

COVER PHOTO

The Polaris zinc/lead mine is a most impressive monument to the men who first envisioned it over 20 years ago; men who were instrumental in the creation of Bankeno. It is the most northerly metal mine in the world, lying on the western tip of Little Cornwallis Island, N.W.T., at latitude 76 north and longitude 97 west, only 900 miles (1 448 km) from the North Pole and some 60 miles (97 km) from the ever moving Magnetic North Pole. Bankeno holds a 25% interest in the net proceeds of production from the mine, which delivers first shiploads of concentrate to market in August, 1982.

SHAREHOLDERS' MEETING

The Annual General Meeting of Shareholders of Bankeno Mines Limited will be held Tuesday, June 29, 1982 at 3 p.m. in the Holiday Inn Downtown, Main Ballroom, 708 - 8th Avenue Southwest, Calgary, Alberta, Canada.

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TO THE SHAREHOLDERS

Significant developments have occurred for Bankeno subsequent to year end, 1981, which have greatly enhanced the future and size of the Company. The developments have transformed Bankeno from a public holding company into a substantial independent and active resource company, with a strong asset base and a relatively low debt position. The Company is now involved in oil and gas exploration and production, has extensive petroleum reserves and land holdings in Canada's western provinces, the Canadian Arctic and in the United States, has a substantial investment in one of the world's richest zinc/lead mines and holds interests in Arctic oil and gas exploration.

POLARIS MINE

Cominco Ltd.'s now completed Polaris zinc/lead mine on Little Cornwallis Island in the Canadian Arctic Islands was successfully started up around year end and achieved commercial production levels in February, 1982. In March, 1982, Bankeno exercised its previously held option and acquired a 25% interest in the net proceeds of production from the Polaris mine and from any future

mines on Little Cornwallis Island, for the price of \$7.3 million.

PANARCTIC OILS

Another Arctic investment is Panarctic Oils Ltd., in which Bankeno holds a 1.57% interest. Panarctic, an industry/government consortium, is owned more than 50% by the Government of Canada through Petro-Canada. Panarctic explores for oil and natural gas in the Canadian Arctic Islands and to date has discovered, for itself and its partners, natural gas reserves of 513 billion cubic metres (18.2 trillion cubic feet) and recoverable crude oil reserves of 119 250 thousand cubic metres (750 million barrels).

Panarctic's gross permits at December 31, 1981 in the Arctic Islands covered 14 434 338 hectares (35,640,343 acres), with net permits of 5 788 401 hectares (14,292,348 acres). Panarctic had another good year of exploration, not only making further natural gas discoveries, but establishing that significant crude oil exists in company permit lands. The company is actively pursuing various technological methods for the delivery of commercial natural gas and crude oil from the Arctic. Progress is also being made on plans for the first production of natural gas by 1986.

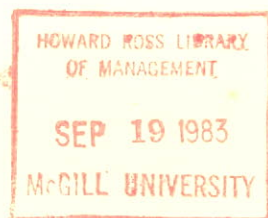
OTHER ARCTIC OIL AND GAS INTERESTS

Bankeno Mines also holds working interests in various oil and gas properties in the Canadian Arctic, in addition to its interest in Panarctic Oils. (See Operations). Development of these areas will largely depend on the outcome of negotiations now underway between Panarctic and the Federal Government's Canadian Oil and Gas Land Administration, with respect to the conversion of current oil and gas permits to new Exploration Agreements by September, 1982.

OIL AND GAS ACQUISITIONS

Bankeno's most significant development to date occurred on January 26, 1982, when the Company made an offer to acquire all the outstanding shares of Merland Explorations Limited, a Calgary based oil and gas exploration and producing company whose gross sales in 1981 were \$55.7 million. The majority interest in Merland was held at that time by Turbo Resources Limited, the majority shareholder of Bankeno Mines.

The offer was completed on March 17, 1982, following a series of hearings before the Ontario



Securities Commission and the Ontario Supreme Court. Of the 20.2 million outstanding common shares of Merland, 55½% were tendered to Bankeno's offer. Of the 1.3 million outstanding Merland preferred shares, 4.3% were tendered. Included in the Merland shares tendered were 10,074,687 common shares held by Turbo and its subsidiaries. Bankeno now holds 11,204,974 common shares and 56,030 preferred shares of Merland.

Bankeno's final offer to Merland shareholders, which was aided by Turbo, involved the issuance of a tradeable "unit" which consisted of 1.4 Bankeno common shares and one warrant to purchase one Bankeno common share. Turbo provided .1 Bankeno common shares toward each "unit" and Bankeno provided the other 1.3 Bankeno common shares. The warrant included in the "unit" can be exercised at a price of \$9.00 per warrant for the period up to March 17, 1986. Each warrant provides the holder with the option to require Turbo to purchase such warrant at a price of \$3.50 each, during a 30 day period, or such longer period as

may be permitted by Turbo, commencing March 17, 1983. The two components of each "unit" can be separated for trading on and after July 16, 1982.

Following the close of the offer to Merland, one Bankeno common share purchase warrant was issued for each Bankeno common share held by Bankeno shareholders as of the record date of February 16, 1982. A total of 4,097,004 Bankeno common share purchase warrants were issued under the action. The warrants were posted for trading on the Alberta, Montreal and Toronto Stock Exchanges, March 19, 1982. These warrants are identical to the warrants included in the Bankeno "unit" except these were tradeable immediately, whereas those in the "unit" must remain part of the "unit" until July 16, 1982.

Under separate agreements signed with Turbo at year end and enacted following the completion of the Merland offer, Bankeno acquired virtually all of the Canadian and substantially all of the U.S. oil and gas assets of Turbo, through the acquisition of two Turbo subsidiaries, Merbank Resources Ltd. (renamed Bankeno Resources Ltd.), an Alberta company, and Leaside Resources, Inc., a Texas company.

The assets were appraised by independent consultants at \$93.4 million and were acquired using a share exchange. Approximately 9.34 million Bankeno common shares were issued to Turbo on the purchase.

Further descriptions of these assets and those of Merland Explorations are contained in the Operations section of this report.

OUTLOOK

Bankeno's substantial assets and the capable personnel in its subsidiaries provide the Company with exceptional opportunities for future growth. Bankeno has significant ability to generate earnings, particularly considering the Merland area gas sales contracts in Alberta, and the Company's substantial oil and gas land position and mining interests. The Company should qualify for the highest Canadian government incentives for resource exploration.

The Board extends a welcome to all new shareholders and wishes to extend their thanks for the support received from previous shareholders for their patience and trust.



R. G. Brawn
President



V. K. Travis
Chairman of the Board

OPERATIONS — MINING AND INVESTMENTS

POLARIS MINE

One of Bankeno's historic assets has been mineral and oil and gas rights in the Canadian Arctic. (See map of Arctic Islands). Of particular note were its mineral rights on Little Cornwallis Island and Cornwallis Island. Mineralization was discovered on Little Cornwallis Island in 1960 by Bankeno, while a group of petroleum geologists were mapping oil permits for Bankeno. Following the discovery of the Polaris ore body in 1971, Bankeno and Cominco Ltd. formed Arvik Mines Limited to explore and develop this deposit and other properties on Little Cornwallis Island.

In 1979, Cominco purchased Bankeno's 25% equity interest in Arvik and by a later agreement in the same year, Bankeno obtained the option to purchase a 25% interest in the net proceeds of production from the first mine and any other future mines developed on Little Cornwallis Island.

By the end of 1981, Cominco completed construction of what is now one of the richest zinc/lead mines, and the most northerly

metal mine in the world. Polaris, as the new mine is named, cost \$162.3 million to develop, and was financed by Cominco.

Construction of the mine utilized some unusual techniques, particularly in the construction of the mill, concentrator and other processing facilities, which were built on a large barge on the St. Lawrence River in 1981, and towed 4,800 kilometres (2983 miles) through the Atlantic and Arctic seas to its permanent home at the mine site on Little Cornwallis Island. Exceptional facilities for mine employees were constructed providing accommodation and other amenities in a very barren part of the world.

Following the mine's achievement of commercial production levels in February, 1982, Bankeno exercised its option and acquired its 25% interest for \$7.3 million.

Annual production from the mine is expected to be 187 000 tonnes of zinc concentrate and 42 000 tonnes of lead concentrate. Due to the northerly location of the Polaris Mine, transportation of the concentrate

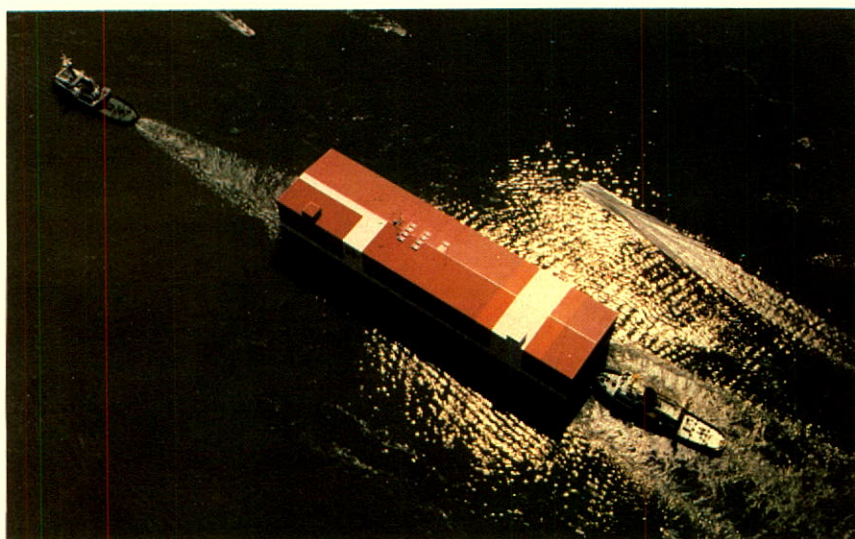
will occur during the Arctic summer, when shipping lanes are relatively ice free. Concentrate will be stockpiled awaiting shipment to market in a giant storage facility with a 12 month capacity.

First shipments of concentrate will take place in August, 1982. Sales contracts are in place for the first three years of production. The concentrates will be transported to Eastern North American and European based smelters. Reserves will support capacity production for a minimum 25 year period, with recoverable metal estimated at 18.4 million combined tonnes of 14.1% zinc and 4.3% lead on average.

PANARCTIC OILS LTD.

Panarctic Oils Ltd. reached its fourteenth year in 1981. The company, in which Bankeno holds a 1.57% interest and is represented on its Board of Directors, has made significant contributions to resource exploration in Canada's Arctic Islands, and particularly in the development of new exploration and development technology in

Arvik II, the barge-mounted processing plant for the Polaris Mine, begins its long voyage to Little Cornwallis Island in the Canadian High Arctic.



Panarctic Oils' Cisco discovery oil well during drilling in the Canadian Arctic Islands.



the North. Although commercial production of discovered natural gas and crude oil remains yet to be achieved, it is clear that the substantial discoveries made to date will someday contribute in a real way, not only to the balance sheet and earnings statement of Bankeno and its partners in this unique company, but also to energy self-sufficiency in Canada.

As shown on the Arctic Island map, the Sverdrup Basin has a high grade area in which most of Panarctic's work has been undertaken, both onshore and off. Gross land holdings at year end totalled 14.4 million permit hectares with Panarctic's interest totalling 5.8 million net permit hectares.

Panarctic's 1981 drilling program concentrated on five wells. Three offshore wells, Skate B-80, Maclean I-72 and Cisco C-42, were all dual oil and gas discovery wells. Two onshore wells, Hoodoo N-52 and West

Benthorn G-02 turned out to be dry and were abandoned. Wells drilled in 1982 to date include the successful step out well, Cisco C-42, two dry and abandoned wells, Whitefish P-25 and Cape Mamen F-24, and the recently completed and tested gas well Sculpin K-08, which yielded gas at a flow rate of 213 000 cubic metres (7.5 MMcf) per day. This latter well is the most northerly of all the wells drilled to date by Panarctic and is not far from the 1981 Skate B-80 dual oil and gas discovery well.

Panarctic operates three drilling rigs of its own in the Arctic and by the end of 1982 will be utilizing a total of five rigs in the North. One rig will have a depth capacity of 24,000 feet and will be used to penetrate deeper zones than have been explored to date.

OTHER ARCTIC OIL AND GAS INTERESTS

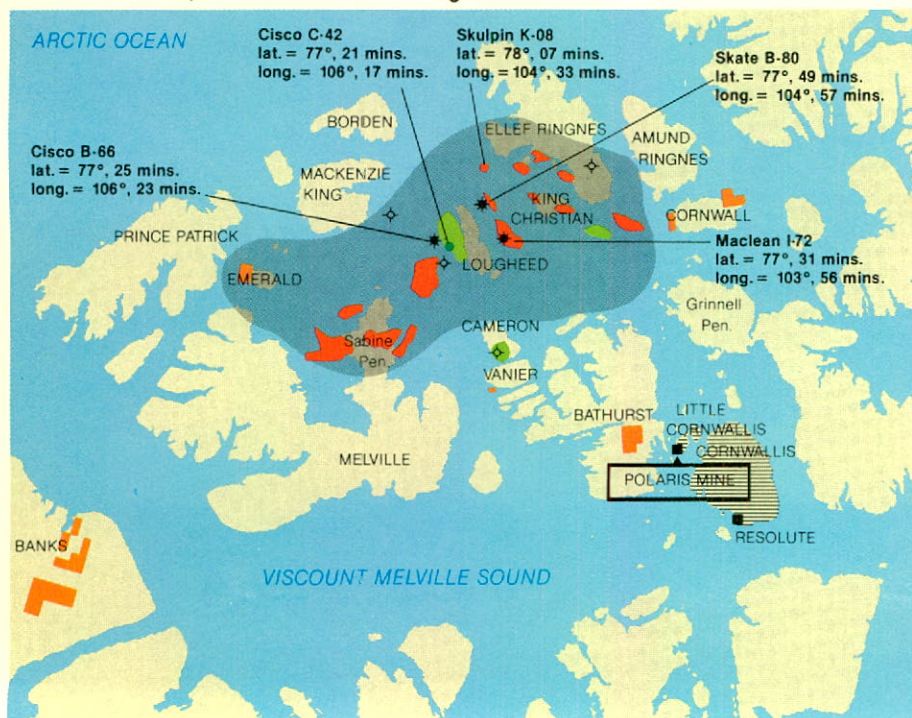
Bankeno Mines holds various oil and gas interests in the Arctic,

in addition to its interest in Panarctic Oils Ltd. (See Arctic Islands map). Under the Federal Governments recently enacted Canada Oil and Gas Act, these existing oil and gas permits must be converted into new Exploration Agreements.

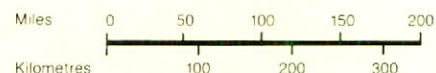
Panarctic Oils, which operates all of Bankeno's joint lands, is currently negotiating the new agreements with the Federal Government's Canada Oil and Gas Lands Administration. Each agreement carries with it a specific minimum work program including environmental studies, seismic work and drilling. Development of these interests will depend on the results of the negotiations, together with the views of Bankeno's partners in the interests and Panarctic's recommendations. Deadline for the finalization of the new agreements is September, 1982.

Arctic Islands Oil, Gas and Mineral Holdings

March 1982



- Oil field
- Gas field
- 1982 Oil Well
- 1982 Gas Well
- ★ 1981 Dual Oil and Gas Well
- ◇ Dry and Abandoned
- Highgrade Area of Western Sverdrup Basin
- Bankeno Oil and Gas Permits
- Bankeno Mining Interests



Bankeno Mines Arctic Oil and Gas Interests

In hectares Area	Gross	Working Interest	Net
Emerald Island	23 692	10.00%	2 369
Cornwall Island	44 347	10.00%	4 435
Bathurst Island	51 840	.98%	510
Vanier Island	6 277	11.00%	688
Banks Island	205 659	10.00%	20 566

OPERATIONS — OIL AND GAS

Bankeno's new role as an active oil and gas explorer is in the process of being re-organized following the company's acquisition of controlling interest in Merland Explorations Limited and the acquisition of two Turbo subsidiaries who own most of the oil and gas assets of Turbo. In order to keep a perspective on these new assets and since they are currently operating as separate entities, the following report is provided in two sections for ease of understanding — the oil and gas operations of Turbo which were acquired by Bankeno, Bankeno Resources Ltd. (formerly Merbank Resources Ltd.) and Leaside Resources, Inc., and the operations of Merland Explorations Limited.

BANKENO RESOURCES AND LEASIDE RESOURCES

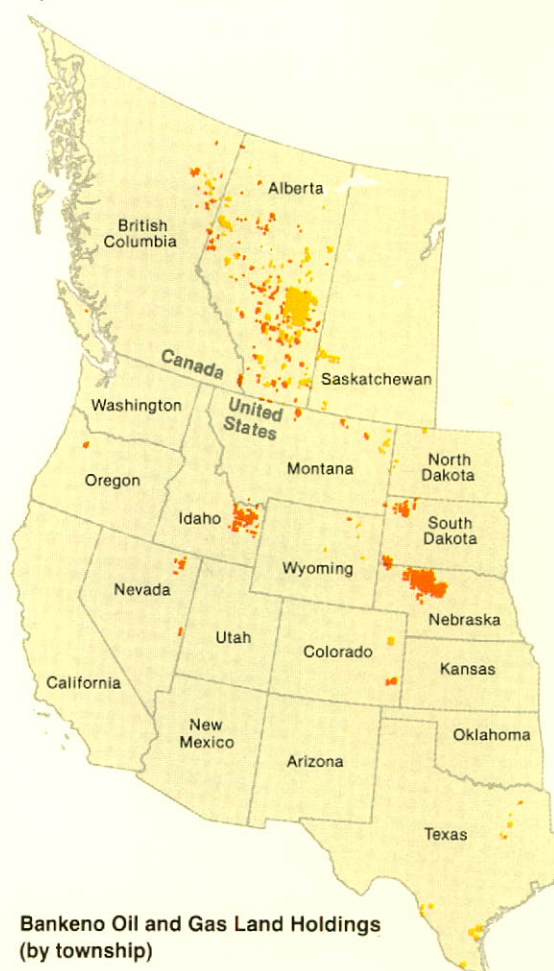
Bankeno Resources Ltd. owns virtually all of the former oil and gas assets of Turbo located in Canada. Leaside Resources, Inc. owns substantially all of Turbo's undeveloped oil and gas properties located in the United States and certain producing and non-producing properties located in Texas.

The Canadian oil and gas assets acquired consist of 174.6 thousand cubic metres (1,098,100 barrels (Bbls)) of proved plus probable crude oil and natural gas liquids, 1 703.7 million cubic metres (60,500 million cubic feet (MMcf)) of proved plus probable natural gas and 80 102 net hectares (197,933 acres) of developed and undeveloped oil and natural gas properties. The U.S. oil and gas assets acquired consist of 375 cubic metres (2,400 Bbls) of proved natural gas liquids, 39.7 million cubic metres (1,409 MMcf) of proved natural gas and 312 703 hectares (772,689 acres) of developed and undeveloped oil and gas properties.

Principal Producing Properties *Golden Spike, Alberta*

The company holds varying interests in 4 096 gross hectares (10,121 gross acres) in this area located in central Alberta. Three wells are producing from the D-3C pool from which production for 1981 averaged 10 cubic metres (63 Bbls) of oil/day net to Bankeno before royalties. Gas production from a Basal Quartz well averaged 24 000 cubic metres (0.85 MMcf) of

gas/day net to Bankeno before royalties.



**Bankeno Oil and Gas Land Holdings
(by township)**

■ Bankeno Mines holdings
■ Merland Explorations holdings
(Bankeno Subsidiary)

Bankeno Resources and Leaside Resources Oil and Gas Reserves

	Proven		Probable		Total	
	Natural Gas	Crude Oil & Liquids	Natural Gas	Crude Oil & Liquids	Natural Gas	Crude Oil & Liquids
	(000's m ³)	(m ³)	(000's m ³)	(m ³)	(000's m ³)	(m ³)
CANADA						
Alberta						
Producing	323 442	111 563	—	—	323 442	111 563
Non-Producing	607 348	13 765	540 804	31 566	1 148 152	45 331
Saskatchewan						
Producing	—	1 979	—	—	—	1 979
Non-Producing	—	—	—	—	—	—
British Columbia						
Producing	5 938	15 729	—	—	5 938	15 729
Non-Producing	128 234	—	97 986	—	226 220	—
Total Canada	1 064 962	143 036	638 790	31 566	1 703 752	174 602
UNITED STATES						
Producing	39 659	375	—	—	39 659	375
Total U.S.	39 659	375	—	—	39 659	375
TOTAL	1 104 621	143 411	638 790	31 566	1 743 411	174 977

Merland Explorations Oil and Gas Reserves

	Proven		Probable		Total	
	Natural Gas	Crude Oil & Liquids	Natural Gas	Crude Oil & Liquids	Natural Gas	Crude Oil & Liquids
	(000's m ³)	(m ³)	(000's m ³)	(m ³)	(000's m ³)	(m ³)
CANADA						
Alberta						
Producing	8 845 960	205 746	901 906	118 614	9 747 866	324 360
Non-Producing	437 373	—	108 752	—	546 125	—
Saskatchewan						
Producing	374 066	—	—	—	374 066	—
Non-Producing	1 799 135	—	—	—	1 799 135	—
British Columbia						
Producing	—	—	—	—	—	—
Non-Producing	64 997	—	—	—	64 997	—
Total Canada	11 521 531	205 746	1 010 658	118 614	12 532 189	324 360
UNITED STATES						
Producing	91 368	112 731	—	—	91 368	112 731
Non-Producing	59 363	17 331	52 544	—	111 907	17 331
Total U.S.	150 731	130 062	52 544	—	203 275	130 062
TOTAL	11 672 262	335 808	1 063 202	118 614	12 735 464	454 422

Coleman, Alberta

Working interest in this gas producing property averages 7.1% in 8 064 gross hectares (19,926 gross acres) in the Coleman area of southwestern Alberta. Three wells produce from the Rundle and Palliser zones. A new well was recently drilled but has not been put into production. Gross production during 1981 averaged 467 000 cubic metres (16.6 MMcf) of gas/day or 33 200 cubic metres (1.2 MMcf) of gas per day net to Bankeno before royalties. Gross sulphur production for 1981 amounted to 60 900 tonnes (59,938 long tons) or 4 329 tonnes (4,261 long tons) net to Bankeno before royalties.

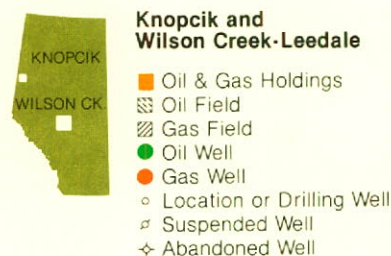
Knopcik, Alberta

Working interests in this property range from 2% to 33 $\frac{1}{3}$ % in 8 267 gross hectares (20,428 gross acres) or 782 net hectares (1,932 net acres). A \$3 million gas processing plant and related gathering facilities were completed by the company and brought into production in March, 1982 under a contract to supply Pan-Alberta Gas Ltd. Production rates are expected to increase to 211,000 cubic metres

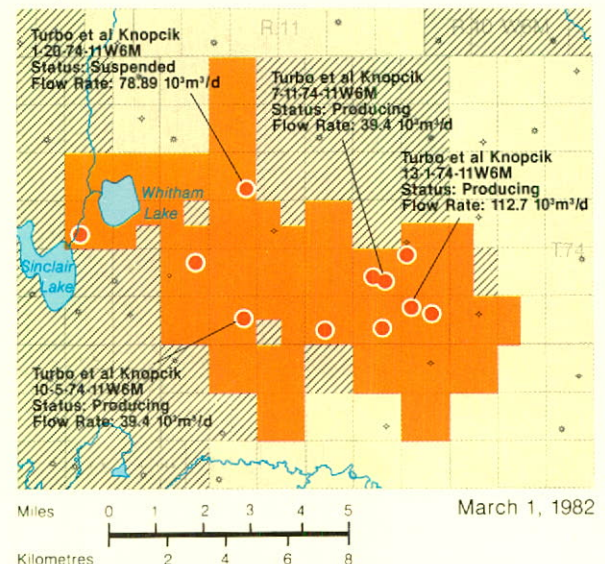
(7.5 MMcf) of gas/day by year end, or 63 400 cubic metres (2.3 MMcf) of gas/day net to Bankeno before royalties. Two additional wells are planned for 1982 to meet increased contract volumes by year end.

Wilson Creek - Leedale, Alberta

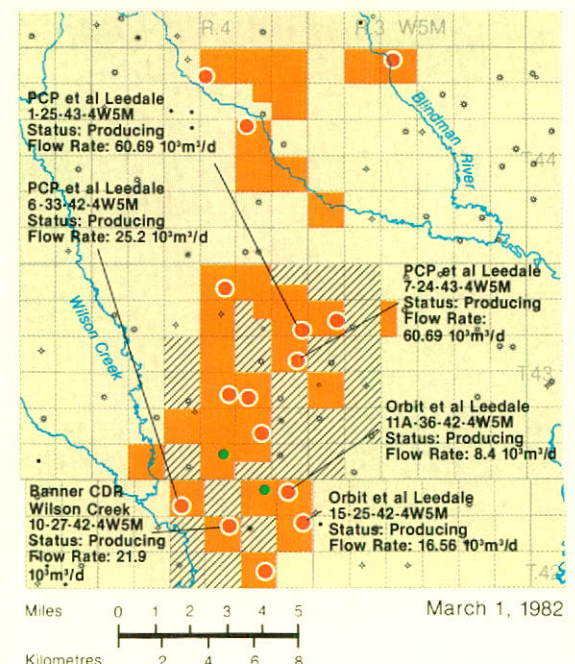
Working interest in this property averages 9% in approximately 8 829 gross hectares (21,816 gross acres) or 782 net hectares (1,932 net acres). Thirteen successful gas wells were drilled on these properties in 1980 and 1981. Gas sales commenced under contract from three wells at initial production rates of 197 000 cubic metres (7 MMcf) per day in November, 1981. The contract calls for production rates of up to 528 000 cubic metres (18.7 MMcf) per day or 49 000 cubic metres (1.7 MMcf) per day net to Bankeno before royalties.



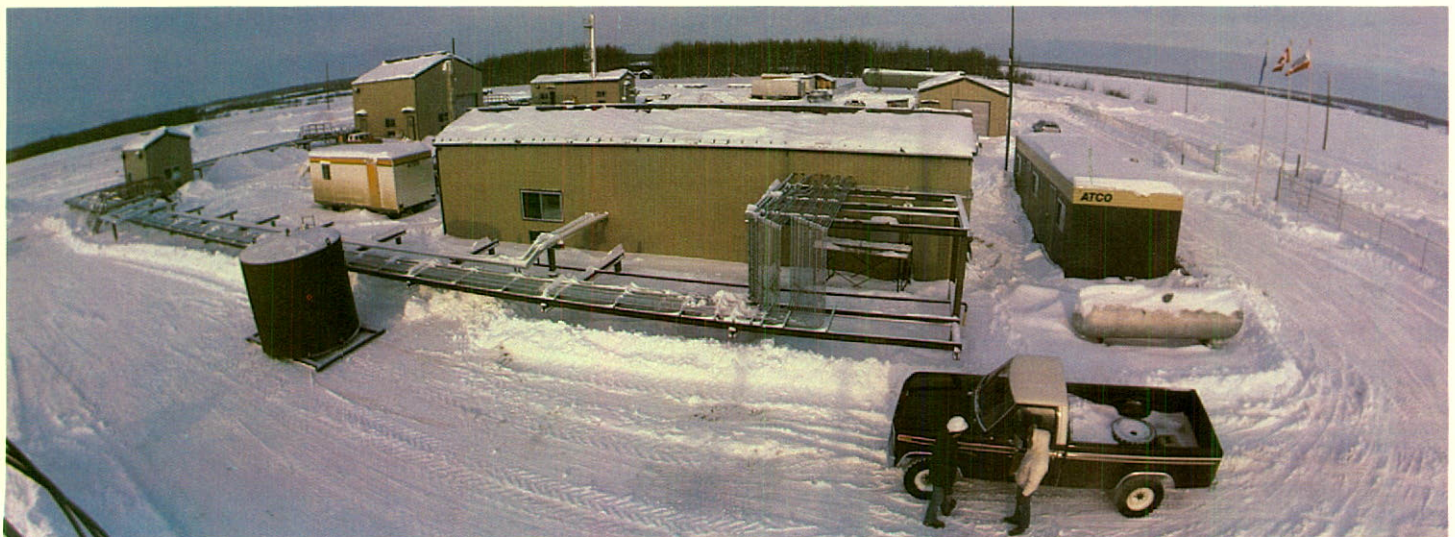
Knopcik



Wilson Creek - Leedale



Bankeno Resources' new Knopcik gas processing plant near Hytbe, in northwestern Alberta was completed and brought into production in March, 1982.



Shekilie, Alberta

Bankeno owns a 20% interest in a highly prospective 2 784 hectare (6,880 acre) licence acquired in September, 1981 for just over \$8 million. The parcel is located 5.6 km. (km) (3½ miles) northwest of the Shekilie Keg River pinnacle reef oil field in northwestern Alberta. Regional mapping suggests the basin extends under the licence area. A total of 121 km. (75 miles) of seismic data was acquired on which 10 leads have been identified. An additional 121 km. of seismic was conducted to fully evaluate the parcel. The first well is expected to be spudded in late 1982.

Golden, Alberta

The company holds a good land position in the currently active Devonian Slave Point oil play. The company has interests ranging from 14% to 33⅓% in 10,749 hectares (26,560 acres) in five licences, two of which were obtained in 1981. Seismic programs are planned for 1982, with one well to be drilled in 1982, and one in 1983.

Western United States

Leaside Resource, Bankeno's U.S. subsidiary, owns 312 703

hectares (772,689 acres) in the western United States. The lands are located in ten states with concentrations in the overthrust area of eastern Idaho, Montana, South Dakota and Nebraska. A seismic program involving 177 km. (110 miles) has been completed in this area. It is anticipated that the overthrust structures of the Rocky Mountains extend into Idaho.

EXPLORATION AND PRODUCTION

In Canada, the company's subsidiary participated in 20 exploratory wells in 1981, of which two discovered oil, six found gas and 12 were abandoned. No drilling was conducted on U.S. properties.

Total production in 1981 was 42.2 million cubic metres (1,500 MMcf) of gas and 18.4 thousand cubic metres (115,500 Bbls.) of crude oil and natural gas liquids. A total of 47 wells with contracts are currently shut-in. Another 40 shut-in wells are awaiting new gas contracts. None of the shut-in wells are further than 23 km. (14 miles) from transmission facilities.

Canadian gas production remained essentially the same as in 1980, with increases occurring late in 1981 as the Wilson Creek

-Leedale gas field was brought on and in early 1982 with the startup of the Knopcik gas field.

Production revenue in Canada is mainly derived from company operated property in the Leduc-Golden Spike, Flatrock, Gopher and Kirkpatrick Lake areas, and from non-operated properties in the North Coleman, Taber, Bindloss, Joarcam and Wainwright areas.

OUTLOOK

Under present economic conditions, exploration activity in Canada will continue to be restricted. The company will be highly selective in new exploration plays taking advantage of the positive aspects of the Federal Government's National Energy Program (N.E.P.). Bankeno Resources should qualify for a maximum Canadian Ownership Rating (C.O.R.) rating and plans to explore for hydrocarbons in Canada on prospects which provide immediate cash flow combined with short duration payouts. Revenues are expected to increase over 1981 levels as a result of sales from the Knopcik and Wilson Creek gas fields.

MERLAND EXPLORATIONS

Merland Explorations Limited, an independent Canadian public energy resource company, is based in Calgary, Alberta with a regional office in Denver, Colorado. The company's 200 employees explore for, develop and produce crude oil and natural gas in Canada and the United States.

The company's principal area of activity is in Alberta, with other interests in northeastern British Columbia and southwestern Saskatchewan. In the U.S., the focus of development is in the Williston Basin of North Dakota and Montana, with other interests in Colorado, Wyoming and Texas. The majority of Merland's revenue is derived from the production of natural gas in Western Canada, concentrated in southeastern and east-central Alberta, where the company has long-term gas sales contracts with TransCanada PipeLines Limited (TCPL).

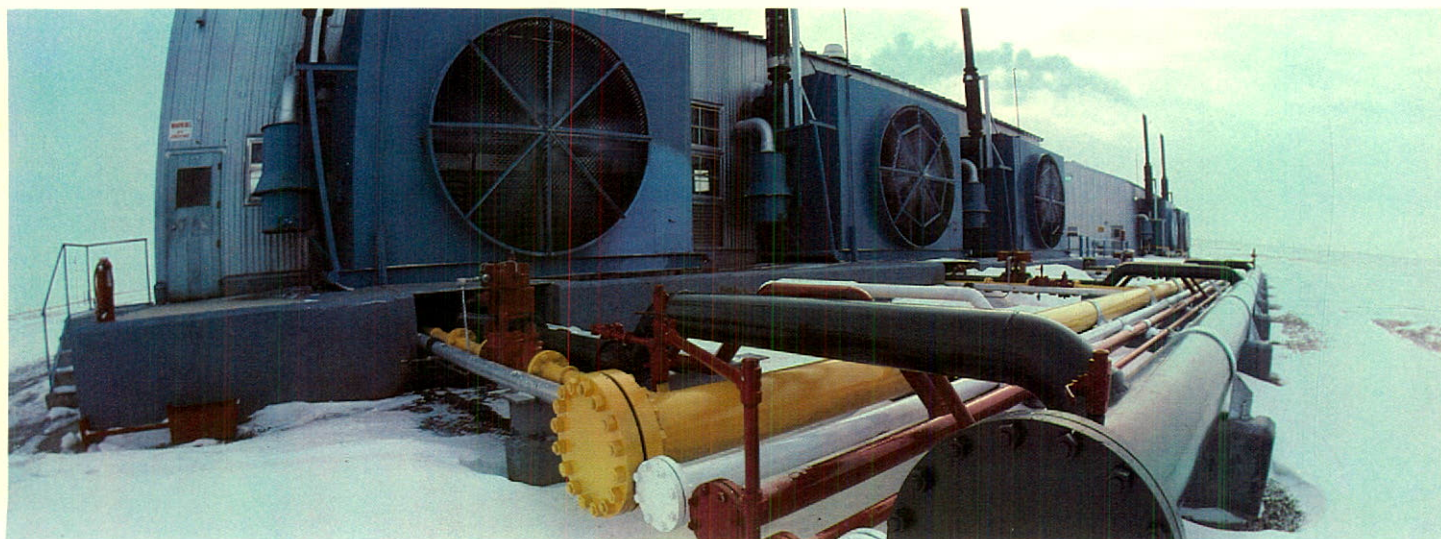
The past year of growth was the most eventful in Merland's history with an aggressive drilling program and record Canadian production volumes. Although gross oil and gas production revenues increased by 22% to \$55.7 million, cash flow decreased by 21% to \$16.2 million and the Company reported a loss for the year of \$1.4 million compared to 1980 profit of \$7.8 million. A number of factors contributed to the decrease including the Federal-Provincial energy price sharing agreements, the imposition of additional Federal taxes on oil and gas production and higher interest rates on corporate debt. As well, TCPL purchased much less natural gas than originally expected.

Merland's drilling activity again ranked in the top ten in Canada during 1981, when the company participated in the drilling of 318 wells, with 255 completed, for an overall success ratio of 80%. A total of \$105.4 million was spent on drilling, seismic work and land acquisitions of which approximately \$62 million went to the purchase of the Canadian oil and gas assets of CNG Producing Company.

LAND HOLDINGS

Merland has an excellent land position in Canada permitting aggressive expansion through drilling and immediately producing development properties. Gross land holdings in Canada increased 90% during the year to 1 023 648 hectares (2,527,528 acres) with net acreage nearly doubling to 381 679 hectares (942,417 acres). All increases in Canadian land holdings were in Alberta, mainly in the Western Sedimentary Basin where Merland holds gas sales contracts, and in the Peace River Arch and Deep Basins of northwestern Alberta. In the U.S., principle acquisitions were in the Williston Basin of Montana and North Dakota, with additional lands acquired in the Powder River Basin of Wyoming.

Merland Explorations' Vale gas plant in southeastern Alberta is one of several Merland plants that move natural gas from field to market.



EXPLORATION

CANADA

Alberta

Birch Wavy

Birch Wavy continued as the main focus of drilling during 1981. Merland participated in 189 wells in this area, yielding 141 gas wells, 2 oil wells, with 46 dry holes; a drilling success rate of 76%.

Major land acquisitions from CNG and Hudson's Bay Oil and Gas added significantly to holdings in the area. At year end, gross land holdings in this area increased 156% to approximately 348 300 hectares (860,000 acres) and net holdings increased 183% to 181 035 hectares (447,000 acres), with the company holding varying interests in over 600 gas wells. Some 60% of the Merland's acreage in the Birch Wavy area remains to be drilled.

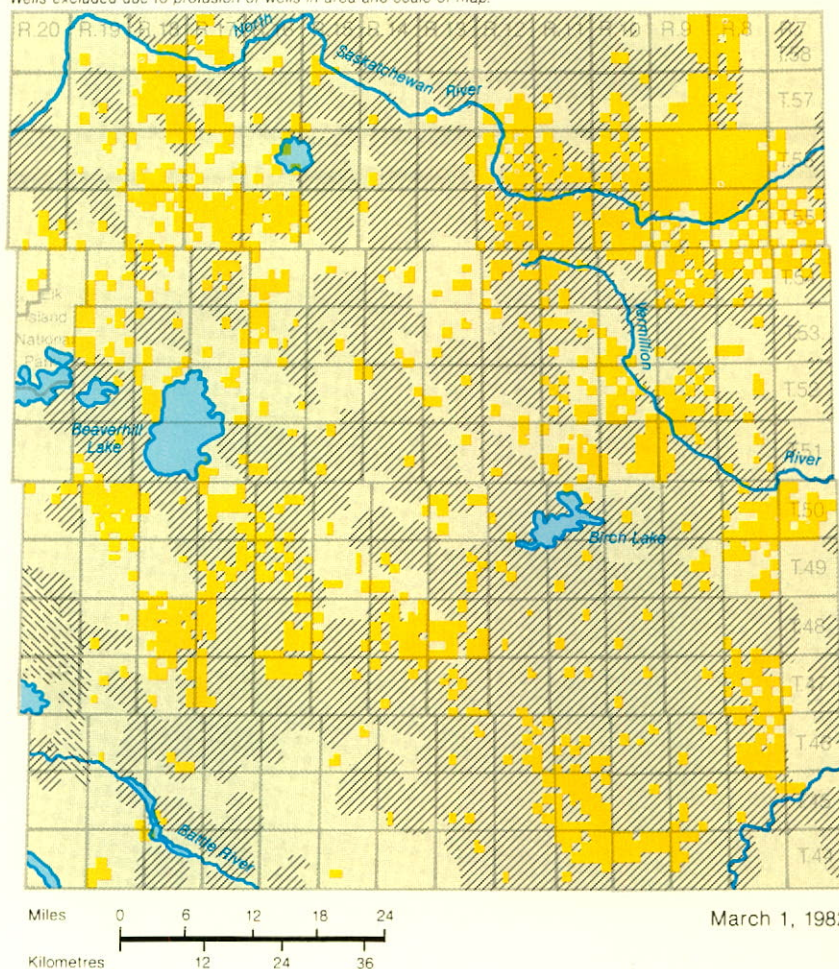


Birch Wavy

- Oil & Gas Holdings
- Oil Field
- Gas Field

Birch Wavy

Wells excluded due to profusion of wells in area and scale of map.



Merland Explorations Production

Gas	Year	(B/cubic metres) Annual Volume	(MM/cubic metres) Volume/Day
	1977	324 001	890 298
	1978	343 728	941 011
	1979	380 349	1 042 438
	1980	538 123	1 467 865
	1981	625 462	1 715 796

Oil (cubic metres)	Year	Annual Volume	Volume/Day
	1977	10 264	28
	1978	14 642	40
	1979	25 191	69
	1980	28 200	77
	1981	27 701	76

Merland Explorations Drilling Record

Year	Gross Wells	Successful Wells	Success Ratio
1977	133	112	84%
1978	170	131	77%
1979	282	230	82%
1980	236	188	80%
1981	318	255	80%

Merland Explorations Gross and Net Land

(000's of Hectares)		
Year	Gross	Net
1977	4 767	1 203
1978	5 840	1 426
1979	7 072	1 920
1980	7 804	2 065
1981	14 053	3 817

Simonette

Merland's previous oil and gas discoveries in this area were confirmed during 1981. Two successful offset wells proved field extensions of the Dunvegan oil reservoir and established the presence of significant Lower Cretaceous gas. Deeper proven multiple-zone hydrocarbon potential in this area coupled with "new oil" pricing incentives will allow Simonette to contribute significantly to diversification of Merland's production base.

Peace River Arch

Merland is a major player in these former CNG plays where one successful gas well was drilled by the company in 1981. Future drilling work is dependant on improved gas markets.

Southeast Alberta

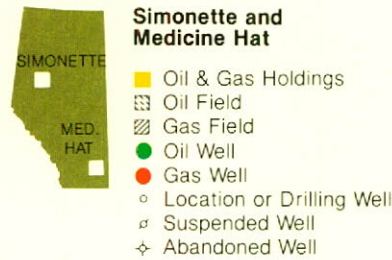
A total of 76 gas wells were drilled in the shallow gas producing areas of Medicine Hat and Bantry in 1981, mainly to maintain current production levels which contribute significantly to cash flow.

Sullivan Lake

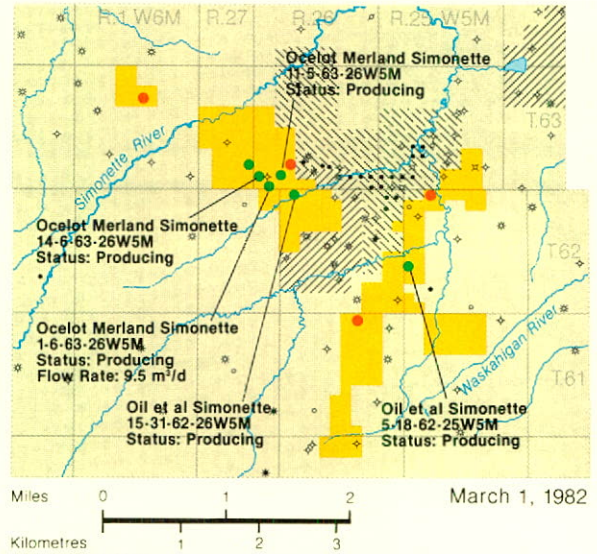
Drilling has been extremely rewarding in the Lower Cretaceous oil and gas reservoirs of this south-central Alberta area where the company has an average working interest of 27%. Further evaluation is planned through geophysical and drilling programs.

Irish

In 1981, Merland acquired 29 338 gross hectares (72,440 acres) and 14 089 net hectares (34,790 acres) of gas contracted land in the heavy oil area of east-central Alberta, specifically rights to all natural gas and conventional oil. Numerous heavy oil drilling programs being undertaken by other companies will keep development risks very low. An extensive development drilling program is planned for 1982.



Simonette



Merland Explorations head office operations are housed in this new Calgary building.



Rigs, such as this, drilled over 300 wells for Merland in 1981.



British Columbia - Saskatchewan

Merland has excellent land positions in these two provinces and although exploratory programs have been restricted there due to prevailing economic conditions the company is optimistic that conditions will modify.

UNITED STATES

The company participated in drilling 23 wells in 1981 resulting in 11 oil wells, 1 gas well, 10 dry holes and one well awaiting evaluation.

Williston Basin (Montana, North Dakota)

This is Merland's most active area in the U.S. Most work in 1981 involved the acquisition of a seismic data base and an improved land position which now includes 6 947 gross hectares (17,153 gross acres) and 1 192 net hectares (2,943 net acres). The company drilled or participated in several significant discoveries which are now being confirmed by offset drilling. The North Bainville prospect in eastern Montana has 3 producing wells, with 7 development wells planned for 1982.

Texas

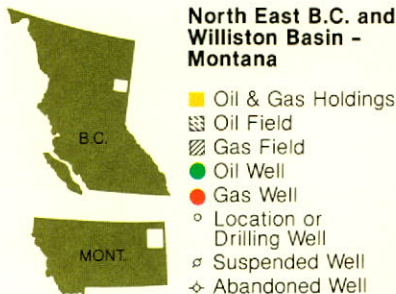
Merland participated in a third successful gas well in East Texas with plans to participate in another development well in 1982. On the Gulf Coast, near Corpus Christi, the company will participate in a step-out well on its property adjacent to lands where other companies drilled a discovery well in 1981.

Wyoming

Merland has been involved in selective lease acquisitions in the Powder River Basin of northeast Wyoming. Drilling activity is planned for 1982 to evaluate these prospects.

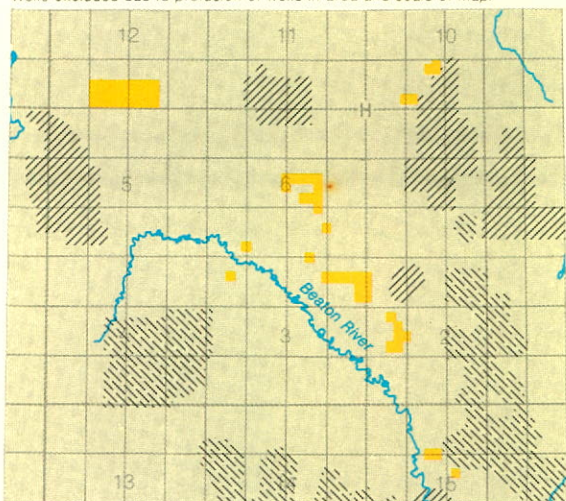
Colorado

The company holds prospective gas properties in Yuma County, where a geophysical program, followed by a drilling program, will commence in the last half of 1982.



North East British Columbia

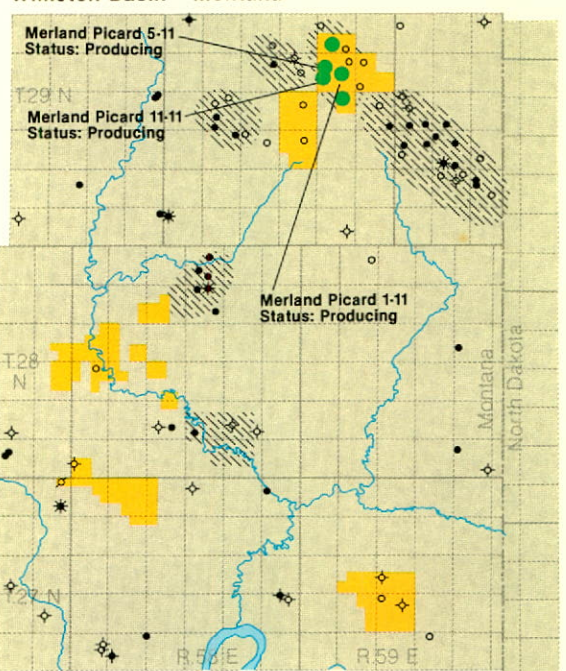
Wells excluded due to profusion of wells in area and scale of map.



Miles 0 1 2 3 4 5 December 31, 1981

Kilometres 2 4 6 8

Williston Basin - Montana



Miles 0 1 2 3 4 5
Kilometres 2 4 6 8

December 31, 1981

PRODUCTION

Natural Gas

Total 1981 gas sales were 625 462 800 cubic metres (22.2 Bcf) of which 92% was produced in Alberta, 4% in Saskatchewan and 4% in the United States. Total crude oil and natural gas liquids production was 27 700 cubic metres (174,220 Bbls) with 79% coming from Canada and 21% from the U.S.

Gas production in Alberta for 1981 was cut back between a minimum of 20% and a maximum of 36% on most contracts, due to an oversupply problem with TCPL. A minimum 20% cut back on all TCPL contracts came in the form of a deferred obligation, with additional cutbacks as high as 16% on all reserve contracts in the form of "Take or Pay". Merland's net gas production postponed due to the deferred

obligation in 1981 was 112 696 000 cubic metres (4.0 Bcf) and net gas production postponed due to Take or Pay was 45 078 400 cubic metres (1.6 Bcf). An additional 28 184 000 cubic metres (1.0 Bcf) of gas production was deferred to 1982 due to protracted negotiations with TCPL with respect to new gas coming on stream in the Birch Wavy area.

Net gas production in southeastern Alberta showed a net decrease of 2% due to allocation cut backs by TCPL. In east-central Alberta, mainly in Birch Wavy and Sullivan Lake net gas production increased by 89% while in northwestern Alberta and north central Alberta production remained at 1980 levels. Saskatchewan production declined by 8% largely due to natural declines in wells in the Horsham area.

The east-central Alberta area will be Merland's major producer in 1982, with maximum net production expected to reach

1 972 180 cubic metres/day (70.0 MMcfd) averaging at 1 408 700 cubic metres/day (50.0 MMcfd) throughout the year, an increase of 150% on average daily production over 1981 levels. A production increase of 150% is expected in northwestern Alberta with southeastern Alberta levels remaining at 1981 levels.

Total Canadian gas production in 1982 is anticipated to average 2 648 356 cubic metres/day (94 MMcfd) with maximum rates of 3 211 836 cubic metres/day (114.0 MMcfd) being achieved.

United States gas production for 1981 decreased slightly from the previous year, mainly due to rapid decline in production capability in the Mitchell Creek project in East Texas. Total U.S. production is expected to drop to an average 28 174 cubic metres/day (1.0 MMcfd) in 1982.

Liquids

Canadian liquids production in 1981, essentially all from Alberta, was 21 881 cubic metres (137,619 Bbls) for an average of 60 cubic metres (377 Bopd) of oil per day, a 5% decrease from 1980 levels. 1982 production is expected to average 80 cubic metres/day (500 Bopd) with the new Simonette oilfield going on stream in late 1981.

U.S. liquids production was 5 819 cubic metres (36,601 Bbls) or an average of 16 cubic metres/day (100 Bopd), an 11% increase over 1980. The Williston Basin contributed 47% of liquids production in 1981, mainly in crude oil with the remaining 53% from Texas as a combination of condensate and crude oil. Liquids production in 1982 is expected to average 91 cubic metres/day (575 Bopd) as a result of exploration and development work in the Williston Basin. Combined liquids

production in Canada and the U.S. in 1982 should average 171 cubic metres/day (1,075 Bopd) escalating to 199 cubic metres/day (1,250 Bopd) by year end.

RESERVES

Three-quarters of the company's reserves are located in Alberta gas producing properties. Total Canadian gas reserves increased by 2.772 billion cubic metres (98,372 MMcf) to 12.53 billion cubic metres (441,814 MMcf) with Canadian crude oil and liquids reserves at 324 360 cubic metres (2,040,000 Bbls). Approximately 24% of the company's Canadian crude oil reserves will attract "new oil" prices under the Alberta Pricing Agreement with the Federal government.

In the U.S., 92% of Merland's crude oil and liquids reserves are in the Williston Basin with the balance in Texas, while 5% of the U.S. natural gas reserves are in the Williston Basin and 95% in Texas. Oil reserve increases in

the U.S. were dramatic for 1981 increasing to 130 062 cubic metres (818,000 Bbls). U.S. natural gas reserves are 203 275 cubic metres (7,215 Mmcf).

OUTLOOK

Merland expects to increase Canadian gas production by 48% in 1982 through its highly active exploration and development programs. This production rise, coupled with an average 17% price increase, will double cash flows, with sales approaching \$100 million. The recently introduced Alberta oil and gas activity program should increase operating income by a total of \$6 million in 1982 and the same program's workover rebates will benefit Merland by reducing 1982 net capital outlays by \$2 million. Oil production in the U.S. is expected to increase six-fold, and a return to profitability is anticipated for 1982.

Bankeno Mines Limited

(Incorporated Under the Laws of Alberta)

BALANCE SHEET

As at December 31, 1981 (with comparative figures at December 31, 1980)	1981	1980
ASSETS		
CURRENT ASSETS:		
Cash and term deposits	\$ 7,651,715	\$ 6,708,781
Due from affiliated companies	—	89,000
Interest receivable	43,595	48,233
Total current assets	7,695,310	6,846,014
DEFERRED CHARGES (Note 1)	206,901	—
INVESTMENTS — at cost		
Panarctic Oils Ltd. (Note 3)	3,010,431	2,776,456
OIL AND GAS PERMITS — at cost (Note 4)	36,753	36,753
MINING LEASES — at nominal value	1	1
DEFERRED EXPENDITURES — at cost		
Exploration and development	416,376	352,747
Administration	37,290	1,136,011
Total deferred expenditures	453,666	1,488,758
TOTAL ASSETS	\$11,403,062	\$11,147,982

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

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

As at December 31, 1981

(with comparative figures at December 31, 1980)

1981

1980

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable and accrued liabilities	\$ 121,873	\$ 94,157
Due to parent and affiliated companies	370,202	142,838
Total current liabilities	492,075	236,995

LONG-TERM DEBT (Note 6)	3,000,000	3,000,000
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DEFERRED INCOME TAXES	1,151,000	1,151,000
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CONTINGENCY (Note 10)

SHAREHOLDERS' EQUITY:

Share Capital:

Authorized (Note 9):

Issued and fully paid:

4,097,004 common shares	4,062,193	4,062,193
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Retained earnings	2,697,794	2,697,794
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Total shareholders' equity	6,759,987	6,759,987
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TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$11,403,062	\$11,147,982
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Approved by the Board:

Director:



Director:



Bankeno Mines Limited
STATEMENT OF RETAINED EARNINGS

For the Year Ended December 31, 1981 (with comparative figures for the fifteen month period ended December 31, 1980)	1981	1980
RETAINED EARNINGS (DEFICIT) AT THE BEGINNING OF THE PERIOD	\$2,697,794	\$(1,038,318)
NET INCOME FOR THE PERIOD (Note 2)	—	3,736,112
RETAINED EARNINGS AT THE END OF THE PERIOD	<u>\$ 2,697,794</u>	<u>\$ 2,697,794</u>

Bankeno Mines Limited
STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended December 31, 1981 (with comparative figures for the fifteen month period ended December 31, 1980)	1981 (12 months)	1980 (15 months)
WORKING CAPITAL PROVIDED:		
Proceeds from sale of investments and assets	\$ —	\$ 5,089,001
Interest credited to deferred administration expenditures	1,338,963	816,843
Increase in long-term debt	—	3,000,000
Total	<u>1,338,963</u>	<u>8,905,844</u>
WORKING CAPITAL APPLIED:		
Deferred charges	206,901	—
Deferred administration expenditures	240,242	235,072
Deferred development expenditures	63,629	88,682
Increase in investments	233,975	—
Total	<u>744,747</u>	<u>323,754</u>
INCREASE IN WORKING CAPITAL FOR THE PERIOD	594,216	8,582,090
WORKING CAPITAL (DEFICIENCY) AT THE BEGINNING OF THE PERIOD	<u>6,609,019</u>	<u>(1,973,071)</u>
WORKING CAPITAL AT THE END OF THE PERIOD	<u>\$ 7,203,235</u>	<u>\$ 6,609,019</u>

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

Bankeno Mines Limited

STATEMENT OF DEFERRED ADMINISTRATION EXPENDITURES

For the Year Ended December 31, 1981 (with comparative figures for the fifteen month period ended December 31, 1980)	1981 (12 months)	1980 (15 months)
EXPENDITURES:		
Administration fees	\$ 100,000	\$ 50,000
Interest and bank charges	—	68,545
Professional fees	24,723	47,909
Shareholders' reports, transfer and listing fees	52,526	22,845
Travel and General	62,993	45,773
Total Expenditures	240,242	235,072
INTEREST (INCOME)	(1,338,963)	(816,843)
NET (DECREASE) FOR THE PERIOD	(1,098,721)	(581,771)
BALANCE AT THE BEGINNING OF THE PERIOD	1,136,011	1,885,695
	37,290	1,303,924
DEDUCT EXPENDITURES EXPENSED DURING THE PERIOD	—	167,913
BALANCE AT THE END OF THE PERIOD	\$ 37,290	\$ 1,136,011

Bankeno Mines Limited

STATEMENT OF DEFERRED DEVELOPMENT EXPENDITURES

For the Year Ended December 31, 1981 (with comparative figures for the fifteen month period ended December 31, 1980)	1981 (12 months)	1980 (15 months)
EXPENDITURES FOR THE PERIOD:		
Exploration costs	\$ 63,629	\$ 90,551
Less dividends from Panarctic Oils Ltd.	—	(1,869)
	63,629	88,682
BALANCE AT THE BEGINNING OF THE YEAR	352,747	264,065
BALANCE AT THE END OF THE YEAR	\$ 416,376	\$ 352,747

Bankeno Mines Limited

NOTES TO THE FINANCIAL STATEMENTS

December 31, 1981

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Revenue Recognition and Deferred Expenditures

All activities of the Company are presently directed at the acquisition and development of mineral properties. Exploration, 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 expensed accordingly. Incidental income received during the development stage is credited against deferred expenditures.

Until such time as the Company's properties come into commercial production, revenues are recognized and an income statement presented only in years when sales of properties or investments occur.

Deferred administration expenditures of \$167,913 relating to the investment in Arvik Mines Ltd. were expensed during the period ended December 31, 1980. There were no such items expensed in the year ended December 31, 1981.

Deferred Charges

Cost incurred during the year relating to the offer for the common and preferred shares of Merland Explorations Limited (Note 11) have been deferred until 1982 when they will be charged to the assets acquired.

Investments

Investments are carried at cost.

2. PRIOR YEAR INCOME:

Under the Company's accounting policies, no revenue was recognized during the year, and all costs incurred during the year have been deferred.

For the fifteen months ended December 31, 1980, investments were sold, and the following income statement was presented:

Gain on sale of investments	\$5,055,025
Deferred administration costs expensed	167,913
Income before provision for income taxes	4,887,112
Provision for income taxes — Deferred	1,151,000
Net income for the period	\$3,736,112
Earnings per share	\$.91

3. INVESTMENT IN PANARCTIC OILS LTD.:

	December 31 1981	December 31 1980
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	240,305	6,330
Value assigned to share capital of Bankeno Mines Limited issued to Challenger International Services Ltd. as consideration for guarantee of payments of initial investment in Panarctic Oils Ltd.	32,500	32,500
Total	<u>\$ 3,010,431</u>	<u>\$ 2,776,456</u>

During 1981 the Company subscribed for 149,382 additional shares of Panarctic Oils Ltd. at a cost of \$721,787. At December 31, 1981, \$487,812 remains to be paid under the subscriptions.

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

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. 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 \$948,000 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 \$44,000 which may be carried forward and applied to reduce future taxable income.

These losses expire as follows:

1983	\$20,000
1984	\$24,000

6. LOAN PAYABLE TO COMINCO LTD.:

On October 18, 1979, the Company executed an agreement, amended on November 9, 1979, with Cominco Ltd., granting Cominco the option to purchase, by December 31, 1979, Bankeno's 25% shareholding in Arvik Mines Ltd. for \$5,000,000. This option was exercised. Cominco also loaned Bankeno \$3,000,000 and granted 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. This option was exercised in March, 1982 for cash of \$7,263,000.

The \$3,000,000 loan bears interest at bank prime rate and is 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.

Based on estimated production, principal repayments are expected to be:

1983	\$ 269,000
1984	\$1,988,000
1985	\$ 743,000

7. RELATED PARTY TRANSACTIONS:

During the year the Company received interest from Turbo Resources Limited, its parent, in the amount of \$122,133 (1980 — fifteen month period — \$676,726). The Company has paid management fees for the year ended December 31, 1981 of \$100,000 (1980 — fifteen month period — \$50,000) to Turbo Resources Limited.

8. REMUNERATION OF DIRECTORS AND OFFICERS:

Remuneration paid to directors and senior officers during the year amounted to \$18,000 (1980 — fifteen month period — \$17,500).

9. SHARE CAPITAL:

At December 31, 1980 the authorized share capital of the Company consisted of:

- 6,000,000 Common Shares with a par value of \$1.00 each.
- 250,000 Class A Preferred Shares with a par value of \$1.00 each.

On December 7, 1981, at a special general meeting of shareholders, the authorized share capital was changed to the following:

- 100,000,000 Common Shares without nominal or par value.

50,000,000 First Preferred Shares with a nominal or par value of \$10.00 each.

10. CONTINGENCY

Merland Explorations Limited, a subsidiary in which the Company has acquired a 55.4% voting interest (Note 11), has been named as a co-defendant in a statement of claim filed by its former President. This claim, filed on April 30, 1982, alleges wrongful dismissal and is seeking damages of \$1,581,000.

As this action has not reached the discovery stage it is not possible to predict the final outcome.

11. SUBSEQUENT EVENTS:

a) In March, 1982, the Company issued 4,097,004 share purchase warrants to the holders of the Company's common shares as of the record date of February 16, 1982. These warrants, which expire March 17, 1986 allow the holder to acquire one common share of the Company for \$9.00, or require Turbo Resources Ltd. (Turbo) to purchase the warrants for \$3.50 per warrant during a thirty day period or such longer period as may be permitted by Turbo, commencing March 17, 1983.

b) i) On March 17, 1982 the Company acquired 11,204,974 common shares of Merland Explorations Limited (Merland) and 56,030, \$2.00 cumulative redeemable convertible preferred shares by public offering, which included the acquisition of 10,074,687 common shares held by Turbo. This acquisition represents a 55.4% voting interest. If all the preferred shares of Merland were converted, the Company's interest would be reduced to 49.5%.

The consideration given for shares acquired was 11,330,092 units. Each unit consists of 1.4 common shares of the Company (1.3 shares issued by the Company and 0.1 shares contributed by Turbo) plus 1 share purchase warrant. The common shares forming part of the unit are not transferable separately from the share purchase warrant until July 15, 1982, at which time the warrants have the same rights as described in Note 11(a).

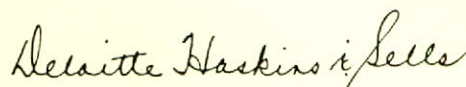
ii) In conjunction with the Merland share acquisition the Company acquired all the outstanding common shares of Merbank Resources Ltd. and Leaside Resources Inc. These shares, previously held by Turbo, were exchanged for 9,344,600 common shares, valued at \$10 per share.

AUDITORS' REPORT

To the Shareholders of
Bankeno Mines Limited:

We have examined the balance sheet of Bankeno Mines Limited as at December 31, 1981 and the statements of retained earnings, changes in financial position, deferred administration expenditures and deferred 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 December 31, 1981 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 applied on a basis consistent with that of the preceding year.



Chartered Accountants
Calgary, Alberta
May 5, 1982

CORPORATE INFORMATION

DIRECTORS

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

OFFICERS

Robert G. Brawn, President
R. Michael Gray, Vice President
Ronald M. Maxwell, Vice
President and Treasurer
Vance Kenneth Travis, Chairman
of the Board
Frederick A. Youck, Secretary

SUBSIDIARIES

Bankeno Resources Ltd.
Leaside Resources, Inc.
Merland Explorations Limited

TRANSFER AGENTS

Guaranty Trust Company of
Canada
Calgary, Alberta; Toronto,
Ontario; Montreal, Quebec

STOCK EXCHANGES

Alberta, Montreal and Toronto
Stock Exchanges
(Listing symbol — common
shares — BKE)

AUDITORS

Deloitte Haskins & Sells
Calgary, Alberta

HEAD OFFICE

6th Floor
1035 - 7th Avenue S.W.
Calgary, Alberta T2P 3E9

CORPORATE PROFILE

Bankeno Mines Limited is an independent publicly owned Canadian resource company with interests mainly in oil and gas exploration in Western Canada, the Western United States and in the Canadian Arctic Islands, and with interests in zinc/lead mining in the Canadian Arctic.

The company was originally incorporated in Ontario and was continued in the Province of Alberta in January, 1979. Head office is in Calgary with a regional office in Toronto. The company's subsidiaries are located in Calgary, with U.S. exploration offices in Denver, Colorado.

The company's assets at year end included a 1.57% interest in Panarctic Oils Ltd.; an option to acquire a 25% interest in the net proceeds of production of the Polaris lead/zinc mine on Little Cornwallis Island in the Canadian Arctic; permit lands in the Canadian Arctic; and approximately \$8 million in cash and short term investments.

Since that time, Bankeno has acquired a controlling interest (55½%) in Merland Explorations Limited, a major independent Canadian oil and gas exploration and production company; acquired virtually all of the Canadian and substantially all of the U.S. oil and gas assets of Turbo Resources Limited; and has exercised its option and acquired the 25% interest in the net proceeds of production of the Polaris mine.

Bankeno Mines direct subsidiaries include Bankeno Resources Ltd., an Alberta company; Leaside Resources, Inc., a Texas company; and Merland Explorations Limited, a federally incorporated company.

BANKENO

