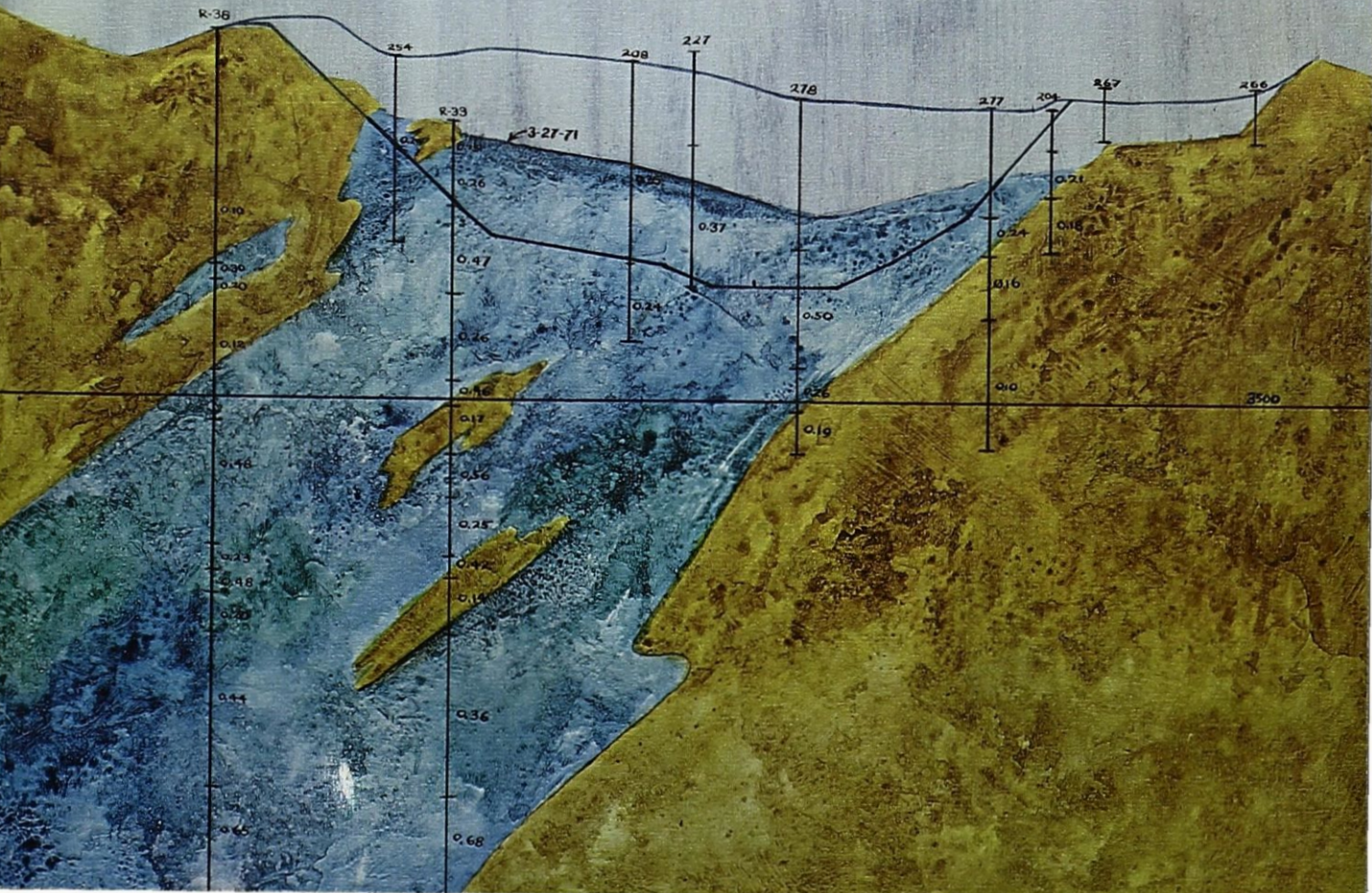


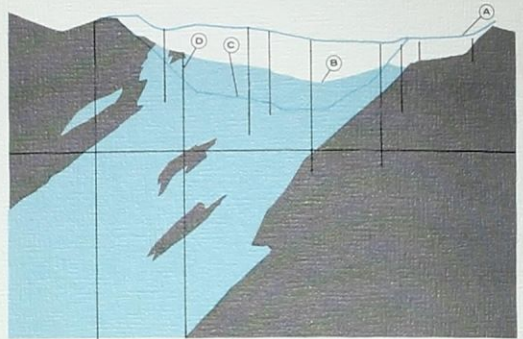


1971 ANNUAL REPORT

RANCHERS

EXPLORATION AND DEVELOPMENT CORPORATION





The cover of the 1971 Annual Report illustrates rather graphically why the search for minerals is an interesting, exciting, and sometimes a surprisingly rewarding business. The cover drawing – an acrylic by Artist Gene Garriott – shows a cross section (end view) of the main ore body at the Company's Bluebird Mine at Miami, Arizona. Ore is indicated by the dark blue-green color, overburden and ground rock by yellow. Ore already mined originally filled the area between the blue line (A, above) and present surface of the pit (B).

When the Company acquired the Bluebird in 1964, the ore body was thought to consist of approximately 5-million tons of ore, with an additional 5-million tons of inferred ore in other deposits on the property. This information, plus some further drilling, led to a pit design indicated by line "C". This was presumed to be the bottom of the deposit.

What was not apparent from the surface – and what the earlier, shallower drilling did not reveal – was that the deposit is not a flat bed as it appears from the surface, but is tilted, slicing through the earth at about a 45° angle. Many of the earlier drill holes had either gone through the narrow shoulder on the east side of the deposit (right side of drawing) and into

the barren ground rock, or had failed to penetrate the thick overburden covering the west side of the deposit. These holes gave the impression that the ore body is thinner than it actually is.

Recent deep drilling (D) has shown that the ore extends to a maximum depth of approximately 1,200 feet. This new ore has increased reserves nearly six-fold, from 13-million tons to about 75-million tons, with potential for additional ore. Ore on the property occurs in two separate deposits – the main ore body at the south end of the property where present mining operations are located, and the north ore body which has not yet been mined. The new reserves will greatly extend the life of the property – now being mined at about 2.9-million tons of ore annually – while eventually permitting a significant increase in production.

Since the Company began production at the Bluebird in October 1964, the Mine has produced 13-million tons of ore and 55,875,581 pounds of copper, which have been sold for \$27,865,045. Cost of acquiring the property and bringing it into production was less than \$1-million. The cathode production plant installed in 1968 cost approximately \$2.7-million.



1971 ANNUAL REPORT

RANCHERS

EXPLORATION AND DEVELOPMENT CORPORATION

Directors

Maxie L. Anderson, Albuquerque, President, Ranchers Exploration and Development Corporation / **Frank Coolbaugh**, Denver, Mining Consultant / **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

Revenues Up, Earnings Down

Copper Sales Help Establish Record Gross
But Tungsten Losses Reduce Net Earnings

Gross revenue reached a record high in 1971, but net earnings fell as the result of operating losses at the Tungsten Queen. Net earnings per share were \$.70, compared to \$1.12 in 1970. Net losses at the Tungsten Queen were approximately \$.57 per share, before taking into consideration the effect of income taxes.

The record gross of \$16,075,656 reflected greater production at the Bluebird Mine and shipment to foreign smelters of the remaining high grade ore from the Big Mike Mine. The total represented an increase of about 35 percent over the \$11,926,694 grossed last year.

Copper sales totaled \$14,439,269 for the year, including \$7,654,851 from the Bluebird and \$6,784,418 from Big Mike. Uranium royalties were \$724,341, up about 19 percent from the \$611,118 received in 1970. Tungsten sales, dividends, interest, and miscellaneous items

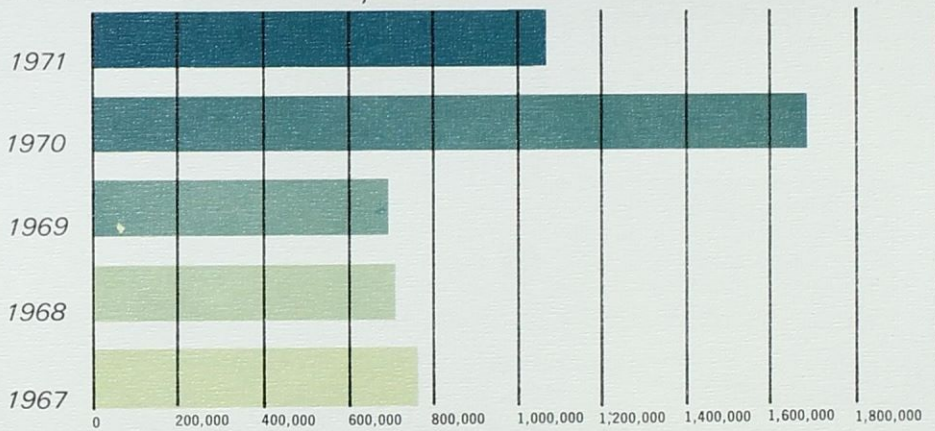
accounted for the remaining revenue of about \$912,046.

Net earnings from operations were \$931,038, a decrease of 50 percent from the \$1,871,028 earned from operations last year. Total net earnings were \$1,072,520, compared to \$1,676,028 a year ago. This year's total was increased by \$141,482 in extraordinary income, principally from sale of stock, while the 1970 total was decreased by \$195,000 on a decline in market value of stock held for investment.

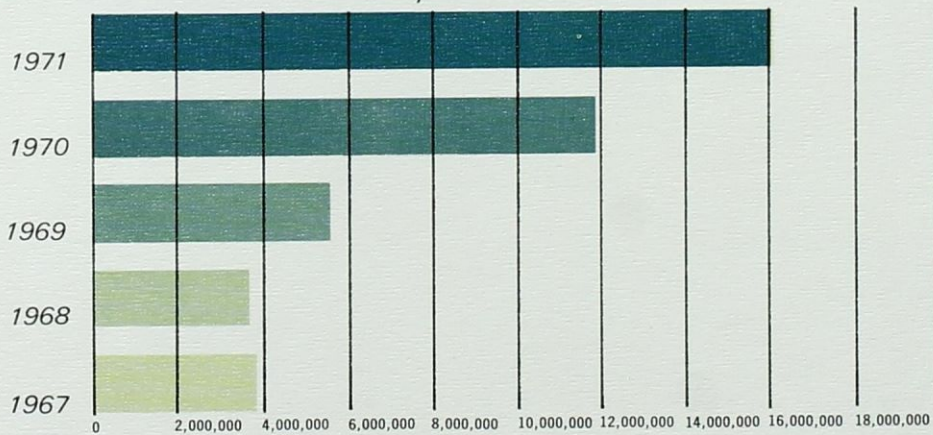
The net earnings of \$.70 per share included \$.61 per share from operations and \$.09 per share extraordinary earnings, primarily from sale of stock. Net earnings in 1970 were \$1.25 per share from operations and a loss of \$.13 per share representing a decline in market value of stock held for investment.

Financial Highlights	1971	1970
	Gross Income	\$16,075,656
Net Earnings before Income Taxes	\$ 1,102,326	\$ 2,665,645
Income Taxes	\$ 171,288	\$ 794,617
Net Earnings before Extraordinary Income	\$ 931,038	\$ 1,871,028
Extraordinary Income Net of Income Taxes	\$ 141,482	\$ (195,000)
Net Earnings	1,072,520	\$ 1,676,028
Earnings per Share:		
Ordinary	\$.61	\$1.25
Extraordinary	\$.09	\$ (.13)
Total	\$.70	\$1.12
Retained Earnings	\$ 6,171,790	\$ 5,099,270
Stockholders' Equity	\$12,266,790	\$11,290,912
Equity per Share	\$8.03	\$7.37

NET INCOME 1967/1971



GROSS INCOME 1967/1971



A Good Year for Copper

Record Production, New Reserves Highlight 1971;
Company Exercises Option on Old Reliable Property

Record production and a major increase in reserves at the Bluebird Mine highlighted the Company's copper operations in 1971. The Company also elected to exercise its option on the Old Reliable copper property near San Manuel, Arizona, following extensive geologic and engineering evaluations.

Operations were quite successful at the Bluebird. Production reached a record 11,859,533 pounds of cathodes, an increase of 12 percent over the 10,556,855 pounds produced last year and well in excess of the production goal for the year of 11.5-million pounds. Sales, which included \$983,704 in revenue from sale of copper purchased for starter sheets, totaled \$7,654,851, compared to \$6,846,243 a year ago.

Profits from the operation were slightly lower than in 1970, despite satisfactory copper prices averaging about \$.57 per pound. Chief reasons for the decline in profitability were a significantly higher stripping rate (removal of overburden), greater acid consumption in the leaching heaps, and lower grade ore. About 2,871,000 tons of ore and 2,955,000 tons of overburden were moved during the year, compared to 2,340,000 tons of ore and 1,609,000 tons of overburden moved in 1970.

The stripping ratio is expected to remain about the same in the present year, but profits should improve somewhat because of higher production and a substantial decrease in the cost of acid. Acid prices are expected to decline to about \$18 per ton, compared to the \$31 per ton paid last year. The Company has sold about 55 percent of the Mine's projected output of 13-million pounds at prices averaging approximately \$.55 per pound.

The most significant development at the Bluebird during the year was the addition of substantial new ore reserves. Reserves on the property at the beginning of the year had been estimated at about 13-million tons of ore with an average grade of .50 percent copper. Drilling during the year increased indicated reserves to about 75-million tons of ore, with an average grade of .52 percent copper, and the property has good potential for additional ore reserves. While engineering studies have not been completed, it appears that the reserves can be mined with a stripping ratio of approximately 1½ tons of overburden to one ton of ore.

Further drilling must be conducted on the property to fully delineate the reserves. However, the Company has already begun preliminary planning to determine the optimum manner of expanding operations at the Mine. It now appears that it may be desirable to change the method of extracting the copper from the ore. The ore is currently placed in heaps, which are leached with acid and water to produce a copper-bearing solution which is converted into cathodes.

Heap leaching is a relatively inexpensive method of removing copper from the ore, but it results in recovery of less than half the copper. Vat leaching, agitation leaching, and other methods of ore treatment which could approximately double recovery of copper values are being investigated by the Company now that the Mine's reserves appear great enough to support the sizable capital costs of these leaching systems. Selection and installation of one of these systems would ultimately mean a major increase in copper production at the Mine.

(Continued)

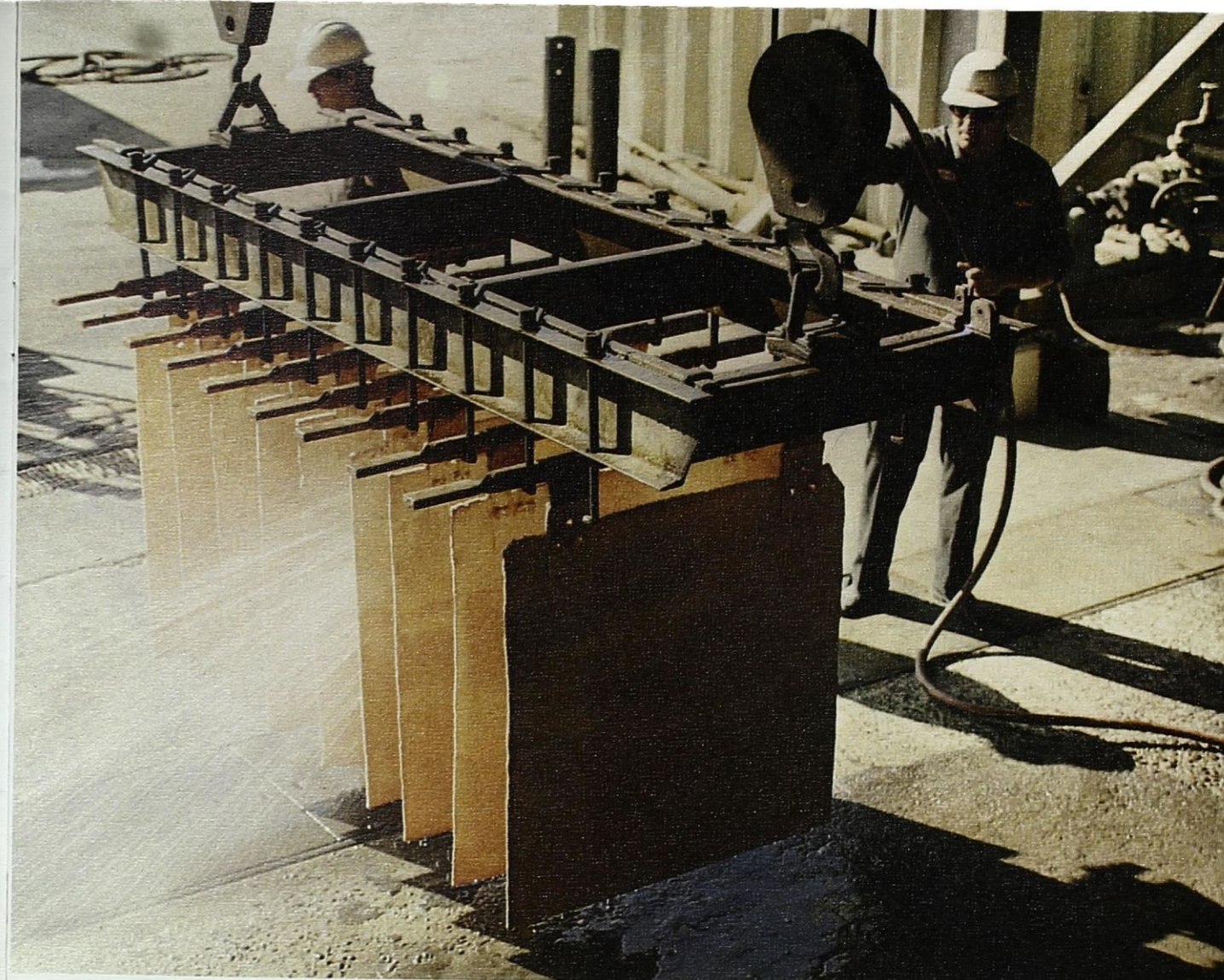


Shipment of high grade sulphide copper ore from the Big Mike deposit at Winnemucca, Nevada, to foreign smelters was completed during the first quarter of the fiscal year. Another 2,000 tons of ore were shipped to domestic smelters in the second quarter, bringing foreign and domestic shipments from the deposit to a total of 94,000 tons in 1970 and 1971. Shipments during fiscal year 1971 contained 11,403,732 pounds of copper, which were sold for \$7,200,739. Cerro Corporation's 20% net profits interest in the project amounted to \$416,321, thus reducing net revenue to \$6,784,418.

About 300,000 tons of oxide-sulphide ore, containing approximately two percent copper, are still in stockpile at the Mine, and will be leached and treated in a precipitation plant to produce cement copper. Production is tentatively scheduled to begin in November, but may be delayed if the price of copper declines. Full production from November through June would result in output of about 1.6-million pounds of copper. Production would continue during fiscal years 1973 and 1974, and perhaps longer if the price of copper permits treatment of 400,000 tons of ore remaining in place in the Big Mike ore deposit.

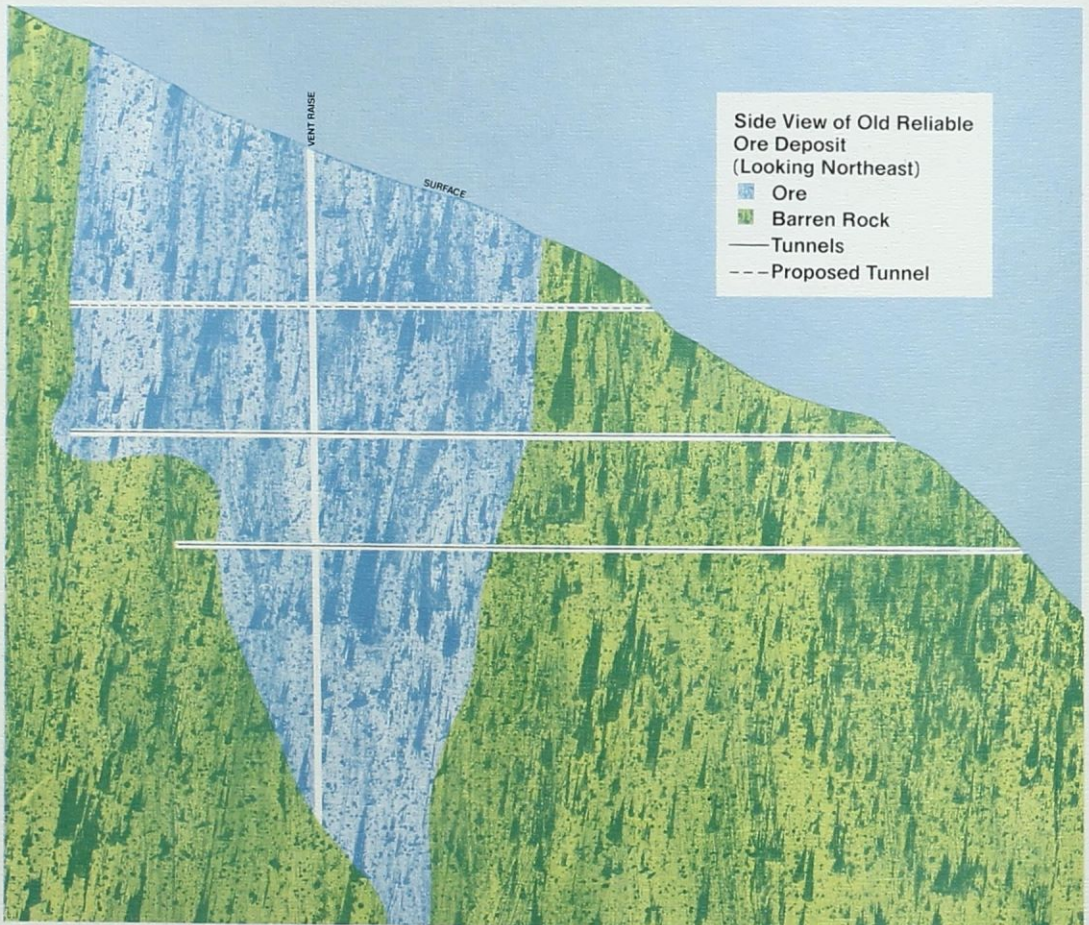
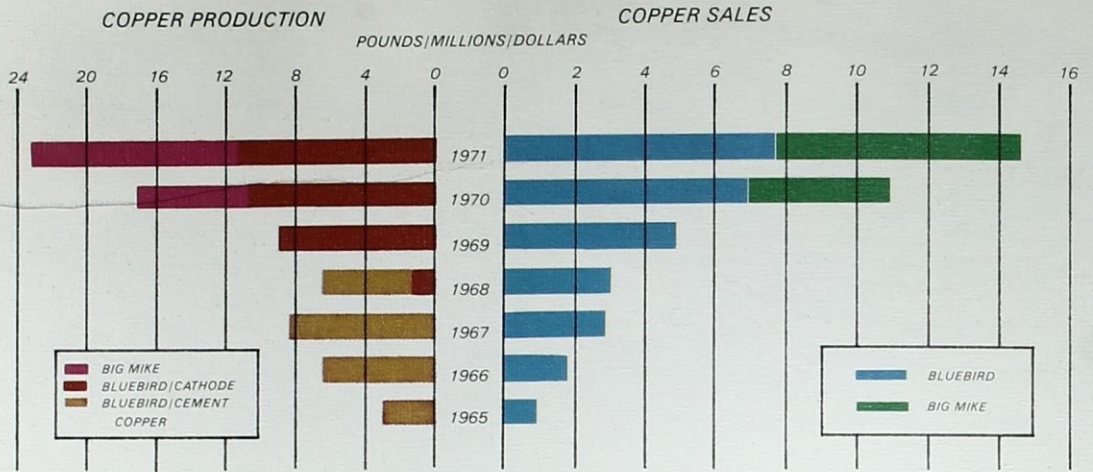
The price of copper will also determine when the recently-acquired Old Reliable deposit is brought into production. Drilling on the deposit, acquired from Occidental Minerals Corporation, has confirmed that it contains approximately 4-million tons of ore with a copper content of .74 percent. The deposit occurs in a pipe-like structure which the Company believes could be fractured with explosives and leached by percolating solutions through the shattered ore to remove the copper. It is estimated that about 30-million pounds of copper could be recovered in this manner over a period of five years, making the property a low-cost, short-term producer of cement copper. Production would begin, at the earliest, some time in fiscal year 1973.

Occidental has retained a 20 percent net profits interest in the property, commencing after the Company has recovered its total investment in the property and in production facilities. Occidental will also receive a production payment of not more than \$200,000 and \$150,000 in cash, \$50,000 of which has already been paid.



Washing electrolyte and acid from finished cathodes





BLUEBIRD LINE



URANIUM

Market Outlook Improves; Venture Ends Third Year

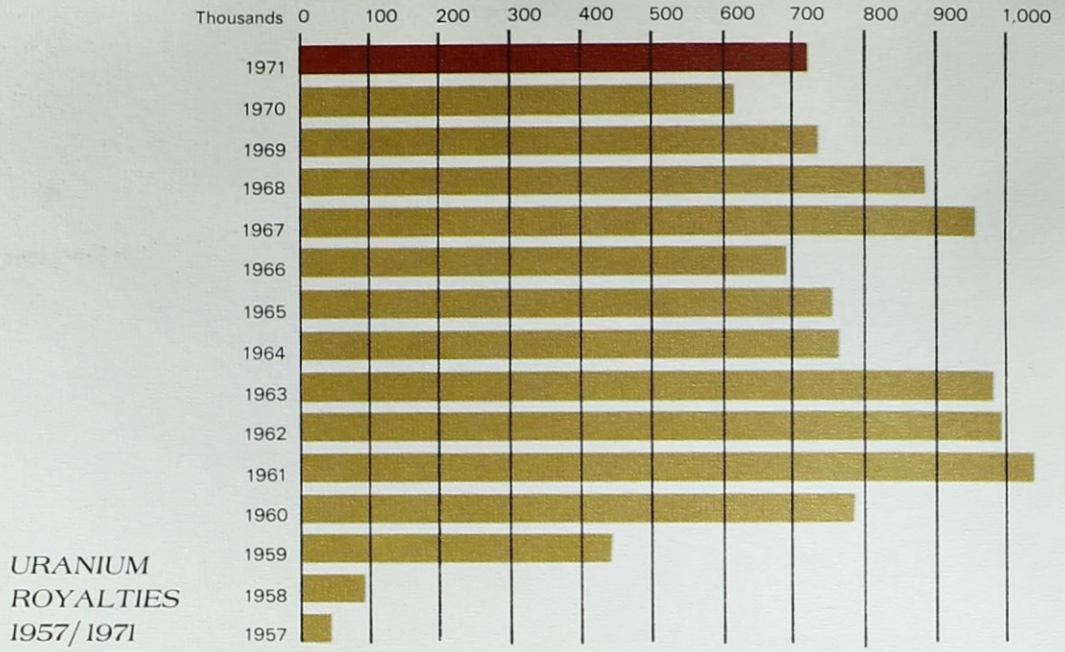
The Company made satisfactory progress in its uranium operations during the year – royalties increased, the market outlook for U_3O_8 improved, and the joint venture with Houston Natural Gas and Combustion Engineering completed its third and final year of drilling.

Royalties from properties in north-west New Mexico totaled \$724,341, an increase of about 19 percent over the \$611,118 received last year. The increase, which is expected to continue into 1972, reflects the slightly higher price received for U_3O_8 .

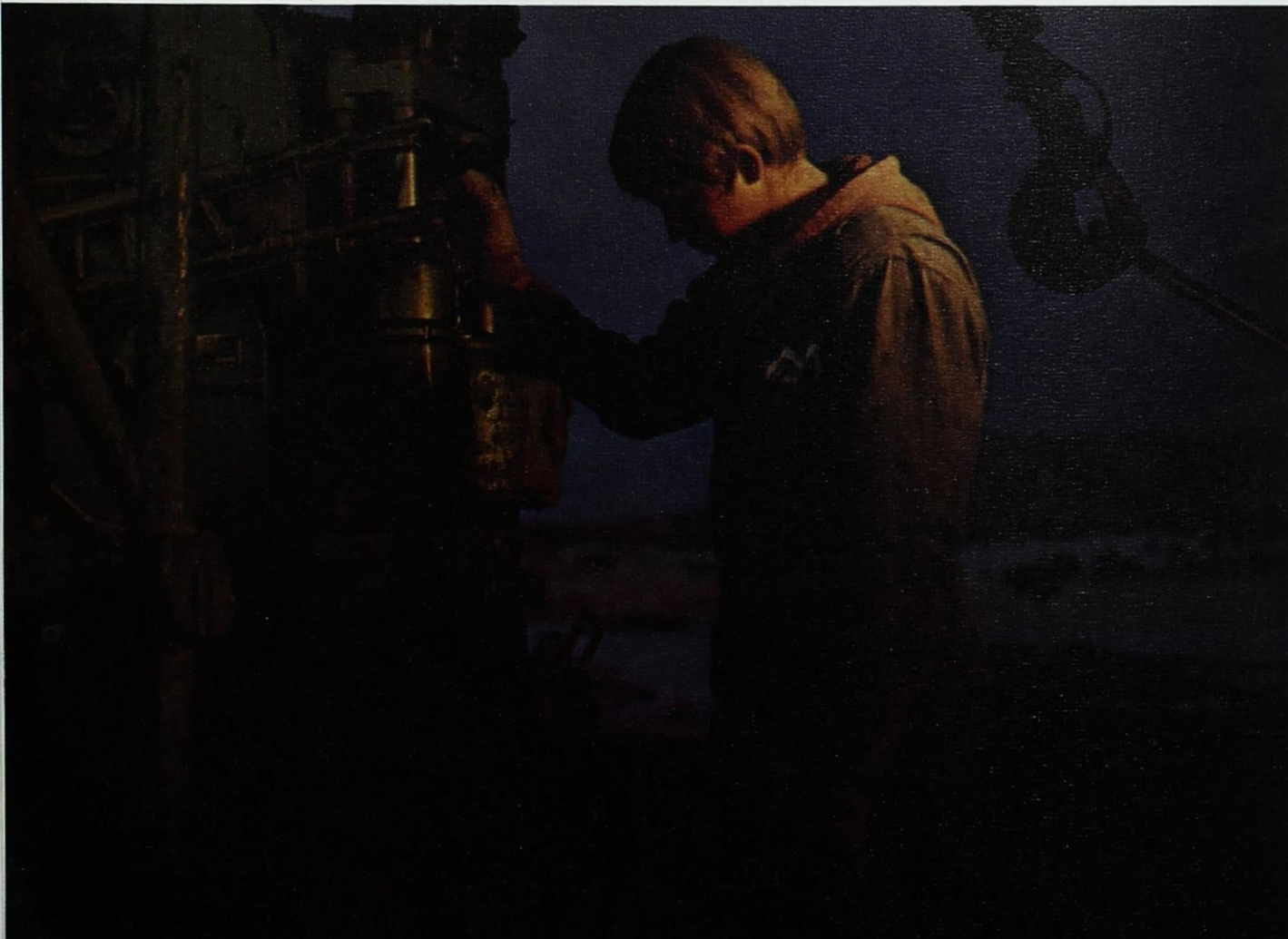
The joint venture drilled 266,000 feet during the year, including about 93,000 feet to further define the Section 7 deposits in Ambrosia Lake. Reserves there stand in excess of 300,000 tons of high grade ore. Preliminary engineering and mine planning will be conducted on the property during the current fiscal year. Substantial funds remaining in the joint venture will be used for property acquisition and further exploration.

The nation's growing need for safe, economic sources of energy continued to brighten the long range market outlook for uranium. In the first six months of 1971, electric utilities announced plans for 16 nuclear power plants, compared to 14 plants ordered during all of 1970, and seven in 1969. As of June 30, 1971, there were 22 nuclear power plants in operation in the U.S., 55 under construction, and 44 planned.





Uranium driller at sundown



TUNGSTEN

Prices Fall, Mine on Standby

The Tungsten Queen Mine was placed on standby in August 1971, terminating operations approximately a year after initial production began. The Mine never reached a profitable level during the year, with mining and milling problems hampering operations during much of the period, and a subsequent sharp decline in tungsten prices finally prompting a decision to halt operations even though many of the earlier difficulties had been largely resolved.

Limited production began on the property in late August 1970, and by mid-November the Mine was producing at about 60 percent of its initial design objective of 600 tons of ore per day. Output continued to rise during the second quarter of the fiscal year, but considerable difficulty was experienced in recovering tungsten from the ore. This problem continued throughout the third quarter and early part of the fourth quarter, and in late May a decision was made to reduce production until recovery could be increased. In the meantime, the market for tungsten began to soften, reaching a low of \$39 per short ton unit (STU) in July, 1971, a decline of 43 percent from the \$68.50 per STU which the Company had received for production through December 1970.

Considerable progress was made in milling in June, with recovery rising from 60 percent to about 80 percent - very near the total recovery projected for the mill. Mining costs also declined significantly during the month, primarily as the result of the use of more experienced mining personnel.

Despite these improvements, the property continued to operate unprofitably as the price of tungsten declined. This prompted the deci-



Tungsten Queen headframe and ore conveyer

sion to place the Mine on standby rather than to deplete reserves to sustain a losing or marginally profitable operation. The current price of tungsten is largely a result of the economic recession experienced worldwide in 1970-71. An improvement in industrial production should eventually result in a rise in tungsten prices, and may enable the Company to resume operations at the Mine.



Financial Summary*

1971/1967

Fiscal year ended June 30	1971	1970	1969	1968	1967
ANNUAL					
Net sales	\$ 15,194	\$ 11,040	\$ 4,835	\$ 2,871	\$ 2,785
Royalties - uranium	724	611	739	887	956
Other income	158	276	138	22	81
Total income	16,076	11,927	5,712	3,780	3,822
Net income from operations before income taxes	1,102	2,665	714	338	974
Provision for income taxes	171	794	38	(93)	229
Net income from operations	931	1,871	676	431	745
Extraordinary income (loss) net of applicable income taxes	141	(195)	-0-	267	-0-
Net income	1,072	1,676	676	698	745
Net income per share					
From operations	.61	1.25	.49	.35	.61
From extraordinary income (loss)	.09	(.13)	-0-	.21	-0-
Total	.70	1.12	.49	.56	.61
YEAR END					
Current assets	5,140	9,110	2,861	1,992	2,348
Current liabilities	2,671	4,381	996	1,668	441
Working capital	2,469	4,729	1,865	324	1,907
Net property, plant and equipment and other non-current assets	13,936	13,774	9,968	5,224	926
Long-term debt	2,764	5,912	2,910	1,853	-0-
Deferred income taxes	1,375	1,300	440	405	248
Net worth	12,267	11,291	8,483	3,290	2,585
Stockholders' equity per share	8.03	7.37	5.76	2.62	2.07
Number of shares outstanding	1,528,120	1,531,552	1,473,616	1,253,712	1,250,388

* (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.

Assets

Balance Sheet/June 30, 1971 and June 30, 1970

	1971	1970
CURRENT ASSETS		
Cash and certificates of deposit	\$ 1,952,690	\$ 1,977,767
Marketable securities – (1971 at cost – approximately market; 1970 at cost less \$260,000 reduction to market value)	61,611	1,315,764
Trade accounts receivable	341,311	3,704,475
Recoverable federal income taxes	25,000	118,400
Inventories – Note B	2,607,122	1,763,194
Prepaid expenses and other current assets	152,546	165,695
Deferred income tax charge	-0-	65,000
TOTAL CURRENT ASSETS	<u>5,140,280</u>	<u>9,110,295</u>
PROPERTY, PLANT, AND EQUIPMENT – on the basis of cost – Notes C and E		
Land	66,054	66,054
Buildings and equipment	11,211,416	6,960,470
Construction in progress – estimated additional costs to complete (1971 – \$335,000; 1970 – \$800,000)	90,441	2,534,760
Mineral interests, mining claims, leases and permits	1,169,929	2,547,382
Deferred intangible mining and development costs	4,532,377	6,135,916
	<u>17,070,217</u>	<u>18,244,582</u>
Allowances for depreciation, depletion, and amortization	3,708,243	5,095,601
	<u>13,361,974</u>	<u>13,148,981</u>
OTHER ASSETS AND DEFERRED CHARGES		
Trade accounts receivable – Note A	218,039	218,039
Investment in joint venture – Note D	219,807	219,972
Unamortized debt discount and expense – Note E	136,376	187,321
	<u>574,222</u>	<u>625,332</u>
	<u>\$19,076,476</u>	<u>\$22,884,608</u>

See notes to financial statements

Liabilities and Stockholders' Equity

Balance Sheet/June 30, 1971 and June 30, 1970

	1971	1970
CURRENT LIABILITIES		
Notes payable to bank	\$ -0-	\$ 720,000
Trade accounts payable	889,651	1,276,568
Accrued interest payable	75,277	107,690
Federal and state income taxes	59,000	55,000
Other liabilities	200,452	131,104
Current portion of long-term debt	1,446,577	2,090,867
TOTAL CURRENT LIABILITIES	<u>2,670,957</u>	<u>4,381,229</u>
LONG-TERM DEBT - Note E		
5 ³ / ₄ % convertible subordinated debentures due January 15, 1989	2,495,000	2,700,000
Notes payable to banks	1,500,000	5,000,000
Contract payable for purchase of mineral interest	162,405	200,000
Lease-purchase contracts - equipment pledged as collateral (Cost: 1971 - \$113,808; 1970 - \$345,068)	52,901	103,334
	<u>4,210,306</u>	<u>8,003,334</u>
Less portion classified as current liability	1,446,577	2,090,867
	<u>2,763,729</u>	<u>5,912,467</u>
DEFERRED FEDERAL AND STATE INCOME TAXES - Note F	1,375,000	1,300,000
STOCKHOLDERS' EQUITY - Notes G and H		
Common Stock - par value \$.50 a share:		
Shares authorized (1971 - 4,000,000; 1970 - 2,000,000)		
Shares issued (1971 - 1,542,228; 1970 - 1,536,892) including shares in treasury	771,114	768,445
Capital in excess of par value	5,509,581	5,482,658
Retained earnings	6,171,790	5,099,270
	<u>12,452,485</u>	<u>11,350,373</u>
Less cost of Common Stock in treasury (1971 - 14,108 shares; 1970 - 5,340 shares)	185,695	59,461
	<u>12,266,790</u>	<u>11,290,912</u>
	<u>\$19,076,476</u>	<u>\$22,884,608</u>

See notes to financial statements

Statement of Income

Year Ended June 30, 1971 and June 30, 1970

	<u>1971</u>	<u>1970</u>
Income		
Net sales	\$15,193,594	\$11,039,462
Uranium royalties	724,341	611,118
Interest, dividends, and other	157,721	276,114
	<u>16,075,656</u>	<u>11,926,694</u>
Deductions from income – Notes B, C and D		
Cost of products sold	13,388,228	8,176,439
Exploration, conservation, and maintenance of mining properties	447,550	306,893
Administrative and general expense	575,489	417,059
Interest, principally on long-term debt	562,063	303,658
Lease abandonments	-0-	57,000
	<u>14,973,330</u>	<u>9,261,049</u>
INCOME FROM OPERATIONS BEFORE APPLICABLE INCOME TAXES	1,102,326	2,665,645
Federal and state income taxes – Note F		
Currently payable (recoverable)	96,288	(65,383)
Deferred	75,000	860,000
	<u>171,288</u>	<u>794,617</u>
INCOME BEFORE EXTRAORDINARY ITEMS	931,038	1,871,028
Extraordinary items:		
Proceeds from sale of marketable securities in excess of carrying amount, less applicable income taxes of \$40,599	121,679	-0-
Provision for decline in market value of marketable securities, less applicable recoverable income taxes of \$65,000	-0-	(195,000)
Gain on repurchase of Company debentures less applicable income taxes of \$23,247	19,803	-0-
	<u>141,482</u>	<u>(195,000)</u>
NET INCOME	<u>\$ 1,072,520</u>	<u>\$ 1,676,028</u>
Earnings per common share – Note H		
Income before extraordinary items	\$.61	\$1.25
Extraordinary items	<u>.09</u>	<u>(.13)</u>
NET INCOME	<u>\$.70</u>	<u>\$1.12</u>
Earnings per common share – assuming full dilution – Note H		
Income before extraordinary items	\$.61	\$1.21
Extraordinary items	<u>.09</u>	<u>(.13)</u>
NET INCOME	<u>\$.70</u>	<u>\$1.08</u>

See notes to financial statements

Statement of Stockholders' Equity

Year Ended June 30, 1971 and June 30, 1970

	1971	1970
COMMON STOCK		
Balance at beginning of year	\$ 768,445	\$ 369,022
Par value of shares issued:		
Sold under stock option plan (1971 - 5,336 shares; 1970 - 400 shares)	2,669	200
For purchase of Big Mike Mine - 30,000 shares	-0-	15,000
Stock split-up (2 for 1) effected in the form of a dividend - 768,446 shares	-0-	384,223
	<u> </u>	<u> </u>
BALANCE AT END OF YEAR	\$ <u>771,114</u>	\$ <u>768,445</u>
CAPITAL IN EXCESS OF PAR VALUE		
Balance at beginning of year	\$ 5,482,658	\$ 4,728,876
Proceeds or market value in excess of par value of shares of Common Stock issued:		
Sold under stock option plan	26,923	7,400
For purchase of Big Mike Mine	-0-	1,057,500
Excess of market value over cost of treasury stock (7,470 shares) issued for purchase of Big Mike Mine	-0-	73,105
Transferred to capital stock for par value of 768,446 shares issued in 2 for 1 stock split-up	-0-	(384,223)
	<u> </u>	<u> </u>
BALANCE AT END OF YEAR	\$ <u>5,509,581</u>	\$ <u>5,482,658</u>
RETAINED EARNINGS		
Balance at beginning of year	\$ 5,099,270	\$ 3,423,242
Net income for the year	1,072,520	1,676,028
	<u> </u>	<u> </u>
BALANCE AT END OF YEAR	\$ <u>6,171,790</u>	\$ <u>5,099,270</u>
TREASURY STOCK		
Balance at beginning of year	\$ 59,461	\$ 38,362
Purchase of shares for treasury (1971 - 8,768 shares; 1970 - 9,800 shares)	126,234	208,429
	<u> </u>	<u> </u>
	185,695	246,791
Cost of treasury shares issued for mines and mineral leases	-0-	(187,330)
	<u> </u>	<u> </u>
BALANCE AT END OF YEAR	\$ <u>185,695</u>	\$ <u>59,461</u>

See notes to financial statements

Statement of Changes in Financial Position

Year Ended June 30, 1971 and June 30, 1970

	1971	1970
ADDITIONS		
Income before extraordinary items	\$ 931,038	\$ 1,871,028
Provisions for depreciation, depletion and amortization	4,860,877	3,640,743
Amortization of debt discount and expense	50,945	35,940
Increase in deferred income taxes	75,000	860,000
WORKING CAPITAL PROVIDED FROM OPERATIONS EXCLUSIVE OF EXTRAORDINARY ITEMS	5,917,860	6,407,711
Extraordinary items:		
Proceeds from sale of marketable securities in excess of carrying amount, less applicable income taxes of \$40,599	121,679	-0-
Provision for decline in market value of marketable securities, less applicable recoverable income taxes of \$65,000	-0-	(195,000)
Gain on repurchase of Company debentures less applicable income taxes of \$23,247	19,803	-0-
TOTAL FROM OPERATIONS	6,059,342	6,212,711
Increase in long-term debt	-0-	3,291,747
Issue of Common Stock for purchase of mineral interest	-0-	1,072,500
Proceeds from sale of previously unissued stock	29,592	7,600
Issue of Common Stock held in treasury for purchase of mineral interests	-0-	260,435
Decrease in certificates of deposit and other marketable securities earmarked for construction and acquisition of mining properties	-0-	3,296,257
Decrease in other assets	165	-0-
TOTAL	\$ 6,089,099	\$14,141,250
DEDUCTIONS		
Decrease in long-term debt	\$ 2,943,738	\$ -0-
Additions to depreciable property, plant, and equipment (1971 - \$1,888,787; 1970 - \$4,223,478) less carrying amounts of disposals and abandonments	1,846,076	4,193,999
Additions to mineral interests, mining claims, leases and permits less abandonments of \$57,020 in 1970	63,536	1,603,099
Additions to deferred mining and development costs	3,164,258	4,895,333
Increase in other assets	-0-	87,239
Purchase of debentures for treasury	205,000	290,000
Cost of Common Stock purchased for treasury	126,234	208,429
TOTAL	\$ 8,348,842	\$11,278,099
INCREASE (DECREASE) IN WORKING CAPITAL	\$ (2,259,743)	\$ 2,863,151

INCREASE (DECREASE) IN WORKING CAPITAL

Increase (decrease) in current assets:

Cash	\$ (25,077)	\$ 1,194,939
Marketable securities	(1,254,153)	1,114,484
Trade accounts receivable	(3,363,164)	3,289,230
Recoverable federal income taxes	(93,400)	118,400
Inventories	843,928	714,149
Prepaid expenses and other current assets	(13,149)	(88,825)
Deferred income tax charge	(65,000)	65,000
Deposits with brokers for copper futures contracts	-0-	(158,645)
	<u>(3,970,015)</u>	<u>6,248,732</u>

Increase (decrease) in current liabilities:

Notes payable to bank	(720,000)	523,759
Trade accounts payable	(386,917)	826,725
Accrued interest payable	(32,413)	28,148
Federal and state income taxes	4,000	51,000
Other liabilities	69,348	54,728
Current portion of long-term debt	(644,290)	1,901,221
	<u>(1,710,272)</u>	<u>3,385,581</u>

INCREASE (DECREASE) IN WORKING CAPITAL

	<u>\$ (2,259,743)</u>	<u>\$ 2,863,151</u>
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Notes to Financial Statements/June 30, 1971

Note A - Trade Accounts Receivable

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	
	1971	1970
Finished metals and metal products	\$ 922,751	\$ 26,068
Ore in leaching heaps and stockpiles	1,042,722	1,268,490
Supplies	621,198	420,753
Costs incurred in cancellation of futures contracts replaced with more favorable sales contracts	20,451	47,883
	<u>\$2,607,122</u>	<u>\$1,763,194</u>

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. Declining-balance and straight-line methods are used for computing depreciation, both 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 \$4,860,877 in 1971 and \$3,640,743 in 1970.

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 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 \$107,099 for the year ended June 30, 1971 and \$166,444 for the year ended June 30, 1970.

Note E - Long-Term Debt

The debentures, which bear interest at the rate of 5 $\frac{3}{4}$ %, are convertible into one share of Common Stock for each \$24.71 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 105.074% beginning January 15, 1971 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, provides limitations upon payment of cash dividends and the amount of Common Stock the Company can purchase for treasury. Retained earnings available for payment of cash dividends amounted to \$3,462,396 at June 30, 1971 and \$2,360,285 at June 30, 1970.

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 is a bank loan in the original amount of \$5,000,000, with a balance of \$1,500,000 at June 30, 1971. The amount borrowed is represented by two notes under one loan agreement. Assigned and mortgaged as collateral on 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 and other matters.

One note with an unpaid balance of \$900,000 bears interest at 7 $\frac{1}{2}$ % and is repayable in installments of \$60,000 plus interest on July 1, 1971, and \$30,000 plus interest monthly thereafter. The other note with an unpaid balance of \$600,000 bears interest at 7 $\frac{1}{2}$ % but requires an adjustment of interest to prime rate plus 1 $\frac{1}{2}$ % if the prime rate increases or decreases. This note requires repayment of \$140,000 plus interest on July 1, 1971, and \$70,000 plus interest monthly thereafter.

The contract payable for purchase of mineral interest requires minimum annual payments of \$40,000 beginning January 1, 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 credits of \$72,592 for 1971 and \$54,600 for 1970 have been used to reduce the income tax provision.

Note G - Stock Options

At June 30, 1971, 63,368 shares of Common Stock were reserved for issuance to certain officers and employees under the Company's stock option plan. The amount reserved at June 30, 1971 includes 36,000 shares which were reserved during the year ended June 30, 1971. Of the 63,368 shares reserved for options, 23,750 were covered by options outstanding and 39,618 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, the Company has granted other options, principally to directors, not under the stock option plan, which are priced at fair

market value on the date of the grant and become exercisable principally in five equal annual installments following dates of grant, and expire five years from date of grant.

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

	Stock Option Plan		Other		Total Shares
	Shares	Price	Shares	Price	
Outstanding June 30, 1969	22,536	\$2.50-23.50	10,000	\$17.00	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	-0-		(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
Year ended June 30, 1971:					
Granted	2,750	\$12.94	-0-	-0-	2,750
Exercised	(4,336)	\$2.50-3.25	(1,000)	\$17.50	(5,336)
Cancelled	(4,000)	\$10.25-23.50	(7,000)	\$19.00	(11,000)
Outstanding June 30, 1971	23,750	\$9.50-23.50	38,500	\$11.50-19.00	62,250
Exercisable June 30, 1971	7,820	\$9.50-23.50	11,768	\$11.50-19.00	19,588

Note H - Income Per Share

Net income per share of Common Stock was computed on the basis of the weighted average number of shares outstanding during each year. Fully diluted income per share assumes the conversion of all outstanding convertible debentures (issued in January, 1969) at the beginning of the year.

Note I - Litigation

A contractor has filed a claim for approximately \$1,060,000 in the United States District Court in Nevada as a result of alleged extra work done for the Company in connection with construction work at the Big Mike Mine in Nevada. The Company has filed a counterclaim for approximately \$1,695,000 for claimed delays and poor performance by the contractor. In the opinion of Company's legal counsel the Company's recovery will exceed any amounts due the contractor for extra work.

The Company is engaged in other litigation, but in the opinion of Company's legal counsel, final settlement of any of the matters involved should have no material effect on the Company's financial position.

Note J - Subsequent Events

The Company has been advised that on August 5, 1971 a judgment was entered in its favor in connection with the law suit explained in Note A. The judgment is in the amount of \$226,905 with interest at 6% (approximately \$44,800 to August 9, 1971) from April 24, 1968, until paid. The judgment is subject to appeal.

On August 9, 1971, the Company announced it was suspending operations at its Tungsten Queen Mine, and placing the facility on standby until an increase in the selling price

of tungsten would permit reactivation. Sales from the Mine amounted to \$754,325 in 1971 and \$58,987 in 1970. Operations, before income tax effects, resulted in an operating loss of \$873,525 in 1971 and an operating gain of \$36,256 in 1970.

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

We have examined the financial statements of Ranchers Exploration and Development Corporation for the years ended June 30, 1971 and 1970. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of income, stockholders' equity, and changes in financial position present fairly the financial position of Ranchers Exploration and Development Corporation at June 30, 1971 and 1970 and the results of its operations, changes in stockholders' equity, and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.



Albuquerque, New Mexico
July 28, 1971, except as to Note J,
as to which the date is August 9, 1971

Ranchers Exploration and Development Corporation

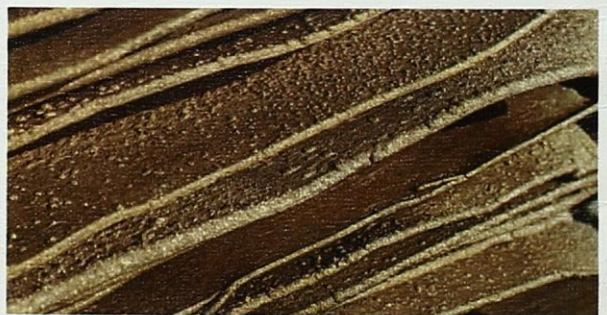
General Offices

1776 Montano Road, NW
Albuquerque, New Mexico 87107

Transfer Agent & Registrar

Republic National Bank of Dallas
Corporate Trust Department
Dallas, Texas 75221

Manufacturers Hanover Trust Company
Corporate Trust Department
40 Wall Street
New York, New York 10015



FROM ORE TO CATHODES WITHOUT POLLUTION

In 1968, the Company's Bluebird Mine became the first commercial producer of cathode copper by solvent extraction – a process which eliminates smelting and the air pollution frequently associated with it. At the Mine, oxide ore (sample in photo contains about seven percent copper, compared to an average of one-half percent for the entire deposit) is placed in large heaps and leached with acid to produce a copper-acid solution which is pumped into the solvent extraction

circuit. The solvent separates the copper from the acid and is in turn stripped from the copper by a high acid solution, leaving a concentrated copper-acid solution. This liquid (center photo) is then sent to a unit where current is passed through the solution, attracting the copper ions to thin copper starting sheets. These sheets gradually thicken to form cathodes (last photo) which are more than 99.9 percent pure copper.