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BANKENO MINES LIMITED

HOWARD ROSS LIBRARY
OF MANAGEMENT

JUL 13 1978

MCGILL UNIVERSITY

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BANKENO MINES LIMITED

REPORT TO THE SHAREHOLDERS

Accompanying this 1978 Annual Report and Financial Statement are Proxy, Notice and Information Circular in connection with the Annual Meeting of the Company to be held in Calgary on Wednesday, March 21, 1979, at 1:30 p.m. in the Mayfair Room at the Calgary Inn.

Bankeno's three areas of interest remain its 25% interest in Arvik Mines Limited, its 1.74% interest in Panarctic Oils Ltd. and its varying interests in approximately 2,854,963 gross acres in Arctic Island Oil & Gas permits.

PANARCTIC

During 1978, two equity financings, in which Bankeno did not participate, resulted in Bankeno's interest in Panarctic being decreased to 1.74% from 1.86%.

These financings have raised sufficient capital from Panarctic to cover the 1979 operating season and, as such, no additional equity financing is planned during 1979.

Panarctic drilled 7 exploratory wells and one off-shore development well during 1978. A recent announcement about a well drilled at Roche Point indicated a significant gas discovery. A well located off-shore the Sabine Peninsula in the Drake gas field area was successfully completed and tied into on-shore production facilities. This well was significant in that it established a procedure whereby under ice reserves could be produced and delivered to shore based facilities. Stokes range, an exploratory well in which Bankeno had a 3% carried working interest, was drilled to a total depth of 10,957 ft. in the Middle Ordovician Thumb Mountain formation. Drill stem testing of several prospective zones proved unsuccessful and as such, the well was plugged and abandoned.

Panarctic has budgeted expenditure of \$20,000,000 for the year 1979 with some \$11,000,000 to be expended on exploration drilling. The drilling program calls for 8 exploratory wells to be drilled both off-shore and on-shore a number of the Arctic Islands including Ellef Ringnes, Melville, West Loughheed and Banks.

ARVIK

The year 1978 brought no significant changes to the status of Arvik's Polaris Mine on Little Cornwallis Island in the Northwest Territories. However, we remain committed to working toward obtaining an early start commitment on the project, from Cominco, the project operators. Recent proposals to ship natural gas out of the Arctic Islands on a year round basis utilizing specially built Liquid Natural Gas

carries, would likely be of great benefit to the Polaris project. The ability to ship ore, in convoy with Natural Gas, year round, would greatly increase the viability of the project. Such potential development make us optimistic that early 1980 will see substantial activity on the Polaris orebody. Toward this end in late 1978 we initiated a new round of discussions with Cominco. These discussions are continuing currently, and we are hopeful that they will lead to commitment to start the project.

FINANCIAL

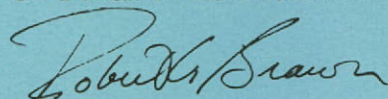
One of the problems Bankeno is currently living with is the existence of \$1,650,000 of debt with no cash flow to service this debt. A commitment to an early start of the Polaris Mine would go a long way towards alleviating this problem. However, due to the unpredictable nature of future cash flow, we are requesting that shareholders approve the creation of a new class of preferred shares to provide financing flexibility in dealing with the Company's debt obligations and future cash requirements.

As of January 1979, Bankeno was continued as an Alberta Company to coincide with its management and corporate office location in Calgary, Alberta.

In closing, I would like to express the Board's appreciation to Mr. John McBean who has recently given his notice of retirement from the Bankeno board. The McBean family was instrumental in the creation of Bankeno Mines Limited. To John and those of his family who came before him, we would like to express our thanks for all their hard work.

While we are sorry that we cannot report more satisfactory developments, we would like to thank those longstanding shareholders for their support and encouragement over the last few years.

On Behalf of the Board of Directors



Robert G. Brawn
President

BANKENO MINES LIMITED

STATEMENT OF DEFERRED ADMINISTRATION EXPENDITURES FOR THE YEAR ENDED SEPTEMBER 30, 1978

(with prior year's figures for comparison)

	1978	1977
EXPENDITURES:		
Administrative fees	\$ 40,000	\$ 40,000
Interest and bank charges	153,250	143,628
Legal and audit	6,992	19,535
Shareholders' reports	2,664	3,393
Transfer agent and listing fees	5,431	10,686
Travel	1,017	551
General	14,997	10,582
EXPENDITURES FOR THE YEAR	224,351	228,375
BALANCE AT BEGINNING OF THE YEAR	1,342,391	1,114,016
BALANCE AT END OF THE YEAR	<u>\$1,566,742</u>	<u>\$1,342,391</u>

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

AUDITORS REPORT

To the Shareholders of
Bankeno Mines Limited:

We have examined the balance sheet of Bankeno Mines Limited as at September 30, 1978 and the statement of deferred administration 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, 1978 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.

Financial statements as at, and for the year ended September 30, 1977, were examined by other chartered accountants, whose report expressed an unqualified opinion on these statements.

January 30, 1979
Calgary, Alberta

Deloitte, Haskins & Sells

Chartered Accountants

BANKENO MINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 1978

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.

2. INVESTMENT IN PANARCTIC OILS LTD.:

	1978	1977
829,111 common shares.....	\$2,737,623	\$2,737,623
23 common shares of Panarctic Oils Operators Ltd.	3	3
	<u>2,737,626</u>	<u>2,737,626</u>
Bankeno Mines Limited share of Panarctic Oils Ltd. capital expenditure program	6,330	6,330
Value assigned to capital stock of Bankeno Mines Limited issued to Challenger In- ternational Services Ltd. (formerly Upper Canada Resources Limited) as consider- ation 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 and may receive 6% cumulative redeemable preferred shares for its expenditures. Cominco's expenditures on the Arvik Mines Ltd. properties to December 31, 1977 amounted to approximately \$8,076,000. Bankeno may similarly receive 6% cumulative redeemable preferred shares for its expenditures, aggregating \$75,000, incurred prior to June 4, 1964.

Distribution of any profits to the Arvik shareholders after payment of production financing shall be as follows:

- a) 80% towards payment of dividends (including arrears) on the preferred shares and the balance in pro rata redemption, at par, of the preferred shares; and
- b) 20% towards payment of dividends on common shares.

Under the terms of the 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, 1977 Cominco had incurred expenditures of \$189,614 on these properties and is liable to spend a further \$10,386 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 in excess of \$400,000 in the ratio of one share for each \$1 of expenditure 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.

BANKENO MINES LIMITED

6. **BANK LOAN AND OVERDRAFT:**

The company's bank loan totals \$1,500,000, bears interest at 1% above the bank's prime rate, (11 1/4 % at September 30, 1978) and is secured by 829,111 shares of Panarctic Oils Ltd. owned by the company.

7. **INCOME TAXES:**

Under the provision 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 \$4,590,000 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 \$53,038 which may be carried forward and applied to reduce future taxable income.

The availability of these losses expires as follows:

1979	\$47,905
1980	<u>5,133</u>
	<u>\$53,038</u>

8. **OTHER STATUTORY INFORMATION:**

Remuneration of \$5,426 was paid to directors and senior officers during the year.

The application of funds to deferred administration expenditures is the only item which need appear on a statement of source and application of funds; 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. As the company has filed for continuation in Alberta pursuant to this motion, the company is now governed by The Companies Act, Alberta.

DIRECTORS	Robert G. Brawn, Calgary, Alberta Eric C. Connelly, Calgary, Alberta R. Michael Gray, Toronto, Ontario John W. Killick, Calgary, Alberta Vance Kenneth Travis, Calgary, Alberta
OFFICERS	Vance Kenneth Travis, <i>Chairman of the Board</i> Robert G. Brawn, <i>President</i> R. Michael Gray, <i>Vice-President</i> Frederick A. Youck, <i>Secretary</i> William J. Muns, <i>Treasurer</i>
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
HEAD OFFICE	Third Floor, 1019 - 7th Avenue S.W. Calgary, Alberta T2P 1A8
COUNSEL	Harradence Moore Calgary, Alberta
BANK	Royal Bank of Canada Calgary, Alberta

