RAX

Annual Report 1982

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
A. Ross Long	Vice 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

The Royal Bank of Canada

TRANSFER AGENT AND REGISTRAR

The Canada Trust Company

LEGAL COUNSEL

McLaws & Company

AUDITORS

Collins Barrow

STOCK LISTING

Toronto Stock Exchange

The Annual & Extraordinary General Meeting of Shareholders will be held at 3:00 p.m., June 27, 1983 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 financial affairs and activities for the year ended December 31, 1982.

An examination of the 1982 Consolidated Statement of Earnings will show that the Company has commenced a trend of increased income which we expect to continue during 1983 and subsequent years. The cost of mining properties abandoned and a required increase in General and Administrative expenses (the latter resulting from decreased exploration and drilling during the year), had an adverse impact on the Company's earnings. Your Directors believe it significant for the Company's future that as a result of a small private placement of common shares in 1982 which added $746,349 to the treasury, as well as reduced expenditures in the U.S.A., the Company finished 1982 in an overall financial position considerably improved over that of the previous year. However, in looking to the future, we believe that the most significant factor with respect to financial matters is that the Company has no debt (a unique position among junior Canadian oil companies).

In line with the Board's policy of increasing the Company's asset base and cash flow, Management was successful in concluding, early in 1983, negotiations which commenced last year for the acquisition of a small private oil and gas company, Prolud Petroleums Inc. In exchange for 350,000 common shares and 116,667 share purchase warrants, exercisable until December 14, 1984, at a price of $5.20 per share, the Company acquired production income, various minor interests in undeveloped petroleum properties and a small amount of cash on hand, having an aggregate value of approximately $1,225,000 using acceptable discount factors.

As part of the Prolud transaction, the Company obtained the expertise of a senior oil executive, Mr. Gerhard Kasdorf, who has agreed to become active in Management and will shortly assume the duties of President of the Company. Mr. Kasdorf brings more than twenty-five years of oil and gas industry experience as a petroleum engineer and subsequently Director and Officer of a well known Canadian independent company. Since we are in the process of closing the Prolud transaction at the time of writing this Report, Management believes it will be material to the Company's future direction and accordingly, takes the opportunity to deal with the acquisition herein.

The most significant feature of last year's Report to the Shareholders was our description of the 50% interest acquired in Euromin International S.A. as well as the business and properties of such corporation. As a result of drilling offshore Sicily (particularly the stepout drilling and testing of the large Vega structure referred to in the text of this Report), the Board is of the opinion that these European petroleum and natural gas interests offer an unusual opportunity (with attendant risk) for a substantial increase in the Company's asset base. While exploratory information must come from the Operator of each Permit and be approved for public release, we will attempt in the text of this Report to deal in general with the various activities of Euromin which we believe to be of interest to the shareholders of Rio Alto Exploration Ltd.

Because 1982 has been largely a year of consolidation, cost cutting and pursuit of production income from various prospects in the U.S.A., the results can be described as mixed from an income and economic point of view. However, Management still is of the opinion that despite the time and effort expended during 1982 in evaluating U.S. prospects and prodding the various operators of such prospects (largely to the exclusion of other new activities), the Company should experience in the future, a reasonable growth in production income from its properties in the United States.

Looking to the remainder of 1983, it is the intention of the Board of Directors to put in place a few key personnel, who will provide the Management basis for a planned expansion in the Company's North American activities. It is expected that favourable opportunities will exist in Canada during the remainder of 1983 and into 1984 for the acquisition of low risk and profitable production, as well as participation in the exploration or development of attractive economic oil prospects. Because of the Company's current cash position, lack of any debt and ability to raise funds, we anticipate that the second half of 1983 will see a change in direction of Company activities.

The Company's Directors extend their thanks to the shareholders, staff and professional consultants for their continued support during the past year of corporate change.

SUBMITTED ON BEHALF OF
THE BOARD OF DIRECTORS

DOUGLAS W. HILLAND
President

Calgary, Alberta
May 2, 1983

EUROMIN

Because of the current investor and shareholder interest in the activities and holdings of Euromin International S.A., a European based corporation with technical facilities and offices in Rome, Italy, it appears opportune to summarize some of the background data with respect to Euromin:

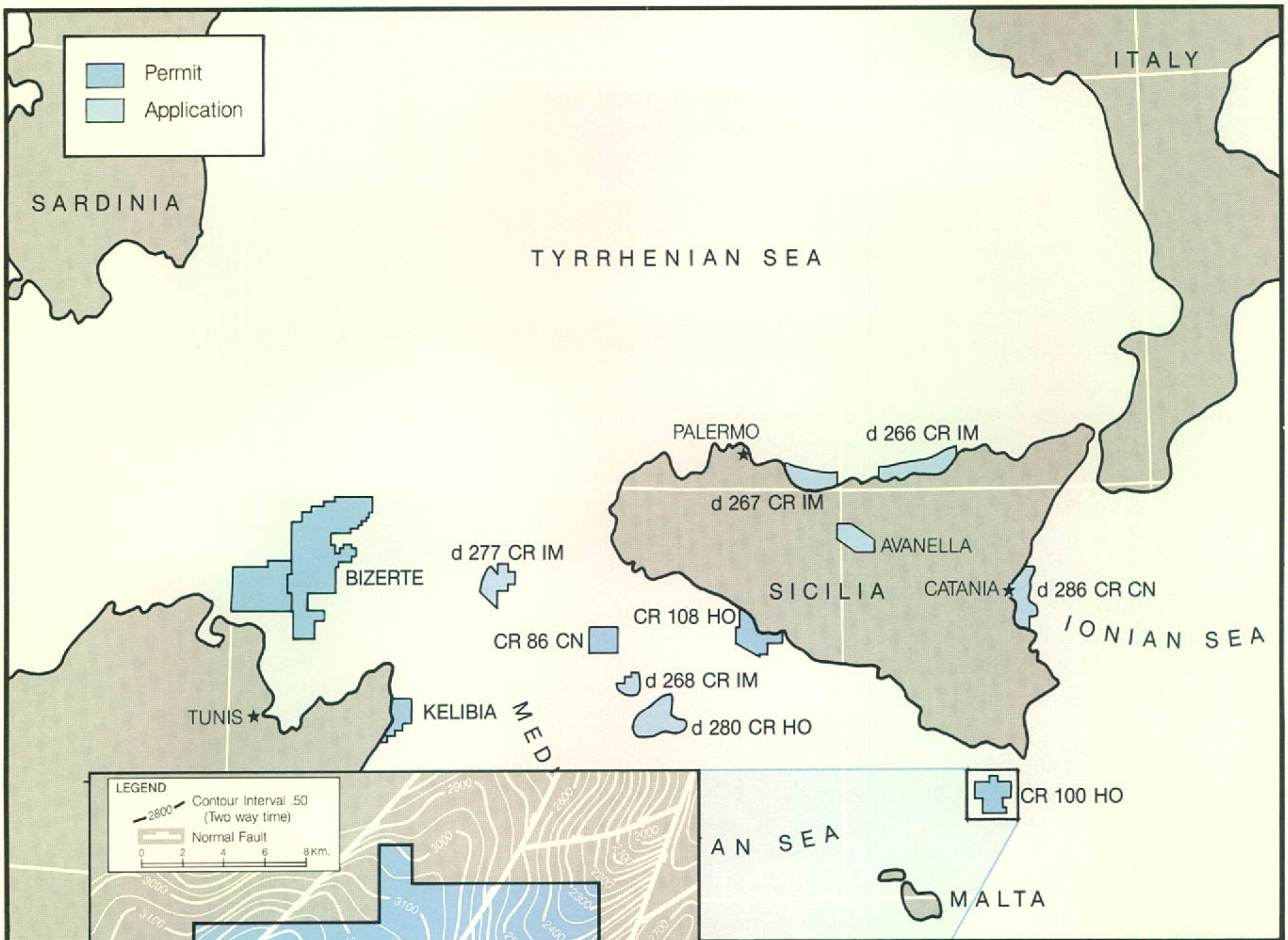
— Euromin maintains an exploration staff at its Rome offices engaged in offering geological consulting services to various corporations, largely with respect to activities in Europe and Africa, but also in other parts of the world. Euromin has operated with the present organization since 1978, under the direction of Dr. Fabrizio Rigo, a well recognized geological consultant. Of current interest is the fact that Dr. Rigo, was one of the founding shareholders of Seagull Petroleum Co. Ltd., which has recently been in the news in Canada by virtue of its proposed takeover by Denison Mines Ltd. Seagull and Dr. Rigo were instrumental in providing the basic geological data leading to the large Vega discovery offshore Sicily and referred to in this Report.

— In 1981 Rio Alto acquired 50% of the outstanding shares of Euromin and is represented on its Board by two directors out of a total of four. However, to date, Euromin and Rio Alto have operated separately with Euromin concentrating largely on offshore interests (with some holdings in North America) and Rio Alto pursuing North American petroleum and mining prospects. Accordingly, Rio Alto holds, by virtue of its 50% share ownership, an indirect one-half interest in the activities and properties of Euromin. However, in future, Rio Alto may provide financial participation (under terms agreed upon at that time) in the event Euromin obtains an opportunity to participate in the drilling or development of any Permit.

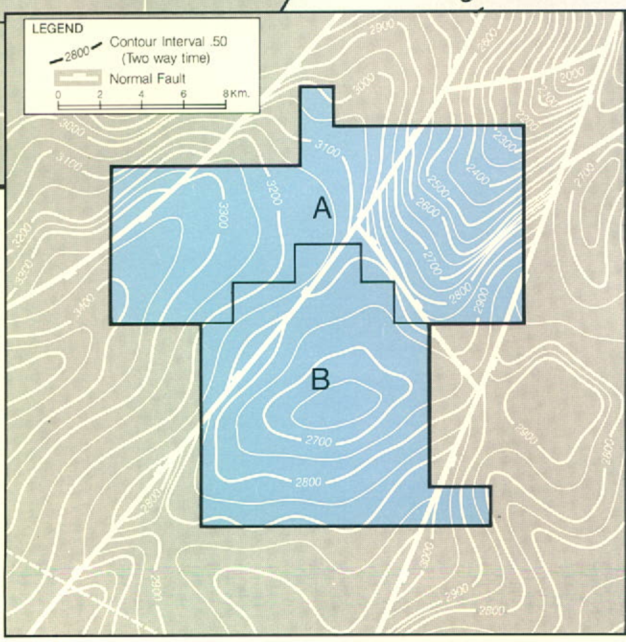
— A large part of the Euromin activities consist of developing geological and exploration data to the point where oil corporations (major or independent operators) engaged in international operations are brought together by Euromin to form a consortium and apply for a Permit or right to explore any given prospect. The result is that Euromin usually ends up with a gross overriding royalty or net carried interest (requiring no financial contribution to exploration and development) in the subject prospect. However, in some instances, Euromin elects to retain a working interest in the prospect (with attached risks and financial obligations). For those unfamiliar with comparisons between a gross royalty interest and a working interest, in the type of operations contemplated by Euromin, a 1% overriding royalty is generally equated to a 5% working interest.

Attention has centered in recent months on Permit CR100 HO, situated in a very active exploration trend offshore Italy. This Permit, while highly prospective for commercial production, is only one of a number of prospects which are expected to be evaluated by drilling during the 1983/84 periods (certain of the prospects were expected to be drilled in 1982 but were delayed because of an industry downturn affecting offshore exploration). Thus, the value of Rio Alto's interest in Euromin may change from time to time but Management is of the opinion that the total package of holdings must always be looked at and not one particular Permit that happens to be attractive at that time.

The Canadian shareholder and financial community's attention appears to be currently focused on Italian Permit CR100 HO in which Euromin holds a 3% gross overriding royalty. This Permit, comprising 66,273 acres, is situated some 9 miles southeast of the prolific Vega oil discovery made in 1981 by the Montedison group offshore Sicily. In addition to the stated gross overriding royalty, Euromin's subsidiary corporation is currently negotiating participation as a working interest owner in the same Permit and upon conclusion of such negotiations, shareholders will be advised of the results by way of a news release.



EUROMIN INTERESTS IN SICILY & TUNISIA



CR 100 HO Seismic Structural Coutours (Near Top of U. Triassic Taormina FMT.)

A seismic map with respect to CR100 is included in this Report and in addition, pertinent data with respect to the geological trend and nearby activities is described as follows:

Permit CR100 is located in the Southeast Sicily petroleum province, 30 kilometres offshore in 100-150 metres of water. The basin in which the Permit is situated, contains four fields which have already produced over 250 million barrels of oil. In the last four years, seven new field discovery wells have been drilled, three of which are located onshore and four offshore. Vega, the most important discovery, is located offshore and is delineated by three wells drilled over a distance of 9 kilometres. Vega 1, drilled in 1981, tested 4,000 BOPD and Vega 3, a stepout drilled in 1982, tested in excess of 15,000 BOPD of 15.5° gravity oil. A further stepout well is presently being tested and is believed to be similar to the Vega 3 well. At present, the total reserves established in the entire basin should be close to one billion barrels.

The main producing reservoir is the Triassic "Taormina" dolomite; secondary reservoirs are represented by the biohermal "Inici" facies in the Lower Jurassic "Villagonia" formation or by the patch reef development in the "Streppenosa" black shale. Cretaceous and Miocene - Oligocene clastic carbonates are now being explored and are also considered interesting objectives.

The potential of the CR100 block is enhanced by its location on the recognized Palma-Perla-Vega, North West - South East "Inici" reef facies trend. According to paleogeographic reconstruction, both the main "Taormina" dolomitic reservoir and the "Streppenosa" source and cover shale extend into the area. The seismic coverage of the block is represented by 470 kilometres of lines shot in 1981, in addition to seismic conducted in previous years.

The interpretation of the 1981 seismic data shows three drillable locations. The shallowest of the three prospects is on trend and looks like a 'replica' of the Lower Jurassic Vega anomaly referred to above, where recoverable reserves in excess of 180 million barrels of heavy oil were established. In the two deeper anomalies the objective is the Triassic "Taormina"

EUROMIN INTERESTS IN ITALY

dolomite, representing the main objective in the basin. These anomalies have the potential of containing recoverable oil in excess of 500 million barrels each. There is a chance that light oil may be found here similar to that tested in the same reservoir in the recent Mila (38° API) and Irminio (32° API) oil discoveries. A 4,500 metre well will be required to test the "Inici" (2,500 metres) and "Taormina" dolomite objectives.

In addition to the activities in the vicinity of Permit CR100, other activities affecting Euromin's various holdings are summarized as follows:

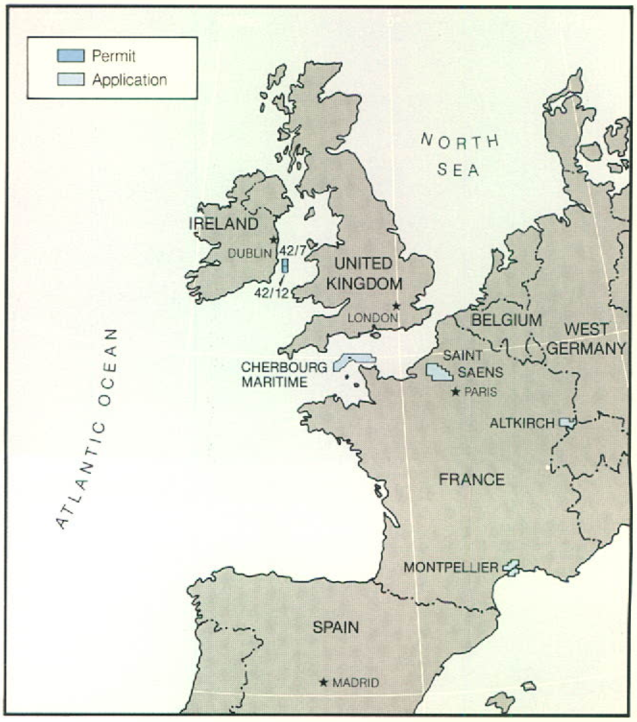
In offshore Northern Sicily a seismic survey consisting of 310 kilometres of line was shot during February 1982. This work was conducted under a non-exclusive prospecting license in order to evaluate the two applications "d 266 CR-IM" and "d 267 CR-IM", in which Euromin's subsidiary, Italmin, is a 33⅓% participant with two Canadian independent companies.

Interpretation seismic data covering block "DR 56 CL", located in the Southern Adriatic offshore (Italy), revealed the presence of a large Cretaceous reef anomaly, with a potential of over 600 million barrels of oil. The block is located in the prolific Southern Adriatic petroleum province, which produces oil and gas in Albania. In the last few years Agip tested oil and gas in three deep-water anomalies located some miles southeast of Permit "DR 56 CL". Euromin has a 2.5% gross royalty interest in this block.

On the Basentello and Serre Alte Permits situated onshore Southern Italy, additional seismic was shot during 1982. One well is planned for 1983 on Basentello.

In Ireland a seismic detail will be performed during 1983.

In Tunisia, the operator drilled a 3,000 metre test on the offshore Bizerte Permit, in which Euromin has a 0.245% gross royalty. It has recently been learned that this well was abandoned but drilling results remain confidential.



EUROMIN INTERESTS IN IRELAND & FRANCE

COMPANY INTERESTS

PETROLEUM & NATURAL GAS

CANADA

The Company continues to derive its main cash flow from various petroleum and natural gas properties acquired in Canada over a period of years. Some development drilling was completed during 1982 and upon completion of the Prolud acquisition, we expect the Company to participate in further development drilling in Canada during 1983.

The main areas of interest in Canada at this time are summarized as follows:

Cessford, Alberta

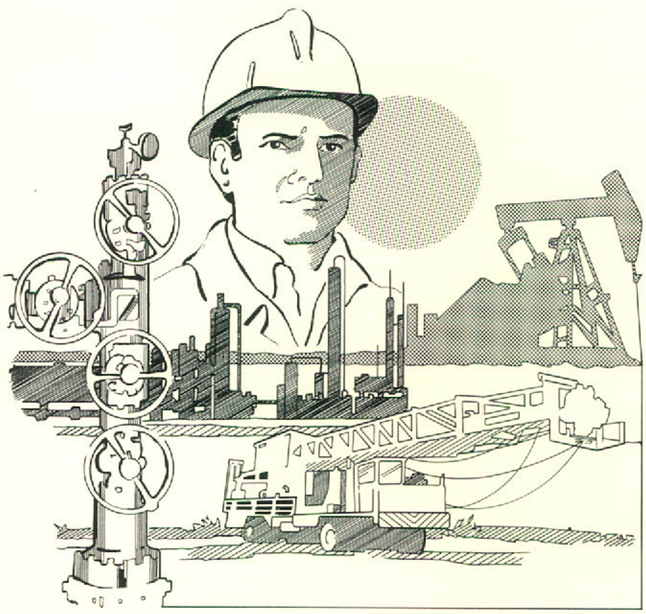
An excellent Basal Quartz well, in which the Company's subsidiary, Gamma Resources Ltd., holds a 6% working interest, continues to produce at maximum allowables consistent with available markets. A second zone, the Basal Colorado in this well and an offset well is ready to be hooked to production facilities but depressed gas markets have delayed putting these two new zones on production. (It appears this production will be shut in for the summer months of 1983 but we expect regular production to commence in the fall of 1983). Increased gas sales from this area will depend upon markets available to established Alberta gas producing areas such as Cessford.

Hilda, Alberta

The Company's subsidiary corporation, Gamma Resources Ltd., participated with drilling fund partners, in the drilling of 26 gas wells in this area during the last quarter of 1982. Production tests exceeded projections and the Company presently holds a 1.64% working interest in a total of 130 wells in the field. Markets do not appear to be a problem for this gas and we expect continued production from these wells (with the usual shut in periods).

Other Canadian Interests

Various properties have experienced increased income resulting from increased production and prices but all on a modest basis. It is anticipated that development drilling on the Prolud properties referred to in this Report will have some impact on the Company's Canadian income during 1983 (particularly in view of the net back resulting from NORP prices). It is also expected that the Company will become active during the last half of 1983 in the acquisition of new prospects in Canada and the earning of interests by participation in joint venture drilling. We believe some attractive opportunities are available presently in Western Canada and the Company intends to become active in this area.



UNITED STATES

Seminole County, Oklahoma

The Company holds a 15% working interest in excess of 3,600 acres of leases in this Oklahoma prospect. To date the Company has participated in the drilling of eight wells on the prospect.

While the wells appear to be capable of economic production, because of problems with the operator, they have been on sporadic production and have not provided the cash flow anticipated. We are now in the process of changing the operator to bring operations under direct control of one of our Canadian partners. We expect to achieve steady economic production in the next few months.

This prospect has a number of undrilled locations but it is our intention not to expend future funds until we have experienced sustained production from the existing wells.

Dewey County, Oklahoma

To date the Company has participated to the extent of its 8.33% interest in the drilling and completion of three wells on approximately 1,920 acres of leases in Dewey County, Oklahoma. Two wells are currently producing natural gas and condensate in economic quantities.

Rio Alto also participated as to a 1.81% 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 producing on a reduced basis.

The natural gas produced from this prospect also produces some condensate which adds to the economics of the production. The Company is presently receiving reasonable cash flow from existing wells. Further development wells may be drilled if markets become available for the gas produced.

Mercer County, Ohio

The Company holds 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 from the area is in excess of 500 million barrels of oil.

Obsolete well histories make any accurate production prognosis difficult but based on certain oil production records and using modern drilling and completion methods coupled with secondary recovery processes, a production figure of 20 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 subject leases are well situated from a geological point of view. It is the intention of the Company and its partners to drill a limited number of strategically located shallow wells for the purpose of evaluating the producing potential of the acreage by means of sustained production tests. We are currently seeking an operator with necessary experience and facilities in the area for the purpose of designing a drilling program.

Pennsylvania

The Company has participated to the extent of its 10% working interest in two prospects, Union City and Elk Creek in Pennsylvania. Eleven gas wells have been completed and placed on production on these two properties.

While gas contracts exist with respect to the properties, an excess of supply in the area resulted in the wells being shut in from mid August of last year to the beginning of 1983. Production resumed early this year but only on the basis of the wells producing every second month. Accordingly, it is most difficult to predict cash flow from the subject wells.

Certain undrilled locations will have to await development of gas markets in the area before any further development can take place. It could require to the end of 1984 before the current gas surplus problem is resolved.

Other U.S. Properties

Company management continues to pursue operations at various other prospects in the U.S.A. with a view to obtaining steady production and resultant cash flow. Prospects such as Grandview Field, Ohio where the Company holds a 15% interest in five oil and gas wells have experienced operator problems and therefore we have only seen limited and sporadic production. This is also the situation at Ashland, Louisiana and Gibson County, Indiana.

The right to a 10% working interest in six wells and approximately 557 acres of leases in West Virginia has been turned over to our attorneys in Denver for appropriate legal action. A settlement offer has been received but is not yet acceptable. The main problems experienced in obtaining production from prospects in the U.S.A. has been the financial problems of local operators, or faulty field operations. Trying to assemble the various working interest owners into a cohesive group and obtain satisfactory operations has proven to be a time consuming and slow task. However, we believe that certain of the prospects can be put on regular economic production if we are able to spend the required time and obtain the necessary cooperation from participants and operators.

MINING

Rusty Springs, Yukon

The Company continues to hold a retained interest in a large prospect situated some 175 miles north of Dawson City in the Yukon. These claims cover a potential silver, lead, copper deposit which has been under active exploration since 1976 by the Company, E. & B. Explorations Inc. and now a private company, Kenton Natural Resources Corporation. To date, exploration has indicated high grades of silver, being the primary objective.

Mr. Termuende, President of Kenton, recently reported on the results of exploration work during the 1982 field season as follows:

Over $350,000 was spent on this project during the summer of 1982 with encouraging results. A preliminary program of bulldozer trenching of geophysical anomalies exposed a number of veins containing high grade silver, lead and copper mineralization. The veins measure from 6 to 20 feet in width and assay from 2 to 75 ounces per ton of silver, with corresponding high lead and copper values. One grab sample assayed 386 oz/ton of silver, 22% lead and 13% copper. These high values are probably the result of secondary enrichment of the primary veins, but they indicate the order of magnitude of this potentially large scale mineral deposit.

Work during the past summer was facilitated by the construction of an all-weather airstrip, and mobilization was done by Twin-Otter aircraft. Plans for exploration next summer (1983) include the drilling of deep holes (up to 1,500 feet) which are designed to determine the source of the mineralization presently exposed.

Under the existing farmout agreement, if Kenton spends a total of $2,400,000 on exploration from 1982 to 1986, Rio Alto will then retain a 16.8% working interest in the prospect.

Stormy Mountain, Yukon

The Company recently completed negotiations to acquire the interest of its joint venture partner in some 112 mining claims situated near Ross River in the central Yukon. The Company now holds a 100% interest in this prospect (subject to a royalty to the prospector).

This property originally comprised a small block of 4 claims which experienced exploration for molybdenum - tungsten, going back to 1955. This early work included an exploratory adit and surface prospecting as well as the construction of an access road.

The property was the subject of extensive underground exploratory work, and certain geological and geophysical prospecting during the 1980 and 1981 field seasons. Results were inconclusive and with the deterioration in molybdenum markets, no operations were conducted during 1982. However, the Company's consultant is of the opinion that further exploratory work is required to evaluate some 10 new mineral showings located by the 1981 field work. We are now attempting to locate a party who will join in further exploration but because of the short season and required planning, it is unlikely any further exploration will be conducted during 1983.

Other Mineral Prospects

The Company continues to retain a minor royalty interest in some 35,000 acres of coal leases in the Clearwater River area of the Alberta foothills. A second coal royalty covering some 20,000 acres in the nearby Nordegg area was sold in 1982 for $250,000.

After careful examination of the cost of maintaining the various blocks of gold claims, the overburden problems and difficulty in selecting drill targets, the Company reluctantly decided to surrender certain gold properties held in Hoyle and Whitney Townships, Ontario. Diamond drilling was conducted on a group of 16 patented claims in Hoyle Township during the past few months but results were not encouraging.

The Company continues to hold 30 mining claims in the Elliot Lake uranium camp pending development in the area.

For those recent shareholders, we point out that Rio Alto was formed in 1970 to acquire and explore a number of widespread mining and coal properties. For some years oil and gas activities have been a necessary cash flow adjunct of mining acquisitions and exploration. With the revived interest in Canadian mining, it will be part of our corporate plan to again become involved in some grass roots mineral acquisitions and exploration. We plan to joint venture with parties having the necessary expertise and staff in Canadian mining.

PROLUD PROPERTIES

Prolud Petroleums Inc. obtains its main production income from properties in Alberta and Manitoba but also has an interest in a large acreage spread in Montana, which is now being explored and developed. In addition, Prolud holds minor interests in various miscellaneous producing properties in the United States. For the purpose of this Report, we will summarize Prolud's interests in Western Canada and Montana, U.S.A.

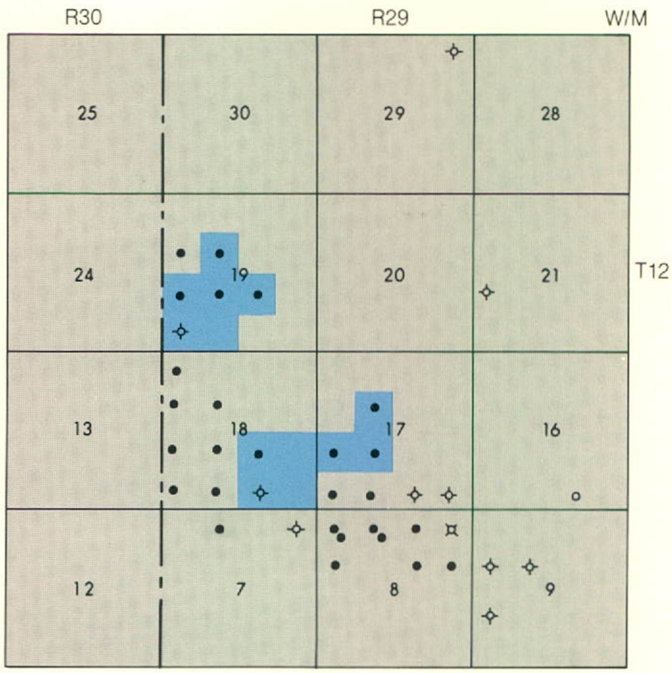
Cygnet & Penhold, Alberta

Prolud holds a 1.8% working interest in 4,480 acres of petroleum rights and a 2.7% working interest in a further 2,880 acres in central Alberta. To date a total of five wells have been drilled resulting in three oil wells. Additional drilling is anticipated during 1983. While the interests held in these blocks are minor, the two prospects offer an opportunity for considerable further drilling and a good cash flow from successful wells.

West Kirkella, Manitoba

Prolud has participated to the extent of an 11.2% working interest in the drilling of ten wells in this Manitoba field, eight of which are productive oilwells. The producing reservoirs in the area are the Daly Crinoidal and Dolomite "A" zones of the Lodgepole formation, which is of Mississippian Age. The stratigraphically Lower Daly Crinoidal zone is a limestone of good porosity with permeabilities from less than 0.1 md to 20 md, and the oil is trapped updip by an impermeable barrier and bounded down-dip by an active water aquifer.

At the present time Prolud and its partners are attempting to obtain additional acreage in the area in order to extend the field limits. It is anticipated that during 1983 additional funds will be expended on drilling in this area. Because of new oil pricing and the royalty charges in Manitoba, this area offers excellent cash flow and attractive net back returns on oil developed.

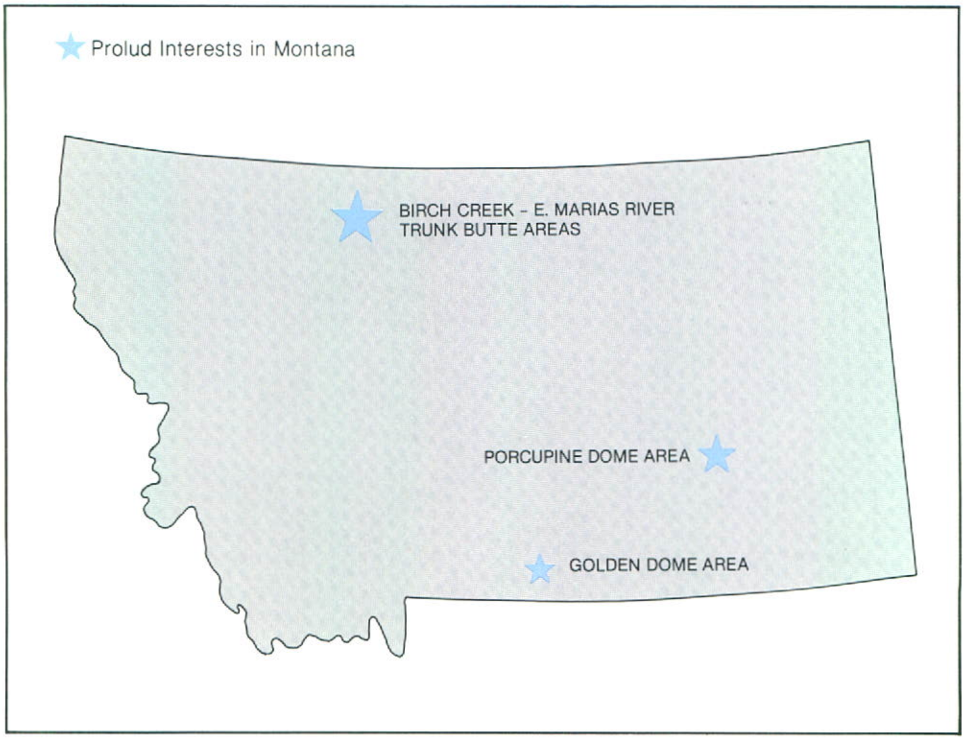


WEST KIRKELLA, MANITOBA

Montana, U.S.A.

Prolud participated to the extent of working interests varying from approximately .5% to 8.0% in the acquisition of a large acreage spread in Montana totalling approximately 100,000 gross acres. The acreage is located in the following areas: Porcupine Dome, East Marias, Birch Creek, Trunk Butte, Golden Dome and Glacier County. Two successful gas and condensate wells have been drilled in the Golden Dome Area, one of which is productive in the Grey Bull and First Frontier zone with the second well being productive only in the Grey Bull zone. The East Marias properties contain four shallow gas wells.

During 1982 certain seismic work was completed on the Montana acreage and additional seismic will be commenced in 1983 in order to more fully evaluate the potential of the prospect. Because of the size of the acreage spread, it is anticipated that the operator will high grade the acreage and farm out certain portions of the prospect, while planning further drilling on retained acreage.



MONTANA

CONSOLIDATED STATEMENT OF EARNINGS
YEAR ENDED DECEMBER 31, 1982

	1982	1981
Income		
Oil and gas sales	**$360,030**	$123,963
Preproduction royalties	**12,000**	18,000
Interest, management fees and other	**35,205**	76,993
	407,235	218,956
Expenses		
Production	**118,504**	30,846
Petroleum and gas revenue tax	**9,946**	9,261
Cost of mining properties abandoned	**174,694**	76,713
General and administrative (note 4)	**279,663**	172,628
Depreciation	**27,120**	4,437
Depletion	**167,085**	8,536
	777,012	302,421
Loss before the following	**(369,777)**	(83,465)
Gain on sale of royalty interest in coal properties	**250,000**	—
Share in earnings of an affiliate (note 2)	**118,965**	—
	368,965	—
Loss before income taxes	**(812)**	(83,465)
Income taxes (note 8)		
- current	**6,721**	2,611
- deferred (recovery)	**(20,605)**	(19,792)
- Alberta royalty tax credit	**(43,442)**	(13,694)
	(57,326)	(30,875)
Net earnings (loss)	**$ 56,514**	$ (52,590)
Earnings (loss) per share	**$ 0.01**	$ (0.01)

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

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1982

ASSETS

	1982	1981
Current assets		
Cash and term deposits	**$ 733,324**	$ —
Accounts receivable	**567,476**	708,164
Current portion of note receivable	**50,000**	—
	1,350,800	708,164
Investments		
Investment in shares, at cost	**167,428**	101,843
Investment in shares of an affiliate (note 2)	**7,930,965**	7,812,000
	8,098,393	7,913,843
Note receivable (note 3)	**100,000**	—
Property and equipment (note 4)	**3,920,905**	3,991,440
Other assets	**58,833**	77,688
	$13,528,931	$12,691,135

Approved on behalf of the Board,

Director

Director

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

LIABILITIES

	1982	1981
Current liabilities		
Bank indebtedness	**$ —**	$ 110,676
Accounts payable and accrued liabilities	**359,764**	243,481
	359,764	354,157
Deferred income taxes	**114,418**	135,023
Deferred revenue (note 5)	**35,999**	4,768
Provision for share issuance (note 6)	**174,250**	174,250

SHAREHOLDERS' EQUITY

	1982	1981
Share capital (note 6)		
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		
5,942,422 common shares (1981 - 5,588,422 shares)	**12,844,682**	12,079,633
Deficit	**(182)**	(56,696)
	12,844,500	12,022,937
Contingent liability (note 7)		
	$13,528,931	$12,691,135

CONSOLIDATED STATEMENT OF DEFICIT
YEAR ENDED DECEMBER 31, 1982

	1982	1981
Deficit, beginning of year	**$ (56,696)**	$ (4,106)
Net earnings (loss)	**56,514**	(52,590)
Deficit, end of year	**$ (182)**	$ (56,696)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1982

	1982	1981
Working capital was provided by		
Current operations	**$ 35,843**	$ 17,304
Proceeds on sale of royalty interest in coal property	**250,000**	—
Proceeds on issue of share capital	**765,049**	9,435,218
Increase in deferred revenue	**31,231**	4,768
Decrease in other assets	**18,855**	—
Provision for share issuance	**—**	174,250
	1,100,978	9,631,540
Working capital was used for		
Additions to property and equipment	**298,364**	2,033,402
Increase in note receivable	**100,000**	—
Investment in shares	**65,585**	—
Investment in Euromin International S.A.	**—**	7,812,000
Reduction of working capital due to change in accounting for an incorporated joint venture	**—**	28,548
Increase in other assets	**—**	17,847
	463,949	9,891,797
Increase (decrease) in working capital	**637,029**	(260,257)
Working capital, beginning of year	**354,007**	614,264
Working capital, end of year	**$ 991,036**	$ 354,007

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1982

1. Summary of significant accounting policies

   (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 basis. 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.

   (j) Investment in shares of an affiliate

   The investment in shares of an affiliate is accounted for on the equity basis whereby the investment is initially recorded at cost and the carrying value adjusted thereafter to include the Company's pro-rata share of earnings of the affiliate. Dividends received or receivable from the affiliate reduce the carrying value of the investment.

2. Investment in shares of an affiliate

As explained in note 1 the investment in Euromin International S.A. is accounted for on the equity basis. The following is a summary of the transactions in the investment account during the year:

	1982	1981
Balance, beginning of year	$7,812,000	$ —
Add: Investment in shares	—	7,800,000
Acquisition expense	—	12,000
Share of earnings of Euromin	118,965	—
Balance, end of year	$7,930,965	$7,812,000

The initial investment in Euromin International S.A. consisted of the issuance of 1,500,000 shares of the Company at $5.20 per share for a total consideration of $7,800,000. In return, the Company received 50% of the issued and outstanding share capital of Euromin International S.A.

Euromin International S.A. is in the exploratory and development stage of operations and most of its assets consists of overriding interests in substantially unexplored and undeveloped petroleum and natural gas properties. Realization of the underlying value of these assets is dependent upon future exploration and development.

3. Note receivable

The note receivable is non-interest bearing and is receivable in equal annual installments of $50,000, maturing on June 1, 1985.

	1982	1981
Note receivable	$ 150,000	$ —
Less: Current portion	50,000	—
	$ 100,000	$ —

4. Property and equipment

	1982			1981
	Cost	Accumulated Depreciation and Depletion	Net	Net
Oil and gas properties including exploration and development costs thereon - Canada	$ 232,140	$ 49,440	$ 182,700	$ 211,202
- U.S.A.	2,329,180	140,413	2,188,767	2,093,747
Mining properties including exploration costs thereon	1,198,525	—	1,198,525	1,343,447
Production equipment				
Canada	71,347	13,523	57,824	59,195
U.S.A.	301,916	18,285	283,631	272,371
Sundry equipment	35,064	25,606	9,458	11,478
	$4,168,172	$ 247,267	$3,920,905	$3,991,440

During the year the Company capitalized general and administrative expenses in the amount of $102,173 (1981 - $282,761) of total general administrative expenses incurred of $381,836 (1981 - $455,389).

5. Deferred revenue

Pursuant to a Take-or-Pay agreement with a purchaser of a portion of the Company's natural gas, the Company has been paid $35,999 (1981 - $4,768) in excess of gas delivered. The Company will be required to deliver the gas representing this amount upon request of the purchaser. As delivery of the gas is not expected to occur in 1983, this amount has been classified as non-current.

6. Share capital

(a) During 1982 and 1981, the Company issued common shares as follows:

	1982		1981	
	Number of shares	**Amount**	Number of shares	Amount
Exercise of employee share options	**24,000**	**$ 18,700**	67,600	$ 131,356
Exercise of other share options	**—**	**—**	14,000	42,000
Private placement of shares, net of issuance costs of $12,651	**330,000**	**746,349**	300,000	1,461,862
Shares issued as consideration for shares of affiliate	**—**	**—**	1,500,000	7,800,000
	354,000	**$ 765,049**	1,881,600	$9,435,218

(b) At December 31, 1982, 389,000 common shares were reserved for options as follows:

(i) Directors, officers and employees

Number of Shares	Price	Date Granted	Date Exercisable To
15,000	$1.00	May 6, 1982	May 6, 1984
40,000	.80	June 10, 1982	June 10, 1984
70,000	1.60	December 15, 1981	December 15, 1984
4,000	1.00	June 10, 1982	June 10, 1984
129,000			

(ii) Former directors, officers and employees and consultants

Number of Shares	Price	Date Granted	Date Exercisable To
75,000	$1.40	December 10, 1979	December 10, 1983
5,000	1.00	May 6, 1982	May 6, 1984
80,000			

(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.

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.

(c) The Company has reserved 200,000 shares pursuant to a non-transferable share purchase warrant entitling the warrant holder to purchase shares at $6.50 per share prior to February 1, 1985. The warrants were due to expire on February 1, 1983 but were extended until February 1, 1985.

(d) 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 warrant holder to purchase shares at $5.20 per share prior to December 15, 1984.

(e) Provision for share issuance

Pursuant to an agreement dated March 23, 1981, one of the Company's wholly-owned subsidiaries undertook 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, 1982, these shares had not been issued. Company management is of the opinion said agreement is not enforceable and will take steps to set aside such agreement.

7. Contingent liability

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 prior period adjustment to these financial statements.

8. Deferred income taxes

The provision made for income taxes in 1982 and 1981 is different from the amount which would have been expected if it were assumed that the reported pre-tax earnings were subject to the Canadian Federal and Provincial statutory income tax rates for the year. The principal reasons for the differences between such "expected" income tax provisions and the amounts actually provided were as follows:

	1982		1981	
	Amount	**Percent of Pre-tax Earnings**	Amount	Percent of Pre-tax Earnings
Computed "expected" tax expense (recovery)	**$ (406)**	**(50%)**	$(41,733)	(50%)
Increase (decrease) in taxes resulting from				
Non-deductible petroleum and natural gas revenue tax	**6,105**	**752%**	5,085	6%
Non-deductible crown royalties	**30,150**	**3,711%**	27,276	33%
Earned depletion allowance	**(34,119)**	**(4,202%)**	(3,316)	(5%)
Resource allowance	**(11,672)**	**(1,437%)**	(4,222)	(5%)
Incremental oil revenue	**(3,340)**	**(411%)**	—	—
Losses of non-taxable subsidiaries	**62,734**	**7,726%**	—	—
Share in earnings of an affiliate	**(59,482)**	**(7,325%)**	—	—
Tax credits	**(43,442)**	**(5,350%)**	(13,694)	(16%)
Tax rebates	**(4,094)**	**(504%)**	—	—
Other	**240**	**30%**	(271)	0%
	$(57,326)	**(7,060%)**	$(30,875)	(37%)

9. 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 $134,720 (1981 - $152,699).

10. Related party transactions

Accounts receivable include amounts due from directors and employees totalling $91,434 (1981 - $17,000) and amounts due from former directors and employees totalling $34,962 (1981 - $86,858).

Subsequent to the year end the Company received payments totalling $72,850 from directors and employees.

11. Segmented information

	1982		
	Canada	United States	Total
Oil and gas sales	$ 166,873	$ 193,157	$ 360,030
Operating profit	$ 128,024	$ 103,556	$ 231,580
General and administrative expense			·279,663
Other income			(416,170)
Depletion			167,085
Depreciation			27,120
Cost of mining properties abandoned			174,694
			232,392
Loss before income taxes			$ (812)
Petroleum and natural gas assets	$ 240,524	$ 2,472,398	$ 2,712,922
Mining assets	1,198,525	—	1,198,525
Other assets	9,617,484	—	9,617,484
Total identifiable assets	$11,056,533	$ 2,472,398	$13,528,931

	1981		
	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

12. Comparative figures

Certain comparative figures have been restated to conform with current year presentation.

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, 1982 and the consolidated statements of earnings, 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, except as described in the following paragraph.

As part of our examination of the investment in shares and the share of earnings of an affiliate we have relied on financial statements reported on by other auditors. The affiliate's financial statements are prepared and audited in accordance with accounting principles and auditing standards generally accepted in Liechtenstein and we have determined these do not correspond to accounting principles and auditing standards generally accepted in Canada. Accordingly the company's share in earnings of an affiliate is not based on Canadian principles and standards and we are unable to determine the effect, if any, of any adjustments required to conform to Canadian principles and standards.

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to obtain financial statements for the affiliate prepared and audited in accordance with accounting principles and auditing standards generally accepted in Canada, these consolidated financial statements present fairly the financial position of the company as at December 31, 1982 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.

Collins Barrow

Collins Barrow
CHARTERED ACCOUNTANTS

Calgary, Alberta
February 15, 1983

RIO ALTO EXPLORATION LTD.

Annual Report 1982

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