined by 17 percent to $611,118, but this amount still represents approximately 36 percent of the net income. Copper sales totaled $10,980,476, up 127 percent from the previous year as the result of greater production at the Bluebird Mine, new production from the Big Mike property, and record copper prices. Dividends, interest, and miscellaneous items accounted for most of the remaining income of about $275,000.

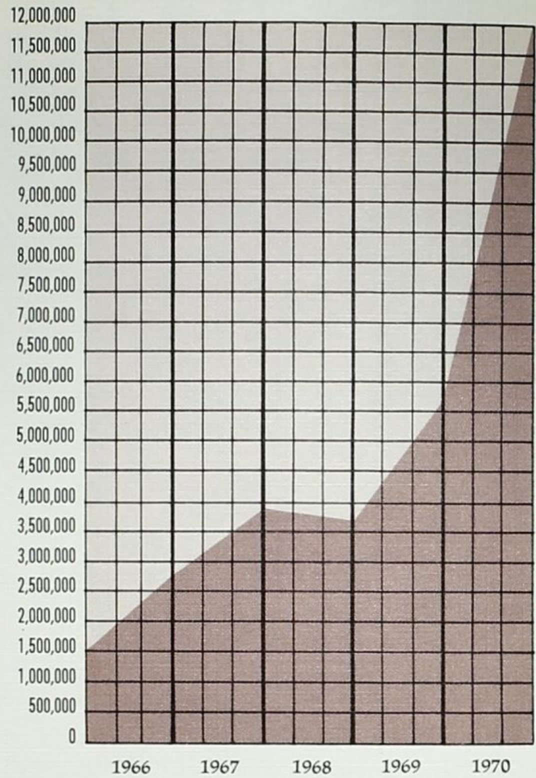
Net earnings per share from operations were $1.25, an increase of 155 percent over the $.49 per share earned last year (adjusted for the two-for-one stock split in March 1970). The extraordinary loss was $.13 per share, reducing net earnings to $1.12 per share, a gain of 129 percent over the preceding year.

FINANCIAL HIGHLIGHTS

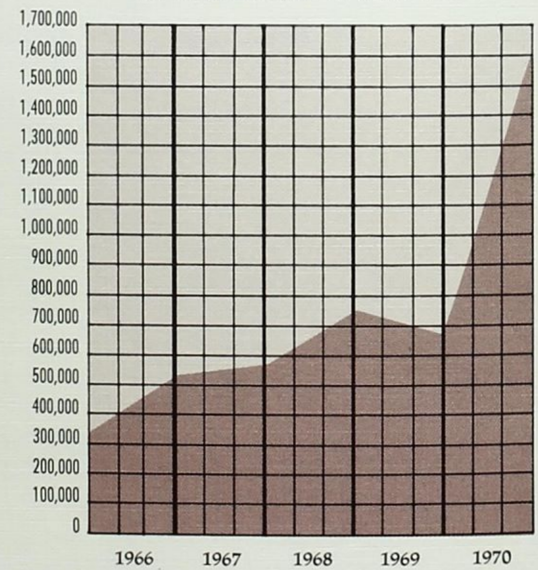
	1970	1969
Gross Income	$11,926,694	$5,712,473
Net Operating Income	$ 1,871,028	$ 676,305
Extraordinary Loss	$ (195,000)	$ -0-
Net Income	$ 1,676,028	$ 676,305
Net Income per Share:		
Operations	$ 1.25	$ .49
Extraordinary (Loss)	$ (.13)	$ -0-
Total	$ 1.12	$ .49
Stockholders' Equity	$11,290,912	$8,482,778
Equity per Share	$ 7.37	$ 5.76

Per share earnings are based on the average number of shares outstanding during the year.

GROSS INCOME 1966/1970



NET INCOME 1966/1970



FINANCIAL SUMMARY*
1970/1966

Fiscal year ended June 30	1970	1969	1968	1967	1966
ANNUAL					
Net Sales	$ 11,040	$ 4,835	$ 2,871	$ 2,785	$ 1,965
Royalties — uranium	611	739	887	956	696
Other income	276	138	22	81	158
Total income	11,927	5,712	3,780	3,822	2,819
Net income from operations before income taxes	2,665	714	338	974	735
Provision for income taxes	794	38	(93)	229	221
Net income from operations	1,871	676	431	745	514
Extraordinary income (loss) net of applicable income taxes	(195)	-0-	267	-0-	-0-
Net income	1,676	676	698	745	514
Net income per share					
From operations	1.25	.49	.35	.61	.43
From extraordinary income (loss)	(.13)	-0-	.21	-0-	-0-
Total	1.12	.49	.56	.61	.43
YEAR END					
Current assets	9,110	2,861	1,992	2,348	1,548
Current Liabilities	4,381	996	1,668	441	435
Working capital	4,729	1,865	324	1,907	1,113
Net property, plant and equipment and other non-current assets	13,774	9,968	5,224	926	936
Long-term debt	5,912	2,910	1,853	-0-	-0-
Deferred income taxes	1,300	440	405	248	341
Net worth	11,291	8,483	3,290	2,585	1,708
Stockholders' equity per share	7.37	5.76	2.62	2.07	1.43
Number of shares outstanding	1,531,552	1,473,616	1,253,712	1,250,388	1,194,350

* (000 omitted except for per share and share amounts)
Per share amounts and number of shares outstanding have been adjusted to reflect the 2-for-1 stock split-up declared in March, 1970.

URANIUM

Uranium exploration in 1970 focused on the Section 7 discovery in Ambrosia Lake (N.M.) made during the previous year by the Ranchers-Combustion Engineering-Houston Natural Gas joint venture managed by the Company. A 67 percent increase in reserves was achieved.

When the fiscal year began, reserves on the property were estimated at approximately 215,000 tons of ore with an average grade of .50 percent U_3O_8, or some 2,150,000 pounds of U_3O_8. By the end of the year, reserves stood at an estimated 300,000 tons of ore with an average grade of about .60 percent, or approximately 3.6-million pounds of U_3O_8.

Most of the new reserves were added in the southeast corner of the section, where two separate ore bodies are developing. The initial discovery, which accounted for the 215,000 tons of ore previously reported, is located in the northwest quarter of the section but is near enough to the other deposits to permit the use of a single shaft. The high grade ore, almost three times as rich as typical ore mined in the Ambrosia Lake District, continues to be the most distinguishing feature of the three deposits.

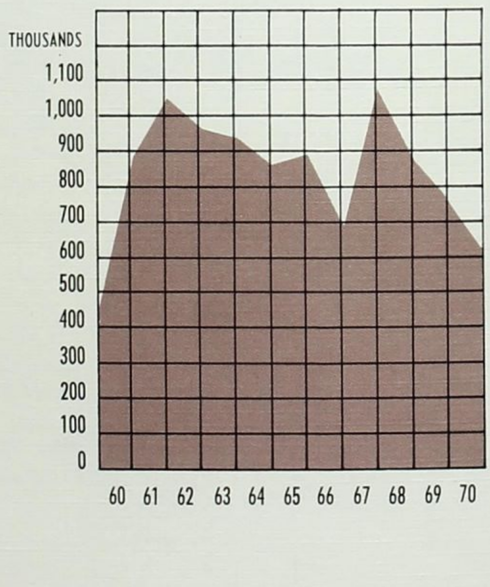
Drilling on the section accounted for about 185,000 feet — or slightly less than 40 percent — of the 490,000 feet drilled by the joint venture in 1970. Most of the remaining footage was drilled on acreage in the northwest part of New Mexico which previous exploration had shown to have potential for the deposition of uranium. The drilling further defined these areas, but no new discoveries were made.

Exploration in 1971 will again center on these areas and on Section 7, where the potential for extending the present ore bodies and for finding new ones is believed to be quite good. To allow time for proper planning and to assure the most efficient mining operation, development of the property will not begin until the section has been more thoroughly explored and ore milling and marketing arrangements completed. This will probably defer the start of development until mid-1972.

Uranium royalties on properties owned by the Company and operated by Kerr-McGee and United Nuclear declined during the year. Royalties were $611,118, compared to $739,578 the previous year. A decline in ore production, ore grade, and yellowcake prices was responsible for the decrease. Royalties in 1971 should be about the same, or slightly higher since yellowcake is expected to command a better price during the year.

Although drilling for uranium constituted the largest share of the Company's exploration expenditures in 1970, investigations were conducted on a number of other mineral prospects. These included deposits of silver, gold, copper, tungsten, rare earths, antimony, and fluorspar. Exploration will be expanded again in 1971, with more attention given to possible joint ventures with other companies.

URANIUM ROYALTIES 1960/1970



Exploring for uranium in New Mexico

TUNGSTEN

A major step in the Company's diversification program was implemented in 1970 with development of the Tungsten Queen Mine and mill complex at Townsville, North Carolina. The mill, which has a design capacity of 600 tons of ore per day, was completed in August 1970 and is now in limited production.

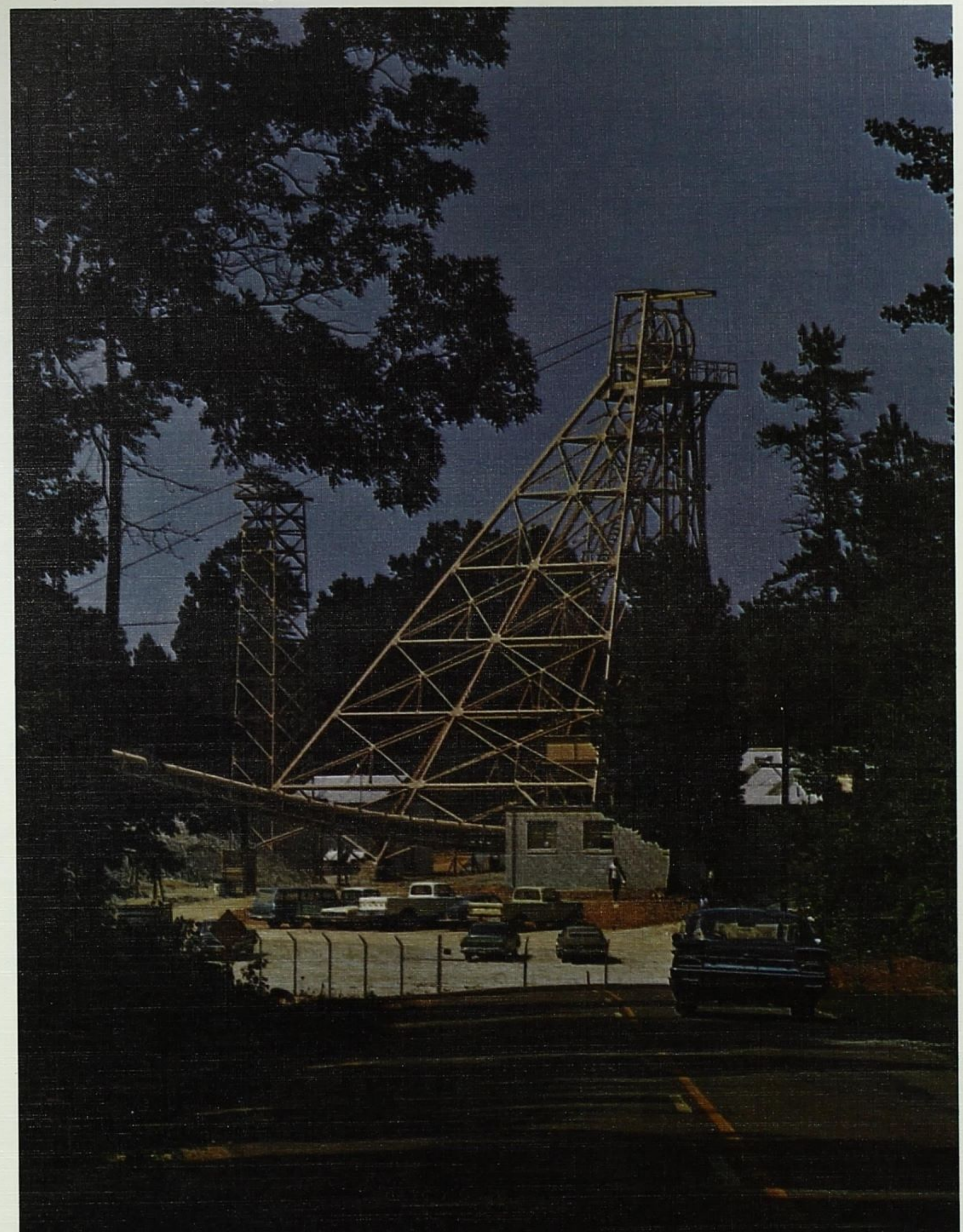
Output — which is primarily in the form of huebnerite concentrate — will be increased gradually until capacity is reached, probably sometime late in the fiscal year. Production goal for the first half is about 25,000 short ton units (STU) of concentrate; at capacity, the mill should produce about 90,000 STU annually. The mill is designed so that its capacity can be readily expanded to 140,000 STU annually. The Company plans to increase production to this level within the next 24 months, provided market demand remains strong and ore development in the mine progresses as anticipated.

The Company has sold all of the mill's production through December 1970 at a producers price of $68.50 per STU. In addition, bids for production during 1971 are being considered. The forward sale of production at these very satisfactory prices is indicative of the strong world demand for tungsten, created chiefly by greater usage and by a shortage of primary production. The current prices, which exceed $3 per pound for tungsten in concentrate form, are in sharp contrast to the $.80 per pound received for concentrate when the Tungsten Queen property was shutdown in 1963 by its previous owner.

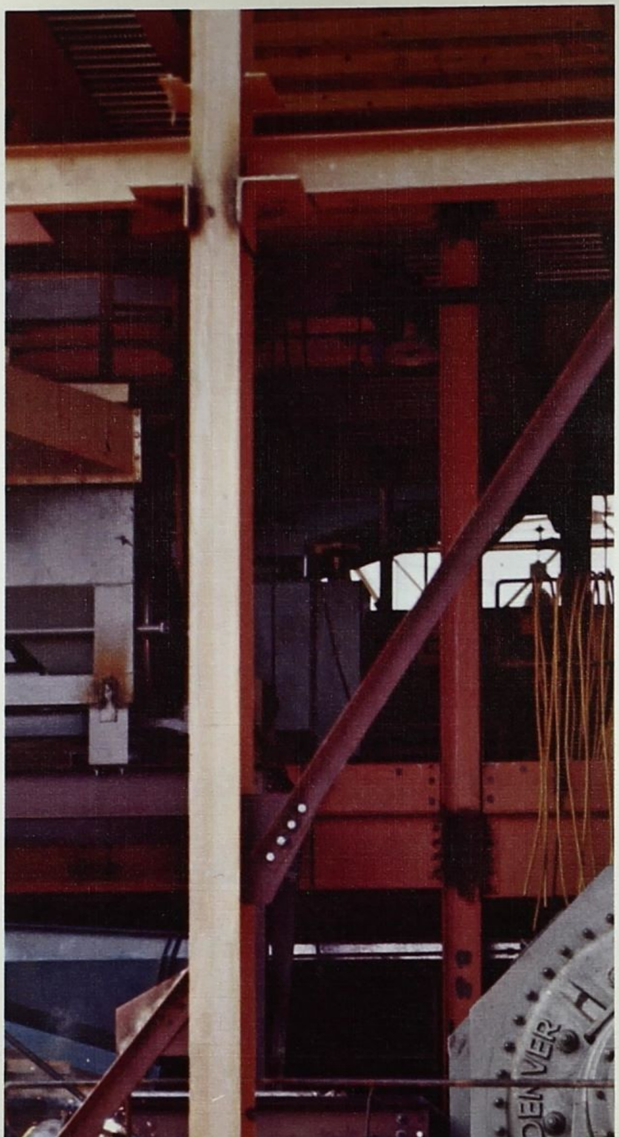
The Company purchased the property, then known as the Hamme Mine, from the Howmet Corporation in December 1968, and spent much of the following year dewatering the workings, rehabilitating the main shaft, and evaluating ore reserves. The ore occurs in a quartz vein which has been worked to a depth of 1,500 feet and along its length for a distance of 6,600 feet on several levels. During the past year, the Company deepened the main shaft to about 1,800 feet and is presently driving a production drift

Loading tungsten into ore cars

Headframe at the Tungsten Queen



Tungsten mill under construction



on the 1,700-foot level. Extensive ore development was also accomplished on the 1,500-foot level during the year, and the results were sufficiently encouraging to permit construction of the mill to begin in January under the direction of Bechtel Corporation, San Francisco.

The mine is now estimated to contain proven and probable reserves of about 1-million tons of huebnerite ore, making it one of the largest commercial deposits of tungsten in the country. The mine also has good potential for additional ore since substantial portions of the vein have not been explored. Ore grade ranges from .50 to .55 percent tungsten trioxide.

Ground was broken for the mill in late January 1970, and construction proceeded steadily until completion of the project in early August. Feed for the mill is coming from current mine production and a 20,000-ton ore stockpile mined during the year. The ore is hoisted to the surface through the main shaft, then transported to the stockpile by a conveyor belt 400 feet long and 30 inches wide. This ore, which is 12 inches or less in diameter, is then transported by conveyor to the crushing plant, where it is reduced in two stages to a minus one-half inch in diameter.

Fine ore from the crushing plant is conveyed to a 1,000-ton storage bin. On demand from the mill, ore is fed by conveyors from the bin to the ore sampling plant inside the mill, then conveyed to a rod mill. In the rod mill, the ore is ground to a minus 10-mesh (sand size), making it suitable for processing in the jig, table, and flotation circuits in the mill. The tungsten produced in these circuits is dried and conveyed to a magnetic separator for final upgrading. The separator removes magnetic iron, leaving a high grade concentrate which goes into storage bins prior to being drummed for shipment.

When in full production, the mine and mill will employ about 200 persons, and will be the third largest producer of tungsten in the country. It will also produce minor amounts of lead, silver, copper and pyrites.

Constructing tungsten ore conveyor and crushers

COPPER

The Company's copper operations were exceptionally successful in 1970. The Bluebird Mine exceeded its production goal for the year, and the Big Mike property was acquired and placed in production on a very profitable basis. In addition, copper prices remained at a record level throughout the year.

The Bluebird Mine, located near Miami, Arizona, produced 10,556,855 pounds of copper cathodes, an increase of 20 percent over the 8,791,154 pounds produced last year and comfortably ahead of the 1970 production goal of 10-million pounds. Output was sold at an average price of $.55 per pound. Sales from the Big Mike property totaled 6,748,503 pounds of copper, which was sold to foreign smelters at an average price of $.65 per pound.

Operations at the Bluebird proceeded smoothly throughout the year, with production rising in the second half after an additional rectifier was installed. This increased the capacity of the electrowinning plant to a level substantially above the original design limit of 30,000 pounds of cathode copper per day, permitting daily output to reach a high of 38,000 pounds on several occasions. Output during June totaled 982,000 pounds, the best monthly production achieved since the plant came on stream in late March 1968. Operating costs also declined slightly during the year, reflecting the greater production and better plant efficiency.

The Company expects an even better year at the mine in 1971. A production goal of approximately 11.5-million pounds has been set for the year. Attainment of this goal, plus further improvements which the Company feels can be achieved in mine and plant efficiency, should insure another 12 months of highly profitable operations. Copper prices remain at a very satisfactory level, and the Company has already sold about 65 per cent of the year's anticipated production at an average price of $.60 per pound. Much of the production in the first half of fiscal year 1972 has also been committed at this price.

The Company is planning to acquire larger equipment which will permit more efficient removal of ore and waste from the Bluebird open pits. Equipment now used permits the removal of about 300,000 tons of ore and waste

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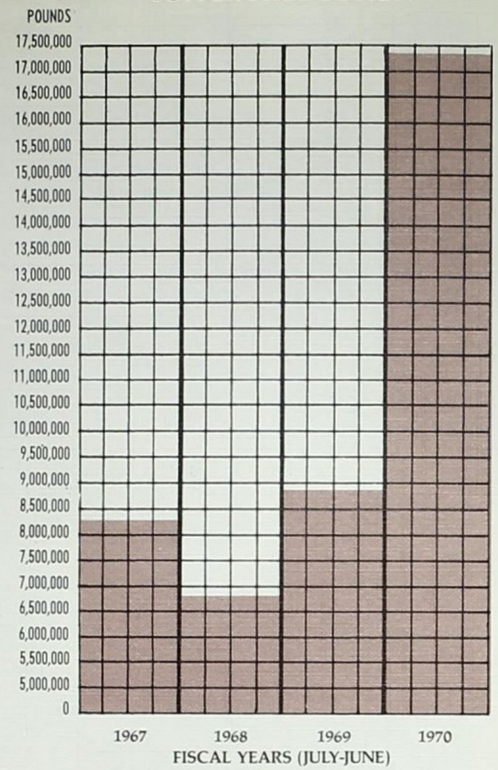
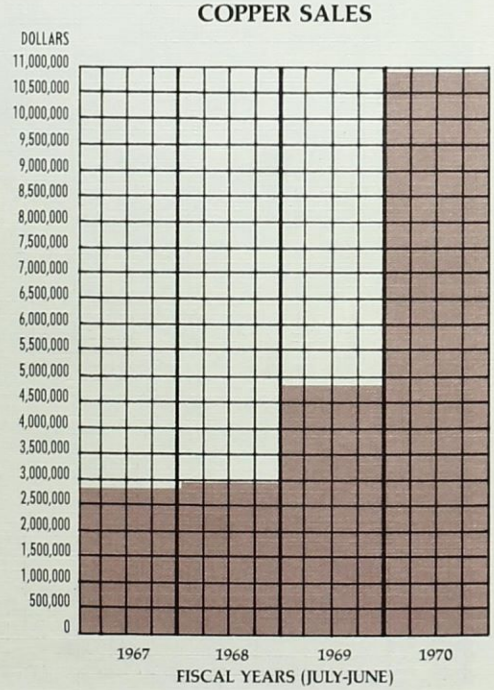
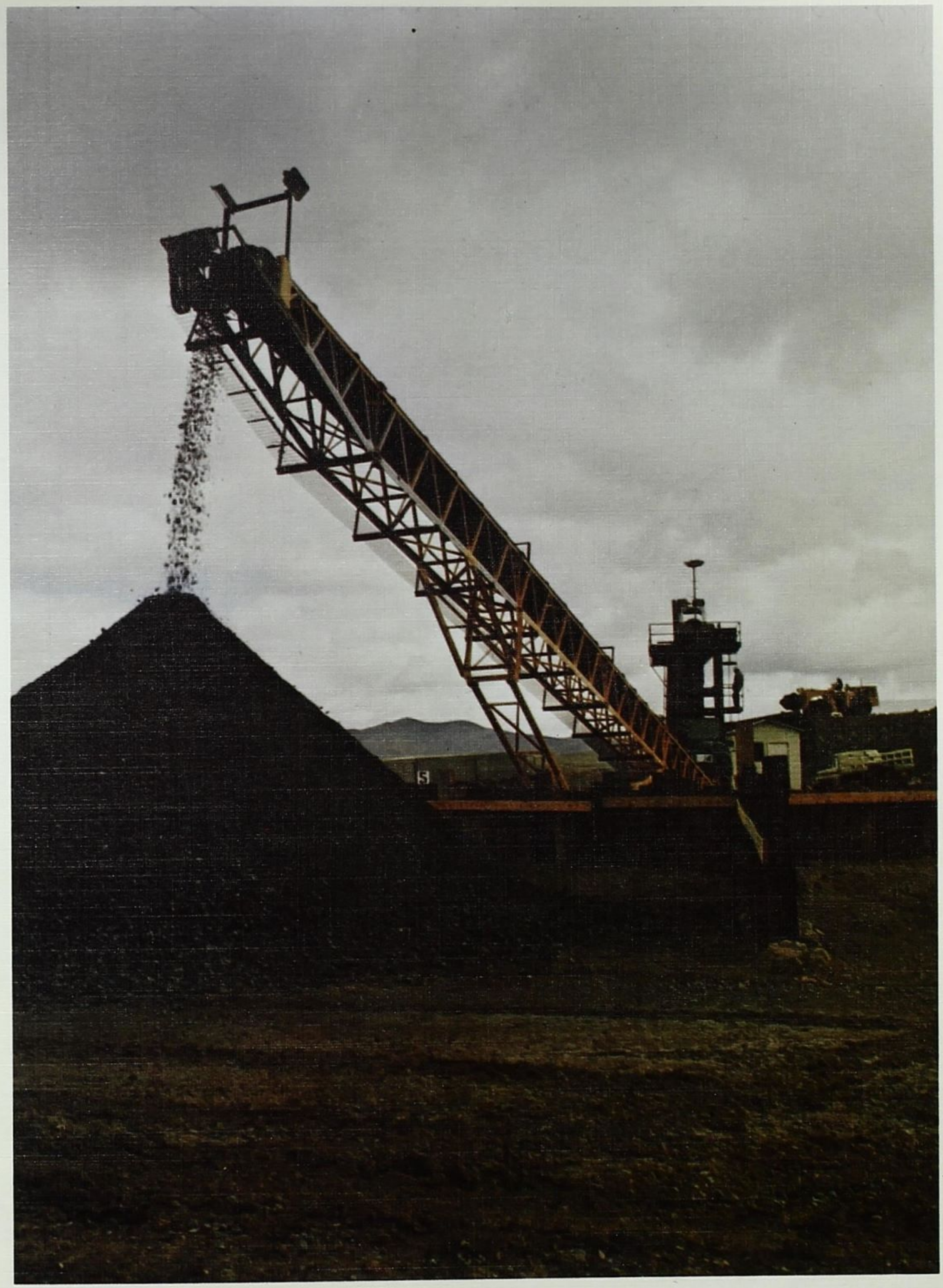
COPPER PRODUCTION



COPPER SALES



Stockpiling crushed ore at Big Mike



BIG MIKE PIT

This open pit, 620 feet in diameter and about 300 feet deep, resulted from one of the most quickly-executed mining ventures of 1970 — the Company's acquisition and development of the Big Mike copper deposit near Winnemucca, Nevada. The primary target was approximately 95,000 tons of high grade sulphide ore surrounded by about 675,000 tons of lower-grade oxide-sulphide ore and several million tons of overburden. The Company first learned of the property in early August 1969, reached an agreement in principle with the owner, Big Mike Corporation, to purchase the property in late September, and concluded the acquisition on December 20. Dave Hogan, Ranchers' general manager for the project, arrived at the property on December 8, a contract for mining and crushing the ore was awarded to Dravo Corporation on December 10, and signed on December 16. Dravo equipment arrived at the property early in January, the first overburden was moved on the 12th, and the top of the sulphide deposit was reached on May 5. In the meantime, most of the copper had been committed to foreign smelters at an average price of about $.65 per pound. By June 14, some 18,000 tons of crushed ore had been shipped by rail to Stockton, California, and were enroute by boat to Germany and Sweden. Another 15,000 tons were shipped on June 27, and an additional 20,000 tons were in stockpile at the mine. Mining of the remaining sulphide ore was completed on August 1, and the final shipments will be made by mid-September — completing the project just slightly less than a year after it began. In the interim, approximately 3.2 million tons of overburden and about 95,000 tons of high grade sulphide ore — with a gross value of nearly $11.2-million — were removed from the pit. In addition, about 275,000 tons of oxide-sulphide ore are in stockpile and awaiting treatment with the 400,000 tons of ore still in the deposit.

each month; the new equipment would increase this total to between 400,000 and 500,000 tons per month. About 2,339,000 tons of ore and 1,608,000 tons of overburden were moved at the mine in 1970.

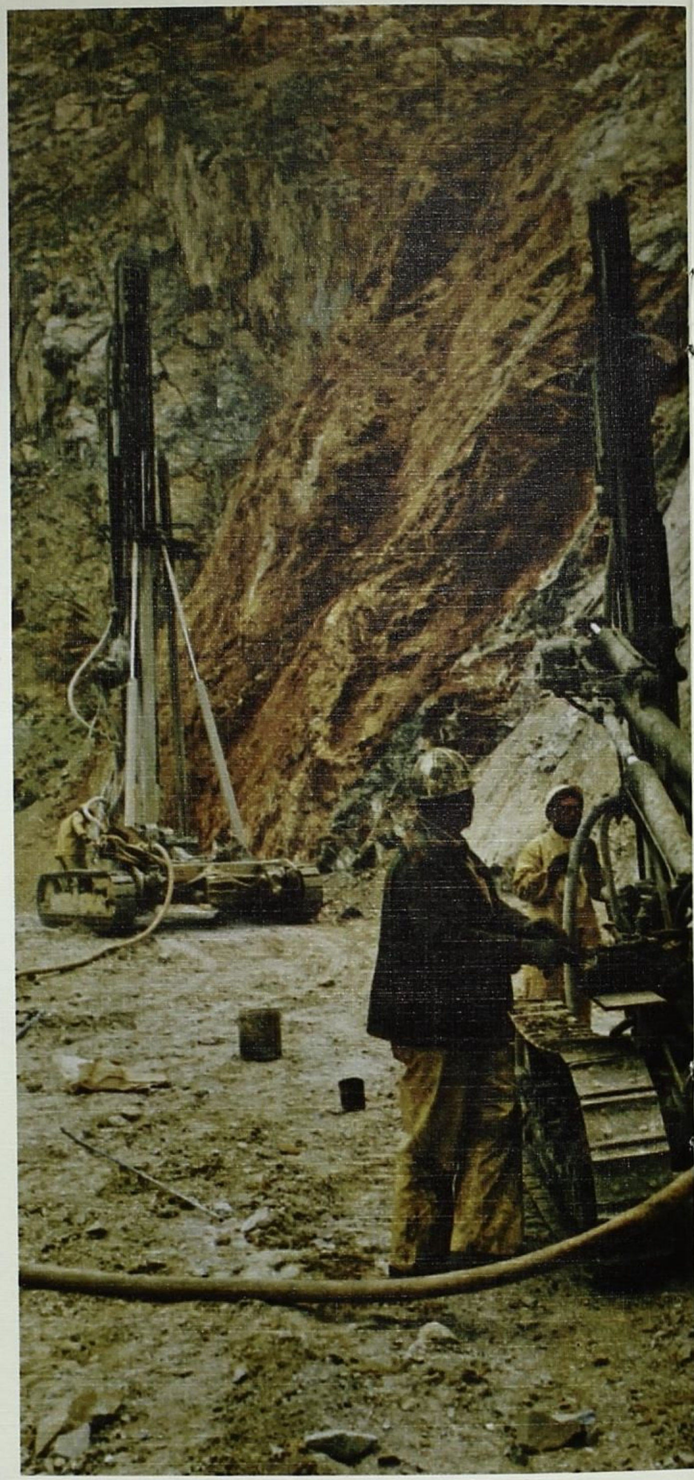
Reserves at the Bluebird are presently estimated at about 13.5-million tons of ore with an average grade of .50 percent copper. Some exploratory drilling was done on the property during the year, and preliminary results indicate excellent potential for additional reserves. Funds for further exploration have been budgeted for 1971.

Significant extension of reserves would probably permit modification of the leaching system at the mine, a change that has been under consideration for several years. The present system involves placing all the ore in heaps and treating it with sulfuric acid to produce the copper solution used in the electrowinning plant. A new system would probably involve continuous leaching of the smallest ore particles in a separate circuit, which should significantly increase the amount of copper recovered. The Company is also investigating ore crushing and heap modifications as means of increasing recovery.

Acquisition of the Big Mike copper property near Winnemucca, Nevada, has proved to be a very profitable venture for the Company. The property, which originally contained about 95,000 tons of sulphide ore with a grade of approximately nine percent copper and about 675,000 tons of lower grade sulphide-oxide ore, was acquired late in the second quarter and placed in production in the fourth quarter. By the end of the quarter, about half the sulphide ore had been mined, and about one-third of it shipped to smelters. Because of its high grade the ore can be shipped directly to smelters without further processing.

Production of copper from the remaining sulphide-oxide ore is being deferred until the approximately 1,200 acres surrounding the deposit can be more thoroughly investigated. This acreage is subject to a joint exploration agreement between the Company and Cerro Corporation. Discovery of substantial additional reserves could affect the method chosen for treatment of the oxides, although it now appears that leaching and precipitation with iron to produce cement copper is the most feasible approach.

Drilling blast holes in Big Mike pit



Crushing copper sulphide ore

ANTIMONY

The Company is presently conducting a comprehensive investigation of the Yellow Pine Mine at Stibnite in central Idaho. The mine, closed since 1952, is believed to contain the largest reserve of antimony in the country. The property was leased from the Bradley Mining Company, San Francisco.

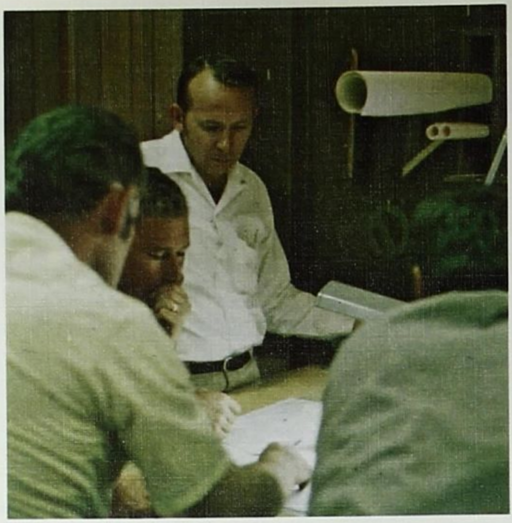
Several thousand feet of core drilling has been done on the property this summer, and the results are currently being evaluated. Present data indicate a sizable body of ore containing about one percent antimony and minor amounts of gold, silver, and tungsten. Most of the ore can be mined from an open pit.

The Company is continuing engineering and metallurgical studies on a mill for the property. A flotation plant capable of processing several hundred tons of ore per day is being considered. Concentrates produced in the mill would be shipped to smelters or might be converted to antimony metal in a facility built by the Company. Construction of such a facility would probably be undertaken jointly with another company.

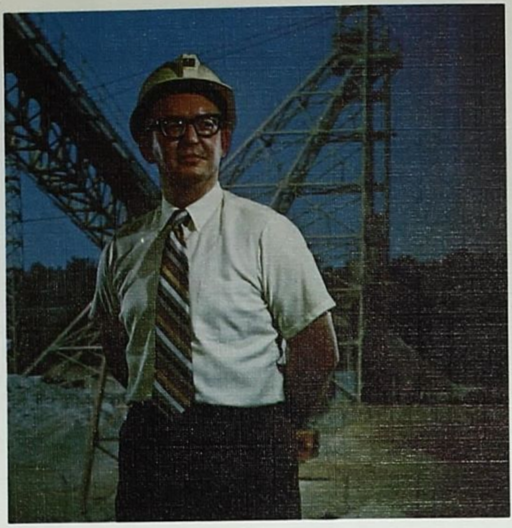
The price of antimony will be a key factor in determining whether the Company proceeds with development of the property. In 1952 when the mine was closed by its previous operator, the price of antimony metal had declined to about $.40 per pound. The price has increased sharply in the past year, rising from approximately $.45 per pound for metal to a high of about $4 per pound in foreign trading. The price at the beginning of the 1971 fiscal year was about $2 per pound in the foreign markets where the Company would expect to sell much of its production.

The recent price increases appear to be due mainly to decreases in foreign supplies and to a steady annual increase in demand. Antimony is employed primarily as a hardening and strengthening ingredient in lead alloys used in acid batteries, electric cables, type metals, and various other products. It is also used in ceramics, transistors and rectifiers, and as a flameproofing in paints, plastics, and fabrics. The country produces from primary sources less than five percent of the antimony it consumes.

Milton Ward



Leland Erdahl



The Company made three important additions to its management team in 1970: Robert P. Koenig was appointed to the Board of Directors and Milton H. Ward was named Vice President, Operations, and Leland O. Erdahl, Vice President, Finance, and Treasurer.

Milton Ward, 38, joined the Company in January, after serving with Homestake Mining Company for four years as general manager of United Nuclear-Homestake Partners at Grants, New Mexico. In his former position, he directed the operation of six underground uranium mines, a uranium processing mill, and an exploration and property acquisition department.

Leland Erdahl, 41, was Manager of Finance and Administration with United Nuclear Corporation's Mining and Milling Division in Santa Fe, New Mexico, before joining the Company in May. Previously, he was chief of the Audit Planning and Program Branch, U.S. Atomic Energy Commission, Germantown, Maryland.

Robert Koenig, named to the Board of Directors in June, is Chairman of the Board, Cerro Corporation, a major international producer of nonferrous metals and a domestic fabricator of copper. He served as a director and president of Cerro from 1950 until July 1970. From 1939 to 1950, he was president and a director of Ayrshire Collieries Corporation, a major coal producer.

Adrian Berryhill, Grants, New Mexico, businessman, resigned from the Board of Directors during the year because of ill health. He was one of several New Mexico landowners who pooled mineral resources in 1954 to form the Company and, except for a brief period in 1963, served on the Board until his resignation this year. The Company is deeply indebted to Mr. Berryhill and wishes to express its appreciation to him for his service and counsel in the formative years of the Company and during its later transition to an operating company.

DIRECTORS

Maxie L. Anderson
Albuquerque
President, Ranchers Exploration and Development Corporation

Frank Coolbaugh
Denver
Mining Consultant

Robert P. Koenig
New York City
Chairman of the Board, Cerro Corporation

Edward E. Monteith, Jr.
Dallas
Executive Vice President, Republic National Bank of Dallas

Roy Richards
Carrollton, Georgia
President, Southwire Company

Robert V. Sibert
Beverly Hills, California
President, Pearson-Sibert Oil Company of Texas

OFFICERS

Maxie L. Anderson, President

Leland O. Erdahl, Vice President, Finance, and Treasurer

Arthur Miller, Vice President, Construction

John E. Motica, Vice President, Geology

Milton H. Ward, Vice President, Operations

Herbert M. Campbell II, Secretary

Chris A. Corondoni, Assistant Vice President

AUDITOR'S REPORT

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

We have examined the balance sheet of Ranchers Exploration and Development Corporation as of June 30, 1970, and the related statements of income, stockholders' equity, and source and application of funds for the year then ended. Our examination was 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. A substantial portion of the Company's trade accounts receivable results from sales made to foreign buyers from whom we could not obtain direct confirmation; however, we satisfied ourselves as to such accounts by means of other auditing procedures. We previously made a similar examination for the preceding year.

In our opinion, the accompanying balance sheet and statement of income, stockholders' equity, and source and application of funds present fairly the financial position of Ranchers Exploration and Development Corporation at June 30, 1970, and the results of its operations, the changes in stockholders' equity, and the source and application of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Ernst & Ernst

Albuquerque, New Mexico
July 28, 1970

ASSETS
BALANCE SHEET / JUNE 30, 1970 AND JUNE 30, 1969

	1970	1969
CURRENT ASSETS		
Cash and certificates of deposit	$ 1,977,767	$ 782,828
Marketable securities - (1970 at cost less $260,000 reduction to market value; 1969 at cost - market value $186,048)	1,315,764	201,280
Trade accounts receivable — Note A	3,704,475	415,245
Recoverable federal income taxes	118,400	-0-
Inventories — Note B	1,763,194	1,049,045
Prepaid expenses and other current assets	165,695	254,520
Deferred income tax charge	65,000	-0-
Deposits with brokers for copper futures contracts	-0-	158,645
TOTAL CURRENT ASSETS	9,110,295	2,861,563
CERTIFICATES OF DEPOSIT AND MARKETABLE SECURITIES (at cost — approximately market) EARMARKED FOR USE IN CONSTRUCTION AND ACQUISITION OF MINING PROPERTIES	-0-	3,296,257
PROPERTY, PLANT, AND EQUIPMENT — on the basis of cost — Notes C and E		
Land ($66,054) and buildings	391,345	328,405
Mine structures, machinery and equipment	6,635,179	5,059,440
Construction in progress (estimated additional cost to complete — $800,000)	2,534,760	-0-
Mineral interests, mining claims, leases and permits	2,547,382	944,283
Deferred intangible mining and development costs	6,135,916	1,065,058
	18,244,582	7,397,186
Allowances for depreciation, depletion, and amortization	5,095,601	1,299,894
	13,148,981	6,097,292
OTHER ASSETS AND DEFERRED CHARGES		
Trade accounts receivable — Note A	218,039	218,039
Investment in joint venture — Note D	219,972	174,004
Unamortized debt discount and expense — Note E	187,321	181,991
	625,332	574,034
	$22,884,608	$12,829,146

See notes to financial statements

LIABILITIES AND STOCKHOLDERS' EQUITY
BALANCE SHEET / JUNE 30, 1970 AND JUNE 30, 1969

	1970	1969
CURRENT LIABILITIES		
Notes payable to bank — Note A	$ 720,000	$ 196,241
Trade accounts payable	1,276,568	449,843
Accrued interest payable	107,690	79,542
Federal and state income taxes	55,000	4,000
Other liabilities	131,104	76,376
Current portion of long-term debt	2,090,867	189,646
TOTAL CURRENT LIABILITIES	4,381,229	995,648
LONG-TERM DEBT — Note E		
$5^3/_4$% convertible subordinated debentures due January 15, 1989	2,700,000	2,990,000
Notes payable to bank	5,000,000	1,000
Contract payable for purchase of mineral interest	200,000	-0-
Lease-purchase contracts — equipment pledged as collateral (Cost: 1970 — $345,068; 1969 — $231,260)	103,334	109,366
	8,003,334	3,100,366
Less portion classified as current liability	2,090,867	189,646
	5,912,467	2,910,720
DEFERRED FEDERAL AND STATE INCOME TAXES — Note F	1,300,000	440,000
STOCKHOLDERS' EQUITY — Notes G and H		
Common Stock — par value $.50 a share: Authorized 2,000,000 shares Shares issued (1970 — 1,536,892; 1969 — 738,048) including shares in treasury	768,445	369,022
Capital in excess of par value	5,482,658	4,728,876
Retained earnings	5,099,270	3,423,242
	11,350,373	8,521,140
Less cost of Common Stock in treasury (1970 — 5,340 shares; 1969 — 1,240 shares)	59,461	38,362
	11,290,912	8,482,778
	$22,884,608	$12,829,146

See notes to financial statements

STATEMENT OF INCOME
YEAR ENDED JUNE 30, 1970 AND JUNE 30, 1969

	1970	1969
Income		
Net sales	$11,039,462	$ 4,834,585
Uranium royalties	611,118	739,578
Interest, dividends and other	276,114	138,310
	11,926,694	5,712,473
Deductions from income — Notes B, C and D		
Cost of products sold	8,176,439	4,133,429
Exploration, conservation, and maintenance of mining properties	306,893	408,106
Administrative and general expenses	417,059	229,818
Interest, principally on long-term debt	303,658	226,529
Lease abandonments	57,000	-0-
	9,261,049	4,997,882
INCOME FROM OPERATIONS BEFORE APPLICABLE INCOME TAXES	2,665,645	714,591
Federal and state income taxes — Note F		
Currently payable (recoverable)	(65,383)	3,286
Deferred	860,000	35,000
	794,617	38,286
INCOME BEFORE EXTRAORDINARY ITEM	1,871,028	676,305
Extraordinary item — provision for decline in market value of marketable securities, less applicable recoverable income taxes of $65,000	(195,000)	-0-
NET INCOME	$ 1,676,028	$ 676,305
Per share of Common Stock — Note H		
Income before extraordinary item	$1.25	$.49
Extraordinary item	(.13)	-0-
Net income	1.12	.49
Net income fully diluted	1.08	.49

See notes to financial statements

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
YEAR ENDED JUNE 30, 1970 AND JUNE 30, 1969

	1970	1969
SOURCE OF FUNDS		
Net income for the year	$ 1,676,028	$ 676,305
Provisions for depreciation, depletion and amortization	3,640,743	608,208
Amortization of debt discount and expense	35,940	5,978
Increase in deferred income taxes	860,000	35,000
TOTAL FROM OPERATIONS	6,212,711	1,325,491
Increase in long-term debt	3,291,747	988,186
Issue of Common Stock for purchase of mineral properties	1,072,500	384,000
Proceeds from sale of previously unissued Common Stock	7,600	4,162,288
Issue of Common Stock held in treasury for purchase of mineral properties	260,435	-0-
Decrease in certificates of deposit and other marketable securities earmarked for construction and acquisition of mining properties	3,296,257	-0-
TOTAL	$14,141,250	$ 6,859,965
APPLICATION OF FUNDS		
Additions to depreciable property, plant, and equipment (1970 — $4,223,478; 1969 — $889,949) less carrying amounts of disposals and abandonments	$ 4,193,999	$ 863,543
Additions to mineral interests, mining claims, leases and permits (1970 — $1,660,119; 1969 — $671,468) less abandonments	1,603,099	638,368
Additions to deferred mining and development costs	4,895,333	295,469
Increase in other assets	87,239	75,544
Current Sinking Fund requirement for debentures	-0-	108,500
Purchase of debentures for treasury	290,000	10,000
Cost of Common Stock purchased for treasury	208,429	30,204
Certificates of deposit and other marketable securities earmarked for construction and acquisition of mining properties	-0-	3,296,257
Increase in net current assets	2,863,151	1,542,080
TOTAL	$14,141,250	$ 6,859,965

See notes to financial statements

STATEMENT OF STOCKHOLDERS' EQUITY
YEAR ENDED JUNE 30, 1970 AND JUNE 30, 1969

	1970	1969
COMMON STOCK		
Balance at beginning of year	$ 369,022	$ 313,596
Par value of shares issued:		
Sold to public — 100,000 shares	-0-	50,000
For purchase of Tungsten Queen Mine — 9,100 shares	-0-	4,550
Sold under stock option plan (1970 — 400 shares; 1969 — 1,152 shares)	200	576
For services (1969 — 600 shares)	-0-	300
For purchase of Big Mike Mine — 30,000 shares	15,000	-0-
Stock split-up (2 for 1) effected in the form of a dividend — 768,446 shares — Note H	384,223	-0-
BALANCE AT END OF YEAR	$ 768,445	$ 369,022
CAPITAL IN EXCESS OF PAR VALUE		
Balance at beginning of year	$ 4,728,876	$ 238,014
Proceeds or market value in excess of par value of shares of Common Stock issued:		
Sold to public	-0-	4,076,102
For purchase of Tungsten Queen Mine	-0-	379,450
Sold under stock option plan	7,400	11,910
For services	-0-	23,400
For purchase of Big Mike Mine	1,057,500	-0-
Excess of market value over cost of treasury stock (7,470 shares) issued for purchase of Big Mike Mine	73,105	-0-
Transferred to capital stock for par value of 768,446 shares issued in 2 for 1 stock split-up — Note H	(384,223)	-0-
BALANCE AT END OF YEAR	$ 5,482,658	$ 4,728,876
RETAINED EARNINGS		
Balance at beginning of year	$ 3,423,242	$ 2,746,937
Net income for the year	1,676,028	676,305
BALANCE AT END OF YEAR	$ 5,099,270	$ 3,423,242
COMMON STOCK IN TREASURY		
Balance at beginning of year	$ 38,362	$ 8,158
Purchase of shares for treasury (1970 — 9,800 shares; 1969 — 900 shares)	208,429	30,204
	246,791	38,362
Cost of treasury shares issued for mines and mineral leases	(187,330)	-0-
BALANCE AT END OF YEAR	$ 59,461	$ 38,362

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS JUNE 30, 1970

NOTE A — TRADE ACCOUNTS RECEIVABLE

Accounts receivable in the amount of $720,000 have been pledged as collateral on the short-term notes payable to bank as of June 30, 1970.

The Company has filed suit in federal court in Arizona against a customer for collection of a receivable ($218,039) for copper sold in February and March, 1968. The customer has refused to pay, claiming delivery was not made in accordance with dates specified in the contract. In the opinion of Company's counsel the amount will be collected, but because of the uncertainty of the collection date the amount is classified as a non-current asset.

NOTE B — INVENTORIES

Inventories are stated at the lower of cost (principally average cost) or market and consist of the following:

	June 30	
	1970	1969
Finished metals and metal products	$ 26,068	$ 36,198
Ore in leaching heaps and stockpiles at Bluebird Mine (1969 and 1970) and Big Mike and Tungsten Queen mines (1970)	1,268,490	717,592
Supplies	420,753	90,120
Costs incurred in cancellation of futures contracts replaced with more favorable sales contracts	47,883	205,135
	$1,763,194	$1,049,045

The Company hedges sales of part of its production of cathode copper through the sale of futures contracts. As these contracts are re-purchased and replaced with more favorable sales contracts, the resulting costs are added to inventory. These amounts are charged to income when delivery is made under the sales contracts.

NOTE C — DEPRECIATION, DEPLETION AND AMORTIZATION

It is the policy of the Company to provide for depreciation, depletion and amortization by using annual rates which are sufficient to amortize the cost of equipment over its estimated useful life and to amortize the costs of leases and mine development over the productive lives of the mines, based on estimated reserves. Both declining-balance and straight-line methods are used for computing depreciation, there being no difference in reporting for federal income-tax purposes and financial reporting. Costs of producing leases and related mine development costs are being amortized by using the unit-of-production method. Depreciation, depletion and amortization of property, plant and equipment charged to income amounted to $3,640,743 in 1970 and $608,208 in 1969.

Certain property, plant and equipment accounts and deferred mine development costs as previously shown in the June 30, 1969 financial statements have been reclassified to conform with current year presentation.

NOTE D — INVESTMENT IN JOINT VENTURE

The amount shown represents the costs of mining leases ($61,699) and cash contributed, less the Company's share of expenditures to date, by the Company to a joint venture organized for the purpose of engaging in the exploration for uranium on mining leases and claims in New Mexico. The joint venture agreement calls for the Company to make additional cash contributions of $62,500 quarterly until March, 1971 ($187,500 remaining unpaid at June 30, 1970) and provides that the Company will share in 50% of the profits and 25% of the exploration expenditures of the venture. The Company's share of exploration expenditures amounted to $166,444 for the year ended June 30, 1970 and $223,438 for the year ended June 30, 1969.

NOTE E — LONG-TERM DEBT

The debentures, which bear interest at the rate of 5¾%, are convertible into two shares (after giving effect to the 2 for 1 stock split-up in March, 1970) of Common Stock for each $50 of principal amount, and are subordinated to all outstanding or subsequently incurred senior indebtedness. The debentures are redeemable, at the option of the Company, in whole or in part at redemption prices ranging downward from 105.412% beginning January 15, 1970 to 100% beginning January 15, 1988. The indenture provides for an annual sinking fund payment in the amount of $118,500 beginning January 15, 1970, which can be reduced by the principal amount of debentures purchased by the Company. The indenture, among other things, restricts payment of cash dividends and the amount of Common Stock the Company can purchase for treasury.

Debt discount and expense incurred in connection with registration and sale of the debentures is being amortized over the life of the outstanding debentures.

Also included in the long-term debt at June 30, 1970 is a bank loan in the amount of $5,000,000. The amount borrowed is represented by two notes under one loan agreement. Assigned and mortgaged as collateral to the notes are all mining leases from which the Company derives its uranium royalties and all properties and proceeds of production at the Bluebird Copper Mine, the Big Mike Copper Mine, and the Tungsten Queen Mine. In addition, the loan agreement provides that the Company shall maintain current assets at 125% of current liabilities and requires that net income plus depreciation and depletion in any fiscal year be adequate to provide 120% of amounts required to service all secured indebtedness of the Company for that fiscal year. The loan agreement also includes restrictions regarding additional indebtedness, capital improvements and other matters.

One note in the amount of $1,500,000 bears interest at 7½% and is repayable in monthly installments of $60,000 plus interest, beginning September 1, 1970. The other note, in the amount of $3,500,000, bears interest at 9½% but requires an adjustment of interest to prime rate plus 1½% if the prime rate increases or decreases. This note requires repayment at $140,000 a month plus interest beginning September 1, 1970.

The contract payable for purchase of mineral interest requires minimum annual payments of $40,000 beginning in 1971, and bears no interest. Annual payments may be increased depending upon production from the property.

NOTE F — FEDERAL AND STATE INCOME TAXES

The Company elects to deduct certain mining and development costs for income tax purposes while such costs have been deferred for financial reporting purposes and are being amortized over the production units (metal) benefited by such expenditures or, for leach heap preparation over an estimated three year life. Income taxes deferred, as a result of currently deducting such mining and development costs, have been charged or credited to income.

Investment tax credit carryover from 1967 in the amount of $54,600, arising from a net operating loss carryback from 1970 to 1967, has been used to reduce the current year income tax provision. Investment credit, which is accounted for by use of the flow-through method, was $34,212 in 1969.

NOTE G — STOCK OPTIONS (Shares and amounts are shown after giving effect to 2 for 1 stock split-up — See Note H)

At June 30, 1970, 31,704 shares of Common Stock were reserved for issuance to certain officers and employees under the Company's stock option plan. Of this amount 29,336 shares were covered by options outstanding and 2,368 shares were available for future grant. Options may be granted at prices not less than market value at date of grant, become exercisable principally in five equal annual installments following dates of grant, and expire five years from date of grant.

In addition, during the year the Company granted options, principally to directors, not under the stock option plan totaling 43,500 shares and priced at the fair market value on the date of grant.

Options exercised, exercisable, and outstanding are summarized as follows:

	Stock Option Plan		Other		Total
	Shares	Price	Shares	Price	Shares
Outstanding June 30, 1969	22,536	$ 2.50-23.50	10,000	$17.50	32,536
Year ended June 30, 1970					
Granted	10,600	$10.25-20.00	43,500	$11.50-19.00	54,100
Exercised	(800)	$9.50	—		(800)
Cancelled	(3,000)	$20.00	(7,000)	$12.00	(10,000)
Outstanding June 30, 1970	29,336	$ 2.50-23.50	46,500	$11.50-19.00	75,836
Exercisable June 30, 1970	8,536	$ 2.50-23.50	3,334	$17.50	11,870

NOTE H — STOCK SPLIT-UP AND INCOME PER SHARE

As of March 10, 1970 the Company issued one share of Common Stock to each shareholder of record as of that date for each share held. The result of this issue of additional shares was a 2 for 1 stock split-up effected in the form of a dividend under New Mexico law.

Net income per share of Common Stock was computed on the basis of the weighted average number of shares outstanding during each year and has been adjusted to reflect the 2 for 1 stock split-up. Fully diluted income per share assumes the conversion of all outstanding convertible debentures (issued in January, 1969) at the beginning of the year.

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TUNGSTEN QUEEN — (A) Miners and stockpile; (E) Unloading ore; (G) Hoist operator; (H) Headframe; (K) Miners; and (L) Mill construction. BIG MIKE — (B) Geologist and ore samples; (C) Welders; (D) Conveyor; (F) Lab chemicals; (I) Pit and transit; and (J) Moving ore.