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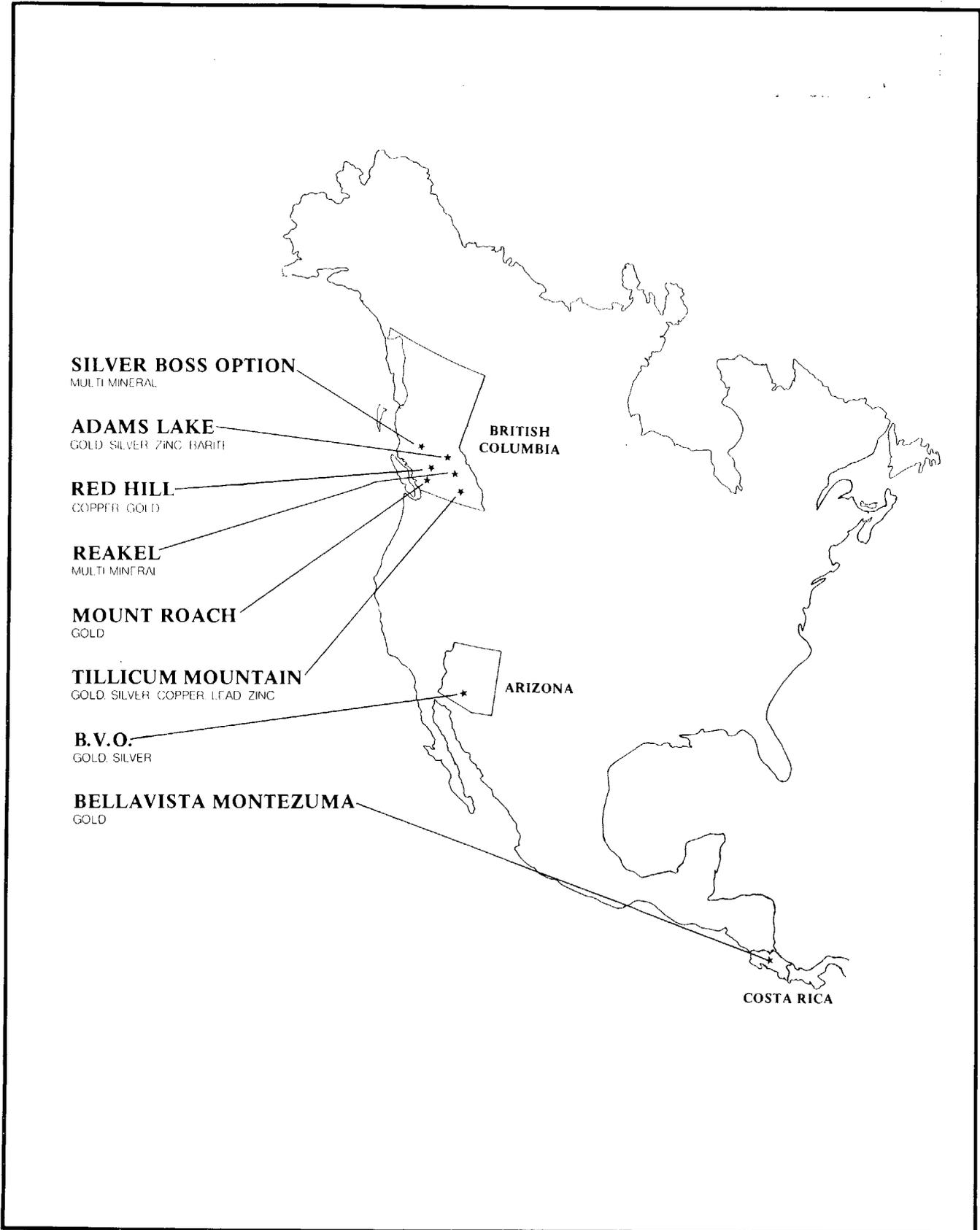
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REA GOLD CORPORATION

ANNUAL REPORT 1984

Property Locations



President's Report

1984 was an extremely busy year for Rea Gold Corporation with exploration being carried out on five properties in Canada and the United States. The year proved to be disappointing in that precious metal prices continued to erode into the first quarter of 1985.

In British Columbia, Corporation Falconbridge Copper continued their exploration program of geological mapping, geochemical sampling, geophysical surveys and diamond drilling on the Adams Lake property. Diamond drilling in late 1983 and early 1984 confirmed 2 valuable high grade massive sulphide deposits (150,000 tons) with precious and base metal values in excess of \$200/ton.

A significant new zone was discovered one-half mile north of the initial two leases by a diamond drilling in the spring of 1985. Follow up diamond drilling is planned for mid July.

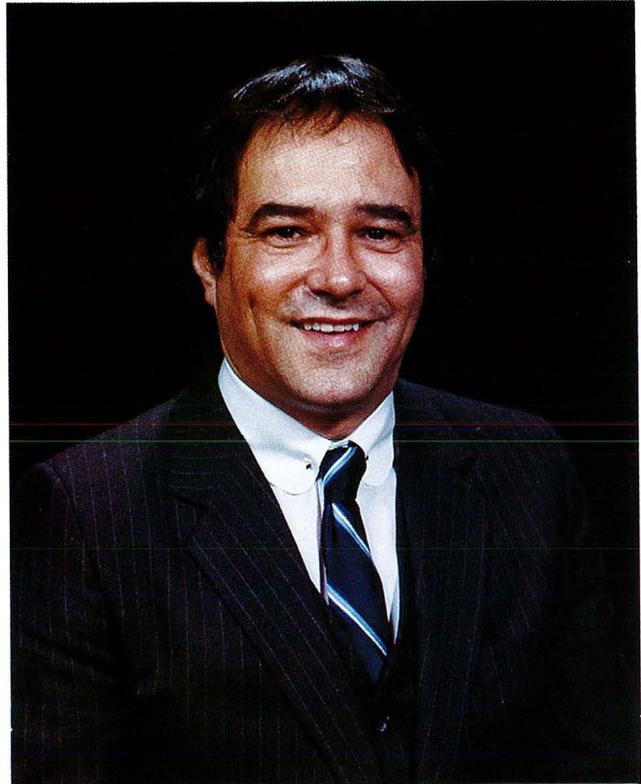
Selco Division-BP Resources Canada Ltd., commenced their exploration on Rea Gold's Red Hill, B.C. property in late 1984. Several targets were identified and five diamond drill holes were completed, one of which intersected 15 feet of massive sulphides. Selco plans further diamond drilling and trenching to commence mid April 1985.

Trenching and geochemical sampling were carried out with encouraging results on Rea Gold's Tillicum Mountain, B.C. property.

Rea Gold has acquired a 90% interest in a precious base metal property located near Merritt, B.C. for the cost of staking the property.

In October of 1984 Rea Gold entered into an agreement with Enfield Resources on their Timothy Mountain, B.C. property whereby Rea Gold has the right to earn a 50% interest in their precious, base metal property. The initial investment is \$50,000 which was financed by the purchase of 200,000 shares of Enfield at 28 cent/share (the stock has had a range of \$0.50 to \$0.83 in 1985). The funds will be turned back to Rea Gold as Operator.

In the United States, exploration consisting of reverse circulation drilling was carried out on the B.V.O., Arizona, joint venture with Lincoln Resources Inc. Drilling was restricted to the Verdstone deposit (267,500 tons averaging .150 oz/ton Au & 1.95 oz/ton Ag). Rea Gold has increased its interest to 55.75% and has been returned as Operator of the project.



A new zone of unlimited potential has been discovered 850 feet southwest of the Verdstone deposit. Two holes in this zone encountered significant gold mineralization over good widths.

Detailed exploration and diamond drilling were carried out by Rea Gold using their own Super 38 Longyear Drill on the Sutro Tunnel, Virginia City, Nevada property. Although the company had high expectations for the property, the drill program failed to define any economic precious metal values. The Property has been returned to Comstock Tunnel & Drainage Co.

Reconnaissance exploration and geochemical surveys were conducted on the Shasta County, California properties and failed to identify significant exploration targets. These properties will be allowed to lapse.

The Company has purchased a 50% interest in a 160 acre oil and gas lease in Noble County, Oklahoma.

The property has one well (Anderson #1) which initially produced at 209 BOPD. Rea Gold and their joint venture partner Lear Oil and Gas Corp. tested additional zones in the well with no success. Salvage of the tanks and equipment is underway to cover most of the cost of acquisition.

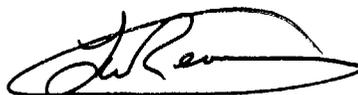
President's Report (continued)

Rea Gold has purchased a 16.5% interest in the issued shares of Midland Energy Corporation which has a 59.96% interest in an economical ore body in Costa Rica, C.A. As well as having an indirect ownership in the property, Rea Gold has been appointed Operator of the project. The Costa Rica mine has been recommended for production by Marston & Marston Inc. at 165 tons per day. Reserves in the proven, probable and inferred class are 362,837 tons averaging .270 oz/ton Au and .33 oz/ton Ag. Midland Energy Corporation is currently completing major financing to put the property into production.

The company is pleased to inform its shareholders that their shares are now listed on the Toronto

Stock Exchange and NASDAQ, as well as the Vancouver Stock Exchange.

I wish to extend my appreciation and thanks to our shareholders and to the Board of Directors for their support and expertise in building Rea Gold Corporation into a significant resource based company with many achievements to its record.



Larry W. Reaugh
President and Chief Executive Officer

March, 1985

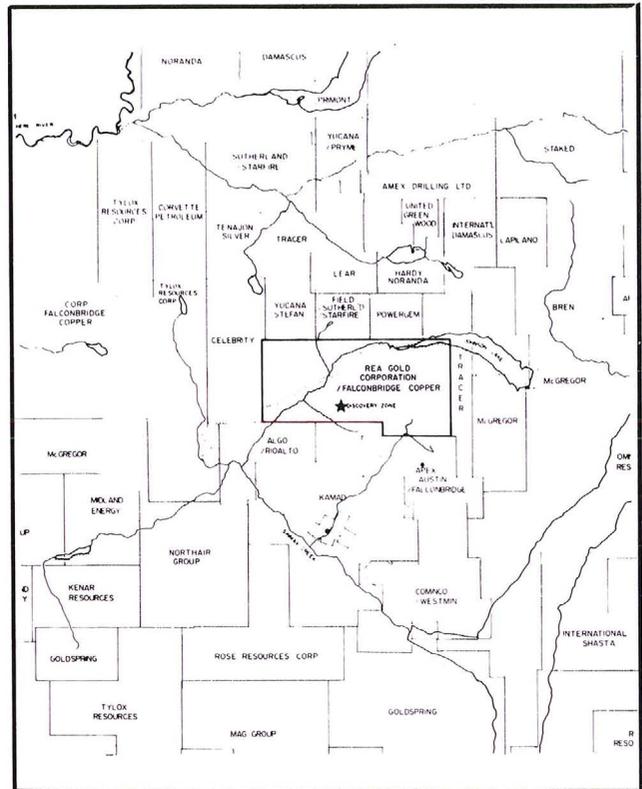
Adams Lake Property



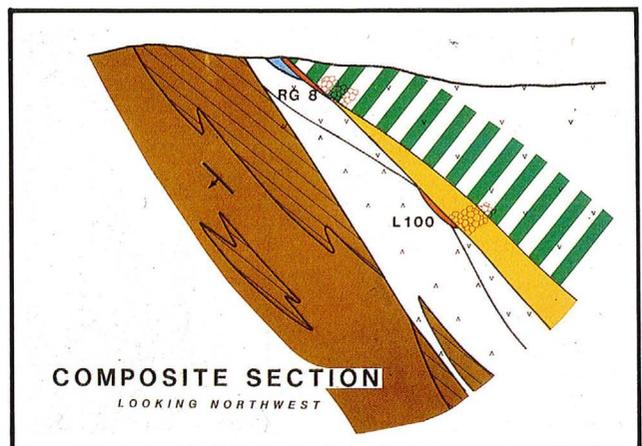
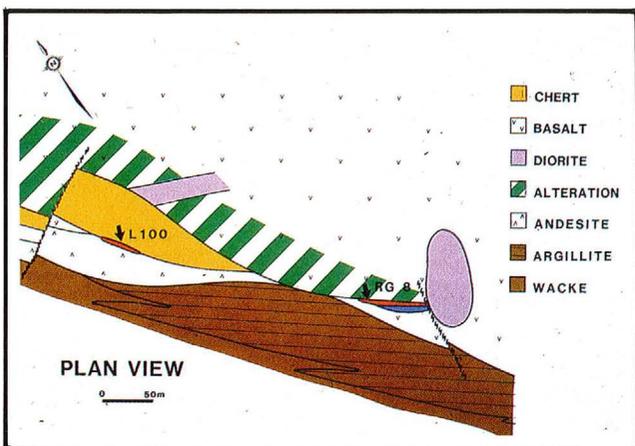
The Adams Lake massive sulphide property located 40 miles N.E. of Kamloops, B.C., is a joint-venture between Rea Gold (49%) and Corporation Falconbridge Copper (51%).

Corporation Falconbridge Copper may earn their 51% by expending 2 million dollars on exploration by May 4, 1986. Approximately 1 million dollars has been spent to date.

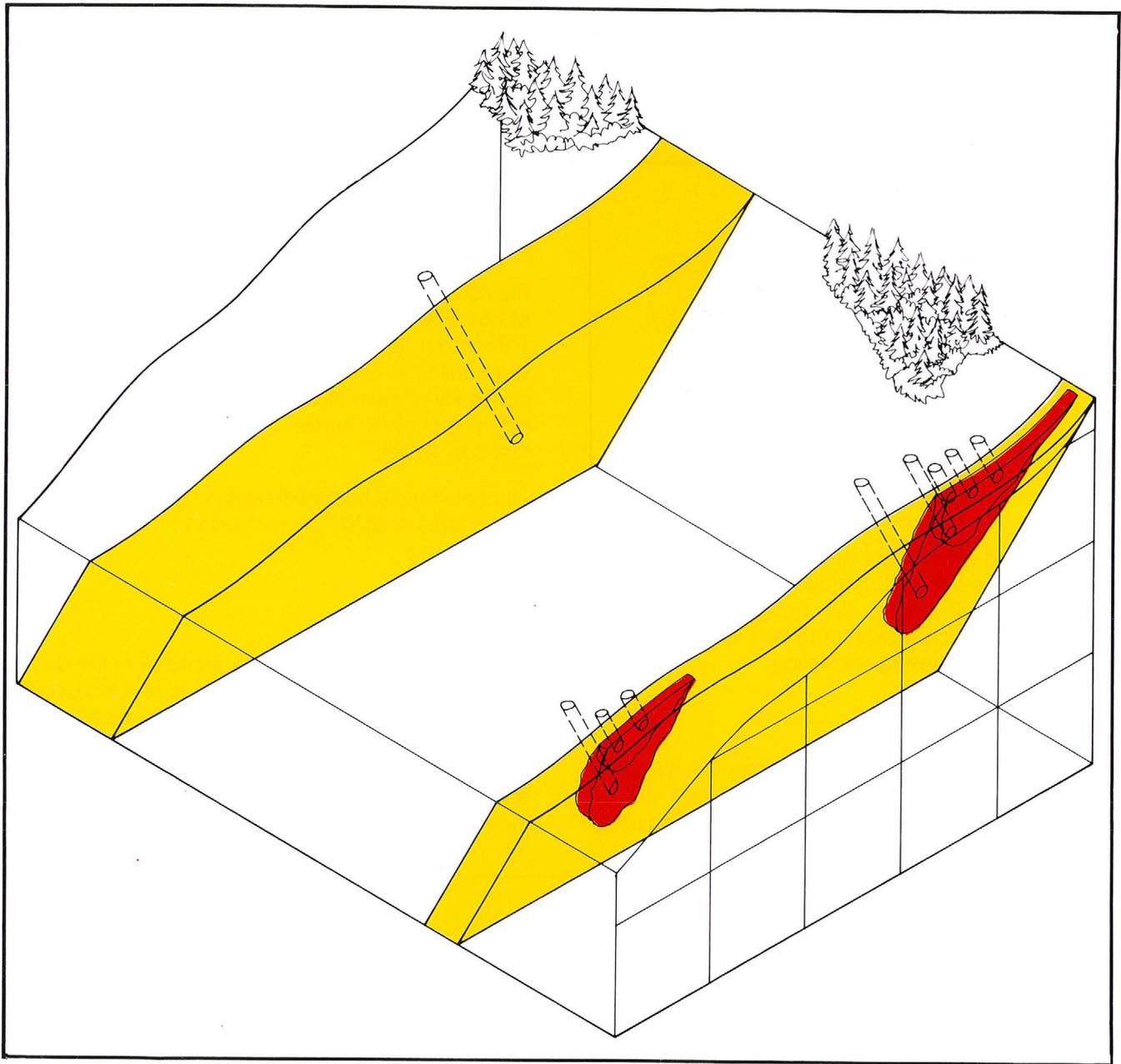
Work consisting of linecutting, mapping, geophysical and geochemical surveys, trenching and diamond drilling has identified several large zones targeted for exploration. Past drilling has delineated 150,000 tons averaging .43 oz/ton Au, (64,500 oz) 3.50 t/ton Ag (525,000 oz) 3.60% Zn (10,800,000 lbs.) 3.10% Pb (9,300,000 lbs.) and .70% Cu (2,100,000 lbs.).



The most exciting area encountered in 1985 is located 1.2 kilometres north of the known 150,000 ton orebody. 2.7 metres of semi-massive sulphide was discovered in hole #RG-37 averaging 5.4 oz/ton Ag, 0.01 oz/ton Au, 1.59% Zn, .92% Pb and .38% Cu.



Adams Lake Property

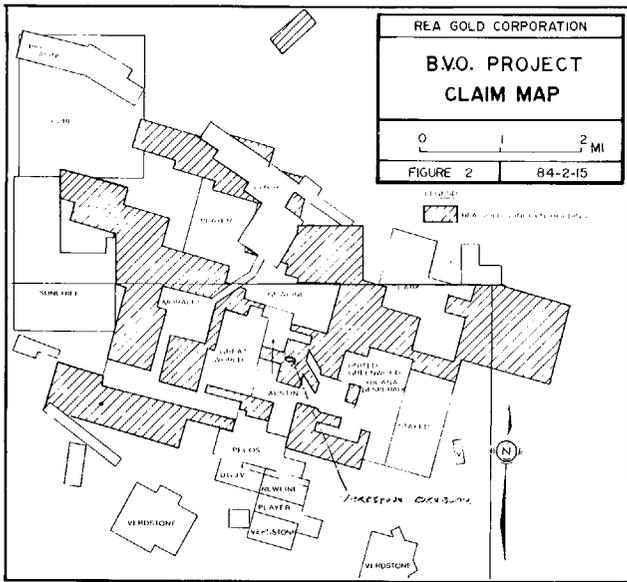


ISOMETRIC SHOWING ORE BODIES

Follow-up drilling is planned for this area in the summer of 1985.

In excess of 40 holes have been drilled on the property with very little of the potential having been tested as yet.

B.V.O. Property



0.22 oz/ton Au. No follow-up work has yet been done here in 1985.

Additional sampling and drilling will be carried out on all the mineralized zones, and further metallurgical testwork is presently being conducted on the Verdstone deposit.

Verdstone

Previous drilling, reported in 1984, outlined reserves of 267,250 tons at 0.15 oz/ton (40,087 oz) Au plus 1.95 oz/ton (521,137 oz) Ag. Twenty-seven holes were drilled in February and March 1985 to verify continuity of the mineralization, to check for extensions of the known mineralized zone, and to test new targets.

All confirmatory holes encountered similar widths and grades of gold mineralization to that found earlier.

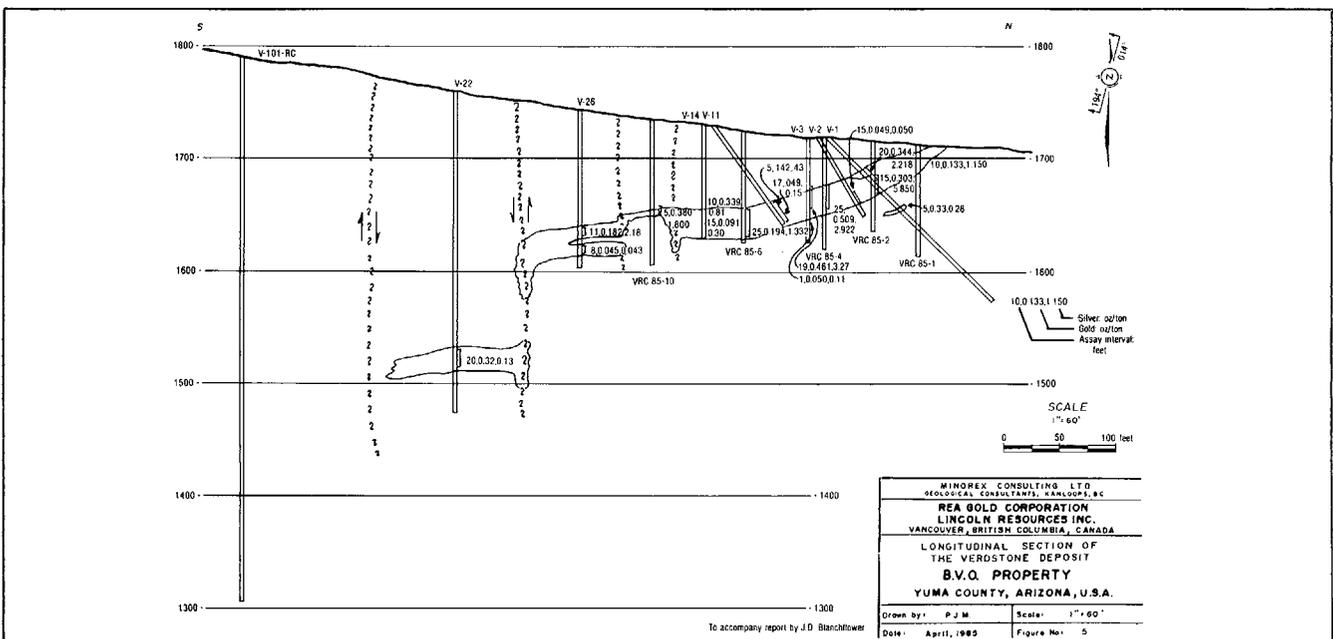
Oakland

Visible gold was found in rock samples in the dumps surrounding the Oakland mine shaft, and individual samples assayed up to 1.34 oz/ton Au plus 0.78 oz/ton Ag. The most probable sources for this material are flat-lying fault zones at depths of between 120 and 150 ft., an area not previously tested by the joint-venture.

Work carried out in 1984 and 1985 on the Bronco-Verdstone-Oakland gold property in Arizona, under joint-venture with Lincoln Resources Inc. (44.25%) and Rea Gold Corporation (55.75%), consisted of drilling and metallurgical testing.

Bronco

Silicified quartz-calcite stockwork zones on the Bronco claims are geochemically anomalous in gold, and previous work in 1984 yielded samples grading up to



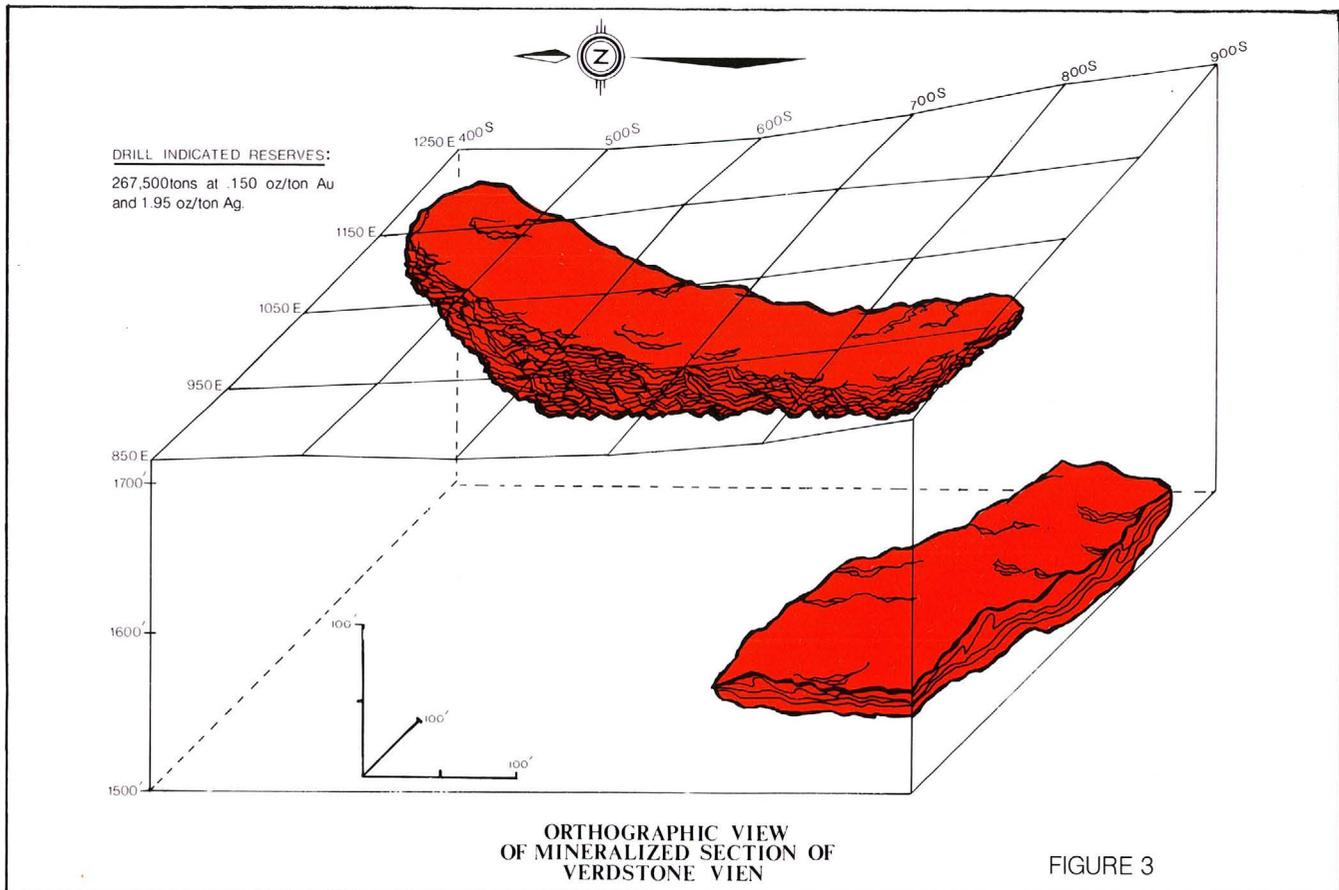
B.V.O. Property

Two holes were direct re-drills of previous holes and compared as follows:

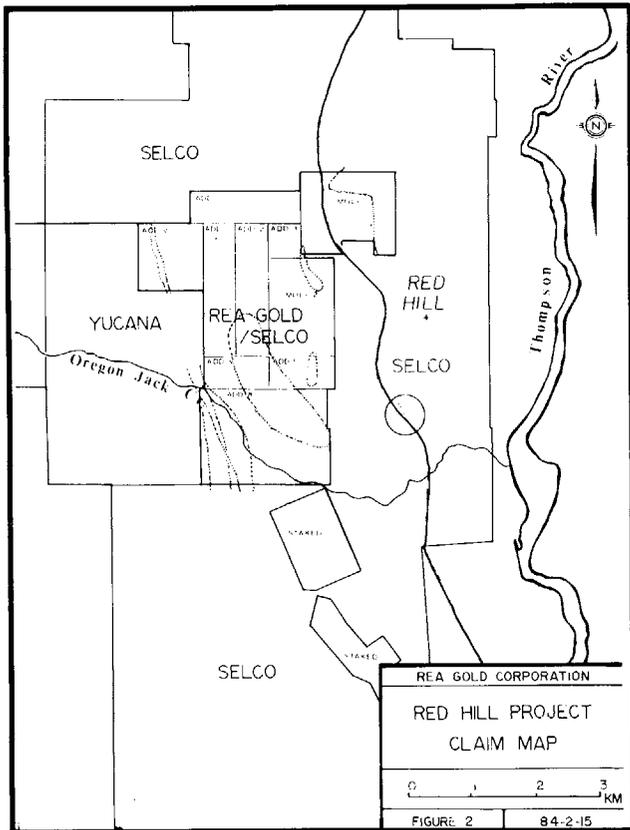
Previous Hole	Intercept	New Hole	Intercept
V-3	27' @ 0.34 oz/ton Au	VCR-85-4	25' @ 0.51 oz/ton Au
V-17	11' @ 0.09 oz/ton Au	VCRR-85-11	25' @ 0.08 oz/ton Au

Although detailed calculations are not yet complete, preliminary indications are that the latest phase of drilling has increased the reserve tonnage. Three drill holes, some 850 feet to the southwest of the main Verdstone area, tested a shallowly dipping quartz breccia zone exposed in a pit. Two of these holes, which tested the zone over a 125 foot strike length, returned assays of 25 ft. at 0.038 oz/ton Au plus 0.294 oz/ton Ag (VCR-85-21) and 20 ft. at 0.050 oz/ton Au plus 0.343 oz. ton Ag (VCR-85-27). The surface strike length has been traced for 450 ft. and the zone is open down-dip.

Preliminary metallurgical testwork by Heinen-Lindstrom, Consultants, of Sparks, Nevada, shows that grinding to 100 mesh and agglomeration yields recoveries in bottle roll tests exceeding 95% of the gold and 35% of the silver within 24 hours. They note particularly that the resulting agglomerate is exceptionally stable and that both cyanide and lime consumption were extremely low. Initial engineering studies indicate that the increased recovery from agglomeration compared to standard heap leach recoveries will at least compensate for the cost of the additional processing.



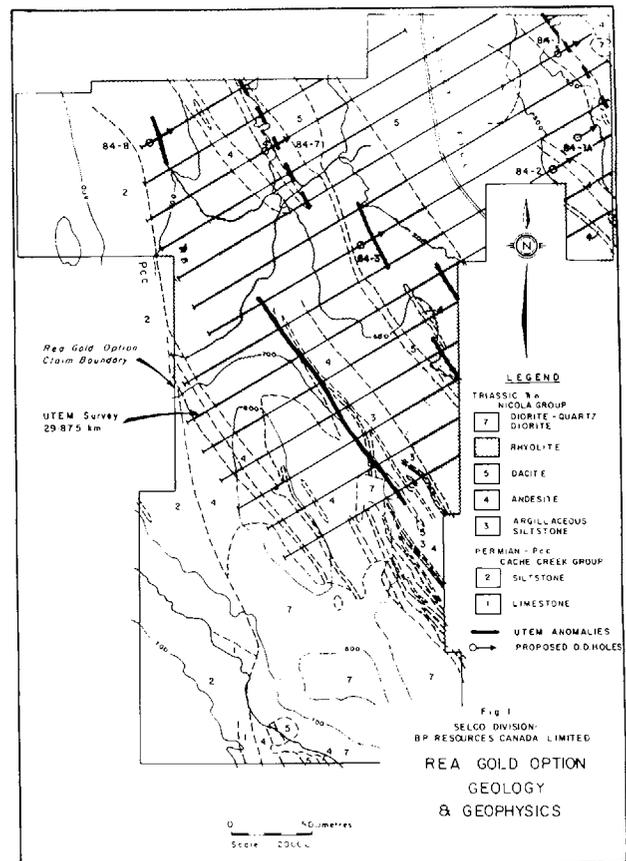
Red Hill Property



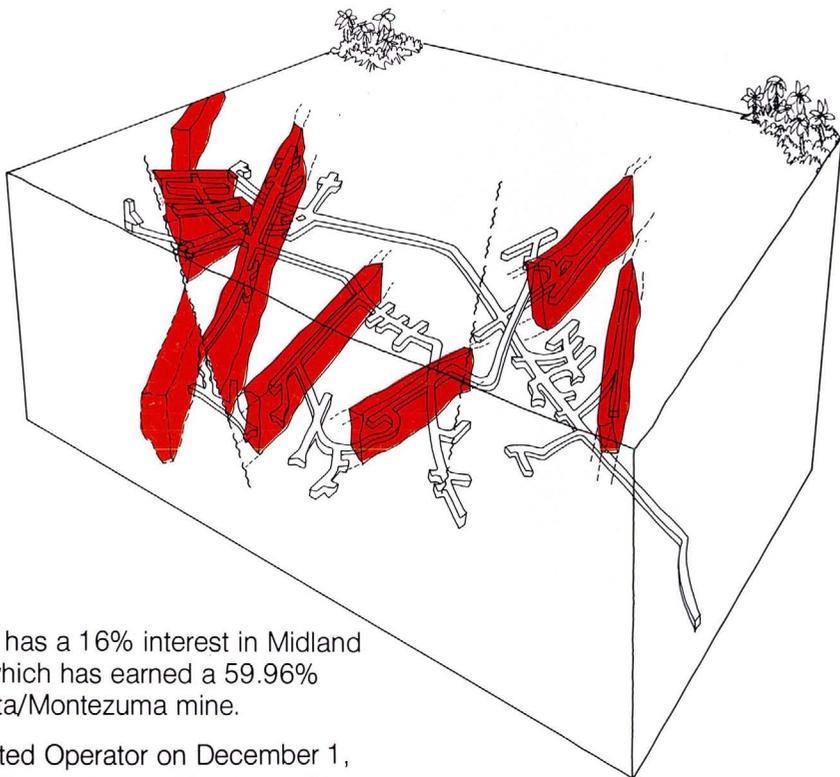
The best hole intersected three closely spaced layers of massive pyrite-pyrrhotite with subordinate sphalerite and minor chalcocopyrite between 132.5 and 147.83 metres.

The thickest and most significant section of massive sulphide from 135.70 to 138.28 metres averaged .59% copper, 1.60% zinc, 1.91 grams silver and 0.39 grams/tonne gold over 2.58 metres (8 feet-5 inches). Further drilling and trenching are planned for the fall of 1985.

The Red Hill Property is located 21 kilometres south of Cache Creek, B.C., on the Trans-Canada Highway Selco Division - B.P. Resources Canada Ltd. has the right to earn a 51% interest in the property by expending \$1,500,000 on exploration by November 22, 1988. Work carried out by Selco in 1984 and 1985 consisted of linecutting, geophysical and geochemical surveys, mapping and diamond drilling in 6 holes (3,500 feet) to test UTEM geophysical anomalies.



Bellavista - Montezuma — Costa Rica



Rea Gold Corporation has a 16% interest in Midland Energy Corporation, which has earned a 59.96% interest in the Bellavista/Montezuma mine.

Rea Gold was appointed Operator on December 1, 1984 and earns a 10% management fee as well as having the right to take over the interest of any joint-venture partner who may wish or is unable to maintain its equity share.

Under Rea Gold's operation, feasibility studies were carried out by the firm of Marston & Marston Inc. and John W. Fisher. The property was recommended for production at 165 tons per day; metallurgical studies have shown a 96% recovery in gold and a 75% recovery in silver.

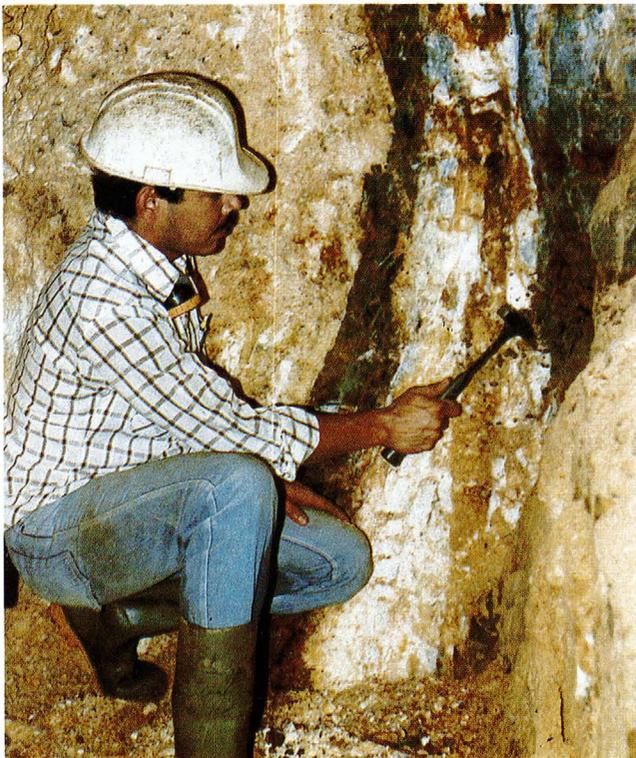
Reserves on the Bellavista are calculated as follows:

	Tons	Grade - Au Oz/Ton	Grade - Ag Oz/Ton
Proven	95,342	.267	.33
Probable	73,495	.291	.33
Inferred	194,000	.260	.33
	362,837	.270	.33

Inferred reserves on the Montezuma side are 2,199,040 tons averaging .42 oz/ton Au.

Recoverable ounces of gold are:

- Bellavista — 94,047 ounces
- Montezuma — 886,653 ounces



Senior financing is presently being acquired to place the property into production in 1986.

Sutro Tunnel Property



The Brunswick Lode Sutro Tunnel, Virginia City, Nevada.

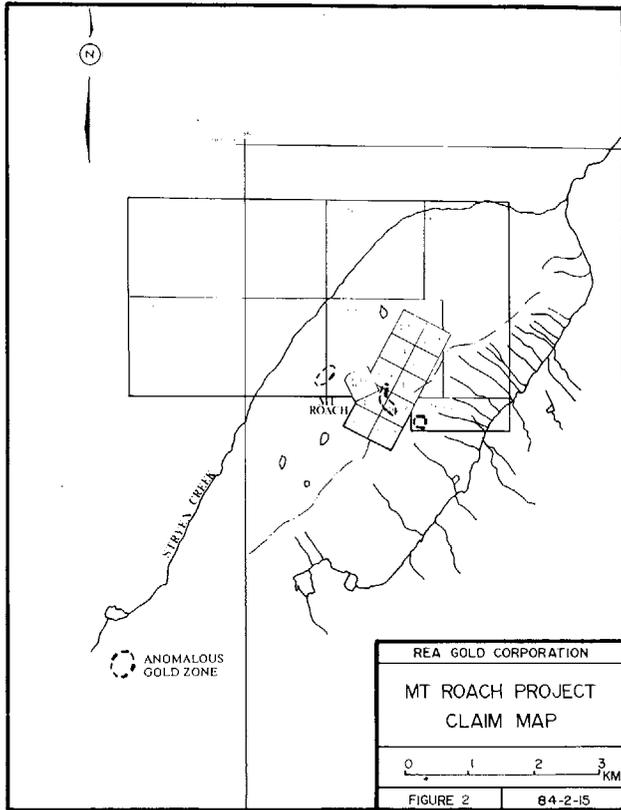
During the year, the property was extensively explored by detailed mapping, geochemical and geophysical surveys and trenching.

Although encouraging results were encountered on surface 1,712 feet of HQ diamond drilling failed to encounter any significant mineral value down dip on the structure.

The properties have since been returned to the Comstock Tunnel and Drainage Company, the patented claims (Choller and Potosi) were returned to the McKay School of Mines.

Significant savings were realized by employing Rea's own Longyear Super 38 diamond drill (pictured above) on this project.

Mount Roach Property



The Mount Roach property is located approximately 8 miles west of Lytton, B.C.

Past work has identified a mineralized structure with a strike length of 5,200 feet through a vertical depth of 1,200 feet. Within this structure a zone of at least 450' assayed .113 oz/ton gold over a width of 4 feet. Further testing and bulk sampling is planned for 1985.

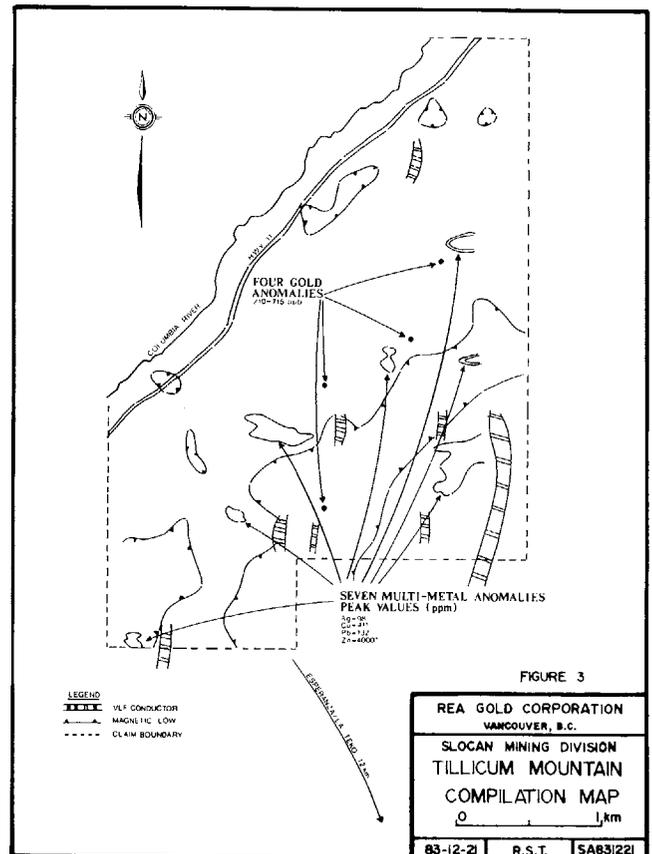
Reakel Claims

The Reakel claims are located 5 miles S.E. of Merritt, B.C.

Linecutting and geochemical work is planned for 1985.

Tillicum Property

The Tillicum Mountain property is located 13 miles south of Nakusp, B.C. Follow-up work on geochemical and geophysical anomalies found in 1984 identified the presence of mineralization. No further work is planned for this year.



Auditor's Report to the Shareholders

We have examined the consolidated balance sheet of Rea Gold Corporation as at December 31, 1984 and the consolidated statements of deferred administration costs 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, 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles in Canada applied on a basis consistent with that of the preceding year.



Vancouver, B.C.
February 15, 1985

REA GOLD CORPORATION

Consolidated Balance Sheet

December 31, 1984

ASSETS

	1984	1983
Current		
Cash and short term deposits	\$ 876,319	\$ 320,957
Prepaid expenses	2,080	—
Accrued interest receivable	24,288	—
Advances receivable (note 5)	192,695	34,868
Note receivable (note 9)	12,000	22,000
Marketable Securities (note 10)	230,250	—
	1,337,632	377,825
Petroleum Interest (note 6)	88,192	—
Mineral Properties and Deferred Costs (note 3)	4,245,926	2,513,117
Fixed Assets (note 8)	159,574	873
	5,831,324	2,891,815

LIABILITIES

Current		
Demand loan	25,000	—
Accounts payable	84,072	31,898
Loans repayable	—	4,000
Current portion of conditional sales agreement (note 12)	1,963	—
	111,035	35,898
Conditional Sales Agreement (note 12)	3,803	—
	114,838	35,898

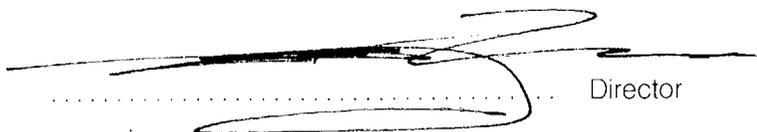
SHAREHOLDERS' EQUITY

Capital Stock (note 4)	5,716,486	2,855,917
	5,831,324	2,891,815

Approved by the Directors



..... Director



..... Director

The accompanying notes are an integral part of these financial statements

Consolidated Statement of Deferred Administration Costs

For the Year ended December 31, 1984

	Balance December 31, 1983	Additions During the Year	Balance December 31, 1984
	\$	\$	\$
Consulting fees	113,643	84,448	198,091
Depreciation and amortization	688	26,140	26,828
Insurance	—	11,247	11,247
Interest and bank charges	8,357	7,894	16,251
Legal and audit	136,744	107,888	244,632
Management fees	73,656	36,000	109,656
Office and miscellaneous	99,239	66,739	165,978
Public information costs	199,028	57,242	256,270
Rent	18,498	16,688	35,186
Repairs and maintenance	—	13,245	13,245
Salaries and wages	118,766	131,797	250,563
Telephone	33,960	25,091	59,051
Travel and public relations	89,647	107,564	197,211
Trust and stock exchange fees	41,007	53,605	94,612
	933,233	745,588	1,678,821
Less interest income	(69,986)	(115,257)	(185,243)
	863,247	630,331	1,493,578
Allocated to properties			
Mineral			
Mt. Roach	109,632	893	110,525
Tillicum	37,983	5,331	43,314
Red Hill	34,530	(9,139)	25,391
Adams Lake	20,718	25,583	46,301
Bronco - Verdstone - Oakland	493,777	163,398	657,175
Brunswick Lode	162,290	291,757	454,047
Shasta County	4,317	1,657	5,974
BAR	—	119,486	119,486
Reakel	—	1,494	1,494
	863,247	600,460	1,463,707
Petroleum			
Anderson #1 well	—	29,871	29,871
	863,247	630,331	1,493,578

The accompanying notes are an integral part of these financial statements

Consolidated Statement of Changes in Financial Position

For the year ended December 31, 1984

	1984	1983
	\$	\$
Source of Working Capital		
Issue of capital stock	2,920,469	1,336,364
Interest income	115,257	13,470
Conditional sales contract	3,803	—
	3,039,529	1,349,834
Use of Working Capital		
Deferred administration costs (net of depreciation \$26,140)	719,448	561,764
Treasury stock purchased (note 10)	362,500	—
Petroleum interests	58,321	—
Purchase of fixed assets	184,841	470
Liability to issue capital stock	—	30,000
	1,325,110	592,234
Mineral properties and deferred costs	1,132,349	823,997
Less capital stock issued	(302,600)	(460,400)
	829,749	363,597
	2,154,859	955,831
Increase in Working Capital	884,670	394,003
Working Capital (Deficiency) - Beginning of Year	341,927	(52,076)
Working Capital - End of Year	1,226,597	341,927
Represented by:		
Current assets	1,337,632	377,825
Current liabilities	111,035	35,898
Working Capital - End of Year	1,226,597	341,927

The accompanying notes are an integral part of these financial statements

Notes to the Consolidated Financial Statements

December 31, 1984

1. Nature of Operations

The company, directly and through joint ventures, is in the process of exploring its interest in resource properties and has not yet determined whether these properties contain reserves that are economically recoverable. The recoverability of amounts shown for these properties and their related deferred costs is dependent upon the existence of economically recoverable reserves, the ability of the company to obtain the necessary financing to complete their development, and upon future profitable production. In accordance with industry practice, the company's legal interest in its resource properties will be confirmed prior to commercial development.

the sole discretion of the company, are only recorded in the accounts at such time as the payments are made. Option payments received on account of options granted on the company's properties are credited to deferred costs at the time of receipt.

2. Significant Accounting Policies

(a) Deferred Costs

The Company capitalizes development costs and defers administration costs related to its resource properties. These costs will continue to be capitalized and deferred until resource production commences, at which time they will be amortized over the minimum estimated production life of the property. Should the properties be sold or deemed uneconomic, these costs will be written off at that time.

(c) Translation of Foreign Currency

The accounts of foreign operations are translated into Canadian dollars as follows: monetary items at the rate of exchange prevailing at the balance sheet date; non-monetary items, except those items which are carried at market value and are recorded at market value, are recorded at the historical exchange rate; and revenues and expenses at the rate at the time of translation during the year. Gains and losses arising on currency translations, except those arising on long-term monetary items with a fixed maturity date, are credited or charged to earnings.

(b) Option Agreements and Joint Ventures

Properties acquired under option agreements or joint ventures, whereby payments are made at

(d) Earnings per Share

Earnings per share have not been calculated as they are not considered meaningful at this stage of the company's operations.

(e) Basis of Consolidation

These consolidated financial statements include the accounts of the company's wholly owned subsidiary, Rea Petro Energy, Inc. of the State of Colorado, U.S.A.

3. Mineral Properties and Deferred Costs

	Balance Dec. 31, 1983	Exploration Costs	Administration Costs	Balance Dec. 31, 1984
	\$	\$	\$	\$
CANADA				
Adams Lake	61,000	46,760	25,583	133,343
BAR	—	225,169	119,486	344,655
Mt. Roach	318,365	2,038	893	321,296
Reakel	—	3,244	1,494	4,738
Red Hill	101,087	(19,117)	(9,139)	72,831
Tillicum	111,293	10,413	5,331	127,037
	591,745	268,507	143,648	1,003,900
UNITED STATES				
Bronco-Verdstone-Oakland	1,413,479	330,605	163,398	1,907,482
Brunswick Lode	495,469	530,676	291,757	1,317,902
Shasta County	12,424	2,561	1,657	16,642
	1,921,372	863,842	456,812	3,242,026
	2,513,117	1,132,349	600,460	4,245,926

Notes to the Consolidated Financial Statements (continued)

- (a) Adams Lake
Kamloops Mining Division, B.C.

By a letter agreement dated October 7, 1983, the company acquired 20 mineral claims which are burdened with a 5% net smelter royalty, in consideration for the payment of \$10,000 and the issuance of 20,000 shares of the company's stock. Under the agreement the company must also pay an additional \$40,000 and issue an additional 80,000 shares in installments prior to October 25, 1985. To date 60,000 shares have been issued for an aggregate ascribed value of \$168,600. On November 8, 1983, the company granted a working option to Corporation Falconbridge Copper (CFC) to acquire a 51% interest in the claims or a 100% interest subject to a 12½% net production royalty if Rea Gold Corporation (Rea Gold) chooses not to jointly develop the property with CFC. CFC acquired the working option by payment of \$100,000 and the requirement to make semi-annual payments of \$30,000 in addition to expending \$2,000,000 on exploration work prior to May 4, 1986. At that time CFC may acquire an undivided 51% interest in the claims upon a final payment of \$30,000. Should Rea Gold jointly develop these claims with CFC and at the same time be unable to meet its share of the financial obligations of the joint venture, CFC will finance or guarantee the company's financial obligations and repay itself from commercial production, or have the right of first refusal on additional equity financing by the company (notes 4(d) and 4(e)). CFC is currently conducting an active exploration program on the property.

- (b) BAR
Kamloops Mining Division, B.C.

The company entered into an agreement with Corporation Falconbridge Copper (CFC) to acquire a 45% interest in these claims by the advancement of \$1,000,000 towards development work on the property. Subsequent to the statement date the company intends to drop its interest in this property.

- (c) Mt. Roach
Kamloops Mining Division, B.C.

A 60% interest in eighteen mineral claims acquired for \$2,400 and the issuance of 150,000 common shares at an ascribed value of \$150,000. The company has a joint venture agreement with Yucana Resources Inc. to jointly develop this property, however, there is currently no active exploration being conducted on the property (note 11(a)).

- (d) Reakel
Nicola Mining Division, B.C.

Acquired by staking the Reakel #1 - #4 claims. The company is planning a small exploration program for the current year.

- (e) Red Hill
Kamloops Mining Division, B.C.

Eleven mineral claims known as the Add and Moly claims. On November 18, 1983, the company entered into an agreement with Selco Inc. (Selco) (the minerals division of BP Exploration Canada Ltd.) under which Selco will pay to the company \$125,000 in option payments and spend \$1,500,000 on exploration work over the next five years for Selco to earn a 51% interest in these properties. To date the company has received \$35,000 in option payments from Selco. After Selco has spent the required \$1,500,000 on the exploration program, all subsequent expenditures that Selco incurs up to the time that Selco makes a decision to put the property into production, are the sole responsibility of Selco. Should Selco decide to put the property into production, Selco may acquire an additional 19% interest in the property by paying to the company an additional \$2,000,000. The company can elect to jointly develop the property with Selco to the extent of the interest that is available or forfeit its interest except for a 10% net production royalty which would be based solely on the interest that Selco has. Selco is currently conducting an active exploration program on the property.

- (f) Tillicum Property
Slocan Mining Division, B.C.

The Sam, Skye and Afta mineral claims, which had been acquired by staking and the issuance of 70,000 shares at an ascribed value of \$66,500. The company is holding these properties for future development.

- (g) Bronco - Verdstone - Oakland
Sheep Tank Mining Division,
Yuma County, Arizona

(i) Bronco - Verdstone - Oakland
By a mining lease and option to purchase the company acquired a 90% interest in 3½ unpatented lode mining claims (Bronco, Bronco III, Oakland and Verdstone No. 1) comprising approximately 3,000 hectares. Advance royalties of U.S. \$8,000 per month or 10% of net smelter returns are

Notes to the Consolidated Financial Statements (continued)

payable monthly. The acquisition to the company of this royalty interest should the company elect to purchase it is U.S. \$3,500,000. The company has also agreed to perform U.S. 1,500,000 of exploration work on the property prior to December 31, 1985.

(ii) Big Deal Claims

An option to purchase seven unpatented lode mining claims for U.S. \$350,000 payable at 10% of net smelter returns or by an advance royalty of U.S. \$2,500 per month.

(iii) Surrounding Claims

A 100% interest in 320 unpatented lode mining claims surrounding the Bronco - Verdstone - Oak land and Big Deal Claims. Approximately 70% of these claims are subject to a 10% net profit royalty.

(iv) The company has entered into a joint venture agreement with Lincoln Resources Inc. (Lincoln), in which Lincoln acquired 51% of the company's interest in these properties. On November 20, 1984 the companies entered into a dilution agreement under which the interest of a non-contributing partner would be reduced by a specific formula. On that date Lincoln reduced its interest to 50%. Lincoln is a public company whose shares are listed for trading on the Vancouver Stock Exchange (note 11(b)).

(h) Brunswick Lode

Comstock Mining Division
Storey County, Nevada

By an agreement dated September 14, 1983 the company entered into a five year mining lease and an option to purchase eight unpatented mineral claims, HOM #8 - #12 and ERA #1 - #3, in consideration for a payment of U.S. \$17,000, the payment of an advance royalty of U.S. \$10,000 and the issuance of 240,000 common shares of the company. These shares have all been issued at an aggregate ascribed value of \$464,400. A condition of this lease is that the company must have spent a total of U.S. \$260,000 on exploration work on the property and have paid minimum advance royalties of U.S. \$5,000 due every three months or paid a production royalty of 5% to 8% of gross production prior to June 30, 1988.

To renew the lease the company must have paid royalties aggregating U.S. \$500,000 as of the date of renewal. The purchase price of the property prior to June 30, 1988 is U.S. \$5,000,000, with a retained 2½% production royalty to the vendors. The company may renew the lease for a second and third term at rates which are double those of the preceding terms. The company has staked additional surrounding claims known as the RGC #1 - #12. The company also acquired two additional claims located on the Brunswick Lode known as the Chollar, Potosi by an agreement dated June 27, 1984. This lease is for five years and thereafter as long as commercial production is maintained. An advanced royalty of U.S. \$28,000 was paid upon execution of the agreement and then minimum annual advance royalties of U.S. \$30,000 in the first year and then increasing to U.S. 35,000, U.S. \$40,000 and U.S. \$50,000 due on each of the following anniversary dates of the agreement. The advance royalties are credited against a 6% net smelter returns production royalty, which is to be a minimum of U.S. \$50,000 per year commencing June 27, 1988. The company is also committed to an expenditure of U.S. \$25,000 per year on exploration and mining work on the property.

The company is currently reviewing its participation in these leases.

(i) Shasta County,
Redding, California

The company acquired by staking, the Yellow Boy Nos. 1 - 17, and Sister Chamis #1 - 12 claims.

(j) Bellavista Montezuma
Operating agreement

The company has entered into an operating agreement with Midland Energy Corporation and Westlake Resources Inc. whereby it has become the operator for a joint venture between the two companies on a mining property located in the Miramar area, Puntarenas, Costa Rica. Rea Gold Corporation will receive a fee of 10% of exploration costs, 1% of capital costs and once production commences, 5% of all operating costs.

Notes to the Consolidated Financial Statements (continued)

4. Capital Stock

(a) Authorized - 25,000,000 common shares without par value

(b) Issued and outstanding —

	Number of Shares	\$
Issued and outstanding at December 31, 1983	3,741,488	2,855,917
Issued during the year ended		
— for cash by a rights offering at \$2.00 per share	1,262,830	2,525,660
— Adams Lake acquisition agreement (note 3(a))	40,000	68,600
— acquisition of Brunswick Lode property (note 3(h))	120,000	234,000
— issued to a director of com- pany in consideration for a personal guarantee given by him	5,000	5,500
— exercise of directors' and employees' stock options	197,512	270,809
— exercise of a share pur- chase warrant	79,000	118,500
	1,704,342	3,223,069
	5,445,830	6,078,986
Less shares acquired and held at cost (note 10)	(250,000)	(362,500)
Issued and outstanding at December 31, 1984	5,195,830	5,716,486

(c) Stock options are outstanding to employees and directors of the company as follows: 4,000 shares exercisable at \$2.67 per share prior to January 17, 1985, which were subsequently not exercised; 165,000 shares exercisable at \$2.30 per share prior to April 19, 1986; and 280,000 shares exercisable at \$2.39 per share prior to April 17, 1986.

(d) Under the terms of the option agreement (note 3(a)), the company has granted Corporation Falconbridge Copper (CFC) an option to purchase shares in the company as follows; 1,000,000 shares at \$5 per share prior to July 4, 1985; 1,000,000 shares at \$8 per share prior to May 4, 1986; and 1,000,000 shares at \$10 per share prior to November 4, 1986. CFC has a continuing option to acquire additional shares of the company at the terms and prices stated above, should the company issue shares other than those pursuant to these options

and as stated in note 4(e) in order for CFC to maintain its proportionate 50.6% equity interest in the company. Should CFC choose not to exercise an option, then its continuing option share is reduced accordingly.

(e) By an agreement dated November 8, 1983, Corporation Falconbridge Copper (CFC) has been granted an option to purchase 30,000 shares at a price of \$1.00 per share for each 20,000 shares not issued under note 3(a) up to a maximum of 150,000 shares. This option is reduced by 30,000 shares for each 20,000 shares issued under note 3(a), of which at the statement date 60,000 of the 100,000 shares have been issued. This option indemnifies CFC if the company fails to issue the shares required to acquire the Adams Lake property and CFC has to satisfy the company's obligations under that agreement in order to protect its own interest.

(f) Of the company's issued share capital, 510,000 shares are held in escrow and may not be traded prior to receiving regulatory approval from the Vancouver Stock Exchange and the Superintendent of Brokers for British Columbia.

5. Advances Receivable

The company has advanced funds to the following: the Bronco - Verdstone - Oakland joint venture, \$50,997 (note 3(g)); Yucana Resources Inc. \$46,893 for joint exploration costs which are to be repaid to Rea Gold Corporation by the issuance of 93,786 common shares of Yucana Resources Inc. (note 3(c)); and from other related companies \$16,052 for administration costs. The company is also owed \$78,753 from Midland Energy Corporation and Westlake Resources Inc. for funds expended as the operator of the Bellavista Montezuma joint venture (note 3(j)).

6. Petroleum Interest

By a letter agreement dated March 14, 1984, the company acquired a 50% working interest (37.5% net revenue interest) in the Anderson #1 well located in Nobel County, Oklahoma, U.S.A. The well has been tested in two zones, however neither of the two zones appears to be commercially promising, however the operator is planning to test a third zone.

7. Commitment

A five year office lease commitment under which the company must pay \$34,958 per annum to January 1, 1989.

Notes to the Consolidated Financial Statements (continued)

8. Fixed Assets

	1984		1983	
	Cost \$	Accumulated Depreciation \$	Total \$	Total \$
Office furniture and leasehold improvements	37,915	4,555	33,360	873
Computer equipment	20,400	3,060	17,340	—
Machinery and equipment	128,087	19,213	108,874	—
	<u>186,402</u>	<u>26,828</u>	<u>159,574</u>	<u>873</u>

The company records depreciation on office furniture at a rate of 20% of the declining balance, computer equipment at a rate of 30% of the declining balance, and leasehold improvements on a straight line basis over 10 years. Machinery and equipment which is comprised of a truck and a Longyear Super 38 diamond drilling rig is depreciated at a rate of 30% of the declining balance.

9. Note Receivable

A promissory note for \$12,000 which was issued by a former director of the company upon the exercise of his director's stock option. This note is overdue and the company is considering action to enforce payment.

The company holds 250,000 of its own shares which it acquired in a private transaction from Lincoln Resources Inc. The company may sell up to 25,000 of these shares each month without requiring regulatory approval.

10. Marketable Securities

The company acquired the following marketable securities and records them at cost. All of the securities of these companies are trading on the Vancouver Stock Exchange.

	Market Value \$	Cost \$
Enfield Resources Inc.	130,000	56,000
Westlake Resources Inc.	11,250	7,500
Midland Energy Corp.	270,250	166,750
	<u>411,500</u>	<u>230,250</u>

11. Related Party Transactions

(a) Directors and officers of the company received \$74,691 for salaries and consulting fees and a private company controlled by the president of Rea Gold Corporation received \$36,000 in management fees.

(b) The following companies have one or more directors in common with Rea Gold Corporation; Yucana Resources Inc., Midland Energy Corp. and Lincoln Resources Inc.

12. Conditional Sales Agreement

The company has acquired a telephone system which is financed by a conditional sales agreement.

REA GOLD CORPORATION

Corporate Structure

Directors and Officers

Larry W. Reaugh
President and Director

Elizabeth J. MacLean
Director and Secretary

Hugh E. Mackenzie
Director

John M. Ashton
Director

Ralph Monroe
Director

Head Office

P.O. Box 12137
Nelson Square
808 Nelson Street
Suite 501
Vancouver, B.C.
V6Z 2H2

Registered & Record Office

720 - 999 W. Hastings Street
Vancouver, B.C.
V6C 2W2

Solicitors

Hanna, Forth & Scott
720 - 999 W. Hastings Street
Vancouver, B.C.
V6C 2W2

Public Relations

Financial Relations Board Inc.
Chicago, Illinois,
U.S.A.

Auditors

Lohn & Company
200 - 837 Homer Street,
Vancouver, B.C.
V6B 2W2

Registrar & Transfer Agent

Canada Permanent Trust Company
701 West Georgia Street
Vancouver, B.C.
V7Y 1E2

Bank

Royal Bank of Canada
Howe & Nelson
Vancouver, B.C.
V6Z 1N9

Shares Listed

Vancouver Stock Exchange
Toronto Stock Exchange,
NASDAQ, U.S.A.

Capitalization

Authorized: 25,000,000 shares without par value
Issued: 5,195,830 common shares at December 31,
1984.

Consultants

J.D. (Doug) Blanchflower, F.G.A.C. of
Minorex Consulting Ltd.
Senior Consultant to Rea Gold Corporation

Spirex Geoservices Ltd.
Ralph Shearing, B.Sc. Geology

Maurice E. (Tim) Coates
M.Sc. Geology
M.B.A.
Project Manager
Costa Rica