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RIO ALTO EXPLORATION LTD.

ANNUAL REPORT 1983

CORPORATE INFORMATION

DIRECTORS

John C. Anderson	Calgary, Alberta
Carmen W. Byler	Calgary, Alberta
Patrick A. Campbell Fraser	Edinburgh, Scotland
Douglas W. Hilland	Calgary, Alberta
Gerhard Kasdorf	Calgary, Alberta
M. Jaffar Khan	Calgary, Alberta
Francis C. Mannas	Calgary, Alberta
James R. Smith	London, England

OFFICERS

John C. Anderson	Chairman of the Board
Samuel W. Ingram	Secretary
Edward J. Cleary	Assistant Secretary

HEAD OFFICE

1900, 801 6 Avenue S.W.
Calgary, Alberta T2P 3W2

SUBSIDIARIES

Rio Alto Exploration Inc.
North American Nuclear Limited
Prolud Petroleums Inc.
Prolud Resources Inc.

AFFILIATE

Radex Resources Ltd.

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
Stock Exchange Symbol: RAX

The Annual General Meeting of Shareholders will be held at 2:30 p.m., on Friday, June 29, 1984 in the Boardroom of The 400 Club, Calgary, Alberta.

TO THE SHAREHOLDERS

The Directors of Rio Alto Exploration Ltd. are pleased to present the Company's Annual Report for the year 1983.

During the past year, various negotiations were finalized whereby rather than participating indirectly through a 50% share ownership of the European-based company Euromin International S.A. (Euromin), Rio Alto will participate as the owner of various gross overriding royalties and working interests in all acreage situated outside of North America assembled over the past four years by Euromin and its associates (the Euromin Group).

The Company is currently in the process of obtaining all necessary documentation and government approvals conveying to the Company working and royalty interests in approximately 2,256,879 gross acres (121,165 net acres) of exploration permits, or other documents of title comprising oil and gas rights situated in Europe and Tunisia.

In addition, the arrangement with the Euromin Group grants the Company a first right of refusal up to a maximum of 25% of the Euromin interest in all oil and gas properties acquired by the Euromin Group after July 8, 1983. This right of refusal is renewable on a year to year basis and provides Rio Alto a continuing association with a highly successful European exploration group. The arrangement also provides an exposure to various European activities without the necessity of maintaining an office in Europe.

Company policy envisages the continued evaluation of opportunities to acquire additional rights in Europe and participate in selected exploratory wells in Sicily and Italy.

The accompanying financial statements report a net loss of $46,030 ($0.01 per share) for the fiscal year ended December 31, 1983 compared with a net profit of $56,514 ($0.01 per share) for fiscal 1982. Oil and gas sales for fiscal 1983 increased 21.7% to $438,014 from $360,030 in 1982. Cash flow after tax for fiscal 1983 was $269,988 ($0.04 per share) compared with $285,843 ($0.05 per share) in 1982.

Effective June 7, 1983, the Company acquired a private Canadian oil and gas company, Prolud Petroleums Inc. and its U.S. subsidiary, Prolud Resources Inc., for consideration of $1,229,235, satisfied by the issue of 349,989 common shares and 116,663 share purchase warrants. The warrants are exercisable at $5.20 per common share until December 14, 1984. However, to date none has been exercised.

During August 1983, the Company completed a private placement of 600,000 common shares issued from treasury at $5.25 per share. Gross proceeds of $3,150,000 were reduced by placement costs of $157,500, netting $2,992,500 to treasury. As a result of the private placement, working capital at December 31, 1983 increased to $4,024,833. The Company has no long term debt.

During 1983, the Company sought various merger opportunities with companies having a solid production base and no substantial debt primarily in order to provide a basis of immediate cash flow.

A decision has recently been made by Management that unless an acquisition becomes available which meets the requisites established by the Board, the Company will focus on pursuing a course of recruiting a small but aggressive technical staff which will concentrate its efforts on building up this basis of cash flow. To this end, the Company will place greater emphasis on attractive exploration opportunities located in Western Canada.

Early in 1984, Mr. John C. Anderson was appointed Chairman of the Board. He brings to the Company considerable experience as a director of various corporations engaged in providing technical and drilling services to the Canadian oil industry. He has assumed the responsibility for daily operations of the Company.

Mr. B.J. Todesco resigned his directorship of the Company in August 1983 and was replaced by Mr. M.J. Khan, Vice President Finance and Secretary of the Company's major shareholder, Canada Northwest Energy Limited. The Company expresses its sincere thanks to Mr. Todesco for his valuable counsel during the past three years. Mr. Khan brings to the Board many years of oil industry financial experience both in North America and abroad.

More recently, Mr. E.J. Cleary was elected an officer of the Company assuming the position of both Controller and Assistant Secretary.

The Board of Directors is of the opinion that the formulation of corporate objectives and engagement of experienced personnel initiated in early 1984, will achieve a corporate structure which will ensure growth and full utilization of the Company's various assets.

During the first quarter of 1984, the Company acquired 239,100 common shares of Radex Resources Ltd. for a cash consideration of $478,200, thereby increasing its holdings from 17.26% to 39.64%. Radex Resources Ltd. is a privately owned Canadian oil and gas company with gas interests in Cessford, Alberta and has generated significant cash flow over its five year period of operation.

The Board of Directors extends its thanks to the Company staff, its consultants and shareholders for their continued support during 1983.

J.C. Anderson

John C. Anderson
Chairman of the Board

Calgary, Alberta
May 15, 1984

INTERNATIONAL ACTIVITY

Pursuant to the agreements with Euromin International S.A., (Euromin) the Company has acquired direct ownership of various gross overriding royalty interests and working interests in all acreage situated outside of North America assembled over the past four years by Euromin and its associates (the Euromin Group).

The Company currently has interests in the international permits and applications shown to the right.

ITALY AND SICILY

The Company's main thrust in the area of international exploration continues to be in Italy and Sicily.

Pursuant to the agreements with Euromin the Company has working interests varying between 4% and 25% in a total of 518,590 gross permit acres and overriding royalty interests varying between 1% and 1.35% in 295,545 gross permit acres located both onshore and offshore Italy and Sicily. In addition, the Company has working interests varying between 1.25% and 50% in a total of 670,810 gross application acres and overriding royalty interests of 1.25% in a total of 238,698 gross acres of applications in Italy and Sicily.

Permit C.R100.HO

This permit comprising 66,273 acres is located in the Sicily Channel approximately 14.5 km southeast of the prolific Vega oil discovery which is currently in the first phase of development. Oil in

RIO ALTO INTERNATIONAL PERMITS:

(in acres)

	Working Interest (Gross)	Working Interest (Net)	Royalty Interest (Gross)
France	531,544	53,154	–
Ireland	105,000	1,444	–
Tunisia	–	–	806,200
Sicily	282,554*	42,618	270,309
Italy	236,036*	23,949	25,236
TOTAL	1,155,134	121,165	1,101,745

** The Company has overriding royalty interests in 66,273 gross acres in Sicily and 236,036 gross acres in Italy, in addition to the gross working interests stated above.*

RIO ALTO INTERNATIONAL APPLICATIONS:

(in acres)

	Working Interest (Gross)	Working Interest (Net)	Royalty Interest (Gross)
France	667,852	155,572	–
Italy	475,547	237,773	185,072
Sicily	195,263	13,441	53,626
TOTAL	1,338,662	406,786	238,698

ITALY

PERMITS	INTEREST
Basentello	18.75% W.I. / 1.0% ORR
Serre Alte	1.0% ORR
D.R56.CL	5.0% W.I./1.25% ORR

APPLICATIONS	
d.124 DR-IM	50.0% W.I.
d.125 DR-CN	1.25% ORR
d.381 BR-IM	50.0% W.I.
d.382 BR-IM	50.0% W.I.
d.388 BR-IM	50.0% W.I.
d.389 BR-IM	50.0% W.I.

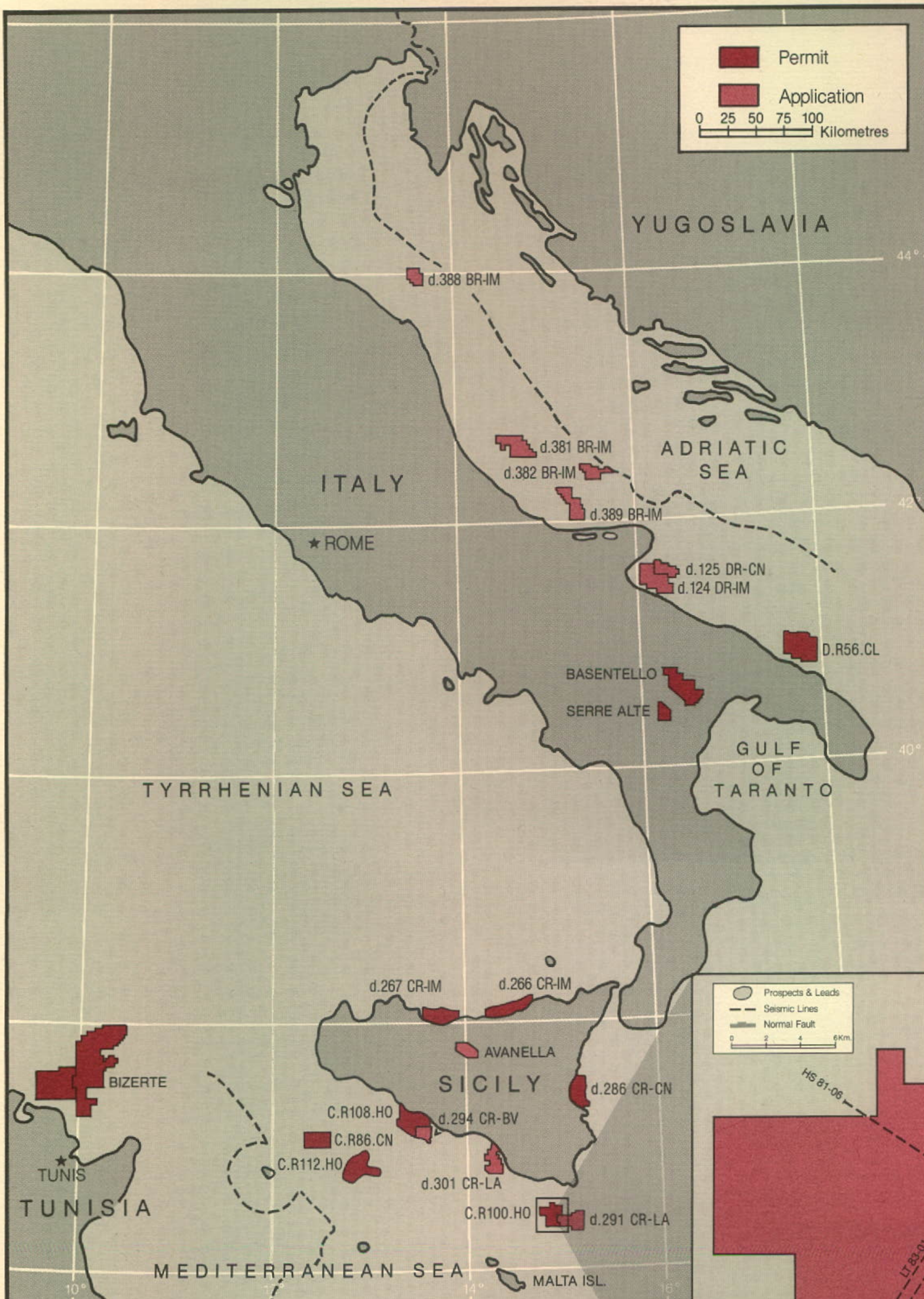
SICILY

PERMITS	INTEREST
C.R86.CN	1.25% ORR
C.R100.HO	4.0% W.I./1.35% ORR
C-R108.HO	1.25% ORR
d.266 CR-IM	16.65% W.I.
d.267 CR-IM	16.65% W.I.
C.R112.HO	1.25% ORR
d.286 CR-CN	25.0% W.I.

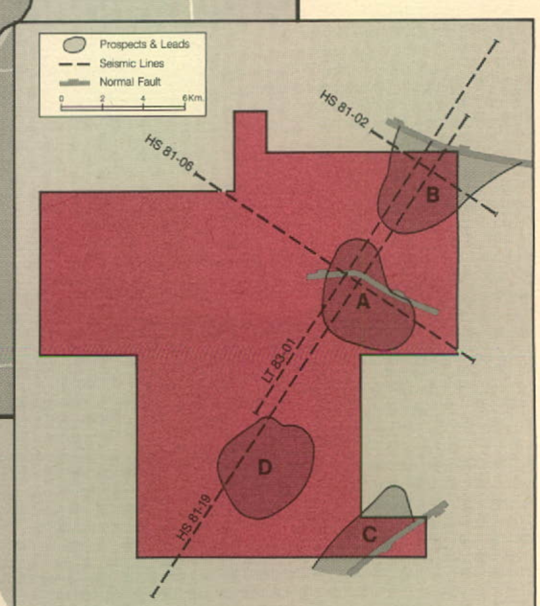
APPLICATIONS	
Avenella	25.5% W.I.
d.291 CR-LA	5.0% W.I.
d.294 CR-BV	1.25% ORR
d.301 CR-LA	1.25% W.I.

TUNISIA

PERMIT	INTEREST
Bizerte	0.1225% ORR



Company Interests in Italy, Sicily and Tunisia



C.R100.HO Drilling Prospects

place in the Vega Field is estimated to be between 850 and 950 million barrels.

Permit C.R100.HO is believed to be underlain by two reservoir horizons (Taormina and Inici carbonates) and by two seal units (Noto/Streppenosa black shale and Buccheri palagic marl) of which the former is expected to provide the hydrocarbon source. The trend of optimum reservoir facies at the Inici level is interpreted to lie across the northern part of the block on trend with the Vega Field.

Seismic studies conducted over the permit in 1981 identified three drillable structures. In June 1983, a further 54 km of in-fill seismic was carried out to fully evaluate what is now considered the primary feature, Prospect B (see map on page 5) located in the northeast corner of the permit.

The permit is located approximately 25 km from the coast of southern Sicily in relatively shallow water depths of between 80-150 metres. A sea-bottom survey is currently being carried out.

It is anticipated that the first exploratory well on the permit, Aretusa No. 1, will be spudded on Prospect B in the third quarter of 1984. The well will be drilled to a projected total depth of 3,300 metres to test the Lower Jurassic strata.

The Company has a 4% working interest and a 1.35% overriding royalty interest in Permit C.R100.HO.

Permit D.R56.CL

On December 23, 1983, the Company acquired a 5% working interest in Permit D.R56.CL in the Adriatic Sea, in addition to a previously held 1.25% overriding royalty interest. This permit comprises a total of 147,689 acres.

Subsequent to year end, the Company participated in the drilling of a 2,000 metre well, Rosaria Mare No. 1. The well failed to encounter hydrocarbons and was plugged and abandoned on February 22, 1984. The cost of this well to the Company was $165,000.

Basentello Permit

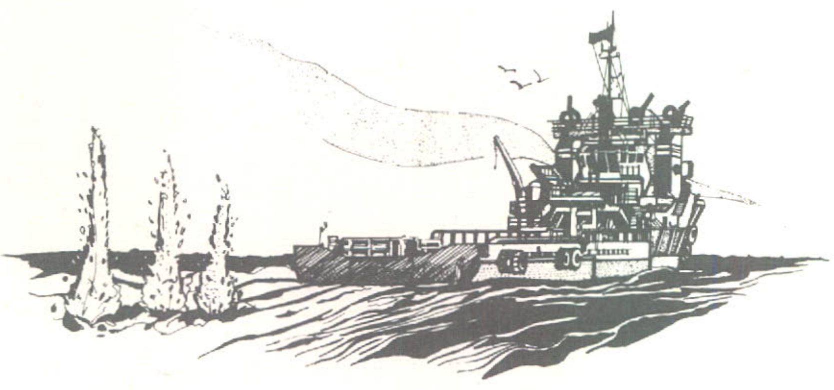
The Company originally held a 25% working interest and a 1% overriding royalty interest in the 88,347 acre Basentello Permit located onshore southern Italy. A recent Pliocene exploration well located adjacent to the permit flowed gas at rates of 2,500 Mcf per day at 1,451 psi from a depth of 1,200 metres.

Subsequent to year end, the Company farmed out 6.25% of its working interest for which the farmee paid 12.5% of the costs of the Basentello No. 1 exploratory well. The Company retained an 18.75% working interest in the permit. Basentello No. 1 was spudded April 24, 1984 and was drilled to a total depth of 892 metres to test the upper Cretaceous limestone. Hydrocarbons were not encountered and the well was abandoned May 14, 1984. The cost of this well to the Company was approximately $50,000.

It is envisaged that further seismic will be performed to better evaluate this permit.

TUNISIA

The Company has a 0.1225% overriding royalty interest in the Bizerte permit located in the Mediterranean Sea offshore northern Tunisia. This permit comprises 806,200 gross acres.

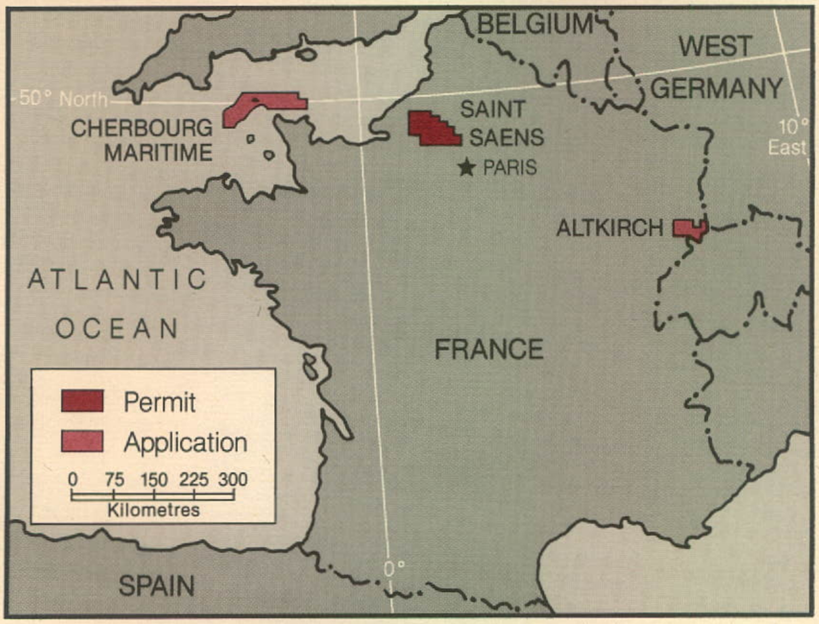


FRANCE

Pursuant to the agreements with Euromin, Rio Alto has acquired a 10% working interest in the 531,544 acre St. Saens permit located approximately 100 km to the northwest of Paris.

Subsequent to year end an aeromagnetic survey was completed over the permit and the Company participated in a gravity and seismic survey totalling 150 km in April and May of 1984.

Interest in exploring for oil and gas in northern France has been renewed following significant new discoveries made in the "Paris Basin" during recent years by several companies.



Company Interests in France

IRELAND

Under the terms of the Euromin agreement, Rio Alto has a 1.375% working interest in 105,000 acres in two offshore permits, 42/7 and 42/12, located in the Irish Sea. A seismic survey is planned for 1984 to better evaluate the permits.

NORTH AMERICAN ACTIVITIES

CANADA

The Company currently has varying working interests in producing gross acreage totalling 43,749 acres in Alberta and Saskatchewan and interests in non-producing properties totalling 12,085 gross acres.

Hilda, Alberta

Rio Alto holds a 1.64% working interest in a total of 135 wells in the Hilda Gas Unit #2. In addition, the Company has working interests varying between 1.2850% and 3.1540% in approximately 40,556 acres.

Total production during fiscal 1983 from the Unit's producing wells was 1,106,080 Mcf. The annual cash flow to the Company resulting from gas sales was $34,264.

Cessford, Alberta

The Company has a 6% working interest in the Rio Alto et al Cessford A6-30-23-10 W4M well and will earn a 6% working interest after payout in the Rio Alto et al Cessford 10-24-23-11 W4M well.

During the year, a total of 345,706 Mcf was produced from the A6-30-23-10 W4M well.

The Company is in the process of relinquishing its operatorship of both wells to Canterra Energy Ltd.

Manyberries Area, Alberta

In June 1983, the Company participated as to a 15% working interest in the drilling of the Ranchmen's et al ManyB 14-14-5-4 W4M well to earn a 13.5% working interest before payout and a 6.7% working interest after payout in the N/2 Sec.14, 5-4 W4M and Sec.13, 5-4 W4M. The S/2 Sec. 14, 5-4 W4M lands were purchased by the Company in November 1983 to complete the spacing unit. The ManyB 14-14 well discovered gas in the Mannville Zone and production tested 180 Mcf per day without stimulation. The well is currently shut-in and the Company is awaiting a gas purchase contract.

In December 1983, the Company participated as to a 15% working interest in the drilling of the Ranchmen's et al ManyB 16-15-5-4 W4M well. The well failed to encounter hydrocarbons and subsequent to year end, was plugged and abandoned.

Cygnet and Penhold, Alberta

Through the acquisition of Prolud Petroleums Inc., the Company holds working interests of between 1.8% and 2.7% in 5,907 acres situated in the Cygnet and Penhold areas of Alberta. Since 1981, the Company has participated in the drilling of two oil wells in the Cygnet area and one oil well in the Penhold area.

In August 1983, the Company farmed out Sec.33, 37-28 W4M to a third party, retaining an overriding royalty interest convertible upon payout to a working interest. A well was successfully drilled and cased on this acreage during the third quarter 1983, but drilling results remain confidential.

West Kirkella, Manitoba

The Company has, through Prolud Petroleums Inc., working interests of between 5.4878% and 11.25% in 360 acres in the West Kirkella area of Manitoba. To date, ten wells have been drilled on these lands, of which eight continue to produce.

U.S.A.

Through its wholly owned U.S. subsidiaries Rio Alto Exploration Inc. and Prolud Resources Inc., the Company currently holds varying interests in producing gross acreage totalling approximately 3,131 acres located throughout the U.S.A. In addition, the Company has working interests in approximately 37,826 non-producing gross acres.

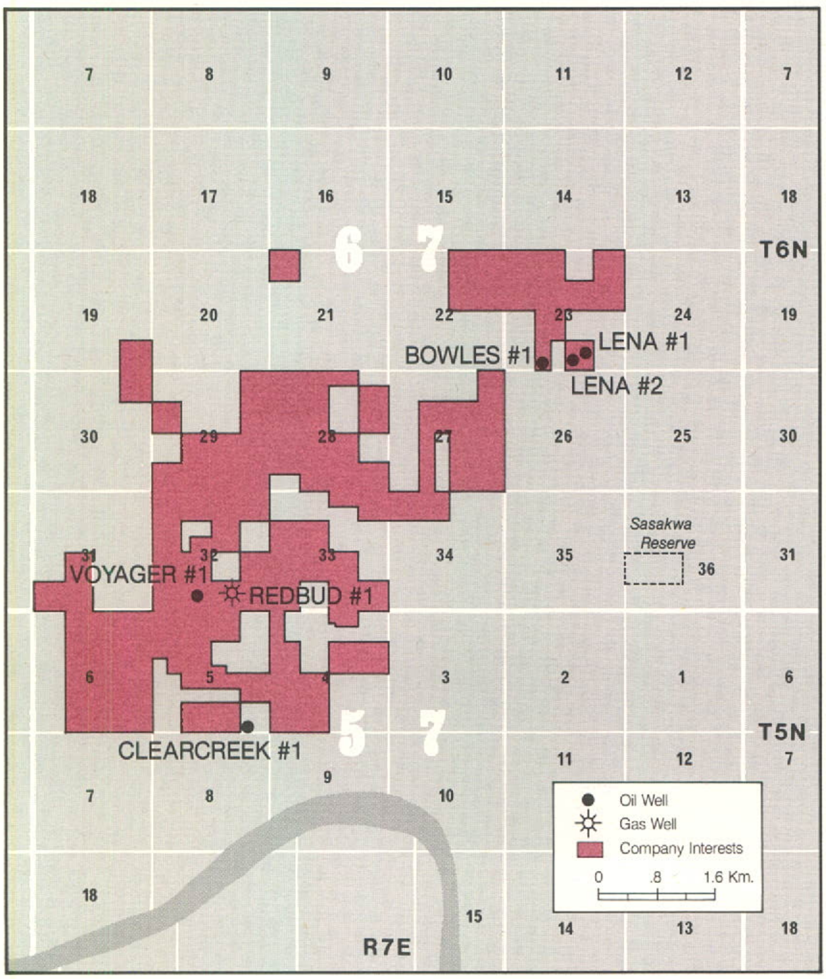
Seminole County, Oklahoma

The most significant of the Company's producing properties in the United States is located in Seminole County, Oklahoma. Rio Alto has a 15% working interest in approximately 1,700 acres of leases some of which have been offset by a number of successful oil wells. In particular, a well on the SE/4 of Sec.5 T5N-R7E, the Clearcreek #1, is currently producing at a rate of 167 barrels of oil per day from the First and Second Senora formations and a second well has been licensed.

Rio Alto holds a 14.4% working interest in the SW/4 Sec.4 T5N-R7E and 9.9% working interest in the SW/4 SE/4 Sec.5 T5N-R7E. An attempt is being made to increase the acreage position in this area.

To date, ten wells have been drilled on this prospect of which four are producing oil wells and one well is a producing gas well.

Rio Alto has been approached by several companies regarding farmouts or sale of the Seminole County leases in Sec.4 and 5, but is presently concentrating on drilling the lands for its own account. It is planned to drill additional wells during the first quarter of 1984 in this area.



Seminole County, Oklahoma

Dewey County, Oklahoma

The Company has an 8.33% interest in approximately 1,920 acres in Dewey County, Oklahoma. Three wells, in which Rio Alto has net revenue interests of between 1.35627% and 6.2475%, are currently producing natural gas and oil. Annual cash flow to the Company from these wells during 1983 was $78,739 (U.S.).

Elk Creek and Union City, Pennsylvania

To date, a total of twelve gas wells have been drilled on these two prospects of which nine are presently producing.

Due to the decline in production from existing wells during October and November of 1983, it is proposed to change the field operator early in 1984 to ensure expenses are properly controlled and that the wells experience less down time. In addition, it is anticipated that by the first quarter of 1984, production from the Elk Creek Field will no longer be on a bi-monthly basis, but on the basis of wells producing every month. Attempts are also being made to secure a higher allotment per well per month for the Company's wells. During 1983, tubing was run in five wells at minimal cost to the Company to facilitate production of these wells at higher volumes.

The Hotchkiss #1 well was drilled and completed as a gas well in October, 1983. The Company participated in the drilling of the well as to a 25% working interest to earn a 19.94% net revenue interest. The well was on stream in December of 1983, with resultant revenue to the Company during the first quarter of 1984.

Mercer County, Ohio & Jay and Adams Counties, Indiana

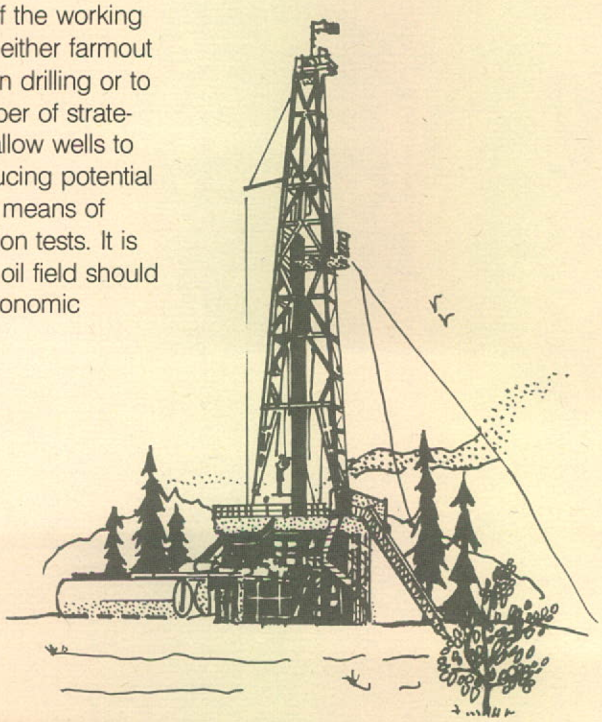
The Company, as Operator, has a 50% working interest in approximately 24,000 acres of leases in the Trenton Field.

The leases are well situated geologically. The Trenton Field, also known as the Lima-Indiana Field, is a large curve-shaped feature stretching 274 km from Toledo, Ohio to Grant County, Indiana and varying from 1.6 km to 32 km in width. Development along the trend began in 1884 and an estimated 100,000 wells were completed by the turn of the century. Total cumulative production from the area to date exceeds 500 million barrels of oil.

It is the intention of the working interest owners to either farmout the initial evaluation drilling or to drill a limited number of strategically located shallow wells to evaluate the producing potential of the acreage by means of sustained production tests. It is expected that this oil field should yield significant economic production.

Toole County, Montana

An additional 400 gross acres in Toole County, Montana, are held by the Company's wholly-owned American subsidiary, Prolud Resources Inc. Prolud has a 20% working interest in this acreage. The Ruby #2 well on Sec.2 T34N-R2W, which was drilled in 1981, continues to produce at a rate of approximately 210 barrels of oil per month.



MINING

Rusty Springs, Yukon

The Company continues to hold a 45% working interest in a large mining prospect located approximately 282 km north of Dawson City in the Yukon.

Exploration in the area has been carried out since 1976 on some 380 claims covering a potential silver, lead, copper and zinc deposit.

A preliminary program of bulldozer trenching, conducted in 1982, exposed a number of veins containing high-grade silver, lead and copper mineralization which indicate the magnitude of the potential of this large scale mineral deposit.

During 1983, two deep holes were directionally drilled to intersect the veins at depth. Drilling results indicate that the vertical extension of the veins is probably offset by a low-angle fault. As a result, existing surface geophysical data is being re-evaluated and new programs will be carried out to determine the extension and source of the exposed veins.

Future exploratory plans in the area for 1984 include selective drilling and electromagnetic surveying on the Mike Hill anomaly located approximately 1.6 km to the west of the Orma Hill. These programs are designed to determine the source of mineralization encountered during previous drilling programs.

Further geochemical surveying and prospecting of the remaining property will be undertaken to explore for additional mineralization.

Stormy Mountain, Yukon

The Company has a 100% interest in 112 mining claims in the Ross River area of central Yukon. Exploration for molybdenum and tungsten in this area has been conducted at various times since 1955.

Attempts are continuing to farmout part of the Company's interest to a third party who will share the costs of renewed exploration to evaluate mineral showings located by the 1981 field work. Because of the short season and required planning and a deterioration in molybdenum markets, further exploration in this area was not carried out during 1983.

Other Company mineral holdings include a 100% interest in 27 mining claims in the Elliot Lake uranium camp located in northern Ontario. In addition, Rio Alto continues to hold a minor royalty interest in approximately 35,000 acres of coal leases in the Clearwater River area of the Alberta foothills.

CONSOLIDATED STATEMENT OF LOSS
YEAR ENDED DECEMBER 31, 1983

	1983	1982
Revenue		
Oil and gas sales	$438,014	$360,030
Preproduction royalties	—	12,000
Alberta royalty tax credit	14,859	43,442
Gain on sale of royalty interest in coal properties	—	250,000
Interest, management fees, other	200,189	35,205
	653,062	700,677
Expenses		
Production	119,845	118,504
Petroleum and gas revenue tax	—	9,946
General and administrative (note 5)	257,454	279,663
	377,299	408,113
Earnings before the following	275,763	292,564
Items not requiring funds		
Cost of mining properties abandoned	(43,983)	(174,694)
Depreciation	(53,350)	(27,120)
Depletion	(179,890)	(167,085)
Share in earnings of an affiliate	—	118,965
	(277,223)	(249,934)
Earnings (loss) before income taxes	(1,460)	42,630
Income taxes (note 8)		
Current	5,775	6,721
Deferred (recovery)	38,795	(20,605)
	44,570	(13,884)
Net earnings (loss)	$ (46,030)	$ 56,514
Earnings (loss) per share	$ (0.01)	$ 0.01

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1983

ASSETS

	1983	1982
Current assets		
Cash and term deposits	$ 3,761,969	$ 733,324
Accounts receivable	523,039	567,476
Current portion of note receivable	50,000	50,000
	4,335,008	1,350,800
Investments (note 3)	216,178	8,098,393
Note receivable (note 4)	50,000	100,000
Property and equipment (note 5)	13,254,935	3,920,905
Other assets	87,499	58,833
	$17,943,620	$13,528,931

Approved on behalf of the Board,

J. E. Anderson Director

D. Hilland Director

LIABILITIES

	1983	1982
Current liabilities		
Accounts payable and accrued liabilities	$ 310,175	$ 359,764
Deferred income taxes	162,913	114,418
Deferred revenue (note 6)	121,727	35,999
Provision for share issuance	–	174,250

SHAREHOLDERS' EQUITY

	1983	1982
Share capital (note 7)		
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		
7,106,311 common shares (1982 – 5,942,422 shares)	17,395,017	12,844,682
Deficit	(46,212)	(182)
	17,348,805	12,844,500
	$17,943,620	$13,528,931

CONSOLIDATED STATEMENT OF DEFICIT
YEAR ENDED DECEMBER 31, 1983

	1983	1982
Deficit, beginning of year	$ (182)	$(56,696)
Net earnings (loss)	(46,030)	56,514
Deficit, end of year	$(46,212)	$ (182)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION YEAR ENDED DECEMBER 31, 1983

	1983	1982
Sources of working capital		
Current operations	$ 269,988	$ 35,843
Proceeds on sale of royalty interest in coal property	—	250,000
Proceeds on issue of share capital	4,550,335	765,049
Increase in deferred revenue	85,728	31,231
Decrease in note receivable	50,000	—
Decrease in other assets	—	18,855
Proceeds on disposal of shares in affiliate	7,930,965	—
	12,887,016	1,100,978
Applications of working capital		
Additions to property and equipment	8,445,048	298,364
Increase in note receivable	—	100,000
Investment in shares	48,750	65,585
Decrease of provision for share issue	174,250	—
Net assets acquired on purchase of subsidiary, net of working capital of $72,730	1,156,505	—
Increase in other assets	28,666	—
	9,853,219	463,949
Increase in working capital	3,033,797	637,029
Working capital, beginning of year	991,036	354,007
Working capital, end of year	$ 4,024,833	$ 991,036

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1983

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 in cost centres. These costs are depleted on the unit-of-production method based on the estimated proven reserves of oil and gas in each cost centre 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. Capitalized expenditures are accumulated in cost centres as follows: Canada, United States, Italy, France, Tunisia and Ireland.

Depletion is provided on costs accumulated in Canada and the United States.

Expenditures incurred in the other cost centres are being capitalized pending the results of exploration in progress. Realization of any underlying value of these assets is dependent upon future exploration and development to determine the existence of oil and gas reserves capable of commercial production.

(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) Accounting for changing prices

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

(g) Translation of foreign currencies

The accounts of the foreign subsidiaries 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.

(h) 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. Acquisition

Effective June 7, 1983, the Company acquired 100% of the outstanding shares of Prolud Petroleums Inc. for consideration consisting of 349,989 common shares of the Company. Details of the acquisitions, which has been accounted for by the purchase method, are as follows:

Book value of assets acquired	$1,117,964
Book value of liabilities assumed	89,101
	1,028,863
Excess of purchase price over fair market value of net assets acquired; assigned to petroleum and natural gas properties	200,372
	$1,229,235

3. Investments

Investments consist of the following:

	1983	1982
Investment in shares, at cost	$216,178	$ 167,428
Investment in shares of an affiliate	–	7,930,965
	$216,178	$8,098,393

(a) The Company owns a 17.26% interest (1982 – 15.85%) in the common shares of a private corporation, Radex Resources Ltd.

(b) During the year the Company exchanged its investment in shares of an affiliate company, Euromin International S.A., for certain interests in properties owned by the affiliate.

4. Note receivable

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

	1983	1982
Note receivable	$100,000	$150,000
Less: Current portion	50,000	50,000
	$ 50,000	$100,000

5. Property and equipment

	1983			1982
	Cost	Accumulated Depreciation and Depletion	Net	Net
Oil and gas properties including exploration and development costs thereon				
– Canada	$ 656,804	$ 95,940	$ 560,864	$ 182,700
– U.S.A.	3,065,627	289,803	2,775,824	2,188,767
Deferred oil and gas exploration and development expenditures				
– European cost centres	8,300,171	–	8,300,171	–
Mining properties including exploration costs thereon	1,199,263	–	1,199,263	1,198,525
Oil and gas production equipment				
Canada	108,318	27,473	80,845	57,824
U.S.A.	331,998	33,045	298,953	283,631
Sundry equipment	73,261	34,246	39,015	9,458
	$13,735,442	$480,507	$13,254,935	$3,920,905

During the year the Company capitalized general and administrative expenses in the amount of $223,800 (1982 – $102,173) of total general and administrative expenses incurred of $481,254 (1982 – $381,836).

6. 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 $121,727 (1982 – $35,999) 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 1984, this amount has been classified as non-current.

7. Share capital

(a) During 1983 and 1982, the Company issued common shares as follows:

	1983		1982	
	Number of shares	Amount	Number of shares	Amount
Exercise of employee share options	59,000	$ 51,000	24,000	$ 18,700
Exercise of other share options	154,900	324,640	–	–
Private placement of shares, net of issuance costs of $157,500 (1982 – net of issuance costs of $12,651)	600,000	2,992,500	330,000	746,349
Shares issued as consideration for purchase of shares in subsidiary, net of issuance costs of $17,805	349,989	1,182,195	–	–
	1,163,889	$4,550,335	354,000	$765,049

(b) At December 31, 1983, 95,000 common shares were reserved for options as follows:

(i) Directors, officers and employees

Number of Shares	Price	Date Granted	Date Exercisable To
50,000	$2.50	May 9, 1983	May 9, 1985
5,000	4.85	August 22, 1983	August 22, 1985
55,000			

(ii) Other

Employees of a Company that was previously affiliated with Rio Alto Exploration Ltd. have options outstanding to purchase 40,000 shares of the Company at a price of $1.60, exercisable to December 15, 1984.

(c) At December 30, 1983, 1,116,663 common shares were reserved for warrants issued as follows:

Number of Shares	Price	Expiry Date
116,663	$5.20	December 14, 1984
500,000	$5.20	December 15, 1984
200,000	$6.50	February 1, 1985
300,000	$7.00	July 22, 1985
1,116,663		

8. Income taxes

The provision made for income taxes in 1983 and 1982 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:

	1983	1982
Computed "expected" tax expense (recovery)	$ (730)	$ 21,315
Increase (decrease) in taxes resulting from		
Non-deductible petroleum and natural gas revenue tax	–	6,105
Non-deductible crown royalties	17,676	30,150
Earned depletion allowance	(3,005)	(34,119)
Resource allowance	(11,786)	(11,672)
Incremental oil revenue	–	(3,340)
Losses of non-taxable subsidiaries	29,787	62,734
Share in earnings of an affiliate	–	(59,482)
Tax credits	(7,430)	(21,721)
Tax rebates	(2,482)	(4,094)
Other	22,540	240
	$44,570	$ (13,884)

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 $83,262 (1982 - $134,720).

10. Segmented information

	1983			
	Canada	United States	Europe	Total
Oil and gas sales	$ 238,431	$ 199,583	$ —	$ 438,014
Operating profit	$ 174,991	$ 158,037	$ —	$ 333,028
General and administrative expense				257,454
Other income				(200,189)
Depletion				179,890
Depreciation				53,350
Cost of mining properties abandoned				43,983
				334,488
Loss before income taxes				$ (1,460)
Total identifiable assets	$6,568,672	$3,074,777	$ 8,300,171	$ 17,943,620

	1982		
	Canada	United States	Total
Oil and gas sales	$ 166,873	$ 193,157	$ 360,030
Operating profit	$ 171,466	$ 103,556	$ 275,022
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
Earnings before income taxes			$ 42,630
Total identifiable assets	$11,056,533	$ 2,472,398	$ 13,528,931

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, 1983 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, 1983 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

CHARTERED ACCOUNTANTS

Calgary, Alberta
February 10, 1984

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RIO ALTO EXPLORATION LTD.

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