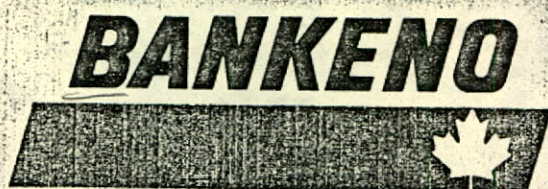


BANKENO MINES LIMITED



1979 ANNUAL REPORT

BANKENO MINES LIMITED

BANKENO

REPORT TO THE SHAREHOLDERS

It is with a great deal of pleasure that I am able to report that development of the Polaris zinc-lead mine on Little Cornwallis Island will proceed immediately with production expected to commence early in 1982. The start-up of this project is of significant importance to your company, and marks the dawn of a new era of activity.

To facilitate development of the ore deposit, we have entered into a new agreement with Cominco. In summary, the agreement calls for Bankeno to exchange its 25% equity interest in Arvik Mines Ltd. for:

- (a) \$5,000,000 cash
- (b) \$3,000,000 interest free-loan, repayable 4 months after completion and start-up of the mine, concentrating plant and other infrastructure or on December 31, 1982 whichever is the later.
- (c) an option, exercisable up to 3 months after completion and start-up of the mine, concentrating plant and other infrastructure, to purchase a 25% royalty interest in the total net proceeds of production of the mine and any extensions thereof, for a price of \$7,500,000. Upon exercise of our royalty option, the \$3,000,000 loan mentioned in (b) above, and any interest, calculated from the production decision date, shall be repayable out of Bankeno's initial royalty payments, provided always that if any part of the said loan together with any unpaid interest remaining outstanding on December 31, 1995, then the balance so outstanding shall become due and payable on that date.

This new agreement gives a number of benefits to Bankeno. It provides for the payment of \$8,000,000 to Bankeno and the subsequent use of these funds until the mine, concentrating plant and other infrastructure are in commercial production. Thereafter, Bankeno intends to exercise its royalty option enabling it to receive 25% of the total net proceeds of production of the mine and any addition to it. This royalty agreement option has been structured to provide Bankeno with essentially the same income benefits from the 'Polaris Mine' as we would have received under the original 1971 Arvik Agreement plus the immediate receipt of \$8,000,000. The receipts will enable Bankeno to repay its outstanding liabilities of approximately \$2,000,000 and provide approximately \$6,000,000 of working capital to aggressively pursue future opportunities over the next two years.


Your Board of Directors and Management are of the opinion that this agreement with Cominco is very beneficial to Bankeno and in the best interest of its shareholders. The agreement requires approval by the shareholders of Bankeno and we strongly recommend your support of it.

Bankeno's interest in PanArctic Oils Ltd. remained at 1.74% throughout 1979. Rapidly rising wellhead prices of natural gas and the tightening energy supply situation are combining to re-focus attention on Arctic frontier exploration. Recent exploration success has raised PanArctic's hopes that threshold reserves of 25 trillion cubic feet of recoverable gas, necessary to commence commercial development work, will be in hand by late 1980. A discovery gas well known as Whitefish, drilled offshore Melville Island, penetrated a significant gas reservoir with potential for up to 10 trillion cubic feet. Follow-up wells are planned for winter 1980 drilling to test deeper gas prone zones and promising offset formations. With the prospects of commercial viable threshold reserves, we are optimistic that the decade of the 80's will see delivery of Arctic gas to the tight energy markets of the south.

During the year, Mr. John W. Killick retired from the Board after serving as a Director of the Company for the past 1 1/2 years. His advice and counsel will be missed.

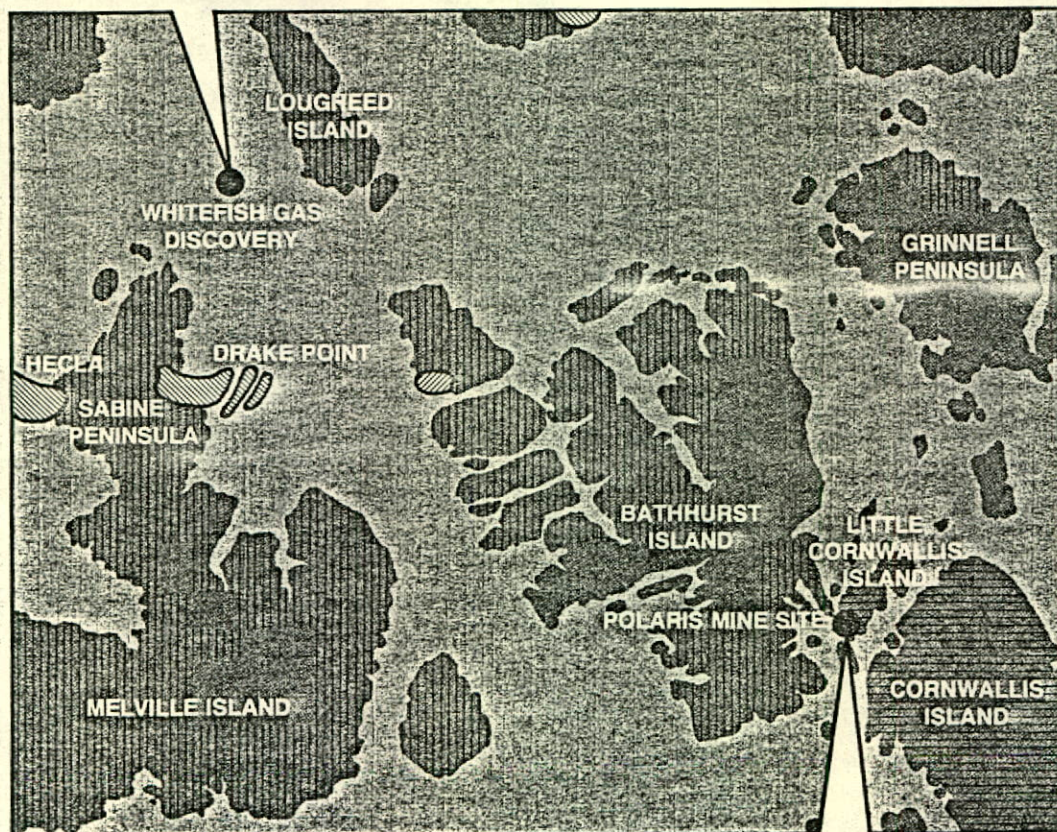
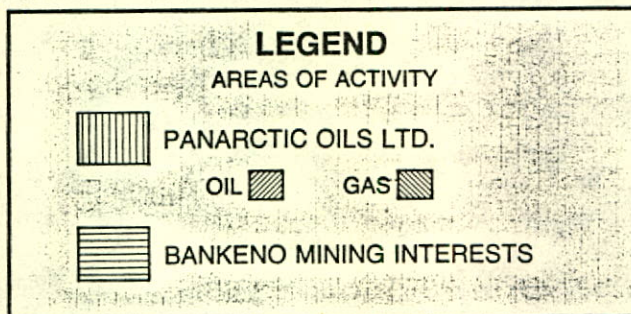
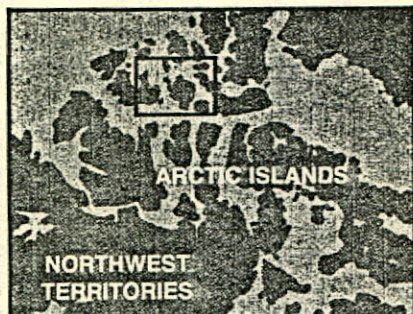
At this time we wish to express our thanks to the shareholders of the Company for their patience and support over the past years.

On Behalf of the Board



Robert G. Brawn
President

November 9th, 1979
Calgary, Alberta



BANKENO MINES LIMITED

BANKENO

(Incorporated Under the Laws of Alberta)

BALANCE SHEET AS AT SEPTEMBER 30, 1979

(with prior year's figures for comparison)

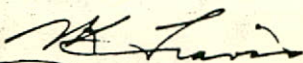
ASSETS		1979	1978
CURRENT ASSET:			
Cash	\$	1,646	\$ —
Total current asset		1,646	—
INVESTMENTS — at cost:			
Panarctic Oils Ltd. (Notes 2 and 5)		2,776,456	2,776,456
Arvik Mines Ltd. (Notes 3, 5 and 10)		25,487	25,487
Other (quoted market value 1979 — \$51,750; 1978 — \$19,200)		8,489	8,489
Total investments		2,810,432	2,810,432
OIL AND GAS PERMITS — at cost (Notes 4 and 5)		36,753	36,753
MINING LEASES — at nominal value		1	1
DEFERRED EXPENDITURES — at cost (Note 5):			
Exploration and development		264,065	254,769
Administration		1,885,695	1,566,742
Total deferred expenditures		2,149,760	1,821,511
TOTAL		\$4,998,592	\$4,668,697


The accompanying notes are an integral part of the financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	<u>1979</u>	<u>1978</u>
CURRENT LIABILITIES:		
Bank loan (Note 6)	\$1,500,000	\$1,513,779
Accounts payable and accrued liabilities	42,058	14,850
Due to affiliated company (Note 7)	432,659	116,193
Total current liabilities	<u>1,974,717</u>	<u>1,644,822</u>
SHAREHOLDERS' EQUITY:		
Share Capital (Note 8):		
Authorized:		
250,000 Class A Preferred Shares		
with a par value of \$20 each;		
6,000,000 common shares with a		
par value of \$1 each.		
Issued and fully paid:		
4,097,004 common shares	4,097,004	4,097,004
Deduct discount less premiums	34,811	34,811
	4,062,193	4,062,193
Deficit (unchanged during year)	1,038,318	1,038,318
Total shareholders' equity	<u>3,023,875</u>	<u>3,023,875</u>
TOTAL	<u><u>\$4,998,592</u></u>	<u><u>\$4,668,697</u></u>

Approved by the Board:

 Director

 Director

**STATEMENT OF DEFERRED ADMINISTRATION EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 1979**

(with prior year's figures for comparison)

	1979	1978
EXPENDITURES:		
Administrative fees	\$ 40,000	\$ 40,000
Interest and bank charges	222,852	153,250
Professional fees	37,222	6,992
Shareholders' reports	14,101	2,664
Transfer agent and listing fees	1,263	5,431
Travel	455	1,017
General	3,060	14,997
EXPENDITURES FOR THE YEAR	318,953	224,351
BALANCE AT BEGINNING OF THE YEAR	1,566,742	1,342,391
BALANCE AT END OF THE YEAR	<u>\$1,885,695</u>	<u>\$1,566,742</u>

**STATEMENT OF DEFERRED EXPLORATION AND
DEVELOPMENT EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 1979**

(with prior year's figures for comparison)

	1979	1978
EXPENDITURES FOR THE YEAR:		
Land lease fees	\$ 9,296	\$ —
BALANCE AT BEGINNING OF THE YEAR	254,769	254,769
BALANCE AT END OF THE YEAR	<u>\$ 264,065</u>	<u>\$ 254,769</u>

The accompanying notes are an integral
part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 1979

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Investments

Investments are carried at cost.

Deferred expenditures

Exploration and development and administration expenditures are deferred until such time as properties are brought into production, abandoned or sold. At such time the expenditures will be either depleted or written off accordingly.

2. INVESTMENT IN PANARCTIC OILS LTD.:

	1979	1978
829,111 common shares	\$2,737,623	\$2,737,623
23 common shares of Panarctic Oils Operators Ltd.	3	3
	2,737,626	2,737,626
Bankeno Mines Limited share of Panarctic Oils Ltd. capital expenditure program	6,330	6,330
Value assigned to share capital of Bankeno Mines Limited issued to Challenger International Services Ltd. (formerly Upper Canada Resources Limited) as consideration for guarantee of payments of initial investment in Panarctic Oils Ltd.	32,500	32,500
	<u>\$2,776,456</u>	<u>\$2,776,456</u>

Panarctic Oils Ltd. was formed to explore the oil and gas potential in the Arctic Islands. It is financed jointly by private enterprises and the Government of Canada.

3. INVESTMENT IN ARVIK MINES LTD.:

Little Cornwallis Island Properties:

By agreement dated October 1, 1971, Bankeno obtained 25% of the share capital (750,000 common shares) of Arvik Mines Ltd. which was incorporated by the company and Cominco Limited to acquire claims and leases on Little Cornwallis Island and two groups of claims on Cornwallis Island which Cominco had been exploring under the terms of a 1965 agreement between the companies.

Cominco has undertaken to incur all expenditures it deems necessary on these claims and Bankeno is not required or entitled to contribute thereto. Under the terms of the agreement, Cominco is to assume responsibility for arranging the required financing described in Note 10. Cominco's expenditures on the Arvik Mines Ltd. properties to December 31, 1978 amounted to approximately \$8,140,000.

Under the terms of a separate agreement of October 1, 1971, Cominco has a 75% interest in other Cornwallis Island properties and Bankeno has a 25% interest. As of December 31, 1978 Cominco had incurred expenditures of \$195,068 on these properties and is liable to spend a further \$4,932 up to \$200,000. If Bankeno is to retain its present percentage interest of 25%, it must contribute its proportionate share of expenditures on the next \$200,000 spent on these properties or its interest is diminished accordingly. When \$400,000 is spent on these properties a new company shall be formed to acquire these Cornwallis Island properties for 750,000 common shares to be allocated pro rata. Additional shares may be issued for expenditures with Bankeno retaining the right to participate in proportion to its interest.

4. OIL AND GAS PERMITS:

In addition to its shareholdings in Panarctic, the company has working and other interests in oil and gas exploratory permits in the Canadian Arctic Islands.

5. VALUE OF INVESTMENTS IN ARCTIC ISLANDS:

The amounts shown for investments, oil and gas permits and related deferred costs represent accumulated costs and are not intended to reflect current or future values.

6. BANK LOAN:

The company's bank loan bears interest at 1% above the bank's prime rate (13 $\frac{1}{2}$ % at September 30, 1979) and is secured by 829,111 shares of Panarctic Oils Ltd. owned by the company.

7. DUE TO AFFILIATED COMPANY:

The amount due to Challenger International Services Ltd., a principal shareholder, is secured by 750,000 common shares of Arvik Mines Ltd. The loan bears interest at bank prime rate plus 1% and is repayable on demand.

8. SHARE CAPITAL:

On March 21, 1979 the shareholders approved a resolution that the Authorized Capital of the company be increased from \$6,000,000 divided into 6,000,000 common shares with a nominal or par value of \$1 each to \$11,000,000 divided into 6,000,000 common shares with a nominal or par value of \$1 each and 250,000 Class A Preferred Shares with a nominal or par value of \$20 each.

9. INCOME TAXES:

Under the provisions of the Income Tax Act, exploration and development expenditures are deductible in arriving at taxable income; any expenditures not deducted in one year may be carried forward to be applied against future income. The company has approximately \$4,845,000 of expenditures so available, most of which is reflected on the accompanying balance sheet as investments and deferred expenditures. In addition, the company has losses for tax purposes of approximately \$70,000 which may be carried forward and applied to reduce future taxable income.

These losses expire as follows:

1980	\$5,000
1983	\$20,000
1984	\$45,000

10. SUBSEQUENT EVENT:

On October 18, 1979 the company executed an agreement, amended on November 9th, 1979, with Cominco Ltd., conditional upon shareholder approval and favorable income tax rulings, granting Cominco the option to purchase by December 31, 1979, Bankeno's 25% share holding in Arvik Mines Ltd. for \$5,000,000. If this option is exercised, Cominco will also loan Bankeno \$3,000,000 and grant Bankeno the option to purchase a royalty interest of 25% of the net proceeds of production from the first mine and any other mines on the Arvik properties for \$7,500,000. The royalty option is exercisable at any time not later than three months after the completion date of construction and start-up of the first mine on the Arvik properties.

The \$3,000,000 loan bears no interest and is repayable four months after the completion date mentioned above, or on December 31st, 1982 whichever is the later, unless Bankeno exercises the royalty option set out above, in which case the loan will bear interest at bank prime rate from the date of such exercise, and will be repayable, together with interest, out of the royalties receivable. Any balance of the loan outstanding at December 31, 1995 is payable in full on that date.

If the terms and conditions of this agreement are carried out, the agreement of October 1, 1971 between Cominco and Bankeno, insofar as it relates to the Arvik properties described in Note 3, will terminate.

11. OTHER STATUTORY INFORMATION:

The application of funds to deferred administration expenditures and deferred exploration and development expenditures are the only items which need appear on a statement of changes in financial position; consequently no such statement is provided.

At a Shareholders' meeting held on October 20, 1978, a motion was passed that the company be continued in Alberta as though it had been incorporated in that province. A certificate of continuation in Alberta was obtained January 30, 1979 and the company is now governed by The Companies Act, Alberta.

AUDITOR'S REPORT

To the Shareholders of
Bankeno Mines Limited:

We have examined the balance sheet of Bankeno Mines Limited as at September 30, 1979 and the statements of deferred administration expenditures and deferred exploration and development expenditures 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 financial statements present fairly the financial position of the company as at September 30, 1979 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

October 18, 1979,
except for note 10
as to which the date
is November 9th, 1979.

Calgary, Alberta

Deloitte Haskins & Sells

DELOITTE HASKINS & SELLS
Chartered Accountants

BANKENO MINES LIMITED

BANKENO

CORPORATE INFORMATION

DIRECTORS Robert G. Brawn, Calgary, Alberta
Eric Connelly, Calgary, Alberta
R. Michael Gray, Toronto, Ontario
Vance Kenneth Travis, Calgary, Alberta

OFFICERS Robert G. Brawn, *President*
Vance Kenneth Travis, *Vice-President*
R. Michael Gray, *Vice-President*
Frederick A. Youck, *Secretary*
William J. Muns, *Treasurer*

TRANSFER AGENTS Crown Trust Company
302 Bay Street
TORONTO, Ontario M5H 2P4

STOCK EXCHANGE Toronto Stock Exchange (Symbol BKE)

AUDITORS Deloitte Haskins & Sells
Calgary, Alberta

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BANKENO

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