1974 Annual Report
Ranchers

Gold
...Man's First Metal

Gold—the subject of this year's Annual Report cover and the object of a new exploration venture begun by the Company in 1974—is perhaps the first metal discovered by man. The fact that gold is widely dispersed throughout the Earth's crust, occurs in metallic form, and is attractive in color and brightness support the contention that it has been known to man for approximately 10,000 years. In recorded history, the washing of gold ores is depicted, for example, on Egyptian monuments of the 1st Dynasty some 5,000 years ago.

The impact of gold on civilization is incalculable. It has influenced art, literature, economics, science, and virtually every other field of human endeavor. Examples of gold workmanship survive from ancient Egyptian, Minoan, and Etruscan artists. The famous Greek legend of the Golden Fleece was based on an expedition in about 1,200 B.C. to seize gold recovered, by the use of sheepskins, from river sands in Armenia. Gold has been used as currency and as a backing for paper money. In the Middle Ages, it helped lay the foundation for modern chemistry, as medieval alchemists sought to convert base metals into gold.

Aside from its distinct color, brightness and virtual indestructibility, much of gold's desirability stems from its scarcity. Masses of rock rich enough to be termed ore are rare. Those that do exist are usually quartz lodes or veins. Ores may also be found in deposits derived from veins, such as river gravels and the quartz conglomerate beds or reefs of South Africa. The gold mined during the great strikes in California, Colorado, and Alaska came mostly from gravels or placers (a Spanish word meaning "sand bank") and was recovered by washing with water using pans, hydraulic jets, or dredges.

Shown are samples of placer gold, including nuggets, flakes and dust. Also pictured is a specimen of gold-encrusted quartz which, enlarged photographically, appears on the Annual Report cover.

The Company's interest in gold stems from its recent, fourfold rise in price, resulting from inflation and other disruptions in the international monetary system. This dramatic increase in value has converted previously non-economic showings of the metal into potential ore deposits.

The Company is concentrating its exploration efforts on old gold producing districts in Alaska and the Western U.S. Millions of yards of placer gravels—first claimed in 1900—are the principal targets in Alaska, while vein-type deposits are being drilled in Utah and Nevada. Preliminary results have been encouraging, but only a great deal more exploration—and continuing demand for gold at present prices—will determine whether the Company eventually becomes a producer of this age-old precious metal.

1974 Annual Report Ranchers

Exploration and Development Corporation
General Offices / 1776 Montano Road, NW
Albuquerque, New Mexico 87107

OFFICERS

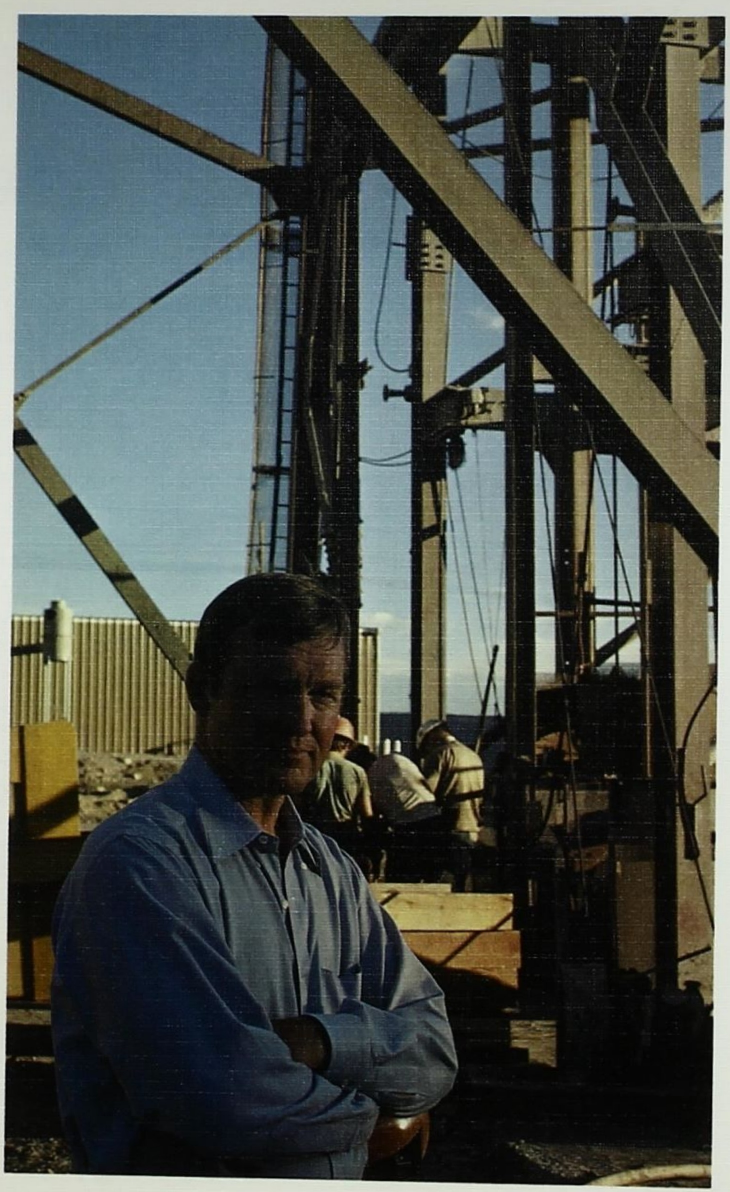
Maxie L. Anderson, President / John E. Motica, Senior Vice President, Geology
Leland O. Erdahl, Vice President, Finance / David K. Hogan, Vice President, Engineering /
Paul A. Matthews, Vice President, Operations / Herbert M. Campbell II, Vice President
and Secretary / M. K. Kaiser, Treasurer

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
J. B. Mudd, M.B.E., M.C., Johannesburg, Consulting Mining Engineer
Roy Richards, Carrollton, Georgia, President, Southwire Company
Robert V. Sibert, Beverly Hills, California, President, Pearson-Sibert Oil Company of Texas
Edward McL. Tittmann, Reno, Nevada, Mining Consultant

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

THE 1974 ANNUAL REPORT/Design and Layout—Mary Garriott/Portraits—Gene Garriott/Typography—Reay's Typographic Service, Inc./Printing—The McLeod Printing Company



Letter to Stockholders

Earnings & Exploration Highlight Record Year

The Company recorded, by a wide margin, the best year in its history in 1974. Net earnings per share more than tripled, and two major exploration ventures—for gold and uranium—were begun which could have a significant impact on future growth of the Company.

The turnaround in earnings was particularly gratifying to your management. Earnings had fallen in 1973, as the result of generally lower metal prices. However, 1974 was a different story. Copper prices rose to record highs just at a time when the Company's copper output was reaching its peak. The result was earnings of $1.73 per share, compared to $.52 last year. The only weak spot in the earnings picture was uranium royalties, which declined about 36 percent because of a strike.

The new exploration ventures expand the Company's exploration effort about fourfold, and could have an important effect on future growth. The gold venture has concentrated chiefly on exploration of Alaskan placers, with an immediate goal of confirming exploration results reported by previous owners of the properties and outlining potential gold-bearing areas by wide-spaced drilling. To date our findings have been quite satisfactory. In the uranium venture, the Company is seeking totally new uranium-bearing districts and has established a strong land position to support this approach.

The Company continued work and planning during the year on two projects—development of the Johnny M uranium mine and expansion of the Bluebird copper mine—which will have a more immediate impact on the Company's growth. The shaft at the Johnny M, located in New Mexico's Ambrosia Lake area, was completed this past July, and plans to begin drifts to the main ore bodies are now being finalized. Production of ore is scheduled to begin late in calendar year 1975. Plans to expand the Bluebird followed a decision not to complete a joint venture with Mitsubishi International to operate the Mine. The planned expansion, to be completed late in fiscal year 1976, should increase production by about 50 percent.

Fiscal year 1975 promises to be an exciting—and profitable—year for the Company. It should, for instance, provide a much better insight into prospects for the gold and uranium exploration ventures, which are being pushed forward at a rapid pace. It will also be a key year in development of the Johnny M and expansion of the Bluebird.

Earnings should again be quite satisfactory, although copper production and—to some extent—prices, will affect the outcome. Copper production will decline as output from the Old Reliable Mine tapers off, but the average price of copper should be higher. The Company has already committed some 14-million pounds at an average price of $.94 per pound. These sales, together with greater uranium royalties, should lead to another year of excellent earnings.

August 20, 1974

Maxie L. Anderson
President

Highlights of 1974

1. Earnings were $1.73 per share, compared to $.52 per share in 1973. By quarters they were: $.24, $.41, $.50, and $.58, respectively.

2. Copper production rose to about 22-million pounds, an increase of 18 percent, and copper prices were markedly higher.

3. Uranium royalties declined by 36 percent to their lowest level in recent years as the result of a strike at Kerr-McGee's operations in New Mexico.

4. The 1,377-foot vertical shaft at the Johnny M uranium mine was completed in July (1974) and preparations made to begin drifting to the main ore bodies.

5. A proposed venture with Mitsubishi International to operate the Bluebird Copper Mine was cancelled, and the Company began plans to expand operations at the Mine.

6. An exploration venture was formed with Frontier Resources, Inc., and Marline Oil Corporation to explore for gold in Alaska and several western states.

7. A uranium exploration venture was formed with Urangesellschaft to explore for deposits in the Colorado Plateau area.

8. The uranium exploration venture with Frontier Mining Company and Occidental Minerals was extended into a third year.

Financial Highlights

	1974	1973
Gross Income	$19,789,466	$10,628,289
Net Earnings before Income Taxes	3,518,442	1,021,036
Income Taxes	900,000	236,200
Net Earnings	2,618,442	784,836
Earnings per Share	1.73	.52
Earnings per Share Fully Diluted	1.67	.52
Retained Earnings	10,552,387	7,933,945
Stockholders' Equity	16,433,153	13,854,059
Average Shares Outstanding	1,512,162	1,512,912

Earnings

Profit/Income Reach New Highs

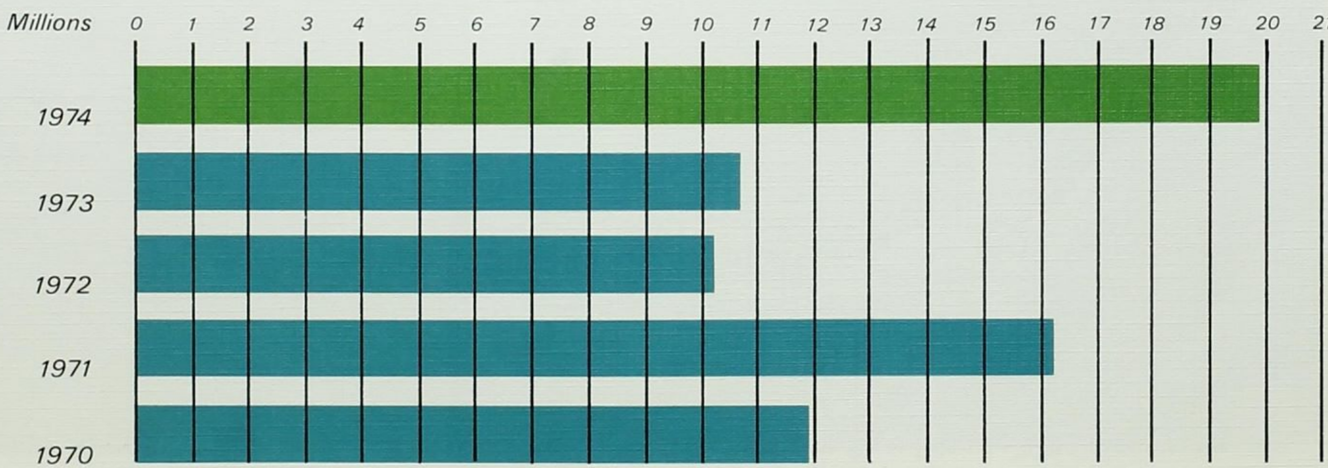
Both gross and net income rose to new highs in 1974, as the Company experienced the most successful year in its history. Earnings per share totaled $1.73, an increase of about 233 percent over the $.52 per share earned last year. These earnings also surpassed, by a substantial margin, the previous record earnings of $1.06 in 1970.

Net income for the year was $2,618,442, compared to $784,836 a year ago. Greater copper production and higher copper prices per pound accounted for the improvement in profitability, as copper sales increased by about 91 percent over the previous year. Gross income totaled $19,789,466, an increase of about 86 percent over the $10,628,289 received in 1973. Copper sales accounted for $18,504,087 of this amount, compared to $9,689,890 the previous year. Uranium royalties totaled $525,762, a decline of nearly 36 percent from the $818,267 received in 1973. Sales of Kop-Ran Development Corporation, the Company's mining contractor subsidiary, were $480, 704, compared to $59,654 in 1973; tungsten sales from inventory were $205,373 vs. $17,314 a year earlier; and interest, dividends, and miscellaneous income were $73,540, compared to $43,164 in 1973.

The sharp increase in profitability during the year greatly improved the Company's liquidity position, an important factor in view of the present tight money supply and related high interest costs. At year's end, the ratio of current assets to current liabilities was 3.8 to 1, compared to 1.6 to 1 at the end of the previous year. Net income as a percent of gross income was 13.23%; as a percent of stockholders' equity it was 18.9%.

NET INCOME 1974/1970

GROSS INCOME 1974/1970



Gold

New Venture Sets Fast Pace

The Company announced the formation of a gold exploration venture in February and by the end of the fiscal year was proceeding at a rapid pace on the evaluation of several key prospects. The venture with Frontier Resources, Inc., and Marline Oil Corporation provides for the expenditure of up to $1.2-million for exploration and development of properties, with $600,000 earmarked for use during the present calendar year. The Company, which is operating the venture, contributed properties and 10 percent of the initial funds and retains a 55 percent interest. Frontier and Marline each contributed 45 percent of the funds and each owns 22.5 percent interest. Any expenditures in excess of $1.2-million will be contributed by the parties in proportion to their ownership interest.

The properties which are being explored are located in gold mining districts and are known to contain gold mineralization. First objective of the venture has been to verify this mineralization and other geologic information reported by previous operators of the properties.

As of late August, 1974, the venture had drilled one property in Nevada and was continuing to drill another prospect in Utah. Most of the venture's efforts, however, have been focused on placer properties in eastern Alaska. These properties are estimated to contain in excess of 100-million yards of gold-bearing gravels distributed over an eight-mile area. Drilling, which will terminate in September because of winter conditions, has confirmed the existence of ore-grade mineralization and will be resumed in the summer of 1975 in an effort to blockout enough ore to justify a commercial operation.

Short Season

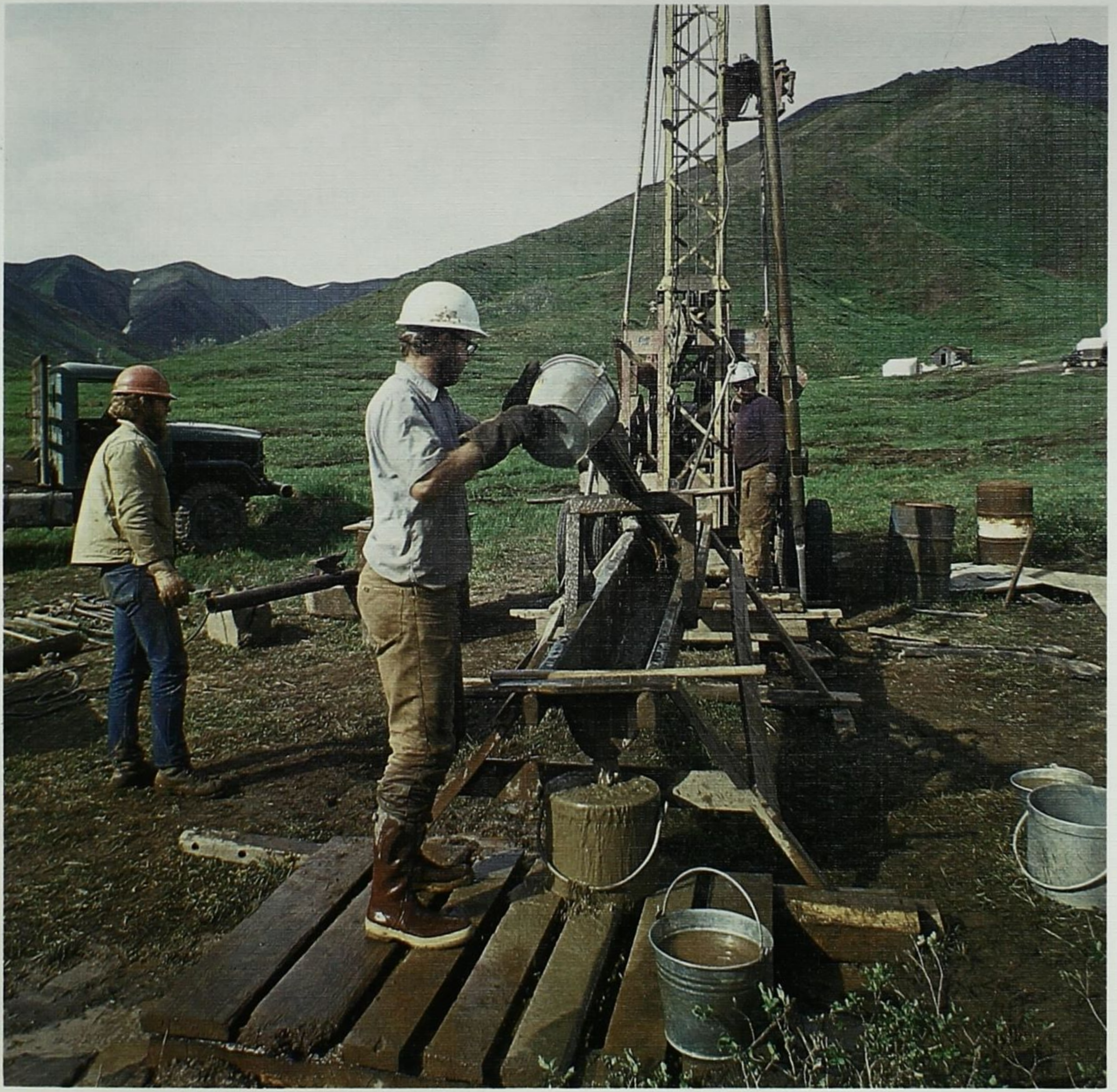
With snow still showing on the nearby mountains on July 4, the drilling scene at left illustrates one important fact about Alaskan gold operations — the work season is short. Drilling and dredging are limited largely to the period from June through September; other types of operations might have a slightly longer season.

Abandoned Bucket

The abandoned clamshell bucket (right) provides one basic insight into modern gold exploration — most properties were discovered years ago and have been worked from time to time. The old bucket, capable of lifting ¾-cubic-yard of gravel, was last used on the Alaskan properties in the early 1960s and brought to the area well before then. Gold was first discovered in the area in 1900 and the various properties have been worked occasionally since then, yielding an estimated $3-million in values.

Drilling with KLAM & Churn

Drills used in exploring gold-bearing gravels must precisely control the volume of material taken from the drill hole because gold is such a valuable metal that even any minor diluting or enriching of the drill hole sample can drastically mislead one as to the actual values present. To control the volume of ore taken from its Alaskan placers, the Company is using two types of bulk sample drills — the KLAM (adjacent photo) and the churn (page 9). The KLAM is one of only two or three such drills in operation today. It consists basically of a 1-cubic-foot bucket attached to the end of a 15-foot stem. This unit is repeatedly dropped into the hole, with the sample being recovered by closing air-powered jaws on the bucket. At the surface, the jaws are relaxed (see photo) and the sample emptied into a tray and dump box. The material is then shoveled into a concentrator (center of photo) — essentially a perforated revolving cylinder, which screens out the larger rocks and pebbles. The concentrates — heavy gravel and sand containing the gold — accumulate in a riffled tray beneath the concentrator. This material is then panned to recover the gold. The drill hole in this photo is 66 inches in diameter and is being cased with corrugated steel to keep the hole from collapsing.



The Churn Drill

More frequently used in placer evaluation than the KLAM is the churn drill, so-named because it operates much like an old fashioned butter churn in which a plunger is repeatedly thrust into the milk. In the case of the drill, a flat, chisel-shaped bit is repeatedly dropped into a casing-lined hole, pulverizing a plug of sand and gravel which fills the casing as it is periodically driven into the placer deposit. As the plug disintegrates, water is added to form a slurry. The bit is then withdrawn, and a pipe-shaped sand pump is dropped into the hole. The slurry enters the bottom of the pump through a hinged opening and is trapped when the pump is hoisted. At the surface, the sample is flushed from the pump with water (left) and recovered in a bucket. This material is then passed through a concentrator and the gold subsequently recovered by panning. Although in some cases somewhat faster than the KLAM, the churn drill is not as accurate in recovering a known volume of ore and does not produce as large a sample. A large sample is likely to give a more representative picture of ore values. In its Alaskan operations, the Company is comparing results from KLAM and churn drill holes in an effort to develop a reliable correlation between the two.

Copper

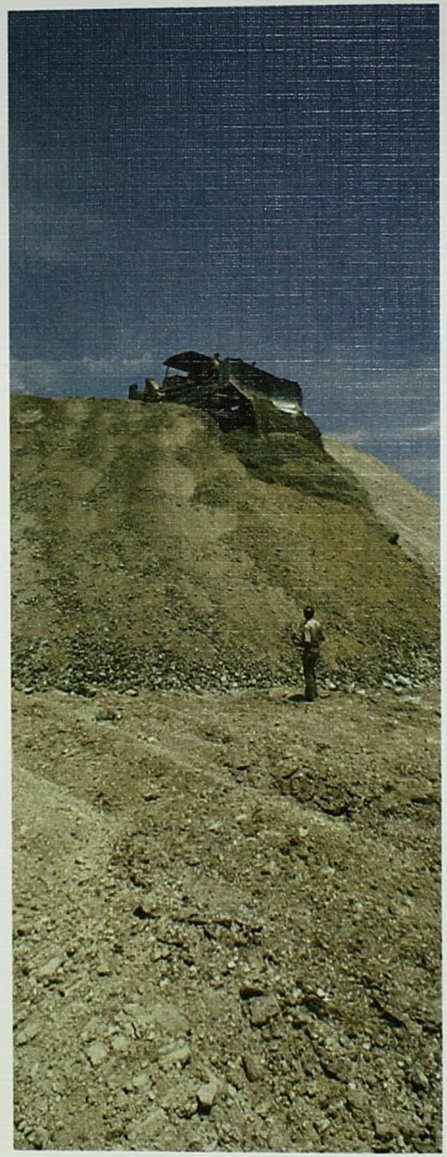
Production Increases 18 Percent

The Company's three copper operations produced 22,152,587 pounds of copper in 1974, an increase of 18 percent over the 18,767,713 pounds produced the previous year. Copper sales totaled $18,504,087, almost double the $9,689,890 received in 1973, as sharply higher prices prevailed throughout most of the year.

The biggest increase in production came from the Old Reliable Mine, which produced 5,376,081 pounds (the Company's share). This represented an increase of 162 percent over the 2,050,774 pounds produced in 1973 when the property, an in-place leaching operation, was in production only six months of the year. Production, which was converted from cement copper to wirebar, was sold for $4,178,590. The Company's share of production in 1975 is estimated to be about three million pounds.

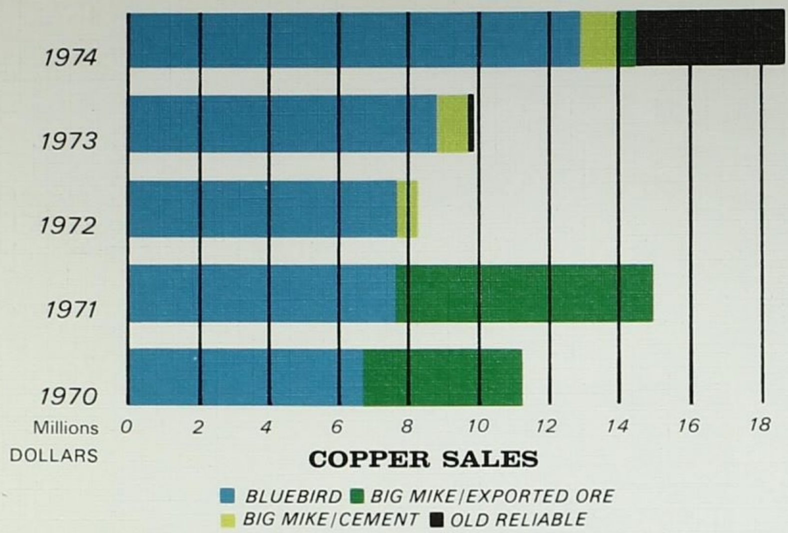
Production at the Big Mike Mine totaled 1,160,287 pounds, a decrease of about 40 percent from the 1,942,714 pounds produced in 1973. Sales, which totaled $1,348,217, came from conventional heap leaching, leaching of ore shattered by explosives and blown into the open pit on the property, and from 642,742 pounds of sulfide ore in inventory. Production in 1975 is estimated at about one million pounds.

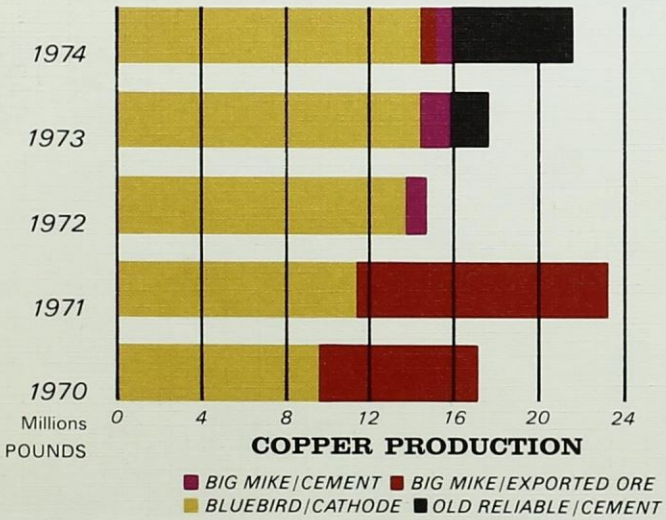
Production at the Bluebird Mine totaled 14,973,477 pounds of copper cathodes, an increase of about 1.4-percent over output in 1973. Although short of the goal of 15.5-million pounds set for the year, the total was still the highest in the history of the Mine. Sales for the year totaled $12,977,280 for 17,049,881 pounds of copper, including 2,665,453 pounds of purchased cathode starter sheets; for 1973, sales totaled $8,693,807 for 17,554,306 pounds of copper, including 2,243,431 pounds of starter sheets. Production goal for 1975 is about 15-million pounds.



Bluebird Anniversary

The Company's principal copper operation, the Bluebird Mine (right), began production ten years ago in October 1964. In this decade of operation, the Mine produced 25.8-million tons of ore and 100-million pounds of copper, which were sold for approximately $50-million. At present, the main pit, leaching heaps, waste dumps and other parts of the mine occupy about 300 acres of the 400-acre mine site. Ore reserves are estimated to exceed 75-million tons. Some 4,485,000 tons of ore and 4,652,900 tons of waste were mined in 1974. Ore is mined with scrapers which scoop up 45 tons at a time and carry it to new heaps under construction. The ore is dumped near the edge of the heap and bulldozed over the side (left) at the rate of six to eight tons at a time. Each new heap is 20 feet thick, covers 90,000 square feet, and contains 185,000 tons of ore. The 20-foot-thick layers are piled upon each other, and now extend a maximum of 180 feet above ground.


1974
1973
1972
1971
1970
Millions
DOLLARS
0
2
4
6
8
10
12
14
16
18
COPPER SALES
BLUEBIRD
BIG MIKE/EXPORTED ORE
BIG MIKE/CEMENT
OLD RELIABLE


1974
1973
1972
1971
1970
Millions
POUNDS
0
4
8
12
16
20
24
28
COPPER PRODUCTION
BIG MIKE/CEMENT
BIG MIKE/EXPORTED ORE
BLUEBIRD/CATHODE
OLD RELIABLE/CEMENT

Pioneer Projects

The Company's two pioneering copper leaching projects — the Old Reliable Mine (left) and Big Mike Mine (right) — operated successfully in 1974. Both use novel in-place leaching concepts to recover copper without mining the ore. Production at the Old Reliable, which completed its first full year of operation in 1974, is coming from a 4-million-ton deposit, fractured in early 1972 with 4-million pounds of explosives. A solution of sulfuric acid and water, applied to the top of the ore body, dissolves the copper in the ore as it percolates through the deposit. The copper-bearing solution emerges from the bottom of the deposit (left) and is pumped to a precipitation plant for production of cement copper. Production at the Big Mike Mine is coming from conventional heaps and from some 400,000 tons of ore which were shattered with explosives and blown into the open pit on the property. Ore in the open pit — formed when high grade sulfide ore was removed in 1970 — is sprinkled with an acid-water solution to leach out the copper (right). The copper-bearing solution collects beneath the ore heap and is pumped to a precipitation plant on the surface.

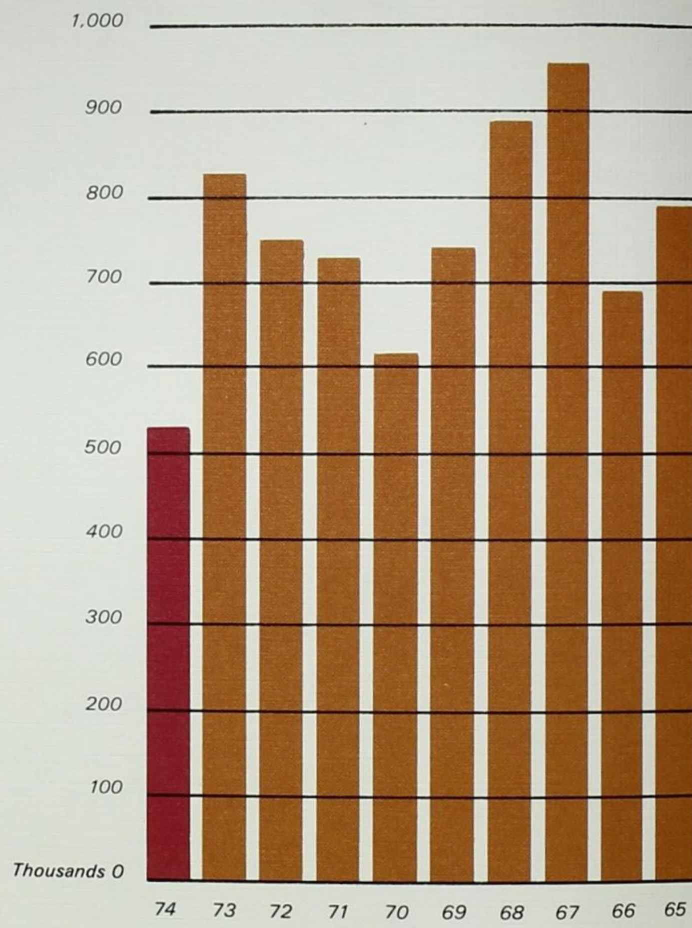
Uranium

Exploration & Shaft Completion Highlight Operations

Formation of a major new exploration venture and completion of the main shaft at the Johnny M Mine highlighted the Company's uranium operations in 1974. Uranium royalties, which had risen steadily since 1970, dropped to their lowest level since 1959 as the result of a strike against Kerr-McGee.

The $3-million exploration venture, owned jointly with Urangesellschaft MBH & Co. KG, a German company, began operation in June (1974) and will run for about 2-1/2 years. Budget for the current fiscal year is approximately $1-million. Principal thrust of the venture will be the search for entirely new uranium-bearing districts, rather than extensions of presently-known districts. Exploration is centering on some 200,000 acres in three separate areas of the Colorado Plateau. The Company's uranium exploration venture with Frontier Mining Company and Occidental Minerals has been extended into a third year; operations are confined to New Mexico.

The vertical shaft at the Johnny M Mine in Ambrosia Lake (N.M.) was completed in July (1974) by Harrison Western Corporation. Excavation is scheduled to begin shortly on main haulage tunnels to ore bodies on the two sections where the Mine's reserves are located. Mining of the high grade ore is expected to begin late in 1975, with the first deliveries of concentrates scheduled for January, 1976. Production, estimated to range between 5 and 10-million pounds of U_3O_8, has been sold to Gulf Oil Corporation. The Mine is owned jointly with HNG Oil Company, Houston.



Uranium Royalties 1974/1965

Shaft Sinking Completed

Sinking of the main shaft at the Johnny M uranium mine in Ambrosia Lake (N.M.) was completed in July, 1974, by Harrison Western Corporation crews (left). Sinking of the 14-foot-diameter circular shaft was begun in April, 1973, after Ranchers' personnel had poured the shaft collar and completed the first 60 feet of excavation. The shaft, lined with a foot of concrete to its maximum depth of 1,377 feet, includes two pump stations and the main level haulage station. It was completed at a cost of about $1.5-million. Two main haulage tunnels will be driven from the shaft to ore bodies on Section 7, north of the shaft, and to Section 18, south of the shaft.

The Search for Uranium

In the Colorado Plateau area of New Mexico, Colorado, Utah, and Arizona, an intensive search for uranium is being conducted with rotary drill rigs (right) capable of reaching depths of 2,000 feet or more. Typically, holes five inches in diameter are drilled into the target formation, usually a sandstone. Wide-spaced drilling is conducted initially in unexplored areas, with holes spaced a half mile or more apart. Holes are logged by lowering a slender probe — Geiger or scintillation counter — into each one. If radioactivity is detected, close-spaced drilling begins in an effort to locate a deposit capable of supporting a commercial mining operation. The Company will operate three to five rotary rigs during the fiscal year, and will drill up to 100,000 feet of hole.

Kop-Ran

Subsidiary Expands

Kop-Ran Development Corporation, the mining
tractor subsidiary 80-percent owned by the Comp
grew rapidly during 1974, with gross income increa
eight-fold to about $500,000 for the year. Principal pr
during the year was work which the firm performed
the Anaconda Company at its uranium operations in
Laguna (N.M.) area some 50 miles west of Albuquer
The project involved the sinking of a 2,050
inclined shaft at the P-10 Mine. The shaft was begu
late December, 1973, and completed in May 1974.
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installation, and mine development. Kop-Ran, w
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the Sohio-Reserve Oil and Mineral uranium mine in
Laguna area and is bidding on other mine contrac
projects in New Mexico and surrounding states.

Aside from contributing to earnings, Kop-Ran
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in drifting, raising, shaft sinking and other work at
Company's Tungsten Queen and Old Reliable mines

Kop-Ran is headed by Eckhardt M. Koppen, a vet
mine contractor with experience in several mines in
U.S. and Canada. Jerrel L. Stallard, former mine su
intendent at the Johnny M Mine, is vice president
manager of contract services for the parent comp
Hans H. Baule is superintendent of operations.

Kop-Ran

Subsidiary Expands

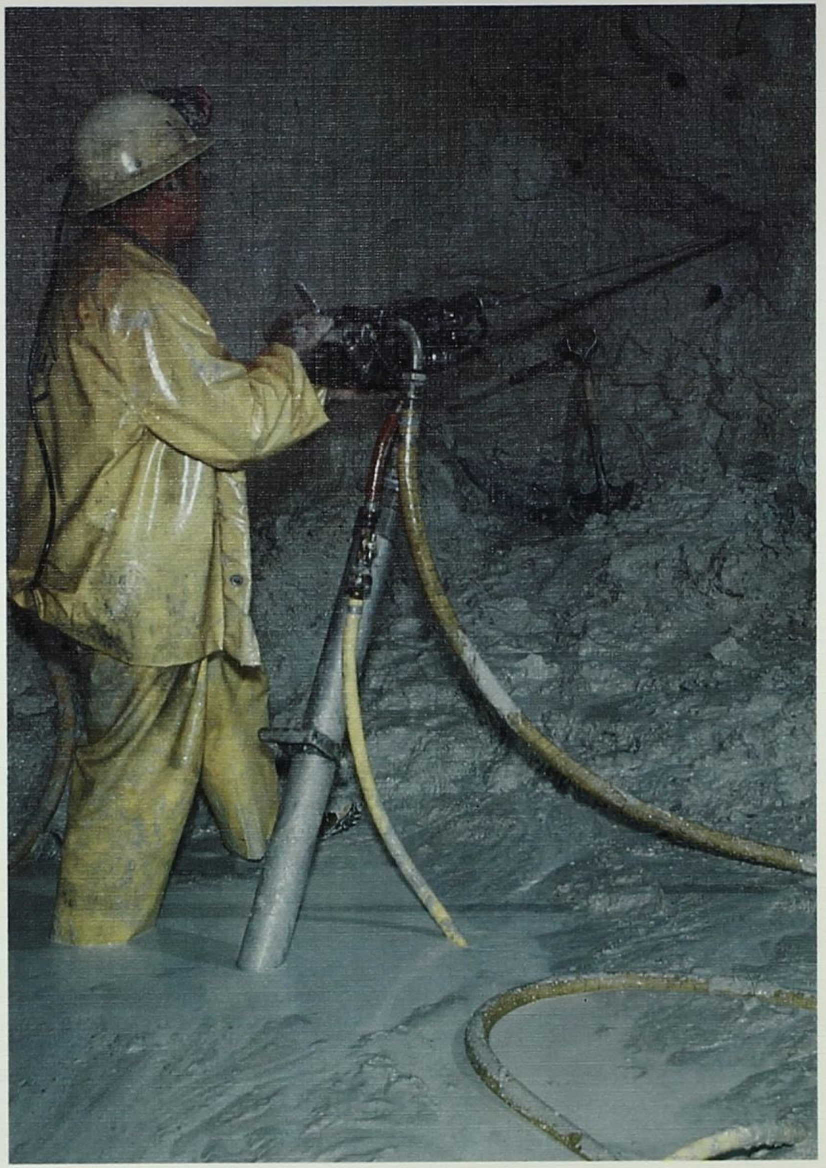
Kop-Ran Development Corporation, the mining contractor subsidiary 80-percent owned by the Company, grew rapidly during 1974, with gross income increasing eight-fold to about $500,000 for the year. Principal project during the year was work which the firm performed for the Anaconda Company at its uranium operations in the Laguna (N.M.) area some 50 miles west of Albuquerque.

The project involved the sinking of a 2,050-foot inclined shaft at the P-10 Mine. The shaft was begun in late December, 1973, and completed in May 1974. The project also includes station excavation, conveyor installation, and mine development. Kop-Ran, which should continue its rapid expansion in the current fiscal year, was recently awarded a contract to sink a shaft at the Sohio-Reserve Oil and Mineral uranium mine in the Laguna area and is bidding on other mine contracting projects in New Mexico and surrounding states.

Aside from contributing to earnings, Kop-Ran provides the parent company with a force of experienced, fully-equipped miners, capable of handling a variety of mining problems on short notice. The firm has engaged in drifting, raising, shaft sinking and other work at the Company's Tungsten Queen and Old Reliable mines.

Kop-Ran is headed by Eckhardt M. Koppen, a veteran mine contractor with experience in several mines in the U.S. and Canada. Jerrel L. Stallard, former mine superintendent at the Johnny M Mine, is vice president and manager of contract services for the parent company. Hans H. Baule is superintendent of operations.

Kop-Ran Miner Drilling Blast Holes



Promotions & Appointments

The Company announced several promotions and new appointments to its staff in 1974. They include:

John E. Motica promoted from Vice President, Geology, to Senior Vice President, Geology

David K. Hogan promoted from Manager of Engineering and Construction to Vice President, Engineering

Herbert M. Campbell II promoted from Secretary to Vice President and Secretary

Marvin K. Kaiser promoted from Assistant Secretary-Treasurer to Treasurer

Paul A. Matthews named Vice President, Operations

Mark R. Welch named Chief Engineer

George A. Van Etten named Mine Manager, Bluebird Mine

Ron Longwell named Plant Manager, Bluebird Mine

Portraits of several of these new appointees, painted by Artist Gene Garriott, appear on these pages, along with a portrait of Mr. Ken Power, long-time General Manager of the Bluebird Mine.

GEORGE A. VAN ETTEN
Mine Manager, Bluebird Mine

Mr. Van Etten directs mining operations at the Bluebird Mine, having joined the Company after serving as mine general foreman at Duval Corporation's Mineral Park (Arizona) operations from 1970-74. Previously he served as shift foreman at Duval's Sierrita Mine. He was also employed by Molybdenum Corporation and Phelps Dodge. He holds a BS degree in mining engineering from Lafayette College (1953).

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).

RON LONGWELL
Plant Manager, Bluebird Mine

Mr. Longwell joined the Company in 1969 as a metallurgist at the Bluebird Mine. He was later appointed manager of the Old Reliable project, then returned to the Bluebird as project engineer. In his present capacity, he directs the operation of the solvent extraction-electrowinning plant at the Mine. He holds BS and MS degrees in metallurgical engineering, University of Arizona (1966, 1971).

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).

KEN POWER
General Manager, Bluebird Mine

Mr. Power has directed operations at the Bluebird Mine since joining the Company in 1968. Previously he served as a chemist, assayer or metallurgist with the Anaconda Company, Golden Crown Mining Company, Inspiration, and American Smelting and Refining. He received his BS degree in metallurgical engineering and professional degree of metallurgical engineer from the University of Arizona (1947, 1959).

MARK R. WELCH
Chief Engineer

Mr. Welch is in charge of mine and plant engineering for the Company and responsible for engineering on all new construction. He joined the Company after serving from 1969-74 as plant manager of Ione Silica Sand Operations, Interpace Corporation, Ione, California. He previously served with Cleveland-Cliffs Iron Company. He holds a BS degree in mining engineering, Washington State University (1962).

Assets

Consolidated Balance Sheet/June 30, 1974 and June 30, 1973

Ranchers Exploration and Development Corporation and Subsidiary

	1974	1973
CURRENT ASSETS		
Cash and certificates of deposit (1974—$1,030,000; 1973—$296,170)	$ 2,002,148	$ 791,977
Trade accounts receivable	1,834,296	1,057,378
Inventories—Note B	1,923,278	2,316,388
Prepaid expenses and other current assets	327,722	368,026
Deposits with brokers for copper futures contracts	929,638	173,182
TOTAL CURRENT ASSETS	7,017,082	4,706,951
PROPERTY, PLANT AND EQUIPMENT		
at cost—Note C		
Land	138,732	77,522
Buildings and equipment	12,914,613	12,074,411
Construction in progress—estimated additional costs to complete (1974—$35,000; 1973—$10,000)	62,382	14,126
Mineral interests, mining claims, leases and permits—Note D	1,214,222	1,214,222
Deferred intangible mining and development costs	5,792,083	5,716,412
	20,122,032	19,096,693
Allowances for depreciation, depletion and amortization	6,204,709	4,993,292
	13,917,323	14,103,401
OTHER ASSETS AND DEFERRED CHARGES		
Investment in joint ventures—Note D	658,680	638,024
Unamortized debt expense	100,218	109,571
Claim for refund of federal income taxes—Note F	1,068,190	1,065,000
Other assets	134,961	85,230
	1,962,049	1,897,825
	$22,896,454	$20,708,177

See notes to consolidated financial statements

Liabilities and Stockholders' Equity

Consolidated Balance Sheet/June 30, 1974 and June 30, 1973

Ranchers Exploration and Development Corporation and Subsidiary

	1974	1973
CURRENT LIABILITIES		
Notes payable to bank	$ —	$ 200,000
Trade accounts payable	1,246,195	1,348,997
Accrued interest payable	56,886	61,339
Federal income taxes—Note F	230,000	1,090,000
Other liabilities	306,744	146,789
Current portion of long-term debt	16,789	58,478
TOTAL CURRENT LIABILITIES	1,856,614	2,905,603
LONG-TERM DEBT—Note E		
5-3/4% convertible subordinated debentures due January 15, 1989	2,300,000	2,355,000
Contracts payable for purchase of property, plant and equipment—less in 1974 unamortized discount of $16,678 based on imputed interest rate of 8.5%. Assets pledged as collateral (cost: 1974—$46,925; 1973—$129,150)	27,156	58,478
	2,327,156	2,413,478
Less portion classified as current liability	16,789	58,478
	2,310,367	2,355,000
DEFERRED FEDERAL INCOME TAXES—Note F	2,285,000	1,590,000
MINORITY INTEREST IN SUBSIDIARY—represented by twenty percent of capital stock	11,320	3,515
STOCKHOLDERS' EQUITY—Note J		
Common Stock—par value $.50 a share		
Shares authorized—4,000,000		
Shares issued—1,542,228 including shares in treasury	771,114	771,114
Capital in excess of par value	5,511,635	5,511,635
Retained earnings	10,552,387	7,933,945
	16,835,136	14,216,694
Less cost of Common Stock in treasury (1974—32,908 shares; 1973—29,808 shares)	401,983	362,635
	16,433,153	13,854,059
	$22,896,454	$20,708,177

See notes to consolidated financial statements

Statement of Consolidated Income
Ranchers Exploration and Development Corporation and Subsidiary
Year Ended June 30, 1974 and June 30, 1973

	1974	1973
Income		
Net sales	$19,190,164	$ 9,766,858
Uranium royalties	525,762	818,267
Interest and other	62,690	43,164
Gain on repurchase of debentures	10,850	—
	19,789,466	10,628,289
Deductions from income		
Cost of products sold	14,655,199	8,614,116
Exploration, conservation and maintenance of mining properties	444,940	256,900
Administrative and general expenses	742,202	552,214
Interest expense	428,683	184,023
	16,271,024	9,607,253
INCOME FROM OPERATIONS BEFORE APPLICABLE INCOME TAXES	3,518,442	1,021,036
Federal income taxes—Note F		
Currently payable	205,000	25,000
Deferred	695,000	211,200
	900,000	236,200
NET INCOME	$ 2,618,442	$ 784,836
Earnings per common share—Note G	$ 1.73	$ .52
Earnings per common share—assuming full dilution—Note G	$ 1.67	$ .52

See notes to consolidated financial statements

Statement of Changes in Consolidated Financial Position
Ranchers Exploration and Development Corporation and Subsidiary
Year Ended June 30, 1974 and June 30, 1973

	1974	1973
ADDITIONS		
Net income	$2,618,442	$ 784,836
Add charges to income not requiring working capital:		
Provision for depreciation, depletion and amortization	1,549,405	894,504
Amortization of debt expense	9,127	8,735
Increase in deferred income taxes	695,000	265,000
Lease abandonment	—	50,000
Income (loss) applicable to minority interest	7,805	(19,070)
TOTAL FROM OPERATIONS	4,879,779	1,984,005
Decrease in other deferred charges	—	57,872
Decrease (increase) in investment in joint ventures	(20,656)	204,914
Carrying amount of property, plant and equipment disposals	203,960	3,343
TOTAL	5,063,083	2,250,134
DEDUCTIONS		
Decrease in long-term debt	44,633	47,052
Additions to land(1974—$61,210; 1973—$—) and depreciable property, plant and equipment	1,468,625	755,045
Additions to mineral interests, mining claims, leases and permits	—	107,949
Additions to deferred mining and development costs	98,662	1,044,521
Increase in other assets	49,505	—
Claim for refund of federal income taxes	3,190	1,065,000
Cost of Common Stock purchased for treasury	39,348	35,466
TOTAL	1,703,963	3,055,033
INCREASE (DECREASE) IN WORKING CAPITAL	$3,359,120	$ (804,899)

See notes to consolidated financial statements

CHANGE IN COMPONENTS OF WORKING CAPITAL

Increase (decrease) in current assets:
- Cash
- Trade accounts receivable
- Inventories
- Prepaid expenses and other current assets
- Deposits with brokers for copper futures contrac

Increase (decrease) in current liabilities:
- Notes payable to bank
- Trade accounts payable
- Accrued interest payable
- Federal income taxes
- Other liabilities
- Current portion of long-term debt

INCREASE (DECREASE) IN WORKING CA

Notes to Consolidated Financial St

Note A—Summary of Significant Accounting Policies

Principles of Consolidation—The consolidated financial ments include the accounts of the Company's subsidiar Ran Development Corporation, which is 80% owned Company. Upon consolidation, intercompany accounts an actions have been eliminated.

Inventories—Inventories are stated at the lower of cost pally average cost) or market. The Company hedges sales of its production of cathode copper through the sale of contracts. As these contracts are repurchased and replac physical sales contracts, the resulting differences are incl inventory. These amounts are then charged (or credited) to when delivery is made under the sales contracts.

Property, Depreciation, Amortization and Depletion—Th of maintaining and repairing property are charged to ope Additions and betterments are added to property accounts Units of property, plant and equipment retired or repla credited to property accounts at cost and the correspondin ances for depreciation, depletion, or amortization are r Any differences between amounts received and net

Statement of Consolidated Stockholders' Equity
Ranchers Exploration and Development Corporation and Subsidiary
Year Ended June 30, 1974 and June 30, 1973

	1974	1973
COMMON STOCK		
BALANCE AT BEGINNING AND END OF YEAR	$ 771,114	$ 771,114
CAPITAL IN EXCESS OF PAR VALUE		
BALANCE AT BEGINNING AND END OF YEAR	$ 5,511,635	$ 5,511,635
RETAINED EARNINGS		
Balance at beginning of year	$ 7,933,945	$ 7,149,109
Net income for the year	2,618,442	784,836
BALANCE AT END OF YEAR	$10,552,387	$ 7,933,945
TREASURY STOCK		
Balance at beginning of year	$ 362,635	$ 327,169
Purchase of shares for treasury (1974—3,100 shares; 1973—3,000 shares)	39,348	35,466
BALANCE AT END OF YEAR	$ 401,983	$ 362,635

See notes to consolidated financial statements

CHANGE IN COMPONENTS OF WORKING CAPITAL	1974	1973
Increase (decrease) in current assets:		
Cash	$1,210,171	$ (619,895)
Trade accounts receivable	776,918	137,975
Inventories	(393,110)	496,004
Prepaid expenses and other current assets	(40,304)	166,610
Deposits with brokers for copper futures contracts	756,456	173,182
	2,310,131	353,876
Increase (decrease) in current liabilities:		
Notes payable to bank	(200,000)	(100,000)
Trade accounts payable	(102,802)	247,171
Accrued interest payable	(4,453)	(78)
Federal income taxes	(860,000)	1,025,000
Other liabilities	159,955	11,326
Current portion of long-term debt	(41,689)	(24,644)
	(1,048,989)	1,158,775
INCREASE (DECREASE) IN WORKING CAPITAL	$3,359,120	$ (804,899)

Notes to Consolidated Financial Statements/June 30, 1974

Note A—Summary of Significant Accounting Policies

Principles of Consolidation—The consolidated financial statements include the accounts of the Company's subsidiary, Kop-Ran Development Corporation, which is 80% owned by the Company. Upon consolidation, intercompany accounts and transactions have been eliminated.

Inventories—Inventories are stated at the lower of cost (principally average cost) or market. The Company hedges sales of part of its production of cathode copper through the sale of futures contracts. As these contracts are repurchased and replaced with physical sales contracts, the resulting differences are included in inventory. These amounts are then charged (or credited) to income when delivery is made under the sales contracts.

Property, Depreciation, Amortization and Depletion—The costs of maintaining and repairing property are charged to operations. Additions and betterments are added to property accounts at cost. Units of property, plant and equipment retired or replaced are credited to property accounts at cost and the corresponding allowances for depreciation, depletion, or amortization are removed. Any differences between amounts received and net carrying amounts of the disposals are generally reflected in operations. Provisions for depreciation, depletion, and amortization are computed using rates which the Company believes are sufficient to amortize the cost of the asset over its useful life, which is the shorter of the asset's physical life or the economic life of the mine. These rates are subject to periodic review and are revised when deemed necessary to assure that the cost of the respective assets will be written off over their useful lives.

Exploration Expenses—Costs incurred in the search for new mining properties are charged against earnings when incurred.

Development Costs—Development costs to bring new mineral properties into production and for major programs of a special nature at existing mines are capitalized and amortized using the units-of-production method when production begins.

Income Taxes—The income tax effects resulting from allowable deductions taken in income tax returns for depreciation and mine development costs in excess of amounts charged against earnings in the financial statements are deferred. Operating loss carryforwards and investment tax credit carryforwards are considered in the determination of such deferred taxes. Investment tax credits are accounted for by use of the flow-through method.

Note B—Inventories

Inventories consist of the following:

	June 30 1974	June 30 1973
Finished metals and metal products	$ 914,401	$ 893,432
Ore in leach heaps and stockpiles	736,694	954,159
Supplies	272,183	359,784
Costs incurred in cancellation of futures contracts replaced with physical sales contracts	—	109,013
	$1,923,278	$2,316,388

Note C—Tungsten Queen Mine

Due to the substantial decline in the market price of tungsten, the Company suspended operations at its Tungsten Queen Mine in August 1971. The current market price of tungsten is considerably higher than those prices received while the mine was in operation and management is currently reviewing various alternatives for this property; however, a decision has not yet been made as to a final course of action. The carrying amount of property, plant and equipment at the mine at June 30, 1974 was $7,776,130. In management's opinion, the investment will be recovered through future operations or disposition of the property.

Note D—Investment in Joint Ventures

Included in the balance shown as investment in joint ventures is the Company's carrying amount of property, plant, equipment and intangible development costs aggregating $582,580 which represents its 50% share of the Ranchers-HNG Oil Company Joint Project. In addition to this carrying amount, the Company also has $92,871 included in mineral interests relating to the Joint Project. This Joint Project was formed to develop and operate the Johnny M Mine (uranium) located in McKinley County, New Mexico. On February 12, 1973 the Joint Project entered into a credit agreement with a commercial bank in order to provide a portion of the funds to finance the development and equipping of the mine. The credit agreement provides for initial revolving credit loans to be made by the bank in an aggregate principal amount not to exceed $5,000,000 prior to January 31, 1976, or under certain conditions September 30, 1976. At that date, the total balance due under the revolving credit loans is to be converted to a term loan which is repayable in 48 equal monthly installments. The annual rate of interest is one percent above 114% of the bank's prime commercial rate in effect, provided that over the full course of the revolving credit loan and term loan, the total interest paid on the individual loan does not exceed 8.75%.

All property, plant and equipment and proceeds derived from sale of production of the Johnny M Mine are pledged as collateral on the loans, with no recourse by the bank to the respective participants in the Joint Project upon completion of the mine. As of June 30, 1974, the Joint Project had borrowed $3,400,000 under this agreement. The Company's investment in the Joint Project includes only the contributions made to the Joint Project by the Company.

Note E—Long-Term Debt

The debentures, which bear interest at the rate of 5-3/4%, 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 104.060% beginning January 15, 1974 to 100% beginning January 15, 1988. The indenture provides for an annual sinking fund payment in the amount of $118,500 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 not restricted for payment of cash dividends amounted to $7,842,994 at June 30, 1974 and $5,224,551 at June 30, 1973.

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

Note F—Federal Income Taxes

During the year ended June 30, 1974, the Company paid a deficiency notice in the amount of $1,068,190, representing additional federal income taxes assessed, including interest for the years ended June 30, 1965 through June 30, 1971. The Company has filed claims for refund of amounts paid or such greater amount as may be finally determined. Should the Internal Revenue Service refuse to honor this claim, the Company intends to commence litigation to recover the payment. While the outcome of this matter is not determinable at this time, management is of the opinion that the ultimate deficiency, if any, will not have a materially adverse effect on the consolidated financial position or results of operations of the Company. If the proposed adjustments are upheld by the courts, substantially all would be in the nature of timing differences, for which provision has been made in the deferred income tax liability accounts.

Investment tax credits of $79,777 for 1974 and $54,976 for 1973 have been used to reduce the provision for income taxes.

Note G—Earnings Per Share

Net earnings per share of Common Stock have been 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 H—Leases

Total rental expense for all leases amounted to $434,452 in 1974 and $313,623 in 1973.

The future minimum rental commitments under noncancellable equipment leases totaled $380,244 at June 30, 1974. These commitments for future fiscal years are as follows: June 30, 1975—$182,809, June 30, 1976—$112,744, June 30, 1977—$84,691.

Note I—Credit Agreement

In April 1974 the Company entered into a $10,000,000 credit agreement with a commercial bank. The agreement provides for loans that are unsecured to be paid upon demand by the bank. The loans bear interest at one-half of one percent above the bank's prime rate. In connection with the agreement, an informal agreement has been made to maintain average cash balances equal to ten percent of the line of credit and ten percent of the outstanding borrowings thereunder. At June 30, 1974 there were no outstanding loans under the agreement.

Note J—Stock Options

At June 30, 1974, 60,968 shares of Common Stock were reserved for issuance to certain officers and employees under the Company's stock option plan. Of the 60,968 shares reserved for options, 12,000 were covered by options outstanding and 48,968 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. The plan provides that individual options cannot be exercised while any option previously granted at a higher price is outstanding.

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 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, 1972	22,200	$ 9.88-23.50	52,500	$ 9.88-19.00	74,700
Exercisable June 30, 1972	9,140	10.25-23.50	21,200	11.50-19.00	30,340
Year ended June 30, 1973					
Granted	—	—	—	—	—
Exercised	—	—	—	—	—
Cancelled	(4,000)	18.00-23.50	—	—	(4,000)
Outstanding June 30, 1973	18,200	9.88-21.50	52,500	9.88-19.00	70,700
Exercisable June 30, 1973	10,660	9.88-21.50	30,100	9.88-19.00	40,760
Year ended June 30, 1974					
Granted	3,700	12.25	10,750	12.75	14,450
Exercised	—	—	—	—	—
Cancelled	(9,900)	19.00-21.50	(9,000)	17.50	(18,900)
Outstanding June 30, 1974	12,000	9.88-20.00	54,250	9.88-19.00	66,250
Exercisable June 30, 1974	5,680	9.88-20.00	35,100	9.88-19.00	40,780

Financial Summary* 1974/70

Fiscal Year Ended June 30	1974	1973	1972**	1971**	1970**
ANNUAL					
Net sales	$19,190	$ 9,767	$ 9,343	$15,194	$11,040
Royalties—uranium	526	818	746	724	611
Interest, dividends and other	73	43	121	158	276
Total income	19,789	10,628	10,210	16,076	11,927
Income from operations before income taxes	3,518	1,021	1,140	1,102	2,471
Provision for income taxes	900	236	81	171	694
Income from operations	2,618	785	1,059	931	1,777
Extraordinary income (loss) net of applicable income taxes	—0—	—0—	13	141	(195)
Net income	2,618	785	1.072	1,072	1,582
Net income per share					
From operations	1.73	.52	.70	.61	1.19
From extraordinary income (loss)	—0—	—0—	.01	.09	(.13)
Total	1.73	.52	.71	.70	1.06
YEAR END					
Current assets	7,017	4,707	4,353	5,140	9,110
Current liabilities	1,856	2,906	1,747	2,866	4,576
Working capital	5,161	1,801	2,606	2,274	4,534
Net property, plant and equipment and other non-current assets	15,879	16,001	14,248	13,936	13,774
Long-term debt	2,310	2,355	2,402	2,764	5,912
Deferred income taxes	2,285	1,590	1,325	1,275	1,200
Minority interest	11	4	23	—0—	—0—
Net worth	16,433	13,854	13,104	12,171	11,197
Stockholders' equity per share	10.89	9.16	8.65	7.97	7.31
Number of shares outstanding	1,509,320	1,512,420	1,515,420	1,528,120	1,531,552

*(ooo omitted except for per share and share amounts)

**Restated

Per share amounts and number of shares outstanding have been adjusted to reflect the 2-for-1 stock split-up declared in March, 1970.

Auditor's Report

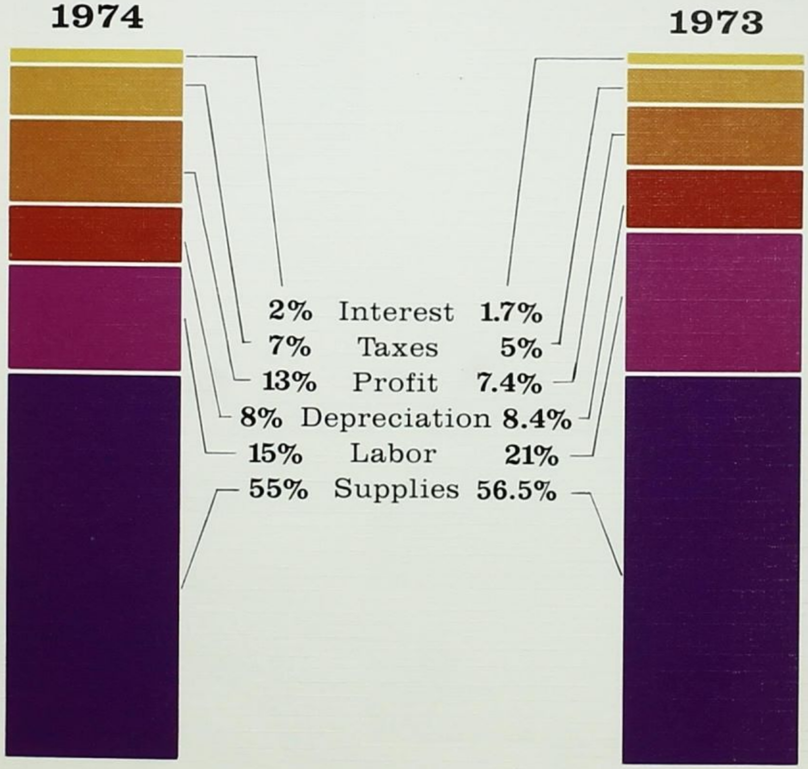
Shareholders and Board of Directors
Ranchers Exploration and
Development Corporation
Albuquerque, New Mexico

We have examined the consolidated financial statements of Ranchers Exploration and Development Corporation and subsidiary for the years ended June 30, 1974 and 1973. 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, subject to the ultimate realization of the investment in the Tungsten Queen Mine as explained in Note C, the accompanying balance sheet and statements of income, stockholders' equity, and changes in financial position present fairly the consolidated financial position of Ranchers Exploration and Development Corporation and subsidiary at June 30, 1974 and 1973 and the consolidated results of their 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.

Ernst & Ernst

Albuquerque, New Mexico
August 2, 1974



Income, Expenditures & Profit in 1974

The Company had a gross income of $19,789,466 in Fiscal Year 1974.

This income was distributed in the following manner:

$10,709, 214, or 55 percent, went to suppliers for the various goods and services needed to conduct the Company's business.

$3,039,065, or 15 percent was spent on labor, including social security, insurance, etc.

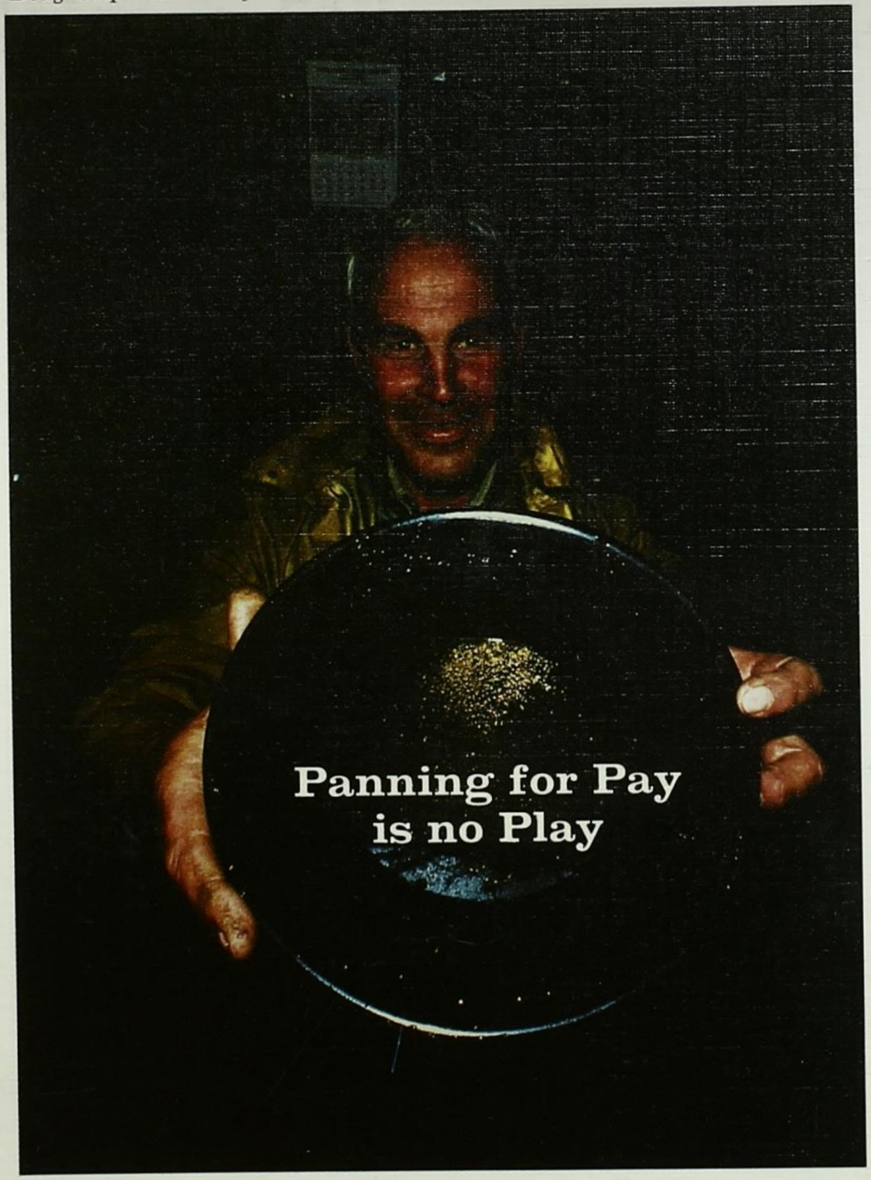
$1,549,404, or 8 percent, was provided for depreciation, amortization, and depletion of property, plant, and equipment.

$1,444,658, or 7 percent, was paid in federal, state, and local taxes.

$428,683, or 2 percent, was paid in interest.

These expenditures totaled $17,171,024, leaving a profit of $2,618,442, or 13 percent of the gross income for the year. This amounted to $1.73 per share on the 1,512,162 shares held by the Company's approximately 1,125 stockholders.

Doug Colp with Newly-Panned Gold (about 1/30-oz.)



Panning for gold is one of those romantic-sounding practices which is best observed by amateurs and performed by professionals.

"It takes a year or two of fairly constant practice to become an expert gold panner," says Doug Colp, a mining engineer who's been panning gold for nearly 40 years. Colp ramrods the Company's Alaskan gold exploration project, a job that includes panning gold from the concentrates produced at the camp. The gold-bearing concentrates are produced by passing material from drill holes through a mechanical separator to remove rocks and pebbles, leaving only sand and fine gravel.

"It normally takes me about 20 minutes to complete a pan of concentrates," says Colp, "with the exact time depending on the type of gold. The gold here is flat and flaky, and takes a bit longer to pan than gold which is fat and plump."

Colp's panning technique is simple. He dumps half a shovelful of concentrates into his 16-inch-diameter pan, fills it with water from a tin wash tub standing in front of him, and begins the gentle swirling motion which floats the lighter material over the side of the pan. Repeated washings gradually remove most of the lighter particles, leaving the heaviest in the bottom of the pan. Larger bits of gravel are isolated with a thumb or finger and raked over the side.

Finally, only the gold and grains of black iron ore—magnetite—remain. Colp then dumps this metal onto a sheet of paper and separates the iron by passing a magnet over it. The gold—now about 87 percent pure—is weighed and logged. "A skilled panner should recover at least 95 percent of the gold in his pan," says Colp, "and be able to tell, within 10 percent, how much gold he has recovered without weighing it."