RIO ALTO EXPLORATION LTD.
ANNUAL REPORT 1981

RIO ALTO EXPLORATION LTD.

CORPORATE INFORMATION

DIRECTORS

John C. Anderson	Calgary, Alberta
Carman W. Byler	Calgary, Alberta
Patrick A. Campbell Fraser	Edinburgh, Scotland
Douglas W. Hilland	Calgary, Alberta
Francis C. Mannas	Calgary, Alberta
Fabrizio Rigo	Rome, Italy
James R. Smith	Calgary, Alberta
Bruno J. Todesco	Calgary, Alberta

OFFICERS

Douglas W. Hilland	President
Janet P. Hille	Secretary
Samuel W. Ingram	Assistant Secretary
Bruno J. Todesco	Assistant Secretary

HEAD OFFICE

820, 444 5 Ave. S.W.
Calgary, Alberta
T2P 2T8

SUBSIDIARIES

Rio Alto Exploration Inc.
North American Nuclear Limited
Gamma Resources Ltd.

AFFILIATES

Euromin International S.A.

BANK

Royal Bank of Canada

TRANSFER AGENT AND REGISTRAR

Canada Trust Company

LEGAL COUNSEL

McLaws & Company

AUDITORS

Collins Barrow

STOCK LISTING

Toronto Stock Exchange
Alberta Stock Exchange

The Annual Meeting will be held at 3:00 p.m., June 10, 1982 in the Boardroom of the 400 Club, Calgary, Alberta

TO THE SHAREHOLDERS

The Directors of Rio Alto Exploration Ltd. take this opportunity to report on the Company's activities and financial affairs for the year ended December 31, 1981.

The most significant event for the future of the Company was the conclusion of an Agreement in December, 1981 with the shareholders of Euromin International S.A., whereby the Company acquired a 50% share interest in Euromin. This transaction resulted in the issuance of 1.5 million shares of the Company to the Euromin shareholders at an ascribed value of $7,800,000.

Euromin is a fully operational exploration Company with a highly qualified technical and administrative staff operating from offices in Rome, Italy under the direction of its President, Dr. Fabrizio Rigo.

At the time of negotiating the Euromin transaction, your Directors were looking for an opportunity to expand the Company's activities to Europe and other foreign areas. This was particularly difficult due to the limited staff and funds available to the Company. Accordingly, the Euromin acquisition offered the Company a unique opportunity to participate indirectly in a significant spread of petroleum rights in Europe and at the same time obtain the service and experience of a highly qualified team of international explorationists. It is the opinion of your Directors that even a minor interest in a significant offshore discovery could substantially increase the Company's asset base. In addition, a considerable portion of the Euromin interests comprise overriding royalties which would not impose any financial burden on Euromin or the Company.

During the past year, the Company continued its acquisition, exploration and development activities in the United States. Certain low risk prospects were acquired and other prospects expanded. A significant interest in a large land spread was acquired in Mercer County, Ohio as outlined in this Report. Development drilling took place at a number of prospects and construction facilities to place wells on production began in 1981. Because of the widespread nature of the various prospects in the U.S.A. and the necessity to rely upon Operators and consultants in various areas, considerable delay has been experienced in getting wells on production. This, and other factors, accounts for the income from oil and gas sales being considerably less than anticipated during 1981. Obtaining sustained production from various wells in which the Company has participated in the U.S.A. will be in the first priority of the Company's management during 1982.

It should be pointed out that the problems experienced in operating in the U.S.A., causing a delay in cash flow, has also been experienced by most junior Canadian resource companies.

Despite the fact that the Company has pursued a course of concentrating its oil and gas activities in the U.S.A. and was able to diversify its interests into foreign areas through the Euromin Agreement, like all junior resource companies, we have suffered the consequences of reduced equity markets and uncertainties created by the Canadian Government as well as increased tax levels.

These factors, together with the lack of markets for natural gas, make it difficult to plan any significant acquisition or exploration activities in Canada. In balance, while the finding of economic production in the U.S.A. is probably more difficult than in Canada, the U.S.A. still appears to offer a junior resource company a better opportunity to develop a source of cash flow. However, recent developments in Canada may once more offer sufficient economic incentive to search for oil prospects in Western Canada.

The Company has operated on a reduced basis in the field of mining during 1981. Our joint venture partner, E. & B. Explorations Inc. terminated operations at the large Rusty Springs prospect in the Yukon. This prospect has since been farmed out to Kenton Natural Resources Corp. as described in this Report. Planned diamond drilling in Hoyle Township, Ontario was postponed. Our mining activities in 1981 were reduced due to the lack of joint venture funds on which the Company usually depends to carry out a large portion of its exploration activities.

It is expected that 1982 will be a period of consolidation and as previously indicated, the obtaining of sustained production from various prospects in the U.S.A. will be the first priority of the Company. As you will note from the financial statements, the Company's bank debt at the end of 1981 was not significant and continues to remain so. In addition, the Company has no significant obligations arising during the forthcoming year.

In May of 1981, Mr. John C. Anderson was elected a Director of the Company. Under the Agreement concluded during December of 1981, two additional Directors, namely, Dr. Fabrizio Rigo, a Director of Euromin International S.A. and Mr. Patrick Campbell Fraser, also a Director of Euromin as well as a Director of Stewart Fund Managers Limited of Scotland, joined the Board of Rio Alto Exploration Ltd. At the same time two Directors (out of four) representing the interests of the Company, were appointed to the Board of Euromin International S.A. It is the opinion of various Directors concerned that these representatives on the Boards of the Company and Euromin will add considerable expertise and guidance in the future development of both corporations. In particular, the Company is fortunate to have available the experience and technical advice of Dr. Fabrizio Rigo and the European financial experience of Mr. Patrick Campbell Fraser. As a result of a recent corporate reorganization, Mr. Edward A. Brownless resigned as President and Director of the Company. Mr. Brownless has been replaced by Mr. Douglas W. Hilland.

The Board of Directors extends its thanks to the Company's staff for their efforts during the past year and appreciates the continued support of the Company's shareholders.

Respectfully submitted on behalf of the
Board of Directors

DOUGLAS W. HILLAND
President

Calgary, Alberta
April 26, 1982

RIO ALTO EXPLORATION LTD.

COMPANY INTERESTS

PETROLEUM & NATURAL GAS

CANADA

Leduc, Alberta

The Rio Alto et al Leduc 8-14-49-26W4M well has been on steady production since March, 1981 and has been producing an average 100 barrels of oil per day. The Company, through its subsidiary, Gamma Resources Ltd., holds a 10% working interest in the well and the 320 acre lease on which it is located. The Company's 10% working interest converts to a 20% working interest after payout. The Company also holds a similar working interest in a follow-up well drilled on the prospect. This well has been completed as a potential gas well after failing to produce oil in economic quantities.

While the 8-14 has been producing at good daily rates during recent months, trucking and water disposal costs have reduced profits from the well. However, an Appeal now pending to have the production classified as new oil would, if successful, greatly increase the rate of return from this well.

Cessford, Alberta

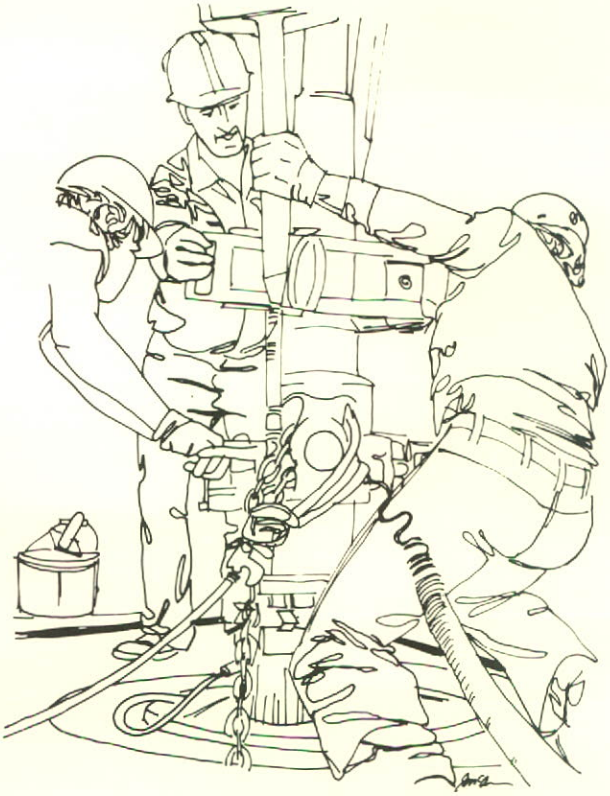
Gamma Resources Ltd., a wholly owned subsidiary of the Company, holds a 5.985% interest in the Cessford A6-30-23-10W4M well, which has been producing an average of 3 million cubic feet of gas daily. Despite the abnormal costs experienced when this well blew wild in 1977, all drilling, completion and blow-out costs were recovered during 1981. It is expected this well will provide the Company with cash flow in the range of $40,000 to $50,000 annually for many years. During the past year the A6 well was completed for production in a second horizon, the Basal Colorado zone, which was the original objective when the well was drilled. An offset well in which your Company holds an indirect 5.23% interest was also completed for production in the Basal Colorado zone during the past year. Production from these zones however must await improved natural gas markets.

Hilda, Alberta

The Company continues to participate as to approximately .065% working interest in some 105 gas wells in the Medicine Hat area of Alberta. As a result of agreements between the Company's subsidiary, Gamma Resources Ltd. and drilling fund investors, the Company's interest in these wells and production will increase to approximately .16% by mid 1982 and it is expected that cash flow from these wells will increase to approximately $60,000 annually.

Other Properties

The Company holds varying royalty and working interests in other miscellaneous petroleum and natural gas rights in Saskatchewan and Alberta. Most of these interests are minor but continue to provide reasonable cash flow.



UNITED STATES

Seminole County, Oklahoma

The Company acquired a 15% working interest in approximately 2,400 acres of leases in Seminole County, Oklahoma during 1981. Rio Alto participated in the drilling of seven wells on these lands. One well has been placed on production at a current rate of 60 barrels of oil per day. Two additional wells have been completed and production should commence shortly. The Redbud #1 well was tested at 2.2 to 3 million cubic feet of gas per day plus 40 barrels of oil. A compressor is waiting to be tied in and a daily production rate of 1.5 million cubic feet of gas plus 40 barrels of oil is expected. A third well is making clean oil but production figures are not yet available. Four wells drilled proved dry or marginal.

Rio Alto also participated to the extent of a 7.5% working interest in an eighth well which averaged 70 barrels of oil per day during February, 1982.

Further development of this prospect is planned for 1982. The Company expects reasonable production income to commence from existing wells in the next three months. It is difficult to estimate cash flow until some production history is obtained.

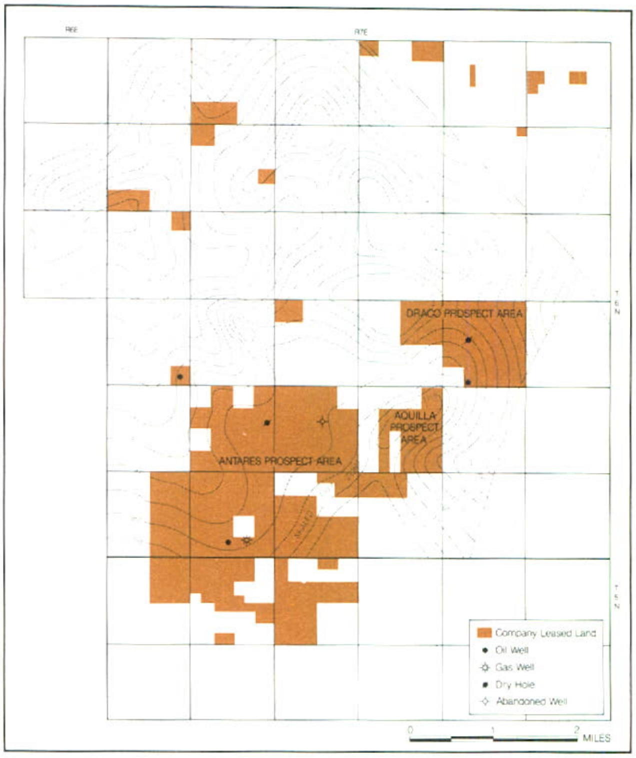
Dewey County, Oklahoma

During 1981, the Company participated to the extent of its 8.33% interest in the drilling and completion of three wells on approximately 2,600 acres of leases in Dewey County, Oklahoma. Two of these wells are currently producing natural gas at rates of 300,000 and 1 million cubic feet per day respectively. The third well is currently being production tested.

Rio Alto also participated as to a 1.809% working interest in a well outside the Company lease block which was initially flow-tested at 4.2 million cubic feet of gas. This well is currently on production.

The natural gas produced from this prospect also produces some condensate which adds to the economics of the production. Further development is planned for 1982.

SEMINOLE COUNTY, OKLAHOMA



Mercer County, Ohio

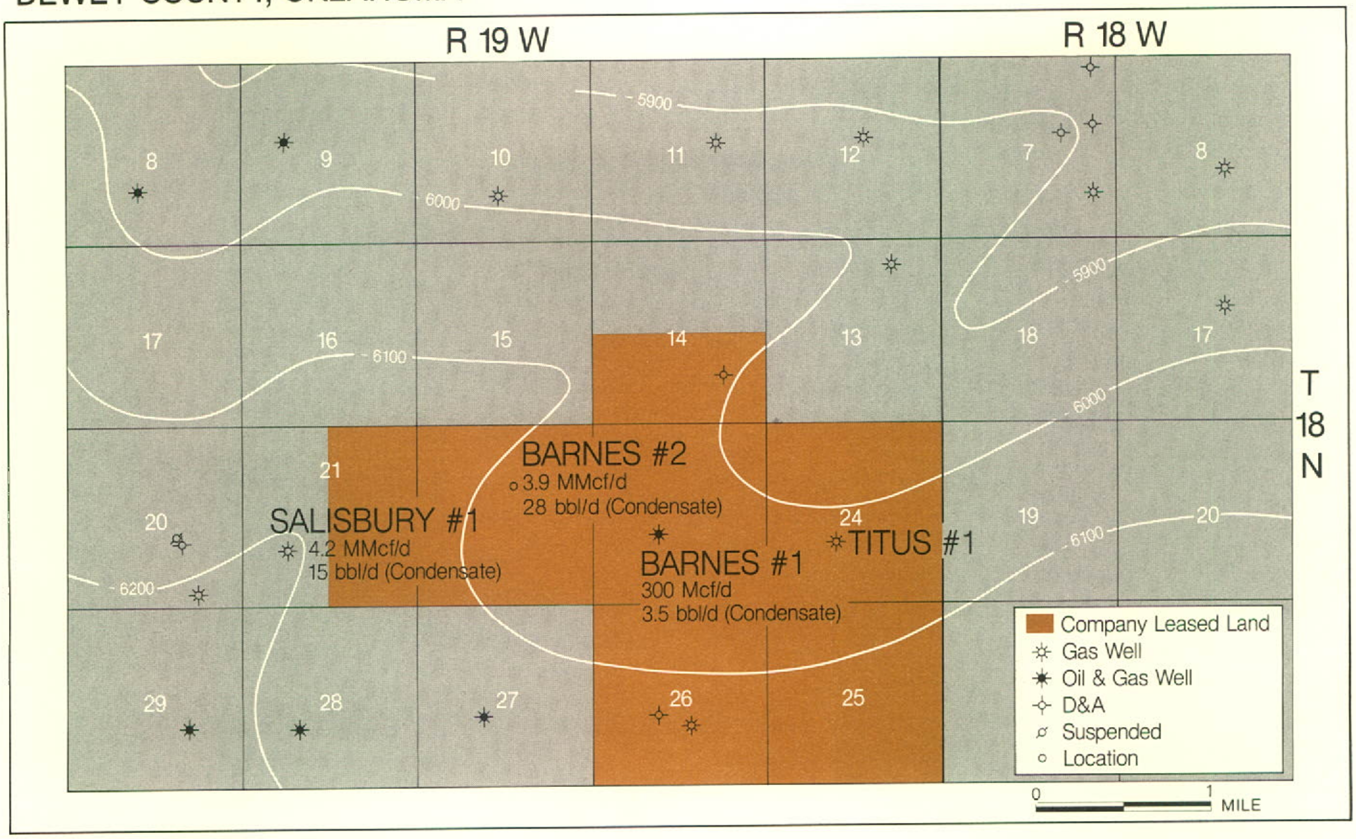
The Company has a 50% working interest in approximately 24,000 acres of leases in the large Trenton Field, Mercer County, Ohio and Jay and Adams Counties, Indiana. Rio Alto is the Operator of this prospect.

The Trenton Field, also known as the Lima-Indiana Field, is a large curved shaped feature stretching some 170 miles from Toledo, Ohio to Grant County, Indiana and varying from 1 to 20 miles in width. Drilling began in 1884 and an estimated 100,000 wells were completed by the turn of the century. Total cumulative production to date is in excess of 500 million barrels of oil.

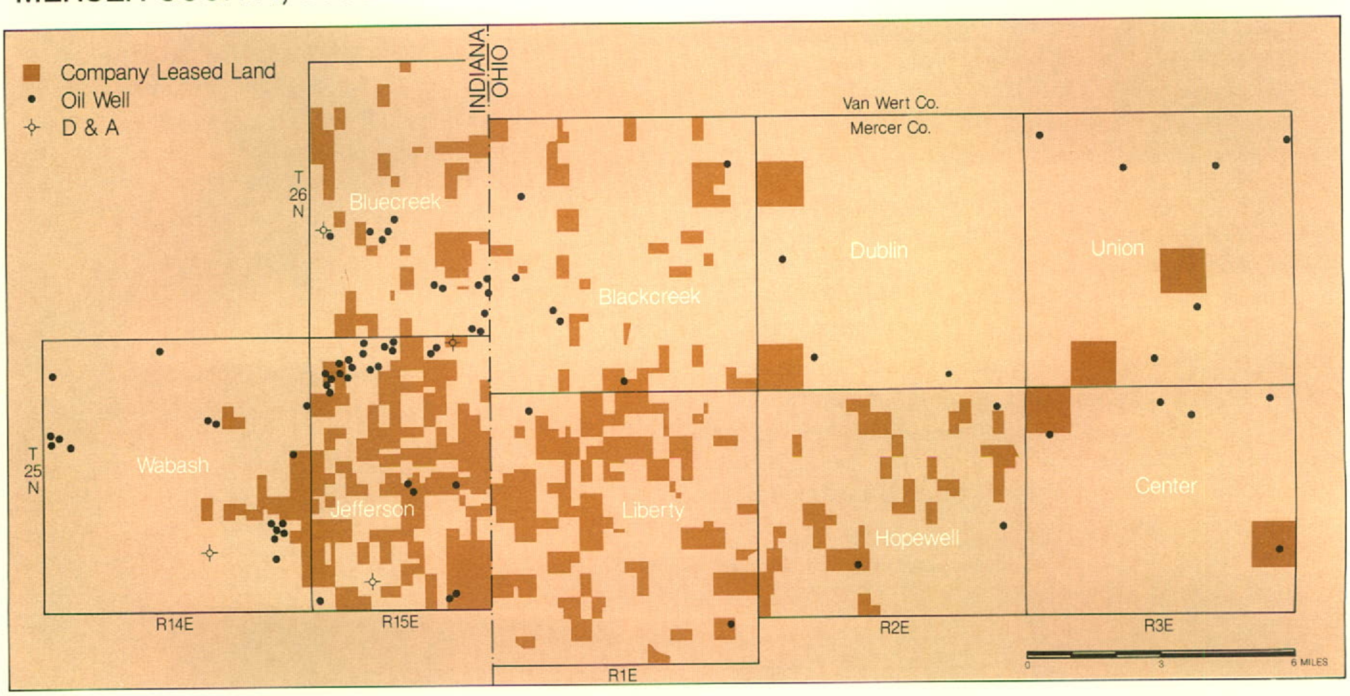
The northwest flank of the Findlay Arch (being a major feature of the Field) provides a structural trap for oil with virtually all production coming from the variable dolomitized upper section of the Ordovician Trenton Limestone. In this respect, the Company's leases are situated in an excellent position, with the bulk of the land around the dolomitization curve.

RIO ALTO EXPLORATION LTD.

DEWEY COUNTY, OKLAHOMA



MERCER COUNTY, OHIO



Obsolete well histories make any accurate production prognosis difficult but based on certain old production records and using modern drilling and completion methods coupled with secondary recovery processes, a production figure of 25 barrels of oil per day per well appears to be a realistic estimation. This production is even more attractive when the low cost of drilling to depths of approximately 1,200 to 1,400 feet is taken into consideration.

The Company is currently seeking a partner in the U.S.A. with the facilities to develop the prospect on a farmout or joint venture basis. It is expected certain initial test wells will be drilled at no cost to the Company.

Union City, Pennsylvania

Two gas wells producing from the Medina horizon have recently been placed on production. The Operator is currently experiencing some production problems which, when resolved, should substantially increase production. The Company holds a 10% working interest in this prospect.

Elk Creek, Pennsylvania

The Company holds a 10% working interest in this prospect which contains nine shut-in gas wells. A production rate is not yet established but is estimated at a total of 3 to 3.5 million cubic feet of gas from existing wells. Production was scheduled to commence on April 1, 1982. This prospect has the potential for an additional 25 wells but further development must wait on production history from present wells.

Grandview Field, Ohio

The Company has a 15% working interest in 955 lease acres containing five oil and gas wells in the Grandview Field, Ohio. The wells average 2,700 feet in depth and produce from the Gordon Sand. Current oil production from these wells is marginal but each well is also producing natural gas which is under contract. This prospect has considerable potential for increased production after certain remedial work now under examination is completed. The latest methods of stimulation in the vicinity have proven that the Ohio Shale is capable of good commercial oil and gas production.

Ashland, Louisiana

Rio Alto holds various interests in 880 lease acres in Natchitoches Parish, Louisiana. One shut-in gas well has been completed on the prospect. Negotiations are currently underway with Tricor Resources Ltd., the Company's working interest partner, to determine the terms and conditions under which Rio Alto will participate in the further development of this prospect. At this time, the prospect offers the opportunity for drilling and completing a number of gas wells and a market is readily available.

Gibson County, Indiana

The Company holds an 18.75% working interest in 241 lease acres and two oil wells located on these lands. One well is currently suspended while the other is producing at an initial rate of 12 barrels of oil per day. Further plans for this prospect are now being discussed with the Operator.

West Virginia

The Company participated to the extent of a 10% working interest in the drilling of 4 wells on this prospect during 1981. Sporadic production has been obtained from these wells.

Funds have been provided by the Company for the drilling of two additional wells. However, the drilling of these wells has been held up pending settlement of certain legal problems now existing between the Operator of this prospect and the contractor engaged to conduct drilling operations. It is expected that this problem will be resolved in the near future enabling the drilling of the additional wells. It is also expected that sustained production can be obtained from existing wells.

MINING ACTIVITIES

Hoyle Township, Ontario

The Company continues to maintain the entire interest in a block of 20 unpatented mining claims and a one-third interest in a contiguous block of 16 patented mining claims in Hoyle Township, Ontario.

The unpatented claims are located about 1 mile north of the Kidd Creek Mines - Inco, Owl Creek Mine which went into production during 1981. This mine has ore reserves of 2.9 million tons at an average grade of 0.15 ounces gold per ton ore and is being mined by open pit methods.

Excellent drill intersections were reported by Kidd Creek Mines (formerly Texasgulf) on their "Pond" deposit about ¼ to ½ mile east of the Company's claims. One drill hole intersected two parallel zones, one averaging .73 ounces gold per ton over 11.5 feet and another averaging 0.20 ounces gold per ton over 19 feet. These zones are vertical and have been traced horizontally for 850 feet. Linecutting on 400 foot centers and a VLF geophysics survey were completed on the unpatented claims during 1981. Several strong conductors were outlined in the VLF survey and may represent the extension of Kidd Creek Mines "Pond" deposit.

Whitney Township, Ontario

The Company acquired two additional unpatented mining claims during 1981 and now has the entire interest in a block of five unpatented claims in Whitney Township, Ontario.

Eight drill holes were completed prior to the Company acquiring the claims with significant mineralization reported in three of the holes. Of note, DDH #1 (1960) intersected 0.10 ounces gold per ton over 1.5 feet from 283.5 to 285.0 feet and 0.94 ounces gold per ton over 2.5 feet from 290.0 to 292.5 feet.

Several formerly producing gold mines lie near these claims and the mineralized zone exploited by these former gold mines is geologically inferred to pass through the Company's claims.

Line cutting on 400 foot centers and VLF and ground magnetometer geophysic surveys were completed on the northern three claims during 1981 outlining several interesting conductors.

OTHER MINING ACTIVITIES

1981 was a year of reduced mining activity for the Company as indeed was the case for the entire Canadian mining industry.

The Company continues to maintain several mining properties across Canada such as those described below:-

Elliot Lake, Ontario

The Company maintains 30 mining claims in the Elliot Lake Uranium Camp, Ontario. Extensive mineralization is inferred on these claims but low Uranium prices preclude further development at this time.

Nordegg & Clearwater River Areas, Alberta

The Company retains a royalty interest in 20,000 acres of coal leases in the Nordegg Area, Alberta. The leases have been optioned by Consolidated Coal Ltd. and inferred recoverable reserves are estimated to be 42 million tons of sub-bituminous or coking coal.

The Company also retains a royalty interest in 35,000 acres of coal leases optioned by Clearwater Coal Ltd. Indicated recoverable reserves are estimated to be 38 million tons while inferred recoverable reserves are placed at 58 million tons of sub-bituminous or coking coal.

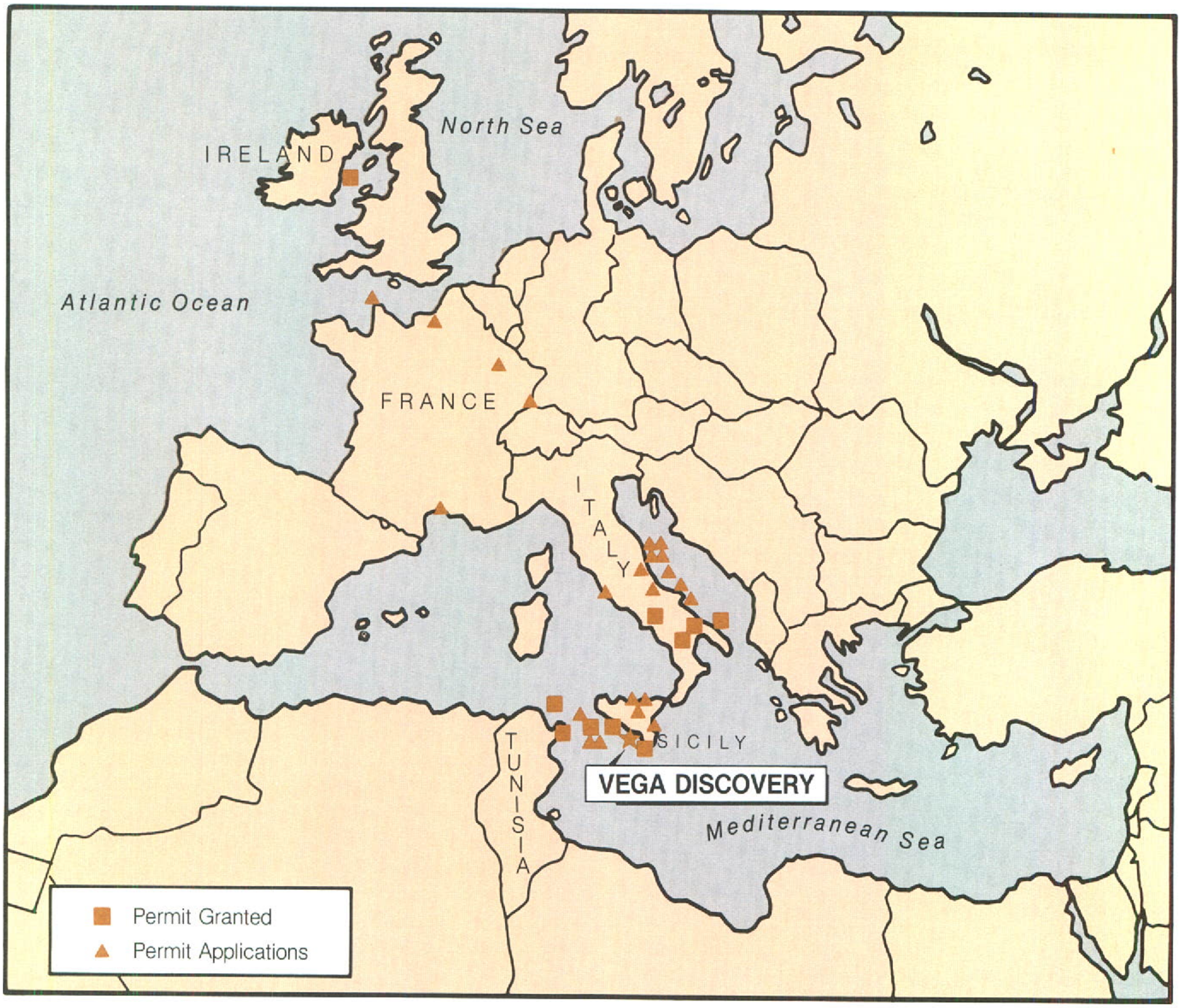
Rusty Springs, Yukon

The Company holds a 56% working interest in a lead-copper-zinc-silver property comprising 380 mining claims in the northern Yukon. A small tonnage of relatively high grade ore bearing up to 50 ounces per ton silver has been located on the property. Kenton Natural Resources Corp. of Calgary has recently entered into an agreement with the Company and its joint venture partner, E. & B. Explorations Inc. of Vancouver, whereby Kenton will earn an interest in the property by conducting further exploratory work. Kenton plans a $150,000 exploration program for the 1982 field season. In the event Kenton spends a total of $2,400,000 on the exploration of this project during 1982 to 1986, it will earn a total interest of 70% in which case the Company's interest would be reduced to 16.8%.

Stormy Mountain, Yukon

The Company holds a 25% interest in a molybdenum-tungsten skarn deposit comprising 112 mining claims located in central Yukon. Some 20,000 tons of ore grading 1.0% molybdenum oxide and 0.8% tungsten have been outlined on the claim block. The ore is clean-milling and high-grade with good road access but depressed molybdenum-tungsten prices preclude further development at this time.

INTERESTS OF EUROMIN INTERNATIONAL S.A.



EUROMIN

As indicated previously in this Report, Euromin International S.A. operates from offices in Rome, Italy providing a wide range of geological and exploration services on a global basis. As part of its business, Euromin arranges for corporations, or groups of corporations, to apply for exploration Permits under agreements whereby Euromin joins in the Permit as a working interest partner, or retains an overriding royalty in the subject Permit.

In most instances, Euromin retains a gross overriding royalty in the subject Permit. This enables Euromin to participate in production income as soon as any Permit is placed on production and frees Euromin from exploratory and development expenses. By way of clarification, Euromin uses a yardstick for relating a gross overriding royalty in Europe to a working interest which indicates that a 1% overriding royalty is equal to in excess of a 5% working interest. It should also be pointed out that certain of the Euromin overriding royalty interests are convertible (at the election of Euromin) to a working interest after payout of the subject well or prospect. However, in certain instances, Euromin participates in exploratory operations as a working interest partner such as the Montemarano Permit, located onshore Italy, where Euromin holds a 51% working interest. Because of the high cost of exploration and drilling in offshore areas, Euromin has usually chosen the overriding royalty form of participation in Permits that it has been instrumental in acquiring. For obvious reasons, arising out of the nature of an overriding royalty, it would not be meaningful to attempt to convert the interests of Euromin from gross acreages to net acreages. Accordingly, in this Report we refer to the Euromin interests on the basis of gross acres.

While Euromin carries out geological and exploratory examinations in various parts of the world, on a continuous basis, as at the end of December, 1981, Euromin held varying interests in some 12 Permits comprising a gross 1,616,447 acres mostly offshore Italy, France, Tunisia and Ireland (in some instances situated on land). In addition, Euromin held varying interests in some 22 Applications for exploration Permits in the mentioned countries, of which five are reasonably certain of being granted. The remaining Applications are pending the outcome of governmental decisions due to competing applications be-

The following table shows the interests of Euromin in Permits granted as of December 31, 1981:-

SUMMARY OF EUROMIN'S INTERESTS IN PERMITS AS AT DECEMBER 31, 1981

Country	Permits		Interests
	NO.	ACRES	
Italy	7	521,047	1.5% O.R.R. up to 51% W.I.
France	1	64,200	3% O.R.R.
Tunisia	2	926,200	.245% O.R.R. up to 5% W.I.
Ireland	2	105,000	2.55% W.I.
TOTAL	12	1,616,447	
Canada		40,566	Varying working or
U.S.A.		4,059	carried interests
TOTAL		44,625	
GRAND TOTAL		1,661,072	

The following table shows those interests of Euromin in Applications for Exploration Permits pending as of December 31, 1981:-

SUMMARY OF EUROMIN'S INTERESTS IN APPLICATIONS AS AT DECEMBER 31, 1981

Country	Applications		Interests
	NO.	ACRES	
Italy	18	1,637,765	2.5% O.R.R. up to 51% W.I.
France	4	2,554,740	1.275% O.R.R. up to 51% W.I.
TOTAL	22	4,192,505	

O.R.R. = Overriding Royalty Interest. W. I. = Working Interest.

ween Euromin applicants and other parties who have also applied for the same areas or portions of such areas.

In addition to its European and Tunisian interests, Euromin has participated in Landfund acquisitions and drilling in Canada and the U.S.A. In North America, Euromin holds an interest in some 44,625 acres of leases. These leases are well situated in areas such as Golden North, Sturgeon Lake, Ricinus West and Martin Hills of Alberta.

Most of the European and North African Exploration Permits which have been granted are the subject of seismic surveys and interpretations now under way or recently completed. A number of wells are expected to be drilled during 1982 or 1983 on those Permits where exploration has reached the stage to define drillable prospects.

Of particular interest at this time is Permit CR 100 HO where Euromin holds a 3% overriding royalty in some 66,273 acres situated offshore Sicily. Interpretation of available seismic data in 1981 shows two large anomalies situated some 12 miles south east and on trend with the Vega #1 discovery well which was drilled in 1981. This discovery well test flowed an average of 3,200 barrels of oil per day of 16° gravity oil during a 40 day production test. A follow-up well to this discovery is planned for mid 1982. Processing and interpretation of most recent seismic data is now underway in the case of Permit CR 100 HO.

A further representative example of the Euromin interests are the Basentello Permit onshore Southern Italy and the Bizerte Permit offshore Tunisia. In the case of the Basentello Permit, Euromin holds a 2% overriding royalty interest (convertible to a 10% working interest after payout), in some 87,760 acres. Seismic work, conducted in 1981 indicates the presence of four prospects in the prolific Upper Cretaceous limestone reservoir at relatively shallow depths of 3,000 to 4,000 feet. The Bizerte Permit comprises some 806,200 acres in which Euromin holds a .245% overriding royalty. As a result of a seismic interpretation program conducted during 1981, it is expected a well will be drilled during 1982.

As part of its ongoing process, Euromin is currently examining certain exploration prospects in Egypt, Panama, South America, the Middle and Far East. Participants with Euromin to date include a number of large Canadian oil companies as well as certain European corporations, all of which attest to the quality of geological work conducted by the Euromin staff. Accordingly, your Directors are of the opinion that the activities of Euromin offer Rio Alto an indirect participation in an attractive spectrum of foreign exploratory prospects which are expected to add substantially to the Company's asset base.

CONSOLIDATED STATEMENT OF LOSS
YEAR ENDED DECEMBER 31, 1981

	1981	1980
Income		
Oil and gas sales	$ 123,963	$ 199,955
Preproduction royalties	18,000	18,000
Interest, management fees and other	76,993	117,330
	218,956	335,285
Expenses		
Production	40,107	71,940
Cost of mining properties abandoned	76,713	114,404
General and administrative	172,628	314,615
Depreciation	4,437	7,879
Depletion	8,536	24,788
	302,421	533,626
Loss before the following	(83,465)	(198,341)
Gain on sale of oil and gas properties	—	189,635
Gain on sale of investment	—	147,918
	—	337,553
Earnings (loss) before income taxes	(83,465)	139,212
Income taxes - current (recoverable)	(11,083)	774
- deferred (recovery)	(19,792)	51,787
	(30,875)	52,561
Net earnings (loss)	$ (52,590)	$ 86,651
Earnings (loss) per share	$ (0.01)	$ 0.02

The accompanying notes are an integral part of these consolidated financial statements.

RIO ALTO EXPLORATION LTD.

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1981

ASSETS

	1981	1980
Current assets		
Cash	**$ —**	$ 188,765
Term deposits	**—**	256,368
Accounts receivable	**604,306**	734,888
Due from directors and employees	**17,000**	80,502
Due from former directors and employees	**86,858**	—
	708,164	1,260,523
Investments		
Investment in shares, at cost (note 2)	**101,843**	—
Investment in shares of an affiliate (note 3)	**7,812,000**	—
	7,913,843	—
Property and equipment (note 4)	**3,991,440**	2,122,404
Other assets	**77,688**	59,841
	$12,691,135	$3,442,768

Approved on behalf of the Board,

Director

Director

The accompanying notes are an integral part of these consolidated financial statements.

LIABILITIES

	1981	1980
Current liabilities		
Bank indebtedness	$ 110,676	$ —
Accounts payable and accrued liabilities	248,249	646,259
	358,925	646,259
Deferred income taxes	135,023	156,200
Obligation to issue shares (note 5)	174,250	—

SHAREHOLDERS' EQUITY

	1981	1980
Share capital (note 5)		
Authorized		
1,000,000 preferred shares with a nominal or par value of $20 per share		
20,000,000 common shares of no par value		
Issued		
5,588,422 common shares (1980 - 3,706,822 shares)	12,079,633	2,644,415
Deficit	(56,696)	(4,106)
	12,022,937	2,640,309
Contingent liabilities (note 6)		
	$12,691,135	$3,442,768

CONSOLIDATED STATEMENT OF DEFICIT
YEAR ENDED DECEMBER 31, 1981

	1981	1980
Deficit, beginning of year	$ (4,106)	$ (90,757)
Net earnings (loss)	(52,590)	86,651
Deficit, end of year	$ (56,696)	$ (4,106)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1981

	1981	1980
Working capital was provided by		
Current operations	$ 17,304	$ —
Proceeds on issue of share capital	9,435,218	177,950
Obligation to issue shares	174,250	—
Proceeds on sale of property and equipment	—	535,532
Proceeds on sale of investment	—	162,280
	9,626,772	875,762
Working capital was used for		
Current operations	—	54,447
Additions to property and equipment		
Canada	306,802	317,439
U.S.A.	1,726,600	639,518
Investment in shares of an affiliate	7,812,000	—
Reduction of working capital due to change in accounting for an incorporated joint venture	28,548	—
Other	17,847	13,217
Reduction of long-term debt	—	50,338
	9,891,797	1,074,959
Decrease in working capital	(265,025)	(199,197)
Working capital, beginning of year	614,264	813,461
Working capital, end of year	$ 349,239	$ 614,264

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1981

1. Summary of significant accounting policies

The consolidated financial statements of the company are stated in Canadian dollars and have been prepared in accordance with accounting principles generally accepted in Canada which, in the case of the company, conform in all material respects with International Accounting Standards. The significant accounting policies are summarized below:

(a) Principles of consolidation

The consolidated financial statements include the accounts of the company and the accounts of its subsidiaries all of which are wholly owned.

(b) Oil and gas operations

The company follows the full cost method of accounting for oil and gas operations wherein all costs relating to the exploration for and development of oil and gas reserves are capitalized and accumulated in cost centres (Canada and the United States) and depleted on the unit-of-production method based on estimated proven reserves of oil and gas as determined by independent and company engineers. Proceeds on minor property sales are credited to the net book value of property and equipment without recognizing any gain or loss on disposition. Gains or losses on major property sales are recognized in the earnings statement.

(c) Joint venture accounting

A substantial portion of the company's exploration and production activities related to oil and gas, are conducted jointly with others and accordingly the accounts reflect only the company's proportionate interest in such activities.

(d) Mining operations

The company follows the practice of capitalizing all acquisition and exploration costs relating to mining operations on a prospect area. If a prospect area is subsequently abandoned or sold, all capitalized costs relating to the area are charged to earnings. Realization of the amounts represented by mining properties is dependent upon future development, since the properties are substantially unexplored or undeveloped.

(e) Depreciation

Depreciation of production equipment is provided for on the unit-of-production method. Depreciation of sundry equipment is provided for on the declining balance method at rates varying from 20% to 30% per annum.

(f) Petroleum Incentives Program

Petroleum incentive grants earned under the Petroleum Incentives Program have been deducted from the cost of the related assets.

(g) Accounting for changing prices

No procedures have been adopted by the company to reflect the impact on the financial statements of specific price changes, changes in the general level of prices, or both.

(h) Translation of foreign currencies

The accounts of the foreign subsidiary have been translated to Canadian dollars on the following basis: current assets and current liabilities at the rate of exchange in effect at the year end; other assets and liabilities at the rate of exchange in effect at the date of settlement. The items in the statement of earnings are translated at the average rates of exchange prevailing during the year except for depletion and depreciation, which are translated at the same rates as used for the related assets.

(i) Earnings per share

Basic earnings per share have been calculated using the weighted average number of common shares outstanding during the year.

The exercise of the options and warrants would not be dilutive.

2. Investment in shares of an incorporated joint venture

The company has changed the method of accounting for an incorporated joint venture from proportionate consolidation to carrying the shares at cost. This reflects a change in circumstance in 1981 whereby the activities of the joint venture have been extended so that the investment is no longer a joint venture and so should be carried as a portfolio investment.

3. Investment in shares of an affiliate

On December 15, 1981, the company acquired 50% of the issued and outstanding share capital of Euromin International S.A. in exchange for 1,500,000 shares of the company at $5.20 per share for a total consideration of $7,800,000. Expenses related to the acquisition amounted to $12,000.

The investment is accounted for in the accompanying financial statements by the equity method under which the investment is recorded at cost and the carrying value of the investment is increased to recognize the company's proportionate share of increases in the underlying net book equity of the affiliated company subsequent to the date of acquisition, and the company's share of net earnings of the affiliate is included in determination of the net earnings of the company. As at December 31, 1981, the company's equity in the affiliate equals cost.

4. Property and equipment

The following is a summary of property and equipment:

	1981			1980
	Cost	**Accumulated Depreciation and Depletion**	**Net**	Net
Oil and gas properties including exploration and development costs thereon - Canada	**$ 233,742**	**$ 22,540**	**$ 211,202**	$ 208,461
- U.S.A.	**2,093,747**	**—**	**2,093,747**	507,138
Mining properties including exploration costs thereon	**1,343,447**	**—**	**1,343,447**	1,222,893
Production equipment				
Canada	**67,018**	**7,823**	**59,195**	37,719
U.S.A.	**272,371**	**—**	**272,371**	132,380
Sundry equipment	**34,719**	**23,241**	**11,478**	13,813
	$4,045,044	**$ 53,604**	**$3,991,440**	$2,122,404

5. Share capital

(a) During the year, the company increased its authorized share capital from 6,000,000 to 20,000,000 common shares of no par value.

(b) During 1980 and 1981, the company issued common shares as follows:

	1981		1980	
	Number of shares	**Amount**	Number of shares	Amount
Exercise of employee share options	**67,600**	**$ 131,356**	18,000	$ 32,450
Exercise of other share options	**14,000**	**42,000**	110,000	145,500
Shares issued in recognition of service	**—**	**—**	5,000	—
Private placement of shares, net of issuance costs	**300,000**	**1,461,862**	—	—
Shares issued as consideration for shares of affiliate	**1,500,000**	**7,800,000**	—	—
	1,881,600	**$9,435,218**	133,000	$ 177,950

(c) At December 31, 1981, 385,400 common shares were reserved for options as follows:

(i) Directors, officers and employees

Number of Shares	Price	Date Granted	Date Exercisable To
75,000	$1.40	December 10, 1979	December 10, 1983
8,000	1.40	December 3, 1981	December 3, 1984
70,000	1.60	December 15, 1981	December 15, 1984
15,000	1.40	April 15, 1981	April 15, 1984
8,400	1.40	October 3, 1980	October 3, 1983
176,400			

(ii) Former directors, officers and employees and consultants

Number of Shares	Price	Date Granted	Date Exercisable To
20,000	$3.40	June 22, 1981	June 22, 1984
5,000	3.35	May 22, 1981	May 22, 1984
4,000	1.40	October 3, 1980	January 23, 1982
29,000			

(iii) Other

The company has granted an option to a joint venture partner to purchase 100,000 common shares at a price of $3.60 per share as partial consideration for the partner incurring exploration and development expenditures on certain mining properties of the company. The option is exercisable on or before December 31, 1983 on a pro-rata basis with the amount of exploration and development expenditures incurred.

During the year, the company granted options to employees of an affiliated company to purchase 80,000 shares of the company at a price of $1.60, which option expires on December 15, 1984.

(d) The company has reserved 200,000 shares pursuant to a non-transferable share purchase warrant entitling the warrantholder to purchase shares at $5.72 per share prior to February 1, 1982 and $6.50 per share prior to February 1, 1983.

(e) The company has reserved 500,000 shares pursuant to a share purchase warrant, issued as partial consideration for the purchase of an interest in an affiliated company, entitling the warrantholder to purchase shares at $5.20 per share prior to December 15, 1984.

(f) Obligation to issue shares

Pursuant to an agreement dated March 23, 1981, the company is under obligation to issue 42,500 free trading shares of Rio Alto Exploration Ltd. as partial consideration for certain petroleum and natural gas properties in the U.S.A. At December 31, 1981, these shares had not been issued.

6. Contingent liabilities

(a) A subsidiary company has guaranteed the bank indebtedness of the participants of a joint venture in the amount of $62,650. This bank indebtedness is also secured by the oil and gas properties of the joint venture and revenue from production.

(b) A subsidiary of the company is a co-defendant in a legal action arising from damages to a drilling rig. The amount claimed is $391,695 and the company's legal counsel is unable, at the present time, to give any opinion with respect to the merits of this action. Settlement, if any, that may be made with respect to this action is expected to be accounted for as a prior period adjustment to these financial statements.

7. Remuneration of senior officers and directors

The total remuneration paid to directors and officers of the company (including the five highest paid employees) amounted to $152,699 (1980 - $78,320).

8. Segmented information

	Canada	United States	Total
Oil and gas sales	$ 123,963	$ —	$ 123,963
Operating profit	$ 83,856	$ —	$ 83,856
General and administrative expense			172,628
Other income			(94,993)
Depletion			8,536
Depreciation			4,437
Cost of mining properties abandoned			76,713
			167,321
Loss before income taxes			$ (83,465)
Petroleum and natural gas assets	$ 270,397	$ 2,366,118	$ 2,636,515
Mining assets	1,343,447	—	1,343,447
Other assets	8,711,173	—	8,711,173
Total identifiable assets	$10,325,017	$ 2,366,118	$12,691,135

AUDITORS' REPORT

To the Shareholders
Rio Alto Exploration Ltd.

We have examined the consolidated balance sheet of Rio Alto Exploration Ltd. as at December 31, 1981 and the consolidated statements of loss, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1981 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
February 20, 1982

Collins Barrow
CHARTERED ACCOUNTANTS

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